Building on Fifty Years of Japan–IDB Partnership

Unlocking Complementarities for Economic Growth

IDB

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Foreword

This report marks the fiftieth year of Japan's membership in the Inter-American Development Bank (IDB). Japan joined the IDB in 1976 as its first non-regional member, and today it holds a 5% share of the IDB's capital, making it the Bank's largest individual non-regional shareholder.

Over five decades the partnership has developed into a broader network of institutional collaboration involving the IDB Group, the Japan International Cooperation Agency, the Japan Bank for International Cooperation, and other Japanese institutions. The anniversary is not only an occasion to recognize what this partnership has achieved but to identify where it can go next and, more generally, to assess how the Japan-LAC economic relationship has evolved and where the opportunities for deeper integration lie.

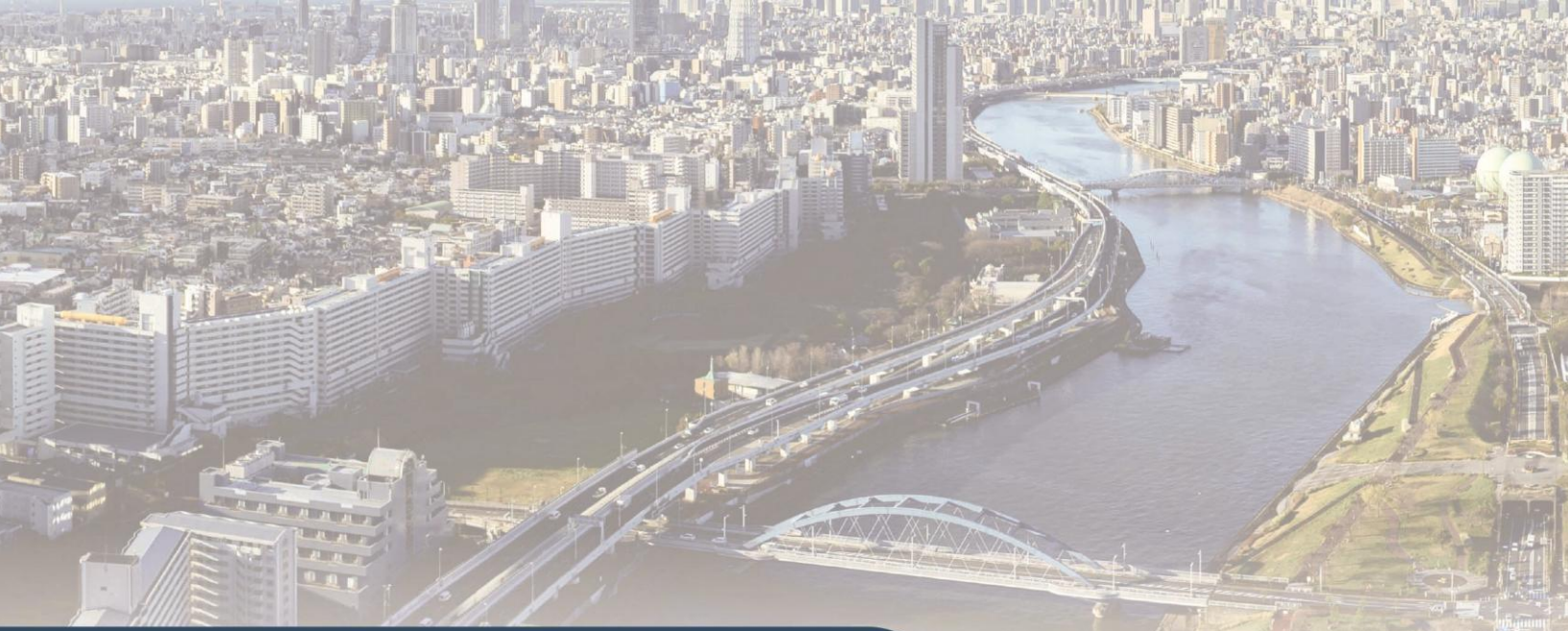
The evidence assembled in this report supports one central finding: over the past half century, the economies of Japan and Latin America and the Caribbean (LAC) have grown increasingly complementary. Yet bilateral trade costs continue to keep much of that complementarity from being realized. Reducing these costs could open substantial opportunities to expand trade and investment, deepen economic ties across a broad range of countries in the region, and foster economic growth.

Development cooperation is another important dimension of this relationship, and the IDB Group has been one of the channels through which it has grown. The Cooperation for Economic Recovery and Social Inclusion framework, established in 2011 and broadened in 2021, reached US$4 billion in cofinancing and co-investment resources in 2024, one example of the scale and long-term nature of Japan's partnership with the region.

We hope this report will contribute to the discussions at the Japan-LAC Business Forum 2026 and provide useful evidence for governments, businesses and institutions seeking to strengthen economic ties between Japan and the region.

