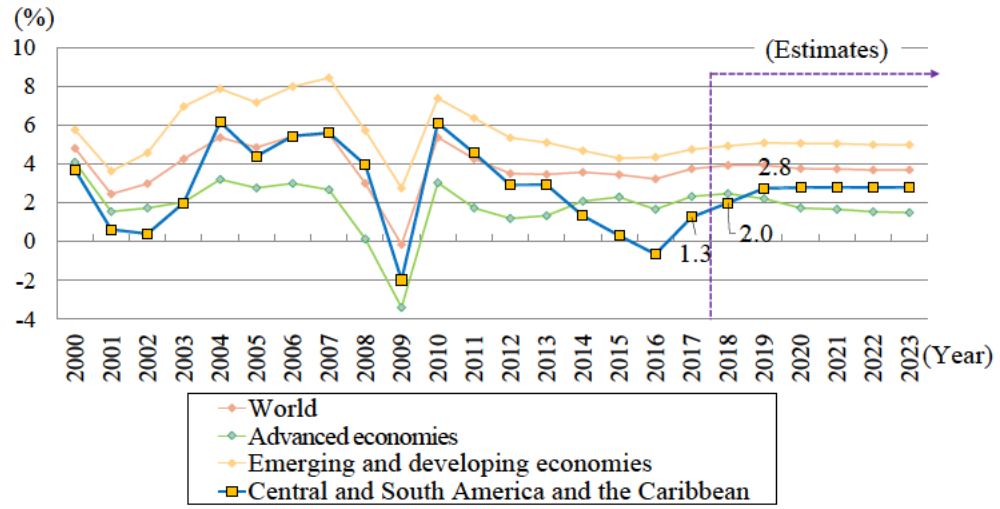
Section 4 Central and South America

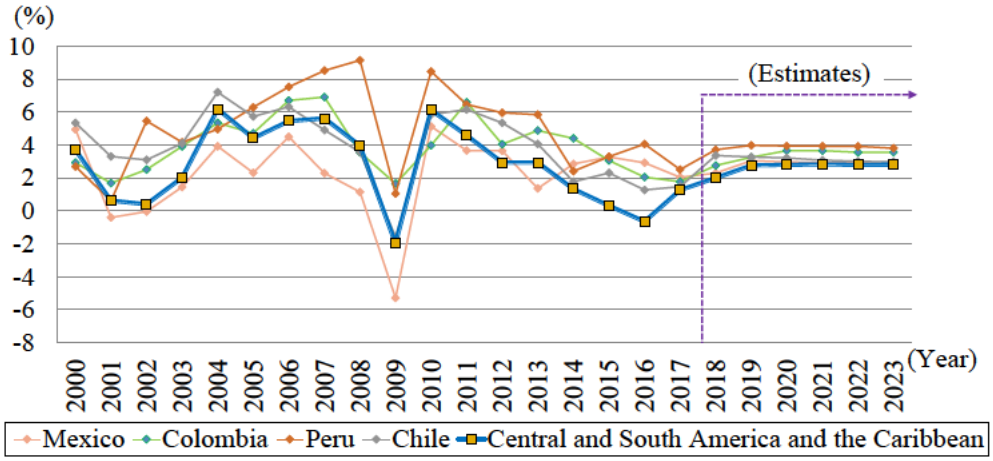
1. Macroeconomic trends

The growth of the Central and South American economy continued to slow down due to declines in prices of primary goods, the region's main item of export, and a slowdown of the global economy, but since 2017, the pace of growth has picked up owing to the expansion of the global economy and a recovery in resource prices. The IMF forecasts that the real GDP growth rate of Central and South America will rise from 1.3% in 2017 to 2.0% in 2018 and 2.8% in 2019 (Figure I-2-4-1).

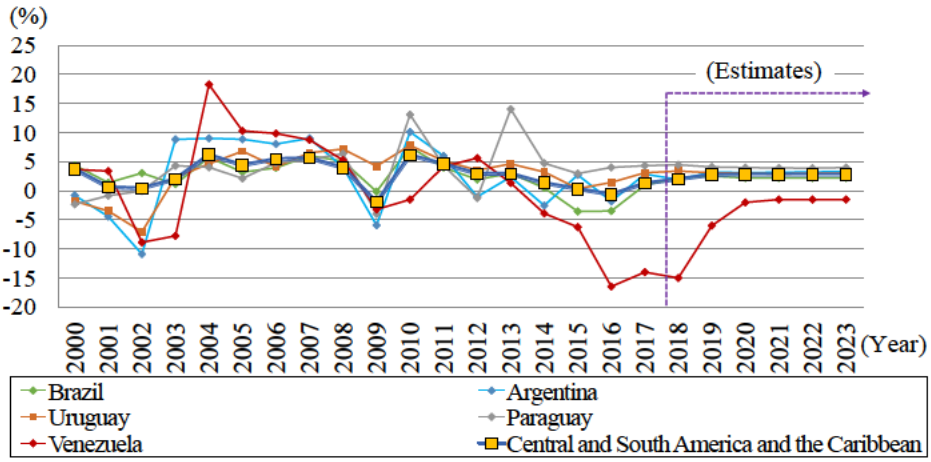
Figure I-2-4-1 Changes in real GDP growth rates in Central and South America and major economies



Source: WEO Database (IMF, April 2018).



Source: WEO Database (IMF, April 2018).



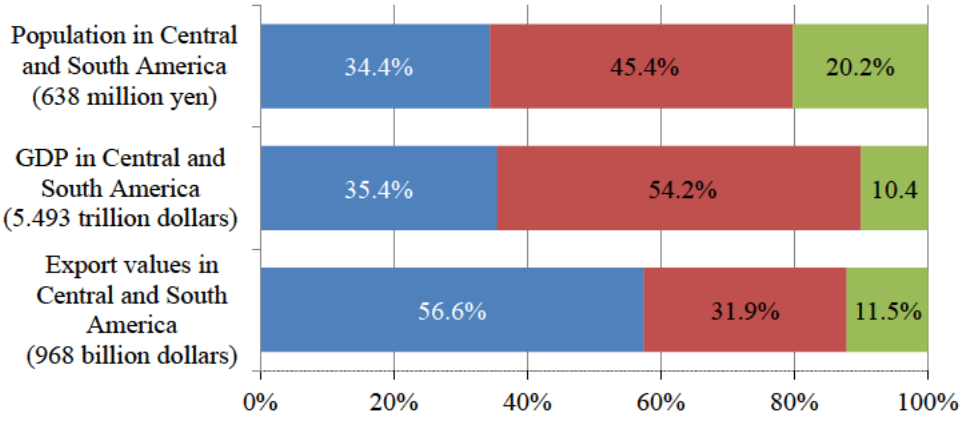
Source: WEO Database (IMF, April 2018).

The outlook on the Mexican economy is improving due to the benefits of the robust U.S. growth, and in addition, the recovery of the Brazilian economy has become more solid than before, supported by strong private consumption and investments. The pace of the Argentine economy's recovery has become moderate due to the effects of droughts on agricultural production and concerns over inflation, among other factors.

2. Overview of the economic and trade profiles of the Pacific Alliance and Mercosur

Among Central and South American regional economic communities, important ones from the viewpoint of economic scale are the Pacific Alliance (Chile, Colombia, Mexico and Peru) and Mercosur (Argentina, Brazil, Paraguay and Uruguay),[173] which together account for around 80% of Central and South America's total population and around 90% of its gross domestic product (GDP) and value of exports (Figure I-2-4-2 and Table I-2-4-3).

Figure I-2-4-2 Comparison between the Pacific Alliance and Mercosur in Central and South America



173 Bolivia signed the accession protocol in December 2012 and is now waiting for ratification of each parliament. Bolivia does not have a voting right. Regarding Venezuela, an indefinite suspension was announced to the country by foreign ministers of Argentina, Brazil, Uruguay and Paraguay in December 2016.

Notes: The data on GDP and export values are those in 2017, and the data on population are those in 2016.

Source: WEO (IMF), GTA, World Development Indicators.

Table I-2-4-3 Comparison of economic and trade indicators in major Central and South American economies

Category	Unit	Pacific Alliance				Mercosur			
		Chile	Colombia	Mexico	Peru	Argentina	Brazil	Paraguay	Uruguay
Nominal GDP (2017)	Billion dollars	277	309	1,149	215	638	2,055	30	58
Real GDP growth rate (2017)	%	1.5	1.8	2.0	2.5	2.9	1.0	4.3	3.1
Per-capita real GDP (2017)	US dollars	22,350	13,194	18,129	12,145	19,015	14,212	8,950	20,377
Growth rate of consumer price indices (average in 2017)	%	2.2	4.3	6.0	2.8	25.7	3.4	3.6	6.2
Budget balance (2017; rates to GDP)	%	-2.7	-3.1	-1.1	-3.1	-6.5	-7.8	-0.7	-3.5
Total government debts (2017; rates to GDP)	%	23.6	49.4	54.2	25.5	52.6	84.0	25.6	66.2
Current account balance (2017; rates to GDP)	%	-1.5	-3.4	-1.6	-1.3	-4.8	-0.5	-1.8	1.6
Level of dependency on exports (2017)	%	23.8	12.2	35.6	20.1	9.2	10.6	29.3	13.5
Level of dependency on the United States in exports (2017)	%	14.7	27.9	79.8	15.8	7.6	12.3	1.4	5.7

Level of dependency on China in exports (2017)	%	27.2	5.3	1.6	26.4	7.4	21.8	0.3	18.8
Unemployment rate (2017)	%	6.7	9.3	3.4	6.7	8.4	12.8	5.7	7.4
Population (as for the latest year in target economies)	Million people	18.4	49.3	123.5	31.8	44.1	207.7	7.0	3.5

Category	Unit	Reference	Remarks
		Venezuela	
Nominal GDP (2017)	Billion dollars	210	
Real GDP growth rate (2017)	%	-14.0	
Per-capita real GDP (2017)	US dollars	11,034	Purchasing power parity (PPP)
Growth rate of consumer price indices (average in 2017)	%	1087.5	
Budget balance (2017; rates to GDP)	%	-31.8	Venezuela (2013); Chile and Paraguay (2016)
Total government debts (2017; rates to GDP)	%	34.9	
Current account balance (2017; rates to GDP)	%	2.0	
Level of dependency on exports (2017)	%	0.6	Venezuela (2016)

Level of dependency on the United States in exports (2017)	%	22.7	Venezuela (2016)
Level of dependency on China in exports (2017)	%	3.6	Venezuela (2016)
Unemployment rate (2017)	%	27.1	Venezuela (2013); Colombia (2015)
Population (as for the latest year in target economies)	Million people	31.4	

Source: WEO (IMF, April 2018), customs statistics in target economies, UNCTAD.

The Pacific Alliance and Mercosur, which are communities established in order to achieve regional economic integration, are also actively conducting activities to diversify and deepen trade relationships by promoting trade with countries/regions outside the regions and concluding new free trade agreements under the approach of placing emphasis on free trade and multilateral trade. Below, we will provide an overview of the Pacific Alliance and Mercosur and explain the outline of their economies and regional trade structures.

(1) Pacific Alliance

(A) Overview

The Pacific Alliance is an economic community aiming to achieve the economic integration of Central and South American countries located along the Pacific coast and strengthen political and economic relationships with the Asia-Pacific region, and its members are Chile, Colombia, Mexico and Peru.[174] At the first Pacific Alliance summit held in Lima in April 2011, an agreement to establish the Pacific Alliance was reached under the leadership of then Peruvian President Alan Garcia, and the alliance was established in June 2012. In July 2015, the Pacific Alliance Framework Agreement, which prescribed the objective of the alliance and the outline of the organization and system, was put into force, and in May 2016, the Additional Protocol to the Pacific Alliance Framework Agreement, which summarizes initiatives to promote and facilitate trade and investment between member countries, was put into force, resulting in progress in regional economic integration. By now, tariffs on 92% of all items of trade have been abolished, and in addition, national treatment is provided with respect to investment, services and government procurement (Table I-2-4-4).

174 The countries other than Colombia are signatory countries of the Trans-Pacific Partnership (TPP).

Table I-2-4-4 Outline of the Pacific Alliance

Background to establishment	Apr. 2011: The first Pacific Alliance summit reached an agreement on the establishment. Jun. 2012: The Pacific Alliance was inaugurated. Jul. 2015: The Pacific Alliance Framework Agreement came into force, which stipulates the overview of the alliance, e.g., purpose of the economic union, organizations and systems. May 2016: The Additional Protocol to the Pacific Alliance Framework Agreement came into force, which is a compilation of specific efforts for promoting and facilitating trade and investments among member economies.
Details	Abolishment of tariffs on 92% of all items of trade; provision of national treatment with respect to investment, services and government procurement; and advancement of efforts for further enriching the details of the additional protocol.
Member economies	Chile, Colombia, Mexico and Peru Notes: Costa Rica and Panama are candidate member economies, and they are required to conclude FTAs with all initial member countries of the alliance as a condition for them to accede to the alliance. Observers: In 2016, Argentina, Egypt and other economies were approved as observers and the number of total observers came to 49 as of today. (In 2013, Japan joined the observer membership as the first Asian economy.) Associate member economies: In June 2017, the alliance started negotiations on associate member economies with four economies: Canada, Australia, New Zealand and Singapore, which are signers of the original TPP.
Reference	Japan concluded EPAs each with Mexico, Chile and Peru and has been advancing EPA negotiations with Colombia.

Source: Ministry of Foreign Affairs (MOFA) website.

