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ASEAN, MERCOSUR AND THE
POSSIBILITIES OF COOPERATION
EAST ASIA -LATIN AMERICA

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ASEAN, MERCOSUR AND THE POSSIBILITIES OF COOPERATION EAST ASIA-LATIN AMERICA *

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INTRODUCTION

This paper seeks to compare the ASEAN Free Trade Area (AFTA), the Mercado Comun del Sur (MERCOSUR), and to study the modalities of cooperation from now on. To this end, Chapter 1 makes a comparison from a broad perspective of regional integration in East Asia and the Americas, where are advancing the AFTA, NAFTA, and MERCOSUR processes. This chapter also examines how these two processes are being positioned.

Chapter 2 compares the characteristics of AFTA and MERCOSUR as regional integration processes and examines the AFTA-MERCOSUR relationships.

Finally, Chapter 3 examines the present state of economic relations between East Asia, including the ASEAN countries, and Latin America and the possibilities of future cooperation between the two regions as well as Japan's role.

CHAPTER 1. A COMPARISON OF EAST ASIA AND THE AMERICAS IN THE REGIONAL INTEGRATION PROCESS

A classification of the relative levels of economic development in East Asia and the Americas shows that both comprise a considerable number of countries with quite similar characteristics. In both regions there exists a dynamic group of middle-income countries that are frequently referred to as newly industrialized economies (NIEs) or emerging markets. The common characteristics of these countries are that they have high rates of economic growth, are promoting economic liberalization, and are expected to continue their high growth in the future.

In East Asia, in addition to the Asian NIEs and the ASEAN countries, there are such low-income countries as China, Cambodia, Laos, and Papua New Guinea. (Cambodia and Laos have since joined ASEAN along with Vietnam and Myanmar). In the Americas, in addition to MERCOSUR and the G-3 countries, there are such low-income countries as Bolivia, Ecuador, Peru, the Central American states, and the Caribbean countries.¹

New moves toward economic integration have gained momentum in both East Asia and the Americas in the 1990s. AFTA was launched in 1993, followed by NAFTA in 1994 and MERCOSUR in 1995. Furthermore, moves toward liberalization over an even wider area were agreed upon in 1994. There were agreements on liberalization in the Asia-Pacific region through APEC and in the Americas through the Free Trade Area of the Americas (FTAA). The NAFTA countries, Chile, and Peru are participating in both of these wide-area regional integration processes. The existence of these countries is extremely important for both APEC and the FTAA.

In both regions, since various forms of liberalization are making headway simultaneously under the APEC and FTAA processes, there is a possibility that they might exert an important influence on both trade creation and trade diversion in each region.

Since the 1980s the ratio of intra-regional trade to the total trade volume in East Asia has been expanding considerably. This increase has come about not because of the systematic advance of formal regional agreements but simply because of the market mechanism. To put it another way, the intraregional trade of East Asia until the mid-1990s advanced through market-led integration. In comparison with the Americas, one important feature of East Asia is that intra-regional trade expanded successfully in the absence of any agreements on intra-regional trade rules or regional protection.

¹ For further details regarding this aspect see Hosono, Akio, "Asia-Pacific Economic Cooperation (APEC) and the Free Trade Area of the Americas (FTAA) : Possibilities for Trans-Pacific Cooperation", Saavedra, Neantro, Akio Hosono and Barbara Stalling (eds), *Integration and Economic Development*, (forthcoming).

In contrast, in the Americas, although an impressive expansion of trade between the United States and Mexico as well as trade within MERCOSUR has become evident in the 1990s, until the 1980s intra-regional trade did not expand as much as expected despite the establishment of various systematic arrangements, such as the Latin America Free Trade Association (ALALC), Latin American Integration Association (ALADI), Andean sub-regional integration (Andean Community), the Central American Common Market, and the Caribbean Community.

Having compared the characteristics of the two regions and their respective integration processes, let us examine how companies in these two regions develop their international businesses and the main characteristics of these developments. This should be a useful reference in considering the future expansion of trade and investment in the Pacific Rim region.

