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CONTENTS

Economic relations *between Latin America* and the high-performing *Asian developing economies*

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This study examines "South-South" economic relations in the context of regionalism. It covers three Latin American countries and eight high-performing Asian developing economies. Although the level of trade and investment between these two groups is currently very low, trade is growing fast and there are indications that the potential for continued growth exists. Although regionalism is advancing in both these parts of the world, it has so far not affected the ties between the two groups of countries, and in fact inter-regional trade growth has recently been exceeding intra-regional growth in the case of most of the countries covered by this study. In the short term, it would appear that economic relations between these Latin American and Asian countries will depend largely on whether a "second generation" of reforms in Latin America will sustain the gains from prior reforms. These changes will require a rehabilitated State at a time when much of the latter's political capital has already been expended, yet the need to maintain fiscal integrity remains. Part of the solution for the Latin American economies seems likely to lie in the widening and deepening of formal integration arrangements, especially in the case of the North American Free Trade Agreement (NAFTA), which could contribute to greater economic integration with the high-performing Asian countries. Finally, while the Asia-Pacific Economic Cooperation Council (APEC) is an obvious institutional bridge between the two regions, it may be premature to speculate too much on its potential significance. There would appear to be some formidable obstacles in the path towards a trans-Pacific Free Trade Area.

I

Introduction

The patterns of world trade and investment are being shaped in part no doubt by the proliferation of regional integration agreements. In Latin America and the Caribbean, for example, where such agreements have multiplied recently to close to 30, intra-regional exports as a share of exports to the world as a whole have increased dramatically from 13% in 1990 to an estimated 22% in 1994 (ECLAC, 1994). Moreover, the momentous decisions to move towards regional free trade areas adopted at the December 1994 Summit of the Americas and the November 1994 APEC summit could significantly influence future trade and investment patterns.

How will "South-South" economic relations be affected by the unfolding of such trends? This study is intended as a modest effort towards assessing part of the picture by examining the economic relations between the Latin American economies (LAEs) and the so-called high performing Asian developing economies (HPAEs). Much of the focus will be on the interaction between eleven countries: three Latin American economies –Brazil, Mexico and Venezuela (which together constitute roughly 65% of the Latin American and Caribbean gross domestic product)– and eight Asian economies (China, Hong Kong, Indonesia, Malaysia, Singapore, South Korea, Taiwan and Thailand).

In the following sections, a brief overview is given of the recent foreign trade and direct investment trends between these two sets of countries (section II). Section III then analyses the short- and long-term prospects for LAE-HPAE relations and the extrapolations that can be made on the basis of the data at hand. It notes that an important component in such an analysis is the juxtaposition of the prospects for greater inter-hemispheric integration with the context of growing hemispheric integration, and considers the extent to which the two may be compatible. Finally, section IV offers some conclusions.

II

Foreign trade and direct investment trends

According to data from the IMF (1987 and 1993), although the level of trade between the two sets of countries is still very low, trade growth in recent years has been very high. In 1992, trade by Brazil, Mexico and Venezuela with the eight HPAEs amounted to 6%, 3% and 2% of their total trade, respectively, while trade by the eight Asian countries with the three LAEs was between 0.5% and 1% of the Asian economies' world trade. Indeed, the figure for these Asian economies' trade with the whole of Latin America is not much greater, ranging from 1% to 3% for each of the HPAEs.

Yet, trade growth has been high. Trade between the HPAEs and Brazil and Venezuela grew at an average annual rate of 12% from 1980 to 1992, while the annual growth rate for the Asian countries' trade with Mexico was even more impressive over that period, exceeding 18%. Indeed, in the 1989-1992 period, the HPAEs' trade growth with Mexico and Venezuela was even more striking: around 32% per year.

For Mexico and Venezuela, the expansion of trade with the HPAEs was the result of both high export and import growth. Most of Brazil's expansion of trade with the HPAEs during 1980-1992 was due to growing Brazilian exports to the Asian markets, though recently the growth of Brazil's imports from that region has exceeded its export growth to the HPAEs. With the exception of Brazilian imports, most of the LAE-HPAE trade is in manufactured goods (United Nations, 1992a, 1992b and 1993).

These rates of growth are impressive by virtually any standard: when compared, for example, with the growth of world trade during the 1980s and early 1990s, which was closer to an average annual rate of 6%; with the growth rate of the eleven countries' trade with the world as a whole; and with intra-regional trade growth.

According to data drawn primarily from UNCTC (1992), OECD (1993), and ECLAC (1993), while recognizing the numerous data gaps and limitations it may be seen that the inter-regional foreign direct investment (FDI) flows are probably a good deal smaller than the corresponding trade flows. Both regions have been registering substantial FDI inflows recently, yet the great majority of this investment has originated in the industrial market economies (IMEs). In fact, LAE-HPAE FDI flows, as a proportion of inward FDI, have tended to be insignificant (i.e., less than 1%). The exceptions may be Taiwan, where 3.1% of its inward FDI flows from 1986 to 1990 came from Latin America, and Mexico, where 8.5% of the inward FDI in 1992 came from developing countries, which means most probably that it came from the HPAEs.

