ASIAN CONGLOMERATES AND REGIONALISM
IN THE SOUTHERN CONE OF LATIN AMERICA

Hernán Gutiérrez B.
International Relations
Universidad de Chile

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I. INTRODUCTION

The countries of Latin America have adopted development strategies based upon the opening of their economies to international exchange. Foreign trade and investment are the two primary objectives of any plan drawn up in Latin American capitals today and in contrast with past situations, the region's governments have designed integration strategies that lie within the framework of more liberal foreign investment legislation and programs for the reduction of tariff barriers.

At the same time, East Asia[1]**1** has consolidated its position as the most dynamic center within the global economy. Japan and the first wave of newly-industrialized Asian countries, which set out on a strategy based upon exports, have lead the extraordinary process of regional development and the productive and financial integration of the region to the global economy.

Since the mid-1980's, Japan, South Korea and Taiwan have played an important role in industrial relocalization on the global level. What could be called the regionalization and globalization process of the productive operations and commercial intermediary functions of the Asian conglomerates has intensified in the 1990's. This phenomenon is not limited merely to the large Japanese and Korean groups, but includes the participation of Malaysian and Indonesia conglomerates as well.

It therefore seems evident that the Asian Pacific Region is a suitable benchmark for measuring the degree of success of the Latin American models based upon the internationalization of their economies. The strengthening of economic relations with East Asia is a crucial factor because it not only represents an important diversification of Latin America's trade relations, but also because it means creating ties with the fasting growing region in the world.

II. GENERAL OVERVIEW

A) Trade

In the last fifteen years Latin America has not been up to the challenge. The region has not been able to increase its trans-Pacific relations significantly in trade or in finance despite the sustained pace and especially expansive growth of the Asian economies and the wave of Asian investment abroad. The after effects of the "lost decade" of the 1980's have lingered on and provide some of the reasons for why Latin America's trade relationship with East Asia has not increased at the rate that it should have during the last fifteen years.

Behind the general trend, however, there are some positive signs, which show evidence of an interest in a more "complex" relationship. First and most obvious is the growing diversification of trading partners. Japan has historically been the most influential Asian country in Latin American trade. Yet while trade with Japan has increased over the last decade, its share of the total exchange of goods between the Asia-Pacific Region and Latin America has declined. Meanwhile, South Korea (600%), Taiwan (500%), Hong Kong (400%) and Singapore (400%) greatly increased the amount of their imports from Latin America during the 1980's.[2]**2** More recently Malaysia, Indonesia and the People's Republic of China (PRC) have begun importing more from the region.

Secondly, Latin American exports have increased their value-added components. Starting from the late 1980's, the region has registered a growing share of manufactured products within its total exports. Shipments of manufactured products from the Latin American Integration Association (ALADI in its Spanish acronym) countries became the principal component of exports to East Asia during the 1985 - 1990 period. This change was the result of the diminishing importance of petroleum exports and, to a lesser degree, non-agricultural products. The weight of the region's share of total manufactured product exports in 1989 reached 19% for Argentina, 17% in the case of Brazil, and 16% in Chile.[3]**3** To place this situation in context we must point out that Japan, South Korea and Taiwan generated increased demand for manufactured products made in developing countries as a result of the phenomenon which has come to be known as the "catch up process" or, although different, the "flying geese formation" as well.

Thirdly, although this represented an advance along the value chain, it was in truth only a slight change: that is, from the role of supplier of standardized raw material toward the production of manufactured inputs intensive in the use of raw materials. Fourth, the breakdown of commercial exchange has improved. During the 1980's the rate of inter-industrial trade growth between Colombia, Mexico and Chile with South East Asia was greater than that with the United States and Canada. At the same time, the importance of inter-industrial trade in Latin America's manufacturing sector with East Asia was 15 to 20 times greater than with Europe.[4]**4**

B) Investment[5]5

The Asian economies have assumed an important role in the increase in foreign investment thanks to the wealth that they have accumulated as a result of their trading successes. This has lead to a truly revolutionary process of integration within East Asia. The wave of Asian investment abroad has reached the shores of Latin America, but only in the form of a trickle. At the beginning of the 1980's, financial ties between Latin America and the Asian countries was essentially limited to loans from Japanese banks and financial investments in such tax havens as Panama and the Cayman Islands in the Caribbean.[6]**7** The investments in the Caribbean and Panama and the bank loans that the

Japanese banks issued following the Latin American external debt crisis of the early 1980's aside, Asian investment from Japan and South Korea has been largely directed toward Mexico, Central America and the Caribbean. This stems from the internationalization of the productive operations of the Asian industrial conglomerates and also is part of a strategy designed to get around any barriers placed to prevent access to the US market.

