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Cutting the Distance

Benefits and Tensions
from the Recent Active
Engagement of China,
Japan, and Korea in
Latin America



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February 2018

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Jie Guo
Chong-Sup Kim

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Chapter 1

Introduction



1 East Asia–Latin America Relations in the Changing Global Economy

The world is undergoing a reversal of global economic integration through recent events such as the Brexit and US withdrawal from Trans-Pacific Partnership (TPP). Observing this changing climate, countries in East Asia and Latin America are seeking to diversify their external economic relations toward unconventional directions.

One mode of the deepening of regional integration is that occurring with their neighbor countries. In East Asia, the Association of Southeast Asian Nations (ASEAN) has made substantial progress in economic integration in recent years and has set the foundation for an even greater scale of regional integration and cooperation. “ASEAN Plus Three”¹ was inaugurated after the Asian Financial Crisis in 1997 to develop comprehensive cooperation in the area of macroeconomic coordination, financial safety-nets, food security, and social stability of member countries. Trade liberalization is negotiated with the addition of Australia, India, and New Zealand in the framework of the Regional Comprehensive Economic Partnership (RCEP). In addition to these comprehensive regional frameworks, individual countries’ initiatives exist for regional cooperation. A notable example is the “Belt and Road Initiative”, an international transport infrastructure cooperation effort led by China.

In Latin America, Summits of the Americas are held every three years. Since the inauguration in 1994, the Summits’ main issue was the negotiation of the Free Trade Area of the Americas, which ended in failure because of unresolved divergence of positions between the USA and some Latin American countries. Regional

This chapter is authored by Nobuaki Hamaguchi.

¹ASEAN Plus Three consists of the ten ASEAN member countries plus China, Japan, and Korea.

cooperation schemes have developed since then without the participation of the USA such as the Union of South American Nations—UNASUR (since 2007) and the Community of Latin American and the Caribbean States—CELAC (since 2011). These are symbolic responses of Latin American countries to reduce the influences of the USA. Trade liberalization in Latin America remains at sub-regional levels. The Pacific Alliance, launched in 2012, rapidly achieved integration and cooperation. Mercosur, another pillar of integration in the region, is being revitalized from the recent stagnation.

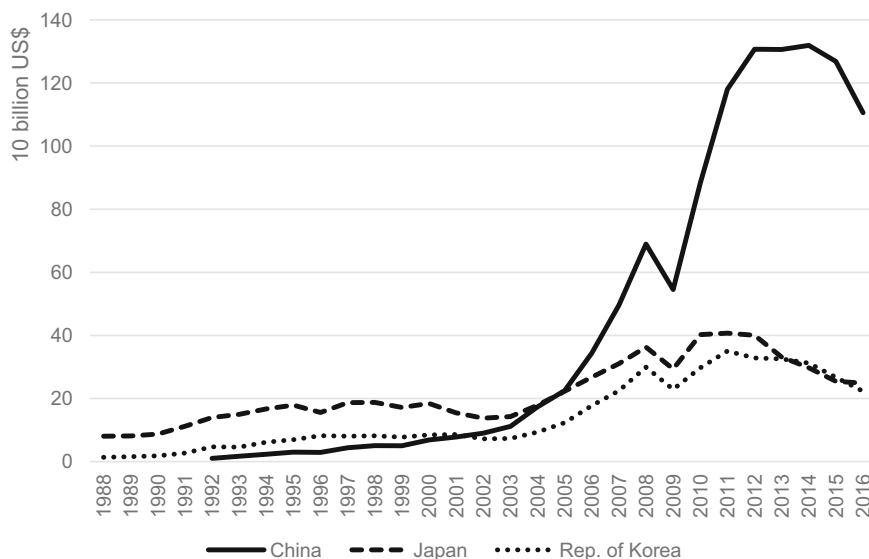
As the second mode of diversification of international economic relations of countries in East Asia and Latin America, economic exchanges between the two regions are strengthening and institutionalizing. Looking specifically at the three major economies in East Asia (EA-3), China, Japan, and the Republic of Korea (hereinafter, simply Korea), trade has expanded substantially in last 20 years in both directions as shown by Fig. 1. As evidenced by Fig. 2, Japan used to be the most important trade partner for Latin America in Asia, but China's trade grew rapidly and overtook the predominant position in the last two decades. Figure 3 demonstrates that the composition of trade of China, Japan, and Korea with Latin America is quite similar: importing primary and processed commodities and exporting industrial goods.

The enlargement of trade relation is fostered by free trade agreements (FTAs) with some Latin American countries listed in Table 1. The FTAs were negotiated and entered in force in last 15 years. Apparently, these partnerships are concentrated in the Pacific side of Latin America.

As trade relations between EA-3 and Latin America take on new dimensions, vigorous investment is pushing the relation even beyond that. Figure 4 shows that the amount of Japanese investment in Mexico and Brazil (the two countries receiving the greater part of FDI in Latin America) far surpasses those from China and Korea, but investment from the latter two countries is growing steadily. Especially, Chinese FDI in the region is believed to be substantially under-reported because many firms make their investments through global financial centers and tax havens. China demonstrates great momentum in investment as well by announcing large-scale investment in infrastructure and acquisition of public utility companies.

Not being only business and economy but a broad range of international cooperation between Asia and Latin America is initiated. The Forum of East Asia–Latin America Cooperation (FEALC) was created in 1999 when the East Asia–Latin America Forum Senior Officials Meeting was held in Singapore in 1999 following the initiative by Singaporean former Prime Minister Gho Chok Tong, who claimed that the missing link between the two regions must be bridged. Foreign Ministerial Meetings are held biannually, along with annual Senior Officials Meetings. After 19 years of its existence, FEALC has been unable to achieve concrete results and tangible outcomes. It largely keeps a lower profile and lacks visibility. The contrast should be made to the Asia–Europe Meeting (ASEM), another inter-regional dialogue forum. FEALC still lacks a summit meeting, whereas ASEM summits occur every two years and ministerial meetings are held not only by foreign ministers but also in wider areas of topics such as finance, economy, culture, and education.

(1) Exports



(2) Imports

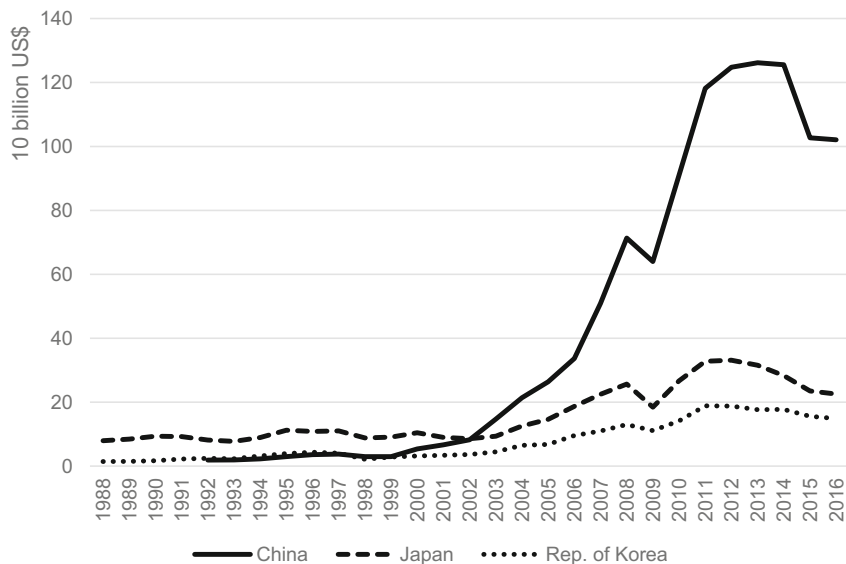


Fig. 1 Exports to and imports from Latin America (Source) UN Comtrade

Actually, FEALAC approved the new Action Plan at the San José Foreign Ministers’ Meeting in August 2015. The Action Plan sets three pillars of action: strengthening institutional frameworks; promoting effectiveness of working groups

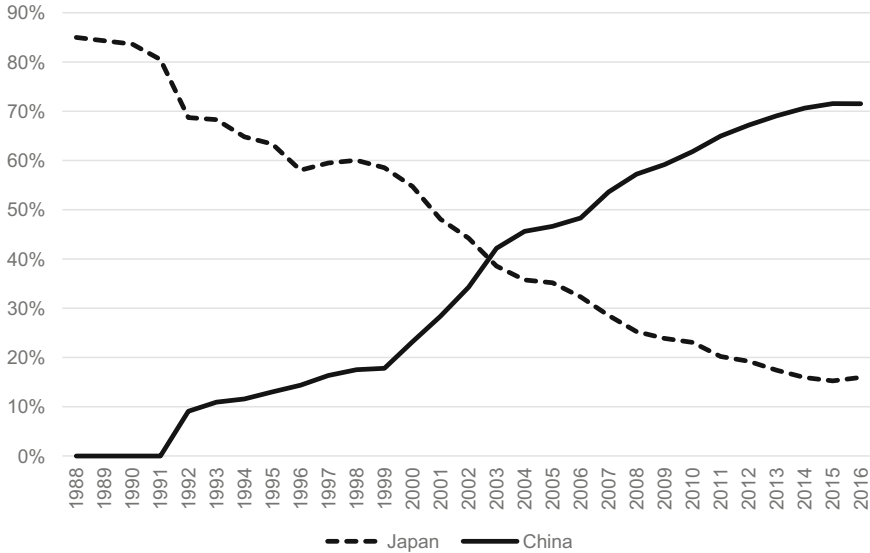


Fig. 2 Share of China and Japan in EA-3 trade with Latin America (exports + imports) (*Source*) UN Comtrade

and projects; and enhancing partnership with regional international organizations. Regarding the institutional framework, the Action Plan stipulates the occurrence of regular summit meetings and calls for enhanced engagement of member countries and improved communications. To promote the effectiveness of working groups and projects, the Action Plan proposes the selection of priority areas and implementation of projects (with better evaluation) that serve the common interests of member countries. The Action Plan also recommends the establishment of a common fund for project implementation.

2 China's Rise in East Asia–Latin America Relations and Washington Concerns

The rapid economic growth of China is the engine of Asia–Latin America trade expansion. It has both quantitative effects and price effects. The latter improved terms of trade in favor of Latin America's exporting primary commodities, which in turn boosted domestic demand in Latin America and induced greater imports of consumer and capital industrial products from EA-3 countries.

Although Japan and Korea steadily developed their relations with Latin America in early 2000, the sharp increase of China's presence in Latin America was less predictable. Jiang (2003) pointed to three areas in which Latin America is important for China: to maintain the momentum of its struggle against imperialism and

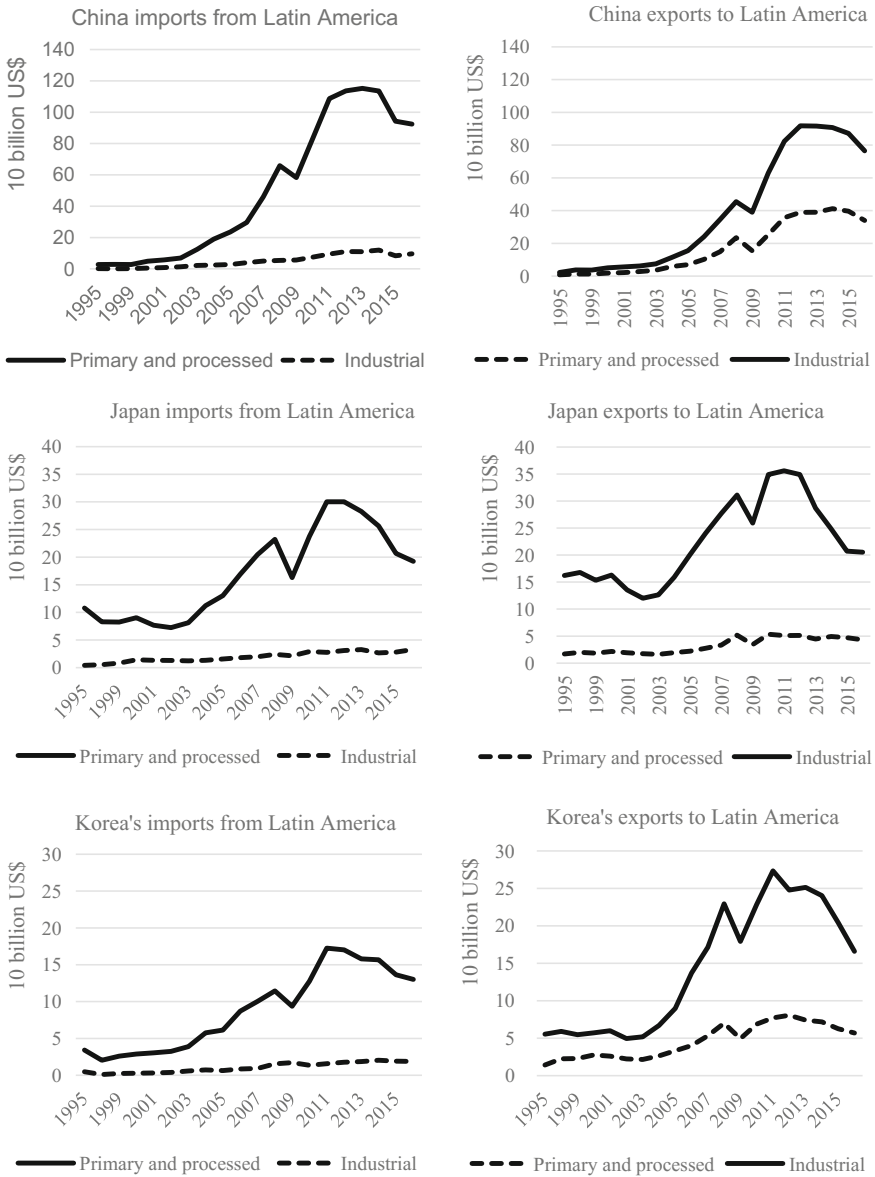


Fig. 3 EA-3 countries' trade with Latin America by category of goods (Source) UN Comtrade

hegemonic powers; to be a source of trade and investment opportunities, and a potential supplier of natural resources; and to contain Taiwan's "dollar diplomacy" (p. 328). This statement implies that, in early 2000, China was widely regarded as a

Table 1 EA-3's FTAs with Latin America

	Partner	Year entering in force
China	Chile	2006
	Peru	2010
	Costa Rica	2011
Japan	Mexico	2005
	Chile	2007
	Peru	2012
	Colombia	In process
	Trans pacific strategic economic partnership	In process
Korea	Chile	2004
	Peru	2011
	Colombia	2016
	Central America ^a	In process

^aCosta Rica, Guatemala, Honduras, Panama, El Salvador, and Nicaragua

Source: Elaborated based on Chaps. 2, 3, and 4 in this volume

Million US\$

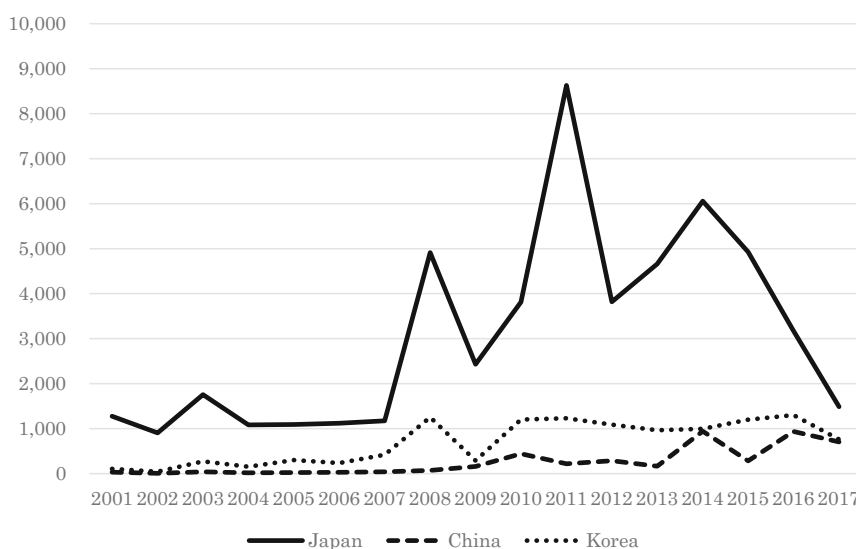


Fig. 4 FDI inflow in Mexico and Brazil from EA-3 (Source) Banco Central do Brasil and Secretaria de Economia, Mexico

peripheral country in the global economy and politics. Trade and investment with Latin America was incipient, but the importation of natural resources from Latin America remained *potential*; since 2000, when only 7 of 20 countries in Central

America and the Caribbean² diplomatically recognized the Peoples' Republic of China, Costa Rica, Dominica, Grenada, and Panama have switched from Taiwan to China, the reverse occurred only in St. Lucia.

Rapidly, China has become the number one trade partner for many Latin American countries. For China, Latin America has become a *major* supplier of natural resources, a promising market of China's industrial products, and a favored destination of foreign investment. Today, Latin America's stock indices and currency exchange rates react sensitively to economic and political news from China.

According to Oliveira (2006), until the decade of the 1970s, Brazil's relations with Asia were fundamentally limited to those with Japan. Nevertheless, during the last decade, those relations expanded to other countries in the region for two reasons. First, Brazil showed interest in East Asian countries' development model with their economic and science and technology models. Second, Brazil strove to establish an autonomous foreign policy in international fora with diverse partnerships with countries in similar positions. Oliveira (2006) comments that Brazil's relations with China and Korea were strengthened since the 1990s in contrast to relations with Japan, which remained disappointing.

China launched the China-CELAC forum³ in 2015. At a meeting in January 2018 in Santiago, Chile, China revealed expansive investment plans based on the expansion of the Belt and Road Initiative to Latin America. The China—CELAC Cooperation Plan 2015–2019 was conducted to increase bilateral trade flows to US \$ 500 billion and also set a target of a reciprocal FDI stock of at least US\$ 250 billion by 2025 (ECLAC 2018). China's increased interest in Latin America is welcomed by the latter based on expectations of export diversification and productivity improvement through improved infrastructure.

Although the Chinese government clearly states its position of “non-interference in each other's internal affairs”,⁴ the rising influence of China in East Asia–Latin America relations has provoked speculation related to China's geopolitical interests.⁵ Smith et al. (2003) predicted that the future of Asia–Latin America relation depends on global power alignment. They considered that if the world order would be under strong US hegemony, Washington might regard the Asia–Latin America relation as innocuous or mildly beneficial unless any US interest were affected. However, the scenario under the world divided into multipolar groups competing for power would be harmful for sound development of Asia–Latin America connections because countries in the two regions would be divided. Consequently, they suggested that the best scenario would be globalization with equity where both

²Paraguay is the only South American country which recognizes Taiwan.

³CELAC stands for the Community of Latin America and the Caribbean. See Chap. 2 for more details.

⁴Ministry of Foreign Affairs of the People's Republic of China, China's Policy Paper on Latin America and the Caribbean, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1418254.shtml.

⁵See, for example, Piccone (2016) and *The Economist* Nov 17, 2016.

regions become proactive participants in the process of globalization and are able to make alliances to expand opportunities without restrictions from a third party.

Stephen Kaplan, a Latin America specialist of the Wilson Center wrote “Chinese lending often takes the form of patient capital. By emphasizing nonintervention in sovereign affairs and refraining from imposing conditions like fiscal austerity or transparency, as Western governments do, China promises its financing horizon will not be influenced by such short-term policy targets.” He concludes that “its approach to global economic affairs appears to be more pragmatic than ideological—and might be more likely to defend than upend the liberal economic order.” (*Washington Post*, January 24, 2018)

The former US Secretary of State Rex W. Tillerson warns that China’s offer has a price:

“China’s offer always comes at a price—usually in the form of state-led investments, conducted by imported Chinese labor, onerous loans, and unsustainable debt. The China model extracts precious resources to feed its own economy, often with disregard for the laws of the land or human rights.” Speech at University of Texas at Austin, February 1 2018.⁶

To date, US engagements in Latin America offer no alternative to the “soft-power” and non-interference strategy of China. In the same speech, addressing issues of drugs, corruption, and poverty, Mr. Tillerson remarked that the Monroe Doctrine is as relevant today as it was the day it was written.⁷ Nevertheless, the Trump administration walls itself off from the neighbors to the south: its antagonism is clear to migrants and the lack of concern about the most vulnerable countries in the region—Haiti, El Salvador, and Nicaragua—by ending Temporary Protected Status relief for 300 thousand people from these countries suffering from natural disasters.⁸

3 Views from East Asia

In this volume, Guo (Chap. 2) calls attention to the rapid development of trade relations between China and Latin America and the certain tension existing along with that relation. Regarding the latter, she points out the following problems: asymmetry in trade structure (primary goods versus industrial goods), protectionist tendency in South American markets toward Chinese industrial exports, and direct competition of labor-intensive goods exports from Mexico and Central America

⁶<https://www.state.gov/secretary/remarks/2018/02/277840.htm>.

⁷This comment contrasts to President Barack Obama’s speech at the Summit of the Americas in Panama City in 2015: “The days in which our agenda in this hemisphere so often presumed that the United States could meddle with impunity, those days are past.”

⁸See Dan Restrepo’s column “Don’t Turn Back the Clock: Tillerson Should Advance the U.S.–Latin American Partnership Into the 21st Century” on Center for American Progress homepage (Posted on February 5, 2018).

and those from China. This situation is expected to change as Chinese investment in Latin America diversifies.

