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**Prospects for Closer Economic Relations between Latin America and Asia**

Akio Hosono and Shoji Nishijima  
Professors at RIEB/Kobe University

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**Abstract**

Regional integration such as NAFTA, MERCOSUR and FTAA have been flourishing in Latin American countries in the 1990s. In addition to these multi-countries FTAs, many bilateral FTAs have also emerged both among Latin American countries and between them and extra-regional countries. The purpose of this paper is to analyze the leading factors that are behind the proliferation of intra-regional and inter-regional FTAs of Latin American countries. We also discuss the prospects for bilateral FTAs between Latin America and Asia, particularly focusing on Japan-Mexico and Japan-Chile FTA. Finally, a new approach to cooperation between East Asia and Latin America, the East Asia Latin America Forum (EALAF), will be examined.

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Correspondence: Please contact to: [hosono@rieb.kobe-u.ac.jp](mailto:hosono@rieb.kobe-u.ac.jp), or [nisijima@rieb.kobe-u.ac.jp](mailto:nisijima@rieb.kobe-u.ac.jp)

## **Introduction**

In the 1990s formal regional integration have been flourishing in Western Hemisphere in a variety of ways. Latin American countries have strengthened their relations by revitalizing existing sub-regional schemes or launching new important initiatives. In addition to regional integration schemes or multi-countries FTAs (Free Trade Agreements) such as NAFTA, MERCOSUR and FTAA, various bilateral FTAs have also emerged both among Latin American countries and between them and extra-regional countries in the second half of 1990s. Through these regional schemes Latin American countries have increased their intra-regional trade much greater than expected. On the other hand, Asian countries have continued expanding their trade through “market led integration” without formal agreements or other modalities of arrangements, except some regional scheme such as APEC and AFTA (Hosono [2000], Nishijima and Smith [1996]). However, very recently, some of the East Asian countries are showing strong interests about bilateral FTAs not only within Asia but also between Asia and Latin America.

The purpose of this chapter is to analyze driving forces that are behind the proliferation of intra-regional and inter-regional FTAs of Latin American countries and the prospects for bilateral FTAs between Latin America and Asia. Section 1 describes the basic background of regional integration in Latin America and Section 2 discusses the recent developments of bilateral FTAs in Latin America. Section 3 argues the historical process of regional integration in Latin America in the 1990s. Following a simple overview of the current economic relations between Latin America and Asia in Section 4, Section 5 analyzes the prospects for Japan-Mexico and Japan-Chile FTA. Finally, a new approach to cooperation between East Asia and Latin America, the East Asia Latin America Forum (EALAF), will be examined in Section 6.

### **1. Regionalism in Latin America: its background**

The resurgence and development of regionalism in Latin America in the 1990s can be explained by the following reasons.

#### **(1) Economic liberalization:**

Regional integration in Latin America is not a new phenomenon. Latin America had created numerous regional pacts and frameworks in the 1960s. But it should be noted that the regional integration in the 1960s were created in the context of import substituting industrialization aiming at enlarging protected markets. On the other hand, regionalism in the

1990s must be understood as one of the indispensable factors to complement and support the economic liberalization process. As is well known, Latin American countries started drastic policy reforms based on “neo-liberalism” in the middle of 1980s abandoning interventionist strategy that had brought serious economic crises in the 1980s. Remarkable outcomes of policy reforms are seen in the trade and capital liberalization, and privatization. Figure 1 shows that very high tariff rates of Latin American countries were reduced very quickly within a decade to around 10% to 14% that are almost same to the current level of Asian countries where it needed about 30 years. Capital market liberalization also had significant impacts on capital inflows to Latin America. As Figure 2 shows net capital inflows increased dramatically from US\$30.7 billion in 1991 to US\$136.9 billion in 1998. Among all, FDI had the most prominent increase and it exceeded the FDI into Asia in 1999 (See also Figure 3). Privatization process in Latin America also overwhelmed the Asian privatization. During 1990 to 1998, Latin American countries realized privatization of US\$154.2 billion while the amount in Asia was only US\$38.6 billion (See Figure 4). Therefore it is undeniable that, together with drastic policy reforms, regional integration is playing important roles to accelerate the liberalization process and attract FDI from both member and non-member countries.

## (2) Democratization

The 1980s was the decade of political democratization for most of Latin American countries. Along with the deepening and widening of democratization process in the region, political circumstances for regional cooperation have been emerging. Democratization of Brazil and Argentina contributed to hold a presidential meeting in 1985 at Iguazu (just after a few years of democratization of both countries) where the Presidents discussed the regional cooperation for the first time. Another example is the settlement of the dispute of 100 years between Argentina and Chile over the territory of Beagle strait. These changes in political situation in the region contributed to create the conditions that allowed intra-regional cooperation and economic integration.

## (3) Increasing regionalism of the US

The US foreign trade policy had been fundamentally based on a combination of multilateralism (GATT) and bilateralism (bilateral negotiation) at least until the end of the 1980s. But the US strengthened an inclination towards regionalism in the 1990s. The president Bush manifested the EAI (Enterprise for the Americas Initiatives) in 1990 that intends to form a free trade area of the Americas from Anchorage to Tierra del Fuego. In 1994 the US effectuated NAFTA with Canada and Mexico, and showed a strong interest for the first

time in the liberalization process of the APEC at the Seattle Meeting. In December of 1994, the US took a leadership at the Miami Summit for attaining a consensus to form FTAA (Free Trade Area of the Americas), which contains all countries in the North and South America except Cuba. Against these changes in the US attitude towards regionalism, Latin American countries responded in various ways: on the one hand, many countries expressed strong concerns about joining the FTAA and some countries such as Chile started a negotiation to join NAFTA, but on the other hand Southern Cone countries such as Brazil and Argentina formed a sub-regional integration, MERCOSUR, to counterbalance against the regionalism of the US and to foster their negotiating power.

(4) Increase in “De Facto” intra-regional trade

The intra-regional trade in Latin America started to increase before the new trends of regionalism of the 1990s. While Latin American countries exported only 11.9% of their exports to their own region in 1985, the share of the intra-regional trade increased in a rapid way to 15.2% in 1990 and 25.6% in 1994. Although the share of intra-regional trade in Latin America is much less than that of Asian countries, it should be underlined that the increase in “de facto” intra-regional trade provided a fundamental condition to facilitate new initiatives for regional integration in the 1990s.

**Table 1 Intra-regional trade share of Latin America (%)**

Year	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998
%	11.9	15.2	19.1	21.9	25.1	25.6	26.1	27.4	28.4	31.4

Note: Mexico is not included in Latin America.

Source: DOT/IMF various years

**2. Growing Initiatives towards Bilateral FTA in Latin America**

Besides plurilateral or multi-countries economic integration such as NAFTA and MERCOSUR, many *bilateral* agreements have emerged in Latin America since the early 1990s. Particularly two Latin American countries, Chile and Mexico, have independently pursued bilateral FTAs with countries throughout Latin America (See Table 2). For instance Chile formed FTA with Canada and Mexico, and ECA (Economic Complementarity Agreement) with MERCOSUR and 5 countries (Bolivia, Venezuela, Colombia, Ecuador and Peru), and CFA (Cooperation Framework Agreement) with EU. Moreover, Chile initiated negotiations with the US, Korea, Central American countries and Cuba to form bilateral framework. Mexico is another example that has advanced bilateral regional integration. In

addition to NAFTA and G3 (Mexico, Colombia and Venezuela), Mexico formed FTA with EU and 7 countries (Bolivia, Costa Rica, Nicaragua, Chile, and three Central American countries) by the end of 2000, and signed FTA with EFTA that plans to be in effective from July 1, 2001 (though it needs ratification). Moreover Mexico formed ECA with Uruguay, Peru, Argentina and Brazil, and agreed with these countries to amplify and deepen ECA into comprehensive FTA. At the moment, Mexico is negotiating with Ecuador, Peru, Panama, and Trinidad Tobago to form FTA. MERCOSUR also has various bilateral schemes. It signed CFA with EU in 1995 that plans to establish FTA by 2005. In 1996, Bolivia and Chile joined MERCOSUR as associate members in the framework of an ECA. MERCOSUR formed CFA with CACM and ANCOM. Very recently it started negotiation with South Africa for forming FTA.

