

**Search for A New Partnership in Trade and Investment between  
Latin America and Asia-Pacific**

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## **Abstract**

Although interregional cooperation in trade and investment between Latin America and Asia-Pacific has been on the agendas of countries in both regions for some time, initiatives have been few, with meager results. The lack of tangible results is related to the economic asymmetries between the two regions and a purely inter-industrial nature of bi-regional trade. The incipient drive in bi-regional trade up to the Asian crisis was triggered by the economic boom of East Asia on the one hand, and growth recovery, economic reforms and integration, on the other. Now, coupled with the slowdown of the US economy and the standstill of Japanese economy, the sustained impulse of these factors is uncertain. The present economic relations between the two regions do not reflect the potential for interregional trade and investment that exists in an increasingly globalized world. The current low level of economic interaction, especially in the aftermath of the economic crises experienced in each region in recent years, calls for joint actions in the economic sphere. Given the embryonic stage and limited country coverage of ongoing consultations on bilateral free trade agreements, the recently created Forum for East-Asia Latin America Cooperation (FEALAC) should address the issues of market access and bi-regional economic integration, and promote concrete integration initiatives.

## Introduction

Trade between Latin America and the Caribbean (LAC) and Asia-Pacific (AP),<sup>1</sup> that had increased substantially -albeit from a small base- in the first half of the 1990s, began to slow down after the outbreak of the economic and financial crisis in Asia in mid-1997 and the ensuing severe economic recession in the majority of LAC countries. The incipient drive in bi-regional trade up to the Asian crisis was triggered by the economic boom of the majority of AP countries on the one hand, and growth recovery and economic reforms put in place and resulting effects of liberalization and deregulation in LAC, on the other. AP as a whole experienced strong, if not excessive, consumption and investment spurts, which resulted in increasing demands for raw materials from LAC. Similarly, Asian investments in LAC were “pulled” in by economic growth and regional integration in LAC and “pushed” by high Asian production costs, and a corporate strategy that emphasized globalization. Stronger trade and investment ties realized before the financial crisis were “market-led”, rather than “policy-led”, in that positive results were fruits of private-sector initiatives on both sides, with few inter-regional, intergovernmental mechanisms to support them.

The reintensification of bi-regional trade and investment relations depends strongly on economic recovery and growth in both regions. However, the relatively low level of economic interaction even prior to the crisis, the Asian crisis itself and the present international economic environment, -especially the slowdown of the US economy and the standstill of Japanese economy-, cast doubt on the sustained stimulus of the “push” and “pull” factors. For this reason, the governments in both regions have increasingly recognized the need to institutionalize their mechanisms of consultation and possibly to implement joint actions for economic cooperation.

From this perspective, the first Ministerial Meeting of EALAF, March 2001, in Santiago, Chile, which renamed itself as FEALAC (Forum for East-Asia-Latin America Cooperation), has earmarked an important step towards “South-South cooperation” between the two regions. The FEALAC work programs accorded at this meeting by the 30 member economies should respond to the frequently expressed concern that interregional dialogue should be more policy-oriented and supportive of concrete proposals.<sup>2</sup> FEALAC, the only forum of cooperation dialogue that goes beyond the concept of the Pacific Rim,<sup>3</sup> now institutionalizes high level political talks and implement programs that increase not only economic but also political and cultural ties among the members countries in both regions.<sup>4</sup> Among a wide range of topics to be addressed at this

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<sup>1</sup> In this paper, when not indicated otherwise, Asia-Pacific (AP) refers to the group of 12 countries and territories which consists of: Japan, ANIES4 (Hong Kong/China, Republic of Korea, Taiwan Province of China and Singapore, the latter being also a member of ASEAN), ASEAN4 (Indonesia, Malaysia, the Philippines, and Thailand), China, Australia and New Zealand. The other ASEAN member countries, Brunei Darussalam, Cambodia, Laos, Myanmar, and Viet Nam are not included in the analysis for statistical reasons.

<sup>2</sup> The member countries of EALAF up to the First Ministerial Meeting were: on the Asia Pacific side, Australia, Brunei, Cambodia, China, Korea, Japan, Indonesia, the Philippines, Laos, Malaysia, Myanmar, New Zealand, Singapore, Thailand and Viet Nam, and on the Latin American side, Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela. At this meeting, the entry of three other countries, Costa Rica, Cuba and El Salvador was approved.

<sup>3</sup> The only Latin American members of APEC are Chile, Mexico and Peru, while Colombia, Chile, Mexico and Peru are the only LAC members either of the Pacific Basin Economic Council (PBEC), whose members are business-oriented, or the Pacific Economic Cooperation Council (PECC), which has a tripartite membership of government officials, business community and academics.

<sup>4</sup> The meeting in Santiago, Chile, created three working groups: political-cultural group headed by Singapore and Chile; economic-social group by Japan and Peru; and education and technology group, by Australia and Costa Rica. Colombia and

forum, however, in view of the current low levels of economic exchange and great potentials for expansion, economic issues should be a key part of the cooperation process. To meet the challenges and seize the opportunities of an ever more globalized world economy, countries in both regions now find it urgent to target new export markets and to look for the best sources of imports, technology and investment capital.

In order to bring about concrete results in inter-regional cooperation, it might be necessary to place FEALAC in a new perspective of formal “South-South cooperation” where inter-regionalism functions as a bridge between regionalism and multilateralism, and to elevate FEALAC to a level similar to the existing worldwide interregional cooperation schemes, such as APEC, Asia-Europe Meeting (ASEM), EU-MERCOSUR and the Summit of the Americas, which incorporates the Free Trade Area of the Americas (FTAA) as its integral part. Given that bilateral consultations on free trade agreements between countries of LAC and AP that have emerged in recent years are still incipient and limited in country coverage, it may be even desirable that FEALAC starts addressing difficult and sensitive issues such as market access and bi-regional integration.

## **I. Trade Relations**

The lack of tangible results so far in the bi-regional forums that existed prior to the creation of FEALAC is related to the economic asymmetries between the two regions. These two regions are not of an equal size, neither in terms of regional GDP nor trade volume. At the end of the 1990s, AP and LAC represented roughly 26% and 6% of world GDP respectively. They moreover accounted for roughly 28% and 5% of world exports and 23% and 6% of world imports, respectively. The degree of trade “openness” also differs: the participation of exports and imports in GDP is higher for the AP countries (except Japan) than for LAC.<sup>5</sup> It is equally important to realize that the low level of bi-regional trade, which at present stands at some US\$ 50 billion (LAC exports to AP of roughly 17 billion and imports of 34 billion in 1999), accounts for less than 1% of world merchandise flows. The fact that present interregional trade flows occupy a relatively small space in global trade not only points to vast possibilities that lie ahead, but also underlines enormous challenges that confront future bi-regional cooperation in trade and investment.

### **A. Trade flows in the 1990s: the LAC Perspective**

In the last 15 years prior to the Asian crisis, though from a small base, LAC trade with AP continued to grow rapidly (Graph 1).<sup>6</sup> However, LAC trade with AP is still far below the level of the region’s trade with the United States, the European Union and of intra-LAC trade. As Table 1 shows, the US share in LAC trade has increased significantly in recent years and the country

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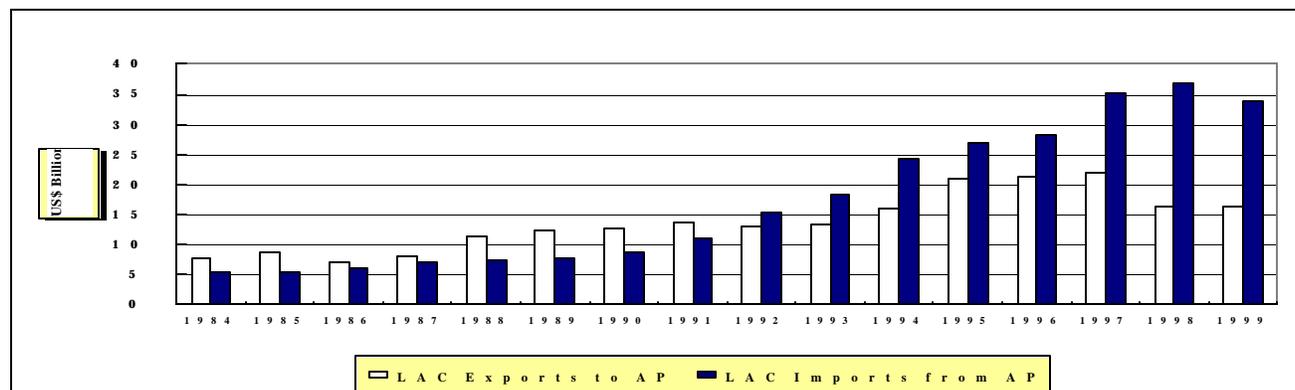
the Philippines became the next coordinating countries of FEALAC. This way, the next SOM meeting will be held in Colombia in 2002, while the Ministerial Meeting in the Philippines in 2003.

<sup>5</sup> During the course of 1990s, the share of exports in GDP of the region as a whole increased by more than 5.6 percentage points to 17.9%, while that of imports jumped by more than 9.6 points to 19.7% in 1999 (IDB 2000). However, the degree of openness of AP countries exceeds that of LAC countries by a substantial margin except in the case of Japan.

<sup>6</sup> For an analysis on the dynamic interregional trade performance in the first half of the 1990s, see, Iglesias (1997), and Kuwayama, Mattos and Contador (2000).

now absorbs roughly 58% of total LAC exports, due mainly to dynamic exports from Mexico.<sup>7</sup> In contrast, the relative importance of the European Union has declined over the years, and in 1999 the EU purchased only 12% of total LAC exports. The importance of AP as a market for LAC exports, which had increased substantially up to 1991, also began to decline during the decade. In 1999, AP represented only 6% of total LAC exports. Intra-LAC trade, which expanded rapidly in the 1990s, suffered a severe contraction in 1999, declining to almost 16% of the total, but recovered by 26% in 2000 relative to the previous year (IDB 2000).

**Graph 1: LAC's Trade with Asia-Pacific, 1984-1999**



Source: Calculated from the International Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

The role of AP as LAC trade partner is more pronounced in imports than in exports, resulting in an increasingly large trade deficit with AP during the decade (see again Graph 1). In terms of import growth rates, AP overtook the United States and LAC as the region that most profited from trade liberalization in LAC countries in the 1990s. It should be noted, however, that the United States holds a predominant position in LAC imports, supplying roughly 51% of the total in 1999 (Table 1). Also noticeable over the years is the declining importance of the European Union, with a 16% share in 1999, compared to almost 24% in 1987. This decline reflects in part the recent interest of the Union to negotiate a free trade agreement with MERCOSUR collectively and several Latin American countries individually. On the other hand, the share of AP in LAC imports has steadily increased over the last 15 years, now representing close to 12% of the total. It is important to note, however, that when excluding Mexico from the LAC total, that share drops to only 7%. The growth rate for LAC imports from AP has been high during the 1990s, averaging roughly 20% a year for the decade as a whole, although this rate was almost halved in the period 1996-1999. This overall rate is still significant, especially when compared to the average annual growth of LAC imports from LAC itself or from the European Union.

<sup>7</sup> In 2000, close to 45% of total LAC exports originated from Mexico, and almost half of this Mexican exports were maquiladora activities (ECLAC 2001). Mexico's merchandise exports and imports rose by more than 20% during 1998 and 1999, when other LAC countries combined reported a fall in exports of nearly 8% and in imports of roughly 15% (WTO 2000, Chapter II). This divergent performance within LAC can be partly attributed to the fact that manufactured goods account for 85% of Mexico's exports, but only 40% for LAC without Mexico. Manufactures enjoyed more stable prices than non-fuel commodities. Besides, Mexico's exports were destined mostly to the booming US economy that absorbs nearly 90% of total Mexican exports. In contrast, the other Latin America ships less than 30% of their exports to this market.