Hamaguchi (Chap. 3) explains that Japan reinvigorates its engagements in Latin America motivated by the recent good economic conditions. He argues that although Latin America is not the main target of diplomacy and business for Japan, the state of diplomacy and competitiveness in Latin America is the most sensitive indicator of Japanese diplomatic and business strength. He predicts that Japan–Latin America relations will be affected by changing economic diplomacy of the USA and China toward the region and structural transformation of the Japanese economy itself.

Kim (Chap. 4) describes analyses of the Korea’s engagements in Latin America. He notes the growth of Korean trade with Latin America and point out the lack of diversity in Latin American exports to Korea. Korea’s participation in the global value chain in Latin America is also increasing, especially in the electronics industry in Mexico. Korean FDI to Latin America increased more rapidly than to the remainder of the world during the last 30 years, directed mostly to manufacturing and mining. Korea is the most advanced among the three countries in signing free trade agreements with Latin American countries, having entered in force with agreements linking it to Chile, Colombia, Peru, and five Central America countries, with pending negotiations with Ecuador. The reason Latin American countries became main FTA partners of Korea is that they are important export markets of Korean manufacture products, although their exports have no strong negative effects on Korean industries. This chapter also sheds light on Korean migration to Latin America and its high mobility to other countries such as the United States.

As evidenced by the country studies in this volume, Asia and Latin America interact a lot more intensively in the last decade than before through trade and investment. Firms and governments of China, Japan, and Korea have clearer strategies toward Latin America than before in developing such relations. It can be argued that these are the product of market forces driven by the exploration of the static resource complementarity. If gains are to be expanded and widely shared, exploratory search for cooperation in new areas are very much needed. However, as Asian Development Bank et al. (2012) pointed out, the lack of information presents a consistent obstacle to assessing to effectiveness of non-market cooperation between Asia and Latin America. Cooperation should be motivated by having a focus on areas of strategic complementarity where national interests and development priorities of two regions align. Such areas may include experiences with infrastructure building, poverty reduction, disaster relief, global climate change, and financial regulations.

4 Contributions of This Book

This book represents a valuable contribution to the study of Asia–Latin America relations. Although growing, the academic literature on this topic remains quite limited in contrast to the rapid intensification of the interregional exchanges in recent years. This book differs from earlier documents of international organizations and occasional reports of western journalists because it is uniquely written by experienced Latin America researchers of China, Japan, and Korea, representing views from respective countries, including similarities and differences. It is a consensus of the authors that for each of the East Asian countries and the region as a whole, great potential exists from developing economic relations with Latin America. We should not leave the two regions as distanced according to results from weak interests among policymakers. This book will provide rich information to demonstrate why the authors expect the fulfillment of that great potential.

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Chapter 2

China–Latin America Economic Relations in the New Millennium



Relations between China and Latin America have grown rapidly since the beginning of the 21st century. Many countries in the region now enjoy increasing amounts of trade with China. For some, China is a source of foreign investment as well. The importance of China for the region has been most readily apparent following the 2008–2009 global financial crisis. Latin American countries, those in South America particularly, have benefited greatly from China’s appetite for global commodities since 2003. During this crisis, as demand from economically developed countries has weakened, demand from China has remained consistent, contributing to picking up of commodity prices and, consequently, regional trade performance. It has been widely recognized that Latin America’s impressive recovery after the crisis was fueled by China’s strong economic growth and its increasingly close links with the region.¹ An editorial from the British newspaper *Financial Times* includes the comment that “for the first time in living memory, the words ‘Latin America’ and ‘financial crisis’ are not routinely linked.”² To paraphrase, “for the first time in living memory,” the words “Latin America” and “China” have become closely connected.

1 Trade Miracle: Beyond “Fifty Years of Progress in Five”

From 1956 to 1961 was known as Brazil’s “golden age”. Under the leadership of President Juscelino Kubitschek, Brazil’s industrialization made real advances, with industrial production growing at an average rate of more than 9%. The famous

This chapter is authored by Jie Guo.

¹See, for example, ECLAC (2011), pp. 13–14.

²“Coming of Age,” *The Financial Times*, January 4, 2012. Retrieved from <https://www.ft.com/content/f43fcd86-35fa-11e1-ae04-00144feabdc0>.

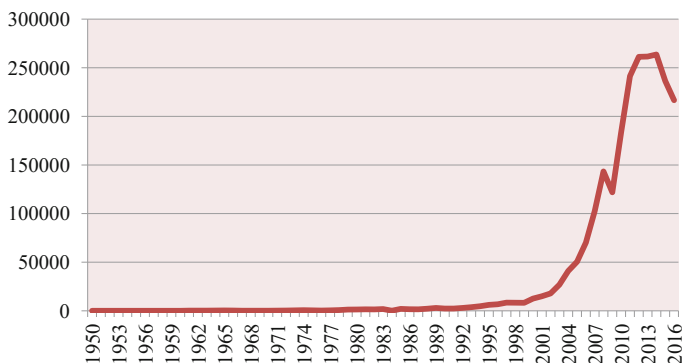


Fig. 1 Trade between China and Latin America, 1950–2016 (millions of dollars). *Source:* before 1979: *Zhongguo Duiwai Jingji Maoyi Nianjian* (Almanac of China’s Foreign Economic Relations and Trade); since 1980: *Zhongguo Haiguan Tongji Nianjian* (China Customs Statistics Yearbook) (editions of relative years)

slogan “fifty years of progress in five”, along with Kubitschek’s other legacies, has become an important part of Brazilian history. That progress notwithstanding, those who believed Kubitschek’s slogan was ambitious would gasp at the recent growth of trade between China and Latin America (Fig. 1).

Figure 1 shows that it took fifty years (1950–2000) for the China–Latin America trade to pass the US\$10 billion mark. However, during 2007–2012, in just five years, the figure soared from around US\$100 billion to more than US\$260 billion. According to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), in 2000, exports to China accounted for a mere 1% of the region’s total exports. In 2015, this figure increased to 10%. During the same period, imports from China climbed from 2 to 18% (ECLAC 2016, p. 15). China has become Latin America’s second largest import supplier (after the US), and its third largest export destination (after the US and the EU). According to the official data, in 2016, China maintained its leading trade partner status with Brazil, Chile, Peru and Uruguay. Among them, Brazil’s trading volume with China (US\$58.5 billion³) represented about 27% of all China–Latin America trade, indicating the importance of China–Brazil trade to the region.

And yet, the word “miracle” often implies uncertainty. The exciting figures do not diminish the risks underlying them. For example, China–Latin America trade structure is asymmetric. The variety of goods that the region exports to China is limited, consisting primarily of natural resources. In contrast, China’s exports to Latin America are far more diverse. The region’s exports to China are mostly from South America, followed by Central America and Mexico, and are concentrated in

³The data is from Ministério da Indústria, Comércio Exterior e Serviços (MDIC), “Balança comercial: Janeiro-dezembro 2016.” Retrieved from <http://www.mdic.gov.br/index.php/comercio-exterior/estatisticas-de-comercio-exterior/balanca-comercial-brasileira-acumulado-do-ano?layout=edit&id=2205>.

certain types of primary commodities. Andean countries rich in mineral resources such as Peru, Chile, and Bolivia are the important suppliers of copper, iron, lead, zinc and gold to China. Mining products represent a large share of their total exports to China, with Peru being most involved in this trade. According to the statistics from the Ministry of Foreign Trade and Tourism of Peru (Ministerio de Comercio Exterior y Turismo, MINCETUR), in the last decade, traditional exports (mostly minerals, and certain amount of fishery products such as fish meal and fish oil) have accounted for a large share of Peru’s exports to China (Fig. 2). Taking the export data from the first two quarters of 2017 as an example, the value of mining products represented 79.9% of the total export value to China, among which copper alone accounted for 65.2%. Other minerals represented a much smaller share. For instance, iron and zinc, which are the next greatest in terms of percentage, respectively represented 4.8% and 4.4% of the total value (MINCETUR 2017, pp. 2–3). Although the Peruvian government has dedicated years of effort to the promotion of unconventional exports, the results have not been effective. In contrast, China’s exports to Peru are more diverse, ranging from electrical and electronic items, audio and video equipment (as well as their components), to machinery, automobiles, and auto parts. The three main categories of primary materials, consumer goods and capital goods, in general, have fundamentally presented a pattern of balanced growth (Fig. 3).

A broadly similar pattern appears in China’s trade with the Southern Cone countries. According to statistics from the Ministry of Development, Industry and Foreign Trade of Brazil (Ministério do Desenvolvimento, Indústria e Comércio Exterior, MDIC), in 2016, farm, mining, energy and plant products such as soybeans, iron ore, crude oil, paper pulp, sugarcane, frozen chicken, and beef, remained the principal exports to China. Primary commodities (mostly soybeans, iron ore and crude oil) took more than 80% of total exports to China. Intermediate goods accounted for less than 10%. Manufactured products remained between 1.5 and 2.0%. By way of comparison, labor-intensive goods continue to represent a large share in China’s exports to Brazil in 2016, with mechanical and electrical goods, chemical and textile products, and garment making up around two thirds of total exports to Brazil. Additionally, light industrial goods such as furniture and toys, base metal products, optical devices, horologes, and medical devices also constitute an important part of Brazil’s imports from China.⁴ The scenario for Argentina bears much resemblance to that of Brazil, with its export structure to China having been concentrated particularly in agricultural commodities. Argentina’s total exports to China in 2016, according to its National Statistics and Census Institute (Instituto Nacional de Estadística y Censos, INDEC), amounted to US\$4.66 billion in terms of value, among which around 86% (US\$4 billion) were agricultural exports (largely soybeans, beef and fishery products), with 8% deriving

⁴This observation is based on the data cited in footnote 3.

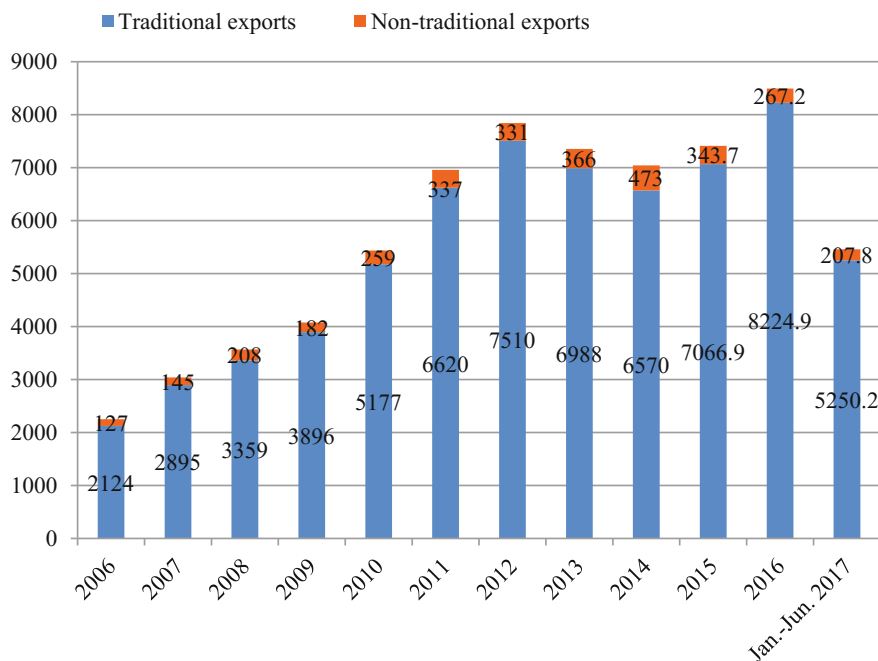


Fig. 2 Value and composition of Peru’s exports to China, 2006–2016 (millions of dollars). *Data Source:* MINCETUR database (<https://www.mincetur.gob.pe/comercio-exterior/reportes-estadisticos/reportes-de-comercio-bilateral/>)

from oil and gas.⁵ During the same period, the total value of China’s exports to Argentina was US\$8.35 billion. Similarly to the situation with Brazil, mechanical and electrical products accounted for the largest share (43.8%), followed by chemicals (14%). Other major items that Argentina imported from China were transportation equipment, base metal products, textiles, furniture, toys, etc., together representing 27.9% of the total value above (Ministry of Commerce of China 2017).

The current structure of the China–Latin America trade reflects the comparative advantage of all parties, but it also indicates that the trade benefits of countries in the region are accordingly confined to the few sectors of primary goods in which they have a comparative advantage. Trade with China is expected to drive Latin American countries to specialize in those sectors where China has strong demand, which evokes concern about the sustainability of the region’s development. Discussions of whether the region will again fall victim to “natural resource trap” have re-emerged. In fact, such a trade structure is not entirely beneficial for China,

⁵ Author’s calculation based on data from INDEC database. Retrieved from https://www.indec.gov.ar/nivel3_default.asp?id_tema_1=3&id_tema_2=2.

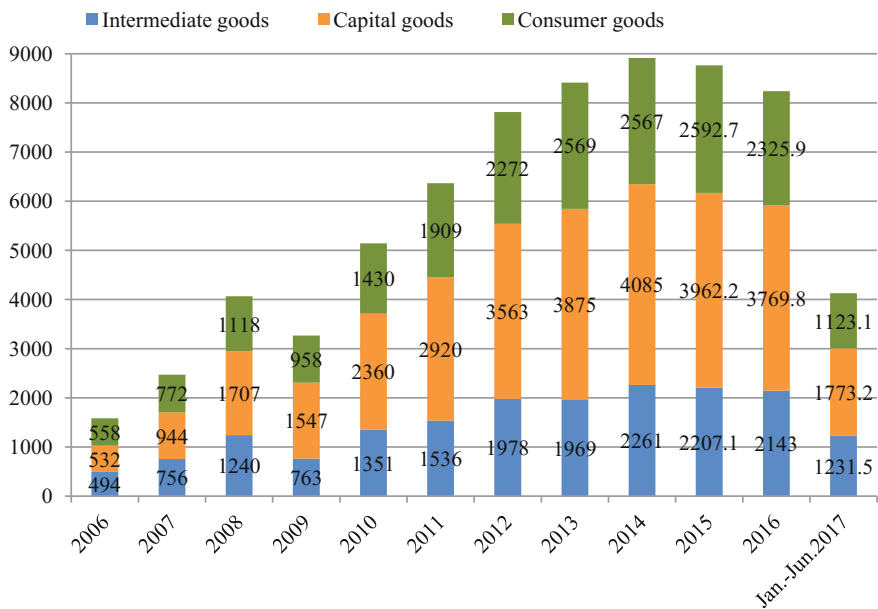


Fig. 3 Value and composition of Peru’s imports from China, 2006–2016 (millions of dollars). *Data Source:* Ibid

either. The excessive demand for certain commodities and the concentration of origins of supply can also be regarded as an “unconventional” insecurity.

When speaking with Latin American scholars and government officials, the author found in most cases we could only slightly agree mutually on the subject of “trade complementarity”. The disagreement is more or less based on different understandings of the definition of “complementarity”. Because of the asymmetries of endowment and specialization that exist within the region, for countries that export both commodities and low value-added industrial goods, and which are traditionally inclined toward trade protectionism, such as Brazil and Argentina, trading with China is not entirely beneficial. By contrast, for countries such as Mexico, with exports consisting mainly of labor-intensive goods supplemented by natural resources, or for countries in Central America and the Caribbean that are less endowed with natural resources, trading with China has brought more constraints than benefits. These tensions explain, to certain extent, the fast rising number of Trade Remedy Investigations against China and the proliferation of anti-dumping policies in these countries. According to data released by the World Trade Organization (WTO), from 1 January 1995 to 31 December 2017, among the top ten members that have launched the most anti-dumping complaints against

China, four of them are from Latin America. Investigations from Argentina, Brazil, Mexico, and Colombia account for one-fourth of the total number of anti-dumping cases against China during this period.⁶

Such structural trade problems can no longer be ignored. Instead of simply talking about the soaring bilateral trade volume, more important questions to address should be how to optimize this structure, create trade in new areas and enhance mutual sense of security. Furthermore, trade is not the only content of the economic relationship between China and Latin America. With China's slowdown and Latin America's sluggish growth, doubts have emerged as to whether China–Latin America trade will soon pick up and resume rapid growth. Another dimension in this relationship, which has also generated broad attention as well as heated discussions, is investment.

2 Investment Journey: Quest for Resources Driven by Domestic Demand

In 2016, China was the second largest provider of global foreign direct investment (FDI), after the United States. According to data published recently by the Ministry of Commerce of China (MOFCOM), as of the end of 2016, China's outward FDI stock volume had amounted to US\$1357.39 billion, among which over US\$207.15 billion were towards Latin America (Ministry of Commerce of China et al. 2017, pp. 4–27). By the static distribution of FDI, Latin America is not the primary destination of Chinese enterprises' overseas expansion. The value of capital and the number of investment projects that Latin America has attracted from China are in no way comparable to Asia or China's other investment destinations. Nevertheless, the dynamic growth of Chinese FDI in the region shows great potential (Fig. 4).

In line with the summarized data from Latin America, China was the fourth largest investor of the region in 2016 after the United States, the European Union and Canada. Given the major investment that China has undertaken in the first half of 2017, its share is expected to increase next year (ECLAC 2017a, p. 13). The fast-growing capital flow from China into Latin America has naturally aroused widespread concern. Nonetheless, this topic is not as “new” as it might seem to be. Chinese investment had made its entry into the region long before the recent attention. In fact, years before the “Going Out” strategy was announced, The Capital Iron and Steel Corporation of Beijing (usually known by its shortened Chinese title of Shougang) had already set foot in Peru.

Just like other bold attempts that China has made in its economic reform, this first investment in Latin America was the consequence of both strategic thinking and coincidence, in the context of the particular political and economic situation at the time as well. In July 1990, after Alberto Fujimori, the newly elected President of

⁶For detailed information, see World Trade Organization (2018).

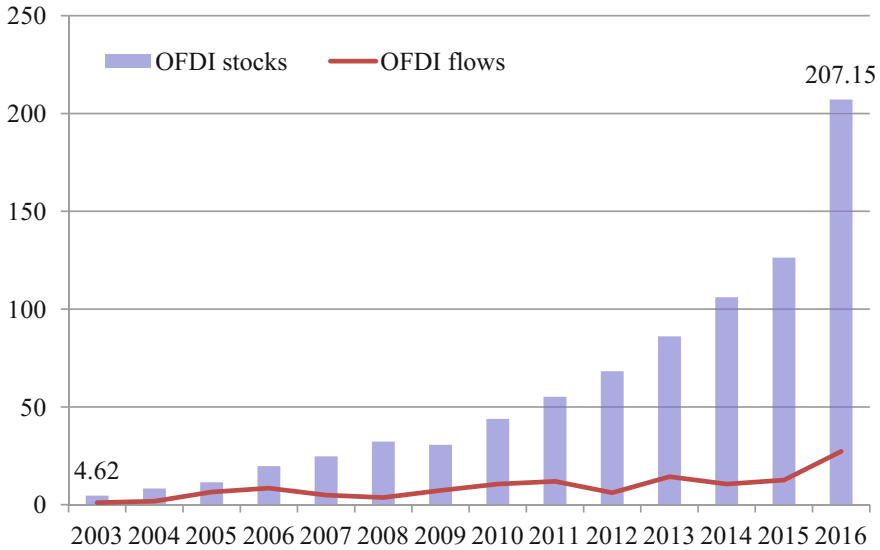


Fig. 4 Chinese outward FDI in Latin America, 2003–2016 (billions of dollars). *Source:* *Zhongguo Shangwu Nianjian, 2013* (China Commerce Yearbook 2013), Beijing: China Commerce and Trade Press, 2013, p. 194; Ministry of Commerce of China, National Bureau of Statistics, and State Administration of Foreign Exchange, eds., *2015 Niandu Zhongguo Duiwai Zhijie Touzi Tongji Gongbao* (2015 Statistical Bulletin of China’s Outward Foreign Direct Investment), Beijing: China Statistics Press, 2016, pp. 45, 50; Ministry of Commerce of China, National Bureau of Statistics, and State Administration of Foreign Exchange, eds., *2016 Niandu Zhongguo Duiwai Zhijie Touzi Tongji Gongbao* (2016 Statistical Bulletin of China’s Outward Foreign Direct Investment), Beijing: China Statistics Press, 2017, pp. 14, 20

Peru, took office, neoliberal reforms were undertaken to reverse the economic downturn in Peru. Empresa Mineral del Hierro del Perú, S.A. (Hierro Perú), the large state-owned Peruvian iron mining company that had been struggling on the verge of bankruptcy, was therefore listed as the first on the agenda of privatization by the Peruvian authority. At that moment, Shougang was actively following global mining news, seeking opportunities to expand its production capacity. It was planning to build a large steel factory with the annual productive capacity of five to ten million metric tons in Jining, Shangdong Province, which required a long-term and stable supply of primary materials. In 1992, the Fujimori government initiated the global bidding for Hierro Perú. Encouraged by the top Chinese leadership, the State Council of China issued an official document to grant Shougang greater autonomy in investment, project approval, international trade and finance. Under such circumstances, after conducting certain research on Peru’s situation and on Hierro Perú, Shougang decided to participate in the bidding competition. On November 5, 1992, Shougang won the bidding with US\$118 million (more than five times the initial base price), acquiring 98.4% of Hierro Peru’s shares, which

included the permanent rights of exploration, extraction and management on the 670 km² of Marcona mining district, as well as other related assets.⁷

As China's need for copper, iron, gold, aluminum and other strategic mineral resources kept growing, almost 15 years after Shougang entered Peru, increasingly Chinese companies engaged in the exploration, extraction, metallurgy, processing and trading of metal ore also started their journey in the "New World". The central belt of the Andes is among the richest metal-producing areas of the world, so it came as no surprise that most of the large projects concentrated there. Peru, among the Andean countries along the belt, by virtue of its various advantages—including the variety of mines, the well-established legal system, the coherent investment policies, the developed service industry, and higher return of investment—has attracted the greatest amounts of mining investment from China. Except for Shougang's investment in Marcona, another high-volume project is Aluminum Corporation of China (Chinalco)'s Toromocho mine, which was known as one of China's largest copper mining projects overseas. In August 2007, Chinalco paid US\$860 million to purchase the Toromocho mine from Peru Copper Inc. It took Chinalco more than six years to put the project into operation eventually. The preliminary work included building sewage treatment plants, accommodating/repairing communal facilities such as hospitals and schools, and most importantly, the relocation of more than a thousand families living in the mining area. As of early 2013, Chinalco had cumulatively invested more than US\$3.5 billion in the project.⁸

Shougang Hierro Perú and Chinalco's Toromocho project have become two classic cases for examining Chinese mining investment in Latin America. They emerged in different historical contexts, and therefore experienced variant challenges and difficulties (labor disputes for the former and community relations for the latter, for example). Each adopted particular solutions to its problems, and received widely differing evaluation from the Peruvian society. Notwithstanding, the two projects have one common point: they explored ways to learn, and learned to progress through the growing pains. Aside from Shougang and Chinalco, there are also other mining projects that Chinese companies have invested in Peru. Among them, Minmetal's Las Bambas project is China's largest metal mine acquisition overseas to the present day as well as the largest copper mine under construction in the world.