One notable feature of the Pacific Alliance is member countries' strong preference for free trade. Member countries are proactive in concluding multilateral and bilateral trade agreements. They have already concluded or are negotiating agreements with advanced economies, including the United States, Europe, China, Japan and the ROK. In addition, compared with other Central and South American countries, the Pacific Alliance's member countries are maintaining a relatively high level of economic stability. For example, they are recording steady GDP growth rates and relatively stable inflation rates[175] and are managing budgets in a disciplined manner. They have also secured foreign currency reserves. However, all member countries except for Mexico depend heavily on exports of primary goods,

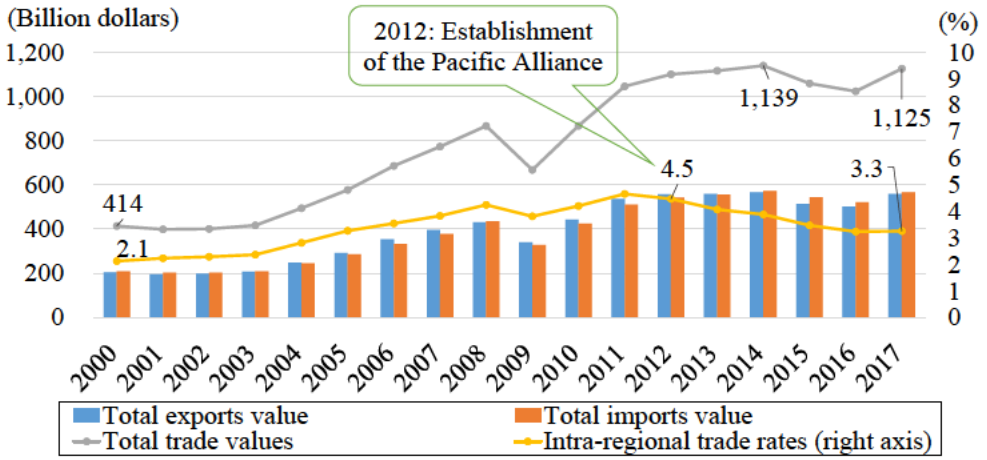
175 In the case of Mexico, the growth rate of the consumer price index has been in the 6-7% range since the beginning of 2017 because of the effects of a gasoline price hike due to the revision of the government's policy of keeping the gasoline price low. In 2018, the growth rate of the consumer price index has declined to the 5-6% range and become stable.

including mineral resources, while their domestic industries are narrow-based and the level of integration of advanced technologies is relatively low. Therefore, industrial sophistication is a common challenge for the member countries.

(B) Intra-regional trade structure

The total value of the Pacific Alliance member countries' trade (the total value of imports + the total value of exports) declined for two consecutive years in 2015 and 2016 due to the effects of declines in natural resource prices, among other factors. However, in 2017, the value recovered to around 1,125.0 billion dollars (up 9.9% from 2016), almost the same level as in 2014. The share of intra-regional trade[176] in the total value of trade declined from 4.5% in 2012, when the alliance was established, to 3.3% in 2017. This share is very small compared with the share of intra-regional trade in other regional economic areas, such as the EU, NAFTA and ASEAN. In the Pacific Alliance area, the share of trade with outside countries/regions is overwhelmingly large (Figures I-2-4-5 and I-2-4-6).

Figure I-2-4-5 Changes in trade values and intra-regional trade rates in the Pacific Alliance

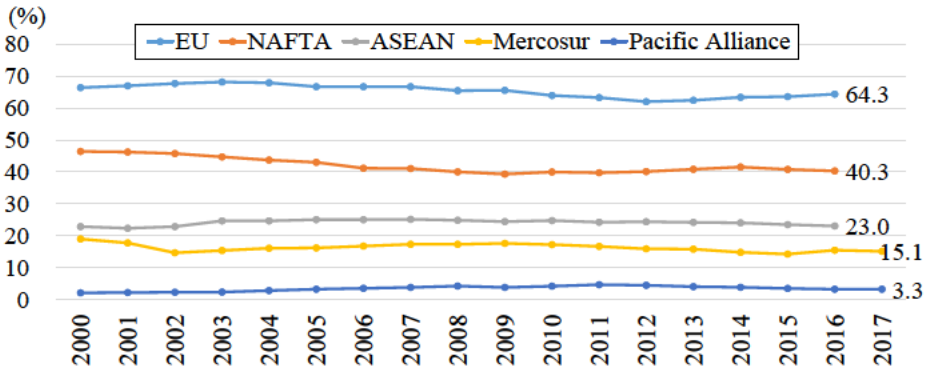


Notes: Intra-regional trade rates = Total values of intra-regional trade (imports + exports) in the four countries / Total values of the four countries' trade (imports + exports) with the rest of the world

Source: Global Trade Atlas.

176 The share of intra-regional trade reflects the progress in the division of processes within this region. Regarding a pair of countries, if the share of intermediate goods (parts and processed products) in the value of trade between the countries is large, it is assumed that there is an international division of production work.

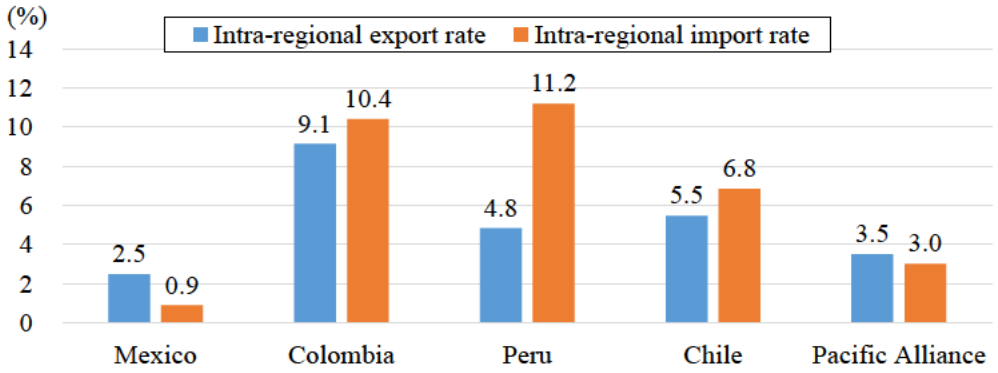
Figure I-2-4-6 Comparison of intra-regional trade rates in major economic areas



Source: Global Trade Atlas, WTO Database.

Looking at the shares of intra-regional exports and imports in individual member countries, the share of intra-regional exports and the share of intra-regional imports for Colombia are relatively high, at 9.1% and 10.4%, respectively, and the share of intra-regional imports for Peru is also relatively high, at 11.2%. On the other hand, the share of exports and the share of imports for Mexico are very low, at 2.5% and 0.9%, respectively, as the United States, a NAFTA signatory country, is the main trading partner. For the Pacific Alliance as a whole, the share of intra-regional exports and the share of intra-regional imports are also low, at 3.5% and 3.0%, respectively (Figure I-2-4-7).

Figure I-2-4-7 Comparison of intra-regional import and export rates in the Pacific Alliance (2017)



Notes: Intra-regional export (import) rates = Intra-regional export (import) values of each member country / Total export (import) values of each member country

Source: Global Trade Atlas.

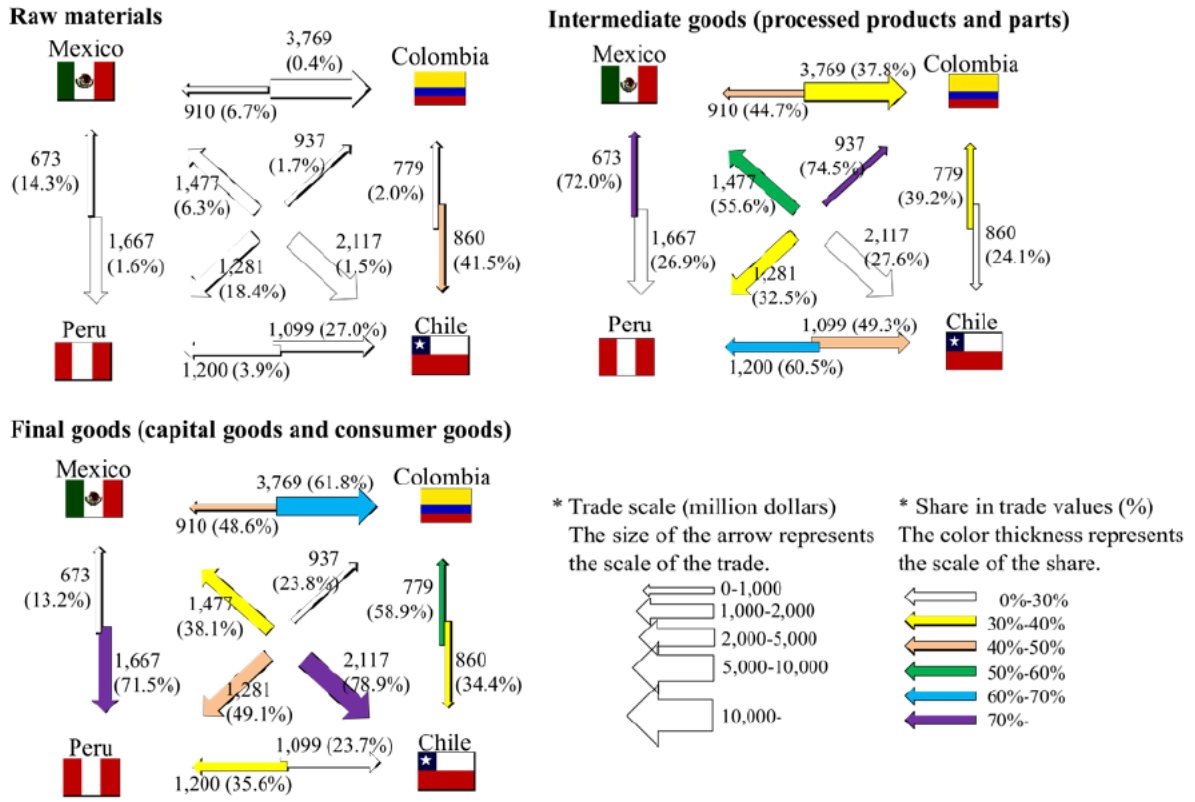
Next, we will look at the Pacific Alliance's intra-regional trade structure by type of goods (raw materials, intermediate goods and final goods) using "RIETI-TID 2015."[177] The width of arrows in the figure corresponds to the value of bilateral trade[178]: the wider the arrow is, the larger the value of trade is. Meanwhile, the shade of the color of arrows corresponds to the share of each type of goods in the

177 RIETI Trade Industry Database 2015 (RIETI-TID2015).

178 Calculated based on CIF (cost, insurance and freight)-based import data in principle. The value of trade is in terms of the U.S. dollar and the exchange rate is a nominal one.

value of bilateral trade: the deeper the shade is, the larger the share is (Figure I-2-4-8).

Figure I-2-4-8 Trade structure of the Pacific Alliance (by type of goods; 2015)



Intra-regional trade rate by type of goods (2015)

(%)

Raw materials	Intermediate goods	Final goods	Total
8.9	43.5	47.6	100.0

Source: RIETI-TID 2015.

First, regarding the value of trade in 2015, the value of trade in all of raw materials, intermediate goods and final goods was generally small except for trade involving Mexico either as an importer or as an exporter. By type of goods, Mexico was the main supply source of final goods for the other three member countries. Concerning intermediate goods, there was a certain degree of division of work between Peru and Chile and between Chile and Colombia as well as between Mexico and each of the other three countries, but the value of trade was not large. Concerning final goods, exports of final goods had a certain share in the value of exports from Colombia and Chile although the value of exports of final goods was small compared with the value of exports from Mexico.

From the above, we can see that in terms of the scale of trade and division of processes, Mexico engages in trade and has a system of division of work with the other member countries to some degree but that the degree of regional integration among the other member countries is not high.

(2) Mercosur

(A) Overview

Mercosur (Southern Common Market[179]) is a South American common market that was established as a tariff union in January 1995 in order to abolish intra-regional tariffs with a view to creating a free trade area, and its members are Argentina, Brazil, Uruguay and Paraguay.

In addition to abolishing intra-regional tariffs,[180] Mercosur has made some progress in efforts to achieve regional integration, such as setting common tariffs on imports from outside of the region and establishing the Mercosur structural convergence fund and the Mercosur Parliament. However, leftist governments with a strong protectionist tendency maintained power in its large member countries, Brazil and Argentina, so Mercosur is lagging behind the aforementioned Pacific Alliance in concluding free trade agreements with other countries/regions[181] (Table I-2-4-9).

Table I-2-4-9 Outline of Mercosur

Background to establishment	Mar. 1991: The Asuncion Agreement was signed. Nov. 1991: The Asuncion Agreement came into force. Dec. 1994: The Ouro Preto Protocol was concluded (the system of Mercosur was stipulated). Jan. 1995: Mercosur was established as a tariff union.
Details	Intra-region tariffs: In January 1995, intra-region tariffs were abolished, in principle (excluding automobiles, parts thereof and sugar; setting items subject to protection is permitted for each member economy).
	Setting common tariffs on imports from outside the region: (1) In January 1995, Mercosur set common tariffs (0-20%) on certain items (about 9,000) from outside the region, accounting for about 85% of all items. However, automobiles, parts thereof, sugars and textiles and other items in Brazil were exempted. In addition, some challenges are still seen in the system, such as fair allocation of tariff income. (2) Apart from exempted items, in December 2011, at the Common Market Council (Consejo del Mercado Común), member countries agreed on an increase of respective tariffs on up to 100 items due to international economic situations. (3) In June 2012, the Common Market Council agreed on setting the maximum number of basic items to be exempted as 200.

