

Palma, Alexander Michael G.

Working Paper

Strengthening Bilateral Trade and Investment Relationship Between Latin America and the Philippines: Beyond Economic Diplomacy

PIDS Discussion Paper Series, No. 2003-21

Provided in Cooperation with:

Philippine Institute for Development Studies (PIDS), Philippines

Suggested Citation: Palma, Alexander Michael G. (2003) : Strengthening Bilateral Trade and Investment Relationship Between Latin America and the Philippines: Beyond Economic Diplomacy, PIDS Discussion Paper Series, No. 2003-21, Philippine Institute for Development Studies (PIDS), Makati City

This Version is available at:

<https://hdl.handle.net/10419/127826>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Strengthening Bilateral Trade and Investment Relationship Between Latin America and the Philippines: Beyond Economic Diplomacy

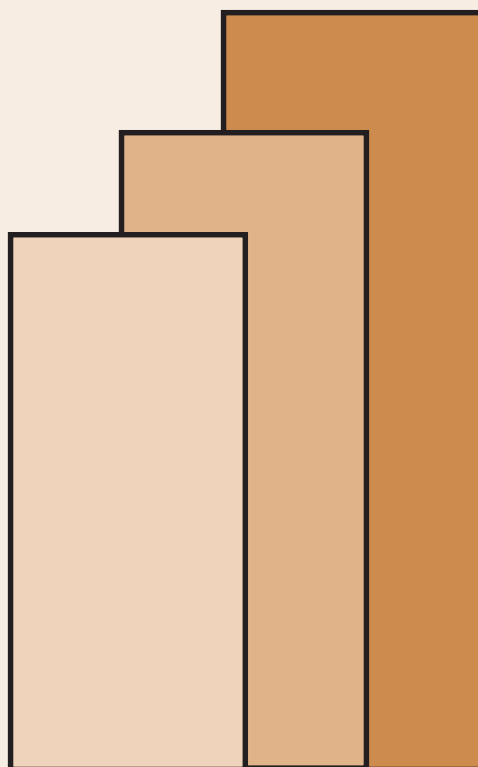
Alexander Michael G. Palma

DISCUSSION PAPER SERIES NO. 2003-21

The *PIDS Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements. The studies under the *Series* are unedited and unreviewed.

The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the Institute.

Not for quotation without permission from the author(s) and the Institute.



December 2003

For comments, suggestions or further inquiries please contact:

The Research Information Staff, Philippine Institute for Development Studies
3rd Floor, NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, Makati City, Philippines
Tel Nos: 8924059 and 8935705; Fax No: 8939589; E-mail: publications@pidsnet.pids.gov.ph
Or visit our website at <http://www.pids.gov.ph>

**STRENGTHENING BILATERAL TRADE AND INVESTMENT RELATIONSHIP BETWEEN
LATIN AMERICA AND THE PHILIPPINES: BEYOND ECONOMIC DIPLOMACY**

A Study for the Philippine Institute for Development Studies
and the Philippine Academic Consortium for Latin American Studies

Alexander Michael G. Palma
Makati City, Philippines
September 2003

ABBREVIATIONS

AFTA	-	ASEAN Free Trade Agreement
ASEAN	-	Association of Southeast Asian Nations
BETP	-	Bureau of Export Trade Promotion
BOI	-	Board of investments
BSP	-	Bangko Sentral ng Pilipinas
CEPT	-	Common Effective Preferential Tariff
CET	-	Common External Tariff
DFA	-	Department of Foreign Affairs
DTI	-	Department of Trade and Industry
FDI	-	Foreign Direct Investment
FTSC	-	Foreign Trade Service Corps
GATT	-	General Agreement on Tariff and Trade
IIT	-	Intra-industry Index
Mercosur	-	Southern Cone Common Market
MFN	-	Most Favored Nation Principle
NAFTA	-	North America Free Trade Area
PACLAS	-	Philippine Academic Consortium on Latin American Studies
PCCI	-	Philippine Chamber of Commerce and Industry
RTA	-	Regional Trading Agreements
TNC	-	Transnational Companies
TRP	-	Tariff Reform Program
WTO	-	World Trade Organization

TABLE OF CONTENTS

	Page/s
List of Abbreviations.....	i
Executive Summary.....	ii
 I. Rationale of Research	
A. Introduction.....	1
B. Organization of the Study and Primary Data Sources.....	2
C. Framework of Research	3
1. Commonalities in Economic Policy and Trade Promotion Strategies.....	3
2. Divergence in Multilateralism and Regionalism.....	4
 II. Trade and Investment Performance between Philippines and Latin America	
A. Philippine-Latin American Trade in Perspective.....	6
1. Export and Import Performance.....	6
2. Composition of Leading Traded Commodities.....	11
3. Foreign Direct Investment Flows.....	13
B. Assessment of Bilateral Investment and Trade Agreements.....	14
1. Agreement Provisions.....	14
a. Trade Privileges/Most Favored Nation Treatment.....	14
b. Protection of Investments.....	15
C. Prospects for Regional Cooperation: Strengthening Trade and Investment Relations.....	17
1. Regional Integration.....	17
2. Trade Relationship with ASEAN-5.....	18
3. Product Integration.....	21
a. Philippines.....	21
b. Indonesia.....	22
c. Malaysia.....	22
d. Thailand.....	23
e. Singapore.....	23
 III. Channels of Trade Cooperation and Prospects	
A. Institutional Linkages in Strengthening Bilateral Trade.....	24
1. Role of Institutions.....	24
2. Maximizing Trade Opportunities through Effective Follow-Through.....	26

3. Economic Diplomacy.....	27
B. Revisiting Trade Promotion Strategies for Emerging Markets.....	27
1. Policy Instruments.....	27
a. Competition and Investment Policies.....	27
b. Tariffs and Trade Regime.....	28
IV. Findings and Conclusions.....	29

Annexes

References

Trade with nontraditional and distant markets has always been regarded as worth exploring in an effort to increase market shares amidst the downside effects of globalization and regional trade cooperation. While globalization processes paved the way for increased competition and opening up of markets, regional trade arrangements have emerged to accord certain markets with intrinsic advantages over others.

The relationship between Latin American countries and the Philippines in the aspect of trade and investment is typically influenced by the developments brought about by globalization and regional trading arrangements. Historically, trade and investment performances have been modest in specific periods and for particular products. Not surprisingly, the trend in investments has also leaned towards particular areas of activities, and at times initiated by some bilateral agreements.

Economic diplomacy between the Philippines and Latin American states deserves greater attention, with focus on products with distinct comparative advantages. The attempt in this study to measure the extent of economic integration, in both ways, is an indicator of where focus should be directed. A comparative derivation of this indicator, showing how other ASEAN countries pursue trade with the Latin American region is an interesting finding, from which lessons, experiences and strategies can be drawn.

Regional trading arrangements work well in maximizing trade and investments benefits within the Latin American region. Some of the seemingly dynamic economies in Asia have already started entering into bilateral agreements with Latin American economies, realizing the immediate benefits to gain in the immediate term. Such agreements are usually spurred by intensive economic diplomacy, following a careful examination of characteristics in trade. The Philippines needs to strengthen its economic diplomacy with Latin America by carefully evaluating the intricacies in trade processes, given the distance factor, existing channels of cooperation, trade patterns and prevailing regional competition. Only then can a program-oriented bilateral agreement become more responsive to both markets.

There is no doubt that there are prospects for greater trade between the Latin America and countries in ASEAN like the Philippines. Trade patterns have changed significantly in the past showing some shift in product focus and market destinations. The shift is likely to have been brought about by changes in global trading processes. ASEAN is now confronted with a challenge to adopt more holistic strategy to increase the magnitude of its nontraditional markets, which include Latin America.

Keywords: regional trading arrangements, bilateral trade, economic diplomacy, Latin America

EXECUTIVE SUMMARY

1. The similar directions in economic and trade strategies of the Philippines and Latin American countries indicate the stages of economic reform that transpired prior to trade liberalization. The commonalities in strategies and effective time of implementation may be viewed as responsive to the brewing globalization of markets.
2. From 1996, Philippine imports from Latin America exceeded exports at a decelerated rate until 1999. The value of Philippine exports was only 20% of total imports from Latin America. Exports to Latin America did not increase much, averaging about 14% annually from 1996-1999. This was caused by the continued decline in exports until 1998.
3. Philippine exports to Latin America have been only less than 1% of its total world exports until 1999. Based on general product categories, it shows that there is a good market for manufactured articles and transport equipment, as these items comprised the bulk 93% of total exports to Latin American countries in 2000. These items are among the leading export items including telecommunications parts and equipment and microelectronics. The share of these export items from total exports to Latin America has consistently been substantial from 1996 to 1999.
4. Garments remain to be traditionally exported in Argentina, Brazil, Chile, Panama and Venezuela. Meanwhile, machines and transport equipment are imported mainly by Colombia and Mexico. Peru and El Salvador on the other hand, have comparatively lower imports from the Philippines averaging at less than US\$1.5 million annually. Among the Latin American countries, only exports to Mexico consistently grew at an average annual rate of 59%.
5. In contrast to exports, imports from Latin American countries are comprised of inedible crude materials, food items and live animals, machines and transport equipment and until recently, beverages and tobacco. There has been a big shift from traditional import items particularly manufactured materials, which represented almost 30% of total in 1996 to beverages and tobacco, machines and transport equipment in 2000. Among the imported items, only inedible crude materials continue to capture the biggest share averaging about 36% of total over the past five years. Inedible crude materials consist mainly of crude petroleum, gas oils, and other petroleum products.
6. Chile and Brazil are the biggest exporters of inedible crude materials to the Philippines. Brazil is a major supplier to the Philippines of other heavily imported items such as manufactured goods, food and live animals, while Mexico supplies most of chemical products and other manufactured goods. Both Chile and Brazil have become two major supply sources, with Chile able to capture a bigger share of total Philippine market next to Brazil.
7. In terms of foreign direct equity investments, a breakdown of total registered equity investments at the Board of Investments shows that only Argentina, Brazil and Panama have recorded equity investments for the period under review from 1996-2002. Brazilian and Panamanian investment projects registered with the BOI started only in 2001, with 10.4 million pesos equity investment registered. BOI-registered investments from Latin America were highest in 1999, amounting to 1.9 billion pesos. This was attributed to an Argentinian power project. This represents about 4% of total foreign equity investments registered in that year.
8. Distance was cited as the underlying reason for the lack of magnitude in trade with Latin America, not to mention the relative effects of regional competition characterized by sub-regional trade privileges and treatment which countries in both regions enjoy.
9. The bilateral investment agreement between the Philippines with Argentina in 1999 was accompanied by a periodic improvement in exports and investments. Following the principle of

regionalism, such bilateral relationship can be characterized as a response to global competition because the agreement was spurred by rapid flow of tangible and intangible capital.