In East Asia, the pattern of international corporate activity - that is, trade and investment and technology transfer - has been described as the "flying wild geese" pattern of development, or the inter-economy sequencing of the industrialization process. To be sure, the pattern of international activities pursued by companies in East Asia is not so simple that it can be explained by this short expression. There exists a variety of complex economic activities. However, many studies have made it clear that the main pattern of corporate development in this region has followed this "flying wild geese" pattern.

Briefly speaking, this pattern characterizes international corporate activities in East Asia. Development under this pattern has effects on neighboring countries with differing levels of industrialization, so that development in one country causes ripple effects on other countries. To be more specific, since Japan is the first country in East Asia to achieve high economic growth and industrialization, various Japanese industries have moved into the Asian NIEs through direct investment and technological transfer, thereby helping to accelerate industrialization in those economies. The local output of these industries has been exported to Japan, while Japan has supplied some of the capital and intermediate goods needed by the Asian NIEs. This process has created a new intra-industrial trade as well as intra-regional trade.

Similarly, direct investment from Japan and the East Asian NIEs to the ASEAN countries has promoted industrialization in the ASEAN region, giving rise to a similar intra-industrial and intra-regional trade. As a result, ASEAN countries have increased their exports to Japan and the Asian NIEs, while Japan and the Asian NIEs ship intermediate goods and capital goods to the ASEAN region. In this way, industrialization and the expansion and diversification of trade have achieved spectacular development throughout East Asia. This process has promoted the market-led integration in the East Asian region and the expansion of intra-regional trade and investment. Recently this trend has expanded to other regions of Asia, including the coastal area of China and Vietnam. There are also signs that the ripple effects are spreading to Myanmar and India.

Compared with East Asia, this "flying wild geese" pattern of development was hardly observed in the Americas in the 1960s and 1970s. This was particularly the case among Latin America countries. In Latin America, industrialization meant the expansion of import-substitution industries with the aim of supplying the domestic market. Direct investment from the United States and other countries was mobilized for the development of import-substitution industries and resources. Accordingly, this pattern of direct investment was unable to stimulate any dynamic export-oriented industrialization in Latin America.

So, how does the international development of companies in the Western Hemisphere look like? In particular, what kind of development took place in the 1980s and 1990s under the regional integration process? This author, Professor Kotaro Horisaka, and others examined these questions in "The Study of Latin American Multinationals" (1996, Nihon Hyoronsha; in Japanese). In this book we looked into about 200 cases in an attempt to clarify the main pattern of international development of companies in the major countries there. From this analysis, we confirmed the existence of a pattern that was clearly different from that seen in East Asia.

The main characteristics of this Latin American pattern can be summarized as follows. Companies in Latin America pursue their international development by utilizing the advantages of their respective countries, whether it is natural resources, technology, or managerial know-how. Latin American companies undertake international activities on the basis of the advantages they possess, including: (1) abundant natural resources in countries where they are located and their expertise to develop and process these resources; and (2) their advantage and competitiveness in selling these processed resources or industrial commodities internationally.

In addition to this type of international development based on resources or products made by processing these resources, companies in Latin America's manufacturing industry are developing their international business operations by utilizing their special advantages, in particular their detailed knowledge of the Latin American market and their levels of technological expertise. These companies are active in various industrial fields: beer and other beverages, foodstuffs, building materials (especially cement and glass, as CEMEX and VITRO of Mexico), textiles, automobiles and auto parts, electric appliances, and chemical products. They make use of the benefits of such regional integration processes as NAFTA and MERCOSUR and have achieved striking development in the automobile and auto parts industries.