Similar to the steel and mining companies, Chinese petroleum companies also experienced growing pains while developing in Latin America. Their decision to invest in the region, similar to Shougang's situation, was mostly driven by practical consideration, rather than by clear strategic thinking. The data demonstrate that, since China's economic reform and opening up, its oil consumption has been

⁷For more details, see Guo Jie (2015).

⁸See "Toromocho financiará nuevos proyectos mineros de Chinalco," *Gestión*, el 5 de febrero del 2013. Retrieved from <https://gestion.pe/empresa/toromocho-financiará-nuevos-proyectos-mineros-chinalco-30837>.

steadily increasing along the socioeconomic development. In 1993, for the first time, oil consumption surpassed production, transforming China from a net oil exporter to a net importer. It was in that context that the Chinese petroleum companies started to go abroad. Additionally in 1993, China National Petroleum Corporation (CNPC), one of China's leading oil companies specializing in onshore upstream exploration and extraction, started to make investments overseas. It is noteworthy that CNPC's first overseas oilfield development project also located in Peru. In October 1993, CNPC won the bid for developing the Talara-7 oilfield in northwestern Peru. Soon after, it acquired another service contract for Talara-6 in the same region. According to CNPC, these two projects "blazed a trail for Chinese oil companies to explore the international market and participate in overseas oilfield development".⁹ During the following ten years, as the only Chinese central state-owned petroleum company that had oil and gas investment in Latin America, CNPC primarily invested in three countries: Peru, which is regarded as its "base" in the Latin American area, Ecuador (Peru's northern neighbor), and Venezuela (a top oil producer and exporters in the region). As it did in Peru, CNPC's entry into the latter two countries was also realized through acquisition of mature fields.

At the end of 2003, Sinochem Group, transformed from China National Chemicals Import & Export Corporation, once China's largest foreign trade company, started its venture in Latin America through acquisition of CRS, a wholly-owned subsidiary of the American company ConocoPhillips in Ecuador. In September 2005, Sinopec, another Chinese company mainly engaged in downstream businesses such as oil refinery, got its first project share in the region through acquiring foreign competitor's assets with CNPC. In October 2008, China National Offshore Oil Corporation (CNOOC), which tended to emphasize offshore oil and natural gas exploration and production, was present in Latin America jointly with Sinopec purchasing Talisman Energy Inc. (Canadian company) oil and gas assets in Trinidad and Tobago.

The year 2009 was a significant milestone passed for the Chinese investment in Latin American hydrocarbon sector. China's energy investment projects in the region since then present two distinct features. First, the companies seemed to start establishing a preference in terms of investment channels. Before 2009, mostly companies had invested through bidding, cooperating with local petroleum enterprises, or purchasing exploration and management rights from private companies. Only a few projects were accomplished through international mergers and acquisitions. In contrast, since 2009, more companies, with rare exceptions, such as Sinochem winning the bidding for five blocks located in Maranon Basin and Ucayali Basin of Peru in 2010, have invested through purchasing existing projects in the region, especially by acquiring strategic assets from financially distressed European or American multinational enterprises (MNEs). Secondly, investment volume has increased robustly. The projects have also expanded to more countries

⁹See CNPC's first report on its operations in Latin America, CNPC (2013).

in the region. After 2009 and especially from 2010, the volume of most Chinese investment projects in Latin America’s hydrocarbon sector have reached one billion dollars or higher. This has contributed to the rapid increase of Chinese non-financial FDI in the region, surpassing US\$10 billion in three consecutive years. In terms of geographic distribution, Chinese investment now exists in almost all major oil producing countries in the region. Table 1 enumerates China’s key oil investments in Latin America in more than two decades.

Before 2014, Chinese investment projects in Latin America were mainly undertaken in the natural resource sector, which made up over 80% of total Chinese investment volume in the region. The phenomenon can be attributed to several factors, including surging demand of natural resources in China, high commodity prices in the international markets and a higher return of investment. Since such an investment usually requires huge capital outlays, and is usually involved in topics of non-traditional security, ordinary companies might be unable to bear the cost or the risk. Therefore, it is natural that the central state-owned enterprises (SOEs), which often has better access to financing from state-owned policy banks and commercial banks, have become leading investors. These giant central SOEs, with their resource strategy, state ownership background, financial capabilities and distinctive behavior, have elicited close attention of various stakeholders on international stage. Their trend bucking expansion since the financial crisis of 2008, especially a succession of high-profile acquisitions, has magnified China’s image as a “super-investor,” which is not necessarily a positive label.

3 Toward Diversification: Seeking the Path of Common Development

Diversification is, whether in terms of the current situation or future trends, the ideal path for China and Latin America countries to strengthen and sustain their economic relations. Over the past four years, because of lower commodity prices, a slowdown in the growth of the Chinese economy, as well as the recession of major economies in the region, especially in South America, China–Latin America trading volume has dropped slightly from the peak of US\$263.6 billion in 2014 (Fig. 1). By virtue of the recovery of certain commodity prices, mainly oil, gas and metals, the value of the region’s exports to China is expected to rise again in 2017, while the growth rate might not be high. Although the “trade miracle” between China and Latin America described above is apparently ending, the whole scenario also has a silver lining, i.e., China’s increasing agriculture engagement with the region.

According to ECLAC report, China’s share in Latin America’s agricultural exports rose from 2.5% in 2000 to 13.2% in 2013. Its agricultural exports have grown by 27% per year on average (ECLAC 2015, p. 51). Latin America’s agricultural exports to China reached a record high of US\$32.95 billion in 2013 (Fig. 5). In 2016, the value of agricultural imports from the region accounted for

Table 1 Chinese oil companies' investment in Latin America, 1993–2017

Time	Investor(s)	Investment activity
Oct. 1993	CNPC	Acquired a service contract for Block 7 of Peru's Talara Oilfield
Jul. 1995	CNPC	Acquired a service contract for Block 6 of Peru's Talara Oilfield
Jun. 1997	CNPC	Won tenders for the Intercampo Oilfield and Caracoles Oilfield in Venezuela
Apr. 2001	CNPC	Signed a cooperation agreement on the Orimulsion project with Petróleos de Venezuela, S.A. (PDVSA)
Aug. 2003	CNPC	Signed with Petroecuador a management rights transfer agreement for Block 11 in Ecuador
Nov. 2003	CNPC	Acquired a 45% stake in Block 1AB/8 (in Peru) from Argentine company PLUSPETROL
Dec. 2003	Sinochem	Purchased CRS Resources (Ecuador) LDC from ConocoPhillips Co. of USA. Its assets constitute 14% of the interests of Ecuador Block 16
Aug. 2005	CNPC & Sinopec	Jointly purchased oil and gas assets and development rights and interests of five blocks owned by EnCana in Ecuador, and established Andes Petroleum Ecuador Ltd.
Dec. 2005	CNPC	Signed risk exploration contracts with Peru's Ministry of Energy & Mining covering Block 111 and Block 113 in the MDD basin
Aug. 2006	CNPC	Entered into a joint venture agreement with PDVSA to develop Zumano Oilfield
Sep. 2006	Sinopec	ONGC Videsh Ltd (OVL) and Sinopec Jointly bid for 50% stake in Omimex de Colombia. Each has a 25% stake
Mar. 2007	CNPC	Signed an agreement with PDVSA to expand cooperation in the Orinoco Oil Belt
Mar. 2007	Sinopec	Purchased 80% of rights and interests of POSA field from PDVSA
Feb. 2008	CNPC	Established a joint venture with PDVSA to operate the MPE3 project
Nov. 2008	CNPC	Entered into an agreement with RECOPE to establish a joint venture refinery
May 2009	Sinopec & CNOOC	Jointly purchased all assets of Talisman Energy Inc. in Trinidad and Tobago
Oct. 2009	Sinochem	Acquired 100% equity of Emerald Energy PLC, including 50% to 100% rights and interest of 8 blocks in Colombia and 100% rights and interests of block 163 in Peru
May 2010	CNOOC	Established a 50–50 joint venture with Argentina's Bidas Energy Holdings
May 2010	Sinopec	Purchased 40% stake of Peregrino Oilfield (Brazil) from the Norwegian Statoil ASA
Oct. 2010	Sinochem	Won concession of five blocks in Peru: blocks 178, 185, and 165 in Marañon field and Blocks 173 and 175 in Ucayali field
Oct. 2010	Sinopec	Purchased 40% stake of Repsol Brazil
Dec. 2010	Sinopec	Purchased all assets of Occidental Petroleum Corp.'s oil and gas unit in Argentina

(continued)

Table 1 (continued)

Time	Investor(s)	Investment activity
Dec. 2010	CNPC	Signed a joint venture operation agreement with Venezuelan Ministry of Energy and Petroleum on Block Junín 4 in the Orinoco Oil Belt
Feb. 2011	CNOOC	Pan American (owned by Bridas Corp., itself co-owned by China's CNOOC and Argentina's Bulgheroni family) purchased an oil refinery and more than 700 service stations in Argentina, Paraguay and Uruguay from Exxon Mobil Corp.
Nov. 2011	Sinopec	Purchased 30% stake in Galp Energia SGPS SA (GALP)'s Brazilian unit
Dec. 2011	Sinochem	Purchased 10% stake of the Brazilian unit of French oil and natural-gas company Pereneo SA in five offshore blocks in the Espírito Santo Basin
Feb. 2012	Sinochem	Purchased TEPMA BV (Total SA's Colombian assets), which has a stake in the Cusiana field as well as shares in the OAM and ODC pipelines in Colombia
Oct. 2013	CNPC & CNOOC	Formed a consortium with other oil companies and won the concession of exploration and extractions in Libra oilfield, Brazil. CNPC and CNOOC each has 10% stake
Nov. 2013	CNPC	Purchased the Peru unit of Petrobras
Dec. 2016	CNOOC	Won two blocks in Mexico's first-ever deepwater auction
Oct. 2017	Sinopec, CNPC and CNOCC	The three companies participated in the consortiums led by Petrobras, winning the exploration rights for the three pre-salt blocks of Sapinhoa, Peroba and Alto de Cabo Frio Central in an auction

Note Author's elaboration based on information from various sources, including the relative companies' website, publications of Chinese governmental authorities such as State-owned Assets Supervision and Administration Commission of the State Council, the Ministry of Land and Resources and the Ministry of Commerce

26.05% of total agricultural imports in China.¹⁰ Commodities (such as soybean, soy meal, and crude soy oil) still dominate the region's agricultural exports to China, while in the meantime, non-conventional, value-added agricultural and agribusiness products are making up an increasingly visible share of the basket.

Brazil's agricultural exports to China have soared in the 21st century. During 2009–2013, the total value of exports to China rose from US\$9.055 billion to US \$23 billion, or 27% per year on average. According to data from MDIC, during January–November of 2017, soybeans alone constituted around 44% of Brazil's

¹⁰Department of Foreign Trade of MOFCOM, "Zhongguo Jinchukou Yuedu Tongji Baogao: Nongchanpin," (Monthly Report of Imports and Exports of Chinese Agricultural Products), December 2016, p. 4. Retrieved from http://wms.mofcom.gov.cn/article/zt_ncp/table/2016_12.pdf.

total export value to China.¹¹ In addition to soybeans, other agricultural exports to China include corn, sugar, pork, poultry, soy oil, pulp, leather, and dried fruits. Exports of beef to China have also resumed since May 19, 2015. According to the latest statistics from Brazil, China has now become the biggest market for Brazilian beef.

Argentina is China's second largest Latin American trading partner. According to foreign trade data from the INDEC, exports to China were US\$4.661 billion in 2016, of which agricultural exports accounted for around US\$4 billion, or 86%.¹² Soybeans and soy oil are the leading traded products. Argentina's other agricultural exports to China include meat, sea products, rawhide, tobacco, animal hair, dairy, grain, wood, beverage, fruits, and furs. These products are much smaller in volume, accounting for modest shares among all exports.

Although Uruguay is not a geographically large country, it is an important producer and exporter of farm and ranch products in Latin America. Over the past few years, its exports to China have experienced remarkable growth. In 2016, those exports were US\$1.840 billion. China has become the No. 1 export destination of Uruguayan soybeans, cellulose, and beef. The shares of sales of these three products to China among Uruguay's total exports remained respectively high in 2016, at 73%, 37%, and 35% (Uruguay XXI 2017, p. 4).

The three countries above are the leading suppliers of agricultural goods to China in the region. Furthermore, soybeans have contributed greatly to this picture. Other countries that have exported agricultural products to China, such as Chile and Peru, have no such special ties to certain commodities. In fact, the mushrooming agricultural trade in these cases has benefited from another factor—bilateral free trade agreements (FTAs).

China and Chile signed their FTAs on November 18, 2005. They came into effect on October 1, 2006. Because of favorable terms, Chile's agricultural exports to China have grown dramatically since then. In terms of value, its share in Chile's total agricultural exports rose from 1.2% in 2006 to 16.4% in 2015. In 2016, the share of agricultural exports from Chile's total exports to China reached 36%, 2% higher than the previous year.¹³ China is currently the second largest export destination for Chilean wine. Chile is China's second largest import source country for wine. In China's imported fruits market, 98% of the blueberries, 80% of the cherries, and half of the table grapes and apples are from Chile. Kiwi, plum, avocado, walnuts (shelled and unshelled) and dried prunes also have their own shares in the market.

¹¹ Author's calculation based on MDIC database. Retrieved from <http://www.mdic.gov.br/index.php/comercio-exterior/estatisticas-de-comercio-exterior/balanca-comercial-brasileira-mensal-2>.

¹² Author's calculation based on data from INDEC database. Retrieved from https://www.indec.gov.ar/nivel4_default.asp?id_tema_1=3&id_tema_2=2&id_tema_3=39.

¹³ Author's calculation based on data from Dirección General de Relaciones Económicas Internacionales (DIRECON), Ministerio de Relaciones Exteriores, *Reporte Trimestral: Comercio Exterior de Chile, Enero-Diciembre 2016*, Febrero 2017. Retrieved from <https://www.direcon.gov.cl/wp-content/uploads/2017/02/Reporte-Trimestral-enero-diciembre-2016-1.pdf>.

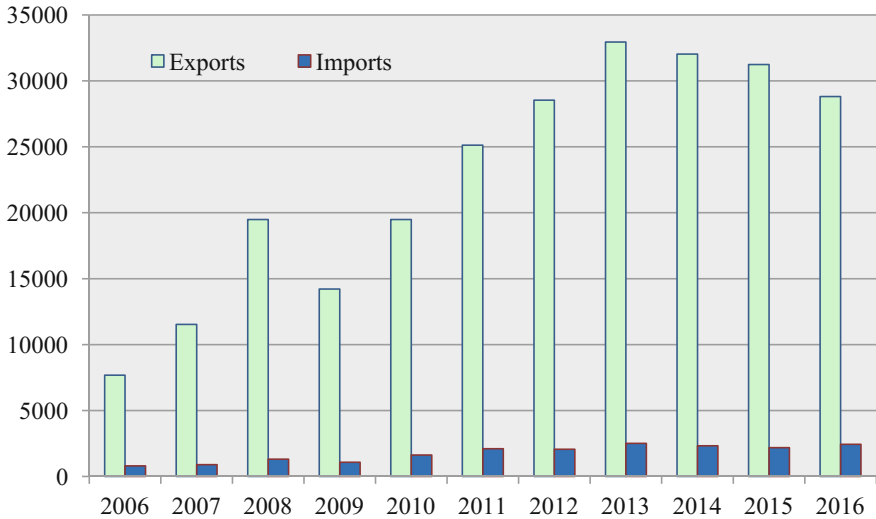


Fig. 5 Latin America’s Agricultural Trade with China, 2006–2016 (millions of dollars). *Data source:* Agricultural trade Database, Department of Foreign Trade of MOFCOM (<http://wms.mofcom.gov.cn/>)

Peru was the second country in Latin America to sign a FTA with China. The China–Peru FTA is also the first comprehensive FTA that China signed with a Latin American country. Since the agreement came into effect on March 1, 2010, it has boosted the bilateral trade tremendously. Milton Von Hesse, the former Minister of Agriculture of Peru, stated in the first China–LAC Agricultural Minister’s Forum in June, 2013 that during 2010 and 2013, Peruvian agricultural exports to China grew by 8.7 times.¹⁴ Among unconventional exports, around 60–70% consist of farm, ranch, and fishery products. Giant squid and table grapes have grown particularly fast; other Peruvian specific products such as alpaca wool, corn, maca root powder, mango, and citrus fruits (grapefruit, mandarin orange, and lime), asparagus, fresh avocado and blueberries have also taken up increasing shares in exports to China.¹⁵

Apart from the five countries analyzed above, countries other than Mexico have made their contributions to the region’s agricultural exports to China. Although Mexico’s trade relations with China are dwarfed by those of South American countries, agricultural exports have developed over the past few years. The variety of agricultural exports range from conventional exports such as cotton, coffee, fishmeal, and rawhide to fresh and frozen fruits and vegetables including avocado, grapes, blackberries, raspberries, strawberries, blueberries, mushrooms, chives, as well as other important

¹⁴See “Peru’s Agro-exports to China Grew 8.7 Times in Post-FTA Period,” *Andina*, June 9, 2013. Retrieved from <http://www.andina.com.pe/Ingles/noticia-perus-agroexports-to-china-grew-87-times-in-postfta-period-461881.aspx>.

¹⁵For details, see MINCETUR (2017).

products and high-value-added goods such as tequila, beer, orange juice, pork, frozen fish, shrimp, and squid. In addition to Mexico, other countries such as Ecuador, Colombia, Costa Rica, and Panama have increased exports. Several Central American and the Caribbean countries, such as Guatemala, El Salvador, Nicaragua, Honduras and Dominican Republic, also export various agricultural goods to China (such as bananas, white shrimp, coffee, fresh flowers, and cocoa beans).

In addition to goods trade, services trade with China has risen in recent years. Nevertheless, Latin America remains a marginal player in global services trade. In 2016, the region's share of global services exports was just 3.1%, compared to almost 6% of global goods exports. It had a larger share in exports of traditional services than of modern services. In the first category, the region's best performance is in tourism, which accounts for almost half of its services exports (ECLAC 2017b, pp. 18–81). China, in 2012, became the world's top spender in international tourism. It has since led global outbound travel. The China National Tourism Administration (CNTA) reported that, in 2016, around 122 million Chinese ventured abroad (a 4.3% increase on 2015's figures). Tourism expenditures from China surged to US\$109.8 billion (5.1% higher than the previous year) (CNTA 2017). To seize tourism opportunities with the Chinese market, some countries of the region such as the Bahamas, Ecuador, Colombia, Bolivia, Chile, Argentina, and Brazil, have revised their visa policies for Chinese tourists, granting visa waivers, conditional visa waivers, or a visa on arrival, or merely simplifying formalities. They also have undertaken great efforts at expanding tourism promotion in China.

In the last few years, economic ties between China and Latin America have achieved considerable diversification related to the investor type, investment field, and geographical distribution of ventures. That can be attributed to various factors, including the Chinese government's adjustment and improvement of policies, Latin American countries' stronger interest in and more supporting measures for attracting Chinese investment, cumulative survival experience, and more mature governance of Chinese overseas companies, as well as dramatically increased pressure from China's domestic markets to change the development model and upgrade industries. Investment is no longer only a means gaining natural resource supplies, but rather an opportunity to explore overseas market, reduce production and logistic costs, transfer overcapacity, increase competitiveness, and increase R&D competence. In terms of sectors, Chinese investment has already expanded beyond natural resources, and can be found across numerous industries, including manufacturing, agriculture, electronics, power, information technology and software, finance, wholesale and retail, clean energy, infrastructure, textile, pharmaceuticals, transportation, warehousing, catering services, and tourism.

