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The Pacific Basin and Latin America

Dae Won Choi

This article analyses three aspects of the economic relations between South-east Asia and Latin America: i) the true extent of the headway made by four newly industrializing Asian economies (NIEs) (the Republic of Korea, Hong Kong, Taiwan and Singapore) and four ASEAN countries (Indonesia, the Philippines, Malaysia and Thailand) in the new Asian economic order; ii) their economic relations - particularly those of the Republic of Korea and Taiwan - with Latin America; and iii) the implications of the Pacific Basin's new economic profile in terms of the effort to change production patterns with social equity in Latin America. The means by which the ASEAN countries and China have achieved their rapid pace of economic growth are also examined; to this end, the basic characteristics of the "catching-up" process, of the realignment of technological systems and of the globalization of the Asian-Pacific region are analysed. The argument is then put forward that in order for Latin America to change its production patterns, it will have to incorporate the new elements of technical/industrial realignment being used by the Japanese/NIE/ASEAN/Chinese economic centres; the author also contends that Latin America's dynamic re-incorporation into the new world economic order in the 1990s will increasingly come to depend on the degree of horizontal integration of production it achieves within the context of the "catching-up" process currently under way in Asia and the Pacific. The author concludes that regional and hemispheric integration within the framework of the Enterprise for the Americas will not conflict with Latin America's integration with the Asian-Pacific countries; on the contrary, it will contribute to a broader integration of the Pacific Basin, just as the open-ended regionalization of South-east Asia is not leading to the formation of an Asian economic bloc but instead represents a regional stage along the path to globalization.
I

Introduction

There are three ways of approaching the subject of the simultaneous globalization and regionalization processes now taking place in the world economy. The first is to study the dynamics of economic relations among all three of the traditional geographic economic centres—the United States, the European Economic Community (EEC) and Japan—in order to determine what the main trends and most significant variables are. The second is to examine each of these centres separately, analysing the underlying phenomena within each of these economies as a means of understanding their internal dynamics. And the third is to analyse how the current processes differ from the operational patterns of the preceding economic system by, for example, making a distinction (within the overall internationalization process of the postwar period) between the globalization process now under way, which gathered steam in the second half of the 1980s, and the transnationalization process that marked the three preceding decades.

None of these three approaches affords a true picture of world economic events, however, because in each case their tools of analysis take into consideration only the three main traditional actors in the sphere of international trade (United States, EEC, Japan), thus overlooking a fourth actor that has burst upon the scene. During the 1980s the world witnessed the emergence in Asia of a new wellspring of growth composed of the newly industrializing economies (NIEs) of Asia and the Association of South-East Asian Nations (ASEAN). The former group includes Hong Kong, the Republic of Korea, Singapore and Taiwan, while the latter includes the Philippines, Indonesia, Malaysia and Thailand.¹

Thus, until the start of the 1980s the world’s market economy system could accurately be described as a triad. Today, however, the two above-mentioned groups of Asian economies have begun to play such a crucial role in international economic relations that any thorough examination of globalization and regionalization processes at the world level must incorporate them into the discussion.

The objectives of this article are to determine, first, how we should interpret the emergence of the Asian NIEs and the ASEAN countries (the most recent NIEs) within the context of the new world economic order; second, what factors have contributed to the economic vitality of these groups within the context of the new Asian economic order; third, what new economic patterns or matrices have taken shape in the relations between these groups and the Latin American countries in terms of foreign direct investment (FDI) and the promotion of foreign trade; and, finally, what conclusions can be drawn from these analyses as regards economic cooperation between the Asian-Pacific countries (especially the NIEs) and Latin America within the new setting created by the globalization process in the Pacific Basin.²

¹Singapore and Brunei are also permanent members of ASEAN. For the purposes of this study, however, Singapore is grouped with the Asian NIEs and Brunei is not considered, since its economy is too small to have any major influence on the performance of ASEAN.

²For our purposes here, the Asian-Pacific region includes Japan, the NIEs, the ASEAN countries, China, Australia and New Zealand, while the Pacific Basin includes the above plus the United States, Canada and Latin America.
II

The Pacific Basin in the new world economic order

1. Three international modalities for changing production patterns: the Asian-Pacific, European-Atlantic and Latin American models

Within the framework of the ongoing globalization process, a new kind of specialization began to take shape in the production sector at the world level starting in the second half of the 1980s. In order to gain a clearer picture of this new global division of labour and how it is influencing the different international patterns of technical/industrial development, it will be helpful to outline the above three modalities of changing production patterns on the basis of the changes seen in the corresponding industrial structures over the past two decades, with special emphasis on the period 1985-1992 and the approach taken by the 1991 UNIDO study.3

The Asian-Pacific modality, involving changes—due to an increase in value added—in production patterns at the three-digit level of the International Standard Industrial Classification (ISIC) in Japan, the Asian NIES and the ASEAN countries, is notable for the rapid growth of the electrical and non-electrical machinery, chemical and plastic products industries, and, in particular, the electronics industry, which is a key factor in the third industrial revolution. This pattern is evident in almost all the Asian-Pacific countries, from Japan to the NIES and from the ASEAN countries to China and India (UNIDO, 1992). If we plot this pattern on a graph, we end up with a shape that looks very much like a spaceship (see figure 1).

The second, or European-Atlantic, modality corresponds to the United States, Canada and Europe; the changes in these areas’ production patterns are characterized by the rapid growth of the plastics industry, followed by chemicals, non-ferrous metals, and paper and printing. The less intensive development of the electronics industry distinguishes this modality from the Asian-Pacific model (see figure 2).

The third modality of changing production patterns, which corresponds to Latin America, involves a type of development based on non-ferrous metals and petroleum and petroleum products; in other words, it is still based on raw materials. Since the 1980s many countries in the region have been overhauling their industrial structures by means of privatizations and the liberalization of their trade and financial markets. Since this industrial restructuring is seen primarily in terms of an intensification of industrialization (of the type associated with the second industrial revolution), it would be more accurate to describe this process as a new modality for changing production patterns based on the progressive absorption of technological innovations (chiefly in the fields of micro-electronics, information sciences, biotechnology and new materials) corresponding to the third industrial revolution. The main difference between “industrial restructuring” and the “realignment of technical/industrial systems” is that whereas the former involves a change in the industrial structure based on the use of the internal combustion engine and heavy machinery, with petroleum products as the main energy source, the latter is based on intensive use of micro-electronics and takes advantage of computerized memory storage capabilities to incorporate knowledge as a basic input.

If the transformation of production patterns is seen as an industrialization process involving the ongoing replacement of technologies having constant returns to scale with technologies that generate increasing returns (Murphy, Schleifer and Vishny, 1989), then it follows that the realignment of technical/industrial systems is preferable to industrial restructuring.