As the fundamental reasons for aggressive attitudes towards bilateral FTA, some factors can be listed. (1) Many Latin American countries are using bilateral FTAs as effective measures to pursue more thorough policy reforms, (2) WTO meeting in 1999 failed to establish a new round for trade liberalization, which led to less confidence about the future multilateral liberalization, and (3) APEC has been at a standstill after the Asian financial crisis, and seems to lose a momentum for liberalization process.

In addition to these basic reasons, there are various reasons from a theoretical point of view why these countries are so aggressive for forming bilateral agreements.

- Comparing with multi-countries FTA, the possible number of “sensitive” areas and sectors are likely to be small and thus it is easier to attain an agreement.
- A country can select a partner country that would accrue greater benefits with smaller difficulties at the negotiation.
- A country can avoid unfavorable liberalization that sometimes results from GATT/WTO liberalization process.
- If a country forms plural bilateral FTAs, it would have a stronger position at the negotiation to join a multi-countries regional block such as FTAA.
- When plural bilateral FTAs create a network in the region, it would make it easier to form multi-countries FTA in the region.
- In the case of not full-fledged trade agreement such as ECA (Economic Complementarity Agreement) and CFA (Cooperation Framework Agreement), member countries can start cooperation in the areas that are easy to have consents. And ECA and CFA will play an important role as a stepping-stone for forming comprehensive FTA.
- If a multi-countries FTA forms a bilateral FTA with outside country, the outside country can give a pressure on the multi-countries FTA not to be protectionist, and such bilateral FTA would provide the possibility to increase the membership of the multi-countries FTA (one of the conditions for “open regionalism”).

In sum, bilateral regional framework will take less time to enter into a treaty and have less conflictive negotiation process than multi-countries framework.

On the other hand, it should be noted that bilateral FTA is likely to have a series of possible disadvantages, which are inclined to result in less open and more protectionist trade policy.

- If the bilateral FTA adopts restrictive rules of origin, it will be discriminative to non-member countries as any other type of FTA could be.
- Bilateral agreements may leave more opportunities for member countries to exclude the sensitive sectors from their agreements, and may prolong the negotiation about these sectors.
- Different rules of origin of individual FTA are likely to produce complex and confusing forms of discriminations, and the complexity of the rules itself would be an impediment for trade that pass through different FTA countries. Moreover complicated rules would also be an obstacle when bilateral FTAs are to be unified into a plurilateral FTA such as FTAA.
- If FTAs are discriminative against the US, it would make the process towards FTAA more difficult.
- When a bilateral FTA is a “hub and spoke” type, it would have various problems<sup>1</sup>. Because trade among spoke countries are not liberalized, the hub country can enjoy the greater benefits from FTA than spoke countries, which means that the hub is likely to oppose FTA among the spoke countries.
- If each bilateral FTA has different rules and spoke countries have different treatments in terms of tariff reduction and other facilitation, it would lead to a confrontation among hub and spokes.
- In contrast to a member country of some multi-countries FTA, existing spoke country generally cannot participate in the negotiation table for a new bilateral FTA with the hub country. In such a case, the spoke county is likely to oppose a new spoke country to form bilateral FTA with the hub.
- In case that the hub country has a strong negotiating power, the liberalization process might be biased in favor of the hub country.

From a theoretical point of view there are possible risks, which may lead to an inconsistency with multilateral liberalization or open regionalism. However it is obvious that bilateral FTAs are proliferating in Latin American as a pragmatic way for trade liberalization.

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<sup>1</sup> See Chapter XX by Findlay.

### 3. Three phases of FTA process in Latin America

The purpose of this section is to analyze driving forces that are behind the proliferation of intra-regional and inter-regional FTAs of Latin American countries in the 1990s. In spite that FTAs are getting more attention of scholars of international economics and are now considered to be one of the most effective instruments of trade policy in most of the countries of the world<sup>2</sup>, there have been only few empirical studies on the above mentioned issues related to FTAs, especially regarding cases of those in which Latin American countries are participating. Therefore, let us discuss driving forces behind their initiatives towards FTAs from the first years of the 1990s, focusing on the three different phases of the development of Latin American regionalism.

#### (1) First Phase: Recognition of FTAs as an effective trade policy instrument

It is well known that the first steps towards liberalization and reforms in the case of Mexico were taken after the debt crisis. The first important step to accelerate the process was to join GATT in 1986. It is well known also that the foremost important reason why President Salinas de Gortari of Mexico decided to look for a FTA with the United States was to finalize the efforts of Mexico to liberalize her economy that started from the mid 1980s. When Gorge Bush and Carlos Salinas announced in June 1990 that the United States and Mexico would have talks on perspective of a bilateral agreement of free trade, it was understood that it meant a clear message of the Mexican government to make the liberalization process irreversible (See Leycegui [2000], p.30 and Molot [1996], p.310)]. According to Leycegui the FTAs between Mexico and some other Latin America countries in the early 90s were also to confirm this same message.

On the other hand, Chile's initiative to extend FTA to a number of countries in the region also started from the beginning of the 1990s, although her motivation was clearly different from that of Mexico. There were at least two basic reasons why Chile adopted the strategy to negotiate FTA with other Latin American countries at that period. First of all, Chilean government after the democratic transition wanted to get out of the prolonged "diplomatic" isolation from international community as the consequence of the General Pinochet's dictatorship. Secondly, from the economic point of view, after almost fifteen years of unilateral liberalization, it was more clearly felt that unilateral opening did not necessarily improve the Chile's access to other countries' markets.

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<sup>2</sup> See, for example, MITI, *White Paper on International Trade*, 1999. Tokyo.

In this context, Chile intended to have “preferential, assured and predictable opening” through bilateral liberalization. It was also expected that bilateral agreements would establish better conditions for market access by means of elimination of non-tariff barriers and rules that limit adoptions of discretionary and arbitrary measures (See Saez [1999], p.166).

Although factors behind the new trade policy were different between Mexico and Chile, they coincided in considering that FTA was one of the important policy instruments as early as the beginning of the 1990s. Therefore, it was not just an accident that the pioneering bilateral trade liberalization was agreed between these two countries. The first Chile-Mexico trade agreement went into force in January 1992, almost two years before NAFTA was established. The agreement was officially called ECA 17 (Economic Complementarity Agreement) of ALADI (Latin American Integration Association, LAIA). One year before Mexico-Chile ECA was ratified, Argentine-Chile ECA went into force, which was called ECA 16 of ALADI. These two ECAs as well as many other trade agreements among Latin American countries were negotiated in the framework of ALADI. Therefore the existence of ALADI, as a kind of “umbrella” agreement notified to GATT, facilitated considerably the negotiation and realization of these regional trade agreements. Since, under this type agreement, trade in goods is liberalized either partially or fully according to the provisions set forth in ALADI’s 1980 Treaty of Montevideo, ECA under ALADI framework can be regarded as a sort of FTA in many cases. However it should be mentioned that, just because of the agreements in the ALADI framework, their scope was very limited compared with such a comprehensive FTA as NAFTA that has detailed rules of origins and well formalized provisions on dispute settlement, service, intellectual property, investment, and government procurement.

Hence these first ECAs of Latin American countries ratified at the beginning of the 1990s are often called a simple scheme of FTA. As a matter of fact, ECAs basically cover trade of goods although they contemplate possibilities of future negotiation of other areas. They included general trade rules and dispositions regarding dispute settlements that, however, are not considered very effective.

(2) Second phase: “Deepening and widening” of FTAs.