FDI figures are higher in some instances, though still small, if measured as a proportion of outward FDI. In the late 1980s to early 1990s, roughly 10% of FDI from Korea and Taiwan went to Latin America and the Caribbean, while for China (in 1987) the figure was closer to 4%. Most FDI from the HPAEs to the LAEs seems to be in sectors producing labour-intensive manufactured goods (such as textiles and apparel) for the North American market. In the case of Brazil, outward investments in the HPAEs in 1992 were less than one-half of one per cent of the total.

Is inter-regional FDI growing? The evidence is mixed. In general terms there has been a large increase in inflows of FDI to the HPAEs and the LAEs, especially Venezuela, Indonesia, Malaysia, China and Mexico (a notable exception is Brazil, which witnessed a 13% decline in FDI inflows between 1989 and 1992). As previously mentioned, however, most of these inflows come from the IMEs. For its part, outward FDI from the HPAEs is growing rapidly, though most is directed either to the IMEs or to other HPAEs.

A reasonable interpretation of the available data regarding trends in FDI flows between the HPAEs and the LAEs would seem to be that FDI outflows from Taiwan, Korea and China to the LAEs have been increasing in absolute terms and –at least in the case of Taiwan– in relative terms as well (that is to say, the proportion of Taiwan's outward FDI going to Latin America has been increasing). Outward FDI from the HPAEs as a group to Brazil and Venezuela appears to be declining, but HPAE flows to Mexico are probably increasing. Finally, FDI from Latin America to Taiwan, Malaysia and Korea has increased, but flows from the region to China, Indonesia, Hong Kong and Thailand have decreased.

III

Inter-regional integration potential

Extrapolating from existing economic trends is always a tenuous exercise, and probably more so than usual in this instance, for a number of reasons. First, Latin America and the Caribbean is in transition from the "lost decade" of the 1980s, and with the current major setback in Mexico and its spillover elsewhere, the transition has entered a new and uncertain phase. Second, the shift towards regional integration as a major form of economic integration worldwide is probably just beginning. Last, but not least, the high inter-regional trade growth figures are connected in one sense with the low levels of trade: the lower the initial level, the bigger the percentage change stemming from a given increment from one level of trade to another. In other words, the rate of trade growth between the two regions could be highly volatile and/or unsustainable.

What follows is a closer look at some of the important variables that are likely to affect trade and investment relations between the LAEs and the HPAEs. First, a partial assessment is made of the trade potential between the two regions in the light of the compatibility of their trade structures. Second, the evidence on regionalism is examined on the basis of the data emerging from this study, in order to determine the extent to which regional and inter-regional integration has been proceeding in these two areas of the world. Third, and no doubt most importantly, an assessment is made of the role of policy and institutions in shaping events, including the role of both national policies and institutions and inter-governmental policy and supranational institutions.

1. Potential for trade between the LAEs and the HPAEs

This section attempts to measure in one sense the potential for trade, by comparing the trade structures of trading partners. To what extent, for example, does Mexico export (to the world) what the HPAEs import (from the world)? Obviously, if one country does not sell what another country wants to buy, then there would appear to be little potential, at least in the short to medium term, for expansion of trade between the two. On the other hand, if the structure of exports of country A closely corresponds with the structure of imports of country B, then one might expect that, if the two countries are not already major trading partners, there is potential for them to become so.

Nevertheless, it is worth stressing some limitations of this exercise. First, there are clearly other important variables which also determine present and future trade patterns: market size and growth, geography, culture, history, policy, and FDI patterns seem to be among the most salient considerations in this respect.

Second, trade structures are not immutable. On the contrary, one of the most striking characteristics often observed among the HPAEs, and perhaps more recently some LAEs (such as Mexico), has been the dynamic nature of these economies' comparative advantages; some economies have displayed an impressive ability to "upgrade" their comparative advantages. A "good match", then, may be at best a necessary but not sufficient condition for trade expansion and, more generally, for greater integration between two areas in the near to medium term.

Third, the trade structures are examined in this article at a fairly high level of aggregation. Thus, the composition of trade for the relevant economies was disaggregated into five main commodity categories: i) all food items; ii) agricultural raw materials; iii) fuels; iv) ores and metals; and v) manufactured goods. Manufactured goods, in turn, were further disaggregated into three categories: i) chemical products; ii) machinery and equipment; and iii) a residual classification covering all other manufactured goods. [1]

This level of aggregation gives a good idea of the match between export and import structures, although further disaggregation (by 3-digit SITC commodities or commodity groups) would provide a more meaningful analysis of the extent to which one country is selling what another is buying.

On the basis of data taken from UNCTAD (1993) the structure of exports to the world by each of the three LAEs was matched with the structure of imports from the world by the HPAEs, as well as with the import structures of the LAEs' main and regional trading partners, for purposes of comparison. A similar match was also made between the LAEs' imports and the exports of the relevant economies.