Fabrizio Opertti

Manager, Productivity, Trade, and Innovation Sector



Contents

Acronyms

AAAA	Addis Ababa Action Agenda
ADB	Asian Development Bank
AEO	Authorized Economic Operator
AI	Artificial intelligence
BaTIS	Balanced Trade in Services
BEC	Broad Economic Categories
BNDES	Banco Nacional de Desenvolvimento Econômico e Social
CARICOM	Caribbean Community
CIF	Cost, insurance, and freight
CIVs	Collective investment vehicles
CNI	Confederação Nacional da Indústria
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CRS	Creditor Reporting System
D&B	Dun & Bradstreet
DAC	Development Assistance Committee
DESTA	Design of Trade Agreements
ECLAC	Economic Commission for Latin America and the Caribbean
ETSW	Electronic trade single window

FDI	Foreign direct investment
FSSC	Food Safety System Certification
GDP	Gross domestic product
GLI	Grubel-Lloyd Index
GVC	Global value chain
ICTD	International Centre for Tax and Development
IDB	Inter-American Development Bank
IEA	International Energy Agency
ISO	International Organization for Standardization
ITIC	International Transport and Insurance Costs of Merchandise Trade
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JNTO	Japan National Tourism Organization
LAC	Latin America and the Caribbean
MRA	Mutual recognition arrangement
MREID	Multinational Revenue, Employment, and Investment Database
NTM	Non-tariff measure
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PGLI	Potential Grubel-Lloyd Index
PTCI	Potential Trade Complementarity Index
R&D	Research and development
RSPO	Roundtable on Sustainable Palm Oil
SIDS	Small Island Developing States
SITC	Standard International Trade Classification
SPS	Sanitary and phytosanitary
STRI	Services Trade Restrictions Index
TADAC	Trust Fund Achieving Development of Latin America and the Caribbean
TBT	Technical barriers to trade
TCI	Trade Complementarity Index
TOSSD	Total Official Support for Sustainable Development
TRAINS	Trade Analysis Information System

TSUBASA	Transformational Start Ups' Business Acceleration for the Sustainable Development Goals Agenda
UNCTAD	United Nations Conference on Trade and Development
UNWTO	World Tourism Organization
USITC	U.S. International Trade Commission
USMCA	United States-Mexico-Canada Agreement
WITS	World Integrated Trade Solution
WTO	World Trade Organization

Executive Summary

- **This report marks the fiftieth year of Japan's membership in the Inter-American Development Bank (IDB). Japan joined the IDB in 1976 as its first non-regional member, and today it is the largest individual non-regional shareholder.** The evidence assembled in this report supports one central finding: the production structures of Japan and Latin America and the Caribbean (LAC) have become increasingly complementary over the past half century and reducing policy-related trade costs between them should be a central component of an agenda oriented to help materialize the still unrealized trade potential between Japan and LAC and more generally strengthen their economic ties.

- **Japan and LAC have developed increasingly complementary economic structures over the past half century.** Japan's growth has been driven primarily by capital accumulation, productivity gains, and technological upgrading, while LAC has relied more heavily on labor, with considerable scope for further gains in these other dimensions. In terms of production structure, manufacturing was equivalent to 18.8% of gross domestic product (GDP) in Japan in 2024 and to 11.8% in LAC, while agriculture, forestry, and fishing represented 7% of output in the region and less than 1% in Japan. The region holds a substantial endowment of the critical minerals on which the energy transition depends. Japan's capabilities lie in other segments of value chains such as the production of high-quality inputs, and in technology more broadly, sustained by research and development spending of around 3% of GDP, compared with 0.6% in LAC.

- **Trade has expanded substantially over five decades and has proved resilient through commodity cycles, financial crises, and the pandemic.** LAC goods exports to Japan rose from about US$2.4 billion in 1976 to US$32.6 billion in 2025, and Japanese goods exports to the region rose from US$4.5 billion to US$31.7 billion over the same period. Services trade has expanded

since comparable bilateral data became available in 1995, reaching US$5.9 billion from the region and US$6.3 billion from Japan in 2024. Within trade in services, digitally deliverable categories rose from about 22% of Japan's services exports to the region in 1995 to nearly 48% in 2024.

- **Investment expresses a further dimension of the complementarity, with Japan being a major source of outward investment and the region an important destination for foreign capital.** Japanese investment in the region is well established, with a stock of US$34.3 billion in 2024 and flows above US$4 billion in most years since 2018. Today 524 Japanese parent firms operate 2,196 affiliates there, which corresponds to 4.9% of Japan's multinationals. In the context of production networks, Japan is a net supplier of the intermediate inputs that deeper LAC value-chain insertion would require. Notably, bilateral value-chain trade in medium- and high-technology manufacturing is intensive relative to what each economy records with the rest of the world.

- **Trade cost reductions have deepened the Japan-LAC economic relationship and remain a key margin on which bilateral policy can act.** Falling bilateral trade costs are the largest contributor to the growth of Japan's goods exports to the region, across a broad range of sectors (including food products, crude materials, chemicals, machinery and transport equipment, and mineral fuels), as well as for Japan's services exports in most sectors and LAC knowledge-intensive business services exports to Japan. They have also played a relevant role in shaping the region's goods exports to Japan, particularly of crude materials, beverages and tobacco, and machinery and transport equipment. These costs comprise a full set of policy-related frictions that make it slower and more expensive to do business across borders. They arise when moving goods through ports and airports; paying tariffs; completing administrative border procedures and clearing merchandise at customs; searching for and assessing the reliability of commercial partners; meeting regulatory and standards requirements; investing to establish and operate firms abroad; and complying with foreign tax rules. Their magnitude depends on the quality of infrastructure, the design of regulations and procedures, and the institutional arrangements and policies in place.