The so-called comprehensive FTAs are substantially different from simple FTAs, particularly, in terms of trade of services, investments, dispute settlements and antidumping.<sup>3</sup>

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<sup>3</sup> Some authors consider the comprehensive FTAs a la NAFTA as “third generation” or “last generation” FTAs. In Chile, an ECA with liberalization under negative list is called first generation FTA, an ECA with liberalization under positive list is called second generation FTA, and a



As it was mentioned above, the announcement of Presidents Bush and Salinas on the initiative on bilateral trade agreement was made June 1990, soon after Canada-United States Free Trade Agreement went into force (1989). It was thought that Mexico-United States FTA could jeopardize to some extent the Canada's advantage gained by the Canada-US FTA. Hence Canada decided to participate in the negotiation to eventually attain the North American Free Trade Agreement. The trilateral talks started in 1991.

The three countries' stances towards NAFTA and interests behind it are very different. We have to recognize that the long history of Canada-US and Mexico-US economic relations as well as several formal and informal arrangements existed prior to the negotiation of NAFTA between these pairs of countries were important elements that explain the comprehensive nature of the NAFTA. For instance, the agreement on trade of automobiles between Canada and United States and the regime for 'Maquiladoras' in the Mexico-US border zone can be important elements for the comprehensive nature of NAFTA, although we do not have enough space to discuss in details this important aspect (See Molot [1996], pp.317-35).

As far as Mexico is concerned, the specific reasons, among others, which motivated the country to negotiate comprehensive FTAs, especially NAFTA, are considered to be following:

(a) As Mexico was to liberalize trade and investment anyway, it was considered to be beneficial for the country to get concessions through the trade agreement from the United States, the largest trade partner for Mexico.

(b) As the percentage of petroleum in the total export of Mexico had been decreasing rapidly, it was convenient for Mexico to get better access to as many markets as possible through bilateral, regional and multilateral negotiations.

(c) It was considered also very important to assure the continuity of economic policy of opening that started from mid 1980s. It was thought that NAFTA would make it much more difficult for the future governments of Mexico to change this liberalization policy through so called "locking-in" effect (See Leycegui [2000], pp.31-2).

As for Chile, liberalization through bilateral FTAs was getting to be considered one of the most effective instruments of trade policy for a small country like Chile. According to Sebastian Saez, former Director in charge of trade negotiation of Chilean Foreign Ministry (DIRECON), multilateral system of trade has certain rules of negotiation that affects the

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comprehensive FTA like NAFTA is called third generation FTA or last generation FTA (TLC de ultima generacion). However, agreement between Chile and MERCOSUR is considered different from above-mentioned FTAs, because it covers articles related to matters as physical integration, border trade, etc. although does not cover several normative issues included in the last generation FTAs as second Chile-Mexico FTA and Canada-Chile FTA. See Saez [1999], p.164.

capacity of negotiation of small countries. As a small country is not the relevant producer of a certain product in the world, the space for negotiation for her is limited due to the rule of the principal supplier of GATT (See Saez [1999], pp.166-7).

The first comprehensive FTA for Chile was Canada-Chile FTA, which went into force in 1997. According to Saez, from the period of negotiation of this FTA, Chile's basic stance regarding FTAs have changed, reflecting interest of Chile to include aspects related to investments and services in the FTAs. At the same time, Chile looked for more solid judicial security through a reliable system of dispute settlement (See Saez [1999], pp.173-4).

After the NAFTA was established, Mexico extended FTAs to several countries of Latin America. In 1995, the trilateral FTA with Colombia and Venezuela was negotiated to form the G3 (el Gupo de los Tres). FTAs with Costa Rica and Bolivia went into force in 1995 and FTA with Nicaragua in 1998 and later the negotiation on FTAs with three other countries of Central America together, El Salvador, Guatemala and Honduras; individually with Panama, Ecuador, Peru, Belize, Trinidad and Tobago, Dominican Republic and Israel followed.

In this process, the renegotiation of Chile-Mexico ECA was particularly important. The interests of these two countries coincided again in the sense that for both of them it was convenient to up-grade the former simple ECA and transform it into a comprehensive NAFTA type FTA. The comprehensive Chile-Mexico FTA started in July 1999.

In the case of Chile, after the first two trade agreements (ECA with Argentina and Mexico, respectively, as mentioned above), the country started free trade agreements in ALADI framework (ECA) with Venezuela and Bolivia in 1993, Colombia in 1994, Ecuador in 1995, MERCOSUR in 1996, and Peru in 1998. Chile also initiated bilateral negotiation with Canada from 1996 and with Central American Common Market from 1999.

In this way, Mexico and Chile have been converting into "hubs" of FTAs in Latin America from mid 1990s. At the same time they have made efforts to deepen the contents of FTAs from simple schemes to a comprehensive one during this period.

### (3) Third phase: Inter-regional FTAs

Towards the end of 1990s, both Mexico and Chile started to look for establishing FTAs with extra-regional countries. As they are the most recent initiatives, they are not yet necessarily analyzed in depth. However, it could not be denied that they reflect the new trade policy of these countries and their intentions to diversify economic ties with major extra-regional countries like European Union and Asia. In this context, it is expected that Mexico and Chile are going to be "hubs" that involves not only FTAs in Latin American, but also inter-regional FTAs connecting existing or newly establishing integration schemes among

Western Hemisphere, Europe, and Asia.

One of the basic reasons for this tendency towards FTA with other countries or regions than Latin America lies in the natural outcomes from above mentioned deepening and widening process of FTA, particularly the proliferation of bilateral FTAs. However, Mexico and Chile have different reasons for expanding their FTAs with extra-regional countries.

After the entry into force of NAFTA, the Mexican export had increased dramatically from \$51.9 billion to \$136.9 billion during 1993 to 1999. But the extent of dependency on the US market also had boosted considerably. In 1999, about 88% of Mexican export went to the US, while that to EU was only 3.3%. Even though the trade expansion with the US must be welcome for Mexico, too much dependence on the US market would make the Mexican economy very vulnerable to fluctuations of the US economy. Moreover extremely close relationship with the US may weaken Mexican political influence to its southern neighbors. Therefore it will be desirable for Mexico to diversify and strengthen economic relations with extra-regions through expanding bilateral FTAs. In fact, Mexico initiated bilateral negotiations with the countries of extra-regions from the mid 1990s. Mexico concluded the negotiation with EU in December 1999 and the EU-Mexico FTA itself came in effective from July 2000.

Chile is one of the most liberalized countries in the world. In fact, Chile has pursued unilateral trade liberalization with uniform tariff rates that have been reduced 1% each year (it is scheduled to reduce to 6% by 2003). Uniform tariff means that any sector is neither preferential nor protected and there is no sensitive sector at the negotiation for FTA. With such openness of the economy, regional agreement is an effective measure for Chile to accelerate trade liberalization of partner countries. Therefore Chile has sought to improve market access for its export by negotiating a series of regional schemes such as FTA, ECA and AIP (Agreement for Investment Protection) with hemispheric and non-hemispheric trading partners. Chile-EU framework agreement for cooperation looking towards a FTA was accorded in 1999. In this context, it was also very important for Chile to start Chile-US FTA negotiation from the end of 2000.

At the same time, Latin America countries seem to have been increasing their interests to extend bilateral FTAs to Asian countries. Mexico and Chile, in particular, are showing strong interests in forming bilateral framework with Japan, Korea, and Singapore. A couple of studies on the possibilities of Japan-Mexico FTA and Japan-Chile FTA have been made in these countries. Moreover preliminary consultation or negotiation between each of these two Latin American countries and some Asian countries such as Korea and Singapore are also being made.

It should be noted here that these momentum in Latin America towards bilateral FTA

would have significant influences on the recent movements in Asia for forming bilateral FTA. If Asian countries pay enough attention on Latin America, initiatives for bilateral FTA in Asia Pacific would be accelerated.

#### **4. Present Economic Relations between Asia and Latin America**

It will be useful to overview the present economic relations between Latin America and Asia before turning into the questions of perspectives regarding Japanese FTAs with Latin American countries.