10. ASEAN-5 have to pursue more intensive bilateral cooperation to promote greater trade and FDIs, particularly in products with substantive export share, especially where existing regional integration occurs arising from trading agreements.
11. The shift in IIT index with Latin American countries in general shows that Philippine trade gradually slowed down, from highest IIT index in 1990 of 29.7 to its lowest record in 1995 (6.95%) over a ten-year period. However, its recovery towards the end of the decade (16.30%) signals opportunities for improved trade of the country with the region.
12. Most if not all, of the ASEAN countries have integrated themselves to the Latin American markets given the increasing indices exhibited every five years from 1990-1999. Overall, ASEAN-5 have been benefiting from trade with Latin America. While the IIT index after 1990 dropped, there is no clear evidence that trade has been affected after the Mercosur's existence in 1991. The recovery of IIT indices after 1995 however, indicated an improved trade.
13. There have been limited trade interests by local businesses on the Latin American markets. Many exporters find that other traditional markets are more interested to tap the huge traditional markets than to explore emerging ones like Latin America. Distance from Latin American markets and the comparatively low level of demand discourages many local businesses and prompts them to concentrate instead on the North Americas and Canada. The relative ease of dealing with these traditional markets, and the potential for growth are sufficient reasons to attract trade. Nevertheless, the emerging markets in Latin America having demonstrated extensive trade with ASEAN-5 are worth exploring.
14. Argentina and Brazil are considered two very dynamic markets in Latin America. The combined demand of Argentina and Brazil is said to be sufficient to cause a terms-of-trade effect for the leading Philippine exports.
15. Trade and investment agreements need to be more programmatic and market-driven. It maybe useful to examine the composition of products integrated in Latin American markets. These are comprised of traditional items namely, crude animal/vegetable material, rubber manufactures, paper and paperboard manufactures, metal manufactures, non-electrical machinery, and miscellaneous manufactured goods. The market for a few emerging products like miscellaneous food preparations, petroleum and petroleum products can also be considered.
16. An institutionalized follow-through process may address the rather fragmented approach of dealing with trade interests and responding to trade opportunities. The solutions must be more strategic, and not merely institutionally-driven. This will require consolidation of agency efforts towards the creation of more comprehensive trade and investment strategies in exploring emerging markets in Latin America. It will also require documentation of trade leads, capacity-building for diplomatic posts, and availability of trade and investment collaterals and information materials.

Strengthening Bilateral Trade and Investment Relationship between Latin America and the Philippines: Beyond Economic Diplomacy

by

ALEXANDER MICHAEL G. PALMA

I. Rationale of Research

A. Introduction

The advent of regional cooperative arrangements paved the way for the opening up of markets, and relaxation of many trade and investment regimes among participating member states in most if not all, of regional blocs or groupings. This orientation was made more pronounced as global competition becomes more intense, and market distortions that are typical of centralized economies are slowly being eroded.

Regional trading agreements or RTAs have become strategic instruments to achieve economic integration. RTAs include not only regional trading blocs, but also bilateral trade and investment agreements between countries. Adjacent markets are seen to benefit the most from bilateral and regional trade agreements, as locational advantage translates to overall cost competitiveness. In like manner, strengthening bilateral ties facilitates the supply of specialized goods and products of greater value-added in remote but potential markets. This study aims to explore the mechanisms that operate in the bilateral trade and investment relationship of the Philippines with Latin America, amidst the growing regional cooperation in Asia, and the build-up of competition arising from globalization in trade.

Like the Philippines, many Latin American countries underwent stages of reform in their trade and investment environments. The Latin American countries with the most dynamic economies were the ones that initiated trade liberalization programs early on. Most notable move towards liberalization comprised of privatization of inefficient public utilities, and elimination of stifling regulation to many controlled industries. This involved cost to the domestic Latin American economies, but the reforms enabled them to make a big leap towards global economic integration.

In examining the bilateral relationships between Latin American countries and the Philippines, the characteristics of trade and investment flows will be probed into. The analysis of these characteristics will help determine whether the existing bilateral relationship with Latin America exhibits potentials for RTA with the Philippines and/or ASEAN-5 countries. Reflecting on this relationship between the Philippines and Latin American countries, the paper aims to provide evidence of prospects for particular traded products, and whether the existing bilateral trade and investment agreements have contributed to the level of trade, or remained instruments that initiated economic diplomacy between countries.

There have been theoretical views over the observed divergence between multilateral trade arrangements and regionalism. There is ongoing debate as to the implication of RTAs to the multilateral arrangements, i.e. whether RTAs serve as building blocks or impede the development of the latter. Multilateralism may be viewed as a product of growing globalization in trade, while regionalism is imbued with a more localized orientation towards maximizing the availability of resources in a region. Thus, the paper will attempt to discover whether emerging regionalism in Latin America, and policy stance taken by governments in entering into trade agreements are driven by forces of global competition, or unilateral moves aimed at expanding Latin America's economic diplomacy in Asia. In this light, the study provides useful discussion of prospects for regional

cooperation with ASEAN-5 (Singapore, Malaysia, Thailand, Indonesia and the Philippines), given the magnitude of their existing trade with Latin American countries.

The gradual openness of Latin American markets was a result of unilateral liberalization in economic policy. This enabled some Latin American economies to join the bandwagon of regional integration with the participation of Brazil, Argentina, Paraguay, Uruguay, Chile and Bolivia in the Southern Cone Common Market of South America, the Mercosur. Mercosur is a treaty allowing free movement of goods and services and elimination of tariff and non-tariff barriers among participating economies within the region. Externally, still other Latin American states have started to enter into trade and investment agreements on a bilateral basis to countries in ASEAN-5 including, the Philippines.

The analysis in this study will be based on trade and investment information between the Philippines and Latin American countries. The Latin American countries covered in the analyses are those with established major trading relationship with the Philippines, these being— *Argentina, Brazil, Chile, Colombia, El Salvador, Mexico, Panama, Peru, and Venezuela*.

More specifically, this paper aims to:

- i) render a historical presentation of trade performances, through an analysis of current bilateral trade statistics;
- ii) examine bilateral trade and investment agreements entered into by the Philippines with some of the Latin American countries, particularly as to how these contributed to growth in trade and foreign direct investment flows; and,
- iii) identify trading policies with considerable impact on the trading and investment environments of two countries, from which some policy implications will be drawn up;
- iv) identify channels of cooperation;
- v) identify prospects for strengthening trade relations, and;
- vi) to provide a discussion on the challenges and potentials for inter-regional trade between ASEAN-5 and Latin America.

B. Organization of the Study and Primary Data Sources

The paper is organized in five major sections. The second section reviews the historical trade and investment performance between Latin America and the Philippines from years 1996 to 2000. Section 3 assesses the existing bilateral investment and trade agreements, and whether these are mutually reinforced by their prevailing trade and investment environments. Section 4 identifies the channels of cooperation in improving trade and investment ties on a bilateral basis, and prospects for regional trade. This section will also discuss the implications and contributions of policy instruments to the deepening of trade. Some of the trade-related policies and bilateral and/or multilateral arrangements that influence the direction of trade in ASEAN-5 will be examined further. Climate for investments and its due influence on the generation of foreign equity investments in the country, particularly as to how investment policies have strengthened bilateral arrangements such as but not limited, to the availability of fiscal and non-fiscal incentives, investment regulations, and the like. The last section recapitulates the findings in earlier sections, from which policy implications are drawn.

The data utilized in this study are obtained from United Nations' Trade Analysis System, from 1996 to 2000, as validated by bilateral statistics obtained from the Bureau of Export Trade Promotion (BETP) of the Department of Trade and Industry (DTI). Bilateral investment and trade agreements concluded with Latin American countries, particularly the major provisions will be examined according to the framework adopted in this study. Investment data used are based on both registered equity investments with the Bangko Sentral ng Pilipinas (BSP) and the Board of Investments (BOI).

C. Framework of Research

1. Commonalities in Economic Policy and Trade Promotion Strategies

The industrial policy of the Philippines from 1950-1970 was geared towards an import-substitution strategy, meant to develop local industries through the enhancement of their production capacities and domestic technical capabilities. At about the same time or two decades before the Southern Cone Common Market (Mercosur) came into being in 1991, Latin American economies were already adopting the same industrialization strategy, but on a regional scale. At a time when the Philippines employed unilateral liberalization in 1980s, Latin America's initiative towards regional economic integration has started. Both the Philippines and Latin American countries realized the mounting pressures confronted by their domestic industries to achieve economies of scale through more efficient production and utilization rates. Both have applied the progressive reduction of tariff, in an effort to gradually release the effective rate of protection accorded to domestic goods and services. In the Philippines, the application of progressive tariff reduction was a policy instrument embodied in the Tariff Reform Program (TRP) of 1981, while Latin America espoused similar principle through intraregional tariff reduction after the signing of Mercosur treaty in 1991. A regional import-substitution was an approach by Latin American economies to prepare themselves for a larger-scale, multilateral trade liberalization.

The tariff reduction programs of the Philippines and Latin America were both carried out in similar phase-in periods, accompanied by elimination of non-tariff barriers. Latin American signatories to the Mercosur, meanwhile, were already implementing a schedule of a common external tariff by end of 1993, a similar arrangement being negotiated as Common Effective Preferential Tariff (CEPT) Scheme of AFTA in the same year.

The similar directions in economic and trade strategies of the Philippines and Latin American countries indicate the stages of economic reform that transpired prior to trade liberalization. The research framework will provide basis of examining the underlying factors leading to these developments, i.e. whether the trade strategies were mere response to the growing multilateral trade arrangements between governments, or were deliberate attempts to enhance and develop trade and foreign direct investments or FDIs in a region or with other trading partners.

The commonalities in strategies and effective time of implementation may be viewed as responsive to the brewing globalization of markets. For Latin American economies, Mercosur was a response to reap the potential net gains in the region along the lines of globalization. Affiliation with Mercosur signals the path of liberalization of countries in the region. In contrast, the regional character of ASEAN Free Trade Agreement (AFTA) served as springboard with which to tackle more "globalized" issues. For example, AFTA was instrumental to China's accession to the WTO. For China, AFTA was a more suitable venue to communicate its foreign

policy interests, which have direct implications on its trading status with the rest of the world.

While it can be said that regional economic cooperation may have been borne out of the emerging globalization at that time, it may also be argued that there arise a need to align itself with more acceptable and up-to-date standards in trade such as what a multilateral framework provides.

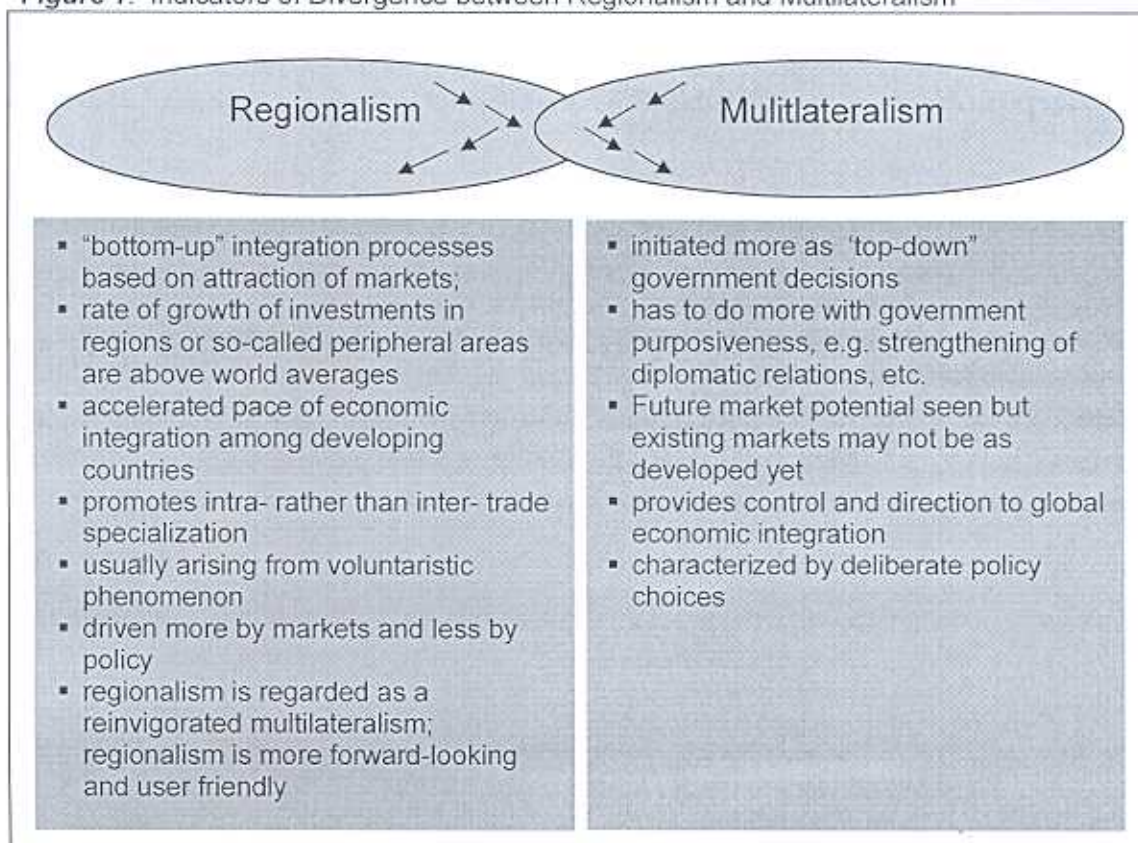
2. Divergence in Multilateralism and Regionalism