The export-import structures were matched in the following way. The proportion of country A's exports in each commodity category was compared with the proportion of country B's imports in the same category. For each category, the smaller proportion of the two countries was determined and then added to the smaller proportions derived from the remaining categories. If the export-import structures are identical, the components will add up to 100 (i.e., a perfect match). The more dissimilar or incompatible are the structures, the lower is the total. The lowest possible measure is zero. [2]

On the basis of the trade structures (and assuming the elimination of all other influences), the evidence suggests the following conclusions. First, there would seem to be far greater opportunities for Mexico and Brazil than for Venezuela to export to the HPAEs (tables 1, 2 and 3). The most striking feature of the trade compatibility measures in respect of Venezuela's exports to the HPAEs and other trading partners is the extent to which the trade structures appear to be incompatible: compared with Brazil and Mexico, the matches are very poor "across the board." [3]

[1] This classification scheme follows that used in UNCTAD (1993).

[2] This trade structure compatibility measure is derived from Finger and Kreinin (1979), although these authors focus on the extent to which the export structures between two trading partners match. Erzan and Yeats (1991, p. 14) similarly apply the "Kreinin-Finger Index" to the case of export structures within Latin American economies in order to gauge the extent to which potential gains from a free trade area might be shared among countries with similar export structures.

[3] In 1991, 86% of Venezuela's exports were fuels. The extent to which trading partners' import structures are compatible with Venezuela's concentrated export structure hinges largely on how much these countries need oil. For example, the figures indicate relatively higher compatibility between Venezuelan exports and the import structure of Brazil and Japan, both of which are importers of fuel. In contrast, the compatibility is lower in the case of fuel producers such as China, Malaysia and Mexico.

TABLE 1

Brazil: Trade Compatibility (TC) Index, 1990-1992

	TC Index		TC Index
	Extent to which Brazil exports what its trade partners import		
	TC Index[a]		TC Index
HPAEs[b]	62	United States	64
Asian Tigers[c]	63	Canada	60
ASEAN[d]	60	Mexico	73
China	64	Argentina	56
Singapore	59	Italy	69
Korea	61	Netherlands	74
Hong Kong	68	Japan	73
Taiwan	62	Germany	73
Malaysia	59	France	72
Thailand	64	Spain	68
Indonesia	57	United Kingdom	73
	Extent to which Brazil imports what its trade partners export		
	TC Index		TC Index
HPAEs	59	United States	71
Asian Tigers	56	Canada	74
ASEAN	62	Mexico	89
China	61	Argentina	48
Singapore	74	Italy	59
Korea	53	Netherlands	76
Hong Kong	44	Japan	49
Taiwan	53	Germany	64
Malaysia	73	France	73
Thailand	54	Spain	69
Indonesia	60	United Kingdom	72

Source: UNCTAD (1993).
[a] The Trade Compatibility Index ranges from 1 to 100: the higher the index, the better the "fit" and hence the greater the trade potential. For a definition of the TC index, see the text.
[b] High-performing developing Asian economies.
[c] Include Hong Kong, South Korea, Singapore and Taiwan.
[d] The Association of South-East Asian Nations (ASEAN) includes Indonesia, Malaysia and Thailand.

Second, while both Mexico and Brazil have significant potential for expanding exports to HPAE markets, Mexico would appear to be better placed in this respect. This is partly because, overall, the compatibility indexes are higher for Mexican exports than they are for those of Brazil, even though Brazil currently exports a greater proportion of its commodities to HPAEs than does Mexico. Moreover, although in both countries the matches with their main trading partners are generally better than with the HPAEs, this difference is smaller in the case of Mexico. This would seem to imply that there is more room for the expansion of Mexico's exports to the HPAEs than those of Brazil.

Third, there would seem to be greater potential for Mexico and Brazil to expand their exports to the HPAEs than there is for the HPAEs to export more to Mexico and Brazil. The fit between the export structures of Mexico and Brazil and the import structures of the HPAEs tends to be better (i.e., the trade compatibility index is higher) than in the case of the fit between the imports of Brazil and Mexico and the HPAEs' exports.

In addition, with a couple of notable exceptions,[4] the import structures of Brazil and Mexico are generally much more compatible with the export structures of their main trading partners than with the HPAEs' export structures. In other words, there seem to be good reasons why those partners –the United States and some European countries in particular– are the leading sources of imports for Brazil and Mexico,

[4] The exceptions are the relatively incompatible export structures of Japan and Argentina with respect to Brazil's import structure. Yet these two countries are among the top five exporters to Brazil. These exceptions no doubt highlight the importance of other explanatory variables previously alluded to.

TABLE 2

Mexico: Trade Compatibility (TC) Index, 1990-1992

Extent to which Mexico exports what its trade partners import

	TC Index [a]		TC Index
HPAEs [b]	71	United States	72
Asian Tigers [c]	72	Canada	67
ASEAN [d]	71	Brazil	89
China	67	Venezuela	73
Singapore	75	Colombia	71
Korea	80	Argentina	70
Hong Kong	60	Japan	78
Taiwan	74	Germany	76
Malaysia	68	France	78
Thailand	72	Spain	80
Indonesia	73	United Kingdom	75

Extent to which Mexico imports what its trade partners export

	TC Index		TC Index
HPAEs	68	United States	94
Asian Tigers	71	Canada	78
ASEAN	64	Brazil	66
China	67	Venezuela	14
Singapore	85	Colombia	49
Korea	73	Argentina	49
Hong Kong	53	Japan	78
Taiwan	73	Germany	90
Malaysia	80	France	88
Thailand	64	Spain	91
Indonesia	48	United Kingdom	87

Source: UNCTAD (1993).

