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Trade and investment promotion between Asia- Pacific and Latin America: Present position and future prospects

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Abstract

This document provides an overview of trade relations between Asia and the Pacific and Latin America and explores the possibilities for expanding the modalities of economic relations between the two regions. The analysis covers 12 countries in Asia and Oceania and 11 members of the Latin American Integration Association (LAIA).

Interregional cooperation in trade and investment has been on the agendas of countries in both regions for some time. It is often expressed that the present economic relations between the two regions do not reflect the potential for interregional trade and investment that exists in an increasingly globalized world. Given the current low level of economic interaction and in the aftermath of the economic crises experienced in each region in recent years, the governments of both regions have increasingly recognized the need to institutionalize the mechanism of consultation and to possibly implement joint actions in order to strengthen bi-regional economic relations. The document will analyze the present level of, and future potential for, interregional trade and investment flows, and make some recommendations that may contribute to a visualization of several actions plans on interregional cooperation.

Chapter I begins with a short analysis of LAIA's trade performance in the 1990s and its relations with major trade partners outside the region. This is followed by a brief examination of the dynamics of trade flows between Latin America and Asia-Pacific, considering the effects of the Asian financial crisis on Latin American trade. The chapter ends with a review of market-access problems and the on-going process of liberalization in Latin America.

Chapter II analyzes the same trade relations from the viewpoint of Asian and Pacific countries. Chapter III presents some general data on the importance of intra-industrial trade in Asia-Pacific and LAIA's trade, with a view to suggesting a possible route for future relations between the two regions. Chapter IV provides a brief survey of the linkages between trade and foreign direct investment (FDI) and a description on the recent evolution of foreign direct investment in Latin America, indicating some options for increasing the presence of Asia-Pacific in the region.

The last chapter, Conclusions and Recommendations, emphasizes broad opportunities that lie in the development of interregional economic linkages. Recommendations are made in five areas: 1) mechanisms for permanent or periodic consultation on issues related to trade and investment; 2) information creation and exchange (e.g., information centers, market access, business facilitation, policy dialogue on WTO); 3) guidelines for trade facilitation action plan and investment promotion action plan; 4) business community participation; and 5) economic and technical cooperation (food security, technological upgrading, transport infrastructure, environment protection).

Introduction

Interregional cooperation in trade and investment between Latin America and Asia-Pacific has been on the agendas of countries in both regions for some time. It is generally expressed that the present economic relations between the two regions do not reflect the potential for interregional trade and investment that exists in an increasingly globalized world characterized by trade liberalization and investment deregulation. In the aftermath of the economic crises experienced in each region in recent years, the governments of both regions have increasingly recognized the need to institutionalize the mechanism of consultation and to possibly implement joint actions in order to strengthen bi-regional economic relations. The paper will examine the present level of, and future potential for, interregional trade and investment flows, and make some recommendations of a general nature that may contribute to a visualization of several action plans on cooperation.

During the 1990s, the world economy entered into a new international trade system. The creation of the World Trade Organization (WTO) has reinforced the international trade structure, while new forms of regional and subregional integration are being consolidated or forged. These new factors have created opportunities for strengthening economic relations between all countries and regions since they establish conditions that are more conducive to trade with reduced threats of protectionism and more transparency. However, the main challenge that the developing world faces in trade still rests in better market access for traditional exports and products with higher value-added. Achieving economic development requires market access

to goods, services, capital and technology in order to promote the technological complexity of the supply for export and to benefit fully from better terms of trade.

Asia-Pacific and Latin America¹ jointly play an important role in the world economy. In spite of the crisis, Asia, including Japan, accounted for about 21% of world merchandise exports and almost 35% of world imports in 1998. In the same year, seven of the 12 Asian-Pacific countries considered in this paper were among the world's 20 major importers and exporters of goods (WTO 1999, Table I.5). Its share of world gross domestic product (GDP) has showed a marked increase (see Table 1), as has its participation in the international flow of goods and services. After the crisis, Asia-Pacific has returned to be the most dynamic growth center of the world.

The share in world GDP of countries that are members of the Latin American Integration Association (LAIA) has increased over the past decade (see Table 1), and so has its participation in international trade, although at a slower pace. In 1998, Mexico was among the world's 20 major importers and exporters of merchandise (WTO 1999). Latin America is rich in natural resources, a feature that makes the region one of the most important suppliers of these products to world markets. It also represents an emerging import market for almost all categories of products. Since the mid-1980s, trade barriers have been reduced and administrative measures were simplified throughout the region. Sound macroeconomic policies promoting liberalization and deregulation are being followed almost everywhere in the region.

Figures 1 and 2 reveal the effects of the crisis on world trade as well as on trade of Asia-Pacific and Latin America. Apart from declining growth rates for both exports and imports, it is important to notice the resilience of Latin America imports, in contrast to a serious reduction of its exports. In fact, Latin America was the only region that presented positive growth rates for exports from Asia-Pacific. This solid nature of Latin American import demand has as its roots the process of deep transformation in the region. The depth in the recent crisis in Latin America has not entirely stopped this process.

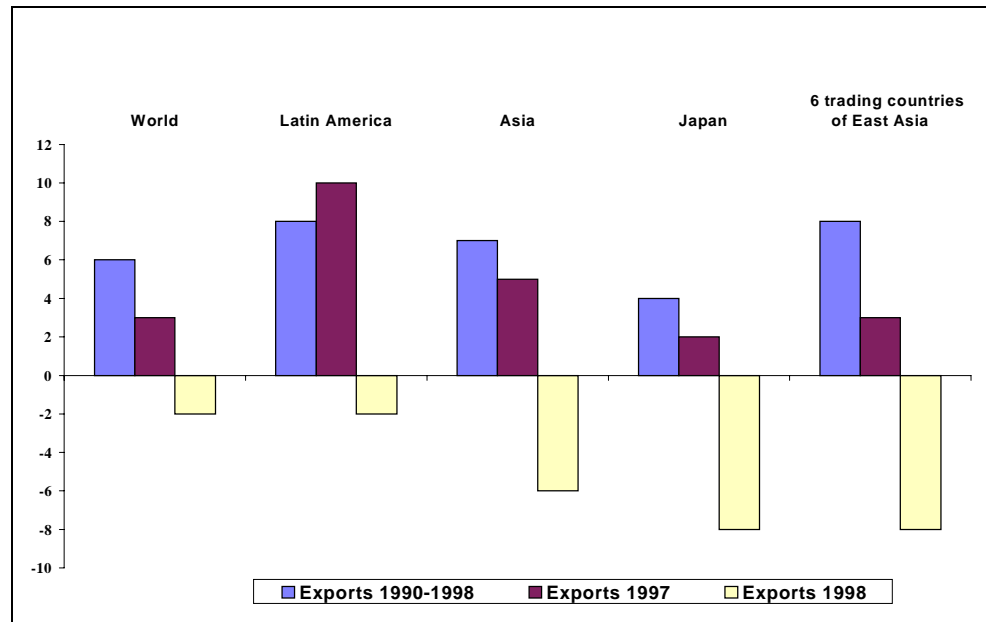
Table 1

	SHARE OF WORLD GDP		
	1980	1994	1998
Latin American Integration Association	6.4	5.9	6.6
Asia and the Pacific ^a	15.9	25.9	21.1
Rest of the world	77.7	68.2	72.3

Source: World Bank, *World Development Report*, 1996 and 1999/2000, table 12.^a Excludes Taiwan Province of China.

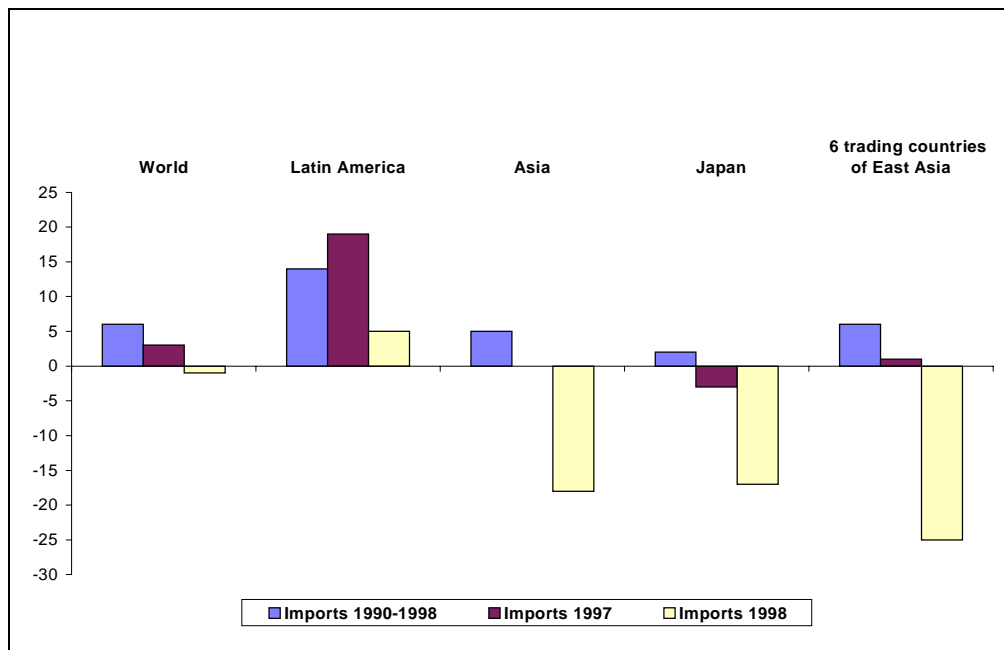
¹ The terms Latin America and LAIA (Latin American Integration Association) will be used throughout this document in reference to the following 11 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. As of August 1999, Cuba became a member of LAIA. However, the LAIA coverage currently available only refers to the 11 countries mentioned above. Asia or Asia-Pacific refers to Australia, China, Hong Kong China, Indonesia, Japan, Malaysia, New Zealand, the Philippines, the Republic of Korea, Singapore, Taiwan Province of China and Thailand.

Figure 1
World, Asia and Latin America Export Growth
(percentages)



Source: World Trade Organization, Annual Report, 1999, Vol. 2, Geneva, 1999, Table I.3. The six trading countries of Asia are: Hong Kong, China; Malaysia; Republic of Korea; Singapore; Taiwan Province of China and Thailand.

Figure 2
World, Asia and Latin America Import Growth
(percentages)



Source: World Trade Organization, Annual Report, 1999, Vol. 2, Geneva, 1999, Table I.3. The six trading countries of Asia are: Hong Kong, China; Malaysia; Republic of Korea; Singapore; Taiwan Province of China and Thailand.

However, Latin American exports to Asia-Pacific were the most strongly affected by the crisis. This creates the challenge for countries of both regions to find ways to establish solid trade and economic relation that are less vulnerable to fluctuations in the international economic environment. The search for a mutually complementary relationship should embrace the intrinsic traits of each region under a framework of open regionalism. The vulnerability of the region to external crisis increases the need for a new international financial architecture that would provide more stability to the markets.

From this perspective, access to the dynamic international flows of foreign direct investments (FDI) that are less sensitive to short-term crises have become important elements of the new international order. Global FDI flows surpassed a total of US\$ 650 billion in 1998. Direct investment in developing countries has decreased as a share of the total, from 40% in the earlier 1990s to 26% in 1998. FDI in Latin America increased by about 7% over 1997. This reaffirms the confidence of the international community in the region, the faith that the process of reform is permanent and that fundamentally the region offers plenty of opportunities for mutual benefit. It also reflects international investors' increased interest in the process of privatization in many countries of the region, as well as the participation of transnational corporations (TNCs) in the process of restructuring the production of goods and services. However, the relationship between Asia-Pacific and Latin America generated by FDI via trade and economic development is still at an early stage.

I. Overview of LAIA trade

During the 1990s, Latin America improved its trade ties with most regions of the world. From 1990 to 1998, total exports increased from US\$ 113 billion to US\$ 248 billion. Total imports, which stood at US\$ 83 billion in 1990, reached US\$ 282 billion in 1998. These values indicate an average annual increase of almost 17% for imports and 11% for exports (see Tables 2 and 3). These statistics represent a drastic change from the 1980s when the debt crisis caused a slowdown for Latin America's external trade, particularly in imports. As shown in the tables, LAIA imports stagnated in the period 1980-1990, growing at an average of 4% annually. In the same period, the yearly average increase of world exports was 6%.

There has been a drastic change for the region in the aftermath of the Asian financial crisis. For example, Latin American imports, which had been growing at an annual average rate of almost 20% between 1990 and 1995, slowed down to less than 12% between 1996 and 1998. Regional exports, which had accelerated to over 12% annually between 1990 and 1995, had its growth rate almost halved in the later 1990s.

Although Latin America has increased its trade with most regions of the world, trade with Asia-Pacific still accounted for a smaller share of total trade than with the United States, the European Union and within Latin America. In the period 1990-1995, LAIA imports from Asia-Pacific increased by 25%. However, in the period 1996-1998, the growth rate for Latin American imports from Asia reached an average annual growth of only 10%. This rate is still significant, especially when compared to the average annual growth of

imports from LAIA or the European Union (8.3 and 9.7 %, respectively). The high rates of growth for imports in the first half of the decade managed to give Latin American countries a remarkable annual average for the period 1990-1998, with 16.8% overall and 20% for imports from Asia-Pacific. In terms of growth rates, Asia overtook the United States and LAIA as the region that most profited from Latin American trade liberalization in this decade.

On the other hand, Latin America's exports, which had increased annually by almost 13% on average between 1990 and 1995, only managed to grow 7% annually in the period 1996-1998. Between 1990 and 1998, exports to the European Union increased only 3.9%, while exports to the United States grew at a rate of over 15% annually.² Exports to Asia-Pacific had been growing at an average annual rate of 9.5% between 1990 and 1995, but actually decreased by 7.4% annually in the period 1996-1998. Comparing the period 1990-1998 to the previous decade, it can be seen that exports to Asia-Pacific suffered a serious setback in the 1990s. The growth was much slower than in the previous decade, during which only exports to the European Union showed similar slow growth but with a much higher share in total LAIA exports. In the case of Asia-Pacific, in 1998 its share of Latin America exports was lower than in the 1970s.

Table 2
LAIA - IMPORTS, BY MAJOR REGIONS
VALUE OF IMPORTS
(Millions of dollars, c.i.f.)

Year	United States	EU	Asia-Pacific ^a	LAIA	Other	World
1970	4,861	3,520	800	1,342	1,246	11,769
1980	30,435	17,535	7,713	10,361	17,200	83,244
1990	33,399	17,423	8,170	12,378	11,827	83,197
1995	88,139	38,614	26,111	34,614	17,503	204,981
1998 ^b	133,550	50,661	34,432	43,193	20,724	282,560
Average annual rates ^c						
1980-1990	6.2	3.5	6.1	4.9	0.8	4.1
1990-1995	21.8	17.9	25.0	21.0	8.3	19.4
1996-1998	15.0	9.7	10.2	8.3	6.1	11.6
1990-1998	19.6	15.2	20.0	16.7	7.6	16.8
Share of total imports (percentage)						
Year	United States	EU	Asia-Pacific ^a	LAIA	Other	World
1970	41.3	29.9	6.8	11.4	10.6	100
1980	36.6	21.1	9.3	12.4	20.7	100
1990	40.1	20.9	9.8	14.9	14.2	100
1995	43.0	18.8	12.7	16.9	8.5	100
1998	47.3	17.9	12.2	15.3	7.3	100

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

^a Represents 12 countries of Asia and the Pacific.

^b Excludes Paraguay.

^c Represents the average annual variation of growth rates for the period.

Relations between the two regions should take into account the increasing relevance of intra-regional trade. During this same period, Latin American intra-regional trade flows were the most dynamic. In 1990, these flows represented only 15% of total imports and 11% of total exports,

² Mexico is a special case because of its trade flow with the United States. If Mexico is excluded from LAIA trade statistics, the relevance of Asian and Pacific countries to Latin American exports in 1995 rises from 10% to 15%. Asia's share in LAIA imports also increases from 13% to 14% in that same year. Excluding Mexico, the performance of LAIA exports to Asia-Pacific increases from an annual average growth of 11% to 12% during the 1990s. 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%.

while in 1998 the share of intra-regional trade in LAIA's trade flows stood at 15% of total imports and 17% of total exports. The annual average growth rate for the period 1990-1998 was close to 17% for both intra-regional exports and imports.

Table 3
LAIA - EXPORTS, BY MAJOR REGIONS
VALUE OF EXPORTS
(Millions of dollars, f.o.b.)

Year	United States	EU	Asia-Pacific ^a	LAIA	Other	World
1970	3,792	4,448	841	1,273	2276	12,632
1980	23,361	20,292	5,565	10,982	19,367	79,567
1990	44,165	27,193	12,459	12,302	16,575	112,694
1995	95,012	31,738	20,702	35,480	21,264	204,195
1998 ^b	132,166	33,294	15,597	42,587	24,548	248,190
Average annual rates ^c						
1980-1990	9.2	5.9	12.0	4.5	5.5	6.4
1990-1995	17.4	5.1	9.5	21.4	5.6	12.6
1996-1998	11.8	1.7	-7.4	6.7	5.1	6.9
1990-1998	15.5	3.9	3.9	16.5	5.4	10.7
Share of total exports (percentage)						
Year	United States	EU	Asia-Pacific ^a	LAIA	Other	World
1970	30.0	35.2	6.7	10.1	18.0	100
1980	29.4	25.5	7.0	13.8	24.3	100
1990	39.2	24.1	11.1	10.9	14.7	100
1995	46.5	15.5	10.0	17.4	10.5	100
1998	53.3	13.4	6.3	17.2	9.9	100

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

^a Represents 12 countries of Asia and the Pacific.

^b Excludes Paraguay.

^c Represents the average annual variation of growth rates for the period.

1. The composition of LAIA trade flows

One explanation for the small share of Asia-Pacific in Latin American trade flows may be due to its composition. The following tables present some details of Latin America imports from and exports to its major trade partners, by main product groups.³

Table 4 shows that the composition of LAIA imports from the entire world has become more concentrated in manufactures in all directions of trade. However, the relative share of manufactures in LAIA total imports from Asia-Pacific (excluding Japan) has grown even further, from less than 70% in 1990 to almost 90% in 1998. This reflects two trends: the increasing competitiveness of Asian and Pacific manufactures; and the openness of the Latin American market to Asian exports.

Analysis of LAIA exports to the world highlights the increasing importance of manufactures in total shipments abroad. In the eight-year period covered in Table 5, the share of manufactures in

³ It is advisable to read the tables with a cautionary view. After 1992, *maquila* trade data has been included in Mexico's trade with the United States, which has been translated into a sudden and significant increase in Latin American trade of manufactured products with the United States.

total exports to the world increased from less than 34% to over 60%, while all other categories decreased their share. Exports to the United States reflected this change more prominently.⁴

The reverse trend can be observed in LAIA exports to Asia-Pacific (including Japan). On average, Latin America managed to increase its exports of manufactures, Asia-Pacific's and Japan's share of these exports have declined in relation to total exports towards them. Shipments of food items have an increased share of total exports to this area of the world, reflecting Latin America's comparative advantages acquired in the exports of these products and indicating the potential of the Asia-Pacific markets (see Table 5). Until 1995, exports to Japan had been concentrated in metals and minerals, but lately exports of food items have taken the lead. The share of manufactures in total exports to the rest of Asia-Pacific, though declining, was still higher than the share of these products in total exports to the European Union. It is worthwhile to mention the increasing importance of manufactures in intra-regional exports (over 64% in 1998).

