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JAPAN-LATIN AMERICA RELATIONS: THEN AND NOW

THE JAPAN MODEL OF ECONOMIC
ENGAGEMENT: OPPORTUNITIES FOR
LATIN AMERICA AND THE CARIBBEAN

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Mikio Kuwayama

Japan Association of Latin America and the
Caribbean (JALAC)



* This report has been prepared by Mikio Kuwayama, Managing Director of the Japan Association of Latin America and the Caribbean (JALAC) and Senior Analyst of JALAC's Institute for Latin American and the Caribbean Studies (ILAC), for the occasion of the Seminar "Japan-Latin America Relations: Then and Now", cohosted by the Inter-American Dialogue (IAD), September 16-17, 2015, Washington, D.C., USA.

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THE REDISCOVERY OF LATIN AMERICA AND THE CARIBBEAN BY THE JAPANESE PUBLIC-PRIVATE PARTNERSHIP (PPP)

Over the last three decades, Asian countries continue to deepen "market-led" integration with a heavy dose of regional cooperation to a degree far exceeding anything being currently contemplated in Latin America and the Caribbean (LAC). The issues being addressed within Asian regional integration frameworks go beyond market-integration, with a development agenda specifically including issues such as industrial development and agglomeration, competitiveness, innovation, R&D, infrastructure building, and sustainable development among others (ECLAC, 2010a). Thus, in Asia, market-integration and cooperation have been mutually complementary and reinforcing. This favorable outcome, in turn, has often been facilitated by Japan's trade-cum-investment plus cooperation engagement in that region.

Cooperation has been an integral part of the Japan-Asia relationship, demonstrating how interactions in the private sector open space for government-to-government cooperation, and vice versa. This might be baptized as the "Japan Model of Economic Engagement". What is less known, however, is that Japan has also been pursuing the same strategy in several Latin American countries, in some cases even longer than in Asian countries, with admirable results. These experiences can be perfectly expandable to other Latin American countries.

The growing economic interdependence with the Asia-Pacific, together with the debt crisis of the 1980s, left Japan little room to consider the LAC region as a strategic partner. At the outbreak of the crisis (August 1982), Japanese banks were engaged in private-sector financing operations worth over US\$30 billion, including over US\$13 billion syndicated loans (Stallings, 1990; ECLAC, 1996, 1990). At that time, Japanese banks were also participants in the region's largest projects such as Peruvian oil pipelines and metallurgical industry in Mexico. The debt crisis meant that the Government of Japan was called to use large sums of public money to participate in the bailout plan (ECLAC, 1988). As a result of the crisis, some Japanese firms were forced to pull out of the region entirely, while many others decided to stay. All this happened at the time when Asia was becoming a better option for Japan.

However, LAC has returned to Japan's list of foreign policy priorities in recent years. Prime Minister Shinzo Abe's tour to the region in May 2014, the first in 10 years by a Japanese head of state, called for strengthening of bilateral relations, based on the public private partnership (PPP) with Japan. Foreign Minister Fumio Kishida traveled to the region on three occasions since 2013. His trip to Cuba in 2015 marked the first ever visit by a Japanese foreign minister. Japan has maintained diplomatic relations with Cuba over the years,



irrespective of the Revolution, and has been involved in the external debt re-scheduling of the island nation in recent years. All these visits reflect Japan's renewed interests in LAC.

The major motivations behind the recent rediscovery by Japan of the region include, among others, LAC's quick and sustained recovery from the 2008-09 financial crisis, coupled by high and stable economic growth, domestic market expansion, and significant improvements in employment and poverty indicators in the post-crisis period. In addition, LAC's GDP is 2.5 times larger than the ASEAN's, with 600 million inhabitants with a burgeoning middle-class. The region's endowment of natural resources is second to none; Japan looks to LAC as a major player in securing stable and safe natural-resources. LAC is also endowed with a third of the world's potential farming areas and fresh-water reserves, and 20% of the surface area of natural forests and abundant biodiversity. The last, but not least in importance is that Japan shares with a majority of LAC countries the basic values in the realm of both economics (market-economy) and politics (democracy, human rights and rule of law). Japan's commercial engagement has intensified over the years with those Latin American countries that share these values.

Japan has been an important trading partner, lender, investor and ODA donor in LAC for decades. While bilateral merchandise trade between Japan and LAC has been overshadowed by China's ascendance in recent years, Japan was the largest Asian trading partner for a majority of Latin American and Caribbean countries up to the turn of the century. In contrast to a standstill in bilateral trade, Japanese financial flows to the region continue to grow. In sum, the economic relationship between Japan and LAC is much deeper and diversified than simple trade statistics might suggest. Although the bilateral trade relations can be still described as a typical Asia-LAC pattern of an "inter-industry" nature in which the latter exports commodities and their processed goods to the former, in exchange of a variety of manufactures, merchandise trade flows do not capture all facets of the bilateral economic and commercial relationship.

Japan has been one of the most important sources of foreign direct investment (FDI) for the region; Japanese investments, especially over the past decade, have targeted an increasingly diverse and technologically-intensive range of sectors in LAC. In response to rising income levels in Latin American countries, Japanese companies have begun to target several durable goods sectors such as automobiles and their parts, as well as consumers' goods and services such as cosmetics and pharmaceuticals, medical supplies and alcoholic drinks like beer whose demand are on a rise.

This investment, which has likely acted as a substitute for trade in some cases, brings a number of benefits for LAC countries: cutting-edge technology, know-how, employment opportunities and foreign exchange earnings (IDB, 2013). In some cases, Japanese companies have become major exporters from their production bases in LAC not only to Japanese markets but also to third countries including China, the United States, the European Union and the proper LAC region. As a matter of fact, exports to third country markets by Japanese companies' subsidiaries and affiliates operating in the region exceed by far LAC's bilateral exports to Japan.

Japan has been a major source of development finance for the LAC region. The scale of Japan's Bank of International Cooperation (JBIC) operations in LAC rivals those of major multilateral institutions and Chinese policy banks. The region has accounted for 20% of JBIC's annual outstanding commitments in recent years. While a considerable percentage of JBIC overseas lending supports the acquisition of energy and mineral resources by Japanese firms, Japan's official loans to LAC also support manufacturing, and its share is increasing. JBIC has shown a strong disposition towards governments with



market-friendly economic policies. Nonetheless, JBIC's contributions represent only a fraction of aggregate Japanese finance in the LAC region; Japanese commercial bank claims on LAC are large and rising.

Japan enjoys close historical ties with Latin America and the Caribbean. Approximately 1.8 million citizens of Japanese descent live in Latin America and the Caribbean. Today, these communities overseas play prominent roles in agriculture, health, education and politics in a number of Latin American countries. The Nikkei have also been involved in work undertaken by the Japan International Cooperation Agency (JICA), whose emphasis has now shifted to poverty reduction, natural-disaster prevention, inclusive and sustainable development in areas such as education, health and agricultural as well as environmental protection. Foreign nationals of Japanese descent living or working in Japan, estimated approximately 300,000 persons, have also made significant contributions to the strengthening of economic and social ties. The Nikkei communities also have become an important force in shaping new Japan-Latin American relations.

The Japanese private sector and government have been coordinating their efforts in pursuit of a public-private partnership (PPP) to capitalize on opportunities in the region. This takes place against the backdrop of intensifying competition with China and the Republic of Korea, and increasingly with India and several ASEAN countries. To establish and strengthen competitiveness of Japanese companies in the region, Japan has signed three bilateral Economic Partnership Agreements (EPAs) with Chile, Mexico and Peru and is currently in negotiation with Colombia. EPAs may therefore be viewed as part and parcel of a policy of support for broadening production networks and value chains. Japan is also engaged in the TPP, which includes the three Latin American APEC member countries (Chile, Mexico, and Peru). Since January 2013, Japan has been participating in the Pacific Alliance as one of the first "observer" countries of the group.



In addition, very recently, there has emerged a possibility of creating an EPA with Brazil. Although it has been considered difficult to negotiate an EPA bilaterally with an individual Mercosur member country under its present Customs Union format, Japan's Keidanren (Japan Business Federation)¹ and Brazilian National Industry Federation (CNI) recently prepared a report calling for an EPA between the two countries. The report was submitted to the 19th "Japan-Brazil Joint Economic Committee" meeting held at Porto Alegre, Brazil, September 1, 2015. At the meeting, both sides agreed to request the respective governments to consider negotiating an EPA at an early date (Nihon Keizai Shimbun, 2015). Despite a current economic slowdown in Brazil, major Japanese companies continue to show a strong interest in strengthening relations with Brazil's business community.

The type of economic partnership agreements signed by Japan set out from the premise that free trade is not enough and that trade liberalization has to be complemented by cooperation. The Japanese authorities are increasingly aware that greater market-driven economic integration will not happen without measures to promote and support it; it requires not only trade liberalization and harmonization of rules and standards, but also cooperation. The Japanese ODA model that has been applied in Asia and elsewhere emphasizes those typical elements of ODA such as infrastructure improvements and human resource training, with a view to transforming the production sector and promoting trade and investment.

Japan has become an important source of regional development cooperation. An increasing number of Japanese companies consider the LAC region as a strategic base for their global operations. The attention of the Japanese private sector increasingly focuses on the region's natural resources and energy, enlargement of domestic markets for industries (automobiles, ITC, foods, cosmetics and pharmaceuticals etc.), infrastructure and food security, environmental protection and natural-disaster prevention, industry agglomeration and supporting industry development, and rural and social (education and health in particular) development. These cooperation efforts are sometimes undertaken in close collaboration with regional integration schemes such as the Mercosur, the Central American Integration System (SICA), the CARICOM, and now more likely with the Pacific Alliance. While Japan's focus on natural resources and "hard" infrastructure continues, this orientation is being complemented by "soft", knowledge-intensive, socially "inclusive" projects.

Over the last two decades, the world has witnessed significant changes in the landscape of financing for development. These changes include the expanding financial capabilities of emerging economies and middle income countries, and also the increase of private investment flow to developing countries. This observation is particularly relevant for Latin American and Caribbean economies, majority of which are considered to be higher middle-income countries. Future needs of these countries for development finance will depend less on ODA and more on private investment funds, external and internal alike (ECLAC, 2015b). Japan is expected to play an important role in implementing the United Nations Post-2015 Millennium Development Goals (MDGs) agenda and the Sustainable Development Goals (SDGs) in the LAC region.

With a view to addressing the new and continuing challenges of the United Nations post-2015 era, Japan is pursuing various initiatives to achieve "quality" growth, which specifically means inclusive, sustainable and resilient growth for all, and thereby to eradicate extreme poverty by 2030. Japan will do so based on the concept of human security in accordance with its guiding principle and by applying the new Development Cooperation Charter adopt-

¹ The Keidanren is an economic organization with a membership comprised of 1,329 representative companies of Japan, 109 nationwide industrial associations and 47 regional economic organizations.



ed in February 2015. Japan is promoting wide-ranging partnerships with the private sector in the fields of trade, finance, and technology, while utilizing ODA as a catalyst to enhance such activities. Japan has also transformed into a major development-finance source for multilateral development banks and agencies such as the World Bank and Inter-American Development Bank. This new focus of Japan on development finance bodes quite well with the post-2015 vision of Latin America and the Caribbean.

Trade and investment relations between Japan and Latin America and the Caribbean

Historically, from the LAC perspective, Japan has been more important in the realm of investment than in trade. Although Japan was the most important trading partner of the Asia-Pacific region during the 1980s and the 1990s, reciprocal trade volume was relatively small when compared with Japan's greater stake in foreign direct investment (FDI) and private and official loans destined to LAC. It is estimated that by the end of the 1980s, Japan's 17% of cumulative FDI and 18% of private bank debt was concentrated in the region (ECLAC, 1996). However, financial flows fell sharply during the following decade. This contrasts sharply with the global trend, especially with that observed for the US investors. Sharp declines in financial markets and the prolonged decline in industrial production have affected the flows of Japanese FDI at that time.

Trade

Japan and LAC have been important trading partners for decades, a strong contrast to LAC's trade with the rest of Asia, whose trade has only reached significant levels since the turn of the century. Although the ascendance of China as a major force in LAC trade has overshadowed the dynamics of LAC-Japan trade, commercial ties between Japan and LAC have evolved and diversified over five decades. From an initial focus on minerals and agriculture, the relationship now encompasses a much broader spectrum of trade-cum-investment links and government-to-government cooperation that have laid the foundations for the development of various sectors in the LAC region.