Furthermore, companies have developed their activities on an international scale in two or more countries in the Americas, especially in Latin America, in such fields as energy, communications, transportation, finance, and pension funds. There is probably a need to study the international development of companies in the infrastructure, service, and financial sectors separately from the pattern explained above. However, they are closely related and have common features. These have been made possible by economic reform in Latin America, especially liberalization, deregulation, privatization, and regional integration. A detailed analysis of the development of privatization in these fields appears in a book edited by K. Horisaka and the author of this article: "Latin American Privatization" (1998, Nihon Hyoronsha; in Japanese).

Another phenomenon worth noting is that some companies use differences in wage levels to develop their international activities. One good example is the maquiladora industries. U.S. companies invest in assembly plants in the border region of Mexico, supply the parts, and then reexport the finished products to the U.S. market. Since the wage level in Mexico is considerably lower than the level in the United States, this maquiladora method can be extremely efficient. A similar situation can be seen in the Caribbean Basin Initiative (CBI), by which U.S. and other foreign countries' companies invest in Central American and Caribbean countries. However, this development of companies differs in many ways from the "flying wild geese" pattern of development seen in East Asia.

It is necessary to bear in mind these differences in the dynamism of international corporate development in East Asia and Latin America when considering the possibilities of Pacific Rim cooperation under the framework of APEC, AFTA, NAFTA, and the FTAA.

CHAPTER 2. A COMPARISON OF AFTA AND MERCOSUR

1. Characteristics of AFTA and MERCOSUR

Bearing in mind the development of the wide-area regional integration in East Asia and the Americas as described in Chapter 1, this chapter compares the regional integration processes under AFTA and MERCOSUR.

The most important characteristic of AFTA, which began a liberalization process from 1993, is probably that its ultimate objective is to expand the competitiveness of the ASEAN countries in the world market through regional integration. One notable feature is its aim to increase the efficiency

and boost the competitiveness of manufacturing industries among ASEAN countries. Enhanced competitiveness and the existence of a wide-area market under AFTA are likely to allow investors in manufacturing industries to enjoy the economy of scale in production. The ASEAN countries hope to further attract foreign direct investment as a result. At the same time, they also hope to encourage the growth of supporting industries through foreign direct investment.

Given that the most important objectives of AFTA are enhanced competitiveness of manufacturing industries, an expansion of direct investment from foreign countries, and the growth of supporting industries, this makes AFTA vastly different from the other types of regional integration that will be explained later.

A second important characteristic of AFTA is that the actual lowering of intra-regional tariffs is being carried out in a cooperative manner through the common effective preferential tariff scheme, or CEPT for short. This CEPT scheme is a major means of intra-regional trade liberalization among ASEAN countries. The aim is to lower the tariff rate on all industrial products to 0%-5% by a certain target year. Since AFTA is a free trade area, tariffs on countries outside the region are stipulated separately and levied by each ASEAN country.

Another important characteristic of AFTA is that, since the emphasis is on manufacturing industries, agricultural products and other items are taken as exceptions.

Furthermore, AFTA's country-of-origin rules deserve attention. Unlike the complex regulations of NAFTA, which will be explained later, AFTA recognizes products as AFTA's if they have a local content ratio of 40%. Also, this 40% local content ratio can be attained either in a single AFTA country or in several member countries.

MERCOSUR was launched as a single common market in 1995 under the Treaty of Asuncion of 1991. The treaty also established a policy of coordinating common commercial policies, macroeconomic policies, and sector-specific policies with the aim of equalizing competitive conditions.

One characteristic that makes MERCOSUR different from AFTA and NAFTA is that it is a common market with common external tariffs. These common external tariffs are classified in 11 tax divisions. The tariff rates differ considerably depending on the degree of processing. The highest tariff rate is fixed at a level of 20%. In addition, the MERCOSUR countries have signed protocols relating to specific cooperation in a number of fields, including the automobile industry. Importantly, these protocols stipulate the methods of actual cooperation. Compared with the levels of protection seen in many Latin American countries, such as Argentina and Brazil, MERCOSUR's common external tariffs are set at a much lower level. Accordingly, the aim of MERCOSUR is not to spread import-substitution industries on a regional level, as seen in previous regional integration schemes in Latin America, but to promote the development of competitive industries taking advantage of the merits of a wide-area market.