3In the UNIDO study, the value $\Theta$ for changing production patterns is defined as:

$$\cos \Theta = \frac{\sum_{i} \gamma_{i} \cdot \gamma_{i}(t-1)}{\sqrt{[\sum_{i} \gamma_{i}(t)^{2}] \cdot [\sum_{i} \gamma_{i}(t-1)^{2}]}$$

where $\gamma(t)$ is the share of the total value of the manufacturing aggregate in year $t$ that is accounted for by activity $\gamma$. The value $\Theta$ is interpreted as the angle between two vectors $\gamma(t-1)$ and $\gamma(t)$, measured in degrees. Thus, the maximum theoretical value is 90 degrees (see UNIDO, 1991).
Japan, newly industrializing Asian economies (Asian NIEs) and members of the Association of South-east Asian Nations (ASEAN): changing production patterns, 1975-1992
(Index of value added (1975 = 100), at constant 1980 prices)

United States, Europe and Latin America:
changing production patterns, 1975-1992
(Index of value added (1975 = 100), at constant 1980 prices)

In view of the foregoing, efforts to change Latin America's production patterns in the 1990s will stand a greater chance of success if the changes are envisaged within the framework of an economic globalization process in which the third industrial revolution is playing a leading role. In addition to incorporating the above-mentioned elements, this "future-oriented" development strategy has a geo-economic connotation which suggests that the linchpin for this realignment of technical/industrial systems is to be found in the economic buoyancy of the Asian-Pacific region.

Since manufacturing has been assigned a central role in the effort to change production patterns, there should be a close correlation between GDP growth, the value added by manufacturing, and employment in the manufacturing sector. If we draw a comparison between Latin America, on the one hand, and the Asian NIEs and ASEAN countries as a group, on the other, we find that in the 1980s GDP growth fluctuated around 7%-8% for the Asian group and between 2% and 4% for Latin America. During that same decade, the value added by the manufacturing sector increased by between 7% and 14% for the Asian group, while for Latin America the figures ranged from -1% to 4%. Meanwhile, the growth rate for employment in the manufacturing sector fell sharply in Latin America and ended up with an average of less than 2%, whereas the Asian countries' average for the period 1985-1992 was nearly 4%. These figures reflect sharp differences between the two groups' development patterns; the pattern of the South-east Asian countries is primarily based on the value added to manufactures, which is not the case in Latin America.

In short, these three modalities of changing production patterns did not lead to similar rates of economic growth in the 1980s. Although it is safe to assume that Latin America's performance was influenced by its financial crisis, the real problem was that the development of the production system stagnated during the 1980s; unless the 1990s bring a turnaround in this trend, both the region's economic development and its chances of establishing a new position for itself in the sphere of international trade may be at risk.

2. The growth of intra-Pacific, intra-Asian and intra-industry trade

The end of the 1980s marked a profound change in the international economic order. In addition to the wave of political and economic reform that engulfed the former Soviet Union, Eastern Europe and Germany, the economic bloc envisioned in Western Europe's plans to form a single market (Europe 92) began to take shape, steps were taken to create a North American free trade area, and the Enterprise for the Americas was unveiled. Another significant event was the emergence of South-east Asia as the new growth leader. The trend towards the consolidation of the Asian-Pacific region as a new hub of international trade on a par with that of the Atlantic heralds the birth of a new technical and economic centre of production in Asia. In fact, as the end of the twentieth century approaches, all indications are that, regardless of the form taken by the new international economic order, South-east Asia is likely to become one of its leading players.

The rapid growth of the Asian NIEs' and ASEAN countries' trade has occurred thanks to the internal technical/industrial realignments carried out by each of these economies and to a development style based on increasing linkages between intra-industry trade and intraregional investment. In other words, the productive momentum generated by their internal industrialization drive has strengthened the economies of this region through multilateral trade in manufactures and investments in the realignment of their technical/industrial complexes, which have also been complemented by outward-looking initiatives.

On the new economic map of the Asian-Pacific region, there are three main focal points: Japan, the NIEs and ASEAN. The economic growth of the ASEAN nations in recent years has outstripped that of the NIEs, and its multiplier effect will be felt to an increasing extent in bordering countries such as Vietnam, Cambodia and Burma (Myanmar). Meanwhile, China is laying the groundwork for an effort to carry over the model it has set up along its coast into the inland areas of the country, which holds one-fifth of the world's population and has extraordinary economic potential. Along with China, India too is making an effort to join in the "flight of the wild geese", headed by Japan and followed by the Asian NIEs and the ASEAN countries.

Thus, the industrialization process appears to follow a linear sequence of different yet mutually complementary stages of technological and industrial development, all of which seem to be leading in the same direction (Chen, 1989). For example, the "lead goose" is Japan, with its highly knowledge- and technology-intensive industries; it is followed by the NIEs, whose industries are semi-intensive in knowledge and technology, and the ASEAN countries have also
joined the flock, with their labour-intensive and semi-technology-intensive industries.

In order to arrive at an understanding of the movements, correlations and linkages within and among these three centres, it is useful to bear in mind the following phenomena: i) the ascendancy of intra-Pacific trade over intra-Atlantic trade; ii) the expansion of intraregional trade in the Asian-Pacific region; and iii) the intensification of intra-industry trade.

The United States' trade links with the Asian-Pacific region are growing stronger while its ties with Europe are, in relative terms, growing weaker. In the 1970s and 1980s, total United States trade with Europe grew at an average rate of 12% per year, while its trade with the Asian-Pacific region expanded by 18% annually; as a result, total intra-Pacific trade amounted to over US$300 billion per year, which was half as much again as the value of intra-Atlantic trade (US$200 billion).

The increase in Asia's intraregional trade is evidenced by the growing share of total Asian-Pacific exports accounted for by intraregional trade, which rose from 34% in 1986 to 45% in 1990 (GATT, 1992). This marks a departure from the trend of the early 1980s, when North America was the largest market for Asian-Pacific exports.

The expanding role of intraregional trade in Asia's total trade is illustrated even more clearly by the figures on intraregional imports, which had come to represent 50% of the total by 1989. Moreover, during the second half of the 1980s NIE imports from the Asian-Pacific region climbed from 61% to 66%. Intra-NIE imports also rose, from 7% to 14%, while imports from China jumped from 5% to 11%. It is also noteworthy that exports of manufactures from the ASEAN countries to the Asian NIES increased by a factor of 70 between the early 1970s and the late 1980s, while their share of exports rose from 10% to 20%.

Horizontal intra-industry trade has been a significant component of intraregional trade. In terms of overall trends in exports of manufactures, Europe's and the United States' shares have shrunk while that of the Asian-Pacific region has burgeoned (Fukasaku, 1992). NIE exports of manufactures increased by a factor of 35 and those of ASEAN by a factor of 32 between the start of the 1970s and the end of the 1980s. The expansion of imports of manufactures was greater in the NIES, which registered a 21-fold increase during the period in question. For example, in 1987 the Asian NIES imported twice as much as Japan did (6% versus 3% of world imports of manufactured products). At the same time, however, the NIES as a group were the second largest exporter of manufactures to ASEAN, with their 26% market share being surpassed only by Japan's 30%. China was also a net exporter of manufactures to the NIES (Nohara and Kagami, 1991).