**Table 1: Share in LAC Exports and Imports, by Regions, 1984-1999**

	1984	1987	1990	1993	1995	1996	1997	1998	1999
<b>Exports</b>									
<b>USA</b>	40.3	34.4	39.2	46.7	46.2	49.5	49.7	52.4	57.9
<b>EU</b>	22.5	21.0	24.2	16.7	15.9	14.1	13.5	13.7	11.5
<b>Asia-Pacific</b>	8.1	9.5	10.8	8.9	9.9	9.0	8.3	6.2	5.9
<b>LAC</b>	11.7	13.8	13.9	19.2	19.7	19.2	20.2	19.8	15.6
<b>Others</b>	17.4	21.3	11.9	7.5	8.3	8.2	8.3	7.9	9.1
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Imports</b>									
<b>USA</b>	36.5	34.3	40.1	47.0	43.0	44.7	45.3	46.9	50.6
<b>EU</b>	17.2	23.8	20.4	17.2	18.4	17.4	17.1	17.3	15.9
<b>Asia-Pacific</b>	8.9	10.9	9.8	11.4	12.5	11.7	12.1	12.1	11.5
<b>LAC</b>	19.0	16.2	16.5	16.5	18.3	18.4	18.1	17.0	14.9
<b>Others</b>	18.4	14.8	13.2	7.9	7.8	7.8	7.4	6.7	7.1
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Comtrade.

The importance of AP as an export market differs substantially among LAC sub-regions and countries (Table 2). For example, AP became a significant MERCOSUR export market in the early 1990s, capturing close to 15% of total exports of this sub-region, though followed by a sharply declining trend. Similarly, the AP market gained importance for the Andean Community in the mid-1990s, but began to decline thereafter, falling below 5% in 1999.<sup>8</sup> For Central American Common Market (CACM), AP has been a rather stagnant market, accounting for less than 5% of the total. In contrast, AP's importance for Chile had been on an upward trend, representing close to 35% of the country's exports in 1997, followed by a severe contraction in 1998 as a consequence of the Asian crisis. Peru also relies strongly on Asia-Pacific, which absorbs 23% of its total exports (see Table 3). For Brazil, the largest exporter of the region to AP in absolute terms, the share of AP reached 15% on average in the 1990s. For all other countries, except Ecuador, the participation is 10% or lower. Interestingly, in the case of Mexico, the relative importance of AP has declined drastically over the years, from 8% in the mid-1980s to 1.5% in 1999 (See Table 2). By signing a trade agreement with a series of AP countries, Mexico now intends to diversify again into this market.

<sup>8</sup> For a detailed study on trade relations between AP and the countries of the Andean Community, see González-Vigil and Kuriyama (2001).

**Table 2: Share of Exports to and Imports from Asia-Pacific in Total Exports/Imports of Regional Groups/Countries, 1984-1999**

	1984	1987	1990	1993	1995	1996	1997	1998	1999
<b>Exports</b>									
<b>MERCOSUR</b>	9.4	12.1	14.3	13.7	14.8	14.3	13.0	10.0	10.3
<b>Andean Community</b>	4.2	5.1	5.9	6.3	7.1	5.8	6.1	4.5	4.6
<b>CACM</b>	7.3	3.3	4.1	1.9	4.8	2.7	2.9	5.0	4.9
<b>Chile</b>	18.9	19.3	26.3	31.3	34.8	34.6	35.0	27.1	27.9
<b>Mexico</b>	8.4	8.3	6.7	2.3	2.5	2.9	2.3	1.7	1.5
<b>Imports</b>									
<b>Mercosur</b>	9.0	10.5	11.5	13.6	13.9	13.8	14.5	14.2	13.6
<b>Andean Community</b>	10.1	11.7	9.2	14.1	12.9	10.7	11.5	12.4	11.7
<b>CACM</b>	6.7	11.8	10.2	9.7	7.6	7.6	7.1	8.9	8.0
<b>Chile</b>	13.7	17.3	13.7	17.8	18.0	17.1	17.1	17.6	16.5
<b>Mexico</b>	7.1	8.1	7.6	7.7	10.2	9.5	10.1	10.0	10.1

Source: Comtrade.

### 1. Country concentration

The low level and moderate growth of trade flows between the two regions can be explained by basically two interrelated problems: country concentration and product composition. With respect to the first, LAC exports to AP are highly concentrated in a just few countries. During the 1990s, on average, Brazil (with 38%), Chile (23%), Mexico (11%) and Argentina (11%) accounted for almost 84% of all LAC exports to Asia-Pacific (see again Table 3).

Within LAC, Mexico and MERCOSUR, particularly Brazil, are major importers from AP. In 1999 MERCOSUR accounted for 33% of total LAC imports. The most striking feature of LAC imports from AP is the rapidly increasing participation of Mexico, which accounted for roughly 44% of total LAC imports from AP in 1999, in comparison to 26% at the beginning of the decade. Mexico has become the largest LAC importer from almost all Asian groupings (i.e., Japan, ANIES4, ASEAN4 and China). The North American Free Trade Area (NAFTA) is considered to be the major factor for this dynamism. Meanwhile, the participation of the rest of LAC countries is modest (See Table 4). As a result, LAC imports from that region are also very concentrated in geographic terms: three countries (namely Mexico, Brazil and Argentina) account for nearly 65% of the total. Chile plays a much less important role in imports from AP than in exports to this region.

As in exports, the relative importance of AP as a source of imports varies widely among LAC sub-regions and the countries (Table 4). Paraguay tops the list, with over 24% of its imports coming from AP.<sup>9</sup> It is followed by a large number of countries that normally buy between 10 to 18% of total imports from the AP region. In contrast to exports, the participation of AP in LAC imports is more uniform across the countries: even in the case of CACM and Caribbean countries, the share is moderately high.

<sup>9</sup> One suspects that to some extent Paraguay imports are reexported to the border Mercosur market.

**Table 3: LAC Exports to AP, by Region and Country**  
**Average 1990-1999**  
**(US\$ million, percentage terms)**

	Japan	ANIES4	ASEAN4	China	Aus/Nzl	AP (A)	Distrib. of (A) (%)	World (B)	((A)/(B) %
<b>MERCOSUR</b>	<b>3,082</b>	<b>2,298</b>	<b>1,385</b>	<b>1,259</b>	<b>329</b>	<b>8,353</b>	<b>50.2</b>	<b>64,063</b>	<b>13.0</b>
Argentina	485	483	400	396	64	1,829	11.0	18,611	9.8
Brazil	2,573	1,726	967	765	261	6,292	37.8	42,518	14.8
Paraguay	3	26	4	1	0	34	0.2	875	3.8
Uruguay	21	64	15	96	3	199	1.2	2,058	9.7
<b>Andean Community</b>	<b>1,027</b>	<b>673</b>	<b>130</b>	<b>322</b>	<b>49</b>	<b>2,201</b>	<b>13.2</b>	<b>36,240</b>	<b>6.1</b>
Bolivia	3	2	3	1	1	10	0.1	1,015	1.0
Colombia	287	77	10	12	11	397	2.4	9,088	4.4
Ecuador	95	275	2	39	17	428	2.6	3,813	11.2
Peru	350	244	99	266	16	975	5.9	4,252	22.9
Venezuela	292	76	15	5	4	391	2.4	18,072	2.2
<b>Chile</b>	<b>2,066</b>	<b>1,223</b>	<b>271</b>	<b>258</b>	<b>53</b>	<b>3,871</b>	<b>23.3</b>	<b>12,336</b>	<b>31.4</b>
<b>Mexico</b>	<b>972</b>	<b>575</b>	<b>134</b>	<b>104</b>	<b>82</b>	<b>1,867</b>	<b>11.2</b>	<b>74,986</b>	<b>2.5</b>
<b>Panama</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>1</b>	<b>4</b>	<b>13</b>	<b>0.1</b>	<b>546</b>	<b>2.3</b>
<b>CACM</b>	<b>126</b>	<b>77</b>	<b>28</b>	<b>18</b>	<b>8</b>	<b>257</b>	<b>1.5</b>	<b>6,821</b>	<b>3.8</b>
Costa Rica	37	47	25	10	5	124	0.7	3,006	4.1
Guatemala	42	21	2	5	1	71	0.4	1,785	4.0
Honduras	28	7	0	0	0	36	0.2	745	4.9
Nicaragua	10	2	0	2	0	14	0.1	421	3.2
El Salvador	10	1	0	1	0	12	0.1	864	1.3
<b>Caribbean</b>	<b>58</b>	<b>11</b>	<b>2</b>	<b>4</b>	<b>4</b>	<b>81</b>	<b>0.5</b>	<b>4,202</b>	<b>1.9</b>
Belize	0	0	0	0	0	0	0.0	134	0.3
Barbados	1	1	0	0	0	2	0.0	181	0.9
Jamaica	20	1	0	1	3	24	0.1	1,188	2.0
Saint Lucia	0	0	0	0	0	0	0.0	89	0.1
Surinam	28	0	0	1	0	30	0.2	411	7.2
Trinidad & Tobago	10	10	2	2	2	25	0.1	2,200	1.1
<b>LAC</b>	<b>7,335</b>	<b>4,863</b>	<b>1,950</b>	<b>1,967</b>	<b>528</b>	<b>16,643</b>	<b>100.0</b>	<b>199,195</b>	<b>8.4</b>

Source: Comtrade.

**Table 4: LAC Imports from AP, by Region and Country**  
**Average 1990-1999**  
**(US\$ million and percentage terms)**

	Japan	ANIES4	ASEAN4	China	Aus/Nzl	Asia12 (A)	Distrib. of (A) (%)	World (B)	(A)/(B) %
<b>MERCOSUR</b>	<b>3,407</b>	<b>3,285</b>	<b>751</b>	<b>1,140</b>	<b>416</b>	<b>9,000</b>	<b>31.1</b>	<b>66,486</b>	<b>13.5</b>
Argentina	782	978	222	527	115	2,624	9.2	19,634	13.4
Brazil	2,341	1,844	505	575	290	5,556	19.6	41,865	13.3
Paraguay	202	335	11	0	1	549	1.1	2,279	24.1
Uruguay	81	128	13	38	11	271	1.3	2,708	10.0
<b>Andean Community</b>	<b>2,238</b>	<b>1,055</b>	<b>156</b>	<b>273</b>	<b>178</b>	<b>3,900</b>	<b>15.1</b>	<b>32,249</b>	<b>12.1</b>
Bolivia	186	27	2	11	3	230	0.7	1,408	16.3
Colombia	811	310	57	95	30	1,302	5.0	10,691	12.2
Ecuador	305	120	11	20	11	468	1.6	3,384	13.8
Peru	387	264	54	135	73	912	2.7	5,840	15.6
Venezuela	550	333	33	11	61	988	5.1	10,926	9.0
<b>Chile</b>	<b>871</b>	<b>642</b>	<b>181</b>	<b>377</b>	<b>131</b>	<b>2,201</b>	<b>5.9</b>	<b>12,642</b>	<b>17.4</b>
<b>Mexico</b>	<b>3,541</b>	<b>2,357</b>	<b>914</b>	<b>854</b>	<b>259</b>	<b>7,925</b>	<b>38.3</b>	<b>81,758</b>	<b>9.7</b>
<b>Panama</b>	<b>176</b>	<b>110</b>	<b>6</b>	<b>5</b>	<b>10</b>	<b>308</b>	<b>1.2</b>	<b>2,495</b>	<b>12.3</b>
<b>CACM</b>	<b>578</b>	<b>314</b>	<b>27</b>	<b>50</b>	<b>28</b>	<b>996</b>	<b>5.5</b>	<b>11,686</b>	<b>8.5</b>
Costa Rica	203	112	11	22	2	350	1.7	3,662	9.6
Guatemala	135	95	6	4	10	249	1.4	3,077	8.1
Honduras	74	27	4	9	4	118	0.8	1,691	7.0
Nicaragua	66	24	2	2	3	98	0.5	1,063	9.2
El Salvador	100	56	4	12	9	181	1.0	2,194	8.3
<b>Caribbean</b>	<b>336</b>	<b>123</b>	<b>37</b>	<b>59</b>	<b>54</b>	<b>609</b>	<b>2.9</b>	<b>6,236</b>	<b>9.8</b>
Belize	5	5	1	3	1	14	0.1	300	4.6
Barbados	48	19	4	8	13	92	0.4	782	11.8
Jamaica	148	33	15	16	18	230	1.1	2,342	9.8
Saint Lucia	16	6	2	3	2	31	0.1	306	10.0
Surinam	31	10	2	3	0	46	0.3	537	8.6
Trinidad & Tobago	88	50	12	25	20	195	0.9	1,970	9.9
<b>LAC</b>	<b>11,147</b>	<b>7,886</b>	<b>2,071</b>	<b>2,759</b>	<b>1,076</b>	<b>24,940</b>	<b>100.0</b>	<b>213,553</b>	<b>11.7</b>

