

Pacific Alliance and Japan Model of Economic Partnership

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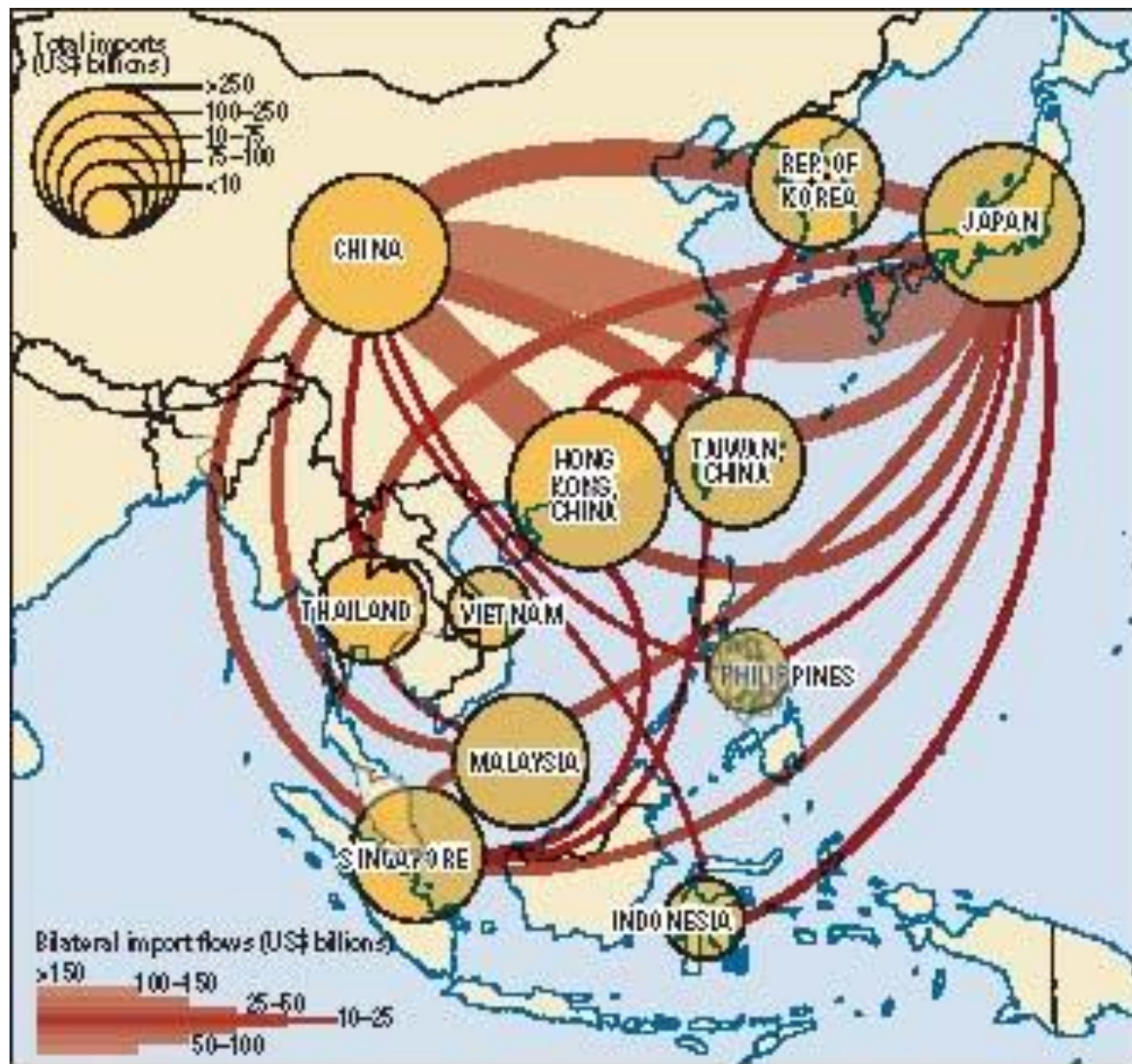
Focus of this presentation

- Pacific Alliance and Japan
- What is Japan Model of Partnership (Engagement)?
- What is the future perspective of Japan-LAC relations having in mind the Pacific Alliance and the Japan Model of Partnership?
Opportunities for Latin America and for Japan?

Part I: Pacific Alliance and Japan

EPA (Economic Partnership Agreements) and Economic Integration such as the Pacific Alliance could enhance their **externality** in terms of the insertion **into global value chain**

- WB's World Development Report 2009 highlighted: Intraregional trade in Asia with a complex network of value chains are much more developed than in Latin America



Source: Gill and Khoro 2007.

Intra-Regional Trade in Asia (Source: World Bank, *World Development Report 2009*)

In this process in Asia

- 3 key pillars, trade, investment and cooperation were essential in Asian development
- Cooperation in areas, among others, of infrastructure, human resource development and institution building (in general business environment) as well as agriculture were important in Asia

Japan has been pioneer in strengthening intra-Asian relationship through **trade, investment and cooperation**

- For many years Japan was the only member of the OECD-DAC, providing official cooperation for development
- Japan has been for many years one of the driving force of intra-Asian economic relations and Asia's relations with the world

Japan's unique presence in Latin America

- Among Asian countries, Japan has been the pioneer in strengthening its relationship with Latin America, in terms of **trade, investment and cooperation**, the 3 pillars
- Japan is one of the major investors in manufacturing industries in Latin America
- Many Japanese companies have more than 50 years of operation in Latin America