179 Mercosur (Mercosul) is a word coined by coupling the Spanish (and Portuguese) words for "market" (Mercado) and "south" (sur/sul).

180 However, automobiles are exempt from intra-regional liberalization, and bilateral economic complementation agreements (ACEs) have been concluded individually between member countries as necessary.

181 Trade agreements with outside countries/regions that have already been put into force include those concluded with India (put into force in 2009; negotiations about the expansion are ongoing), Israel (put into force in 2009), and the Southern African Customs Union and Egypt (scheduled to be put into force in 2017). Although a trade agreement with the Palestine region has been signed in 2007, it has not yet been put into force. There are also ACEs that member countries have individually concluded with member economies of ALADI and preferential trade agreements concluded by Mercosur, but the levels of liberalization under these agreements are low compared with the level under FTAs.

	Certificate of Origin: Mercosur determined the local procurement rate in intra-region trade, which certifies local items as those originating from Mercosur, to be 60%, in principle.
	Relationships with the Latin American Integration Association (ALADI)*: Mercosur is positioned as a framework of efforts for economic integration of the Latin America region through ALADI. The Economic Complementation Agreement (Acuerdo de Complementación Económica; ACE), which was concluded between Mercosur and the ALADI member economies, is considered as a type of partial regional agreement, a means for advancing the integration processes of ALADI. * Member economies: Argentina, Uruguay, Ecuador, Cuba, Colombia, Chile, Panama, Paraguay, Brazil, Venezuela, Peru, Bolivia, and Mexico
	Dispute settlement: Permanent courts of arbitration were established under the Protocol of Olivos (Protocolo de Olivos) enforced in 2004.
	Democracy clause: If a Mercosur member economy or economy that concluded an agreement with any Mercosur member country loses the order of democracy, rights and obligations under the agreement can be suspended.
Member countries	Member countries: Argentina, Bolivia,* Brazil, Paraguay, Uruguay and Venezuela** * In December 2012, Bolivia signed the accession protocol. It is now waiting for ratification of each parliament and does not have a voting right. ** In December 2016, regarding Venezuela, an indefinite suspension was announced to the country by foreign ministers of Argentina, Brazil, Uruguay and Paraguay. Associate member economies: Chile, Colombia, Ecuador, Guyana, Peru and Suriname

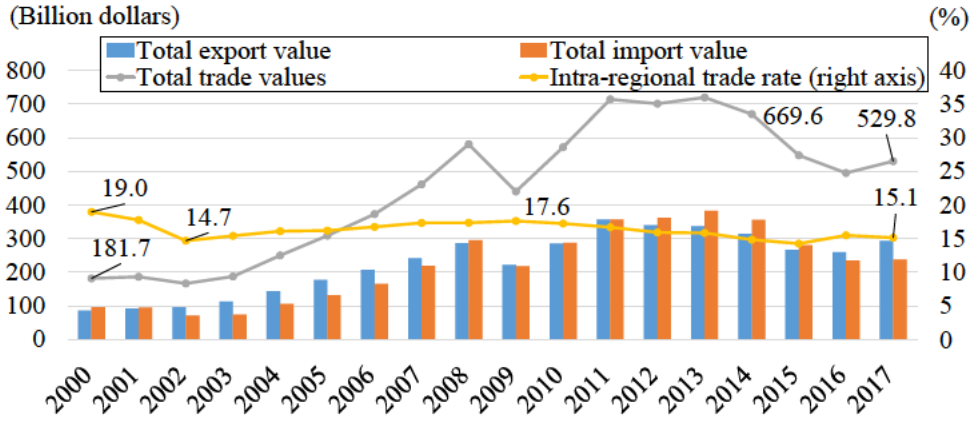
Source: MOFA website.

(B) Intra-regional trade structure

The total value of the Mercosur member countries' trade (the total value of imports + the total value of exports) fell for four consecutive years from 2013 to 2016 due to the effects of a slowdown of the global economy and falls in prices of primary goods. In 2017, the value recovered to around 530 billion dollars[182] (up 7.2% from 2016) due to a rise in prices of primary goods, but it was still lower than the level in 2014. The share of intra-regional trade in the total value of trade declined from 19.0% in 2000 and has remained almost flat at around 15% in recent years. Although the share of intra-regional trade in the Mercosur area is smaller than the share in the EU and NAFTA areas, it is larger than the share in the Pacific Alliance area (Figures I-2-4-10 and I-2-4-11).

182 This value of trade includes the figures for Venezuela in the period until 2016 for convenience's sake.

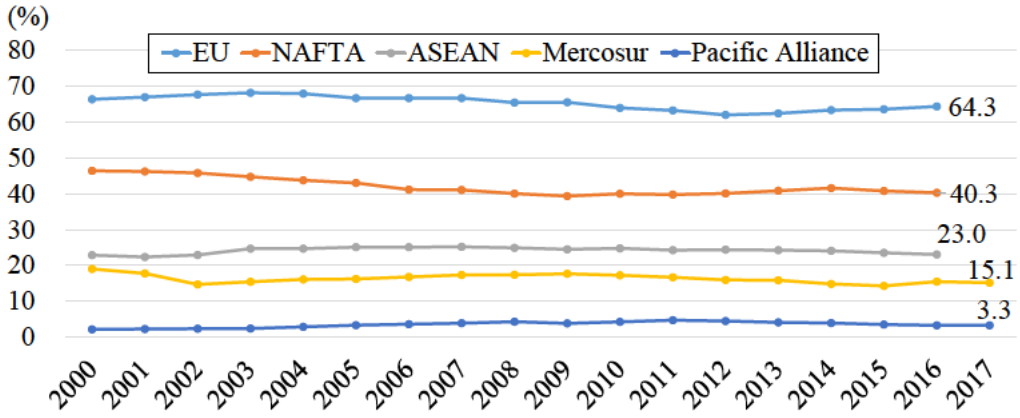
Figure I-2-4-10 Changes in trade values and intra-region trade rates in Mercosur



Notes: Intra-regional trade rates = Total values of intra-regional trade (imports + exports) in the five countries / Total values of the trade (imports + exports) in the five countries with the rest of the world

Source: Global Trade Atlas.

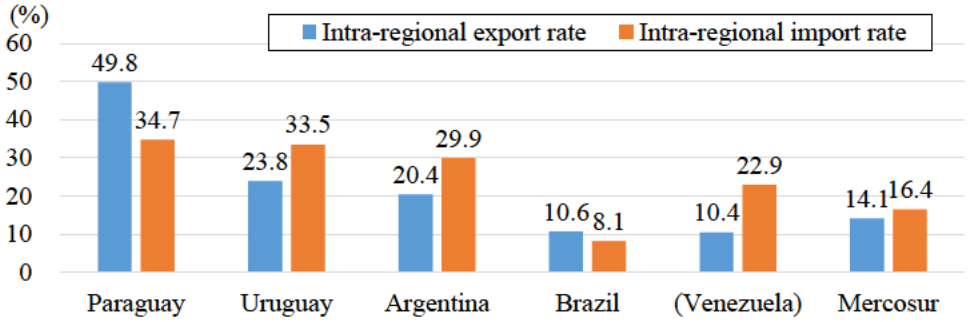
Figure I-2-4-11 Intra-regional trade rates in major economic areas (described above)



Source: Global Trade Atlas, WTO Database.

Looking at the shares of intra-regional exports and imports in individual member countries, both the share of intra-regional exports and the share of intra-regional imports for Paraguay, at 49.8% and 34.7%, respectively, were the highest in the region, while both the share of intra-regional exports and the share of intra-regional imports for Brazil, at 10.6% and 8.1%, respectively, were the lowest. Within Mercosur, Argentina is the main trading partner for Brazil, but outside it, there are a variety of trading partner countries, including China, the United States, Germany and the Netherlands. Therefore, Brazil's dependency on intra-regional trade is not high. The share of intra-regional exports and the share of intra-regional imports for Mercosur as a whole, at 14.1% and 16.4%, respectively, are more than 10 percentage points higher than the shares for the Pacific Alliance, at 3.5% and 3.0%, respectively (Figure I-2-4-12).

Figure I-2-4-12 Comparison of intra-regional import and export rates in Mercosur (2017)

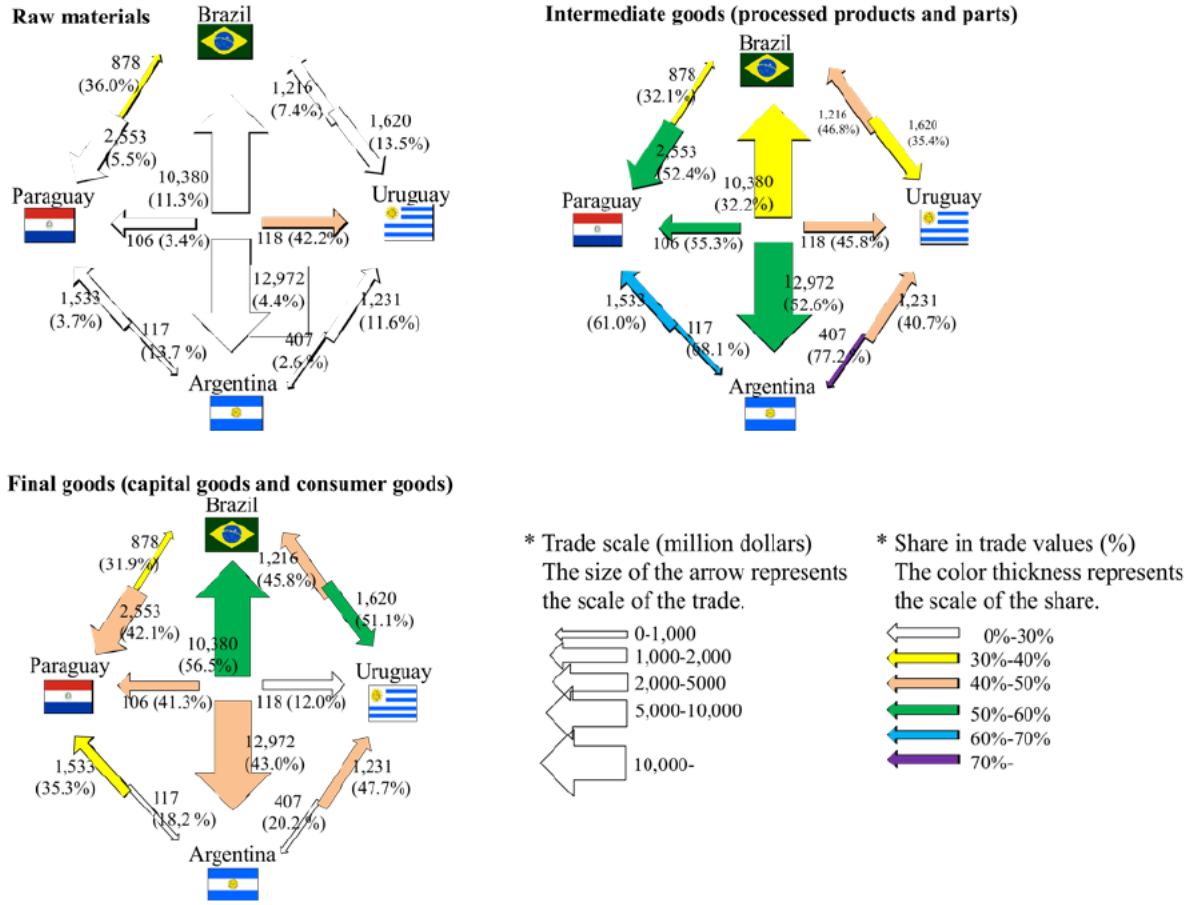


Notes: Intra-regional export (import) rates = Intra-regional export (import) values of each member country / Total export (import) values of each member country; As for Venezuela, this figure shows the data in 2016.

Source: Global Trade Atlas.

Next, we will look at Mercosur's intra-regional trade structure by type of goods (raw materials, intermediate goods and final goods) using "RIETI-TID2015." The width of arrows in the figure corresponds to the value of bilateral trade, while the shade of the color of arrows corresponds to the share of each type of goods in the value of bilateral trade (Figure I-2-4-13).

Figure I-2-4-13 Trade structure of Mercosur (by type of goods; 2015)



Intra-regional trade rate by type of goods (2015)

(%)

Raw materials	Intermediate goods	Final goods	Total
10.3	48.3	41.5	100.0

Source: RIETI-TID 2015.

Regarding the scale of trade in 2015, the scale of trade was generally small except for trade between Brazil and Argentina. Next, by type of goods, Brazil and Argentina are the main supply sources of intermediate and final goods for member countries in the region. Trade in intermediate goods between all pairs of countries in the region had a certain scale in terms of both value and share in the total value of bilateral trade, and there was also a division of work, albeit on a small scale, in trade between member countries other than Brazil and Argentina. Concerning final goods, the share of exports of final goods had a certain share in the total value of Uruguay's exports to Brazil and Paraguay although the scale of trade was small.

From the above, we can see that compared with the Pacific Alliance, Mercosur has achieved a high degree of regional integration from the viewpoints of the scale of trade and division of processes.