[a] The Trade Compatibility Index ranges from 1 to 100: the higher the index, the better the "fit" and hence the greater the trade potential. For a definition of the TC index, see the text.

[b] High-performing developing Asian economies.

[c] Include Hong Kong, South Korea, Singapore and Taiwan.

[d] The Association of South-East Asian Nations (ASEAN) includes Indonesia, Malaysia and Thailand.

and why such trends could continue. The compatibility of Mexico's import structure with its main trading partners is particularly striking: especially with the United States, though also with its European partners (Germany, France, Spain, and the UK).

Fourth, the export expansion potential for all three LAEs would seem to be slightly greater on the markets of the "Asian Tigers" (Singapore, Korea, Hong Kong and Taiwan) than on those of the ASEAN countries (Malaysia, Thailand and Indonesia). Among the HPAEs, the greatest export expansion potential for both Mexico and Venezuela lies in the Korean market, while the least potential exists with Hong Kong. In contrast, Brazil's greatest export expansion potential is with Hong Kong, and the least with Indonesia.

Fifth, the export expansion potential for the HPAEs with the three LAE markets is greatest for Singapore and Malaysia. Indonesia would appear to have the least potential to expand exports to Mexico and Venezuela, and Hong Kong's exports have relatively little room for expansion in all three LAEs.

Finally, some observations regarding the potential for intra-regional trade within Latin America may be instructive (as the potential for inter-regional trade is conditioned in part by the potential for intra-regional trade). First, the evidence suggests that there is substantial potential for trade expansion between Brazil and Mexico (in both exports and imports): greater than that which exists with their main trading partners and with the HPAEs. This may suggest that both countries could make substantial gains if they were to link up more formally through a trade agreement. Mexican export expansion shows considerable potential in the case of the markets of other Latin American countries as well, including Venezuela, Colombia and Argentina. This potential is roughly comparable to that with the HPAE markets.

TABLE 3

Venezuela: Trade Compatibility (TC) Index, 1990-1992

Extent to which Venezuela exports what its trade partners import

	TC Index [a]		TC Index
HPAEs [b]	21	United States	23
Asian Tigers [c]	23	Canada	16
ASEAN [d]	20	Mexico	16
China	15	Colombia	19
Singapore	25	Brazil	37
Korea	30	Italy	23
Hong Kong	13	Netherlands	21
Taiwan	24	Japan	38
Malaysia	17	Germany	21
Thailand	21	France	22
Indonesia	22	United Kingdom	19
Extent to which Venezuela imports what its trade partners export			
	TC Index		TC Index
HPAEs	65	United States	88
Asian Tigers	67	Canada	80
ASEAN	63	Mexico	65
China	65	Colombia	47
Singapore	76	Brazil	67
Korea	71	Italy	76
Hong Kong	51	Netherlands	78
Taiwan	71	Japan	68
Malaysia	80	Germany	83
Thailand	62	France	91
Indonesia	48	United Kingdom	87

Source: UNCTAD (1993).

[a] The Trade Compatibility Index ranges from 1 to 100: the higher the index, the better the "fit" and hence the greater the trade potential. For a definition of the TC index, see the text.

[b] High-performing developing Asian economies.

[c] Include Hong Kong, South Korea, Singapore and Taiwan.

[d] The Association of South-East Asian Nations (ASEAN) includes Indonesia, Malaysia and Thailand.

In contrast, the fit between Brazil's exports and Argentina's import structure is quite poor: poorer than any of the other trade compatibility measurements for Brazilian exports. This may have interesting implications for the evolution of MERCOSUR, of which Brazil and Argentina are the two dominant members. At the very least, this result would seem to imply that it is in Brazil's interest to remain diversified as regards its trade partners.

Finally, Venezuela's exports match up poorly with all its Latin American partners, in comparison with the figures for Mexico and Brazil. Furthermore, among Venezuela's trading partners in the hemisphere and elsewhere (including the HPAEs), its export expansion potential to Mexico and Colombia is among the smallest, though its export expansion potential to Brazil is among the largest.

2. Evidence on regionalism (and inter-regional integration)

Clearly, greater regional and inter-regional economic activity are not necessarily mutually exclusive. In fact, "open regionalism" can serve to promote greater economic links between regions. This theme will be dealt with more fully below. The purpose of this section is first to look at the existing record. To what extent has regionalism been occurring in Latin America and Asia? Is there evidence of the co-existence of regionalism alongside growing inter-regional integration? Or, to put it a little differently, has regionalism –to the extent that it is occurring– taken place at the expense of LAE-HPAE relations?