Between 1980 and 1990, the percentage of manufactures in total NIE and ASEAN exports and imports expanded substantially, which underscores their tendency to move towards an intra-industry-based trade/production pattern. In the case of the NIES, for instance, manufactures made up over 90% of their total exports in 1990. The figure was much lower for the ASEAN member countries, but it still averaged around 50% for that year; in the space of a single decade, the Philippines, Malaysia and Thailand doubled the percentage of manufactures in their total exports, while Indonesia registered almost a tenfold increase.

The percentage of total imports accounted for by manufactures also expanded in both groups of countries, rising on average from about 55% to 70% in the NIES and from approximately 60% to around 70% of total imports in the ASEAN countries between 1980 and 1990.

An analysis of the composition of both groups' exports of manufactures during the 1980s brings to light various changes: i) human-capital- and technology-intensive industries increased their share of such exports; ii) industries making intensive use of unskilled labour and natural resources saw their share decline (in Thailand and Malaysia, in particular, the role of natural resources was significantly reduced); and iii) the share of manufactured exports accounted for by natural resource-based industries tended to shrink in the NIES, but these industries still play a major role in the ASEAN countries, even though their share also decreased during the period in question.

In terms of the Grabel-Lloyd intra-industry trade index for manufactures in the Asian-Pacific region,

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4 The Grabel-Lloyd index is expressed as follows:

$$I_{st} = \frac{\sum_{i,j} |X_{ij} + M_{ij}| - 1}{\sum_{i,j} |X_{ij} + M_{ij}|}$$

where $X_{ij}$ denotes exports of product $i$ by country $j$ to country $k$ and $M_{ij}$ represents imports of product $i$ by country $j$ from country $k$. The greater the extent of intra-industry trade, the closer $I_{st}$ will be to 1 (Grabel and Lloyd, 1975).
all the countries exhibited sizeable increases during the 1980s. Among the NIEs, Hong Kong and Singapore registered values of 75% and 72%, respectively, while the figures for the Republic of Korea and Taiwan were both slightly over 40% in 1989. The ASEAN countries saw their shares expand considerably, with the shares of the Philippines and Thailand nearly doubling. The largest increase was recorded by Malaysia, whose index jumped from slightly over 30% in 1979 to 55% in 1989, putting the country in third place among all the Asian-Pacific economies.

Table 1 provides an overview of trends in the Asian-Pacific countries' intra-industry trade with their main trading partners for manufactures. As may be seen from the table, particularly high indexes have been recorded for the intra-industry trade of the various individual NIEs with the NIEs as a group (around 30%-40%), of the Republic of Korea and Taiwan with Japan, and of the ASEAN countries (especially Malaysia, at over 50%) with the United States. The largest intra-industry traders in the Pacific Basin (including Japan, the United States and Canada) are the Asian NIEs, with an (unweighted) average of almost 30%. They are followed by the United States and Canada. Europe and Japan are farther back in the ranking, with shares of 22% and 17%, respectively. China, for its part, has already garnered a 14% share of the Asian-Pacific economies' intra-industry trade.

In summary, strong manufacturing trade links have been established not only between the Asian NIEs and Japan, among the NIEs themselves, between the NIEs and ASEAN, and within ASEAN, but also between the NIEs, ASEAN and the United States. This suggests that, along with the open-ended regionalization of the Asian-Pacific area, we may witness a stronger trend towards the globalization of trade in the Pacific Basin, in which the United States would play a pivotal role. Given the Latin American region's strong ties with the United States, this trend could have an increasing influence on Latin America's integration strategy as regards the Pacific Basin.

### 3. The new international economic order and the role of the new NIE/ASEAN hub: from a "tried" to a "quartet"

An examination of the present foreign trade structure, with its three traditional economic hubs (Japan, United States and Europe) and its new, fourth, centre (NIE/ASEAN), reveals that the NIEs are becoming in-
creasingly influential with regard to the dynamism of the new international economic order.

This phenomenon is attested to in a study by the secretariat of the General Agreement on Tariffs and Trade (GATT, 1992) which found that a radical change had taken place in the ranking of the top merchandise exporters during the period 1980-1990. In 1979, Hong Kong was in 27th place, Taiwan was in 22nd place, the Republic of Korea in 29th, and Singapore was the 32nd largest exporter. One decade later, all of these economies were in the top 20 (Hong Kong was in 11th place, Taiwan in 12th, the Republic of Korea in 13th and Singapore in 18th place); the same trend was also observed among importers for that period.

Furthermore, the average growth rate recorded for NIE foreign trade in the period 1986-1989 was above the average for Asia as a whole (22%, not including Japan) as well as the world average (14%), since the NIE figures for that period were over 26% for imports and 23% for exports. In other words, the rate of increase in NIE foreign trade during that period was nearly twice as high as the growth rate of world trade.

These trends and changes entail a realignment of traditional trade links. Until recently, the United States was unquestionably the largest market for NIE exports. Now, however, the Asian-Pacific market (Japan, the NIES, ASEAN and China) is becoming increasingly important, and intra-NIE trade has surpassed trade between the NIES and Japan. In fact, with a growth rate of 36%, intra-NIE trade was the fastest-growing component of NIE exports between 1986 and 1989, since the rate of increase of NIE exports to Japan was 31%, exports to ASEAN countries rose by 30% and sales to the United States increased by 14%.

Trade relations between the NIES and ASEAN have been remarkably buoyant compared with the relations between these groups and the three traditional centres of world trade, and this means that we need to make some changes in the way we have traditionally talked about the world trade structure, since the incorporation of another actor into the new international economic order may very well alter its future course of development.

As may be seen in table 2, in 1988 the total value of NIE and ASEAN exports to the United States (US$33 billion) was nearly the same as the value of Europe's exports to that country (US$84 billion) and quite close to that of Japan's exports to the United States (US$90 billion) as well. It is also interesting to note that the value of United States exports to the Asian NIES was quite similar to the value of its exports to Japan. In other words, the NIES are as large a market for the United States as Japan is.

As regards the value of exports to Japan, NIE/ASEAN exports together exceeded those of the United States and were double the level of European exports. NIE exports to the Japanese market constitute an extraordinary case in that they exceeded the value of total European exports to Japan, while United States exports to that country were only 1.5 times as great as those of the NIES. Meanwhile, Japan's exports to the NIES were worth more than its exports to Europe, and the total value of Japanese exports to the NIES and ASEAN was almost 1.5 times the value of its sales to Europe.

