

Newsletter



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Possibility of Regional Cooperation between East Asia and Latin America : The Pacific Alliance a Key?

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< Summary >

1. Many Free Trade Agreements (FTAs) and the like have been concluded between two countries across the regions of East Asia and Latin America or among plural countries within each of the regions. However, no agreement has yet been realized across the regions participated by plural countries thereof. And the movement toward regional cooperation has been painfully slow between the two.
2. It is true that as a framework for regional cooperation between East Asia and Latin America there exist Asia-Pacific Economic Cooperation (APEC) which started in 1989 and Trans-Pacific Partnership (TPP) which came into effect in 2006 as P4 (Trans-Pacific Strategic Economic Partnership Agreement). Since 2010 several countries have joined the original members in the latter's enlargement negotiation for TPP. However, in addition to a limited membership of countries in Latin America or East Asia, these two frameworks are heavily dominated by the US and other advanced countries, and therefore they are hardly referred to as an alliance led by the emerging economies.
3. There still exist many emerging and developing countries in both East Asia and Latin America. Therefore economic cooperation that will promote trade and investment has a great importance to these regions in both securing their economic growth and mitigating

possible external shocks in their economy and finance. Further, as far as judged from the merit to be gained by expanded trade, Latin America apparently has a bigger incentive than East Asia to promote economic cooperation and partnership between the two regions.

4. If a practical framework for a regional cooperation is to be realized, the key part of it would be the Pacific Alliance (Alianza del Pacifico) that consists of Mexico, Chile, Peru and Colombia. The Pacific Alliance was established to promote economic development of the member countries and strengthen their competitiveness and at the same time to strengthen economic exchanges with Asia-Pacific region and facilitate political dialogues between the two regions. If the initiative of the Pacific Alliance will be actively pursued, there will be a good chance for a strengthened regional partnership between East Asia and Latin America.

Introduction

As the presence of emerging and developing countries has been growing in the world economy, the trade and economic magnitude of Asia and Latin America have also been expanding. Economic relations between East Asia and Latin America or among countries within each region have been strengthened by conclusions of Free Trade Agreements (FTAs) or Economic Partnership Agreements (EPAs) (hereinafter collectively referred to as FTAs¹) that aim for greater liberalization of economic transactions, and by other closer alliance for various government activities. Yet, no cross regional agreement has been signed by plural members from each region although many agreements have been signed on a bilateral basis between the two regions or by several members within the region. The movement toward a closer regional partnership is also very slow.

APEC was initiated in 1989 as a forum for regional cooperation that outstretches the two regions of East Asia and Latin America. There is also a forum of TPP which came into force as P4 (Trans-Pacific Strategic Economic Partnership Agreement) in 2006 and since 2010 several countries have joined as applicants the original member states to expand it as Trans-Pacific Partnership Agreement. However, both are a framework that incorporates the advanced countries headed by the US, with only a few Latin American countries participating in APEC and several countries from East Asia and Latin America in TPP. In 1998 FEALAC (Forum for East Asia – Latin America Cooperation) was advocated as a forum for closer relationship that covers all countries in East Asia and Latin America but it has not achieved any meaningful results since its inception in 1999.

In general, emerging and developing economies have a high degree of dependence on trade

¹ Internationally, FTAs are often used to include EPAs without any strict distinction between the two.

and foreign capital, and therefore economic cooperation that facilitates trade and investment has a great significance in securing their economic growth and mitigating the effects of any external economic and financial shocks, especially for the countries in East Asia and Latin America where most of the economies still belong to an emerging phase. From this perspective, I will review the development of economic cooperation between East Asia and Latin America, and based on the characteristics of the trades between the two regions, I will discuss the feasibility of a deeper economic cooperation that will be led by the emerging and developing countries in these regions.

1. How deep is the economic cooperation and partnership between East Asia and Latin America now?

(1) Interregional cooperation in East Asia and Latin America and bilateral intra-regional cooperation.