##### **(1) Trade**

One of the prominent changes in trade in the 1990s is seen in drastic increase of intra-regional trade in every region. As Table 3 shows, NAFTA increased its share of intra-regional trade from 41.4% in 1990 to 51.0% in 1998, and Latin America (except Mexico) from 13.7% to 31.4% in the same period. East Asia also increased the intra-regional trade from 35.7% in 1990 to 43.4% in 1997, but it decreased slightly due to currency crisis in 1998. As mentioned above, one of the basic reasons for the increase in intra-regional trade in Latin America can be attributed to the developments of institutional regional integration such as MERCOSUR and various bilateral FTAs, while in East Asia the increase of intra-regional trade has mainly been attributable to “de facto” expansion of trade led by market.

The share of Latin America in total East Asian exports has been stable at the level around 2% or 3%, which shows a rather moderate importance of Latin America for East Asia. Since “East Asia” in this figure includes Japan, it is likely that the East Asian countries other than Japan must have much less export to Latin America. By contrast, the share of East Asia in total Latin American exports has been keeping about 10% indicating that the importance of East Asia for Latin America is much greater. There is an apparent asymmetry in the importance as an export market for respective region.

From the theory of international trade, both regions have a similar structure of “comparative advantage”, which means that their trade is competing. The geographic distance also has been discouraging trade between the regions. But industrial developments in both regions, particularly in the manufacturing sector, have a possibility to expand “intra-industrial trade” between the regions, though it will take a long time. At the same time, even though the structure of comparative advantage may not change in the short run, economic liberalization can change in product varieties and qualities (differentiation), which can provide a large chance to expand trade between Asia and Latin America. In this sense, some regional

agreements is expected to be an effective measure to expand the inter-regional trade between Asia and Latin America.

## (2) Foreign Direct Investment

Asian countries have received FDI at an increasing rate by 1997, but slightly stagnated in 1998 and 1999 because of the currency crisis in 1997 (See Figure 3). By contrast, FDI to Latin America has kept an increasing pace by 1999, despite the currency crisis in Brazil in 1999 (See Figure 2). In 1999, FDI flowed into Latin America about US\$90 and in Asia about US\$62. The reasons for recent different patterns of FDI in these regions are (1) privatizations in Latin America explains about 30% of FDI inflows, (2) Japanese recession reduced its FDI into Asia, and (3) the effects of currency crisis was much grater in Asia than Latin America. But, one conspicuous reason to explain an increasing FDI into Latin America lies in the aggressive investments and M&A of the US and European multinationals that are regarding Latin America as an important future market with expanding network by various regional integration. Particularly Spanish multinationals such as Telefónica de España, Endesa-Eapaña, Banco Santander, Banco Bilbao Vizcaya have invested in Latin American countries very aggressively. The total FDI into Latin America from Spain has increased from US\$4,024 mil in 1996 to US\$12,636 in 1998.

According to the MOF data about Japanese FDI, Japan had increased continuously its FDI into Asia by 1997, but dropped in 1998 and 1999 due to the Asian crisis and domestic financial instability. By contrast, the share of Latin America in total Japanese FDI has been increasing (See Figure 5). But, by taking a closer look at the figures, it becomes clear that a major part of the FDI in Latin America went into Caiman Island, Bermuda, and Panama in order to make good use of tax heaven and flag convenience. This means the Japanese FDI into Latin America in the area of manufacturing and service sectors is very small (about 2.2% of the total Japanese FDI in 1998 and 5.5% in 1999). On the other hand, the US has kept FDI in Latin America at the stable level, for instance 14.1% of total US FDI in 1999. Reflecting these facts, the Japanese presence in Latin America has been declining rapidly. The basics reason for this is seen in the fact that a major part of FDI into Latin America occurred in such area as privatization, telecommunication, electricity, energy, IT, etc. These are areas that Japan does not have international competitiveness. Besides, the recent FDI takes the form of M&A that the Japanese firms do not have enough experiences and advantages. This fact tells us that Japan is losing its international competitiveness in Latin American market, and should progress structural reforms more quickly and to more extent.

Taking consideration of these facts regarding Japanese trade and FDI to Latin America, it would be helpful to examine the prospects for FTAs with Latin American

countries as effective measures to strengthen economic ties between Japan and Latin America.

## **5. Perspectives for Japan-Mexico and Japan-Chile FTA**

In this section, we will focus on new initiatives that are being taken to strengthen economic relations between East Asia and Latin America: among others, initiatives towards bilateral FTAs such as Japan-Mexico FTA and Japan-Chile FTA.

In the section 3, efforts were made to identify motivations of some Latin American countries to strengthen their external relations through FTAs. Further more it was explained that in recent years they became to be highly interested in establishing FTAs with extra-regional countries such as EU and Japan.

Therefore, in this section we need to examine, first, factors which motivate East Asian countries, especially Japan, to get interested in strengthening ties with Latin American countries through FTAs in order to assess, later, the perspectives of Japan-Mexico FTA and Japan-Chile FTA, having also in mind the analysis of previous sections (especially sections 2,3 and 4).

(1) Basic Factors behind initiatives towards bilateral FTAs between some East Asian and Latin American countries.

We could distinguish at least two basic factors for Japan to get much more motivated now to consider the possibilities of establishing FTAs with some of Latin American countries almost at the same time with the establishment of FTAs with some East Asian countries: one is recognition of the importance of FTAs in general terms and the other is the concern about the eventual discrimination against Japan vis-à-vis United States and EU in some of Latin American countries.

As for the first point, we can recognize that in several East Asian countries, including Japan, Korea and Singapore, a positive view of bilateral or regional FTAs (as well as of sub-regional cooperation) is now much more broadly held than a few years ago. Indeed, Japan and Korea, the last two significant contracting parties of the GATT/WTO that have never participated in a formal FTA or regional integration process on the grounds that these process are against multilateralism, have recently changed their attitude to FTAs.

Note, for example, that the 1999 edition of the White Paper on External Trade issued

by Japan's Ministry of International Trade and Industry (MITI)<sup>4</sup> declared, for the first time. For instance, MITI showed its clear stance in *White Paper* [1999], pp.37-8.

“Japan, convinced of the importance of consistency with the principles of GATT, and considering the possible negative effects of regional integration on regional and extra-regional countries, has thus far adopted a very different position from that of most other countries of the world, which have promoted regional integration (FTAs and customs unions) in addition to the multilateral trading system.”

“Nevertheless, there is a growing need to address this issue in a more flexible and constructive manner, since the following positive effects of regional integration are evident and they could help to strengthen the multilateral trading system. First, there has been a net growth of trade and investment in the specific cases of NAFTA and MERCOSUR. Second, in the context of globalization, some rules of the international economy have been fixed by means of the harmonization of many national circumstances. It should therefore be easier to establish rules (such as TRIMs, TRIPs, dispute settlement, government procurement etc.) among countries with similar socio-economic conditions. Third, in negotiating the multilateral system of international trade, a greater role is now played by groups of countries engaged in regional integration or cooperation.”

The White Paper concluded: “Japan should assume a more active posture towards regional integration and cooperation initiatives, and should propose a model that will help strengthen the multilateral system.”

Less than a year after, the Trade and Investment Committee of Keidanren (The Federation of Economic Organizations of Japan) published the report *Free Trade Agreement should be strongly promoted: Towards a new approach of trade policy* and handed it over to the government in July, 2000. This report made a comprehensive analysis regarding the urgent need for Japan to promote FTAs and proposed the scope and contents of the expected FTAs including trade of services, rules of origin, anti-dumping measures, safeguard, liberalization and protection of foreign direct investment, standards and certification, intellectual property rights, government procurement, competition policy, electronic commerce, and dispute settlement.

We should add that in this new context, Japan and Singapore started negotiations for a “New Age FTA” from the beginning of 2001. This will cover several issues related to electronic commerce and information technology, in addition to the comprehensive trade and investment areas (a comprehensive FTA).<sup>5</sup>

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<sup>4</sup> Ministry of International Trade and Industry, MITI, was reorganized in the process of administrative reform and since January 2001 it is called Ministry of Economy, Trade and Industry, METI.