Table 4
LAIA – PRODUCT COMPOSITION OF IMPORTS, BY MAIN PRODUCT GROUPS
(Percentages)

Product Group	United States			European Union			Asia-Pacific ^a		
	1990	1995	1998	1990	1995	1998	1990	1995	1998
Food	11.2	6.5	5.9	7.7	5.7	4.0	13.4	3.9	4.1
Non-food agriculture	3.8	2.6	2.0	1.3	1.0	0.8	7.7	3.5	2.1
Metals and minerals	3.0	2.2	2.0	1.3	1.3	1.1	2.2	0.7	0.7
Fuels	4.9	2.8	2.3	1.1	1.9	1.4	8.3	3.2	3.3
Manufactures	77.2	85.9	87.7	88.6	90.1	92.6	68.4	88.7	89.7
Total trade	100	100	100	100	100	100	100	100	100
Commodity	Japan			LAIA			World		
	1990	1995	1998	1990	1995	1998	1990	1995	1998
Food	0.3	0.1	0.1	22.4	21.2	21.1	10.9	8.6	7.8
Non-food agriculture	0.3	0.2	0.3	5.0	3.7	2.3	3.1	2.5	1.8
Metals and minerals	0.7	0.4	0.4	8.5	6.0	5.0	3.4	2.6	2.2
Fuels	0.8	0.5	0.4	15.2	12.0	9.5	12.0	5.9	4.4
Manufactures	97.9	98.8	98.9	48.8	57.1	62.0	70.6	80.5	83.7
Total trade	100	100	100	100	100	100	100	100	100

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

Table 5
LAIA COMPOSITION OF EXPORTS, BY MAIN PRODUCT GROUPS
(Percentages)

Product Group	United States			European Union			Asia-Pacific ^a		
	1990	1995	1998	1990	1995	1998	1990	1995	1998
Food	16.3	10.1	8.4	35.2	41.4	43.3	20.2	26.6	35.1
Non-Food agriculture	1.9	2.1	1.6	5.0	7.3	4.9	8.4	10.5	7.5
Metals and minerals	5.6	3.7	2.5	20.2	17.2	17.6	18.4	22.6	23.6
Fuels	40.1	19.0	12.1	16.4	7.9	6.3	5.9	3.2	1.9
Manufactures	36.1	65.1	75.4	23.2	26.2	27.9	47.0	37.0	31.9
Total trade	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Product Group	Japan			LAIA			World		
	1990	1995	1998	1990	1995	1998	1990	1995	1998
Food	17.0	27.7	39.7	22.7	20.2	21.0	23.5	20.9	19.8
Non-food agriculture	4.9	7.2	5.3	5.0	3.2	1.8	3.6	3.9	2.4
Metals and minerals	42.6	42.0	37.8	8.0	6.1	4.9	12.3	9.2	7.0
Fuels	18.2	5.5	2.4	12.7	12.9	7.7	27.0	14.7	10.4
Manufactures	17.3	17.6	14.8	51.6	57.6	64.5	33.6	51.4	60.4
Total trade	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

^a Excluding Japan.

⁴ Due to the inclusion of *maquila* products in Mexican trade statistics, shipments of manufactures to that country increased from 36% of total exports in 1990 to 65% in 1995 and to over 75% in 1998.

Table 6 shows each partner's share in total imports from the world. The United States is the main source of LAIA imports for non-food agricultural products, manufactures, and metals and minerals. Intra-regional imports dominate in the categories of food items and fuels.

Asia-Pacific accounted for an increased share of LAIA imports of fuels, food items and manufactures. However, Japan has decreased its share of total Latin American imports of these products. In the 1990s, Japan's share of total Latin American imports has also diminished, while other countries of Asia-Pacific have almost doubled their participation when compared to the beginning of the decade. This implies that there has been a process of country diversification in this region. However, total LAIA imports from Japan reached US\$ 13 billion in 1998, while total imports from the other 11 Asia Pacific countries reached only US\$ 21 billion in the same year.

Table 6
LAIA REGIONAL SHARES OF IMPORTS, BY MAIN PRODUCT GROUPS
(Percentages)

Product Group	United States			European Union			Asia-Pacific ^a		
	1990	1995	1998	1990	1995	1998	1990	1995	1998
Food	41.2	32.5	35.9	14.7	12.5	9.2	4.7	3.3	3.9
Non-food agriculture	49.3	45.4	53.0	8.8	7.6	8.0	9.7	10.0	8.7
Metals and minerals	35.2	36.5	43.3	8.2	9.5	9.2	2.6	1.9	2.4
Fuels	16.3	20.5	24.3	1.9	6.1	5.9	2.6	3.9	5.5
Manufactures	43.9	45.9	49.5	26.3	21.1	19.8	3.7	7.8	7.9
Total trade	40.1	43.0	47.3	20.9	18.8	17.9	3.8	7.1	7.4
Product Group	Japan			LAIA			World		
	1990	1995	1998	1990	1995	1998	All years		
Food	0.2	0.1	0.1	30.5	41.7	41.5	100.0		
Non-food agriculture	0.5	0.4	0.7	24.4	25.0	19.5	100.0		
Metals and minerals	1.2	0.9	0.8	37.7	39.5	34.5	100.0		
Fuels	0.4	0.5	0.4	18.8	34.2	32.7	100.0		
Manufactures	8.3	6.9	5.6	10.3	12.0	11.3	100.0		
Total trade	6.0	5.6	4.8	14.9	16.9	15.3	100.0		

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

Table 7
LAIA REGIONAL SHARES OF EXPORTS, BY MAIN PRODUCT GROUPS
(Percentages)

Commodity	United States			European Union			Asia-Pacific ^a		
	1990	1995	1998	1990	1995	1998	1990	1995	1998
Food	27.2	22.6	22.6	36.2	30.8	29.3	4.3	7.4	6.6
Non-food agriculture	21.3	25.6	35.1	33.9	29.2	27.6	11.7	15.7	11.9
Metals and minerals	17.7	18.7	19.0	39.7	29.2	33.9	7.5	14.3	12.7
Fuels	58.1	60.1	62.0	14.6	8.4	8.2	1.1	1.3	0.7
Manufactures	42.1	59.0	66.5	16.6	7.9	6.2	7.0	4.2	2.0
Total trade	39.2	46.5	53.2	24.1	15.5	13.4	5.0	5.8	3.7
Commodity	Japan			LAIA			World		
	1990	1995	1998	1990	1995	1998	All years		
Food	4.4	5.6	5.1	10.6	16.9	18.2	100.0		
Non-food agriculture	8.2	7.9	5.7	15.1	14.6	13.1	100.0		
Metals and minerals	20.9	19.3	13.7	7.1	11.5	12.1	100.0		
Fuels	4.1	1.6	0.6	5.1	15.2	12.7	100.0		
Manufactures	3.1	1.4	0.6	16.8	19.5	18.3	100.0		
Total trade	6.0	4.2	2.5	10.9	17.4	17.2	100.0		

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

Table 7 presents the composition of Latin American exports to the world's main regions. Japan and the rest of Asia-Pacific are far behind the rest of the world as a destination for Latin American exports. As a consequence of the financial crisis in Asia, this region's share of total Latin American exports in 1998 reverted to levels below those at the beginning of the decade.

Particularly in the case of manufactures, Japan and the rest of Asia-Pacific have had very small and declining shares of total Latin American exports of these products. Moreover, for non-food agricultural products, the share of Asia-Pacific had gained importance for regional exports by 1995 (almost 16% of total exports), and then reverted to levels shown at the beginning of the decade. Although Asia's share of metals and minerals in 1998 was lower than in 1995, the region has still gained importance compared to 1990. On the other hand, Japan has reduced its importance as a destination for this kind of Latin American products. The United States continues to be Latin America's main market, with leading shares in Latin American exports of manufactures, oil and non-food agricultural products.⁵

2. The dynamics of LAIA trade with Asia-Pacific

Latin American trade with Asia-Pacific has included a process of market diversification. For instance, Japan's importance for LAIA trade has been declining, although it is still significant. In 1980, 75% of total exports to the 12 Asia-Pacific countries went to Japan. Japan also had a similar share of total LAIA imports from Asia-Pacific. Ten years later, Japan absorbed almost 55% of LAIA exports to Asia and provided over 60% of LAIA imports from the region. This import share decreased to 44% in 1995, while Japan's share of LAIA exports to Asia reached 42% in that same year. In 1998, Japan's share total of total LAIA exports to Asia-Pacific was even lower (40%), while its share of LAIA imports from Asia was 39%.

In 1995, Japan's declining share of total LAIA exports to Asia was compensated mostly by increases from the Republic of Korea, which represented almost 12% of total exports to Asia, and to China, which absorbed over 11% of total exports to the region. However, in 1998, China overtook the Republic of Korea as the second most important Asian destination for LAIA exports (after Japan), representing almost 17% of the total goods shipped to the region. Taiwan Province of China followed China as the third market in Asia for LAIA products, absorbing about 10% of total exports to the region. The Republic of Korea absorbed almost 9% of total exports to the region in 1998.

In 1995, the Republic of Korea accounted for almost 15% of total LAIA imports from Asia-Pacific, and Taiwan Province of China accounted for about 10%. This contributed to the reduction in Japan's share of total LAIA imports from Asia-Pacific. By 1998, China and the Republic of Korea shared the second place among Asia-Pacific sources for Latin American imports from that region, accounting for about 15% each, followed by Taiwan Province of China, which provided 10% of total LAIA imports from Asia.

This data is important because they affect the comparisons between annual average rates of growth of LAIA trade with Asia-Pacific and other regions of the world. When trade with Japan is excluded from the calculations, the average annual growth of LAIA exports to Asia-Pacific increased from 9.5% to 12.6% for the period 1990-1995. The average decrease in exports for the period 1996-1998 was smaller (from -7.4% with Japan to -6.1% without Japan). With reference to LAIA imports, a difference appears when Japan is excluded from the calculations. Imports from Asia in the period 1990-1995, excluding Japan, increased on average at a much more accelerated rate, jumping from 25% to 34%. For the period 1996-1998, imports from Asia increased at an annual average rate of about 10% with Japan, and 13% without Japan.⁶

⁵ Even though there are variations at the national level.

⁶ One must bear in mind that the high levels of growth that Latin America secured with Asia-Pacific also stemmed from the fact that the initial values of trade between both regions were small, allowing for higher percentages of expansion. Even today, the relevance of Asia to total LAIA trade is still small if compared to North America or Europe, although, as mentioned before, there are differences at the national level.

Table 8 presents the average growth of imports from the world and from Asia-Pacific for each LAIA country for the periods 1990-1995 and 1996-1998. Both sides of the table show significant growth rates in imports, which reflects the liberalization process that characterized trade policies in Latin America during the 1990s. However, the deep recession that spread among the emerging and developing economies since 1997 also had a negative impact on LAIA's imports from the world and from Asia-Pacific in particular. Comparing both periods, the annual average growth of imports from the world decreased from 19.4% to 11.6%. At the same time, rates for imports from Asia-Pacific was only 10% for 1996-1998, while imports attained an average growth of 25% during 1990-1995. Two countries managed to present higher rates of growth for their imports from Asia for the period 1996-1998 as compared to 1990-1995. One was Bolivia, which expanded its imports by 37% on an annual average, and Venezuela which expanded its imports by 23%.

Table 8
THE GROWTH OF LAIA IMPORTS
(Average annual growth rates 1990-1995 and 1996-1998)

Country	Total Imports		Country	Imports from Asia-Pacific ^a	
	90-95	96-98 ^b		90-95	96-98 ^b
LAIA	19.4	11.6	LAIA	25.0	10.2
Argentina	35.7	16.0	Argentina	46.0	21.9
Bolivia	15.0	18.7	Bolivia	23.3	37.5
Brazil	19.4	4.6	Brazil	26.8	5.5
Chile	15.3	5.0	Chile	16.2	4.0
Colombia	19.9	2.2	Colombia	26.0	-3.3
Ecuador	15.5	11.1	Ecuador	20.4	17.7
Mexico	23.2	20.1	Mexico	35.6	19.4
Peru	25.6	2.8	Peru	40.1	2.7
Paraguay	29.2	4.3	Paraguay	45.8	-13.8 ^c
Uruguay	15.2	10.1	Uruguay	32.2	15.7
Venezuela	11.1	12.9	Venezuela	20.2	23.4

Source: The International Commodity Trade Data Base (Comtrade) of the Nations Statistical Division (UNSTAT). ^a Represents 12 countries. ^b For 1998, excludes Paraguay. ^c Period 1996-1997.

Table 9
THE GROWTH OF LAIA EXPORTS
(Average annual growth rates, 1990-1995 and 1996-1998)

Country	Total Exports		Country	Exports to Asia-Pacific ^a	
	90-95	96-98 ^b		90-95	96-98 ^b
LAIA	12.6	6.9	LAIA	9.5	-7.4
Argentina	14.8	6.8	Argentina	12.5	4.0
Bolivia	5.4	4.9	Bolivia	-1.6	16.5
Brazil	5.3	3.4	Brazil	5.9	-10.7
Chile	12.6	-1.8	Chile	18.4	-8.3
Colombia	10.1	2.7	Colombia	13.5	-13.2
Ecuador	10.8	0.4	Ecuador	36.6	-6.8
Mexico	24.7	14.0	Mexico	5.0	3.8
Peru	11.2	-0.3	Peru	18.3	-13.1
Paraguay	-0.6	11.4	Paraguay	75.8	-4.4 ^c
Uruguay	5.0	9.5	Uruguay	12.0	-6.3
Venezuela	8.0	-2.0	Venezuela	-5.8	-5.3

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT). ^a Represents 12 countries. ^b For 1998, excludes Paraguay. ^c Period 1996-1997.

Information about import growth clearly contrasts to the growth rates for Latin American exports to the world and to Asia-Pacific (see Table 9). While Latin American imports continued to grow in the period 1996-1998 at average levels of over 10%, LAIA's exports showed a marked decline compared to the period 1990-1995. Exports to the world declined on average almost 6%, while exports to Asia dropped by -7.4% for 1996-1998. However, two countries did show better average rates of growth for their exports to Asia-Pacific from 1996 to 1998 compared to 1990-1995. One was Bolivia, which had negative average rates of growth for the first five years of the decade and reached a positive average rate of 16%. The other was Venezuela, which improved slightly on its negative average rate (from -5.8% to -5.3%).

Another aspect of trade between Latin America and Asia-Pacific is the export and import flows. Table 11 presents this information for the period 1990-1998. In terms of imports, Paraguay clearly shows a greater reliance on imports from Asia, while Venezuela has the lowest level of reliance on Asian imports. Asia's share of Latin America exports to the world was lower than its share in LAIA's total imports. However, Chile's ties to the Asia-Pacific market for its exports were higher than the Paraguayan reliance on imports from Asia. It is also interesting to point out that Asia-Pacific plays a minor role in relation to small LAIA countries (Bolivia and Paraguay), which might indicate that there are market access problems for exports going to these countries. Asia also represented a small share of the exports of some bigger LAIA countries, such as Mexico.

The asymmetry between Asia's market share of Latin American trade and Latin America's share of Asian and Pacific trade becomes evident when comparing Table 10 with Table 17. Asia has been an important trade partner for Latin America, but Latin America has not yet become a major market for Asia-Pacific. Asia's share of total imports is more than 10% in eight LAIA countries, and five LAIA countries send more than 10% of their exports to Asia-Pacific. Latin America's market share of total imports was 3% only in Japan, and only the Republic of Korea sent more than 3% of its total exports to Latin America (see Table 17).

Another characteristic of Latin American trade with Asia-Pacific is the concentration of trade flows in very few countries (see Table 10). For example, in the case of LAIA imports from Asia, three countries (Argentina, Brazil and Mexico) take over 68% of total regional imports, while Brazil, Chile and Mexico account for 74% of all LAIA exports to Asia-Pacific. If one more country is added for each area (Chile for imports and Argentina for exports), the shares of these four countries in total LAIA imports would be almost 79% and for exports almost 85%.

In the case of LAIA imports, it is worthwhile mentioning the increasing importance of Mexico. This country accounted for only 18% of total LAIA imports from Asia-Pacific in 1980, but the share increased to 28% in 1990 and almost 36% in 1998. Although significant, this share was still lower than Mexico's share of total imports from the world, which was close to 44% in 1998. On the export side, while in 1980 only 16% of total LAIA exports to Asia-Pacific originated in Mexico, but the share decreased to 14% by 1990 and continued to decline to 13% in 1998.⁷ This can be explained by the importance of Mexico's exports to the United States, which increased systematically during the 1990s, particularly after 1992 when maquila trade was included in Mexico's merchandise exports. Mexico's share of total LAIA exports to the world, which stood at 23% in 1990, increased to 47% in 1998.

⁷ On the importance of Mexico, see also the note No.2.

Table 10
**ASIAN AND PACIFIC MARKET SHARE OF TOTAL LAIA
 IMPORTS AND EXPORTS, AVERAGE 1990-1998^a**

Country	Imports from Asia-Pacific ^b		Country	Exports to Asia-Pacific	
	Millions of dollars	% of total		Millions of dollars	% of total
LAIA	20,324.3	11.8	LAIA	15,906.5	9.3
Argentina	2,305.8	13.2	Argentina	1,731.7	10.1
Bolivia	213.3	16.6	Bolivia	9.4	1.0
Brazil	5,076.0	13.1	Brazil	6,326.5	15.4
Chile	2,091.3	17.6	Chile	3,649.9	31.5
Colombia	1,235.4	12.2	Colombia	389.8	4.6
Ecuador	460.1	14.1	Ecuador	392.8	10.9
Mexico	6,515.9	9.4	Mexico	1,812.0	2.9
Peru	813.0	15.2	Peru	947.1	23.4
Paraguay	526.3	23.8	Paraguay ^c	34.0	3.7
Uruguay	247.2	9.9	Uruguay	195.2	9.8
Venezuela	906.8	8.8	Venezuela	422.0	2.4

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).^a For 1998 excludes Paraguay. ^b Represents twelve countries 1990-1997

3. Product composition of LAIA imports from Asia-Pacific

Table 11 shows the product composition of Latin American imports from Asia-Pacific. There are 20 products that had the highest average import value in the period 1990-1998, indicating the value of trade of these products for the year 1997, and their share of total Latin American imports from Asia, as well as Asia's share in total imports of these products. The table shows the six main suppliers for each of the 20 products to Latin America in 1997, with the respective market share.