- **International transport costs are primarily shaped by the quality of port and airport infrastructure and the competition among carriers on each route. Direct air and maritime transportation services are mainly limited to the Pacific coast.** Empirical evidence for the region suggests that transportation costs have a significant effect on the level and patterns of trade. These costs have remained broadly unchanged for three decades between LAC and Japan, averaging 7.8% of the value of imports on the flow toward Japan in 1995 and 7.7% in 2024, against 6.7% and 6.5% on the flow from Japan, but have declined with other partners. Direct connectivity is concentrated on the Pacific coast: only one country in the region has a scheduled nonstop passenger flight to Japan, whereas direct container liner calls from Japan reach seven LAC countries. Cargo bound for the Atlantic coast, in turn, is relayed through Asian transshipment hubs.

- **Tariffs, non-tariff measures, and the regulation of services, which act on different margins of a firm's decision, are among the main determinants of market access. While Japan and LAC tariffs are nowadays comparatively low, there is room for further improvements in the latter two**

areas. Applied tariffs are lower today than three decades ago and remain below 4% on bilateral trade in both directions, with high rates concentrated in a small number of sections. In addition to tariffs that are applied upon good crossing borders, firms can face compliance costs before their first shipments. This is the case when product regulations and standards differ across countries. Such a regulatory distance matters for trade: estimates for the region indicate that an increase in this distance reduces the probability that a product enters a market, with the strongest effect in agriculture. Services regulations are another important market access determinant, both for services and goods, as the former are essential inputs into the latter's production and exports. In this area, measured restrictions in Japan and in the region sit close to the world average, but with wide dispersion across individual economies that reflects national policy choices. Because most of these measures apply to imports from all origins, the instruments available are technical, and they include regulatory dialogue, transparency, improved administration, and, where appropriate, mutual recognition or equivalence.

- **The design and means available to complete trade procedures determine the time and cost of completing a cross-border transaction. Both Japan and the region have advanced in trade facilitation and thus in lowering administrative border costs, but scope remains to make progress at the bilateral level.** Overall implementation of the trade facilitation measures tracked by the UN Global Survey on Digital and Sustainable Trade Facilitation reaches 73.3% in the region and 94.6% in Japan in 2025. The latter exceeds the average of 86.7% for advanced economies and reflects full implementation of key provisions such as those on transparency, formalities, and paperless trade. In particular, Japan has a comprehensive, fully operative electronic trade single window (ETSW), while, despite progress, adoption of such a system is not complete across all countries in the region. Empirical evidence for the region reveals that such arrangements can make a difference for trade: the implementation of ETSWs has been found to be associated with a significant increase in exports and even more so when partner countries also have an ETSW in place. The same applies to Authorized Economic Operator (AEO) programs: studies indicate that they favor firms' exports, especially when these are certified in both origin and destination countries, which is precisely what mutual recognition agreements (MRAs) of such programs allow for. AEO programs are well established in LAC and Japan. In LAC, 13 customs administrations operate them, and mutual recognition already extends beyond the region: 27 concluded arrangements link an economy of the region to at least one partner outside it. Japan, for its part, has concluded 13 MRAs worldwide. Yet, none of these are between LAC and Japan customs administrations.

- **Despite technological progress and institutional initiatives and policies to address them, information frictions still affect firms looking for cross-border trade and investment opportunities.** According to the literature, search costs in international trade can exceed US$50,000 for a non-exporting firm seeking to secure one potential client per year. Studies for the region consistently indicate that support from trade and investment promotion agencies, whose services precisely aim at addressing these information frictions, and diplomatic missions help increase and diversify both trade and FDI. Currently, 20 of the region's 26 economies

maintain resident embassies in Tokyo, but only three operate dedicated trade and investment promotion offices. Japan, in turn, maintains resident embassies in 23 LAC countries and trade and investment promotion offices in seven.

- **Unlike the policy instruments discussed so far, trade, investment, and tax agreements are inherently bilateral or plurilateral: they require reciprocal commitments with partner countries and act on distinct costs at different stages of firms' internationalization decisions.** Existing empirical evidence highlights that entry into force of a regional trade agreement (RTA), a bilateral investment treaty (BIT), a double taxation treaty (DTT) is associated with the establishment of new multinational firms' foreign affiliates in partner countries. This is even more pronounced when the three agreements are combined. A new empirical analysis produced for this report finds that, in the case of DTTs, this association is considerably stronger in the region, with the effect being strongest in services. Coverage in terms of these agreements remains uneven, though: 18 of the 26 IDB borrowing member countries have no bilateral RTAs, BITs, or DTTs in force with Japan, which defines the margin over which the institutional relationship can widen.

- **Development cooperation is a further dimension of the relationship between Japan and the region, supporting shared development objectives and generating mutual benefits.** The IDB Group has been one of the channels through which Japanese cooperation reaches the region, and the mechanisms built around it have widened over the last five decades. Several initiatives illustrate how this partnership has evolved and become more diversified over time. For instance, the Cooperation for Economic Recovery and Social Inclusion (CORE) framework, established in 2011 and expanded in 2021, was further strengthened in 2024 when the framework's total funding envelope amounted to US$4 billion and extended its implementation period through 2028, reinforcing CORE as a key mechanism for Japan's development cooperation with LAC. Beyond the initiatives implemented through the IDB Group, Japan maintains a significant development cooperation portfolio across the region. Between 2020 and 2024, Japan provided nearly US$3.58 billion in cross-border development finance to IDB borrowing member countries through 10,945 activities, an increase of approximately 120% over the period, ranking fourth among bilateral providers with 9% of bilateral flows to the region. Loans accounted for approximately US$2.72 billion, or 76% of the total, and grants for around US$803 million, or 22%, while the remaining 2% was attributed to other instruments. Financing was concentrated in economic sectors, specifically transport and storage, at US$1.17 billion, and energy, at US$442 million. Social sectors received around US$843 million across more than half of all recorded activities. Flows reached more than 20 countries, but the ten largest recipients accounted for close to 87% of the total support provided. Japan is also mobilizing private capital for development in LAC through public interventions, increasing available resources to support development in the region.

