

A NEW ECONOMIC PARTNERSHIP BETWEEN ASIA-PACIFIC AND LATIN AMERICA IN AGE OF GLOBALIZATION

Luncheon Speech by Dr. José Antonio Ocampo, Executive Secretary of ECLAC,
at the First East Asia-Latin America Ministerial Meeting,
Santiago, March 29, 2001

A number of important events have been organized in recent years to address the nature and scope of inter-regional cooperation between Latin America and the Caribbean (LAC) and Asia-Pacific (AP).¹ ECLAC has participated actively in some of these events. Many observers, however, have argued that these initiatives have stopped short of going beyond the rhetorical level. In their view, there is a clear need for a dialogue that is more policy-oriented and supportive of concrete proposals to strengthen interregional economic relations. From this perspective, creating the East Asia-Latin America Forum (EALAF), the only forum of cooperation dialogue that goes beyond the concept of the Pacific Rim, 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 the members countries in both regions. The first Ministerial Meeting of EALAF, for which we are gathered here, will serve to establish, in broad terms, the agenda and work programs of this Forum.

TRADE RELATIONS

One of the reasons why the existing bi-regional forums have produced few measurable results so far is related to the economic asymmetries between the two regions. These two regions are not of an equal size, neither in terms of regional GDP nor trade volume. The degree of trade openness also differs between the two regions. Even before the Asian crisis, Latin America and the Caribbean was not a significant trade partner for Asia Pacific, either in exports or imports. In 1998, amidst of the crisis, only 2% of total Asia Pacific exports and imports took place with Latin America and the Caribbean. For all the countries in Asia Pacific, the share of Latin America and the Caribbean in total exports and imports did not exceed 6% throughout the decade. On the other hand, the share of Asia Pacific in Latin America and the Caribbean exports, which had increased substantially up to 12% of the total in 1991, began to fall during the course of the decade, and after the crisis, in 1999, represented only 6% of the total.

It is equally important to realize that the low level of bi-regional trade of roughly US\$ 50 billion accounts for less than 1% of world merchandize flows. The fact that present inter-regional trade flows occupy a relatively small space in global trade points not only to vast possibilities

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

that may lie ahead, but also to enormous challenges that confront future bi-regional cooperation in trade and investment.

In the 15 years prior to the Asian crisis, though from a small base, LAC trade with AP continued to expand rapidly. Major factors behind this dynamism included the economic boom of AP countries, on the one hand, recovery of growth and economic reforms put in place and resulting effects of liberalization and deregulation in LAC, on the other. AP as a whole experienced strong consumption and investment growth, which resulted in increasing demands for raw materials from LAC. Similarly, Asian investments in LAC were “pulled” in by the economic growth and integration in LAC and “pushed” by high Asian production costs, and a corporate strategy that emphasized globalization. Stronger trade and investment ties realized before the financial crises were thus market-led, rather than policy-led, in that positive results were fruits of private-sector initiatives on both sides, with few transpacific intergovernmental mechanisms to support them.

The further intensification of trade and investment relations between the two regions, of course, hinges strongly upon economic recovery and growth in both regions. However, the relatively low level of economic interaction even prior the crisis, and the Asian crisis itself and the present international economic environment, especially the slowdown of the US economy and the standstill of Japanese economy, cast strong doubt on the continued impulse of the “push” and “pull” factors. For this reason, the governments in both regions are increasingly recognizing the need to institutionalize their mechanisms of consultation and possibly to implement joint actions for economic cooperation.

In order to bring about concrete results in these forums, it might be necessary to place these initiatives in a new perspective of formal “south-south cooperation” where inter-regionalism functions as a bridge between regionalism and multilateralism. That is to say, these initiatives must constitute themselves as another pillar of worldwide inter-regional cooperation schemes, such as APEC, Asia-Europe Meeting (ASEM), EU-MERCOSUR and FTAA.

It should be noted that the significance of Asia Pacific as Latin America and the Caribbean’s trade partner is more pronounced in imports than in exports. In fact, Latin America and the Caribbean as a whole registered an increasingly large trade deficit with Asia Pacific during the 1990s. In terms of import growth rates, Asia Pacific overtook the United States and Latin America and the Caribbean as the region that most profited from trade liberalization of LAC countries in the decade. In fact, during 1996-1999, AP exports to LAC increased over 7% per year, when exports to other regions and intra-AP trade declined substantially.