<sup>5</sup> In this connection, we should mention also that during his visit to Japan in October 1998, the

As for the second point mentioned above, Japan, Korea and other East Asian countries are now increasingly more convinced of the need to strengthen its links and cooperation with Latin America, since North American and European countries are already moving in that direction. Indeed, for example, East Asian countries substantially lag behind the United States, Canada and European countries in their foreign direct investment in Latin America, in which market East Asian firms are in a disadvantageous position in term of competition in the area of trade and investment against the US and EU firms.

There are of course various explanations for this. Attention must nevertheless be paid to the fact that in comparison with the United States (which has taken the lead in the FTAA discussions) and the EU (which concluded a FTA with Mexico in 2000 and is negotiating a FTA with MERCOSUR as well as with Chile under the terms of an existing framework agreements), thus far there have been no similar initiatives between Latin America and East Asian countries, including Japan.<sup>6</sup>

In addition to this, it should be mentioned that Latin America has been always important for Japan, Korea and other East Asian countries because of its abundant resources of minerals and foodstuffs.

Finally, as a specific reason for Japan, it should be stressed that comprehensive FTA with any countries would have a possibility to accelerate structural adjustments of Japanese economy that has suffered from the serious recession for a decade because of the sluggish reforms.

## (2) The initiative for Japan-Mexico FTA and specific factors behind it

Responding to the proposal of the President of Mexico, Ernesto Zedillo formulated during his visit to Japan in November 1998 that efforts to consider concrete measures to strengthen economic relations between Mexico and Japan should be initiated, Japan External

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President of the Republic of Korea, Kim Dae Jun, proposed a new bilateral relationship between Korea and Japan that is suited to the new era. The two governments have agreed to set up a study committee in each country, entrusted with considering measures to strengthen their economic links. During his visit to Korea in March 1999, Keizo Obuchi, then Prime Minister of Japan, presented the “Agenda 21 of the Japan-Korea Economy: Towards Stronger Japanese-Korean Economic Relations in the Twenty-first Century”

<sup>6</sup> It was in this context that Singapore’s Prime Minister, Goh Chok Tong, proposed the creation of the East Asia-Latin America Forum (EALAF) during a visit to Chile in October 1998. EALAF seeks to bring together the leaders of the Asian and Latin American countries with the aim of fostering dialogue on trade and investment. EALAF’s first meeting of senior officials was held in September 1999, and another followed in August 2000. The first ministerial meeting is scheduled for the first quarter of 2001 in Chile.



Trade Organization, JETRO established a Commission to study on measures to strengthen economic relations between Japan and Mexico in February 1999 and presented its report in April 2000. The Secretary of Trade and Industrial Development (SECOFI) of Mexican government also presented its report at the same time.

The above-mentioned Commission of JETRO summarized as follows the conclusion of its study:<sup>7</sup>

**“A FTA would be an effective means of strengthening economic ties between Japan and Mexico.”**

“The Promotion of a Japan-Mexico FTA would not only contribute to the establishment of trade and investment rules in multilateral negotiations at the WTO, for instance, but also play a major role in diversifying Japan’s trade policy options and in preventing the formation of regional economic blocs in North America, Europe and Asia”

“In promoting a Japan-Mexico FTA, an initiative should be taken also to seek a more comprehensive, higher-level agreement that will cover not only trade and investment liberalization but also intellectual property rights, standards certification, government procurement, and dispute settlement mechanisms. At the same time, even while giving adequate consideration to possible effects on domestic industries, every effort should be made to create a basic framework to realize a FTA at the earliest date possible.”

This report emphasizes, among others, the following important points: (a) Japan-Mexico FTA should be comprehensive, (b) its effects on domestic industries, especially agriculture, should be taken into consideration<sup>8</sup>, and (c) interregional FTA like the eventual Japan-Mexico FTA would avoid the formation of major blocks in the world economy.

Japan-Mexico Economic Committee of Keidanren is much more specific regarding the urgent need of negotiating the FTA with Mexico. The President of the Committee, Mr. Nobuhiko Kawamoto emphasizes the importance of Japan-Mexico FTA on the base of the recent survey of Japan-Mexico Chamber of Commerce (established in Mexico).

According to this survey, about 80% of Japanese firms which are operating in Mexico think that there is a demerit of not forming FTA with Mexico, for the reasons: (1) Mexican tariff rate increased about 3% for the imports from non-FTA countries from January 1999, (2) Special treatments by Maquiradora and PITEEX<sup>9</sup> would be abolished by the end of

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<sup>7</sup> JETRO,2000, p.45

<sup>8</sup> The report mentions in details the possible effects on agriculture and livestock, especially on the production of pork in Japan.

<sup>9</sup> On May 3, 1990, the president of Mexico enacted the "Decree Establishing Temporary Import Programs to Produce Export Articles" ("PITEEX"). The purpose of PITEEX is to promote exports of non-petroleum products, vertical integration, and sales of export quality products in the Mexican domestic market. A company seeking to work under PITEEX must obtain authorization from the

2000, (3) Japanese firms are in an unfavorable condition in the competition of government procurements and privatized infra-projects comparing with FTA member countries due to the tariffs levied on imports from Japan. In particular, Japanese electronic and transportation firms in Mexico have a strong demand for creating FTA with Mexico.

Moreover 72 per cent of the above-mentioned firms replied that the recently established EU-Mexico FTA would have negative impacts on them.

In short, Keidanren is overwhelmingly concerned of the discrimination against Japan caused by NAFTA and EU-Mexico FTA.<sup>10</sup>

Very recently (January 23, 2001), Japan and Mexico agreed to materialize an Investment Protection Agreement within three months as a preparation for FTA, and also agreed to form a study committee for strengthening economic relationship.

### (3) The initiative for Japan-Chile FTA and specific factors behind

In November 1999, Mr. Gabriel Valdes, Minister of Foreign Relations of Chile, manifested to Mr. Noboru Hatakeyama, President of the Japan External Trade Organization, JETRO, his hope to carry out a study on the possibilities of signing a Japan-Chile Free Trade Agreement. Then, in February 2000, the Undersecretary of the same Ministry in charge of economic relations proposed officially to JETRO to start the study.

In order to respond to this proposal, the JETRO established a Study Committee on Japan-Chile Free Trade Agreement in May 2000. This Committee finally published its report in May 2001, concluding as follows<sup>11</sup> :

“Having duly considered the advantages and disadvantages of a free trade agreement between Japan and Chile, and having adequately considered the potential impact on Japan’s specific domestic industries<sup>12</sup>, the multifaceted role of agriculture, and the need to secure a stable supply of natural resources, we conclude that the maximum effort should be made to conclude a free trade agreement between Japan and Chile as soon as possible.”

“For all of these reasons, the free trade agreement to be concluded between Japan and Chile should be comprehensive, addressing not only market access but also investments, services, government procurement, standards and certification, and competition policies. In this way, it will not only promote bilateral trade but also promote mutual investment flows

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Ministry of Commerce and Industrial Development (SECOFI)"

<sup>10</sup> Opinions expressed by Mr. Kawamoto are those published by the magazine of Keidanren. See *Keidaren*, (a monthly journal of the organization of the same name), October 2000 (in Japanese).

<sup>11</sup> JETRO, 2001, p.16

<sup>12</sup> Impacts on agriculture and fishery, particularly salmon, are widely referred in the report.

and encourage businesses from the two nations to cooperate in developing markets in third countries. In addition, as a result of the agreement's motivational effect, Japan and Chile will enter into a closer and more multilevel economic relationship. Not only that, by concluding a forward-looking free-trade agreement demonstrating that both nations regard free trade as a matter of national policy, Japan and Chile will be contributing to the liberalization of trade and investment throughout the world."

Although the general background for taking initiatives towards Japan-Chile FTA is same as Japan-Mexico FTA, there are some specific aspects which are different between them. First of all, the discrimination against Japan vis-à-vis the United States and EU is potential one in the case of Chile, because Chile-US FTA and Chile-EU FTA are now being negotiated, while NAFTA and EU-Mexico FTA are already in force.

