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Economic Commission for Latin America and the Caribbean

TRADE PERSPECTIVES BETWEEN LATIN AMERICA AND ASIA PACIFIC */

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ABSTRACT

This document provides an overview of trade relations between Asia-Pacific and Latin America and explores the possibilities for expanding the modalities of economic relations between the two regions. The analysis covers twelve countries in Asia and Oceania and eleven members of the Latin American Integration Association (LAIA).

The first part, (Conclusions and Recommendations), emphasizes the broad opportunities that lie in the development of interregional economic linkages. Recommendations are made in the areas of: 1) increasing information exchange, 2) economic and technical cooperation, 3) market access and business facilitation, and 4) transport and institutional building.

Chapter I begins with a short analysis of LAIA's trade performance in the 1990s, and of its relations with major trade partners outside the region. This is followed by an outline of the dynamics of trade flows between Latin America and Asia-Pacific focusing on the Latin American side. The chapter ends with a review of market access mechanisms and the on-going process of liberalization in Latin America. Chapter II analyses the same trade relations changing the focus to Asia-Pacific countries. Chapter III presents some general data on the importance of intraindustrial trade in Asia-Pacific and LAIA's trade with a view to suggesting a possible path for future relations between the two regions. This is followed by a brief survey of the linkages between trade and foreign direct investment (FDI) in Chapter IV. Finally a description is provided on the recent evolution of foreign direct investment in Latin America indicating some options for increasing Asia-Pacific presence.

CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

1. Trade

Trade between countries of the Latin American Integration Association (LAIA) and Asia-Pacific has increased substantially during the first half of the 1990s, although many problems remain. In contrast to the experience of the preceding decade in which the reciprocal trade stagnated, trade flows between the two regions, measured as the combined value of exports and imports, doubled roughly from US\$ 25 to US\$ 50 billion, in the period of 1990-1995. Albeit starting from a small base, in general trade relation between LAIA and Asia-Pacific can be characterized as dynamic.

During the period 1990-1995, LAIA imports from the Asia-Pacific countries increased at higher rates than Asian-Pacific purchases from the LAIA countries. Moreover, LAIA's imports from those countries have increased at rates higher than the average growth of their imports, whereas Asian imports from LAIA have increased at rates inferior to the annual average growth of their total imports. Therefore, Asia-Pacific exports to the LAIA countries account for almost 13% of those last countries' imports (almost doubling their participation of LAIA's imports in 1970), whereas Latin American exports to the other region account for only 2% of Asia-Pacific imports (a steady decline from their share of Asia-Pacific's imports which had reached more than 3% in 1970). This means that Asia-Pacific has transformed itself into one of the most important trade partners for LAIA as a whole, while the relative importance of LAIA for Asia-Pacific, both in their imports and exports, is small.

Two interrelated problems should be mentioned as possible explanations for the level and moderate growth of trade flows between the two regions: i) country composition and ii) product composition. Trade flows between Asia-Pacific and LAIA are concentrated in a few countries: on the Asia side, Japan, the Republic of Korea, China and Taiwan (Province of China) account for more than 75% of total interregional trade flows. Japan accounts for 43% of trade between the two regions. On the LAIA side, Brazil Chile and Mexico concentrate roughly 70% of total interregional trade flows. Nonetheless, markets for imports and export markets for both regions have been more diversified than before, and this process is expected to continue in the future.

On the product side, trade flows are remarkably different according to the direction of trade: imports from Asia-Pacific being composed by manufactured goods, whereas LAIA's exports are mainly primary commodities. The nature of those flows could be classified as purely *inter-industrial*.

The above overall picture, however, hides important changes that have occurred at the individual country levels. Regarding exports of Asia-Pacific, for instance, the ASEAN countries have been more successful in expanding their exports to LAIA than Japan, New Zealand and Australia. Similarly, with respect to imports of Asia-Pacific from LAIA, such countries as China,

Republic of Korea, Indonesia, Taiwan Province of China, and Thailand increased their imports from LAIA at a rate much faster than Singapore, Australia, the Philippines, New Zealand and Japan. Nonetheless, the relative importance of LAIA in total imports and exports of each Asia-Pacific country is extremely low: in 1995, Japan had the highest participation of LAIA in its total imports of 3.2% among the 12 Asia-Pacific countries, while Korea showed the highest participation of LAIA in its total exports of 3.5%.

On the LAIA side, Peru and the four Mercosur countries absorbed imports from Asia-Pacific at a rapid rate, in some cases close to 40% a year. Regarding exports, Uruguay, Ecuador, Chile, Peru, Colombia and Argentina were more successful than the others in expanding their exports to Asia-Pacific. Imports originating from Asia-Pacific account now for a substantial share of total imports in some countries (e.g., 30% in Paraguay and 18% in Chile), while more than 34% of Chilean total exports and 27% of Peruvian total exports are destined to Asia-Pacific.

The product composition of LAIA exports differs substantially according to its trade partners: manufactures prevail in LAIA's exports to the United States as well as in intra-LAIA trade (more than half of intra-LAIA trade consists of manufactures) whereas food products are predominant in LAIA's exports to the European Union.

Minerals and metals have a high weight in LAIA's exports to Japan whereas exports to the other Asia-Pacific countries have a relatively high component of semi-manufactures. Due to the increasing relative importance of food products and metals and minerals, the participation of manufactures and fuels in LAIA's exports to Asia-Pacific has declined in the first five years of the 1990's. In any case, the principal export items of LAIA to Asia-Pacific are primary commodities. The major export items include copper, iron ore, iron and steel, aluminum, crude oil, wood, paper and pulp, soybean and its products, coffee, fish and meat, and cotton. It is expected that LAIA would play an increasingly important role as a provision base for Asia-Pacific in several primary commodities.

While these efforts in expanding commodity trade will continue, emphasis in Latin America should be placed on policies to promote the efficient development of goods with more value-added and technological transfer possibilities. If possible, consideration might be given to the creation of "industrial clusters" based on natural resources. The Asia-Pacific countries, who wish to assure a regular supply of natural resources, can participate in the process of cluster building, by way of direct investment or technical assistance. From this perspective, there is a need to carry out detailed studies to identify possible agricultural and industrial technological complementarities between the two regions as well as to shed light on transportation and finance bottlenecks. Meanwhile, for manufactures exports from LAIA, efforts are to be made on the part of these countries to broaden and innovate the range of products and to study the emerging consumption trends in Asia-Pacific, in order to find suitable ways to penetrate these dynamic markets. Otherwise, the ongoing process of liberalization and deregulation in Asia-Pacific may favor its Asian neighbors over LAIA countries.

In the case of Asia-Pacific exports, manufactures are the predominant item regardless of the importing region. The high proportion of manufactures in intra-Asia trade reflects a *de facto* integration of production promoted by foreign direct investment and other means of corporate cooperation. Exports of Asia-Pacific to LAIA reflect clearly the comparative advantage that these countries have in manufactures worldwide. These manufactures include especially transport vehicles and their parts, and electric and electronic sectors. Among the top 20 export items, which are responsible for 45% of total Asia-Pacific exports to LAIA, none is a primary commodity. For these products, though increasing, the importance of LAIA as export market is still insignificant. However, the continued economic stabilization efforts and the regional integration processes are expected to enhance the absorption capacity of the LAIA markets for these products coming from Asia-Pacific.

2. Symbiosis between Trade and Foreign Direct Investment (FDI)

It is increasingly known that FDI is neither distortionary nor does it inhibit, in fact, it encourages, trade and growth: the general reduction in average national tariffs has meant that there is less "tariff-jumping" occurring now than did previously. At the same time, the creation of regional trading blocs allows inward investment to enjoy economies of scale in production and marketing that did not exist previously. As the Asian experience in the last two decades and the more recent events in Latin America and the Caribbean suggest, the interplay of macroeconomic forces (sound and stable policies) and microeconomic and institutional forces (savings rates, technology flows, etc.) can create a "virtuous circle" between trade and investment. The economies in both regions have marked noteworthy improvements on these accounts.

However, the establishment of "even" playing fields on both sides has not yet led to a significant reciprocal FDI expansion: the FDI inflows to LAIA from Asia-Pacific in the 1990s have been much smaller than those originating from the United States or European Union, in terms of both the number of projects and capital invested. Equally, except for some isolated cases, there have been few direct investments undertaken by economic agents of Latin America in Asia-Pacific.

The loss of competitiveness of Japan, Hong Kong, Republic of Korea, Taiwan Province of China and Singapore and some ASEAN countries in a series of manufacturing industries has allowed for a significant growth in intra-industrial trade within Asia-Pacific. Hence, the increasing intra-industry trade in Pacific-Asia might suggest, on the one hand, that this intra-industrial chain can be further extended to include the LAIA countries. On the other, there is also a concern that it becomes more difficult for the countries outside Asia-Pacific to find proper niches in the informal, competitive and concentric trade bloc of Asia. In any case, the Asian intra-regional trade and investment expansion implies that comparative advantage of one country is strongly influenced by that of its neighbor countries. What matters more today is the *regional* comparative advantage, determined mainly by its market size, natural resource endowment, cost structure of production and pattern of specialization by country, availability of skilled and unskilled labor force, R&D capabilities, infrastructure, etc, at the regional level.

Though less in its degree, there is evidence that intra-industry trade in LAIA, especially between Brazil and Argentina, is high and also increasing. As the stabilization and the liberalization and deregulation process keeps its course and integration and privatization efforts deepen, there will be more opportunities for not only for inter-regional trade but also inter-regional trade. One can already observe in LAIA an increase in investment-cum-trade from Asia-Pacific in recent years, which aims to take advantage of natural resource endowment and amplified regional markets. These new trade and investment flows differ in nature from those associated with Central America (which includes Mexico) and the Caribbean, in such industrial sectors as textiles and apparels, and electric and electronics, characterized basically as *maquiladora* activities. Their main "location advantages" are the geographical proximity to the USA market, sub-regional integration processes (e.g., NAFTA), regional preferences (Caribbean Basin Initiative) and availability of relatively inexpensive labor force. The type of Asian FDI attracted recently to LAIA goes beyond the scope and nature of maquila.

A better intra-industry articulation between the two regions, especially between the countries that are at a less asymmetric in terms of development levels and industrial capabilities, promoted by productive and financial integration *de facto*, by way of investment or joint ventures, is expected to:

- (1) provide one more means for the LAIA countries to insert themselves more effectively in the markets of Asia-Pacific, some of which (e.g., Japan) are more difficult to penetrate directly;
- (2) promote the incorporation of technology and management skills and investment, in conditions that are easier to be assimilated and transferred, because they come from the countries which have closed rapidly the "technology gap" with the developed world;
- (3) facilitate the access of the LAIA countries to the complex process of economic interactions and institutions (PECC, PBEC, APEC, etc.) of the Pacific-Rim which has a strong participation of the private sector; and
- (4) support the ongoing integration efforts in both regions, with a focus of "Open Regionalism", an important component of which is *de facto* productive integration, backed up by formal integration institutionality.

3. Market Access

The countries in both regions have made commendable progress in reducing barriers to trade through multilateral trade negotiations, regional and bilateral efforts, and unilateral measures. In Asia-Pacific, average tariffs have declined substantially in recent years, the simple average applied tariff in 1996 being below 15% for the 10 of the 12 the countries considered (8 are below 10% and 3 below 5%). The LAIA countries have also registered remarkable reductions in tariffs and their dispersion in recent years, and their average fall in the range of roughly of 8% and 16%. The majority of the countries in both regions are assuming an "Uruguay Round-Plus" focus. These efforts should give impulse to reciprocal trade and investment expansion.

Despite the benefits of liberalized trade, high tariffs involving some industries and numerous non-tariff barriers (NTBs) still exist in both regions that substantially reduce mutual comparative advantage. In Asia-Pacific, a number of countries quite often resort to NTBs. Some countries in LAIA also apply more than 200 NTB measures. In fact, as the regions' economies have gradually reduced tariffs, non-tariff barriers are still prevalent, including such measure as quotas, import licensing, discriminatory custom procedures, and burdensome testing and certification requirements.

The economies in both regions are expected to continue reducing tariff and NTBs in goods and services unilaterally, bilaterally and/or multilaterally through relevant regional organizations. In this sense, it is essential to abide by their Uruguay Round WTO commitments and to refrain from backsliding, especially through the use of non-tariff barriers to replace reduced or eliminated tariffs. When possible, these commitments may be accelerated, deepened and broadened via regional integration endeavors.

They should eliminate the practice of *tariff escalation*. Many economies in both regions, developed and developing alike, impose higher tariffs on value-added products while allowing imports of raw materials or unfinished products with low or zero tariffs. This practice protects domestic markets, leading to inefficiency allocation of resources. Eliminating tariff escalation will bring competitiveness to currently protected, domestic industries and further the regional liberalization effort.

The recent proliferation of trade accords in Latin America and Asia-Pacific, be of a bilateral, sub-regional, regional or hemispheric nature), has brought with it not only realignments of tariff and non-tariff measures, but also dynamic effects on trade and investment flows, cost structure of production, competition patterns, and creation and diffusion of technology. These agreements have contributed to a better articulation of the transport, telecommunications, energy, water and other infrastructure capacities at a regional level. It is expected that they also lead to a more homogenous system of trade-related services, investment, intellectual property rights, factor mobility, rules of origin, anti-monopoly laws, anti-dumping and safeguards, sanitary and phyto-sanitary regulations, etc. These regional efforts enhance the "systemic competitiveness" of each region, which in turn enables individual countries to insert themselves more efficiently in the world market.

B. RECOMMENDATIONS

For trade and investment opportunities on both sides to be taken advantage of by the private and public sectors, there is a need to provide Asia Pacific and Latin American countries with a framework to discuss and harmonize their common trade and investment interests. Actions to strengthen the trade and investment relation between the two regions might include, among others, the seven elements detailed below.

It might be said at the outset that taking into account the differences in the stages of economic development and in the political, legal and administrative systems, and with equal respect for the views of all participants, future deliberations in these cooperation endeavors should be guided by the following principles:

- (1) The relationship should be based fundamentally on shared principles and values that can be in turn translated in clear political messages;
- (2) Asia-Pacific is a high priority for the LAIA countries and vice versa. The countries of each region should give priority to the strengthening of their relation with one another, based on a deeper relation in the areas of trade, investment, social development, science and technology, education, culture and institutional development;
- (3) Globally “equilibrated” relations: both regions wish to have a strong and deep relationship, but reject an “exclusive” or “dependent” relationship with countries or groups of countries. The design of activities should recognize and incorporate the “heterogeneity” in economic development stages, culture, different institutional modality, existing in both regions;
- (4) Relation-building at different levels and speeds. Their relationship can be deepened at bi-regional, regional, or bilateral levels, taking advantage of the special circumstances of country groupings;
- (5) Open and flexible regionalism: The integration efforts undergoing in both Asia-Pacific and Latin America should contribute to and be consistent with the multilateral world trade rules, and should advance in accordance with the development stage and requirements of the countries concerned; and
- (6) Emphasis on the leading role of the business sector.

1. Establishment of Regional Centers for Communication Information-Creation and Exchange

There is substantial empirical evidence that bilateral trade is negatively related to the physical distance between the countries. On the other hand, it is increasingly being recognized that the importance of proximity in intensifying economic interdependence is not so much due to transport costs, but to subjective factors such as knowledge of partner’s language, culture, markets and business practices. Such is the case between LAIA and Asia-Pacific.

While some exchanges of information do take place between economic actors at a micro-level, there are definite economies of scale to be achieved by undertaking such exchange at a sub-regional or regional level. With the aim of reducing huge information and perception gaps that currently exit between the countries in both regions regarding to existing commercial opportunities, the creation of information center(s) can play a major role in encouraging the private and public sectors in the various countries to undertake inter-regional trade, investment and other economic initiatives.

In this light, serious consideration should be given to the establishment of regional Information Center(s), which could:

- (1) act as repositories for relevant information on the economies, industries, and trade of each country and region;
- (2) perform as repositories of information on market access in goods and services of the countries in both regions (see Point 3 of this section).
- (3) facilitate information-exchange and contribute to the formulation of economic policies of the countries and promote private and public sector business initiatives;
- (4) conduct research on economic issues of regional importance; and
- (5) coordinate work programs of distinct research organizations (national, sub-regional, or universities), specializing on economic relations between the two regions.

These centers could also play a catalytic role by bringing together interested businesses from various member countries involved in regional economic alliances. It will be of great use for the private sector to have easy access to updated, disaggregated information on macro indicators, measures that restrict market access of goods and services (including the information on tariff and non-tariff barriers) and its conditions, requirements, peculiarities and law and regulations, and economic agents.^{1/} For an effective implementation of these centers, it is desirable to coordinate among and to take advantage of the existing information networks (e.g., WTO, UNCTAD, APEC, ASEAN, Latin American Integration Association (LAIA), and other national and regional research and university institutions), with little duplication.

2. Economic and Technical Cooperation

Countries in both regions are very diverse in terms of the level of economic development, factor endowments, size of the economy, technological capabilities and social and historical backgrounds. This diversity can serve as a source of economic and technical cooperation. Moreover, given the present low level of economic interchange, it would be desirable to start with economic cooperation schemes, at various levels, instead of discussing formal trade accords or agreements.

Cooperation could incorporate increasingly instruments such as trade and investment promotion schemes, training programs for civil servants and managers, scientific and technical cooperation and energy cooperation. The fundamental objectives are to strengthen the private sector and to help modernize the local structure of production and, in this way, to contribute to economic development of both regions. Countries in the two regions have carried out wide-ranging economic reforms, making it much easier to implement such mechanisms, without a reduction in absolute funding for the more traditional forms of cooperation.

Asia-Pacific is a heterogeneous group of countries: among the "developed" countries, some are industrialized (Japan), others are natural resource- oriented (Australia and New Zealand). Among the developing economies, some, through rapidly industrializing, still have a heavy endowment of natural resources, while others have a strong export-orientation of

^{1/} A step in this direction is that In 1997, an APEC database of Customs information and applied tariffs of member countries, publicly accessible by electronic means (e.g., Internet, CD-ROM) was established.

manufactured goods, led either by large corporate entities or small enterprises. Some are already capital “exporting” countries whereas others are major recipients of foreign capital, at the global level. The interested countries should be familiar with the cooperation schemes not only of developed countries but also of other capital exporting countries that have recently implemented such schemes (e.g., Republic of Korea and Taiwan Province of China).