The economic vitality of the Asian countries as a group (the NIES, the ASEAN countries and Japan) is also reflected in the figures for Asia's exports to the

<table>
<thead>
<tr>
<th>Source/destination</th>
<th>NIES + ASEAN</th>
<th>United States</th>
<th>Europe</th>
<th>Japan</th>
<th>Total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIES + ASEAN</td>
<td>-</td>
<td>83</td>
<td>40</td>
<td>44</td>
<td>167</td>
</tr>
<tr>
<td>United States</td>
<td>42</td>
<td>-</td>
<td>70</td>
<td>38</td>
<td>150</td>
</tr>
<tr>
<td>Europe</td>
<td>36</td>
<td>84</td>
<td>-</td>
<td>20</td>
<td>134</td>
</tr>
<tr>
<td>Japan</td>
<td>63</td>
<td>90</td>
<td>45</td>
<td>-</td>
<td>198</td>
</tr>
<tr>
<td>Total imports</td>
<td>135</td>
<td>257</td>
<td>155</td>
<td>102</td>
<td>649</td>
</tr>
</tbody>
</table>


* Newly industrializing Asian economies (Asian NIES) plus the member countries of the Association of South-East Asian Nations (ASEAN).
United States, since these amount to twice the value of Europe’s exports to that market, which indicates that intra-Pacific trade is outperforming intra-Atlantic trade. Moreover, the combined value of NIE and ASEAN exports to the European market is almost on a par with Japanese exports to Europe. In fact, when all these Asian nations’ exports are taken together, their total value surpasses that of United States exports to the European market.

As a corollary to the factors discussed above, it may be said that, in addition to constituting a model of rapid economic growth, the NIEs and ASEAN have also come to be a vigorous centre of economic growth in Asia. We therefore need to analyse the new global economic situation in terms of a quartet (United States, Europe, Japan and the NIEs plus ASEAN) of leading actors rather than of the conventional triad (United States, Europe and Japan). South-east Asia must now be regarded as another player whose importance will increasingly depend on the NIEs’ participation in the technological and economic circuit that links Japan, the NIEs, ASEAN and China.

III
The factors underlying the economic buoyancy of the Asian-Pacific region

1. **Foreign direct investment (FDI) in the Asian-Pacific region: trends and prospects**

An examination of the new Asian economic order is the best way to gain a clear picture of the globalization process taking place in the market-economy system, since its epicentre is located in the Asian-Pacific region. This analysis reveals that such constructs as R. Vernon’s product cycle theory and the Heckscher-Ohlin theorem are no longer valid. Owing to the emergence of a new and more complex global division of labor based on increasing horizontal integration, FDI is not motivated only by comparative advantages, but also by new chains or circuits of value-adding activities in which global corporate strategies play a very important role.

In terms of the new Asian economic order, the year 1986 was a turning point in a variety of ways: i) in response to the 1985 Plaza Agreement, Japan took advantage of the edge it has over the United States and Europe in the high-technology microelectronics sector (Makino, 1991), employing such mechanisms as the diversification of its production system, mergers and acquisitions, and other “new forms of FDI” (Oman, 1984) to intensify the globalization of its economy in an effort to become more competitive; ii) starting in that same year, the NIEs managed to attain the largest trade surplus in the region, which enabled them to become a major foreign investor; and iii) the ASEAN countries achieved the undisputed status of “new NIES” by marking up economic growth rates that have outpaced even those of the NIEs themselves.

Behind this Asian economic buoyancy lies a new intraregional trend in FDI. It will be recalled that the first surge in FDI from the NIEs coincided with the second boom in Japanese FDI. The chain of events underlying these developments was as follows: the Plaza Agreement of 1985 led to a revaluation of the Japanese yen which immediately gave the NIEs a greater competitive edge in the world market, and the surplus achieved by these economies during the second half of the 1980s was transferred to the ASEAN countries in the form of FDI. It should be emphasized that, despite the correlation between the two above-mentioned upswings in FDI, Japan channeled its investments primarily to the tertiary sector, whereas the NIEs directed their investments chiefly to the manufacturing sector (especially in the ASEAN countries and Latin America).²

²As is generally known, there have been two booms in Japanese FDI: one between 1969 and 1972, and the other between 1985 and 1989. The first upturn had three causes: i) the revaluation of the yen following the collapse of the Bretton Woods system in 1971; ii) the Japanese Government’s deregulation of FDI; and iii) the 15% annual increase in Japanese wage levels during the early 1970s. These three factors explain why there was such a large outflow of Japanese investment during the 1969-1972 period. Most of this investment went to developing countries, since investors were seeking locations with low labour costs, and within such countries, the bulk of investment funds went to labour-intensive industries such as textiles and electrical machinery.
Contributory factors in the second Japanese FDI boom, which followed on the heels of the Plaza Agreement, included: i) exchange-rate adjustments, particularly the sharp rise in the yen against the United States dollar; ii) trade disputes between Japan, the United States and the European Economic Community (EEC); and iii) wage hikes, labour shortages and the series of financial deregulation measures associated with the internationalization of the banking system. As a result of all these changes, Japanese FDI grew at a record rate in 1986-1990: indeed, over 70% of the total stock (US$227 billion) of Japanese FDI was built up during those five years. Even though the United States and Europe took in over two-thirds of the annual flows of such investment, during the period in question Japanese FDI accounted for 65% of total FDI in the NIEs, 45% in the ASEAN countries and 90% in China.

One of the most notable events which occurred in respect of FDI during the 1980s was the NIEs’ emergence as one of the largest investors in the Asian-Pacific region and as a potentially major investor in other regions. During the 1980s, the stock of Taiwanese FDI in Malaysia skyrocketed by a factor of 250, to US$2.3 billion. This sum is equivalent to 35% of the total FDI flow to Malaysia in 1990, and is far more than Japan’s FDI in that country. Thailand, for its part, received approximately US$500 million in FDI from the NIEs in 1989, which was about 30% of its FDI total. In 1989, the largest investments in China came from Hong Kong and Macao, which together invested US$2.3 billion. At the same time, the NIEs are now taking those of their labour-intensive industries that generate less value added and relocating them in developing countries, while they are bringing over science- and technology-intensive industries from the developed countries.

In analysing the linkages between FDI and foreign trade, it is important to note the influential role which the mounting inflow of such investment to the Asian-Pacific region has played in the expansion of that region’s foreign trade. Initially, FDI generates a flow of capital goods from source countries to recipient countries. Parent companies provide their subsidiaries with parts and components for assembly, and the subsidiaries then send the semi-finished goods for final processing in a third country or for the last stages of their assembly in the source country. The spatial globalization of production entails a relocation of production activities via FDI such that national borders cease to represent an obstacle and bilateral or trilateral trade flows are set in motion.

The Asian-Pacific region’s relative importance as a new FDI source and destination has changed substantially. NIE transnationals have played an unprecedented role in bringing about that change by beginning to make foreign investments both in the Asian-Pacific region itself and in other developing and developed nations. The countries’ efforts to set up a framework for investors were complemented by the creation of regional, bilateral and international instruments designed to provide guarantees for transnational investors in this region. In addition, in rapidly growing economies such as the NIEs and the ASEAN countries, international agreements are being negotiated more swiftly in order to protect their investments in other countries of the region and in the rest of the world. At the regional level, ASEAN has emerged as an important vehicle for the coordination of investment policy and joint programmes aimed at boosting FDI flows. The ASEAN countries have also agreed to standardize their investment policies so as to reduce the competition among member countries through, inter alia, the liberalization of trade within ASEAN under the provisions of trade preference agreements; semi-public ASEAN manufacturing enterprises; the South-East Asian Association for Regional Cooperation; cooperation in the field of human resources development, and an industrial master plan.  