Second, trade between Japan and Chile and Japanese investments in Chile are much less than the case of Japan-Mexico relations. However, in the case of Chile, the following aspects are emphasized as reasons for studying the possibilities of Japan-Chile FTA: (a) Chile model of economic development, (b) Chile's free trade policy, (c) advanced status in IT among Latin American countries and (d) Chile's position as a "gateway" between Asia and the rest of Latin America, especially, MERCOSUR. On the base of these aspects, the report emphasizes that Chile is important to Japan as a partner of FTA.

#### (4) Possibilities and significance of Japan-Mexico FTA and Japan-Chile FTA: Preliminary Remarks

As the initiatives towards Japan-Mexico FTA and Japan-Chile FTA are still at an early phase, we are not in conditions to make an in-depth analysis to assess the possibilities of these agreements. However, we could mention at least the following factors as crucial for them:

(a) Concern about the discrimination against Japan vis-à-vis the United States, Canada and EU in Latin American countries, especially in the Mexican and Chilean markets, as well as the increasingly stronger negative impacts of this situation on Japanese trade and investment in these countries;

(b) Possibilities for avoiding or alleviating potential impacts of these FTAs on domestic industries such as agriculture, livestock and fishery through several domestic policy measures and/or instruments as well as through specific approaches and modalities in the context of FTA themselves, such as those adopted in the EU-Mexico FTA, which are considered to be consistent with GATT/WTO

(c) WTO negotiation on agricultural sector and the stance of Japanese government

for further liberalization in this sector having in mind her strong concern about the multi-faceted role of agriculture including issues of environment and food security.

(d) Process of negotiation of Japan-Singapore FTA and other related initiatives in Asia.

(e) Advancement of other interregional FTAs initiatives between East Asian and Latin American countries such as Chile-Korea FTA and Singapore-Mexico FTA.

(f) Advancement of negotiations to establish FTAA in the Western Hemisphere and negotiations for EU-MERCOSUR FTA. In this regard, it is considered crucial whether the Bush Administration would be able to obtain the authorization of the fast track for trade negotiation by the Congress.

As was mentioned before, it is too early to evaluate this on-going process of interregional FTA initiatives. Nevertheless, we believe that this paper could have contributed to identify basic motivations behind them and some crucial factors that would determine the possibilities of attaining these FTAs actually in near future.

It is conspicuous that bilateral FTA with Mexico and Chile will be very helpful as a steppingstone for expanding the relationship between Japan and Latin America. Taking account of a fact that the Japanese presence in Latin America in terms of FDI has declined in the 1990s, bilateral FTA with Latin American countries will have a special importance for Japan to promote Japanese FDI not only in the member countries but also in other Latin American countries that are integrated through various regional schemes. In addition, it should be underlined that discussions about FTA with Mexico and Chile themselves will have a great influence on the initiatives for bilateral FTAs in Asia and on the APEC liberalization process (Mexico and Chile are the APEC members). Of course, it also should be noted that such FTAs must be endowed with some mechanism that guarantee a contribution to multilateral liberalization, or at least should not be contradictory to it. Such FTAs should not be protective against the third countries and should have a clear condition regarding participation.

## **6. New Initiatives to Cooperation between East Asia and Latin America**

In addition to the initiatives for bilateral FTAs, Asian and Latin American countries have embarked on a new framework to enhance the connections between the two regions. As a first step for this new approach, Singapore Prime Minister Goh Chok Tong, in October 1998, proposed the formation of a summit to bring together the leaders of Asian, including Japan, and Latin American countries. It is called the East Asia-Latin America Forum (EALAF, in Spanish, FALAE). The first Meeting of EALAF was held on September 1 to 3, 1999 in

Singapore.

The inaugural Ministerial Meeting of the Forum was held in Santiago, Chile on 29 and 30 March 2001. In this meeting, it was agreed that the official name of the forum will be “Forum for East Asia – Latin America Cooperation.” (FEALAC)

The participant countries at the Singapore Meeting were China, South Korea, Japan, ASEAN 10 countries of ASEAN (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam), Australia, New Zealand and 12 countries from Latin America (Argentina, Brazil, Chile, Paraguay, Uruguay, Peru, Bolivia, Ecuador, Colombia, Venezuela, Panama, Mexico) (See Table 4). At the inaugural FEALAC meeting, El Salvador, Costa Rica and Cuba were accepted as member countries. Thus, one of the salient futures of this Forum lies in a fact that almost all the Latin American countries are joining it, while only three countries from Latin America are participating to APEC. Asia is linked to North America through APEC, and also has a dialogue channel with Europe through ASEM (Asia-Europe Meeting). In this sense, it is expected that the FEALAC could be a forum that boosts Asia-Latin American ties and forges the missing link between two regions.

According to the Communique of the above-mentioned Santiago Meeting, it marked the beginning of an unprecedented dialogue and cooperation between their regions to meet political, cultural, social, economic and international issues of common concern. In this connection, they will strengthen the ties between their two dynamic regions that will need to manage the challenges and opportunities in an interdependent and globalised world.

During the Meeting, the Ministers approved the Framework Document of the Forum that establishes the principles, aims, objectives and modalities to guide its future work. They also decided to establish three Working Groups, with the aim of strengthening dialogue and cooperation in political/cultural, economic/social, and education/science and technology fields.

The FEALAC Framework establishes that the purpose of the Forum is to promote better understanding, political and economic dialogue and cooperation in all areas so as to achieve more effective and fruitful relations and closer cooperation between the two regions. It also mentions that the Forum should take a multidisciplinary approach and could involve both the public and private sectors.

It should be pointed out that FEALAC will have to address several issues in the future: (1) the relation with the United States that does not participate in it, and (2) the relation with APEC that has similar objectives and overlaps the membership. At the moment, we have not any information related to the United States’ official stance regarding the FEALAC. Regarding APEC, according to a Chilean high official, “APEC has nothing to do with this

forum. It's an economic and commercial forum. We will take up social, cultural and political issues. Political issues are very important to us.”

If this FEALAC concept gets off the ground, the two regions, which have a combined population of 2.3 billion people, will have a framework for economic dialogue for the first time that would play an important role for the future relationship between the regions.

According to the Co-Chairs' Statement of the above-mentioned Santiago Ministerial Meeting, the Ministers directed that the Working Groups would have the following broad terms of reference:

- a) Elaborate detailed frameworks for cooperation between the two regions in order to make recommendations on a few practical, Forum-wide projects;
- b) In doing so, the Working Groups should, where appropriate, endeavor to coordinate and harmonize existing national projects and explore potential synergies between national projects and proposed Forum-wide projects in order to identify national projects which could be harmonized with, or incorporated into, possible Forum-wide projects;
- c) The Working Groups should also examine suggestions made by member states in order to prioritize them and avoid duplication with the existing work of other regional and international forums, groups and institutions.

## **Final Remarks**

Thus far East Asian countries, including Japan, have been pursuing multilateralism under GATT/WTO regime and have realized “market oriented” regional integration. However it is becoming conspicuous that the formal regional integration does not necessarily contradict with multilateralism, rather it could be an effective measure for trade and investment liberalization. Moreover, because of drastic progress of regionalism in the world, East Asian countries have been forced to be in disadvantageous positions regarding competition in the markets of formal integration. It is an inevitable result that the East Asian countries recently initiated negotiations with various countries about FTAs.

In this context, bilateral FTAs with Latin American countries have exceedingly important meanings for Asian countries. Latin American countries, particularly Mexico and Chile, have rich experiences in forming bilateral FTAs and strong concerns about FTA with East Asia. As Mexico-EU FTA indicates, they have already entered into the third phase of regional integration, and are looking for new FTAs with extra-regions. Taking account of the merits of bilateral FTA discussed in the previous section, the strong driving force of Mexico and Chile towards FTA seem to produce circumstances in which the initiatives in Asian

countries for FTA would be accelerated.

