Trade and Foreign Direct Investment between Asia and Latin America

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The International Environment for Trade and Investment

Trade and investment relations between Asia and Latin America cannot be properly understood without taking into account recent important developments in the international economy. There are three trends taking place in the world economy that are particularly relevant to our discussion: liberalization, globalization, and regionalism. Although they are related in complex ways, each of these three trends is recognizable in their own. I will discuss briefly each one of them as well as their relevance to the analysis of international trade and investment.

Liberalization, the process whereby market forces are becoming more powerful and states weaker, has been advancing steadily since the early 1970s. The wave of liberalization, originating in the USA and Western Europe, took over Latin America since the mid-1980s and Central and

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Eastern Europe since the late 1980s. Undoubtedly the demise of communism in the Soviet Union and other COMECON members as well as the emergence of the new economic policies in China since the late 1970s have contributed to make economic liberalism the dominant doctrine in the world economy. Most people would also probably agree that the East Asian crisis that started in 1997 contributed to the spread of liberalism in this part of the world. Without denying the persistence of protectionist tendencies in most countries, liberalization has played an important role in the expansion of world trade in goods and, especially, services. The advances in this area have been consolidated by the creation of the World Trade Organization (WTO). It might be argued, however, that the main impact of liberalization has been in relation to flows of foreign direct investment, in particular inflows to developing countries. These flows have had an extraordinary expansion during the present decade, a phenomenon largely attributed to deregulation and the privatization of state enterprises.

Globalization is, of course, a fashionable term. It would be difficult, however, to overstate its importance and relevance to our discussion. It is a very wide and rich term, whose meaning goes beyond the economy to cover political and cultural aspects. From our perspective, the most important meanings are those of globalization of production and globalization of consumer tastes. The globalization of production has been behind the increase in flows of investment for the purpose of manufacturing and it has expanded international trade in intermediate products. The globalization of tastes has contributed both to the increase in international trade in goods and services as indirectly also to international investment.

We come finally to the third trend, regionalism. This seems to be in opposition to the trend of liberalization of international trade and indeed many people see regionalism as a threat to free markets and their promise of increased welfare for the world at large. It is true that regionalism appears to some as a shield against perceived negative consequences of a rushed embrace of global free markets, but this does not mean that these same people would agree with halting the gradual process of liberalization and integration of the world economy. Although in theory regionalism might lead to a world composed of insulated economic blocs, it is more likely that regionalism will be an intermediate step towards the relatively painless accomplishment of the full potential of an integrated global economy. In that regard, the open regionalism of the 1990s must be distinguished from the sort of regionalism that was common in the 1950s and 1960s. This distinction is perhaps most apparent in the case of Latin America, where Mercosur and NAFTA are clearly positioned as potential building blocs for a Western Hemisphere group which, in turn, seems to be from before its outset open to the participation of other interested countries. Another useful and important example is, of course, the Asia Pacific Economic Cooperation (APEC) forum, which already comprise 21 member economies. In practical and immediate terms, regional integration schemes have contributed to the increase of intra-regional trade, a phenomenon yet again clearly seen in the Latin American case. Although the empirical case is still under debate, casual evidence seems to indicate that so far regionalism belonging to the recent open vintage has been more trade-creating than trade-diverting.

These trends, in addition to the accelerating pace of technological innovation, contribute to the creation of an exceptionally dynamic international environment. These are exciting times, as we watch new products and services appear almost daily, and international alliances between firms as well as agreements between nations are changing continuously the global economic landscape. Perhaps suitably to the beginning of a new century, the world appears full of opportunities both to nations eager to develop as well as to entrepreneurs wanting to push forward the frontiers of business. It is in this auspicious environment that the relations between Asia and Latin America are taking place.