As earlier mentioned, the possibility of divergence between multilateral trade arrangements and regionalism may provide explanation to the characteristics of trade of the Philippines with Latin America. Tussie (1998) argues that as more nations are bound in the web of global trade relations, multilateralism seems to slowly lose its primacy. In this literature, a relevant question was posed as to why increasing openness and trade liberalization of developing countries not feeding into the accelerated development of multilateral trade regime. An attempt to respond to this query seeks to search for indicators that would differentiate the two approaches through their likely resultant effects.

Multilateralism espouses the Most-Favored Nation (MFN) principle, which does not allow discrimination between trading partners as far as the application of trade rules and extension of privileges. Regionalist strategies and trade arrangements including bilateral trade arrangements on the other hand, allow preferential trading agreements among participating countries. Both approaches may yield different results. *Figure 1* summarizes the indicators that can characterize both trade approaches, and will serve as framework to assess the effectiveness of bilateral trade and investment agreements, trade promotion strategies, and investment promotion efforts.

As illustrated, regional approaches deal with bottom-up integration of markets, usually initiated by prospects of growth in trade. In contrast, multilateralism is prompted more by government purposiveness through deliberate policy choices and as such, assumes top-down process of integration. Regionalist strategies are also usually accompanied by growth of investments in specific markets while, multilateral arrangements may deal with undeveloped markets yet exhibiting future potentials for growth. Regional cooperation is usually sparked by accelerated pace of economic integration among developing countries. For example, Mercosur intra-trade has grown four-fold since its inception in 1990, making the regional market a major export destination to many of its members. Likewise, the rate of growth of imports into Latin America has been 12 percent every year since 1990s, doubling world averages (Tussie, 1998). Regional strategies also pave the way for intra-trade specialization whereby, complementarities in the composition of traded products and services exist. Regionalism develops out of voluntary motives to engage in preferential trading arrangements, as opposed to multilateral arrangements that seek to provide control and direction to global economic integration. As regionalism is regarded as reinvigorated multilateralism, it is perceived as more forward-looking, user-friendly, and driven less by policy that otherwise characterize multilateral approaches.

Figure 1. Indicators of Divergence between Regionalism and Multilateralism



Along with RTAs, bilateral agreements also adhere to preferential treatment in trade. It seeks to capitalize on the existing and potential trading relationship with another country, taking into consideration their intrinsic comparative advantages. Bilateral agreements were pursued among individual Latin American states as early as 1960, followed by a declaration of free trade areas and common markets in the region. As bilateral agreements are on the rise, efforts for a more standard and global rules are becoming more intense. As a consequence, there was a compelling need for bilateral agreements to be aligned with global standards. Because, bilateral agreements were conceived more as top-down government decisions intended at concentrating the benefits to a given region, preferential treatment in trade inevitably poses distortions relative to the general multilateral rules. On the other hand, some bilateral arrangements may really have developed as a response to the market, in which case it has become an important tool to keep up with the pace of globalization.

If we were to compare the dynamics of trade in Asia Pacific region on one hand, and Latin American common markets on the other, competition between both regions seemingly exists, explaining why intra-regional trade relationships between individual countries from both regions are limited. In the succeeding section, the composition of export and import products in both regions will be determined, to examine further the interplay of the competition, and intended effects of bilateral arrangements, if any exists.

II. Trade and Investment Performance between Philippines and Latin America

A. Philippine-Latin American Trade in Perspective

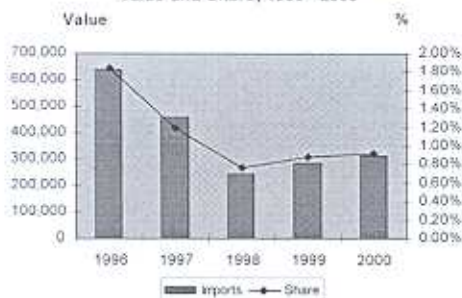
1. Export and Import Performance

The modest trading performance between the Philippines and Latin American countries exhibits great promise. This observation is supported by bilateral trade and investment agreements that have been in effect, with three more still being negotiated. As earlier mentioned, certain products have dominated traditional export and import items, but the respective shares vary across years and countries.

From 1996, Philippine imports from Latin America exceeded exports at a decelerated rate until 1999 (See Figures 2 & 3). The value of Philippine exports was only 20% of total imports from Latin America. Exports to Latin America did not increase much, averaging about 14% annually from 1996-1999. This was caused by the continued decline in exports until 1998.

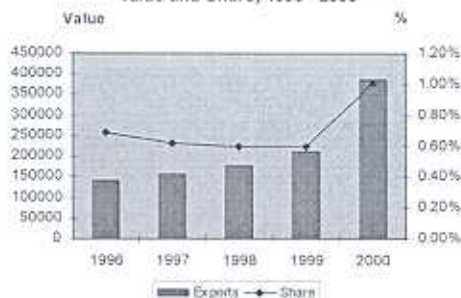
Philippine exports did well when its growth surged to 83% in 2000, compared to the preceding year's performance. At that time, the Philippines registered a surplus in balance of trade with Latin America. Although exports have steadily increased since then, it is perceived that a bigger slice of the market is yet to be tapped. Philippine exports to Latin America have been only less than 1% of its total world exports until 1999. Based on general product categories, it shows that there is a good market for manufactured articles and transport equipment, as these items comprised the bulk 93% of total exports to Latin American countries in 2000 (See Figure 4). These items are among the leading export items including telecommunications parts and equipment and microelectronics. The share of these export items from total exports to Latin America has consistently been substantial from 1996 to 1999.

Fig. 2. Philippine Imports from Latin America: Value and Share, 1996 - 2000



Source: United Nations' Trade Analysis System

Fig. 3. Philippine Exports to Latin America: Value and Share, 1996 - 2000



Source: United Nations' Trade Analysis System

The manufactured articles are comprised mostly of garment items such as shirts, dresses and jackets, and footwear. There has been good demand for knitted wearable items, indicating that items with greater value-added are still able to penetrate Latin American markets amidst the low-priced garment items from China. Miscellaneous manufactured items account for the bulk of Philippine exports to Latin

America in 1996 (56%) to 1997 (52%), but its share of total exports dropped consistently in the following years. A shift to exports of machines and transport equipment was observed from 1998, as it captured a lion's share of total exports in that year. By the year 2000, almost 80% of Philippine exports to Latin America are comprised of these items. Machines and transport equipment vary from data processing parts and equipment, television receiver, telecommunication parts and equipment, electronic microcircuits and motor vehicle parts. The rapid expansion of trade in these products, was brought about by the international production network established by transnational companies (TNCs). Austria (2000) cited that this network involves production sharing in which certain technological production processes are passed on to other countries through some international subcontracting or outsourcing arrangements. This international division of labor has changed the investment strategies of many developed countries, which would translate to the composition of commodity exports in many of the developing countries.

Table 1. Philippine Exports to Latin America, by Product Grouping, 1996-2000
(In US\$'000)

Product Description	1996	1997	1998	1999	2000
Food and Live Animals	2,339	2,069	1,326	637	1,365
Beverages and Tobacco	398	499	1,506	650	792
Crude Materials, Inedible	5,852	8,339	7,356	5,444	5,185
Fuels, Lubricants, etc.	397	671	204	741	513
Animal, Veg.Oils, Fats, Wax	4,870	2,800	12,064	57	1,397
Chemicals, Related Products	968	2,002	1,730	1,212	2,343
Manufactured Goods	4,916	9,086	7,720	8,975	14,537
Machines, Transport Eqpt.	42,106	49,682	85,748	146,644	305,386
Misc.Manufactured Articles	80,062	80,239	60,279	46,612	53,714
Goods Not Classified by Kind	0	1	496	0	24
TOTAL	141,908	155,388	178,429	210,972	385,256

Source: United Nations' Trade Analysis System

Overall, average annual exports grew at a rate of 25% from 1996-2000. The highest recorded growth in the year 2000 when exports of 83% can be traced mainly to the continued growth in the value of machines and transport equipment exports, which doubled in the said year. Exports to most of Latin America experienced the biggest decline in 1998 and 1999, especially during the onset of the Asian Financial crisis. Notwithstanding the crisis, exports of machines and transport equipment gradually increased to its present day level.

It is interesting to note that garments remain to be traditionally exported in Argentina, Brazil, Chile, Panama and Venezuela. Meanwhile, machines and transport equipment are imported mainly by Colombia and Mexico. Peru and El Salvador on the other hand, have comparatively lower imports from the Philippines averaging at less than US\$1.5 million annually. *Figures 4 and 5* reveal how export shares to these markets have not progressed, and remained to be the smallest in Latin America for Philippine exports. Among the Latin American countries, only exports to Mexico consistently grew at an average annual rate of 59%. In the year 2000, annual export value to Mexico surged to 139% from the preceding year's export record. This is attributed to increase in exports of traditional manufactured

items. The Mexican market has become an important trading partner of the Philippines because of the noticeable growth in market share from 25% to 74%, making it the leading Latin American market for Philippine exports. Further research as to the dynamics of such growth would prove to support an effective trade strategy that would help explore other markets in the region. For example, it would be worthwhile to see if the increase in market share was accounted for by direct exports or indirect exports to markets benefiting from NAFTA.

Philippine exports to countries such as Argentina, Chile, Colombia, El Salvador, and Venezuela have not recovered since the plunge during the Asian Financial crisis. Brazil and Argentina are two larger members of the Mercosur, and sufficiently large trading partners in Latin America (Olarrega, 1999). Their combined demand is believed to influence the direction of intra-regional trade, by way of pricing at least in some markets. The market share of the Philippines in Brazil improved unlike with that of Argentina considering that a trade agreement is currently in place. Philippine trade with these two markets along with Mexico must be re-examined, because they are key entry points to the Latin American regional market.

Figure 4. Exports of Philippines to Latin America
Year 1996, Market Share



**Figure 5. Exports of Philippines to Latin America
Year 2000, Market Share**



Meanwhile, imports from Latin American countries decreased from 1996 to 1998, and improved in the following years. Since 1998 however, imports from Latin America have been only less than 1% of total annual import value of the Philippines. The negative balance of trade with Latin America before 2000 can be attributed mainly to the significant amount of imports of the Philippines, accompanied by the rather slow growth in traditional export items. The robust demand for imports coincided at the time when initiatives led to negotiations for trade and investment agreements with the two Latin American countries namely Peru and Colombia.