Evidence from both trade and investment flows is available, though the trade data provide a much more complete and current picture (tables 4 and 5). The focus in this exercise is on the comparison, for each of the ten developing countries in this study,[5] of the average annual percentage change in trade during the most recent time series (1989 to 1992) with: i) the world; ii) the country's own region, including both the neighboring industrial market economy countries and developing economies; and iii) the developing economies of the "other" region.[6] Evidence of regionalism is considered to exist if a country's trade growth with the economies of its region exceeds that country's trade growth with the world.

The results are quite striking. First, evidence of regionalism does exist for all ten countries: that is to say, each country's growth of trade with the economies of its own region during 1989 to 1992 was greater than the growth of world trade for that country.

Second, with the exception of the trends in the trade of China and Singapore, regionalism does not appear to be taking place at the expense of LAE-HPAE inter-regional integration: i.e., with the exception of China and Singapore, each LAE's (HPAE's) trade growth with the HPAEs (LAEs) has been greater than that country's growth in terms of world trade. This obviously means that trade with some other countries and regions in the world is growing less than the world trade growth of these LAEs and HPAEs. Trade between these two Third World regions, however, is not suffering.

Indeed, in most of the countries (Mexico, Venezuela, Thailand, Hong Kong, Indonesia and Korea), inter-regional trade growth exceeded regional trade growth during the period from 1989 to 1992. The results given in tables 4 and 5 for a longer time series, 1980 to 1992, show similar trends, although less pronounced.

The results on regionalism and its association with LAE-HPAE relations are not as clear-cut in the case of FDI trends (table 6). In part, the analysis is hampered by insufficient data; either there are not enough data to provide a trend assessment, and/or the figures are not as up-to-date as one would wish.

TABLE 4

Brazil, Mexico and Venezuela: Direction of trade, 1980-1992
(Average annual percentage change)

	Brazil		Mexico		Venezuela	
	1980-1992	1989-1992	1980-1992	1989-1992	1980-1992	1989-1992
World	*2.3*	*4.3*	*9.3*	*23.2*	-0.7	6.4
Industrial market economies	3.5	3.0	9.9	23.8	-0.3	4.6
Developing economies	1.0	8.5	8.0	18.8	-2.1	13.9
Asia	9.6	6.2	18.1	33.1	10.4	31.9
HPAEs [a]	12.2	5.9	18.4	32.8	11.9	31.6
China	4.0	-10.1	4.4	-2.5	NA	NA
Hong Kong	17.9	2.6	22.7	32.7	6.6	30.4
Indonesia	2.1	10.6	18.3	36.7	NA	-8.0
Korea	22.9	15.4	25.8	40.3	17.4	49.0
Malaysia	22.7	14.9	20.7	41.8	NA	NA
Singapore	6.9	5.1	12.7	25.7	NA	64.6
Thailand	20.4	15.9	28.5	44.3	NA	NA
Taiwan	20.9	11.0	25.3	111.4	NA	-0.2
Western Hemisphere	4.0	7.2	10.3	25.0	-0.6	8.9
United States	3.9	1.9	10.4	25.4	1.8	7.9
Canada	-2.0	-8.4	15.5	37.4	-10.3	0.4
LAEs [b]	4.9	17.0	6.8	14.4	-2.9	12.5

Source: IMF, 1987 and 1993.
[a] High-performing developing Asian economies.
[b] Latin American economies.

[5] Data for Taiwan were not available.

[6] Thus, the region for Brazil, Mexico and Venezuela is taken to include all the countries of the Western Hemisphere, while the HPAEs' region includes not only all the Asian developing economies, but also Australia, Japan and New Zealand, which were expressly excluded from the present study.

TABLE 5

High-performing developing Asian economies (HPAEs): Direction of trade, 1980-1992
(Average annual percentage change)

	Thailand		Singapore		China	
	1980-1992	1989-1992	1980-1992	1989-1992	1980-1992	1989-1992
World	*12.8*	*17.6*	*8.9*	*10.3*	*12.5*	*12.2*
Industrial market economies	13.7	17.8	9.6	8.3	9.3	8.9
Developing economies	11.7	17.4	8.6	12.4	16.0	15.4
Latin American economies	17.2	19.7	6.0	7.4	7.1	4.7
Brazil	16.1	16.4	6.8	0.3	5.3	-9.9
Mexico	21.1	20.8	8.2	15.5	8.1	10.6
Venezuela	-2.3	33.8	16.1	55.1	8.7	15.2
Asia-Pacific	14.4	19.0	10.2	11.3	14.6	15.3
Australia	14.8	20.1	9.2	18.2	4.9	11.4
Japan	14.9	19.6	8.9	6.8	8.5	7.1
New Zealand	11.4	16.1	-1.8	5.3	5.6	-4.9
Asian developing economies	14.0	18.4	10.9	12.6	19.0	18.8