In each region of East Asia and Latin America, internal economic cooperation has been promoted bilaterally or among several countries through a closer alliance and conclusion of FTAs and in some cases they resulted in conclusion of intra-regional FTAs. (Chart 1)

In East Asia, the Association of South East Asian Nations (ASEAN) was established in 1967 by five Southeast Asian countries as a regional organization for cooperation that covers wide range of issues including economy, politics, and security, and it has been expanded to current 10 members. The movement to conclude FTAs on a bilateral basis gained momentum since 2000, mainly between the ASEAN countries and Japan, China, and Korea, leading to the conclusion of FTAs between ASEAN itself and each of Japan, China and Korea (ASEAN Plus 1). Since the middle of 2000s these Asian countries started to conclude FTAs with extra-regional countries including those in Latin America. Especially active contractors in East Asia that have concluded FTAs with Latin American countries have been Taiwan, Singapore and three countries of Japan, China, Korea.

Meanwhile in Latin America, Mercosur (Mercado Comun del Cone Sur, or Common Market of the South) was formed in 1995 by Argentina, Brazil, Uruguay and Paraguay to abolish the customs duties within the group and implement common external duties. In 2005 Venezuela joined the Mercosur. They started to internally conclude bilateral FTAs earlier than the Asian countries, with non-members of the Mercosur actively involved since 1995.

The external FTAs were first concluded in the early 2000s, with Peru and Chile actively concluding bilateral FTAs with East Asian countries. The Pacific Alliance was formed in June 2012 by the four Pacific Rim countries of Peru, Chile, Mexico and Colombia. It is an economic union that holds free trade as a pillar of their trade policy, aiming also at strengthening

economic and political ties with the Asia-Pacific region.

Chart 1 : Bilateral FTAs between East Asia and Latin America

		ratified or signed		negotiated or prepared for negotiation	
		number	the other country	number	the other country
East Asia	Taiwan	5	Panama, Guatemala, El Salvador Nicaragua, Honduras	1	Dominica
	Singapore	4	Panama, Peru, Costa Rica	1	Mexico
	China	3	Chile, Peru, Costa Rica	1	Colombia (Joint Study)
	Japan	3	Mexico, Chile, Peru	1	Colombia
	South Korea	2	Chile, Peru, Colombia	1	Mexico (suspended)
Latin America	Peru	5	China, Japan, South Korea, Thailand Singapore	—	—
	Chile	4	China, Japan, South Korea, Malaysia	—	—
	Panama	2	Taiwan, Singapore	—	—
	Colombia	1	South Korea	2	Japan, China (Joint Study)
	Mexico	1	Japan	1	South Korea (suspended)

(source) Jetro

(2) Plural countries' Efforts for closer cooperation between East Asia and Latin America

Regional cooperation by plural countries from both sides of East Asia and Latin America started with the creation of APEC, which served as a framework for a soft binding economic cooperation participated by 21 countries and economies in the Asia-Pacific region. Its main purposes are, in order to support sustainable economic growth and prosperity in the Asia-Pacific region, championing free and open trade and investment, promoting and accelerating regional economic integration, encouraging economic and technical cooperation, enhancing human security, and facilitating a favorable and sustainable business environment. So far it has promoted liberalization and facilitation of trade and investment and economic and technical cooperation in a wide range of fields including lowering tariffs and non-tariff barriers, simplifying customs procedures, etc. While all the countries in East Asia have been included as members of APEC, it has been joined by only 3 Pacific Coastal countries of Mexico, Peru and Chile from Latin America².

TPP is a more binding type of economic partnership among the regions that include both East

² Currently Colombia is seeking for a membership of APEC while participating as a guest country in such lower organizational structures as investment and energy.