The recent increase in the volume of FDI in the Asian-Pacific region reflects not only local comparative advantages but also the strategies of transnational corporations headquartered in developed countries (especially Japan) which call for the establishment of subsidiaries in the region to supply both local and foreign markets within the context of a process of progressive globalization. In order to gain a clearer notion of the relationship between FDI and trade in that context, an analysis of Japanese investments in the Asian Pacific will be helpful.

As regards local manufacturing supply, the subsidiaries of Japanese transnationals in the NIEs and ASEAN countries make about 50% of their purchases on the local market. Local suppliers’ market share in the ASEAN countries is growing remarkably fast; indeed, 90% of all precision instruments and 65% of all electrical machinery, iron and steel, and transport

equipment are supplied by local producers. These figures attest to the growing "import-substituting endogenization" of the ASEAN nations, which is speeding up the Asian-Pacific region's progress towards self-sufficiency (Nohara and Kagami, 1991).

Although FDI flows amount to no more than 10% of gross domestic capital formation, in most of the countries the economic contribution made by transnational corporations, as measured by such indicators as stock ownership and sales, is the source of much of their industrial activity: in the late 1980s it accounted for over 50% of such activity in Hong Kong, Thailand and the Philippines, and for more than 40% of total Taiwanese exports of electronic equipment in 1986. Furthermore, especially in countries with generous endowments of natural resources, subsidiaries of transnational corporations are very large employers in the primary sector. In Fiji, for example, such subsidiaries provide three-quarters of all the jobs in the mining sector, and in Hong Kong they provide half of all the jobs in the electrical equipment industry, as well as half of the total value added by the manufacturing sector and exports. In Singapore, they account for 50% of all sales and a considerably larger percentage of exports, value added and employment; they are particularly active in the electrical equipment and petrochemicals industries. In fact, for these industries, transnationals account for over 45% of the total in all the indicators except export levels in the majority of Asian-Pacific countries (CTC, 1991).

The predominance of FDI in the electrical equipment industry is one of the basic characteristics of the realignment of technical/industrial systems in most of the Asian-Pacific countries. Within this sector, transnational corporations have invested in everything from component assembly to manufacturing activities having the greatest technological content. It appears that FDI in the NIES is increasingly moving towards more complex manufacturing activities, such as the production of motor vehicles (Republic of Korea) and electrical equipment (Hong Kong, Taiwan and the Republic of Korea).

2. The realignment of technical/industrial systems in the Asian-Pacific region

The vigorous growth of trade and financial activity in the Asian-Pacific region has been achieved through the creation of new competitive advantages, which, in turn, have led to changes in production patterns and, consequently, in trade patterns. As the lead country moves on to new products containing more value added and more technological inputs, it makes up for its traditional products' loss of competitiveness by shifting their production base to countries where production costs are lower; these countries then substitute these products for their imports and later go on to become net exporters. The source country, for its part, becomes a net importer of these products again and moves on to create new products for export (Hugues, 1989; ESCAP, 1991).

Within about 10 years' time, this process will enable most of the Asian-Pacific nations, and particularly the ASEAN countries and China, to compete with Japan on an equal footing or to gain a competitive edge over it in almost all the export product lines of importance today. Meanwhile, Japan will have moved on to the production of new items containing a still larger proportion of technological and human-capital inputs.

According to data compiled by UNIDO (1991), at existing price levels the NIES already manufacture articles that are more competitive than those produced by Japan in most of the electronics industry's product lines. Even China has an edge over Japan in the production of radio receivers, and the fans produced by Malaysia and Thailand out-compete those made in Japan. What is more, it is projected that within the next three years Malaysia will become more competitive than Japan in various lines of electronic products. The NIES (chiefly the Republic of Korea) will also gain an advantage over that country in various types of machinery and electronics, including individual semiconductors. In sum, the current trend towards "catching up" with more technically and industrially complex forms of production will probably enable most of the NIES to take Japan's place in various industries within the machinery and electronics sectors, while Malaysia, Thailand and China will move into the position left open by the NIES.

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7 In using the term "import-substituting endogenization" we are seeking to emphasize the distinctive traits of the industrialization process now under way in the ASEAN countries. Their original model has been the experience of the NIES, which were able to generate an "endogenous core of technical progress" orientated towards exports of manufactures. Even though this concept does not depart from the fundamental concepts of import-substituting industrialization, the two modalities do differ in terms of the processes resulting from their actual implementation in, for example, South-east Asia and Latin America.

8 On the subject of FDI in the electronics sector in Malaysia and Thailand, see Lim and Fong, 1991.
In view of these phenomena, it is important that we re-interpret the dual role of the NIEs in the Asian-Pacific region. As we said earlier, the NIEs promote FDI from developed countries in high-technology sectors, while at the same time investing heavily in the ASEAN countries. Over the past 40 years the production of labour-intensive goods has shifted from Japan to the NIEs, from the NIEs to ASEAN, and from ASEAN to China, and in the near future these activities are likely to move on to Indochina (especially Vietnam) and southern Asia.

Because of this process, the countries' comparative advantages are constantly changing, thereby rendering invalid approaches that define economic integration solely in terms of cross-sectoral complementarity. What is happening in South-east Asia demonstrates the increasing importance of intra-industry complementarity in economic integration processes.

Bearing these changes in mind, in the following chapter we will undertake an analysis of the economic relations between the Asian NIEs and Latin America. In the course of this examination, we will seek to identify the complementary aspects of the relationship between integration into trade flows and the integration of production in the Pacific Basin.

IV

The new economic relations between the NIEs and Latin America

Latin America's economic relations with the NIEs have an impact in three areas: the growth of trade, potential technological cooperation and new direct investments in production.

1. The expansion of trade between the NIEs and Latin America in the 1980s

Trade relations between Latin America and the NIEs changed significantly in the 1980s. Even during the economic crisis, trade between these two regions exhibited an unusual, and relatively unilateral, intensity (see table 3): while Latin America expanded its trade with these economies more than with any other world region, the NIEs were increasing their trade with other markets (e.g., ASEAN). Total trade between Latin America and the NIEs in 1990 was three times as great as it had been at the start of the 1980s in terms of value. The member countries of the Latin American Integration Association (ALADI) accounted for the bulk of total Latin American-NIE trade in terms of value, although total NIE trade with the Central American Common Market (CACM) also exhibited an upward trend.

The Republic of Korea has undoubtedly played the largest role in Latin American-NIE trade relations: in the 1980s total trade between the CACM and the Republic of Korea soared by over 500% and Republic of Korea-ALADI trade by 350%. This means that the value of merchandise trade between Latin America and the Republic of Korea jumped from US$600 million to US$2.8 billion during the decade. Strong upturns were also seen in trade between Latin America and Taiwan (200%), Singapore (150%) and Hong Kong (130%).