To date, it has not been difficult to name one or two impressive investment cases in most of the industries listed above. For instance, Huawei Technologies Co. Ltd., a leading information and communication technology (ICT) solution provider based in Shenzhen, has operations across numerous countries in the region. With rich overseas operation experience, Huawei's internationalization model has won wide

recognition in states which received its investment. Transnational corporations in other industries such as personal computers (Lenovo), automobiles (Cherry, BYD), household appliances (Gree), televisions (Skyworth, Konka and TCL), and heavy machinery (Sany, Zoomlion, and XCMG), shipping and logistics (COSCO), e-commerce (Alibaba), air transport (Hainan Airlines), telecom (China Mobile, China Unicom), and soccer clubs (Shandong Luneng) have also developed rapidly in the region. Several countries such as Brazil and Mexico with large national economies, growing consumer markets, strategic geographic locations (either close to North American market or adjacent to numerous countries in the region), and favorable or improving investment environment, have attracted many Chinese companies to establish manufacturing bases or subsidiaries there.

Since 2007, amid rising food prices in international markets, Chinese agricultural corporations, both SOEs and private entities, have started eyeing Brazil, Argentina, Bolivia and other countries in the region with wealthy agricultural resources. Some of them have gained a regional foothold by purchasing or leasing land (Chongqing Grain Group in Brazil and Argentina, Zhejiang Fudi Agriculture Group in Brazil, and Penxin Group in Bolivia), or through acquisition of local agricultural assets (China National Complete Plant Import & Export Corporation Group's Investment in the sugar industry in Jamaica, Joyvio Group's acquisitions of Chilean fruit companies). China National Cereals, Oils and Foodstuffs Corporation (COFCO) Group is China's largest food processor, manufacturer and trader, possessing a unique position in deploying international market and global resources to ensure a national food strategy. Its venture in Latin America began in 2010. In September, COFCO purchased a Chilean vineyard and a wine factory for US\$18 million to adapt to the growth of its Great Wall Wine business. COFCO did not engage in other investment projects in the region until 2014, when it led two multinational consortia and acquired a 51% share of Dutch-based grains trader Nidera and 51% stake of Hong Kong-based Noble Agri. In 2016, COFCO bought the remaining 49% stakes in the two companies. Building on Nidera and Noble Agri's existing platform in Latin America, COFCO saved time and effort in initiating its own ventures. It quickly entered the region.

Giant state-owned power and infrastructure corporations of China, such as State Grid, Three Gorges, Gezhouba Group, have also invested in the region. They participate actively in local infrastructure construction and management via acquiring electric transmission system assets from European enterprises, or cooperatively financing some huge hydropower projects in Brazil, Argentina, and Ecuador. At the same time, private Chinese companies in the business of clean energy resources (solar, wind, and geothermal energy), such as Sinovel Wind Group, Xinjiang Goldwind Science & Technology, Sky Solar Holdings, are seeking opportunities to expand their local businesses and increase their investment in renewable energy projects in Chile, Cuba, and Central America countries.

The presence of several Chinese state-owned banks in the region is impressive as well. Since China officially joined the Inter-American Development Bank (IDB) in 2009, to promote China–Latin America trade and provide better financial services for companies from both sides, major Chinese financial institutions have established

Table 2 China's major investment projects in Brazil, 2017 (both announced and completed)

Time	Description
Jan. 2017	State Grid acquired a controlling 54.64% stake in CPFL and its subsidiary, CPFL Energias Renovaveis SA, for 17.36 billion reais (US\$5.68 billion)
Jan. 2017	China's DiDi Chuxing, the world's largest ride-hailing company, led an investment in Brazilian on-demand taxi and ride sharing company 99 of more than US\$100 million
Mar. 2017	China Gezhouba Group Corporation (CGGC) officially announced that its wholly owned subsidiary CGGC Overseas Investment Co., Ltd. intends to purchase 100% stake of the São Lourenço Water Supply System Company, which is jointly owned by two Brazilian companies Andrade Gutierrez and Camargo Corrêa
Apr. 2017	BYD launched a solar panel factory in the southeastern Brazilian city of Campinas. With initial investment of 150 million reais, the plant will have production capacity of 200 megawatts and generate 360 jobs
Apr. 2017	Chinese State Power Investment Corp (SPIC) finalized the purchase of the assets of Pacific Hydro Brazil
Apr. 2017	China Communications Construction Company (CCCC) signed an investment accord to obtain 51% of ownership of a new port in São Luís (Maranhão), which will be built in partnership with WPR, a subsidiary of Brazilian group WTorre
Jul. 2017	Hainan Airline Infrastructure Co. Ltd., a subsidiary of Hainan Airline Group, signed an agreement to acquire a 60% stake in Rio de Janeiro Aeroportos SA from Odebrecht SA
Oct. 2017	Hunan Dakang International Food and Agriculture Co., Ltd. completed its acquisition of 53.99% stake in Belagricola, a company specializing in agricultural equipment sales in Brazil, with US\$ 253 million
Nov. 2017	China's CITIC Agri Fund completed its US\$ 1 billion acquisition of the Dow Chemical Company's corn seed business in Brazil, renaming the company as LP Sementes. CITIC's partner Yuan LongPing High-tech Agriculture Co. will run the business
Nov. 2017	SPIC paid 7.18 billion reais (US\$2.25 billion) for 30-year concession right to operate the São Simão hydropower plant, which was operated previously by Companhia Energética de Minas Gerais
Dec. 2017	JAC Motors announced it will invest 200 million reais (US\$60.75 million) in the construction of a factory in Itumbiara (Goiás)

Note: Author's elaboration based on widely various publicly accessible sources, including government, corporate, and press reports in both China and Brazil

subdivisions in Latin America. China Development Bank (CDB) now has working groups in several countries there. Bank of China (BOC) established its operational branches in Brazil (2009) and Peru (2016), and opened "Chinese business desks" in Chile (2012) and Mexico (2015). The Industrial and Commercial Bank of China (ICBC), the largest commercial bank in China, also accelerated its expansion in the region. In 2012, ICBC purchased an 80% stake of Standard Bank Argentina (a subsidiary of Standard Bank of South Africa), turning it into the ICBC Argentina. After a rough and rugged application procedure, ICBC received approval to set up branches in Brazil and Peru in 2013, which officially opened respectively for business in September 2013 and February 2014. Shortly thereafter, a China

Construction Bank (CCB) branch in Brazil was established from the acquisition of Brazilian firm BicBanco through purchasing a 72% stake. In 2016, CCB went through a lengthy process and officially opened the first clearing bank for transactions in RMB in South America in Chile’s capital Santiago. Bank of Communications (BoCom), the fifth largest commercial bank in China, acquired an 80% stake in the Brazilian bank BMM in 2015. It has completed the delivery of equity in November 2016.

To some degree, diversification is a visible tendency. Significant asymmetries persist within different countries and sectors. Overall, the largest amount of Chinese investment went to South America, corresponding to China’s trade with the region. Investments in Brazil have become diversified to a much greater degree in terms of sectors and related investors, than those in other Latin American countries. The sheer size of the Brazilian market has left many attractive business areas for Chinese investors despite Brazil’s unstable macroeconomy. In the first three quarters of 2017, according to the Brazilian newspaper *O Globo*, among all the projects acquired by foreign investors, 35% were acquired by Chinese companies.¹⁶ Table 2 below shows some major Chinese investment projects in Brazil in 2017.

4 Conclusion

China–Latin America relations have expanded to an unprecedented extent since the beginning of the new millennium. For the first time in history, the two economic regions separated by the vast Pacific Ocean are linked mutually so closely that on some occasions or in some areas a certain amount of mutual dependency is perceptible. The Chinese government understands that the issues described above are involved in China’s economic engagement with Latin America, and expects to take the Community of Latin American and Caribbean States (Comunidad de Estados Latinoamericanos y Caribeños, CELAC), the multilateral organization joined by all 33 Latin American countries under the new circumstances, as a platform to promote more constructive, more comprehensive China–Latin America cooperation. In January 2015, the *China–Latin American and Caribbean Countries Cooperation Plan (2015–2019)* was adopted at the First Ministerial Meeting of the China–CELAC Forum held in Beijing. The Plan sets out thirteen thematic areas of work, seven of which are in economic spheres: trade, investment and finance; infrastructure and transportation; energy and natural resources; agriculture; industry, science and technology, aviation and aerospace; tourism; and environmental protection, disaster risk management and reduction, poverty eradication and health. Each area includes concrete objectives, some even with lines of action. For example, in the part of “trade,

¹⁶See “Com US\$ 8,5 bilhões em 2017, China aumenta participação em fusões e aquisições no Brasil,” *O Globo*, 28 de setembro de 2017. Retrieved from <https://g1.globo.com/economia/negocios/noticia/com-us-85-bilhoes-em-2017-china-aumenta-participacao-em-fusoes-e-aquisicoes-no-brasil.ghtml>.

investment and finance”, the document sets the goal of increasing the level of bilateral trade to US\$ 500 billion and the stock of reciprocal investment to at least US \$ 250 billion in 10 years. It also promises collaboration to make trade balanced and mutually beneficial, to further the CELAC stock of investment with particular emphasis on high-technology and value-added goods production, to boost trade in services and e-commerce, and to handle trade friction properly in compliance with WTO rules and existing trade agreements between the parties.¹⁷

The main principles of this *Cooperation Plan* are also reflected in the Chinese government’s second white paper on Latin America released in November 2016.¹⁸ To finance China–Latin America industrial cooperation, which was initially proposed by Chinese Premier Li Keqiang in 2015, China also established approximately US\$35 billion in region-wide funds for infrastructure and other projects. Recently, to finance investment projects in the largest economy of the region, a joint Brazil–China investment promotion fund with an initial sum of US\$20 billion was officially launched in São Paulo.

For the time being, the scope for potential cooperation is quite broad and varied. All the goals would need to be grounded in specific projects. In the last two years, there were increasingly wide-range discussions related to the prospects for Latin American participation in China’s Belt and Road Initiative (BRI). During the second China-CELAC Ministerial Forum, which took place in Santiago, Chile in January 2018, the Foreign Ministers issued a special declaration on supporting and participating in the Belt and Road Initiative. BRI might represent an enormous opportunity for the countries in the region—or as Chinese Foreign Minister Wang Yi described, “will create greater space, market as well as resources and means for the development of LAC countries”, yet the lack of clarity in its goals to Latin America also poses uncertainties.¹⁹ China’s future role in Latin America demands further observation.

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¹⁷See China-CELAC Forum “China–Latin American and Caribbean Countries Cooperation Plan (2015–2019),” January 9, 2015. Retrieved from http://www.chinacelacforum.org/eng/zywj_3/t1230944.htm and ECLAC (2015), pp. 67–75.

¹⁸For details, see Ministry of Foreign Affairs of China (2016).

¹⁹These remarks are made by Foreign Minister Wang Yi at the Opening Ceremony of China-CELAC Economic and Trade Cooperation Forum and China-LAC Business Council Annual Meeting 2018 on 23 January 2018. Retrieved from http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zjyh_665391/t1529529.shtml.

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Chapter 3

Japan's Internationalization Strategy and Latin America



1 Introduction

Japan and Latin America have developed beneficial economic exchanges based on mutually complementary relationships. Such relationships, however, are increasingly affected more strongly by the economic diplomacy of the United States and China amid the progress of economic globalization. Immediately after its start in January 2017, the Trump administration of the U.S. announced its intention to renegotiate the North American Free Trade Agreement (NAFTA) and withdraw from the Trans-Pacific Partnership (TPP), which shocked the countries involved. China has strengthened its relationships with South American countries by emphasizing the acquisition of natural resources.

The objective of this chapter is to provide prospects for future economic relationships between Japan and Latin America by examining the economic effects of instability raised by the influence of such developments on Japan and Latin America.¹ This article first presents in Sect. 2 a survey of the history of the economic

This chapter is authored by Nobuaki Hamaguchi.

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relations between Latin America and Japan. It explains the strong traditional complementarity which made Japan and Latin America strategic partners mutual in spite of long physical distance. Although difficulties in economic situations in the 1980s and 1990s hampered further development, the relationship has been reinvigorated recently with improved economic conditions. Embarking from these observations, we analyze several factors that might affect the strategic direction of Japan with respect to Latin America. Section 3 presents consideration of the effects of new developments in US economic diplomacy, particularly addressing NAFTA renegotiation and the walk-away from TPP. The former is important for investment in the value chain of Japanese firms in Mexico. Section 4 will specifically examine the effects of increasing China's influences in Latin America. Sections 5 and 6 present consideration of some implications of a structural transformation of Japanese economy in recent years for the Japan–Latin America relations. Section 7 concludes the discussion.

2 Overview of Economic Relations Between Latin America and Japan

2.1 *First Encounter and the Development of Relationships*

Japan has long maintained good economic relations with Latin America (Kahn 2016). Despite their journeys down different paths of economic development, both sides have been connected continuously through complementary relationships. The first encounter was emigration: it is peculiar that the two regions, which are geographically the most distant from each other, have come to be linked through the movement of people. Beginning with the Japan–Mexico Treaty of Amity, Commerce, and Navigation signed in 1888 as Japan's first equal treaty requiring no extraterritoriality but allowing tariff autonomy,² Afterward, Japan signed treaties with Brazil in 1895 and Chile in 1897. To Brazil and Peru alone, more than 100,000 Japanese people had migrated during 1908–1924, signifying only the first of many mass migrations.

The national census of 1930 reflects that agricultural, fishery, and mining workers constituted 50.4% of all employed people in Japan, which suggests strong population pressure on land. Industry was not yet sufficiently developed to absorb surplus labor: emigration was regarded as a national policy for a solution. However, Latin American countries that had just become independent in the first half of the

²The first formal diplomatic relationship was the Japan–Peru provisional treaty of trade and navigation signed in 1873 (the Treaty of Friendship and Navigation was signed again in 1895) after the María Luz Incident in 1872, in which Chinese workers fled a Peruvian ship at the Port of Yokohama, and emigration to Peru began in 1899. Emigration to Mexico was led by the then Minister of Foreign Affairs, Enomoto Takeaki, through his “Enomoto Emigration” voyage in 1897, which nonetheless was not followed by more emigration.

19th century had abundant land and resources with low population density and were seeking a labor force to replace slave labor.

Emigration to Latin America was interrupted by World War II, but it resumed after the war ended when Japanese people who had returned from China and other countries and former miners who had left the declining mining industry began migrating to Latin America.

When Japan entered its high economic growth period in the 1960s, emigration ended its role as a solution to Japan's labor surplus. The country started importing resources such as fuels and minerals as industrial materials and agricultural products such as cotton and coffee from Latin America. Resource importation marked the beginning of a new phase in economic relations with Latin America. Latin America, by contrast, was changing its development strategy to diversify its various economic structures from dependence on the export of primary products to industrialization for domestic markets based on import substitution. Around this time, Japanese companies participated in Latin America's industrialization plans with investments in the dawn of overseas direct investment. Heavy machinery manufacturers such as Toyota Motor Corporation (Brazil), Nissan Motor Co. Ltd. (Mexico), Ishikawajima-Harima Heavy Inds. Co. Ltd. (Ishibras Shipyard), and Nippon Steel Corp. (Usiminas) entered the market.

Japan's postwar foreign policy was marked by military and economic dependence on the United States. Tsunekawa (2003) points out that Latin America has not been a high priority region in Japan's foreign policy. Under the recognition that Latin America is an area of influence of the United States, Japan's autonomous actions in Latin America remained limited to the extent that they did not interfere with U.S. interests.³ The Japanese government largely supported the US Latin American policy even in areas which had military implications. For example, in Central America and the Caribbean in the 1980s, Japan's official development assistance (ODA) preferred support to Costa Rica, Honduras, and Jamaica. It also backed Plan Colombia, which was aimed at combating drug production and trafficking and related guerrilla activities, although Japan's participation was limited to "alternative crop" production and humanitarian aid.

Consequently, Japan's engagements in Latin America were largely left in the hands of private initiatives. In the 1960s and 1970s, Latin America was the main market for the Japanese heavy machinery industry through foreign direct investment. According to Tsunekawa (2003), Latin America received 26.6% of the cumulative Japanese foreign investment in that period.

³Japan implemented some autonomous policies on other occasions. Japan had close relationships with Panama's Noriega administration for the modernization of Panama Canal to secure the transportation of natural resources from South America. Japan did not join economic sanctions against Argentina for the Falklands (Malvinas) conflict or against Peru for President Fujimori's non-democratic rules by self-*coup-d'état* (auto-golpe). See Matsushita (1993) on this point. Hollerman (1988) considered that heavy Japanese investment in Brazil in 1960s and 1970s in natural resources represents a meeting of interests of both countries to challenge US dominance. Argentina, Brazil, and Peru received large numbers of Japanese immigrants.

After the oil crises of the 1970s, Japanese companies increasingly recognized the need to secure resource suppliers. They invested in iron ore, soybean, copper, petroleum, aluminum, paper pulp, and other resources in Latin America through large public-private projects. Latin America and Japan also developed financial relationships through bank loans. Although Latin America required investment to facilitate the region's economic development, it lacked domestic savings and foreign currencies. Japan's active investment and lending drew attention.

2.2 *Shocked by Economic Crises*

In the 1980s and 1990s, Latin American countries faced severe economic turmoil because of severe crises in balance of payments and inflation. Japan's interest in Latin America decreased rapidly. Furthermore, the sluggish Japanese economy in the 1990s weakened the financial scale of Japanese companies' investment and curtailed demand for natural resources in the Japanese market. Many Japanese private companies withdrew investment assets amid the extended slump of domestic demand in the region. New private financial flows were discontinued. Government-supported development projects were interrupted because Latin American governments faced severe difficulties in repaying outstanding debts.

Although Latin America's importance in Japan's international economic agenda had waned considerably, Japan maintained some passive engagements in the region but took some actions congruent with US interests. In the 1980s, Japan was criticized by the US government for the enlarged bilateral trade imbalances. In an objective "to appease Washington by giving its support in issues that were believed to be of vital interest to the United States" (Tsunekawa 2003, p. 302), the Japanese government participated in the Brady Plan under its Capital Recycling Program using accumulated current account surplus. The Latin American debt problem at the time severely threatened US financial institutions.

2.3 *A New Encounter*

Although Japan and Latin America became economically estranged in the 1980s and 1990s, a new encounter emerged. Like the first encounter, it was the movement of people. But in the opposite direction. In the 1990s, because of its declining birth rate and aging population, it became evident that Japan would confront worsening labor shortages. In 1990, the Japanese government revised the immigration control law by which foreign-born Japanese descendants (up to the third generation) were granted qualifications as long-term residents with permission to work. The demographic transformations and the institutional change prompted the migration flow from Latin America to Japan called "*dekassegui* (migrant worker) phenomenon." At the peak in the first half of the 2000s, some 300,000 Japanese descendants from

Latin America emigrated to work in Japan. An economic slowdown since the 1980s and deteriorating public safety in Latin America also motivated the migration of workers to Japan. Although some of these people repeated short-term employment on the assumption of returning home, an increasing number of immigrants began to live permanently in Japan.

As history shows, Latin America has provided solutions to Japan's problems in each era, including surplus labor in farming villages in the prewar and postwar period, maintenance of adequate resources and overseas direct investment during the high-growth period, and the emigration of Japanese-descended workers to reduce labor shortages in the 1990s. Such relationships are important also for Latin America, to which Japan has served as a provider of labor and capital needed in the past. Japan has been a recipient of rich natural resources and labor, for which surpluses have arisen in the recent sluggish economy. In 2007, former Ministry of Foreign Affairs Taro Aso called the accumulation of public and private exchanges "latent assets". He also stated that such assets are larger with Latin America than with any other regions.⁴

Recently, Japanese engagement with Latin America has strengthened because of Latin America's stable economic growth with growing middle-class, abundant natural resources, in addition to the region's increasing importance as part of global supply chains, as noted by Yamada (2013). The trigger point was the signing of Economic Partnership Agreements (EPAs) with Mexico in 2004. Although trade liberalization through regional integration and bilateral free trade agreements (FTAs), including the E.U. and NAFTA, have become more active throughout the world since the mid-1990s, Japan maintained its position requiring negotiations for international trade liberalization according to GATT and the WTO as a precondition until the end of the 1990s. Japan's first bilateral EPA was signed with Singapore only in 2002. The Japanese business community requested its government to sign EPA with Mexico. The reason that Japan signed an EPA with Mexico ahead of other Asian countries was that Mexico's NAFTA membership and signing of an FTA with the E.U. had caused the loss of competitiveness of Japanese companies against U.S. and European companies, which, like the U.S. and European companies, manufactured products for the North American market in Mexico. It was the first agreement with a country that had an agricultural sector capable of export. Negotiations with Mexico, which already had rich experience in FTA negotiations, provided the Japanese government with an important learning opportunity. Subsequently, Japan rapidly expanded its EPA relationships.

An important signal was given by Prime Minister Junichiro Koizumi during the Japanese PMs official visit to Mexico in 2004 for the first time in eight years. During that visit, Koizumi announced the "Framework for a New Partnership between Japan and Latin America" (Rose 2010). Following Mexico, Japan signed EPAs with Chile and Peru. Another with Colombia is under negotiation. Japan

⁴<http://www.mofa.go.jp/region/latin/speech0707.html>.

welcomed the establishment of the Pacific Alliance formed by these four countries and became an observer country. It was also remarkable that Japanese technology in digital television broadcasting was adapted by Brazil in 2006; it quickly spread thereafter to other Latin American countries.

Summit diplomacy has become more active in recent years, including official meetings of PM Abe with President Enrique Peña Nieto of Mexico in 2013, President Michel Temer of Brazil in 2016, and President Mauricio Macri of Argentina in 2017.