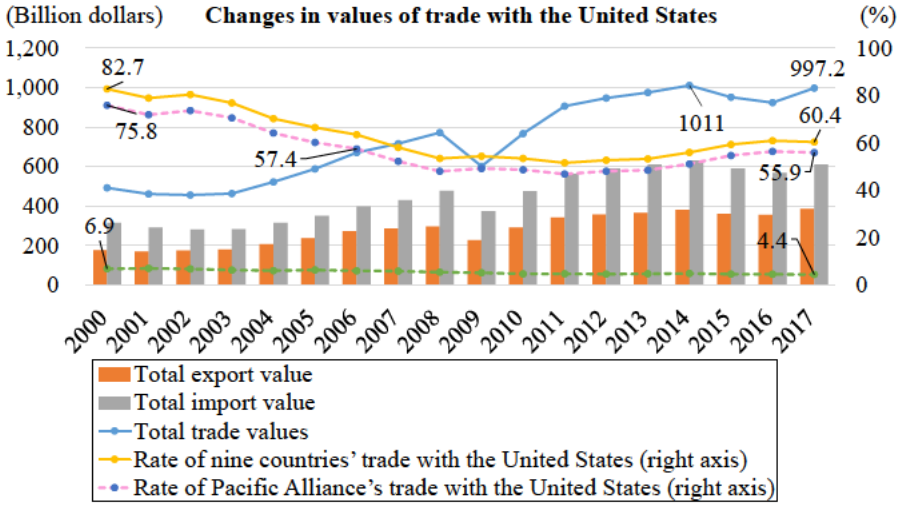
3. Central and South America's external trade relationship

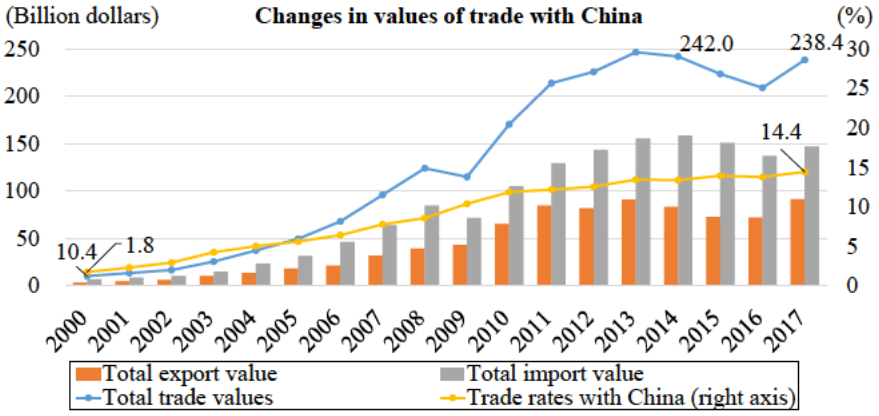
(1) Trends in trade between Central and South America and major countries/regions outside the regions

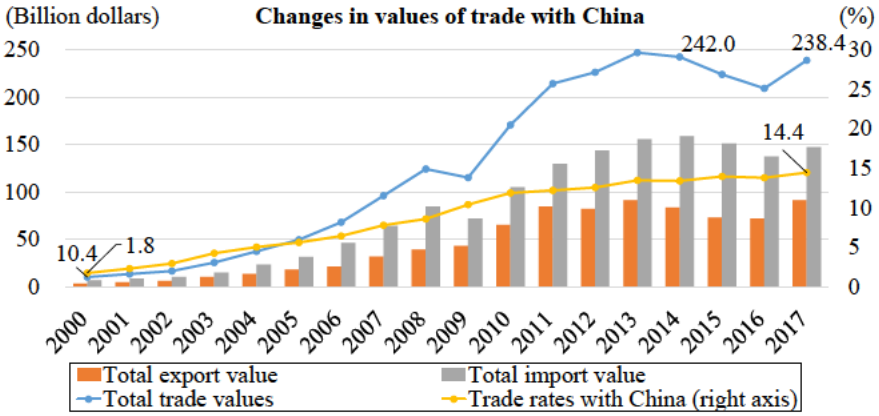
Until now, we looked at the intra-regional trade structure of the Pacific Alliance and Mercosur. Next, we will look at the recent situation of trade between Central and South America and its major trading partner countries/regions.

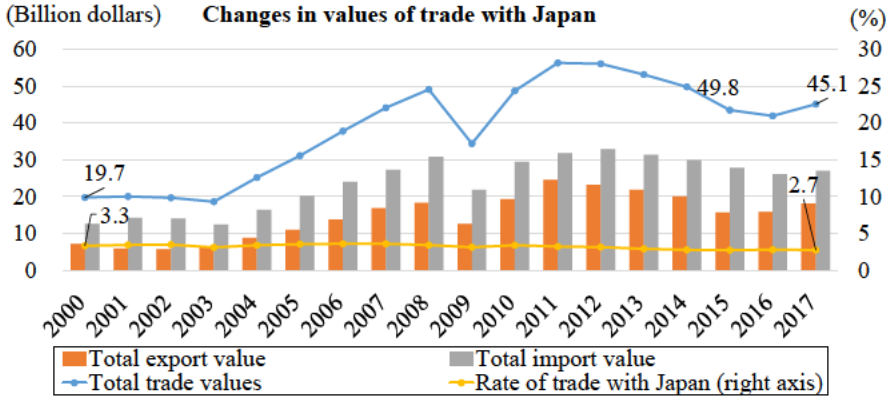
The graphs below show the total value of trade (the total value of imports + the total value of exports) between nine major Central and South American countries (Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay and Venezuela) and the United States, China, six major ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam) and Japan and the trade share (the share of trade with a country/region in the total value of trade with the rest of the world) since 2000 (Figure I-2-4-14).

Figure I-2-4-14 Comparison of total trade values and trade rates in Central and South America region by major country/region









Notes: The total trade values are the total values of imports and exports in target years in Argentina, Uruguay, Colombia, Chile, Paraguay, Peru, Brazil, Mexico and Venezuela. However, no such data has been released in and after 2002 as for Uruguay, in and after 2001 as for Paraguay or in 2017 as for Venezuela.
Source: Global Trade Atlas.

First, regarding the total value of trade, in 2017, the value of trade with the United States, at around 997.2 billion dollars, was by far the largest, followed by the value of trade with China, around 238.4 billion, with ASEAN, around 60.6 billion dollars, and with Japan, around 45.1 billion dollars. Between 2000 and 2017, while the value of trade with all countries/regions increased, the value of trade with China recorded a remarkable increase, expanding by a factor of 22.8 from 2000, and the value of trade with ASEAN grew by a factor of 7.8. On the other hand, the value of trade with Japan and with the United States recorded smaller growth, increasing by a factor of 2.3 and 2.0, respectively.

Next, regarding the total value of imports and exports, Central and South America has continued to record a trade deficit with all countries/regions. This is attributable to Central and South America's trade structure, under which the region is a major supplier of primary goods, including resources and foods, to the rest of the world, while it depends on imports from the outside for the supply of industrial products essential to domestic needs because of the underdevelopment of the manufacturing industry.

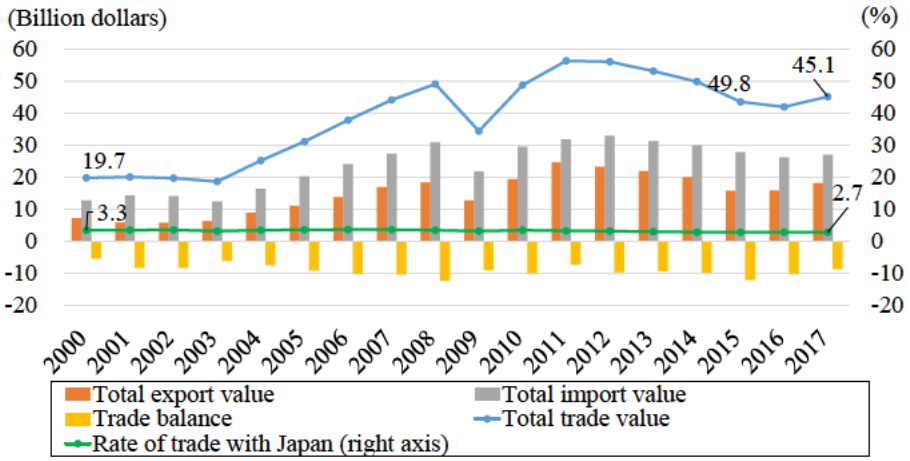
Regarding the trade share (2017), Central and South America's share of trade with the United States in the total value of its trade was 60.4%, far higher than the shares of trade with China, 14.4%, with ASEAN, 3.7%, and with Japan, 2.7%, but the share in 2017 was down more than 20 percentage points from 82.7% in 2000. From 2012 onwards, the share of trade with the United States was on a moderate upward trend, but recently, it has remained flat. On the other hand, the share of trade with China rose markedly, from 1.8% in 2000 to 14.4%, and the share of trade with ASEAN continued to rise moderately, from 1.2% to 3.7%. The share of trade with Japan declined slightly, from 3.3% to 2.7%.

From the above, we can see that although the value and share of trade with the United States remain very large for Central and South America, the presence of China and ASEAN in the region is increasing. Regarding trade with Japan, while the value of trade increased compared with 2000, it has been declining somewhat since peaking in 2011, and the share of trade with Japan has been falling moderately. This confirms that Japan's presence in Central and South America is declining compared with the presence of the United States, China and ASEAN.

(2) Trends in trade between Japan and Central and South America

As for trends in Central and South America's trade with Japan, in 2017, the value of exports was around 18.1 billion dollars (up 14.6% from the previous year) and the value of imports was around 27.0 billion dollars (up 3.3%), resulting in a trade deficit of around 8.8 billion dollars. The total value of trade was around 45.1 billion dollars (up 7.6% from the previous year), representing a 2.3-fold increase from around 19.7 billion dollars in 2000. Although the total value of trade declined for five consecutive years from 2012 to 2016 due to a fall in prices of primary goods, which are the main item of export, after peaking in 2011, it recovered somewhat in 2017 (Figure I-2-4-15).

Figure I-2-4-15 Changes in trade values in Central and South America with Japan

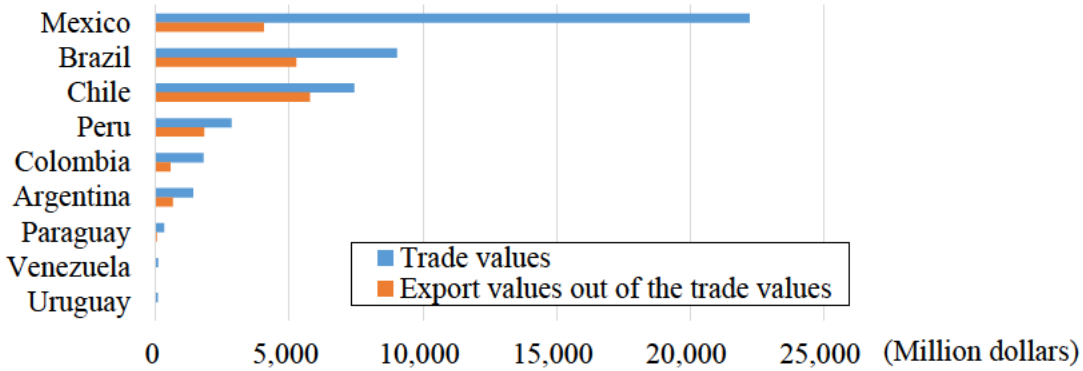


Notes: The total trade values are the total values of imports and exports in target years in Argentina, Uruguay, Colombia, Chile, Paraguay, Peru, Brazil, Mexico and Venezuela. However, no such data is released in and after 2002 as for Uruguay or in 2017 as for Venezuela.

Source: Global Trade Atlas.

By country, the overall value of Japan's trade with Mexico in 2017 is far higher than the overall value of its trade with any other country in the region, with the value of Mexico's imports from Japan outstandingly high. Chile was the top exporter in terms of the overall value of export to Japan, followed by Brazil, Mexico and Peru in that order. For all these countries, the main items of export to Japan are primary goods such as mineral resources and agricultural products. As for the trade balance, Mexico has continued to record a large trade deficit with Japan, and Colombia, Argentina, Paraguay and Uruguay have also remained in deficit with Japan. On the other hand, Brazil, Chile and Peru have maintained a trade surplus with Japan. For all these countries, the main items of export are primary goods, so they are important supply source countries of resources and foods for Japan (Figure I-2-4-16 and Table I-2-4-17).

Figure I-2-4-16 Comparison of trade values in the major Central and South American economies with Japan (2017; total values and export values)



Notes: Total trade values (total import values and total export values); As for Venezuela alone, total trade values in 2016.

Source: Global Trade Atlas.

Table I-2-4-17 Top six economies in production volume worldwide (major minerals and major agricultural and marine products)

Production volume of major minerals worldwide (2015)

	1st	2nd	3rd	4th	5th	6th
Copper	Chile	China	Peru	United States	Congo	Australia
Silver	Mexico	China	Peru	Australia	Chile	Bolivia
Gold	China	Australia	Russia	United States	Canada	Peru
Zinc	China	Australia	Peru	United States	India	Mexico
Lead	China	Australia	United States	Peru	Mexico	Russia
Tin	China	Indonesia	Myanmar	Brazil	Bolivia	Peru
Iron ores	Australia	Brazil	China	India	Russia	South Africa
Lithium	Australia	Chile	Zimbabwe	Argentina	Portugal	China
Rhenium	Chile	Poland	United States	China	Uzbekistan	Kazakhstan
Molybdenum	China	Chile	United States	Peru	Mexico	Armenia

Notes: Economies in Central and South America are shown in a colored background.

Source: United States Geological Survey.

