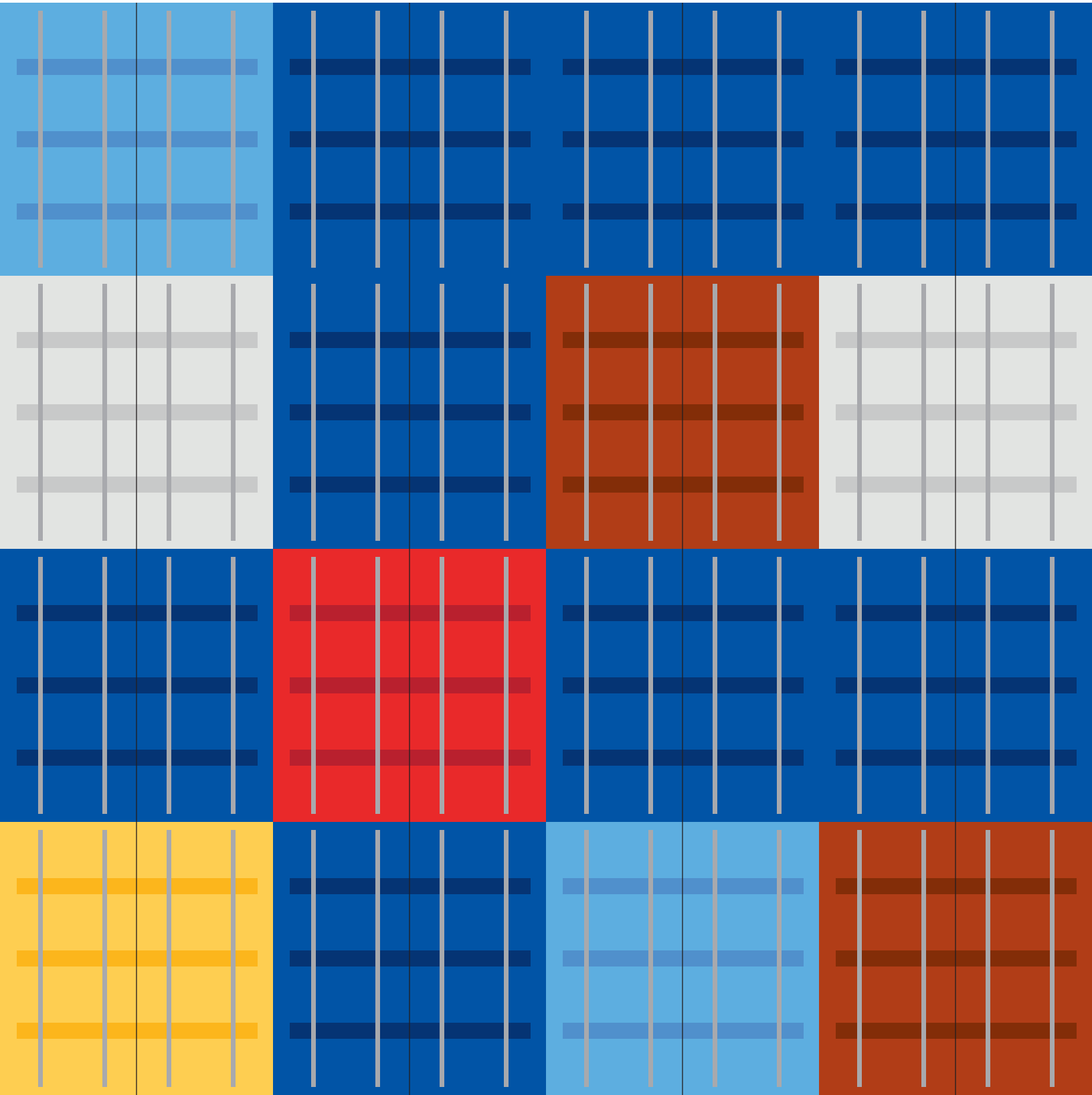




JAPAN AND THE WESTERN HEMISPHERE

Joint Cooperation to Develop Post Pandemic Supply Chains
for Recovery and Mutual Benefit



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The coronavirus pandemic upended the global economy at the beginning of 2020, changing the lives of billions of people around the world. Virtually overnight, the pandemic disrupted the movement of goods and presented numerous other economic complications. Supply chains built over many years to lower costs by prioritizing efficiencies were suddenly exposed as fragile and susceptible to extreme disruption.