In 2014, PM Shinzo Abe successively visited Mexico, Trinidad and Tobago, Colombia, Chile, and Brazil in 2014 for the first time in ten years since the visits of PM Koizumi. On this trip, PM Abe's announced the guiding principles of the Japanese government toward Latin America.⁵ The announcement was entitled as "*Juntos!*" (the same expression in both Spanish and Portuguese), which means "together", intending to emphasize mutual benefits of strengthening relationships. Three pillars in the partnership are:

Progress together (*Progedir juntos*): technical cooperation in cutting-edge areas such as satellite remote sensing on the Amazon rain forest; human capital development through Japanese companies' investment, which contributes to enhancing work ethic and the joy of working.

Lead together (*Liderar juntos*): Japan and Latin America share the value of unwavering pursuit of peace, respect for liberty, the honoring of human rights, and the upholding of democracy and the rule of law. Therefore, the two parties can together show leadership in dialogues on several global issues such as global warming and international security.

Inspire together (*Inspirar juntos*) : cooperation in investments to benefit future generations. Exchange programs for more than 1000 young leaders "training program for future leaders of Japanese descent"

Ferchen (2014) observed that PM Abe's visit to Latin America was intended in some respects as a symbolic response to Chinese President Xi Jinping's trip in this region a few weeks prior. As explained shortly, China's influence is growing in the region and Japanese government is sensitive to that growth in two respects. First, it might pose a dangerous game if China continues to challenge the US influence in the region, counterbalancing US engagements in the Southeast Asia (Ferchen 2014). Second, basic characteristics of China's natural-resource seeking engagement in Latin America are in direct competition with that of Japan. It is impossible, however, for Japan to match China's efforts quantitatively, while especially the Latin American economic situation is so uncertain that new large investment is not economically justifiable.

Therefore, Japan's underlying plan in the guiding principle is to differentiate its own efforts from other countries' (most notably China) engagement in Latin

⁵http://www.mofa.go.jp/la_c/sa/br/page3e_000208.html.

America, based on previously described “latent assets”. Specifically, the Japanese government sends a message appealing to Latin American peoples’ good memories and trust in Japan’s economic and technical cooperation in natural resource development in the 1960s and 1970s, which have grown to become major exporting commodities from Latin America. It also reinforces support for the Japanese descendant community, which is expected to play an instrumental role in socio-economic development in Latin America.

Mr. Taro Aso once pointed out that “the robustness of Japanese diplomatic strength is seen first of all on the exact opposite side of the globe”,⁶ meaning that the state of diplomacy in Latin America is the most sensitive indicator of Japanese diplomatic strength. Making full use of “latent assets” in Latin America is necessary to gain understanding of the Japanese position in whichever the issue is global or regional in Asia.

In fact, after the cooling down of exchanges in the 1980s and 1990s, economic recovery on both sides induced further warming of relations. Kuwayama (2015) notes that Latin America and the Caribbean have returned to Japan’s list of foreign policy priorities since PM Abe’s visit. In Mexico, direct investment of Japanese companies, particularly in the automobile industry, has increased in recent years. A ceremony to commemorate the entry of the 1,000th company into Mexico was held in 2017. In Brazil, the first Japan House in the world was founded in São Paulo in 2017, which is expected to provide the latest information related to Japan.

3 Effects of New Development of US Economic Diplomacy on Japan–Latin America Relationships

3.1 NAFTA Renegotiation

During his presidential election campaign in 2016, Donald Trump gained support from the working class in the so-called Rust Belt, the traditional mining and manufacturing region of the U.S., by linking the country’s trade deficits and the presence of foreign immigrants with unemployment in the manufacturing industry, which helped him win the election against long odds. Particularly, he criticized Mexico harshly, alleging one-sidedly that the country was creating factors that weakened the U.S. economy. In May 2017, President Trump notified Congress of the planned NAFTA renegotiations. The first round was held in August. The plan was to hold a total of eight rounds of negotiations aimed at an agreement by the end of the year. At the time of writing of this article in November 2017, negotiations are coming to a deadlock because U.S. negotiators have adopted an attitude of making

⁶See the same reference cited in footnote 4.

one-sided demands, requiring Mexico to purchase more US products and claiming that Mexico manipulates the exchange rate. Mexico and Canada are not acquiescing to such demands and are instead requesting “modernization” of NAFTA by incorporating new categories such as electronic commerce, which were not included in the assumptions when NAFTA was established in 1994, while preserving the free-trade regime. However, they have yet to persuade the U.S. to compromise.

The NAFTA renegotiations started with a schedule for reaching agreement by the end of 2017, considering the political schedule for the Mexican presidential election and the U.S. midterm elections to be held in 2018. The following is the process of the negotiations since August.

- Round 1 (August): The three member countries confirmed that NAFTA would be upgraded to 21st century standards to serve the interests of all people.
- Round 2 (September): The members exchanged information related to negotiated issues.
- Round 3 (September): The members made certain progress in discussions related to issues such as communications, competition policy, electronic commerce, trade facilitation, and small and medium-sized businesses. These correspond to the so-called “modernization of the agreement,” which is to cover matters that were not foreseen when the current agreement was established in 1994. The three member countries showed little disagreement in their opinions in this area.
- Round 4 (October): In the discussion of the rules of origin, which specify the conditions for zero tariffs on automobiles, the U.S. demanded the use of 50% or more of parts made in the U.S. and proposed an increase in the procurement rate within the three member countries from the current 62.5% to 85%. In addition, the U.S. proposed the inclusion of a “Sunset Clause,” under which all new agreements would be reviewed after five years and would be abolished if not supported by all three members. In other words, it is an attempt to include a future threat that the NAFTA will be abolished automatically if the U.S. does not approve its extension. The U.S. calls this a “poison pill,” which, however, would prevent companies from building supply chains on the assumption of the NAFTA that involves uncertainties deriving from such a rule. The joint statement of the three countries’ ministers in charge of the negotiations indicated the emergence of “significant conceptual gaps” among the three countries.
- Round 5 (November) and Round 6 (January 2018) ended with no concrete advances.

US government is engaging the renegotiation under the trade promotion authority (TPA) in 2015. The current TPA expires on June 2018. Toward this deadline, by March the government should report to the congress any intention to sign a new agreement, and by June present the text of the new agreement. The possibility of making such progress seems remote. First, by presenting the only

slightly acceptable proposal for Canada and Mexico in the Round 4, the earnest intention of the Trump administration to reach agreement on the renegotiated is already questionable. The U.S. might even appear to be making difficult demands intentionally with a plan to withdraw from NAFTA one-sidedly because no agreement with Canada and Mexico can be reached, aiming to make a political display to American people who support such a policy.

Second, the renegotiation affected the Mexican presidential election in July 2018 to some extent. The former Mayor of Mexico City, Andrés Manuel López Obrador, who is known to be a left-wing nationalist, won the election. López Obrador has expressed a clear stance against President Trump and gained popularity.

The Mexican industrial sector remains concerned that the country's economic ties with the U.S. might weaken. The new government might consequently implement a policy of strong intervention in the economy as anti-poverty measures such as a substantial increase in the legal minimum wage, which have already failed in South American countries and which might worsen Mexico's financial position.

Furthermore, the midterm elections of the U.S. will be held in November 2018. Given this political agenda, it remains unlikely that any substantial negotiations can be held until 2019.

The emergence of a Trump administration that demands renegotiations of the NAFTA has created strong uncertainty pervading Mexico's economy, politics, and diplomacy. As presented in Fig. 2, investment by Japanese companies in Mexico has remained at high levels in recent years. Active investment has been made particularly in the auto industry. The Consulate-General of Japan was established in the state of Guanajuato in 2016, in which companies continue to expand their businesses. All Nippon Airways Co. Ltd. launched direct flight service between Narita and Mexico City. In fact, economic relations between Mexico and Japan have become closer based on the bilateral EPA that took effect in 2004. Mexico was the first to support Japan's participation in the TPP negotiations officially. Moreover, Mexico quickly expressed its expectations from Japan's leadership in the enforcement of the TPP without the U.S. after its withdrawal. The two have thereby strengthened their ties in terms of economic diplomacy.

Amid uncertainties, Japanese companies can only take a wait-and-see attitude for now until the NAFTA renegotiations are settled, resulting in declining investment in Mexico. Yet, because Mexico maintains strong competitiveness as a manufacturing base of products for the U.S., Japanese companies expect that their direct investment, which is currently stagnant because of the wait-and-see situation, will resume irrespective of the direction of the NAFTA as long as the condition of Mexico does not change drastically. If, however, the hardline stance of the Trump administration against Mexico creates an administration that will undertake important institutional changes as resistance, then the wait-and-see period of Japanese companies might be prolonged.

3.2 *US Withdrawal from TPP*

The Trump administration announced withdrawal from the Trans-Pacific Partnership (TPP), which was led by the Obama administration and which has already been signed. Article 30 (5) of the TPP agreement specifies that the partnership will not take effect unless ratified by countries comprising 85% of the total GDP of the signatories including the U.S.⁷ Withdrawal of the U.S. has therefore led to a stalemate in the negotiations. Japan, however, has assumed some leadership in the renegotiations for the execution of the TPP in cooperation with ten other signatories including Latin American countries such as Mexico, Chile, and Peru while the participation of the U.S. remains on hold. The 11 countries (TPP-11) have come to a general agreement to put TPP in effect pending the ratification process in each country while freezing the effectiveness of some clauses that have already been agreed upon, which strongly reflect U.S. intentions.

Following the declaration of the Trump administration that the U.S. would not ratify the TPP, the Japanese government has led negotiations to put the TPP into effect with the TPP-11. Japan has already signed and enforced EPAs with 8 countries, including Mexico, Peru, and Chile, aside from Canada and New Zealand among the 10 other signatories of the TPP. As exhibited in Fig. 1, the trade coverage raised by the TPP-11 is small. It is widely assumed that participation of the U.S. and enforcement of EPAs with the E.U. and other agreements currently in negotiations would have made more than 50% of the total trade volume covered by the free trade agreement. The loss created by the withdrawal of the U.S. is substantial.

Still, the establishment of the TPP offers considerable value to Japan. The liberalization rate of EPAs that have already taken effect is approximately 80%. By contrast, the TPP would facilitate higher liberalization (more than 95%) and also help achieve liberalization that would exceed the requirements of the WTO (WTO-plus) or address issues not covered by the WTO (WTO-extra) in areas such as criteria for determining the origin, service trade, intellectual property, trade facilitation, investment, and electronic commerce. This liberalization is expected to correspond to structural changes in Japan's balance of payments shown in Table 1 and to encourage the growth of companies' businesses. The application of cumulativity to the criteria for determining the origin, for example, is important for Japanese companies that are building global supply chains.

At the ministerial-level conference held in Da Nang, Vietnam, where the APEC summit was held on November 11, 2017, the 11 members of the TPP, excluding the U.S., confirmed that they would first freeze 20 items, including 11 intellectual property matters such as the protection period of biomedical data and extension of patent periods and nine items in other areas such as dispute settlement of telecommunication carriers and investor-state dispute settlement (ISDS) provisions,

⁷The Trump administration declared that it would not follow domestic ratification procedures, although it has not relinquished its status as a TPP signatory.

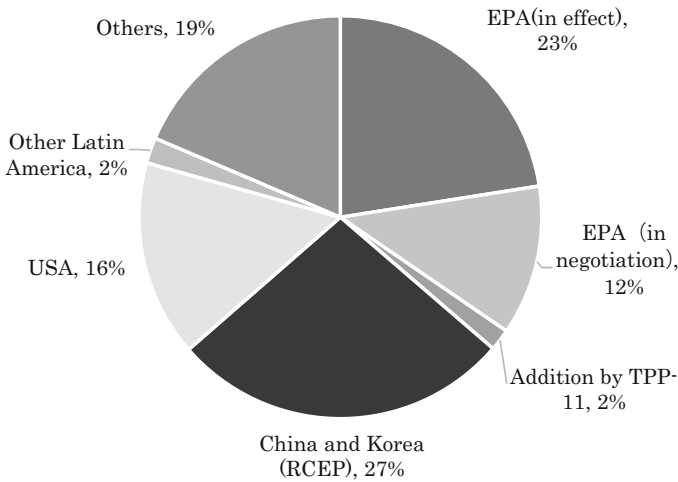


Fig. 1 Japan’s trade relations (imports and exports) in 2016. *Source* Prepared based on trade statistics published by the Ministry of Finance

which reflected requests made by the U.S. Subsequently, each country would proceed to ratification procedures. Heads of state level declarations of the conclusion of negotiations was postponed because of a request from Canada for additional revision.

Latin American countries, which fundamentally value free trade, actively supported TPP-11 renegotiations. After the exit of the USA, Chile hosted a High Level Representatives Meeting of TPP-11 member countries in March 2017 at Viña del Mar, which confirmed the start of renegotiation. Mexican Foreign Minister Luis Videgaray visited Japan on July 2017 and pledged that his country will bolster cooperation with Japan to keep TPP alive. Reportedly, PM Abe called President Ernesto Pena Nieto on January 5, 2018, urging that Canada needed convincing to sign onto the TPP-11, and President Pena Nieto agreed to talk with Canadian Prime Minister Justin Trudeau, with whom President Pena Nieto maintains close contact regarding NAFTA renegotiation (the *Mainichi*, January 24, 2018: <http://mainichi.jp/english/articles/20180124/p2a/00m/0na/018000c>). Finally, as a result of high-level talks in Tokyo on January 2018, the TPP-11 countries including Canada agreed on the revised TPP, officially called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Establishment of the CPTPP might affect negotiations for the Regional Comprehensive Economic Partnership (RCEP), which includes China and South Korea, countries with which Japan has the closest trade relations. If the RCEP is established, then more than 60% of Japan’s trade will be covered by free trade agreements, even without the U.S., which will mark great progress toward trade liberalization. A foundation for cooperation would be established if Japan, Australia, New Zealand, India, Brunei, Malaysia, and Singapore, which are

Table 1 Japan's balance of payments and structural changes (trillions of yen)

Average of 2005–2010	Breakdown	Average of 2011–2016
9.6	Balance of trade in goods	–3.2
68.0	Exports	68.5
–58.4	Imports	–71.7
–3.7	Balance of trade in services	–2.7
–1.9	In which overseas travel	–0.1
0.6	In which income from patent license fees	1.6
12.7	Income balance	15.9
3.2	Income from foreign direct investment	6.4
6.5	Balance of foreign direct investment	12.7
6.5	Balance of portfolio investment	0.7
3.5	Balance of other investments	–5.2

Source Calculated based on balance of payment statistics published by the Ministry of Finance http://www.mof.go.jp/international_policy/reference/balance_of_payments/bpnet.htm

participating in the CPTPP, set the CPTPP standards as the level of trade liberalization under the RCEP. This might be used as a tool to check the activities of China and South Korea, which are seeking to activate the RCEP at an early stage by reducing the degree of liberalization (Kuwayama 2017).

4 Impacts of Chinese Economic Diplomacy in Latin America

In Latin America's relations with Asia, Japan had maintained a prominent presence until the 1990s. Since the 2000s, however, China's influence has overwhelmed that of Japan. China places importance on Latin America as a supplier of resources and as a market for industrial products. It invests surplus funds in infrastructure projects such as electrical power, railroads, and ports and harbors, which are perceived as undervalued because of recession. These two phenomena are linked. The infrastructure projects that are expected to raise trade efficiency are drawing particular attention. A good example is the plan to build a transcontinental railroad connecting the Atlantic coast of Brazil and the Pacific coast of Peru. Investment in such infrastructure projects has been discussed as an extension of China's one Belt One Road Initiative considered for development in Eurasia. China is already the largest trade partner and investor in South American countries that are particularly dependent on resource exports.

Sino–Latin American relationships resemble Japanese–Latin American relationships in the 1970s in the respect that trade and investment relations are based on resources. The scale, however, is incomparably large. Such an overwhelmingly

large scale attracts the interest of Latin American countries, which invariably reduces Japan's presence in view of the conventional complementary relationships based on economic structures.

With China's rise, Latin American countries have been able to diversify relations and thereby reduced the political and economic influence of the United States in the region. Latin America is puzzled by the rapid growth of China's presence before fundamental trust is established. There are growing concerns among Latin American countries about competition with China in the industrial sector causing deindustrialization and commoditization of Latin American exports (Guajardo et al. 2016).

As evidenced by its One Belt One Road Initiative, China presents itself as a major power in the international order. It is attempting to increase influence in Latin America using economic cooperation as leverage. The demand to acknowledge China as a market economy under the WTO agreement, for instance, is an attempt to override the positions of Japan, the U.S., and Europe, which oppose such acknowledgment. Some Latin American countries are receiving loans using crude oil as collateral. In fact, oil is the only source of financing for borrowers such as the governments of Venezuela, Argentina, and Ecuador and *Petróleo Brasileiro S. A.* (Petrobras) after the political scandals that have severely damaged credibility in international finance and capital markets. If access to international finance and markets is available, then the loan conditions provided by China are not necessarily advantageous because repayment using oil exacerbates the burden when oil prices fall. Clearly, borrowing should be avoided in cases where market financing is difficult. China's continuation of support when developed countries are concerned about the Venezuelan government's violation of human rights of its people also indicates China's own position. While perceiving China's infrastructure-related investment in Latin America as strategic and forward-looking moves, Latin Americans also feel it risky that China ventures into making active investments when domestic investors are not interested.

Although China's increasing engagement offers unique opportunities, Latin American countries must make smart judgments to avoid over-dependence on bilateral relations while being absent from global trade liberalization. In addition, they must continue improving investment environments to provide the entire world, including Japan and China, with market-based free investment opportunities.

Strengthening Chinese economic diplomacy in Latin America has prompted Japan to rethink its own strategic approaches in Latin America. As described previously in Sect. 2.3, Japan avoids quantitative competition with China but instead tries to differentiate quality. Kuwayama (2015) points out four differences between Japanese economic engagement in Latin America and that of China. First, Japanese export goods to Latin America are not in direct competition with the industrial production in Latin America. Second, general trading companies (*sogo-shosha*) play the role of diversifying trade and investment activities. Third, economic and technical cooperation have contributed to development of non-traditional exports such as Brazilian soybeans in the Cerrado biome and the

salmon production in Chile. Fourth, Japanese foreign direct investment has built supply chains with investment of parts suppliers, especially in the automobile sector in Mexico.

5 Japan is Losing its Manufacturing Edge to Korea and China

The Latin American manufactured consumer goods markets have never been a main target of Japanese firms. However, like Mr. Aso's comment related to diplomatic strength cited in Sect. 2.3, the state of competitiveness in Latin America might be the most sensitive indicator of Japanese industrial strength.

Although no systematic official statistics are available, it is generally felt that the market shares of Japanese brands in Latin American market have sustained a substantial decline during the last couple of decades. This tendency is particularly notable in the consumer electronics industry, which once took the lead in the competition with American and European rivals. For example, although Latin American countries recently adopted Japanese technology in the digital television broadcasting system, it was Samsung and LG who dominated the smart television set market in the region. In the ICT equipment market (smartphones, tablets, and notebook computers), Japanese brands lose badly against Korean and Chinese rivals. In the automobile market, Japanese firms face stiff competition from Kia and Hyundai.

The extended slump of the Japanese economy has robbed Japanese manufacturing firms of their competitive edge. Moreover, labor shortages from demographic changes and the rising value of the Japanese yen against the US dollar have added further pressure. Furthermore, vigor in technological development was lost. As presented in Fig. 2, patent applications from Japan started to decline in the second half of 2000s, although the tendency for more patent applications is rising in Korea and particularly in China.

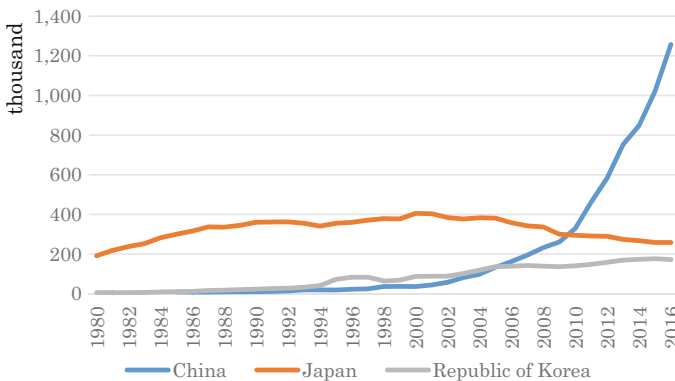


Fig. 2 Patent applications from EA-3 countries. (Source) World Intellectual Property Organization Statistics Data Center, Intellectual Property Statistics <https://www3.wipo.int/ipstats/index.htm>

6 Structural Changes in the Japanese Economy and Economic Relationships with Latin America

Japan no longer has the economic structure for domestic mass production of industrial products for export. It must strategically secure Latin America's resources. Japan's interests in Latin America therefore differ from those of China. As presented in Table 1, Japan's balance of payments has changed considerably during the last decade. First, regarding the trade balance, imports have increased, although exports have remained mostly unchanged, transforming Japan from a country with a trade surplus to one with consistent trade deficits. Causes of increased imports include higher reliance on thermal power generation because of the suspension of nuclear power plants across Japan after the Fukushima nuclear power plant accident. Additionally, increased imports of industrial products and intermediate goods from international supply chains formed largely in Asian countries have contributed to the change. In other words, the business model of Japan's manufacturing industry has shifted from an export orientation to global supply chain management.

Secondly, the importance of services has been growing. Particularly, the balance of overseas travel, which has always been a deficit, has become nearly zero to surplus by virtue of an increase in the number of foreign tourists. Compensation received for the export of knowledge such as patent license fees has also increased.

Finally, overseas direct investment has nearly doubled, which has resulted also in a doubling of returns on such investments. Development of manufacturers' global supply chains and service industry's overseas expansion are active for effectively capturing growing overseas markets.