An institutional uniqueness and attractiveness of APEC and ASEAN is that they incorporate from the outset economic and technical cooperation as integrate part of the trade and investment liberalization effort.^{2/} Cooperation initiatives between Asia-Pacific and LAIA should emulate this example. APEC, for instance, covers thirteen areas of economic and technical cooperation; human resource development, industrial science and technology, small and medium enterprises, economic infrastructure, energy, transportation, telecommunications and information, tourism, trade and investment data, trade promotion, marine resource conservation, fisheries, and agricultural technology. Though not included as an independent area, environmental protection is mentioned in relationship with several areas.

Given the present trend, trade flows in food and other agricultural products between the two regions should increase in the future. Cooperation programs in this area can encompass a range of activities, including: i) food security and handling to facilitate and expand trade in unprocessed and processed agricultural and fishery products and to ensure safe and sustainable methods of production; ii) training and extension to harmonize phyto-sanitary certification and quality assurance, with an aim of improving marketability; and iii), prevention of environmental degradation.

3. Transparency on Market Access and Business facilitation

In recent years, the availability of information on market access in goods and services to each region has been greatly improved, thanks to efforts on the part of national (ministries and offices in charge of such task), international and regional organizations (WTO, UNCTAD, IMF, World Bank, OAS, regional financial institutions, Secretariats of regional integration, etc.) who provide it in a more expedient manner, through electronic means.

^{2/} The Osaka Action Agenda of APEC, for instance, sets a new modality of cooperation. It emphasizes the departure from the conventional modality of distinct donor-recipient relationship. Member governments contribute, on a voluntary basis, resources available to them, such as funds, technology, and human skills. APEC member economies have jointly implemented at least 320 joint economic and technical cooperation activities from 1992-1996. These activities are mainly in human resources development, energy, telecommunications, small and medium enterprises, trade promotion and tourism. However, they have remained as studies and seminars and have yet to be implemented as concrete programs. Japan's proposal of Partners for Progress (PFP) aims to break through this hesitation and to go beyond studies and seminars to actual implementation. PFP suggests a cautious start with technical cooperation in training customs officials, transferring technology in quarantine and testing, and improving administrative capability. These are indispensable for successful implementation of liberalization and facilitation and are easily agreed upon.

In each region, there are an increasing number of integration and trade agreements. On the one hand, these integration schemes should help to cut down on factors that make transactions more difficult or costly. Reducing these transaction costs involves building infrastructure to link the countries on both sides of the Pacific Rim together, eliminating or harmonizing rules and regulations and implementing institutional reforms that make it easier for incomplete or fragmented markets to become integrated. On the other, concessions made in each of these agreements can sometimes overlap and perforate the commitments made in another. To understand more correctly market access, there is still an enormous insufficiency in the provision of detailed up-dated information regarding:

- (1) tariff levels and structure (including tariff escalation) and non-tariff barriers (including import-licensing procedures);
- (2) Trade-Related Investment Measures (TRIMs), anti-dumping, subsidies and countervailing measures;
- (3) technical norms and standards, anti-dumping, safeguards, rules of origin,^{3/} intellectual property rights, investment regulations, sanitary and phyto-sanitary regulations, etc.);
- (4) other liberalization and deregulation measures (e.g., privatization);
- (5) sub-regional, regional and hemispheric integration processes; and
- (6) convergence and divergence between regional integration and multilateral trade regime (WTO);

Greater availability of information on these aspects of market access will enhance transparency, facilitating economic agents to take a timely decision on trade and investment opportunities. The regional information centers proposed in Point 1 of this section could assume the responsibility of coordinating and centralizing the pertinent information made available by a variety of sources and institutions and of defusing it to the interested parties in a more systematic manner.

The broad heading of “business facilitation” encompasses a spectrum of activities and subject areas that are complementary to the traditional policy issues involved in trade and investment liberalization. Bi-regional efforts should focus on the following areas: customs rules and procedures, and technical standards and related testing and certification.

a) Customs rules and procedures

Businesses face numerous difficulties in customs rules and procedures, including non-transparent and inefficient customs infrastructures; differing customs and tariff systems; and improper application of rules of origin, customs valuation, pre-shipment inspection, and import

^{3/} The possibility of wide-ranging intra-regional liberalization of trade and investment should not obscure the danger that rules of origin could become a hidden instrument of protection that discriminates more against countries less able to take advantage of the expanded market's potential or against those with a greater proportion of extra-regional investment. While these rules may be necessary, especially in the absence of common tariffs, considerations of competitiveness and equity imply that their requirements should be limited.

licensing. Customs problems can impact especially heavily on small and medium-sized industries that have less experience and fewer resources to deal with these problems. In addition to such efforts that can be made at a more global level (e.g., modernizing customs procedures and infrastructure, including implementing electronic documentation and processing and simplifying customs documentation), some actions that can be contemplated between the two regions include:

- (1) developing a bi-regional electronic tariff database (this effort is currently carried out by APEC);
- (2) simplifying and, when appropriate, harmonizing customs procedures;
- (3) establishing a regional carnet system (which would allow use of a simple customs document and accelerated customs clearance for commercial samples) to facilitate promotional activities, such as participation in trade shows and fairs;
- (4) working towards harmonizing rules of origin (including participating actively in the WTO work program); and
- (5) establishing programs by which more experienced economies can provide training and assistance to economies that require such assistance.

b) Standards

Standards differ considerably among the countries, imposing additional costs on producers and traders. Even where standards are similar, products often need to be tested and certified separately in each market. In addition, some countries have used standards and related requirements as disguised protectionist devices. All these costs increase prices to customers and impede market access.

Activities in this sphere might call for measures to harmonize standards between the two regions and to create mutual acceptance arrangements in the areas of testing, calibration and certification. The participation of the private sector as well as regulatory bodies in both regions will be essential.

4. Transport

It is often pointed out that the long geographical distance, in general, and the lack of direct transport and irregularity of services offered across the Pacific, in particular, have rendered trade exchanges between the two regions difficult, affecting negatively the competitiveness of export products. In this context, it is useful to study the system of cargo and passenger transportation, identify areas of bottlenecks if any, and to elaborate proposals for improving the said transport and promoting cooperation agreements among them.

It is also desirable to assess the results of the pre-feasibility studies undertaken up to now in the area of transport infrastructure, intended to examine possibilities in improving interconnections in railway, river and in-land transports, as well as ports and storage facilities, with the purpose of promoting the bi-regional trade. When found desirable, the countries in both

regions can work together to undertake further feasibility studies and obtain later necessary finance for the implementation of infrastructure projects.

To identify areas of deficiency and bottlenecks, it is important to work closely with mandates entrusted upon the Ministry of Transport and other competent organizations in the field, in search of consistency and harmony with those given to the Ministry of Economy and/or Foreign Trade.

Some priority areas for cooperation and action in transport include:

- (1) To pursue policies that improve significantly the bi-regional transportation system through strategic investment in infrastructure to meet the growing and diverse transportation needs of Asia-Pacific and Latin America;
- (2) To work together to promote development and mobilization of capital to finance transportation infrastructure projects, recognizing the need for both public and private sources; and
- (3) To encourage efforts by international institutions to provide and enhance funding for transportation infrastructure.

5. Creation of a forum for permanent or periodic consultation on trade/investment related-issues between the pertinent authorities in both regions

Though there is an increasing number of fora to deal with economic issues at bilateral or sub-regional levels, up to now there is no formal bi-regional institutional mechanism through which regional interests are discussed and analyzed. The existing sub- or regional integration schemes, NAFTA, Mercosur, Andean Group, G3, and others on the Latin American side, or ASEAN and APEC (Mexico and Chile are the only Latin American members) and its possible amplification to include other regional members, on the Asian side, have a limited country coverage. The majority of countries in Latin America, except for Colombia, Chile, Mexico and Peru, are members of neither the Pacific Basin Economic Council (PBEC), whose members are business-oriented, nor the Pacific Economic Co-operation Conference (PECC), which has a tripartite membership of government officials, the business community and academics. The simple amplification of these organizations (APEC, PBEC and PECC) to incorporate more Latin American countries as members would not necessarily lead to a bi-regional forum between Asia-Pacific and Latin America in which common interests to both regions can be discussed. It is desirable to create a forum of "Cooperation Dialogue" between the two regions that goes beyond the concept of the Pacific-Rim.

The objectives of "Cooperation Dialogue" between the two regions are two fold. One is to generate favorable conditions for increasing and deepening of bi-regional relation, in economic and social cooperation (e.g., trade in goods and services, investment promotion, technology transfer), and exchanges of views and opinions on development and trade strategies, education, human capital formation, employment creation and social development. And the other is to define, jointly, and in a gradual form, a "Work Program", of a permanent character, that would

include concrete and viable projects and actions and establish formal mechanisms of dialogue and consultation with the two regions.

It would be preferable to establish a permanent mechanism to discuss a wide range of economic and social issues that are of mutual interests. This new forum at the ministerial level can meet biannually, or more frequently if the countries so desire. As preparation for these meetings, it is also preferable to establish a permanent mechanism where high-technical officials get together periodically to exchange views and opinions on a wide range of topics and issues. The list of mutual interest might include, among others, development and trade strategies (including fiscal, monetary and exchange rate policies), trade and investment opportunities, and enhancement of the private sector relationship between both regions as well as the subject matters enumerated above.

For the deliberations of these meetings to lead eventually to concrete actions and programs, there can exist a formal mechanism to enhance information and communication flows between the interested parties in both regions. For this reason, it is important to give consideration to the creation of Information Center(s) proposed above. In these events, it is convenient to have a tripartite representation (government, business, and academia). When deemed appropriate, participation of the international or regional financial organizations, WTO and pertinent United Nations organizations will be sought.

6. Promotion of the formation of bi-regional chambers of commerce between regions and/or reinforcement of their functions when already exist

There exist numerous bi-national chambers of commerce or other business groupings between a Pacific Asia country and an LAIA counterpart, though of different scope, sectoral coverage and intensity of activities. But there is little interaction among them.

In the case of ASEAN, the ASEAN Chambers of Commerce and Industry (ASEAN-CCI) is the main channel of communication between ASEAN and the private sector. With its proper Secretariat recently inaugurated, the Executive Committee ^{4/} and six Working Committees, which are invited to all meetings of Senior Economic Officials Meetings of ASEAN, are equipped to promote private sector participation in various fora. Closer bi-regional schemes of this nature encompassing the national and regional chambers of commerce on both sides can be instrumental in strengthening the private sector tie of the countries between Asia-Pacific and LAIA.

In the same regard, the recent initiative by Eurochambers to hold the First Congress of Bilateral chambers of Commerce in Latin America provides an interesting example to deepen interconnection of these business entities. EUROCHAMBRES, the European Association of Chambers of Commerce and Industry, represents 14 million companies in all sectors and of all

^{4/} This comprises of 10 members, including the Chairperson, Deputy Chairperson, one permanent nominee from each national chapter, and the Secretary-General of ASEAN-CCI.

sizes through their 32 national Association of Chambers of Commerce and Industry. Similarly, the Bilateral Chambers of Commerce of the European Union in Latin America, more than 100 in number, are the natural extension of the European Chambers of Commerce and constitute the largest multinational network in the region. Their mission of information, assistance and consultancy is the main support for European companies in Latin America.

7. Enhancement of Small and Medium-sized enterprises

Both in Asia Pacific and Latin America, internationalization has already become an essential issue for many SMEs and projects for technical cooperation and investment involving them are on the rise. The countries in both regions are also growing more interested in the promotion of these entities. In the past, many of the countries in the regions pursued a course of industrial development through the attraction of large foreign enterprises. Recently, however, there is an increasing awareness that healthy economic development urgently requires fostering of the supporting industries that support large corporate production activities. Programs in this area can include, among others:

- (1) human resource development;
- (2) information access;
- (3) technology and technology sharing;
- (4) financing; and
- (5) joint-ventures.

A type of cooperation envisaged in this area could take form of the Promotion of the European Community Investment Partners (ECIP). This scheme is designed to help Asian, Mediterranean and Latin American companies and their European counterparts set up joint ventures. The program tends to favor those developing countries that have shown commitment to attracting FDI and that actively encourage projects involving SMEs. It basically operates through four so-called "facilities": i) Identification of projects and partners; ii) Investment feasibility studies; iii) Financing of capital requirements; and iv) Development of human resources.^{5/} As part of economic and technical cooperation (Point 2) specified above, a similar type of cooperation scheme could be envisaged between LAIA and Asia-Pacific.

^{5/} Between 1988 and 1994, ECIP approved a total of 442 projects for a total amount of ECU 50 million.

INTRODUCTION

The world economy has experienced in the current decade a strengthening of the process of "globalization" that has been accompanied by the reinforcement of the international trade structure, through the creation of the World Trade Organization, and by the appearance of new regional and subregional forms of integration. These new factors create opportunities for increasing interchanges between all countries, since they tend to establish conditions for trade with less threat of protectionism and with more transparency. However, the main trade challenge facing the developing world still rests in the access to markets for their products, while at the same time seeking product improvement, by adding value and furthering the process of transformation. The achievement of economic development requires access to goods, services, capital and technology to increase the complexity of the exportable offer and enhance the benefits accrued by products which secure better terms of trade.

In this scenario, Asia-Pacific and Latin America ^{6/} share an important role in the world economy. Asia-Pacific is considered to be the most dynamic area of the world. Its share of the world gross domestic product (GDP) has been increasing steadily (See Table 1), as well as its participation in the international flows of goods and services. In 1995 Asia stood for almost 24% of world merchandise exports (see Figure 1). In 1995, ten of the twelve Asia-Pacific countries here considered were among the world's 20 major importers and exporters of goods. Also, in 1994, seven Asia-Pacific countries qualified among the world's 20 major exporters and importers of services.^{7/}

Latin America is intrinsically rich in natural resources and it represents as well an emerging market for all categories of products. Nevertheless, the region's share of the world GDP has been reduced over the past decades (See Table 1), and its participation in the international trade remains stagnant. (See Figure 1). In 1995, only two LAIA countries were among the world's twenty major importers and exporters of merchandise and none was among the world's twenty major services traders.^{8/} In that year, Latin America represented only 4% of the world's export flows. During part of the 1980s, the region suffered the negative effects of the debt crisis, as well as of protectionist policies. However, drastic changes occurred during the current decade. Trade barriers have been cut down throughout the region and sound macroeconomic policies towards liberalization and privatization are being followed almost everywhere in the region.

^{6/} The term Latin America and LAIA (Latin American Integration Association) will be used throughout this document in reference to the following 11 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. Asia or Asia-Pacific (ASPAC), on the other hand, refers to: Australia, China, Hong Kong (China), Indonesia, Japan, Malaysia, New Zealand, Philippines, Republic of Korea, Singapore, Taiwan (Province of China), Thailand.

^{7/} WTO, Annual Report 1996, Tables I.6 and I.7, Vol. 2.

^{8/} Ibid.

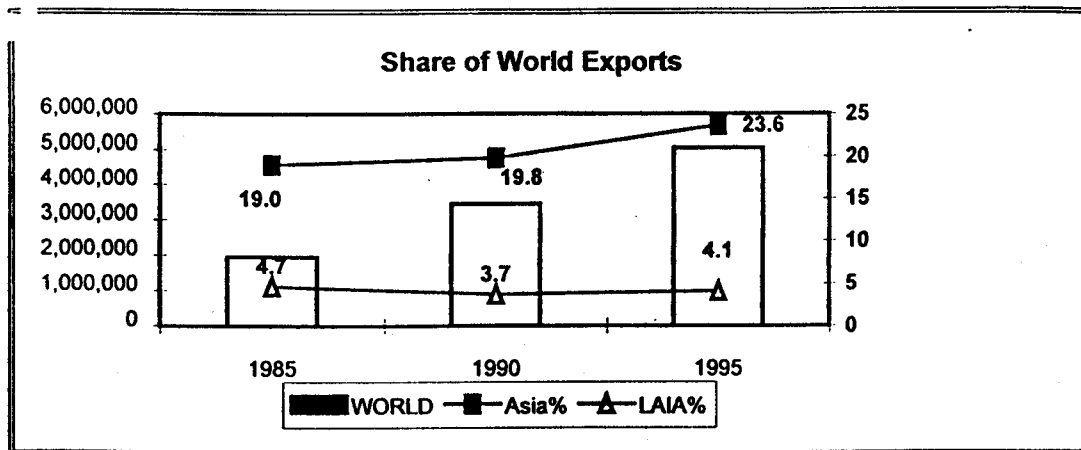
Table 1

Share of World GDP		
	1980	1994
Latin America Integration Association	6.4	5.9
Asia-Pacific */	15.9	25.9
Rest of the world	77.6	68.2

Source: World Bank, *World Development Report*, 1996, Table 12.

*/ Excludes Taiwan, Province of China.

Figure 1



Source: WTO, *Annual Report*, 1996.

Notes: Excludes Hong Kong and Singapore reexports.

An important characteristic of the new international order that has enormous influence in current economic relations refers to the dynamic international flows of foreign direct investments (FDI). One particular aspect of FDI is the synergy that it generates with trade and economic development.

Table 2

NET FOREIGN DIRECT INVESTMENT INFLOWS TO DEVELOPING COUNTRIES 1989-1995							
(Millions of US\$ and % of world total)							
	1989	1990	1991	1992	1993	1994	1995 ^{a/}
World	194,518	201,488	153,712	162,220	200,757	217,057	310,693
Latin America & Caribbean	9,249	8,061	12,900	14,574	15,926	25,991	23,643
Asia ^{b/}	14,168	18,302	20,691	25,607	44,832	50,178	65,000
Percentages of the world total							
Latin America & Caribbean%	4.75	4.00	8.39	8.98	7.93	11.97	7.61
Asia %	7.28	9.08	13.46	15.79	22.33	23.12	20.92

Source: UN, ECLAC based on data from the International Monetary Fund and national competent authorities.

^{a/} Estimated.

^{b/} Refers to Developing Asia in general.