In contrast to exports, imports from Latin American countries are comprised of inedible crude materials, food items and live animals, machines and transport equipment and until recently, beverages and tobacco (See Table 2). There has been a big shift from traditional import items particularly manufactured materials, which represented almost 30% of total in 1996 to beverages and tobacco, machines and transport equipment in 2000. Among the imported items, only inedible crude materials continue to capture the biggest share averaging about 36% of total over the past five years. Inedible crude materials consist mainly of crude petroleum, gas oils, and other petroleum products. Food items commonly imported are raw sugar beet or cane, oil seed and animal feeds. Other major import items suffered substantial declines in total import share during the initial years. These items include food items and live animals (65%), chemicals and related products (49%), manufactured goods (90%) and miscellaneous manufactured articles (73%), compared to their original product shares in 1996.

Table 2. Philippine Imports from Latin American Countries, by Product Grouping, 1996-2000, (In US\$'000)

Product Description	1996	1997	1998	1999	2000
Food and Live Animals	155,325	161,201	59,469	76,406	54,492
Beverages and Tobacco	18,893	42,663	28,904	18,011	32,196
Crude Materials, Inedible	206,123	135,443	75,747	120,802	152,733
Animal, Veg.Oils, Fats, Wax	333	269	88	593	1,174
Chemicals, Related Products	41,529	23,719	20,894	26,485	20,996
Manufactured Goods	188,045	68,006	33,364	14,154	17,819
Machines, Transport Eqpt.	19,819	18,610	12,079	23,999	29,505
Misc.Manufactured Articles	11,767	10,841	13,471	4,764	3,208
Goods Not Classified by Kind	0	3	103	0	1
TOTAL IMPORTS FROM LA	641,834	460,755	244,119	285,214	312,124

Source: United Nations' Trade Analysis System

The pattern of decline in the share of individual import items from total reflects the overall import picture. Imports from Latin American countries were cut into half from its level in 1996. Imports dropped to an average of 14% annually since 1996. However, beverages and tobacco, animal vegetable oils, fats, wax, machines and transport equipment were emerging import items that managed to have increased shares up to 2000.

Chile and Brazil are the biggest exporters of inedible crude materials to the Philippines. Brazil is a major supplier to the Philippines of other heavily imported items such as manufactured goods, food and live animals while Mexico supplies most of chemical products and other manufactured goods. Both Chile and Brazil have become two major supply sources, with Chile able to capture a bigger share of total Philippine market next to Brazil. Mexico and Peru have increased their shares in the year 2000 compared to what they have achieved in 1996.

Figure 6. Imports of Philippines from Latin America
Year 1996, Market Share



Figure 7. Imports of Philippines from Latin America
Year 2000, Market Share



2. Composition of Leading Traded Commodities

Leading exports of machine and transport equipment are data processing parts and electronic microcircuits, which consistently capture the biggest share of total (See Table 3). This is followed by exports of colored television receivers and telephone line equipment. In recent years, developing countries have been tapped to handle the production of these products, as comparative advantages derived from lower labor cost and transaction costs are maximized. Because of these, transnational companies are able to facilitate international production sharing especially as trade and investment barriers were also gradually reduced.

Miscellaneous manufactured articles are comprised mostly of wearable items or garments. The high value-added garment items like the knitted shirts and babies' clothes account for the major share of total exports of manufactured articles. However, like most exports of garment items to Latin America, their shares have gone down more significantly than others. Export shares of shirt items, trousers and breeches have managed to recover among the leading traditional exports of garments.

Table 3. Leading Export Items to Latin America, 1996-2000 (In US\$'000)

Leading Export Items	1996	1997	1998	1999	2000
Machines & Transport Eqpt.					
Data Processing equipment	6,272	0	0	731	2,987
Data Processing parts	10,595	14,707	8,881	20,597	20,119
Colour television receiver	6,341	5,829	9,748	4,388	8,252
Telephone line equipment	3,958	8,118	7,619	5,218	1,934
Telecommunications parts equipment	540	2,341	5,148	5,438	10,150
Electronic microcircuits	2,907	7,920	25,056	31,076	94,863
Other parts, motor vehicle	5,010	1,343	4,035	5,041	5,183
Misc. Manufactured Articles					
Trousers, breeches, etc.	1,389	2,388	2,349	2,286	1,946
Shirts	3,077	2,357	4,674	2,925	3,876
Dresses	1,920	2,717	1,686	585	1,565
Suits, jackets, trousers, etc.	2,935	4,816	2,784	1,018	889
Shirts, mens boys, knitted	18,463	12,119	4,044	1,886	2,026
Underwear, nightwear etc.	2,681	2,249	1,301	621	341
Babies' garments, clothes	2,543	2,998	2,180	1,885	1,157
Other garments knitted	7,990	7,510	3,990	1,276	673
Sports footwear	3,096	2,070	1,481	831	847

Table 4 shows leading food imports and inedible crude materials. The major imported inedible crude materials are wood, cotton, iron and copper ore concentrates. Both imports of wood and cotton dropped, while iron and copper ore recorded modest growths, and managed to recover from their big shares of total imports of inedible crude materials.

The shares of specific food items from total imports vary greatly on a yearly basis. Following the declining trend in annual imports from Latin America, food imports also suffered from plunging shares, especially preserved bovine meat, maize seed, concentrated milk, sugars and beet. Oil cake, oil seed residue, meat fish for feeds on the other hand, managed to be among the leading import food items from 1996 to 2000. Brazil is the leading exporter of food items. Peru and Argentina were at far second and third, accounting for less than 1 percent of total imports.

Table 4. Leading Import Items to Latin America, 1996-2000 (In US\$'000)

Leading Import Items	1996	1997	1998	1999	2000
Inedible crude materials					
Wood, non-conifer, sawn	20,672	13,067	8,003	4,523	4,485
Cotton, combed	13,369	3,357	7,083	9,093	2,388
Iron ore, concentrates	63,976	35,770	37,603	34,992	63,223
Copper ore, concentrates	95,771	60,523	22,123	57,544	78,235
Food Items					
Bov.meat,prepared,prsrd,nes	2,090	1,305	565	1,063	359
Milk concentratd.,sweetened	1,024	319	49	795	0
Maize seed	20,883	0	0	0	0
Maize, other unmilled	0	78	19,005	9,897	0
Sugars,beet or cane, raw	61,680	12,667	9,483	11,501	0
Oil-cake,oil seed residue	17,048	63,387	10,561	0	11,974
Flr.etc.meat,fish,and feed	46,996	66,068	13,733	29,102	31,432

3. Foreign Direct Investment Flows

In terms of foreign direct equity investments, a breakdown of total registered equity investments at the Board of Investments (*See Table 5*) shows that only Argentina, Brazil and Panama have recorded equity investments for the period under review from 1996-2002. Brazilian and Panamanian investment projects registered with the BOI started only in 2001, with 10.4 million pesos equity investment registered. BOI-registered investments from Latin America were highest in 1999, amounting to 1.9 billion pesos. This was attributed to an Argentinian power project. This represents about 4% of total foreign equity investments registered in that year. Foreign equity investments registered with the BOI, include both cash and non-cash equity portion representing foreign equity share of total investments. These investments cover cost of machinery and equipment and working capital.

Table 5. Foreign Equity Investments of BOI-Registered Projects, (In US\$'000)

Nationality of Investments	1996	1997	1998	1999	2000	2001	2002
Argentina	0	0	0	1,920,000	0	0	0
Brazil	0	0	0	0	0	11	0
Panama	0	0	0	0	0	10,390	0
Total Latin American Equity Investments	0	0	0	1,920,000	0	10,401	0
Total Foreign Equity Investments	165,116,070	334,084,068	342,229,642	48,298,203	27,889,343	66,255,163	58,881,286

Source: Board of Investments

In contrast, records on the Foreign Direct Equity Investments with the Bangko Sentral ng Pilipinas (BSP) show that only Panama have equity investments infused in 1997 and 1998. Of the total US\$884.71 million foreign direct equity investments recorded by BSP in 1998, about 2.7% are Panamanian investments. Minimal equity investments were likewise recorded in prior years: 1996 (US\$0.01 million) and 1997 (US\$0.15 million), and 2000 (US\$0.20 million), 2001 (US\$0.21 million). BSP's foreign direct equity investment data refer to the equity portion channeled through the banking system.

Based on the equity investments registered with BSP, Latin American FDIs are rather low. Among the Latin American FDIs, only Argentina has bilateral investment agreement with the Philippines that is still in effect. Other countries in which Philippines have standing or negotiated bilateral investment agreements include Chile, Peru and Colombia.

B. Assessment of Bilateral Investment and Trade Agreements

The Philippines has existing trade agreements with Chile and Argentina, while draft agreements with Peru and Colombia are awaiting finalization pending the resolution of some issues. The Department of Trade and Industry, through the Bureau of International Trade Relations (BITR) and the Bureau of Export Trade Promotions (BETP) are at the forefront of negotiations for the trade aspect. For investment-related concerns, the Board of Investments (BOI) is tasked to spearhead an inter-agency committee that drafts investment agreements. Both trade and investment agreements are made executory through executive approval. In contrast, existing agreements with Latin American counterparts are duly ratified as treaty, with approval by their respective legislative bodies.

1. Agreement Provisions

The basic direction of trade and investment agreements provides reciprocal treatment in the trading of goods, and protection of investments established in either countries. Investment protection covers both physical and non-physical interests of both countries with respect to their investments made. Physical interests would involve mobility of property, including valued financial assets such as shares, stocks, debentures, and claims for financial return such as access to loans, or legal concessions to cultivate, extract, or exploit natural resources. Non-physical interests consist of copyrights, patents, industrial property rights, technical processes, trademarks, etc.

In terms of effectivity of an agreement, provisions apply to all investments established prior and after its signing. However, in the settlement of disputes and claims, the provisions apply to those that occur after the bilateral agreement has taken effect.

a. Trade Privileges/Most Favored Nation Treatment

Like many bilateral relationships, the agreements espouse reciprocity in extending legal rights and protection to the traded good and investments. In trade, privilege accorded through bilateral agreements may not necessarily be as favorable as the provisions embodied in free trade area, custom union, common market or similar international agreement, including agreements that relate to taxation that were either existing or are about to develop in the future. Article IV of the General Agreement on Trade and Tariff (GATT) allows the formation of regional trading agreements (RTAs), along with the preferential tariff treatment extended on reciprocal basis to member parties. GATT does not impose that this preferential tariff treatment under regional arrangements be aligned or made more favorable under GATT framework.

At present, trade agreements operating between the Philippines and some of the Latin American countries have not been as dynamic. For example, a trade agreement with Argentina was signed in 1984, but the volume of trade with the Philippines has not improved in the past years. Both export and import levels

dropped from 1996-2000. Distance was cited as the underlying reason for the lack of magnitude in trade with Latin America, not to mention the relative effects of regional competition characterized by sub-regional trade privileges and treatment which countries in both regions enjoy. Considering that Argentina is regarded as one of the larger trading partners able to influence the course of trade in Latin America, it would not be surprising to favor inter-regional over intra-regional trade.