Production volume of major agricultural and marine products worldwide (2016)

	1st	2nd	3rd	4th	5th	6th
Soybeans	United States	Brazil	Argentina	India	China	Paraguay
Maize	United States	China	Brazil	Argentina	Mexico	Ukraine
Sugar canes	Brazil	Indonesia	China	Thailand	Pakistan	Mexico
Coffee beans	Brazil	Viet Nam	Colombia	Indonesia	Ethiopia	Honduras
Oranges	Brazil	China	Indonesia	United States	Mexico	Egypt
Bananas	India	China	Indonesia	Brazil	Ecuador	Philippines
Asparagus	China	Peru	Mexico	Germany	Spain	Italy
Avocados	Mexico	Dominican Republic	Peru	Colombia	Indonesia	Brazil
Salmon and trout	Norway	Chile	United States	Russia	United Kingdom	Canada

Notes: Economies in Central and South America are shown in a colored background.

Source: The Food and Agriculture Organization of the United Nations (FAO).

(3) Economic relationship between Central and South America and China

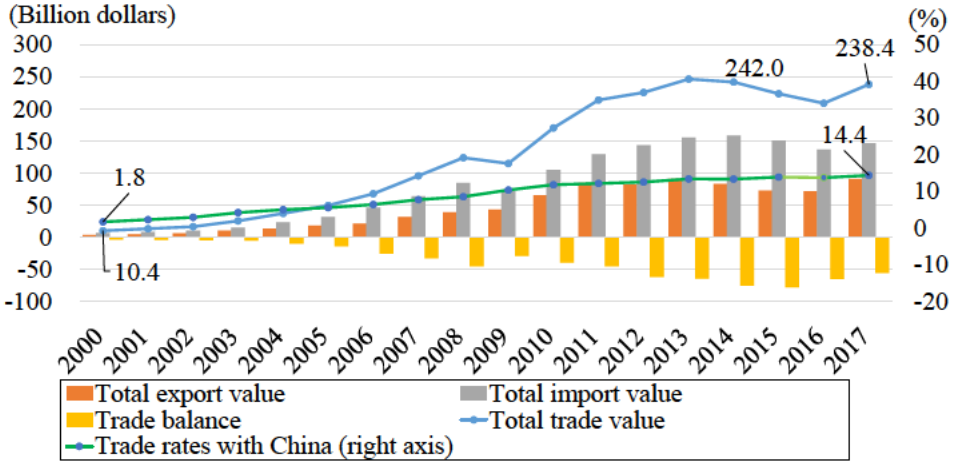
Because of its remarkable growth since the 1990s, China has become the world's second largest economy in terms of GDP size, and its presence and influence in the international community are also growing. The growth of China's trade-related presence in Central and South America is as described in the previous paragraph. A more detailed examination shows that China is the largest trade partner for many countries in this region. With respect to investment, there are Chinese investment projects in a

diverse range of sectors, including not only oil and mining, but also electric power, communication, railways and automobiles. Below, we will provide an overview of the trade and investment relationships between Central and South America and China at the regional level and on a country-by-country basis.

(A) Trade

A detailed examination of the value of trade between Central and South America (nine major countries) and China shows that in 2017, the value of exports to China was around 91.4 billion dollars (up 27.0% from the previous year) and the value of imports was around 147.0 billion dollars (up 7.3%), with the total value of trade (the value of imports + the value of exports), around 238.4 billion dollars (up 14.1%), expanding by a factor of around 23 from 2000 to 2017 (from 10.4 billion dollars in 2000 to 238.4 billion dollars in 2017). The share of trade with China in the total value of trade increased from 1.8% in 2000 to 14.4% in 2017. As for the trade balance, Central and South America remained in deficit in trade with China (Figure I-2-4-18).

Figure I-2-4-18 Changes in trade values in Central and South America with China



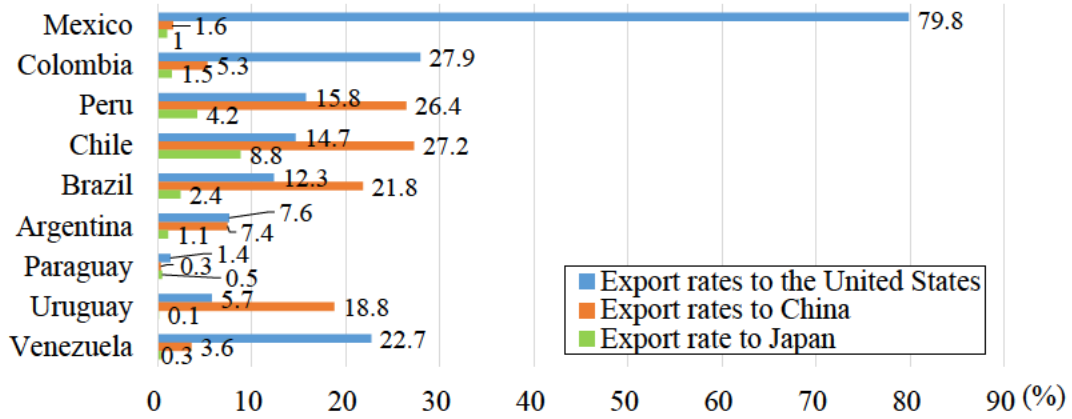
Notes: The total trade values are the total values of imports and exports in target years in Argentina, Uruguay, Colombia, Chile, Paraguay, Peru, Brazil, Mexico and Venezuela. However, no data is released in and after 2002 as for Uruguay or in 2017 as for Venezuela.

Source: Global Trade Atlas.

Many Central and South American countries export primary goods, such as agricultural products, mineral products and energy, to China while importing industrial products from it. Due to a slowdown of the global and Chinese economies and a fall in prices of primary goods, the total value of trade declined for three consecutive years from 2014 after peaking in 2013 but recovered in 2017 to almost the same level as in 2014 because of a rise in commodity prices.

In 2017, the share of trade with China was higher than 20% for Chile (27.2%), Peru (26.4%) and Brazil (21.8%). However, the share of trade with China was 1.6% for Mexico and 5.3% for Colombia, and these figures were much lower than the share of trade with the United States, which was 79.8% for the former and 27.9% for the latter (Figure I-2-4-19).

Figure I-2-4-19 Comparison of export rates in major Central and South American economies with the United States, China and Japan (2017)

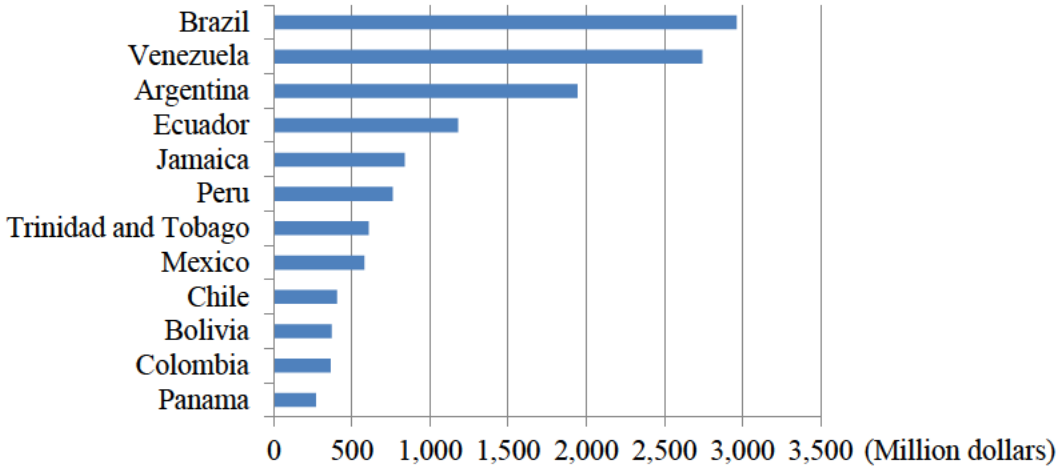


Source: Global Trade Atlas.

(B) Foreign direct investments

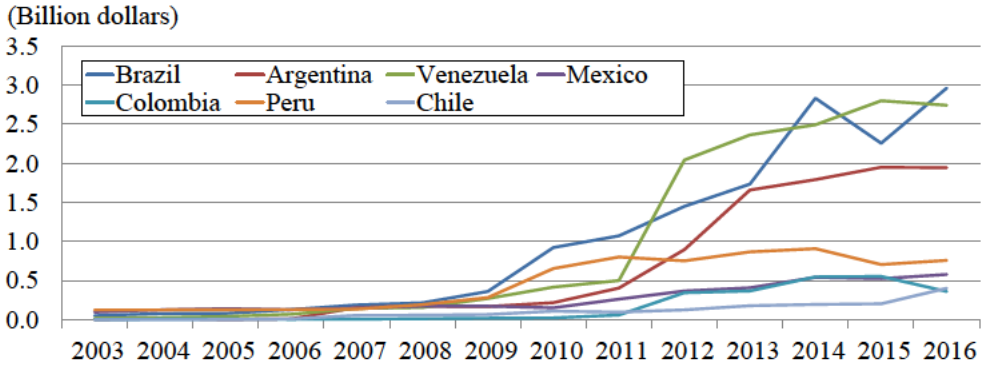
The value of foreign direct investments by China in the rest of the world (on a stock basis) was around 1,281.0 billion dollars in 2016, of which 207.2 billion dollars, or 16.2%, was invested in Central and South America. However, if investments in tax havens, including the British Virgin Islands and Cayman Islands, are excluded, only around 14.2 billion dollars (share of 1.1%) was invested in Central and South America. By country, the value of investments by China in Brazil was the largest, followed by the value of investments in Venezuela, Argentina, Ecuador and Jamaica in that order (Figures I-2-4-20 and I-2-4-21).

Figure I-2-4-20 Comparison of foreign investment values from China to major Central and South American economies (2016; by economy; on a stock basis)



Source: CEIC Database.

Figure I-2-4-21 Changes in foreign investment values from China to major Central and South American economies (By economy; on a stock basis)

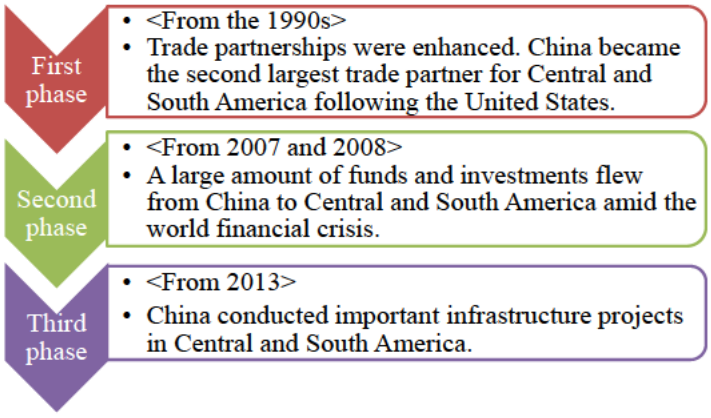


Source: CEIC Database.

There are common interests between China, which aims to secure procurement sources of foods (agricultural products) and resources (ore and energy), and Central and South American countries, which seek funds necessary for domestic infrastructure development from the private sector and abroad due to a shortage of budgetary and other funds, so it may be said that they have a relationship of mutual dependence. In addition, as many Central and South American countries except for Mexico, Brazil and Argentina are resource-dependent countries whose manufacturing industry is underdeveloped, they have a complementary relationship with China from which they import industrial products. As for the recent investment trend, Chinese investments are increasing not only in the resource development sector, such as oil and mining, which has already been receiving Chinese investments, but in a more diverse range of sectors, including electric power, communication, ports, railways, automobiles, and space satellites.

The International Labor Organization (ILO) reviewed and analyzed changes in the trend in the economic relationship between the Central and South America/Caribbean region and China since the 1990s based on the classification of the changes into the following three phases[183] (Figure I-2-4-22).

Figure I-2-4-22 Changes in economic trends between Central and South America and China (based on the ILO data)



183 Chapter 1 of "Employment Situation in Latin America and the Caribbean: China's Impact on employment in Latin America in Terms of Quantity and Quality" (October 19, 2017).

Phase 1 (from the 1990s onward): A rapid increase in trade

Central and South America's share of trade with China, which was lower than 1% until 1992, rose to 2.3% in 2001 and 12.8% in in 2014. For Central and South America, China became the second largest trade partner country, after the United States. Meanwhile, for China, Central and South America became the fourth largest trading partner, after the United States, the EU and Asia. Between 2000 and 2014, the volume of exports to China grew by a factor of around 20 and the volume of imports from China increased by a factor of around 18. As a characteristic of the trade between Central and South America and China, the ILO cites the increase in the region's trade deficit with China and an absolute gap between the two sides in terms of technological level regarding items of trade.

Phase 2 (from 2007-2008 onwards): Provision of funds and inflow of foreign investments

The provision of funds by Chinese government-affiliated banks increased. By country, Venezuela, Brazil, Argentina, Ecuador and Bolivia together received around 50% of all those funds, and by sector, infrastructure development and energy together received two-thirds and mining received around 25%. In addition, around 10 billion dollars in foreign investments from China flowed into Central and South America annually, with Brazil, Peru and Argentina as the main recipients of investment. As the provision of finance and foreign investment are closely related to bilateral trade, Chinese investments were concentrated in the mining, oil, gas and raw materials sectors.

Phase 3 (from 2013 onwards): Implementation of critical infrastructure projects

China has mainly built ports, railways and airports and implemented infrastructure projects in the energy sector. According to the AEI China Global Investment Tracker (CGIT), of the 1,138 infrastructure projects worth a total of around 627.8 billion dollars that were implemented by China in the rest of the world in 2005-2016, 95 projects (a share of 8.3%), worth around 58.6 billion dollars (a share of 9.3%), were implemented in Central and South America (Table I-2-4-23).