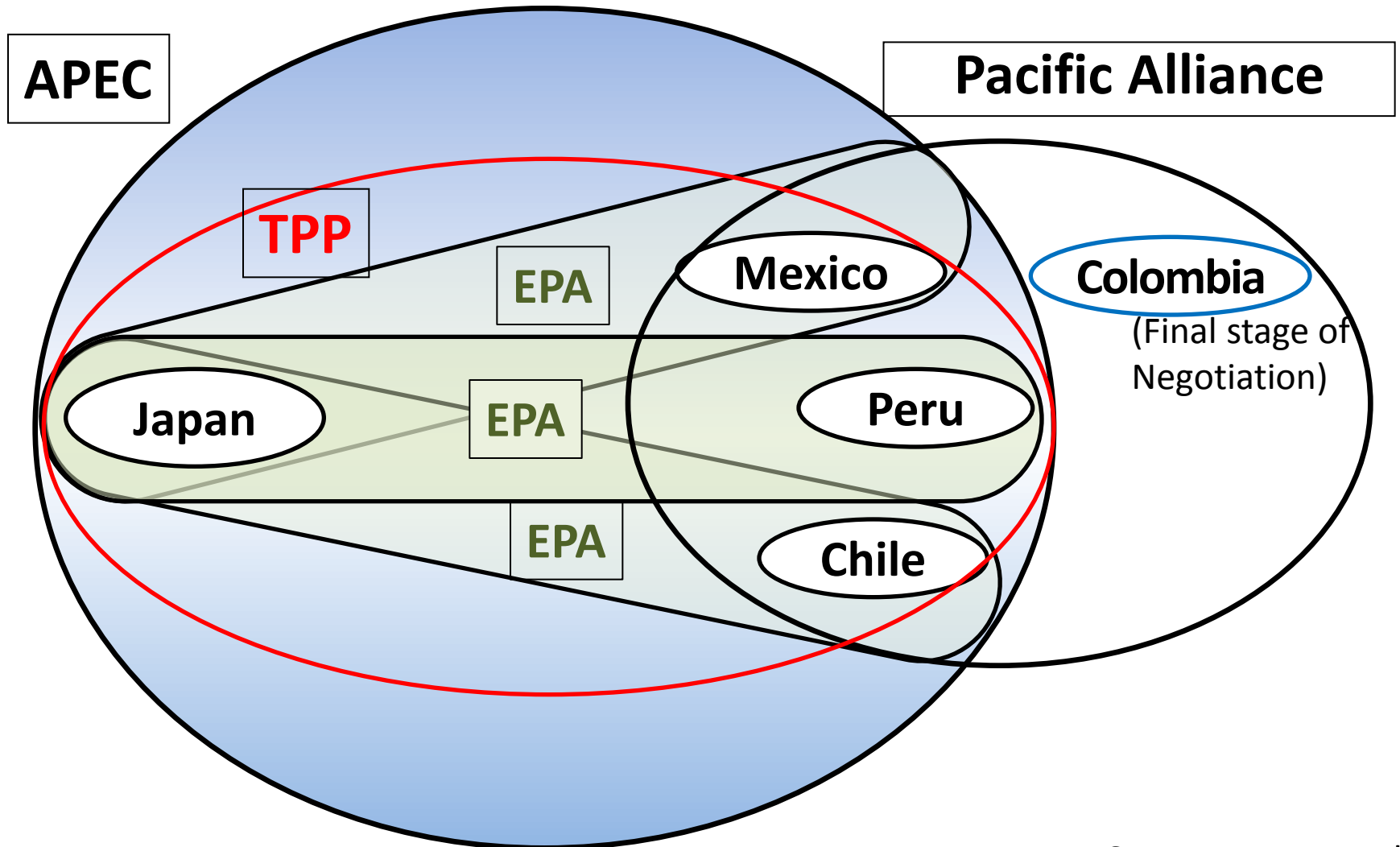
Japan has played and would play in future a unique role in Asia-Pacific and LAC economic relations

- ***Among other reasons:***
- Japan's unique presence in Asia
- Japan's unique presence in Latin America
- Japan has been pioneer in strengthening intra-Asian relationship through **trade, investment and cooperation**

Now four LA countries with which Japan subscribed (or negotiating to subscribe) EPA are forming the Pacific Alliance

- Declaration of Merida of the second summit of Alianza del Pacifico established the schedule to start negotiation on tariff of all universe of goods and accumulation of origin in 2012 aiming at starting implementation of tariff reduction in 2013
- There are processes of APEC and of Alianza del Pacifico as well as EPAs and TPP. **The Synergy could be great.** (See the Graph 1)

**Japan-Mexico EPA, Japan-Chile EPA, Japan-Peru EPA and Japan-Colombia EPA (in negotiation)
in the context of APEC and Pacific Alliance as well
as TPP: Synergy could be great**



Part II: Japan Model of Economic Partnership

- Japan Model matters to understand future perspective of Japan and Latin America and the Caribbean relations.
- Unique features of Japan Model appear relevant for Latin America's development agenda today.
- A close look at Japan Model of Partnership (Engagement) would enable to identify opportunities and future lines of action of Japan and LAC countries

Part II-1

Japan Model and Five Key Factors

Japan Model (1): Long-term partnership

- Many Japanese companies have been operating for decades (some of them more than 50 years) in Latin America.
- They are outstanding by their long-term commitment and their emphasis on human resource development as well as partnership (with local stakeholders)
- Japanese trading companies' (sogoshosha) long term engagement is another unique feature. They act as investment banks, participating directly in the management of the firms they invest in. They bring not only logistical, marketing and distribution expertise but also significant investment and finance resources. (ECLAC 2010; Kuwayama 2015)

The long term commitment of Japanese companies was referred to as “**establishing roots**” in the host country

- *A Japanese company's president visited Brazil and met with Her Excellency Ms. Dilma Rousseff, President of Brazil. During the meeting, **President Rousseff remarked: “Your company has come not just to sell products. But rather, you are seeking to establish roots here in the Brazilian market, and for which, I offer my full cooperation.”***
- Cited from Minister of Foreign Affairs of Japan, Sr. Kishida's speech on April 29th, 2013

- Ministry of Foreign Affairs Kishida in his speech titled “Embarking on A New Voyage with Latin America and the Caribbean” mentioned:
- Japanese companies are not simply selling and buying products in Latin America and the Caribbean. They are also transferring advanced technology, jointly creating products with the local people, and pursuing models of business in which they develop alongside the local people.