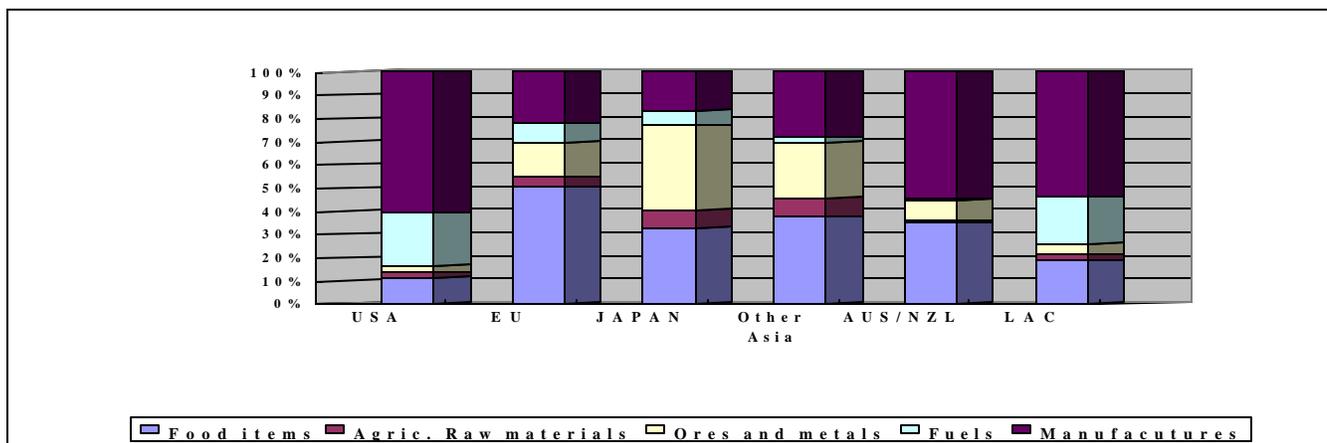
Source: Comtrade.

## 2. Product composition

Manufactures represent a growing share of LAC's exports to the world: their share in total LAC exports increased from less than 40% in 1990 to over 57% in 1999. All other categories (food, non-food agriculture, metals and minerals, and fuels) decreased their shares. This outcome has been strongly influenced by rapidly increasing manufactured exports from Mexico and CACM to the United States. In the case of LAC without Mexico, the share of manufactured exports in total exports remained at around 31% throughout the decade. At present, the LAC's share of world manufactured exports stands at roughly 3.4% (IDB 2000, Chapter I). These observations suggest that CACM and particularly Mexico have pursued an investment-cum-trade strategy that is different from the one adopted in the rest of LAC. In fact, close to 43% of Mexican trade can be considered as "intra-industry" in manufactures (ALADI, 2000).

Interestingly, there has been an opposite trend for LAC exports to AP (Kuwayama, Mattos, and Contador 2000). Shipments of food items account for a growing share of total exports to this geographic area, reflecting LAC's comparative advantages and the potential of AP markets (Graph 2). For instance, until 1995, exports to Japan were concentrated in minerals and metals, but exports of food items took the lead thereafter. These two categories, food and minerals and metals, constitute more than two thirds of total LAC exports to AP. It is interesting to note that the share of manufactures in total exports to Asia excluding Japan, though declining, was still higher than the share of these products in total exports to the European Union, which have been more concentrated in food stuffs. Shipments to Australia and New Zealand, in contrast, have a large component of manufactures. Also noteworthy is the increasing importance of manufactures in intra-LAC exports, which are believed to have technology-learning effects and function as a stepping stone or export-platform to third world markets (Devlin and Ffrench-Davis 1998).

**Graph 2:**  
**LAC's Export Structure by Destination and Major Commodity Group 1997**



Source: Comtrade.

The principal LAC's exports to AP are primary commodities. Table 5 shows 20 categories of LAC export items to AP with the highest average export values during the period of 1990-1999, indicating the value of trade of these products for the year 1998. They represent about 60% of total LAC exports to LAC. The table also lists the six main suppliers for each of the 20 products to AP in 1998, with the respective market share. The main feature is the high concentration in natural resources. Though not listed in the table, some countries or sub-regions have come up with new products that have successfully conquered the AP market, as salmon fisheries and wines in Chile.

It is equally important to recognize that some LAC countries are major suppliers of these 20 products. For instance, despite the Asian crisis which severely affected the demand of minerals and metals in AP, Chile provided over 39% of total AP imports of unwrought copper alloys, the single most important product imported into the region in 1998. Equally, over 56% of coffee imports by AP originated in LAC. Also, over 47% of meat or fishmeal fodder imported by AP came from Chile or Peru. Similarly high percentages are noted for oil-cake, soybeans and soybean oil, and iron ore.

From a LAC perspective, AP is an under-exploited market on the export side. But as the experiences of some LAC countries, particularly Chile and Peru, in the 1990s demonstrated, there seems to be a good potential for expanding natural resource-based exports from the region. However, LAC's trade with AP exhibits the same limitations that the region has in international trade in general: its exports are mostly primary and semi-manufactured goods. LAC needs to find ways to increase the degree of processing of these natural resource-based export products and to seek new outlets in AP for more value-added differentiated products. The present product composition is extremely sensitive to economic cycles of importing countries and does not help stabilize export earnings, as evidenced in drastic drops in export earnings in the AP market during the recent financial crisis. In sum, opportunities for future expansion in interregional trade and mutual investment seem to be present if strategies like Chile's or Peru's are observed. What is important in these product areas, however, is to find strategic alliances to augment value-added across the production chain, and to increase market access.



**Table 5: Asia-Pacific: Twenty main products imported from LAC**  
**Average for the period 1990-1999. Value of trade: 1998**  
**(Millions of dollars, percentages)**

Main Products	L A C				World Value												Total	
	Value	%	Accumulative	% World		Main supplier countries and % of imports												
SITC Rev.2																		
1 6821 COPPER NES,ALLOYS,UNWRT	1,956	9.2	9.2	43.4	4,505	CHL	38.6	JPN	15.4	KOR	6.8	PHL	5.8	AUS	5.7	ZMB	4.0	76.3
2 2815 IRON ORE,CONC,NOT AGGLOM	1,444	6.8	16.1	28.3	5,097	AUS	51.2	BRA	24.3	IND	12.1	ZAF	6.0	CHL	2.3	CAN	1.4	97.3
3 6841 ALUMINIUM,ALLOYS,UNWRGHT	601	2.8	18.9	8.6	7,002	AUS	27.5	RUS	16.0	ZAF	7.6	NZL	6.2	ARE	5.7	CHN	5.3	68.2
4 3330 CRUDE PETROLEUM	446	2.1	21.0	0.8	53,511	SAU	25.6	ARE	19.4	IRN	9.1	OMN	7.3	QAT	6.3	KWT	5.9	73.5
5 2871 CPR ORE ETC,CEMENT COPPR	1,001	4.7	25.7	32.7	3,064	IDN	27.3	CHL	26.1	AUS	13.7	CAN	10.5	PNG	7.4	ARG	4.9	89.9
6 0814 MEAT OR FISH MEAL FODDER	515	2.4	28.2	50.7	1,016	CHL	27.1	PER	20.0	USA	16.2	RUS	6.5	AUS	5.3	NZL	4.3	79.5
7 6725 IRN,STL BLOOMS,SLABS,ETC	429	2.0	30.2	15.1	2,845	RUS	30.3	CHN	14.5	BRA	12.3	JPN	7.4	AUS	6.4	UKR	6.1	77.0
8 0711 COFFEE GREEN,ROASTED,SUB	835	3.9	34.1	56.3	1,484	BRA	19.0	COL	17.1	IDN	13.2	VNM	7.3	GTM	5.5	HND	5.2	67.4
9 0342 FISH FROZEN,EXCL FILLETS	615	2.9	37.0	12.4	4,964	USA	17.7	TWN	10.7	RUS	9.5	KOR	7.6	CHL	7.4	NOR	6.6	59.7
10 2517 SODA,SULPHATE WOOD PULP	559	2.6	39.7	17.1	3,267	CAN	31.2	USA	24.6	IDN	13.2	BRA	8.8	CHL	8.2	RUS	3.7	89.8
11 0813 OILCAKE AND OTH RESIDUES	832	3.9	43.6	36.4	2,285	IND	28.5	USA	27.8	BRA	18.7	ARG	16.7	CAN	1.6	PHL	1.1	94.4
12 7932 SHIPS AND BOATS NES	171	0.8	44.4	5.1	3,329	JPN	26.6	KOR	22.4	CHN	10.6	LBR	10.5	DNK	6.1	PAN	4.7	80.9
13 2222 SOYA BEANS	890	4.2	48.6	24.5	3,639	USA	70.6	BRA	15.6	ARG	6.7	CAN	2.5	PRY	2.0	CHN	1.8	99.1
14 4232 SOYA BEAN OIL	404	1.9	50.5	31.6	1,281	USA	41.8	ARG	17.7	BRA	13.8	MYS	6.1	GER	5.6	CHN	5.1	90.1
15 2816 IRON ORE AGGLOMERATES	396	1.9	52.4	44.0	900	BRA	28.5	AUS	18.5	PHL	16.1	CHL	8.5	PER	7.1	IND	6.7	85.4
16 6727 IRN,STL COIL FR REROLLNG	31	0.1	52.5	1.0	3,156	JPN	31.2	KOR	28.7	TWN	12.3	RUS	3.9	GER	2.6	CHN	2.5	81.3
17 6114 LEATHR BOVINE NES,EQUINE	376	1.8	54.3	10.4	3,634	KOR	23.1	TWN	16.4	USA	15.6	ITA	8.3	CHN	4.9	THA	4.4	72.7
18 2460 PULPWOOD,CHIPS,WOODWASTE	329	1.6	55.9	15.3	2,142	USA	30.9	AUS	24.8	CHL	9.7	ZAF	9.6	CHN	7.3	BRA	3.9	86.3
19 0360 SHELL FISH FRESH,FROZEN	267	1.3	57.1	4.0	6,708	IDN	12.0	IND	9.9	THA	9.5	RUS	7.3	CHN	7.2	VNM	6.0	51.8
20 0114 POULTRY FRESH CHLLD,FRZN	287	1.4	58.5	14.2	2,020	USA	35.8	CHN	23.3	THA	14.4	BRA	13.2	NLD	2.7	GBR	2.4	91.8
Other products	8,786	41.5	100.0	0.9	1,022,549													
Total Trade	21,169	100.0		1.9	1,138,400													

Notes: LAC 32 countries (LAIA? CACM, Panama, Dominican Republic, Haiti, Surinam, CARICOM)

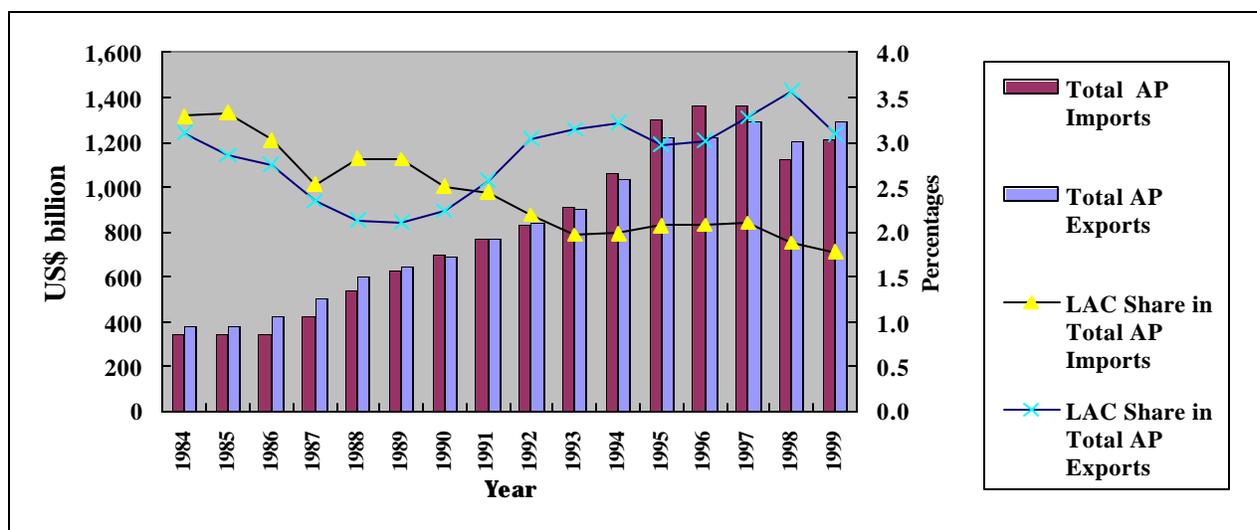
Source: Comtrade.