Flows of FDI in the world reached in 1995 a total of US\$ 310 billion. Direct investment in developing countries reached US\$ 99.7 billion in 1995, an increase of 14.5% over the previous year. Of this total, more than 65% went to East Asian countries. China received US\$ 37.7 billion and the ASEAN 4 countries, ^{9/} US\$ 13.4 billion. In that same year, FDI flows to Latin America reached US\$ 23 billion and those to Asia US\$ 65 billion. (See Table 2). In any case, while Asia has managed to increase its share of the global flows of FDI, Latin America, even facing the problem of the Mexican crisis, also showed a positive increment if compared to the beginning of the decade. This reaffirms the confidence of the international community in the region, the faith that the process of reform is a permanent one and, fundamentally, that there are plenty of opportunities in the region for mutual benefit.

^{9/} Indonesia, Malaysia, Philippines and Thailand.

I. GENERAL OVERVIEW OF LAIA TRADE

During the 1990s Latin America (LAIA) has managed to improve its commercial ties with most regions of the world. From 1990 to 1995 total exports increased from US\$ 113 billion to US\$ 204 billion. Total imports stood at US\$ 83 billion in 1990 and reached US\$ 205 billion in 1995. These values indicate an average annual increase of almost 20% of imports and 13% of exports. (See Table 3).

This scenario represents a drastic change from the 1980s when due to the debt crisis Latin America suffered from the loss of dynamism of its external trade, particularly from its imports. In this sense, as can be seen clearly in Table 3 in the period 1980-1990 Latin American imports stagnated, while exports increased by only 3.5% annually. In the same period, the average yearly increase of world exports was 6%.

Even though Latin America has managed to increase its trade with most regions of the world, trade with Asia still occupies a smaller share of total trade than that with the United States, the European Union and Latin America itself. In the period 1990-1995 LAIA's imports from Asia-Pacific increased by 26% and its exports by almost 11% on an average annual basis. Meanwhile, exports to the European Union increased only 3.1% and, exports to the United States did so at a rate of almost 17% on an average annual basis.^{10/} This implies that there are still plenty of opportunities for Asia and Latin America to increase their commercial relations, exploiting the new international trade development.

One aspect that could be emphasized in interregional relations is the increasing relevance of intraregional trade. During this period, Latin American intraregional trade flows were the most dynamic. In the beginning of the period these flows represented only 15% of total imports and 11% of total exports, while in 1995 the share of intraregional trade in LAIA's trade flows stood at 17% in both directions. The annual average growth rate for intraregional exports for the period was almost 24% and about 23% for imports.

The next sections are based on Latin American trade statistics and will give a brief overview of Latin American trade with Asia.

^{10/} Because of the importance of its trade flow with the United States, Mexico is a particular case. If this country is excluded from LAIA's trade statistics, the relevance of Asia-Pacific countries to Latin American exports to the world in 1995 rises from 10% to 15%. The share of Asia in LAIA's imports from the world also increases from 13% to 14% in that same year. Accordingly, excluding Mexico, the performance of LAIA's exports to Asia-Pacific increases from an annual average growth of 11% to 12% during the Nineties. On the other hand, when Mexico is excluded from LAIA's imports from Asia, the average annual rate of growth actually decreases from 26.2% to 25.8%.

Table 3

LAIA - Latin America Integration Association						
.Imports (C.I.F.)						
Value : Millions of US\$						
Year	United States	European Union	Asia P.12	LAIA	Others	World
1970	4861	3520	800	1342	1246	11769
1980	30435	17535	7713	10361	17200	83244
1990	33399	17423	8170	12378	11827	83197
1995	88139	38614	26111	34614	17503	204981
Annual Average Growth Rates						
80-90	0.9	-0.1	0.6	1.8	-3.7	-0.01
90-95	21.4	17.3	26.2	22.8	8.2	19.8
LAIA Share of imports from the world						
Year	United States	European Union	Asia P.12	LAIA	Others	World
1970	41.3	29.9	6.8	11.4	10.6	100.0
1980	36.6	21.1	9.3	12.4	20.7	100.0
1990	40.1	20.9	9.8	14.9	14.2	100.0
1995	43.0	18.8	12.7	16.9	8.5	100.0

Source: UN, Comtrade.

Table 4

LAIA - Latin America Integration Association						
Exports (F.O.B.)						
Value : Millions of US\$						
Year	United States	European Union	Asia P.12	LAIA	Others	World
1970	3792	4448	841	1273	2276	12632
1980	23361	20292	5565	10982	19367	79567
1990	44165	27193	12459	12302	16575	112694
1995	95012	31738	20702	35480	21264	204195
Annual Average Growth Rates						
80-90	6.6	3.0	8.4	1.1	-1.5	3.5
90-95	16.6	3.1	10.7	23.6	5.1	12.6
LAIA Share of exports to the world						
Year	United States	European Union	Asia P.12	LAIA	Others	World
1970	30.0	35.2	6.7	10.1	18.0	100.0
1980	29.4	25.5	7.0	13.8	24.3	100.0
1990	39.2	24.1	11.1	10.9	14.7	100.0
1995	46.5	15.5	10.1	17.4	10.4	100.0

Source: UN, Comtrade.

A. THE COMPOSITION OF LAIA'S TRADE FLOWS ^{11/}

One explanation for the small share of Asia-Pacific in Latin American trade flows may rest in its composition. The following tables present some details of Latin America imports from and exports to some major trade partners and especially from Asia.

Table 5, for example, shows that the composition of LAIA's imports from the world has become more concentrated in manufactures, in all directions of trade. However, the relative share of manufactures in LAIA's total imports from Asia (excluding Japan) has grown even further from less than 70% in 1990 to almost 90% in 1995. This underlines the increasing

^{11/} It is advisable to read the tables with a cautionary view, since after 1992 "maquila" trade data has been included in Mexico's trade with the United States. This has been translated in a sudden and significant increase in Latin American trade of manufactured products with the United States.

competitiveness of Asia-Pacific manufactures. At the same time, it also reflects the openness of the Latin American market to Asian exports.

Table 5

LAIA – Latin America Integration Association						
Composition of Imports, by main commodities groups						
Percentages						
1990 and 1995						
	United States		European Union		Asia-Pacific (11)	
	1990	1995	1990	1995	1990	1995
Food	11.2	6.5	7.7	5.7	13.4	3.9
Non-Food Agriculture	3.8	2.6	1.3	1.0	7.7	3.5
Metals and Minerals	3.0	2.2	1.3	1.3	2.2	0.7
Fuels	4.9	2.8	1.1	1.9	8.3	3.2
Total Manufactures	77.2	85.9	88.6	90.1	68.4	88.7
TOTAL TRADE	100	100	100	100	100	100
	Japan		LAIA		World	
	1990	1995	1990	1995	1990	1995
Food	0.3	0.1	22.4	21.2	10.9	8.6
Non-Food Agriculture	0.3	0.2	5.0	3.7	3.1	2.5
Metals and Minerals	0.7	0.4	8.5	6.0	3.4	2.6
Fuels	0.8	0.5	15.2	12.0	12.0	5.9
Total Manufactures	97.9	98.8	48.8	57.1	70.6	80.5
TOTAL TRADE	100	100	100	100	100	100

Source: UN, Comtrade.

The analysis of LAIA's exports to the world highlights the increasing importance of manufactures in total shipments abroad. In the five-year period covered by Table 6 the share of manufactures in total exports to the world increased from less than 34% to almost 52%, while all other categories decreased their share of this total. Exports to the United States reflected this adjustment more pronouncedly.^{12/}

^{12/} Due to the inclusion of "maquila" products in Mexican trade statistics, shipments of Manufactures to that country increased from 36% in 1990 to 65% of total exports in 1995.

The reverse trend can be observed in LAIA's exports to Asia-Pacific (excluding Japan). In average, Latin America has managed to increase its exports of manufactures but, to Asia the share of these exports has declined, remaining stagnated in relation to total exports to Japan. Meanwhile, shipments of food, non-food agriculture goods and metals and minerals have increased their share of total exports to this area of the world, reflecting the fact that the region has acquired comparative advantages in the exports of these products and indicating the potential of the Asia-Pacific market. (See Table 6). Exports to Japan are concentrated in Metals and Minerals, while exports of manufactures to the rest of the Asia-Pacific, although a declining trend, present some importance (higher than LAIA's exports to the European Union).

At this point it may be interesting to look at the importance of Asia-Pacific as a trade partner in each of these categories.

Table 6

LAIA – Latin America Integration Association						
Composition of Exports, by main commodities groups						
1990 and 1995						
(Percentages)						
	United States		European Union		Asia-Pacific (11)	
	1990	1995	1990	1995	1990	1995
Food	16.3	10.1	35.2	41.0	20.2	28.1
Non-Food Agriculture	1.9	2.1	5.0	7.3	8.4	10.2
Metals and Minerals	5.6	3.7	20.2	17.3	18.4	22.2
Fuels	40.1	18.8	16.4	7.9	5.9	3.2
Total Manufactures	36.1	65.3	23.2	26.5	47.0	36.3
TOTAL TRADE	100.0	100.0	100.0	100.0	100.0	100.0
	Japan		LAIA		World	
	1990	1995	1990	1995	1990	1995
Food	17.0	27.7	22.7	20.0	23.5	20.9
Non-Food Agriculture	4.9	7.2	5.0	3.2	3.6	3.8
Metals and Minerals	42.6	42.0	8.0	6.1	12.3	9.1
Fuels	18.2	5.5	12.7	12.9	27.0	14.6
Total Manufactures	17.3	17.6	51.6	57.9	33.6	51.6
TOTAL TRADE	100.0	100.0	100.0	100.0	100.0	100.0

Source: UN, Comtrade

Table 7

LAIA – Latin American Integration Association						
Regional Shares of IMPORTS (C.I.F.), by large commodity groups						
1990 and 1995						
Percentages						
Commodity	United States		European Union		Asia Pacific(11)	
	1990	1995	1990	1995	1990	1995
Food	41.2	32.5	14.7	12.5	4.7	3.3
Non-Food Agriculture	49.3	45.4	8.8	7.6	9.7	10.0
Metals and Minerals	35.2	36.5	8.2	9.5	2.6	1.9
Fuels	16.3	20.5	1.9	6.1	2.6	3.9
Total Manufactures	43.9	45.9	26.3	21.1	3.7	7.8
TOTAL TRADE	40.1	43.0	20.9	18.8	3.8	7.1
Commodity	Japan		LAIA		World	
	1990	1995	1990	1995	All years	
Food	0.2	0.1	30.5	41.7	100.0	
Non-Food Agriculture	0.5	0.4	24.4	25.0	100.0	
Metals and Minerals	1.2	0.9	37.7	39.5	100.0	
Fuels	0.4	0.5	18.8	34.2	100.0	
Total Manufactures	8.3	6.9	10.3	12.0	100.0	
TOTAL TRADE	6.0	5.6	14.9	16.9	100.0	

Source: UN, Comtrade.

Table 7 examines the share of each partner in total imports from the world. As becomes clear from the table, the United States is LAIA's main source of imports for manufactures and Non-food Agricultural products. Intrarregional imports dominate in the categories of Food items, Metals and Minerals and Fuels.

In the case of Asia, this region has managed to increase its share of LAIA's total imports of manufactures from the world. Although, compared to 1990, Japan has decreased its share of total Latin American imports of these products. In overall terms, the global share of Japan of total Latin American imports from the world has also diminished, whereas the other countries of Asia-Pacific have more than doubled their participation, implying that there has been a process of country diversification in this area.

Table 8 presents the composition of Latin American exports to the world's main regions. It is clear from the table that Japan and the rest of the Asia-Pacific are far behind the rest of the world as a destination for Latin American exports. Particularly in the case of manufactures, Japan and the rest of Asia-Pacific present declining shares of total Latin American exports of these products to the world. However, Asia-Pacific has been acquiring a noticeable importance in relation to regional exports of Metals and Minerals and of Non-food Agricultural products. The

share of Asia in total exports of Food items, although almost doubled in the period, still is less than 10%. The United States is the region's main market, with significant participation specially in Latin America's exports of Manufactures, Non-food Agricultural products and Metals and Minerals.^{13/}

Table 8

LAIA -- Latin American Integration Association						
Regional Shares of EXPORTS (F.O.B.), by large commodity groups						
1990 and 1995						
Percentages						
Commodity	United States		European Union		Asia Pacific(11)	
	1990	1995	1990	1995	1990	1995
Food	27.2	22.5	36.2	30.6	4.3	8.0
Non-Food Agriculture	21.3	25.7	33.9	29.3	11.7	15.7
Metals and Minerals	17.7	18.9	39.7	29.4	7.5	14.4
Fuels	58.1	59.8	14.6	8.4	1.1	1.3
Total Manufactures	42.1	58.9	16.6	8.0	7.0	4.2
TOTAL TRADE	39.2	46.5	24.1	15.5	5.0	5.9
Commodity	Japan		LAIA		World	
	1990	1995	1990	1995	All years	
Food	4.4	5.6	10.6	16.6	100.0	
Non-Food Agriculture	8.2	8.0	15.1	14.3	100.0	
Metals and Minerals	20.9	19.5	7.1	11.6	100.0	
Fuels	4.1	1.6	5.1	15.3	100.0	
Total Manufactures	3.1	1.4	16.8	19.5	100.0	
TOTAL TRADE	6.0	4.2	10.9	17.4	100.0	

Source : UN, Comtrade.

B. THE DYNAMICS OF LAIA'S TRADE WITH ASIA-PACIFIC

One point that needs reiteration is that within the relative dynamism of Latin American trade with Asia, there has been a process of diversification of markets. For instance, the importance of Japan to LAIA's trade with Asia-Pacific, although still relevant, has been declining. In 1980, 75% of total exports to the 12 Asia-Pacific countries went to Japan. That country also had a similar share of total LAIA imports from Asia. Ten years later, Japan absorbed almost 55%

^{13/} Even though at the national level there are variations.

of LAIA's exports to Asia and provided over 60% of LAIA's imports from the region. This latter share decreased to 44% in 1995, while Japan's share of LAIA's exports to Asia did not reach 42% in that same year. The declining share of Japan of total LAIA exports to Asia has been compensated mostly by the increase in the shares of the Republic of Korea, that represented almost 12% of total exports to Asia in 1995, and of China (which absorbed over 11% of total exports to the region). In terms of imports, the Republic of Korea reached almost 15% of total LAIA imports from Asia, and Taiwan (Province of China) with about 10% also contributed to reduce Japan's share of total LAIA imports from the Asia-Pacific.

The previous observation is important because it affects the comparisons between annual average rates of growth of LAIA trade with Asia-Pacific and other regions of the world. Excluding trade with Japan, the average annual growth rate of LAIA's exports to Asia-Pacific increases from 11% to 16.4%. This is a level close to the increase of LAIA's exports to the United States (16.6%) and superior to the overall growth of its exports to the world (12.6%). However, it is in relation to LAIA's imports from Asia-Pacific that the exclusion of trade with Japan is more remarkable. As mentioned, when Japan is included, LAIA's imports from the Asia-Pacific increased on an annual average basis of 26% between 1990 and 1995. Excluding Japan, the average increase of imports leaps to 35.5% over the same period.^{14/}

Table 9 presents the average growth of imports from the world and from the Asia Pacific for each LAIA country for the period 1990-1995. Both sides of the table present important levels of increment of imports, reflecting the liberalization process that has characterized recent trade policies in the region. However, imports from Asia Pacific present a much higher dynamism in general, due to the high regional average (25.5%). In this sense, Peru and Uruguay deserve particular mention because their imports from Asia increased approximately 40% on an average annual basis. Also, it is noteworthy that all the LAIA countries increased their imports from Asia at an average annual rate of 15% or more.

Table 10 presents the growth rates for Latin American exports to the world and to Asia. In this instance, the increase in export flows from Latin America to Asia seems to be much less vigorous than the import flows. The regional average growth rate is less than half the import growth rate, and only two countries had average annual growth rates over 20% (Uruguay and Ecuador). Apart from Venezuela, that posted a negative growth rate in its exports to Asia, all the other countries had positive levels of increment of their exports in that direction. Including Venezuela, five countries had less than the regional average increments in exports to Asia-Pacific.

^{14/} A side comment here is that the high levels of growth that Latin America has secured with the Asia-Pacific stem mostly from the fact that the initial values of trade between both regions were small, allowing for higher percentages of expansion.

Table 9

The dynamics of LAIA's imports from the World, and from Asia Pacific (12)			
Annual Average Growth Rates 1990-95			
Country	Imports from World	Country	Imports from Asia-Pacific(12)
1 Peru	37.6%	Peru	39.2%
2 Uruguay	23.6%	Uruguay	38.9%
3 Brazil	19.9%	Paraguay	27.0%
4 Argentina	19.8%	Brazil	26.6%
5 Paraguay	19.6%	Argentina	26.2%
6 LAIA	19.1%	LAIA	25.5%
7 Ecuador	18.4%	Mexico	22.8%
8 Chile	18.4%	Colombia	22.2%
9 Mexico	16.2%	Bolivia	21.8%
10 Bolivia	15.2%	Ecuador	20.3%
11 Colombia	14.9%	Chile	18.4%
12 Venezuela	10.3%	Venezuela	15.0%

Source: UN, Comtrade.

Table 10

The dynamics of LAIA's exports to the World, and to Asia Pacific (12)			
Annual Average Growth Rates 1990-95			
Country	Exports to World	Country	Exports to Asia-Pacific(12)
1 Mexico	24.8%	Uruguay	31.7%
2 Chile	13.4%	Ecuador	24.5%
3 LAIA	12.6%	Chile	19.9%
4 Argentina	11.2%	Peru	16.2%
5 Ecuador	9.5%	Colombia	13.6%
6 Peru	8.5%	Argentina	11.7%
7 Colombia	8.5%	LAIA	10.7%
8 Brazil	8.0%	Brazil	8.5%
9 Uruguay	4.4%	Paraguay	6.7%
10 Bolivia	2.6%	Mexico	2.3%
11 Venezuela	0.8%	Bolivia	1.8%
12 Paraguay	-3.1%	Venezuela	-14.4%

Source: UN, Comtrade.

Another pertinent aspect of trade between Latin America and Asia-Pacific refers to the latter region's market share of each LAIA country export and import flows. Table 11 presents this information for the year 1995. In that year almost 30% of Paraguay's total imports originated in Asia-Pacific and about 35% of Chilean exports were oriented in that direction.