Admittedly, reciprocal trade between Japan and LAC has been quite cyclical over the last 50 years. In the 1960s and 1970s, the trade relations between Japan and LAC recorded growth of 15% and 19% respectively as an annual average. Due to the economic problems faced by LAC countries in the first half of the 1980s, the trade growth rate declined to 2%. In the decade of the 1990s, the reciprocal trade was characterized by an asymmetry in which Japanese imports from LAC sharply reduced, while its exports to the region increased steadily, resulting in a growing surplus for Japan; imports from LAC grew with average annual rates of -1.0% during 1990-1994, compared with a rate of 8.7% for the period 1985-1989. Later on, reciprocal trade recovered and continued to grow until 1998-1999 when Latin American economies were severely affected by the Asian financial crisis. After hitting the trough in 2004, reciprocal trade continued to recover until the outbreak of the international financial crisis of 2008. In the post-crisis period, reciprocal trade remained relatively stagnant (Figure 1A and 1B).

As observed in LAC trade with other countries and regions, trade performance of Japan has been heavily influenced by both business cycles of trading partners and external factors. LAC's importance as a trading partner for Japan has evolved accordingly in relation with the above-mentioned business cycles and



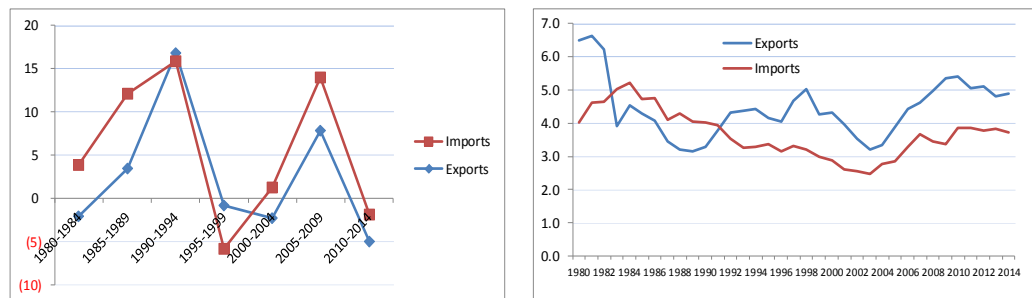
economic-financial crises. Despite ups and downs, however, the LAC market accounts for roughly 5% of Japan's total exports and 4% of the country's imports over the 35 year span (see Figure 1B). Therefore, the region continues to be Japan's significant trading partner. In 2014, Japan's exports to and imports from LAC amounted to US\$33.8 and US\$30.4 billion, accounting for 4.9% and 3.7% of the country's total exports and imports, respectively.

Figure 1. Japan's Trade with Latin America and the Caribbean 1980-2014

(Percentages)

A: Annual growth rates, 1980-2014 (five year periods)

B: LAC share in Japan's total exports and imports, 1980-2014



Source: Author's own elaboration based on UN COMTRADE database.

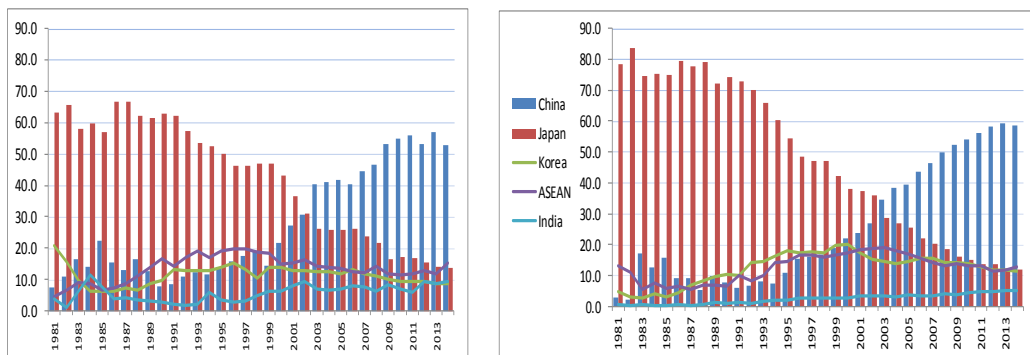
It should be noted that Japan was the largest Asian trading partner (both in exports and imports) for the LAC region as a whole until 2003, when China for the first time displaced Japan as Asia-Pacific's main trading partner in that region. In fact, Japan accounted for 62% and 73% of total LAC exports and imports with the Asia-Pacific region in 1991, respectively. In 2002, Japanese bilateral trade (exports and imports) with LAC totaled US\$23 billion, surpassing US\$20 billion of the Chinese trade with LAC that year. As seen in Figure 2A and 2B, the displacement of Japan by China was accelerated during the LAC's "Golden Age" (2003~2008) and in the post-crisis period until 2013, when LAC's exports to China started to slowdown.

Figure 2. Shares in total LAC trade with the Asia-Pacific, by major trading partners, 1981-2014

(In percentages of total LAC exports/imports to and from Asia-Pacific, percentages)

A. Exports

B. Imports



Source: Author's own elaboration based on UN COMTRADE database.



In 2014, Japan's share in total LAC exports and imports with Asia-Pacific stood at 13.2% and 11.6%, respectively, slightly below the figures recorded by the ASEAN(10) group. China's bilateral trade (exports and imports combined) with LAC reached US\$254 billion in 2014, five times Japan's trade with the region of US\$54 billion, or ASEAN (10) total of US\$57 billion. Japan's trade, however, surpassed Korea's total of US\$45 billion and India's total of US\$31 billion (Figure 2AB). In short, whereas Japan was the main trading partner (both supplier and buyer) from the region in the 1980s and 1990s, China is currently the predominant partner for both exports and imports. In terms of imports into LAC from Asia-Pacific, China's penetration is unparalleled: almost two-thirds of LAC imports from Asia-Pacific come from China.

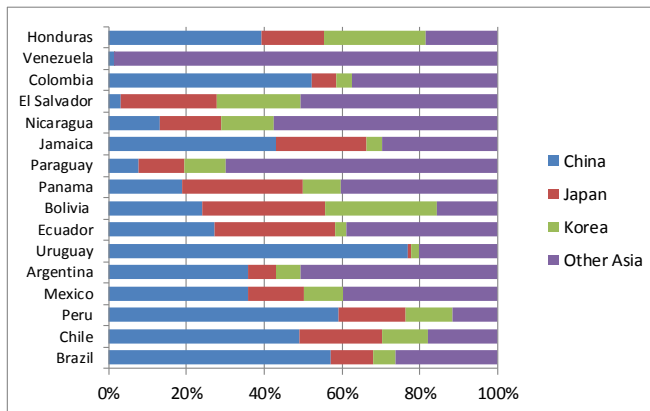
In the 1980s and 1990s and the beginning of the new century, Japan was a significant export destination for several Latin American countries: Japan was the most important export destination for Chile (16.6% of Chilean exports were absorbed by the Japanese market); the second most important after the United States in Peru (8.7%); the third in Mexico (3.2%); and the fourth for Brazil (6.4%) and Colombia (3.2%) in 1993 (ECLAC, 1996). The growing importance of Japan as a trading partner, along with other Asian countries, aroused the interests of the Latin American countries on the Pacific Rim in participating more actively in institutions such as the Economic Council of the Pacific Basin (PBEC), the Pacific Economic Cooperation Council (PECC) and the Asia-Pacific Economic Cooperation (APEC). It is not surprising that the date of joining the APEC for Chile (1993), Mexico (1993) and Peru (1998) coincides with Japan's rise in the LAC trade sphere.



China's recent predominance in Asia-LAC trade might lead one to think that China is currently the most important export market for all the Latin American countries. However, contrary to what is generally expected, Japan still maintains the No. 1 position as the most important Asian export destination for a number of Latin American countries, such as Ecuador, Bolivia, and Paraguay in South America, and Nicaragua and the El Salvador and Panama in Central America (see Figure 3).

Figure 3. Latin America: export distribution to Asia, by major destinations 2011-2014 average

(As percentage of each Latin American country's total exports to Asia-Pacific, %)



Source: Author's elaboration based on Comtrade and other sources

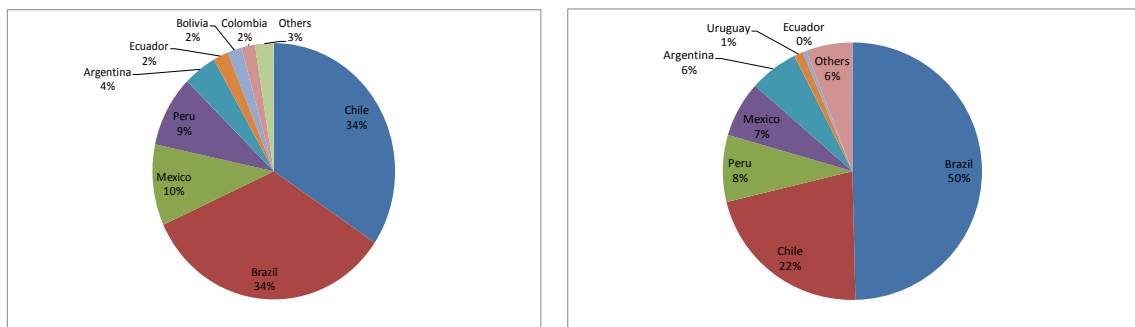
LAC exports to Japan are more diversified than to China; Chile, Brazil, Mexico and Peru, by the order of importance, together accounted for 86% of LAC total exports to Japan during 2011-2014 (see Figure 4A). Similarly, in the case of LAC exports to China, the same four Latin American countries figure as the top four LAC exporters with a combined share of 87%. In the latter case, however, the export structure is more concentrated; Brazil accounts for half of LAC's total exports to China (Figure 4B). In contrast, in the case of LAC's exports to Japan, Chile and Brazil share the first place with each accounting for 34%, followed by Mexico (10%) and Peru (9%). In recent years, the share of Chile and Brazil tends to decline, while that of Mexico is rising.

Figure 4. LAC Exports to Japan and China, by major exporters, 2011-2014 Average

(In percentages of total LAC exports to Japan and China)

A. To Japan

B. To China



Source: Author's elaboration based on Comtrade and other sources.



It is of great importance that LAC trade is more balanced with Japan than with China. For a large number of Latin American countries, trade balance with Japan is positive, and when it is negative, the deficit is much smaller than with the Chinese case. El Salvador, Nicaragua, Mexico, and Venezuela registered a small deficit with Japan during 2011-2014 on average, while Japan's largest deficit was recorded with Brazil (US\$26 billion). In contrast, with the exception of Brazil, Chile, El Salvador, Nicaragua, and Venezuela who recorded a surplus, LAC countries register a large deficit with China. The increasing deficits are a result of rapid penetration of Chinese products into LAC domestic markets. Though Mexico exports to China more than to Japan, Mexico's rapidly growing imports from China results in an increasingly large trade deficit for the Azteca country. In fact, almost 70% of China's total trade deficit with LAC (US\$77 billion) as a whole originates from Mexico.

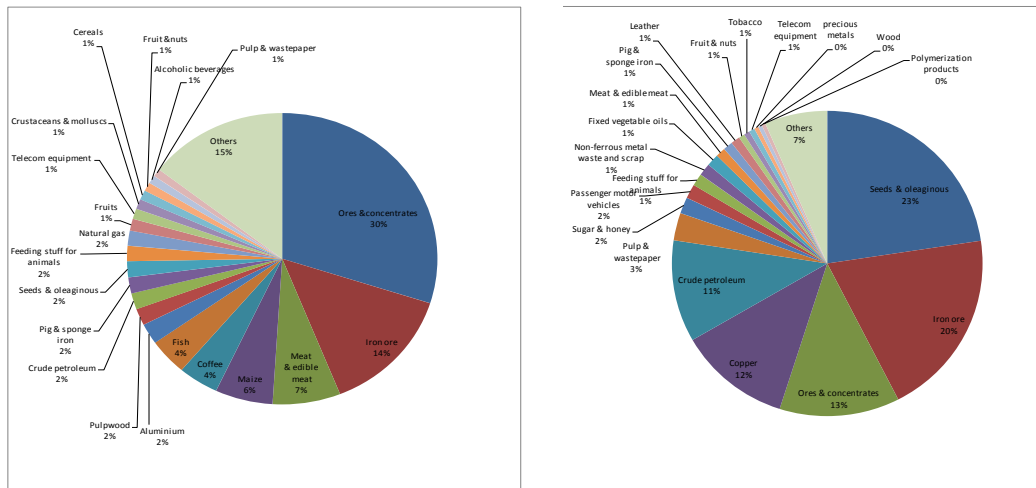
LAC's export basket to Japan is less concentrated by product than the region's exports to China.² In Japan's case, copper ores and concentrates, iron ore, meat and edible meat, maize, coffee, fish, aluminum, pulpwood, crude petroleum, and pig and sponge iron comprise the ten major export products, which accounted for 73% of total exports to Japan in 2013 (see Figure 5). In the case of China, the five major products including seeds and oleaginous (soybeans and oil), iron ore, copper ores and concentrates, refined copper and crude petroleum represented more than 77% of LAC's total exports. Although LAC's overall export baskets to Japan and other Asian markets are similar, an important difference between the two countries lies in fuels; these products account for roughly 11% of LAC exports to China, whereas in the Japan-LAC case, the corresponding figure is 2%. In turn LAC exports to Japan have a larger agriculture and fishery component.