Latin American imports from the Asian NIEs doubled during the 1980s. The reasons for this increase included: i) the international competitiveness of NIE manufactures, which apparently motivated Latin America to turn away from its traditional sources of imports in favour of new industrial zones with more competitive prices, and ii) the NIEs' drive to expand their share of world export markets during the 1980s by opening up new markets for their products, including that of Latin America.

Traditionally, Latin American imports from the NIEs have been manufactures, whereas most of its exports to the NIEs have been natural resource-based goods. Since the continuation of this situation perpetuates an existing form of cross-sectoral complementarity, it follows that this type of trade will tend to widen the technological gap that separates Latin America from the Asian NIEs.

The value of total Latin American exports to the Asian NIEs increased more than fivefold between 1980 and 1990, the largest buyers of Latin American exports during this period being the Republic of
TABLE 3
Newly Industrializing Asian economies (ASIAN NIES) and Latin America: a merchandise trade, 1980 and 1990 (Percentage variation and millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Exports to ALADI &amp; CACM</th>
<th>Imports from ALADI &amp; CACM</th>
<th>Total trade (exports + imports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Korea</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ALADI</td>
<td>274.2</td>
<td>1,093.2</td>
<td>298.6</td>
</tr>
<tr>
<td>CACM</td>
<td>21.2</td>
<td>126.4</td>
<td>496.2</td>
</tr>
<tr>
<td>Total</td>
<td>295.4</td>
<td>1,220.6</td>
<td>312.8</td>
</tr>
<tr>
<td>Taiwan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ALADI</td>
<td>458.0</td>
<td>754.7</td>
<td>64.7</td>
</tr>
<tr>
<td>CACM</td>
<td>30.1</td>
<td>98.0</td>
<td>25.5</td>
</tr>
<tr>
<td>Total</td>
<td>488.1</td>
<td>852.7</td>
<td>74.6</td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ALADI</td>
<td>237.3</td>
<td>273.0</td>
<td>-</td>
</tr>
<tr>
<td>CACM</td>
<td>-</td>
<td>12.5</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>237.3</td>
<td>285.5</td>
<td>20.3</td>
</tr>
<tr>
<td>Hong Kong</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ALADI</td>
<td>263.9</td>
<td>265.6</td>
<td>0.6</td>
</tr>
<tr>
<td>CACM</td>
<td>8.8</td>
<td>30.7</td>
<td>248.8</td>
</tr>
<tr>
<td>Total</td>
<td>272.7</td>
<td>296.3</td>
<td>8.6</td>
</tr>
<tr>
<td>NIES (total)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ALADI</td>
<td>1,233.4</td>
<td>2,386.5</td>
<td>93.4</td>
</tr>
<tr>
<td>CACM</td>
<td>60.1</td>
<td>267.6</td>
<td>345.2</td>
</tr>
<tr>
<td>Total</td>
<td>1,293.5</td>
<td>2,654.1</td>
<td>185.1</td>
</tr>
</tbody>
</table>

Source: International Commodity Trade Data Base (COMTRADE) and others.

a Latin American Integration Association (ALADI) and Central American Common Market (CACM).

Korea (a fivefold increase in value) and Taiwan (with a sixfold increase).

Thanks to this trend, Latin America’s 1980 trade deficits with all these economies had been transformed into large surpluses by 1990. A product-by-product analysis of NIES-Latin America trade flows for the period 1980-1990 brings to light several features. First, NIES exports to the Latin American region became considerably more diversified in most cases (the Republic of Korea was the exception, since its exports exhibited a marked degree of specialization), as did Latin American exports to the NIES (except for those sold to the Taiwanese market). Second, the type of trade taking place between Latin America and the Asian NIES changed during the decade from an inter-sectoral flow of commodity trade in combination with inter-sectoral trade 9 to a type of trade marked by greater inter-industry complementarity. 10 The sizable increase during the 1980s in inter-industry trade between Latin America and South-east Asia (including Japan, the NIES and ASEAN) appears to herald the emergence of a new and different production/trade pattern whose potential should be explored. 11

It is of interest to note that (primarily vertical) intra-industry trade accounted for a larger share of total trade between the two regions than it did in the trade flows for the period 1986-1990 between Latin America and the United States, between Latin America and Europe and among the Latin American countries themselves.

9 Except in the case of Hong Kong, which at the start of the 1980s maintained a vertical intra-industry trade link with ALADI (ALADI exported ships and boats while Hong Kong exported watches and clocks).

10 The exception here was commerce between Singapore and ALADI, which as of 1990 involved three types of trade: intra-sectoral trade in primary products (mainly semi-finished goods), inter-sectoral trade, and vertical inter-industry trade (Singapore supplies colour television sets and ALADI provides photographic film, plates and paper).

11 We do not feel that the results of this new pattern will affect our hypothesis regarding the relationship between Latin America and the NIES.
The trend towards more intra-industry trade between Latin America and South-east Asia may be illustrated by comparing their manufacturing industries' shares of total exports. For example, if we use the Grubel-Lloyd index, we see that in the period 1980-1988, the manufacturing sectors of three Latin American countries considerably increased their shares of intra-industry trade with South-east Asian countries: Chile’s index jumped from 0% to 21%; Mexico’s rose from 1% to 16% and Colombia’s from 4% to 24%. In these Latin American countries, the relative importance of South-east Asia in intra-industry trade within the manufacturing sector is between 15 and 20 times greater than that of Europe (ECLAC, 1991).

This would seem to point to a budding opportunity for increased economic cooperation between South-east Asia and Latin America, especially with regard to the establishment of intra-industry trade links and of new reciprocal ties between their economies. To make such cooperation a reality, however, Latin America will have to meet the challenge of actually changing its production patterns in order to increase its exports' value added through systematic efforts to promote the development of endogenous scientific and technological capabilities and cooperative links in this field while at the same time modifying its institutional structures to promote Asian investment in the manufacturing sector. The dynamism of trade between the NIEs and Latin America provides us with a suitable environment for exploring these possibilities.

2. The potential for cooperation in the field of technology

Unlike the United States and post-1992 Europe, the Asian-Pacific region encompasses a broad spectrum of highly diverse countries, some of which are in situations similar to those of some Latin American countries. This raises the possibility of integrating some aspects of production through greater intra-industry trade between Latin America and Asian-Pacific countries or groups; for example, such trade could be increased with Japan, as the world’s main source of technological innovations, particularly in high-technology products; with the NIEs, which are increasingly concentrating on products requiring intensive use of high technology and of human and physical capital; with ASEAN, which is primarily an exporter of natural resource-based and labour-intensive goods; and with China, which had one of the highest growth rates in the world during the 1980s and is an increasingly competitive exporter of manufactures involving abundant inputs of low-cost labour.