The asymmetry between Asia's market share of Latin America trade and Latin America's share of Asia-Pacific trade becomes evident comparing Table 11 with Table 19. Asia is an important trade partner for Latin America, but Latin America does not yet appear as a major market for Asia. On the Latin American side, Asia represents a share of total imports of more than 10% in nine countries of the region. And, six Latin American countries direct more than 10% of their exports toward Asia. As will be seen when we analyse the Asia-Pacific side, only in Japan does Latin America have a market share of total imports over 3%, and only Korea sends more than 3% of its total exports towards Latin America. (See Table 19).

Another characteristic of Latin American trade with Asia illustrated by Table 11 refers to the concentration of trade flows in very few countries. For instance, in the case of LAIA's imports from Asia, three countries (Brazil, Mexico and Chile) capture 67% of total regional imports, while in the case of exports Brazil, Chile and Argentina seize 75% of all LAIA's exports to the Asia-Pacific.

Table 11

- Asia-Pacific (12) Market Share of Total LAIA Imports and Exports in 1995					
(Thousand of US\$ and %)					
Imports (C.I.F.)			Exports (F.O.B.)		
Country	Asia-Pacific (12)	%ASPAC /WRLD	Country	Asia-Pacific (12)	%ASPAC/ WRLD
Paraguay	948,887	30.3	Chile	5,400,132	34.8
Chile	2,686,743	18.0	Peru	1,340,552	26.9
Peru	1,285,320	16.9	Uruguay	492,604	23.4
Bolivia	221,296	16.0	Brazil	7,887,086	17.1
Ecuador	584,840	13.9	Ecuador	464,899	10.9
Brazil	7,443,580	13.9	Argentina	2,147,995	10.2
Colombia	1,878,554	13.6	LAIA	20,702,146	10.1
LAIA	26,110,868	12.7	Paraguay	49,652	6.1
Argentina	2,477,769	12.3	Colombia	586,719	5.8
Mexico	7,418,514	10.2	Mexico	1,964,312	2.5
Uruguay	254,479	8.9	Venezuela	360,050	1.9
Venezuela	910,887	8.4	Bolivia	8,146	0.8

Source: UN, Comtrade.

C. PRODUCT COMPOSITION OF LAIA'S IMPORTS FROM ASIA-PACIFIC

Table 12 shows the contrast between the product composition of Asia-Pacific import from Latin America and that of Latin America imports from Asia. The table lists the 20 products that had the highest average import value in Latin America imports from Asia in the period 1990-1995, indicating the value of trade of these products for the year 1995, their share of total Latin American imports from Asia and the share of Asia in total imports of these products from the world. Also, the table displays the five main suppliers of each of the 20 products to Latin America in that year, with their respective market share.

One remarkable aspect of this list refers to the extensive presence of manufactured products. Also, the 20 products listed here had a combined annual average value equivalent to about 4% of LAIA's total imports from the world. As we will see later in Table 20, which shows the top 20 LAIA export products to Asia, this contrasts with the small share (1,2%) that the major products imported from LAIA by Asia had in its total imports. The 20 products in Table 20 correspond to over 62% of total imports from LAIA. In contrast, the products in Table 12 only represent 48% of total LAIA imports from Asia. This implies that the Latin American import basket from Asia is more diversified than Asia's from LAIA. Or, looking from the Latin American perspective, that the export offer to Asia, and the competitive position of Latin America, are highly concentrated in primary products.

The importance of Asia-Pacific countries as suppliers of these 20 products is also remarkable. Of the 100 main suppliers listed, 47 correspond to Asia-Pacific countries. Although only in relation to 3 products an Asia-Pacific country appears as the main supplier (*passenger motor vehicles, footwear and natural rubber*) Asia-Pacific countries are the second main suppliers of 18 of the 20 products. The share of Asia in total imports of *natural rubber* is over 84%, of *toys and indoor games* is over 59%, and almost reaches 58% in the case of *radio broadcast receivers*. Altogether, in relation to 7 of the 20 products, Asia has over 40% of the market.

Nonetheless, the table clearly indicates the predominant role of the United States as the first supplier of 17 of these products. On the other hand, alternative Latin American suppliers of these products exist in relation to *lorries, truck and bus chassis* where Argentina and Brazil hold a combined share of over 75% of total LAIA imports. Also in relation to *lorries and trucks* (22%), *motor vehicles parts, n.e.s.* (16.5%) and *footwear* (16.5%), Argentina and Brazil hold relative high shares of the Latin American import market. As we will mention later on, the presence of these two countries reflects the increasing importance of manufactures in intraregional trade, as well as the relevance of intra-industrial trade between these countries.

Finally, it is interesting to remark the high concentration of imports of these products on a small number of suppliers. The average share of the five main suppliers of each product reached almost 79%, a high level of concentration in comparison to the 69% level of Table 20.

The composition of the products listed here indicate that Asia has already managed to enter the Latin American market for technology intensive or high scale production goods. The strategic position of Asia in relation to other suppliers of the listed products suggest that to secure an even higher share of the LAIA market, Asia-Pacific needs to increase its links with LAIA economies, by building up alliances and various types of business cooperation. To achieve this goal it is necessary to deepen the knowledge of Latin American markets.

D. MARKET ACCESS LIBERALIZATION IN LAIA COUNTRIES

Trade liberalization in LAIA has been carried out as integral part of economic reforms, via a series of stabilization programs to reduce inflation, to improve public fiscal balance (involving ambitious privatization programs), to enhance the level of domestic investment and savings, to bring about more stable exchange rate regimes, and to introduce a more open trade and investment environment, which all have contributed to the creation of a healthier and "market-friendly" climate for economic agents, domestic and foreign alike.

The buoyancy of intra-regional trade of the 1990s in LAIA, discussed earlier, has been a cause and result of the proliferation of bilateral or plurilateral integration and free trade agreements. Traditional integration arrangements in LAIA have adjusted themselves to new realities: instead of being instruments for the limited expansion of protected markets, they have become a strategic weapon for export expansion and potentially a trampoline, or testing ground, for access to developed country markets for new manufactures from the region.^{15/}

They are greater in terms of number and more ambitious in nature and scope. By way of illustration, in December of 1995, the Interregional Cooperation Framework Agreement signed between Mercosur and the European Union contains provisions for increasing and diversifying trade between the two groups, with a view to establishing a free trade area early in the next century. Towards a similar goal, Canada has recently started official discussions with Mercosur while the latter has begun contracts with Australia, China, Japan, New Zealand, Panama and others. Chile and Mexico individually signed a similar agreement with the European Union. Chile has also signed a free trade area agreement with Canada. And most significantly, many governments of Latin America and the Caribbean are committed to creating a hemisphere-wide free trade area (FTAA) beginning in the year 2005.

^{15/} ECLAC, Open Regionalism in Latin America and the Caribbean: Economic Integration as a Contribution to Changing Production Patterns with Social Equity, LC/G.1801(SES.25/4), Santiago, Chile, 1994.

Table 12

Latin America (11 countries)																
20 Main Products Imported from Asia-Pacific																
Average for the period 1990-1995																
Value of trade: 1995																
(Millions of US\$)																
1		2	3	4	5	6	7									8
Main Products (SITC, Rev.1)	Asia-Pacific				%World	World value	Main Suppliers*/ countries and % of Imports									Total
	Value	%	Accum.	%World												
1 7321 Pass Motor Veh Exc Buses	1,754	6.7	6.7	23.9	7,345	JPN	16.0	USA	13.7	GER	12.7	ITA	10.9	KOR	7.7	61.0
2 7249 Telecomm Equipment Nes	1,380	5.3	12.0	24.0	5,757	USA	42.0	JPN	11.0	SWE	6.4	ESP	5.8	CAN	5.4	70.6
3 7293 Transistors, Valves, Etc	1,467	5.6	17.6	23.9	6,139	USA	69.8	JPN	10.4	KOR	6.0	TWN	2.4	MYS	2.2	90.7
4 8911 Snd Recrdrs, Phonogr, Prts	837	3.2	20.8	48.3	1,733	USA	48.0	JPN	13.3	KOR	10.7	SGP	8.5	MYS	6.9	87.2
5 7323 Lorries, Trucks	741	2.8	23.7	25.7	2,878	USA	27.4	JPN	20.5	ARG	12.9	BRA	9.3	KOR	5.1	75.1
6 7242 Radio Broadcast Receivrs	583	2.2	25.9	57.9	1,007	USA	31.7	MYS	11.8	HKG	9.7	CHN	9.4	JPN	8.4	71.0
7 7327 Lorry, Truck, Bus Chassis	12	0.0	25.9	6.5	180	ARG	48.3	BRA	26.8	USA	9.9	JPN	6.4	ITA	3.2	94.6
8 8942 Toys, Indoor Games	608	2.3	28.3	59.1	1,029	USA	25.2	CHN	22.3	HKG	18.9	TWN	10.0	JPN	4.2	80.6
9 7143 Statistical Machines	645	2.5	30.7	18.0	3,581	USA	65.9	MEX	5.2	JPN	4.8	KOR	3.4	TWN	3.3	82.4
10 7241 Television Receivers	378	1.4	32.2	47.7	793	USA	32.0	KOR	24.3	ARG	7.1	MEX	6.1	JPN	5.8	75.2
11 7222 Switchgear Etc	582	2.2	34.4	14.0	4,159	USA	64.2	JPN	6.9	GER	6.8	FRA	3.4	TWN	2.8	84.0
12 7221 Electric Power Machinery	505	1.9	36.4	17.8	2,845	USA	54.0	JPN	7.8	GER	6.5	BRA	4.8	FRA	3.4	76.5
13 6535 Woven Synthetic Fabrics	446	1.7	38.1	43.9	1,017	USA	35.3	KOR	30.4	TWN	5.4	CHN	3.2	PAN	2.5	76.7
14 7328 Motor Vehicle Parts Nes	439	1.7	39.7	7.4	5,972	USA	48.9	GER	11.9	BRA	9.9	ARG	6.6	JPN	5.7	83.0
15 7299 Oth Electrical Machinery	462	1.8	41.5	16.7	2,768	USA	63.5	JPN	9.2	GER	5.7	ITA	4.0	TWN	2.3	84.6
16 8510 Footwear	408	1.6	43.1	56.3	724	CHN	15.5	IDN	13.2	HKG	11.6	BRA	8.7	ARG	7.8	56.8
17 2311 Natural Rubber, Gums	400	1.5	44.6	84.1	475	SGP	37.5	IDN	29.2	MYS	15.1	GTM	5.3	USA	2.9	90.0
18 8411 Textile Clothes Not Knit	319	1.2	45.8	17.6	1,811	USA	57.6	CHN	8.2	PAN	6.0	HKG	5.2	URY	3.1	80.2
19 7250 Domestic Electric Equip	358	1.4	47.2	29.8	1,202	USA	29.5	KOR	12.7	ITA	7.9	BRA	6.7	CHN	5.4	62.2
20 3214 Coal, Excl Briquettes	303	1.2	48.4	30.6	991	USA	42.0	AUS	27.3	CAN	12.2	ZAF	5.6	POL	5.0	92.0
Other products	13,484	51.6	100.0	8.8	152,575											
TOTAL TRADE	26,111	100.0		12.7	204,981											

Source: UN, Comtrade.

Note: Column Nr.1 presents the 20 main products imported by LALA from the 12 Asia-Pacific countries. It is based on the average value of imports for the period. Column nr.2 refers to the value of imports of these goods in 1995. Column 3 is the share of the product of total imports from Asia-Pacific in 1995; Column 4 shows the accumulated share of these products of total imports from Asia. Column nr. 5 shows the share of the imported product from Asia 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 5 main suppliers of the product and their share of total imports from the world. Column 8 presents the share of these 5 suppliers of the total value of imports of the product.

*/ See Annex nr. 1 for the country codes explanation.

At the regional level, in June 1996, Mercosur signed an Economic Complementation Agreement to form a free trade area with Chile and a Framework Agreement with Bolivia in December 1996 to do the same. As a result, among the 11 countries in LAIA, there exist 36 Economic Complementation Agreements signed, 31 of which are bilateral agreements. Some of them are already superseded or replaced by the new bilateral or plurilateral agreements, tying thereby these countries, in one way or another, to free trade. The major pending issues would be the completion of Mercosur negotiations with Mexico and with four of the Andean Community countries. With respect to the first, lists of products of interest to both parties have already been exchanged; and for the latter, negotiations have already begun, with the aim of harmonizing/generalizing the prior bilateral agreements signed between the countries concerned, in parallel to establishing a framework agreement for the negotiation of trading norms between the two integration schemes, by country or as group.

This change to new realities in integration has produced a drastic modification of the countries' tariff structure, reducing its dispersion around its means and eliminating the NTBs on imports. Together with other measures adopted, the governments achieved to eliminate the anti-export bias and stimulate the production of the tradables in goods or services. Also, they have made significant strides in making the export promotion system compatible with the WTO norms.

In general, the tariff profiles of LAIA countries are now similar, given that their majority fall in a range of 5 and 25% and the maximum, except for some countries, does not exceed a 35% level (see Table 13). The average rate fluctuates between 8.63% and 16.33%. The tariffs of the four Mercosur members are similar, and the same is true for the three member countries of the Andean Community (Colombia, Ecuador and Venezuela). Bolivia, Chile and Peru distinguish themselves from the others by having a small spread, while Mexico and Brazil show a much wider dispersion (for the distribution of tariffs by their range, see Table 14). It is known that though the nominal rates have been reduced markedly in recent years, high effective rates of protection still apply to a wide range of products.

The tariff structure within each country grouping is conditioned basically by their common external tariffs (CET). In Mercosur, the CET began to operate in January 1995. The range of tariffs is 0 to 20%, with which there are 11 different levels. The CET applies to close to 88% (some 8500 lines) of the list of items. A list of exceptions to the CET established for up to 300 tariff items per country (399 for Paraguay), effective through the end of the year 2000 (2006 for Paraguay), has to be converged linearly and automatically to the CET rate within this specified period. Besides these exceptions, the two sectors (e.g., automobiles and sugar) are under a special regime. In addition, capital goods, telecommunications, and computer equipment are treated differently: capital goods will have a maximum tariff of 14% effective from the year 2001, (2006 for Paraguay and Uruguay); computer equipment and telecommunications goods, with a maximum CET of 16% from the year 2006. The general CET structure of Mercosur at present is: tariff average, 11.1%; the level of the most frequent (modal) tariff is 14% (applying to 24.4% of all products); and the standard deviation of 6.22.

Table 13

Tariff Structure of LAIA Countries

(Mid-1996)

Country	Total schedules	Minimum tariff	Maximum tariff	Average tariff	Standard deviation
Argentina	9188	0	33	13.62	6.55
Brazil	11795	0	70	9.33	7.17
Paraguay	9118	0	30	8.63	6.18
Uruguay	10257	0	30	9.84	6.84
Bolivia	6778	2	10	9.69	1.17
Colombia	7236	0	40	11.43	5.21
Ecuador	6755	0	35	11.23	5.16
Peru	6500	15	25	16.33	3.16
Venezuela	6600	0	35	11.63	4.83
Chile	5812	0	11	10.95	0.67
Mexico	9718	0	260	15.43	12.65

Source: Calculation by ECLAC based on statistics compiled by The Latin American Integration Association (LAIA).

Table 14

Distribution of Applied Tariff Lines for LAIA Countries, By Range

(Mid-1996)

Country range (%)	0	1-5	6-10	11-15	16-20	21-25	26-30	31-35	36-40	>40
Argentina	446	1624	1360	1757	1877	1862	139	123		
Brazil	3306	1686	1267	1963	3320	3	68	133	12	37
Paraguay	264	3976	1318	1656	1898	1	5			
Uruguay	637	2926	1917	1799	2816	162				
Bolivia		412	6366							
Colombia	190	2669	1043	1666	1622			45	1	
Ecuador	212	2474	1177	1254	1623			15		
Peru				5634		866				
Venezuela	143	2263	1060	1604	1517			13		
Chile	22			5790						
Mexico	1	64	4321	2920	1866	3		477	1	65

Source: Calculation by ECLAC based on statistics compiled by The Latin American Integration Association (LAIA).

In the case of the Andean Community, at the beginning of the 1970s, its member countries approved a common minimum external tariff, which was of limited application. Recently, the IV Andean Presidential Council decided to adopt a CET with 5 tariff levels (0, 5, 10, 15 and 20%) depending on the degree to which products are processed, giving special treatment to Bolivia.^{16/} The three countries (Colombia, Ecuador and Venezuela) which operate the CET, are allowed to exempt products (e.g., textiles and automobiles) with a tariff superior to the maximum CET of 20%.

Since August of 1992, Peru has restrained from participating in both the free trade area and the CET of the Andean Group, due to the non-compatibility of its tariffs with those of the other three members. The tariff structure of the country consists of two levels: one is 12% that applies to roughly 97% of the total products, whereas the rest is levied with a rate of 20%. There exist certain exceptions to the above, in that for some consumer durables and luxuries (including automobiles) and certain food and agricultural products, the rate is 17%. Upon its recent announcement to return to the Community, the country should gradually reintegrate to the free trade area, process that would initiate starting August 1997 and end in the year 2005. The reintegration of Peru to the Andean Group should facilitate the constitution of a framework agreement with Mercosur, as a group.

With respect to NTBs, an ECLAC study reports that in mid 1996 there were 202 measures being applied by Argentina; 31 by Bolivia; 203 by Brazil; 124 by Chile; 115 by Colombia; 95 by Ecuador; 36 by Paraguay; 96 by Peru; 101 by Uruguay; and 87 by Venezuela. The NTBs thus employed by the member countries of LAIA are diverse, including those related to public health and consumer protection, some of which may not be in force. However, there is a notable concentration in a small number of categories, such as requirement of prior authorization for sensible products or total import ban of such goods, technical norms and inspection and quarantine specifications.^{17/}

Given the large number of products still "exempted" from the CET and the proliferation of NTBs in both Mercosur and the Andean Community, it is recommendable that relevant and updated information be made available to the authorities of the countries outside these sub-regions. This will give more transparency to the complex process of trade liberalization of the two integration schemes and the possible fusion in the future.