The extensive presence of manufactured products is one noteworthy aspect of this list. The 20 products listed also had a combined annual average value that was equivalent to about 4% of LAIA total imports. This contrasts with the small share (1%) that the major products imported from LAIA had in Asia's total imports (Table 18). The 20 products accounted for over 56% of total imports from LAIA. In contrast, the products in Table 11 represented 50% of total LAIA imports from Asia. This implies that Latin America's imports from Asia-Pacific were more diversified than Asia's imports from LAIA. From the Latin American perspective, exports to Asia and the competitive position of Latin American were highly concentrated in primary products.

The importance of Asian and Pacific countries as suppliers of these 20 products is also remarkable. Among the 120 main suppliers, 55 are from Asian and Pacific countries. Although an Asian or Pacific country appeared to be the main supplier for only two products (toys and games and footwear), Asian and Pacific countries are the second main suppliers for nine of the 20 products. Asia's share in total imports of toys and indoor games were over 61%, over 54% for radio broadcast receivers and almost 45% in the case of sound recorders and phonographs. Overall, Asia has over 30% of the market for five of the 20 products.

The table clearly indicates, however, the predominant role of the United States as the primary supplier of 18 products. Latin American suppliers exist as alternative sources for television receivers, where Mexico holds a share of over 36% of total LAIA imports. Argentina, Brazil and Mexico also hold relatively high shares of the Latin American import market for lorries and trucks (33%), passenger motor vehicles excluding buses (almost 30%) and footwear (over 21%, for Brazil and Argentina). The statistics reflects the increasing importance of manufactures in intra-regional trade as well as the relevance of intra-industrial trade among Argentina and Brazil. Finally, imports

of these products are concentrated with a small number of suppliers. The average share of the six main suppliers of each product reached 81%.

The products listed here show that countries of Asia have already managed to enter the Latin American market for technology-intensive or high-scale-production goods. Asia's strategic position in relation to other suppliers suggests that to secure an even higher share of the LAIA market, countries of Asia-Pacific need to increase links with LAIA economies by building up alliances and various types of business cooperation. Achieving this goal requires a deeper knowledge of Latin American markets.

Table 11
LAIA: TWENTY MAIN PRODUCTS IMPORTED FROM ASIA AND THE PACIFIC
AVERAGE FOR THE PERIOD 1990-1998. VALUE OF TRADE: 1997
(Millions of dollars)

1 Main Products (SITC, Rev.1)	2 Asia and the Pacific				6 World value	7 Main supplier ^a countries and % of imports														8 Total
	Value	%	Accum	% World																
1 7321 Pass Motor Veh Exc Buses	2,355	6.9	6.9	25.2	9,362	USA	21.7	JPN	17.4	ARG	15.0	BRA	9.7	KOR	7.7	MEX	5.0	76.5		
2 7249 Telecomm Equipment Nes	2,058	6.0	12.9	20.7	9,934	USA	47.6	SWE	8.7	JPN	8.0	CAN	4.9	KOR	3.2	GER	3.0	75.4		
3 7293 Transistors, Valves, Etc	2,082	6.1	19.0	24.0	8,663	USA	69.5	KOR	8.4	JPN	6.3	MYS	3.1	TWN	2.4	GER	1.4	91.2		
4 8911 Snd Recrdrs, Phonogr, Prts	892	2.6	21.6	53.9	1,654	USA	39.7	JPN	17.9	MYS	13.4	KOR	6.5	CHN	4.5	PRK	2.9	85.0		
5 7143 Statistical Machines	1,083	3.2	24.8	21.5	5,047	USA	59.1	MEX	5.7	JPN	5.1	TWN	4.4	BRA	3.9	SGP	3.0	81.2		
6 7323 Lorries, Trucks	782	2.3	27.1	18.3	4,281	USA	32.3	BRA	15.6	JPN	14.2	ARG	13.7	MEX	4.0	KOR	3.8	83.5		
7 7242 Radio Broadcast Receivrs	721	2.1	29.2	61.9	1,165	USA	25.4	CHN	22.7	MYS	16.5	JPN	5.7	SGP	5.2	IDN	4.4	79.9		
8 8942 Toys, Indoor Games	788	2.3	31.5	64.9	1,214	CHN	36.6	USA	21.5	TWN	11.3	HKG	7.6	JPN	5.4	ESP	2.6	85.1		
9 7222 Switchgear Etc	776	2.3	33.7	12.1	6,408	USA	67.1	GER	6.3	JPN	5.1	FRA	2.7	ITA	2.5	TWN	2.1	85.7		
10 7221 Electric Power Machinery	679	2.0	35.7	14.9	4,560	USA	58.4	GER	6.2	JPN	4.5	BRA	3.6	KOR	3.3	ITA	2.4	78.4		
11 7328 Motor Vehicle Parts Nes	670	2.0	37.7	6.3	10,659	USA	55.3	GER	9.4	BRA	7.0	JPN	5.4	ITA	4.0	ARG	3.3	84.2		
12 7299 Other Electrical Machinery	631	1.8	39.5	16.2	3,889	USA	62.4	JPN	7.1	GER	4.0	KOR	3.2	ITA	3.2	TWN	2.7	82.6		
13 6535 Woven Synthetic Fabrics	475	1.4	40.9	41.2	1,153	USA	37.9	KOR	24.5	TWN	7.2	CHN	3.8	PAK	3.4	ITA	2.6	79.4		
14 7149 Office Machines Nes	566	1.7	42.6	27.5	2,060	USA	59.8	JPN	7.8	TWN	7.8	CHN	4.1	GBR	3.2	SGP	3.2	85.8		
15 8510 Footwear	441	1.3	43.8	52.0	847	CHN	24.6	BRA	12.8	IDN	12.0	ARG	8.6	USA	5.5	TWN	4.9	68.5		
16 7250 Domestic Electric Equip	515	1.5	45.4	32.4	1,589	USA	27.7	KOR	14.5	CHN	9.3	ITA	7.5	BRA	6.7	MEX	5.3	71.1		
17 7198 Oth Machines Nonelectric	552	1.6	47.0	12.9	4,262	USA	36.3	GER	15.4	ITA	14.1	JPN	8.7	CAN	3.2	FRA	3.0	80.7		
18 6291 Rubber Tyres, Tubes	467	1.4	48.3	26.3	1,776	USA	33.2	BRA	12.2	JPN	10.9	KOR	10.6	ARG	4.9	FRA	3.4	75.2		
19 8411 Textile Clothes Not Knit	369	1.1	49.4	15.1	2,450	USA	65.6	CHN	10.1	URY	3.0	IND	2.3	HKG	2.3	ITA	2.2	85.5		
20 7241 Television Receivers	150	0.4	49.8	17.0	883	USA	37.0	MEX	36.2	KOR	5.0	JPN	4.4	PAN	2.9	CHN	2.4	87.8		
Other products	17,156	50.2	100	8.8	194,117															
Total trade	34,209	100		12.4	275,971															

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT). Note: Column 1 presents the 20 main products imported from 12 Asian and Pacific countries by the 11 LAIA countries. It is based on the average value of imports for the period. Column 2 refers to the value of imports of these goods in 1997. Column 3 is the share of the product of total imports from Asia and the Pacific in 1997. Column 4 shows the accumulated share of these products of total imports from Asia. Column 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 six main suppliers of the product and their share of total imports from the world. Column 8 presents the share of these five suppliers of the total value of imports of the product.

^a See annex 1 for the country codes explanation.

4. Market-access liberalization in LAIA countries

Since the late 1980s, the governments of Latin America dramatically transformed their trade regimes as an integral part of economic reforms, comprising of stabilization programs to reduce inflation, improve public fiscal balance (involving ambitious privatization programs), enhance the level of domestic investment and savings, establish more stable exchange rate regimes and to introduce a more open trade and investment environment. This has contributed to the creation of a stronger, more “market-friendly” climate for both domestic and foreign business people.

Over the years, the absolute tariff levels and dispersion around the mean have been greatly reduced, while a great number of administrative measures and non-tariff barriers have been eliminated. As shown in Table 12, the average MFN tariffs of the LAIA countries in 1996 was about 12%, without considering the effects of partial liberalization by sub-regional or bilateral agreements. In 1985, about half to one-third of the import values of Central American and South American countries, respectively, were subject to some type of tariff-like measures. By 1994, in seven of the 11 countries of LAIA, the percentage was reduced to less than 1% of the import value, with no country exceeding 5% (Garay and Estevadeordal 1996). Governments have eliminated anti-export biases and stimulated the production of tradables in goods or services. They have also made significant strides in making the export promotion systems compatible with the norms established by the World Trade Organization (WTO).

The good performance of intra-regional trade among LAIA countries in the 1990s has both caused and resulted from the proliferation of bilateral or multilateral integration and free trade agreements. Traditional integration arrangements in LAIA countries have adjusted themselves to new realities. Instead of serving as instruments for the limited expansion of protected markets, they have become strategic weapons for export expansion and a way to test for access to developed country markets for new manufactures from the region. Among the 12 countries of LAIA including Cuba, 41 Economic Complementations Agreements (ECAs) have been signed, the majority of which are bilateral.

The current economic recession in the region has resulted in reduced demand for imports, which severely affects intra-regional sources. Within MERCOSUR, intra-regional exports have reportedly declined from the previous year by 26%, and the Andean Community by 35% in 1999. Lower economic growth, recessions in most countries and declining commodity prices, coupled with fears about the effects of devaluations in Asian countries on the competitiveness of Latin American countries have led some countries in the region to take protectionist measures. In response to external and internal imbalances, some countries have applied unilateral measures to increase import tariffs, while others have not modified their tariffs or have reduced import tariffs even further. Some countries have introduced new administrative barriers (e.g., more stringent phytosanitary measures, labeling requirements, safeguards, import registration, minimum prices, and restrictions on transport modes). However, these temporary measures do not represent a reversal from the liberalization policies adopted since the mid 1980s.

The major pending issues are the completion of MERCOSUR negotiations with Mexico and with the countries of the Andean Community. The two integration schemes are negotiating to establish multilateral preferences over existing bilateral agreements signed between the countries concerned.⁸ During the summit meeting between the European Union and MERCOSUR in August

⁸ A partial scope agreement on Economic Complementations between Brazil and the Andean Community was formalized in August 1999, in which the Community negotiated as a blocks. This agreement on tariff preferences grew out of the Framework Agreement for the creation of a free trade area between the Andean Community and Mercosur, signed April of 1998. To encompass the other Mercosur countries, the free trade area can be negotiated under the 5+4

1999 at Rio de Janeiro, it was decided to initiate negotiations to gradually but progressively liberalize all trade without excluding any sector and in conformity with the norms of the WTO. The aim would be to establish a free trade area early in the twenty-first century. Along similar lines, Canada has recently started official discussions with MERCOSUR, while the latter has begun contacts with Australia, China, Japan, New Zealand, Panama and others. Chile and Mexico individually have signed similar agreements with the European Union. Canada and Chile have signed a free trade agreement. Equally significant, many governments of Latin America and the Caribbean are committed to creating the hemisphere-wide Free Trade Area of the Americas (FTAA) beginning in the year 2005.

In general, the tariff profiles of LAIA countries are now similar: the average rate fluctuates between 9.5% and 14.6%. As expected, the tariffs of the four MERCOSUR members are similar as are those of three of the member countries of the Andean Community. Bolivia, Chile and Peru have a small spread, while Mexico and Brazil show a much wider dispersion. The tariff structure within each subregional grouping is basically conditioned by their common external tariffs (CET). In MERCOSUR, the CET began to operate in January 1995. The range of tariffs is 0-20%, within which there are 11 different levels. The CET applies to close to 88% of the list of items (some 8,500 lines). Neither the free trade area nor the CET are yet fully implemented. Some sensitive products were excluded from the free trade area until December 1999, while a list of exceptions to the CET has been established for up to 300 tariff items per country (399 for Paraguay), effective through the end 2000 (2006 for Paraguay). The list would converge linearly and automatically to the CET rate within this specified period.⁹ Besides these exceptions, two sectors (automobiles and sugar) are under a special regime. Capital goods, telecommunications, and computer equipment are also treated differently. Capital goods would have a maximum tariff of 14%, effective from 2001 (2006 for Paraguay and Uruguay). Computer equipment and telecommunications goods would have a maximum CET of 16% from 2006.

In the early 1970s, the former Andean Group member countries approved a common minimum external tariff that was of limited application. In 1994, the Group adopted a CET with four tariff levels (0%, 5%, 10%, and 15%), depending on the degree to which products are processed, giving special treatment to Bolivia.¹⁰ The CET encompasses about 87% of tariff lines for Colombia and Venezuela, or 67% of total tariff lines if Ecuador is added. There is a List of Exceptions, which has been reduced by 50 sub-items a year and should be totally eliminated by June 2000. Peru would not be compelled to apply the CET until the Commission had established the time limits and means for Peru's incorporation into that mechanism. The country currently maintains a two-tiered external tariff regime with rates of 15% and 25% for most lines.

Given the large number of products still "exempted" from the CET and the significant number of NTBs still existing in both MERCOSUR and the Andean Community, it has been recommended that relevant, updated information be made available to the authorities of countries outside these subregions. This will also increase the transparency for a complex process of trade liberalization within the two integration schemes and their possible combination in the future.

format. At present, the Andean Community is negotiating a Free Trade Area with Panama and a tariff preferences agreement with Guatemala, El Salvador and Honduras (see the website of the Andean Community).

⁹ In November 1997, following the onset of the Asian economic crisis, the Mercosur Council agreed to raise the CET by three percentage points until December 31, 2000. Argentina and Brazil adopted this measure, while Paraguay and Uruguay have applied it only selectively. In mid 1998, Brazil increased import duties on several products in order to improve its current account. Brazil has also applied a series of non-tariff measures to restrain imports (e.g., a new system of customs valuation, a system of discretionary licenses for a number of products).

¹⁰ Decision 370 applying to the CET was approved in November 1994; at the same time, it was ruled that Bolivia would be authorized to apply national tariffs of 5% and 10% to its imports from third countries, in consideration of its land-locked condition. Aside from the basic structure, there is a special regime for Ecuador which permits the country to maintain a 5-point difference in respect to the CET levels on a universe of no more than 941 sub-items (15% of the total).

In today's international context, common external tariffs and moderate levels of protection against third-party competitors are efficient means to reduce smuggling and to avoid internal accusations of unfair trade practices related to the use of inputs with different levels of protection. They also lessen the need for strict rules of origin, which can be a serious obstacle to third country imports. Indeed, common tariffs, which can be phased out gradually, should be a priority for sectors in which their absence would cause great distortions vis-à-vis neighboring countries with which intensive reciprocal trade is practiced and which production structures are similar. Special care should be taken when implementing CETs and rules of origin to reduce trade diversion as much as possible and to avoid heavy discrimination against trade partners and investors from outside the region.

5. Other considerations

Establishment of the North American Free Trade Agreement (NAFTA) has been of concern to Asian countries, because the United States is an important export market and source of FDI for Asia. One issue is whether Mexico's membership in NAFTA might divert United States imports and FDI away from Asian countries. Existing analyses of NAFTA's impact on Asian countries suggest that the extent of trade and investment diversion away from Asia in favour of Mexico might not be as great as originally imagined, except for certain industries.¹¹ Commitments made during the Uruguay Round; progress by the Asia Pacific Economic Cooperation (APEC) in promoting free, open trade and investments in the region; and the possibility of further improvements in the multilateral framework for trade could minimize the adverse impact of NAFTA on third countries in the coming years. While preferential treatment based on fulfilling of North American content requirements has elements of discrimination, some Asian firms are taking advantage of NAFTA as a production basis for goods to export to third countries and as an amplified market for their own products.

One important question is whether integration within Latin America and the Caribbean should be further consolidated before proceeding to the establishment of a Free Trade Areas of the Americas (FTAA) in 2005, if progress can 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 would no doubt condition its economic relations with Latin America and the Caribbean.

The process of convergence and enlargement of regional integration schemes involving the countries in Asia and the Western Hemisphere is complex, since some countries are signatories to free trade accords on both sides of the Pacific Rim. NAFTA member countries, together with Chile and Peru, participate in both APEC and FTAA initiatives. The presence of the NAFTA member countries has become increasingly important in both APEC and the Western Hemisphere. The NAFTA disciplines, many of which are "WTO-plus", are being widely referred to and taken into consideration in the regional processes of APEC and FTAA. From this perspective, the principal features of APEC must be compared to those of NAFTA and the forthcoming provisions of FTAA. The future course of trade and investment liberalization, trade facilitation and economic and technical cooperation in the Pacific Rim will influence as well as be determined by parallel processes in the Western Hemisphere.

¹¹ For a synthesis of these analyses, see Parrenas (1995), Taniura (1996), ESCAP (1995).

Table 12
TARIFF STRUCTURE OF LAIA MEMBER COUNTRIES
1988-1999

Country Year	Most Favoured Nation Tariff (MFN) Rates Applied							Percentage of Tariff Lines	
	Number of Tariff Lines		Tariff Rates by Country				Mode	Minimum	Maximum
	Ad Valorem	Non-Add Valorem	Minimum	Maximum	Average Rate	Standard Deviation			
Argentina									
1988	11,933	385	0.0	83.5	29.9	---	43.5	---	---
1996	9,306	0	0.0	33.5	13.9	6.9	5.5	4.7	0.4
1999	9,336	0	0.0	33.0	13.4	6.8	5.0	4.9	0.4
Bolivia									
1988	4,944	0	0.0	17.0	16.7	---	17.0	---	---
1996	6,621	0	0.0	10.0	9.7	1.3	10.0	0.0	93.4
1999	6,679	0	0.0	10.0	9.7	1.3	10.0	0.0	93.5
Brazil									
1988	11,935	0	0.0	85.0	41.4	---	40.0	---	---
1996	9,328	0	0.0	52.0	14.6	7.5	5.0	1.6	0.2
1999	9,331	0	0.0	35.0	14.3	7.0	19.0	1.6	0.4
Colombia									
1988	5,302	12	5.1	218.0	44.2	---	33.0	---	---
1996	6,728	0	0.0	35.0	11.6	6.3	5.0	1.7	0.2
1999	6,790	0	0.0	35.0	11.6	6.3	5.0	2.2	0.2
Chile									
1988	2,577	0	0.0	23.0	15.1	---	15.0	---	---
1996	5,864	0	0.0	11.0	11.0	0.7	11.0	0.4	99.6
1999	5,862	0	0.0	10.0	10.0	0.6	10.0	0.4	99.6
Ecuador									
1988	5,171	0	0.0	325.0	39.7	---	10.0	---	---
1996	6,650	0	0.0	35.5	11.8	6.4	5.5	0.0	0.2
1999	6,707	0	0.0	37.5	13.1	6.6	7.0	0.3	0.2
Mexico									
1988	11,953	0	0.0	20.0	10.4	---	15.0	---	---
1996	11,335	0	0.0	260.0	13.2	13.2	10.0	15.0	0.0
1999	11,360	0	0.0	260.0	16.2	13.5	13.0	2.0	0.0
Paraguay									
1988	3,579	0	0.0	70.0	19.3	---	20.0	---	---
1996	9,219	0	0.0	30.0	9.5	6.5	2.0	6.1	0.0
1999	9,319	0	0.0	30.0	11.4	6.8	5.0	3.3	0.0
Peru									
1988	5,389	0	0.0	109.0	69.0	---	109.0	---	---
1996	6,869	0	12.0	25.0	13.5	3.5	12.0	84.2	4.4
1999	6,890	0	0.0	20.0	13.2	2.9	12.0	0.0	15.3
Uruguay									
1988	7,691	0	0.0	45.0	27.0	---	45.0	---	---
1996	10,465	0	0.0	24.0	12.2	7.2	5.0	4.4	1.4
1999	...	...	...	...	...	...	...	...	...
Venezuela									
1988	6,095	876	0.0	160.0	41.7	---	1.0	---	---
1996	6,641	0	0.0	35.0	12.0	6.1	5.0	0.5	0.2
1999	6,688	0	0.0	35.0	12.0	6.1	5.0	0.5	0.2

Source: Compiled by the Inter-American Development Bank, based on data provided by the Latin American Integration Association (LAIA).