In my view, there still exist basically two interrelated problems that provide possible explanations for the level and moderate growth of trade flows between the two regions: country concentration and product composition. Trade flows between AP and LAC are concentrated in a few countries. During the 1990s, Brazil, Chile, Mexico and Argentina captured almost 84% of all LAC exports to AP. LAC’s imports from that region are also concentrated in a few countries: three countries (namely Mexico, Brazil and Argentina) account for nearly 65% of the total.

AP's trade with LAC countries is also concentrated in a limited number of countries. In exports and imports alike, Japan is the predominant supplier to and buyer from LAC, accounting for close to 45% of total bi-regional trade. For the period 1990-1999, three countries (i.e., Japan, the Republic of Korea and China) accounted for over 77% of all AP exports to LAC. Similarly, the same three countries received on average 67% of the total value of regional imports from LAC. However, there has been a significant displacement of Japan by the Republic of Korea and China.

The nature of those flows is almost purely *inter-industrial*: imports from AP are manufactured goods, while LAC exports are mainly primary commodities. In contrast to the increasing importance of manufactures in LAC exports, there has been an opposite trend for LAC exports to AP. Shipments of food items and minerals and metals have an increased share of total exports to AP, reflecting LAC's comparative advantages and the potential of AP markets. A strong outcome in LACs manufactured exports reflects the increasing participation of Mexico to the United States in overall regional exports. The experiences of the Central American Common Market (CACM) and particularly Mexico point to an investment-cum-trade strategy different from the one adopted in the rest of LAC.

As many Asian experts point out, trade ties among AP countries are increasingly characterized by intra-industry trade. On the LAC side, there is a substantial intra-industry trade, particularly in Mercosur. However, intra-industry trade between the two regions has been very limited. The main intra-industry flows between the two regions occur mostly in products with little importance for the bilateral trade. Given the divergent pattern of international specialization between AP and LAC, the recovery of aggregate demand of AP countries would offer LAC countries new production and export opportunities. Nonetheless, there is a concern that those potential benefits for non-Asian countries that derive from sustained recovery of the AP economies might be difficult to be fully exploited, due to the area's integrated productive system, based primarily on intra-regional and intra-industry trade.

From the LAC perspective, AP seems to be an under-exploited market on the export side. As the experiences of some LAC countries -particularly Chile and Peru- in the 1990s demonstrated, there seems to be a good potential for expanding natural resource-based exports from the region. However, LAC's trade with AP exhibits the same limitations that the region has in international trade in general: its exports are mostly primary and semi-manufactured goods. The present product composition is very sensitive to economic cycles of importing countries and, therefore, does not help stabilize export earnings, as evidenced in dramatic drops in export earnings in the AP markets during the recent financial crisis. In sum, opportunities for future expansion in inter-regional trade and mutual investment involving natural resources seem to be present if strategies like Chile's or Peru's are pursued. What is important in these product areas, however, is to find strategic alliances to increase value-added across the production chain and increase market access. Global changes towards liberalization, and increased competition for markets, have forced a deeper consideration among governments and business leaders of the desirability of market diversification.

To meet the challenges, and seize the opportunities, of an ever more globalized world economy, we must always be ready to target new export markets, and we must continuously look for the best sources of imports, technology and investment capital.

TRADE-INVESTMENT LINKS

The lack of intra-industry complementarity is a significant factor for the low level of foreign direct investment (FDI) between the two regions. A new dynamism in LAC intra-regional trade and FDI in the 1990s can be attributed to several new factors that include not only globalization but also: (1) liberalization of trade and investment, first at the unilateral level then increasingly within the context of the multilateral system; (2) economic reforms in general; (3) comprehensive and rapid privatization of state-owned enterprises; and (4) new processes of regional and sub-regional integration. Though in a different degree and form, each of these factors was also present in the AP experience. What seems to be very different, however, is the type of investment-cum-trade relation that each region has experienced.