Latin America could attain greater integration of production, both vertical and horizontal, with any one of these countries or groups of countries. Indeed, in terms of the new strategy for changing Latin America's production patterns, the Asian-Pacific region could be the area that offers the greatest potential for economic cooperation in the 1990s; in order to develop that potential, however, we will have to set aside our traditional view of Latin America's comparative advantages in favour of a new concept based on dynamic, competitive advantages.

In the present process of reorganization of the global economic order, such an increase in integration will be possible only if the countries move up to more advanced technical/industrial levels. Since the Asian-Pacific region is where this process is taking place most rapidly today, Latin America's integration with that region is essential, especially in view of the impact that the realignment of technological systems is likely to have on the world economy in the near future.

3. Trends in Asian NIE foreign direct investment in Latin America

During the second half of the 1980s, foreign direct investment by the Asian NIEs (particularly the Republic of Korea and Taiwan) in Latin America was stimulated by: i) the NIEs' incorporation into the Generalized System of Preferences (GSP) of the United States; ii) their labour force's rising wages; iii) the revaluation of their currencies; iv) their labour-intensive industries' declining ability to compete against ASEAN and China; v) the need to diversify their production base in line with the globalization process; vi) the growing protectionism of developed countries, which pressured Korean and

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12 This statement is based on the following line of reasoning: When intra-industry trade predominates, the reallocation of resources takes place chiefly among the companies in the same industry, rather than between different companies in different industries; it follows that, all other factors being equal, an intra-industry adjustment will therefore be less costly than an inter-industry adjustment. Moreover, the changes in income distribution brought about by the liberalization of trade will be less dramatic if the industrial adjustment is based primarily on intra-industrial, rather than inter-industrial, specialization (Fukasake, 1992).
Taiwanese exporters to relocate their production bases so that they could re-export to the North American market; and vii) the need to adapt swiftly to technological change, which led to a rapid recycling of the types of technologies that require less capital.

Circumstances in Latin America that have helped to attract direct investment from the NIEs include: i) the region's inexpensive labour; ii) its geographic proximity to the United States re-export market; iii) the hemispheric integration process called for by the Bush Administration's Enterprise for the Americas initiative, the incentives offered under the Caribbean Basin Initiative and the GSP; iv) the tax incentives available to enterprises in the region's export processing zones; v) the ready local supply of raw materials; vi) access to the region's internal market potential; vii) the growing stability of Latin American democracies; viii) a greater receptiveness to the technologies of the Asian NIEs, whose direct investments are concentrated in the manufacturing sector; and ix) the growing openness of the capital market and the introduction of legal modifications that have made the regulations pertaining to FDI more flexible.

Let us now see what factors could draw a greater volume of FDI to Latin America in the next few years. The first wave of NIE investment in Central America—much of which came from the Republic of Korea and Taiwan—took place under the terms of the incentives provided by the Caribbean Basin Initiative (CBI); in fact, almost all the resulting production activities re-exported their goods to the United States market. There are two constraints, however, that will have an increasing effect on this first wave of investment: from an internal standpoint, NIE investment is over-concentrated in one industry (textiles and wearing apparel), while from an external angle, Central American exports are limited by United States quotas. This means that if greater concentration in the textiles and clothing industry does not lead to increased re-exports to the United States, then NIE investors will have only two options: to diversify their production base, relocating it in countries eligible for CBI incentives that are not subject to quotas; or to diversify their activities to include other product lines for which incentives are provided under the Generalized System of Preferences. The recent increase in Korean FDI in Honduras is a clear example of the first option; for examples of the second, we might look to the diversification of FDI into other manufacturing activities, such as the electrical equipment/electronics industry. In this last regard, there is one variable—the Latin American countries' free trade agreements with the United States—that is having a greater impact than expected on the inflow of NIE investment to Latin America, as is illustrated by the massive flow of Korean investment recently received by Mexico.

If Latin America can manage to attract more NIE investment to its manufacturing sector—i.e., to attract a "second wave" of NIE investment and channel it into industries that are not only labour-intensive but also technology-intensive—this could lead to a realignment of the region's technological systems, given the greater technological content that products would then have and the speed with which technologies are recycled by the Asian NIEs. This means that what Latin America needs to do is to see to it that this first wave of NIE investment in the textiles industry is followed by a second wave of FDI into other, more technology-intensive, manufacturing activities. It would seem that, in a sense, Latin America's chances of successfully changing its production patterns may increasingly depend on whether or not it joins in the process of economic renewal now taking place in the Asian Pacific. The grounds for such a statement include the fact that the NIEs will be the world's most important new source of FDI during the 1990s (since their investments are concentrated in the manufacturing sector, are technology-intensive and are recycled rapidly) and the observation that, in order for Latin America to change its production patterns, it will need to undertake a more comprehensive realignment of its technological systems as it enters into the third industrial revolution.

It may therefore be assumed that during the 1990s the framework for the region's new form of integration into the world market will be shaped by the lead "quartet" (United States, the EEC, Japan and the NIEs + ASEAN) and that the framework for the integration of its production activities will have to be based on the realignment of technological systems now under way in the NIEs and the ASEAN countries—a realignment which is having a direct impact on the effort to change Latin America's production patterns.

If a general trend towards a reduction of trade barriers within the framework of GATT occurred, then an increase in trade would be possible, especially in view of the following factors: the NIEs' recent move towards trade liberalization and the important potential of this market, which has not yet been fully
explored; the fact that the NIES have a higher import coefficient than such developed countries as the United States and Japan; and the increase in complementarity to be expected as progress is made towards more complete vertical (inter-sectoral) and horizontal (intra-sectoral) integration of production.

V
From trade integration to a new type of integration of production in the Pacific Basin

Up to the early 1980s it was commonly believed, first, that Latin America's trade with South-east Asia would grow less rapidly than its trade with developed countries owing to competition from South-east Asian countries that are rich in natural resources (e.g., Thailand, Malaysia and Indonesia) and, second, that greater economic cooperation between these two regions was therefore not feasible.

Events in ASEAN during the final years of the 1980s proved, however, that the growth of commerce is increasingly determined by trends in intra-industry trade. Although it is true that until the early 1980s the inter-sectoral complementarity between Japan and the NIES, on one side, and ASEAN, on the other, was the linchpin of vertical integration in the Asian-Pacific region, from the mid-1980s onward intra-sectoral complementarity has come to play an increasingly important role in that region's horizontal integration. As was said earlier, the expansion seen during that period in intra-industry trade flows between the NIES and ASEAN was the result of the former's investments in the latter's manufacturing sector.