Like many of the draft trade agreements, most-favored nation treatment extends to any of the following areas:

- Customs duties and charges
- Customs clearance
- All internal taxes and other internal charges
- Issuances of import and export licenses
- Transfer of foreign exchange payments
- Regulation on the distribution of goods or merchandise

The above areas may be considered not as distinct compared to other trade agreements of the Philippines with any of its trading partners. Minor differences would comprise of the provisions relating to the duration of application of rules in trade, and the effectivity of the agreement itself. In other words, trade agreements are not as programmatic in scope leaving very little expected results.

b. Protection of Investments

In principle, bilateral investment agreements are seen most beneficial between countries where transaction costs are generally higher by virtue of geographical distance, and where existing privileges arising from the existence of common markets or RTAs erode the relative cost competitiveness of products. The privileges borne out of existing regional arrangements may inevitably diminish whatever bilateral provisions with respect to the extending preferences or trade privileges. In such a scenario, foreign direct investment flows would serve to counter these effects and reinforce trading relationship between trading partners. FDIs create opportunities whereby cost of trading is substantially reduced, especially in industries which have distinct market advantage. The profile of past imports as earlier presented, have been directed towards certain products or sectors. These should be the focus of investment promotion efforts of the Philippines. Investments on food processing facilities are worth encouraging allowing food imports of preserved bovine meat, milling of maize seed, feed processing and the like to be more competitive. In this case, a more targeted approach will help develop a more comprehensive and program-based trade and investment agreements.

Bilateral investment agreements provide for the reciprocal promotion and protection of investments, whenever necessary. These agreements also provide for non-commitment towards extending existing trade privileges or treatment accorded through any existing regional trade agreements or declaration of free trade areas. The relevant provision in these agreements states that:

"If a contracting party accords special advantages to investors of any third country by virtue of an agreement establishing a free trade area, a customs union, a common market, an economic union or any other form regional economic organization to which the Contracting Party belongs or through the provisions of an agreement relating wholly or mainly to taxation, it shall not be obliged to accord such advantages to investors of the other Contracting Party"

If we examine the bilateral trade and investment statistics between the Philippines with Argentina (See *Table 6*) after the signing of bilateral agreement in 1999, this was accompanied by a periodic improvement in exports and investments. Following the principle of regionalism, such bilateral relationship can be characterized as a response to global competition because the agreement was spurred by rapid flow of tangible and intangible capital. In 1999, a total of 1.92 billion pesos of equity investments from Argentina was recorded, and a corresponding 216 percent surge in Philippine exports. These exports were mainly miscellaneous manufactured articles, data processing machine parts, communication and transport equipment. While the recorded investments may not correspond to the sector where growth in exports was observed, a potential for regional cooperation is the offing as sectoral composition of traded products expand.

Despite the drop in exports in 1997 and 2000, exports managed to grow at an average of 27.5% over the five-year period. Export decline in the year 2000 was the lowest (-79%) since the agreement was signed. Meanwhile, imports from Argentina continue to slide down, except in 1997 when a record-high of 118% growth was achieved. Because of the diminishing value of imports, an average annual growth of only 3% was attained.

Table 6. Bilateral Trade and Investment Statistics: Philippines to Argentina, 1996-2000

Indicators	1996	1997	1998	1999	2000	Average Growth
Exports (In US\$'000)	12,972	15,201	8,517	26,958	5,638	27.5%
Imports (In US\$'000)	56,609	34,087	38,108	22,499	16,923	3%
Argentinian Investments to Philippines (In P'000)				1,920,000		

Source: United Nations' Trade Analysis System

The mutual trade and investment cooperation between the Philippines and Chile was signed into agreement in 1995. However, unlike Argentina, no equity investments from Chile were recorded since the agreement was signed. Bilateral trade statistics also suggest that exports from the Philippines to the Chile continuously declined from 1995, while imports managed to gradually recover from its 1996 level starting from 1999 when Chilean imports grew by 143%. The modest average annual growth rate of 18% may be attributed to this import record. In this case, bilateral agreement served more as a form of economic diplomacy, as it was not accompanied by flow of FDIs or significant trade improvement. The relationship may be considered a result of deliberate policy choices of both governments, rather than as a direct market response to trade. This provides evidence to earlier theory that bilateral trade agreements generate greater externalities, as they are accompanied by foreign direct investment flows.

Table 6. Bilateral Trade and Investment Statistics: Philippines to Chile, 1996-2000

Indicators	1996	1997	1998	1999	2000	Average Growth
Exports (In US\$'000)	39,419	31,593	26,975	17,899	16,395	(19%)
Imports (In US\$'000)	111,006	72,254	26,215	63,651	82,906	18%
Chilean Investments to Philippines (In P'000)	0	0	0	0	0	0

Source: United Nations' Trade Analysis System

Bilateral trade and investment agreements with Peru and Colombia are still tabled for review, and subject of further negotiations. The draft agreements are similar to Argentina and Chile, and vary only in the following respects:

- Manner of settlement of trade and investment disputes, particularly in the duration within which disputes are to be resolved, and the composition of the tribunal which will conduct arbitration of submitted cases
- Length of time within which the Agreement will be in force
- The right of contracting parties to access judicial authority in order to review amount of compensation and the legality of any expropriation or comparable measures

C. Prospects for Regional Cooperation: Strengthening Trade and Investment Relations

Along with the various forms of regional trading agreements that developed in recent years, brews a competition among countries from within the same region and without. Austria (2000) cited Mexico in NAFTA, the Andean Community, MERCOSUR in Latin America, and the emerging economies in Central and Eastern Europe, among countries with the same export markets and sources of FDIs as the Philippines. The countries belonging to these sub-regional groups are also new sources of comparatively cheap labor. The competitive advantage of these countries in sub-regional groupings is largely determined by the amount of regional trade privileges. As such, RTAs expectedly diminish the effectiveness of bilateral agreements with these countries. Moreover, high transaction costs involved predetermine the landed cost of traded good or product, and therefore their cost competitiveness.

1. Regional Integration

Countries may have to pursue more intensive bilateral cooperation to promote greater trade and FDIs, particularly in products with substantive export share, especially where existing regional integration occurs arising from trading agreements. Table 7 presents bilateral and RTAs operating in East Asian countries with their Latin American counterparts. Among Latin American countries, Chile and Mexico have been most receptive towards opening up trade markets on a bilateral basis. Among countries in East Asia, the more industrialized economies have been most active in pursuing bilateral cooperation. South Korea, Japan and Singapore have initiated the most number of preferential trade arrangements than any of the ASEAN member countries. Considering that these countries spearheading the formation of RTAs are major trading partners to the Philippines, provides signal for Philippines itself to be proactive in similar arrangements with Latin American countries. This will open up opportunities for

increased trade in products with distinct comparative advantage. If these products are marketed as indirect exports of TNCs, investment promotion activities may be linked up with the regional headquarters of these TNCs for more concrete results. Entering into RTAs is seen as part of globalization efforts characterized by voluntarism among participating economies. RTAs are usually borne out of more forward-looking perspective, and an appreciation of how future trade will be directed. Given the landscape of trading between both regions, RTAs may boost the prospects of intra-regional trade, particularly in emerging non-traditional products, and country markets where integration was made more pronounced through the FDI infusion.

Table 7. Negotiated Regional Trading Agreements in East Asia

Partners	Type of Arrangements	Status	Year
South Korea-Chile	Free Trade Area	Under negotiations	1998
Singapore-Mexico	Free Trade Area	Under negotiations	1999
Singapore-Chile	Free Trade Area	Under negotiations	2000
Japan-Chile	Free Trade Area	Official discussion/study	2001
Japan-Mexico	Free Trade Area	Official discussion/study	1998

Source: Austria (2002b)

Evidence of deepening inter-country or intra-regional trade suggests that RTAs or bilateral trading agreements are effective mechanisms contributing to increased trade. A measure of regional integration is presented in the *Table 8* through the intra-industry trade index (IIT). IIT measures the magnitude of trade within a product grouping. An increasing index shows a deepening of integration, as division of labor increases and accompanying transaction costs are reduced. The shift in IIT index with Latin American countries in general shows that Philippine trade gradually slowed down, from highest IIT index in 1990 of 29.7 to its lowest record in 1995 (6.95%) over a ten-year period. However, its recovery towards the end of the decade (16.30%) signals opportunities for improved trade of the country with the region. Prospects for greater integration of the country with individual countries such as Mexico would have been brighter, but this diminished in 1994 at the onset of the North American Free Trade Agreement (NAFTA) that effected significant trade liberalization with the U.S., a major trading partner of the Philippines. Meanwhile, our trade relationship with Chile improved as IIT of 1.38% was first recorded 1995.

Table 8. Intra-industry trade index for manufactures, Philippines with Latin America and Selected Latin American countries, 1990, 1995, 1999

Partner Countries	1990	1995	1999
Latin America	29.7%	6.95%	16.30%
Chile	0%	1.38%	0.40%
Mexico	10.10%	4.16%	1.71%

Source: NAPES database

2. Trade Relationship with ASEAN-5

Despite the existing RTAs in Southeast Asia and Latin American regions, there remains a good trading relationship between ASEAN-5 countries and Latin America. Exports of ASEAN-5 in Latin America reached over US\$5 billion in 2000 registering a 43% growth, the highest record achieved over the five-year period. The production of machines and transport equipment in Asia found its niche in Latin America. These are leading export items of ASEAN region including the Philippines. It would seem that the relocation of production of vehicle parts and high-technology

computer and telecommunication parts in Asian countries enabled their expansion to distant markets. It may be recalled that ASEAN countries like Thailand, Indonesia and the Philippines have become production sites for many manufacturing activities particularly, computer parts and related services such as assembly because of comparatively lower labor cost and overhead operating expenses.

Table 9. Exports of ASEAN-5 to Latin America, 1996-2000 (In US\$'000)

Product Description	1996	1997	1998	1999	2000
Food and Live Animals	86,813	103,209	98,446	90,934	76,605
Beverages and Tobacco	935	3,950	3,727	3,877	1,863
Fuels and Lubricants	12,058	45,489	507,864	565,949	879,961
Crude Materials, Inedible	353,337	331,935	278,374	200,206	202,895
Animal, Veg.Oils, Fats, Wax	89,945	123,115	74,011	62,529	61,093
Chemicals, Related Products	87,069	100,762	139,951	167,415	202,759
Manufactured Goods	239,149	257,962	324,322	344,398	488,083
Machines, Transport Eqpt.	2,128,848	2,480,035	2,224,003	2,144,571	3,370,750
Misc.Manufactured Articles	560,285	523,217	448,194	442,460	518,441
Goods Not Classified by Kind	426,466	628,111	194,449	36,437	9,319
TOTAL EXPORTS TO LA	3,984,905	4,597,785	4,293,341	4,058,776	5,811,769

Source: United Nations' Trade Analysis System

FDIs in these sectors became very potent instruments that enabled countries in ASEAN to compete and integrate themselves to remote markets like Latin America. *Table 10* shows the extent of integration of ASEAN to Latin American markets via the intra-industry trade index¹. Most if not all, of the ASEAN countries have integrated themselves to the Latin American markets given the increasing indices exhibited every five years from 1990-1999.

Among the ASEAN-5, the Philippines and Singapore were almost at the same degree of market integration with Latin American markets in the 1990s. Other countries such as Thailand and Indonesia were just starting to integrate themselves to the market in the same year. Both the Philippines and Singapore suffered a plunge after five years when IIT index fell significantly. Meanwhile the rest of ASEAN continue to post improved indices in the succeeding years. Singapore regained and improved its 1990 level, while the Philippines was able to recover from its 1990 record.