II. Overview of Asian and Pacific trade

The trade performance of Asian and Pacific countries had been outstanding up to 1997. In 1980, the region exported less than US\$ 280 billion. By 1990, that total had increased to almost US\$ 700 billion and in 1995 to more than US\$ 1,230 billion (Table 14). Results on the export side were matched by an extraordinary performance on the import side. Total imports jumped from US\$ 292 billion in 1980 to more than US\$ 700 billion ten years later, and over US\$ 1,300 billion in 1995 (Table 13). These values indicate an average annual growth rate between 1990 and 1995 of about 12% for exports and over 13% for imports. However, the Asian crisis had a negative effect on the region's trade performance. Between 1996 and 1998, the average annual growth of total exports was -0.2%, while on the import side the decrease was yet more pronounced, at -4.2%. The overall result for the period 1990-1998 shows that annual growth for exports reached only 7.5%, compared to 11.5% for the period of 1980 to 1990. On the import side, average growth for the decade up to 1998 reached only 7.4%, in contrast to 11.2% annual average increase from the previous decade.¹²

During the first half of the 1990s, intraregional trade among the 12 Asia-Pacific countries increased by an average annual rate of 15% (see Tables 13 and 14). Such dynamic performance meant that other regions were losing their relative importance as suppliers or as

¹² Data in the following tables include re-exports from Hong Kong, therefore may distort somewhat the level of Latin American penetration up to 1996 inclusive, in terms of Asia and the Pacific's total imports.

destinations for trade with Asia-Pacific. One perceived effect of the Asian crisis was the reorientation of the regions' exports. In 1995, 50% of total exports was intra-regional trade, in 1998 this share had declined to about 45% (see Table 14). Trade with the United States increased as a share of total exports from 22% in 1995 to over 23% in 1998. On the other hand, on the import side, intra-regional trade increased slightly in 1998 to 53.3%, from 52.9% in 1995. In comparison, the share of intra-regional trade in 1980 was about 37% for imports and 36% for exports.

Table 13
ASIAN AND PACIFIC^a IMPORTS BY VALUE, AVERAGE ANNUAL GROWTH RATE AND PERCENTAGE SHARE
Value of imports (Millions of dollars, c.i.f.)

Year	United States	EU	Asia-Pacific ^b	LAIA	Other	World
1970	9,311	6,285	12,813	1,278	8,697	38,384
1980	51,711	30,267	109,042	6,364	96,049	293,433
1990	130,904	108,759	327,934	16,722	120,927	705,246
1995	223,770	192,643	695,412	25,517	178,352	1,315,695
1998	201,379	160,274	606,509	20,496	150,260	1,138,918
Average annual rates ^c						
1980-1990	11.4	13.5	13.2	13.2	6.7	11.2
1990-1995	11.0	13.4	15.3	7.9	9.8	13.1
1996-1998	-3.1	-5.5	-4.1	-6.1	-4.2	-4.2
1990-1998	6.3	7.1	8.8	3.3	5.1	7.4
Share of total imports (%)						
Year	United States	EU	Asia-Pacific ^b	LAIA	Other	World
1970	24.3	16.4	33.4	3.3	22.7	100.0
1980	17.6	10.3	37.2	2.2	32.7	100.0
1990	18.6	15.4	46.5	2.4	17.1	100.0
1995	17.0	14.6	52.9	1.9	13.6	100.0
1998	17.7	14.1	53.3	1.8	13.2	100.0

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).^a Represents 12 countries. China is excluded in 1980, ^b The 12 countries., ^c Represents the average annual variation of growth rates for the period.

Table 14
ASIAN AND PACIFIC^a EXPORTS BY VALUE, AVERAGE ANNUAL GROWTH RATE AND PERCENTAGE SHARE
(Millions of dollars, f.o.b.)

Year	United States	EU	Asia-Pacific ^b	LAIA	Other	World
1970	9,688	5,901	11,784	794	7,172	35,340
1980	61,791	43,347	99,303	7,700	61,650	273,790
1990	179,238	121,355	294,448	9,059	92,736	696,836
1995	269,343	177,785	621,840	22,551	141,169	1,232,687
1998	285,671	199,094	545,943	27,413	162,590	1,220,710
Average annual rates ^c						
1980-1990	12.4	12.6	13.0	7.2	7.6	11.5
1990-1995	6.8	9.0	15.4	18.9	8.8	11.4
1996-1998	2.1	3.9	-3.8	7.1	4.8	-0.2
1990-1998	5.2	7.3	9.0	15.0	7.5	7.5
Share of total exports (%)						
Year	United States	EU	Asia-Pacific ^b	LAIA	Other	World
1970	27.4	16.7	33.3	2.2	20.3	100.0
1980	22.6	15.8	36.3	2.8	22.5	100.0
1990	25.7	17.4	42.3	1.3	13.3	100.0
1995	21.9	14.4	50.4	1.8	11.5	100.0
1998	23.4	16.3	44.7	2.2	13.3	100.0

Source: the same as Table 13

Growth of Asian and Pacific exports to LAIA increased at an average of 19% a year between 1990 and 1995, growth that was even more pronounced than intra-Asian trade. This was a clear indication that trade liberalization in Latin America offered a special opportunity for Asian and Pacific countries to increase their share in this expanding market. In the following three years, Asia-Pacific exports to Latin America increased over 7% per year. It is interesting to note that this was the highest rate of growth compared to other regions. On the other hand, Asian and Pacific imports from LAIA were the most affected among the regions.

Even before the Asian crisis, Latin America was a minor partner in Asia's export and import flows. In 1998, only 2.2% of total Asian and Pacific exports went to Latin America, and only 1.8% of imports originated in LAIA countries. It is even more significant that 18 years earlier, the share of LAIA countries in total Asian and Pacific exports and imports was higher.

1. The dynamics of Asian and Pacific trade with LAIA countries

As mentioned, in the period 1990-1995, Asia increased its total exports by 11% a year and its imports by 13% a year. As Tables 15 and 16 show, however, these averages do not reflect the dynamic activity of some countries in the region. Malaysia, for example, increased its exports by 20% annually, while its imports expanded by 23% on average in the same period. However, as a consequence of the crisis, Malaysia presented negative average rates of growth for its exports to the world in the period 1996-1998. Of the 12 Asia-Pacific countries, seven countries had negative average rates for their exports to the world. Among the remaining five countries, four had severely reduced average growth rates (including China with average rates of 8% as compared to 19% for the period 1990-1995). The only country that managed to maintain and even accelerate its growth rate of exports was the Philippines, which reached almost 20% in the period.

Table 15 shows that during the first five years of the 1990s, growth of exports from Asia-Pacific to LAIA was high. Eight countries had annual average growth rates over 20% during this period. Three countries (China, Indonesia and Thailand) had increases of over 40% in their exports to the region. These Asian countries clearly benefited most from economic stabilization and trade liberalization in countries of Latin America. The impact of the crisis in Asia-Pacific on exports to LAIA countries can be seen by the fact that in the period 1996-1998, only China managed to increase its exports to the region at a 20% annual rate. Only five countries had rates of expansion of their exports over 10%. The case of Hong Kong China is remarkable for negative growth during the period. Australia managed to increase its exports a rate better than its average of growth during the five years. It is worthwhile to remember that exports from Asia-Pacific to Latin America increased faster than those to any other region during the period 1996-1998.

The situation was similar for imports, as shown in Table 16. Asia-Pacific experienced negative annual rates of growth for the period 1996-1998. In this case, eight countries had negative growth rates, and two of them reported a decline of over 10%. In comparison, from 1990 to 1995, only three countries had an average annual rate of growth in imports lower than 12%. In this context, imports from LAIA to Asia-Pacific were even more severely affected by the crisis, more than imports from other regions. Eight countries had negative rates, and among the four remaining countries, only Hong Kong China exceeded an average of 6% for the period. New Zealand was the only exception in this case. The average annual growth rate for its imports from LAIA countries actually increased slightly over the rate for 1990-1995. However, New Zealand's imports from the world, which had increased on average by 8% between 1990 and 1995, decreased almost 6% between 1996-1998. Before the crisis, the most dynamic market for Latin American products in Asia was Malaysia, followed closely by Indonesia. The import demand of these two countries from Asia-Pacific declined drastically after the crisis.

Table 15

THE GROWTH OF ASIAN AND PACIFIC EXPORTS

(Average annual rates, 1990-1995 and 1996-1998)

TOTAL EXPORTS			EXPORTS TO LAIA		
COUNTRY	1990-95	1996-98	COUNTRY	1990-95	1996-98
ASIA12 ^a	11.4	-0.2	ASIA12	18.9	7.1
Australia	6.2	2.1	Australia	10.5	13.0
China	19.2	7.7	China	43.9	20.2
Hong Kong China	0.7	-6.3	Hong Kong China	8.1	-10.3
Indonesia	12.9	2.8	Indonesia	60.3	8.8
Japan	8.3	-4.2	Japan	12.7	5.4
Korea Rep.	12.6	2.0	Korea Rep.	29.8	9.0
Malaysia	19.8	-0.1	Malaysia	39.1	0.7
New Zealand	7.6	-2.8	New Zealand	10.5	10.2
Taiwan Province Of China	9.2	-0.1	Taiwan Province Of China	22.7	1.2
Philippines	14.3	19.8	Philippines	34.1	11.0
Singapore	17.8	-2.1	Singapore	25.6	5.6
Thailand	18.9	-0.7	Thailand	44.1	12.1

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).^a Represents 12 countries.

Table 16

THE GROWTH OF ASIAN AND PACIFIC IMPORTS

(Average annual rates 1990-1995 and 1996-1998)

TOTAL IMPORTS			IMPORTS FROM LAIA		
COUNTRY	1990-95	1996-98	COUNTRY	1990-95	1996-98
ASIA12 ^a	13.1	-4.2	ASIA12	7.9	-6.1
Australia	6.5	2.0	Australia	2.4	-5.7
China	15.1	2.1	China	7.2	4.7
Hong Kong China	18.2	-1.3	Hong Kong China	10.2	6.6
Indonesia	16.9	-10.6	Indonesia	18.1	-20.9
Japan	8.4	-5.4	Japan	5.9	-7.2
Korea Rep.	14.6	-9.3	Korea Rep.	17.1	-13.8
Malaysia	23.1	-8.2	Malaysia	18.3	-7.7
New Zealand	8.6	-5.9	New Zealand	5.2	5.6
Taiwan Province Of China	12.1	0.8	Taiwan Province Of China	8.7	-2.3
Philippines	17.2	4.9	Philippines	5.9	-12.6
Singapore	16.7	-5.6	Singapore	12.6	3.5
Thailand	18.6	-14.4	Thailand	13.3	-9.5

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).^a Represents 12 countries.

Table 17 presents the average share of LAIA in total trade of Asia-Pacific countries from 1990 to 1998. Although the region's market share is very similar (1.9% and 2.0%, respectively), there are significant differences at the country level. During this period, LAIA represented more than 2% of total imports for only five Asia-Pacific countries. Latin America absorbed more than 2% of total exports for only three countries. LAIA had the highest average market share of total exports for Japan, while the region's imports were more relevant for the Republic of Korea. The relative importance of LAIA in total exports and imports of smaller economies in Asia-Pacific, such as ASEAN member countries, is very low. For instance, LAIA's average share of total imports into Malaysia and Indonesia from 1990 to 1998 was only 1.2% and 2.2%, respectively.

As mentioned previously, trade with LAIA countries is concentrated in a limited number of Asian countries. For the period 1990-1998, Japan, the Republic of Korea and China received 66% of the total value of regional imports from LAIA. Japan, the Republic of Korea and Taiwan Province of China accounted for over 74% of all Asian exports to LAIA countries on average during the period.

Table 17
LAIA MARKET SHARE OF TOTAL ASIAN AND PACIFIC IMPORTS AND EXPORTS, AVERAGE 1990-1998
(Millions of dollars and percentages)

Imports from LAIA			Exports to LAIA		
Country	Millions of dollars	%	Country	Millions of dollars	%
Asia12	20,898	2.0	ASIA12	19,469	1.9
Australia	510	1.0	Australia	553	1.2
China	2,316	2.1	China	1,649	1.4
Hong Kong China	1,048	0.7	Hong Kong China	242	0.9
Indonesia	709	2.2	Indonesia	374	0.9
Japan	9,032	3.2	Japan	9,218	2.5
Korea Rep.	2,543	2.4	Korea Rep.	3,582	3.5
Malaysia	678	1.2	Malaysia	636	1.1
New Zealand	123	1.1	New Zealand	315	2.8
Taiwan Province Of China	1,948	2.3	Taiwan Province Of China	1,681	1.8
Philippines	389	1.6	Philippines	85	0.5
Singapore	782	0.8	Singapore	817	0.9
Thailand	822	1.6	Thailand	318	0.7

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

2. The principal products imported by Asia from LAIA countries

Table 18 shows 20 categories of imports with the highest average import values from Latin America to Asia-Pacific during the period 1990-1998. The high concentration in natural resources is the first feature that stands out. Another important characteristic is the limited significance of the products in total Asian and Pacific imports. These 20 products represented about 56% of Asian and Pacific imports from Latin America in 1997, but only 1% of Asia's total imports. Moreover, imports of these 20 products from all sources corresponded to only 11% of total Asian imports in 1997, indicating their relatively marginal import role.

Nevertheless, some Latin American countries are important suppliers of these 20 products. Chile provided over 48% of total Asian and Pacific imports of unwrought copper alloys, the single most important product imported into the region in 1997 (with a share of 8.7% of total imports from Latin America). Over 67% of meat or fish meal fodder imported by Asia came from Peru or Chile, and more than 51% of total Asian imports of oilcake and other residues came from Brazil or Argentina. These shares are impressive if analyzed from the viewpoint of alternative suppliers. Some important providers are from Asia, indicating that Latin America is highly competitive in these products.

The table clearly indicates the challenges for trade between Latin America and Asia-Pacific. The nature of the products, mostly primary and semi-manufactured goods, implies that Latin America needs to increase the degree of processing of these natural resource-based export products and find new niches and gateways in Asia-Pacific for more value-added products. The challenge for Asia-Pacific is to search for new partnerships in Latin America and explore the possibilities of complementary trade with countries where natural resources are abundant, where wages are still at reasonable levels, and a strong process of integration will create a market of considerable dimensions. The recent financial crisis has shown that the composition of Latin American exports to Asia has a very high demand elasticity. As mentioned, the region most affected by the crisis in Asia with respect to imports was Latin America. Therefore, LAIA and Asia-Pacific countries should be encouraged to work together in order to reach trade levels less prone to the short-term fluctuations in economic performance. This task could be easier if both regions keep in mind the mutual benefits from this process of working together.

Table 18
ASIA AND THE PACIFIC: TWENTY MAIN PRODUCTS IMPORTED FROM LAIA
AVERAGE FOR THE PERIOD 1990-1998. VALUE OF TRADE: 1997
(Millions of dollars)

1		2	3	4	5	6		7										8			
		L A I A			World value																
Main Products		Value	%	Accum. %	% World	Main supplier ^a countries and % of imports										Total					
(SITC, Rev.2)																					
1	6821	Copper nes,alloys,unwrt	2,348	8.7	8.7	53.4	4,394	CHL	48.5	PHL	6.8	ZMB	5.9	JPN	5.8	AUS	4.8	PER	4.6	76.4	
2	2815	Iron ore,conc,not agglom	1,451	5.4	14.0	26.8	5,426	AUS	52.2	BRA	23.0	IND	11.4	ZAF	6.0	CHL	2.6	CAN	1.8	97.0	
3	6841	Aluminium,alloys,unwrht	1,046	3.9	17.9	12.3	8,482	RUS	21.1	AUS	19.0	ZAF	8.8	BRA	8.2	ARE	5.5	NZL	5.3	67.9	
4	3330	Crude petroleum	791	2.9	20.8	1.0	78,066	SAU	26.7	ARE	18.9	IRN	9.2	OMN	7.4	IDN	6.1	KWT	5.4	73.8	
5	2871	Cpr ore etc,cement coppr	1,178	4.3	25.1	32.8	3,596	CHL	30.2	IDN	25.7	AUS	13.2	CAN	11.2	PNG	5.0	MNG	3.5	88.8	
6	0814	Meat or fish meal fodder	995	3.7	28.8	71.7	1,388	PER	48.2	CHL	19.4	USA	6.4	RUS	6.1	AUS	3.4	NZL	2.3	85.8	
7	6725	Iron,steel blooms,slabs,etc	461	1.7	30.5	14.0	3,298	RUS	25.5	CHN	20.1	BRA	11.9	TUR	6.3	AUS	6.1	UKR	4.4	74.3	
8	2517	Soda,sulphate wood pulp	563	2.1	32.6	17.0	3,306	CAN	33.5	USA	28.6	BRA	9.9	IDN	8.0	CHL	6.8	RUS	3.2	90.1	
9	0813	Oilcake and oth residues	1,539	5.7	38.2	52.3	2,940	BRA	33.5	IND	25.7	ARG	18.3	USA	14.0	CHN	2.6	CAN	1.9	96.1	
10	0711	Coffee green,roasted,sub	701	2.6	40.8	43.8	1,601	BRA	19.1	COL	18.3	IDN	12.1	VNM	7.3	HND	4.8	GTM	4.5	66.2	
11	4232	Soya bean oil	683	2.5	43.4	49.1	1,391	BRA	34.0	USA	19.2	ARG	15.1	CHN	14.1	GER	4.9	MYS	4.7	91.9	
12	2222	Soya beans	670	2.5	45.8	17.5	3,830	USA	77.2	BRA	14.1	PRY	3.0	CAN	2.3	CHN	2.1	RUS	0.4	99.1	
13	0342	Fish frozen,excl fillets	560	2.1	47.9	9.4	5,949	USA	19.4	TWN	9.7	NOR	7.0	CHL	7.0	KOR	7.0	RUS	6.5	56.6	
14	6727	Iron,steel coil fr rerolling	179	0.7	48.5	4.3	4,205	JPN	25.0	KOR	20.8	TWN	10.5	CHN	9.0	RUS	8.0	BRA	3.9	77.1	
15	2816	Iron ore agglomerates	435	1.6	50.2	50.2	867	BRA	33.7	PHL	20.8	PER	8.4	CHL	8.1	IND	7.0	CAN	4.8	82.8	
16	2460	Pulpwood,chips,woodwaste	326	1.2	51.4	14.8	2,204	USA	34.0	AUS	26.0	CHL	9.2	ZAF	8.2	CHN	7.3	BRA	3.6	88.3	
17	6114	Leathr bovine nes,equine	415	1.5	52.9	10.3	4,048	KOR	26.7	TWN	15.6	USA	11.8	ITA	8.5	THA	4.9	ARG	4.5	72.0	
18	0114	Poultry fresh chlld,frzn	355	1.3	54.2	15.8	2,244	USA	37.4	CHN	23.7	BRA	14.8	THA	10.7	NLD	2.5	GBR	2.3	91.5	
19	0360	Shell fish fresh,frozen	265	1.0	55.2	3.4	7,700	IDN	11.0	THA	10.4	IND	9.5	RUS	8.2	CHN	7.6	VNM	5.6	52.2	
20	6744	Iron,steel hvy plate,rolled	139	0.5	55.7	5.8	2,387	JPN	33.5	KOR	8.6	RUS	8.6	CHN	8.5	UKR	7.3	BRA	5.7	72.3	
Other products		12,017	44.3	100.0	1.0	1,236,308															
Total trade		27,119	100.0		2.0	1,383,629															

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

Note: Column 1 presents the 20 main products imported from LAIA by the 12 Asian and Pacific countries. It is based on the average value of imports for the period. Column 2 refers to the value of imports of these goods in 1997. Column 3 is the share of the product of total imports from LAIA in 1997. Column 4 shows the accumulated share of these products of total imports from LAIA. Column 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 five main suppliers of the product and their share of total imports from the world. Column 8 presents the share of these five suppliers of the total value of imports of the product. ^a See annex 1 for the country codes explanation.