Japan Model of Partnership (2): High priority to invest in human capital

- This aspect was highlighted recently by the Prime Minister Abe:
- In Brazil people began to call Usiminas, a joint steel-manufacturing enterprise between Japan and Brazil, the "**Usiminas School**".
- Ishibras, a joint shipbuilding venture was also termed the "**Ishibras School**" for its way of harnessing talent. (It was called *Ishicola*)

- There is something that distinguishes Japanese companies from many others. It is the particular characteristic whereby shop floors become akin to schools that inculcate the joys of labor.
- Japan has the capacity to make a unique contribution, in particular, in human capital development.
- (From speech of Prime Minister Abe, august 2014, Sao Paulo)

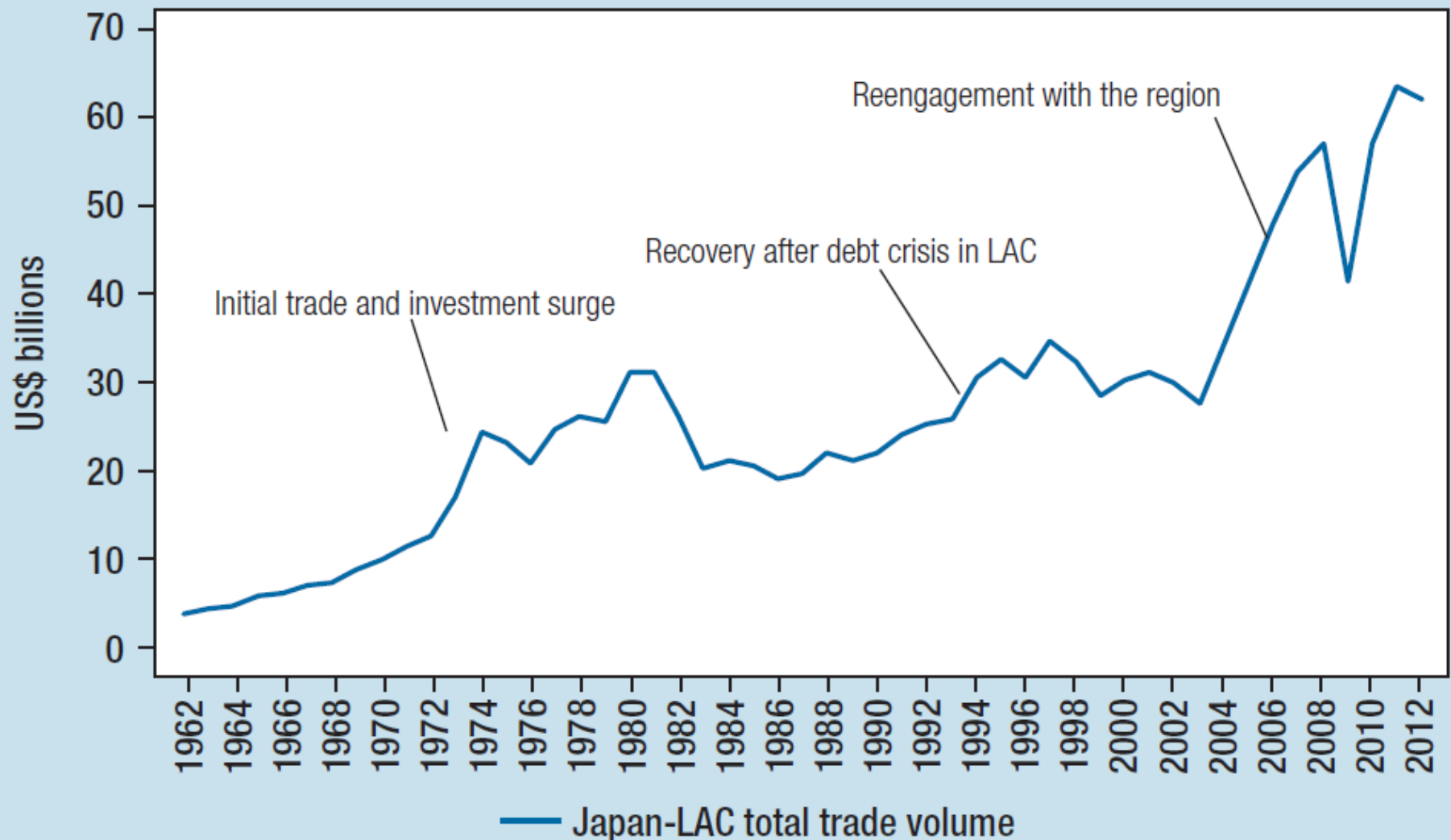
Japan Model (3): A large assets of investment with technology and employment

- Among Asian countries, Japan has been the pioneer in strengthening its relationship with Latin America, in terms of **trade, investment and cooperation**, the 3 pillars
- Investments need to be analyzed in terms of stock, especially because of its impact on technology, employment, and export, among others.
- **Japanese companies through their investments, contributed to technological development, infrastructure, human resource development, export, etc. which are important assets today.**

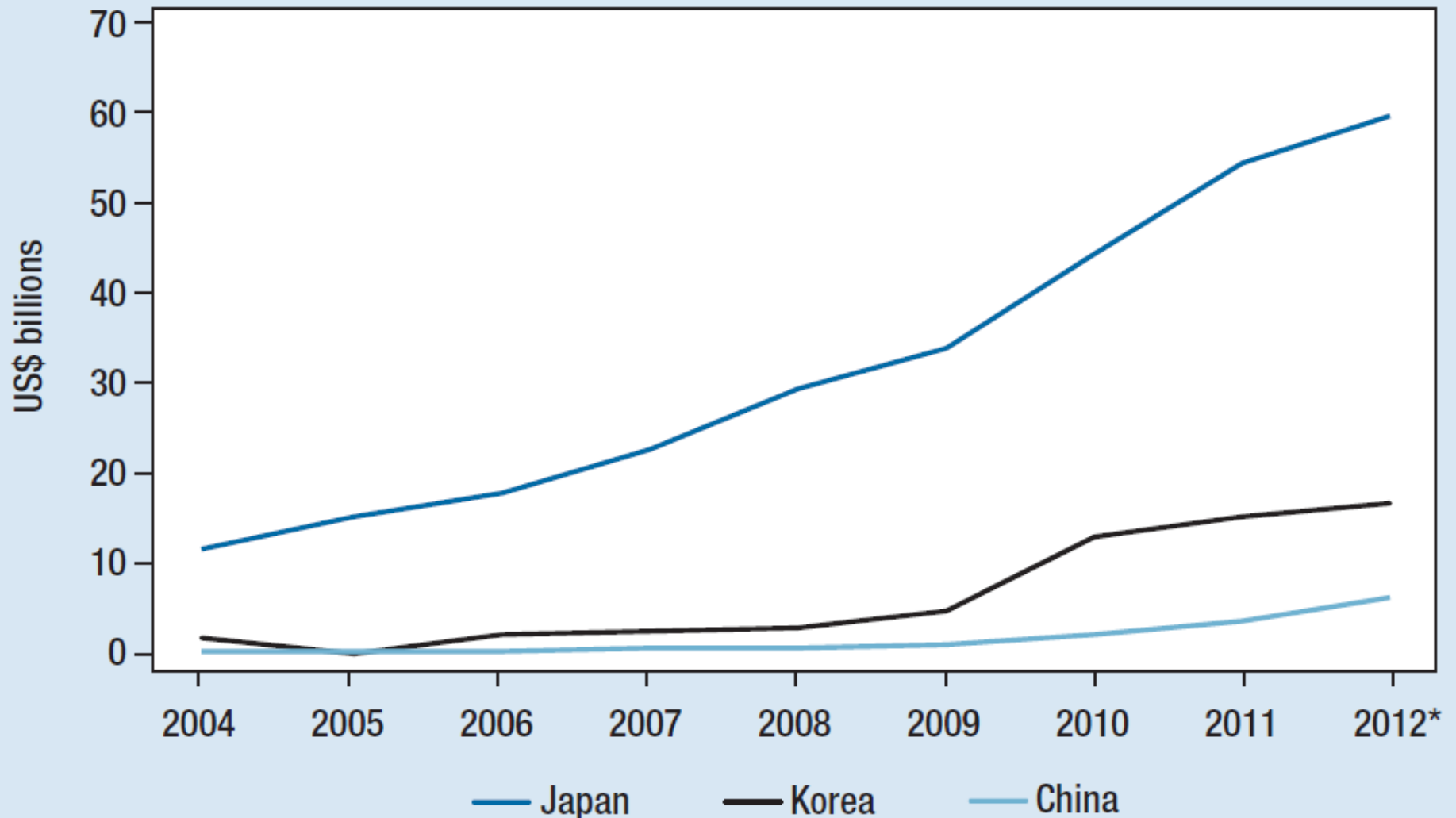
Recent trends further strengthen Japan's unique presence in Latin America