- **The potential of the relationship exceeds what has been realized to date.** LAC and Japan are more complementary today than when Japan joined the IDB in 1976, and their ties span more sectors and more instruments than at any earlier point, yet part of that complementarity remains latent. The agenda ahead follows from this gap.

- **The policy agenda begins with the institutional ecosystem for trade and investment that shapes the environment in which firms operate. While specific priorities differ by countries given their heterogeneous starting points, this includes the network of agreements** and especially double taxation treaties, which are likely to impact multinational activity, and trade facilitation arrangements that have the potential to foster trade**.** The moment is favorable: Japan and Mercosur launched negotiations for an economic partnership agreement in June 2026, which would extend agreement coverage to the Atlantic-facing economies for the first time.

- **The evidence presented in this report indicates that the agenda should also include specific policy actions to reduce trade costs across their different sources.** A first set concerns the conditions under which goods move: port and airport capacity, the number of transportation service providers, and even the domestic corridors that connect production sites to points of exit. Greater transparency and consistency in the application of non-tariff measures and regulatory frameworks that facilitate services trade would lower the costs firms face when entering the markets. Cross-border procedures, in turn, can be made faster, more predictable, and less costly through cooperation among the agencies that administer them. Relevant instruments include customs mutual assistance agreements, which Japan currently has with Bolivia, Brazil, Mexico, and Uruguay; MRAs of AEO programs, of which Japan has none in the region; and joint digital trade facilitation initiatives, such as interoperability between electronic trade single windows (ETSWs) and customs systems. In the same vein, technical dialogue on sanitary, phytosanitary, and other regulatory requirements, administered by health, agricultural, and standards authorities alongside customs, could help address the compliance costs that weigh most heavily on agri-food trade. Finally, information frictions can be reduced by strengthening trade and investment promotion agencies and the economic sections of diplomatic missions. Online business platforms, particularly when enhanced with artificial intelligence, offer a complementary channel.

- **Development cooperation provides a further set of instruments.** Japan and LAC have an opportunity to deepen their cooperation, with the IDB Group serving as a key platform to scale impact. Japan and IDB Group's borrowing member countries can use the IDB Group as a regional platform to identify country priorities, build project pipelines, and connect the region with Japanese financing and expertise through cofinancing arrangements, trust funds, and joint initiatives. They can expand the use of development finance to mobilize private investment, complementing traditional loans and grants with financial approaches that allow public resources to catalyze larger volumes of investment for development. Cooperation could be more beneficial through alignment with areas where Japanese strengths and regional priorities converge, including energy transition, critical minerals, resilient infrastructure, supply chain diversification, digital transformation, innovation ecosystems, and disaster resilience. It can also combine finance with technical expertise, policy dialogue, institutional capacity building, and private-sector participation, building on the dedicated facilities and initiatives that operate through the IDB Group.

- **Effectively moving forward requires acting on the elements of the agenda in combination**, because no single instrument reaches all the costs that separate actual from potential trade and investment, and the growth opportunities that follow from them. The IDB Group has connected the two sides for 50 years, and the mechanisms to support action on each of these fronts are already in place.

Introduction

Japan became the first non-regional member of the Inter-American Development Bank (IDB) in 1976, and this report marks the fiftieth year of that membership. Japan today holds a 5% share in the IDB and is its largest individual non-regional shareholder, and its engagement extends beyond that shareholding to the wider IDB Group and its mandates. Over five decades the partnership has developed into a broader network of institutional collaboration involving the IDB Group, the Japan International Cooperation Agency, the Japan Bank for International Cooperation, and other Japanese institutions. The anniversary is an opportunity to review the evolution of the bilateral relationship and to identify areas with scope for deeper economic integration.

The economic relationship between Japan and LAC spans trade in goods and services and investment, along with the presence of Japanese firms in the region. LAC goods exports to Japan rose from about US$2.4 billion in 1976 to US$32.6 billion in 2025, and Japanese goods exports to the region followed a similar path from US$4.5 billion to US$31.7 billion over the same period. Services trade has expanded since comparable bilateral data became available in 1995, reaching US$5.9 billion from the region and US$6.3 billion from Japan in 2024, and digitally deliverable categories rose from about 22% of Japan's services exports to the region in 1995 to nearly 48% in 2024.[1] Japanese direct investment stock in the region reached US$34.3 billion in 2024, and 524 Japanese parent firms manage 2,196 affiliates there, 4.9% of Japan's multinationals.

[1] Services trade values are drawn from the OECD–WTO Balanced Trade in Services (BaTIS) database, which estimates bilateral services flows by reconciling official national statistics and other available information to produce a globally consistent bilateral dataset.

The complementarity between the two economies rests on resource endowments that differ in kind and on industrial capabilities that differ in specialization, stage of production, and technology. Manufacturing was equivalent to 18.8% of gross domestic product (GDP) in Japan in 2024 and to 11.8% in LAC, while agriculture, forestry, and fishing represented 7% of output in the region and less than 1% in Japan. The region also holds a substantial endowment of the critical minerals needed for the energy transition, which gives LAC a role in the resilience and diversification of global supply chains. Japan, on the other hand, has developed advanced processing and manufacturing capabilities, along with the technologies needed to produce high-quality inputs.