Note: Column 1 presents the 20 main products imported from LAC by the 12 Asian-Pacific countries. It is based on the average value of imports for the period. Column 2 refers to the value of imports of these goods in 1998. Column 3 is the share of the product of total imports from LAC in 1998. Column 4 shows the accumulated share of these products of total imports from LAIA. Column 5 shows the share of the imported product from LAC of total imports of the product from the world. Column 6 refers to the total value of imports of the product from the world. Column 7 presents the six main suppliers of the product and their share of total imports from the world. Column 8 presents the share of these six suppliers of the total value of imports of the product.

## B. Trade Flows in the 1990s: the Asia-Pacific Perspective

The trade performance of AP up to 1997 was outstanding by any world standard (Graph 3). The region's exports, after growing at 12% annually in the 1980s, continued to expand at a similar rate during the period 1990-1995. Imports also grew at a spectacular rate of 11% a year in the 1980s and an even higher rate of 13% for the first half of the 1990s. Between 1996 and 1999, however, the average annual growth of total exports was 1.2%, while the decline on the import side was -1.2%.

**Graph 3: Growth of AP trade and Share of LAC in Total AP Exports and Imports**



Intra-regional trade among AP countries was very dynamic during the first half of the 1990s, increasing by an average annual rate of 15%. The share of such trade in total AP exports reached more than 50% in the mid-1990s. Other regions, meanwhile, saw a decline in their shares. The share of AP going to the United States declined to 22% in 1995, while that of the European Union also fell to 14%. The dynamism of intra-regional trade is based mostly on the increasing intra-industry trade, involving particularly production sharing schemes in parts and components (Ng and Yeats 1999).

Though starting from a small base, AP exports to LAC grew at a very high rate than intra-zone trade: 19% a year between 1990 and 1995. In the following three years, AP exports to LAC increased by more than 7% per year, while exports to other regions and intra-zone trade declined substantially. These figures indicate that trade liberalization and economic recovery in Latin America offered a special opportunity for AP countries during the 1990s. As mentioned earlier, however, AP imports from LAC were seriously affected by the crisis.

In relative terms, even before the crisis, LAC was not a significant trade partner for AP: in 1996, only 2.5% of total AP trade took place with LAC. Moreover, in the mid 1980s the share

of LAC in total AP imports was higher (Graph 3). For all the geographical groupings (Japan, China, ANIES4, ASEAN4 and Australia/New Zealand), the share of LAC in total exports and imports of AP generally did not exceed 4%, throughout the decade. However, there are significant differences at the country level (Tables 6 and 7). LAC had the highest average market share of total exports for Korea (5.8%), while imports from LAC were more relevant for Japan (3.3%). The relative importance of LAC in total exports and imports of the smaller economies in AP, such as ASEAN member countries, is extremely low.

### 1. Country concentration

Trade with LAC countries is concentrated in a limited number of Asian countries. In exports and imports alike, Japan is the predominant supplier to and buyer from LAC, accounting for close to 45% of total bi-regional trade. For the period 1990-1999, three countries (i.e., Japan, Republic of Korea and China) accounted for over 77% of all AP exports to LAC (Tables 6). During the same period, these three countries received on average two-thirds of the total value of regional imports from LAC (Table 7). However, there has been a significant displacement of Japan by the ANIES4 and China, both in exports and imports (Table 8).<sup>10</sup>

**Table 6: Asia-Pacific Exports to LAC, by Region and Country: Average 1990-1999  
(US\$ million, percentage terms)**

	Mercosur	Andean	Chile	Mexico	Panama	CACM	Carib-	LAC	Distrib.	World	(A)/(B)
	Com.	Com.					bean.	(A)	of (A)	(B)	%
<b>Japan</b>	<b>2,792</b>	<b>1,935</b>	<b>809</b>	<b>3,677</b>	<b>5,446</b>	<b>497</b>	<b>269</b>	<b>16,084</b>	<b>50.0</b>	<b>377,832</b>	<b>4.3</b>
<b>ANIES4</b>	<b>2,831</b>	<b>941</b>	<b>758</b>	<b>2,057</b>	<b>2,566</b>	<b>612</b>	<b>118</b>	<b>10,358</b>	<b>32.2</b>	<b>325,678</b>	<b>3.2</b>
HONG KONG	107	22	21	80	63	27	14	344	1.1	27,821	1.2
KOREA REP.	1,512	616	448	1,155	1,726	361	54	6,147	19.1	105,867	5.8
TAIWAN	771	246	225	534	301	196	42	2,407	7.5	98,107	2.5
SINGAPORE	440	57	65	288	477	28	9	1,460	4.5	93,884	1.6
<b>ASEAN4</b>	<b>646</b>	<b>148</b>	<b>171</b>	<b>526</b>	<b>398</b>	<b>123</b>	<b>31</b>	<b>2,098</b>	<b>6.5</b>	<b>163,805</b>	<b>1.3</b>
INDONESIA	170	47	56	124	123	12	5	545	1.7	41,185	1.3
MALAYSIA	300	49	61	230	113	47	10	832	2.6	59,913	1.4
PHILIPPINES	25	8	22	42	37	48	2	186	0.6	17,891	1.0
THAILAND	150	44	34	131	125	16	14	535	1.7	44,817	1.2
<b>China</b>	<b>927</b>	<b>252</b>	<b>344</b>	<b>302</b>	<b>541</b>	<b>130</b>	<b>41</b>	<b>2,626</b>	<b>8.2</b>	<b>129,298</b>	<b>2.0</b>
<b>Aus/Nzl</b>	<b>364</b>	<b>165</b>	<b>116</b>	<b>222</b>	<b>11</b>	<b>31</b>	<b>45</b>	<b>974</b>	<b>3.0</b>	<b>59,433</b>	<b>1.6</b>
<b>AP total</b>	<b>7,559</b>	<b>3,442</b>	<b>2,199</b>	<b>6,785</b>	<b>8,961</b>	<b>1,392</b>	<b>505</b>	<b>32,140</b>	<b>100.0</b>	<b>1,056,046</b>	<b>3.0</b>

Source: Comtrade.

<sup>10</sup> Regarding destinations of AP exports, a large proportion of trade to Panama strongly distorts bi-regional trade flows (Table 6). Annual flows close to US\$ 9 billion a year on average during the period of 1990-1999 represented 28% of total exports of AP to LAC. For example, of total Japanese exports to LAC, which amounted to US\$ 16 billion a year, 5.4 billion (34%) corresponded to Panama. In the case of Korea and China, 28% and 21% respectively of total exports were directed to Panama. This large amount of exports are due to the country's free zones which serve as logistic bases and to Panama's ship registration policy through which Korea and Japan export ships to the world's shipping firms registered in Panama. The final destinations of these re-exports via Panama are not known, and inclusion of these re-exports might change significantly trade totals of some LAC countries with AP.

**Table 7: Asia-Pacific Imports from LAC, by Region and Country: Average 1990-1999  
(US\$ million, Percentage terms)**

	Mercosur	Andean Com.	Chile	Mexico	Panama	CACM	Carib- bean	LAC (A)	Distrib. of (A)	World (B)	(A)/(B) %
<b>Japan</b>	<b>3,833</b>	<b>1,313</b>	<b>2,321</b>	<b>1,521</b>	<b>90</b>	<b>246</b>	<b>97</b>	<b>9,482</b>	<b>42.8</b>	<b>283,472</b>	<b>3.3</b>
<b>ANIES4</b>	<b>2,988</b>	<b>791</b>	<b>1,681</b>	<b>863</b>	<b>426</b>	<b>106</b>	<b>15</b>	<b>6,955</b>	<b>31.4</b>	<b>453,991</b>	<b>1.5</b>
HONG KONG	695	72	134	146	17	17	4	1,086	4.9	160,126	0.7
KOREA REP.	1,123	455	712	259	286	60	6	2,941	13.3	106,235	2.8
TAIWAN	819	198	677	227	3	15	4	1,949	8.8	88,827	2.2
SINGAPORE	352	67	158	231	120	15	2	979	4.4	98,804	1.0
<b>ASEAN4</b>	<b>1,675</b>	<b>182</b>	<b>442</b>	<b>258</b>	<b>35</b>	<b>21</b>	<b>18</b>	<b>2,638</b>	<b>11.9</b>	<b>164,533</b>	<b>1.6</b>
INDONESIA	441	33	166	68	1	5	2	717	3.2	31,986	2.2
MALAYSIA	447	62	119	45	14	6	1	695	3.1	56,617	1.2
PHILIPPINES	257	36	54	31	1	3	1	384	1.7	24,874	1.5
THAILAND	531	51	102	114	19	6	15	842	3.8	51,056	1.6
<b>China</b>	<b>1,474</b>	<b>422</b>	<b>320</b>	<b>156</b>	<b>4</b>	<b>12</b>	<b>6</b>	<b>2,397</b>	<b>10.8</b>	<b>113,652</b>	<b>2.1</b>
<b>Aus/Nzl</b>	<b>379</b>	<b>64</b>	<b>59</b>	<b>146</b>	<b>8</b>	<b>10</b>	<b>7</b>	<b>680</b>	<b>3.1</b>	<b>64,002</b>	<b>1.1</b>
<b>AP total</b>	<b>10,350</b>	<b>2,772</b>	<b>4,822</b>	<b>2,945</b>	<b>562</b>	<b>395</b>	<b>142</b>	<b>22,152</b>	<b>100.0</b>	<b>1,079,650</b>	<b>2.1</b>

Source: Comtrade.

**Table 8: Share of Regional Groups/Countries in Asia-Pacific Exports to  
and Imports from LAC, 1990-1999**

	1987	1990	1993	1994	1995	1996	1997	1998	1999
<b>Exports</b>									
<b>Japan</b>	65.9	60.4	55.5	52.4	50.3	44.9	46.4	45.3	44.4
<b>China</b>	3.4	3.2	5.6	6.8	8.2	8.1	10.4	12.0	12.4
<b>ANIES4</b>	24.9	27.9	30.0	31.8	31.9	37.0	33.1	31.8	33.0
<b>ASEAN4</b>	2.5	4.1	5.5	6.2	7.0	6.7	7.1	7.8	7.7
<b>Aus/Nzl</b>	3.3	4.4	3.3	2.9	2.6	3.3	3.0	3.1	2.6
<b>Total AP</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Imports</b>									
<b>Japan</b>	56.0	53.1	43.4	42.5	41.6	38.6	38.6	42.1	42.4
<b>China</b>	10.8	6.9	10.3	10.1	10.2	12.2	12.8	13.7	13.5
<b>ANIES4</b>	23.2	24.9	31.7	32.4	31.8	32.5	33.2	31.5	32.0
<b>ASEAN4</b>	6.5	11.7	11.6	12.1	13.4	13.9	12.7	9.2	8.3
<b>Aus/Nzl</b>	3.5	3.4	3.0	3.0	3.0	2.8	2.7	3.5	3.8
<b>Total AP</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Comtrade.

## 2. Product composition

AP exports to LAC consist mainly of manufactured products. Table 9 lists the top 20 products imported by LAC in the period 1990-1999 (as measured by average import value), indicating the value of trade in these products in 1998. Manufactured goods range from labor-intensive products to automotive and electric and electronics sectors. Some products, such as coal, natural

rubber, and milk are in the primary sector. The 20 products listed in Table 9 account for around 36% of total imports from AP, demonstrating the higher level of diversification than was the case for LAC exports to the region. A comparison of Table 5 and 9 clearly reveals the “inter-industry” nature of bi-regional trade, with LAC exchanging primary or natural resources- based exports for manufactures.

Another aspect that stands out from Table 9 is the importance of AP countries as suppliers of these 20 products. Among the 120 main suppliers, close to 50 suppliers are from AP. Although AP countries appeared to be the most important supplier for only four product groups (toys and indoor games, other radio receivers, footwear and natural rubber), they were the second main suppliers for 14 of the 20 products. The share of AP in imports of toys and indoor games reached over 62%, over 75% for radio broadcast receivers and over 45% of footwear. Therefore, despite the predominant role of the United States as the primary supplier of many products listed here, AP has a strong market presence. Also noticeable is the presence of some Latin American countries as alternative sources for imports of passenger motor vehicles, lorries and trucks, and footwear and “others”, which reflects the increasing importance of LAC in intra-regional trade and the relevance of intra-industry trade in manufactures.