Asia and Latin America in the World

It is impossible to ignore that important asymmetries exist between Asia and Latin America. For one thing the population of Asia is several times bigger than that of Latin America, and the same can be said about the level of economic output. More significantly, though, the participation of Asia in international trade is much higher than that of Latin America, both in absolute and relative terms. This brings us to what has been until recently one of the most fundamental asymmetries between the two regions, namely their approach to the world economy. For East Asian countries throughout the post-war period and also for China during the past two decades, economic development to a large extent has meant finding successful ways of inserting themselves into the world economy. Although attitudes towards inward foreign direct investment differed among countries, they all coincided in promoting exports and also in establishing world standards for domestic production that would enable them to produce increasingly sophisticated goods. Either by opening their doors to foreign direct investment or through technology agreements with foreign firms, most Asian countries have consistently been full participants in the process of globalization for a long time. Many firms and brands originating in this part of the world have made their mark internationally. As for Latin America, their conversion to the dual trends of liberalization and globalization is relatively recent. Until the late 1970s and through most of the post-war period, most Latin American countries looked inwards and in many cases had hostile attitudes towards foreign investment. International trade was, and to this day still is, small as a proportion of economic size. Protectionist tendencies were dominant and the promotion of manufacturing exports ineffective. The production of manufactures was usually directed at domestic markets and their quality was not up to world standards. Until the late 1970s there was the widespread belief that import substitution could be a lasting strategy for development. Of course policy approaches have changed considerably after the "lost decade" of the 1980s, but the sequels of those policies still can be seen in the weakness of the manufacturing sector of most Latin American countries and in the still reduced opening to the world economy.

In respect to liberalization, it can be said that Latin American countries have embraced it with the characteristic fervor of late converts. In some areas of the economy, as for instance in finance, markets are being liberalized more deeply in Latin America than they are in Asia. It is still early to say whether this will provide Latin America with an advantage, but it is to be noted that Asian countries have usually taken a pragmatic approach at development policy. Thus, despite the undeniable ascent of the liberal ideas, states are still expected to have a positive role in the economic development of most Asian countries.

Another source of differences has been the approach to regionalism. Latin America was a pioneer area of the world in this respect, following soon after the example of Europe in the mid-1950s. That wave of integration was, however, a natural extension of the policies of import substitution practiced at the time, and by the 1970s it reached a dead end as well. The more recent wave of Latin American integration, exemplified by Mercosur, the Latin American Integration Association (LAIA) and other sub-regional agreements, is different in its approach and in particular is consistent with the efforts of Latin American countries insert themselves in the international economic system. What makes both of these waves different from the Asian experience is their emphasis on the institutions of integration and in the leadership or guidance of integration by governments. The very successful de facto integration of production that has taken place in East Asia has instead been to a large extent a market-led phenomenon. In this process, intra-regional flows of direct investment have played and continue to play a very important role.

As we examine trade and investment relations between Asia and Latin America it is worth keeping in mind these asymmetries. The paucity of those relations until before this decade can of course be explained by the reduced opening of the economies of most Latin American countries. Policy inconsistencies in some Latin American countries, especially Brazil, help to explain why Japanese investment in those countries has been so low, both in absolute and relative terms.

Trade relations

International trade has kept growing at high rates during this decade. From 1991 to 1997, world exports increased at an average annual rate of around 7 percent according to the IMF statistics. At the same time, exports of developing Asia nearly doubled (annual rate of around 12 percent) and those of Latin America more than doubled, progressing annually at a rate of 12.7 percent. The extraordinary fact is that for the first time in recent memory Latin American exports have shown such dynamism. It is important to keep in mind that, despite this recent growth, the combined share of Latin America in world exports is close to 5 percent while that of the Asia Pacific region is close to 25 percent. Latin American imports also grew at comparable rates and outpaced world trade as well.

In addition to the new dynamism shown by Latin American trade, a second noteworthy feature is that a significant part of it can be attributed to intra-regional trade, especially trade among members of Mercosur. In fact, among the larger countries, the most dynamic exporters have been Argentina, Brazil and Chile.

Table 1. Main Asian commercial partners of Brazil (percentages)

Exports			*Imports*		
	Share in 1991	Share in 1997		Share in 1991	Share in 1997
Japan	8.1	10.9	Japan	5.8	5.9
Korea	2.1	2.6	China	0.3	1.9
China	0.7	3.8	Korea	0.6	2.2
Taiwan	1.9	1.7	Taiwan	0.6	1.3

Source: own calculations from data of Direction of Trade Statistics(IMF)

Table 2. Main Asian commercial partners of Chile (percentages)

Exports			*Imports*		
	Share in 1991	Share in 1997		Share in 1991	Share in 1997
Japan	18.2	15.7	Japan	8.4	5.6
Korea	2.9	5.8	China	1.2	3.5
Taiwan	4.4	4.6	Korea	2.2	3.1
China	0.9	2.6	Taiwan	1.5	1.2

Source: see Table 1

As for trade between Asia and Latin America, perhaps the most striking feature is the asymmetry in the relative importance that each region has for the other. It is rather exceptional for any Latin American partner of an Asian country to account for more than 1 percent of either imports or exports. The opposite is true for Latin America, where typically the main three or four Asian partners will represent more than 1 percent o both exports and imports[1]. Despite these differences, trade among both regions has increased at a steady pace throughout this decade.