Table I-2-4-23 Comparison of international infrastructure projects by China (by economy; between 2005 and 2016)

Infrastructure projects by China (values)

(Million dollars; %)

	2005-2016	
	Value	Share
Sub-Saharan Africa	179,480	28.6
West Asia	137,290	21.9
Middle East and North Africa	112,150	17.9
East Asia	97,640	15.6
Central and South America	58,610	9.3
EU	31,930	5.1
Australia	8,230	1.3
United States	4,080	0.6
Total	627,840	100.0

Infrastructure projects by China (number)

(Number; %)

	2005-2016	
	Number	Share
Sub-Saharan Africa	325	28.6
West Asia	219	19.2
Middle East and North Africa	209	18.4
East Asia	210	18.5
Central and South America	95	8.3
EU	59	5.2
Australia	13	1.1
United States	10	0.9
Total	1,138	100.0

The values and the number of projects are not always equal to the total values or total number.
Source: ILO, AEI-CGIT (2017).

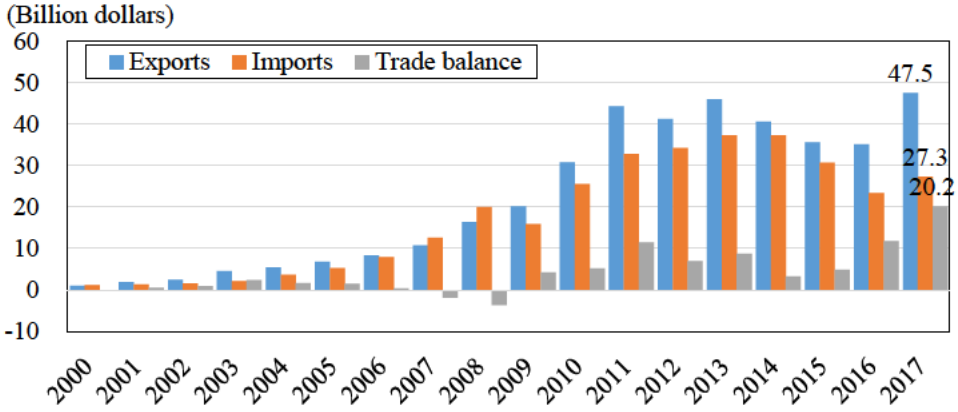
(iii) Trade and investment relationships between major countries and China

Next, we will look at bilateral trade and investment relationships between major Central and South American countries and China. A look at the trade balance by country shows that Brazil, Chile and Peru, which export primary goods, such as mineral products and foods, to China have a trade surplus with it, while Mexico, Colombia, Argentina, Uruguay and Paraguay have a trade deficit. In 2017, China was the largest import source and export destination country for Brazil, Chile, Peru and Uruguay. For Argentina and Paraguay, China was the largest import source country.

(Brazil)

In 2017, the value of Brazil's exports to China was around 47,488 million dollars (up 35.2% from the previous year) and the value of imports from China was around 27,321 million dollars (up 16.9%), resulting in a trade surplus of around 20,167 million dollars (up 71.3%) (Figure I-2-4-24).

Figure I-2-4-24 Changes in trade values in Brazil with China



Source: Global Trade Atlas.

The main items of export to China are soybeans, iron ore, crude oil, pulp, beef, ferro-alloys and aircraft. The top three items--soybeans, iron ore, and crude oil--together account for around 80% of the value of exports. The main items of import are telephones/telephone parts, television and radio parts, electronic circuits, office equipment parts, semiconductor devices, and automotive parts (Table I-2-4-25).

Table I-2-4-25 Top ten items of major imports and exports in Brazil with China

Exports (Million dollars; %)

HS	Category of item	2016	2017	Growth rate	Share
1201	Soybeans	14,386	20,310	41.2	42.8
2601	Iron ores	7,315	10,393	42.1	21.9
2709	Crude oil	3,908	7,351	88.1	15.5
4703	Chemical pulpwood (those to be dissolved)	1,809	2,147	18.7	4.5
0202	Beef	703	929	32.1	2.0
0207	Scrap meat	859	761	-11.4	1.6
7202	Ferro-alloy	475	564	18.7	1.2
4702	Chemical pulpwood (excluding those to be dissolved)	354	421	18.9	0.9
8802	Aircraft	344	403	17.2	0.8
4104	Tanned cow skin	389	398	2.3	0.8
	Total	35,134	47,488	35.2	100.0

Imports (Million dollars; %)

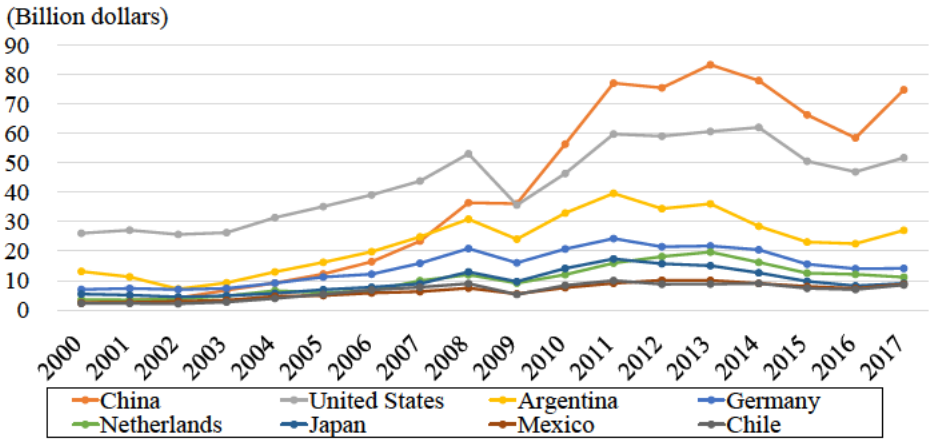
HS	Category of item	2016	2017	Growth rate	Share
8517	Telephones and parts thereof	2,051	2,364	15.3	8.7
8529	Television and radio parts	749	1,090	45.5	4.0
8542	Electronic circuits	604	777	28.6	2.8
8473	Office equipment parts	601	694	15.5	2.5
8541	Semiconductors	369	624	69.1	2.3
8708	Automobile parts	365	568	55.6	2.1
2933	Heterocyclic compounds	500	513	2.6	1.9
8471	Computers	317	408	28.7	1.5
3105	Fertilizers	262	396	51.1	1.4
5407	Woven fabrics of synthetic filament yarn	329	381	15.8	1.4
	Total	23,364	27,321	16.9	100.0

Notes: Resources and agricultural and marine products are shown in a colored background.
Source: Global Trade Atlas.

Against the backdrop of an increase in China's demand for resources and foods and a rise in primary goods prices in the 2000s, the volume of Brazil's exports to China rapidly expanded. In 2010, the value

of Brazil's trade with China[184] surpassed the value of its trade with the United States, making China the largest trade partner country for Brazil. As a result, Brazil, as a supplier source country of resources and foods, deepened its relationship with China (Figures I-2-4-26 and I-2-4-27).

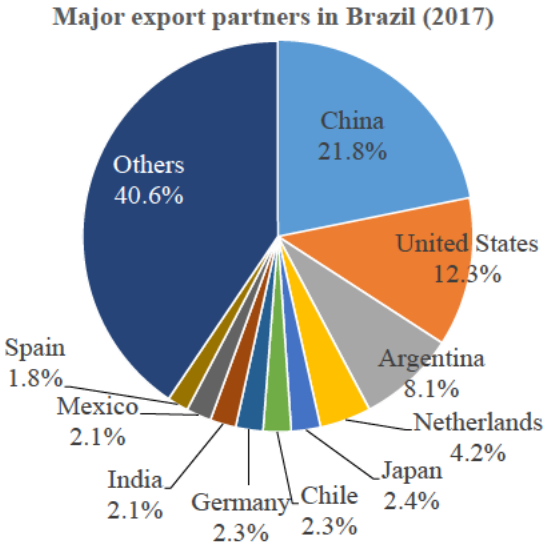
Figure I-2-4-26 Changes in total trade values in Brazil (by economy)



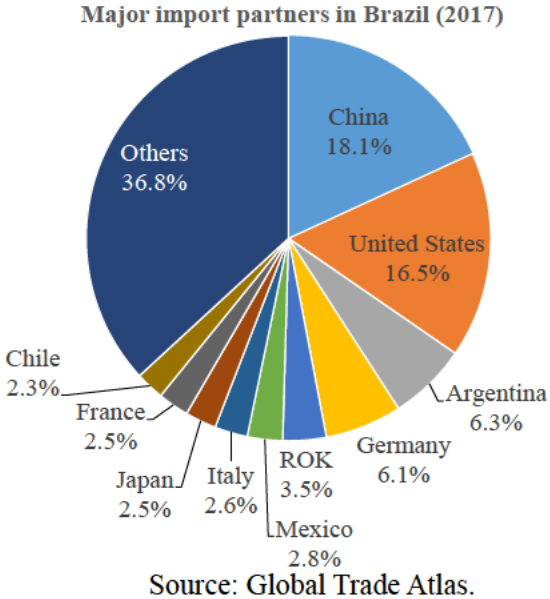
Notes: Total trade values = Import values + Export values

Source: Global Trade Atlas.

Figure I-2-4-27 Share of major trade partners in Brazil (imports and exports)



Source: Global Trade Atlas.



Source: Global Trade Atlas.

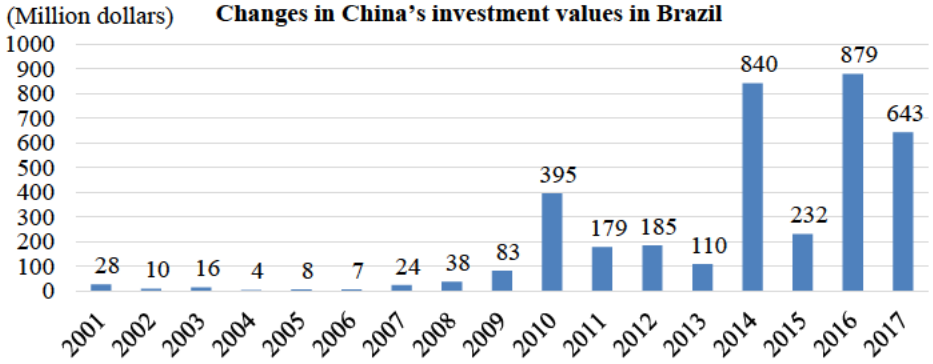
According to the Central Bank of Brazil, the value of direct investments in Brazil by China (on a flow basis) in 2017 was around 643 million dollars, down 26.8% from around 879 million dollars in 2016[185] (Figure I-2-4-28).

184 The calculation was made through the following formula: Total value of trade = value of imports + value of exports.

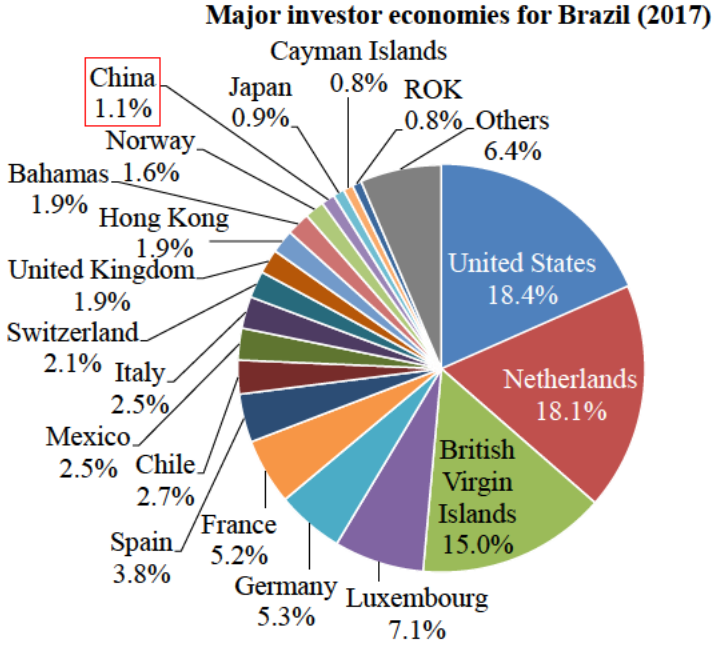
185 On the other, as a large portion of Chinese companies' foreign investments is made through tax havens located in third countries/regions, such as the British Virgin Islands, the actual value of investments is presumed to be larger.

Investments by China were made in a diverse range of sectors, including energy, oil/natural gas, logistics, and IT. However, since 2010, China has been advancing in earnest into the electric power infrastructure sector, including the construction of large-scale hydroelectric power stations and distribution facilities, by taking advantage of its own knowhow. It is said that in non-manufacturing sectors, such as financial services, infrastructure, agriculture, energy and mining, investments have been made in the form of M&A in many cases[186, 187].

Figure I-2-4-28 Changes in foreign investment values from China to Brazil (on a flow basis) and shares of trade partner economies with Brazil



Source: Central Bank of Brazil.



Source: Central Bank of Brazil.

186 'BURAJIRU DE SONZAIKAN MASU CHUUGOKU KIGYOU KARANO TOUSHI' (*BIJINESU TANSHIN*, JETRO, February 13, 2018).

187 According to the China Brazil Business Council, Chinese corporate investments in Brazil are made mainly by private-sector investment institutions and government-affiliated investment institutions, mainly in the form of M&A (M&As account for around 70% of all Chinese corporate investments, investments by joint ventures account for around 10% and new investments account for around 20%) ('BURAJIRU TO CHUUGOKU NO BOUEKI, TOUSHI KANKEI NO HATTEN' (*Mineral Resources Report*, JOGMEC, September 2012)).