The above data confirm that AP countries are strong players in the market for technology-intensive goods. In several other sectors, such as footwear and some sub-sectors of electric and electronics products, automobiles, coal and natural rubber, the two regions compete directly with Latin American countries in the LAC market.<sup>11</sup> The strategic position of AP in relation to other suppliers suggests that to secure an even higher share of the LAC market, AP countries need to strengthen their links further with LAC economies by building up alliances and promoting various types of business cooperation. Achieving this goal in turn requires a deeper knowledge of LAC markets.

Meanwhile, the strong position of the United States and several LAC countries in many manufactured product groups underlines the challenges for AP countries of maintaining or expanding their market shares in the light of the impending FTAA. In the absence of a similar international trade arrangement of AP countries, FTAA could lead to a relative deterioration in market access conditions for AP exports to LAC.

### 3. Limited intra-industry trade between Asia-Pacific and LAC

As many Asian experts point out (e.g., Kagami 1995, Fukasaku 1992, Ozawa 1991), trade ties among AP economies are increasingly characterized by intra-industry trade. On the LAC side, there is a substantial intra-industry trade, particularly in MERCOSUR (ALADI 2000).<sup>12</sup> However, this type of trade between LAC and AP has been very limited. The main intra-industry flows between the two regions occur mostly in products with little importance for the bi-regional trade (Kuwayama, Mattos, and Contador 2000). Given the divergent pattern of international

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<sup>11</sup> For an analysis of how the two regions compete in international markets, see IDB (1999).

<sup>12</sup> Machado and Markwald (1999) indicate that intra-industry trade between Brazil and Argentina increased after the inception of MERCOSUR. These authors assert that over 60% of bilateral trade in manufactures are of intra-industry trade, and this type of trade is reasonably consolidated in two sectors: chemical products and machines and transport equipment. An important part of intra-industry trade flows also correspond to intra-firm trade. This increase in intra-industry trade can be partly attributed to the integration process initiated by MERCOSUR, but also to stabilization programs in Argentina and Brazil which led to stable exchange rates between the two countries up to the crisis in 1998. These factors favored the establishment of long-term supplier contracts.

specialization between AP and LAC, the recovery of aggregate demand of AP economies would offer LAC countries new production possibilities and export opportunities. Nonetheless, there is a concern that those potential benefits for non-Asian countries that derive from sustained recovery of AP economies might be difficult to be fully exploited, due to the area's integrated productive system, based primarily on intra-regional and intra-industry trade.

**Table 9: LAC: Twenty main products imported from Asia-Pacific**  
**Average for the period 1990-1999. Value of trade: 1998**  
**(Millions of dollars, percentages)**

Main Products	Asia-Pacific				World Value											Total		
	Value	%	Accumulative	World %		Main supplier countries and % of imports												
SITC Rev.2																		
1 7810 PASS MOTOR VEH EXC BUSES	2,814	7.7	7.7	26.4	10,656	USA	22.7	JPN	19.6	ARG	14.9	BRA	9.1	GER	6.4	KOR	6.3	
2 7649 PTS NES OF EQUIPMT OF 76	1,000	2.7	10.4	25.1	3,979	USA	47.2	JPN	10.3	SWE	9.9	MYS	4.3	KOR	4.2	CAN	3.6	
3 7821 LORRIES,TRUCKS	1,067	2.9	13.3	20.3	5,252	USA	29.2	JPN	16.6	BRA	15.2	ARG	14.8	MEX	3.2	KOR	3.2	
4 7764 ELECTRONIC MICROCIRCUITS	1,094	3.0	16.3	19.6	5,595	USA	73.3	JPN	6.1	KOR	3.3	MYS	3.1	TWN	2.7	FRA	1.8	
5 8942 TOYS,INDOOR GAMES ETC	802	2.2	18.5	62.6	1,283	CHN	36.9	USA	22.3	TWN	10.3	HKG	9.2	JPN	3.7	ESP	3.3	
6 7849 OTHER MOTOR VEHCL PARTS	702	1.9	20.4	6.6	10,654	USA	56.6	GER	10.9	BRA	6.3	JPN	5.6	FRA	3.6	ITA	2.9	
7 7628 OTHER RADIO RECEIVERS	481	1.3	21.7	75.3	639	MYS	26.0	CHN	24.5	USA	14.2	IDN	8.6	PAN	8.2	SGP	6.4	
8 7599 ACCTG,ETC,ADP MCH PTS,AC	648	1.8	23.4	29.5	2,197	USA	61.3	TWN	7.3	JPN	6.4	CHN	5.7	SGP	3.8	KOR	2.7	
9 7525 ADP PERIPHERAL UNITS	561	1.5	25.0	32.3	1,735	USA	54.5	CHN	7.1	JPN	6.5	TWN	5.9	MEX	3.7	MYS	3.0	
10 7641 LINE TELEPHONE,ETC EQUIP	530	1.4	26.4	20.0	2,650	USA	38.1	JPN	6.8	GER	6.4	SWE	6.3	CAN	5.1	ITA	4.8	
11 7788 OTH ELEC MACHY,EQUIP NES	472	1.3	27.7	13.7	3,455	USA	69.5	JPN	4.9	TWN	3.2	KOR	2.5	GER	2.3	BRA	1.6	
12 7284 MACHY FOR SPCL INDUS NES	495	1.3	29.0	11.0	4,503	USA	41.0	GER	14.4	ITA	11.2	JPN	8.6	FRA	4.9	CAN	3.4	
13 8510 FOOTWEAR	395	1.1	30.1	45.1	876	CHN	23.9	BRA	14.3	USA	7.8	IDN	7.3	HKG	5.2	PAN	5.0	
14 7638 OTHR SOUND APPARATUS ETC	352	1.0	31.1	39.5	891	USA	53.2	JPN	16.4	CHN	6.6	MYS	5.9	KOR	4.1	PAN	2.5	
15 7721 SWITCHGEAR ETC	455	1.2	32.3	8.2	5,563	USA	64.5	GER	8.4	FRA	4.8	JPN	4.3	ITA	2.6	ESP	1.8	
16 3222 OTH COAL,NOT AGGLOMERATD	353	1.0	33.3	35.4	999	USA	41.9	AUS	30.0	CAN	9.6	ZAF	7.4	IDN	4.5	VEN	2.5	
17 6531 CONT SYNT WEAVES NONPILE	357	1.0	34.2	46.0	774	USA	37.1	KOR	29.6	TWN	7.7	IDN	4.0	PAN	2.3	ITA	2.1	
18 2320 NATURAL RUBBER,GUMS	261	0.7	35.0	85.6	305	IDN	43.4	MYS	25.5	THA	9.6	GTM	9.3	SGP	6.3	USA	1.5	
19 7761 TV PICTURE TUBES	296	0.8	35.8	12.2	2,432	USA	85.3	KOR	9.2	MYS	1.5	BRA	1.0	JPN	0.8	VNM	0.5	
20 0224 MILK,CREAM PRESERVED ETC	318	0.9	36.6	26.6	1,196	NZL	24.2	ARG	19.0	USA	12.9	NLD	5.3	URY	4.5	GBR	4.3	
Other products	23,278	63.4	100.0	9.8	238,300													
Total trade	36,732	100.0		12.1	303,931													

Notes: LAC (Latin American Integration Association (LAIA) member countries and CACM).

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

Note: Column 1 presents the 20 main products imported from 12 Asian and Pacific countries by LAC. It is based on the average value of imports for the period. Column 2 refers to the value of imports of these goods in 1998. Column 3 is the share of the product of total imports from Asia Pacific in 1998. Column 4 shows the accumulated share of these products of total imports from Asia-Pacific. Column 5 shows the share of the imported product from Asia-Pacific of total imports of the product from the world. Column 6 refers to the total value of imports of the product from the world. Column 7 presents the six main suppliers of the product and their share of total imports from the world. Column 8 presents the share of these five suppliers of the total value of imports of the product.



## **II. Trade and Investment Links**

The lack of intra-industry trade has been a significant factor for the low level of foreign direct investment (FDI) between the two regions. The incipient dynamism in intra-regional trade and FDI observed in LAC up to the Asian crisis can be attributed to several new factors that include not only globalization but also: i) liberalization of trade and investment, first at the unilateral level then increasingly with the context of the multilateral system; ii) economic reforms in general; iii) comprehensive and rapid privatization of state-owned enterprises; and iv) new processes of regional and sub-regional integration, together with many bilateral agreements among LAC countries (Hosono 2000). Substantial across-the-board reductions in average national tariffs in both regions in recent years have meant that there is less “tariff jumping” FDI than in the past. At the same time, the creation of regional trade blocs has allowed inward FDI to exploit economies of scale in production and marketing areas that did not previously exist. Though in a different degree and form, each of these factors was also present in the Asia-Pacific experience. What seems to be very different, however, is the type of investment-cum-trade relation that each region has been undergoing.

### **1. Comparison of investment-cum-trade relations between Asia-Pacific and LAC**

One reason for low Asian FDI in LAC in the 1990s is the lack of intra-industrial corporate complementarity that is widespread among East Asian countries, based on the so-called “flying wild geese” pattern of development, or the inter-economy sequencing of the industrialization process. Though maybe oversimplified, this vision of industrial development across countries and over time describes adequately the interaction between trade and FDI as a process of relocating production across national boundaries, which creates a two-way, or triangular trade, flow among participating countries. However, this “flying wild geese” pattern of development was hardly observable in the Americas in the 1960s and 1970s (Hosono 2001, 2000). FDI from the United States and other countries was basically mobilized for import-substitution industries and resource-based development. This was partly because export-oriented industrialization was not center stage in the Latin American development strategy during those years.

Moreover, LAC’s industrialization of the 1980s and 1990s brought about a clearly different trade-cum-investment relation in the region from the “flying wild geese” pattern of East Asia (Horisaka and Hosono 1996). Companies in Latin America have pursued an international strategy that uses the advantages of their respective home countries, which derive either from abundant natural resources, their expertise to develop and process these resources, or their capabilities and competitiveness in selling these processed resources or industrial commodities internationally.<sup>13</sup> These companies also make use of the benefits of such regional integration processes as NAFTA and MERCOSUR. Large companies in the region have expanded their businesses on an international scale into two or more countries, in such fields as energy, communications, transportation, and financial services. Asian investors rarely participated in the privatization process of these sectors, even when the two regions were becoming closer trade partners. The services sector, which has been the major target of privatization cases in LAC, is still a protected sector in Asia, and Asian companies operating in

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<sup>13</sup> Hosono (2001, 2000) states that these companies, some of them who are TNCs worldwide, are active in various industrial fields such as beer and other beverages, foodstuffs, building materials (especially cement and glass as in the case of CEMEX and VITRO of Mexico), textiles, automobiles and auto parts sectors.

this sector have thus been local market-minded, with little strategic interest in aggressively investing abroad (Pizarro 2000, Hosono 2000, Rivera-Batiz 2000). Another factor for the reticence is that banks, especially from Japan, were almost inactive due to their own domestic problems of large amounts of bad loans and bitter memories of the Latin American debt crisis of the 1980s.

In general terms, the investment-cum-trade pattern and economic integration differ markedly between the two regions. Efforts should be made so that the *de facto* regional productive integration process of AP be extended to incorporate the LAC region, as is increasingly evidenced in some productive sectors in Mexico. More intra-industry trade between the two regions would provide LAC with new routes of access to Asian markets, stimulate incorporation of new technologies and upgrade workers' skills and entrepreneurs' managerial techniques, as a consequence of both the production activities and associated technical assistance (Moneta 1995).

## **2. Asian outward FDI towards LAC**

In recent years LAC has been a very active receptor of FDI even at the global level. During 1986-1991, developing countries received almost 19% of world FDI flows, a share that increased to 35% in the period 1992-1998. In 1992 when East Asia and LAC represented 51% and 32%, respectively, of FDI flows to developing world, while in 1998 the corresponding shares were almost equal, at 46% and 42%. MERCOSUR has been an important recipient of FDI among developing countries and particularly within LAC. In fact, the FDI flows to MERCOSUR plus Chile (one of the two associate members) began to increase rapidly since 1992 and exceeded those to ASEAN4 in 1996 (Cesarin 2000).