Thus, there is a strong possibility that relatively large-scale industries, such as automobiles, will develop on the basis of an intra-regional market, with the economy of scale made possible by a market of about 200 million people. For example, while a maximum tariff rate of 14% is levied on capital goods, MERCOSUR's rules of origin set the local content ratio for capital goods at over 80%. Although such agreements might promote the development of the capital goods industry, they could obstruct industries using local capital goods from gaining international competitiveness. Therefore, although the main target of integration in MERCOSUR might not be the development of import-substitution industries, because of the incremental common external tariffs, which differ depending on the degree of processing, the rules of origin, and the content of specific agreements for certain industries, the possibility of industrial development with international competitiveness in MERCOSUR differs considerably depending on the industry. MERCOSUR places emphasis on strategic industries, such as automobiles, so attention will focus on the extent to which MERCOSUR can achieve the goals of its industrial policy.

Whatever the case, it can be said that the ASEAN FTA and MERCOSUR methods are extremely different from the perspective of industrial development and strengthening industrial competitiveness.

2. Significance of Comparing AFTA, MERCOSUR, and NAFTA

To summarize, while AFTA and NAFTA are both free trade agreements, NAFTA stipulates rules in various fields relating to trade and investment and can be considered as a type of regional integration which differs from the usual free trade area. Indeed, NAFTA can be described as an omnibus(or a comprehensive) free trade area. On the other hand, unlike AFTA and NAFTA, MERCOSUR is a customs union with a common external tariff. Since these three types of regional integration -AFTA, NAFTA, and MERCOSUR- differ so much in character, it is difficult to make a simple comparison of them.

Two approaches were considered in order to conduct a comprehensive comparison of the three. One was to compare them by looking comprehensively at each of the three types and calculating how strong their integration is (the depth of integration). Bearing in mind this comparison, the second approach was to compare and examine the relations between AFTA and NAFTA and between AFTA and MERCOSUR.

Regarding the first point, an analysis was made on the strength of integration (the depth of integration) in leading regional integration processes from a variety of angles, such as the liberalization of goods and services, the liberalization of capital movement, the liberalization of labor movement, the establishment of institutional arrangements, currency coordination arrangements, and fiscal coordination. The conclusion is that NAFTA has a greater degree of depth than MERCOSUR. According to this study, if the highest degree of integration is set at 5, the index was 3.3 in the case of the European Union, 2.3 for NAFTA, but only 1 for MERCOSUR and 0.8 for AFTA.² While there is certainly room for debate about the methods of this assessment, it does at least show that when comparing recent trends toward regional integration, it cannot be simply concluded that a customs union has more depth than a free trade area. In this assessment, together with the liberalization of intra-regional trade, emphasis was especially placed on the establishment of institutional arrangements relating to various aspects including intra-regional investment. In terms of institutional arrangements, an especially important factor is that NAFTA is building a trade and investment regime as an omnibus(or a comprehensive) free trade area. Although AFTA and NAFTA are both free trade areas, it is necessary to make a comparison from this perspective.

In undertaking a comparison of AFTA, NAFTA, and MERCOSUR, it is necessary to compare their systematic frameworks to determine how effective they are in terms of the targets of each regional integration process and to compare them from the perspective of, for example, their consistency with the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). As mentioned earlier, in the case of AFTA, the most important objective is to strengthen the competitiveness of the region's manufacturing industries. From this perspective, it would be significant to examine whether the system of intra-regional trade liberalization in AFTA is more effective than NAFTA and MERCOSUR.

Also, in addition to regional liberalization, various regional-level efforts have been made in AFTA to enable trade and investment in the region to proceed smoothly. These efforts include the harmonization of industrial product standards among member countries, mutual approval of certification for tradable items, the elimination of impediments to investment from foreign countries, discussions relating to macroeconomic policies, rules relating to fair competition, and the promotion of venture capital. It would be significant to examine whether NAFTA and MERCOSUR have established similar systems or are making efforts in this direction and to compare the systems of

² See, Chirathivat, S.,1998, p. 31.