	Hong Kong		Indonesia		Korea		Malaysia	
	1980-1992	1989-1992	1980-1992	1989-1992	1980-1992	1989-1992	1980-1992	1989-1992
World	*14.6*	*16.2*	*5.2*	*15.6*	*11.5*	*8.2*	*10.2*	*19.0*
Industrial market economies	12.3	14.2	4.2	13.7	11.3	3.5	9.4	18.5
Developing economies	18.1	18.0	8.5	20.1	12.3	21.8	12.0	19.8
Latin American economies	13.8	24.3	-3.6	23.0	15.3	13.9	17.4	19.0
Brazil	17.9	2.1	-1.2	12.3	25.0	17.9	14.4	11.5
Mexico	21.4	35.2	14.8	35.6	19.1	19.2	23.1	47.0
Venezuela	6.8	25.2	12.3	46.2	17.8	46.1	NA	NA
Asia-Pacific	17.5	17.2	5.1	15.7	13.6	11.4	11.3	19.2
Australia	10.2	10.6	9.4	23.1	12.7	11.3	6.7	9.3
Japan	12.7	14.4	1.9	10.8	10.4	2.7	8.9	19.0
New Zealand	9.3	12.3	0.4	9.5	14.6	13.3	9.3	0.7
Asian developing economies	19.4	18.1	10.0	20.8	18.0	22.7	13.1	20.5

Source: IMF, 1987 and 1993.

As in the analysis on trade, evidence of regionalism is considered to exist if a country's inward (outward) FDI from the economies of its region increases over time as a proportion of total inward (outward) FDI.

With regard to FDI trends, there is evidence that regionalism exists among the HPAEs, but there is no evidence of it in the three LAEs. Even among the HPAEs, however, the trend is not universal: for Singapore, Hong Kong and Korea, the proportion of outward FDI to total FDI which remains in the region is declining.

Where available, the evidence of the co-existence of regionalism with (proportionately) growing LAE-HPAE FDI is mixed, with little discernible pattern to explain why. Some countries are experiencing both phenomena, others are witnessing one but not the other, and some are not experiencing either. It is difficult to make much of an interpretation of these trends, as the data are limited. To a large extent, this reflects the reality that FDI from many of these developing countries remains relatively insignificant.

3. Policies and institutions

The primary policy and institutional considerations boil down to two: domestic reforms in Latin America

TABLE 6
Latin America (three countries) and Asia (eight countries): Regional and inter-regional FDI trends, 1980-1992

	Evidence of:	
	Regionalism [a]	Inter-regionalism [b]
Outward FDI		
Singapore	No	
Hong Kong	No	
Korea	No	No
Taiwan	Yes	Yes
Thailand	Yes	
Indonesia		
Malaysia		
China	Yes	No
Brazil	No	No
Mexico		
Venezuela		
Inward FDI		
Singapore		
Hong Kong	Yes	No
Korea	Yes	Yes
Taiwan	Yes	Yes
Thailand	Yes	No
Indonesia	Yes	No
Malaysia	Yes	Yes
China	Yes	No
Brazil	No	No
Mexico		
Venezuela	No	No

Source: OECD (1993), ECLAC (1993) and CTC (1992).
[a] Evidence of regionalism is said to exist if the inflow (outflow) of FDI in an economy from (to) the economies of its region increases over time as a proportion of the total inflow (outflow) of FDI.
[b] Evidence of inter-regionalism is said to exist if there is proportional growth of FDI between the economies of Latin America and those of Asia.

and the Caribbean, and the repercussions of regional cooperation arrangements (especially the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Cooperation Council (APEC)).

a) *Domestic reforms in the Latin American economies*

The sweeping reforms in Latin America and the Caribbean have contributed to substantial economic gains. Excluding Brazil, where reforms have tended to lag, the growth of output in the region increased from an annual rate of 1.5% in 1985-1989 to roughly 3.5% in 1990-1994 (Linde, 1995). Average inflation (excluding Brazil) fell to 14% by 1994: a record low in recent decades, and far below the 130% registered in 1989. These trends, if they continue, will obviously benefit LAE-HPAE economic relations.

Nevertheless, the crisis in Mexico has further underscored the need for "second generation" reforms. These structural reforms must address at least two broad concerns. First, the region as a whole continues to face substantial destabilizing pressures in the form of current account deficits which cannot be eradicated by stabilization policies alone. Reduction of the dependence on volatile foreign portfolio capital is vital. This means sustaining and even accelerating exports. Domestic savings must also increase. The LAEs save less than 20% of GDP: a very low figure compared with the 35% of GDP saved by the HPAEs.

Furthermore, in addition to being morally intolerable, the region's widespread and growing poverty and high income inequality is not sustainable. In fact, Latin America and the Caribbean has the most severely skewed income distribution in the world, with the richest 20% receiving almost twenty times more income than do the poorest 20% (Sprout and Weaver 1992).[7]

Paradoxically, in light of the region's largely fruitful efforts over the past ten years to decrease the role of the State, these concerns and others point to a need to rehabilitate it.[8] If Latin America is to sustain and broaden the gains it has already made, effective governance is particularly needed to upgrade public services in health and education, promote savings, investment and exports, better regulate newly privatized sectors, and push forward tax reforms.

b) *Intergovernmental institutions*

Policies affecting relations between governments –trade and investment agreements in particular– will also play a major role in inter-regional integration trends between the LAEs and the HPAEs. Most of this activity has so far been intra-regional. Within Latin America, integration agreements have been flourishing: a web of some thirty overlapping, sometimes contradictory, integration arrangements has evolved in recent years. Asian integration has tended so far to

[7] In contrast, the wealthiest 20% in the industrial market economies receive seven times more than the poorest 20%. In East Asia, the ratio (six to one) is lower still (Sprout and Weaver, 1992).