- This aspect is recently highlighted by an IDB study.
- Inter-American Development Bank (IDB) (2013), *Japan and Latin America and the Caribbean: Building a Sustainable Trans-Pacific Relationship* analyzed the deepening of Japan LAC economic relations refers to the above 3 pillars: trade, FDI and cooperation

New Dynamism of Japan-LAC trade



A major surge of Japanese FDI in Latin America (FDI in stocks)



Source: Inter-American Development Bank (2013)

Japanese investment is diversified and increasing remarkably

- Japan's rapid rise as a global manufacturing leader in the mid-20th Century made this country an important source of capital and investment in the following decades.
- Japan's investment has diversified and grown in Latin America in the 1990s and 2000s to include a wide range of manufacturing and more recently, service sectors.
- Cited from IDB 2013

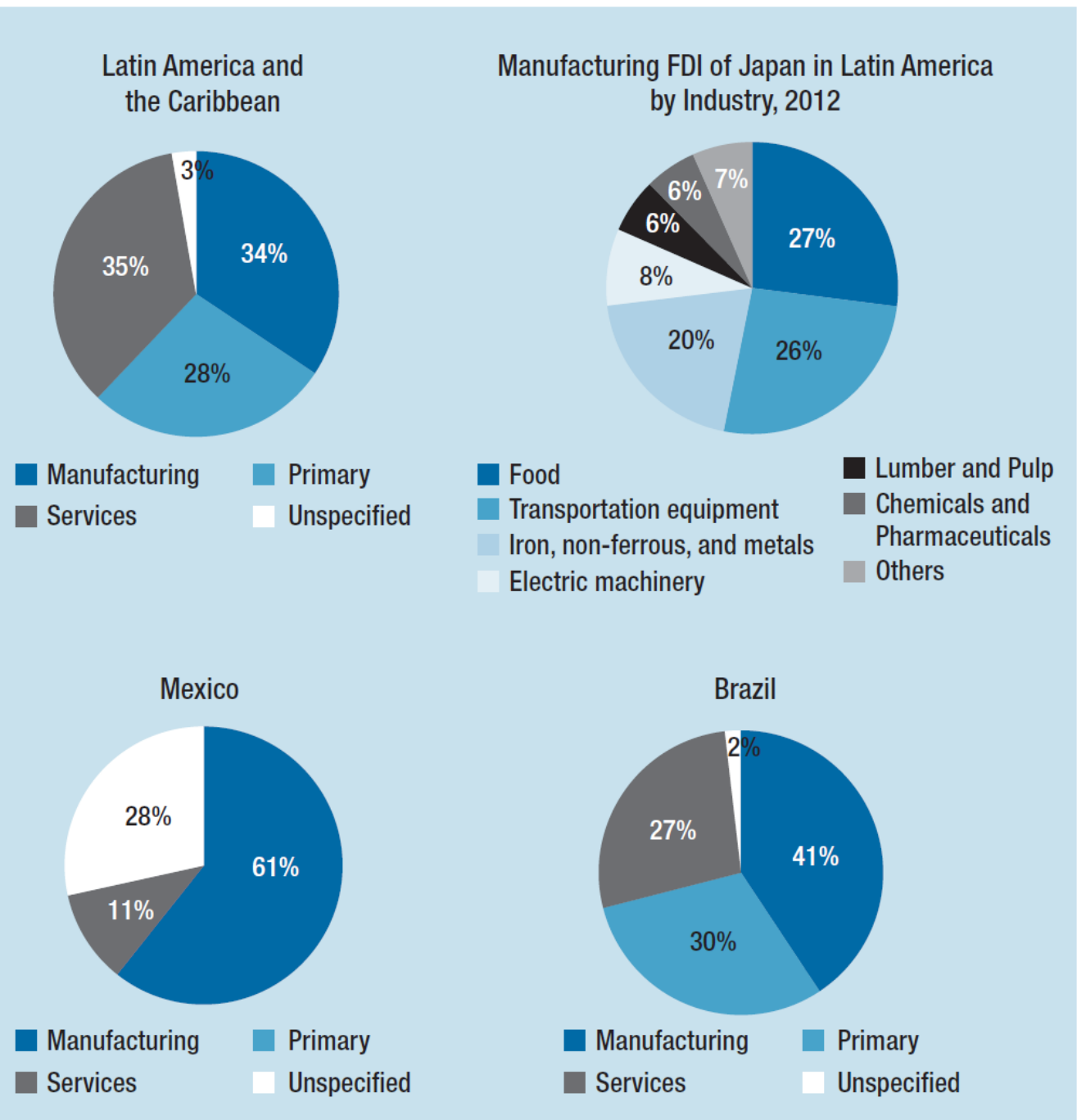
- Japan's annual FDI to LAC reached US\$6.9 billion on average during 2010-2013.
- The stock of Japan's FDI to LAC amounted to 120 billion US\$ in 2013.
- (Kuwayama (2015) *Japan and Latin America Relations: then and now.*)