¹Intra-industry index measures the amount of trade within a commodity. The index is calculated for all of a group of commodities (e.g. manufacturing) at the three-digit level, the formula of which is as follows:

$$IIT_i = \frac{(\sum_j (X_{ij}^* + M_{ij}^*) - \sum_i (X_i^* + M_i^*))}{(\sum_j (X_j^* + M_j^*))}$$

Table 10. Intra-industry Index between ASEAN-5 and Latin America, 1990, 1995, 1999

Partner Countries	1990	1995	1999
ASEAN 5 with Latin America	18.8%	16.4%	43.5%
Malaysia	6.2%	10.4%	17.9%
Thailand	3.09%	14.2%	29.7%
Indonesia	4.45%	8.11%	15.2%
Singapore	30.9%	18.4%	45%
Philippines	29.7%	6.95%	16.3%
Latin America to ASEAN 5	12.5%	17.5%	32.3%

Source: NAPES Database

Overall, ASEAN-5 have been benefiting from trade with Latin America. While the IIT index after 1990 dropped, there is no clear evidence that trade has been affected after the Mercosur's existence in 1991. The recovery of IIT indices after 1995 however, indicated an improved trade.

ASEAN-5 imports from Latin America gradually declined from 1997. As of the year 2000, resource-based items lead in total imports these being, food and live animals and inedible crude materials. Machines and transport equipment are also a major import items. The composition of imports shows that the value of leading imports decreased especially in 1998, after the Asian Financial crisis. Imports from Latin American markets have since been recovering. However, Latin America itself has shown its integration with ASEAN-5 markets, as IIT index shows substantial improvement from 12.5% to 32.3%.

Table 11. Imports of ASEAN-5 from Latin America, 1996-2000 (In US\$'000)

Product Description	1996	1997	1998	1999	2000
Food and Live Animals	1,085,001	1,187,752	573,253	857,986	715,573
Beverages and Tobacco	47,264	85,817	60,834	45,431	70,776
Crude Materials, Inedible	787,730	733,483	496,457	577,890	731,938
Fuels and Lubricants	61,794	44,498	17,557	64,345	69,870
Animal, Veg.Oils, Fats, Wax	77,069	101,349	62,274	66,555	43,499
Chemicals, Related Products	244,805	210,935	111,696	124,980	152,536
Manufactured Goods	1,963,447	1,361,658	647,366	579,240	471,092
Machines, Transport Eqpt.	716,189	1,038,968	895,778	895,916	787,229
Misc.Manufactured Articles	149,797	82,366	53,486	61,775	59,862
Goods Not Classified by Kind	17,249	12,300	15,900	59,214	14,057
TOTAL IMPORTS FROM LA	5,150,345	4,859,126	2,934,601	3,333,332	3,116,432

Source: United Nations' Trade Analysis System

3. Product Integration

To examine how market integration can be further improved, an examination of the products with exhibited comparative advantage provides useful insight for ASEAN, in exploring trade opportunities with Latin America. The extent of market integration serves as indication for ASEAN-5 countries where to initiate RTAs or bilateral trade agreements, given the composition of traded goods in Latin American markets.

a. Philippines

With two existing RTAs, the Philippines has integrated itself in the Latin American markets in the past decade, via some traditional product items, and emerging products exhibiting good potentials for growth. Among the traditional items are:

- crude animal/vegetable material
- rubber manufactures
- paper and paperboard manufactures
- metal manufactures
- non-electrical machinery
- miscellaneous manufactured goods

The above products have shown increasing IIT indices over five-year intervals (See *Table 12*). As earlier mentioned, these products are traditional items for export, whose value and shares have grown continuously. Strong market integration for rubber products (both crude and manufactured), non-electrical machinery and miscellaneous manufactured products are noted. Textile yarn fabrics started out with high index but gradually declined after 1995. Nevertheless, because its indices have registered fairly consistent, it is still seen to contribute to overall market integration.

Meanwhile, some potential products include miscellaneous food preparations, petroleum and petroleum products, which exhibited promising demand in recent years.

Table 12. Intra-industry index, by product: Philippines-Latin America
1990, 1995, 1999 (ln %)

Product Grouping	1990	1995	1999
Miscellaneous Food Preparations		13.6	24.7
Crude Synthetic Rubber		53.2	94.1
Crude animal/vegetable material	4.16	15.0	21.4
Petroleum and Products	0	1.39	42.6
Medical Products	2.49	5.24	13.7
Rubber Manufactures	33.0	43.0	66.7
Paper and Paperboard Manufactures	4.28	8.10	12.3
Textile Yarn Fabric	18.5	35.6	27.4
Metal manufactures, nes	1.0	9.39	11.7
Non-electrical Machinery	8.86	37.4	44.9
Miscellaneous Manufactured Goods	8.61	30.1	46.4

Source: NAPES Database

b. Indonesia

Indonesian products have managed to gradually penetrate Latin American markets, as indices in *Table 13* have shown significant improvement from their 1990 levels. This is particularly true for tobacco and manufactures, crude animal/vegetable materials and plastic materials. Chemical element compounds and plastic materials are among the banner products which contribute to Indonesia's overall inter-industry index in 1999. Products able to gain deeper market integration from their low indices are crude synthetic rubber and transport equipment.

Table 13. Intra-industry index, by product: Indonesia-Latin America
1990, 1995, 1999 (ln %)

Product Grouping	1990	1995	1999
Tobacco and Manufactures	0.83	30.0	74.6
Crude Synthetic Rubber	0.31	2.48	3.09
Crude animal/vegetable material	7.71	28.4	41.2
Processed Animal Vegetable Oil	12.3	33.8	31.10
Chemical Element Compounds	6.78	46.10	94.10
Plastic Materials	0.94	67.9	95.6
Transport Equipment	1.58	17.50	22.60

Source: NAPES Database

c. Malaysia

The overall IIT index of 17.9% between Malaysia and Latin America was accounted for largely by traditional export products namely, wood lumber cork and wood cork manufactures. While the indices are not generally as high, the indices for other product groupings generally exhibited fair improvements, explaining the degree of deepening of markets. Aside from the products shown in *Table 14*. Many of the Malaysian manufactured products that posted high IIT indices initially in 1990, have declined in later years, but continue to recover by 1999. These included furniture, footwear, metal manufactures, chemicals, medical products, etc. Products exhibiting big market potential are paper and paperboard manufactures, dyes, tanning and colour products.

Table 14. Intra-industry index, by product: Malaysia-Latin America
1990, 1995, 1999 (ln %)

Product Grouping	1990	1995	1999
Miscellaneous Food Preparations	10.5	31.4	38.9
Beverages	3.09	3.85	6.22
Wood Lumber Cork		31.3	74.8
Fixed Vegetable Oil Fat	1.6	4.18	4.31
Dyes, Tanning Colour Products	4.02	5.43	12.20
Wood Cork Manufactures	6.25	25.70	59.6
Paper and Paperboard	0.92	3.26	27.6
Manufactures			
Iron Steel	0.07	0.96	2.75

d. Thailand

A diversity of products from Thailand contributed to the overall IIT index of 29.7% and explained the gradual but marked market integration. Among the ASEAN-5 in 1990, Thailand had the lowest IIT index, but its big leap after five years enabled it to establish a good trading relationship with the rest of Latin America, next to Singapore.

Chemicals, non-electrical machinery, colour products and perfume comprise products with high IIT indices. The composition of products with improved indices ranged from manufactured products to resource-based materials, and industrial manufactures. For example, iron steel and non-ferrous metals have contributed significantly to overall trade deepening recently, compared to their initial years' indices.

Table 15. Intra-industry index, by product: Thailand-Latin America
1990, 1995, 1999 (ln %)

Product Grouping	1990	1995	1999
Fruits and Vegetables	0.37	6.38	7.43
Textile Fibres		0.62	4.92
Crude Animal/Vegetable Materials	4.62	4.88	29.5
Dyes, Tan, Colour Products		10.9	52.2
Perfume Cleaning	6.3	12.8	48.9
Chemicals, nes	3.72	52.9	92.5
Textile Yarn Fabric	3.55	6.79	9.52
Iron Steel	0.46	1.57	3.35
Non-Ferrous Metals		0.14	18.26
Non-electrical Machinery	13.5	64.8	69.9
Plumbing Heat Light Equipment		9.15	14.2
Footwear		0.52	5.46

e. Singapore

Among ASEAN-5, Singapore has shown highest integration with Latin American markets. Food, manufactured articles and industrial goods have posted high indices particularly after 1995. Like many of the ASEAN-5, Singapore products initially yielded low indices, indicating their limited penetration of the Latin American markets, but many of these products managed to post significant shares over the ten-year period (See Table 16). These products include food preparations (cereals), iron steel, dyes, and perfume cleaning.

Table 16. Intra-industry index, by product: Singapore-Latin America
1990, 1995, 1999 (In %)

Product Grouping	1990	1995	1999
Fish and Preparations	0.29	0.87	1.85
Cereals and Preparations	2.03	24.5	75.4
Fruits and Vegetables	11.0	23.1	59.4
Hides, Skins, Furs	5.41	38.2	60.7
Crude Animal/Vegetable Materials	70.3	95.8	98.3
Chemical Elements Compds	12.5	44.7	68.2
Dyes, Tan, Colour Products	4.18	46.4	82.0
Perfume Cleaning	5.31	44.4	69.2
Non-metallic Mineral	37.5	25.8	80.4
Iron Steel	0.82	2.04	46.5
Furniture	68.8	75.5	94.8
Footwear	40.7	95.7	68.9

Many products not included in *Table 16* posted high indices in 1999 but suffered in 1995, or have insignificant indices in 1990. These products (coffee, tea, cocoa, fertilizers, chemicals, metal manufactures, travel goods, and non-electrical machinery) nevertheless, contributed to market integration of Singapore with Latin America in recent years.

III. Channels of Trade Cooperation and Prospects

The existing channels by which trade interests are communicated appear crucial in developing trade cooperation. Philippine bilateral trade with Latin American countries rests heavily on how these leads are responded to by most appropriate institutions and organized and private industry groups. This section explores the manner in which trade interests are addressed, and bilateral trade relationships may be consolidated.

A. Institutional Linkages and Promotion Strategies in Strengthening Bilateral Trade

1. Role of Institutions

Trade interests in the form of intent to offer products and services to and from Latin American countries are communicated through various channels. The channels available are government trade and diplomatic agencies, or through the industry sector concerned. The private industry sector has organized business councils, which fall under the supervision of the Philippine Chamber of Commerce and Industry or PCCI.

The Foreign Trade Service Corps and Diplomatic Corps. The Foreign Trade Service Corps (FTSC) organized under the Department of Trade and Industry (DTI) provide posts for Commercial Trade officers in major trading partner countries. However, there have been no such posts in any of the Latin American countries. FTSCs are tasked to attend to all trade-related matters, ranging from negotiations on trade-related disputes to trade and investment promotion assignments. The lack of FTSCs in Latin American countries compels Philippine embassies and consulate to assume these trade-related functions. The added responsibility and limited personnel was made pronounced with the lack of human development training and information and promotional materials necessary in trade and investment promotion and marketing. This growing need prompted both the DTI and the Department of Foreign Affairs to strengthen Economic Diplomacy, and supporting DFA's move to equip its personnel in foreign posts to enhance their trade and marketing capabilities. In the case of Latin America, trade programs are coordinated only through the DFA route. Whenever trade-related requests

such as organizing buying or selling missions are required, these are endorsed to the DTI, who then coordinates with the private sector, usually through the PCCI business councils or known industry association.

Foreign Embassies. Another route of trade inquiries and requests is through the Latin American embassies in the Philippines. The more proactive embassies take the lead in dealing with the DTI or private trade organizations for more concrete programs. However, not all Latin American embassies actively involve in trade or marketing programs, much less on pursuing economic diplomacy with the Philippines, since the primary tasks of these embassies are diplomatic in nature.