[8] This sentiment is ably expressed and supported by Naim, 1993.

be more market-driven than policy-driven, more informal than formal. There too, however, governments are cooperating to reap the gains from pooling resources and comparative advantages.[9]

The regional arrangement that is likely to have the greatest repercussions on LAE-HPAE relations in the near to medium term is the North American Free Trade Agreement (NAFTA). This is largely because the United States is the leading member, and its economy is vitally important to all the countries of this study. This may be most apparent in the case of the LAEs, but the HPAEs are very much dependent on the U.S. economy too, as is shown in the remarkable figures given in table 7. The Philippines and Japan are included in this table to further underscore the importance of the U.S. market for all of East Asia. In 1993, the United States ranked first among export markets in six of the ten Asian countries, and second in the other four.

NAFTA is also important because it significantly tilts the global balance between regionalism and multilateralism. Combined with Europe's longstanding integration scheme, which continues to deepen and widen, it ensures a prominent position for regional integration across the globe, and could put pressure on the Asian countries to regionally integrate in a defensive manner.

A fundamental concern then is that, with the emergence of NAFTA, the world could move towards closed regional blocs, or at least that the attention to regional integration could erode the levels of commitment and progress in the multilateral forum of GATT (now the World Trade Organization (WTO)). Neither scenario would serve the promotion of South-South relations, nor the more general consideration of Third World development (in most instances).

Nevertheless, although the closed-bloc scenario could unfold in the above manner, it does not seem likely at this juncture for two fundamental reasons. First, the multilateral process has been boosted by a Uruguay Round victory, thus increasing the probability that regionalism and multilateralism will be processes that complement rather than substitute each other. Second, NAFTA is not taking the shape of a closed system, and this would seem to apply in general to the other Western Hemisphere integration agreements as well.

There are two important criteria for judging the openness of NAFTA. One refers to trade and investment barriers to non-members. The other refers to membership barriers.

With regard to the first criterion, NAFTA would seem to score quite well overall. As has been argued elsewhere, NAFTA essentially conforms to the "letter" of the GATT's Article XXIV (which sanctions regional arrangements given certain conditions), and, more importantly, it builds on the GATT in some important areas. NAFTA, in other words, has some GATT-plus characteristics.[10]

Naturally, a primary objective of NAFTA is to give the producers in its member countries a competitive advantage over others. In general, however, the strategy seems to be to do so not through raising barriers to the outside, but by lowering barriers within. If this is accomplished, then trade creation will outweigh trade diversion, and non-members can reap these trade creation gains as well. Growing open markets translate into growing opportunities for all, not just NAFTA members. This is another way of stressing the importance of weighing the dynamic effects (of greater economic growth) against the static trade and investment diversion effects.

Still, not all is wonderful with NAFTA. A major negative aspect is clearly its restrictive rules of origin, particularly in textiles and apparel and automobiles. Unfortunately, these measures seem aimed at the East Asian competitors. It is also unfortunate because these rules may well actually impair the competitiveness of many of the producers within the free trade area over the longer term. It also sets a dangerous precedent for future regional schemes. However, the agreements at the Uruguay Round on these sectors will likely serve to minimize the trade diversion that may stem from NAFTA's restrictive rules of origin.

[9] The emergence of so-called "growth triangles" comes to mind. There are at least three of these: i) the Chinese economic area consisting of China, Hong Kong and Taiwan; ii) a growth triangle between Indonesia, Malaysia and Singapore established in 1989, and iii) more recently, in 1993, an arrangement between Malaysia, Thailand and Indonesia (see, for example, Vatikiotis (1993). In addition, the ASEAN countries have been working towards a free trade area (AFTA), though progress appears to be slow.

[10] See, for example, Hufbauer and Schott (1993) for an assessment in this vein.

TABLE 7

East Asia: Importance of the United States market, 1993

	Total exports (US$ millions)	Exports to United States (US$ millions)	United States share of total (%)	United States rank among export markets
Japan	362 583	106 898	29.5	1
Asian Tigers				
Korea	83 535	18 138	21.7	1
Taiwan [a]	76 161	22 317	29.3	1
Hong Kong	135 005	31 159	23.1	2
Singapore	74 071	15 074	20.4	1
ASEAN				
Indonesia	36 843	5 230	14.2	2
Thailand	37 111	8 004	21.6	1
Philippines	11 279	4 324	38.3	1
Malaysia	47 080	9 580	20.3	2
China	91 611	16 976	18.5	2

Source: IMF (1994).
[a] These figures are for 1991 and are taken from Ow-Taylor (1993).