As evidenced by structural changes of the balance of payments, the Japanese economy has shifted its weight from the export of mass-produced industrial products to global production and then to knowledge-intensive industries and service industries as the country's population decreases and average age increases. In Japan's relations with Latin America, too, interest in acquiring resources required for mass production has declined. Latin America now draws attention for investment.

The country with the greatest importance as a target of investment growth is Mexico. As revealed in Fig. 3, Japanese companies have maintained a high level of direct investment in Mexico since 2012, largely consisting of businesses related to manufacturing of automobiles and auto parts. Mexico has become an important base of automobile production based on NAFTA: U.S., European, and Japanese automakers have established factories in Mexico. Investment in the auto parts industry has been growing particularly among Japanese companies.

Figure 4 presents the conditions of investment in Brazil, the other traditional subject of investment of Japanese companies. Investment in Brazil is characterized by its rapid change and consequent instability in terms of scale. The reasons are that, first, large investments guided by the government's investment plan are made from time to time as exemplified by Petrobras's participation in the shipbuilding

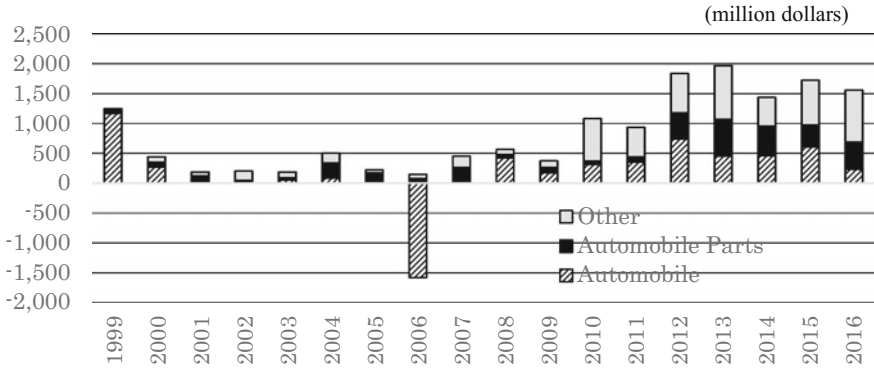


Fig. 3 Amounts of Japan's investment in Mexico (million dollars). *Source* Calculated based on CKAN <http://catalogo.datos.gob.mx/dataset/inversion-extranjera-directa>

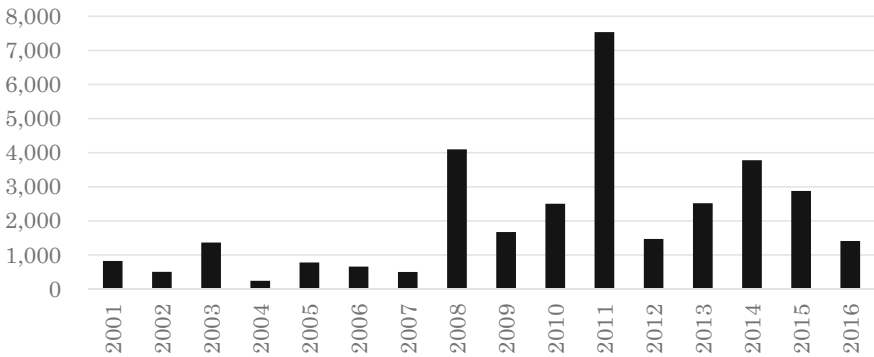


Fig. 4 Japan's foreign direct investment in Brazil (million dollars). *Source* Calculated based on the time-series database of the Central Bank of Brazil (Sistema Gerenciador de Séries Temporais—SGS-v2.1)

plan related to the offshore oil field development plan in the 2000s. The progress of such plans, however, is vulnerable to government's management failure and political issues. Petrobras, embroiled in government corruption, caused the project to be halted by suspending shipbuilding plans. Furthermore, investment has not continued while the Brazilian macroeconomy is unstable. The annual number of registered new cars, for example, exceeded 3.8 million in 2012, but decreased to 2.05 million in 2016. Investment activities are reduced to avoid such risks because investment in expectations for strong sales might be faced with idle facilities. Although Chinese companies are increasing their investments even in such conditions and are sometimes considered more strategic than Japanese companies, risk-averse investment of Japanese companies is not unique because local Brazilian companies also adopt such an attitude.

7 Outlook for Economic Relations Between Latin America and Japan

During the 1980s, Japan was criticized by the U.S. under the Reagan administration for allegedly engaging in unfair trade by keeping its automobile, agricultural product, and other markets closed and unilaterally exporting its products to the U.S. As a result, severe trade friction ensued. In contrast, the U.S. is now promoting its unilateral economic diplomacy, although Japan is taking leadership in megaregion agreements such as the TPP, Japan–EU EPA, and RCEP.

It is important that the economic relations between Latin America and Japan reflect this basic stance: Japan will welcome Latin American countries as they actively participate in global free trade negotiations. Japanese private companies will be able to find opportunities to expand their business and technological development.

For Mexico, although the NAFTA free trade system is expected to develop, its prospects remain uncertain. The growth of a force intending to take the position that conflicts with the U.S. in Mexico is also a cause of concern. Mexico must confirm its understanding that degrading its business environment by simply showing an attitude of confrontation in response to pressure from the U.S. would not be in its national interest. In this context, it should be recognized that business-friendly environments have induced Japanese firms to invest, uplifting the Mexican automobile industry including enhancement of auto parts supplier networks within Mexico.

Mexico participates in the Pacific Alliance formed with Colombia, Peru, and Chile to reduce its dependence on the U.S. The Pacific Alliance achieves a high level of trade liberalization by abolishing tariffs on 92% of its trade items (Watanabe 2017) and contributes to liberalization of the movement of businesses and people and policies for small and medium-sized businesses while developing stronger ties in an effort to establish supply chains within the group. The group has placed the Integrated Latin American Market (MILA), which aims to diversify investment portfolios that are limited within the respective countries and which allow bond issuance for collection of funds to facilitate infrastructure development and disaster recovery.

Of the Pacific Alliance members, three countries excluding Colombia participate in APEC and TPP. They are actively promoting the improvement of their relations with Asian countries. Japan is one observer among the 52 member states of the Pacific Alliance. Moreover, it is the only country that has signed or which is negotiating for EPAs with all four countries (Myers and Kuwayama 2016). Japanese companies that have developed their supply chains in Asia are in a unique position of being able to connect Latin America and Asia through businesses (Hosono 2017). The Pacific Alliance is expected to function also as a platform for the integration of Latin America through cooperation with Mercosur, a common market in South America.

Mercosur, an alliance of resource-exporting countries, is strengthening its relations with China. It has, however, relied on its bilateral relations with China at times and has neglected the development of multifaceted relations with the global economy. Mercosur is not participating in any megaregional integration in the world. Its economic diplomacy is isolated. Thorsten and Ferraz (2014) are concerned that the cost of lost opportunities caused by the continuation of this situation might be substantial. The policy for Mercosur with respect to Brazil and Argentina has changed: each country changed administrations in 2016. Free trade negotiations between Mercosur and the E.U., which had been suspended, resumed. Japan should welcome this change and promote the cooperation of Mercosur with the Pacific Alliance and should promote the improvement of Mercosur's multifaceted economic relationships with Asia using the TPP, RCEP, and other frameworks to prevent it from being overwhelmed in its bilateral relationship with China based on simple reliance on resources.

By and large, China's growing commitments to Latin America present new opportunities for economic development in the region. The Japanese strategy is not to compete with China but to present different propositions for cooperation and progress. These are potentially complementary. Latin American countries need to seek a smart balance.

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Chapter 4

Economic Relations Between Korea and Latin America



1 Introduction

Geographically, Latin America is the most distant region from Korea. However, economic relations between Korea and Latin America are much closer than what might be expected considering the distance and economic scale of the economies involved.

Regarding economic relations, one might separately consider trade, investment, Free Trade Agreements, participation in infrastructure projects, and development cooperation. Trade among those economies has become intensive, especially if one considers the large distances involved, which might be attributed to the complementary industrial structures of Korea and Latin America. Because of its concentration on heavy industries, the Korean economy can be characterized by its intensive use of energy and metals such as crude oil, iron ore, and copper ore. Because Korea is poorly endowed with natural resources, it must rely on other countries for these commodities. By contrast, Latin America has abundant natural resources, making it a natural partner for the Korean economy. Korea processes these resources into intermediate inputs or final goods for which the demand is high in Latin America.

Another important factor is the proximity of Latin America to the United States, which, combined with its low wages, makes Latin America an excellent strategic location for Korean companies to produce goods for export to the United States. Korean products, especially intermediate products, are exported to countries near the United States, such as Mexico and Central American countries, where they are assembled to final goods, and re-exported to the United States.

Regarding investment, Latin America was not a preferred destination of the Korean foreign direct investment before the 1990s. However, Korean FDI to Latin America increased continuously and more rapidly than that to other regions. Today

This chapter is authored by Chong-Sup Kim.

a large amount of Korean FDI is flowing to Latin America. Korean FDI to Latin America is also related to the proximity of Latin America to the United States. Whereas Korean investments to the Southern Cone are mostly made for the motive of market seeking, those to Mexico and Central American countries were attracted by both low wage and the close location to the US market. As a consequence, Korea and Latin American countries close to the US participate in global value chains, producing goods for export to the US.

Even the migration of Koreans to Latin America is affected to some degree by the proximity to the US. Many Korean migrants to Latin America regard the US as a final destination. Even if most migrants failed to re-migrate to the US and stayed permanently in the country of first migration, some Korean migrants, or at least their children, actually re-migrated to the US.

2 Recent Trends in Trade and Investment

Most Latin American countries maintained closed economies during the first half of the 1980s, mainly because of the lack of foreign exchange after the debt crisis. As Latin American countries made a strong effort for trade liberalization after the mid-1980s, these countries are now more open than ever. In the 1990s, with the elimination of trade barriers, the amount of trade has increased drastically, making Latin America an attractive export market for countries such as Korea.

During most of the period between 1980 and 2016, Korea's total exports increased more rapidly than world exports. Therefore, its share increased from 1.0% in 1980 to 3.7% in 2016. The case of Latin America was more erratic. Latin America's share in world exports was 5.6% in 1983, the year of the debt crisis. As a consequence of the debt crisis, Latin America's exports decreased to 3.5% in 1991. However, with trade liberalization at the beginning of the 1990s, Latin American exports increased once more to reach 5.0% in 1997. With the increase of commodity prices since 2004, Latin America, which exports large amounts of primary commodities, increased its share in world trade to 5.9% in 2012 (Table 1).

2.1 Trade Between Korea and Latin America

Trade relations between Latin America and Korea show that Korean exports to Latin America were about \$1 billion in 1989, but increased to about \$6 billion in 1999. During 2004–2011, both Korean exports to and imports from Latin America increased considerably, mainly because of the commodity boom and increased Latin American purchasing power. The drop in 2009 resulted from the global financial crisis originated from the United States. As commodity price declined from 2012, trade between Korea and Latin America decreased concomitantly.

Table 1 Korea and Latin America in World Exports

	Export growth rate (%)			Share of world exports (%)	
	World	Korea	Latin America	Korea	Latin America
1981	-0.41	21.54	1.34	1.2	4.9
1983	-3.81	11.84	3.56	1.6	5.6
1985	3.07	3.54	-2.70	1.8	5.5
1987	18.28	35.94	9.74	2.2	3.8
1989	12.15	2.91	10.04	2.2	3.8
1991	2.59	10.54	-1.64	2.2	3.5
1993	-0.62	7.26	7.23	2.3	4.2
1995	19.42	28.48	22.25	2.5	4.4
1997	3.88	4.49	11.93	2.4	5.0
1999	4.01	12.49	6.75	2.6	5.1
2001	-3.91	-12.52	-3.85	2.5	5.4
2003	16.10	18.77	9.06	2.6	4.9
2005	14.02	13.27	20.91	2.8	5.3
2007	15.81	14.22	3.26	2.7	4.9
2009	-23.21	-14.26	-21.69	3.0	5.4
2011	19.15	19.14	22.94	3.2	5.8
2013	3.97	2.48	-0.29	3.1	5.7
2015	-21.67	-8.07	-12.67	3.7	5.7

Source Author's own calculation using COMTRADE database

Korea maintained a continual trade surplus, generating complaints from the Latin American countries because of the trade deficit (Fig. 1).

The cause of the trade imbalance might be trade barriers in Korea, or the lack of interest and effort of Latin American partners in the Korean market. To investigate the real cause of this imbalance, the trade intensity index was estimated: it is an indicator of whether the value of trade between two countries is greater or smaller than might be expected based on their importance in world trade. It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner. That trade intensity index underscores the importance of trade between Korea and Latin American countries. Concretely, the trade intensity index (I_{ij}) is defined as the proportion of country i 's total exports going to country j as the share of i 's exports (X_{ij}/X_i) relative to the share of j 's total imports (M_j) in world imports (M_w).

$$I_{ij} = \frac{X_{ij}/X_i}{M_j/M_w}$$

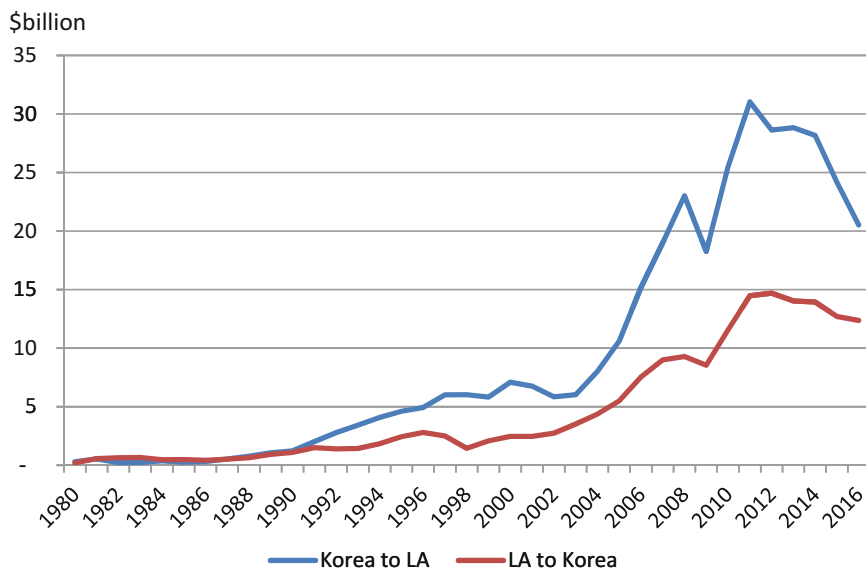


Fig. 1 Trade between Korea and Latin America *Source* Author's own calculation using COMTRADE database

The index implies that countries have greater (smaller) bilateral trade than would be expected based on the partner's share in the world if the bilateral trade intensity index takes a value above (lower) unity.

As shown in Table 2, Latin American countries' share in Korea's exports used to be 1–2% until the 1980s. Korean exports were directed mostly to either the United States or Japan. In the early 1970s, about half of Korean exports were directed to the United States and one quarter to Japan. The United States and Japan accounted for about 75% of Korean exports. In the 1980s and 1990s, about 30% of the Korean exports were directed to the United States and 20% to Japan. As might be expected, other regions such as Latin America had a very small share in Korea's exports. Too much dependence on the USA and Japan led the government to promote diversification of export destinations by reducing the share of USA and Japan trade and increasing the share to other regions, such as the EU, Southeast Asia, and Latin America. As a consequence, Latin America's share in Korea's exports increased continually. It is now larger than 5%, indicating that Latin America has become much more important to Korea as an export market.

The question is whether Korea is devoting due attention to Latin America consistent with its importance in the world market. In other words, is Korea taking full advantage of the Latin American market size? We can answer this question by observation of Table 2. In 1981, Korea was directing just 2.5% of its exports to Latin America, whereas Latin America's share in world imports was 5.1%. One can infer that Korea was paying less than due attention to Latin America. Therefore, the trade intensity index was less than one: 0.494.

Table 2 Trade intensity index between Korea and Latin America

	Latin share in Korea's exports (%)	Korea's share in Latin exports (%)	Share in world imports (%)		TII_k_la	TII_la_k
			Korea	Latin America		
1980	1.7	0.2	0.8	4.7	0.356	0.280
1981	2.5	0.7	1.0	5.1	0.494	0.680
1982	1.0	0.8	1.0	5.3	0.190	0.739
1983	0.9	0.8	1.2	5.4	0.170	0.637
1984	1.3	0.5	1.3	5.6	0.228	0.379
1985	0.8	0.5	1.3	5.3	0.157	0.396
1986	0.9	0.6	1.6	4.4	0.203	0.358
1987	1.1	0.6	1.9	4.1	0.273	0.328
1988	1.3	0.7	2.1	4.2	0.301	0.310
1989	1.7	0.9	2.0	4.3	0.397	0.433
1990	1.9	0.9	1.8	4.1	0.457	0.530
1991	2.8	1.3	1.9	4.1	0.690	0.707
1992	3.6	1.0	1.8	4.0	0.904	0.544
1993	4.2	1.0	2.0	4.2	0.983	0.467
1994	4.3	1.1	2.1	4.5	0.957	0.509
1995	3.8	1.2	2.3	4.5	0.837	0.505
1996	4.0	1.2	2.2	4.7	0.846	0.546
1997	4.6	0.9	2.2	5.1	0.914	0.428
1998	4.8	0.5	2.2	5.1	0.944	0.245
1999	4.1	0.7	2.5	5.1	0.803	0.299
2000	4.2	0.7	2.7	5.4	0.764	0.269
2001	4.5	0.8	2.5	5.5	0.819	0.302
2002	3.6	0.8	2.6	5.4	0.671	0.327
2003	3.1	1.0	2.7	5.1	0.610	0.370
2004	3.2	1.0	2.9	5.2	0.611	0.342
2005	3.7	1.0	2.9	5.4	0.684	0.354
2006	4.7	1.2	2.9	5.5	0.843	0.407
2007	5.1	1.4	2.8	5.5	0.931	0.491
2008	5.5	1.1	2.7	5.6	0.978	0.422
2009	5.1	1.3	2.9	5.6	0.896	0.459
2010	5.5	1.4	3.1	5.9	0.924	0.449
2011	5.6	1.4	3.1	6.2	0.914	0.467
2012	5.3	1.4	3.1	6.3	0.838	0.454
2013	5.2	1.4	3.2	6.1	0.851	0.424
2014	4.9	1.5	3.3	5.9	0.838	0.455
2015	4.6	1.6	3.5	6.1	0.748	0.445
2016	4.2	1.6	3.4	6.1	0.680	0.470

Source Author's own calculation using COMTRADE database

Table 3 Trade intensity index between Korea and Latin American countries

Year = 2015	TII_k_i	TII_i_k
Argentina	0.479	0.353
Bolivia	0.254	1.548
Brazil	0.876	0.546
Chile	0.755	2.180
Colombia	0.571	0.219
Costa Rica	0.433	0.178
Ecuador	0.819	0.324
El Salvador	0.338	0.061
Guatemala	0.617	0.346
Mexico	0.753	0.243
Nicaragua	0.692	0.053
Paraguay	0.597	0.148
Peru	0.873	1.290
Uruguay	0.555	0.090

Source Author's own calculation using COMTRADE database

In 1992, the trade intensity index increased to 0.904, but this was not only because Korea devoted more attention to Latin America. It directed 3.6% of its exports to Latin America. The weight of Latin America in world import markets decreased to 4.0%, more than 1% point lower than what it was in 1981.

Korea has a very homogeneous trade intensity and pattern with respect to Latin American countries, with a trade intensity index (TII_k_i) ranging from 0.245 with Bolivia to 0.876 with Brazil. However, the trade intensity index of Latin American countries with respect to Korea (TII_i_k) varied greatly, ranging from 0.053 of Nicaragua to 2.180 of Chile because Korea exports various manufactured goods that are consumed in most countries whereas Latin American countries have different export products, mostly primary, which might or might not be demanded in Korea. Some Latin American countries have a very low degree of product diversification, exporting just a small number of products that might not be consumed in Korea. Chile has the highest trade intensity index among Latin American countries, perhaps because of the FTA between Korea and Chile, and Korea's large demand for copper, which is the main export product of Chile (Table 3).

Korean export products to Latin America are not very different from those exported to the other countries in the world: manufactured goods. The most important products exported from Korea to Latin America are vehicles and auto parts, accounting for \$5.5 billion each year. Another category of products with a very similar amount is electrical machinery and equipment, including cellular phones and transmission apparatus. Aside from these are many machinery and mechanical appliances and optical and medical instruments that are exported from Korea to Latin America. One interesting product is iron and steel. Korea imports a large amount of iron ore from Latin America, and re-exports it as steel products to Latin America (Tables 4 and 5).

Table 4 Main exports of Korea to Latin America

Item	Exports (\$mil.)
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	5,570
Electrical machinery and equipment and parts; sound recorders and reproducers, television image and sound recorders and reproducers, and parts	5,447
Nuclear reactors, Boilers, machinery and mechanical appliances; parts thereof	3,496
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	2,253
Iron and steel	1,600
Plastics and articles thereof	1,558
Ships, boats and floating structures	572
Rubber and articles thereof	454
Articles of iron or steel	448
Organic chemicals	323
Others	
Total	24,282

Note average of three years: 2014–2016

Source Author's own calculation using COMTRADE database

Table 5 Main imports of Korea from Latin America

Item	Imports (\$mil.)
Ores, slag and ash	5,127
Copper and articles thereof	1,722
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1,328
Residues and waste from the food industries; prepared animal fodder	744
Cereals	721
Electrical machinery and equipment and parts; sound recorders and reproducers, television image and sound recorders and reproducers, and parts	606
Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard	474
Iron and steel	451
Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	338
Meat and edible meat offal	326
Others	
Total	15,540

Note average of three years: 2014–2016

Source Author's own calculation using COMTRADE database

The products which Korea imports from Latin American countries are mostly primary commodities. The category with largest imports is ores, including iron ores, copper ores, lead ores, and zinc ores. Another primary commodity imported from Latin America in large amounts is mineral fuels and oil. Even the manufactured goods are processed ores such as refined copper and copper alloys. Another category of products imported from Latin America is food products such as residues and waste from the food industries, cereals, oil seeds and oleaginous fruits, grains, seeds and fruit, and meat.