The formation of MERCOSUR as a free trade area in 1991 and the gradual implementation of a customs union in the following years attracted FDI from AP in the first half of the 1990s. In comparison to the earlier focus on Central America, the Caribbean and Mexico as an export platform to the United States market, the Asian investors in MERCOSUR began to pursue a more local market-oriented strategy, particularly in Brazil. Furthermore, Brazil's import tariff hikes, adopted in early 1995 to correct its trade deficit, also favored domestic market-oriented FDI. In general, rules of origin in MERCOSUR and NAFTA forced foreign firms to change their business strategies. According to Kim (2000a), within the context of an increasingly globalized business environment, the penetration into LAC changed from "detour" to the United States to "local markets". Consequently, as in bi-regional trade in goods, investment relation relations between AP and LAC, once dominated by Japan, has witnessed diversification in the 1990s through the incorporation of Korea, Taiwan Province of China and China. Japan also returned to the LAC region in the 1990s after having withdrawn during the 1980s' debt crisis.

### **A. Japanese FDI**

Among the AP countries, Japan has been the most important direct investing country in the LAC region. It became a significant, though not major, investor in LAC during the 1960s and 1970s, employing a strategy aimed at securing supply of primary materials required by its industries. The financial crisis that hit Latin America in the early 1980s significantly affected Japanese banks and had a lasting effect on their relations with the region, discouraging further investment

there (Saavedra-Rivano 1999). While most of Japanese FDI in LAC continues to be directed to Panama (shipping) and the Caribbean tax havens, in the early 1990s Japanese FDI began to recover in some manufacturing sectors.

Japanese FDI flows to LAC in fiscal year 1999 (based on notifications to the Japanese Ministry of Finance, therefore not actual investments) increased by 13% over the previous year to US\$ 7.4 billion. Japan's share in total FDI inflows to LAC (net FDI received based on balance-of-payments statistics), nevertheless decreased from 21.8% in 1992 to 9.7% in 1999 (Table 10).<sup>14</sup> This reflects in part the hesitance of Japanese investors in participating in privatization projects that have been offered by many countries in the region.

**Table 10: Relative importance of Japanese FDI in LAC**  
(US\$ million and percentages)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
FDI received by LAC (a)	12,506	10,363	23,706	24,799	39,387	55,580	61,596	77,047	57,410
% Change	13.5	-17.2	128.8	4.6	58.8	41.1	10.8	25.1	-25.5
Japanese FDI in LAC (b)	2,726	3,370	5,231	3,877	4,446	6,336	6,463	7,437	N/A
% Change	-18.3	23.6	55.2	-25.9	14.7	42.5	2.0	15.1	N/A
(b)/(a) (%)	21.8	32.5	22.1	15.6	11.1	11.4	10.5	9.7	N/A

Notes. 1. Figures on FDI received are net, based on BOP statistics from the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). Figures for 2000 are estimates.

2. Statistics for Japan are based on fiscal year.

Sources: ECLAC statistics and statistics on investments notified to Ministry of Finance, Japan.

During the 1990s, notifications of Japanese FDI to Asia had generally exceeded those to LAC by a substantial margin (Table 11). It should be noted, however, that flows to Asia were reduced drastically in the aftermath of the financial crisis, and in 1998, 1999 and the first half of 2000, flows to LAC and Asia were similar in size. Excluding Panama and other tax havens, Brazil and Mexico have been major recipients of Japanese FDI. When broken down by industry, as in previous decades, the financial and insurance sector has been the most important destination of Japanese FDI throughout the decade, due to investments in the tax haven islands. The transport sector ranked second, with investment heavily influenced by flags of convenience in Panama. Historically, the LAC manufacturing sector is a minor recipient of Japanese FDI, receiving in general 3-5% of total Japanese FDI in manufacturing worldwide. This contrasts with Asia for which close to 40% of Japanese overall manufacturing FDI is generally directed.

<sup>14</sup> Net flows from Japan to LAC seem to differ enormously from the data on the notification. According to IDB/IRELA (1996), the actually invested amounts were in the range of 5 to 20% of the notification figures.

**Table 11: Japanese FDI Outflows, By destination 1990-1999**  
(based on reports and notifications)  
(Fiscal Year, US\$ million)

Region/Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 1 <sup>st</sup> Half
North America	27,192	19,823	14,572	15,287	17,823	22,761	23,021	21,389	10,943	24,770	8,695
Europe	14,294	9,371	7,061	7,940	6,230	8,470	7,372	11,204	14,010	25,804	11,184
LAC	3,628	3,337	2,726	3,370	5,231	3,877	4,446	6,336	6,463	7,437	3,088
Argentina	213	40	18	34	21	117	13	57	128	8	12
Brazil	615	171	464	419	1,235	301	882	1,182	466	630	144
Chile	30	75	27	3	14	137	2	23	12	13	10
Mexico	168	193	60	53	613	206	113	320	83	1,483	209
Panama	1,342	1,557	938	1,390	1,655	1,660	1,009	1,119	1,040	1,413	700
Peru	...	...	0	1	3	...	...	9	...	46	N/a
Venezuela	77	102	26	3	6	28	59	36	24	62	N/A
Colombia	59	1	...	...	23	21	2	14	11	10	N/A
Others	1,183	1,199	1,193	1,467	1,696	1,407	2,366	3,576	4,572	3,772	N/A
Asia	7,054	5,936	6,425	6,637	9,699	12,264	11,614	12,181	6,528	7,162	2,821
Mid and Near East	27	90	709	217	290	148	238	471	146	113	16
Africa	551	748	238	539	346	379	431	332	444	515	8
Oceania	4,166	3,278	2,406	2,035	1,432	2,795	897	2,058	2,213	894	221
Total	56,911	41,584	34,138	36,025	41,051	50,694	48,019	53,972	40,747	66,694	26,033

Source: Various issues of JETRO, *Sekai to Nihon no Kaigai Chokusetsu Toshi*, [The White Paper on Foreign Direct Investment], Tokyo, Japan. For the figures of 1999 and 2000, Ministry of Finance, Japan, Recent Outward Direct Investment (Fiscal Year. 1999), [www.mof.go.jp/english/fdi](http://www.mof.go.jp/english/fdi)

With respect to FDI to Japan (again based on reports and notifications), there have been flows of a substantial scale in recent years. For instance, in the fiscal year 1999, FDI inflows to Japan from LAC reached US\$ 2.6 billion, which accounted for 12% of total inflows in that year. The mentioned amount involved 154 cases of investment (JETRO 2001). The sectors to which these investments were directed are not known.

### B. Other Asian countries

In the case of Korea, factors such as the current account surplus in 1986 and the subsequent liberalization of rules on FDI were pivotal in expanding production in Central America in the late 1980s and in Mexico in the early 1990s. However, until 1994, there was virtually no Korean direct investment in Brazil (See Table 12). Following the Real Plan in Brazil and the introduction of the MERCOSUR customs union in the mid-1990s, Korean investments began to grow (Kim 2000a). Following the visits of President Kim Young Sam to a number of LAC countries in September 1996, Korean FDI flows to LAC reached a record high, with accepted investment of

US\$ 14 million, accounting for roughly 12% of the country's total FDI outflows. The elimination of the remaining regulations on overseas investment in June 1996 and August 1997 was an additional stimulating factor of FDI to LAC.

Compared to Japanese and Chinese FDI in Latin America, which is concentrated mainly in natural resources, more than half of Korean FDI is directed towards manufacturing.<sup>15</sup> Interestingly, contrary to what might be expected, Jyoung (1997) found that the trends in Korean investments in Latin America up to the crisis were not confined to traditional, labor-intensive manufacturing sectors but also included more technology-intensive industries. The set of "push" factors included the intrinsic needs of Korean firms in terms of domestic factor market costs, market positioning, upgrading of product mix and corporate strategy. The set of "pull" factors, on the other hand, involved the improved economic conditions in Latin America, the growth of the Latin American market and the challenges presented by the stronger regional integration schemes (Kim 2000a). This led to a diversification by sectors and greater emphasis on capital- and technology-intensive industries, rather than the formerly dominant labor-intensive ones. The crisis in Asia, the subsequent IMF programs and the parallel corporate reforms involving *chaebols*, forced many planned investment projects to be downsized, cancelled or permanently postponed. As a result, Korean FDI towards LAC in 1998 fell by almost 50%, compared to the previous year.

The figures shown in Table 12 are only accepted cases. Citing data from the Export-Import Bank of Korea, Lee (2000) points out that as of the end of the year 1999, the outstanding invested amount of Korea's FDI in LAC reached US\$ 1.2 billion, accounting for 5.2% of the total outstanding FDI worldwide.

**Table 12: Korean FDI in LAC /a**  
(Thousands of US\$, and percentages)

	World total	LAC	% of total	Mexico	Brazil	Panama	Argentina	Peru
1990	1,610,549	85,018	5.3%	11,028	0 -	8,640	2,127	0 -
1991	1,510,688	43,852	2.9%	2,992	46	13,780	12,339	0 -
1992	1,206,145	69,959	5.8%	22,300	0 -	9,400	23,388	0 -
1993	1,875,639	47,231	2.5%	3,850	0 -	5,857	11,688	0 -
1994	3,581,081	96,208	2.7%	22,320	3,439	13,191	4,764	750
1995	4,948,537	246,179	5.0%	30,755	19,863	18,795	20,013	312
1996	6,220,254	421,578	6.8%	85,653	112,260	6,955	17,213	77,999
1997	5,847,732	627,805	11.0%	47,864	204,401	20,628	29,259	58,248
1998	5,109,782	378,667	7.4%	41,504	73,260	22,245	36,691	54,688
Total	35,013,629	2,174,167	6.2%	270,914	440,454	174,107	169,087	191,998

a/ Accepted cases.

**Source:** Republic of Korea, Ministry of Finance and Economy, Office of Economic Cooperation, Trends in International Investments and Incentives to Technology, January 31, 1999, as cited in Won-Ho Kim, "Korea and Latin America, End of a Honeymoon?", *Capitulos del Sela*, No. 56, May -August, 1999, Table 2.

<sup>15</sup> In terms of Korean FDI outstanding in LAC at the end of 1998, manufacturing represented more than 50% of the total, followed by trade (13.7%), mining (13.4%) and fishery (4.7%) and forestry (1.3%). Interestingly, however, the share of manufacturing in Brazil was much higher (95.8%), while in Mexico the corresponding share was 54.5%. Meanwhile, the share of manufacturing in Argentina of FDI outstanding at the end of 1998 represented only 0.2%, in comparison with trade (41.0%), mining (30.8%), fisheries (26.5%). In the case of Peru, close to 87% of FDI accumulated corresponded to the mining sector (Kim, 2000b).

Another Asian source of FDI in LAC is the Taiwan Province of China.<sup>16</sup> As Table 13 suggests, there has been a sustained increase from this source over the years. The number and size of approved investments shows that LAC countries, particularly those of British territories, are extremely important recipients. The rising profile of this sub-region reflects increasing outbound FDI in financial and insurance industry. It should be noted that the category belonging to “others” have played an increasingly important role not only within the Western Hemisphere but also at the international level. Apart from the United States, FDI flows to Canada and Mexico are sporadic, and when they exist, they are small in size. These FDI flows to the Americas, that are substantial in size, are, however, exceeded by FDI flows to China, whose exact magnitude is difficult to ascertain. According to Taiwan Ministry of Economic Affairs, approved “indirect” mainland investment during the period between 1991 and the first half of 2000 reached roughly \$US 15.5 billion.

**Table 13: FDI outflows of Taiwan Province of China  
To the Western Hemisphere, 1990-2000 June a/  
(US\$ million and in percentage terms)**

Country/year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 June
USA	429	298	193	529	144	248	271	547	599	445	428
Canada	21	14	0.5	0.02	1	-	1	16	3	9	3
Panama	-	-	-	10	85	15	64	138	45	222	91
Mexico	40	-	-	-	4	-	0.03	26	19	10	-
British Territories	170	268	239	194	569	370	809	1,051	1,838	1,359	877
Others	179	79	17	7	185	154	298	137	132	221	84
Subtotal	839	659	449	740	988	787	1,443	1,916	2,637	2,268	1,483
Asia	603	930	370	664	559	468	662	819	581	836	309
Mainland China		174	247	3,168	962	1,093	1,229	1,229	4,334	2,035	1,253
World Total b/	1,552	1,656	887	1,660	1,617	1,357	2,165	2,894	3,296	3,269	1,897
Americas as % of the world b/	54.0	40.0	50.6	44.6	61.1	56.0	66.7	66.2	80.0	69.4	78.2

a/ Approved investment.

b/ World Total here does not include outbound FDI to the People’s Republic of China.