These events have direct implications for the effort to change Latin America's production patterns. After all, less than a decade ago, conditions in many countries of the Asian-Pacific region were less conducive to a transformation of production patterns than in many Latin American countries. Today, however, these Asian countries' economic development outlook is radically different: Malaysia is the world's largest producer of semiconductors; Thailand has become a paradigm of development by virtue of its ability to combine the growth of natural resource-based industries with the development of its electronics industry and has taken up the leadership position in ASEAN; Indonesia boosted the percentage of manufactures in its total exports from under 5% in 1980 to nearly 40% in 1990; the Philippines is regaining its political stability and hopes to find its way on to the Asian economic growth path with the help of a mounting inflow of FDI; and China's "sleeping giant" economy is beginning to wake up. All these Asian countries except the Philippines grew at an average pace of between 7% and 10% per year in the 1980s. Furthermore, the fact that the Philippines was an exception to this rule suggests that geographic proximity is not always a decisive factor in gaining access to a process of rapid economic growth.

The common denominator for all these Asian economies that grew so rapidly between 1979 and 1989 is that they carved out a position for their economies in the world market by creating new competitive advantages rather than by relying on the traditional sort of comparative advantages. It may be supposed that the changes to be made in Latin America's production patterns should incorporate this same sort of "upward and onward" approach which is so characteristic of the technology of the third industrial revolution.

An analysis of the Asian experience suggests some guidelines for such an effort. First, the change in the ASEAN export mix brought about by its shift from the primary to the manufacturing sector was associated not only with FDI from Japan and the United States, but also with a greater flow of FDI from the NIES. There may thus be reason to believe that the increased flow of NIE investment into Latin America, which has been directed primarily to its manufacturing sector, may help to expand Latin America's intra-industry trade with South-east Asia. A considerable increase in such trade has already been seen in, for example, Mexico, Colombia and Chile.
In this era of economic globalization, an increase in investment prompts an increase in trade flows. In the case of the NIEs, because of their need to raise the technological content of their products in order to remain competitive, the recycling of technology is carried out in countries having lower production costs. Thanks to this relocation, the ASEAN countries were blessed with the lion's share of NIE-source FDI during the second half of the 1980s. The data for 1991, however, indicate that FDI in the ASEAN countries is now growing more slowly, which the experts attribute to shortcomings in their infrastructure, rising costs (chiefly wages) and over-investment, i.e., a level of investment that exceeds these countries' production capacity and is thus fueling inflation. This demonstrates that although geographic proximity, along with ethnic identity, is still important—as is commonly asserted in connection with the Chinese “diaspora” in Hong Kong, Singapore and Malaysia—it is not the only determinant. Today, NIE investment tends to flow to whatever country in the world offers the best competitive opportunities in production and trade. Latin America is no exception, as is demonstrated by the fact that the Republic of Korea's investments in the region more than doubled during the second half of the 1980s.

NIE-source FDI differs from other types of FDI in the following ways: first, the pace at which it recycles technology is among the fastest in the world—owing to the double “push” it gets from the NIEs' efforts to catch up with Japan while the ASEAN countries try to catch up with them—and encompasses everything from labour-intensive to technology- and human capital-intensive technologies; second, as a consequence of the above, this FDI is made on the “cutting edge” of competition between Japan's highest-technology activities and the ASEAN countries' greater capacity for technological endogenization (Ernst and O'Connor, 1992); and third, both the trajectory of strategic change in NIE technological and industrial development and the way in which it is being accomplished suggest what the future course of development of technology-intensive products is likely to be and serve as a frame of reference for developing countries such as those of ASEAN and Latin America as they take decisions regarding the positioning of their technical and industrial activities within the world economy. There is no question but that the ASEAN countries benefited from this strategic frame of reference during the 1980s, as may be inferred from Malaysia's policy of “looking eastward” (Onn, 1989), which has sparked imitative measures in Indochina (especially Vietnam) and in the islands of the Pacific (Alagh, 1989; Choo and Ali, 1989, Schlossstein, 1991).

Moreover, as we have been saying throughout this article, the liberalization of Asian-Pacific trade is spreading from the export processing sector to other activities and is coupled with the deregulation of commodity prices, wages, interest rates and exchange rates. Consequently, production bases could expand, in a geographic sense, throughout the region. And this, with the support of increased investment in the Asian-Pacific region, has swelled intraregional (from Japan and the NIES) and interregional (with the United States) trade flows based on competitive advantages. Thus, in considering the possibility of the linkage of the Latin American economies under the terms of the Enterprise for the Americas initiative (and the North American free trade area), we must also consider the possible linkages entailed by regional and hemispheric integration, vis-à-vis integration within the framework of the Pacific Basin.

For example, Japan/ASEAN and NIE/ASEAN, NIE/China and United States/ASEAN production linkages with the North American market hint at new types of production relations between, for instance, the NIES and Latin America (at present such a relationship exists only with Central America) and ASEAN and Latin America. So long as Japan does not act as a substitutive recipient of the products generated by the above-mentioned production linkages, the North American market will continue to be of vital importance for exports of manufactures. Under these circumstances, the global extension of the production chain from South-East Asia to Latin America could be a feasible option in view of the Latin American region's proximity to the main market for such exports, the United States.

On the other hand, if an inward-looking regional Asian economic bloc were to be formed—as such as the East Asian Economic Caucus (EACE) proposed by Prime Minister Mahattir of Malaysia in 1990, which would include Japan, the NIES, ASEAN, China, Myanmar and Vietnam but would exclude the United States, Canada, Australia and New Zealand—it could inhibit Latin America's participation in the integration of the Pacific Basin. Fortunately, in view of the characteristics of the Asian-Pacific production and trade structure within the context of the Pacific
Basin, many Asian countries are opposed to this introverted type of regionalization. In other words, since the United States is—at least for the time being—13 an irreplaceable economic linchpin for intra-Pacific integration, this means that if Asian regionalization is carried far enough, it will inevitably lead to fuller globalization of the Pacific Basin. This became evident at the Asia-Pacific Economic Cooperation Council meeting in Seoul in 1991, when China, Taiwan and Hong Kong joined this group, previously made up of the United States, Canada, Japan, the Republic of Korea, Singapore, the ASEAN countries, Brunei, New Zealand and Australia (making a total of 15 participants). Clearly, the possibility of Latin America’s incorporation will be one of the tasks of the 1990s.

13 As noted in the introduction to this article, Japan is already one of Latin America’s largest markets. What we are suggesting here, however, is that in the new global economic order that is taking shape as we approach the year 2000, the United States will continue to play a predominant role in the globalization of the Pacific Basin.

In summary, within the framework of intra-Pacific cooperation, Latin America has two options: it can join the group of Pacific Basin countries by means of inter-sectoral specialization, or it can achieve integration through the intensification of intra-industry trade with the Asian countries. All the indications are that it would be “easier” for Latin America to accomplish this through inter-sectoral economic cooperation. However, if broader variables are taken into consideration—such as the globalization process, the third industrial revolution, the realignment of technical/industrial systems, and the “catching up” path to integration, then intra-industry integration appears to be the best option. This task must be accomplished in order for the region to change its production patterns (ECLAC, 1992); in other words, the success of Latin America’s economic development effort will increasingly depend upon the new economic configuration emerging in the Pacific Basin, which is the epicentre of the economic globalization process and of the realignment of technical/industrial systems at the world level.

Bibliography