Since the early 1990's the investment projects of the Asian conglomerates in Latin America have acquired a new impetus: from projects oriented to the extraction of raw materials and natural resources and processing and assembly toward investments aimed at Latin American markets. The change demonstrates that the region, the second most important destination for the investments of multinational corporations within the developing world, could become a significant base for Japanese, Korean and Taiwanese firms intent on globalizing their operations.

The internationalization of Asian companies and the globalization of their productive and trading activities have modified the perception of Latin America held in Asia. The Korean conglomerates in particular are designing investment programs in South America that display an operational value chain that begins with the exploitation of natural resources but extends toward production within the automotive and electronics industries. While there is a degree of production exported to other regions, the large majority is directed toward the Latin American market.

Small and medium-sized Asian companies have also increased their investments abroad. The volume of trade and investment produced by small and medium sized companies is difficult to quantify though is relatively important in the case of Korea. Its impact in specific sectors of the economy (within the production and commercialization of textile, footwear and clothing articles in some large urban centers or trade intermediary functions between Latin America and Asia in duty-free zones) is appreciable in Argentina, Brazil, Chile, Peru and Paraguay and is intimately related to the presence of a relatively important Korean immigrant population. According to the estimations of Taik Hwan-Jyoung, these investments reach a total of US $1.15 billion if we add those amounts from small investments and capital supplied by Chaebol subsidiaries through foreign companies and institutions to figures for registered Korean investment in Latin America until 1996 ($242 million).[7]**7**

A similar effect can be observed with regard to the Chinese population in Latin America. Especially in Central America and the Caribbean region Chinese have found a place for small and medium-sized companies within the fold of the influential ethic Chinese minority in the area.

As for the Japanese companies, with the exception of Sao Paulo, home to the largest Japanese immigrant population in the world, this effect is marginal in Latin America because the large trading companies (the *Sogo Shosha*) not only assure the supply of material to the group's large companies but have also established a network of small and medium-sized companies linked to their group.

Lastly, the change in Latin American perceptions toward the impact of foreign investment should be mentioned. The teams in charge of formulating economic policies within the region, the majority of them having received education in prestigious American and European universities, start from the premise that globalization accentuates the benefits gained from direct foreign investment in terms of "invisible assets." That is, technological and entrepreneurial development, access to strategic markets, the creation of dynamic economic chains and the development of new management techniques. Governments make efforts to coordinate and standardize commercial policies and redouble their efforts to negotiate accords that promote inter-regional trade and promote the integration of their productive operations.

III. THE FLYING GEESE

The central idea behind this research paper is that there is an interesting relationship between the strengthening of economic ties with the Asian countries and the productive and financial integration of the Southern Cone of Latin America.[8]**8**

Sub-regional integration allows the Southern Cone countries to take advantage of important complimentary dynamics with the Japanese and Korean industrial groups. The first and most important consideration is the size of the integrated market. With the exception of Brazil, no other Latin American country is by itself of sufficient size to make it attractive for Asian entrepreneurs. While this is true about investment originating from all other regional groupings, it is particularly important with respect to Asia because the large industrial conglomerates look to exploit great economies of scale.

Additionally, the Latin American countries can jointly take advantage of positive externalities. These stem mainly from the fact that in the large majority of sectors in which they compete, exports from Latin American producers represent only a tiny fraction of Asian markets (like, for example, the Argentine and Chilean wine industries). This is a very significant consideration if we keep in mind the increase in inter-regional investment since 1990 and its tendency toward horizontal expansion. That is, toward investment in the same sector that a company operates within its home country. The great physical and cultural distance involved implies large market entrance costs for Latin American exporters.

The South American Business Network

The gradual creation of a business network is a recent phenomenon in the Southern Cone of Latin America and represents an important source of support for the configuration of an economic sphere able to take advantage of regional integration with the Asia-Pacific. This provides the platform that will permit the expansion of a sub-regional network of firms linked together by production chains aimed toward both the regional market and the global economy.

The “Flying Geese” paradigm has attracted the attention of many specialists associated with important regional multilateral organizations. SELA’s Permanent Secretary, for example, has argued in favor of strengthening trans-Pacific ties in the strategic automotive industry, stimulating a new wave of Asian investment in Latin America directed toward emerging sub-regional markets and thereby fortifying the productive integration between East Asia and Latin America in a manufacturing sector that will promote technology transfer and improvements in human capital.[9]**9** The SELA report concludes that the agreements between Argentina and Brazil in the automotive sector within the framework of the integrative efforts of the Southern Cone Common Market (MERCOSUR) should serve as a platform for productive integration with East Asia. This would provide South America with new routes of access to Asian markets and permit the incorporation of new technology and worker training as well as the acquisition of management techniques as a direct result of the productive activities and the public cooperation programs that would accompany them.