Table 3. Main Asian commercial partners of Argentina (percentages)

Exports			*Imports*		
	Share in 1991	Share in 1997		Share in 1991	Share in 1997
China	2.1	3.4	Japan	7.3	3.7
Japan	3.8	2.2	China	2.3	3.7
Malaysia	0.5	1.3	Korea	3.3	2.1
Taiwan	0.6	1.0	Taiwan	1.7	1.3

Source: see Table 1

Let us now examine trade relations from the perspective of individual countries, starting from those in the Latin American region, and refer to Tables 1 to 3 for selected countries. Brazil, Chile, Argentina, Mexico and Peru (in that order) ranked highest in 1997 for exports to the Asian region. In terms of relative share in total exports, Chile is by far the most active exporter to Asia, a consequence of its successful policy of diversification of exports of the last two decades. In particular, the share

1) An important exception is Mexican exports, highly concentrated towards the United States. Mexican exports to all of Asia represent less than 2 percent of total exports.

of exports to Japan is exceptionally high, even when compared to Asian trade partners of Japan. Japan is by far the main destination of total Latin American exports to Asia and this also happens at the country level for most countries in the region. The share that Japan has in Latin American exports to Asia, however, has decreased consistently during this decade. China, Korea, and Hong Kong have been the most dynamic markets in that respect. For Argentina and Peru, for instance, China has replaced Japan as the main destination in Asia for their exports. This is a consequence, of course, of the growth of industrial production in East Asia and of the fact that most Latin American exports to Asia are natural resources.

As for imports from Asia, Brazil, Panama, Mexico, Chile and Argentina were in 1997 the most important countries. The importance of Panama is easy to understand because of the status that this country has as a free port. In the case of Mexico, the need of components for the operation of the increasing number of Japanese and other Asian *maquiladoras* established in the northern border region of the country accounts in part for the growth of its imports. As a general feature, similarly as in the case of exports, Japan appears as the main supplier of imports. There has also been a decline in the relative share of Japan in Latin American imports from Asia, in this instance much steeper than is the case for exports. On the other hand the shares of China, Korea, and all ASEAN countries have increased. Korea is now the second largest Asian supplier of imports to Latin America (on a f.o.b. basis), closely followed by China and Hong Kong. A large part of Latin American imports from Asia is composed of automotive vehicles, machinery, and electronic products. The redeployment of Japanese produc-tion that has taken place during this decade, especially in electronics, to ASEAN countries and to China, has been an important factor in the redistribution of Latin American imports away from Japan and towards other Asian countries.

We look now from the perspective of Asian countries, and for this I will refer to Tables 4 to 6 for selected countries. One notices in the first place that exports to Latin American countries are hardly significant for any Asian country, although their share in total Asian exports has increased during this decade. As noted before, Panama is the main destination for Asian exports, and indeed its role has been growing in recent year, especially for countries of more recent industrialization as China and Malaysia. For Japanese exports to Panama, it needs to be noted that an important component is the sale of ships to Japanese and other shipping companies that are registered there.

Table 4. Main Latin American partners of Japan (percentages)

Exports			*Imports*		
	Share in 1991	Share in 1997		Share in 1991	Share in 1997
Panama	1.26	1.59	Brazil	1.35	1.11
Mexico	0.89	0.92	Chile	0.79	0.89
Brazil	0.39	0.70	Mexico	0.73	0.48
Chile	0.20	0.25	Peru	0.17	0.16

Source: see Table 1

Table 5. Main Latin American partners of Korea (percentages)

Exports			*Imports*		
	Share in 1991	Share in 1997		Share in 1991	Share in 1997
Panama	0.87	1.42	Brazil	1.09	0.86
Brazil	0.24	1.25	Chile	0.46	0.80
Mexico	1.08	1.08	Mexico	0.27	0.24
Chile	0.38	0.48	Peru	0.02	0.22

Source: see Table 1

Table 6. Main Latin American partners of China (percentages)

Exports			*Imports*		
	Share in 1991	Share in 1997		Share in 1991	Share in 1997
Brazil	0.09	0.58	Brazil	0.54	1.05
Panama	0.12	0.55	Argentina	0.48	0.51
Chile	0.13	0.31	Peru	0.46	0.43
Argentina	0.07	0.25	Chile	0.18	0.29