Japan's capabilities lie in the generation of technology and the supply of intermediate inputs, and they are available to the region through trade, investment, and collaborative innovation. Japan sustains a research and development effort that has averaged 3% of GDP since 1996, compared with around 0.6% in LAC. That capability already reaches the region commercially: knowledge flows related to intellectual property are the largest category of Japan's services exports to LAC, at US$1.7 billion in 2024. Moreover, in production networks, Japan is a net supplier of intermediate inputs, with forward participation in global value chains of 29% against backward participation of 18%. Japan can therefore contribute both the technologies and the inputs that deeper insertion by the region would require.

The Japan-LAC complementarity has strengthened over the past half-century, but bilateral trade costs create a gap between realized and potential trade. Observed flows give only a partial picture of it because they already incorporate the effect of those costs: measured using actual trade between 1976 and 2025, complementarity with Japan strengthens for some LAC countries and weakens for others. However, once the effect of these bilateral trade costs is removed in a counterfactual exercise, complementarity increases between Japan and most LAC countries, and there is less dispersion across the region. A similar result holds for services trade. The structural basis of the economic relationship has therefore strengthened over time, but trade costs prevent mutually beneficial trade opportunities from fully materializing. These costs are not a single barrier but a set of frictions that make it more expensive and slower to do business, spanning transport and logistical costs, tariffs and regulatory requirements, border procedures, information gaps about potential partners, and differences in tax and investment frameworks. The report examines each dimension and identifies the main sources of bilateral frictions to help focus policy efforts.

The bilateral relationship rests on foundations older than the membership and broader than trade and investment. Its social and cultural base was laid in the early twentieth century, when Japanese migrants settled in countries such as Brazil and Peru and established communities that became an enduring bridge between Japan and the region, helping open the way for closer diplomatic and economic engagement. Development cooperation became an increasingly important channel of that engagement, and it has operated in both directions: the region has drawn on Japanese experience in technology, infrastructure, public institutions, and long-term development planning, while Japan has engaged with the region's advantages in economic diversification, supply chain resilience, the energy transition, and access to strategic resources. This cooperation flows through Japan's own bilateral institutions and through its long-standing partnership with the IDB Group. Between 2020 and 2024, Japan provided nearly US$3.58 billion

in cross-border development finance to IDB borrowing member countries, ranking fifth among bilateral providers and accounting for 9% of bilateral cross-border development flows to the region.

The report brings four bodies of evidence to the finding of strengthened but incompletely realized complementarity. Long-run aggregate evidence on both economies, covering growth trajectories, endowments, production structure, international integration, and innovation, documents where the complementarity originates in the two economies' structures. Bilateral trade and investment data, together with complementarity indices computed on observed and counterfactual trade flows, establish how much of it has been realized and where the remainder sits. The record of Japanese development cooperation over 2020 to 2024 establishes the scale, the instruments, and the distribution of the institutional channel. Finally, firm-level evidence documents how companies act on those complementarities and how trade costs play out in practice.

The remainder of the report is organized as follows. Chapter 1 traces five decades of growth in both economies and establishes the differences in endowments, production structure, and innovation capacity that make them complementary. Chapter 2 examines how far that complementarity has been realized in trade, investment, multinational production, and value chains, and measures how much of it remains unrealized. Chapter 3 examines the drivers of bilateral engagement, decomposing trade growth into supply-side factors, demand-side factors, and bilateral trade costs, and then taking the main dimensions of those costs in turn: transport and logistics; tariffs, non-tariff measures, and services regulation; administrative border processing and trade facilitation; information frictions; and the framework of trade, investment, and tax agreements. Chapter 4 turns to the firm level, complementing customs records, which register firms' outcomes, with five company cases that explore the decisions behind them: firms based in Argentina, Brazil, Colombia, and Ecuador and a Japanese firm operating in the region across multiple sectors. Chapter 5 measures the patterns of development cooperation between Japan and the region: cross-border support, financial instruments, and sectoral and geographic distribution. Chapter 6 draws the findings together and sets out the agenda for the period ahead.

1 JAPAN AND LAC: A FIFTY-YEAR PERSPECTIVE

Chapter 1. Japan and LAC: A Fifty-Year Perspective

The fiftieth anniversary of the Japan–IDB partnership provides an opportunity to assess how economic relations between Japan and LAC have evolved and where the greatest opportunities for deeper integration lie.[2] The two economies remain structurally complementary: Japan brings capital, advanced manufacturing capabilities, and a strong innovation base, while LAC offers abundant natural resources, renewable energy potential, and production capabilities in sectors that are increasingly important for the global economy, including critical minerals and agri-food. These complementarities are reflected throughout the long-run evidence presented in this report. The two economies specialize in different activities, their trade patterns are largely complementary, and Japanese firms have established an important operational presence in the region, with around one in twenty Japanese multinational enterprises already operating in LAC. The sections that follow document how Japan and LAC have evolved over the past five decades, identifying the structural features and long-term trends that help explain the current pattern of bilateral trade, investment, and business linkages.