Asia and Latin America. TPP is a comprehensive agreement that started as P4 in 2006 and since 2010 its original members have been in enlargement negotiations with the US, Australia, Vietnam and several others. It aims to lower and abolish tariffs on trade of goods and to establish rules for trade in services, investment, intellectual properties and government procurements. In the years to come, it is likely to become the basis for economic partnership and regional integration between Asia and Pacific regions, although at this point its membership from East Asia and Latin America is smaller than the current membership of APEC, even after taking the accession countries into account.

The two frameworks can be hardly labeled as a scheme initiated by the emerging and developing economies as they have only small memberships from Latin America and East Asia and at the same time they are largely dominated by the US. On the other hand, there is a framework for emerging economies on the Pacific Rim. That is FEALAC set up in 1999 to discuss ways for strengthening economic exchange and cooperation between the whole Asia and Latin America. Despite their important relationships with highly complementary economy and trade and increasing trade volumes, the two regions had failed to deepen an economic cooperation because of their geographical distance and wide differences in their political, cultural historical backgrounds. FEALAC covers 36 countries (16 from East Asia and 20 from Latin America) and is the only forum for mutual discussion on issues of international political economy by comprehensive members of East Asia and Latin America. In this sense it surely has some significance. However, it has not produced any notable achievements except for the regular meetings held by foreign ministers.

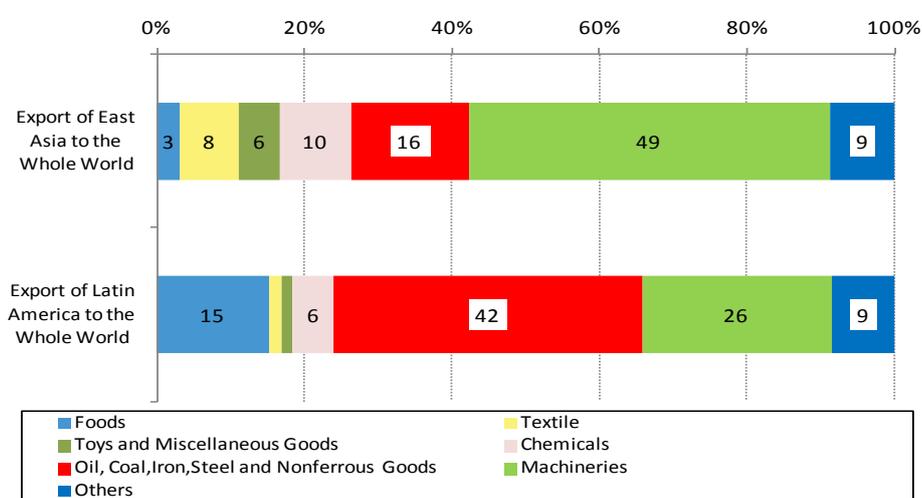
2. Characteristics of Economic Development and Trade in the Two Regions

(1) Characteristics of Economic Development and Trade

East Asia and Latin America have followed a different type of development based on their superiorities with abundant labor force in East Asia and rich natural resources and climate suited for agriculture in Latin America. Countries in East Asia except Indonesia, Malaysia and some others have a limited endowment of natural resources, and have traditionally developed such labor-intensive industries as fabrics and sundries. More recently, taking advantage of the investments by advanced countries including Japan, they have succeeded in developing manufacturing and assembly industries. On the other hand in Latin America, despite the progress of industrialization, agriculture based on a good climate has yet an important role together with abundant energy resources of oil and coal, and mining production of iron and copper. As a result, the weight of highly productive manufacturing in GDP remains at 16 % in 2011 whereas in East Asia it is as big as 35%.

Reflecting this different pattern of economic development, export items largely differ between the two. (Chart 2) In East Asia, the majority of exports centers in machinery such as electric machines and transportation machines. The ratio of labor-intensive industry such as fabrics, toys and sundries, while declining than before, is still higher than that in Latin America. On the other hand, in Latin America, majority of export is accounted for by primary commodities and their processed goods such as foods, minerals/energies and their related products. These features in their export items suggest an existence of strong complimentary relationship between the two regions.