As the pandemic subsides and economies begin to recover, supply chain resiliency not just efficiency must be at the forefront for both the public and private sectors. This will ensure that, when the next pandemic inevitably strikes or the next mega ship blocks the Suez Canal, the global economy has already developed work-arounds to keep trade flowing unimpeded.

For its part, Latin America and the Caribbean (LAC) have traditionally underperformed in global trade and investment flows, despite an immense potential upside. Even before the pandemic, economies and quality of life for the majority of citizens suffered due to outdated trade policies and a lack of digital and technology investment and cooperation. Uneven pandemic mitigation policies and slow vaccine procurement and deployment have now exacerbated the situation and delayed the region's ability to strategize and act proactively to ensure that it emerges from the pandemic in a strengthened rather than weakened position. Indeed, the World Bank estimates that regional per capita GDP will not return to 2019 levels *until 2025*. And 2019 levels were no great regional achievement.

This is simply not good enough. Each year, LAC nations fall further and further behind developed nations as well as their emerging market peers. In order to break out of this long-run, deeply worrisome trend, regional leaders must find new ways to insert their respective nations into the global economy.

At the same time, there is a significant, perhaps historic, opportunity for regional public and private sectors to work in tandem to capture shifting global supply chains. That is, if LAC nations recognize the opportunity and proactively attempt to seize it. Working to get back to pre-pandemic levels cannot be the goal. Working to advance rapidly beyond previous levels must be.

By definition, the region will need partners in addition to the United States to realize this vision. With the third-largest economy in the world, its extensive global presence, and its deep U.S. connections, Japan is well placed to serve as a bridge between Asia and the Americas, helping to find actionable solutions to supply chain enhancement across the LAC region that serve all regions and ensures that benefits

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from nearshoring create new value chains in the Americas that serve to strengthen domestic economies. This will necessarily involve broader political and economic cooperation between Japan, LAC, and the United States.

With this in mind, the Americas Society/Council of the Americas is taking a leading role investigating options and opportunities for Japan—LAC cooperation. As the premier regional policy and business organization, the Americas Society/Council of the Americas seeks to integrate LAC more thoroughly into the global economy in a manner consistent with the open market, democratic values we share. Important post-pandemic options exist for LAC, and pursuit of common goals with Japan, the United States, and other global democracies will provide the best path for long-run, sustainable, equitable growth and development.

Particularly exciting sectors for investigation include specific measures to increase and improve trade relationships based on shared values; deepening digital and technological cooperation to empower digital transformation in the Americas; and the agriculture, automobile, clean energy, and health sectors. Improving economic cooperation between Japan and LAC on these issues is central to enhancing supply chains within the region, with the United States, and across the Pacific Ocean.

THE BIGGER PICTURE

World gross product fell by an estimated 4.3 percent in 2020, the sharpest contraction of output since the Great Depression, according to the United Nations.¹ LAC have been hit especially hard by the COVID-19 crisis, exacerbating existing inequalities.

Beyond deaths, the full human toll of the pandemic might never be known, and the crisis has erased economic progress that took decades for many countries to achieve. Real GDP is estimated to have declined by 8 percent in 2020 as prolonged national lockdowns, weaker merchandise exports and a collapse in tourism undermined economic activity.² Global trade, already trending downward, plunged in 2020.

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The negative effects of the pandemic were relatively greater in developed countries, where demand shrank by 14.7 percent year-on-year in the first half of 2020, while developing economies experienced a drop of 12.2 percent year-on-year according to

1 United Nations, World Economic Situation and Prospects 2021, 4. World Economic Situation and Prospects

2 Ibid; 116.

the Inter-American Development Bank.³ The global shock hit Latin American exports hard in the first half of the year, as they dropped 16.1 percent year-on-year.⁴ Export oriented companies, including Japanese automotive manufacturing operations, were affected in countries such as Mexico where exports account for much of production.