AFTA, NAFTA, and MERCOSUR in this field.

Another important field of study is to compare how far industries have developed under regional integration. It would be extremely interesting to compare the development of manufacturing industries in AFTA, where this is a special target, with those in NAFTA and MERCOSUR. To cite one example, a comparison of the development of the automobile industry in the three regional groupings would be particularly interesting. In AFTA, efforts are made to cooperate intensively in this industry and to introduce a "Asian car" concept. In NAFTA, regional integration of the automobile market in automobile productions and parts production is making headway; in the case of Mexico, a trend is evident to specialize in the production of small vehicles. In MERCOSUR, meanwhile, companies in Argentina and Brazil are strengthening their production arrangements, and mutual trade is expanding. Among some companies there are moves to produce a "world strategic car" in MERCOSUR, on the basis of group's position as the world's fourth largest automobile market.

3. AFTA's Relations with MERCOSUR and with NAFTA

Bearing in mind the above-mentioned considerations, the following is a comparison of AFTA with NAFTA and MERCOSUR and their mutual relations.

First, the relationship between AFTA and NAFTA. The United States is one of the most important markets for the ASEAN countries. It has been pointed out that the establishment of NAFTA has dealt a considerable blow to exports from the ASEAN countries to the U.S. market, and detailed studies of this impact have been carried out. Through NAFTA, Mexico, which competes with the ASEAN countries, has acquired a much more advantageous position than ASEAN in terms of access to the U.S. and Canadian markets and it has strengthened its competitiveness vis-a-vis other countries, including the ASEAN states. There is a possibility, it has been pointed out, that the ASEAN countries will be placed in a disadvantageous position regarding exports to the United States and direct investment for this purpose. This is because Mexico has got an advantage over many ASEAN countries in the same field. Especially important as areas in which competition between Mexico and the ASEAN countries in the NAFTA market is becoming increasingly intense are textiles, textile products, clothing, and electric and electronic goods. Regarding textile products and clothing, NAFTA's strict rules of origin can be expected to place ASEAN countries at a serious disadvantage. Extensive research shows that Indonesia, Malaysia, the Philippines, and Thailand will probably suffer a considerable blow even though the degree of impact will differ. The impact will be probably lightest in Singapore.

The ASEAN countries have been playing an important role in the development of APEC. In particular, the APEC Secretariat, which is located in Singapore, played an important role in the adoption of the Bogor Declaration and the Manila Action Plan. The relations between the ASEAN countries and NAFTA are also said to be deeply connected to the development of APEC. That is to say, it is hoped that the liberalization process in APEC will have the effect of weakening the NAFTA rules that virtually discriminate against countries outside the region. (See Chirathivat, S., 1998, p.19.)

As a forum for discussion of relations between ASEAN countries and the United States, an ASEAN-U.S. dialogue has already been established. Also, as part of the ASEAN-U.S. initiative, the two sides have reached agreement to create a trade and investment consultative council. In addition, some ASEAN countries have concluded framework agreements or bilateral investment agreements with the United States, and Thailand and the United States have signed a treaty on economic relations (Treaty of Amity and Economic Relations).

Regarding relations between AFTA and MERCOSUR, at present the economic scale of MERCOSUR is larger than that of the ASEAN countries. However, if the ASEAN countries can maintain high rates of economic growth, there is a possibility that AFTA will catch up with MERCOSUR at some point. Trade relations between ASEAN and MERCOSUR countries are relatively

small, although recently they have been expanding rapidly. And although there are common areas in terms of comparative advantage between ASEAN and MERCOSUR countries, they are thought to have a high degree of complementarity. Accordingly, there is large room for the expansion of relations between the two regions. Already, Malaysia and Singapore are attempting to approach MERCOSUR and study the possibility of investing in MERCOSUR member and associate member countries. Furthermore, in December 1996 the ASEAN countries held a ministerial-level meeting with MERCOSUR with the aim of establishing a new framework for economic and political cooperation in the future.