CEPAL has also argued that the design of new strategy for Latin America's global ties with the Asian process of productive integration and technological development is an urgent necessity (Catch-up). To the extent that foreign direct investment plays a decisive role in the creation of a complex and interdependent framework within the Asia-Pacific Region, Latin America should consider that one of the most effective ways of linking itself to Pacific Rim dynamics would be by attracting larger amounts of Asian investment to the region (particularly from Korea, Taiwan, Hong Kong and Singapore) while at the same time transforming its productive base.[10]**10**

Business Systems

The most important lesson that can be learned from the experiences of the Asian countries is that regional productive integration lies in large measure in the associative capacity that sustains market forces: that is, the social foundation, the networks that contribute toward the creation of a unique "business system."[11]**11** In Southeast Asia, the ethnic Chinese network has extended into the various levels of economic activity and has greatly facilitated the process of regional productive integration.

Past Latin American efforts to promote regional integration have failed largely because of the segmented and fragmented nature of regional markets. What has widely been taken as a lack of interest in business sectors toward integration schemes designed by governments was, in fact, a reflection of a lack of business ties that allowed for the creation of shared interests between countries.

The Latin American experience also shows that the formation and consolidation of a "business system" is critical for overcoming the export processing and assembly plant stage and moving toward more sophisticated levels of economic activity such as providing subcontracting services and the creation of original products because doing so calls for the ability to work backwards in productive niches.

From a broader perspective, as the Mexican experience in NAFTA demonstrates, the possibility that sub-regional, and eventually hemispheric, integration efforts contribute toward open regionalism depends to a large degree on attaining a greater level of commercial and productive integration with East Asia and in this way participating in regionalism's benefits.

IV. ASIAN INVESTMENT: THE TWO LATIN AMERICAN SUB-SYSTEMS

Japanese Economic Relations with Latin America

Japan has been the Asia country with the strongest economic ties to Latin America. In 1994, 49% of Latin American trade with East Asia was with Japan alone.

Historically, however, Japan's relations with Latin America have been marginal and distant. Following the Second World War, Japan's trade with the region grew steadily until the 1980's but only represented slightly more than 9.2% of total Japanese exports and 9.8% of total imports. During the 1980's Latin America's economic recession and the political instability profoundly influenced economic ties and the importance of Latin America in Japanese exports slipped to 4.1% and to 4.5% in imports on average.[12] **12**

Within Latin America, Japanese trade has traditionally centered on Brazil and Mexico, with Argentina, Chile, Venezuela, Colombia and Peru ranked behind but also with a significant slice of commerce. In general terms, Japan is the second or third most important trading partner for the principal Latin American economies and provides Brazil, Chile and Peru with an important source of trade surplus. The 1950's and 1960's witnessed a relatively significant shift toward semi-processed raw material.

Japanese Investment in Latin America[13]13

The first important wave of Japanese investment in Latin America came at the end of the 1950's, stimulated by Japanese industrialization efforts and attracted by the import substitution policy of industrialization then in vogue in the region at the time. Brazil was the main destination of Japanese investment in the steel industry, navy shipyards and the textile and automotive industries. Mexico, Argentina and Peru also were favored with Japanese investment in the 1960's in the automotive industry (Mexico and Peru), wool industry (Argentina) and fabric industry (Mexico). Starting in the latter part of the 1960's, Japanese companies also began to establish productive bases in Central America and the Andean nations, taking advantage of regional integration initiatives like the Central American Common Market and the Andean Pact. The development of a stable source of foreign raw materials for internal use was one of the primary objectives of Japan's foreign investment policy.

Japanese investment was initially concentrated in the development of natural resources, especially in the mining industry (Brazil, Mexico and Peru), but in the 1960's and 1970's Japanese investment shifted toward the semi-processing of raw material and the forging of strategic alliances, attracted by the industrialization policies implemented by Brazil's governments. With time, the lion's share of the aluminum foundry industry was shifted abroad, with Brazil and Venezuela receiving investment in this sector. In the 70's Japanese companies also increased their investments in household appliance production thanks to the potential of the Brazilian, Mexican and Andean markets.

In the last decade Japanese investment in Latin America has diminished despite the sharp increase in Japanese investment abroad during the second half of the 1980's which reached its peak in 1991. Japanese investment in Latin America shifted toward the transportation and financial sectors.

North America, Europe and Asia have been the recipients of the vast majority of Japanese investment over the last ten years. Not including the increase in investment in the financial sectors and insurance in the latter part of the 1980's, Latin America's share of Japanese foreign investment has hovered around 10%. Since the 80's Latin America's share of Japanese investment in the manufacturing sector has decreased; in 1994 it stood at a mere 8.4%.