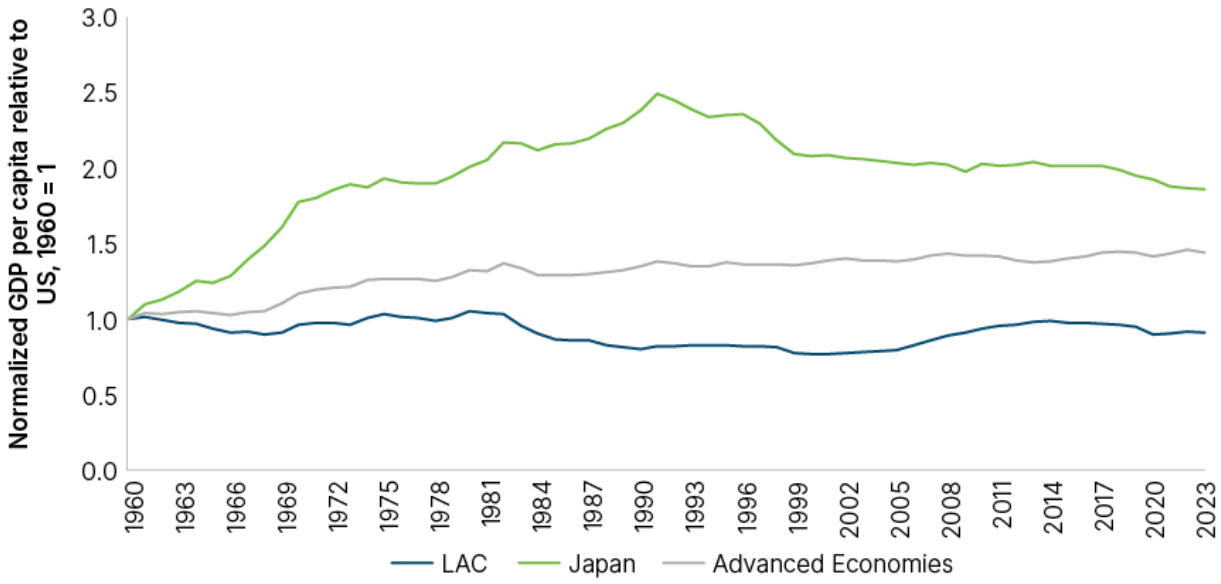
1.1 LAC and Japan Grew over the Last Five Decades, but at Different Pace and Through Different Mechanisms

LAC and Japan have both experienced economic growth over the past half-century, but through distinct development paths that shaped different productive structures, capabilities, and comparative advantages. Japan nearly doubled its GDP per capita relative to the United States between 1960 and 2023, while LAC's relative income remained broadly unchanged over the same period (see Figure 1.1). These differences provide the foundation for complementarities between the two economies. The sections that follow examine these long-run transformations and the complementarities they created between the two economies.[3]

[2] The period covered varies across the indicators and series presented in this chapter depending on data availability; accordingly, not all series span the full fifty-year period.

[3] Both trajectories are measured relative to the United States, the technological frontier over the period. The advanced economies serve as comparator group.

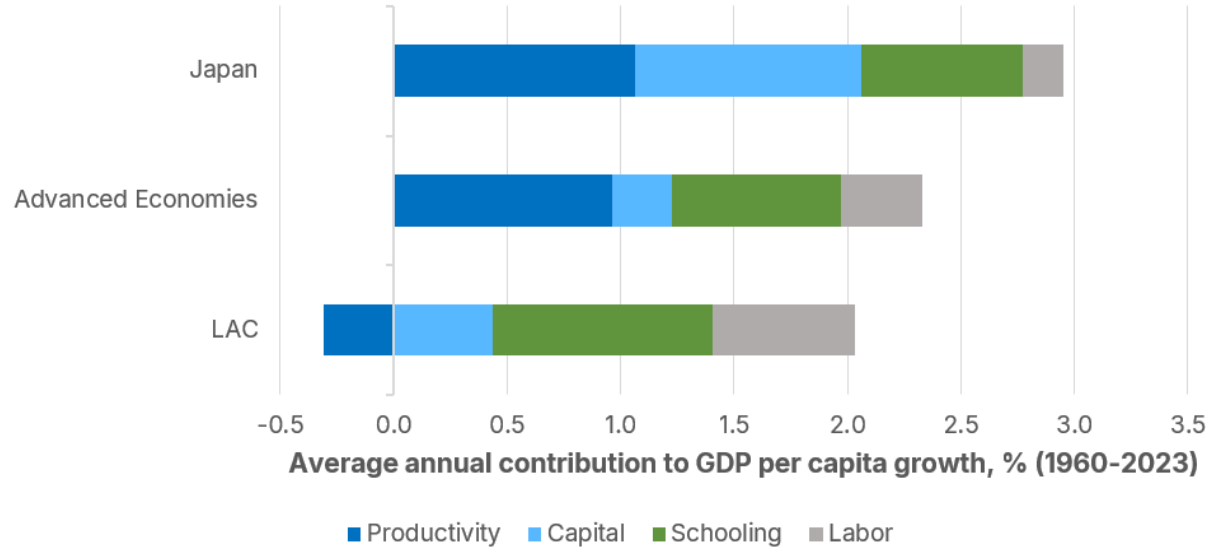
FIGURE 1.1. Convergence toward the United States: cumulative growth in GDP per capita relative to the US, 1960-2023 (1960 = 1).



Source: Authors' calculations based on Penn World Table 11.0 and the Barro-Lee Educational Attainment Dataset, v3 (Barro and Lee 2013, updated September 2021).
Note: The index measures cumulative growth relative to the United States since 1960 (1960 = 1), not income levels: a value above 1 indicates faster cumulative growth than the US since 1960.