CHAPTER 3. ECONOMIC RELATIONS BETWEEN EAST ASIA AND LATIN AMERICA AND FUTURE COOPERATION

1. The Present State of Economic Relations between East Asia and Latin America

In recent years, trade between East Asian countries (in this case, Asian members of APEC) and Latin American countries has shown a striking tendency toward expansion. In the last 10 years, total trade between the East Asian countries and Latin America expanded fourfold, reaching \$50 billion in 1996. The share of Asian countries in the total trade of Latin America is 10%. This figure has hardly changed at all over the last decade, but this is because the growth of trade between Japan and Latin America, which used to be high, has been low. If Japan is excluded, the share of East Asian countries in Latin American trade has shown a sharp increase.

The most important Latin American country in terms of increasing its trade with East Asia is Chile. Since the mid-1980s exports from Chile to East Asia have been increasing at twice the pace of exports from the whole of Latin America, and the share of East Asia in Chile's total exports has risen from one-fifth 10 years ago to about one-third today. (In 1995, 33.0% of Chile's exports went to East Asia, and 15.8% of its imports came from East Asia.) Similarly, exports from Brazil and Peru to East Asia have been increasing strikingly, too. East Asia accounts for 23% of Peru's exports (13.4% of its imports) and 15.5% of Brazil's exports (13.6% of its imports). Brazil accounts for 36% of Latin America's exports to East Asia, Chile 25%, and Mexico and Argentina 12% each (See Tables 2-4).

Although Japan's share in Latin American exports to East Asia is highest today at 42%, this figure shows a considerable drop from the 63% registered 10 years ago. In contrast, the shares of South Korea and China are increasing. These two countries each have a share of 13% of Latin America's exports to East Asia. Taiwan's share is 8%.

As for East Asia's exports to Latin America, exports from countries with relatively low figures hereto, especially the ASEAN countries, have been increasing tremendously. For example, over the last decade Indonesia's exports have jumped 4,000%, and exports from South Korea, Malaysia, and the Philippines have risen more than 1,000%. The figures for Singapore, Hong Kong, China, Taiwan, and Thailand range from 600% to 800% (See Iglesias, E., 1997.).

2. Possibilities of Cooperation between East Asia and Latin America

In a keynote speech at the general assembly of PECC in Santiago, Chile, President Enrique Iglesias of the Inter-American Development Bank described cooperation between East Asia and Latin America from now on as follows.

For the further expansion of trade between East Asia and Latin America, he said, it is necessary for Latin American countries to continue the structural reforms they have been undertaking so far, further promote trade liberalization, stabilize their economies, modernize their rules and legal frameworks relating to the economy, and improve their transportation and communications systems.

As measures for expanding trade relations between East Asia and Latin America, Iglesias cited, among other things, (1) the gathering and dissemination of trade information between the two regions; (2) the gathering of information on export possibilities and joint venture possibilities between East Asia and Latin America; (3) an export promotion campaign for market expansion in East Asia; (4) support for forums, such as PECC, that strengthen ties between companies in the two regions; and (5) the promotion of a research center to study present economic conditions and related problems.

Regarding direct investment from East Asia to Latin America, Japan used to play an important role in this area, but today Japan is gradually being challenged by competition from other East Asian countries. Direct investment from South Korea, Taiwan, Singapore, Hong Kong, and other countries is taking place intermittently, and the amount is gradually increasing. South Korean companies stand at the forefront in this respect, undertaking large-scale new investments in Mexico and Brazil. In 1996 alone South Korea invested \$525 million in Mexico, which amounts to half of Japan's direct investment in the 1990-95 period. Furthermore, although South Korea's investment in Brazil was less than \$100 million in 1996, the figure for the next four years is expected to jump to a total of \$5 billion. Although small, Malaysia's investment in Chile also deserves attention(See Iglesias, E., 1997).