Figure 5. Latin American Exports to Japan and China, by major product groups, 2013

(In percentages of total LAC exports to Japan and China)

A. To Japan

B. To China



Source: Author's elaboration based on Comtrade and other sources.

² According to a commonly accepted measure of market concentration, the Herfindahl-Hirschman Index (HHI), which takes into account the full range of exports, the HHI for Japan is 0.1209, while that for China is 0.1339. The smaller is the index number, the lesser concentrated the market is (These figures are calculated by the Author).



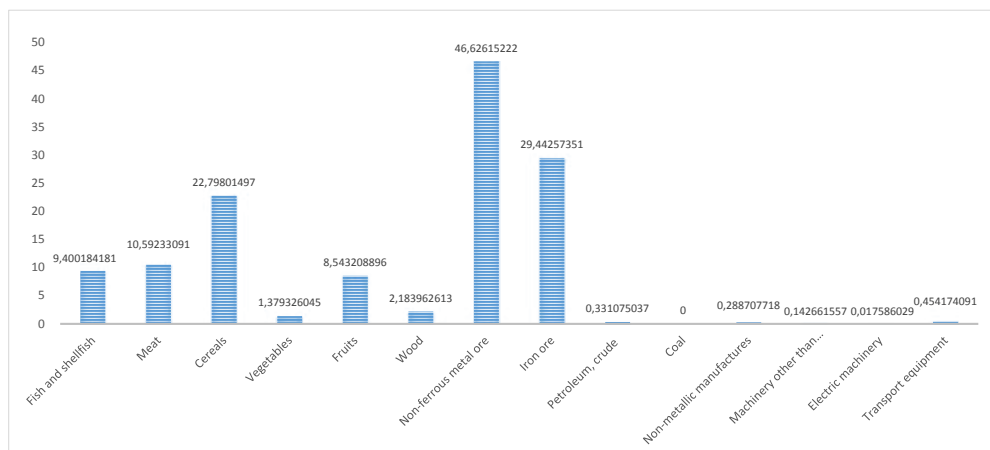
In addition, LAC's exports to Japan consist not only of traditional commodities and their processed goods, but non-traditional primary products such as salmon, wine, meats, orange juice, fresh flowers, processed wood and other products. LAC countries such as Brazil, Mexico and Chile have become a major source to satisfy import needs of chicken and pork meats in Japan. Mexico, together with Peru, is a major supplier of asparagus, avocado and mango to the Japanese market. More than 90% of imports of salmon, the fish of the largest domestic consumption in Japan, are met from Chile. Colombia has become a major provider of fresh flowers for Japan. Sushi shops in Japan are increasingly dependent on Mexican tuna supplies. In addition, LAC has established undisputed positions as suppliers of non-traditional minerals and metals. Two-thirds of Japan's increasing demand on molybdenum is being satisfied from Chile and Mexico. Japan meets most of its lithium needs from Chile and Argentina.

It should be noted that Latin America has established a strong foothold in Japanese mineral and metal markets, but not in agriculture. Japan sources almost half of non-ferrous ores and metals and 30% of iron ore imports from Latin America. Though to a lesser extent, Japan's reliance on cereals imports from Latin American is relatively high (22%). In contrast, the country sources relatively little meats, fruits, vegetables and wood products from Latin America (Figure 6). This is due in part to a strong competition that Latin American pro-



ducers face in agricultural products from Australia, the United States, Canada, New Zealand, as well as several Asian developing countries. In the case of coffee, a product traditionally reserved for Latin American exporters, for example, is now open to severe competition with Vietnamese producers. Given that Japan's self-sufficiency (calculated in calorie-intakes terms) in agricultural products is below 40%, the prospects for future imports are promising. A relatively low share of LAC in Japan's agricultural import markets is not necessarily a result of high levels of protection that Japan applies on agricultural imports; customs duties on many agricultural products are zero or low, and when they are applied, it is done on a most-favor nations (MFN) basis. In addition, tariff escalation, in which tariffs rise in proportion to a good's level of processing, is not an insignificant concern for LAC exporters to Japan (IDB, 2013). It is rather a question of conscientious public-and private partnership (PPP) efforts by the exporting country. Colombia's strong and sustained presence in the Japanese coffee market is a good example of such efforts. When import barriers exist, they tend to be sanitary or phytosanitary concerns that prevent Latin American products from entering the Japanese markets. When market-access is restricted by quotas or tariff-quotas, the widening of these quotas can be negotiated under an Economic Partnership Agreement (EPA) with Japan.

Figure 6. Latin America: Share in Japan's total imports by major product groups 2013
(As percentage of each imported product)



Source: Author's elaboration based on information from Statistical Yearbook of Japan, Statistical Bureau.

Over the years, Japan has established in LAC a strong manufacturing base in sectors such as automobiles and electronics. Japanese companies operating in these sectors serve both the domestic and third export markets, contributing to employment and boosting LAC's trade balance and foreign exchange earnings. These overseas transactions by Japanese companies' subsidiaries and affiliates do not figure in LAC-Japan bilateral trade statistics. For example, Japanese automakers accounted for nearly 35% of Mexico's car production in 2014, of which 80% were exported to third markets (PricewaterhouseCoopers Co., 2015). With the expansion of production capacities planned in this sector, third country exports from Mexico are expected to grow in the future. A strong presence of the Japanese companies in this sector and others suggests that some Latin American countries are beginning to integrate, albeit sporadically, into the extensive supply-chain networks prevalent in the Asia-Pacific, North America and Europe. LAC's engagement with Japan should further facilitate this process.



One feature that distinguishes Japan-LAC trade from that of China is that LAC imports from Japan are less likely to be in direct competition with LAC's proper production and exports in third markets, given Japan's export basket is heavily concentrated in high-technology, capital intensive sectors. This contrasts to the case of China, where a number of studies have shown that significant market penetration by Chinese imports often pose a direct competitive threat for LAC manufacturing producers, especially of sectors such as steel products, textiles and clothing, footwear, domestic appliances and tires, in both domestic and third markets. In fact, since the beginning of the recent global crisis, many countries including some in LAC have initiated anti-dumping investigations into imports from China (ECLAC, 2011). In contrast, Japan has rarely been the target of antidumping measures from LAC, and in any event the most recent case against Japan was initiated over a decade ago (IAB, 2013).

Another feature that differentiates the Japan-LAC trade from that of China is the important role that large general trading companies (*sogo-shosha*) play in moving merchandize and services between LAC and third countries, activities that are not captured in the LAC-Japan bilateral trade statistics; the economic relationship is deeper and more diversified than simple bilateral trade flows might indicate. These companies, either directly or through subsidiaries operating in the region, play a critical intermediary role in moving raw materials such as minerals and grains from their source in the region to destination countries in Asia, especially China (ECLAC, 2010a; IDB, 2013).

More importantly, these companies also act as investment banks, participating directly in the management of the firms they invest in, or co-finance projects with other firms of Japanese or non-Japanese origins. Examples of investment projects financed by these companies in LAC abound. A significant part of their global business resources are sourced from third countries and this often leads to underestimate the magnitude of investment by Japanese companies in the LAC region. In addition to boosting trade between LAC and third countries, these companies bring not only logistical, marketing and distribution expertise but also significant investment and finance resources to the region (ECLAC, 2010a; IAB, 2013).

The Japanese public sector has played a major role in introducing non-traditional exports by Latin American countries to Japanese and other markets. Government activities have often taken the form of cooperation projects to help firms in the region develop export potential and develop capacities to supply Japanese and other markets. In fact, Japan has been behind some of the region's emblematic export success stories, such as Chilean salmon (Hosono, 2010), Brazilian soybeans and maize (Hongo and Hosono, 2012) and agricultural product supply-chain projects in Paraguay (JICA/ECLAC, 2014), in addition to the development of local supply chains in Mexico's automotive sector. Such achievements are a result of efforts based on interactions between Japan's public-private partnership (PPP) efforts and those of Latin American counterparts. Governments on both sides have played a catalyst role in shaping the bilateral relationships, ensuring that opportunities will diversify by sector and market, and that trade and investment in new areas in fact be materialized.



Foreign Direct Investment (FDI)

Japan's foreign direct investment (FDI) in LAC has a long trajectory and its origin can be traced back to the pre-WWII period. In the 1960s, Japanese firms invested in the region to secure the inputs needed for industrial production, and participated in large mining projects, mostly in Brazil and Chile. By 1965 the LAC region was the largest recipient of Japanese FDI, with 25% of the world accumulated total. The focus on raw materials soon changed, however, as Japanese investment during the 1970s and 1980s shifted to manufacturing operations in low cost locations. The larger projects involving Japanese capital in LAC at those times were concentrated in Brazil and Mexico, with the idea of benefitting from the scale of their domestic markets as well as from opportunities for exporting manufactured products to neighboring markets in order to avoid protectionist measures. Some emblematic projects were undertaken during these periods.³ Of the 363 Japanese companies who had invested in Brazil by 1984, approximately half of them operated in manufacturing and the rest in commerce, services, construction and finance. In Mexico, 77 of the 126 Japanese companies worked in manufacturing (ECLAC, 1990).

In the 1980s, Japan became one of the world's most important sources of FDI, stimulated mainly by the sharp appreciation of the yen, the increase in labor costs in the country, and growing trade restrictions abroad, which led Japanese companies to seek production bases overseas. As a result, FDI flows from Japan in 1989 reached its maximum level of US\$67.5 billion. However, the timing of this "second-wave" of Japanese outward investment worldwide unfortunately coincided with the prolonged debt crisis in the LAC region. Japan, immersed in the debt-recycling exercises, looked elsewhere for their investment opportunities, while LAC was almost absent from the Japanese FDI boom. In fact, Japanese manufacturing FDI outflows increased ten times during 1980 and 1995 worldwide, while LAC's share in this investment dropped from 15% to 2% (IAB, 2013). Towards the 1990s, the implementation of liberalization and deregulation reforms, together with the privatization programs, improved growth prospects of Latin American countries and stimulated FDI in the region. Nonetheless, neither liberalization of investment regulations, nor the process of privatization, nor the establishment of debt conversion mechanisms was a sufficient incentive for Japanese investors to return to the region. Strong growth in Latin America beginning in the early 2000s made the region a natural destination for Japanese companies once again. Between 2003 and 2008, regional GDP growth averaged nearly 5% per year, with per capita GDP increasing by over 3% per annum. The ramparts that the countries of the region had built through sounder macroeconomic policy management during this period made it possible for the region to weather the international crisis with unprecedented resilience and to emerge from it sooner and more strongly than the developed countries.

³ The emblematic examples included: the Ushiminas steelworks in Brazil in which Japanese financing totaled US\$760 million; the Tubarao steelworks, financed with mixed capital from Japan (Kawasaki Steel Co. and others), Italy and Brazil, with an investment of US\$168 million or 24.5% of the total; aluminum production in the Amazon with Japanese investment of US\$273 million or 49% of the total; two pulp and paper mills in Minas Gerais and Espirito with an investment of US\$100 million; the agricultural development project of the wide zone of Cerrado with US\$450 million. In Mexico, Nissan Motor Co. employed close to 5,000 workers. In 1985 two major steelwork projects were completed with substantial Japanese investment. Sumitomo Metal Industries and other Japanese companies invested US\$20 million (at the 1985 exchange rate) or 40% of the total, in the construction of a large diameter pipe plant, while Kobe Steel and other companies invested US\$22 million in constructing a plant of large-sized cast and forged steel products. These collaboration schemes were proposed as an integral part of the expansion plan of the SICARTSA steelworks plant, for which Japan had already granted a credit of US\$110 million (ECLAC, 1990).



The region's growth has driven Japanese investment into the region's resource-rich countries. Japanese trading companies such as Mitsubishi, Mitsui, Marubeni and Sumitomo have played a central role in facilitating the movement of LAC's primary goods to Asian markets. In addition, to take advantages of strong consumption growth among emerging middle classes in Brazil, Chile, Colombia, Mexico, and Peru, Japanese companies producing a variety of consumer goods ranging from cars to electronics to entertainment products and medical supplies also started to return to the region to invest (IDB, 2013).