Chart 2 : Export Items of East Asia and Latin America (to the rest of the world, 2011)

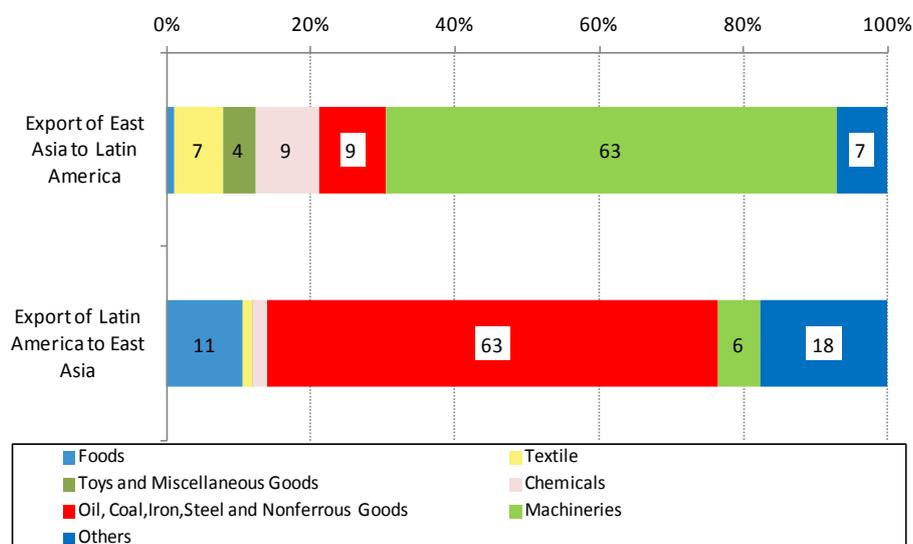


(source) RIETI TID

(2) Economic Development and its Relation to Exports

The comparison of trade focusing on export items between the two regions reveals more clearly the characteristics that reflect the industrial superiorities of each region. Chart 3 shows the trades between the two regions by category. Exports of machineries from East Asia to Latin America account for 63%, which is higher than the share (49%) of them shipped to the whole world, while the share of the same category in Latin America's exports to East Asia is only 6%, far below its share (26%) in total exports to the world. In contrast, minerals/energies and related products account for 63% of Latin America's exports to East Asia, far exceeding its share of 42% in the shipment to the whole world. The share of the items in exports of East Asia to Latin America remains at 9%, only a bit higher than half of its world share of 16%.

Chart 3 : Intra-regional Trade of East Asia and Latin America by category (2011)



(source) RIETI TID

When we look further into the components of machineries (table 1), electric machine accounts for notable 27.5% of East Asia’s exports to Latin America, followed by 14.4% of general machinery. The shares of these two items in the exports to Latin America both exceed those in exports to the world. On the other hand, transportation machine and electric machine account for 9.8% and 8.3% respectively in Latin America’s total export to the world, and the shares of 4 categories of machinery in the exports to East Asia are still less than 3%. The exports of machinery from Latin America have been very slow to expand to East Asia which has a strong superiority in machinery centered in manufacturing and assembly industry.

Table1 : Machinery Exports between East Asia and Latin America
(% share in total exports, 2011)

	General Machinery	Electrical Machinery	Transportation equipment	Precision Machinery	Total
East Asia to the Whole World	14.4	27.5	4.3	2.8	49.0
to Latin America	19.3	32.6	8.2	2.4	62.6
Latin America to the Whole World	6.4	8.3	9.8	1.1	25.6
to East Asia	1.2	2.8	1.5	0.3	5.8

(source) RIETI TID

The trade volume of machinery products in each region reflects not only the differences in the size of labor force, the endowment of natural and energy resources, but also the differences of

accumulated industrial base resulted from the preceding factors. It also reflects the difference in degrees of development and deepening of production networks within the region. Intermediary goods and parts account for more than half of exports (51%) and imports (54%) in trades by East Asia while in Latin America they account for 57% of imports but only 36% of exports. The share of intra-regional trades reaches 50% in East Asia while it remains at 21% in Latin America. These figures underline that in East Asia, there has been constructed an effective network of supply chain where countries produce intermediary goods and parts at the optimal places and export them mutually and assemble them into finished goods at the optimal places. Meanwhile, countries in Latin America rely more on imported goods for intermediate goods and parts than in East Asia, suggesting less development of division of labor structure within the region.