Japan's growth was led by productivity and capital, while LAC's was pulled principally by labor, with productivity and capital accumulation both showing limited dynamism. Over 1960-2023, Japan grew at 2.95% per year, of which total factor productivity contributed 1.06 percentage points, capital 1.00, schooling 0.71, and labor 0.18, productivity and capital together accounting for roughly seven-tenths of its growth. LAC grew at 1.72%, with labor contributing 0.62 points and schooling 0.97. The two components that stand out are the other two: capital contributed only 0.43 points, and the productivity term subtracted 0.31, the only negative reading in the sample (see Figure 1.2). Both are dimensions on which the region has substantial room to improve, and both are dimensions where external capital and technology can contribute.

FIGURE 1.2. Contributions to average annual GDP per capita growth, 1960-2023, percentage points.



Source: Authors' calculations based on Penn World Table 11.0 and the Barro-Lee Educational Attainment Dataset, v3 (Barro and Lee 2013, updated September 2021).

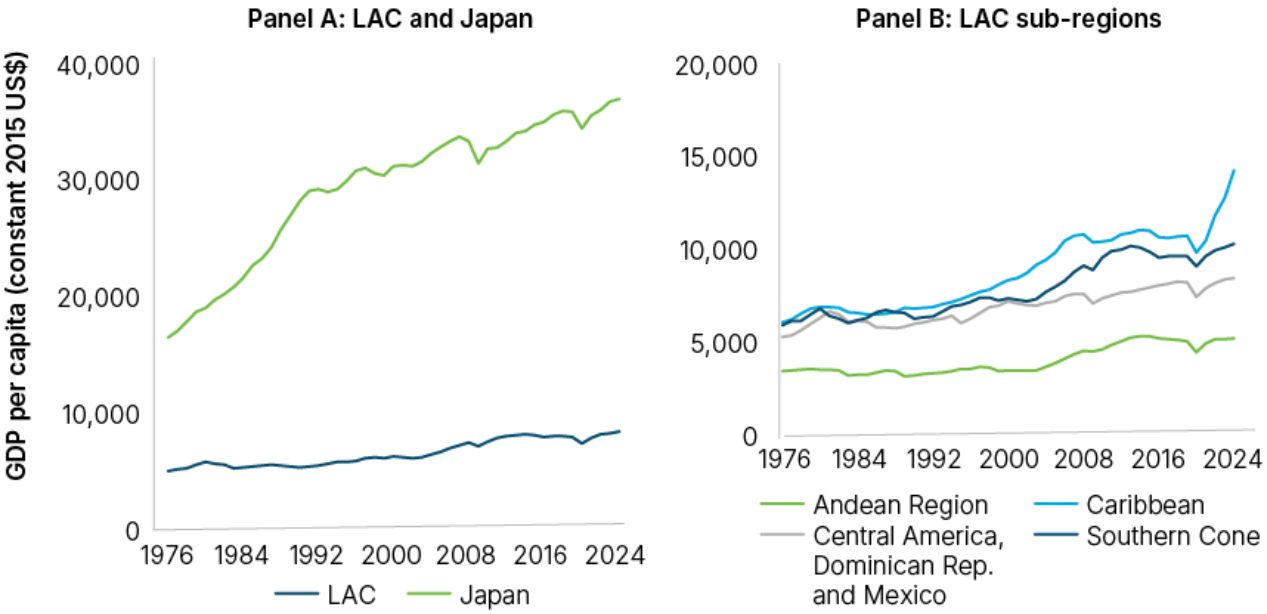
What sets Japan apart from other advanced economies is its capital accumulation. Japan's productivity contribution of 1.06 points is in line with the advanced-economy average of 0.96, while its capital contribution of 1.00 point is close to four times the group average of 0.26. Japan's distinctive strength over this period is its exceptional rate of capital accumulation, and it is that accumulated capital, together with the production technology and organizational capability built alongside it, that LAC can draw on.

The two profiles differ across every component of growth and in opposite directions. Japan combines the highest capital contribution of the groups compared with the lowest labor contribution, at 0.18 points against 0.62 for LAC, and 0.36 for the advanced economies. LAC shows the reverse: a large labor contribution and a schooling contribution of 0.97, well above Japan's 0.71, alongside weak capital accumulation and a negative productivity term (see Figure 1.2). Japan has accumulated capital, production technology, and organizational capability; LAC has an expanding and increasingly educated workforce and the widest margin for productivity improvement. These contrasting profiles create scope for mutually beneficial trade, investment, and production linkages by combining different factor endowments and productive capabilities. Chapter 2 examines how these complementarities are reflected in the bilateral economic relationship.

Those different growth trajectories have left the two regions at very different income levels, reflecting broader differences in productive capabilities and economic development. In 2024, Japan's GDP per capita reached about US$37,153, compared with US$8,757 for LAC as a whole, and remained well above every LAC subregion: the Caribbean at US$14,417, the Southern Cone at US$10,465, Central America, Dominican Republic, and Mexico at US$8,606, and the Andean Region at US$5,358 (see Figure 1.3). These income differences are associated with broader differences in factor endowments, productive capabilities, technological sophistication, and institutional quality, which have shaped distinct patterns of

comparative advantage and economic specialization. The next sections examine how these structural differences have translated into complementarities between Japan and LAC.[4]

FIGURE 1.3. GDP per capita, constant 2015 US$, Japan and LAC sub-regions, 1976-2024.