BUILDING BACK BETTER

For an internationally-oriented nation such as Japan, with longstanding, pre-existing economic relationships across LAC, post-pandemic opportunities to expand engagement and cooperation are profound. Japan has the capital, technology, and necessary experience to deploy to a region in need of all of these, and more. At the same time, the region offers significant opportunities for collaboration to develop and produce new products, expand markets, and contribute to domestic economic recovery by strengthening Japan's global economic position.

In short, coming out of the pandemic, Japan may have nothing less than an opportunity to reset relations with the Americas, moving from its current patchwork of political and trade arrangements with countries in the region to a consolidated policy framework that positions Japan as a linchpin for redefining supply chains between Asia, LAC, and the United States. To be effective, such a policy framework should include greater engagement with the region in at least three broad areas: trade and investment policy, digital transformation, and sector specific engagement.

DEEPEN RELATIONSHIPS WITH COUNTRIES IN THE REGION BUILT AROUND TRADE AND INVESTMENT, REGIONAL AND GLOBAL INTEGRATION, AND DEMOCRATIC GOVERNANCE

Working from a broader framework than trade and investment will allow Japan to take full advantage of shared values with the Americas. Democratic principles, a commitment to fighting corruption, and a regulatory state that promotes and facilitates private sector-led growth are just some of the values that Japan shares with the region that should underlie Japan's outreach to and engagement with the region. The

“Japan is Brazil's 6th largest trading partner, far behind China and even much smaller economies.”

3 Inter-American Development Bank, The Covid-19 Shock, 2020, 1. Trade and Integration Monitor

4 Ibid; 1.

relationship with Brazil is a prime example of how such a strategy can pay dividends. Japan is Brazil's 6th largest trading partner, far behind China and even much smaller economies; there is ample room for expanded economic partnership. Japan is already engaged in the Japan-U.S.-Brazil exchange (JUSBE), a results-oriented partnership to strengthen policy coordination on regional issues, pursue shared economic prosperity, and fortify democratic governance. By developing similar agreements in the region, Japan, LAC, and the United States can build upon a pre-existing, successful model to address challenges to regional integration.

Japan can build on this regional-level partnership by working more closely with like-minded LAC nations in global forums such as the World Trade Organization. An obvious policy move would be to support membership in the Organization for Economic Cooperation and Development (OECD) by relevant LAC candidates. Also, Japan can begin to think more creatively about trade and investment links with LAC. For now, only Chile, Mexico, and Peru are members of APEC and CPTPP, the latter in particular offering an opportunity to build out the Pacific area in a more strategic and inclusive manner.

This is particularly true now that the United States has indefinitely absented itself from CPTPP. For example, there is no particular reason why Colombia should be excluded from CPTPP, or Ecuador, Costa Rica, Panama, and other Pacific coastal states. Nor is there any compelling reason at this point why only Pacific-touching states should be included in CPTPP. The United Kingdom seeks membership. Why not Brazil? Or Uruguay and Paraguay? Or Jamaica? The point is to begin to think in new ways about bringing LAC more fully into global supply chains, with Japan as a key beneficiary.

Rhetorical framing is also critical. Speaking about the Asia-Pacific region, or even the Indo-Pacific, does a disservice to the broader agenda. That's why there is growing recognition of the need to speak of the Indo-Pac-LAC economic zone which would, more than anything else, integrate a regional perspective into the broader agenda, and cause policy-makers on all sides of the Pacific Ocean to begin to consider LAC in a more strategic manner.

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Of course, such reframing need not be limited to the economic and trade sphere. Indeed, the Quad (Australia, India, Japan, United States) should consult regularly with both Canada and Chile, at a minimum, hemispheric nations already playing

an active role in pan-Pacific security and defense matters. Over the longer term, a Quad+ scenario could be considered, adding these two nations and possible others from LAC.

DEEPEN DIGITAL AND TECHNOLOGICAL COOPERATION

The pandemic laid bare severe digital shortcomings in the region as it exposed preexisting inequalities in digital access to medical services, education, government, and financial services. Only 66% of Latin Americans are regular internet users, and only about 37% of firms in Latin America use the internet in their supply chains.⁵

Less than 20% of Latin American businesses had deployed any type of digital sales channel to take advantage of e-commerce prior to the pandemic.⁶ Simply put, these deficiencies dramatically reduce regional competitiveness.