Table2 : Ratios of Trade of Intermediary Goods and Ratios of Intra-regional Trades (2011)

	(%)	
	East Asia	Latin America
Ratios of Trade of Intermediary Goods (Export)	51	36
Ratios of Trade of Intermediary Goods (Import)	54	57
Ratios of Intra-regional Trades	50	21

(source) RIETI TID, United Nation UNCTAD

3. Possibility of South-South Economic Cooperation between East Asia and Latin America

(1) Future Direction of Regional Cooperation between East Asia and Latin America

So far we have seen that the regional cooperation between the two regions has developed through the conclusion of bilateral FTAs, contributing to the expansion of trade through lowered tariffs and simplified procedures. FEALAC has started as a forum for broad discussions by all the major countries of the two regions, but as is shown above it has had no notable results. Bilateral FTAs, though more effective for their flexibility of minimum unit scale, have failed to play a greater role of working as a comprehensive forum that encompasses the whole regions.

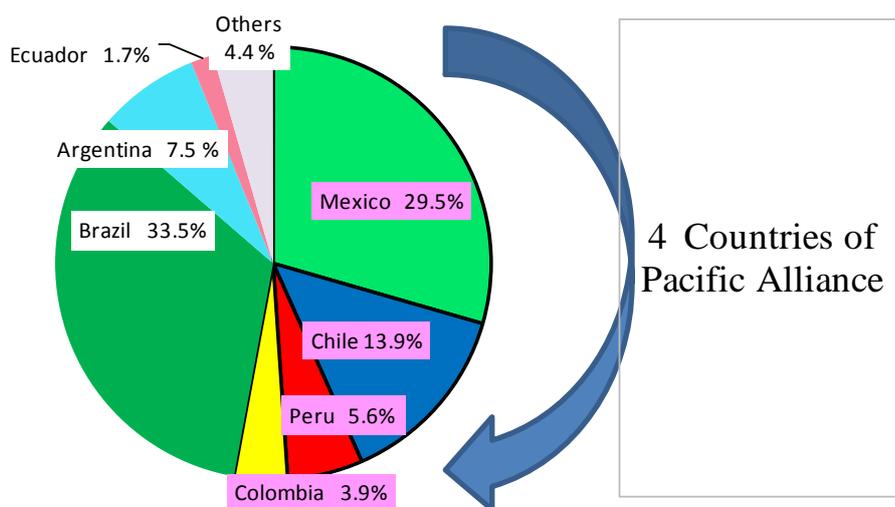
Also APEC and TPP, which are more practical organization or agreement that are participated by several developing countries from both regions, are not an effective framework to represent emerging countries since they cover only a small number of countries in East Asia and Latin America, and more importantly, their decisions on important issues are largely influenced by the advanced countries headed by the US.

Yet, economic partnership that will promote trade and investment is quite meaningful for both East Asia and Latin America in order to secure their economic growth and alleviate possible impacts of external shocks on their economy and financial system. Therefore, if any frameworks

for regional cooperation between the two regions are to be realized, it is likely that the Pacific Alliance will have a key for its success, for the reasons noted below.