At present, Japan's FDI flows to LAC compare fairly well with those from China. During 2010-2013, annual Japan's FDI to LAC reached US\$6.9 billion on average, compared with the Chinese FDI of US\$10.7 billion (see Tables 1A and 1B).⁴ According to ECLAC (2014), Japan has accounted for over 5% of the region's total FDI inflows between 2008 and 2013. Japan's FDI stock in LAC continues to grow and exceeds that of China, even when FDI to the "tax haven" countries (the Cayman and Virgin Islands) is included. Japanese FDI stock in LAC reached US\$120 billion in 2013, US\$15 billion more than the Chinese. Japan's stock in Brazil remains high while that in Mexico continues to grow (Figures 7A and 7B).

Table 1-A. Japan' FDI Flows to major destinations in LAC 2010-2013

(In million US dollars)

	2010			2011			2012			2013		
	Japan(A)	World (B)	(A)/(B)(%)	Japan(A)	World (B)	(A)/(B)(%)	Japan(A)	World (B)	(A)/(B)(%)	Japan(A)	World (B)	(A)/(B)(%)
Argentina	187	13.546	1,4	384	20.826	1,8	186	18.231	1,0	503	15.034	3,3
Brazil	2.502	52.586	4,8	7.536	69.530	10,8	2.502	60.543	4,1	2.516	49.342	5,1
Chile	335	2.676	12,5	1.361	4.140	32,9	2.524	10.877	23,2	2.524	7.266	34,7
Colombia	-13	6.899	-0,2	10	13.234	0,1	61	15.528	0,4	80	16.772	0,5
Mexico	225	20.708	1,1	686	19.554	3,5	1.812	17.224	10,5	1.538	35.188	4,4
Peru	40	1.751	2,3	6	559	1,1	4	420	1,0	0	201	0,0
Total of the 6 countries	3.276	98.166	3,3	9.983	127.843	7,8	7.089	122.823	5,8	7.161	123.803	5,8

Source: Author's calculations based on official information of individual countries.

Table 1-B. China's FDI flows to major destinations in LAC, 1990-2009, 2010- 2013

(In million US dollars)

	1990-2009	2010	2011	2012	2013
Argentina	143	3.100	2.450	600	120
Brazil	255	9.563	5.676	6.067	2.580
Chile	na	5	0	76	19
Colombia	1.677	6	293	996	776
Ecuador	1.619	45	59	86	88
Guyana	1.000	na	15	na	na
Mexico	146	9	2	74	15
Peru	2.262	84	829	1.307	4.626
Trinidad and Tobago	na	na	850	na	na
Venezuela	240	900	na	na	1.400
LAC	7.342	13.712	10.175	9.206	9.624

Source: ECLAC Latin America and the Caribbean and China: Towards a new era in economic cooperation, Table III.5 P. 60.

⁴ This set of data based on the information from official statistics provided by Latin American countries, which does not include flows from the financial centers of the Caribbean.



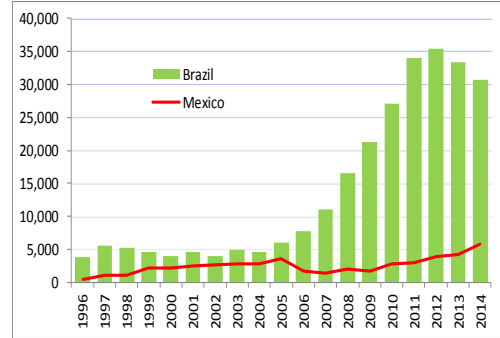
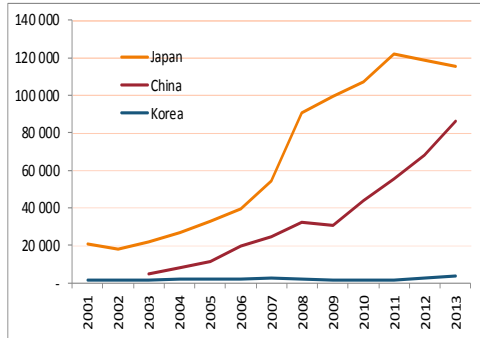
Figure 7. Japan's FDI stock in LAC, Brazil and Mexico

(In million US dollars)

Japan, China and Korea:

A. FDI stock in LAC 2001-2013

B. Japan's FDI stock in Brazil and Mexico 1996-2014



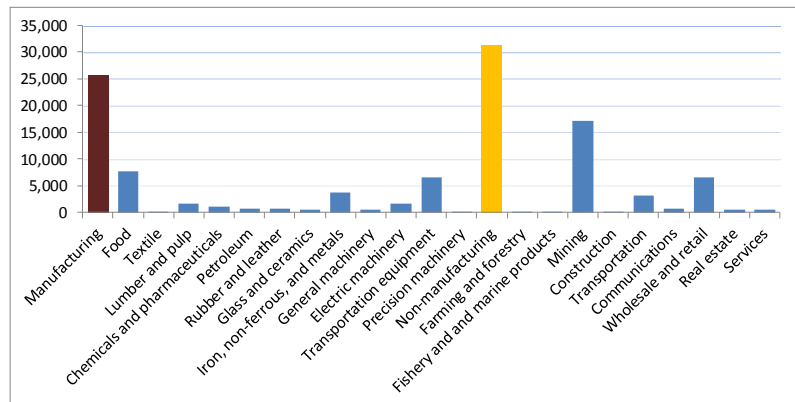
Source: Table A: Author's elaboration based on UNCTAD Bilateral FDI Statistics, Central Bank of Japan, China Statistical Yearbook, Korea FDI Statistics database. Table B: Author's elaboration based on information from Central Bank of Japan and JETRO FDI Statistics.

It should be reminded that all these figures are based on historical prices (not constant prices), so that Japanese FDI stock of long data is severely underestimated. Also, exchange rate fluctuations of recent years have not affected Japan's FDI stock in LAC. Furthermore, as in the case of trade statistics, FDI flows from third countries, particularly from subsidiaries of Japanese firms in the United States are not included in these figures. This leads to a significant underestimation of investment by Japanese companies in the region.

More importantly, Japanese FDI has been far more diversified both in terms of sectors and in terms of host countries. When financial services are excluded, 45% of Japan's FDI stock in LAC is in manufacturing, a stark difference from China's case (Figure 8). While China's investment has gone overwhelmingly to natural resource sectors, Japanese FDI is evenly split among the manufacturing, services, and primary sectors. This means that Japanese firms are creating jobs and bringing new technologies in areas like cars in Mexico and ITC in Brazil.

Figure 8. Japan's FDI stock in LAC, by major sectors, 2013: excluding financial services

(In million US dollars)



Source: Author's elaboration based on information from Central Bank of Japan.



The number of Japanese subsidiaries and affiliates operating overseas that participated in the 2013 survey conducted by the Ministry of Economy, Trade and Industry (Japan METI, 2015) reached some 24,000 worldwide in 2013. These affiliates operated in a wide range of industries, and do not include those in the financial and insurance or real estate industries. Roughly, 66% of these (roughly 16,000 firms) were located in Asia, 33% in the Mainland China alone. Some 11% were operating in the three NIEs (Taiwan Province of China, Republic of Korea and Singapore), and another 17% in ASEAN (4).⁵ The corresponding figures for North America and the EU were much lower, 13% and 10% of the total, respectively. At the same date, there were 1,251 affiliates of Japanese firms operating in LAC representing 5% of world total. Brazil (288), Mexico (269) and Panama (396) were the principal hosts for these firms. By industry, worldwide, roughly 44% of Japanese affiliates were engaged in activities related to the manufacturing sector. Chemicals, communications equipment (ITC) and transport equipment were the top three sectors, followed by general and electric machinery, whose production bases have been primarily found in Asia. Japan's overwhelming presence in and around the machinery industry in Asia reflects the buoyant and complex supply chains networks that have been developing in that region. In Latin America and the Caribbean, 932 affiliates were operating in the non-manufacturing sector, mainly in transportation and wholesale activities, and 319 in manufacturing, 125 of them in the production of transport equipment. The number of affiliates operating in natural-resource-related sectors was relatively small (Japan METI, 2015). The scale of business of Japanese subsidiaries and affiliates operating in LAC is gigantic: the total sales by these companies totaled some JPY\$14 trillion (approximately US\$143 billion) in 2013 alone.⁶ Although total sales were rel-

⁵ ASEAN (4) comprises of Indonesia, Malaysia, Philippines and Thailand.

⁶ The sales are tabulated from the information by the companies who actually provided sales values to the survey. In the case of the Latin America and the Caribbean region, 908 companies, out of the total of 1,251 (Japan METI, 2015) provided information on sales.



atively small in comparison with those realized in Asia (and China in particular) and other regions, the total sales in LAC have been growing at a double digit annual rate during the 2004-2013 period (growth rates based on sales in yens), surpassed only by the growth rate for Mainland China (Figure 9A). For instance, total sales by Japanese companies in LAC grew faster than the figures corresponding to Asia as a whole or ASEAN (4). The foregoing indicates that not only the LAC region has become an important target for the Japanese business community in recent years, but also that the nature of business carried out by the Japanese companies operating in this region is much more than globalized than Japan-Latin American bilateral trade statistics might suggest.⁷

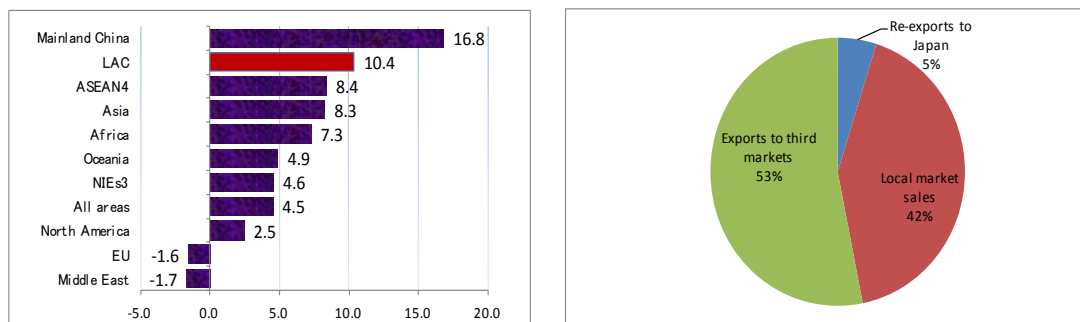
Figure 9. Sales by Japanese subsidiaries and affiliates operating in LAC, 2004-2013

(In percentages)

Total sales annual growth rates
2004-2013

(annual average in terms of yens)

Breakdown of total sales by market
destination 2013



Source: Author's elaboration Based on information from Japan, METI (Ministry of Economy, Trade and Industry of Japan) (2015), "kaigai jigyo katsudo kihon chosa" [Basic (trend) survey of overseas business activities] No. 44.

Furthermore, Japanese companies in LAC are export-oriented, thereby contributing to foreign exchange earnings. In 2013, Over 53% (some US\$75 billion) of total sales by Japanese subsidiaries and affiliates operating in the region were exported to third markets and 42% were destined to local markets, while re-exports to Japan were only 5% (see Figure 9B) (Japan METI, 2015). The marked orientation towards third markets is particularly strong for the automotive sector. Just to be sure, exports to third country markets by Japanese affiliates are not accounted for in Japanese trade statistics. From this perspective, the "third-market" orientation of the Japanese subsidiaries and affiliates is conducive to the creation of intra-industry trade and supply chain networks between, for example, Asia and Mexico, and between the United States and Mexico. This intra-industry trade experience can be replicated in Brazil and elsewhere in the LAC region.

In addition to the sector diversification, Japanese FDI in LAC is conducive to employment creation. The most interesting aspect of Japan's FDI is that Japanese companies operating in LAC contributes to employment in some sectors of the region in a substantial manner: the number of direct employment by Japanese firms in the region totaled some 250,000. Some 80% (202,000) of the employed by Japanese companies in LAC worked in the manufacturing sector some 100,000 posts belonged to the automotive sector. In the

⁷ It is also important to keep in mind that incomes sourced abroad by these companies do not figure in Japan's trade balance and thereby in the country's GDP. Incomes from business abroad form a part of the current account and are thereby included in Japan's Gross National Income, instead.



non-manufacturing sectors, transportation and wholesales were major employers (Japan METI, 2015).⁸

As in the case of bilateral trade between Japan and LAC, Japan's FDI, especially in energy, mining and infrastructure in the region, is often reinforced by the Japanese government in the form of loans from the Japan Bank of International Cooperation (JBIC), a government-owned lender, and to a lesser extent support from JICA to help develop infrastructure-related projects. These efforts illustrate how investments from Japanese firms and government-to-government cooperation can be mutually reinforcing and beneficial.