2.2 Cooperation in the Global Value Chain

Korea has no strong relation with Latin America in the global value chain because of the distance separating them. However, Korea's participation in the global value chain of Latin American is increasing, especially in the electronics sector.

To assess the cooperation of Korea and Latin America in the global value chain, the origin of value added to gross exports was analyzed for Mexico, Brazil and Argentina. This indicator, which is provided by OECD in the Trade in Value Added database, shows the origin of value added to gross exports of an exporting country by source country. This same indicator was also analyzed by sector in the case of electronics and transport equipment for each of the countries described above.

In Table 6, it is apparent that the value added to all exports by Mexico can be disaggregated into the contribution by Mexico and other countries. For example, in 1995, Mexico contributed 72.72% of the value added to its exports, whereas the USA contributed 17.34%, and Japan 2.40%. Korea contributed to the value added to Mexico's exports by 0.54%. Two countries are cooperating in exports by engaging in a global value chain if a country has a large share in the value added to gross exports by another country.

Mexico is becoming more involved in global value chain as might be readily apparent from the decreasing trend of the domestic value added to all exports. However, not only is the domestic value added declining: the value added with the origin of United States is declining. Canada's share has been increasing since the establishment of NAFTA in 1994. The most prominent increase was observed in the case of China. Its share increased from 0.17% in 1995 to 4.17% in 2011. For Korea, the share increased gradually from 0.54% in 1995 to 1.46% in 2009, but it declined somewhat after that year. Therefore, Korea and Mexico are apparently increasing their cooperation in the global value chain.

The increase of the Korean share can be attributed to its strong electronic industry, which can be observed from the second part of the Table 6. The second part shows the origin of value added to gross exports of electrical and optical equipment. The share of Korea in the value added of gross exports of this sector was the fourth highest, after the United States, China, and Japan. It increased from 1.26% in 1995 to 4.05% in 2009.

Table 6 Origin of value added to gross exports: Mexico

Mexico		1995	2000	2005	2008	2009	2010	2011
Total	Mexico	72.72	65.66	67.00	67.30	66.49	65.56	68.31
	USA	17.34	20.58	13.34	12.20	12.95	12.89	11.65
	China	0.17	0.46	2.11	3.43	3.92	4.18	4.17
	Japan	2.40	2.49	3.32	2.65	2.51	2.76	2.36
	Germany	1.17	1.41	1.67	1.73	1.66	1.66	1.55
	Canada	0.68	1.05	1.05	1.22	1.24	1.29	1.23
	Korea	0.54	0.96	1.29	1.31	1.46	1.43	1.22
Electrical and optical equipment	Mexico	45.24	43.35	38.74	36.87	38.27	39.02	41.73
	USA	34.85	33.46	21.29	19.90	19.62	18.49	17.04
	China	0.34	0.76	5.05	9.30	10.27	10.77	11.10
	Japan	6.00	4.93	8.29	6.73	6.04	6.07	5.45
	Korea	1.26	1.94	3.40	3.84	4.05	3.70	3.24
	Germany	2.00	2.16	2.97	3.17	2.75	2.68	2.61
	Canada	1.12	1.47	1.43	1.75	1.78	1.68	1.57
	Malaysia	0.43	0.51	1.14	1.19	1.21	1.15	1.04
Transport equipment	Mexico	59.91	51.77	53.60	53.01	51.00	49.52	51.13
	USA	25.94	29.22	20.35	18.02	19.35	19.32	17.83
	China	0.24	0.59	2.27	4.09	4.73	5.15	5.72
	Japan	3.20	3.34	3.96	3.88	3.69	4.60	4.19
	Germany	2.09	2.63	2.92	3.13	3.21	3.01	2.95
	Canada	1.11	1.84	2.01	2.05	2.06	2.11	2.02
	Korea	0.69	1.04	1.13	1.40	1.62	1.84	1.82
	Brazil	0.31	0.61	1.23	1.34	1.23	1.37	1.17
	Italy	0.59	0.69	1.01	1.16	1.10	1.05	1.08

Source OECD Statistics: Trade in Value Added

The domestic value added to the exports of electrical and optical equipment is extremely low and declining in Mexico because Mexico's electronic industry is dedicated mostly to the assembly of final products, importing most of the intermediate inputs from abroad. The industry of electronic parts and components in Mexico is underdeveloped. Korean companies such as Samsung and LG are producing TVs and refrigerators in Mexico, but by assembling intermediate inputs that are mostly imported from Korea. Some intermediate inputs are procured from Mexico. However, most of these intermediate inputs are produced by Korean companies that maintained the partnership with Samsung in Korea and invested in Mexico to supply their products to Samsung. TVs and refrigerators produced by Samsung and LG are mostly exported to the US.

In the case of Mexican automobile industry, the domestic value added to gross exports is 10% higher than in the case of electronics industry because the Mexican auto parts industry is developed sufficiently to supply the inputs required for the assembly of finished cars. Until 2011, none of the Korean companies had an

Table 7 Origin of value added to gross exports: Brazil

Brazil		1995	2000	2005	2008	2009	2010	2011
Total	Brazil	92.19	88.62	88.30	87.50	90.04	89.69	89.26
	USA	1.69	2.47	1.92	1.73	1.76	1.84	1.85
	Korea	0.12	0.22	0.20	0.19	0.18	0.22	0.23
Electrical and optical equipment	Brazil	86.72	75.75	77.85	77.18	82.52	81.33	80.15
	USA	3.70	6.66	3.74	3.04	2.77	2.95	3.00
	China	0.07	0.37	1.62	3.16	2.31	2.62	2.92
	Germany	1.49	1.92	1.86	1.66	1.19	1.08	1.22
	Japan	1.40	2.85	1.97	1.60	1.13	1.21	1.17
	Korea	0.40	0.95	1.37	1.03	0.75	0.87	0.89
Transport equipment	Brazil	87.78	82.52	80.80	77.91	82.05	81.95	80.49
	USA	2.78	4.08	3.79	3.90	3.64	3.15	3.32
	China	0.07	0.19	0.68	1.75	1.35	1.61	1.89
	Germany	1.48	1.49	1.59	1.54	1.28	1.04	1.18
	Japan	0.92	1.00	1.11	1.35	0.86	0.86	0.86
	Korea	0.22	0.36	0.30	0.45	0.42	0.64	0.57

Source OECD Statistics: Trade in Value Added

assembly line in Mexico, which led to a very low share in the value added to gross exports of transport equipment.

As for Brazil, its engagement in the global value chain is much less intensive than Mexico's. The value added to gross exports originated mostly within Brazil, as shown in Table 7. Brazil used to generate 92.19% of the value added to its gross exports in 1995. In 2011, this figure declined to 89.26, implying that Brazil is participating in the global value chain a little bit more than in the past. The only country with a share in value added to Brazil's gross exports larger than 1% was United States, with participation of 1.85% in 2011. Korea's share was as low as 0.23% in 2011.

Among the various exporting industries, the electronics industry in Brazil is more integrated to the Global Value Chain, as might be apparent from the low domestic share of the value added to gross exports that ranged from 75.75%–86.72% during 1995–2011. Countries which contributed most to the value added to exports of this industry were the US, China, Germany, Japan, and Korea. China has gained wider participation in the value added to gross exports of this sector, which increased from 0.07% in 1995 to 2.29% in 2011. Korea's participation is not large, although it increased from 0.40% in 1995 to 0.89% in 2011. The automobile sector shows a similar pattern to that of the electronics sector, as might be readily apparent from Table 7.

Argentina is similar to Brazil in that the domestic value added to gross exports is extremely high, even if that value is slightly lower than Brazil's. One important difference is that even if Argentina is not contributing much to the value added to Brazil's exports, Brazil is contributing to the value added to Argentina's exports,

Table 8 Origin of value added to gross exports: Argentina

Argentina		1995	2000	2005	2008	2009	2010	2011
Total	Argentina	94.27	93.72	86.74	85.16	88.05	87.01	85.94
	Brazil	0.87	0.92	3.02	3.50	2.56	3.41	3.43
	USA	1.29	1.39	1.98	1.74	1.79	1.91	1.94
	Korea	0.12	0.14	0.18	0.17	0.15	0.14	0.16
Electrical and optical equipment	Argentina	82.74	81.49	76.90	75.67	78.87	76.52	74.54
	Brazil	1.38	2.66	4.86	5.36	4.41	4.57	4.61
	China	0.26	0.38	1.13	2.92	2.50	3.32	3.93
	USA	4.58	4.28	4.62	2.92	2.72	2.89	3.11
	Germany	1.29	1.01	1.32	1.33	1.20	1.34	1.32
	Japan	1.99	1.59	1.00	1.12	0.91	1.14	1.18
	Korea	0.81	0.69	0.52	0.55	0.59	0.71	0.68
Transport equipment	Argentina	85.04	83.17	71.69	66.86	73.34	69.30	67.79
	Brazil	2.37	3.08	8.03	10.27	8.38	10.30	11.66
	USA	2.72	2.59	3.47	3.16	3.17	3.97	3.04
	China	0.18	0.27	1.05	2.26	1.70	2.56	2.35
	Germany	1.11	0.95	1.93	1.79	1.51	1.70	1.77
	Japan	0.85	1.09	1.30	1.36	0.92	1.02	1.03
	Korea	0.32	0.39	0.42	0.51	0.56	0.49	0.57

Source OECD Statistics: Trade in Value Added

which is mainly because the economic scale of Brazil is much larger than that of Argentina. Main contributors to the value added are the USA, China, Germany, and Japan, as in the case of Brazil. Korea's contribution is less than 1% in either the electronics or automobile industries (Table 8).

Because of the distance between the Southern Cone and the industrialized countries of the Northern Hemisphere, it is not easy for Brazil and Argentina to engage in global value chain with the rest of the world. Most of the products are apparently assembled in either country to be consumed domestically, or imported from the rest of the world in the form of finished products.

2.3 Foreign Direct Investment

Korean FDI to Latin America increased more rapidly than to the remainder of the world during the last 30 years, as shown in Fig. 2. Korea's total FDI, which was about \$100 million in the early 1980s, increased to \$30 billion in the mid-2010s. The increase of Korea's FDI to Latin America was even greater. In the early 1980s, it was about \$1 million, but it increased to \$4 billion in the mid-2010s. The share of Latin America in Korea's FDI increased from 2.9% in the 1980s to 4.4% in the 1990s, to 7.6% in the 2000s, and to 10.6% during 2011–2016. Some of this FDI

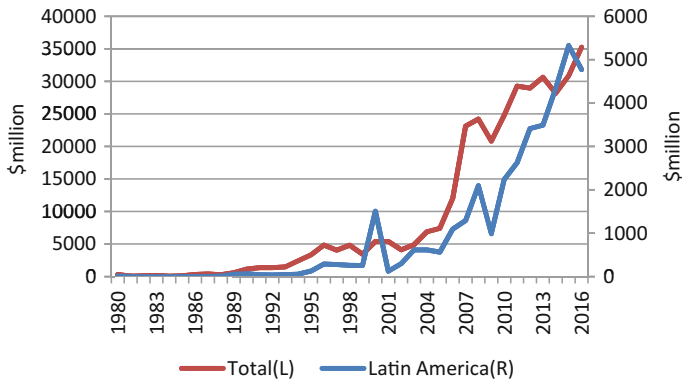


Fig. 2 Korea's FDI *Source* Author's own calculation using information from Export-Import Bank of Korea

was directed to offshore tax havens such as the Cayman Islands, Bermuda, British Virgin Islands, and Bahamas. The rapid increase of Korean FDI to Latin America is partly attributable to the increase in the capital flow to these tax havens. However, even without this, FDI to Latin America increased substantially. Most Korean FDI to Latin America was invested in the manufacturing or mining sectors.

Korean FDI to Latin America was concentrated in a small number of countries. The main destinations of Korea's FDI were large countries such as Brazil, Mexico, and Peru. Panama also received more than \$2 billion of Korean FDI, but a large part of this is regarded as deposits in offshore accounts. Being the largest economy of Latin America, Brazil received \$7.3 billion of Korean FDI until 2017. Mexico and Peru respectively received \$4.7 billion and \$2.1 billion.

Korean FDI to Latin America was directed mostly to manufacturing and mining industries. In the 1980s, Korean FDI within the manufacturing industry was specifically invested in textile and clothing sectors and the food processing industry. However, the drivers were SMEs; the amounts were very small.¹ From the 1990s, the electronics industry became the main source of Korean FDI to Latin America. The main investors in this industry were Samsung and LG, producing TVs and refrigerators. Recently, an increase in the FDI to the automobile sector occurred, led by Hyundai and Kia (Table 9).

Korean FDI to Brazil consisted of \$3.8 to the manufacture sector, \$2.1 billion to the mining sector, and others. In manufacturing, large investments in the electronics industry were made in the mid-1990s. Some investments in the textile sector were made before the 1990s by SMEs and migrants from Korea, but those investments are not included in the figures because they might not have been included in the statistics collected by Korea Exim Bank. From the 2011s, significant investment was made in the automotive sector by Hyundai and its partners because Hyundai built an

¹Kwon et. al. (2009)

Table 9 Korean FDI to Latin America (\$million)

	Brazil	Mexico	Panama	Peru	Chile	Colombia	Argentina	Bolivia	Total
Manufacturing	3,847	2,402	41	23	79	186	15	1	6,594
Mining	2,129	1,649	-	2,074	266	55	74	73	6,321
Real estate	227	0	1,734	-	-	0	0	-	1,961
Wholesale and retail	236	432	303	34	57	46	65	4	1,176
Finance and insurance	583	40	10	-	0	-	-	-	632
Transportation	29	13	528	1	1	1	-	-	572
Construction	174	35	3	0	21	0	2	94	328
Electricity and gas	-	94	-	0	178	16	-	-	289
Agriculture, forestry and fishery	42	1	53	2	7	-	29	1	135
Total	7,267	4,665	2,672	2,134	609	304	185	173	18,008

Note FDI in Cayman Islands, Bermuda, British Virgin Islands, and Bahamas were excluded

Source The Export-Import Bank of Korea

assembly line in Brazil. In that same year, Dongkuk Steel Mill Company, together with POSCO, a steel company, invested in the construction of a blast furnace. The characteristic of Korean FDI to the Brazilian manufacturing sector is that the motive was market seeking: The production was intended to satisfy domestic demand.

Korea invested \$2.4 billion into the manufacturing sector and \$1.6 billion to the mining sector of Mexico. Korean FDI increased with the establishment of NAFTA. With the relocation of GM and other car manufacturers to Mexico, Korean auto part companies invested in Mexico to supply their products to these multinational companies. Furthermore, electronic companies such as Samsung and LG invested in Mexico to produce TVs, refrigerators, washers, and microwave ovens for export to the US. POSCO opened its first continuous galvanizing line in 2009 and the second in 2014, where it is producing plated steel sheets for automobiles. In 2016, Kia Motors opened a new manufacturing plant with an annual production capacity of 400,000 units. One characteristic of Korean FDI to Mexico is that it is attracted by the proximity of Mexico to the US and the low wages of Mexican workers.

In the case of Peru, Korean FDI is concentrated in the mining sector. The FDI in manufacturing is extremely small. FDI in the mining sector is mostly for the production of oil and gas. Korea National Oil Corporation, SK and Daewoo International are the major investors in this area. From the early 2000s, SK is participating in Camisea Gas Project in a consortium with Pluspetrol, Hunt Oil, and others. Other companies such as Korea Resource Corporation and LS-Nikko have also invested in copper mining.

Aside from FDI, Korean companies are participating in infrastructure projects in Latin America by exporting construction services. Payments received for this export are recorded in current accounts as service exports. Participation in construction projects in the world market by Korean companies increased considerably in the mid-2000s. The total amount of overseas construction contracts increased from \$3.6 billion in 2003 to \$71.6 billion in 2010. This increase was prominent in the Middle East and Asia, mostly because of the increase in income derived from the commodity boom (Figs. 3 and 4).

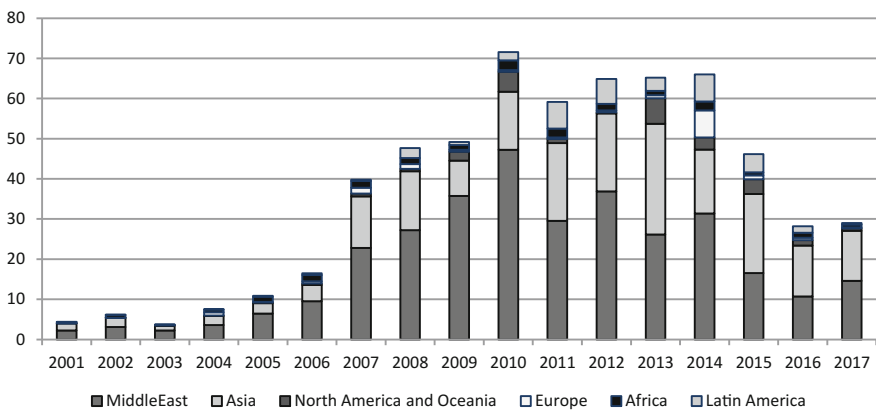


Fig. 3 Construction by Korean Companies (\$billion) *Source* Author’s own calculation using information from International Construction Information Service

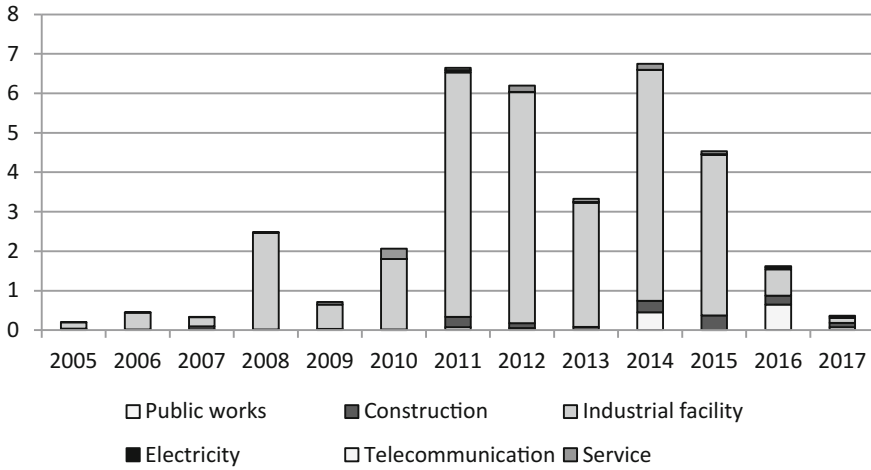


Fig. 4 Construction by Korean Companies in Latin America (\$billion) *Source* Author’s own calculation using information from International Construction Information Service

The amount of exports of construction services to Latin America by Korean companies was very small before 2008, except for a construction of Cadereyta Refinery by SK in Mexico in 1997, of which the contract amount was larger than \$2 billion. The large increase in 2008 was mostly attributable to the contract by POSCO with the Chilean government for the construction of the Angamos Power Plant. POSCO also began the construction of a steel mill called Companhia Siderúrgica do Pecém in Brazil in 2011. The total cost of the contract was over \$4 billion. Hyundai participated in the construction of a refinery in Venezuela from 2012.

2.4 Trade Agreements

One of the main source of growth of the Korean economy was export expansion and therefore Korea has benefited greatly from the multilateral trading system. In the 2010s, Korea’s trade value is close to 100% of its GDP. As an outward-oriented economy, it is necessary for Korea to maintain and enlarge its export markets. In the 1990s, regionalism has been accelerated based on Free Trade Agreements, but in the very recent years protectionism has been strengthened, especially by the U.S. Trump Administration. The main position of the Korean government is that while remaining a strong supporter of the multilateral trading system, Korea may pursue FTAs that are complementary and which go beyond WTO liberalization. According to this position, Korea has been pursuing multiple FTA negotiations simultaneously since 2003.

The first FTA of Korea was established in 2004 with a Latin American country, which is Chile. After Korea–Chile FTA, Korea added more FTAs with Latin American countries, especially with those on the Pacific side. The Korea–Peru FTA of 2011 was made, and the Korea–Colombia FTA in 2016. In fact, FTAs with 5 Central American countries were initialed in 2017.² The Korea–Ecuador FTA is under negotiation.

Latin American countries became main FTA partners of Korea because they are important export markets of Korean manufacture products, although their exports have no strong negative effects on Korean industries. Korean exports are mostly medium or high technology products, which Latin American countries do not produce. Therefore Korean products compete with products imported from other countries, not domestic products. By contrast, the main export products of Latin American countries are primary commodities such as iron ore and copper ore. Being poorly endowed with these resources, Korea must import these products anyway. Moreover, Korea is an attractive market for these products. Some countries, such as Chile, are also very competitive in agricultural products. They have provoked strong opposition from the Korean farmers, but the tariffs for these products shall be eliminated slowly (Table 10).