First, when we look into each region’s weights in their world trades, while Latin America accounts for only small 3% in 2011 in total East Asia’s trade, the trade of Latin America with East Asia accounts for 24% of the total trade of Latin America. The ratio of trades (exports and imports) to the economy (nominal GDP) was 60% in East Asia and 39% in Latin America in 2011. Therefore, the degree of dependency of Latin America on East Asia is fairly large 9.4% even though that of East Asia on trade with Latin America is minimal 1.8%. Therefore, as far as the merit of expanded trade is assessed on the basis of the economy’s dependency on foreign trade, Latin America seems to have a stronger incentive for promoting economic cooperation and partnership between the two regions. The breakdowns by country of Latin America’s trade with East Asia show that Brazil has the largest share, followed by Mexico and Chile, and the share of 4 countries consisting of the Pacific Alliance reaches 53% of the total. (Chart 4)

Chart 4 : Latin America’s Trade with East Asia by country (2011)



(source) IMF “Direction of Trade statistics”, Hamakawa,S. and Tafgar, A.(2013)

(2) Expected Expansion of the Pacific Alliance and Protectionism of Mercosur

The Pacific Alliance was created to (i) aim for the economic development and strengthened competitiveness through the promotion of trade and investment among the members, and (ii) enhance the economic exchange and promote political dialogue among the Asia-Pacific regions. Based on free trade principles and liberal trade policies at its center, it coordinates the members to remove the barriers that hamper fluent flows of goods, services, persons and capitals, thus facilitating trade and investment among them and promoting economic development. Currently the original 4 members have been joined by dozens of observer countries including Japan, the

US and Australia from wide range of regions extending to Asia-Oceania, Latin America and Europe. Among these observer countries, Costa Rica and Panama are scheduled to become formal members upon their conclusion of FTAs with the original members.

What makes the Pacific Alliance differ from Mercosur, a framework for regional cooperation by Latin American countries, is that the former places its priority on strengthening political and economic ties with the extra-region, especially with the Asia-Pacific region whereas the latter is a customs union that seeks for setting a common external tariff. In fact, Mercosur and its members have so far concluded only three FTAs with extra-region countries, i.e., Israel, Egypt and Palestine autonomous region respectively. In recent years, protectionist movements by the left-wing governments are mounting in Mercosur member countries, led by Argentina and Venezuela. Therefore it is hard to expect any external opening policies from them.

These backward-looking postures accentuate the positive movements of the Pacific Alliance that seeks for strengthening ties with external regions including East Asian countries such as Japan, China and Korea. In East Asia many countries still maintain high customs duties on imported natural resources and agricultural products and therefore for the Pacific Alliance, which exports those products mainly to the region, there is a good reason and incentive in bringing the East Asian countries to the negotiating table to enhance market access for their protected areas. East Asian countries also seem to get significant benefits by the strengthened ties with the Pacific Alliance since the Alliance closely ranks Brazil in its population and economic scale of four countries combined and even exceed it in the economic growth rate and export values. (Table 3) In the years to come, there is a fair possibility that the regional cooperation and economic ties will be strengthened through the accelerated integration of the Pacific Alliance.

Table3 : The size of Pacific Alliance (2012)

	Pacific Alliance	Brazil
Population, million	2.09	1.98
Nominal GDP, \$trillion	2.01	2.40
GDP growth, 2011-12, %	4.6	1.8
FDI inflows, \$billion	71.0	65.3
Merchandise export, \$billion	545	243

(source) IMF "International Financial Statistics"

(3) Will the supply chain be more deepened?

According to an analysis of the Inter-American Development Bank (IADB), one of the

important purposes of the Pacific Alliance is the deepening of the internal supply chains and building up of them with external regions. As has been seen above, construction of supply chain networks within Latin American region has not developed sufficiently as compared to East Asia, there will be enough room for expansion, but it will not be easy. In Latin America the mineral and energy resources and agricultural products account for a high share in the economy, and such characteristics are also reflected in their export items. As the share of manufacturing industry in the economy remains around half of that in East Asia, both of deepening of supply chains within the region and expanded construction of supply chains in the external regions will not be easy task for them. Substantial efforts and significant creativity will be needed for a successful reduction of tariffs and non-tariff barriers that will more than offset the large cost of shipment and communication across the two coasts of the Pacific Ocean.

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