Japanese finance to LAC

Japan has been a major source of development finance for the LAC region. Facing a high exposure to the debt crisis in the 1980s, the Government of Japan adopted specific policies to substantially increase official flows in the form of concessional and commercial loans to Latin American countries on a bilateral basis or through multilateral financial grants. During the 1980s and 1990s, these credits were used, in particular, to channel funds to support the structural adjustment programs and debt recycling. Both for the process of Latin American debt reduction in support of the Baker Initiative and Brady Plan as well as in support of the structural reforms, the EX-IM Bank of Japan⁹ stood out: from the year 1987 onward, the Bank, often through co-financing with multilateral financial institutions, provided untied loans, equivalent to US \$34 billion, of which more than US\$7.5 billion were directed to LAC (ECLAC, 1996). With regard to soft loans, the amount granted to the region steadily increased to reach a total of US \$463 million in 1991, during which a series of projects related to the Structural Adjustment Loans (SAL) were approved under the "Capital Recycling" program.

As for loans with concessional elements more than 25%, the Overseas Economic Cooperation Fund (OECF), JBIC's other predecessor, provided loans to foreign governments, as well as concessional loans and equity investments to private companies. The world-accumulated total of both categories for the fiscal year 1993 amounted to approximately US\$67 billion, roughly half the World Bank Group and more than the combined total of the four regional development banks. Until that date, LAC received some US\$6.6 billion of loans to governments, with 83 projects, while US\$1.1 billion in loans and investments to the private sector, with 174 projects, equivalent to 6.2% and 29.1%, respectively, of the world. Their majority were directed to the areas of transport infrastructure, energy and telecommunications, and agriculture. A novelty in the period 1992-1994 was that the granting of loans directed to the field of the environment of relatively high-income countries (ECLAC, 1996).

The present scale of JBIC's operations in Latin America rivals those of major multilateral institutions and Chinese banks. Although the rapid growth of lending to Latin America by the Chinese policy banks has outstripped that of JBIC in recent years, China's stock of loans and investment in the region equals that of Japan, each estimated at US\$100 billion by 2013 (Figure 10A and 10B). Latin America has accounted for 20% of JBIC's annual outstanding commitments on average in recent years (JBIC, 2014). JBIC loans, equity commitments and guarantees in the region exceeded US\$10 billion in Fiscal

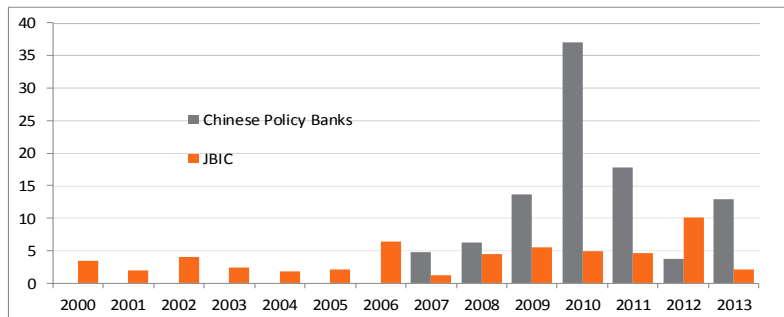
⁸ The employment figures are based on information by 694 Japanese companies who provided the corresponding data to the 2013 survey (Japan METI, 2015).

⁹ The Japan Bank for International Cooperation (its abbreviation is JBIC) was created on October 1, 1999, through the merger of the Japan Export-Import Bank (JEXIM) and the Overseas Economic Cooperation Fund (OECF).



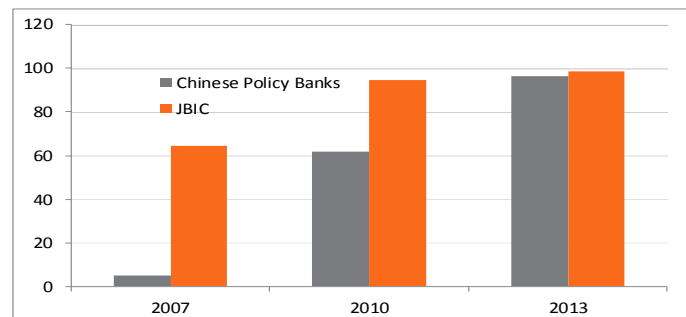
Year 2012 (see Figure 10A),¹⁰ surpassing the World Bank support of US\$6.6 billion that year and nearing the US\$11.4 billion pledged by the Inter-American Development Bank.

Figure 10A. JBIC commitments (loan, equity participation, guarantees) vs. Chinese Bank commitments (CDB, CHEXIM, BoC, Others) 2000-2013
(In billion US dollars)



Source: Author's elaboration based on information from various JBIC Annual Reports, and Inter-American Dialogue (IAD), China- Latin America Financial Database.

Figure 10B. JBIC vs. Chinese Policy Banks (Loan and Investment Commitments) Stocks in LAC 2013
(In billion US dollars)



Source: Author's elaboration based on information from various JBIC Annual Reports, and IAD China- Latin America Financial Database.

JBIC provides financial support for the international operations of Japanese companies with a particular aim to securing a supply of natural resources such as copper, oil, gas, and iron ore, a reason for which LAC has been a major target for JBIC. The Bank provides loan guarantees for resource-related deals between Japanese firms and governments in the region and also helps finance natural resource projects owned by Japanese firms or their subsidiaries in LAC. In 2013, the Bank signed a loan agreement for expansion of one of Bolivia's largest mines to support a Japanese company's mine expansion project and the securing of a long-term stable supply of mineral resources. In the same year, the Bank signed a loan agreement for the acquisition of shares of companies engaged in agriculture and grain exports in Brazil to support several Japanese companies' overseas M&As (JBIC Annual Report, 2013, 2014).

¹⁰ JBIC's total commitment in loans, equity and guarantees to the LAC region amounted to 805 billion yens, approximately US\$ 10.1 billion (at the annual average exchange rate of 79.8 yens to a dollar of 2012).

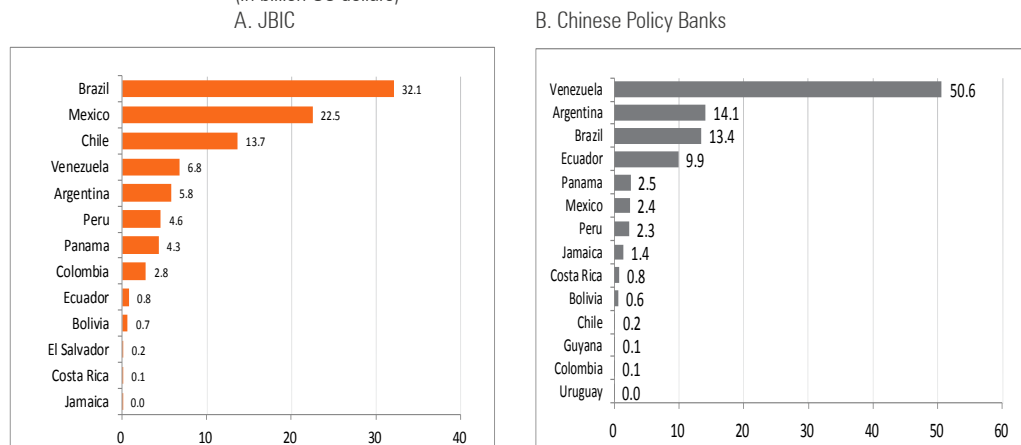


While a considerable percentage of JBIC overseas lending supports the acquisition of energy and mineral resources by Japanese firms, Japan's official loans to LAC also support manufacturing, which accounted for 34% of Japanese FDI in the region during 2012. The recent examples include a loan for the manufacture of steel pipes for Mexico's auto industry. In addition, JBIC supports infrastructure projects (a loan to the government of Sao Paulo state in Brazil to expand the Sao Paulo metro system). The Bank also signed a loan contract with Costa Rica's state-owned bank to support the expansion of Japanese companies' business with Costa Rica (JBIC Annual Report, 2013, 2014).

JBIC has shown a strong disposition towards governments with market-friendly economic policies. Brazil and the Pacific Alliance countries – Chile, Colombia, Mexico and Peru – have received a greater share of new loans in recent years, while finance to Argentina and Venezuela has dried up since the mid-2000's (Figure 11A). As indicated earlier in this report, Brazil, Mexico and Chile are Japan's top trading partners in the region. For Chinese banks, Venezuela accounts for more than half of the accumulated commitments.

Figure 11. Country Distribution of Loan and Equity Participation Commitments, Accumulated as of March 31 2014

(In billion US dollars)



Source: Author's elaboration based on information from various JBIC Annual Reports, and IAD China-Latin America Financial Database.

It should be emphasized that JBIC's and JICA's contributions represent only a fraction of aggregate Japanese finance in Latin America. During the debt crisis of the 1980s, the exposure of Japanese commercial banks in the case of large Latin American debtors was only second to that of the US commercial banks. In September 1986, the cumulative debt of Argentina, Brazil, Mexico, Chile and Venezuela with Japanese banks reached US\$28.6 billion (ECLAC, 1990). In recent years, Japanese bank claims on Latin American countries are on a rise. Most overseas loans are issued by one of three Japanese mega-banks: Mitsubishi UFJ Financial Groups, Mitsui Sumitomo Financial Group and Mizuho Financial Group.



ODA AND OTHER FORMS OF ASSISTANCE

The guiding principle behind the Japan's ODA is that in order for developing countries to reap further benefits from world trade, trade liberalization alone is not enough; enhancing capacities on the supply side and assistance for that purpose would also be needed. This principle is enshrined in Japan's ODA Charter, established in 1992 and revised in 2003. Japan considers that attracting foreign direct investment (FDI) is the most efficient way for developing countries to further benefit from the multilateral trading system (OECD/WTO, 2013). In this respect, Japan's funding for the Aid for Trade (AfT) initiatives plays a significant supporting role in creating a better investment climate.

Significance of LAC in Japan's ODA

Japanese ODA has had a major presence in the LAC region over decades, while from the Japan's perspective, Latin America and the Caribbean has been a relatively minor recipient. On the average in the 1980s and 1990s, LAC's share in overall Japanese ODA remained around 8-9%. This percentage was considered low when compared with the corresponding share of Asia that absorbed over 60% of the Japanese ODA.

However, it should be reminded that in terms of all ODA flows to LAC, Japan was one of the major donors among DAC member countries. During 1984-1994, the accumulated Japanese ODA to the region reached US\$7.1 billion. In the first three years of the 1990s, for example, Japan was ranked as the second largest donor, after the United States (ECLAC, 1996).

At present, Japanese ODA to LAC is modest in comparison to other donor nations. In 2013 alone, LAC accounted for 2.3% of JICA's disbursement, with a total of US\$277 million (Table 2). However, in terms of accumulated amounts, LAC was a target region for JICA's loans, surpassing Africa (Figure 12). Of a world total of 3,225 cases, 325 were directed to LAC, while in terms of the amount granted, of a world total of US\$295.4 billion, US\$15.6 billion were destined to the LAC region. Japan's ODA profile varies widely from region to region, with emphasis on low-income nations in Central America and the Caribbean.



Table 2. JICA disbursement Fiscal Year 2013 (ending March 31st), by aid type and by region
(In million US dollars and percentages)

		Asia	Middle East	Africa	North and Latin America	Pacific	Europe	Others	Total
Technical Cooperation *1	Amount	65,0	10,3	41,9	14,8	4,2	2,4	38,6	177,2
	Share	36,7	5,8	23,6	8,4	2,4	1,4	21,8	100,0
Loan Aid *2	Amount	784,7	70,9	51,9	11,5	8,3	48,9	9,5	985,7
	Share	79,6	7,2	5,3	1,2	0,8	5,0	1,0	100,0
Grant Aid *3	Amount	49,8	3,7	50,2	3,2	7,7	1,2	0,0	115,8
	Share	43,0	3,2	43,3	2,8	6,7	1,0	0,0	100,0
Total (1+2+3)	Amount	899,5	84,9	144,0	29,5	20,2	52,5	48,1	1.278,7
	Share	899,5	6,6	11,3	2,3	1,6	4,1	3,8	100,0

Note: The original figures expressed in Japanese yens are converted in US dollars using the exchange rate of 1US dollar = 102.27 yens.

Source: Author's elaboration based on JICA Annual Report 2014.