Private Business Councils. The business councils organized under the Philippine Chamber of Commerce and Industry also receive trade interests, that are usually sector-specific or more product-focused. PCCI members comprising the councils are usually the same companies that respond to expression of trade interests, and often assisted by the appropriate agency of the DTI.

Government Trade and Investment Country Desks. Country-specific or region specific desks are also conduits of trade requests and inquiries. Latin American countries are considered emerging markets covered under the Americas desk of the Bureau of Export Trade Promotion or BETP. Investment missions, both in-bound and out-bound, are received and conducted by the respective country/regional desks at the Board of Investments. The extent of trade and investment promotion is subject to overall agency's budgetary priorities. Thus, the magnitude and extent of continuity of any promotional efforts are contingent on the availability of resources and consequently, program priorities.

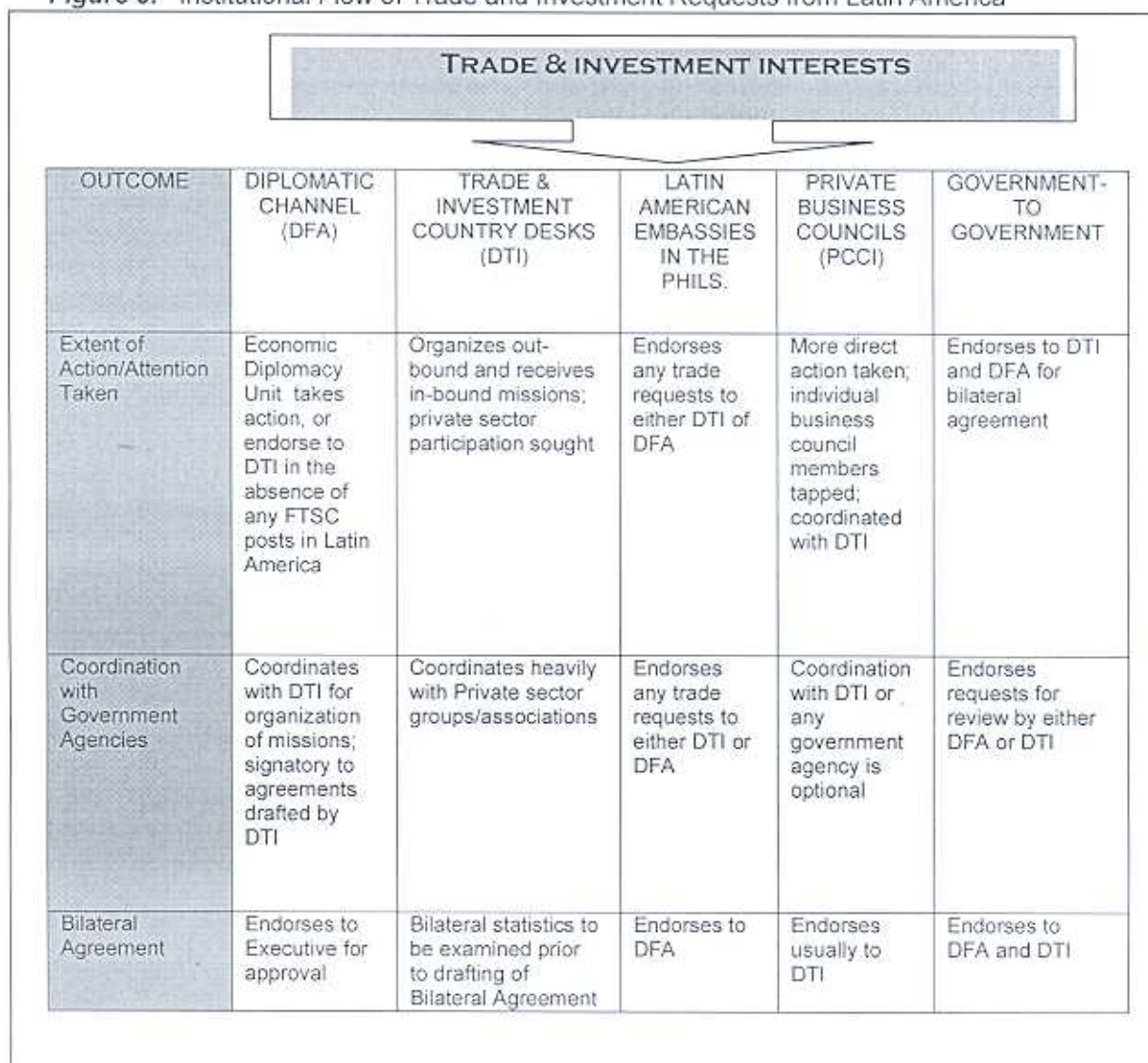
Figure 8 illustrates the route of trade interests, and the manner by which they are addressed. Clearly from this illustration, efforts are fragmented and require more consolidation. The arrangements or the process of attending to trade interests require more institutionalized follow-through process. Alongside, agency coordination would require more periodic and regular documentation of developments such as, pursuing concrete trade leads and company interests. As illustrated, trade interests may be channeled to several organizations, depending on the type of action required. For example, in-bound and out-bound investment missions are undertaken by the BOI, while buying and selling missions are taken care of by BETP.

After a pursuing a trade lead, no institutionalized follow-through process on developments is in place. The lack of FTSCs in Latin American countries delimits the initiative to pursue activities in these emerging markets, and increases the need to equip the diplomatic personnel of DFA on attending to economic diplomacy tasks. Other channels such as private sector business councils deal with trade and investment interests more directly, usually on one-on-one or company-to-company basis. Member-companies in these councils usually attend to trade opportunities directly. Coordination with government agencies such as DTI may be sought, but not always.

As trade and investment interests are realized on both sides, bilateral agreement is being explored. Trade interests are usually translated through cooperative arrangements communicated through the diplomatic channels, or at the top-level, usually involving executive branches of both governments. Initially, markets are analyzed through an examination of the bilateral statistics, after which a draft agreement is prepared. Both trade and investment agreements of the Philippines with Latin America are executive agreements signed by the DFA with concurrence from the executive branch. On the other end, most of the agreements entered into by Latin American counterparts were ratified by their respective legislative bodies. This prolongs

the negotiation process. The agreements borne more out of our diplomatic relations are likely to be more proforma and not program-oriented.

Figure 8. Institutional Flow of Trade and Investment Requests from Latin America



2. Maximizing Trade Opportunities through Effective Follow-Through

There have been limited trade interests by local businesses on the Latin American markets. Many exporters find that other traditional markets are more interested to tap the huge traditional markets than to explore emerging ones like Latin America. Distance from Latin American markets and the comparatively low level of demand discourages many local businesses and prompts them to concentrate instead on the North Americas and Canada. The relative ease of dealing with these traditional markets, and the potential for growth are sufficient reasons to attract trade. Nevertheless, the emerging markets in Latin America having demonstrated extensive trade with ASEAN-5 are worth exploring. This could be the same reason why some Latin American markets, namely Chile, Argentina, Mexico, and Peru have been active

pursing bilateral trade with Asia. Trade and investment interests from these markets are part of their liberalization efforts. As these expressions of trade interests come in, a follow-through process would be essential to maximize trade opportunities, and renew local business interests. The follow-through process would depend heavily on documentation of trade leads and developments. Institutional developments such as the creation of Philippine Academic Consortium for Latin American Studies (PACLAS) would contribute towards engaging into more comparative trade studies on specific commodities in emerging markets. The substantive inputs may help develop a more comprehensive strategy for an intra-regional cooperation. Likewise, these will enable diplomatic posts in Latin America to be abreast of economic issues and trade strategies most suitable to the market.

Since trade interests are channeled through various channels, a more thorough system of follow-through needs to be institutionalized so as to consolidate efforts to further cooperative arrangements. The diplomatic personnel based in Latin America, being the sole linkage to these markets, need to be at the forefront of all activities, and thus, most qualified to engage in follow-through process.

3. Economic Diplomacy

Economic diplomacy needs to be strengthened in Latin American markets, because this is very crucial to the development of trade opportunities and trade leads from source. Based on IMF projections, East Asia and Latin America are two of the fastest growing areas in the coming decades. Asia alone is expected to contribute one-half of the growth in world trade from year 2000.

In the absence of any Foreign Trade Service posts in this region, the generation and sustainability of any trade and investment interests will largely depend on Philippine diplomatic personnel in Latin American countries. There are several issues that require attention such as enhancing the human development skills of field personnel in the aspect of attending to trade-related inquiries. Knowledge in trade and investment policies, regulations, priorities, trade marketing are among the critical areas that need to be strengthened. Regional market profiles of DTI should be disseminated periodically through the International Economic Relations unit of the DFA, to develop an appreciation of market contribution of emerging Latin American economies to the Philippines.

The dynamism of other Asian countries such as Singapore and Japan in strengthening bilateral trade with potential partners in Latin America offers a model for a more intensive economic diplomacy by the Philippines in the immediate term.

B. Revisiting Trade and Investment Promotion Strategies for Emerging Markets

1. Policy Instruments

a. Competition and Investment Policies

It was mentioned earlier that effective regional trading arrangements and bilateral agreements that respond to the globalization of markets are accompanied by the increased investments. Investment policies and trade regulations are crucial to the attraction of Latin American FDIs in the ASEAN region and vice-versa. Many trade-related regulations in ASEAN have been in place to liberalize the investment environment, but it is believed that these hardly address the concerns of investors. While many of these regulations have centered on trade, a comparative survey of

trade and investment laws suggests, that there lacks a comprehensive investment scheme that accompanies deregulation, privatization and competition laws (Thanadsillapakul, 2003) in many of the ASEAN countries.

Meanwhile, forces of political economy have largely influenced much of Latin American programs for market liberalization. This means that opening up of markets are still influenced by the need to protect domestic industries, either through the existence of anti-competitive laws or application of fiscal instruments such as tariff. Even countries involved in inter-regional trade such as Brazil expressed concern over some imbalance in the treatment of traded goods within the Mercosur region. These conditions to a greater extent, may be considered deterrents to the attraction of foreign investments to Latin America.

The ingredients necessary for investment generation therefore, may be viewed as lacking in flavor for both regional markets. The presence of transnational corporations to which much of ASEAN exports are attributed to, bring about efficient allocation of production resources, and desired economies of scale enough to overcome considerations on high transaction costs, and relative distance of Latin American markets. And if similar goods are imported by Latin American markets from ASEAN, the latter may have to cushion the impact of future *terms-of-trade effect* such as continued effective rate of protection for these goods. *Terms-of-trade effect* refers to the use of policy instruments such as tariff to favor importing country in relation to its demand of goods and price. Existing bilateral trade and investment relations between ASEAN countries and Latin America must therefore be intensified, through more concrete and market driven agreements.

b. Tariffs and Trade Regime

Having examined the composition of trade between the Philippines and Latin American countries and the characteristics of trade and investment agreements that have developed, it would be useful to examine how these complement to the trade conditions and environment within the Latin American common market. In other words, the market developments in Latin American region after the birth of Mercosur in December 1994 would explain the distinct features of intra-regional trade, and the bottlenecks in trading experienced. Thus, strategies need to be re-examined, enabling it to be more product-focused, and directed towards exploring the scheme of marketing and distribution.