In today's international context, common external tariffs and moderate levels of protection against third-party competitors are efficient means for reducing incentives for smuggling and avoiding accusations of unfair trade practices related to the use of inputs with different levels of

^{16/} On this basis, Decision 370 applying to the CET was approved in November 1994, and at the same time it was ruled that Bolivia would retain its flat-rate tariff of 10% for an indefinite period, except for certain items for which the rate would be 5%.

^{17/} ECLAC, *Panorama de la Inserción Internacional de América Latina y el Caribe*, (LC/G.1941), Santiago, Chile, December. pp.60-61.

protection. They also lessen the need for strict rules of origin, which can represent a serious obstacle to trade liberalization. Common tariffs, which can be phased out gradually, should be priority to sectors where their absence would cause the greatest distortions, and to nearby countries with which intensive reciprocal trade is carried on and whose production structures are similar. By any case, a special care should be taken in the implementation of CET and rules of origin to reduce trade diversion as much as possible and not to discriminate heavily against the trade partners and investors from outside the region.

E. ADDITIONAL REMARKS

Global empirical assessments of the UR are difficult, in part because of information on the responsiveness of trade flows to changes in tariffs, and in part because of the uncertainty relating to tariffication and quota elimination. In addition, many of the Agreements are "back loaded", with the significant elements coming into operation only towards the end of the agreed transition phase. Equally, the impact of Agreements on the 'new issues' are unlikely to be known for some time. But it is clear that the increased scope of tariff bindings in the developed and developing countries promises enhanced market access to both regions. The economies in both regions should abide by their UR commitments, without backsliding, and when possible accelerating and broadening them. The "GATT-Plus" approach.

The establishment of NAFTA has been an issue of concern to Asian countries, mainly due to the importance of the US as an export market and a source of FDI, and the possibility that Mexico's membership in NAFTA will divert US imports and FDI away from Asian countries. Existing analyses of NAFTA's impact on Asian countries,^{18/} however, suggest that the extent of trade and investment diversion away from Asia in favor of Mexico, except for certain industries, might not be as great as originally imaged. In the light of the commitments made in the UR, the progress of APEC in promoting and free and open trade and investments in the region, and the possibility of further improvements in the multilateral framework for trade, the adverse impact of NAFTA on third countries could be minimized in the coming years. Though preferential treatments based on fulfillment of North American content requirement contain elements of discrimination, some Asian firms are increasingly taking advantage of NAFTA as a production for exports to third countries, but as markets for their products.

There is another concern, especially from the perspective of Asian and European countries, over the recent moves by the US to promote the possible extension of NAFTA with Latin America and the Caribbean through the Free Trade Area for the Americas (FTAA). In this case, the potential for trade and investment diversion over the long-run in the case of FTAA could be more serious for Asia than in the case of NAFTA, because there have been more trade barriers

^{18/} For a synthesis of these analyses, see Julius Caesar Parrenas, "Rapidly Emerging Regional Integration Systems: Implications for the Asian Developing Countries and Possible Policy Responses", (UNCTAD/ITD/19), December, 1995.

in the US for exports from most Latin American economies compared to Mexico. Additionally, Latin America as a whole exhibits a more diversified export structure that could result in direct competition with exports from Asian countries. Moreover, there is wide room for a restructuring of Latin American exports towards the US in the wake of the FTAA completion, since the US takes up smaller proportions of several large Latin American countries' exports, such as Argentina and Brazil.

There is an important question as to whether Latin American the Caribbean integration should be further consolidated before proceeding to the establishment of FTAA covering the whole hemisphere beginning in the year 2005. Or can progress be made concurrently on both fronts? From the viewpoint of Asia-Pacific, the content and context of an envisaged free trade area in the Western Hemisphere will no doubt condition its economic relation with Latin America and the Caribbean. In this view, it is of great interest for Asia-Pacific to keep abreast of the ongoing deliberations in FTAA and negotiations that are to initiate starting April of next year.

II. GENERAL OVERVIEW OF ASIA-PACIFIC TRADE

The trade performance of Asia-Pacific countries has been outstanding. At the beginning of the 1980s the region exported less than US\$ 280 billion. By 1990, that total increased to almost US\$ 700 billion, and in 1995 to more than US\$ 1,200 billion. These results in the export side were matched by the import side. Total imports jumped from US\$ 292 billion in 1980, to almost US\$ 700 billion ten years later, and to over US\$ 1,300 billion in 1995. These values indicate an average annual rate of growth between 1990 and 1995 of about 12% for exports and of over 13% for imports.

During this five-year period, trade among the 12 countries increased on average 16% annually. (See Table 15) Such dynamic behaviour has meant that other regions have lost relative importance either as suppliers or as destination of Asia-Pacific trade. At present, 50% of their total exports and 53% of total imports correspond to Asia-Pacific intraregional trade. In 1980 the share of intraregional trade was about 37% for imports and 36% for exports.

Asia's exports to Latin America reached an average of 20% per year, an even more pronounced growth than intra-Asian trade. This is a clear indication that trade liberalization in Latin America poses a first-rate opportunity for Asia-Pacific countries to increase their share of this expanding market. On the other hand, Asia-Pacific imports from LAIA increased less than 9% on an annual basis in the last five years, a clear indication that Latin America must find new forms of increasing its exports to Asia.

Nonetheless, Latin America has remained a minor partner for Asia's export and import flows. In 1995, only 1.8% of total Asia-Pacific exports went to Latin America and, only 2% of its imports originated in LAIA countries. Even more disquieting is to notice that fifteen years earlier the share of LAIA in total Asia-Pacific exports was a whole one percent higher, while LAIA's share of total Asia imports from the world has remained stationary during this long time span.

The following tables, based on Asia-Pacific trade statistics, try to provide a concise view of the role of Latin America in Asia trade flows.^{19/}

^{19/} It is important to note that data in the following tables include Hong Kong and Singapore reexports, and therefore may distort somewhat the level of penetration of Latin America in terms of Asia-Pacific total imports.

Table 15

Asia Pacific 12 countries						
IMPORTS						
(US\$ millions, C.I.F.)						
Year	United States	European Union	Asia Pacific 12	LAIA	Others	World
1970	9,311	6,285	12,813	1,278	8,697	38,384
1980	51,684	30,029	108,942	6,363	95,621	292,639
1990	130,257	106,914	325,263	16,683	116,643	695,761
1995	222,295	191,245	690,187	25,464	172,636	1,301,827
Average Annual Growth Rates						
Trade flows	United States	European Union	Asia Pacific 12	LAIA	Others	World
90-80	9.7	13.5	11.6	10.1	2.0	9.0
90-95	11.3	12.3	16.2	8.8	8.2	13.3
Share of Imports from the World						
Percentages						
Year	United States	European Union	Asia Pacific 12	LAIA	Others	World
1970	24.3	16.4	33.4	3.3	22.7	100.0
1980	17.7	10.3	37.2	2.2	32.7	100.0
1990	18.7	15.4	46.7	2.4	16.8	100.0
1995	17.1	14.7	53.0	2.0	13.3	100.0

Source: UN, Comtrade.

Table 16

Asia Pacific 12 countries						
EXPORTS						
(US\$ millions, F.O.B.)						
Year	United States	European Union	Asia Pacific 12	LAIA	Others	World
1970	9,688	5,901	11,784	794	7,172	35,340
1980	61,688	43,146	99,199	7,700	61,650	273,383
1990	179,227	121,176	291,905	9,059	92,159	693,525
1995	269,310	177,517	614,979	22,551	140,842	1,225,199
Average Annual Growth Rates						
Trade flows	United States	European Union	Asia Pacific 12	LAIA	Others	World
90-80	11.3	10.9	11.4	1.6	4.1	9.8
90-95	8.5	7.9	16.1	20.0	8.9	12.1
Share of Exports to the World						
Percentages						
Year	United States	European Union	Asia Pacific 12	LAIA	Others	World
1970	27.4	16.7	33.3	2.2	20.3	100.0
1980	22.6	15.8	36.3	2.8	22.6	100.0
1990	25.8	17.5	42.1	1.3	13.3	100.0
1995	22.0	14.5	50.2	1.8	11.5	100.0

Source: UN, Comtrade.

A. THE DYNAMICS OF ASIA-PACIFIC TRADE WITH LAIA

As mentioned before, Asia has increased its exports to the world by 12% yearly in the period 1990-1995 and, its imports by 13% per year in the same period. However, as can be seen on Table 17 and Table 18, these averages do not reflect the dynamism of some of the countries of the region. Malaysia, for instance, has increased its exports by 20% annually, while its imports expanded by 22% on average in the same period.

Table 17 tries to give a broad view of the dynamics of growth of Asia-Pacific exports to the world, to the proper region and to Latin America. It is interesting to notice the high growth of these countries' exports to Latin America. Eight countries had annual average rates of growth over 20% between 1990 and 1995. Notably, four countries had over 40% increase in their exports to the region (Indonesia, Philippines, Malaysia and China). It is clear that these are the Asian countries that most benefited from Latin American economic stabilization and trade liberalization.

Table 17

The dynamics of Asia Pacific exports to the World, Intrarregional (Asia-Pacific 12) and to LAIA countries					
Annual Average Growth Rates 1990-95					
Country	Exports to World	Country	Exports to AsiaP12	Country	Exports to LAIA
1 Malaysia	20.2%	Thailand	25.2%	Indonesia	50.9%
2 Thailand	19.6%	Singapore	20.8%	Philippines	46.2%
3 China	19.1%	Korea Rep.	19.0%	Malaysia	45.3%
4 Singapore	17.5%	Malaysia	18.6%	China	42.1%
5 Philippines	16.0%	Philippines	17.8%	Korea Rep.	31.4%
6 Korea Rep.	13.6%	Taiwan (P.China)	17.1%	Singapore	29.0%
7 Indonesia	12.2%	Japan	16.1%	Thailand	25.3%
8 Asia Pacific 12	12.1%	Asia Pacific 12	16.1%	Taiwan (P.China)	22.4%
9 Taiwan (P.China)	10.7%	China	15.5%	Asia Pacific 12	20.0%
10 Japan	9.1%	New Zealand	11.0%	Japan	13.6%
11 New Zealand	7.6%	Indonesia	9.5%	New Zealand	7.7%
12 Australia	5.2%	Australia	8.8%	Australia	6.0%
13 Hong Kong	0.6%	Hong Kong	5.3%	Hong Kong	-2.0%

Source: UN, Comtrade.

Another important point raised by Table 17 refers to the weight of intraregional trade in Asia. Although, as already mentioned, the average annual increase of intraregional exports reached 16% in the period, six countries had growth rates superior to the regional average. In two cases the average growth was superior to 20% annually. These numbers certainly illustrate the level and speed that Asia-Pacific integration has managed to achieve.

On the import side, the circumstances are less favourable to Latin America. Between 1990 and 1995 Asia-Pacific as a whole has increased its imports of Latin American products by 8.8% annually. At the individual country level, seven countries have had higher rates of growth than the regional average in relation to imports from Latin America. However, the highest increase of the average was only 17,5% (China) and only three countries had more than 15% annual increases for this period, (China, Republic of Korea and Indonesia).

The same situation does not repeat itself in relation to Asia-Pacific imports from the world or from the own region. In both cases the rates of increase are much higher than those with Latin America. Malaysia, China, Philippines and Hong Kong are the most dynamic importers of the region, both from the world and from Asia-Pacific. (See Table 18).

Table 18

The dynamics of Asia Pacific imports from the World, Intraregional (AsiaP 12) and from LAIA					
Annual Average Growth Rates 1990-95					
Country	Imports from World	Country	Imports from AsiaP12	Country	Imports from LAIA
1 Malaysia	22.0%	Malaysia	22.5%	China	17.5%
2 China	19.9%	China	20.9%	Korea Rep.	17.0%
3 Hong Kong	18.5%	Philippines	20.5%	Indonesia	16.5%
4 Philippines	16.9%	Hong Kong	18.7%	Hong Kong	14.2%
5 Thailand	16.2%	Singapore	17.9%	Taiwan (P.China)	12.9%
6 Singapore	15.4%	Asia Pacific 12	16.2%	Malaysia	12.7%
7 Taiwan (P.China)	13.9%	Thailand	16.2%	Thailand	10.6%
8 Korea	13.7%	Taiwan (P. China)	16.2%	Asia Pacific 12	8.8%
9 Asia Pacific 12	13.3%	Korea Rep.	15.3%	Singapore	7.6%
10 Indonesia	13.2%	Indonesia	12.9%	Australia	6.8%
11 New Zealand	8.1%	Japan	11.8%	Philippines	6.3%
12 Japan	7.6%	New Zealand	9.9%	New Zealand	5.4%
13 Australia	7.4%	Australia	8.9%	Japan	3.8%

Source: UN, Comtrade.

One aspect that calls attention in relation to interregional trade refers to the small market share attained by Latin America in Asia. Table 19 presents the market penetration of imports from Latin America and of Asia exports to the region and the values of trade with each Asia-Pacific country. It is important to notice the contrast between import and export shares. Although Latin America market share of total Asian exports and imports are similar (1.84% and 1.96%, respectively), they hide significant differences in terms of the share of the total at the country level. In 1995 LAIA absorbed less than one percent of total exports of Thailand, Philippines, Hong Kong and Singapore. On the other hand, as already mentioned, the import penetration ratio of LAIA in Asia only surpasses 3% in the case of Japan, followed by Indonesia and the Republic of Korea with about 2.6%.

Similar to the case of Latin American trade with Asia, Table 19 indicates that there is a considerable concentration of trade with LAIA on a limited number of Asian countries. In the case of Asian imports three countries (Japan, Republic of Korea and China) receive 66% of total value of regional imports from Latin America, and the same countries provide 73% of all Asia exports in that direction.

Table 19

- LAIA Market Share of Total Asia-Pacific Imports and Exports in 1995 (Thousands of US\$ and %)					
Imports (C.I.F.)			Exports (F.O.B.)		
Country	LAIA	%LAIA/ WRLD	Country	LAIA	%LAIA/ WRLD
Japan	10,698,157	3.21	Korea Rep.	4,280,155	3.49
Indonesia	1,071,730	2.64	New Zealand	311,293	2.38
Korea Rep.	3,419,808	2.58	Japan	10,109,353	2.28
Taiwan (P. China)	2,347,101	2.30	Taiwan (P.China)	2,071,753	1.86
China	2,657,462	2.01	Asia Pacific 12	22,550,906	1.84
Asia Pacific 12	25,463,941	1.96	China	2,107,029	1.42
Philippines	471,472	1.66	Malaysia	927,116	1.26
Thailand	1,079,442	1.54	Indonesia	524,587	1.16
Malaysia	889,750	1.18	Australia	527,983	1.14
Australia	641,250	1.13	Singapore	975,223	0.83
New Zealand	140,160	1.00	Hong Kong	240,155	0.80
Singapore	872,062	0.70	Philippines	112,932	0.67
Hong Kong	1,175,548	0.61	Thailand	363,328	0.65

Source: UN, Comtrade.

B. THE PRINCIPAL PRODUCTS IMPORTED BY ASIA FROM LAIA

Table 20 shows the 20 products imported from Latin America by Asia-Pacific countries that presented the highest average values of import in the period 1990-1995. The first element that stands out from the table is the high concentration in natural resources based products. Another important element of the table refers to the limited importance of the products in total Asia-Pacific imports. These 20 products represent about 62% of Asia-Pacific imports from Latin America in 1995, but only 1.2% of Asia's imports from the world. Moreover, imports of these 20 products from the world corresponded in 1995 to only 12% of total Asian imports, indicating that they are relatively marginal to the total flow of imports.

Contrasting with the above picture, the importance of some Latin American countries as suppliers of these 20 products is manifest. Chile provided 35% of total Asia-Pacific imports of *Copper alloys unwrought*, the single most important product imported by Asia from Latin America (with a share of 11% of total imports from the region). Asia imported about 77% of *Meat or Fish Meal Fodder* from Peru and Chile. And more than 54% of total Asian imports of *Soya bean Oil* came from Brazil and Argentina. These shares are impressive if analyzed from the point of view of alternative suppliers. In the table some important providers are from Asia, indicating that Latin America is highly competitive in these products.

Nonetheless, the table clearly indicates the challenges facing Latin America - Asia trade. The nature of the products, essentially primary and semi-manufactured goods, implies that Latin America needs, on the one hand, to increase the degree of processing of these natural resource based export products and, to find new niches and gateways in Asia for more complex products, on the other. For Asia, the challenge is to search for new partnerships in Latin America, exploring the possibilities of complementary trade with countries that have ample natural resources, where wages are still at reasonable levels, and with a strengthening process of integration that will create a market of considerable dimensions.