Using bilateral FTAs as a lever, it is expected that Asia and Latin American countries would be able to promote trade and investment liberalization, and then could amend the missing link between the regions. For Japan, FTA means not only strengthening the connections with Latin America but also effective stimulus for structural adjustments in the domestic economy. In this sense, Japan, in particular, must take a leadership and proceed actively the negotiations for FTAs with Latin American countries. Finally it is needless to say that Japan should pursue and construct FTA that is consistent with multilateral free trade system.

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**Table 2 Effective Regional Arrangements of Chile, Mexico and MERCOSUR**

	<b>Participant Country or Region</b>	<b>Type</b>	<b>Effectuation</b>
<b>Chile</b>	Bolivia	ECA	July 1, 1993
	Venezuela	ECA	July 1, 1993
	Colombia	ECA	January 1, 1994
	Ecuador	ECA	January 1, 1995
	MERCOSUR	ECA	October 1, 1996
	Canada	FTA	July 5, 1997
	Peru	ECA	July 1, 1998
	European Union	CFA	April 24, 1999
	Mexico	FTA	August 1, 1999
	USA	FTA	Under Negotiation
	Korea	FTA	Under Negotiation
	Central America	FTA	Under Negotiation
	Cuba	FTA	Under Negotiation
	<b>Mexico</b>	US, Canada (NAFTA)	FTA
Colombia, Venezuela (G3)		FTA	January 1, 1995
Bolivia		FTA	Januray 1, 1995
Costa Rica		FTA	Januray 1, 1995
Nicaragua		FTA	July 1, 1998
EU		FTA	July 1, 2000
Chile		FTA	August 1, 1999
Israel		FTA	July 1, 2000
Guatemala, Honduras, El Salvador (Northern Triangle)		FTA	January 1, 2001
EFTA		FTA	July 1, 2001
Uruguay		ECA	Effective
Peru		ECA	Effective
Argentina		ECA	Effective
Brazil		ECA	Effective
Ecuador		FTA	Under negotiation
Peru		FTA	Under negotiation
Panama		FTA	Under negotiation
Trinidad y Tobago		FTA	Under negotiation
Japan		IPA	Under negotiation
<b>MERCOSUR</b>		EU	CFA(FTA 2005)
	Bolivia	ECA	January 1, 1996
	Chile	ECA	October 1, 1996
	CACM	CFA	April 18, 1998(signed)
	ANDES	CFA	April 18, 1998(signed)
	South Africa	FTA	Under negotiation

Notes: FTA: Free Trade Agreement, ECA: Economic Complementarity Agreement, CFA: Cooperation Framework Agreement, IPA: Investment Protection Agreement.

Source: Mexico: Secretaria de Economia, Chile: DIRECON, Mercosur: Mercosur Committee in Uruguay.

**Table 3. Intra and Inter-Regional Trade Share by Each Region (%)**

		1970	1975	1980	1985	1990	1995	1996	1997	1998
Exporting region	Importing region									
NAFTA	NAFTA	0.360	0.346	0.336	0.439	0.414	0.462	0.476	0.491	0.510
	Latin America	0.081	0.089	0.086	0.056	0.048	0.067	0.067	0.071	0.073
	East Asia	0.176	0.152	0.168	0.147	0.187	0.202	0.200	0.181	0.152
	EU	0.233	0.195	0.216	0.170	0.196	0.162	0.154	0.154	0.164
	Oceania.	0.022	0.017	0.018	0.021	0.019	0.016	0.016	0.015	0.015
Latin America	Latin America	0.112	0.119	0.169	0.119	0.152	0.261	0.274	0.284	0.314
	NAFTA	0.322	0.338	0.287	0.332	0.350	0.270	0.289	0.292	0.283
	East Asia	0.054	0.048	0.063	0.065	0.088	0.115	0.109	0.099	0.083
	EU	0.332	0.268	0.214	0.257	0.241	0.231	0.211	0.193	0.194
	Oceania.	0.001	0.001	0.002	0.005	0.004	0.004	0.003	0.003	0.002
East Asia	East Asia	0.287	0.286	0.327	0.318	0.357	0.390	0.435	0.434	0.384
	NAFTA	0.325	0.235	0.235	0.334	0.280	0.240	0.233	0.238	0.263
	Latin America	0.037	0.060	0.047	0.028	0.018	0.026	0.025	0.028	0.027
	EU	0.135	0.134	0.144	0.114	0.162	0.137	0.121	0.135	0.140
	Oceania.	0.034	0.034	0.028	0.070	0.022	0.016	0.018	0.020	0.027
EU	NAFTA	0.097	0.069	0.067	0.112	0.082	0.077	0.079	0.086	0.096
	Latin America	0.031	0.035	0.033	0.018	0.012	0.023	0.023	0.022	0.023
	East Asia	0.033	0.029	0.031	0.041	0.051	0.072	0.073	0.007	0.110
	EU	0.487	0.484	0.509	0.503	0.550	0.624	0.614	0.558	0.561
	Oceania.	0.016	0.012	0.028	0.010	0.008	0.008	0.008	0.008	0.008
Oceania	NAFTA	0.169	0.134	0.144	0.128	0.135	0.089	0.088	0.097	0.118
	Latin America	0.007	0.019	0.012	0.010	0.009	0.013	0.017	0.014	0.016
	East Asia	0.326	0.391	0.385	0.408	0.443	0.509	0.456	0.482	0.431
	EU	0.247	0.173	0.141	0.131	0.121	0.117	0.115	0.102	0.132
	Oceania.	0.061	0.061	0.064	0.070	0.076	0.099	0.097	0.095	0.083

Notes: NAFTA (US, Canada, Mexico), Latin America(excludes Mexico), East Asia (Japan, China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore. Thailand; exclude Taiwan), Oceania (Australia, New Zealand)

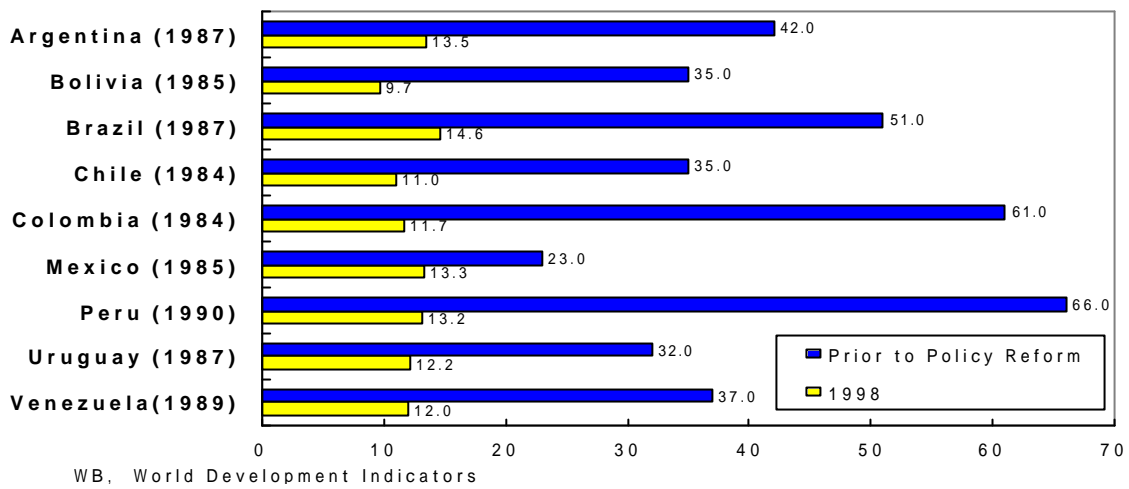
Source: DOT/IMF.