If we consider all economic sectors, Panama, the Bahamas, Bermuda, Curazao and the Cayman Islands have attracted a substantial portion of Japanese direct investment in the region. This is a natural result of the overall strategy of Japanese companies to use these as tax havens and to register merchant vessels in them. If we do not take Panama and the other tax havens into consideration, we see that Brazil is the main recipient of Japanese investment, followed by Mexico. At the start of the 1990's Japan held the position of third largest foreign investor in Brazil and was ranked fourth in Mexico and fifth in both Peru and Venezuela.

Table No. 1: Number of Japanese Subsidiaries Operating Abroad

ECONOMIC REGION	ALL INDUSTRIES	MANUFACTURING
GLOBAL TOTAL	17051	6648
LATIN AMERICA	941	299
Chile	47	5
Argentina	30	6
Brazil	312	150
Mexico	152	87

Source: Mitsubishi Research Institute, *Research on the Medium and Long Term Prospects for Direct Investment in Chile* (Santiago, 1996), p 13.

In 1995 half of all Japanese subsidiaries operating in Latin America were concentrated in Brazil and Mexico, with Brazil placing first by a wide margin (*see Table No. 1*). Brazil's weight is illustrated still more if we consider only investments in the manufacturing sector: while four of every five subsidiaries are located within Mexico and Brazil, the latter alone accounts for more than half of Japanese manufacturing subsidiaries in Latin America. In contrast to the situation in Mexico, Japanese investment covers a wider range of activities in Brazil, with significant presence in labor-intensive economic sectors (foodstuffs and textiles) and in heavier industry (chemicals, machinery and electronic articles -- *see Table No. 2*).

Table No.2

Industrial Distribution of Japanese Subsidiaries
Operating in Latin America

	LATIN AMERICA	**CHILE**	**ARGENTINA**	**BRAZIL**	**MEXICO**
Manufacturing	**299**	**5**	**6**	**150**	**87**
Food	15	-	-	11	1
Textile	29	1	-	18	1
Wood and furniture	8	1	-	18	-
Pulp and Paper	4	2	-	2	-
Publication and Printing	1	-	-	1	-
Chemical	26	-	-	19	6
Petroleum and Coal	8	-	-	2	4
Rubber and Leather	2	-	-	1	1
Ceramic,Stone and Clay	3	-	-	2	1
Iron and Steel	1	-	-	5	1
Nonferrous Metals	10	-	-	5	2

Metals	5	-	-	4	1
Mechanical Equipment	28	-	1	19	7
Electrical Equipment	76	-	4	30	33
Transport Equipment	13	-	-	7	2
Motor Vehicles & Parts	29	-	-	6	16
Precision Equipment	7	-	-	4	3
Other Manufacturing	24	1	1	8	8

Source: Research on the Medium -and Long- Term Prospect for Direct Investment in Chile. Mitsubishi Research Institute, Inc., September, 1996.

It is worth mentioning two interesting characteristics of Japanese investment in Brazil and Mexico. First, the large Japanese trading companies (the *Sogo Shosha*), which have played the role of explorers and advance scouts for Japanese interests in Latin America, have also put together large scale investment projects. The Japanese trading companies maintain their position as leaders even today. Second, Japanese companies have acted in groups that in many cases included rival conglomerates and were coordinated by the association of large Japanese manufacturers (Keidanren), in this way sharing the costs of operating in a distant and unknown business environment.[14] **14**

Lastly, with respect to Mexico, these statistics also show that the country has advanced some links in the value chain. Starting from the classic labor-intensive *maquiladora* industry (especially in clothing), its ties have grown to include electronics, electrical equipment and its components, and vehicles and parts.

In addition to Brazil and Mexico, Argentina and Chile have also received relatively significant flows of Japanese investment in specific sectors. In Chile the Japanese have preferred manufacturing sectors intensive in the use of raw materials such as pulp in the paper industry; in Argentina electronic article producers have stood out (four of the six established Japanese subsidiaries in this industry are located there).

Table No. 2: Distribution of Japanese Subsidiaries Operating Abroad by Industry

The Emerging Presence of Korea in Latin America[15]15

Korean investment abroad has increased tremendously since 1993. Until 1985, accumulated Korean investment abroad was less than $500 million and was directed toward mining and forestry projects. By the end of 1996 total foreign investment stood at $13.7 billion, with an estimated $9.5 billion of that invested between 1994 and 1996 alone. This new wave of Korean investment, lead by the large conglomerates, the *Chaebol*, has been oriented toward manufacturing, which as a sector represented 56.7% of Korean investment abroad in 1995. More than half of the projects were in labor-intensive industries (textiles, clothing, footwear and leather curing), although this share is decreasing.