One reason for low Asian FDI in LAC in the 1990s is the intra-industrial corporate activity in East Asia that follows the so-called “flying geese” pattern of development. Though maybe oversimplified, this vision of industrial development across countries and over time describes adequately the interaction between trade and FDI as a process of relocating production across national boundaries, which creates a two-way, or triangular trade flow among participating countries. However, this “flying geese” pattern of development was hardly observable in the Americas in the 1960s and 1970s. FDI from the United States and other countries was basically mobilized for import-substitution industries and resource-based development. This was partly because export-oriented industrialization had a lesser weight in the Latin American development strategy during those years.

Moreover, LAC’s industrialization of the 1980s and 1990s brought about a clearly different trade-cum-investment relation in Latin America from the “flying geese” pattern of Asia. Companies in Latin America pursue an international strategy which uses the advantages of their respective home countries, which derive either from abundant natural resources, their expertise to develop and process these resources, or their capabilities and competitiveness in selling these processed resources or industrial commodities internationally. These companies also make use of the benefits of such regional integration processes as NAFTA, the Andean Community and MERCOSUR. Large companies in the region have expanded their businesses on an international scale into two or more countries, in such fields as energy, communications, transportation, and financial services. Asian investors rarely participated in the privatization process of these sectors.

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

MARKET ACCESS AND INTEGRATION PROCESSES

Ironically, it is precisely in the sector of processed commodities where LAC exporters have encountered problems of access to AP markets. Although tariff levels of the economies in AP are low, or have been reduced significantly, these countries still maintain relatively high tariffs on certain industrial goods and agriculture. Furthermore, there is a problem of tariff escalation, where the tariff applied on a product chain rises in accordance with the level of processing. Meanwhile, the concentration of AP exports --where in the manufacturing sector where AP competes directly with the United States in the LAC market-- the Free Trade Area of the Americas (FTAA) could have important implications for AP countries.

Speaking of market access, between the mid-1980s and 1990s the LAC region unilaterally reduced its average external tariff from over 40% to 12%. The average maximum tariffs in the region fell from more than 80% to 40% with only two countries presently applying maximum tariffs of up to 100% on a small number of products. Tariff dispersion, on average, has declined from 30% in the mid-1980s to a low of 9% today. The region also actively participated in the Uruguay Round and by the end of the decade all Latin American countries were members of the WTO. Meanwhile, there was a parallel wave of new reciprocal free trade and integration arrangements. Government authorities have used support for regional integration to signal their continued commitment to liberalization, even when political or economic conditions for further unilateral opening have been difficult and when reciprocal multilateral initiatives are in a transition phase, as has been the case since the end of the Uruguay Round.

In LAC, a “New Regionalism” began to appear in the second half of the 1980s and consolidate itself in the 1990s. The old Post-War economic integration initiatives were characterized by the state-led industrialization model of development, a more inward-looking orientation, a high level of selectivity with the application of multiple positive lists, and skepticism regarding private markets and, in some cases, concern about the presence of, and dependence on, foreign firms. The old integration schemes generally did not succeed in accomplishing their basic goals of creating a regional market. Other factors such as authoritarian regimes, inefficient bureaucratic interventions, perceptions of asymmetric gains among partners, and economic and political instability all contributed to the limited success of the old integration model.

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

There still are, however, some areas for improvement. The rapid tariff phase-out programs of the new regionalism has been partially offset by a built-in selective instrument: product-specific rules of origin. Latin America still often makes use of unilateral measures to

deal with disruptive trade imbalances in their regional agreements. It has been difficult even for the new regionalism-type arrangements to establish and maintain a common external tariff (CET). The CETs in all sub-regions were imperfect when established in the early 1990s, and some have suffered serious perforations since then.

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

Countries in AP have made considerable progress in liberalizing market access through the reduction of tariff and non-tariff measures. Both types of barriers have been reduced rapidly since the mid-1980s as a result of unilateral liberalization, regional integration schemes and Uruguay Round commitments. APEC, established in 1989 as the first forum for broad intergovernmental dialogue on economic policy issues in the AP region, has emerged as one of the most powerful regional groups in the world economy. Some experts on APEC criticize that most of the Individual Action Plans (IAPs) have failed to go beyond what members would have done in any event, in the context of Uruguay Round obligations, sub-regional trade agreements or in unilateral national programs. But based on the unique modality of unilateral announcement of liberalization commitments by individual countries, APEC has contributed toward the goals of free trade and investment flows.