Japanese FDI in Latin America is balanced

- Japanese FDI in Latin America is relatively equally distributed among sectors: mining, manufacturing and services.
- Japanese investment thus plays a critical role in forging bilateral relationship that goes well beyond LAC's traditional sectors *contributing to its transformation.*

Source: Inter-American Development Bank (2013) (Italics added)

FIGURE 12/
Composition of Japan's
FDI to LAC and Selected
Countries, 2012



Source: Inter-American Development Bank (2013)

Japan Model (4): A unique presence with three pillars: ODA and trade/FDI nexus

- **Japan's ODA covers diverse areas** including social development such as health and education, natural disaster prevention and disaster risk management, protection of environment and bio-diversity, mitigation of and adaptation to climatic change, gender issues and women's empowerment, human securities and so on.
- Japan's ODA covers also diverse areas related to economic development: human resource development, infrastructure, support for agriculture and industrial development. This presentation focuses on this aspect of Japan's ODA

Japan's view: Catalytic role and synergy of trade, FDI and cooperation for development

- Trade, FDI (foreign direct investment) and cooperation (ODA) could be **catalytic for economic development focusing on creation of new industries, diversifying and upgrading existing industries** through support for investment in infrastructure, productive capacity and other endowments
- In particular, FDI as well as ODA could be **catalytic for economic development focusing on jobs and inclusive growth through support to efforts for expanding human capacities**, which enable people to respond effectively to economic opportunities.

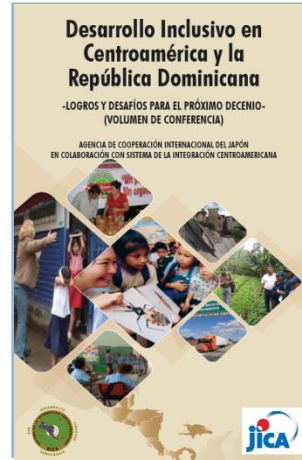
This Japan's view is endorsed by OECD

- For example, OECD-DAC Peer Review on Japan (2004) stated: “OECD considers FDI a major catalyst to development and suggests that developed countries can contribute to the promotion of these benefits by using ODA to leverage investments.” (OECD-DAC. 2004: p.36) and this peer review highlighted “Japan's comparative advantage in infrastructure-FDI model.” (Ibid:p.36)
- Japan alone provided approximately half (47%) of the total amount of aid given by the DAC member countries in production sector and economic infrastructure and service sectors in between 1990 and 2004. (OECD 2007; Kuwayama 2015)

Some of recent studies related to Japanese cooperation (References are included in these books)



60 years of Japan's ODA
(Palgrave/McMillan)



SICA/JICA Study on Central America
(forthcoming)



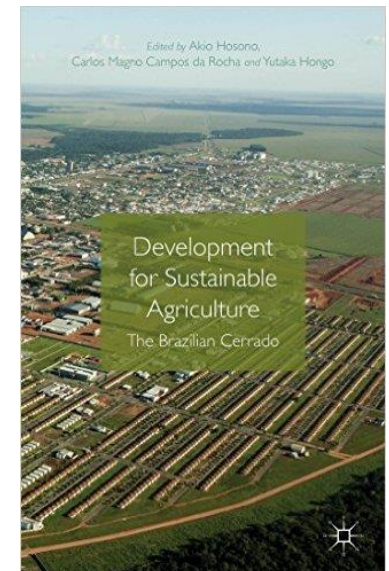
Quality of Economic Growth
(AFD/IDS/JICA)



World Economic Forum
on PPP for inclusive development



ECLAC/JICA Study on Paraguay



The Brazilian Cerrado
(Palgrave/McMillan)

This view is also highlighted by a recent IDB report

- IDB's report (2013) highlighted Japan has been active in aid for trade.
- “Indeed, the interconnected and reinforcing nature of **trade, investment, and cooperation has been central to the trajectory of the Japan-LAC relationship**. ... An underlying theme through the report, ... is the interaction among these pillars, with **trade leading to investment** opportunities, which then further drives trade. **At the same time, cooperation initiatives have been designed** with an eye towards boosting the capacity of LAC countries to integrating into global market and facilitating trade and investment”
- Source: IDB (2013: p.2)

- Japanese cooperation has in fact played a central role in launching some the region's most successful export sectors.
- Japanese technical assistance was critical in transforming Brazil's *Cerrado* region into the country's agricultural heartland, whose production places Brazil among the world's leaders in export of soybeans, maize and other grains.
- In Chile, Japanese technical assistance through JICA helped develop the country's salmon industry, which has grown to become one of the most export sectors of the Chilean economy

Source: Inter-American Development Bank (2013)

Japan's Model (5): Japanese approach is EPAs, that go well beyond FTAs

- Priority of Japan's approach is **partnership**, not just free trade.
- Japanese trade agreements are **Economic Partnership Agreement (EPAs)**
- With EPA, Economic Partnership is effectively strengthened.
- For example, EPA between Mexico and Japan includes a specific chapter on bilateral **cooperation**. ECLAC (2011: p.153)
- EPAs normally stipulate the establishment of a **committee for the improvement of the business environment** involving representatives of the two governments, and where circumstances call for it, representative of business. ECLAC (2011: p.155)