Korea is the third largest Asian economy in terms of relocated industry abroad, weighing in after Japan and Taiwan. Although Korea has been a net importer of capital, the number of its investment projects has grown rapidly and in contrast to Taiwan, have not be located exclusively in the Asian Pacific.

Korea's presence in Latin America is still small and incipient, but it has received a strong impetus in recent years. By 1995 only 3.2% of Korean foreign investment was to be found in the region. Yet by the end of 1996, Korea had initiated 317 investment projects in Latin America worth $689 million, representing 5% of total Korean investment abroad. Korean sources estimate that if investments made by small and medium-sized companies are taken into consideration, investment in Latin America is greater than $1.15 billion.

An analysis of the distribution of Korean investment in 1995 reveals some interesting characteristics. Panama is the principal destination for Korean investment in Latin America (with 19.9%), for the same reasons that have attracted the Japanese. However, in contrast to Japan, Mexico and not Brazil places second (taking in 27% of Korean investment if we exclude Panama), while Jamaica (7.78%) and Guatemala (7.78%) also attracted a significant share. In the Southern Cone of Latin America, Argentina (17%), Chile (9.6%) and Brazil (7.4%) were the principal recipients of investment in 1995. These figures give evidence that the central motivation behind Korean investment in Latin America has been gaining access to the US market, and also indicates the fact that the majority of investments in Mexico were made by Korean subsidiaries located in the United States.

The investment projects show that the Korean conglomerates have begun to direct a growing portion of their initiatives toward more sophisticated industrial sectors, like the electronic, household appliance and automotive industries. A recent World Bank study[16]**17** revealed that in Brazil Hyundai is considering investments worth $700 million in assembly plants, $500 million for a 5% participation in the Compañía Vale do Rio Doce, $300 million in a joint-venture in Mato Groso do Sul and $255 million for the construction of a gas-pipeline between Brazil and Bolivia. Hyundai will invest in mines and in Peruvian energy plants and a $300 million joint venture for a copper refinery in Chile. LG Electronics will invest $1.1 billion in Brazil over a period of ten years to produce consumer electronic goods. And lastly, by the year 2000 Daewoo Electronics plans to invest $500 million in an electronic appliance plant in Brazil.

A Comparison of Korean and Japanese Investment

It is difficult to undertake an analysis comparing Japanese and Korean investment in Latin America in the last few years because of the lack of information, but we can get some ideas from the investment information that the magazine *América Economia* presents in its annual edition. For the 1996/1997 period, the magazine recorded eight Korean projects for a total of $4.710 million (*see Table No. 3*) and 11 Japanese projects valued at $8.659 billion. The Korean projects are largely directed toward Brazil (76%) in the automotive and electronics industries. Mexico attracted investment in electronics worth $700 million. The Japanese conglomerates display a more diversified portfolio in terms of sectors (automotive, electronics, mining, petroleum and steel and iron works) and country destinations. Chile ($2.625 billion or 30%) and Venezuela ($5.270 billion or 60%) stand out for their unusually large shares of the Japanese total.

Table No.3

Korean Investment Projects in Latin America (1996/1997)

Company	Country	Sector	Amount US$ Millions	Project
Asia Motors Co.	Brazil	Automotive	500	Installation of a plant
Daewoo	Brazil	Automotive	500	Construction of a plant
Samsung	Brazil	Electronics	1,000	Production of parts for Tv and electrodomestics
Goldstar	Brazil	Electronics	1,170	Production of tubes for Tv's and video monitors in Sao Paulo
Daewoo Electronics	Mexico	Electronics	270	Construction of a plant in Northern Mexico
Orion	Mexico	Electronics	180	Construction of a television plant
United Enterprise Trust Group (U.S.A.-Korea)	Panama	Tourism	300	Tourist resort
Samsung Corning (Korea-U.S.A.)	Mexico	Glass	250	Construction of a plant for TV and PC monitors in Tijuana

Source: América Economía, Edición Anual, 1996/1997, pp.78-88

The information about alliances, joint ventures, mergers and acquisitions (*see Tables No. 6, 7, 8 and 9*) shows that the Korean companies are more wary about forming strategic alliances and joint ventures than the Japanese. Statistics from *América Economia* only show one Korean joint-venture operation, in Argentina, during the 1995/96 and 1996/97 periods.

Latin America's Two Economic Spheres

In light of the information already presented, it is evident that within the perceptions of Asian economic actors there are two economic centers of spheres in Latin America.