Negotiation of the Korea–Chile FTA was concluded on February 15, 2003. The FTA entered into force on April 1, 2004. The Korea–Chile FTA is the first FTA that Korea has established. It changed the paradigm of trade policy in Korea. With the experience accumulated throughout the negotiations with Chile, Korean government was better prepared to participate in the FTA negotiations with Singapore, EFTA and the U.S., among others. As the first FTA with a Latin American country, the Korea–Chile FTA contributed to further negotiations with other countries in the region, such as Peru, Colombia, and Ecuador.

For the five years since the FTA, the bilateral trade volume Korea and Chile more than tripled. According to the tariff elimination schedule, both countries phased out most tariffs on about 96% of all goods within 10 years. Korea has a comparative advantage in industrial products such as telecommunication equipment, automotive and electronic products, whereas Chile is competitive in raw materials and agricultural products such as copper, grapes, and pulp.³

The FTA of Chile with Korea seems to have triggered a kind of Domino effect among South American countries, which wanted to have deeper economic relations with the dynamic economies of Northeast Asia, and which competed among themselves with similar export products. Peru, which has an export structure similar to that of Chile, proposed to Korea the establishment of an FTA at the 2005 APEC meeting. After the joint feasibility study concluded in 2008, there were four negotiation meetings in 2009, and the FTA was finally signed in 2011, and entered

²The countries which initialed are Costa Rica, El Salvador, Honduras, Nicaragua, and Panama. Guatemala participated in the negotiation, but did not initial the Agreement, and would join the FTA after it enters into force.

³Kim (2009).

Table 10 Korea's FTA

No.	Name of Free Trade Agreement	State
1	Korea–Chile FTA	Entry into Force in 1 Apr. 2004
2	Korea–Singapore FTA	Entry into Force in 2 Mar. 2006
3	Korea–EFTA FTA	Entry into Force in 1 Sep. 2006
4	Korea–ASEAN FTA in Goods	Entry into Force in 1 Jun. 2007
5	Korea–ASEAN FTA in Services	Entry into Force in 1 May. 2009
6	Korea–ASEAN FTA in Investment	Entry into Force in 1 Sep. 2009
7	Korea–India CEPA	Entry into Force in 1 Jan. 2010
8	Korea–EU FTA	Entry into Force in 1 Jul. 2011
9	Korea–Peru FTA	Entry into Force in 1 Aug. 2011
10	Korea–US FTA	Entry into Force in 15 Mar. 2012
11	Korea–Turkey FTA	Entry into Force in 1 May. 2013
12	Korea–Australia FTA	Entry into Force in 12 Dec. 2014
13	Korea–Canada FTA	Entry into Force in 1 Jan. 2015
14	Korea–China FTA	Entry into Force in 20 Dec. 2015
15	Korea–Vietnam	Entry into Force in 20 Dec. 2015
16	Korea–New Zealand FTA	Entry into Force in 20 Dec. 2015
17	Korea–Colombia FTA	Entry into Force in 15 Jul. 2016
18	Korea–Central America FTA	Initialed in Mar. 2017

into force on August 1, 2011. The agreement required that Korea and Peru abolish tariffs on most items in less than 10 years with the exception of 107 agricultural and marine products such as rice, beef, onions, and garlic.⁴ As most of the exceptions were in agricultural products, Korea seems to have taken larger benefit from the FTA than the Latin American partner. Nevertheless, the attractiveness of expanding the export market towards Northeast Asia seems to have dominated the Peruvian position.

The Domino effect was expanded to Colombia, and after the negotiations between 2008 and 2009, the FTA between Korea and Colombia became effective in 2016. As the main imports of Korea from Colombia are coffee and minerals, whose tariffs were already very low even before the FTA, the negative impact of FTA on Korean industry or agriculture was expected to be very small. However, as Korea exports a large amount of vehicles and auto parts, whose tariffs were around 30%, the benefits of FTA to Korean industries was expected to be quite significant.

The Korean government announced in 2016 that negotiations for a free trade agreement have been concluded between Korea and the six Central American countries of Nicaragua, El Salvador, Honduras, Costa Rica, Panama, and Guatemala. Korean automakers, auto parts manufacturers and tire manufacturers are likely to benefit considerably from the tariff reductions, as the amount of exports

⁴Kim (2008)

from Korea is large and tariffs in Central American countries are high. From the Korean side, tariffs on agricultural products will be reduced or eliminated. For example, a 2% tariff on coffee beans and 3% on raw sugar are to be abolished soon.⁵

3 Migration

For the Latin American region as a whole, the number of Korean migrants increased by 20% in the last couple of decades, from 92,864 in 1993 to 111,149 in 2013. That is low growth compared to the other regions in the world: The number of total Korean expatriate residents in Asia increased by 36%, in Europe by 73%, in North America (US and Canada) by 43%, and in Oceania (Australia and New Zealand) by 339% during the same period. The total number of Korean residents in Latin America has risen and fallen. It differs greatly from the general trends of continuous increase of Korean population in other regions and the world, which might be because Korea's GDP per capita has exceeded that of Latin American countries. The gap separating the two is growing.⁶

About 100,000 Korean migrants currently reside in Latin America, most of whom are concentrated in Brazil, Argentina, Mexico, Guatemala, and Paraguay. The country with the largest number of Korean expatriates is Brazil, with 50,418 in 2015. The number of Koreans in Mexico increased greatly 2005, whereas that of Argentina declined by a similar amount in the same period. Brazil was stable in terms of the number of Koreans, which implies high mobility of Koreans in Latin American countries. However, the total number of Koreans in Latin America remained stable, which implies that most Koreans moved within Latin America and not to Korea or other regions out of Latin America (Table 11).

The formal migration of Koreans to Latin America began in the early 1960s, when the Korean government tried to reduce the population growth while Latin American countries tried to receive more immigrants. The purpose of migration in this period was agriculture; the main destination was Brazil. The first migrant group arrived at Brazil in 1963. Four more groups migrated to Brazil until the Brazilian government prohibited Korean agricultural migration in 1968. Most of the Korean migrants failed in the settlement with agricultural production because of the lack of experience and low fertility of the land they received. Most of the migrants were from urban areas or had a military background. They lacked agricultural knowledge and skills to settle on barren land.⁷ Although agricultural migration failed, migration to Brazil continued in the 1970s. However, the migrants in the 1970s were not engaged in agriculture but in manufacturing.

⁵Kim et al. (2011).

⁶Kim and Lee (2016).

⁷Kim (2017).

Table 11 Expatriate Korean Citizens

	1993	1999	2005	2011	2015
Mexico	792	2,379	14,571	11,800	11,484
Argentina	30,475	31,248	19,171	22,354	22,730
Bolivia	1,204	977	563	671	737
Brazil	43,769	46,916	50,296	50,773	50,418
Chile	1,292	1,487	1,858	2,510	2,725
Colombia	421	646	440	885	915
Costa Rica	351	360	464	520	493
Dominican R.	703	584	431	454	537
Ecuador	981	762	766	1,300	1,080
El Salvador	70	295	279	249	270
Guatemala	1,150	4,128	9,943	12,918	5,162
Honduras	285	759	491	284	249
Nicaragua	–	68	374	550	703
Panama	377	308	311	310	377
Paraguay	9,699	10,412	5,803	5,205	5,090
Peru	329	810	788	1,305	1,198
Uruguay	66	94	130	169	283
Venezuela	323	277	242	293	351
Latin America	92,864	102,789	107,162	112,980	105,218
World	4,943,590	5,644,558	6,638,338	7,268,771	7,184,872

Source Korean Statistical Information Service (2017)

The other destination of agricultural migration was Argentina. The first migrants arrived in 1965. Many others followed. These migrants also failed at agricultural production. Although they received some training for agricultural production, the mode of production in Argentina was so different from what they had learned and expected. Production was done on a large scale and required capital. The land was not so fertile, which made the training that they had received almost useless. Because of these hardships, most migrants moved to the main city: Buenos Aires (Fig. 5).

The Korean sewing industry in Argentina developed dramatically from the mid-1980s, when Korean investment immigration increased. At that time, the Argentine government had banned agricultural migration from Korea and allowed investment migration instead. Investment immigration was allowed when a deposit of \$30,000 dollars was made to the New York branch of the Argentine bank. Consequently, 11,336 Koreans moved during 1980–1988. Most migrated between 1984 and 1988. Since then, they have brought family members, reaching 40,000 Koreans in Argentina by the 1990s.⁸

⁸Kim (2017).

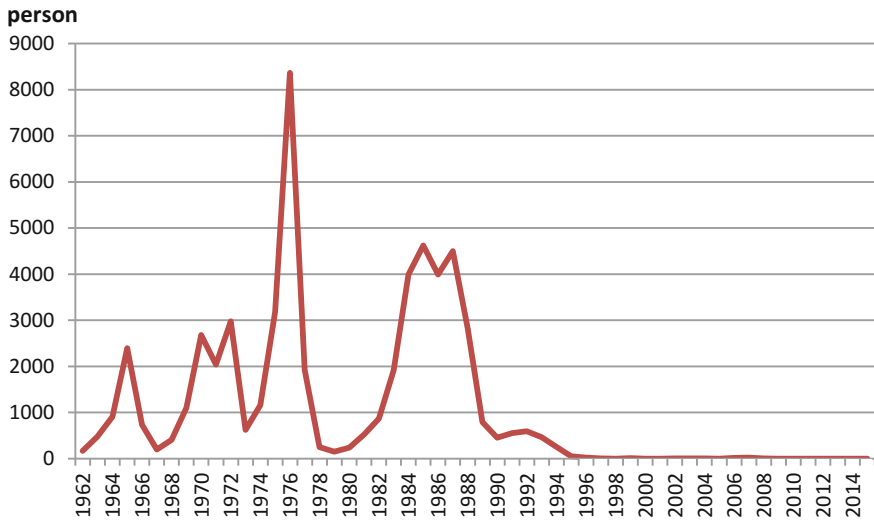


Fig. 5 Number of Korean Emigrants to Latin America in Pre-departure Emigration Registration
Source Ministry of Foreign Affairs (2017)

At that time, more than 80% of Koreans were engaged in the production and distribution of the textile industry. Since the 1990s, Korean apparel manufacturers faced a crisis because of the importation of low-priced products from China, but managed to maintain their competitiveness by application of advanced technologies and intensive capital investment.

Even in the 2000s, most Brazilian and Argentine Koreans were still engaged in the textile industry. However, as Korea's electronics and automobile companies entered the field, migrants found various ways to compete in society, such as by operating as local sales agents, engaging in customs clearance logistics related to trade, entering in the electronics industry based on the competitiveness of their home countries, or starting new businesses in finance, accessories, or the hotel industry.

One interesting characteristic of the Korean migrants to Latin America is their high mobility within the region. Higher economic growth in one country attracts more Koreans from other countries in regions that experience lower growth.⁹ Koreans in Latin America have high mobility. The motive was pursuing better economic opportunities, but they move within the region where re-migration costs are considerably lower in terms of distances, language or cultural factors, compared to returning to Korea or re-migrating to other regions. When the Latin American

⁹Kim and Lee (2016).

economy is experiencing low economic growth, Koreans also move to the United States, which, for many, was the final destination. Many Koreans who migrated to Latin America had a final goal of migrating to the United States, but most have stayed permanently in Latin America.

4 Aid and Development Cooperation

Because of the geographic proximity and cultural familiarity, Korea has had close ties with Asian countries, as reflected in the high concentration of its aid allocation to Asia. Asia received the largest portion of bilateral Official Development Assistance (ODA), reaching approximately 53% during the past ten years (Table 12).

As for Latin America and the Caribbean, the Korean government allocated 11.1% and 12.7% of bilateral ODA budget to this region in 2007 and 2008, respectively. The figure declined to 7.7% in 2015 because most Latin American countries are improving in economic terms. The economic conditions in these countries are now much better than in other developing countries, especially in least developed countries (LDCs). Given the limited amount of ODA to the region, Korea seeks ways to support partner countries in the region for greater efficiency by particularly addressing some priority countries and some priority areas.^{10,11} The priority countries are Bolivia, Peru, Paraguay, and Colombia. These countries were probably selected according to the level of socioeconomic development and politico-economic relations with Korea. Of course, that does not mean that no ODA will be provided to the non-priority countries. Bolivia and Colombia received \$20.6 million and \$15.2 million in 2015, whereas Dominican Republic received \$15.8 million in the same year (Table 13).

The priority areas are those in which Korea has apparent strengths: alleviating income and social inequalities, enhancing the administrative capacity and transparency of the governments, and ensuring sustainable development in the future. The Korean government supports these areas by sharing Korea's development experiences with grants in aid and technical cooperation, as well as development economic infrastructure with concessional loans.

¹⁰Office for Government Policy Coordination—ODAKOREA.

¹¹Overall, 70% of Korea's ODA is directed to the priority countries.

Table 12 Bilateral ODA by region (2007–2015) (USD million)

Region	2007	2008	2009	2010	2011	2012	2013	2014	2015
Asia	288.5	313.9	387.6	638.4	641.1	701.7	767.8	702.2	774.5
Africa	67.5	116.1	117.4	152.0	182.9	269.4	270.3	316.6	358.8
America	52.6	76.6	69.0	70.1	66.0	78.6	96.0	103.8	114.1
Others	63.2	94.9	144.4	118.5	124.7	171.4	168.8	205.5	221.5
Total	471.8	601.6	718.5	979.0	1014.8	1221.1	1302.9	1328.0	1468.8

Source OECD CRS data

Table 13 Bilateral ODA by region (2007–2015) (USD million)

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bolivia	8.33	5.83	2.28	1.80	1.38	5.82	6.73	16.37	20.62
Dominican Republic	1.42	15.90	8.54	2.98	3.13	2.83	3.92	2.98	15.84
Colombia	0.17	1.58	1.71	7.58	8.38	5.54	21.50	19.07	15.12
Ecuador	3.22	4.04	3.40	4.16	17.28	24.15	20.51	9.76	11.63
Paraguay	5.72	5.33	6.00	12.64	5.86	8.56	8.74	10.24	11.54
Nicaragua	8.73	10.12	18.35	6.09	4.05	1.71	6.60	18.27	10.43
Peru	9.83	9.74	8.64	6.96	6.96	9.55	9.55	8.85	9.89
Honduras	2.99	10.99	5.53	7.01	4.87	3.82	1.94	3.50	5.83
El Salvador	1.09	2.19	4.88	4.69	5.06	4.75	3.87	4.43	3.62
Guatemala	2.66	4.50	4.88	5.92	5.00	5.17	2.71	4.18	3.20
Haiti	0.14	0.80	0.53	6.02	0.99	2.53	4.62	0.88	2.34

Source OECD CRS data

5 Conclusion

Economic relations between Korea and Latin America have been strengthening during the most recent 15 years. In terms of trade, Latin America increased its exports of primary commodities to Korea especially through the increase in prices of these products since the mid-2000s. Korea also increased exports of manufactured products to Latin America, which occurred along with increased purchasing power of Latin American countries. This effect was propelled by FTAs between Korea and Latin American countries, such as Chile, Peru, and Colombia. With additional FTAs with Central American countries and Ecuador, this trend is expected to be intensified. Regarding FDI, Korean FDI to Latin America increased more rapidly than exports, although it remains concentrated in Brazil, Mexico, and Peru. Korean companies have also been actively participating in the construction of infrastructure in Latin America from the mid-2000s.

Nevertheless, the migration of Koreans to Latin America is decreasing mainly because the income per capita of Korea is now much higher than that of Latin American countries. The share of Latin America in Korea's ODA is also declining because of Latin American economic development.

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Chapter 5

Summary and Discussion



1 Main Findings of This Book

Economic relations between East Asia and Latin America developed substantially in last two decades. Most remarkable feature is Latin America's expressive natural resource and food export growth to China and soaring manufactured goods exports from China to Latin America. Chapter 2 reports that it took fifty years (1950–2000) for the China–Latin America trade to pass the US\$ 10 billion mark, but it reached to US\$ 100 billion mark in 2007 and further soared to more than US\$ 260 billion in 2012. As documented in Chap. 4, Korean trade with Latin America also expanded rapidly in last 15 years. High level of commodity prices and growth of purchasing power of Latin American consumers mainly explain such expansion.

It is also noteworthy that Latin America received substantial investment from East Asia in last decade, mainly in Mexico and Brazil. While a large portion of investment was made in natural resource sector, manufacturing sector also received a large volume of investment, especially in Mexico in the framework of global value chain operation in North America.

The enlargement of trade and investment was accompanied by the institutionalization of economic relation. China, Japan, and Korea signed free trade agreements (FTAs) with countries in the Pacific side of South America, e.g. Chile, Colombia, and Peru. Among the East Asian three countries (EA-3) Korea has FTAs with the greatest number of Latin American countries including Central America. Japan has a FTA with Mexico and concluded the TPP negotiation including Chile, Mexico, and Peru. China has signed FTAs with Chile, Peru and Costa Rica, and launched the China-CELAC forum as the platform of comprehensive cooperation with the Community of Latin American and Caribbean States (CELAC). Furthermore, the Forum of East Asia–Latin America cooperation (FEALC) was created in 1999 which holds biannual Foreign Ministerial Meetings.

This chapter is authored by Nobuaki Hamaguchi, Jie Guo and Chong-Sup Kim.

While the development of economic relation is a great achievement, it also creates some tensions. First, Chap. 2 points out that Latin American countries consider the trade expansion is asymmetric. The variety of goods that the region exports to China is limited, consisting primarily of natural resources. In contrast, China's exports to Latin America consist of diversified industrialized goods, which pose challenges to the local manufacturing sector. Latin American countries are concerned that trading with China would intensify the region's re-commoditization of exports and creates less favorable competitive environment in low value-added manufactured goods market, thus not contributing very much to the creation of high quality employment. Chapter 4 also noted complaints from Latin American countries against chronic trade deficit with Korea. Such discontent may explain the fast rising number of Trade Remedy Investigations against China in WTO in recent years. Concentration of Chinese investment in natural resource exploration projects also created to some extent a negative image among Latin American countries and cast some doubts that China's interest in Latin America may not be sustained with lower demand for natural resources in slower economic growth of China.

Recent reactions from China may dispel such doubts. Chinese investment by both state-owned enterprises and private firms in Latin America has been diversified into wider range of manufacturing such as personal computers, automobiles, household appliances, televisions, and heavy machinery, as well as in services such as shipping and logistics, e-commerce, telecommunication, and banking. Acquisitions of infrastructure portfolio in electric power and transportation are also soaring. According to the recent call for Latin American participation to the Belt and Road Initiative, China's engagement in infrastructure building in Latin America may expand further.

The second type of tension arises from a geopolitical concern. This point is raised in Chap. 3 from Japan's point of view. The country had been the most important ally for Latin American countries in trade, investment, and development aid. The rapidly growing economic expansion of China made Japan unable to compete for an influence in the region. It has been the basic position of Japan in the post-WWII period to behave in Latin America "to appease Washington" assuming that the region is an area of interest for the USA. Although China never states geopolitical interests in Latin America and the country even makes clear its non-interference policy toward the region, Chinese influences in the region seem to be more and more firmly consolidated. For Japan, this appears as a challenge to change global power balance, which should be reflected in Japan-China bilateral relation. Recent unfriendly attitude of the US government toward Latin America made Japan's position even more difficult. Amid the current situation, Japanese government and private sector reposition their engagement in Latin America based on the historically made trust and friendships to differentiate qualitatively from that of China and to behave more autonomously alongside its own globalization strategy.

The third type of tension is related to the global value chain investment of Japanese and Korean manufacturing firms in Mexico. Chapters 3 and 4 NAFTA has been a useful framework for Asian manufacturing firms to operate global value

chains to supply for North American market, especially in electric equipment and automobile industries. However, the US Trump administration attributes the cause of manufacturing job loss to trade deficits with Mexico and demands renegotiation of NAFTA and also walked away from TPP. As the direction of NAFTA renegotiation is so unclear, Japanese and Korean firms are facing strong uncertainties which may force them to review long-term strategy.

2 Discussions

Our findings point to the following problems for further consideration. Most importantly, strengthening economic relation between East Asia and Latin America presents a fertile ground for diversifying opportunities to enhance gains from globalization for both regions. However, there are certain tensions created by the rapid change. To get the most of new development in a sustainable fashion, we need address the issue to optimize the fruit under the constraint of minimizing tensions.

Some corollaries to this principle are in order. First, it is important for Latin American countries to take advantage of the partnership with East Asia. Either in natural resource sector or in global value chain type manufacturing sector, human capital development and adaptation of new technologies are essential to create high quality jobs with increasing financial and productive capital inflows from East Asian countries. Regional integration among Latin American countries will also help to enhance scale economy. A good example is ASEAN's highway project in the Greater Mekong Subregion named North–South and East–West Economic Corridors which cut across the Indochina Peninsula connecting to newly-developed multimodal seaports.

Second, Chinese investment in Latin America is increasing and diversifying as shown by Tables 1 and 2 in Chap. 2, but these investments seem rather ad hoc acquisition of occasional sales of existing portfolio. Latin American countries need to have own rationale to deepen cooperation with China in line with the long-term development plan. Such a strategic thinking will be mutually beneficial for both China and Latin America especially when the latter will accept the Belt and Road Initiative project finance (which could be implemented under relatively lax constraint than purely market-based project finances) to avoid unproductive investment and debt accumulation.

Third, aside rivalry and sound competition among China, Japan, and Korea in East Asia, some coordination and concerted action in engagements in Latin America will be benefit for all, including three East Asian countries and Latin American countries. Private sector may lead such initiatives.

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