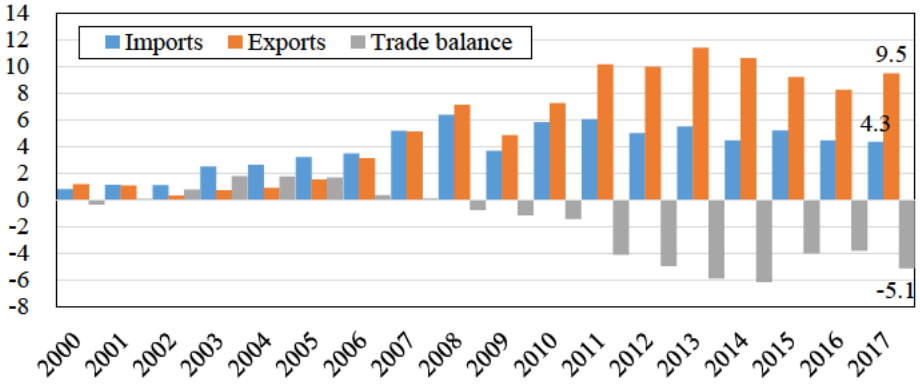
In September 2016, the government of Brazil announced the Investment Partnership Program (PPI), which has opened domestic infrastructure development to private-sector companies, including foreign ones. This program covers such sectors as oil/natural gas, airports, ports, and electric power, and bidding is scheduled to be held toward the end of 2018. Recently, Chinese companies have made investments from the long-term perspective, as shown by their successful bids for the rights to operate hydroelectric power stations under PPI, and the presence of Chinse companies in Brazil is expected to continue to grow in the future.

(Argentina)

In 2017, the value of Argentina's exports to China was around 4,325 million dollars (down 2.4% from the previous year) and the value of imports from China was around 9,454 million dollars (down 14.9%), resulting in a trade deficit of around 5,129 million dollars (up 35.0%) (Figure I-2-4-29).

Figure I-2-4-29 Changes in Argentina's trade values with China

(Billion dollars)



Source: Global Trade Atlas.

The main items of export are soybeans, crude oil, beef, fishery products and tobacco. The top three items--soybeans, crude oil and beef--together account for around 80% of the value of exports. The main items of import are telephones/telephone parts, television parts, computers, motorbikes, and railway vehicles (Table I-2-4-30).

Table I-2-4-30 Top ten items of major imports and exports in Argentina with China

Exports (Million dollars; %)

HS	Category of item	2016	2017	Growth rate	Share
1201	Soybeans	2,793	2,415	-13.5	55.8
2709	Crude oil	385	478	24.2	11.1
0202	Beef	229	407	77.7	9.4
0306	Crustaceans	212	222	4.7	5.1
0207	Scrap meat	96	99	3.1	2.3
2401	Tobacco	64	71	10.9	1.6
4104	Tanned cow skin	64	70	9.4	1.6
4703	Pulpwood (excluding those to be dissolved)	19	65	242.1	1.5
1508	Peanut oil	54	59	9.3	1.4
0307	Aquatic invertebrate animals	26	50	92.3	1.2
	Total	4,433	4,325	-2.4	100.0

Imports (Million dollars; %)

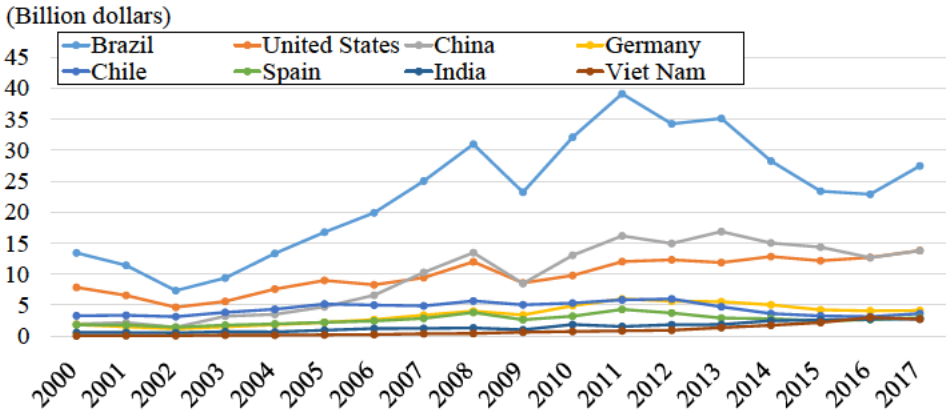
HS	Category of item	2016	2017	Growth rate	Share
8517	Telephones and parts thereof	713	500	-29.9	5.3
8529	Television and radio parts	281	390	38.8	4.1
8471	Computers	147	323	119.7	3.4
8711	Motorcycles	166	299	80.1	3.2
2931	Organo-inorganic compounds	231	216	-6.5	2.3
3808	Pesticides and herbicides	160	176	10.0	1.9
8415	Air conditioners	116	147	26.7	1.6
8543	Electrical machinery	110	143	30.0	1.5
8708	Automobile parts	137	142	3.6	1.5
3105	Fertilizers	84	141	67.9	1.5
	Total	8,231	9,454	14.9	100.0

Notes: Resources and agricultural and marine products are shown in a colored background.
Source: Global Trade Atlas.

Like Brazil, Argentina is a supply source country of foods and resources for China, while China regards Argentina as a promising market with growth potential. Therefore, the two countries' trade relationship is growing in a mutually complementary manner. In 2008, China overtook the United States to become the second largest trading partner country for Argentina, after Brazil. However, in 2016 and

2017, it fell back to the No. 3 position as the United States overtook it again (Figures I-2-4-31 and I-2-4-32).

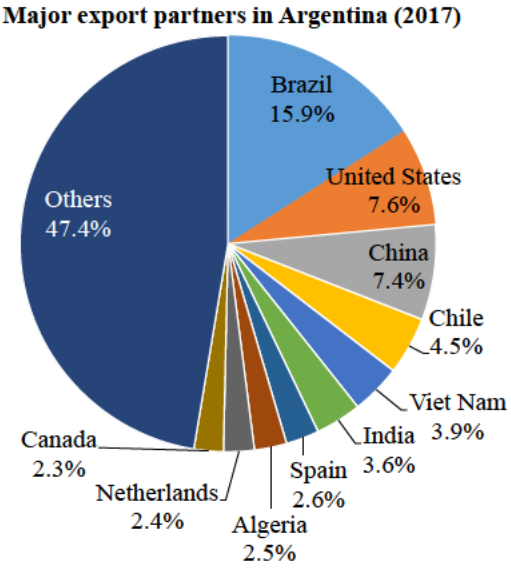
Figure I-2-4-31 Changes in total trade values in Argentina (by economy)



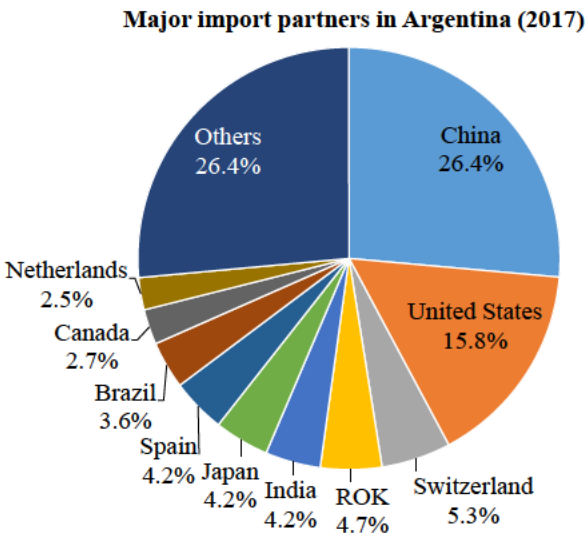
Notes: Total trade values = Import values + Export values

Source: Global Trade Atlas.

Figure I-2-4-32 Shares of trade partners in Argentina (imports and exports)



Source: Global Trade Atlas.



Source: Global Trade Atlas.

After its default in 2001, Argentina found it difficult to access the international financial market and had to rely on the World Bank and other international financial institutions. In this situation, while leftist governments were in power (2003-2015), Chinse companies receiving loans from Chinese government-affiliated banks actively made investments in such sectors as foods, energy and transportation.

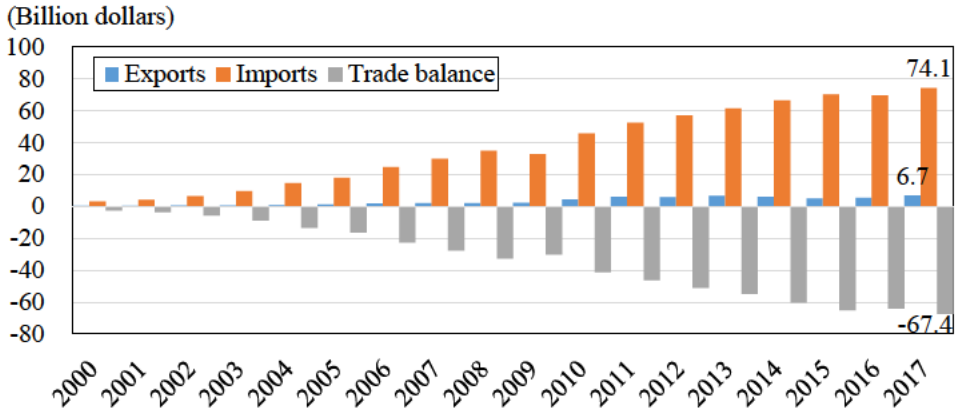
Since immediately after its inauguration in December 2015, the administration of President Mauricio Macri has strived to regain trust from the international financial market by making improvements to systems related to finance and trade, including restricting foreign currency purchases, abolishing

restrictions on money transfers, deregulating imports, and partially removing export taxes,[188] and by resolving the debt problem. It is said that there is large room for investments in the agricultural sector as a result of the removal of export taxes on agricultural and livestock products and tariffs on beef and also for investments in the infrastructure sector, including projects to link inland areas, the infrastructure of which deteriorated under the previous administration, to ports.

(Mexico)

In 2017, the value of Mexico's exports to China was around 6,712 million dollars (up 24.2% from the previous year) and the value of imports from China was around 74,145 million dollars (up 6.7%), resulting in a large trade deficit of around 67,433 million dollars (up 5.2%) (Figure I-2-4-33).

Figure I-2-4-33 Changes in Mexico's trade values with China



Source: Global Trade Atlas.

The main items of export are copper ore, passenger cars, telephones/telephone parts, automotive parts, and crude oil. Copper-related items account for about 30% of the value of exports, but compared with Brazil and Argentina, the share of resource-related items is small and unlike those countries, Mexico is also exporting industrial products, such as passenger cars, automotive parts, telephones/telephone parts and computers. The main items of import are telephones/telephone parts, computers, office equipment, electronic circuits, television and radio parts, and automotive parts (Table I-2-4-34).

188 On December 14, 2015, President Macri abolished the export taxes on corn (20%), wheat (23%), and beef (15%) and signed a bill to reduce the export tax on soybeans (35%) in increments of five percentage points from 2016 in line with his election campaign pledges. He was also expected to reduce the export tax on soybean meal and soybean oil (32%) to 27% in 2016. In Argentina, the imposition of export taxes on corn, wheat and beef, among other products, as a policy of giving priority to domestic supply under the previous administration has been considered to be a major obstacle to production and export of those agricultural and livestock products.

Table I-2-4-34 Top ten items of imports and exports between Mexico and China

Exports (Million dollars; %)

HS	Category of item	2016	2017	Growth rate	Share
2603	Copper ore	1,051	1,433	36.3	21.3
8703	Passenger cars	594	795	33.8	11.8
8517	Telephones and parts thereof	463	781	68.7	11.6
8708	Automobile parts	558	414	-25.8	6.2
2709	Crude oil	223	364	63.2	5.4
7403	Refined copper	238	349	46.6	5.2
7404	Copper scrap	190	239	25.8	3.6
2607	Lead ore	158	226	43.0	3.4
8471	Computers	212	179	-15.6	2.7
2616	Precious-metal ore	152	174	14.5	2.6
	Total	5,405	6,712	24.2	100.0

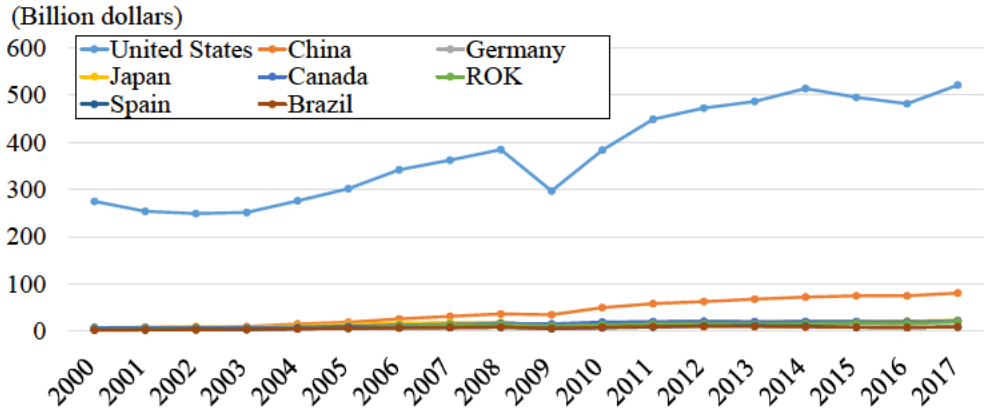
Imports (Million dollars; %)

HS	Category of item	2016	2017	Growth rate	Share
8517	Telephones and parts thereof	8,310	8,390	1.0	11.3
8471	Computers	5,523	4,868	-11.9	6.6
8473	Office equipment	4,457	4,519	1.4	6.1
8542	Electronic circuits	3,517	4,517	28.4	6.1
8529	Television and radio parts	3,423	2,717	-20.6	3.7
8708	Automobile parts	1,668	2,006	20.3	2.7
8504	Transformers	1,726	1,736	0.6	2.3
9013	Liquid crystal devices	1,996	1,623	-18.7	2.2
8534	Printed circuits	1,207	1,307	8.3	1.8
8501	Motors and generators	644	1,258	95.3	1.7
	Total	69,521	74,145	6.7	100.0

Notes: Resources and agricultural and marine products are shown in colored background.
Source: Global Trade Atlas.