A) Mexico, Central America and the Caribbean

The attraction that this region holds for Asian entrepreneurs has to do with its strategic ties to the US market, the importance of this phenomenon for the US being a widely analyzed topic.

The region's competitive advantages are found in its access to the US market and the strategic projections of the commercial agreements with Washington, whether it be with NAFTA as in the case of Mexico or the Caribbean Rim Initiative for Central America and the Caribbean. They attracted significant inflows of Asian investment during the late 80's and early 90's.

On the other hand, the competitive disadvantages can be summed up as the dependence of these countries on their relationships with the US. These investments are not aimed toward the country in which they are located but rather to the strategic link with the US. So from the point of view of Asian conglomerate's operational organization and from the perception of the region reflected therein, its clear that for the vast majority of Japanese and Korean conglomerates the United States in the strategic target.

In general terms, these investments are located very low on the value chain of production: that is, the processing of parts and components (with varying degrees of value added technology). Experience shows as well the difficulties involved in granting of subcontracts for component production and the manufacture of original equipment.[17]**17** Lastly, a difficult business environment (poor infrastructure coupled with corruption, bureaucracy and cultural differences) also conspire against the creation of a business system attractive in its own right.[18]**18**

B) The Southern Cone

In difference to the above-mentioned sphere, the Southern Cone sphere contains various centers that are only in part reflected by the principal accords for sub-regional integration. First of all, Brazil itself is an economic sphere of great interest to Asian investors for reasons, which we have already discussed. Secondly, Venezuela, Colombia and Ecuador form a common sphere. Lastly we have the MERCOSUR sphere which includes Bolivia, Chile and Peru.

The dynamism that this subsystem could acquire is hampered by the lack of a member to lead the flock with characteristics similar to Japan in East Asia, characteristics, which were reproduced in South Korea, Taiwan and Hong Kong. Those are: a relative lack of natural resources; a high rate of national savings; great capacity for technological innovation; the rise of a highly qualified labor force. The infrastructure that links the Southern Cone countries also represents an obstacle to the consolidation of this sub-regional sphere.

On the other hand, the Southern Cone's competitive advantages stem from the greater degree of autonomy that it's economic relations with other regional economic groupings (NAFTA, APEC, the European Union). The industrial base that was inherited as a result of the adoption of a policy of industrialization through import substitution is another asset, though it is subject to the restraints of limitations on human capital formation.

Recent experience also attests to alternatives that are more interesting in terms of productive linkages or regional division of labor, showing that there are numerous complimentarities that should be exploited and benefits from strategic alliances that could be established in order to take advantage of the opportunities of the global economy.

For example, in Chile one of the most important economic groups, known as the Angelini Group for its founder Anacleto Angelini, has established solid commercial relationships in China, Japan, Korea and Taiwan, exporting wood and seafood products. Within the framework of the wave of Chilean investment in Argentina, the group has gotten involved in a fishing project in association with the Argentine group Alpargata. Boher, another Chilean group, distributes Asian photographic products to Argentina, Bolivia and Peru through the Iquique Free Trade Zone.[19]**19** The Compañía de Acero del

Pacifico is another Chilean company belonging to an economic group closely tied to a long list of Japanese conglomerates and has established a strategic alliance with Usiminas and Vale do Rio Doce in order to win the bid for the privatization of Somisa in Argentina ($152 million).[20]**20**

The principal objective for Asian investment concentrated in Brazil is gaining access to the Brazilian and sub-regional (MERCOSUR) markets. This situation is quite different from that which we find in Mexico, Central America and the Caribbean, where the aim is to remain competitive in the US market. This depends more upon collective effort for constructing an integrated economic sphere that on an unequal bilateral relationship. In this context joint public and private sector policies are fundamental.

It is undeniable that progress toward the establishment of an integrated market in the Southern Cone improves the region's attractiveness in the eyes of Asian investors. It reduces the costs of commercialization and increases the benefits of locating productive platforms in Latin America. In comparison with European or American businessmen, Korean investors and, to a lesser degree, Japanese businessmen confront disadvantages when it comes to having strategic information on the local market.

V. THE SOUTHERN CONE ECONOMIC SPHERE

Many factors have contributed toward the progress that has been made in developing an economic sphere in the Southern Cone of South America. This is a tendency that represents a historic break with the past.

The first element involved is the process of integration within MERCOSUR itself. We have already touched upon the importance of this agreement in light of the historic rivalry been Argentina and Brazil. We should also mention that the ultimate objective of MERCOSUR is noteworthy for its ambitious goals, which bring it close to the model established by the European Community. Another characteristic deriving from MERCOSUR is the inclusive logic that it has followed in contrast to the hermeticism of NAFTA. Bolivia and Chile have reached agreements for special association with MERCOSUR, allowing for a relationship that is laying the foundation for a future integrative free trade accord. Peru's decision to withdraw from the Andean Group, in which it was a founding member in the 1960's, is explained by the explicit interest of the Peruvian government to join MERCOSUR. This is another significant event that contributes toward the consolidation of an integrated economic sphere within this region of Latin America.