Source: Investment Commission, Ministry of Economic Affairs, Republic of China, Statistics on Overseas Chinese and Foreign Investment, Outward Investment, Outward Technical Cooperation, Indirect Mainland Investment, Guide of Mainland Industry Technology, June, 2000.

The People’s Republic of China is another Asian investor of importance to LAC. Though detailed information is not available, more than 200 Chinese firms are reported to have invested close to US\$ 2 billion in more than 20 LAC countries or territories. One noteworthy case is the acquisition of the privatized iron-mine Hierro Peru by China’s Shougang Company for US\$ 122 million in 1992 or around 2% of FDI inflows to Peru that year. In 1996, China invested in a joint

<sup>16</sup> The Republic of China maintains diplomatic relations with and has set up embassies in 14 Latin American and Caribbean countries, namely, Belize, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, St. Kitts and Nevis, and St. Vincent.

venture with Venezuela to produce orimulsion, the tar-based fuel that the South American country was promoted to exploit heavy crudes from the Orinoco River Basin. China's Foreign Ministry also reports that LAC countries have invested in 3,350 projects in China for an amount of US\$ 11.5 billion (China Foreign Ministry 2000).

## **2. Impediments to Bi-regional FDI**

The reasons why interregional FDI flows have lagged far behind the dynamic trends of total FDI flows in the two regions include not only the macroeconomic environment but also other economic and social factors. Lack of knowledge of companies in one region in the other, due to cultural, geographical and historical reasons, is one important factor. The scarcity of information, especially about recent trends in trade and FDI, regional integration and existing business opportunities in each other is another important impediment to reciprocal trade and mutual investment. The lack of a well-established network among companies, large and SMEs alike, is an obstacle for strategic alliances and corporate association. Despite profitable opportunities, the high sunk costs of new ventures, and the risks involved for single investors may also continue to act as formidable barriers (Rivera-Batiz 2000).

The virtual non-existence of formal mechanism, or forums for consultation or negotiation is another impediment. This contrasts with a wide range of forums that exist within each region (such as, in the case of LAC: Inter-American Development Bank, Organization of American States, Summit of the Americas, the FTAA process, regional and sub-regional integration mechanisms, and others). There is also a clear lack of support for legal advice, marketing, consulting for feasible studies in each region and analysis of risk management on credit. The insufficient availability of infrastructure, especially of an efficient interregional transport system, also impedes dynamic trade and investment flows (Hosono 2000). Providing solutions for these bottlenecks would certainly enhance bi-regional trade and investment.

It is increasingly acknowledged that a country's comparative advantage is strongly influenced by that of neighboring countries. What matters more today is the *regional* comparative advantage, determined mainly by the region's market size, natural resource endowments, cost structures of production, patterns of specialization, availability of skilled and unskilled labor, R&D capabilities and infrastructure. In this context, regional integration has a lot to offer. In pursuit of the so-called "dynamic effects" of integration, most new regional integration go beyond conventional arrangements addressing trade in goods and involve attempts at comprehensive disciplines. They envisage liberalization of trade in services, factor movements, harmonization of regulatory regimes, environmental and labor standards and in fact many domestic policies perceived as affecting international competitiveness. Cooperation in harmonization of norms and macroeconomic convergence as well as strengthening of infrastructure, physical and social alike, by way of regional integration, also is of growing importance. Countries in both regions are making a substantive progress in this area, by way of sub-regional and regional integration, and in the case of LAC, also hemispheric integration and interregional integration with the European Union.

### III. Market Access and Integration Processes

#### 1. Latin America and the Caribbean

LAC has made commendable progress in reducing barriers to trade in recent years through multilateral trade negotiations, regional and bilateral efforts and unilateral measures. Between the mid-1980s and 1990s the region unilaterally reduced its average external tariff from over 40% to 12%. The average maximum tariffs in the region fell from more than 80% to 40% with only two countries presently applying maximum tariffs of up to 100% on a small number of products. Tariff dispersion, on average, has declined from 30% in the mid-1980s to a low of 9% today. Both the highest average rate and the highest dispersion rate, as measured by the standard deviation, are currently under 15% (for details, see IDB 2000, Table 15, p.125).

The region also actively participated in the Uruguay Round and by the end of the decade all Latin American countries were members of the WTO. Meanwhile, there was a parallel wave of new reciprocal free trade and integration arrangements, more than twenty in total (See IDB, 2000, Table 11, p.480). As described earlier, these factors caused, or were caused by, an upsurge of international trade in the 1990s - especially on the import side- until the Asia crisis, and a marked increase in intra-regional trade towards the end of the decade. Government authorities have often resorted to regional integration to signal their continued commitment to liberalization, even when economic conditions for further unilateral opening are difficult, or when reciprocal multilateral initiatives are in a transition phase, as has been the case since the end of the Uruguay Round.

In LAC, a “New Regionalism” began to appear in the second half of the 1980s and consolidate itself in the 1990s. This new regionalism contrasts to the old Post-War integration initiatives that were characterized by: i) the state-led import substitution industrialization model of development; ii) an inward-looking orientation; iii) a high level of selectivity with the application of multiple positive lists; and skepticism regarding private markets and great concern about the presence of, and dependence on, foreign firms (Devlin and Estevadeordal 2000). The old schemes generally did not succeed in accomplishing their basic goals of industrialization through the creation of a regional market. Other factors such as authoritarian regimes, inefficient bureaucratic interventions, perceptions of asymmetric gains among partners, and economic and political instability all contributed to the failure of the old integration model.

The new regionalism, on the other hand, supports structural reforms to make economies more open, market-based, and competitive. The scope of liberalization disciplines in the new regionalism tends to be comprehensive and more rapid, universal and sustained in terms of application. It also attracts foreign investment and has more functional and cost effective institutional arrangements. These new initiatives also better support important non-economic objectives such as peace, democracy and effective participation in international forums.

There still are, however, some areas for substantial improvement. It has been difficult even for the new regionalism-type arrangements to establish and maintain a common external tariff (CET). The CETs in all sub-regions were “imperfect” when established in the early 1990s, and some have suffered serious perforations since then (IDB 1999, 2000, ECLAC 2001).<sup>17</sup> The

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<sup>17</sup> In Central America the CET established in the 1990s began at 95% of the tariff universe, but now involves only 50%, or 70% if Nicaragua is excluded. MERCOSUR started out with a CET on 88% of the tariff universe; the current situation is difficult

rapid tariff phase-out programs of the new regionalism have been partially offset by a built-in selective instrument through product-specific rules of origin. Also, several Latin American countries opt for “irregular” unilateral measures to deal with disruptive trade imbalances in their regional agreements too often.

Examples of bilateral and sub-regional, bi-regional FTAs in the region that are already in effect or in process of negotiation abound. MERCOSUR has been negotiating with the Andean Community to create a free trade area in South America and with the European Community for a transatlantic FTA. Mexico recently negotiated a free trade area with the European Union. Chile is negotiating an FTA with the United States, Republic of Korea and the EU, while Costa Rica is doing the same with Canada. Finally 34 countries of the Western Hemisphere are quite advanced in negotiating a Free Trade Area of the Americas (FTAA) agreement, which is scheduled to emerge in 2005 (IDB 2000, pp.52-54).

## 2. Asia-Pacific

Countries in AP have made considerable progress in liberalizing market access through the reduction of tariff and non-tariff Measures (NTMs). Both types of barriers have been reduced rapidly since the mid-1980s as a result of unilateral liberalization, regional integration schemes and Uruguay Round commitments. Average tariffs in AP declined considerably during the period 1988-1998.<sup>18</sup> Many countries -including Australia, China, Indonesia, Korea, New Zealand, the Philippines, and Thailand- experienced a dramatic decline in the average tariff levels. Currently, among the 12 AP economies, three (Hong Kong/China, Singapore, and New Zealand) have average rates below 5%, while six (Australia, Japan, Korea, Taiwan, Malaysia, and the Philippines) have means rates between 5 and 10%. Indonesia is in the range of 10 to 15%. China and Thailand have their rates above 15%. The tariff dispersion of many of the countries in this region has been reduced in such a way that the majority of tariff lines fall below the 15% level, except for China who still maintains a significant portion of its tariffs higher than this level.

Although tariff levels of the economies in AP are low, or have been reduced significantly, these countries still maintain relatively high tariffs on certain industrial goods and agriculture. Furthermore, there is a problem of “tariff escalation”, where the tariff applied on a product “chain” rises in accordance with the level of processing. Although the overall degree of escalation has been reduced as a result of the Uruguay Round negotiations, it continues to be an obstacle for the development of processing industries in developing countries. A study (Clark 1996) on the tariffs and NTMs faced by Chile in AP markets concludes that both sets of barriers tend to increase with the level of processing of natural resources. It was found that high transport costs are also a substantial trade barrier. While the issue of tariff escalation is commonly focused on market access in developed countries, developing countries themselves reveal significant tariff escalation as well (UNCTAD 1996). Ironically, it is precisely in the sector of processed commodities where LAC exporters have encountered problems of access to AP markets. More importantly, since AP exports are concentrated in the manufacturing sector where AP competes

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to assess, but a significant number of perforations have occurred in recent years. In the Andean Community, about 85% of the tariff lines were incorporated in the CET; exceptions were to be eliminated in 1999, but this was postponed.

<sup>18</sup> For further information on tariff and non-tariff barriers of the AP countries, see ESCAP (1999).

directly with the United States in the LAC market, the FTAA process could have serious implications for AP economies.

APEC, established in 1989 as the first forum for broad intergovernmental dialogue on economic policy issues in the AP region, has emerged as one of the most powerful regional groups in the world economy, representing more than 50% of world GDP and trade volume. Based on the unique modality of unilateral announcement of liberalization commitments by individual countries, APEC has contributed toward the goals of free trade and investment flows. However, an increasing number of experts on APEC (Yamazawa and Urata 1999, Feinberg 2000, Lee 2000) acknowledge that most of the IAPs submitted by APEC members have failed to go beyond what members would have done in any event, in the context of Uruguay Round obligations, sub-regional trade agreements or in unilateral national programs.<sup>19</sup>

Furthermore, the failure of the Early Voluntary Sector Liberalization (EVSL) highlighted the inherent weakness of APEC that the United States and Japan are unlikely to be promoters of APEC's "concerted unilateral" process. These countries are more inclined to liberalize in the context of the negotiated reciprocity of the WTO or preferential trade agreements (Scollay 2001). Another considerable flaw of APEC, from the viewpoint of cooperation in trade and investment between LAC and AP, is that it excludes a large number of LAC countries, including the two largest South American countries, Argentina and Brazil.

ASEAN has made significant advance through the ASEAN Free Trade Area (AFTA) as an integral part of the liberalization process in Asia. Moreover, ASEAN member countries have recently decided to accelerate the liberalization process and enabled member countries to multilateralize regional tariff reductions under AFTA. Despite a recent setback in the implementation of the AFTA process,<sup>20</sup> the average CEPT (Common Effective Preferential Tariff) rate for the ten countries is now reduced to 4.43% and will be further reduced to 3.96% by the year 2001. The ultimate goal is to expand the international competitiveness of the ASEAN member countries, especially of the manufacturing sector through regional integration. Consequently, there is emphasis on promotion of FDI and the growth of supporting industries. Given that more than 78% of total ASEAN exports are extra-regional, the objective of integration is a conquest of international market through enhancement of competitiveness and economies of scale in manufacturing production.

ASEAN's outward-looking orientation is also evident from its new initiatives to establish links with other regional groupings, individually or collectively. Efforts are underway to link AFTA with CER (Australia and New Zealand Closer Economic Relations), MERCOSUR, and South African Development Coordination Conference. As a forum for discussion of relations between ASEAN countries and the United States, an ASEAN-US dialogue has already been

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<sup>19</sup> To foster better performance on IAPs, APEC has instituted voluntary peer reviews of IAPs by other members, and APEC Senior Officials commissioned PECC's Trade Policy Forum to review the IAPs. For a more recent critique on the lack of value-added in APEC work, consult, APIAN (APEC International Assessment Network (2000), "Learning from Experience", an independent study published by 22 leading scholars from the APEC region.