3. Market-access liberalization in Asia-Pacific

Countries in Asia-Pacific have made considerable progress in liberalizing market access through the reduction of tariff and non-tariff barriers (NTBs). Both types of barriers have been reduced rapidly since the mid-1980s as a result of unilateral liberalization, regional integration schemes or Uruguay Round commitments. As shown in Table 19, average tariffs in Asia-Pacific declined considerably during the period 1988-1996. The simple average applied tariff in 1996 was below 15% for 10 of the 12 Asian and Pacific countries considered here. Among these countries, eight were below 10% and three below 5%. Liberalization efforts in more recent years have brought the rates even lower.¹³

Unilateral reforms made primarily under the Uruguay Round Agreement have also brought about a significant decline in the incidence of NTBs on imports by these countries since the late 1980s. For APEC as a whole, the incidence of NTBs affecting imports fell from 9% to 5% from 1988 to 1996 (APEC 1996). The relaxation of NTBs included removal of voluntary export restraints (VERs) by the end of 1999, as well as the elimination of domestic support, export subsidies, and VERs in agriculture. This also included phasing out and integration into WTO rules of the bilateral quotas on textiles and garments and expansion of the list of prohibited subsidies in non-agricultural trade (Mahani 1999).

In the 1994 Bogor Declaration, APEC set the target of achieving free, open trade in Asia and the Pacific by 2010 for the developed member countries and 2020 for the developing ones. In 1995, the Osaka Action Agenda provided a guideline for implementing policy measures to reach this goal. In 1996, APEC leaders adopted the Manila Action Plan for APEC (MAPA), in which all members submitted their Individual Action Plans (IAPs) to be implemented starting in 1997, based on the unique modality of unilateral announcement of liberalization commitments by individual countries.

The IAPs give a comprehensive coverage of 15 areas, including both border and domestic measures and three time horizons (short, medium and long terms). Individual APEC economies are well on track in terms of progress toward the Bogor goals. For most APEC countries, the combined commitments under the initial IAPs, the Osaka Initial Actions and other unilateral reforms have resulted in lower average applied tariffs than those committed under the Uruguay Round for the period of 1996-2000. Table 20 lists only “Uruguay Round-plus” measures contemplated under the MAPA tariff reductions as well as IAP 1997 and IAP 1998 that are quantifiable and to be implemented on or before the year 2010.

The elimination of NTBs in the MAPA include the reduction of quotas and other quantitative restrictions, relaxed export controls, and liberalized licensing. Moreover, MAPA includes several important items for trade liberalization in services, in particular, an explicit statement of support for the WTO negotiating processes on services trade liberalization, and the adoption of sets of APEC principles of open markets, commitment to the Bogor timeframe and coverage for energy services and telecommunications (Mahani 1999).

ASEAN has made significant advance through the ASEAN Free Trade Area (AFTA) as an integral part of the liberalization process in Asia.¹⁴ Moreover, ASEAN member countries have

¹³ For further information on tariff and non-tariff barriers of the Asia-Pacific countries, see, ESCAP (1999).

¹⁴ The ASEAN Free Trade Area (AFTA) was created in 1992 with the objectives of removing trade barriers, expanding intra-ASEAN trade and enhancing the region’s economic integration. The basic mechanism is the Common Effective Preferential Tariff (CEPT) scheme. According to this scheme, intra-ASEAN tariffs were to be reduced and non-tariff barriers to be removed over a 10 year period beginning on 1 January 1993. Originally, the CEPT scheme planned to reduce regional tariff rates to between 0% and 5%, involving 41,147 tariff lines, by 2008. That date was later advanced to 2003. The ASEAN summit, December 1998, decided to accelerate even further the implementation of the reducing CEPT products from 2003 to 2002, and to expand them.

recently decided to accelerate the liberalization process and enabled member countries to multilateralize regional tariff reductions under AFTA.¹⁵ ASEAN's outward-looking orientation is also evident from its new initiatives to establish links with other regional groupings.¹⁶ The ASEAN experience might suggest that trade discrimination within a customs union or free trade area is not necessary for powerful increases in intra-regional trade, while multilateral liberalization can be also associated with rapid increases in extra-regional trade.

Table 19
TARIFF AVERAGES OF ASIAN AND PACIFIC COUNTRIES:
1988-1996

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

Source: Asia-Pacific Economic Co-operation (APEC), The Manila Action Plan for APEC, Vol. 1, MAPA highlights, Singapore, 1996. a 1984-1987 for developing countries. b 1991-1993 for developing countries. c Figures are trade-weighted averages. d Calculations exclude bound specific duties on agriculture. e Average tariff in 1997.

Although tariff levels of the economies in Asia-Pacific are low or have been reduced significantly, these countries still maintain relatively high tariffs on certain industrial goods and agriculture. They should be prepared to reduce such tariffs as quickly as possible. Furthermore, the level of protection varies considerably among countries as well as among sectors within a country. This suggests that relative price changes through further tariff cuts will have different effects on each economy and sectional disaggregation is thus essential for analyzing APEC trade policy.

¹⁵ On the border measures, the Twelfth Meeting of the ASEAN AFTA Council, held in October, 1998, in Manila, the Philippines, decided to accelerate its implementation ahead of the original timetable of 0-5% tariff rates by the year 2003 (2006 for Vietnam and 2008 for Laos and Myanmar). The ASEAN summit, December 1998, decided to accelerate the implementation of the reducing CEPT products from 2003 to 2002, and to expand them. As a result, this summit decided to bring forward one year the day for an end of implementation of AFTA, so that AFTA will be completed by 2000. However, it might be difficult for the less developed countries, such as Vietnam, to comply fully with the obligations (Tongzon 1999).

¹⁶ Efforts are underway to link AFTA with CER (Closer Economic Relations) of Australasia, Mercosur, and South African Development Coordination Conference. Such links will eventually turn regional blocks into building blocks of global free trade.

Table 20
QUANTIFIED IAP “UR PLUS” TARIFF REDUCTIONS IN 2010

Economy	MAPA Tariff Reduction: Items	MAPA	IAP97/98
Australia	<ul style="list-style-type: none"> • max. 5% except for below: <ul style="list-style-type: none"> - passenger motor vehicles - textile clothing and footwear - certain vegetables • ITA^a 	current rates (0 - 5%) 15% 10-25% 5% (1998) 0%	– 10% 7.5-17.5% – 0%
Brunei Darussalam	<ul style="list-style-type: none"> • progressive liberalization towards zero tariff to 2020 	82% of total tariff lines bound at 5%	82% of total tariff lines bound at 5%
Chile	<ul style="list-style-type: none"> • almost all products 	0%	0%
China	<ul style="list-style-type: none"> • simple average tariff • industrial products • ITA 185 products • average tariffs 	around 15% – –	around 15% 10.8% 0%
Taiwan Province of China	<ul style="list-style-type: none"> • ITA^a • bind tariff at 0% on all imports • ITA^a 	Around 6% average nominal tariff rates and applied rate of 5% or lower on about 65% of tariff lines 0% by 2002 0%	Around 6% average nominal tariff rates and applied rate of 5% or lower on about 65% of tariff lines 0% by 2002 0%
Hong Kong, China	<ul style="list-style-type: none"> • ITA^a • bind tariff at 0% on all imports • ITA^a 	0% by 2002 0% 0%	0% by 2002 0% 0%
Indonesia	<ul style="list-style-type: none"> • items with surcharges and tariffs of 20 % or less in 1995 (except automotive parts) • items with surcharges and tariffs of more than 20% in 1995 (except automotive parts) • chemicals, steel, metal and fishery products • ITA^a 	max. 5% by 2003 max. 10% by 2000 5-10% by 2003 0% by 2005	max. 5% by 2003 max. 10% by 2000 5-10% by 2003 0% by 2005
Japan	<ul style="list-style-type: none"> • expand Tariff Elimination Initiative on pharmaceuticals by 2000 • ITA^a 	– 0%	– 0%
Korea, Rep. Of	<ul style="list-style-type: none"> • ships from 1997 • ITA^a • ITA^a 	0% (from 1997) 0 % by 2004 0% by 2005	– 0% by 2004 0% by 2005
Malaysia	<ul style="list-style-type: none"> • ITA^a 	0% by 2005	0% by 2005
Mexico	<ul style="list-style-type: none"> • elimination of tariffs on certain electronic components, and computers equipment 	–	–
New Zealand	<ul style="list-style-type: none"> • all imports • ITA^a 	duty free 0% by 2006	duty free 0% by 2006
Papua New Guinea	<ul style="list-style-type: none"> • reduce to 5% tariff on basic steel, aluminum, capital equipment, machinery, basic chemicals. Chemical agricultural inputs by 1997 	By 2006 bound at 30% for nonagricultural products	By 2006 bound at 30% for nonagricultural products
Peru	<ul style="list-style-type: none"> • – 	–	–
Philippines	<ul style="list-style-type: none"> • all imports, except sensitive agricultural products 	One uniform rate of 5%, except sensitive agricultural products by 2004	One uniform rate of 5%, except sensitive agricultural products by 2004
Singapore	<ul style="list-style-type: none"> • progressive binding of tariffs at 0% by 2010 • ITA^a • ITA^a 	0% 0% 0% by 2005	0% 0% 0% by 2005
Thailand	<ul style="list-style-type: none"> • ITA^a • ITA^a 	0% 0% by 2005	0% 0% by 2005
Viet Nam	<ul style="list-style-type: none"> • – 	–	–

Source: APEC, Assessing APEC Trade Liberalization and Facilitation – 1999 Update, APEC Economic Committee, September 1999.

^a included in IAP. Committed at the 1996 WTO Ministerial Conference or thereafter.

Another important issue is tariff escalation, where the tariff applied on a product “chain” rises as the level of processing increases. Although the overall degree of escalation has been reduced as a result of the Uruguay Round negotiations, it continues to form an obstacle for the

development of processing industries in developing countries.¹⁷ A study (Clark 1996) on the tariffs and NTBs faced by Chile in Asian and Pacific markets concludes that both sets of barriers tend to increase with the level of processing of natural resources. It was found that high transport costs are also a substantial trade barrier. While the issue of tariff escalation is commonly addressed in relation to market access in developed countries, developing countries themselves reveal significant tariff escalation as well (UNCTAD 1996a).

APEC works on the principle of open regionalism, which involves the integration of regional economies with no discrimination against economies outside the region. What is not clear at present is whether trade and investment liberalization within APEC should be extended unconditionally to non-members on a most favored nation (MFN) basis or whether such liberalization will be open to non-members on a reciprocal basis only. An analysis of APEC's possible impact on Latin America must, therefore, consider both scenarios. The latter scenario is possible if the current views prevail in a number of APEC countries on maintaining and strengthening economic relations with the European Union and other non-APEC economies. For reciprocal liberalization to be a viable option, non-member countries, including the economies of LAIA, should intensify trade and investment liberalization efforts on their own, unilaterally, bilaterally or regionally to reciprocate the APEC efforts.

¹⁷ As a result of the Uruguay Round negotiations, the percentage reductions in tariffs levied on products imported by developed economies from developing countries were generally greater in 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 (1996a).

III. Intra-industry trade in Asia and Latin America

Expanding economic relations between Asia and Latin America will require 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 (1992) asserts that the “flying-geese scheme” of regional integration¹⁸ is built on the assumption that the trade patterns created by FDI flows tend to develop according to inter-industry specialization. Braga and Bannister (1994) argue that trade-oriented FDI will also promote intra-industry trade. This kind of trade is generally associated with the process of economic integration among developed economies, but it is also beginning to involve developing countries. When comparing levels of intra-industry trade between some Asian and Pacific countries in the period 1980-1990, Braga and Bannister point out that intra-industry trade between Japan and the other East Asian countries has increased significantly. This is also true for trade between Indonesia, Malaysia, Philippines, Republic of Korea, Singapore, the Taiwan Province of China, Thailand and China. In fact, intra-industry trade has been increasing for all major East Asian trading partners. The growth rate of regional intra-industry trade has been substantially higher in most cases (particularly in

¹⁸ This analogy refers to the V-formation of migrating geese. 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. Japan leads, followed by the four newly industrializing Asian economies (ANIES4) and then the new NIEs (ASEAN4) and China. The pattern is purposeful, well-ordered and coordinated. See Ozawa (1991).

Malaysia, Singapore and Thailand) than trade with non-regional partners. Braga and Bannister 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.

In Latin America, trade among MERCOSUR members changed drastically in the period 1990-1996. Intra-industry trade, however, has been concentrated in the trade flows between Brazil and Argentina. Trade flows between these two countries corresponded to over 70% of total intra-MERCOSUR trade. Machado and Markwald (1999) indicate that intra-industry trade between Brazil and Argentina increased after the inception of MERCOSUR. In their opinion, over 60% of bilateral trade in manufactures is composed of intra-industry 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-industry trade is not only the result of the integration process initiated by MERCOSUR, but also the consequence of stabilization programs 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-industry trade flows correspond to intra-firm trade.

Intra-industry trade between Latin America and Asia has been limited. The main intra-industry flows between Asia and the Pacific and Latin America occur mostly in products with little importance for bilateral trade. Only four groups of products fit the following criteria: the products are manufactures (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-industry trade was higher than 65%. They are: Polymerization products etc. (SITC Rev. 2, 583), Photo, cinema supplies (882), Nitrogen-function compounds (514) and Textile yarn (651) (see table 21).

Better joint efforts with East Asia in the field of intra-industry trade would bring three major positive consequences for Latin America: a) provide new routes of access to Asian markets; b) stimulate incorporation of new technologies and upgrade workers' skills and entrepreneurs' managerial techniques, as direct consequences of both the production activities and associated public programs; and c) help to generate a process of open regionalism (Moneta 1995). This articulation also facilitates LAIA access to the complex economic interactions and institutions of the Pacific Rim, such as APEC, the Pacific Economic Co-operation Conference (PECC), the Pacific Basic Economic Council (PBEC), and the recently established East Asian Latin America Forum (EALAF).

The absence of strong levels of intra-industry trade suggests the need to improve trade relations between the two regions. Intra-industry interchanges are frequently associated with patterns of product differentiation that tend to facilitate the decentralization of production and the establishment of local plants specializing in certain products. Latin America could be highly competitive in these areas. Furthermore, SMEs could be part of this trade, which would expand opportunities for complementarity between Asia-Pacific and Latin America.

Table 21
TWENTY MAIN INTRA-INDUSTRY FLOWS
BETWEEN ASIA AND LATIN AMERICA

(Value in thousands of US dollars based on the average trade flows for the period 1990-1998)

Asia import ranking from LAIA	Commodity Group (SITC, Rev. 2)	Asian and Pacific exports to LAIA Average 1990-1998	Asian and Pacific imports from LAIA Average 1990-1998	Grubel-Lloyd Index
40	583 Polymerization etc prods	142,617	134,042	96.9
37	882 Photo,cinema supplies	110,998	118,525	96.7
30	514 Nitrogen-functn compounds	72,139	63,531	93.7
51	612 Leather etc manufactures	12,786	10,886	92.0
71	725 Paper etc mill machinery	11,963	9,428	88.1
77	516 Other organic chemicals	24,103	30,743	87.9
41	696 Cutlery	27,387	21,030	86.9
53	659 Floor coverings,etc	2,555	1,949	86.5
199	592 Starch,inulin,gluten,etc	24,050	17,675	84.7
146	791 Railway vehicles	5,269	3,679	82.2
86	654 Oth woven textile fabric	20,760	14,489	82.2
140	554 Soap,cleansing etc preps	4,601	2,828	76.1
66	662 Clay,refractory bldg prd	7,412	12,099	76.0
105	651 Textile yarn	109,966	179,794	75.9
184	541 Medicinal,pharm products	72,234	40,900	72.3
177	598 Miscel chem products nes	35,156	19,704	71.8
58	883 Developed cinema film	54	100	70.2
204	897 Gold,silver ware,jewelry	16,638	8,678	68.6
120	635 Wood manufactures nes	10,464	5,262	66.9
32	585 Plastic material nes	1,280	2,575	66.4

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

IV. Latin America and the International Flow of Capital

Overview:

During the 1990s, the global economy and world trade in particular was influenced by the strong expansion of international capital flows. However, the international financial crisis that affected Asian countries in mid-1997, and Russia and Brazil afterwards, led to a sudden decline in the international flows of capital to the developing world as a whole. The amount went from US\$ 241 billion to only US\$ 65 billion between 1996 and 1998. The immediate effect of this marked decrease was the need to severely curtail current account deficits by rebuilding to currency reserves and through increases in official bank lending. There was also a sharp decline in imports, driven in part by the slowdown in economic activity and by devaluations of national currencies, which helped to avoid aggravating the crisis.

One interesting aspect of the crisis is that not all types of private capital flows to developing countries were affected. Short-term bank lending was more affected than any other type of flow, while foreign direct investments remained somewhat stable throughout the period. According to UNCTAD (1999), FDI flows to Latin America and the Caribbean rose to US\$ 71 billion in 1998, a 5% increase over the 1997 level. However, due to the crisis, the share of Developing Asia in world FDI inflows decreased to only 12% in 1998, which was down from 22% two years earlier (Table 22). Latin America and the Caribbean also suffered a smaller decline.