ASEAN has made significant advance through the ASEAN Free Trade Area (AFTA) as an integral part of the liberalization process in Asia. Moreover, ASEAN member countries have recently decided to accelerate the liberalization process and enabled member countries to multilateralize regional tariff reductions under the AFTA. The ultimate objective is to expand the international competitiveness of the ASEAN member countries, especially of the manufacturing sector through regional integration. ASEAN's outward-looking orientation is also evident from its new initiatives to establish links with other regional groupings, individually or collectively.

In a departure from their traditional refusal to sign preferential trade agreements (PTAs) and to be part of trading blocs, some Asian economies such as Japan, China, the Republic of Korea and Taiwan Province of China have recently shifted towards signing bilateral trade agreements with other APEC economies. The Republic of Korea and Chile have already agreed to undertake specific measures aimed at establishing a bilateral PTA that would have a Free Trade Agreement format. Recently Japan has initiated preparatory studies and consultations for possible trade agreements with Mexico, the Republic of Korea, Singapore, and Chile. Although bilateral or sub-regional trade agreements among APEC economies are not a new phenomenon, the recent wave of projects for PTAs is novel in two ways: the transpacific scope of some of the emerging agreements and the involvement of some North-East Asian economies.

The establishment of the NAFTA in 1994 raised considerable concern to East Asian countries, given that the United States is an extremely important export market and source of

investment for almost all the countries in the region. Now, Asian and European countries are concerned by recent moves in the United States to promote the possible extension of NAFTA to LAC through the FTAA. In this case the potential for trade and investment diversion over the long run could be more serious than in the case of NAFTA, because the United States has had more trade barriers for exports from most of LAC economies than on those from Mexico.

AN ASIA PACIFIC-LATIN AMERICAN PARTNERSHIP

In sum, there are several issues of mutual interest and great importance in the areas of market access, free trade agreements and regional integration. In order to reduce the huge gap in information and perception on business opportunities and market access that currently exists between countries of both regions, I would suggest that the EALAF countries should contemplate following issues or actions, in the economic and trade sphere. Contemplated actions should be coordinated with and must take advantage of existing international and regional ones, with minimal duplication. ECLAC would like to support and participate in EALAF's activities in such areas:

- *Information exchange on market opportunities and market access*, including basic economic indicators, recent trends on LAC trade, developments in regional integration, norms, tariffs and non-tariff measures on trade.
- *Policy dialogue on the WTO negotiation processes*: addressing not only the “Built-in-Agenda”, but also the trade-development dimension, the issues of convergence or divergence between regionalism and multilateralism, and strengthened operational rules on special and differential treatment.
- *Dialogue on free trade agreements*, bilateral, sub-regional, or bi-regional LAC-AP.
- *Information exchange on investment*: trends in FDI flows; investment-related multilateral and bilateral agreements; inventory of investment promotion programs and policy and regulatory regimes of AP and LAC.

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

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

- *Transport infrastructure*, including studies to identify bottlenecks that determine the lack of direct transport and irregularity of services offered across the Pacific, of cargo and passenger transportation (maritime as well as air), and to assess the pre-feasibility studies on the new transport ventures.
- *Promotion of business between small- and medium-sized enterprises (SMEs)*, with emphasis on establishing institutional linkages between the SMEs through respective associations in the two regions; promotion of the venture capital for technological upgrading, including information technology (IT) and E-commerce which would increase interregional trade and investment; and improve human resources development for SMEs by initiatives of both public and private sectors.

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

These considerations takes us to broader reflections on the dialogue and the development of common points of views on other topics of the global agenda, on which LAC and AP countries share common interests that should guide their mutual relations. This broad agenda includes the central issues of the United Nations, to which our Commission belongs: human rights, in their dual dimension of civil and political rights, as well as economic, social and cultural rights; gender equity, respect of ethnic and cultural differences, environmental protection and participation of civil society in development. In all these areas, there is considerable room for a dialogue aimed at the consolidation of democratic systems, the design of universal, solidarity-based and efficient social policies, and the impulse toward sustainable development models in cities and rural communities.

I am sure that the search for the best available mechanism to reach these objectives, shared by the authorities in both regions, could become an element that will strengthen even more the partnership between Latin America and the Caribbean and Asia Pacific. The United Nations Economic Commissions for Latin America and the Caribbean (ECLAC) and Asia (ESCAP) will be ready to support the consolidation of the relations between these two important regions of the world.