3. New Initiatives to Cooperation between East Asia and Latin America and Japan's Role

Today, the Latin American region, together with the East Asian region, is considered to be one of the growth centers of the world. The major countries in Latin America are attracting attention as emerging markets that outshine many East Asian countries, and much international capital is being invested there.

The moves of MERCOSUR, which accounts for more than half of Latin America's GDP, are particularly important. The region is establishing its position as the fourth largest economic group in the world, behind Europe, North America, and East Asia. Furthermore, in the automobile industry, for example, judging from the scale of investment that is being carried out now, there is a strong likelihood that MERCOSUR will become one of the world's leading production centers, turning out more than three million vehicles in a year. In terms of population, although MERCOSUR is way behind East Asia, with about 200 million people in the region, it follows NAFTA's 380 million. If the income level of this population can be raised by continuous growth, MERCOSUR will become an important consumer market. Also, for Japan and other East Asian countries, MERCOSUR is extremely important as a region with abundant mineral and food resources. In addition, East Asia should strengthen ties and cooperation with MERCOSUR, only because North American and European countries are already moving in that direction.

Since the Miami Summit, which took place under the leadership of the United States, the FTAA concept, as explained earlier, has been making headway. The important aspect of this process is not when and how the FTAA will be formed but the fact that, in the process of negotiations, opinions and information will be exchanged and practical cooperative relations will be forged.

As for Europe, the EU and MERCOSUR signed a cooperative framework agreement in December 1995, and EU-MERCOSUR consultations are steadily moving forward with the aim of concluding a free trade agreement.

In this way, although their approaches are different, the two regional groups outside East Asia are seeking to strengthen their relations with MERCOSUR. In this respect, it must be said that Japan and the other East Asian countries have been extremely tardy in their response to MERCOSUR.

Undeniably this slowness will place East Asian companies at a disadvantage in their medium- and long-term business activities, including trade and investment, in the MERCOSUR region. Indeed, East Asian companies are lagging considerably behind Western companies in their foreign direct

investment in MERCOSUR. Of course, there are various causes of this situation. But we cannot ignore the fact that in comparison with the United States, which has taken the lead in FTAA consultations toward the formation of a free trade agreement, and the EU, which is holding consultations with MERCOSUR under a framework cooperative pact toward the conclusion of a free trade agreement, similar moves between MERCOSUR and East Asian countries, including Japan, have not yet started, and this situation is having an impact on the mind of corporate executives in the West and in Asia.

A third factor behind the increasing need to promote ties between East Asia and MERCOSUR is the position of the MERCOSUR countries, which strongly hope for this development. Government leaders from MERCOSUR countries have expressed this desire on many occasions. Brazil, for instance, believes its external relations have three axes - North America, Europe, and Asia. With regard to the FTAA concept, it wants first of all to steadily develop MERCOSUR, strengthen relations with regions other than North America, and display its initiative with MERCOSUR as a core. This desire to strengthen relations with Asia has been expressed by President Fernando Henrique Cardoso in a speech at the PECC Santiago meeting in October 1997.

Argentina also has a strong interest in the Asian market. For example, one of the main themes of the Second Okita Report (conducted by the Japan International Cooperation Agency) concerned future relations between Argentina and East Asia. And Argentina's interest in Japan and East Asia further increased on the occasion of the centennial of friendship between Japan and Argentina in 1998.

As mentioned earlier, Chile's interest in East Asia has been growing. In addition to its activities in APEC, as the only South American country participating in that forum (until 1998, when Peru joined APEC), Chile has been strengthening its approach to Asia. Indeed, in terms of actual economic ties, about one-third of Chile's export goes to East Asia. Furthermore, after becoming an associate MERCOSUR member in 1996, Chile strongly desires to fulfill the role of a gateway linking East Asia and MERCOSUR. This position was repeatedly expressed on the occasion of events commemorating the centennial of friendship between Japan and Chile in 1997 by, among others, Chilean President Eduardo Frei and the chairman of the Chilean side, Roberto de Andraca.