Table 22

REGIONAL SHARE OF WORLD FDI INFLOWS

Regions	(percentages)			
	1995	1996	1997	1998
Developed countries	63.4	58.8	58.9	71.5
Developing countries	32.3	37.7	37.2	25.8
Latin America and the Caribbean	10.0	12.9	14.7	11.1
South, East and South-East Asia	20.4	22.1	18.9	12.0
World	100	100	100	100

Source: UNCTAD, World Investment Report, 1999, Table I.3.

One explanation for the resilience of FDI flows to economies in crisis may be linked to the process of privatization undertaken by many of these countries, which has attracted foreign investors. For example, the amount of privatization in Latin American and Caribbean countries in 1998 reached a record amount of US\$ 40 billion. Nonetheless, in 1999 the process was severely restrained, particularly due to the decline in asset prices due to the slowdown of economic activity in the region, which caused postponement of privatization projects until values return to normal levels. The final value of privatized assets in the region was expected to reach only about US\$ 12 billion in 1999, a decline of almost 70 per cent over the previous year (ECLAC 2000). Brazil accounted for about 40% of the value of total regional privatizations in 1999, followed by Puerto Rico (21%), Argentina (21%), Chile (11%), The Dominican Republic (8%) and Mexico (2%). (El Mercurio 2000).

Similarly, FDI flows to Asia-Pacific have been relatively resilient during the crisis. In 1998 the inflow of FDI decreased to US\$ 85 billion compared to US\$ 96 billion in 1997. It was the first time that FDI inflow to the region had fallen since the mid-1980s. Nonetheless, it remained above the 1996 level, and well above the average annual flows recorded during 1991-1995. Despite the decline in inflows, the region still accounted for over half of the flows into developing countries and over half of their FDI stock. FDI stock in the region increased in 1998 by 13% over the previous year, reaching US\$ 717 billion. The share of FDI in gross fixed capital formation was still lower than in developing countries as a whole, particularly in relation to the levels in Latin America and the Caribbean (UNCTAD 1999).

1. Trade and investment

Experience over the last two decades in Asia-Pacific, together with more recent events in Latin America and the Caribbean, suggest that there is a “virtuous circle” between trade and investment. As the WTO (1996) indicate, it is not yet possible to argue that FDI *causes* increased exports, 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. In the last twenty years, the growth of FDI has outpaced that of world merchandise exports (UNCTAD 1999).

As tariffs and non-tariff barriers have been decreasing in the developing world, the tendency toward export-oriented FDI increases, while 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, open markets tend to attract export-oriented FDI.¹⁹

The consequence of FDI for trade can be illustrated by the increase in sales by foreign affiliates of transnational corporations (TNCs). These sales are estimated to exceed the value of

¹⁹ A case in point is the export-to-sales ratio of Japanese affiliates in the Asian manufacturing sector, which stood at 45% in 1992, while the corresponding ratio for Japanese affiliates in Latin America was just 23% (UNCTAD 1996b, p.51).

world exports (they reached US\$ 11 trillion in 1998, against world exports of US\$ 7 trillion). Moreover, intra-firm trade among TNCs is estimated to account for about one-third of world trade, and total TNC exports for another third (UNCTAD 1996^b).

Several studies (UNCTAD 1996^b, Kagami 1995) describe the interaction between trade and FDI as a process of relocating production across national boundaries, which creates a two-way or triangular trade flow among participating countries. According to this view, new trade flows originate from changes in relative factor prices that generate new inflows of FDI. Initially, FDI creates a flow of capital goods from the investing country to the host country. Parent companies then provide affiliated companies with parts and components for assembly or intermediate goods for further processing. Affiliated companies sometimes send unfinished goods to 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.

Statistics on Japanese imports of machinery and equipment from its neighbours exemplifies this process. In 1990, machinery and equipment corresponded to 21% of total Japanese imports from the ANIES4 countries.²⁰ By 1995, that share was 43%. Japanese imports of machinery and equipment from ASEAN4 countries²¹ was limited to 6% of total imports in 1990, but five years later it was 23%. Japanese imports from China follow the same pattern. In 1990, machinery and equipment accounted for only 4% of total Japanese imports from China; by 1995, the share of machinery and equipment in total imports was 14% (Kuwayama 1997).

Another aspect of FDI is the dynamic process of relocating production to the countries that offer the best comparative advantages. For example, labour-intensive goods were transferred from Japan (the first-tier country) to ANIES4 countries (the second tier), and later from those countries to the ASEAN4 and other developing Asian countries (the third tier) (Kagami 1995). As a result, 70% of total inflows of FDI to China originated in the ANIES4 countries in 1995. Over 35% of total FDI in Malaysia also came from ANIES4 countries in 1995 (Okamoto 1997).

The foregoing discussion suggests that FDI tends to go beyond the national level focus on *regional* comparative advantages. The elements that establish these regional advantages include market size, natural-resource endowment, cost structure of production and pattern of specialization by country, availability of skilled and unskilled labour, capabilities in R&D and infrastructure.

Before the crisis in Asia, the stabilization and liberalization process in Latin America had resulted in an increase in investment-cum-trade from Asia-Pacific, which aimed to take advantage of the region's natural-resource endowments and amplified regional markets. Once the effects of the crisis have dissipated and the processes of deregulation, integration and privatization have deepened, it is expected that new trade and investment flows would increase. These new FDI inflows will be different in nature from previous inflows, since they would go beyond the scope and nature of *maquila* to profit from Latin America's newly found regional comparative advantages.

Increased FDI from Asia-Pacific to Latin America could lead to better intra-industry linkages between the two regions, especially between countries that are less asymmetric in terms of development levels and industrial capabilities. This process would be promoted by *de facto* productive and financial integration, by way of investment or joint ventures. Eventually, LAIA countries will have the means to enter markets of Asia-Pacific more effectively, with the possibility of *de facto* productive integration backed up by formal institutional integration. Increased FDI would also promote the incorporation of technology and management skills.

²⁰ ANIES4 refers to Hong Kong China, the Republic of Korea, Singapore and the Chinese Province of Taiwan.

²¹ ASEAN4 refers to Indonesia, Malaysia, the Philippines and Thailand.

If the integration efforts in both regions are channelled toward open regionalism, the increased FDI and trade could bring the relations between Asia-Pacific and Latin America to a level that matches their relative importance in the world economy.

2. Foreign direct investment and Latin America

After Mexico's difficulties in fulfilling its payment obligations on short-term debt in 1995, the stability of private external capital inflows to Latin America was briefly endangered. This unfavorable situation was promptly handled, however. In fact, in 1995, only Mexico was seriously affected by a sharp downturn in private external capital inflows. After 1995, the trend in FDI flows towards LAIA countries has been constantly upward. Between 1996 and 1997 it increased 46% and, as an effect of the crisis, between 1997 and 1998 the growth of FDI was limited to 6%, while between 1998 and 1999 it rose by 17% (see Table 23). One important aftereffect of the crisis in the emerging economies was that in 1998, FDI inflows were much more concentrated in developed countries than before, while developing economies, that since the mid-1990s had been absorbing about 40% of world FDI, saw their share of these flows reduced to 26% (Table 22).

In Latin America, inflows of FDI have also been concentrated in the larger countries of the region. In 1998, Brazil absorbed 41% of total inflows to Latin America and the Caribbean, while LAIA countries hosted 84% of total FDI inflows to the region. With respect to investor countries, although the United States continues to be an important provider of capital to the region, in recent years Europe, and particularly Spain, has increased its importance because of the participation in the privatization of State-owned assets and also in taking advantage of the deregulation of certain sectors of the economies of the region. In this sense, Asia-Pacific countries (Japan included) have had little presence.

The composition by sector of FDI in the region has been changing. Until the early 1990s, a large share of net FDI inflows was directed towards manufacturing. The pattern of industrialization and the economic policies aimed at strengthening domestic markets had led transnational companies to establish affiliates in the most important countries of the region in order to circumvent import restrictions. Since the late 1980s, many countries relaxed restrictions on investments in oil and mining and eased the rules and regulations of these sectors. Furthermore, structural adjustment programs in countries throughout the region led to the privatization of service enterprises and regulations that restricted access to domestic financial markets were relaxed.

As a result, the orientation of FDI flows has been providing a more balanced sectional distribution. Moreover, two new factors may tilt the balance towards the services sector. First, as a side effect of the trade liberalization process, investments in manufacturing have become less attractive. Second, the process of privatizing public services in most LAIA countries has been strongly influencing the inflow of investments to the services sector (see Table 24).

Table 23
NET INFLOW OF FDI IN LAIA COUNTRIES
1990-1999
(Millions of dollars)

	1990-94	1995	1996	1997	1998	1999 ^a
Argentina	2 971	5 279	6 513	8 094	6 150	21 000
Bolivia	85	393	474	731	872	800
Brazil	1 703	4 859	11 200	19 650	31 913	31 000
Chile	1 219	2 957	4 637	5 219	4 638	8 900
Colombia	818	969	3 123	5 703	3 038	350
Ecuador	293	470	491	695	831	470
Mexico	5 430	9 526	9 186	12 831	10 238	10 000
Paraguay	98	155	246	270	256	100
Peru	785	2 000	3 226	1 785	1 930	1 500
Uruguay	...	157	137	126	164	100
Venezuela	836	985	2 183	5 536	4 435	1 200
Total LAIA	14 238	27 750	41 416	60 640	64 465	75 420

Source: ECLAC, *Foreign Investment in Latin America and the Caribbean, 1999 Report*, (LC/G.2061-P), Santiago, Chile, January 2000, table I.2, p. 39, (Preliminary version). ^a Estimated by the ECLAC's Information Centre of the Unit on Investment and Corporate Strategies of the Division of Production, Productivity and Management on the basis projections by Central Banks of each country, 1 December 1999.

Table 24
LAIA - COMPOSITION OF ACCUMULATED FDI, BY SECTORS, 1992-1998
(Percentages, Total=100)

	Agriculture and Mining and Oil	Manufacturing	Services	Non-Specified Activities	Total
Argentina	18.8	33.6	41.3	6.3	100
Bolivia	59.7	8.0	32.3	0.0	100
Brazil ^a	1.8	20.1	78.1	0.0	100
Chile	42.9	13.6	43.5	0.0	100
Colombia	6.7	26.1	67.0	0.2	100
Ecuador	78.7	8.9	12.4	0.0	100
Mexico ^b	1.1	60.9	38.0	0.0	100
Paraguay ^c	16.1	40.8	43.1	0.0	100
Peru	15.1	13.3	71.5	0.0	100
Uruguay	...	...	...	...	...
Venezuela ^c	7.9	36.7	55.4	0.0	100

Source: ECLAC, on the basis of official information.^a FDI accumulated 1992-1997.^b FDI accumulated (1997 between 1994 and 1998)^c FDI accumulated 1992-1997. **Note** Preliminary information for Argentina and 1998); Bolivia (1998); Brazil (1996, 1997); Chile (1998); Ecuador (1998).

The privatization process offers remarkable opportunities for foreign investment. During the period 1993-1995, the share of foreign capital in this process reached an average of 52.6% for all Latin American and Caribbean countries. Since then, this share probably increased, due especially to the aggressive process of privatization led by Brazil since the mid-1990s. The level of foreign capital participation in the process of privatization depends on several factors, including the degree of openness to foreign investments, the country's business climate, the underlying policies related to growth and development, market characteristics and the process of modernization (ECLAC 1996). The degree of development of domestic entrepreneurs is also important. In some countries, particularly Argentina, Colombia and Chile, the high economic growth rates have strengthened domestic enterprises and helped them establish strategic alliances with foreign investors and transnational corporations.

3. Asian and Pacific FDI in Latin America

Investment flows are considered to be the essence of the Asian “flying geese” model, and intra-regional investments represent an important part of total FDI in Asia-Pacific. In 1995, for instance, almost 70% of total FDI in China originated in the ANIES4 countries (Okamoto 1997). Flows from outside the region are also significant sources of FDI for most countries. Asia-Pacific has not been an important player in the Latin American privatization process nor a major source of foreign capital for the region, before the Asian crisis of 1997. However, investments from Asia-Pacific in Latin America were increasing in sectors that favored the development of the manufacturing sector.

For instance, Japan was among the leading Asian countries in this type of investment. In fiscal year 1995, Japanese FDI abroad increased 23.5% from the previous year, reaching US\$ 50 billion, and 35% (US\$ 18 billion) of the amount was invested in the manufacturing sector (Table 25). In 1996, total Japanese FDI decreased compared to the previous year, but the outflow of FDI in manufacturing increased 8.8%. However, in 1997 and 1998, FDI in manufacturing showed a decline of 4.5% and 37%, respectively. Total investments in Asia and Latin America were equally affected. The share of Latin America in total Japanese FDI abroad in 1998 was similar to that of Asia, but the relative importance of the manufacturing sector of Latin America has been on decline. The region had represented 7% of total Japanese FDI in this sector worldwide in 1996, but two years later it only represented 3%.

Table 25
JAPANESE FOREIGN DIRECT INVESTMENT OUTFLOWS, 1989-1998
(BASED ON INVESTMENTS NOTIFIED)
(Millions of dollars and percentages)

Region	Total							
	1989	1992	1993	1994	1995	1996	1997	1998
World	67,540	34,138	36,025	41,051	50,694	48,019	53,972	40,747
Asia	8,239	6,425	6,637	9,699	12,264	11,614	12,181	6,528
Latin America	5,238	2,726	3,370	5,231	3,877	4,446	6,336	6,463
Asia % World	12	19	18	24	24	24	23	16
L.A. % World	8	8	9	13	8	9	12	16
Region	In manufacturing industries							
	1989	1992	1993	1994	1995	1996	1997	1998
World	16,284	10,057	11,131	13,783	18,623	20,258	19,339	12,252
Asia	3,220	3,104	3,659	5,181	8,058	6,628	7,317	3,696
Latin America	196	268	364	1,159	320	1,489	664	342
Asia % World	20	31	33	38	43	33	38	30
L.A. % World	1	3	3	8	2	7	3	3

Source: Japan External Trade Organization (Jetro) and Ministry of Finance, Japan.

Chinese investments in Latin America are concentrated in the primary sector, for example, in iron mining in Peru and Brazil and in copper mining in Chile. Some Chinese investments in Brazil have been oriented toward forestry and wood production, while in Argentina they were directed toward the fishery sector. There has been some interest in the drugs and textile sector as well as in establishing assembly facilities for television sets, radios, fans, motorcycles and tractors (SELA 1996). Ten new investment projects in trucks, passenger cars and utility vehicles were about to be established in Brazil, totaling about US\$ 541 million (Mugnato 1997). In 1998, China participated in the privatization of Campo Petrolero Caracoles in Venezuela, through the China National Petroleum Corporation, with an investment of US\$ 241 million (ECLAC 2000).

The Republic of Korea is another country whose share in total FDI flows has been increasing in the form of investment in manufacturing, at least until the crisis of 1997. The acceleration of the rate of increase of wages (which was 5.8% over labour productivity as an annual average between

1990 and 1994) caused the share of manufacturing in total overseas investment (based on volume) to increase from 19% in 1985 to almost 57% in 1995 (Jyoung 1997). Direct investment from the Republic of Korea in Latin America displays the same trend, particularly until 1997 (see Table 26). In 1995, Korean investments in Latin America increased 156% over the previous year, while in 1996 the rate was 71%, and 49% in 1997. However, this dynamic trend was severely interrupted in 1998 with a decline of 40% over the previous year. The total flow reached US\$ 628 million in 1997, almost seven times the level of 1994. By the end of 1997, Latin America represented 11% of total Korean investments abroad. In 1998, that share was reduced to 7.4% (See Table 26).

Table 26
KOREAN INVESTMENTS IN LATIN AMERICA^a
(Thousands of US\$, and percentages)

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

Source: Republic of Korea, Ministry of Finance and Economy, Office of Economic Cooperation, Trends in International Investments and Incentives to Technology, January 31, 1999, as cited in Won-Ho Kim, "Korea and Latin America, End of a Honeymoon?", *Capitulos del Sela*, nr. 56, May-August, 1999, Table 2.^a Accepted cases.

Korean investments in manufacturing in Latin America accounted for 56% of total projects in 1995. Contrary to expectations, Jyoung (1997) found that the trends in Korean investments in Latin America were not confined to traditional, labour-intensive manufacturing sectors but include more technology-intensive industries. These investments further differed with past Korean investments in Latin America in several ways: a) the participation of Korean transnational corporations has been considerable; b) the number of large investments is increasing; 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 the industrial structure and technology transfer.

Two sets of elements seem to have contributed to the increase of Korean investment in Latin America. The first involved the intrinsic needs of Korean firms in terms of factor costs, factor markets and corporate strategy. The second related to the improved economic conditions in Latin America, the growth of the Latin American market and the challenges presented by the stronger regional integration schemes. However, the crisis of 1997 caused plans for new investments to be postponed or cancelled. Many companies also had to suspend operations and some companies already in place had to close down.

Another Asian source of FDI into Latin America was Taiwan Province of China. In the period 1990-1995, the Taiwan Province of China invested US\$ 2.6 billion in Latin American and

Caribbean countries. This corresponded to almost 30% of total Taiwanese investments abroad. The regional share of total foreign investments from Taiwan Province of China increased from 25% in 1990 to over 52% in 1994, dropping to approximately 40% in 1995. Investments in Latin America and the Caribbean have tended towards banking and insurance. The region absorbed 38% of total outflows of this type of investment from Taiwan Province of China. The region also captured an important share of Taiwanese investments in transportation.

Until 1997, Latin America appeared to be an increasingly important recipient of Asian FDI. However, the crisis in Asia abruptly interrupted this process. When the process was at full speed, there still remained much to be done about investments in Latin America. For instance, Asia's participation in the Latin American privatization process has lagged behind Europe and the United States. Companies from Asia could also have had the opportunity to be important partners in the processes of updating Latin American infrastructure and bringing new technologies to the region through associations and alliances. Now that prospects for increased growth are returning to Asia, it is important to reactivate Asian FDI in the region, not only to recover the previous levels, but also to improve and increment them. For this purpose, it is important to involve new players in FDI into Latin America. Given the possibilities for complementarity, the participation of small- and medium-sized enterprises in the initiatives should be promoted in particular.

V. Conclusions and recommendations

1. Conclusions

a) Trade

The international financial crisis that began in Asia in mid-1997 hit the economies of Latin America much more severely than originally expected. Following the growth rate of 5.4% in 1997, growth fell in 1998 to 2.1%, due in part to the international financial crisis and in part to a series of natural disasters. In 1999, almost all countries in this region either reported a sharp decline in economic growth or were in full recession, displaying a growth rate close to nil for the region as a whole for that year. The value of exports by the region fell in 1998 for the first time in over 10 years. While total exports of the region slightly recuperated in 1999, intra-regional trade, as was in the case of the MERCOSUR and the Andean Community, fell markedly in 1999. However, in light of some favorable external factors, such as strong economic growth in the United States; continued economic expansion in Europe; possible recovery of Japan from recession; more favorable prospects for international financial flows to the region, and the recovery of commodity prices. ECLAC (ECLAC 1999) forecasts for its region a significant recovery with a growth rate of 3.6% for the year 2000.