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The evolution of digital ecosystems is critical to addressing challenges of poverty, improving standards of living, and fulfilling the ideal of shared values of democracy and free and open society. Access to what are effectively critical public goods and services in the modern era is essential for all residents of the Americas. Technology and digital innovation will not only empower the region’s most marginalized residents to engage in the democratic process, but to participate in and access the world economy. At the same time, as more data is shared globally, privacy and security are becoming more important for governments and citizens, as well as for businesses that depend on secure supply chains to move products to markets across the Americas and the world.

Despite nascent achievements, more needs to be done as part of the post-pandemic recovery to improve digital and technology cooperation between Japan, LAC, and the United States. Areas ripe for additional collaboration include data governance and privacy; cybersecurity; 5G and other advanced technology related to supply chains; collaboration among U.S., Japanese and LAC policymakers in regional and global multilateral telecoms institutions; digital tax policy; and digital trade.

5 “Building Post Covid Supply Chains: Japan and the Americas,” the Information Technology Industry Council, Rob Strayer, Executive Vice President for Policy.

6 Ibid.

The Japanese government is a leader in thoughtful policymaking in these areas. During its leadership of the G20 in 2019, Japan introduced the “Data Free Flows with Trust” concept, recognizing both that data flows across borders are essential to the digital economy and that such flows will only be permitted if people, companies and governments can trust that they will be handled well. Similarly, Japan has been a leader in implementing APEC’s Cross-Border Privacy Rules (CBPRs) system.

In the OECD, Japan has been an active voice in favor of multilateral solutions to taxation of digital business, with the goal of avoiding unilateral taxes that could inhibit innovation and competition. On digital trade, the Japan-U.S. agreement signed in late 2019 set a standard for open bilateral e-commerce, while in the World Trade Organization, Japan is working to shape an e-commerce agreement that will provide companies of all sizes the opportunity to benefit from digital trade. In each of these cases, LAC can work together with Japan to create systems that promote a secure, trusted and private sector-led digital economy at a global level.

In the same vein, Japanese companies have a long track record as innovative and trusted partners in developing digital infrastructure. For example, Japanese and Brazilian companies are already working together to develop cutting edge information technology in areas such as agriculture, public infrastructure and healthcare.

Similarly, the Japanese private sector is helping to build the next generation of open 5G architecture and using digital technology to develop data-driven, resilient supply chain systems. Japan’s agreement with Chile to lay a trans-Pacific fiber-optic cable will rely on Japanese companies as trusted partners in installing the hardware foundation underlying the digital connections. The expertise of these companies offers a new opportunity for LAC and the private sector, especially small and medium sized and women-owned companies, to take advantage of the global digital transformation.

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As the world becomes even more digitally integrated, policies to support digital and innovative technology will be essential to spur economic growth. Japan and the Americas should seize the post-pandemic moment to align these policies, creating opportunities for deeper integration and cooperation that promote regional connectivity and digital economies. Working together, Japan, LAC, and partners with similar democratic values will be able to put best digital practices in place, enabling economic growth through new avenues such as e-commerce.

ENHANCED SECTOR-SPECIFIC ENGAGEMENT FOR SUPPLY CHAIN DEVELOPMENT

The region's response to the pandemic has ranged widely, from national lockdowns to government apathy. There have been over 600,000 deaths from COVID-19, including more than 300,000 in Brazil alone at the end of March 2021, according to Americas Society/Council of the Americas' Online COVID-19 tracking website.⁷ With new variants threatening progress in the region, a cooperative approach is required for vaccine procurement and distribution in the near term.

More to the point, the pandemic has once again exposed the massive inadequacies and inequalities of regional health systems. As LAC emerges from the pandemic, publics will begin to demand better healthcare services, creating opportunities for international partners. Joint research and development to reduce the impact of non-communicable and tropical diseases, development and access to vaccines, and a wider availability of cost-effective medical products and procedures, to name just a few, should be high on the list.

With an aging population, there will also be important opportunities for the development of medical centers and nursing homes. The list is virtually endless, made even more attractive to the extent the digital revolution fully takes hold in nations across the region, enabling the sort of broad-based advances in medical systems that Japan, the United States, and others take for granted. The opportunities for advances and commercialization of new products, for example in bio health, are significant.