As Brazil, Argentina, and Chile are anxious to develop deeper relations with Japan and East Asia, the time seems to be ripe to build a framework of dialogue and cooperation with these countries. This is all the more important in view of the fact that, in 1996 MERCOSUR (including associate members) accounted for about three-quarters of the whole of Latin America's exports to East Asia.

4. New Initiative to Cooperation between East Asia and Latin America and Japan's Role

In consideration of this background, under new conditions that take account of APEC, the FTAA, and the EU-MERCOSUR framework agreement, it seems necessary to consider the possibilities of a new approach to cooperation between East Asia and Latin America, especially MERCOSUR.

At present, compared with investment in Latin America from the United States and the EU, investment from East Asia, including Japan, is lagging considerably. This situation is partly caused by a shortage of information on a dynamically changing Latin America. In terms of gathering information, the United States and the EU are in an advantageous position, because they have such forums as the Summit of the Americas, the FTAA consultations, the EU-MERCOSUR framework agreement, and the Ibero-American Summit. The processes of dialogue and discussions leading to these concepts and agreements most probably had an important effect in deepening mutual understanding. They also had quite an effect in arousing the interest of Western companies in Latin America and encouraging trade and investment. In addition, the Ibero-American Summit, in which Spain is actively involved, has probably been one of reasons at least for the active entry of Spanish

companies into Latin America in the 1990s.

A second important factor is the formation of regimes and the enhancement of trade and investment procedures in future through FTAA negotiations and consultations under the EU-MERCOSUR framework agreement. Western companies are able to make use of these arrangements, and in this respect East Asian companies might be placed in a disadvantageous position.

A third important factor is the coordination between public and private sectors in both the Western countries and MERCOSUR. In the approach of Europe and North America toward MERCOSUR, the direct and indirect effects of coordinated efforts between the public and private sectors for the promotion of economic relations have been notably evident. Japan presents a case in contrast. Although Japan is the top donor of official development assistance to many Latin American countries, easily outdistancing Western countries, the share of Japanese private companies in direct investment in Latin America is exceedingly low. In comparison, for example, Spain's relations with Latin America at the governmental and private levels were quite weak until the mid-1980s. Since then, investment by private companies of this country, which certainly do not stand out in terms of official economic cooperation, has increased rapidly, lifting Spain into second place as an investor country behind the United States in only a short time.

From these perspectives, it would be desirable as soon as possible to establish a consultative forum between East Asia, including Japan, and MERCOSUR toward the expansion of dialogue and cooperation and the smooth flow of trade and investment. Actually, Japan and MERCOSUR have already been holding senior officials-level meetings and joint public- and private-sector meetings, and these meetings have been producing results to an extent. However, it is necessary to establish a forum or organization for further dialogue and cooperation. Furthermore, it is necessary to consider ways by which other East Asian countries, besides Japan, can participate. Through this forum or organization, it is necessary first of all to promote a deeper exchange of information, to strengthen investment and economic relations between private companies in East Asia and MERCOSUR, to facilitate trade and investment, and to establish a framework and "regime" in order to realize this objective. It is also necessary to promote joint research and surveys on the economies and markets in the two regions by researchers in universities and other research institutes.

It was in these circumstances that Singapore Prime Minister Goh Chok Tong, at the beginning of April 1999, proposed the formation of a summit to bring together the leaders of Asian, including Japan, and Latin American countries. Provisionally called the Asia-Latin America Forum (EALAF, in Spanish, FALAE), the first Ministerial Meeting of EALAF was held in October 1999. The aim of this proposal reportedly is to activate dialogue in trade and investment fields. The scheduled participants would be Japan, China, South Korea, ASEAN countries, and about 30 countries in Latin America and the Caribbean slated to join the FTAA. If this EALAF 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. Developments will be watched carefully.

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