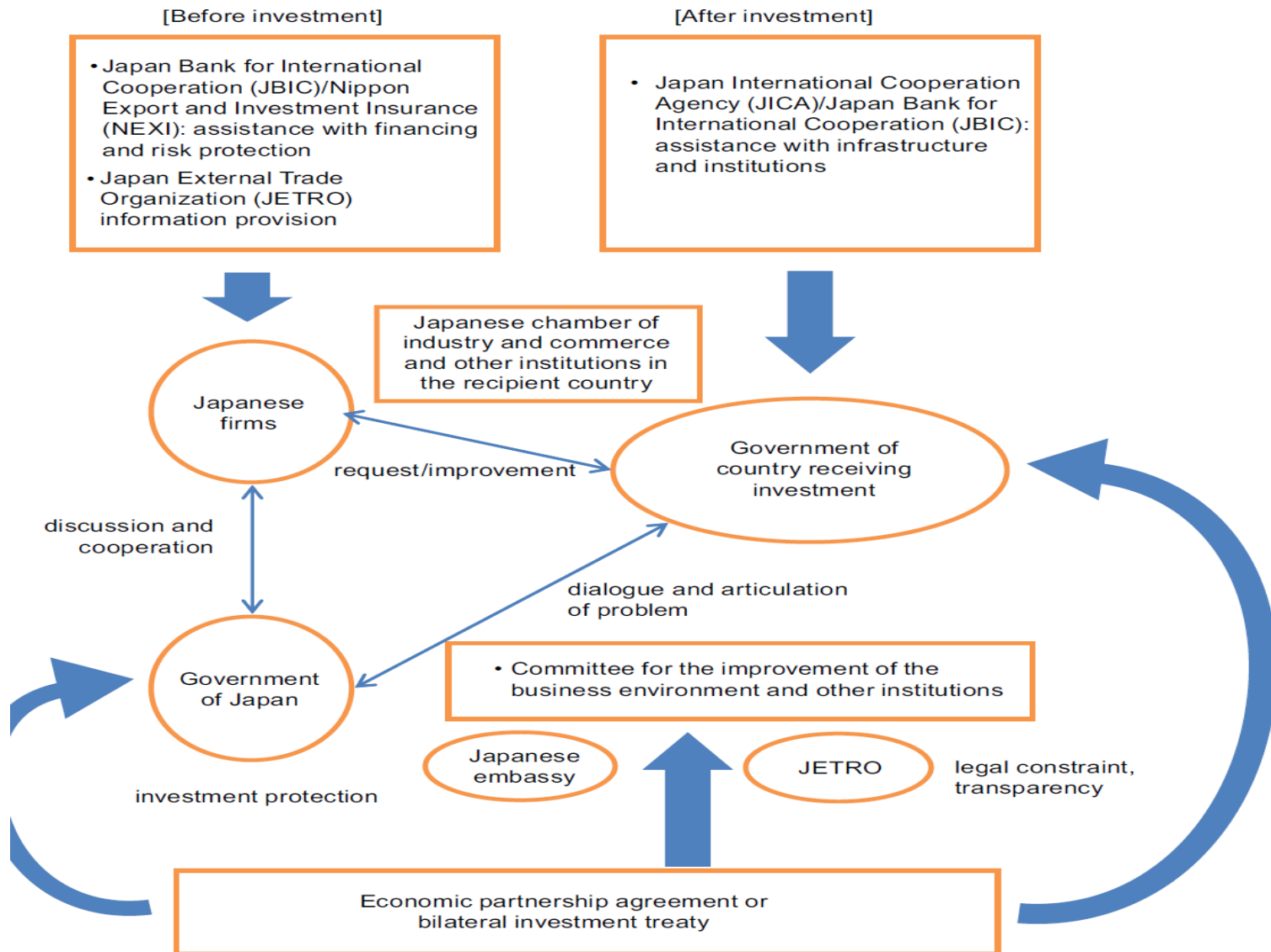
Japan-Mexico EPA was the first full-fledged EPA

- Japan-Mexico EPA could be a cornerstone for Japan-Mexico bilateral relations. (Kuwayama 2015)
- The EPA includes a specific chapter on cooperation involving 8 areas: trade and investment promotion, support for supporting industries and SMEs, science and technology, technical and vocational education and training, intellectual property, agriculture, tourism, and environment.
- Since its entry into force in 2005 the bilateral trade and investment flows have grown rapidly: the number of Japanese companies operating in Mexico has doubled from 399 in 2009 to 814 in 2014. Some 160 firms are concentrated in the automobile sector alone.

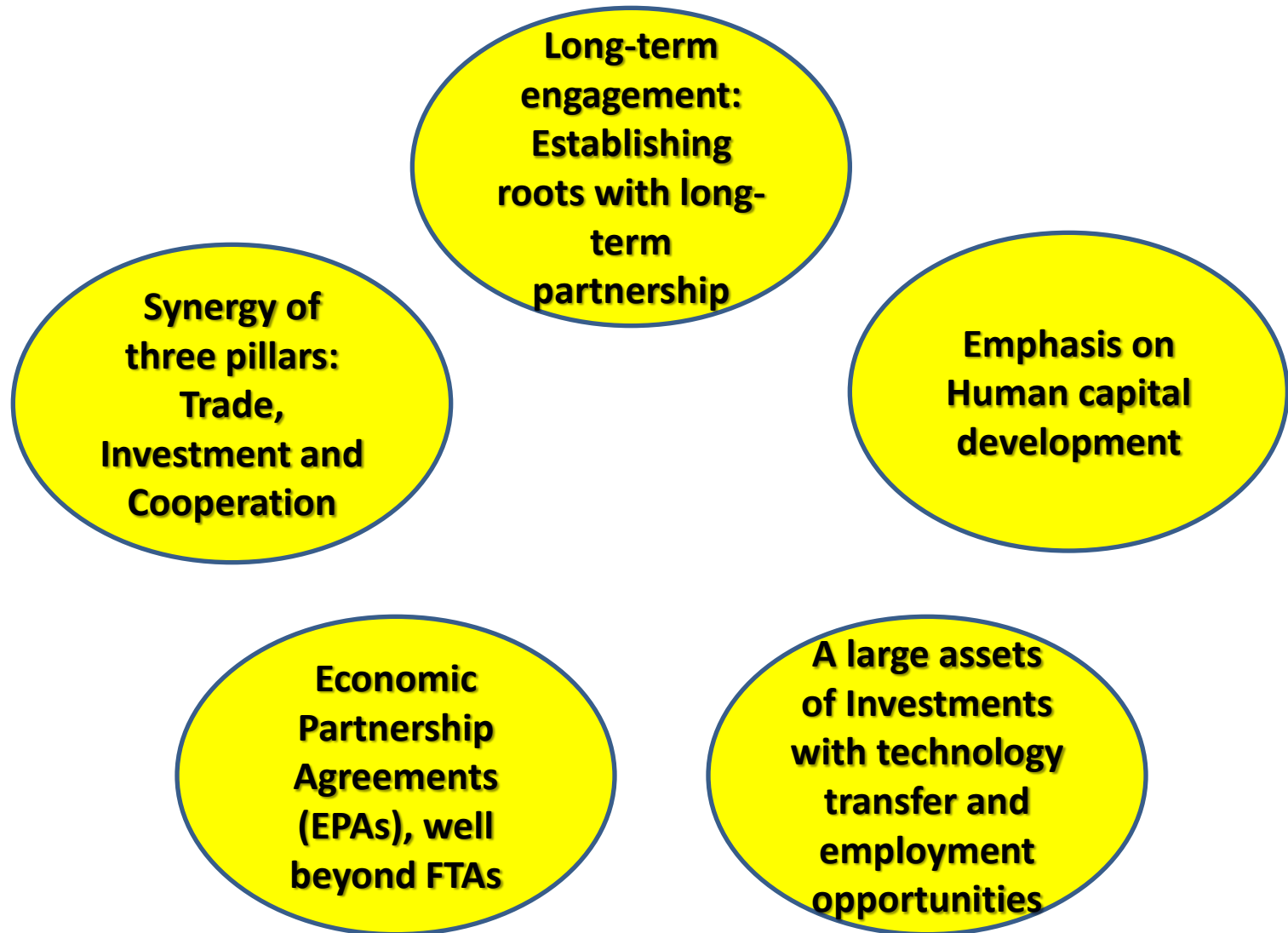
Committee for the improvement of the business environment