<sup>20</sup> At present, at least 85% of the products in the Inclusion List of six members (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) of ASEAN (numbering more than 38,44 tariff lines) have fallen to the 0-5% range. In 2001, the same six countries will be required to increase the proportion to 90%. The Thirty Second Meeting of the ASEAN Economic Meeting, held October 5, 2000, in Chiang Mai, Thailand, endorsed the Protocol Regarding the Implementation of the CET Scheme Temporary Exclusion List (TEL) to be used by member countries, which faced serious problems in complying with their CEPT obligations. Though still under the commitment to realize the AFTA by the year 2002, six years ahead of the original schedule of 2008, under this Protocol, a member state is allowed to temporarily delay the transfer of a product from its TEL into the Inclusion List or to temporarily suspend its concession on a product already transferred into the Inclusion List.

established. As part of this initiative, the two sides have reached agreement to create a trade and investment consultative council. Furthermore, some ASEAN countries have concluded framework agreements or bilateral investment agreements with the United States. One of the most advanced initiatives currently in progress is the negotiation of an FTA with Singapore. The Bush Administration is also calling on Congress to support the implementation of a bilateral trade agreement with Viet Nam and Laos. Other examples of individual country initiatives include the recently initiated Singapore-New Zealand Agreement on a Closer Economic Partnership, and a Singapore-Japan Economic Agreement for a New Age Partnership (ASEAN, 2000b). Also gaining momentum is the process known as ASEAN+3, where ASEAN, China, Japan, and the Republic of Korea discuss jointly economic and political issues with ASEAN members. Among their major undertakings, the ASEAN+3 finance ministers have embarked a joint monitoring of financial and economic movements in East Asia and in the world and a network of currency swap and repurchase agreements to make resources available to countries with balance-of-payments difficulties.

Nonetheless, the possibility that East Asia will develop in the near future a regional group that is similar to the FTAA is small. In addition, the likelihood that the ongoing bilateral or plurilateral regional efforts in East Asia can be “built on” to become a fully operational mechanism for bi-regional trade and investment linkages between LAC and AP is also remote. Some preliminary exploration of such possibility to date, for example, MERCOSUR-AFTA, MERCOSUR-CER, or MERCOSUR-Japan have not produced tangible results.

### **3. New Trends in Asia-Pacific Regionalism**

In a departure from their traditional refusal to sign preferential trade agreements (PTAs) and to be part of trading blocs, some large member economies, such as Japan,<sup>21</sup> China, Korea and Taiwan Province of China, have recently shifted towards signing bilateral trade agreements with other APEC economies. Korea and Chile have already agreed to undertake specific measures aimed at establishing a bilateral PTA that would have a free trade format.<sup>22</sup> Recently Japan has initiated preparatory studies and consultations for possible trade agreements with Mexico, Korea, and Chile (PECC, 2000a). Though bilateral or sub-regional trade agreements among APEC economies is not a new phenomenon,<sup>23</sup> the recent wave of projects for preferential trade agreements (PTAs) is novel on two counts (González-Vigil 2000); the transpacific scope of some of the emerging agreements and the involvement of some North-East Asian economies.

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<sup>21</sup> Japan's departure from its old policy of total and exclusive commitment to multilateralism is related to several factors. The most obvious is that with some 120 such accords in effect around the world, Japanese industry is worried about falling behind (the Nikkei Weekly 2000a, 2000b). Another factor has been the stalemate of WTO talks, especially the breakdown of the Ministerial Conference at Seattle in December 1999, and difficulties in reaching agreement in the near future within the WTO in such areas as agriculture, labor standards and environment, as well as anti-dumping measures. Equally, regional agreements, especially NAFTA and the European Union, have shown remarkably good results. Regional agreements can “lock-in” domestic liberalization and structural reforms (Kagami 2000a). The increasingly accepted view in Japan is that though the WTO takes precedence, regional pacts can support the multilateral trade negotiations by applying the results of trials and errors in regional pacts to the huge and sometimes inflexible organization of the WTO, which has more than 135 members.

<sup>22</sup> After two years of exploratory contacts, the formal rounds of negotiations began in December 1999, with a second meeting held in Seoul at the end of February 2000.

<sup>23</sup> There are AFTA, CER, NAFTA, the Chile-Mexico FTA, the Canada-Chile FTA, and the FTA-oriented agreement between Chile and Peru.

There is little information available on the motivations behind these regional trade agreements at present and it is not clear whether they are always consistent with APEC or WTO principles. Most of these initiatives are at the proposal and negotiating stage, and some will not be realized soon. The coverage of the proposed agreements usually goes beyond traditional trade barriers and typically includes investment, services and standards, and they all appear to apply a WTO consistency principle, as well as an additional open access clause (PECC 2000a).<sup>24</sup> Whatever may be the specific reasons explaining each of such new wave approaches, González-Vigil (2000) argues that a proliferation of bilateral yet sub-regionally oriented trading agreements among APEC economies, involving more economically big APEC economies and/or the emergence of new PTAs of FTA format within APEC, raises important questions not only about the multilateral trading system but also about the future directions of APEC and particularly of its trade and investment liberalization and facilitation (TILF).

#### **4. APEC, NAFTA and FTAA**

The establishment of the North American Free Trade Agreement (NAFTA) in 1994 raised considerable concern to East Asian countries, given that the United States is an extremely important export market and source of investment for almost all the countries in the region. One important issue is whether Mexico's membership in NAFTA has been diverting United States imports and FDI away from Asian countries. From the viewpoint of ASEAN countries, for example, they compete directly with Mexico in areas such as textiles and clothing, and electric and electronic products, and the NAFTA's strict rules of origin have placed these countries at a disadvantage. Similarly, the recently enacted Caribbean Basin Trade Partnership Act (CBTPA) extends NAFTA-like preferences to, potentially, 28 countries and territories in the Caribbean and Central America (see more details see IDB 2000, Chapter III). The new program provides greater access to the US market to beneficiary countries than the older schemes for a number of sectors that are of great importance to East Asian countries. At the same time, the program calls for the fulfillment of a host of requirements, including, among others, the participation in negotiations for the FTAA or other such free trade agreement with the United States.

Now, Asian and European countries are concerned by recent moves in the United States to promote the possible extension of NAFTA to LAC through the FTAA. In this case the potential for trade and investment diversion over the long run could be more serious than in the case of NAFTA, because the United States has had more trade barriers for exports from most LAC economies than from Mexico. Additionally, as discussed earlier, Latin America as a whole exhibits a more diversified export structure that could result in direct competition with exports from AP countries. Therefore, there is wide room for restructuring Latin American exports towards the United States in the wake of an FTAA, since the United States currently takes up relatively more modest shares of exports from several large Latin American countries, such as Argentina and Brazil.

Although APEC and the FTAA were born at the same historical moment (at Bogor and Miami in 1994) and with a similar agenda of issues, these two regional integration schemes are very different in other important aspects. In contrast to APEC where an "Asian" unilateral

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<sup>24</sup> For a summary of joint studies of FTAs involving Japan, see JETRO (2000a), Table 3-1, p.14, Kagami 2000a). Among those talks related to Japan, the most concrete is the one with Singapore and the accord is aimed at removing barriers in the areas of transportation and finance, in addition to slashing tariffs.

voluntarism predominates, the FTAA adheres to traditional reciprocal bargaining. As a result, the FTAA benefits from existing regional organizations and enjoys a greater clarity of objectives and negotiating modalities (Feinberg 2000). By their nature, these two “mega” trade projects that involve the United States as the major actor are not the appropriate forums to address the issues of market access and economic cooperation for the countries in both AP and LAC. Neither, the new bilateral initiatives among several APEC members and plurilateral initiatives across the Pacific are sufficient in terms not only of number but also of institutional capabilities and momentum to fully deal with these issues. For these reasons, there is an urgent need for a “full-fledged” consultation mechanism through which market access issues on both sides can be adequately addressed from the perspective of bi-regional trade and investment promotion. This is particularly important in view of the possibility that AP countries might face a severe problem of trade diversion upon an ultimate conclusion of the FTAA. Whether the recently created FEALAC would ultimately transform itself to be a forum where these issues can be discussed or not still remains to be seen.

#### **IV. A New Asia-Pacific-Latin American Partnership**

There are several issues of mutual interest and great importance in the areas of market access, free trade agreements and regional integration that inter-regional cooperation dialogues should address in FEALAC and other forums. In order to reduce the huge gap in information and perception on business opportunities and market access that currently exists between the countries of both regions, the FEALAC countries should contemplate following issues or actions, in the economic and trade sphere. Contemplated actions should be coordinated with and must take advantage of existing international and regional ones, with minimal duplication:

? *Information on market opportunities and market access*; including basic economic indicators, recent trends on LAC trade, developments in regional integration, tariffs norms, and non-tariff measures on trade.<sup>25</sup>

? *Policy dialogue on the WTO process*; addressing not only the “Built-in-Agenda”, but also the “development dimension”, the issue of convergence or divergence between regionalism and multilateralism, and strengthened operational rules on special and differential treatment;

? *Dialogue on free trade agreements*; bilateral, sub-regional, or bi-regional LAC-AP; and

? *Information on investment*; trends in FDI flows, investment-related multilateral and bilateral agreements, inventory of investment promotion programs and policy and regulatory regimes of AP and LAC.

Also the lack of a well-established network among companies, large and SMEs alike, is

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<sup>25</sup> In this area, recently the Inter-American Development Bank launched two interesting projects. One is the Transpacific Business Network, that will comprise three results-oriented phases of building knowledge, creating networks and forming alliances between public, as well as business and key private sector institutions. This project is now being carried out jointly with the Asian Development Bank. The other is the Latin American/Caribbean and Asia/Pacific Economies and Business Association, which encourages greater interaction between academics, business leaders, government officials and research communities in the areas of economics, finance, public policy and business.

an obstacle for strategic alliances and corporate association. Despite profitable opportunities, the high sunk costs of new ventures, and the risks involved for single investors may continue to act as formidable barriers. The insufficient availability of infrastructure, especially of a transport system, also impedes dynamic trade and investment flows. Providing solutions for these bottlenecks would certainly enhance bi-regional trade and investment. From this perspective, other areas of economic and technical cooperation include:

? *Trade and investment facilitation and promotion*, regarding customs rules and procedures, duties, improper application of rules of origin, customs valuation, pre-shipment inspection and import licensing, public procurement, intellectual property rights, and mobility of business people.

? *Transport infrastructure*, including studies to identify bottlenecks that determine the lack of direct transport and irregularity of services offered across the Pacific, of cargo and passenger transportation (maritime as well as air), and to assess the pre-feasibility studies on the new transport ventures.

? *Promotion of business between small- and medium-sized enterprises (SMEs)*, with emphasis on establishing institutional linkages between the SMEs through respective associations in the two regions; promotion of the venture capital for technological upgrading, including information technology (IT) and E-commerce which would increase interregional trade and investment; and improve human resources development for SMEs by initiatives of both public and private sectors.

? *Food security*, focusing on measures in food security and handling, agro-industrial technologies and technologies used in downstream processing of higher value-added products and in the distribution sector; and training and extending harmonization of phyto-sanitary certification and quality assurance, with an aim to improve marketability.

? *Information technology (IT) and E-commerce*, including: efforts to increase connectivity and lowering costs between the two regions; increased participation in global E-commerce networks; promotion of E-governance; the sharing of experiences and know-how on dealing with the digital divide.

It is equally important to encourage dialogue on other economic issues of mutual interest, particularly the *reform of the international financial architecture*. This includes an exchange of views on the role of the major international financial institutions -the International Monetary Fund, the World Bank and Bank of International Settlements-; the design of complementary regional schemes, some of which -the Latin American Reserve Fund and the swap arrangement between central banks in Asia Pacific-already exist; the participation of both regions in the design of international financial codes and standards; and exchange of experience with respect to domestic financial reforms, regulation of capital flows and the effectiveness of prudential regulation and supervision.

These economic considerations should guide the dialogue and the development of common points of views on other topics of the global agenda, on which LAC and AP countries

share common interests. This broad agenda should include other central issues, such as human rights, respect of ethnic and cultural differences, environmental protection and participation of civil society in development.

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