Inter-regional investment in the Southern Cone is a recent and unprecedented phenomenon that best illustrates the fact that the foundations for industrial, trade and financial integration are being laid.

The Rise of Inter-Regional Investment

A new phenomenon has been gathering force in the Southern Cone that is playing an important role in the construction of an integrated economic sphere and a subregional "business system": cross-investments. Starting in 1990 Chile has been gradually taking center stage in this process.

A recent study undertaken by the Chilean Foreign Investment Committee registered a total of 726 projects, estimating that the amount of Chilean capital invested abroad between 1990 and 1996 was $12.1848 billion. Recall that the highest estimation of Korean investment in Latin America was only $1.2 billion. If we consider the total amount of capital involved in the projects to which Chilean investment is committed, the figure soars to $23.3488 billion.

The Argentine market has attracted $5.6819 billion worth of Chilean investment, with the total amount of these investment projects reaching $10.0549 billion. Despite the concentration in Argentina, Chilean investment has reached an important degree of depth and diversification, with a presence in the electric energy and gas industry, manufacturing and food processing sectors, construction and steel-working, fishing, chemicals, the computer industry, and other services and investments. It is interesting to note that the manufacturing sector has attracted the largest amount of Chilean capital ($2.296 billion), followed by the energy and electricity sectors ($2.269 billion) and commerce ($392.3 million). The same tendencies are witnessed in Chilean investment in Peru.

In Bolivia Chilean investment increased from $11.4 million in August 1994 to $235 million in December 1996.

In the smaller economies within the Southern Cone (Argentina, Bolivia and Peru) Chilean investment has become an important source of foreign capital. In Brazil Chilean investment still represents only a small fraction of direct foreign investment, but has nevertheless grown steadily over the last five years. Chile, with the small size of its domestic market, combined with the advantages that come with its status as the country that has advanced furthest with neo-liberal market reforms and an availability of capital produced by sustained economic growth and a high rate of forced savings, has emerged as the largest Latin American investor.

As we have indicated, a considerable portion of Chilean investment has been directed toward service sectors, including retail trade and financial services. Considering the great degree of dynamism that Chilean trade enjoys with the Asian countries, this distribution network within the Southern Cone can play a key role in the realization of Chile's goal of transforming itself into a bridge between the Asia-Pacific Region and the Southern Cone. Both the distribution network itself (large retail stores) and the information that it grants Chile about the pulse of local economies are great assets to this end. Recent studies on global chains of production stress that knowledge of strategy and cultures allow access to the more advanced and attractive chains oriented toward the consumer.[21]**21**

Chilean investment abroad has been lead by the country's economic groups. These are characterized by collections of established companies in a wide range of productive sectors although the nucleus of the majority is formed by companies in the dynamic and emerging sectors of the economy: electrical generation, transmission and distribution; pension fund administrators; and dynamic export sectors like the fishing and wood products industries. In the pension fund administrators in particular we note the significant participation of foreign partners.

The degree of internationalization behind the operations of Chilean companies is noteworthy. Between 1990 and 1994, for example, close to $1.7 billion worth of Chilean investment in Argentine privatizations were financed by American Depository Receipts (ADR). In addition to their size, Chilean investments stand out for their tendency to associate with local capital, revealing a high level of internationalization in Chilean operations. This movement is motivated by a desire to maintain export flows through the control of their commercialization.

IV. CONCLUSION

The flow of Asian capital in the Southern Cone of Latin America will directly stimulate the growth of strategic economic sectors (industrial sectors such as autos, electronics and telecommunications and natural resource intensive industries) if they take advantage of complimentarities to enter higher stages in value chains.

Foreign direct investment (FDI) is a key for keeping the regionalism movement open. That is to say that FDI is an effective step toward the construction of a globalized economy. It allows foreigners to have the opportunity to take advantage of the benefits of association.

The main lessons to be learned from East Asia are: 1) that regional integration depends in large measure on social fabric (social networks and business systems); and 2) that the possibility of improving a region's position in the value chains depends upon the strength of social relationships.

Brazil is one of the most attractive centers in the Southern Cone, but the sub-system comprised by Argentina, Bolivia, Chile and Peru has also gained in importance. One of the reasons for this is the particular Brazilian situation: the large size of its economy but also its weaknesses with respect to its accelerated opening, both in the area of its industrial structure and its macroeconomic stability.