- The committee is to lay out the problems affecting the area concerned, **discuss ways and means of solving them and make necessary recommendations**. The committee also has the function of monitoring the measures taken once some recommendation has been formulated.
- This mechanism makes it possible for representatives of the business world to convey their views directly to the counterparty government, while making it possible to solve problems that with conventional free trade treaties could only be addressed as part of an ad hoc agenda (outside the agreement) or by taking them before the legal authorities provided for in the dispute settlement mechanism.
- Source: ECLAC (2011: p.155)

JAPAN: TOOLS AVAILABLE FOR ADVISING AND ASSISTING JAPANESE FIRMS OPERATING ABROAD



Some features of Japan Model emphasized by eminent persons, and international organizations



Part II-2

Future perspectives: Japan model Ver. 2.0

Future Perspective: Japan Model Ver 2.0

- New Initiatives to strengthen Japan-LAC relationship
- Stronger interest of Japanese companies in LAC demonstrated by increase of trade and investment
- New context: Trends of mega FTAs, such as TPP; Asia's economic growth (slower, but still vigorous); New development agendas (SDG and others)
- Japan's new Development Cooperation Charter announced February 2015

(1) New initiatives which will further strengthen Japan-LAC relations

- Three guiding principles: “From here on, as Japan infinitely deepens its cooperation with LAC, these are the principles that will constantly guide us”: **progress together, lead together and inspire together.** (Speech of Prime Minister Abe, August 2014)
- **“Japan will continue to promote people-centered investment** in order to lead private investment to sustainable development through public-private partnership” (Speech of Foreign Minister Kishida, May 2014)
- **Japan wishes to act as a bridge of economic links between Asia and Latin America and the Caribbean.** (Speech of Foreign Minister Kishida, April, 2013)

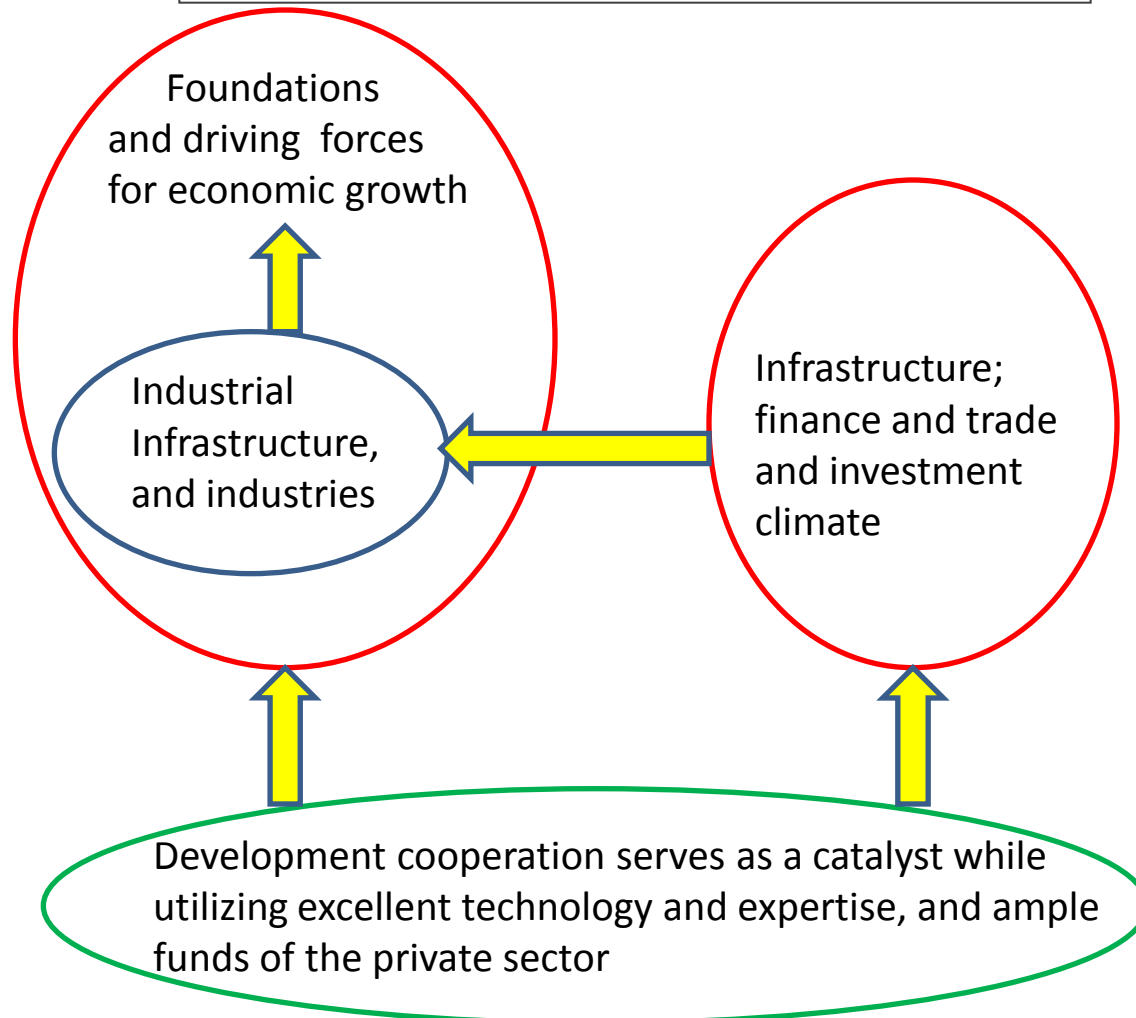
Japan's new *Development Cooperation Charter* substantiate this vision