Source: see Table 1

Foreign Direct Investment

Latin American direct investment in Asia being almost nonexistent, our discussion will be about Asian investment in Latin America. Until the 1980s, only Japan had significant investments in Latin America. Although Japan still is by far the most important Asian investor in Latin America, other countries are taking an interest in the region, especially

China and Korea. This said, foreign direct investment from Asia to Latin America remains small when examined in the background of the extraordinary increase of international capital flows during this decade. Although estimates from international agencies (IMF, ECLAC, UNCTAD) differ, it is clear that net inflows of FDI to Latin American countries for the past four years have been above 40 billion dollars.[2] Most of this has been concentrated in the LAIA countries, particularly Brazil and Mexico, although Argentina and Chile have also attracted sizable amounts. The situation is in sharp contrast to the 1980s, when financial flows to the region all but dried up.

Among Asian countries, the case of Japan is of course of special interest. Following its reconstruction and accelerated development during the early post-war period, Japan quickly became an important international investor. Even though its original direct investments abroad had the purpose of securing the supply of the primary materials needed to keep the growth of manufacturing, some of the first investment in manufacturing took place in Brazil. During the 1960s and 1970s Japan became a significant, albeit not major, investor in Latin America. Japanese banks also were active in lending to Latin American countries. The financial debacle of the 1980s hit hard Japanese banks and had a lasting effect on their relations with the region as well as discouraging large-scale investment there. Japanese direct investment abroad increased hugely during the 1980s, while at the same time its investment in the Latin American and Caribbean region were almost exclusively directed to Panama (shipping) and to the fiscal paradises of the Caribbean. If these

2) According to the World Economic Outlook of the IMF (October 1999), net FDI inflows to the Western Hemisphere during the four years 1994-98 averaged 40.4 billions annually, and this is projected to be roughly maintained during 1999-2000. The 1998 report on "Foreign Investment in Latin America and the Caribbean" of

are excluded from the region, the share that Latin America and the Caribbean had in the stock of Japanese direct investment abroad went from around 15 percent in 1980 to 6 percent in 1987[3]. In the 1990s there has been some revival of interest by Japanese investors and some important projects have been undertaken, especially in the automotive and mining sectors[4]. Thus, Toyota has recently built plants in Argentina and Brazil and Honda is operating in Brazil as well, both attracted by the fast growing vehicle markets of Mercosur countries[5]. Chile (copper, iron), Brazil (iron) and Venezuela (iron) continue to be favorite destinations for investment in the mining sector. But overall the presence of Japanese investors in Latin America is modest, as illustrated in Table 7. This is also well emphasized by the limited participation of Japanese firms in the globalization process that is taking place in the region. ECLAC estimates that over half of the 43 billion dollars that flowed to Latin America in 1997 were spent purchasing existing firms (mergers and acquisitions). Yet, in their listing of the 33 principal acquisitions (those in excess of 250 million dollars) worth in total 21.7 billion dollars, Japan appears only with two entries worth a total 518 million dollars[6].

ECLAC, on the other hand, states that FDI flows to the region rose from 33 to 65.2 billions between 1995 and 1997.

3) From "Recent History and Future Prospects of Economic Relations between Japan and Latin America", Saavedra-Rivano, N,.VRF Series n. 162, Institute of Developing Economies, Tokyo 1989.

4) See "Japón: Situación actual y perspectivas de la economía. Relaciones de comercio e inversión con América Latina y el Caribe", Sistema Económico Latinoamericano, Caracas 1997.

5) Of course, Nissan has been the pioneer in its sector, with its important investment in Mexico, now building also Renault vehicles there.

6) These were the acquisitions of Caemi Mineraçao e Metalurgia (Brazil) by Mitsui for 264 million dollars and that of the Los Pelambres (Chile) mine by a consortium of Nippon Mining and Metal and Mitsubishi Materials by 256 million dollars. Data from "1009 Report on Foreign Investment in Latin America and the Caribbean", ECLAC, Santiago de Chile 1998.

Another telling indicator is the limited presence of subsidiaries of the major Japanese transnational corporations[7].