**Table 4 East Asia-Latin America Forum (EALAS/FALAE): Participating Countries**

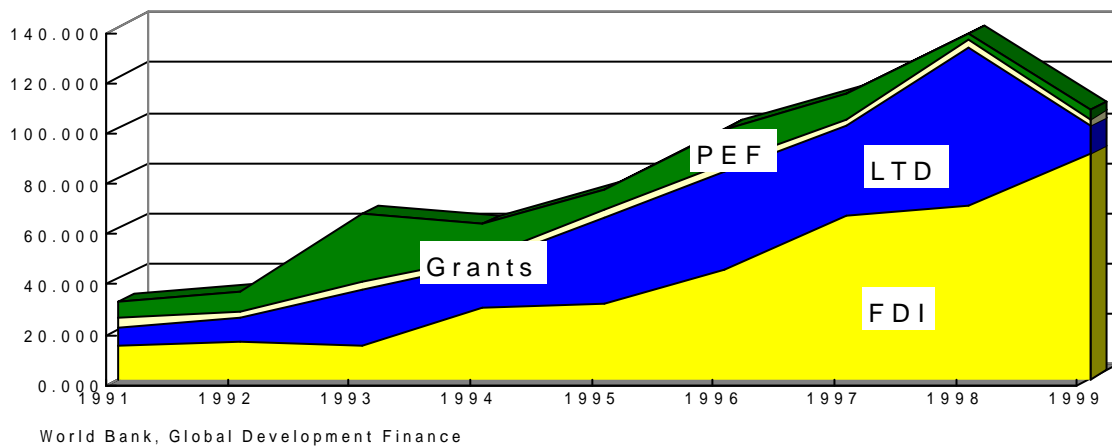
	Population (Millions)	GNP (US\$ Billions)	GNP/capita (US\$)
<b>East Asia</b>			
Australia	19.0	380.0	20,540
Brunei	0.3	7.1	25,090
Cambodia	11.0	0.3	300
China	1,227.0	1,055.4	860
Indonesia	200.0	221.9	1,110
Japan	126.0	4,772.3	37,850
Korea	46.0	485.2	10,550
Laos	5.0	1.9	400
Malaysia	21.0	98.2	4,680
Myanmar	47.0	---	---
New Zealand	4.0	60.5	16,480
Philippines	73.0	89.3	1,220
Singapore	3.0	101.8	32,940
Thailand	61.0	169.6	2,800
Vietnam	77.0	4.5	320
<b>Latin America</b>			
Argentina	36.0	305.7	8,570
Bolivia	8.0	7.4	950
Brazil	164.0	773.4	4,720
Chile	15.0	73.3	5,020
Colombia	38.0	86.8	2,280
Ecuador	12.0	19.0	1,590
Mexico	95.0	348.6	3,680
Panama	3.0	8.4	3,080
Paraguay	5.0	10.2	2,010
Peru	25.0	60.8	2,460
Uruguay	3.0	19.4	6,020
Venezuela	23.0	78.7	3,450

Source: Asian Times Online, September 07, 1999 and World Development Report 1997-1998.

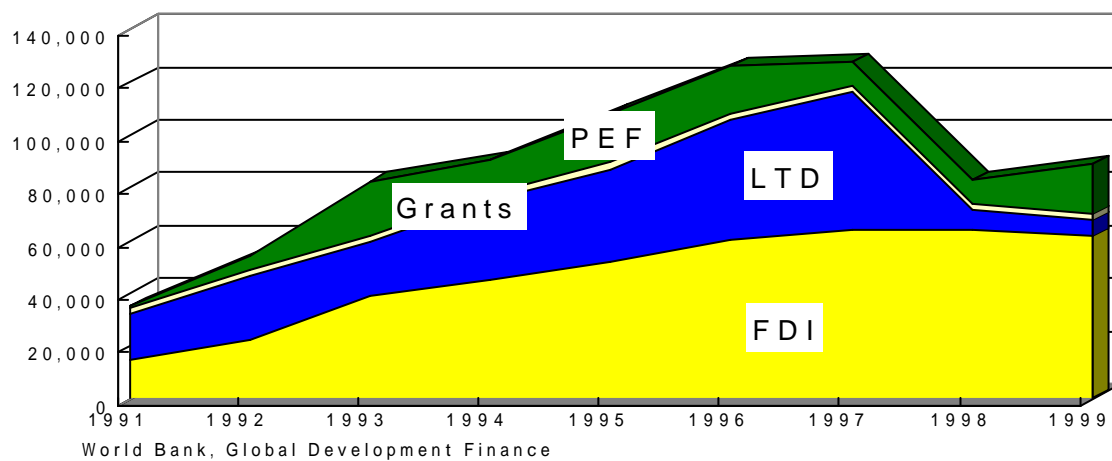
**Figure 1 Tariff Reductions in Latin America**



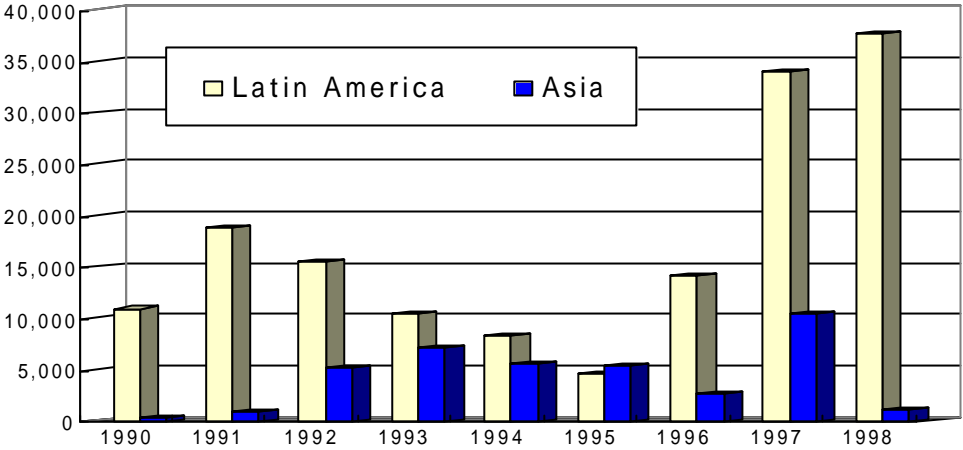
**Figure 2 Net Resource Flows to Latin America**



**Figure 3 Net Resource Flows to Asia**

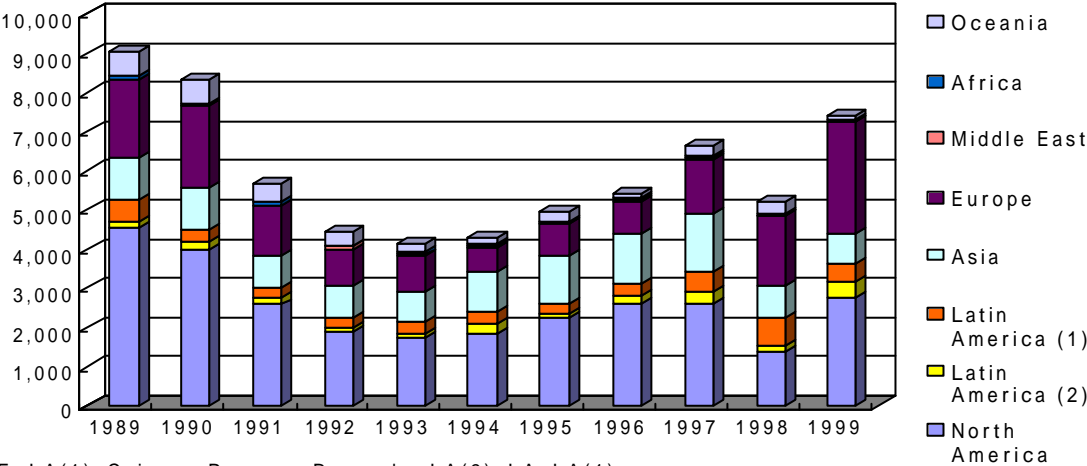


**Figure 4 Privatization in Latin America and Asia**



Source: World Bank, Global Development Finance, 2000, p.18!

**Figure 5 Japanese FDI by Region (Billion yen)**



MOF: LA(1)=Caiman, Panama, Bermuda, LA(2)=LA-LA(1)