There also continues to be legitimate concern regarding the United States' use of "aggressive unilateralism" in its trade policy arsenal. In fact, if the United States tries to apply an enlightened regional trade policy in NAFTA, this could give rise to greater pressures for anti-dumping and countervailing duty actions, as U.S. producers hurt by growing competition as a result of NAFTA seek redress wherever they can get it. Once again, the East Asians may be likely targets.

Finally, there is the issue of accession to NAFTA. While membership is technically open to any country that is able to meet the economic conditions set forth by the NAFTA members, it is clear that the intention is to make the Agreement the core of a wider hemispheric free trade area. At the Miami Summit, the NAFTA members formally invited Chile to begin negotiations, scheduled to begin in May 1995, with a view to NAFTA membership.

Access to NAFTA through formal membership may not be all that important, however, to countries outside the hemisphere. This is partly because there are indirect means of gaining access to it. One is to secure a trade and/or investment agreement with a member country of NAFTA. This is what many countries have been doing with Mexico. Most of these agreements have been between Mexico and Western Hemisphere countries, though not exclusively so.

Mexico and Thailand, for example, recently signed a trade and investment expansion agreement. This will promote Thai investments in Mexico and, through these investments, enable Thailand to capture some of the preferential access to the markets in Canada and the United States. These investment endeavours will initially be joint ventures (see Stier, 1992).

APEC, too, could become a formal vehicle for gaining access to the North American market for the HPAEs and, more generally, a mechanism to promote LAE-HPAE economic links. Established in 1989 with the modest objectives of providing a formal forum at the intergovernmental level for consultation and cooperation in economic affairs by the Pacific Rim countries, it continues to widen (it now has a membership of 17) and deepen (moving towards more ambitious objectives and increasing commitments).

Working groups have been formed in APEC on trade, investment and other areas, and a permanent secretariat has been established in Singapore. Until recently, Third World APEC members came only from the Asian region (specifically, the eight HPAEs of this study, plus Brunei and the Philippines). However, Mexico became a member at the Seattle meeting in December 1993, and most recently, Chile joined in November 1994 at Jakarta.

The major development at the Jakarta Summit was the agreement in principle to form a free trade area among APEC members by the year 2020. Whether and how that unfolds in practice are very much open questions. There are certainly reasons to expect a much more difficult negotiation process than that preceding the formation of NAFTA. The concern shown by some U.S. groups of being out-competed by future members of the free trade area will be greater, as will the voices of objection. In addition, there would appear to be much less consensus among potential members on the fundamentals. How free should free trade be? How fast should it be attained, and what should the sequence of policies be? At all events, a better indication of the feasibility of the proposed free trade area should be revealed by the next summit meeting to be held in the fall of 1995 in Osaka, Japan, at which a more specific blueprint is to be unfolded. [11]

IV

Concluding observations

Economic relations between the LAEs and the HPAEs in the near term would seem to hinge greatly on the reform process in Latin America and the Caribbean, and on the evolution of NAFTA. To some extent, the most difficult part still lies ahead for the LAEs in their dramatic bid to compete in the world economy. Far-reaching though the stabilization and liberalization reforms have been, some even more intractable structural changes must be made in order to sustain the gains. These changes will require a rehabilitated State, at a time when much political capital has already been expended, yet the need to maintain fiscal integrity remains. Nevertheless, in view of the extraordinary achievements to date, grounds for cautious optimism would seem to exist.

Part of the solution for the LAEs seems likely to lie in the widening and deepening of formal integration arrangements, and NAFTA in particular. Furthermore, the growth of regionalism in the Western Hemisphere so far appears to be compatible with growing inter-regional relations. In fact, the importance of the Asian-American economic ties almost ensures this outcome.

NAFTA may, however, affect the composition of the LAE-HPAE economic flows. In particular, to the extent that it will have some adverse consequences for the East Asian economies in the shape of restrictive rules of origin and possible U.S. unilateral trade actions, the HPAEs may focus more on direct investments in Latin America in the near term and less on trade as a means of maintaining access to the North American market.

Finally, while APEC is an obvious institutional bridge between regions, it may be premature to speculate too much on its potential significance. As previously mentioned, there are some notable obstacles standing in the way of its evolution into a free trade area. There is one trend, however, which could take place in Europe and could contribute as much as anything to greater integration between Asia and the Americas. Some observers have contended that Western Europe shows signs of playing a closed-bloc game. Be that as it may, at the very least it will continue to be preoccupied for some time to come with both deepening the European Community within and incorporating its neighbours to the East.

(Original: English)

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[11] Two non-governmental arrangements that play a role in encouraging LAE-HPAE relations are also worth mentioning: the Pacific Economic Cooperation Conference (PECC), established in 1980, whose individual members are drawn from all the APEC countries plus Peru; and the Pacific Basin Economic Council (PBEC), established in 1969, with nine members (Japan, Korea, Hong Kong, Australia, New Zealand, the United States, Canada, Mexico and Chile). See Mattos (1993) for more details.

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