Table 20

Asia-Pacific (12 countries)																	
20 Main Products Imported from LAIA																	
Average for the period 1990-1995																	
Value of trade: 1995																	
(Millions of US\$)																	
1		2	3	4	5	6	7					8					
Main Products (SITC, Rev. 1)		LAIA			%World	World value	Main Suppliers * / countries and % of Imports					Total					
		Value	%	Accum. %			Value	%	Value	%	Value		%				
1	6821 Copper, Alloys Unwrought	2,820	11.1	11.1	41.8	6,750	CHL	35.3	USA	11.1	ZMB	8.1	PHL	7.4	JPN	7.0	61.9
2	2813 Iron Ore, Etc, Excl Pyrites	1,761	6.9	18.0	31.4	5,603	AUS	44.3	BRA	24.9	IND	11.4	ZAF	5.4	PHL	3.7	86.1
3	6841 Aluminium, Alloys, Unwrought	1,948	7.6	25.6	18.5	10,543	RUS	19.1	AUS	17.7	BRA	13.8	USA	6.2	CAN	5.5	56.9
4	3310 Crude Petroleum, Etc	894	3.5	29.1	1.4	61,799	SAU	28.3	ARE	19.4	IRN	7.9	IDN	7.2	OMN	7.1	62.7
5	0814 Meat Or Fish Meal Fodder	1,008	4.0	33.1	70.5	1,431	PER	34.0	CHL	33.9	USA	10.4	DNK	4.2	RUS	3.2	82.5
6	6725 Iron, Stl Blooms, Slabs, Etc	815	3.2	36.3	14.7	5,555	RUS	31.4	CHN	21.9	BRA	12.5	AUS	4.6	TUR	4.3	70.4
7	2831 Copper Ores, Concentrates	1,108	4.3	40.7	26.0	4,266	IDN	25.9	CHL	24.0	CAN	14.2	PNG	12.5	AUS	6.4	76.6
8	2517 Sulphate Wood Pulp	881	3.5	44.1	16.5	5,353	CAN	36.3	USA	29.2	CHL	8.7	BRA	7.3	IDN	5.5	81.5
9	6727 Iron, Stl Coil Fr Rolling	324	1.3	45.4	5.0	6,499	JPN	28.2	KOR	14.8	RUS	8.4	USA	8.0	CHN	7.0	59.5
10	0311 Fish Fresh, Chilled, Frozn	687	2.7	48.1	6.9	9,926	USA	19.2	TWN	10.5	RUS	8.4	KOR	7.2	CHN	6.3	45.2
11	0711 Coffee Green, Roasted, Etc	668	2.6	50.7	39.0	1,715	BRA	18.0	COL	15.4	IDN	13.1	VNM	12.2	GTM	4.3	58.6
12	4212 Soya Bean Oil	689	2.7	53.4	54.4	1,268	BRA	46.4	USA	32.0	ARG	8.0	MYS	5.1	VNM	2.4	91.5
13	2214 Soya Beans, Excl Flour	227	0.9	54.3	7.7	2,963	USA	85.8	CHN	4.0	BRA	3.8	ARG	2.6	CAN	1.8	96.2
14	6318 Wood Simply Worked Nes	418	1.6	56.0	16.1	2,593	USA	31.5	AUS	23.8	CHL	13.6	CHN	10.2	ZAF	6.0	79.1
15	6741 Iron, Stl Heavy Plate Etc	224	0.9	56.8	7.2	3,114	JPN	30.9	CHN	12.5	RUS	9.9	KOR	7.7	BRA	7.1	60.9
16	2631 Raw Cotton, Excl Linters	424	1.7	58.5	7.6	5,543	USA	50.6	AUS	10.3	RUS	4.9	UZB	3.6	ARG	3.1	69.3
17	6114 Leather Bovine Nes, Equine	352	1.4	59.9	8.7	4,031	KOR	24.8	TWN	16.3	USA	10.5	ITA	9.1	THA	5.2	60.7
18	6712 Pig Iron, Incl Cast Iron	122	0.5	60.4	10.1	1,208	CHN	67.8	BRA	10.1	JPN	6.3	RUS	5.2	IND	5.1	89.3
19	0313 Shell Fish Fresh, Frozen	295	1.2	61.5	3.1	9,408	THA	13.5	IDN	10.9	RUS	8.1	CHN	7.0	IND	6.7	39.4
20	6732 Iron, Steel Bars Etc	137	0.5	62.1	5.1	2,671	JPN	22.4	TUR	14.5	RUS	14.4	UKR	5.7	KOR	5.5	56.9
Other products		9,661	37.9	100.0	0.8	1,149,588											
TOTAL TRADE		25,464	100.0		2.0	1,301,827											

Source UN, Comtrade.

Note: Column Nr.1 presents the 20 main products imported from LAIA by the 12 Asia-Pacific countries. It is based on the average value of imports for the period. Column nr.2 refers to the value of imports of these goods in 1995. Column 3 is the share of the product of total imports from LAIA in 1995; Column 4 shows the accumulated share of these products of total imports from LAIA. Column nr. 5 shows the share of the imported product from LAIA 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 5 main suppliers of the product and their share of total imports from the world. Column 8 presents the share of these 5 suppliers of the total value of imports of the product.

*/ See Annex nr. 1 for the country codes explanation.

C. MARKET ACCESS LIBERALIZATION IN THE ASIA-PACIFIC

In Asia-Pacific, considerable progress has been made in liberalizing market access through the reduction of tariff and non-tariff barriers (NTBs). Both types of barriers have been coming down rapidly since the mid-1980s, due to liberalization carried out unilaterally, or as a result of regional integration schemes, or part of Uruguay Round commitments. As shown in Table 21, average tariffs in Asia-Pacific have declined considerably during the period 1988-1996. The simple average applied tariff in 1996 for 10 of the 12 Asia-Pacific countries considered here are below 15%, out of which eight are below 10% and three below 5%. Similarly, through unilateral efforts, the incidence of NTBs affecting imports during 1988-93 fell from 9 to 5% for APEC as a whole.^{20/} Though not necessarily a satisfactory indicator, the percentage of national tariff lines covered by a selected group of NTBs, shows that while the Philippines, Taiwan Province of China, United States, China and Japan all have relatively higher frequency ratios than Hong Kong, Australia and Singapore (Table 22).

Table 21
Tariff Averages of Asia-Pacific Countries: 1988-1996

	Simple Average Applied Tariffs		
	1988a/	1993b/	1996
Australia*	15.60	7.00	5.00
China	39.50	37.50	23.00
Hong Kong	0.00	0.00	0.00
Indonesia	18.10	17.00	13.40
Japan*	4.30	3.40	4.00
Korea	19.20	11.60	7.90
Malaysia	13.60	12.80	9.00
New Zealand	14.90	8.50	5.70
Philippines	27.90	23.50	15.57
Singapore	0.30	0.40	0.00c/
Taiwan (Province of China)	12.57	8.89	8.64
Thailand	31.20	37.80	17.00d/

a/ 1984-1987 for developing countries.

b/ 1991-1993 for developing countries.

c/ calculations exclude bound specific duties on agriculture.

d/ average tariff in 1997.

*figures are trade-weighted averages.

Source: APEC, The Manila Action Plan for APEC, Volume 1, MAPA Highlights.

^{20/} APEC, The Manila Action Plan for APEC, Volume 1, MAPA highlights, 1996.

Table 22

Frequency Ratio of Core Non-Tariff Barriers
(percentages)

Country	Ratio	Country	Ratio
Australia	1	Malaysia	13
China	24	New Zealand	0.5
Hong Kong	0.5	Philippines	37
Indonesia	3	Singapore	1.5
Japan	18	Thailand	10
Korea	2	Taiwan (Prov. of China)	31

Cited in Chai Yu, et. al. *Economic Policies in APEC –The Case of China*, APEC Study Center and Institute of Developing Economies, March, 1997, Table 1.4, p.10.

In 1994 Bogor Declaration, APEC set the target of achieving free and open trade in the Asia-Pacific region by the year 2010 for the developed member countries and 2020 for the developing ones. In 1995, Osaka Action Agenda provided a guideline for implementing policy measures to reach this goal. Last year, APEC leaders adopted Manila Action Plan for APEC (MAPA) in which all its members submitted their Individual Action Plans (IAPs) to be implemented next year and afterwards, based on the unique modality of unilateral announcement of liberalization commitments by individual countries. The IAPs consist of a comprehensive coverage of 15 areas (including both border and domestic measures), for three time horizons (short, mid- and long-term).

As can be appreciated in Table 23, the plans for tariff reduction over the next several years indicate that the majority of the APEC members adopted an “Uruguay Round-Plus” approach, attaching time-tables for reducing substantially tariffs in some specific sectors, ahead of the schedule envisaged under the Round commitments. New Zealand and Australia committed some additional tariff reductions to their UR commitments and accelerating their reduction in comparison with the Bogor targets. Though Japan committed little more than their UR commitments and accelerated its implementation by almost two years, its *applied* average tariff rate in 1996 was 9.0%, as a result of the tariffification of agricultural products. Similarly, Korea, Chinese Province of Taiwan and Mexico made relatively modest commitments. On the other hand, the ASEAN countries committed greater IAP reductions,^{21/} to be consistent with their

^{21/} For instance, the goal of the Philippines to reduce the average tariff rates to 5% by 2004 under APEC is more liberal than the country’s commitment of binding tariffs at their 1995 levels under WTO. In addition, the current deregulation and liberalization measures taken in the fields of telecommunications, transport, energy, tourism, distribution and finance, which are included in the Philippines IAP, are beyond the country’s WTO commitment of not imposing restrictions on cross border flows in various services (Economic Policies of APEC: the case of the Philippines, APEC Study Center/ Institute of Developing Economies, Tokyo, Japan, March 1997, p. 37.).

ambitious plan of tariff reduction programmed within the AFTA.^{22/} The targets set by China and Chile were also substantial, reflecting the former's eagerness to join the WTO and the latter's readiness to continue its trade liberalization unilaterally and/or regionally.

Therefore, given that the tariff levels of developed members of APEC are in general low (the unweighted average rates are below 5%), it is to be recommended that they reduce them faster than programmed or abolish them at once, instead of a linear-cut reduction over the years. These countries still maintain 15-30% tariffs on textiles and some other industrial goods so that they should be prepared to reduce them as fast as possible over some years.^{23/} Anyway, there are significant differences in the level of protection across the countries as well as across sectors within a country. This suggests that relative price changes through further tariff cuts will be different across economies and that a sectoral disaggregation is essential for analyzing APEC trade policy.

It is also important to advance on the issue of tariff escalation; that is, the tariff applied on a product "chain" rises as the level of processing increases. Although as a result of the Uruguay Round the overall degree of escalation has been reduced, it still remains, in many instances, as an obstacle for the development of processing industries in developing countries.^{24/} A study on the tariff and NTBs that Chile faces in Asia-Pacific markets concludes that both groups of barriers tend to increase in accordance with the level of processing

^{22/} The ASEAN Free Trade Area (AFTA) was created in 1992, with the objective of removing trade barriers, expanding intra-ASEAN trade and enhancing the region's economic integration. The basic mechanism to implement is the Common Effective Preferential Tariff scheme (CEPT). According to this scheme, intra-ASEAN tariffs will be reduced and non-tariff barriers will be removed over a 10 year period beginning on January 1, 1993. Originally, the CEPT scheme planned to reduce regional tariff rates between 0% and 5% involving 41,147 tariff lines by 2008, which was later advanced to 2003.

There are two tariff reduction schedules provided for under the CEPT scheme: the Normal track and Fast Track. In the former, products with tariff rates above 20% will have their rates reduced to 20% by January 1, 1998 and subsequently from 20% to between 0% and 5% by January 1, 2003. Products with tariff rates at or below 20% will have their rates reduced to between 0% and 5% by January 1, 2000. Under the latter, products with rates above 20% will have their rates reduced to between 0% and 5% by January 1, 2000, while those products with rates at or below 20% will have their rates reduced to 0% - 5% by January 1, 1998.

^{23/} Ippei Yamazawa, "APEC's Liberalization and Impediments in Japan: Overview of Services Trade", IDE APEC Study Center, Working Paper Series 96/97, No. 9. March 1997, P. 5.

^{24/} As a result of the Uruguay Round, the percentage reductions in tariffs levied on products imported by developed economies from developing countries were generally greater on the earlier stages of processing, except that the cuts were greater for finished tropical products and semi-manufactured natural resource-based products than in the preceding stages of processing. (UNCTAD, Strengthening the Participation of Developing Countries in world Trade and the Multilateral Trading System, (TD/375/Rev.1), prepared by the UNCTAD Secretariat and the WTO Secretariat, with the Assistance of the International Trade Centre UNCTAD/WTO, as a contribution to UNCTAD IX, 1996, Geneva.

of natural resources, and also that high transport costs are an substantial trade barrier.^{25/} It should be reminded that while the issue of tariff escalation is commonly addressed in relation to market access to developed countries, developing countries themselves reveal significant tariff escalation.^{26/}

APEC works on the principle of “Open Regionalism”, which involves regional economies integration without discrimination against economies outside the region. What is not clear at present is whether trade and investment liberalization within APEC is to be extended to non-members unconditionally on an MFN basis, or such liberalization is open to non-members, only on a reciprocal basis. Therefore, an analysis of APEC’s possible impact on Latin America would have to take into consideration of the above two scenarios. The latter is a possible scenario when the current sentiment in a number of APEC countries of maintaining and strengthening the economic relation with the European Union and other non-APEC economies prevails. From this to be a viable option, it is also desirable for these non-member countries, including the economies of LAIA, to intensify trade and investment liberalization efforts on their own, unilaterally, bilaterally or regionally, to reciprocate the APEC liberalization efforts.

^{25/} Ximena Clark, “Comercio de Chile con APEC: Barreras arancelarias y no arancelarias”, Colección de Estudios, CIEPLAN, junio de 1996, pp. 83-115.

^{26/} UNCTAD, op.cit., p. 12.

Table 23

**SALIENT FEATURES OF TRADE LIBERALIZATION
OF ASIA-PACIFIC COUNTRIES**

Country	Tariff barriers	Non-tariff barriers	Services
Australia	Applied simple average tariff has fallen from 18.2% in 1988 to 6.1% in 1996 and will reduce further to 4.8% by the year 2000. Currently around 40% of applied MFN tariffs are zero. Applied tariffs on passenger motor vehicles, and textiles, clothing, and footwear are being phased down to the year 2000. Post-2000 tariff levels for these products will be decided following reviews during 1996 and 1997.	Generally does not apply NTBs other than for health and safety reasons. In addition to fulfilling its Uruguay Round commitments, will abolish export controls on certain mineral products (coal, mineral sands, liquified natural gas, bauxite and alumina) and phase-out bounties for ships, computers, books, machine tools and robots.	<i>Telecommunications:</i> Full and open competition from July 1, 1997 and privatization of one third of Telstra with 35% of the float available to foreign investors; <i>Transport:</i> Windback maritime cabotage protection by the year 2000. In aviation, progressive liberalization of access to the market for freight and passengers. <i>Financial services:</i> conduct an inquiry into the financial sector to report by 31 March 1997.
Brunei Darussalam	80% of total tariff lines are zero. MFN tariffs on 910 items were recently eliminated, as a down payment on IAP. Import tariffs on another 688 items, including computers and related products, were reduced or abolished in 1995, as part of its Osaka Initial Actions.	Few NTBs are WTO consistent.	Few restrictions on market access and the presence of natural persons. "Open sky" civil aviation policy, without any restrictions on foreign airlines.
China	In 1995, 6,350 tariff items were included, with a simple average tariff rate of 35.9%. In conformity with the commitments at the APEC Osaka meeting, has lowered its rate for over 4,900 items starting from April 1, 1996, as its down payment for the APEC trade liberalization. By 2000, will reduce the level of simple average tariff rate from the current 23% to around 15%, and make further reductions in mid- and long term.	In 1992, 20% of the import tariff lines (1,247 items) were subject to import control, such as quotas or licensing. Currently, only 5% of the total import tariff lines (384 items) are still subject to these measures. In the mid- and long term, reduce and eliminate all NTBs inconsistent with WTO.	In such areas as banking, insurance, security, commercial retailing, transportation, energy, telecommunication, and tourism, carry out its reform and provide more market access and business opportunities to foreign firms.
Indonesia	In the UR, committed itself to an obligation for an across-the-board tariff of 40%, covering 8,877 tariff items (95% of all the items). Earlier, only 10% of all the tariff items were bound. The exclusion list included motor vehicle assembly, non-electrical machinery, starter motors and communication electrical. The import-weighted tariff remained at a 7.6% in 1996. In accordance with its commitments in AFTA, tariff of 20% or less will be reduced in stages to 0-5% by the year 2000. Tariff of more than 20% in 1995 will be reduced in stages to 0-20% by the year 2003. A new deregulation package of June 1996 eliminated all surcharges of imported goods and reduced tariffs on 1497 tariff lines, accelerating implementation of the Uruguay Round commitments. The tariff reduction for the automotive, chemicals and metal industries are regulated separately.	The coverage of NTBs as a percentage of import value has remained at a 12-13% since 1991. In accordance with the UR, the NTBs are to be removed with a 10 year time period. At the time of the country's signature of the UR Final Act (Apr. 94) this commitment affected 179 tariff lines (out of a total of 269 tariff lines with NTBs). Of these, 81 applied to agricultural items and 98 applied to industrial items. The NTBs to be removed corresponded to 6% of imports in 1992. By April 1996, eliminated 75 of NTBs which amounted to 77% of its commitments under the UR. In June 1996, an additional 9 NTBs, 8 of which belong to the Uruguay Round commitments, were also eliminated. The tariffication and binding of all agricultural items with a reduction in the tariff of at least 10% per line item will be carried out over ten years.	The GATS commitments represent the binding of existing levels of market access. The qualifications or limitations include: the establishment of a local joint venture or service partner or insurance company or securities broker/dealer; limitations placed on the admission of natural persons in the country; a capital investment requirement of a minimum of 25 years in order to establish a commercial presence in banking. The country placed no limitations on cross-border supply of services, except commercial banking or on the consumption of such services.
Hong Kong	Binding tariffs at 0% for all items of imports by the year 2010.	NO NTBs for the protection of domestic industries. Relaxation of the quota system for importation of rice in 1997. Relaxation of control over the import of	Will seek to remove preferential arrangements for the recognition of qualifications in respect of veterinary surgeons, medical lab. technicians,