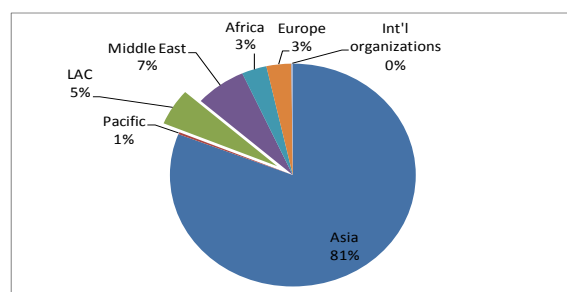
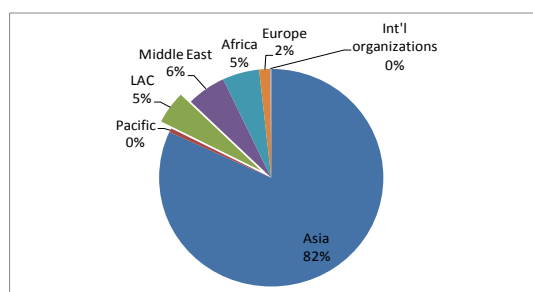
The most important form of Japanese ODA that goes to the region has been technical cooperation, followed by government concessional loans (including those with a concessional element of less than 25%) and grants. Concessional loans are concentrated in Brazil, Mexico and Peru (JICA, 2014). Currently, technical cooperation and loans are dominant components. In Fiscal Year, 2013, LAC's share is higher for technical cooperation accounting for 8.4% of the world total, whereas that for loan aid is only 1.2%, and grant aid is 2.8% (Table 2). In 2013, the major JICA aid recipient countries were Peru, Brazil, Costa Rica, Haiti, Paraguay, Nicaragua and Bolivia (see Figure 13).

Figure 12. Geographical Distribution of Accumulated Japanese ODA Loan (FY2013) by number of cases and amounts

(In percentages)

A. By number of cases

B. By amount

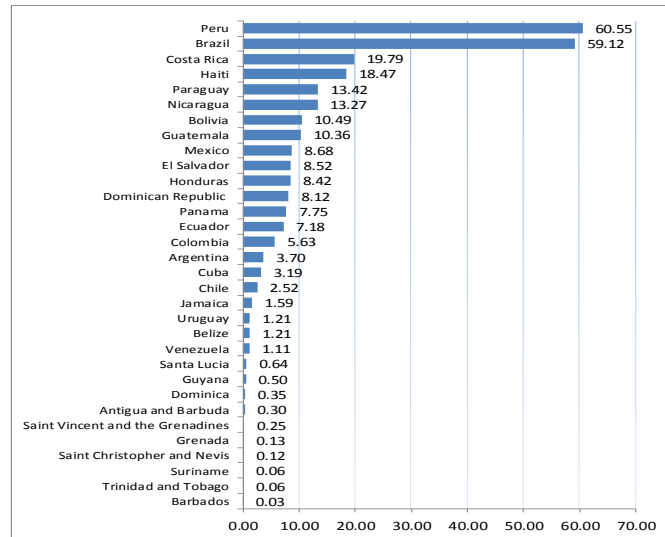


Note: The original figures expressed in Japanese Yens are converted in US dollars using the exchange rate of 1US dollars = 102.27 yens.

Source: Author's elaboration based on information from JICA Statistics on Program Results 2014.



Figure 13. JICA disbursement to LAC countries, Fiscal Year (as of March 31st) 2013
(In million US dollars)



Note: The original figures expressed in Japanese Yens are converted in US dollars using the exchange rate of 1US dollars = 102.27 yens.

Source: Author's elaboration based on JICA Annual Report 2014.

Over the years, Japanese ODA has implemented projects of differing scale and scope in the LAC region. Priority issues and activities for Japan's ODA in the region include, among others: i) improvement of economic infrastructure in order to pull out of the "Middle-Income Trap"; ii) renewable energy, environmental protection and improvement, and disaster prevention; and iii) assistance for mitigation of socioeconomic disparities from the perspective of human security (JICA, 2014). Examples include: the CORE (co-financing for Renewable Energy and Energy Efficiency) program with the IDB on geothermal and hydroelectric power generation and renewable energy and energy conservation in Central America and the Caribbean; and the Stand-By Emergency Credit for Urgent Recovery; and disaster reduction and recovery efforts, both in Central America and the Caribbean.

Though the amount involved is modest, JICA has been carrying out the so-called "The One Village One Product Movement" in LAC. These projects focus on enhancing local entrepreneurial capabilities, by developing one specific local product in each rural area. As an example, JICA funded 11 projects in Peru's different regions covering Piura, La Libertad, Huanuco, Amazonas, Puno and Cusco, with a total investment of approximately US\$1 million. Currently, the construction of a plant and storage of frozen custard in the town of Callahuanca in Lima is underway (Mincetur, 2015).

JICA is working on promoting support for the manufacturing industry and developing human resources in Mexico. A similar approach will also be applied in South America as well. One novelty of Japanese ODA is triangular and macro-regional cooperation, with an aim to promoting South-South cooperation (Central and South America as well as Africa and Asia) cooperation with four countries in the region (Argentina, Brazil, Chile and Mexico) and cooperation for a particular group of countries or regional integration framework (JICA, 2014). JICA ties with Chilean institutions in triangular cooperation under the Japan-Chile Partnership Program.

JICA sees partnering with Japan's private sector and local governments essential in industry-related issues. Japan would use its ODA to build the necessary production and distribution infrastructure (such as highways and ports)



and to promote technology transfer. As indicated earlier, Japanese technical cooperation has in fact played a central role in launching some of the region's most successful export sectors such as the Cerrado Project in Brazil, which transformed this region into one of the world largest and most productive heartlands and enabled Brazil to become a world leader in exports of soybeans, maize and other grains (Hongo and Hosono, 2012). In Chile, Japanese technical assistance and financing through JICA helped develop the country's salmon industry, which has grown to become one of the most competitive export sectors of the Chilean economy (Hosono, 2010).

A more recent JICA's example is the creation of agri-food chains and cluster in Paraguay (JICA/ECLAC, 2014). This project highlights how the technical assistance and international cooperation efforts by JICA, in close collaboration with Paraguayan companies and public-private institutions, can contribute to major advances in the country's development. The involvement of JICA in this project goes beyond simply executing cooperation projects; since its conception stage of the project, JICA has actively participated in the debate on the nation's development strategy, based on strengthening production capacity with social inclusion, especially in the agricultural export sectors.

Aid for Trade

The importance of the Aid for Trade (AfT) for Japan is clearly reflected in the ODA statistics. According to the OECD/DAC ODA database by sectors, Japan has been the first among the DAC member countries in the amount of aid in the production sector and the economic infrastructure and services sector. Japan alone provided approximately half (47%) of the total amount of the aid given by the DAC member countries in these sectors between 1990 and 2004. In the agriculture, fishery and forestry sector, Japan also contributed almost 40% of the total ODA provided by the DAC member countries. These data reflect the fact that Japan attaches importance to development through trade in its assistance policy, especially as a part of the poverty reduction strategy through economic growth (OECD, 2007).

World annual disbursements of AfT funding increased by 53% between 2006 and 2011. In total, US\$174 billion in AfT was disbursed during this period. Japan was the largest donor, with disbursements of US\$36 billion (21% of the total), followed by the United States with US\$24 billion (13.8%), the World Bank with US\$24 billion (13.7%), the European Union with US\$16.3 billion (9.4 %) and Germany with US\$14 billion (8%). However, the share of LAC in Japan's AfT fund disbursement has been minimal: during 2009 and 2011, LAC received only 2.8% of Japan's total AfT funding (OECD, 2013). The majority was absorbed by Asia. In short, there exist vast opportunities for LAC countries in exploring Japan's AfT funds. This, in turn, means that LAC countries should present convincing projects to be accepted by the Japanese authorities.

In Asia, Japanese ODA played a decisive role in creating a favorable trade-cum-investment climate via the creation of infrastructure and the development of human resources, which became a competitive advantage of that region relative to other geographical areas. In the case of LAC, there are other needs as well: not only for their economic and social development but also to promote the supply-chain and cluster development, as well as innovation and scientific and technological development with a view to participating more effectively in the global economy. Japan has fewer resources than before and needs to focus them on fewer projects in the region. In this sense, it is important for the regional economies to define better and convey their technical cooperation priorities and needs more explicitly to Japan, with a strong emphasis on the networking with Asian markets.



BEYOND FREE TRADE: THE ECONOMIC PARTNERSHIP AGREEMENTS (EPAS) PROMOTED BY JAPAN

The term “Economic Partnership Agreements” (EPA), instead of conventional the Free Trade Agreement (FTA), points to some special features and characteristics of trade agreements signed by Japan. The EPA seeks to complement trade and investment liberalization with facilitation and cooperation. While a major aim of the EPA is to assist and facilitate overseas operations of Japanese companies by improving business environment at home and abroad, its scope is wider than just commercial interests. The EPA complements ODA and other resources for cooperation. Japanese ODA is an important part of the cooperation provided under the EPA, but this cooperation is conceived within a broader context, with technical cooperation as the common denominator.

Another distinctive feature of trade agreements signed by Japan is that all EPAs have clauses on inter-government-private sector cooperation: in each EPA, a committee is created to improve the business environment. This committee is composed of representatives of the respective governments and the private sector, so that the private sector can directly convey their interests, complaints and concerns to the Government of the other party. In this sense, Japan’s EPAs are “living agreements”: these agreements will be subject to improvement and upgrading, taking into account of the participating countries’ changing priorities and needs, as well as global and regional factors that affect trade and investment performance of each country.

On the whole, the EPAs with Mexico (2005) Chile (2007) and Peru (2012) have positive impacts on exports to Japan and investment from the Asian country. These agreements have not only reduced tariffs and other trade barriers but also encouraged FDI and established mechanisms for government-business cooperation on a wide range of issues. Trade benefits for the three Latin Amer-

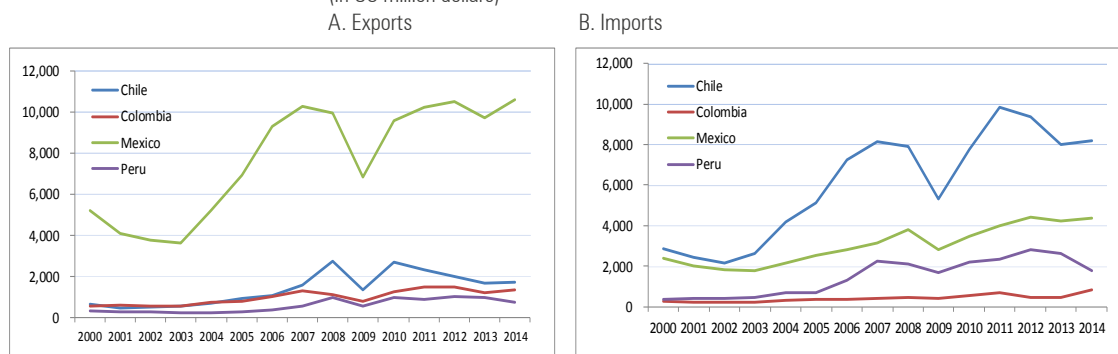


ican countries are substantial, but the impacts of these EPAs are more evident in the case of FDI flows. Japan's FDI to Chile has equaled that to Brazil. Japanese FDI destined to Mexico shows a strong growth in recent years.

The oldest EPA with Mexico stands out in this respect. Mexico negotiated with Japan with the intention that this should be the cornerstone of its strategy to expand and diversify trade and investment with the Asia-Pacific region. On the part of Japan, the agreement was its first "full-fledged" EPA after agreeing to open its agricultural sector. Besides, the EPA includes a specific chapter on cooperation involving eight areas; trade and investment promotion, support for support industries and SMEs, science and technology, technical and vocational education and training, intellectual property, agriculture, tourism, and environment. Some of these are typically included in the FTAs signed with the United States as negotiation issues. Since its entry into force in 2005, the bilateral trade and investment flows have grown rapidly. As an example, the number of Japanese companies operating in Mexico has doubled from 399 in 2009 to 814 in 2014. Some 160 firms are concentrated in the automobile sector alone (PricewaterhouseCoopers, 2015).

In terms of trade flows, the Japan-Mexico EPA has impacted the most on Japan's exports to Mexico, while the Japan-Chile EPA has encouraged Japan's imports from Chile (see Figure 13). Japan's exports to Mexico, which had continued to grow even before the signing of the EPA in 2005, fully recovered in the aftermath of the financial crisis. In the Japan-Mexico EPA, both countries agreed to eliminate or reduce tariffs of products in the area of agriculture, forestry and fisheries, particularly five agricultural products (pork, orange juice, beef, chicken, and oranges) using tariff-quotas. Mexico committed to liberalize the steel sector and the automobile sector. According to Ando and Urata (2011), Japan's exports of finished cars, auto parts, base metals, electrical machinery and precision machinery have benefited from preferential tariffs offered by the EPA.

Figure 13. Japan's trade with the EPA partner countries (Chile, Mexico, Peru and Colombia*) 2000-2014
(In US million dollars)



Note: */ Japan and Colombia are currently in negotiation.