Several literature attempted to measure the effects of regionalism under a multilateral system. In a World Bank study (2002), Mercosur's Common External Tariff (CET) was utilized as a measure to derive the determinants through the existing tariff structures. In international trade, there are two distinct approaches that would explain the existence of tariff. First, is the *terms-of-trade approach* which advocates that tariff reduces the international demand for an imported good causing international prices for that good to decline, thereby improving the terms of trade of the importing country (Corden, 1974). The second approach is the *endogenous tariff formation* theory which provides political economy arguments, and views tariffs as means of redistributing income among sectoral lobbyists or groups. Given these two approaches, the World Bank study attempted to identify and measure the predominant determinants to regionalism, i.e. whether regional integration in Mercosur led to *terms-of-trade* effects, or whether forces of political economy are

behind the tariff effects. This will help examine the environment of the region for foreign trade.

The two approaches yielded different conclusions using the case of Mercosur's CET. Krugman (1991) and Bond and Syropoulos (1996) suggest that tariffs on the rest-of-the world imports should increase after the formation of a regional block. This is related to the internalization of *terms-of-trade* effects in the Common External Tariff. Also using the same approach, importation of similar goods by members of Mercosur will inevitably lead to higher tariffs, as market power intensifies because of demand. Conversely, the second approach argues that the formation of Custom's union in a common market would cause a decline in the tariffs with respect to the rest-of-the world due to the diminishing effectiveness of lobbyists in a much larger scale.

The extent of tariff is the most measurable instrument that would characterize the trading environment in Latin American common market. The effects of tariff structures fully explain the trade preferences within a regional group. Empirical findings suggest that *terms-of-trade* would account for explained cross-commodity tariff variation ranging from a low 6 to a high 27 percent in Latin American region. Thus, comparatively high tariff may considerably explain the declining demand for traditional exported products from the Philippines. This finding is confirmed by the large deviations in tariff observed for one of the leading Philippine export to Latin America, i.e., transport equipment. Likewise, following the *terms-of-trade* approach, importation of similar goods by countries in the common market would naturally cause an upward movement in tariff leading to declining international demand and diminishing prices. This supports earlier analysis of overall declining trend in imports of the Philippines from Latin America, notwithstanding the rate of increased importation in few and selected emerging items.

IV. Findings and Conclusions

The bilateral trade and investment relationship between the Philippines and Latin America may be further strengthened amidst the growing regionalism and globalization of markets. The present magnitude of trade and extent of economic integration between Latin America and ASEAN-5 provide the basis for exploring prospects of trade cooperation between two sub-regional groupings. This is an indication that engaging in cooperative agreements between both sub-regional groupings will have greater market power than any of its members. Such derivative of regional trading arrangement may be complex, and require in-depth study of both regions' trading environment, and consensus-building among the countries that comprise each. The active role of East Asian countries and Singapore, being major trading partners of the Philippines in pursuing bilateral trade agreements, provides signal for Philippines itself to be proactive in tapping opportunities in Latin American countries.

First, a more comprehensive, well-coordinated and targeted framework of trade and investment promotion strategy needs to be developed. In so doing, the following characteristics of trade must be considered as given:

- Traded products by the Philippines are mostly comprised of indirect exports, accounted for by produce of most transnational companies with established operations in the Philippines. Since a substantive portion of exports is comprised of produce by TNCs, investment promotion programs may include participation

of TNCs, which may offer resources and market information for desired planning. This strategy was proven as an effective investment promotion activity adopted by other Asian countries such as India in the promotion of trade and investment in the field of information technology;

- Analysis of trade route in major Latin American destinations for Philippine exports would be essential in developing a more strategic program of trade promotion. This will apply to Mexico, which is a major market for Philippine exports. Since most of the exports to Mexico may be indirectly routed through the U.S. and ease of entry may have been possible with NAFTA, a more thorough examination of trade route and distribution may merit attention;
- Argentina and Brazil are considered two very dynamic markets in Latin America. The combined demand of Argentina and Brazil is said to be sufficient to cause a terms-of-trade effect for the leading Philippine exports. Based on trade data, prospects may be strong on food items for Argentina. At present, the great bulk of Argentinian investments in the Philippines has centered on the power sector. Philippine trade agreement with Argentina must be more renewed to make it more programmatic. Trade with Brazil is currently limited, but its use as a gateway to Latin American markets is worth exploring.
- Investment promotion efforts may also be directed on food processing sector as food imports of preserved bovine meat, milling of maize seed, feed processing and the like continue to be more encouraging. In this case, a more targeted approach will help develop a more comprehensive and program-based trade and investment agreements. High transaction costs are usually hurdled through FDI generation. Existing and prospective investment agreements should capitalize on these targeted import items.

Second, trade and investment agreements need to be more programmatic and market-driven. It maybe useful to examine the composition of products integrated in Latin American markets. These are comprised of traditional items namely, crude animal/vegetable material, rubber manufactures, paper and paperboard manufactures, metal manufactures, non-electrical machinery, and miscellaneous manufactured goods. The market for a few emerging products like miscellaneous food preparations, petroleum and petroleum products can also be considered. An examination of tariff deviations on these items in specific Latin American markets will determine the sustained demand for these products in the near term.

Also a critical research is to see how existing RTAs, and the corresponding regional privileges would erode existing bilateral trade treatment with Latin American countries. In determining the countries to which bilateral cooperation must be pursued, the extent of economic integration given the trend of intra-industry index may be utilized.

Third, an institutionalized follow-through process may address the rather fragmented approach of dealing with trade interests and responding to trade opportunities. The solutions must be more strategic, and not merely institutionally-driven. This will require consolidation of agency efforts towards the creation of more comprehensive trade and investment strategies in exploring emerging markets in Latin America. It will also require documentation of trade leads, capacity-building for diplomatic posts, and availability of trade and investment collaterals and information materials. The International Economic Affairs Unit tasked to undertake economic diplomacy within the DFA is critical to the human resource development of personnel in foreign posts, considering that there are no FTSC posts in any of the Latin American countries. Trade opportunities through buying and selling missions must be

carefully tracked to realize possible trade leads. Likewise, the effect of other regional markets such as NAFTA may have created en route trading leading to Philippines' share of the Mexican market. The pattern of this effect may be a useful consideration for a potential ASEAN-5/Mercosur trade and investment cooperation.

There are definite prospects for heightened trade between ASEAN-5 and Latin American region, as exhibited by the improved inter-industry indices between countries of both regions. However, such heightened trade will be hinged on the complementarities in trade environments, and the harmonization of fiscal tools in the form of more concrete competition policies, incentives, and appropriate tariff levels. The forces of political economy in both regions would have dominant influences on the trade environment, and should be the subject of even more intensified regional trade negotiations.

The trade promotion strategies of the Philippines have focused on traditional markets such as North America rather than on emerging markets in the south. This is due to the more than adequate size of the market for exports in North America. Also, experience and familiarity in traditional markets enable them to deal comfortably with existing importers, not to mention the comparatively lower transactions costs involved. A strategy of supplying major vendors in traditional markets that supply to Latin America remains untested. This strategy aims to initialize the supply of the Philippine exports in an indirect manner. However, these proposals need to deal with current budgetary constraints, explaining why it has been continually set aside in the prioritization of government's marketing efforts. . If this strategy gains ground, trade interest will be explored in the market destination through the intermediate market sources. The state of Florida in the U.S. is considered a trading post to the Latin American markets. Supplying to U.S. vendors selling to Latin America, and identifying specific commodities may be initiated to test entry of Philippine products. The availability of FTSCs in these intermediate markets may be mobilized to maximize resources.

ANNEX 1

**Philippine Exports and Imports to and from Latin American Countries, 1996-2000
(In US\$'000), and Percentage Share**

	1996	1997	1998	1999	2000
Exports to LA (a)	141,908 (0.69%)	155,388 (0.62%)	178,429 (0.60%)	210,972 (0.60%)	385,256 (1.01%)
<i>Export to World</i>	20,542,483	25,227,704	29,496,345	35,036,887	38,078,248
Imports from LA (b)	641,834 (1.85%)	460,755 (1.19%)	244,119 (0.77%)	285,214 (0.88%)	312,124 (0.92%)
<i>Import to World</i>	34,701,197	38,580,934	31,529,886	32,568,145	33,807,415
Balance of Trade (a) – (b)	(499,926)	(305,367)	(65,690)	(74,242)	73,132

Percentages in Parentheses () refer to % Share to World Amount

Source: United Nations' Trade Analysis System

ANNEX 2

Exports of Philippines to Individual Latin American Countries Value in US\$'000 Years 1996 & 2000

EXPORT		
	1996	2000
Argentina	12,972	5,638
Brazil	13,443	46,051
Chile	39,419	16,395
Colombia	4,403	1,099
El Salvador	76	41
Mexico	35,985	284,571
Panama	31,677	27,124
Peru	1,427	792
Venezuela	2,506	3,545

IMPORT		
	1996	2000
Argentina	56,609	16,923
Brazil	338,576	124,542
Chile	111,006	82,906
Colombia	1,232	3,538
El Salvador	0	0
Mexico	93,535	42,061
Panama	524	2,185
Peru	39,867	36,714
Venezuela	485	3,255

Source: United Nations' Trade Analysis System

REFERENCES

- ASEAN (1992). ASEAN Economic Cooperation for the 1990s. Report Prepared for the ASEAN Standing Committee. Philippine Institute for Development Studies (PIDS) and ASEAN Secretariat, Philippines
- Austria, Myrna (2002). The Philippines in Global Trading Environment: Looking Back and the Road Ahead. Discussion Paper Series No. 20002-15. Philippine Institute for Development Studies
- Austria, Myrna. The Emerging Philippine Investment Environment. Philippine Institute for Development Studies
- Coleman, William and Underhill, Geoffrey, ed. (1998) "Regionalism and Global Economic Integration: Europe, Asia and the Americas. Routledge: USA
- Cronin, Richard (1992) Japan, the United States and Prospects for the Asia-Pacific Century: Three Scenarios in the Future. St. Martin's Press
- de Leon, Abigail D. (2002) "China's Participation in APEC: From a Foreign Policy Perspective, A Case Study on China-U.S. Bilateral Relations" in Selected Studies on APEC-Related Issues, Philippine APEC Study Center Network
- Imada, P., Montes and S. Naya (1991). "A Free Trade Area: Implications for ASEAN". Paper presented at the Joint IPS-ISEAS ASEAN Roundtable: ASEAN Economic Cooperation in the 1990s. Singapore, June 27-28
- International Monetary Fund (1994). International Trade Policies: The Uruguay Round and Beyond. Volume II. Background Papers. IMF Publication Services: Washington D.C., USA
- Job, Brian L. (1996) in "The Evolving Security order of the North Pacific subregion: Alternative Models and Prospects for Subregionalism" in The Emerging Regional Security Architecture in the Asia-Pacific Region Thangam Ramnath (ed.) ISIS, Malaysia
- Krugman, Paul R. (1990). "Is Free Trade Passe?" in International Economics and International Economic Policy: A Reader, Philip King (ed.) McGraw Hill Publishing Co., Singapore
- Lindert, Peter H. (1991) International Economics (9th edition) R.R. Donnelley & Sons Company, USA
- Olarrega M. et al (1999). "What's Behind Mercosur's Common External Tariff"
- Pangestu, M., H. Soesastro, and M.Ahmad (1991). "Intra-ASEAS Economic Cooperation: Is there A New Perspective?" Paper prepared for the Workshop on ASEAN and the Pacific Research Project, ISEAS, Singapore, June 25-26
- Mercado, Ruben (1997) ASEAN Free Trade Area (AFTA); Prospects and Challenges, Paper submitted to the Graduate School of Policy Science

National Economic Development Authority (1994) "Looking Beyond the Northern Borders", A Concept Paper

Thanadsillapakul, Lawan (2003). "Competition Laws and Economic Integration in ASEAN" in Thailand Law Forum