		frozen meat and frozen poultry between 1997 and 2000.	and occupational therapists by 1997. Will consider devising non-discriminatory and standards-based criteria for admitting foreign lawyers to practice as barristers between 1997 and 2000. Will commit under the GATS to open up market with effect from 1998 for all local basic telecommunications services and a range of international basic services. Will review by 1998 the supply of subscription television service.
Japan	Prior to the UR, average tariff rates were 2.2% for industrial products, 1.4% for forestry product, 5.7% for fisheries products, and 11.9% for agricultural products. As a result of the UR, average bound rates were reduced to 1.5% for industrial products, 1.0% for forestry products, 4.1% for fisheries products, and 9.3% for agricultural products. Accelerated its UR tariff reduction commitment on 697 items, including textiles, chemicals, steel and non-ferrous metals by approximately two years on an applied rate basis with tariff rates originally scheduled to be applied in Jan. 1998. The simple average <i>applied</i> tariff in 1996 was 9.0% (26.3% for agricultural products, 21.3% for leather, 8.7% for textiles and 0.3% for industrial products) and will be reduced to 7.9% by the year 2000.	As a result of the UR, abolished quantitative restrictions on all agricultural products and converted them into customs duties, with the exception of some products in respect of which the "special treatment" provision of the Agreement on Agriculture are applied. In 1996, as a result of UR, quota restrictions were tarifficated around 30 items of agricultural products. The quota restriction on rice must be tarifficated in the year 2000. There are no import and export levies, no minimum import prices, no discriminatory import licensing and no export subsidies.	Made commitments during the UR to liberalize trade in services in more than 100 areas.
Korea, Rep. Of	Through two Five-Year Reform Programs beyond the terms of the UR concessions, has achieved a current average applied tariff level of 7.9%. Its average applied tariff level for industrial products is 6.2%, 2% lower than the UR concession rate of 8.2% (by 2009). Rates for all farm items have been bound while the level of tariff bindings for industrial products was increased from 10% to 90%. By 1999, will completely eliminate its tariffs for 28 items in accordance with the UR agreement's "zero for zero" initiatives, and will also reduce its tariff rates for 193 chemical product items. The concession to duty free is expected to increase from 4% to 26% and the concession rate in terms of number of items is expected to be 90% after five years by the year 2000: 91.8% in manufactures and 42.6% in primary products.	According to the UR commitments, will abolish quotas on all its remaining items, except rice, by 2001, and phase out prohibited subsidies by 1998. To go beyond its UR commitments, will eliminate the Import Diversification Program by 1999. Concurrently, voluntary export restraints on 10 items are to be abolished by 1998. Subsidies for export promotion such as Export Industries Equipment Investment Fund, Export Import Loans, Export Loss Reservation Fund, and Special Depreciation for Foreign Exchange-earning Fixed Assets are to be replaced by export insurance, long-term export credit, tariff repayment system and trade bill system, which are allowed under the WTO agreement.	In the GATS it assumed commitments in over 80 sectors, followed by additional offers in the extended negotiations on financial services, basic telecommunications and maritime transport. Remaining limits on foreign investment in distribution (except wholesale meat) will be removed by 2000. Air freight handling services will be liberalized by 1997. Foreign equity ratio in air transport will be allowed up to 50% by 2000. Limits on foreign investment in ocean-going cargo transport will be lifted by 1999. Cargo reservation system in favor of domestic vessels will be removed by 1998. Petroleum refining industry and legal services will be opened to foreign investment by 1999 and 1997, respectively.
Malaysia	Substantial offers in the UR covering 5900 tariff lines. Almost all the offers range between 5 and 30%, with the largest number of tariff lines committed for textile-related products (1100 tariff lines). All the offered rates are bound. Substantial reduction in agricultural products: the tariff for wheat was reduced from 272 to 13%, grains from 327 to 95% and meat from 272 to 13%. In industrial products offers were more modest, because they had been already at quite low levels.	NTBs will be reviewed and where appropriate be relaxed/abolished.	Foreign brokerage firms will be allowed to acquire up to 49% in domestic firms. Foreign equity in domestic funds management firms will be raised to 70%.
New Zealand	In compliance with the tariff reform program, tariff will fall by the year 2000 to about 50% of their 1996 level, with a simple average for all tariffs of approximately 3%. A further review of tariffs is scheduled for 1998. All imports	There are no NTBs for domestic production support or border protection purposes. No export subsidies.	Will examine the possibility of broadening the coverage of its service liberalization in its 1997 IAP.

	duty free by 2010.		
Philippines	Bound its tariff rates at a 10% ceiling rate above the 1995 applicable rate, involving 2,800 industrial tariff lines (50% of the total lines). Additionally, there is a commitment to bind 744 agricultural tariff lines, increasing the proportion of binding commitment to 63% of the total tariff lines. The bound tariff rates on the 744 agricultural tariff lines, however, must be reduced by 24% in the course of 10 years. Exceptions to this binding commitment involves 66 tariff lines (0.01% of the total), 42 agricultural and 24 textiles. Import controls on agricultural products, except rice, will be tariffed by 2005. Under APEC, beyond UR commitments, gradually phase down tariffs, targeting a uniform rate of 5% on all products (except sensitive agricultural products), by the year 2004.	At the end of 1994, 250 items under Philippine Standard Commodity Classification Code (PSCC), which accounted for 4.4% of total PSCC lines, were subject to quantitative restrictions. The recent liberalization measures included the removal of import restrictions on new motor vehicles and a number of used trucks and buses, lifting of quantitative restrictions on sensitive agricultural products, except rice, and liberalization of importation and exportation of petroleum products. Beyond UR commitments, eliminate remaining import licensing requirements under cover of GATT Article XVII:B (restrictions due to BOP reasons).	In the GATS, committed to bind all current market access restrictions involving four types of services: financial, tourism, transport and telecommunications. Management of multi-modal operations and auxiliary services to shipping will be opened up. Liberalization of finance companies, underwriting of securities and management of mutual funds will be considered between 1997 and 2000.
Singapore	To bind 100% of its tariff lines at 0% by 2010, with an inclusion of a timetable for the reduction of existing bound tariff lines ahead of the UR commitments.	To implement Agreement on Subsidies and Countervailing Duty Measures by Jan. 1, 2000, three years ahead of schedule.	Commitment to remove the monopoly on Basic Telecommunication sector by 2000, seven years ahead of the intended date.
Chinese Taipei	Nominal average tariff is at present 8.64%. Its current trade weighted average is 5.36%. It is expected that by the year 2000, its tariff on 65% of imported items will be 5% or less, and that the nominal average tariff rate will be lowered to 6%.	Elimination of the import bans on 31 lines of agricultural products. The import bans on the remaining 91 agricultural items will be replaced by WTO-consistent measures. Quantitative restrictions on 14 lines of agricultural products will be eliminated upon accession to WTO. The remaining 23 agricultural items subject to quantitative restrictions will be replaced by WTO-consistent measures.	Foreign lawyers will be permitted to establish offices and supply a number of services by 2000. The scope for partnerships with local lawyers will be reviewed. Foreign firms will be permitted to set up travel agencies. Banking, insurance and securities will be opened up between 1997 and 2000.
Thailand	With the implementation of tariff reforms commencing Jan. 1995, the number of tariff rates were reduced from 39 to 6. The latter include: 0% for medical equipment and fertilizer; 1% for raw materials, electronic components and vehicles for international transportation; 5% for primary products and capital goods; 10% for intermediate commodities; 20% for finished goods; and 30% for commodities which need special protection.	Will revise existing laws and regulations on import licensing in conformity with WTO regulations. At present, three types of import licensing: automatic, non-automatic and special measures. Non-automatic licensing covers the major items, especially agricultural products. Intends to initially increase tariff quotas on imported soybean, soybean cake and skimmed milk powder above its WTO commitments and will gradually do the same for other selected commodities.	Under the GATS, it has committed to liberalize such sectors as business services, communication, construction, education, environmental services, finance, tourism, recreation services and transport. Up to 25% foreign equity will be allowed for insurance. Beyond 2000, lifting this cap will be considered. The liberalization of the natural gas market and the electricity supply industry.

Sources: APEC, Manila Action Plan for APEC (MAPA), supplemented by information found in a series of country case-studies published in March 1997 by APEC Study Center and Institute of Developing Economies (Tokyo, Japan), Economic Policies in APEC, on China, Indonesia, the Philippines, and Thailand; Ippei Yamazawa, "APEC's Liberalization and Impediments in Japan: Overview of Services Trade", IDE APEC Study Center, Working Paper Series 96/97, No. 9. March 1997; and a number of documents prepared for the Asian Development Bank for the Conference "Study of the Emerging Trading Environment and Developing Asia Conference on Country Studies" held at the ADB Headquarters, Manila, the Philippines, August 29-30, including, Hak K. Pyo, Ki-Hwan, Kim and Inkyo Cheong, Study of the Emerging Trading Environment: Economic Implications for Korea, Executive Summary; Mohamed Ariff, Mahani Zainai-Abidin and Tan Eu Chye, Study of the Emerging Global Trading Environment and Developing Asia: The Malaysian Perspective; and Sherry Stephenson and Marry Pangestu, Indonesia and the Emerging Environment.

III. INTRA-INDUSTRY TRADE IN AND BETWEEN ASIA AND LATIN AMERICA

To increase the economic relations between Asia and Latin America it is fundamental to build up alliances and cooperation schemes among companies of both regions. One way to approach the current state of these entrepreneurial relations is through the analysis of intra-industrial trade between both regions.

Fukasaku ^{27/} asserts that the "flying-geese" ^{28/} scheme of regional integration is built upon the assumption that the trade pattern created by FDI flows tend to develop according to inter-industry specialization. Braga and Bannister ^{29/} argue that trade-oriented FDI will also promote intra-industry trade. This kind of trade in general is associated with the process of economic integration among developed economies. However, it has been noticed that this type of trade also begins to involve developing countries.

Comparing the levels of intra-industry trade between some Asia-Pacific countries in the period 1980-1990, Braga and Bannister point out that there is a significant increase in the level of intra-industry trade between Japan and the other East Asian countries. This is also true for trade between Indonesia, Malaysia, Philippines, Republic of Korea, Singapore, Taiwan (Province of China), Thailand and China. They also note that intra-industry trade has been increasing in respect to all major trading partners of East Asia. The rate of growth of intra-industry trade at the regional level has been, in most cases, substantially higher (particularly in Malaysia, Singapore, Thailand) than that with non-regional trade partners. The authors assert that for most East Asian countries the overall growth in intra-industry trade can be partially explained by their success in sustaining above-average rates of economic growth, a phenomenon that has placed them on a convergence path with the developed countries.

Analogous to the situation in Asia, in Latin America trade among Mercosur members has changed drastically in the period 1990-1996. However, intra-industry trade has been concentrated in the trade flows between Brazil and Argentina. In general, trade flows between these two

^{27/} Kiichiro Fukasaku, *Economic regionalization and intra-industry trade: Pacific-Asian Perspectives*, OECD, Paris, 1992, p.24.

^{28/} This analogy refers to the fact that migration geese fly in a V-formation. In the case of Asia, a group of economies in different stages of development have organized themselves for a mutually beneficial, purposeful migration towards rapid industrialization. This implies that Japan leads, followed by the ANIES4 countries and then the new NIES (ASEAN4) and China. The pattern is purposeful, well-ordered and coordinated. (See Terutomo Ozawa, "The dynamics of Pacific Rim Industrialization: How Mexico Can Join the Asian Flock of "Flying Geese" " in Riordan Roett (ed.), *Mexico's External Relations in the 1990's*, Lynne Rienner, London, 1991, p.129).

^{29/} Carlos A. Primo Braga and Geoffrey Bannister, "East Asian investment and trade: prospects for growing regionalization in the 1990s", *Transnational Corporations*, vol. 3, no. 1 (February 1994) p.115.

countries corresponded to over 70% of total intra-Mercosur trade. Machado and Markwald indicate that intra-industrial trade between Brazil and Argentina increased after the inception of Mercosur. In their opinion, over 60% of the bilateral trade in manufactures is composed of intra-industrial trade, and this type of trade is reasonably consolidated in two sectors: chemical products and machines and transport equipment. The authors suggest that this increase in intra-industrial trade is not only the result of the integration process initiated by Mercosur, but it is also the consequence of the stabilization programmes in Argentina and Brazil. The regularity of the exchange rates led to the establishment of long term supplier contracts. In fact, the authors remark that an important part of intra-industrial trade flows correspond to intra-firm trade.^{30/}

In the case of Latin American trade with Asia much has to be achieved in terms of intra-industrial trade. As Table 24 indicates the main intra-industrial flows between Asia-Pacific and Latin America occur mostly in products with little importance in the bilateral trade. The four groups of products that are shaded in the table conform to the following criteria: they are manufactured products (products belonging to SITC 5 to 8 less 67, 68); the average value of trade flows (import or export) was more than US\$ 50 million in the period, and the share of intra-industrial trade was higher than 65%.

According to Moneta, a better articulation with East Asia in the field of intraindustrial trade would bring three major positive consequences for Latin America: a) it would provide new routes of access to Asian markets; b) it would stimulate the incorporation of new technologies as well as upgrading the skills of workers and of the managerial techniques of entrepreneurs as a direct consequence of the production activities but also as a consequence of public programs associated with them and; c) it would help to generate a process of open regionalism. ^{31/} In addition this articulation facilitates the access of LAIA countries to the complex process of economic interactions and institutions of the Pacific-Rim, such as PECC, PBEC, APEC, etc.

The absence of strong levels of intra-industrial trade illustrates the need to improve trade relations between both regions. The presence of intra-industrial interchanges is frequently associated with product differentiation patterns that tend to facilitate the decentralization of production and the establishment of local plants specialized in certain products, where Latin America could be highly competitive. Furthermore, small and medium enterprises could be part of this trade, expanding the opportunities for complementarity between Asia and Latin America

^{30/} João Bosco M. Machado and Ricardo A. Markwald, "Dinâmica Recente do Processo de Integração do Mercosul", paper presented to the Forum Nacional, May 1997.

^{31/} Carlos Juan Moneta, "Comercio e Integración Intraindustrial en Asia-Pacífico: Perspectivas de Vinculación con América Latina", (Serie Documentos de Trabajo nr. 8), Instituto de Servicio Exterior de la Nación, Buenos Aires, May 1995, cited in Hernan B. Gutierrez, "Asian Conglomerates in Chile and Latin America", mimeo, Instituto de Estudios Internacionales, Univ. de Chile, February 1997.

Table 24

20 Main Intra-Industrial Flows Between Asia and Latin America (based on the average trade flows for the period 1990-1995)				
Asia Import Ranking from LAIA	Commodity	Asia-Pacific Exports to LAIA Average 1990-95	Asia Pacific Imports from LAIA Average 1990-95	Grubel-Lloyd Index
115	612 Leather Etc Manufactures	10,094	10,081	99.9
36	882 Photo,Cinema Supplies	107,745	106,884	99.6
136	792 Aircraft Etc	6,386	6,185	98.4
157	714 Engines And Motors Nes	3,978	4,159	97.8
87	696 Cutlery	19,981	18,867	97.1
50	514 Nitrogen-Functn Compounds	57,318	53,582	96.6
108	725 Paper Etc Mill Machinery	10,476	11,226	96.5
91	592 Starch,Inulin,Gluten,Etc	18,508	16,830	95.3
190	659 Floor Coverings,Etc	1,880	1,529	89.7
143	791 Railway Vehicles	6,188	4,973	89.1
125	693 Wire Products Non Electr	10,166	8,138	88.9
212	524 Radioactive Etc Material	390	505	87.1
81	634 Veneers,Plywood,Etc	15,827	21,310	85.2
70	516 Other Organic Chemicals	20,482	29,928	81.3
86	598 Miscel Chem Products Nes	28,710	18,885	79.4
174	554 Soap,Cleansing Etc Preps	3,985	2,521	77.5
62	541 Medicinal,Pharm Products	54,485	34,240	77.2
30	583 Polymerization Etc Prods	74,806	134,114	71.6
220	883 Developed Cinema Film	66	122	70.4
34	752 Automtic Data Proc Equip	208,492	107,996	68.2

Source: UN, Comtrade.

IV. LATIN AMERICA AND FOREIGN DIRECT INVESTMENTS FLOWS

A. TRADE AND INVESTMENT

The last two decades in Asia and the more recent events in Latin America and the Caribbean suggest that there is a “virtuous circle” between trade and investment. As the WTO indicates, it is not possible yet to argue that FDI *causes* exports to be greater but, there seems to be a clear correlation between them. They are mutually supportive and together they play a central role in the ongoing integration of the world economy.^{32/} In the last twenty years as a whole, the growth of FDI has outpaced the increase in the value of world merchandise exports.^{33/}

As tariffs and non-tariff barriers decrease in the developing world, the tendency towards more export-oriented FDI increases, and *tariff jumping* FDI decreases. Moreover, *quid pro quo* FDI tends to diminish in step with the decline of protectionist threats. *Tariff jumping* and *quid pro quo* FDI tend to take the form of stand alone units geared to the domestic markets. In other words, the more open markets tend to attract more export-oriented FDI.^{34/}

One way to highlight the consequences of FDI to trade refers to the increment of the sales of foreign affiliates of transnational corporations (TNCs). These sales are estimated to exceed the value of world trade in goods and services (over US\$ 6,100 billion in 1995). Moreover, intra-firm trade among TNCs is estimated to account for about one third of world trade, and TNCs exports to all firms for another third.^{35/}

A number of studies ^{36/} describe the process of interaction between trade and FDI as a process of relocation of production across national boundaries that creates a two-way or triangle trade flow among participating countries. According to this view, new trade flows originate in

^{32/} WTO, Annual Report 1996, Geneva, pp.44-81.

^{33/} UNCTAD, World Investment Report, various years.

^{34/} A case in point is the export to sales ratio of Japanese affiliates in the manufacturing sector in Asia that stood at 45% in 1992, while the corresponding ratio for Japanese affiliates in Latin America was just 23%. *Ibid.*, p.51.

^{35/} *Ibid.*, p.73.

^{36/} See, for instance, UNCTAD, Trade and Development Report, 1996, UN Sales no. E.96.II.D.6, New York and Geneva, 1996, Part Two: “Rethinking Development Strategies: Some Lessons From East Asian Experience”, Chapter I, pp.75-105; Mitsuhiro Kagami, The Voice of East Asia: Development Implications for Latin America, Institute of Developing Economies -IDE-, Tokyo, Japan, 1995.

changes in relative factor prices that generate new inflows of FDI. Initially FDI creates a flow of capital goods from the investing to the host country. Then, parent companies provide parts and components to affiliated companies, to be assembled, or intermediate goods for further processing. Affiliated companies sometimes send semi-finished goods to be assembled in a third country, or back to the home country for final assembly. In some cases, final products are sent back home or to a third country.

This process can be exemplified by statistics of Japanese imports of machinery and equipment from its neighbors. In 1990 machinery and equipment corresponded to 21% of total Japanese imports from the ANIES4 ^{37/} countries, by 1995 that share was 43%. Japanese imports of machinery and equipment from ASEAN4 ^{38/} countries was limited to 6% of total imports in 1990, while five years later those products represented 23% of the total imported from those countries. Japanese imports from China reproduce the same pattern. In 1990 machinery and equipment was responsible for only 4% of total Japanese imports from China, by 1995 the share of machinery and equipment in total imports was 14%.^{39/}

Another aspect of FDI is the dynamic process of relocation of production, that implies the movement of production to the countries that offer the best comparative advantages. This can be exemplified by the transfer of labor-intensive goods from Japan (first tier country) to ANIES4 (second tier countries), and later from those countries to the ASEAN4 and other developing Asian countries (third tier).^{40/} As a result, in 1995 70% of total inflows of FDI in China originated in the ANIES4 countries. In that same year, over 35% of total FDI in Malaysia also came from ANIES4 countries.^{41/}

The foregoing suggests that FDI tends to look beyond the national level to search for *regional* comparative advantages. The elements that establish these advantages at the regional level are, among others: market size, natural resource endowment, cost structure of production and pattern of specialization by country, availability of skilled and unskilled labor force, R&D capabilities, infrastructure, etc.