The countries in East Asia are back on the course of economic recovery and expansion. Since the summer of 1998, there has been a substantial recovery in economic growth and in balance of payments, local currencies, foreign currency reserves, and interest rates. In some cases, interest rates are below those prevailing before the crisis. Fiscal policies have been adjusted to allow increased spending to support demand and employment. The initial rise in inflation that accompanied devaluation has been contained to moderate levels and the rate of inflation is now decreasing across the region. Foreign trade of the countries in East Asia that experienced a severe drop in 1998 (the first year fall in the region's exports in dollar terms since 1985 and the first in imports since 1982) is also recovering rapidly. Developing Asia is projected to grow at a rate of roughly 5.5% in 2000 and is expected to continue on this growth path (IMF 1999, Asian Development Bank 1999).

Trade between countries of the Latin American Integration Association (LAIA) and Asia-Pacific increased substantially in the first half of the 1990s. In contrast to the 1980s, in which reciprocal trade stagnated, trade flows between the two regions, measured as the combined value of exports and imports, doubled from roughly US\$ 25 billion to US\$ 50 billion during the 1990-1995 period. Albeit starting from a small base, trade relations between LAIA countries and Asia-Pacific were generally dynamic. However, since the outbreak of the economic and financial crisis in Asia in mid-1997 and the severe economic recession in the majority of the countries in Latin America, the rates of growth for bi-regional trade have slowed down markedly. In particular, exports of LAIA to Asia-Pacific suffered a decline in the annual average growth rate of -7.4% during 1996-1998, the lowest among its major trade partners. The reduced dynamism caused the combined bi-regional trade to stand at approximately US\$ 55 billion in 1998.

In the first half of the 1990s, LAIA imports from Asian-Pacific increased at higher rates than Asian and Pacific purchases from LAIA countries. Moreover, LAIA imports from those countries increased at higher rates than the average growth of their total imports. At the same time, Asian imports from LAIA countries have increased at rates inferior to the annual average growth of their total imports. Asian and Pacific exports to LAIA countries accounted for almost 13% of LAIA imports in 1995, almost double their share of LAIA imports in 1970. Latin American exports to Asia-Pacific, however, accounted for only 2% of Asian and Pacific imports, showing a steady decline from their share of more than 3% of Asia-Pacific's imports in 1970. This meant that Asia and the Pacific had become one of the most important trade partners for Latin America as a whole, while the relative importance of LAIA countries for Asia-Pacific was small, in terms both their imports and exports. The recent economic turmoil in both regions has intensified this asymmetry in the bi-regional trade relationship.

Two interrelated problems provide possible explanations for the level and moderate growth of trade flows between the two regions; that is country composition and product composition. Trade flows between Asia-Pacific and Latin America are concentrated in a few countries. During the period of 1990-1998, Japan, the Republic of Korea, China and Taiwan Province of China accounted for more than 75% of total interregional trade flows. Japan alone accounted for about 45% of the trade between the two regions, though the relative importance of this country in total bi-regional trade has been reducing. Nonetheless, import and export markets for both regions have become more diversified, a process that is expected to continue in the future. Among the LAIA countries, Argentina, Brazil, Chile and Mexico accounted for more than 80% of the total interregional trade flows. Generally, the contraction of the economies in 1998 of the major trade partners, Japan and the Republic of Korea, had a strong negative effect on their import demand from LAIA. Likewise, recession in 1998 and 1999 in Brazil, Argentina and Chile, major importers from Asia-Pacific, significantly reduced their imports from that region.

The overall picture above, however, hides important changes that have occurred for individual countries. For instance, during the first half of the 1990s, the ASEAN countries and China were more successful than other Asian countries in expanding their exports to LAIA countries. However, in the aftermath of the crisis in Asia, only China managed to increase exports to the LAIA region at a 20% annual rate, while the rates for the ASEAN countries have been drastically reduced. It should be reminded that the relative importance of LAIA countries in the total imports and exports of each Asian and Pacific country was extremely low. From 1990 to 1998, LAIA share in total imports was highest in Japan, at only 3.2%, while Korea showed the highest LAIA participation in total exports, at 3.5%.

During 1990-1995, Peru, Mexico and the four MERCOSUR countries absorbed imports from Asia and the Pacific at a rapid rate, in some cases close to 40% a year. In more recent years, economic recession has been a severe obstacle to imports from Asia-Pacific. Some countries registered a negative growth in imports from that region. During the recession, only Bolivia and Venezuela have been able to increase imports from Asia-Pacific at a rate faster than in the first half of the 1990s. With regard to exports, eight of the eleven LAIA countries considered here have experienced a severe fall during 1996-1998, with the exception of Bolivia, whose export growth rate to Asia-Pacific improved substantially. During the 1990s, imports from Asia-Pacific have accounted for a substantial share of total imports in some countries; on average during 1990-1998, 24% in Paraguay and 18% in Chile. More than 31% of Chilean total exports and 23% of Peruvian total exports were shipped to Asia-Pacific.

The product composition of LAIA exports differs substantially according to its trade partners. Manufactures prevail in LAIA exports to the United States as well as in intra-regional trade. In fact, close to 65% of LAIA intra-regional trade consists of manufactures. Food products predominate in LAIA exports to the European Union. In contrast, LAIA exports to Asia-Pacific show a very different product composition. Minerals and metals and food have a larger share in LAIA exports to this region. There has been a marked increase in the trade share of food. It is also interesting that manufactured exports to Japan are very limited, while exports to other Asian and Pacific countries have a relatively high share of manufactures and semi-manufactures. Due to the increasing relative importance of food products and metals and minerals, the share of manufactures and fuels in LAIA exports to Asia-Pacific has declined throughout the 1990s. The principal LAIA export items to Asia-Pacific are primary commodities, whose depressed prices in recent years have resulted in much lower values of exports. The major export items include copper; iron ore; iron and steel; aluminum; crude oil; wood, paper and pulp; soybean and soybean products; coffee; fish and its products and meat; and leather. LAIA countries are expected to play an increasingly important role as a base of provision for Asia-Pacific in several primary commodities.

The product composition of Asian and Pacific exports is dominated by manufactured goods, regardless of the importing region. The high proportion of manufactures in intra-Asian trade reflects *de facto* integration of production promoted by foreign direct investment and other means of corporate cooperation. Exports by Asia-Pacific to LAIA countries clearly reflect the comparative advantage in manufactured goods worldwide, particularly, transport vehicles and their parts, and electric and electronic products. None of the top 20 export items, which account for 50% of total Asian and Pacific exports to LAIA countries, is a primary commodity. For these products, the importance of LAIA countries as an export market is still not significant, although it is increasing. Continued economic stabilization efforts and regional integration processes are expected to enhance the absorption capacity of the LAIA markets for these Asian and Pacific products.

In summary, bi-regional trade flows are remarkably different according to the direction of trade. Imports from Asia-Pacific are manufactured goods, while LAIA exports are mainly primary commodities. The nature of those flows is almost purely *inter-industrial*. Therefore, while efforts

will continue to expand commodity trade, Latin America should emphasize policies to promote the efficient development of goods with higher value-added and possibilities for technological transfer. Consideration might also be given to the creation of “industrial clusters” based on natural resources. Asian and Pacific countries that wish to ensure a regular supply of natural resources could participate in the process of cluster building, through direct investment or other cooperation schemes, including technical assistance.

Detailed studies are needed to identify possible technological complementarities between the two regions in the areas of agriculture and industry, as well as to shed light on transportation and finance bottlenecks. With regard to manufactured exports, LAIA countries need to broaden and innovate the range of products and to study 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 favour its Asian neighbours more than the LAIA countries.

b) Virtuous circle between Trade and Foreign Direct Investment (FDI)

It is increasingly accepted that FDI does not distort and does not inhibit trade and growth. A general reduction in average national tariffs means that there is much less “tariff jumping” occurring now than in the past. At the same time, the creation of regional trade blocks allows inward investment to enjoy economies of scale in production and marketing areas that did not previously exist. As suggested by the Asian experience in the last two decades and the more recent events in Latin America, the interplay of macroeconomic forces (i.e., sound, stable policies) and microeconomic and institutional forces can create a “virtuous circle” between trade and investment. The economies in both regions have recorded noteworthy improvements on these accounts.

However, the establishment of even playing fields on both sides has not yet led to significant reciprocal FDI expansion in the 1990s. FDI inflows to LAIA countries from Asia-Pacific have been much smaller than inflows from the United States or the European Union, in terms of number of projects and capital invested. Although in recent years total Japanese FDI outflows to Latin America and the Caribbean have maintained previous levels or even have increased, those to the manufacturing sector have fallen drastically. FDI from the Republic of Korea into the region had been increasing in a sustained manner up to 1997, but experienced a severe drop in 1998. Since the crisis in 1997, many planned investments on part of Korean enterprises in Brazil, the most important regional recipient of FDI from the Republic of Korea, have been either discontinued or suspended. In addition, there have been only a few isolated cases of direct investments undertaken by economic agents of Latin America in Asia-Pacific.

Japan, Hong Kong (China), the Republic of Korea, Taiwan Province of China, Singapore and some other ASEAN countries appear to have lost their competitiveness in several manufacturing industries, which has allowed for significant growth in intra-industry trade within Asia-Pacific. This intra-industry chain might be further extended to include the LAIA countries, although it may be more difficult for countries outside Asia-Pacific to find proper niches in the informal, competitive and concentric trade blocks of Asia. In any case, the expansion of Asian intra-regional trade and investment implies that a country’s comparative advantage is strongly influenced by that of neighbouring countries. What matters more today is the *regional* comparative advantage, determined mainly by the region’s market size, natural resource endowments, cost structure of production by country, pattern of specialization by country, availability of skilled and unskilled labour, R&D capabilities and infrastructure.

Intra-industry trade in LAIA is high and increasing, especially between Brazil and Argentina, although to a lesser degree than intra-industry trade in Asia. As the process of stabilization,

liberalization and deregulation stays on course and integration and privatization efforts deepen, more opportunities will arise for both intra-regional and interregional trade. LAIA countries have already seen an increase in investment-cum-trade from Asia-Pacific in recent years, which aims to take advantage of natural resource endowments and larger regional markets. These new trade and investment flows differ in nature from those associated with Central America (including Mexico) and the Caribbean, where *maquiladora* activities predominate in industrial sectors such as textiles and apparel or electric and electronics manufacturing. The Central and Caribbean subregion's main advantages are geographical proximity to the United States market, subregional integration processes (e.g., NAFTA), regional preferences (e.g., the Caribbean Basin Initiative) and the availability of a relatively inexpensive labour force. However, the type of Asian FDI attracted recently to LAIA countries, to some extent, goes beyond the scope and nature of *maquila*.

A better intra-industry articulation between the two regions is promising among countries that are less asymmetric in terms of development levels and industrial capabilities, promoted by *de facto* productive and financial integration by way of investment or joint ventures. This process is expected to provide another means for LAIA countries to insert themselves more effectively in Asian and Pacific markets, some of which are more difficult to penetrate directly (e.g., Japan). Intra-industry expansion will also promote investment and incorporate technology and management skills, which would be facilitated by involving countries that have rapidly closed the “technology gap” with developed countries and regions.

c) Market-access

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 was below 15% for 10 of the 12 countries considered, of which eight were below 10% and three below 5%. Liberalization efforts in more recent years have brought the rates even lower. The LAIA countries have also registered remarkable reductions in tariffs and tariff dispersion in recent years, and their average of Most Favoured Nation (MFN) rates now falls in the range of roughly 10% to 14%. The majority of the countries in both regions are taking a “Uruguay Round-plus” approach. Through the aftermath of the crisis, in response to external and internal imbalances, some countries in LAIA have increased import tariffs and introduced new administrative measures, the application of which does not represent a reversal from the liberalization policies adopted since the mid-1980s.

Despite the benefits of liberalized trade, high tariffs involving some industries and numerous non-tariff barriers (NTBs) still exist in both regions, substantially reducing mutual comparative advantages. In fact, although tariffs have gradually been reduced, non-tariff barriers are still prevalent, including quotas, import licensing, discriminatory customs procedures, burdensome testing and certification requirements.

The economies in both regions are expected to continue reducing tariffs and NTBs on goods and services unilaterally, bilaterally and/or multilaterally through relevant regional organizations. It is essential that these countries abide by their Uruguay Round commitments and refrain from backsliding, especially through the use of non-tariff barriers to replace tariffs that have been reduced or eliminated. When possible, these commitments should be accelerated, deepened and broadened through regional integration endeavours.

The practice of tariff escalation should be eliminated. In both regions, many 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 inefficient allocation of resources. Eliminating tariff escalation will bring

competitiveness to domestic industries that are currently protected and this will advance regional liberalization efforts.

The recent proliferation of trade agreements in Latin America and Asia-Pacific has not only brought realignments in tariff and non-tariff measures, but also dynamic effects on trade and investment flows, the cost structure of production, competition patterns and the creation and diffusion of technology. These agreements have contributed to better articulation of transport, telecommunications, energy, water and other infrastructural capacities at the regional level. It is expected that they will 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 phytosanitary regulations and so forth. These efforts to enhance the systemic competitiveness of each region will, in turn, enable each country to more efficiently participate in the world market. Interregional cooperation in these areas between Latin America and Asia-Pacific will no doubt facilitate trade and investment relations between the two regions by reducing transaction costs and enhancing transparency.

2. Recommendations

a) Principles in the cooperation process between Asia-Pacific and Latin America

Given the different stages of economic development of the countries involved and in their political, social, legal and administrative systems, and with equal respect for the views of all participating countries, future deliberations on cooperation between Latin America and Asia Pacific should be guided by the following principles:

- 1) **Multi-dimensionality:** Asia Pacific is a high priority for Latin America and vice versa. The countries of each region should give priority to strengthening their relations with one another, through efforts that carry forward on the political, economic and social dimension, particularly in the areas of trade, investment, social development, science and technology, education, culture and institutional development;
- 2) **Shared principles and equal partnership:** The design of activities should recognize and incorporate the heterogeneity in economic development, culture, and institutional modality that exist in both regions, while seeking globally balanced relations. The relationship should be based fundamentally on shared principles and values, that in turn can be translated into clear political messages and a general sustained process of dialogue and cooperation. There should be forward-looking and to focus on concrete steps;
- 3) **Open and flexible Regionalism:** Both regions seek to have a strong, deep relationship, but reject an exclusive or dependent relationship with countries or groups of countries. Relationships can be deepened at the biregional level, regional, or bilateral levels, taking advantages of the special circumstances of country groupings. The integration efforts underway in both Asia Pacific and Latin America should contribute to and be consistent with the multilateral world trade and investment rules. They should advance with the development stages and requirements of the countries. Relation-building should proceed at different levels and speeds;

- 4) **Practicality and informality:** While cooperation efforts should be maximized by making good use of the non-confrontational, non-binding, voluntary and informal nature of the cooperation process, these efforts should complement, rather than duplicate, the work already being undertaken in bilateral and multilateral forums. Taking into account the multiplicity of forums (leading to a concern over proliferation of meetings and forum fatigue), it is necessary to avoid overlap between distinct dialogueues and initiatives taken at different forums at bilateral and multilateral levels, such as APEC, PECC and PBEC, and focus on the comparative advantage of the recently established East Asia-Latin America Forum (EALAF) process in September 1999; and
- 5) **Private sector participation:** The business sector should have a leading role in the cooperative process.

In order for the private and public sectors in both regions to take advantage of trade and investment opportunities, Asia Pacific and Latin American countries should have a framework for discussing and harmonizing common trade and investment interests. Actions to strengthen trade and investment relations between the two regions might include, among others, the following elements detailed below.

b) Implementation of the EALAF mechanism for consultation on issues related to trade and investment

There are an increasing number of forums to deal with economic issues at bilateral or subregional levels. The existing subregional or regional integration schemes, such as NAFTA, MERCOSUR, Andean Community and G3 on the Latin American side; and ASEAN and APEC, on the Asian side, have limited country coverage. Chile, Mexico, and Peru are the only Latin American members of APEC, and Colombia, Chile, Mexico, and Peru are the only Latin American members of either the Pacific Basin Economic Council (PBEC), whose members are business-oriented, or the Pacific Economic Cooperation Conference (PECC), which has a tripartite membership of government officials, business community and academics. The articulation of these three organizations to incorporate more Latin American countries as members would not necessarily lead to a biregional forum between Asia Pacific and Latin America in which interests common to both regions can be adequately addressed and discussed. There has been a strong perception on the part of the private sector and government officials of certain Latin American countries that the two regions would need to create a forum of cooperation dialogueue that goes beyond the concept of the Pacific Rim.

In this sense, creating EALAF is most timely and earmarks an important initiative to institutionalize high level political talks and implement plans and programs that increase economic, political and cultural ties among 27 countries of both regions.²² It has been reported that this forum would address economic, political, social, and cultural issues. One of the many projects (reportedly 25 in number) that were suggested at the inaugural meeting of ELAF early September of 1999 in Singapore is a study on obstacles and opportunities in trade and investment between the two regions.

The objectives of a forum such as EALAF can be two-fold. The first objective would be to generate favorable conditions for increasing and deepening biregional relations in economic and social cooperation (e.g., trade in goods and services, investment promotion, technology transfer),

²² The participating member countries of EALAF are: on the Asia Pacific side, Australia, Brunei, Cambodia, China, Republic of Korea, Japan, Indonesia, the Philippines, Laos, Malaysia, Myanmar, New Zealand, Singapore, Thailand, and Vietnam, and on the Latin American side, Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela.

and the exchange of views on development and trade strategies, education, human capital formation, employment creation and social development. The second objective would be to define, jointly and gradually, a permanent work program that would include concrete, viable projects and actions as well as establish formal mechanisms for dialogue and consultation between the two regions.

As envisaged in the EALAF process, a permanent mechanism should be established to discuss a wide range of economic and social issues that are of mutual interests. EALAF has plans to hold periodical ministerial meetings to prepare for a summit meeting of the Heads of State.²³ Senior Officials' Meetings (SOM of foreign affairs) can meet at least once a year in its own right, in addition to meeting as part of summit meetings. Senior Officials Meetings on Trade and Investment could also meet with the same periodicity in order to provide a forum to address economic issues. This would include general measures on trade and investment, specific trade facilitation and investment promotion action plans, as well as a useful informal dialogue on WTO issues and on other economic matters. If the countries prefer, Finance Ministers could also meet regularly concerning financial issues, possibly taking advantage of the World Bank/IMF spring and autumn meetings.

In order to prepare for these meetings, a permanent mechanism should be established in order to allow technical officials to meet periodically to exchange views and opinions on a wide range of topics and issues. This could include the topic of how to enhance private-sector relationships between the regions, regional integration, South-South cooperation in the WTO, monetary and exchange rate policies and a new international financial architecture.

In order that the deliberations at these meetings to lead eventually to concrete actions and programs, a formal mechanism must be designed to enhance information and communication flows between interested parties in both regions. For this reason, it is important to consider the creation of information centers as discussed below. Finally, these events should have a tripartite representation from governments, business and academia. When appropriate, the participation of international or regional financial organizations, WTO and pertinent United Nations organizations will be sought.