For Mexico, China is the second largest trade partner country, after the United States, but as Mexico is a NAFTA member, its trade dependency on the United States is outstandingly high (Figures I-2-4-35 and I-2-4-36).

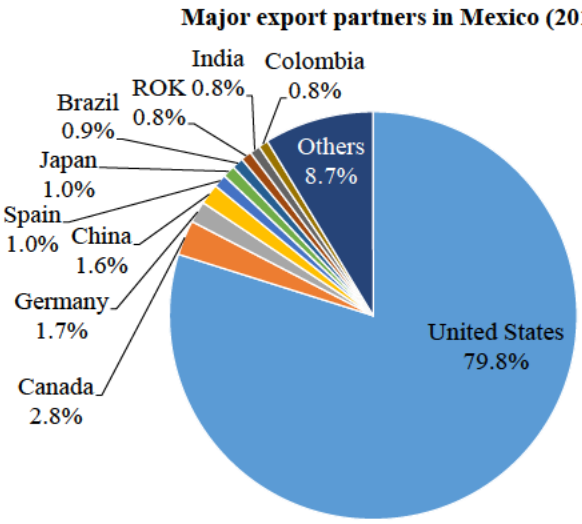
Figure I-2-4-35 Changes in total trade values in Mexico (by economy)



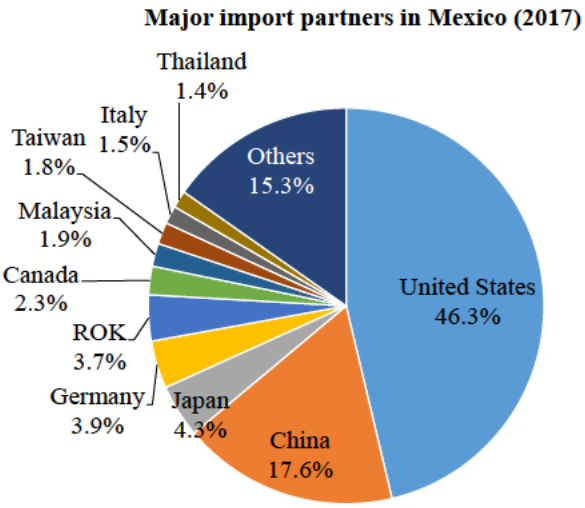
Notes: Total trade values = Import values + Export values

Source: Global Trade Atlas.

Figure I-2-4-36 Shares of trade partners in Mexico (imports and exports)



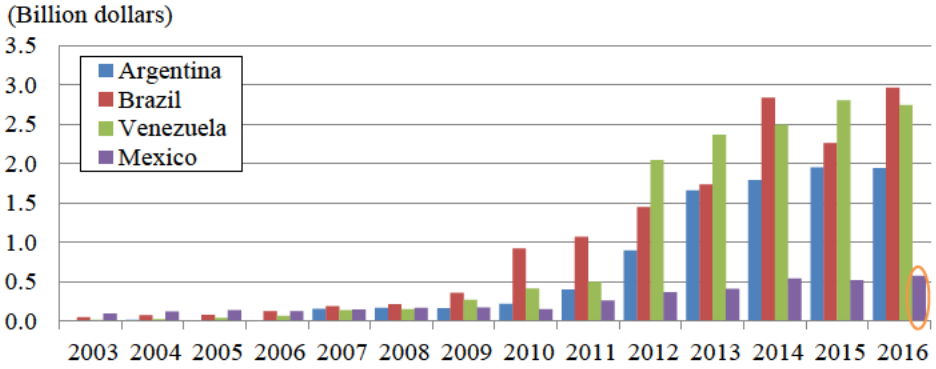
Source: Global Trade Atlas.



Source: Global Trade Atlas.

The value of China's investments (on a stock basis) in Mexico in 2016 was around 580 million dollars, a level that is not high compared with China's investments in other major Central and South American countries. However, recently, as Mexico has started to provide opportunities for foreign companies to participate in oil development projects, which were previously monopolized by the state-run oil corporation, as part of its energy reform, Chinese oil companies won bids for two mining areas in bidding for deep-sea oil and gas fields in November 2016 (Figure I-2-4-37).

Figure I-2-4-37 Changes in foreign investment values by China (by economy; on a stock basis)



Source: CEIC Database.

At a time when the trade environment for Mexico is drastically changing as exemplified by the renegotiation of NAFTA, the country has ratified the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP11) and is renegotiating the Mexico-EU FTA,[189] is negotiating to become an associate member of the Pacific Alliance, and is making active efforts to strengthen economic relationships with countries outside the NAFTA area, including Argentina, Brazil and China and to promote liberalization and diversification of trade.

4. Recent activities in Central and South America to strengthen intra-region and external cooperation

(1) The Pacific Alliance's efforts to strengthen relationship with the Asia-Pacific region

As an open alliance, the Pacific Alliance, while promoting economic integration among its member countries, has started efforts to strengthen its relationship with the Asia-Pacific region, as has been stipulated in its basic policy[190] since its establishment.

In order to respond to the United States' tilt toward protectionism after the inauguration of the Trump administration, the United States' withdrawal from the TPP and the lack of transparency over the renegotiation of NAFTA, it has become necessary for the Pacific Alliance to uphold the policy of promoting free trade and share the recognition of the need for openness, one of the alliance's characteristics, among its member countries once again.[191]

In March 2017, in order to strengthen cooperation with Asia-Pacific countries, the Pacific Alliance created a new member category of associate member country, and indicated the policy of accepting countries wishing to conclude a high-level agreement with the alliance at an early time as associate member countries. In June of the same year, the Council of Ministers adopted guidelines applicable to

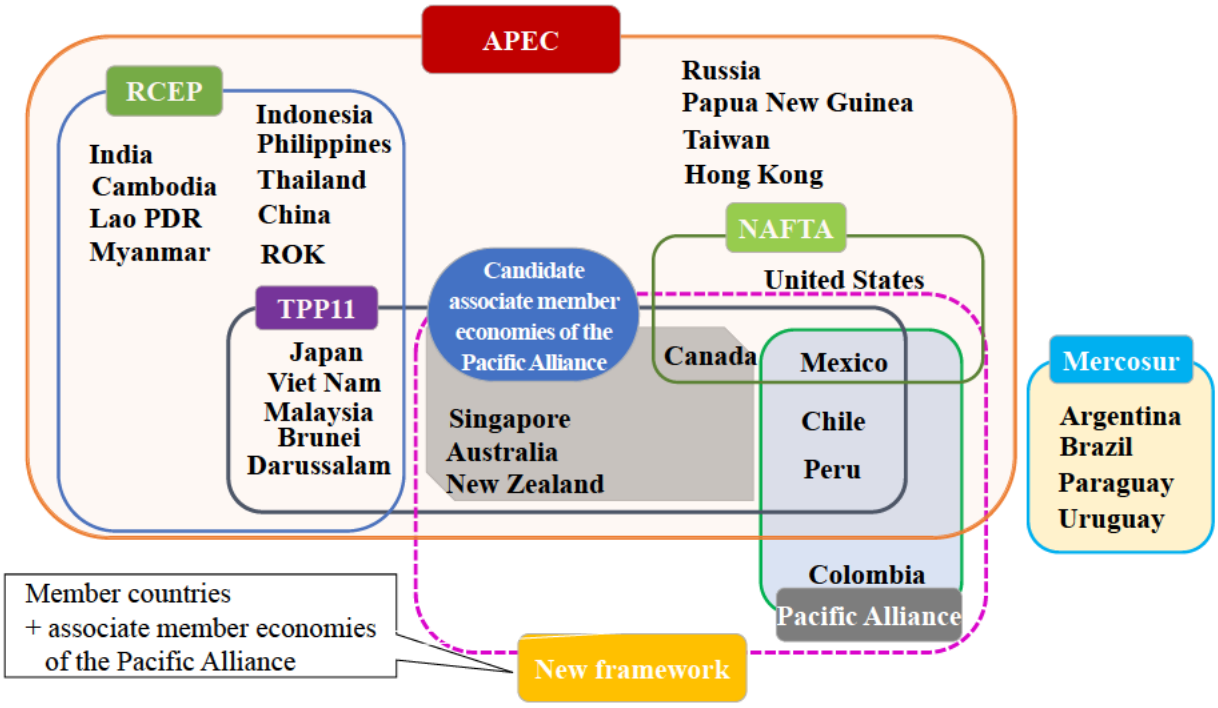
189 In April 2018, the government of Mexico announced an agreement in principle on the renegotiation of the FTA with the EU, which had continued since 2016. Although the FTA, which was put into force in 2000, mainly covered industrial products, it will be modernized by expanding the coverage to include agricultural products, government procurement and investment.

190 'The initial goal of the alliance was to further free trade with "a clear orientation toward Asia," and economic integration' (Pacific Alliance Website).

191 'TAIHEIYOU DOUMEI SHOKOKU, AJIA TAIHEIYOU CHIIKI TONO RENKEI NI HONGOSHI --GICHOUKOKU CHIRI GA SHUDOU SHI HATARAKI KAKE--' (*BIJINESU TANSHIN*, JETRO, March 28, 2017).

associate member countries, making clear the path for the conclusion of FTAs with countries outside the alliance. Among candidates for associate member countries are Canada, Australia, New Zealand and Singapore,[192] all of which are members of TPP11. In October 2017, negotiations with the candidates for associate members started (Figure I-2-4-38).

Figure I-2-4-38 Overview of regional economic unions in the Asia-Pacific region including Central and South America



Source: METI.

(2) Mercosur's efforts to expand trade relationships in order to promote liberalization and openness

Following a change of government from the leftwing to the center right in Argentina at the end of 2015, a similar change of government occurred in Brazil as well in 2016. As a result, Mercosur is making efforts to expand and deepen trade relationships in order to promote liberalization and openness.

Amid this trend, the negotiations over a Mercosur-EU FTA, which were started in 2000 but which had been suspended for a long period of time, were resumed in October 2016. Although the two sides aimed to reach a broad agreement by the end of 2017, the negotiations were carried over to 2018 due to the remaining differences over agricultural products.[193]

In December 2017, Brazilian President Michel Temer, in a speech at the 51st summit meeting (in

192 In October 2017, the first round of negotiations was held with candidates for associate members in Santiago de Cali, Colombia, and the delegation presented a protocol that forms the basis of the negotiation process. The second round of negotiations was held in the Gold Coast, Australia in February 2018 (International Centre for Trade and Sustainable Development (ICTSD) Website).

193 'SENSHINKOKU YA AJIA SHOKOKU TONO FTA MOU KOUCHIKU WO ISOGU--CHUUNANBEI SHUYOUKOKU NO TSUUSHOU SEISAKU TO CHIIKI TOUGOU WO MEGURU UGOKI--' (*BIJINESU TANSHIN*, JETRO, February 8, 2018).

Brasilia) of the Southern Common Market (Mercosur), stated that preparations to start FTA negotiations with Canada and the ROK in 2018 had been completed and also expressed an intention to start preliminary consultations with Singapore.[194]

(3) Efforts to strengthen the relationship between the Pacific Alliance and Mercosur

It is said that the Pacific Alliance and Mercosur started to approach each other based on a proposal from then Chilean President Michelle Bachelet at a meeting of relevant ministers that was held in Cartagena, Colombia, in November 2014. The need to strengthen the relationship between the Pacific Alliance and Mercosur is starting to be recognized anew. That is because Argentina and Brazil started to place emphasis on an open trade policy due to the change of government in the countries and also because consciousness about the risk of dependence on the United States increased, mainly in Mexico, following the inauguration of the Trump administration.

In April 2017, Mercosur and the Pacific Alliance held a meeting of relevant ministers in Argentina and reaffirmed their cooperation in such matters as trade facilitation and promotion, customs clearance and support for small and medium-size enterprises, and also agreed to set a roadmap for future cooperation.[195]

Among the Mercosur member countries, Brazil and Argentina, which are strong in the agricultural sector, are said to be exploring the possibility of approaching the Mexican market. Mexico imports corn and many other agricultural products from North America, but there are expectations that sales channels for agricultural products will expand if the trade relationship with Mexico is strengthened.

194 'KANADA, KANKOKU TONO FTA KOUSHOU NO JUNBI TOTONOU--MERUKOSUURU, SHINGAPOURU TONO JIZEN KYOUGI MO HYOUMEI--' (*BIJINESU TANSHIN*, JETRO, January 11, 2018).

195 In addition, Mercosur is continuing negotiations to expand and deepen ACE No. 53 with Mexico. In May 2015, during an official visit to Mexico by then Brazilian President Dilma Rousseff, negotiations about expanding the scope of items and adding new sectors started. At the seventh negotiating meeting in August 2017, negotiations started about trademarks, geographical indication (which refers to registering and protecting information on products as intellectual property) and the exercise of copyrights and intellectual property rights. Since the inauguration of the Trump administration in the United States, Mexico has been making efforts to expand and deepen its trade agreement with Brazil in response to the change in the Mexican trade environment.