As well, Japan is well-positioned to develop further its agriculture and aquaculture cooperation with the region. Beyond trade, which is already robust, joint research and development and the application of advanced technological methods for LAC agriculture and aquaculture production would be transformative.

Despite their own pre-existing global competitiveness, nations such as Argentina, Brazil, and Uruguay and countries on the Pacific coast including Colombia, Ecuador, Peru, and Chile would all benefit from a more intentional program of cooperation in agriculture and aquaculture consistent with the commercial and development needs of both LAC and Japan. This is particularly true given pending shifts in global agriculture and aquaculture production as a result of conditions brought on by global climate change.

7 Americas Society/Council of the Americas' Covid Tracking website 2021. <https://www.as-coa.org/articles/coronavirus-latin-america#mortality>

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At the same time, the new prominence of the global climate change policy agenda will create significant opportunities to develop new global supply chains that fully incorporate LAC. The need to de-carbonize future economic activity means that battery technology development will become even more necessary. With world-class lithium deposits, South America in particular will figure even more prominently. Why not, then, see a

nation such as Chile as an equal partner in the development of battery and clean energy technology, taking full advantage of mineral deposits and also solar, hydro, wave, and wind energy technology development, as well as Chile’s business-friendly policies and attitudes?

Rather than viewing lithium solely as an export commodity, there is ample opportunity to invest in joint value-added research and development within the region itself. Partnering on battery research with, say, Mexico, in addition to Chile, another APEC and CPTPP partner with a pre-existing bilateral free trade agreement with Japan, could make both commercial and strategic sense as a broader platform to develop clean energy supply chains in the automobile production and transportation sector for the North American and LAC markets.

Other possibilities abound. The key is to envision what can be done together with LAC, particularly on the joint research and development and co-production fronts, and then to fit this vision within the existing realities that both Japan and LAC face, both in terms of opportunities and also challenges.

LAC MUST ALSO DO ITS PART

The possibilities for expanded Japan-LAC engagement go well beyond the areas covered here. But they won’t be realized without a two-way effort. The reality remains that much of LAC is a difficult place to do business. Supply chains develop where business is most easily, transparently conducted. Even geographic proximity, freer trade agreements, language and cultural affinity, or other factors generally cannot outweigh the chilling impact on investment of fraught business conditions.

As a result, perhaps the greatest contribution that Japan can make in terms of fully inserting LAC into global supply chains would be to launch and sustain a conversation about the desires and needs of the international investment community. In other words, the Japanese government and business can also be more explicit,

along with other partners, about what reforms the region should consider undertaking to create the conditions that will draw the investment necessary to build supply chains for mutual benefit. For too many LAC nations, the idea remains that international investors should invest based on social needs or development desires. But that's not how investment decisions are made. Bringing greater clarity to these conversations, based on a pragmatic understanding of investor needs, would have a tremendously positive impact.

CONCLUSION

Regional challenges underscore the need to consider supply chains within a broader policy framework, as well as the importance of coordinating this framework with the private sector to achieve beneficial results. Improving trade and investment relationships based on shared values, deepening digital and technological cooperation, and prioritizing sectors where sustainable gains can be achieved by all parties, can potentially pay rich dividends. As well, working with host nations to improve their respective business climates would be a tremendously valuable contribution to regional development. Such efforts, if pursued intentionally, would promise tangible enhancements to economic cooperation between Japan and LAC, and partners like the United States. Americas Society/Council of the Americas believes that this is a goal worth pursuing.

Americas Society is the premier forum dedicated to education, debate, and dialogue in the Americas. Its mission is to foster an understanding of the contemporary political, social, and economic issues confronting Latin America, the Caribbean, and Canada, and to increase public awareness and appreciation of the diverse cultural heritage of the Americas and the importance of the inter-American relationship.

Council of the Americas is the premier international business organization whose members share a common commitment to economic and social development, open markets, the rule of law, and democracy throughout the Western Hemisphere. The Council's membership consists of leading international companies representing a broad spectrum of sectors, including banking and finance, consulting services, consumer products, energy and mining, manufacturing, media, technology, and transportation.



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