China, as part of the increasing internationalization of its economy, has begun to invest in Latin America. Although the entrance in this region is yet incipient and in particular the numbers are small, some of these investments have impressed observers by their boldness and seem to presage a more active participation of China in the region. Perhaps the first significant Chinese investment in Latin America was the acquisition by Shougang in 1992 of the iron mine Hierro-Peru that was privatized at that time. This was an investment of 122 million dollars or around 2 percent of FDI in Peru of that year. A second investment of notice involved the creation in 1996 of a joint venture between China and Venezuela to produce "orimulsion", the tar-based fuel that Venezuela is promoting in order to be able to exploit heavy crudes from the Orinoco River Basin[8]. Venezuela at the time made a commitment to purchase the product, a commitment that was renewed during the visit by President Chavez to Beijing in October 1999. Also in Venezuela, in 1997 China National Petroleum Corporation acquired for 360 million dollars drilling and exploitation rights in two oil fields

Korea has expanded its investment abroad since the mid 1980s and more actively in Latin America during the 1990s. By the end of 1996 its stock of direct investment in Latin America stood at 689 million dollars,

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7) Within the sales of the 250 largest subsidiaries of transnational corporations established in the region, the Japanese firms (numbering seven) are responsible for only 2.8 percent (ECLAC, ibid)

8) See "La República Popular China: tendencias económicas e implicaciones para América Latina y el Caribe de la reincorporación de Hong Kong", Sistema Económico Latinoamericano, Caracas 1997.

equivalent to about 5 percent of total investment abroad[9]. In contrast to Japan and China, over 60 percent of this investment were directed to manufacturing. Mexico, Panama, Guatemala and Honduras were the largest destinations for manufacturing investment. Panama and Mexico were also significant destinations for investment in the services sector and Chile and Argentina for those belonging to the primary sector[10]. More recently, Venezuela has emerged as an important recipient of Korean investment. In 1997, Korea was the third largest investor in Venezuela, after the USA and Spain, with 8 percent of total inflows. Hyundai is assembling cars there and Korean investors entered a joint venture with Kobe Steel and others to build an iron reducing plant with an annual output capacity of one million tons[11].

9) Figures from "Korean Investments in Latin America", Taik-Hwan Jyoung, paper presented at the meeting of the Project on Latin America and the Pacific Rim, University of California, San Diego, March 1997.
10) See "Desarrollo económico y proyección internacional de la República de Corea: Hacia una nueva etapa de las relaciones económicas con América Latina y el Caribe", Sistema Económico Latinoamericano, Caracas 1997.
11) See ECLAC, ibid.

Table 7. Inflows of FDI to selected Latin American countries: 1998

	Total FDI (millions US$)	*First-ranked investor (amount)*	*Second-ranked investor (amount)*	*Asian countries (rank and value)*
Brazil (1997)	15,311.1	USA (4,382.3)	Cayman Is. (3,382.9)	Japan 8th: 342.1 Korea 17th: 91.3
Argentina (1998)	14.486.0	USA (5,476.0)	Chile (1,680.0)	-
Chile (1998)	6,076.0	Canada (1,431.1)	USA (1,323.4)	Japan 10th: 68.9
Mexico (1998)	4,470.6	USA (3,153.4)	Holland (438.3)	Japan 7th: 84.6 others (Singapore, Korea, Taiwan, China): 101.3
Colombia (1998)	4,186.0	Spain (1,652.0)	Panama (1,430.0)	Japan 9th: 40.0
Venezuela (1998)	1,551.1	Cayman Is. (1,203.5)	USA (122.2)	Japan 9th: 13.3
Peru (stock, 1998)	7,829.0	Spain (2,391.0)	USA (1,599.0)	China 9th: 122.0 Japan 16th: 44.0

Note: FDI statistics for Brazil, Colombia, Venezuela, and Peru are on a registration basis, those for Chile on an approval basis and those for Mexico on a disbursement basis.

Source: Foreign Direct Investment Statistics of Major Latin American Countries (in Japanese), Journal of the Research Institute for International Investment and Development, vol. 25, n. 4, July-August 1999, The Export-Import Bank of Japan, Tokyo.

These three countries have been the main investors from the Asian region. As the process of globalization consolidates itself both in Latin America and in Asia, it is highly likely that other countries from East Asia will follow them. Already there have been smaller investments in Mexico coming from a variety of countries in the region (see Table 7 above). Mexico is of course one of the more enticing countries for international investors, because of its increasing integration with the United States as embodied in the NAFTA. Among investment projects planned for the next few years, in addition to projects from Japanese and Korean firms, we can also find a number of projects from Taiwanese companies, such as Acer Computer, Tuntex (chemical fibers), and Nien Hsieng (textiles), with a total planned investment in the order of 860 million dollars[12]. After Mexico, Mercosur will be the other center of attraction for new investment from Asia.

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