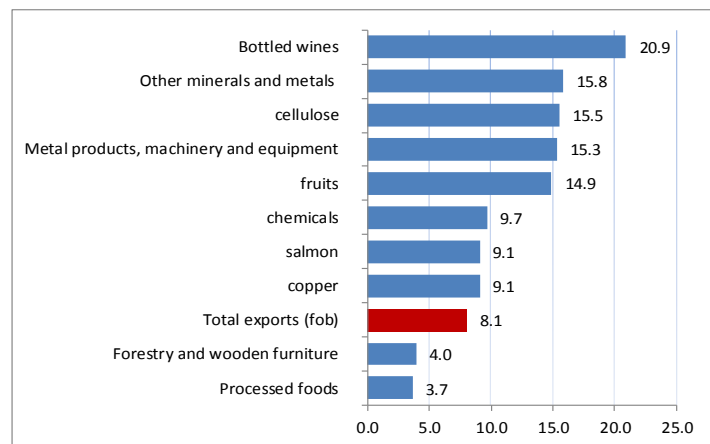
Source: Author's elaboration based on Comtrade and other sources.

Chile's exports to Japan have not been growing as fast as those to China, and their overall exports to Japan reached their peak in 2011 and have been declining since then (Figure 13). Under the EPA, the tariffs on Coho salmon and trout are to be eliminated by stages in 10 years after its entry in effect. The tariffs on wines (bottled) are to be eliminated by stages in 12 years. Tariff quotas are set for agricultural products such as beef, pork and chicken. The tariff reduction/elimination schedule for forest and wood products (except plywood) is immediate for some products and gradual for others. As shown



in Figure 14, some products which have shown high growth rates during the period of 2009-2014 are precisely those that are contemplated in the liberalization schedule.

Figure 14. Chilean exports to Japan by major product groups: Average annual variation 2014/2009
(In percentages)



Source: Author's elaboration Based on information, Chile, Direcon (2015), *el Informe anual: comercio exterior de Chile 2014-2015*, Santiago, Chile.

Peru's exports to Japan are modest when compared with those from Chile or Mexico, and overall bilateral trade has not grown as fast as expected even after the EPA going in effect in 2012. The Peruvian authorities expected that by signing an EPA with Japan, the privileged position that Peru once had enjoyed some decades ago in the economic relations of Japan in South America would be reverted. The Japan-Peru EPA eliminates import tariffs for 99% of products bilaterally traded in 10 years. Among the products of Peru's interest, almost all of mining sector is subject to immediate free access to the Japanese market. In the agricultural sector, Japan's import tariffs are to be eliminated immediately for fresh asparagus, wood and articles of wood. Customs duties for other products such as purple corn, giant corn and jumbo flying squid will be lowered as well. Japan excluded 749 tariff lines of sensitive products from the liberalization schedule (Gonzales-Vigil and Shimizu, 2012).

Peru is practically standstill in terms of overall exports to Japan. However, this hides some structural changes taking place. Though still predominant are the traditional sectors, some nontraditional products such as some agricultural and fisheries sectors have begun to penetrate the Japanese markets. Not only traditional products such as copper, lead and zinc, but also products such as mango, citrus, grape, coffee, asparagus, squid, fish oil, purple corn, giant maize from Cuzco, swordfish, among others, have entered the Japanese market under a preferential access. Three years after the entry in force the EPA, some 280 new products have found their "niche" markets in Japan. At present, there is great potential for avocados, as a result of the phytosanitary protocols for the access to the Japanese market approved March 5, 2015 (Mincetur, 2015). More trade and investment opportunities can be expected when a more solid manufacturing base is created in Peru, into which Japanese supply-chain networks can be incorporated.

Ten years after its entry into force, the Japan-Mexico EPA provides several lessons. One lesson is that it is possible to construct a positive trade and investment agenda with a strategic partner in Asia that is complementary to the Mexican development goals. Another is that it is possible to conquer



some “niches” in the sectors of natural resources in highly competitive Asian markets as the Japanese. Mexico’s EPA experiences also show that a Latin American country like Mexico is capable of engaging in supply chains in Asia and attracting investment and strengthening supporting industries, to become a top-notch producer and exporter, as in the automotive sector. Mexico has also learned to leverage public-private partnership (PPP) and various cooperation schemes with Japan in innovation and competitiveness.

Of course, there are problems. But the concerns and problems have been addressed in the bilateral committees mentioned above and renegotiation process of each EPA. In the case of Mexico, for example, it is desirable to increase Mexican exports to Japan via: i) increased use of the tariff-quotas already negotiated; ii) exports of more value-added and knowledge-content and attract FDI in sectors other than the automotive sector; and iii) articulate better Mexico’s cooperation agenda with different agencies in Japan (Mexico Secretaría de la Economía, 2008).

The Japan-Chile EPA also offers some lessons as well. Chile has been able to cultivate a market of world scale in some specific agricultural, fishery and forest products. In the area of tariff reduction/elimination, four years after its entry in force in 2011, about 82% of Chile’s exports to Japan entered duty free. In the same year, Chile granted 100% preferential tariffs to Japan for 77% of the products negotiated, and 90.7% of the total amount imported from Japan in 2011 entered the Chilean market duty-free. Four years after its entry in vigor, non-traditional exports penetrated the Japanese markets, and Japan transformed into a major destination of non-copper Chilean exports; non-copper exports accounted for almost half of total exports by Chile to Japan by 2011.



On a negative side, the number of companies engaged in the bilateral trade was limited.¹¹ In 2011, there was an issue of the full utilization of negotiated quotas; in 2011, the pasta and tomato juices used the entire quotas allocated, meanwhile the pork used only 54.4% of the granted quota (Chile Direcon, 2012).

There are some challenges for Japan, too. The liberalization rates (the percentage of the tariff lines which will be totally liberalized at the end of 10 years after the entry in force of the agreement) for the EPA with Mexico, Chile and Peru are 86.0%, 86.5%, and 87.0%, respectively, levels far below that of the TPP which aspires to reach 96% or higher. As it is well known, in Japan's EPAs, tariff reduction in agriculture is significantly lower. This is compounded by the extended period of liberalization schedules with long lists of exemptions; Peru (749), Chile (1200), Mexico (1300) (Gonzales-Vigil and Shimizu, 2012).¹² Undoubtedly, there is still room for further liberalization under these existing EPAs, which maintained significant barriers on certain tariff lines in which Latin American exporters are competitive, such as processed foods and agriculture products. High customs duties and tariff-quotas are likely to be renegotiated bilaterally with Japan. Some of these rates are also under negotiation in the framework of the TPP to which the three Latin American countries are members.

Why a few Latin American countries have signed free trade agreements (FTAs) with extra-regional countries? One of the major reasons for signing a myriad of FTAs has been to seek better market access to major trading partners, by: i) consolidating the existing preferences available under the Generalized System of Preference (GSP); ii) eliminating tariff escalation or reducing tariff peaks or expanding tariff/quotas; iii) reducing risks of being prejudiced or left out in those markets against main competitors; and iv) seeking better market access for those products that are interests of developing countries, especially when the multilateral negotiations in the WTO framework have been slow or perceived less ambitious. Therefore, the major motivations for seeking an FTA with a developed trading partner are mainly of market access and are not necessarily conducive to structural transformation of the economy and its upgrading.

By signing FTAs with major trading partners, Latin American countries have been able to avoid, to a large extent, the possibilities of trade diversion. The FTAs with major trading partners have also helped several Latin American countries to "lock-in" unilateral economic reforms and reduce the "country risk" and costs of external finance. Meanwhile, these Latin American countries also expected that the signing of FTAs with extra-regional trading partners would be conducive to: i) diversification of the export sector by product, market and exporting firms; ii) generation of value-added and incorporation of knowledge-content in exports, not only in manufacturing but also services and natural-resource-related sectors; iii) upgrading of technological and innovation capability; and iv) promotion of global and regional supply chains. However, these expectations have not been fulfilled up to now. Japanese EPAs try to go beyond these commerce-focused elements of the FTAs, by incorporating the development and cooperation dimensions to the agreements.

¹¹ In 2011, 565 companies exported 432 products, compared to 2006, when 567 companies were exporting. The same year, 3,128 Chilean companies imported 1,904 products from Japan, compared with 3,130 companies in 2006. Of these, the top 10 companies accounted for 53% of total purchases in 2011 (Chile, Direcon 2012).

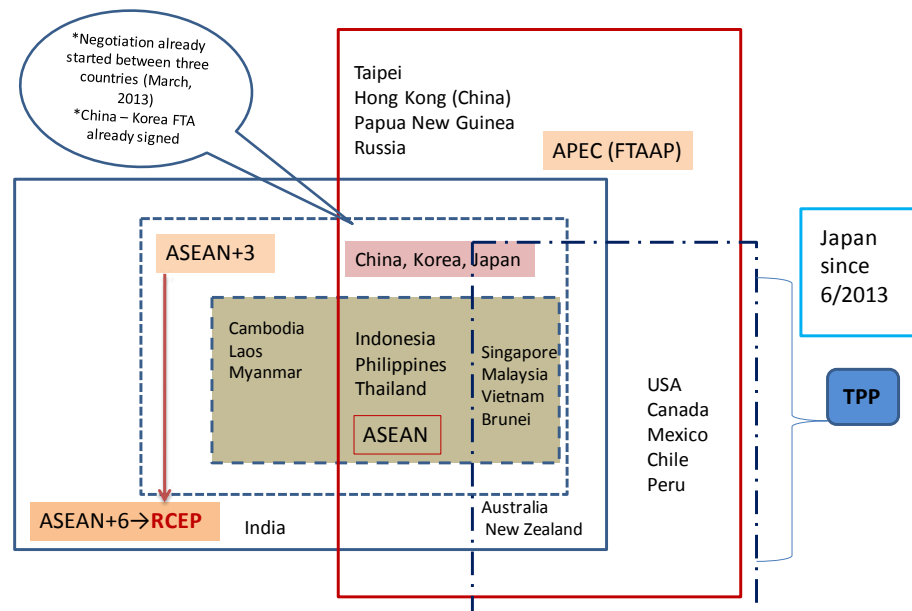
¹² The Japan-Chile and Japan-Peru EPAs still allow for tariffs imposed by Japan on 28% and 15% of product lines, respectively, even by 2020. In the case of the Japan-Mexico EPA, nearly 210 tariff lines, including certain meat, fruit juice, and leather products, remain subject to tariff-quotas imposed by Japan, while the Japan-Chile EPA retains tariff-quotas on nearly 30 product lines, mainly on meat and processed meat products (IAB 2013).



TPP, RCEP AND THE PACIFIC ALLIANCE: THEIR IMPLICATIONS FOR JAPAN AND LAC

Recently, there has emerged a complex network of FTAs in the Asia-Pacific (see Figure 14). The recognition of the increasing complexity of the network of trade agreements in the Asia-Pacific region, and the costs associated with that complexity, led the major economies of the region to consider the possibility of signing an agreement covering the entire region; the Trans-Pacific Partnership Agreement (TPP), or the Regional Comprehensive Economic Partnership Agreement (RCEP). Besides, it is important to remember that the negotiations of a trilateral FTA between China, Japan and Korea are underway. In addition, the negotiation of a bilateral FTA between China and Korea has been finalized. Countries in Latin America and the Caribbean should be aware of this “noodle bowl” problem and the ramifications for its proper region.

Figure 15. Various integration initiatives in Asia-Pacific: in effect or negotiation
(As of September 2015)



Source: Author's elaboration based on official information of the countries.

The RCEP, which fuses ASEAN+3 and ASEAN+6 in one initiative and merges the five “ASEAN+1” agreements in one scheme, appears, at least up to now, as an initiative limited only to the Asia-Pacific region. Similarly, the TPP is, at least for now, limited to APEC members. There are still no formal established rules on the accession of new members to the TPP. All current members of the TPP negotiations are also members of APEC, and the current TPP participating countries have publicly stated that the expansion of membership is likely to focus on other APEC members first, such as the Republic of Korea and Chinese Taipei. Although some Latin American countries outside APEC with a strong orientation towards trade liberalization such as Colombia and Costa Rica have also expressed interest in joining the TPP, the moratorium on new members to the APEC practically eliminates this possibility for now.