Argentina, Brazil and Chile have good prospects for taking advantage of synergetic relations with East Asia. The three are Latin American countries that stand out for the growth of their trade with East Asia and as destinations for Asian investment. They also have many complementary characteristics, which are demonstrated by the differences in the composition of their trade with East Asia.

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[1] East Asia is understood as the region constituted by Japan, South Korea, the People's Republic of China (including Hong Kong), Taiwan, Thailand, Malaysia, Singapore, Brunei, Indonesia and the Philippines. For the reader's convenience, the terms Asia, the Asia-Pacific Region and the Asian Pacific will be used as synonyms unless otherwise indicated. Strictly speaking, the Asia-Pacific Region should include at least the members of NAFTA (Canada, Mexico and the US) plus Australia, New Zealand, Papua New Guinea and Chile: that is to say, the members of the Asia-Pacific Economic Council.

[2] Dae Won Choi, *La Cuenca del Pacífico y América Latina: De la Inserción Comercial hacia la Integración Productiva* (CEPAL: Santiago, Chile, 1992).

[3] Carlos Mattos, *Economic Relations between Latin America and Asia-Pacific: Recent Trends and Future Challenges* (CEPAL: Santiago, Chile, 1993): Working Documber No. 14.

[4] Dae Won Choi, *Ibid.*

[5] There is a notable lack of research on the theme of Asian investment in Latin America. For example, an integrated system of statistics on foreign investment that would allow us to perceive regional tendencies does not exist. In many countries the liberalization of capital accounts has produced a relaxation of regulatory control and registration. Additionally, publicly released reports on the subject by manufacturing and export associations are scarce. Equally rare are surveys conducted among businessmen and administrators. Quantitative studies on the evolution of the trading relationships between Latin American and East Asian countries in the 1990's are also lacking.

[6] Carlos Juan Moneta, *Japón y América Latina en los Años Noventa: Nuevas Opciones Económicas* (Planeta: Buenos Aires, 1991).

[7] Taik Hwan-Jyoung, *Korean Investment in Latin America* (UCSD: San Diego, 1997), mimeograph.

[8] The Southern Cone of Latin America is understood as the traditional ABC group (Argentina, Brazil and Chile) plus Uruguay, Paraguay, Bolivia and Peru.

[9] Carlos Juan Moneta, *Comercio e Integración Intraindustrial en Asia-Pacífico: Perspectivas de Vinculación con América Latina* (Instituto de Servicio Exterior de la Nación: Buenos Aires): Working Document Series No. 8, May 1995.

[10] Dae Won Choi, *Ibid.*

[11] A.E. Safarian and Wendy Dobson, "The Diversity and Dynamism of Capitalism in East Asia" in A.E. Safarian and Wendy Dobson, eds., *East Asian Capitalism: Diversity and Dynamism* (University of Toronto Press: Toronto, 1996).

[12] Kotaro Horisaka, "*Las Relaciones Económicas de Japón con América Latina,*" in Barbara Stallings and Gabriel Székely, eds., *Japón, los Estados Unidos y la América Latina: ¿Hacia una Relación Trilateral en el Hemisferio Occidental?* (Fondo de Cultura Económica: Mexico, 1993), p. 61 - 87.

[13] This section is based on a summary of the pertinent chapters of the report *Research on the Medium and Long Term Prospects for Direct Investment in Chile* prepared by the Mitsubishi Research Institute (Santiago, Chile, 1996).

[14] Kotaro Horisaka, *Ibid.*

[15] The first part of this section summaries some of the most interesting details within Taik-Hwan Jyoung's *Korean Investment in Latin America, Ibid.*

[16] World Bank, *Financial Flows and the Developing Countries* (World Bank: Washington DC, November 1996).

[17] We have adapted the typology and a good deal of the theoretical framework from Gary Gareffi, "Global Production Systems and Third World Development," in Barbara Stallings, ed, *Global Change and Regional Response: The New International Context of Development* (Cambridge University Press: New York, 1995), p 100 - 142.

[18] Sung-Han Kim, *Korea and Latin America: Toward a New Partnership*, IFANS Review, Vol. 4, No. 4 (October 1996): p 1- 22; and Mitsubishi Research Institute, *Ibid.*

[19] Chantal Signorio L., *Catastro y Análisis de las Empresas que Desarrollan Negocios en el Asia-Pacífico* (Fundación Chilena del Pacifico: Santiago, 1995), mimeograph.

[20] Permanent Secretary of SELA, *Flujos de Capital Intraregional en América Latina y el Caribe*, *Capítulos del SELA*, No. 47 (July-September 1996): p 89 - 103.

[21] Gary Gereffi, *Ibid.*