- Japan will provide assistance necessary to secure **the foundations and the driving force for economic growth**. Its scope includes: the development of industrial infrastructure and industries through improvements in such areas infrastructure, finance and trade and investment climate;

Japan's new *Development Cooperation Charter* substantiate this vision (continued)

- sustainable cities; introduction of information and communication technology (ICT) and high technology; promotion of science, technology and innovation; research and development; economic policy; vocational training and industrial human resources development; employment creation; and the promotion of agriculture, forestry and fisheries that includes the development of food value chains.

Foundations and driving forces for economic growth: development of industrial infrastructure and industries, and international cooperation



Source: Author, based on *Development Cooperation Charter of Japan*

(2) Public and private partnership for quality growth

- In promoting public-private partnership, Japan's development cooperation will seek to serve as a catalyst for expanding economic activities, while utilizing excellent technology and expertise, and ample funds of the private sector for addressing the challenges faced by developing countries. In addition, taking full account of the priority policies of development cooperation, Japan will give consideration to ensuring inclusiveness, sustainability and resilience of growth as well as promoting capacity building so that private investment that is made along with development cooperation will contribute to “quality growth” in developing countries.

(3) Quality investment contributes quality growth and inclusive development (for LACs' development agenda post 2015)

- **Quality investment will contribute to quality growth** in terms of five attributes of growth: inclusive growth, sustainable growth, innovative growth, secure growth and balanced growth
- **APEC Growth Strategy** agreed on in 2010 emphasized these five attributes in order to improve the quality of growth
- Development Cooperation Charter also emphasizes “Quality growth”

Infrastructure: new trend and key issues

- “Japan has begun to adopt a new industrial policy in which **infrastructure exports are a central plank**. This means that Latin American and the Caribbean will be able to import infrastructure systems and equipment on better terms, including more active economic aid.” ECLAC (2011: p.150)
- “Infrastructure sector would include the following branches: **water-related business, coal-fired electricity generation and coal gasification, electricity transmission, nuclear energy, railways, recycling, the space industry, community development, renewable energies, information and communication technologies (ICTs) and urban development**” ECLAC (2011: p.150, based on a document of Ministry of Economy, Trade and Industry (METI, Japan) (2010), *Sangyou Kouzou Vision 2010 (Industrial Structure Vision 2010)*)
- Quality infrastructure is the first target under Goal 9 of the SDGs (Kuwayama 2015)

(4) New areas of cooperation

- Examples:
- Urban development
- Disaster risk management: Bosai and Gensai
- Inclusive development

(5) Strengthening Partnership: Approach of building reciprocal relationships

- In its development cooperation, Japan has maintained **the spirit of jointly creating** things that suit partner countries while respecting ownership, intentions and intrinsic characteristics of the country concerned, based on a **field-oriented approach through dialogue and collaboration**. It has also maintained the **approach of building reciprocal relationships** with developing countries in which both sides learn from each other and grow and develop together. These are some of the good traditions of Japan's cooperation which have supported self-help efforts of developing countries and aimed at future self-reliant development.

Cited from the *Development Cooperation Charter* of Japan (announced Feb.10th, 2015)

Japan is re-emerging

- Japan has been an important trade partner, lender, and investor in Latin American and Caribbean countries (LAC) for more than fifty years.
- Since the mid 2000's, Japan re-emerged as a **leading source of finance** for LAC, particularly Brazil and members of the Pacific Alliance.
- Recent increase of **Japanese FDI in the region is also notable, averaging \$6.9 billion** per year between 2010 and 2013.
- Both public and private sectors of Japan have new initiatives in Latin America reconfirming Japan Model of Partnership
- **Increasing number of Japanese firms are now looking at the region with new eyes** or with a view to incorporating Latin America into their global operations as a strategic role.

New phase for strengthening Japan-LAC economic relations, and contributing to economic development: **Japan Model Ver. 2.0**

- Some of outstanding aspects:
- (1) **New directions** announced recently by Prime Minister Abe and Development Cooperation Charter and others will further strengthen the effectiveness of the Japan Model
- (2) **Quality investment; quality infrastructure; quality growth** (Development Cooperation Charter and other documents)
- (3) **Synergy of trade, investment and cooperation**, three pillars will continue to contribute Japan-LAC relations and economic development
- (4) **Economic partnership agreements (EPA), well beyond free trade agreements (FTA)** as well as other agreements, including **investment agreements**, are promoting economic relations through public and private partnership between Japan and Latin America.
- (5) These frameworks will be expected to be strengthened by Transpacific Partnership (TPP), Pacific Alliance and other initiatives; as well as closer relationship between Latin America and Asia with Japan as a bridge

Part III Concluding remarks:

(1) Japan-LAC relations: General aspects

- Achievement of Japan-LAC economic relations and cooperation for more than five decades is a **valuable asset**.
- Japan's FDI and cooperation with LAC have contributed to LAC's development
- On the basis of these experiences, **Japan and LAC could further strengthen their ties.**
- **Japan has played and would play in future a unique role in Asia and LAC economic relations**

(2) Opportunities and challenges in Japan-LAC economic relations in future: Concrete actions

- Efforts to jointly promote and strengthen mutual economic relations having in mind global context
- Importance of reducing risks for investors who are ready to make “quality investment”
- Importance of taking advantage of synergy of three pillars: trade, investment and cooperation
- Enhancement of information sharing and networking between LAC and Japan
- Take necessary actions to facilitate economic relations through EPAs, investment agreements, and other frameworks including TPP and the Pacific Alliance.

Thank you very much for your attention

- This presentation is preliminary and personal
- Comments welcome
- For references, see books listed in this presentation (Slide 30)