The TPP will tend to displace the ASEAN as Asia's integration axis. In addition, the TPP tends to divide the ASEAN, a regional grouping that has so far played a catalytic role in the integration of the Asia-Pacific, into two or three groups:



those countries participating in the TPP (Brunei Darussalam, Malaysia, Singapore and Vietnam) on the one hand, and the non-participating countries (Cambodia, Indonesia, Laos and Myanmar) on the other; and countries that have once manifested interests in joining the TPP but maintained an ambiguous posture until now (Philippines and Thailand). An eventual joining of the TPP by the Chinese Taipei should produce tensions with China. In this way, the TPP polarizes the ASEAN and even APEC. In short, the TPP means a change in focus and direction of integration in the Asia-Pacific, from the perspective of East and Southeast Asia to the Trans-Pacific. At the same time, being led by China, RCEP tends to weaken the centrality of ASEAN, which has been in the “driving seat” of Asia’s market-led integration. The TPP might make it even more difficult for the ASEAN to reach the goal of creating a single economic community by the end of 2015.

Similarly, the TPP tends to divide Latin America into two or three groups: i) APEC member countries (Chile, Mexico and Peru) vis-à-vis non-member countries that have officially expressed interest in joining the forum (Colombia and Costa Rica, among others); ii) the Pacific Alliance vis-à-vis the Mercosur; and iii) possible sub-divisions within the SICA, when and if Costa Rica and/or Panama decide to join. TPP is also likely to generate tensions between Malaysia and Vietnam on the one hand, and the CAFTA-DR agreement members on the other, with respect to market access and rules of origin in the textiles and clothing sectors.

Under these circumstances, what are the options for the non-APEC Latin American countries with the Asia-Pacific? One way is to seek a bilateral FTA with every major partner in the Asia-Pacific. But this may not be a practical option for a small economy which does not have a critical mass before the mega-partners in the Asia-Pacific such as China and Japan. In this respect, given the economy’s size, a recently proposed Japan-Brazil EPA might be an exception. A more recommendable approach might be to seek greater integration with the Asia-Pacific, jointly by one of the following three ways:

- i) Broadening and deepening of the Pacific Alliance as a negotiating group with several integration initiatives in the Asia-Pacific such as ASEAN or RCEP (if and when open accession is granted);
- ii) Further liberalization of trade within the APEC, through a free trade area of Asia-Pacific (FTAAP) that could include other Latin American countries than Chile, Mexico and Peru; or
- iii) Enlargement of the TPP, via the expansion of its geographic coverage for future negotiations by including other members of the Pacific Alliance.

In each case, a leadership role of Chile, Mexico and Peru is essential. At the same time, Japan should support Colombia, Costa Rica and others in their quest for membership of APEC, and afterwards its possible association with the TPP. Another set of initiatives that Japan could take on are more ambitious. One way is to deepen the existing EPAs with Chile, Mexico and Peru, through an amplified agreement in the framework of the Pacific Alliance (including Costa Rica, Panama). Another way is to search partnership with the Mercosur member countries or other sub-regions. In these cases, it is necessary to: i) increase the attractiveness of Japanese EPAs, by significantly improving market access offers in agriculture, that at least equal those currently being negotiated in the TPP framework; ii) publicize and propagate the merits of Japan’s EPAs, different from those signed by the United States, the European Union or China; and iii) continue deepening its relations with the Pacific Alliance and other regional integration entities.



There have recently been two different trends in integration; “the Trans-Pacific Track” and “the East Asia Track” with a view to achieving the goal of a free trade area of Asia-Pacific (FTAAP). However, competition between the two results in a “competition of models or templates” regarding the modality of integration. Currently, “the Trans-Pacific Track” led by the United States promotes the “TPP model” with a vision to put in place a template of regional trade liberalization under the banner of the 21st century. Meanwhile, the “East Asia Track” with ASEAN as its center promotes the “RCEP model” whose commitments are usually less comprehensive and stringent than those provided for under the TPP project, while taking into consideration the aspects of special needs of developing member countries and the importance of cooperation for developing countries. The goals might be the same but the recipes are different.



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Japan is the only Asian country that is participating in both TPP and RCEP. Japan is also part of the trilateral China/Japan/Korea agreement initiative, which is a key for an eventual RCEP. On the other hand, Japan has already in place an EPA with all the Pacific Alliance member countries (or negotiating an EPA with Colombia). The Japanese business community is interested in signing an EPA with Brazil. Under these circumstances, it is in Japan's own interest to take initiatives, so that the country can act as a “bridge” between “the East Asia track” and “the Trans-Pacific track”, in a bid to facilitate development in both and at the same time to seek convergence between the two (Sugawara, 2013). This can be achieved by keeping a strong foothold in both initiatives and the trilateral agreement negotiation. By doing so, Japan might be able to facilitate non-APEC Latin American countries' engagement in both TPP and RCEP, or other schemes.

At the same time, Japan should support Latin American countries for accession to RCEP when the membership is opened for extra-regional countries such as those from Latin America. In this way, it can be assured that the final goal of the FTAAP within APEC is achieved by either TPP or RCEP. With Japan assuming a leadership, an eventual RCEP will encourage ASEAN countries to set more ambitious targets for the coverage and depth of commitments than



those assumed so far in the “ASEAN + 1” agreements. Even in the course of negotiations under the RCEP, there might be a model (template) typical of an agreement covering the entire Asia Pacific region, with a strong emphasis on development cooperation.

For these reasons, it is also of Japan’s interest to promote greater trade and investment links between Asia-Pacific and non-APEC Latin American countries. Japan should act as interlocutor of non-APEC or non-TPP Latin American and Asian countries. Doing this, Japan can mitigate the “ASEAN Divide” that the TPP negotiating process is causing. Japan can also prevent ASEAN from losing its centrality in the Asia-Pacific integration process.

ACTIONS AND POLICIES TO FURTHER ENHANCE JAPAN-LATIN AMERICAN RELATIONS

Strengthening commercial relations with Japan by applying reciprocally the public-private partnership (PPP) principle will assist LAC countries in addressing some structural problems and challenges of long data. Latin America’s production and export structure is still based on static comparative advantages than dynamic competitive ones. The region lags in innovation, R&D, education and infrastructure. Productivity lags are huge, and there are large productivity gaps between and within sectors in each country (ECLAC, 2010b, 2012). Japan’s new approach focuses on diversification by products and firms and inclusive growth, promotion of clusters not only in manufacturing but also in natural resources, and participation in global and regional value chains of enterprises of different size.

Over a decade, Latin America has been witnessing three transformations in its commercial policy. One is the transformation of the strategy based on trade openness to internationalization of firms. The second is from trade and investment promotion to participation in global/regional value chains (GVC/RVC). And the third is from the FTA to Public and Private Partnership (PPP). With this new policy orientation, the emphasis on the FTA has changed accordingly: i) from market access to participation in GVCs; ii) rules of origin not as restrictions but advantages, via accumulation of origin between several FTAs; iii) the need to strengthen goods-services-investment links; iv) from commodity exports to technology and knowledge incorporated in natural-resources exports; and v) attracting FDI in natural resources to value-chains in natural resource sectors (Rosales, 2009). These policy changes not only point to vast possibilities that may lie ahead, but also lay the foundations for future regional cooperation with Japan, aimed at creating business alliances, enhancing cooperation in innovation and human capital in order to diversify trade, add greater value and knowledge to exports, and help create more stable and sustainable conditions for growth.

The EPA seeks to complement trade and investment liberalization with facilitation and cooperation. Although a major aim of the EPA is to assist and facilitate overseas operations of Japanese companies by improving business environment at home and abroad, its scope goes beyond the domains of commercial interests. EPAs may be viewed as part and parcel of a policy of support for broadening production networks and value chains and for enhancing systemic competitiveness of the country and the region. In this way, the EPA complements ODA and other financial resources for cooperation. In sum, Japanese ODA is an important part of the cooperation provided for under the EPA.

In order for Latin American countries to resort to and utilize the EPAs, Japan should enhance the attractiveness of these agreements, by significantly improving market access offers in agriculture that equal those being negotiated in the TPP framework. At the same time, it is important for Japan to publi-



cize and propagate the merits of the EPAs, which are different from the trade agreements signed by the United States, the European Union or China.

Together with the ODA, Japanese financial resources can play a decisive role in creating a favorable trade-cum-investment climate. This can be achieved via the creation of infrastructure and the development of human resources, supply-chain and cluster development, as well as innovation and scientific and technological development with a view to participating more effectively in the global economy. Japan's ODA resources are limited and should be complemented by other Japanese financial resources public and private alike. This in turn requires that countries of the region set clear priorities and convey their technical cooperation and financial needs more explicitly to Japan.

Japan is the world leader in the Aid for Trade (AfT) initiative. This program aims to raise the productivity and export competitiveness of developing countries. Functioning as an effective investment within the recipient countries, this aid enhances productivity, which improves the international competitiveness of their products and encourages more private investment; the growth in exports then accelerates economic development and eventually reduces poverty. This process has been widely observed in East Asian middle-income countries, which have historically been the focus of Japanese aid. Together with Africa, Asia has been the region that captures most Japan's AfT funding. The same process can be replicated in lower middle-income countries in Latin America and the Caribbean.

Another area of mutual benefits is the strengthening of trilateral cooperation between Japan and the LAC countries. The trilateral cooperation format might be encouraged, especially when new regional integration initiatives such as the Pacific Alliance, which have a strong cooperation agenda, are gaining force. In the future, it would also be worth considering cooperation arrangements that go beyond the region by including other extra-regional donors and recipients. The position of Japan as the main donor both in Asia and LAC should encourage new cooperation frameworks that might involve Asian countries like those of the ASEAN.

Concerning more efficient and coordinated exploitation of comparative advantages, a number of recent experiences show that value can be added to commodity exports and knowledge can also be incorporated. Although more difficult than in manufacturing sectors, it is also possible for Latin American firms to integrate commodities into production and marketing chains in the Asia-Pacific; this calls for a systemic approach that covers the production process, trade logistics, sea and air transport, and marketing and distribution in the final consumption market. To this end, strategic partnerships should be created to increase value-added throughout the production and marketing chain, and mutually beneficial technological partnerships should be developed by applying, for example, advanced technologies in biotechnology to agro-industry, mining, forestry and fisheries. Japan offers vast experiences in these areas with Asian neighbor countries but also with some Latin American countries. These experiences can be replicated in LAC by the ODA and other financial resources. These areas are also good candidates for triangular cooperation schemes with countries inside and outside the LAC region.

Japan should act as a "bridge" between "the East Asia track" via the RCEP and "the Trans-Pacific track" by way of the TPP, toward the goal of realizing the FTAAP. By doing so, Japan might be able to facilitate non-APEC Latin American countries' engagement in both TPP and RCEP. At the same time, Japan should support Latin American countries for their accession to RCEP when the membership is opened for extra-regional countries from Latin America. Even during the course of RCEP negotiations, Japan might seek a model (template) typical of an agreement covering the entire Asia Pacific region, with a strong emphasis on development cooperation.



It is of Japan's own interest to promote greater trade and investment links between Asia-Pacific and non-APEC Latin American countries. Japan should act as interlocutor of non-APEC or non-TPP Latin American and Asian countries. Also, Japan should lead, once again, the reactivation process of FEALAC (Forum of Latin America and East Asia Cooperation), the only forum that brings together all Latin American and Asia-Pacific countries, as a forum not for dialogue but for action on trade, investment and bi-regional cooperation. One of the three approaches of Japan's new development assistance strategy, announced in February 2015, is "quality growth". In order to achieve quality growth, Japan will take a leading role in promoting quality infrastructure investment, which is the first target under Goal 9 of the United Nations SDGs. Quality infrastructure projects, in the Japanese government view, are those that are user and environment friendly, safe and disaster resilient, and cost-effective in the long run. Quality infrastructure investments are those that fully respect each country's development plan and enhance regional connectivity. Quality infrastructure cooperation creates jobs for local people and involves the transfer of technology and skills. LAC's deficiency in infrastructure has been identified as a major bottleneck for the region to close the gaps in productivity and competitiveness with other regions and thereby achieve sustainable development. Establishing and/or strengthening public and private partnerships (PPP) with Japanese counterparts can help countries of the region to fill these gaps. The second approach that Japan is pursuing relates to the mainstreaming of disaster risk reduction in development. In Japan's financing strategy for sustainable development, the effective use of limited resources is of critical importance. It is an indisputable fact that investing in disaster prevention and risk reduction is far less costly and more effective than responding after the disaster takes place. To describe this vision, the Japanese authorities have recently introduced the concept of "Build Back Better". And the third point is on climate change. Between 2013 and 2014, Japan provided approximately US\$ 20 billion from both public and private sources to developing countries for climate change mitigation and adaptation. In May, the Government of Japan and the Green Climate Fund signed an arrangement confirming Japan's contribution of US\$1.5 billion to the fund. The needs of LAC in disaster risk reduction and climate change are immediate but require long-term solutions. Japan has an excellent and proven record in both areas, and can provide technical expertise and financial resources.

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