Trade and Investment

In view of the current low levels of economic exchange and great potentials for expansion, economic issues should be a key part of the cooperation process between the two regions. Close and growing economic ties are an important element for recovery and sustained growth in both regions. There is enormous potential in the dynamic and diverse regions of Asia and Latin America by creating synergy through enhanced inter-regional linkages. Both regions should work together to develop priorities, policies and measures in economic cooperation and thus maximize inter-regional synergy, based on the following principles: i) closer cooperation and dialogue between government and the private sector, with the latter as the engine of growth; ii) non-discriminatory liberalization, transparency and open regionalism, and consistency; and iii) compliance with applicable international rules, particularly those of the WTO.

The countries in both regions should resist any protectionist pressures and at least maintain current levels of market access while pursuing further multilateral liberalization. Increased trade and investment based on open markets and firm adherence to applicable international rules would contribute to early restoration of broad-based economic growth in both regions. However, a set of bottlenecks should be removed before truly taking advantage of the potentials for intensifying biregional trade and investment flows.

²³ In the inaugural EALAF meeting in Singapore, the countries have agreed that Singapore and Chile coordinate the dialogue and work towards a foreign ministers meeting in Santiago, Chile in the first quarter of 2001.

Information creation and exchange

i) Information centers

One bottleneck relates to the creation and exchange of information. While economic actors do exchange information at a micro-level, economies of scale can be achieved by having exchange at a subregional or regional level, in order to reduce the huge gap in information and perception that currently exists between countries of both regions. The creation of information centers could play a major role in encouraging the private and public sectors to undertake interregional trade, investment and other economic initiatives. Efforts should be made to coordinate the works undertaken by distinct national or regional institutions that are in charge of collecting, processing and disseminating information, not to duplicate them. Serious consideration should be given to establishing one or more regional information centers, which could provide the following services:

- 1) collect and maintain relevant information on the economies, industries, and trade of each country and region;
- 2) manage the information network on market access discussed below;
- 3) conduct research on economic issues of regional importance;
- 4) coordinate the activities of distinct research organizations (at the regional, subregional, or university levels), specializing on economic and social relations between the two regions; and
- 5) bring together interested businesses from various member countries involved in regional economic alliances.

In order to be effective, these centers should coordinate with, and must take advantage of existing networks (e.g., WTO, UNCTAD, APEC, ASEAN, CER, LAIA, MERCOSUR, Andean Community and other national, regional and university based research institutions), with minimal duplication. Another option for information creation and exchange is to concentrate on the existing institutions in the Asia-Pacific and Latin America, giving them the role of information centers, thus eliminating the need for creating additional organizations.

ii) Information on market access

Another bottleneck is the lack of adequate information on market access. In recent years, however, the availability of regional information on market access for goods and services has been improved greatly, due to efforts by national, international and regional organizations such as ministries, WTO, UNCTAD, IMF, the World Bank, OAS, regional financial institutions and Secretariats of regional integration schemes. Despite these improvements, however, the available information is often insufficient for the private sector to assess business opportunities in a timely manner.

Both regions have made commendable progress in reducing barriers to trade and investment through multilateral trade negotiations, regional and bilateral efforts, and unilateral measures. Despite the benefits of liberalized trade, high tariffs involving some industries and numerous non-tariff barriers (NTBs) still exist in both regions, substantially reducing mutual comparative advantages. NTBs are still prevalent in areas such as quotas, import licensing, discriminatory or inefficient custom procedures and burdensome testing and certification requirements.

Both regions have established a number of integration and trade agreements. These integration schemes should help to reduce factors that make transactions more difficult or costly by building infrastructure to link the countries on both sides of the Pacific Rim, eliminating or harmonizing rules and regulations and implementing institutional reforms that make it easier for incomplete or fragmented markets to become integrated. However, concessions made in one

agreement can sometimes overlap and perforate the commitments made in another. To understand market access more clearly, therefore, the inadequate provision of detailed, up-dated information must be addressed, particularly with regard to the following areas:

- 1) tariff levels and structure (including tariff escalation) and NTBs (including import-licensing procedures);
- 2) Trade-Related Investment Measures (TRIMs),
- 3) technical norms and standards,
- 4) rules of origin, anti-dumping, subsidies, countervailing measures;
- 5) other liberalization and deregulation measures (e.g., privatization)
- 6) subregional, regional and hemispheric integration processes; and
- 7) convergence and divergence between regional integration and multilateral trade regimes (i.e. the WTO).

The greater availability of information on these aspects of market access would enhance transparency and thereby facilitating decisions on trade and investment opportunities. The regional information centers proposed above could take responsibility for coordinating the information made available from a variety of sources and of disseminating it in a systematic manner.

iii) Business facilitation

A third bottleneck relates to obstacles faced by businesses concerning customs rules and procedures, including non-transparent and inefficient infrastructures; differing customs; improper application of rules of origin, customs valuation, pre-shipment inspection and import licensing. Customs problems can be especially difficult for small- and medium-sized enterprises that have less experience and fewer resources with which to address these problems. In addition to more global efforts (e.g., modernizing customs procedures and infrastructure, including the implementation of electronic documentation and the processing and simplifying of customs documentation), some actions that might be contemplated by the two regions include the following:

- 1) simplifying and, when appropriate, harmonizing customs procedures;
- 2) simplifying customs documents and accelerating customs clearance for commercial samples;
- 3) harmonizing rules of origin; and
- 4) establishing programs where more experienced economies can provide training and assistance to economies that require such assistance.

iv) Policy dialogue on WTO

A policy dialogue on WTO between the two regions could help reduce obstacles and bottlenecks. Countries in both regions adhere to and practice "Open Regionalism", a concept that provides a general strategy for enhancing the benefits of regional liberalization without jeopardizing the continued vitality of the multilateral system. The existing regional integration schemes promote consistency with the GATT/WTO commitments to global trade liberalization, but broader and deeper regional concessions might go further than those made in the GATT/WTO.

It has been recognized that the outcome of the Uruguay Round stopped short of what was expected by many developing countries and that further liberalization alone might not automatically help to improve the export structure of these countries or to ensure stability of commodity prices or induce investments. Further multilateral negotiations should promote

liberalization that is conducive to increasing the traditional trade flows of developing countries and incorporating a “development dimension” that would help these countries strengthen the technological capacities and enhance the structural competitiveness of their productive sectors.

The SOMs or ministers’ meetings proposed above would provide a good opportunity to build an influential consensus among the EALAF member countries on a wide range of issues relevant to the future trade negotiations. Topics might encompass the Built-in Agenda and market access for all non-agricultural products, as well as trade facilitation, investment, competition, TBT, government procurement, and so forth. The interests and concerns of developing countries should be taken fully into account in these consultations, with a focus on enhanced and effective market access, strengthened operational rules on special and differential treatment as well as capacity-building measures and enhanced technical assistance.

An EALAF Trade Facilitation Action Plan

The Trade Facilitation Action Plan (TFAP) of the Asia-Europe Meeting (ASEM)²⁴ process could provide an example for addressing trade issues of Asia-Pacific and Latin America. In the course of EALAF deliberations, senior officials and ministers, and eventually EALAF Heads of State could work together to propose an action plan on trade facilitation. This action plan would aim at reducing NTBs and transaction costs, as well as promoting trade and investment opportunities between the two regions. Such a plan could provide concrete goals to be achieved in identified priority areas such as:

- 1) customs procedures, standards, testing, certification and accreditation;
- 2) public procurement;
- 3) quarantine and SPS procedures;
- 4) intellectual property rights; and
- 5) mobility of business people.

An EALAF Investment Promotion Action Plan

In order to generate greater two-way investment flows through the enhancing of the investment climate, such an action could follow the Asia-Europe Investment Promotion Action Plan (IPAP) of ASEM as an example. A series of measures on foreign investment can be considered because these measures would likely strengthen business-government coordination and cooperation structures and mechanisms to ensure that the perspectives and inputs from both sides are reflected in business-related activities of EALAF. One of the activities that can be considered in the early stages, if necessary, is the creation or enhancement of information networks and information sharing systems to promote investment flows between the two regions. The information that might be useful for the private sector could include among others:

- 1) an overview of Asia-Latin America investment trends;
- 2) investment-related multilateral and bilateral agreements; and
- 3) an inventory of investment promotion programs and policy and regulatory regimes of Asia-Pacific and Latin America.

²⁴ The Asia-Europe Meeting (ASEM) is a gathering of Heads of government from 10 Asian (Brunei Darussalam, China, Indonesia, Japan, Republic of Korea, Malaysia, the Philippines, Singapore, Thailand and Vietnam) and 15 European countries (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom), as well as the President of the European Commission. Its objective is to strengthen the political, economic and cultural ties between the two continents.

In order to strengthen the implementation process of the IPAP, the ASEM members launched the Virtual Information Exchange (VIE) as an important tool to promote transparency of investment regimes, and created ASEMConnect as a useful Internet-based tool to facilitate cooperation in the business sector. ASEM has also established the Investment Experts' Group (IEG), to assist in compiling the list of national investment promotion and policy measures. These methods of cooperation in investment can be assimilated to the situation of Asia-Pacific and Latin America under the framework of EALAF.

During the implementation process of such data banks, it should be kept in mind, however, that each activity must have a rationale to be considered as an EALAF project. There should be some characteristic that distinguishes it from a purely country-specific or sub-regional issue. Each activity must be of interest to investors and have a direct benefit for the investment environment. Each activity should also build on, not duplicate, bilateral or multilateral projects or programs already in place with the EALAF partners. Furthermore, the specific activities should be achievable and not be too ambitious or complex. In particular, the activities should be intrinsically sustainable and able to continue under their own momentum to some extent.

Business Community Participation: an EALAF Business Forum

An EALAF Business Forum should be considered in order to strengthen cooperation between the private sectors of both regions. EALAF could establish a private-sector consultation forum, which might meet annually and bring together leading business people from all EALAF partner countries. An EALAF Business Forum could serve as a platform for networking and discussing the issues affecting trade, investment and business collaboration between Asia-Pacific and Latin America.

The Asia-Europe Business Forum (AEBF) was an initiative led by the private sector in the ASEM process. Each Forum allows business leaders to be grouped into specific working groups that focus on a particular sector or industry. A working group is expected to give feedback and recommendations to the ASEM governments on how economic and business ties between the two regions can be strengthened. The structure and discussion themes at each forum is left to the discretion of the host country.²⁵

In addition to the enhancing transparency and development, several activities related to investment financing might emerge as a major issue in an EALAF Business Forum at some later stage of EALAF development. Broad areas of business concern that might include inadequate credit references and risk assessment; lack of guarantees, especially for large-scale infrastructure projects; lack of long-term finance, especially linked to suppliers or concessions on infrastructure projects; lack of venture or seed capital, especially to support market entry of SMEs.

Chambers of commerce or other business groups have been established on a binational basis between Asia-Pacific countries and Latin American counterparts. These chambers and groups vary widely in scope, sectoral coverage and intensity of activities. However, there is little interaction among them. By encompassing the national and regional chambers of commerce on both sides, closer biregional cooperation in this area could be instrumental in strengthening private-sector ties among Asia-Pacific and Latin American countries.

Economic and technical cooperation

General focus

There is great diversity in both regions in terms of the level of economic development, factor endowments, size of the economy, technological capabilities and social and historical backgrounds.

²⁵ For instance, AEBF I had five WGs: Infrastructure, capital goods, consumer goods, financial services, small and medium enterprises (SMEs). AEBF II had WGs on Infrastructure, SMEs, Investment, Trade, and Tourism.

This diversity can serve as a source of economic and technical cooperation. Economic cooperation schemes at various levels could provide a starting point for deeper interregional interaction before starting discussions for formal trade accords or agreements, given the current low levels of economic interaction.

In addition to a shared vision for partnership, which is the main driving force behind technological cooperation, a fast globalizing economy offers great potential for synergy and complementarity in the area of technology between Asia-Pacific and Latin America. The continued recovery of Asian and Latin American economies depends increasingly on increasing their productivity and ascending the technological ladder. Greater technological exchanges may also generate greater trade and investment opportunities, further enhancing technological cooperation between them. From the outset, it should be emphasized that APEC and ASEAN have incorporated economic and technical cooperation as an integral part of the trade and investment liberalization effort. Cooperation initiatives between Asia-Pacific and Latin America should emulate this example.²⁶

It should be recognized that technological cooperation is a broad concept that includes human and institutional capital, as well as the generation of scientific knowledge, such that an integrated approach should be followed. Technological cooperation cannot be seen in isolation from other efforts to strengthen economic links between the two regions. Technological cooperation should be based on long-term perspectives, instead of short-term considerations. Cooperation in this field should advance step by step, starting with a limited number of well-defined priorities, followed by building of a consensus and accumulating of experience in the process.

Effective technological cooperation between the two regions should involve a broad-based, interactive tripartite partnership among the business community, universities and research institutions and governments of the countries in both regions. Technological cooperation should make optimal use of existing bilateral and multilateral channels and mechanisms for cooperation. Future activities with an Asia-Latin America framework should not duplicate or replace existing cooperation.

Sectional Priorities

i) Food-security

One approach to economic cooperation is the selection of sectoral priorities. Current trends indicate that trade flows in food and other agricultural products between the two regions will increase in the future. Cooperation programs in this area could encompass a range of activities, including the following:

- 1) Measures in 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;
- 2) technologies to raise overall agricultural productivity, including agroindustrial technologies and technologies used in downstream processing of higher value-added products and in the distribution sector;
- 3) training and extending harmonization of phytosanitary certification and quality assurance, with an aim to improve marketability; and
- 4) prevention of environmental degradation.

²⁶ APEC, for instance, covers 13 areas of economic and technical cooperation; human resources development; industrial science and technology; small- and medium-sized enterprises; 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 relation to several areas.

ii) Technological upgrading and improvement of enterprises

Technological improvement and upgrading of enterprises are important means for the countries in both regions to accelerate their development and to provide ample technology-related trade and investment opportunities. Great potential, therefore, exists for cooperation between Asia-Pacific and Latin America.

Despite great potential, the countries in both regions face serious constraints in the technological improvement of their enterprises. In order to address these constraints, it is recommended that some of the steps that might be taken by the countries in both regions. These steps could include action to:

1) promote development of the financing structure, including venture capital for technological upgrading;

2) improve the capacity of developing countries for technology assessment and absorption and for indigenous technological development through the exchange of experts and human resources development involving both the public and private sectors;

3) strengthen the exchange of information with improved data collection and dissemination, possibly through focal points at the regional and/or national levels; and

4) undertake joint research and development (R&D) in order to promote foreign direct investment, joint ventures and strategic alliances among firms of both regions.

In both Asia-Pacific and Latin America, globalization has already become an essential issue for many small- and medium sized- enterprises (SMEs). Projects for technical cooperation and investment involving them are growing. In the past, many of the countries in the regions pursued industrial development by attracting large foreign enterprises. Recently, however, there is an increasing awareness that healthy economic development urgently requires the fostering industries that support large corporate production activities. Therefore, when implementing activities for cooperation to upgrade enterprises, the varied needs of different types of enterprises, including SMEs, should be given due consideration. The experience on SMEs in some Asian countries could provide important lessons for Latin American countries.

Cooperation to promote SMEs could be modeled on the Promotion of the European Community Investment Partners (ECIP), which 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 actively encourage projects involving SMEs. ECIP operates through four so-called facilities: i) identification of projects and partners; ii) investment feasibility studies; iii) joint venture funding; and iv) development of human resources. In addition, there is another facility designed to help governments and public agencies in developing countries prepare privatization and private infrastructure projects.²⁷ A similar type of cooperation scheme could be envisaged between Latin America and Asia-Pacific, thus promoting economic and technical cooperation.

iii) Transport infrastructure

Geographical distance, in general, and lack of direct transport and irregularity of services offered across the Pacific Ocean have made trade exchanges between the two regions difficult, and this has a negative affect the competitiveness of export products. Therefore, it is useful to study the system of cargo and passenger transportation, identify areas of bottlenecks, if any, and specify proposals for improving transport infrastructures.

²⁷ Between 1988 and 1997, over 2,200 actions for ECIP financing of over 250 million ECU have been approved.

It is desirable to assess the results of those previous pre-feasibility studies in the area of transport infrastructure, which examined the possibilities for improving interconnections in railway, river and in-land transports, as well as ports and storage facilities, with the purpose of promoting trade between the two regions. Countries in both regions can work together to undertake further feasibility studies and obtain the necessary finance for the implementation of infrastructure projects. Priorities for cooperation and action in transport include:

- 1) pursuing policies that significantly improve the biregional transportation system through strategic investment in infrastructure, to meet the growing and diverse transportation needs of Asia-Pacific and Latin America;
- 2) working together to promote development and mobilization of capital to finance transportation infrastructure projects, recognizing the need for both public and private sources; and
- 3) encouraging international institutions in their efforts to provide and enhance funding for transportation infrastructure.

iv) Environmental protection

Clean and efficient protection of technologies and advanced protection and conservation technologies are the key to environmental protection and sustainable development on local, regional and global levels. As most of their economies are expanding rapidly, Asia-Pacific and Latin America have a strong demand for environmental infrastructure and environmentally sound technologies.

Technological cooperation in this area of environmental protection could focus on the development and management of sustainable cities and rural communities; the development of legal regimes for such purposes; identification and development of environmentally sound technologies by establishing networks; and the adoption of related policy measures and the strengthening country capabilities in both regions for implementation. In order to create networking, an EALAF Environmental Technology Center could be established to work with other environmental centers in both the public and private sector.

Among others, some specific areas for cooperation might include, prevention of water pollution; automobile pollution control technologies; technologies to combat desertification and drought; ecological restoration technologies for mining and forestry; environmental monitoring technologies, and environmental management information systems; and the training of ISO auditors.

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Annex

Annex - 1
COUNTRY- CODES FOR TABLES 12 AND 20

CODE	COUNTRIES	CODE	COUNTRIES	CODE	COUNTRIES
ARE	United Arab. Emirates	IRN	Iran – Islam.R	PNG	Papua New Guinea
ARG	Argentina	ITA	Italy	PRY	Paraguay
AUS	Australia	JPN	Japan	PRK	Korea D. R. Rp.
BRA	Brazil	KOR	Korea Rep.	RUS	Russian Fed.
CAN	Canada	KWT	Kuwait	SAU	Saudi Arabia
CHN	China	MEX	Mexico	SGP	Singapore
COL	Colombia	MNG	Mongolia	SWE	Sweden
ESP	Spain	MYS	Malaysia	THA	Thailand
FRA	France, Monaco	NLD	Netherlands	TUR	Turkey
GBR	United Kingdom	NOR	Norway	TWN	Taiwan Province of China
GER	Germany	NZL	New Zealand	UKR	Ukraine
GTM	Guatemala	OMN	Oman	URY	Uruguay
HKG	Hong Kong China	PAK	Pakistan	USA	United States of America
HND	Honduras	PAN	Panama	VNM	Vietnam
IDN	Indonesia	PER	Peru	ZAF	South Africa
IND	India	PHL	Philippines	ZMB	Zambia

Source: The International Commodity Trade Data Base (Comtrade) of the United Statical division (UNSTAT).



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