As a result of the stabilization and the liberalization process in Latin America it is possible to observe an increase in investment-cum-trade from Asia-Pacific in recent years, which aims to take advantage of natural resource endowment and amplified regional markets. Once the

^{37/} ANIES4 refers to Hong Kong, Republic of Korea, Singapore and Taiwan (Province of China).

^{38/} ASEAN4 refers to Indonesia, Malaysia, Philippines and Thailand.

^{39/} Mikio Kuwayama, El Fomento De Las Relaciones Económicas Entre Japón y América Latina y el Caribe, Naciones Unidas, CEPAL (LC/R.1718), Santiago, Chile, May 12, 1997, Table 8, p.15.

^{40/} Mitsuhiro Kagami, The Voice of East Asia, *op.cit.*, p.31.

^{41/} Jiro Okamoto, Asian Regionalism and Japan, Institute of Developing Economies -IDE-, Tokyo, Japan, March, 1997, Table 4.

deregulation process keeps its course and integration and privatization efforts deepen, new trade and investment flows will certainly increase. These new inflows of FDI will definitely differ in nature from previous inflows since they will go beyond the scope and nature of *maquila* to profit from Latin America's newly found regional comparative advantages.

Increased FDI from Asia in Latin America will in due time lead to better intra-industry articulation between the two regions, especially between the countries that are less asymmetric in terms of development levels and industrial capabilities, promoted by productive and financial integration *de facto*, by way of investment or joint ventures. Eventually this will provide LAIA countries with the means to insert themselves more effectively in the markets of Asia-Pacific, with the possibility of a *de facto* productive integration, backed up by formal integration institutionality. Also, increased FDI will promote the incorporation of technology and management skills.

With a focus on "Open Regionalism", the ongoing integration efforts in both regions, the increment of FDI and trade will produce a synergy that will bring Asia-Pacific and Latin American relations to a level in accordance with their relative importance in the world economy.

B. FOREIGN DIRECT INVESTMENT AND LATIN AMERICA

In 1995, due to the difficulties encountered by Mexico to fulfill payments obligations on its short-term debt, for a brief period the stability of private external inflow of capital to Latin America was in danger. However, this unfavorable situation was promptly dealt with. In fact, during 1995 only Mexico was seriously affected by a sharp downturn in the inflow of private external capital. Nonetheless, taking into consideration the three instruments of foreign investment in the region (FDI, bonds and portfolio equity investments) the total amount of inflow capital was down 10% from the previous year level. This drop was mostly concentrated in portfolio investment in equities. In terms of FDI the decline was 5%. (See Table 25).

With the exception of Brazil and Peru, that receive most of their inflow of foreign capital from Europe, and Paraguay, that obtains it from the own region, the United States is the main provider of capital to the region. The origin of accumulated FDI until 1995 in some Latin American countries reveals the strong share of the United States in the inflow of capital to these countries. Also, the table puts in evidence the concentration of Asian investments in Brazil, Mexico, Chile and Venezuela. (See Table 26).

Table 25

Net inflow of FDI in LAIA Countries 1990-1995						
(Millions of US\$)						
	1990	1991	1992	1993	1994	1995
Argentina	1,836	2,439	4,179	6,305	2,756 a/	3,900 b/
Bolivia	11	96	122	124	130	374
Brazil	989	1,103	2,061	1,292	3,072	4,859
Chile	590	523	699	841	1,722	1,695
Colombia	500	457	790	950	1,438	2,019
Ecuador	126	160	178	469	531	470
Mexico	2,634	4,761	4,393	4,389	10,973	6,965
Paraguay	76	84	137	119	167	207
Peru	41	(7)	145	371	2,326	1,691
Uruguay	...	...	...	101	155	125
Venezuela	451	1,916	629	372	764	574
Total LAIA.	7,254	11,532	13,333	15,333	24,034	22,879

Source: UN, ECLAC, *La Inversión Extranjera Directa en América Latina y el Caribe - Informe 1996*, (LC/G.1958-P), UN Sales Nr. S.97.II.G.7., Table 3, p. 17.

a/ Estimated on the basis of the inflow of FDI in banking., privatizations and capital inflow classified in other movements of capital in the balance of payments.

b/ World Bank data.

Table 26

Latin America: Origin of accumulated FDI, by subgroups and countries */					
1995					
(percentages)					
	United States	Europe	Latin Am. & Caribbean	Southeast Asia	Others
Argentina	...	...	...	...	...
Bolivia	59.5	9.0	22.1	0.4	5.0
Brazil a/	36.7	44.0	6.2	7.7	5.4
Chile	40.0	24.7	7.4	3.9	24.1
Colombia	55.7	18.4	21.7	1.9	2.3
Ecuador b/	66.9	21.6	9.2	0.3	2.0
Mexico	59.5	23.4	0.0	5.1	12.0
Paraguay c/	9.8	38.9	46.3	0.9	4.1
Peru	14.5	69.0	11.2	0.7	4.6
Uruguay	...	...	...	...	...
Venezuela d/	53.2	29.1	10.3	3.8	3.6

Source: UN, ECLAC, based on official information.

a/ FDI accumulated to June 1995

b/ FDI carried out between 1986 and 1995

c/ FDI carried out between 1992 and 1994

d/ FDI accumulated until December 1993.

*/ See UN, ECLAC, *La Inversión Extranjera Directa en América Latina y el Caribe - Informe 1996*, (LC/G.1958-P), UN Sales Nr. S.97.II.G.7

The contribution of FDI to Latin American countries is not negligible. In LAIA countries the share of net inflows of FDI of the GDP has increased from . 0.72% in 1990 to 1.56% in 1995. However, in 1995 for some countries the share of FDI of the GDP can raise to over 3% (Chile, Peru) or even to over 6% (Bolivia). Moreover, the importance of FDI to Latin American countries also can be assessed in relation to its share of gross fixed investment. This share at the LAIA average level increased from 3.5% in 1990 to 7.3% in 1995. However, at the individual country level, the increments were much more impressive. Peru saw the importance of FDI in gross fixed investment increase from 0.89% in 1990 to 21.4% in 1994 and 13% in 1995. In the case of Bolivia, the increase was from 2% in 1990 to 15% in 1994 and 35% in 1995. Chile, Ecuador, Mexico and Paraguay also experienced the increase of this share to levels over 10% (15% in the case of Ecuador). Only in Brazil and Colombia the increment of FDI as a share of gross fixed investment was less significant, indicating that domestic investment also increased.

If compared with previous decades, the composition by sector of the FDI in the region has changed. Until the beginning of the 1990s, a large part of the net inflow of FDI was directed towards manufacturing. Until recently, the pattern of industrialization and the economic policies directed at strengthening the domestic markets had led transnational companies to establish affiliates in the most important countries of the region, in order to circumvent the import restrictions.

During the 1980s fundamental changes occurred in Latin America. In many countries there was a relaxation of restrictions on investments on oil and mining and of the rules and regulations of these sectors. Furthermore, the structural adjustment programs followed in many countries throughout the region led to the privatization of services enterprises that were previously under state control. Also, the regulations that restricted the access to domestic financial markets were loosened.

As a result, the composition by sectors of the inflow of foreign direct investments has been changing. Nowadays, the orientation of these flows presents a more balanced sectoral distribution. Moreover, two new outcomes may tilt the balance towards the services sector. First, as a side effect of the process of trade liberalization, the appeal of investments in manufacturing may have decreased. Second, the process of privatization of public services in most countries of the region is also strongly influencing the increase in the inflow of investments in the services sector. (See Table 27).

Table 27

LAIA – Composition of Accumulated FDI, By Sectors, 1995			
(percentages)			
	Agriculture & Mining	Manufacturing	Services & others
Bolivia	67.5	12.9	19.6
Brazil	2.9	59.0	38.1
Chile	59.0	15.3	25.7
Colombia	25.1	38.6	36.3
Ecuador	75.3	15.1	9.6
Mexico	1.5	48.5	50.0
Paraguay	33	47.6	19.4
Peru	19.1	12.6	68.3
Venezuela	2.6	57.8	39.6

Source: UN, ECLAC.

The process of privatization offers remarkable opportunities for foreign investments. In the period 1993-1995 the share of foreign capital in this process has reached an average of 52,6% in relation to the amounts received in all Latin American and Caribbean countries. Yet, this share changes greatly in relation to individual countries. In some countries it has been over 60%, others have averages between 40% and 60% and in five countries (Jamaica, Nicaragua, Brazil, Mexico and Venezuela) the amount collected was low or very low. A recent ECLAC document ^{42/} mentions that the level of participation of foreign capital in the process of privatization depends, among other elements on: a) the degree of openness to foreign investments; b) the business climate of the country and the underlying policies related to growth and development, market characteristics and process of modernization. However, the document also reveals that the degree of development of domestic entrepreneurs also has an important incidence in the levels of participation of foreign capital in the process. In some countries, particularly Argentina, Colombia and Chile, the high rates of growth of their economies has strengthened the domestic enterprises and influenced in the establishment of strategic alliances with foreign investors and, in some cases, with transnational corporations.

C. ASIA-PACIFIC FDI IN LATIN AMERICA

In the case of Asia-Pacific, investment flows are considered to be the essence of the “flying geese” model. Intraregional investments represent an important part of total FDI in Asia. In 1995, for instance, almost 70% of total foreign direct investments in China originated in the

^{42/} UN, ECLAC, *La Inversión Extranjera Directa en América Latina y el Caribe - Informe 1996*, (LC/G.1958-P), UN Sales Nr. S.97.II.G.7.

ANIES ^{43/} countries.^{44/} However, the flows from outside the region are significant sources of FDI for most countries.

Although Asia-Pacific is neither an important player in the process of privatization in Latin America, nor a major source of foreign capital to the region it is promising to notice that investments in Latin America seem to be increasing in sectors that may help the development of the manufacturing sector.

One of the characteristics of the expansion of the markets has been the increase in investment in manufacturing industries. Japan is among the leading countries of this type of investments. In fiscal 1995 Japanese foreign direct investment abroad increased 23.5% from the previous year level, reaching US\$ 50 billion, 35% (US\$ 18 billion) of which was directed to the manufacturing sector. More recent information indicates that the trend continued in 1996, with the outflow of Japanese FDI in manufacturing in the first half of the year attaining an increase of 77.5% over the same period of 1995. In the same period, Japanese FDI in non-manufacturing investment decreased 16.8%.

Table 28

Japanese Foreign Direct Investment Outflow 1989-1995					
(US\$ million and percentages)					
Total					
Region	1989	1992	1993	1994	1995
World	67,540	34,138	36,025	41,051	50,694
Asia	8,239	6,425	6,637	9,699	12,264
Latin America	5,238	2,726	3,370	5,231	3,877
Asia % World	12	19	18	24	24
L.A. % World	8	8	9	13	8
In Manufacturing Industries					
World	16,284	10,057	11,131	13,783	18,623
Asia	3,220	3,104	3,659	5,181	8,058
Latin America	196	268	364	1,159	320
Asia % World	20	31	33	38	43
L.A. % World	1	3	3	8	2

Source: Jetro and Ministry of Finance, Japan.

^{43/} Hong Kong, Korea, Singapore, and Taiwan (Province of China).

^{44/} Jiro Okamoto, *Asian Regionalism and Japan*, Tokyo, IDE, March 1997.

Despite the impressive increase of Japanese FDI in manufacturing, Latin America holds a very limited share of total Japanese investment of this type. That share was 1.2% in 1989, reached 8.4% in 1994 and decreased to 1.7% in 1995. In terms of value, while in 1989 the outflow was US\$ 196 million, in 1994 it reached US\$ 1,159 million and in 1995 decreased to only US\$ 320 million. In fact, there is a significant contrast between the relative share of Latin America in total Japanese investments abroad and in Japanese foreign investments in manufacturing.

Similarly, Chinese investments in Latin America tend to concentrate in the primary sector. There have been Chinese investments in iron mining in Peru and Brazil and in copper mining in Chile. Also, in Brazil some Chinese investments were oriented toward forestry and wood production, while in Argentina they were directed toward the fishing sector. Recently there has been some interest in the establishment of assembly facilities for televisions sets, radios, fans, motorcycles and tractors, as well as in the drugs and textile sector.^{45/} Recently, ten new investment projects in trucks, passenger cars and utilitarians are about to be established in Brazil, totaling about US\$ 541 million.^{46/}

Korea is another country where overseas investments in manufacturing have increased their share in total FDI outflows. Due to the acceleration of the rate of increase of wages (5.8% over labor productivity as an annual average between 1990 and 1994) the share of manufacturing in total overseas investment (based on volume) increased from 19% in 1985 to almost 57% in 1995.^{47/}

On Table 29 the same trend can be seen on Korea's direct investment in Latin America, particularly since 1995. In this year the rate of increase in comparison to the previous year was 214.3% and 57.1% in 1996. The total value reached US\$ 242 million in 1996, almost five times the level of 1994. By the end of 1996 Korea had initiated 317 investment projects in Latin America for a total of US\$ 689 million or 5% of total Korean investments abroad. Furthermore, the average value of each project has shown a permanent trend of increase, from US\$ 1,4 million in 1992 to more than US\$ 6,5 million in 1996.

^{45/} SELA, Elementos para las conversaciones institucionales del Grupo de Rio y la República Popular China, (SP//DS/DT 5-96), Caracas, October, 1996.

^{46/} Silvia Mugnato, "Brasil conquista 25 montadoras", *Jornal do Brasil*, Rio de Janeiro, June 4, 1997.

^{47/} Taik-Hwan Jyoung, "Korean Investments in Latin America", mimeo, paper presented at the Conference on Regional Integration in the Americas and the Pacific Rim, San Diego, February 28, 1997, p. 10.

Table 29

Korean Investments in Latin America						
	1992	1993	1994	1995	1996	Stock (1996)
No. of Projects (A)	26	31	33	30	37	317
Amount (B) (US\$ million)	36	44	49	154	242	689
B/A (US\$ million)	1.38	1.42	1.48	5.13	6.54	2.17

Source: Ministry of Finance and Economy. Cited in Taik-Hwan Jyoung, "Korean Investments in Latin America", *op.cit.* p. 17, Table 18.

Korean investments in manufacturing in Latin America attained 56% of total projects in 1995. Contrary to expectations, Taik-Hwan Jyoung finds that current trends in Korean investments in Latin America are not confined to traditional labor-intensive manufacturing sectors, but more technology intensive and important industries. Furthermore, he asserts that there are other differences that cannot be found in past Korean investments in Latin America. He cites, for instance: a) the active participation of Korean transnational corporations; b) the increasing number of large investments and c) the economic impact of these investments will not be negligible to the domestic economies of Latin America. Particularly in terms of employment, upgrading of industrial structure and technology transfer. Two elements seem to contribute to the increase of Korean investment in Latin America. The first refers to the intrinsic needs of Korean firms in terms of cost factor, market factor and corporate strategy. The second is closely related to the improved economic conditions in Latin America, the growth of the domestic market and the challenge presented by the strengthening of the regional integration schemes.

Another source of Asian FDI in Latin America originates in Taiwan (Province of China). The period 1990-1995 concentrated over 84% of the approved cases of Taiwanese FDI in Latin America and the Caribbean. Taiwan (Province of China) invested US\$ 2.6 billion in Latin American and Caribbean countries. in this five year period. This corresponds to almost 30% of total Taiwanese investments abroad. The regional share of total foreign investments of Taiwan (Province of China) has increased along the current decade. In 1990 it was 25%, in 1994 it increased to over 52% and in 1995 it was approximately 40%. Taiwanese investments in Latin America and the Caribbean tend to be directed towards Banking and Insurance, the region absorbs 38% of the total outflow of this type of investment from Taiwan (Province of China). Also, investments in transportation in the region represent an important share of total investments abroad of this type.

Latin America appears to be increasing its role in relation to Asian FDI. However, much has to be done in this area. The participation of Asia in the process of privatization in Latin America still lags behind the share of Europe and the United States. Also, Asia could be an important partner in the process of updating Latin America infrastructure and, in the process of bringing new technologies to the region, through associations and alliances. Moreover, it is important to bring new players in the area of FDI, and particularly fruitful could be the arrival of small and medium enterprises in this field.

ANNEX

ANNEX-1

COUNTRY-CODES FOR TABLES 12 AND 20

ARE	UNTD ARAB EM.	GTM	GUATEMALA	PRY	PARAGUAY
ARG	ARGENTINA	HKG	HONG KONG	RUS	RUSSIAN FED.
AUS	AUSTRALIA	IDN	INDONESIA	SAU	SAUDI ARABIA
BOL	BOLIVIA	IRN	IRAN-ISLAM.REP.	SGP	SINGAPORE
BRA	BRAZIL	IND	INDIA	SWE	SWEDEN
CAN	CANADA	ITA	ITALY	THA	THAILAND
CHL	CHILE	JPN	JAPAN	TUR	TURKEY
CHN	CHINA	KOR	KOREA REP.	TWN	Taiwan (Province of China)
COL	COLOMBIA	MEX	MEXICO	UKR	UKRAINE
GER	GERMANY	MYS	MALAYSIA	URY	URUGUAY
DNK	DENMARK	OMN	OMAN	USA	UNITED STATES
ECU	ECUADOR	PAN	PANAMA	UZB	UZBEDISTAN
ESP	SPAIN	PER	PERU	VNM	VIET NAM
FRA	FRANCE, MONACO	PHL	PHILIPPINES	VRN	VENEZUELA
		PNG	PAPUA N. GUIN	ZAF	SOUTH AFRICA
		POL	POLAND	ZMB	ZAMBIA

Source: UN, Comtrade.