Source: Authors' calculations based on World Development Indicators.
Note: LAC refers to the 26 IDB borrowing member countries. Throughout the report, LAC subregions are defined as follows: Southern Cone (Argentina, Brazil, Chile, Paraguay, and Uruguay); Andean Region (Bolivia, Colombia, Ecuador, Peru, and Venezuela); Central America, Dominican Republic and Mexico (Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, and Panama); and Caribbean (Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago). These definitions and labels are used consistently throughout the report. Regional and subregional GDP per capita is calculated as total GDP divided by total population across the corresponding countries. GDP is expressed in constant 2015 US dollars.

1.2 Resource Endowments and Industrial Capabilities Are Complementary Across the Two Regions

The complementarity between Japan and LAC rests on two foundations that reinforce each other: resource endowments that differ in kind and industrial capabilities that differ in specialization, stage of production, and technology. This complementarity can exist even where the two economies devote comparable shares of output to the same broad sectors. In 2024, industry accounted for 26.8% of gross domestic product in Japan and 26.5% in LAC, a difference of a third of a percentage point, and services account for the largest share of output in both. [1] Similar sectoral weights, however, describe how output is distributed rather than what is produced. The economic content behind those shares differs

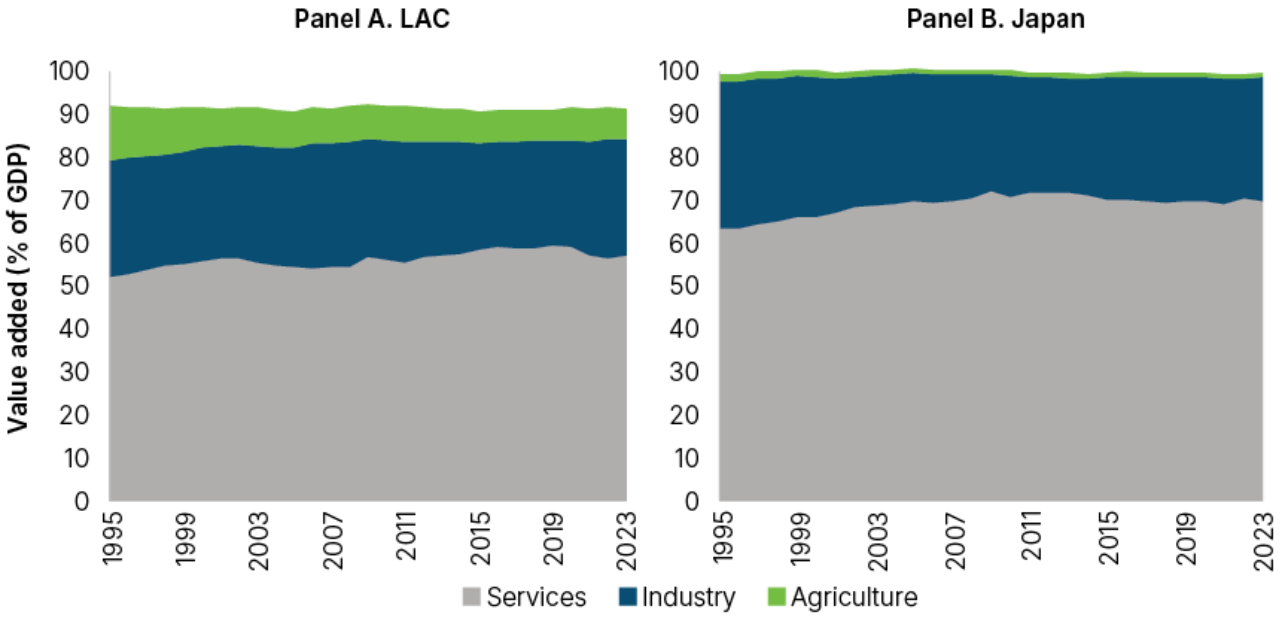
[4] On the long-run Japan-LAC relationship through similar lenses, see Inter-American Development Bank (2013) and Kahn (2016); for a recent IDB Asia-LAC comparator, Mesquita Moreira et al. (2024). Broader Asia-LAC studies stress rising South-South trade, investment and cooperation links and the need to move from inter-industry exchange toward value-chain integration (Kahn et al. 2012; ECLAC 2011).

substantially, and it is that difference, not a difference in sectoral size, that creates room for mutual growth.

The clearest expression of this is the composition of production: agriculture and natural resources carry considerably greater weight in LAC, while manufactured goods carry considerably greater weight in Japan. Agriculture, forestry, and fishing represent 7% of output in LAC, whereas in Japan it is less than 1%, and that proportion has been stable for three decades. Manufacturing was equivalent to 18.8% of GDP in Japan in 2024 and to 11.8% in LAC (see Figure 1.4).

Within the industry the contrast is sharper still: manufacturing represented 70% of Japanese industrial value added and 44% of LAC's, against 68 and 58%, respectively, **in 1995.** Industry excluding manufacturing, mining and quarrying, construction, and utilities was equivalent to 14.8% of GDP in LAC and 8.0% in Japan, where, in 1995, the two figures were all but identical at 11.0 and 11.1%. Services account for the largest share of output in both economies (see Figure 1.4). Differences in the composition of services are not apparent from aggregate national accounts but become evident in bilateral trade patterns, which are examined in Chapter 2.

FIGURE 1.4. Breakdown of GDP by macro-sector, LAC, and Japan, 1994-2023.



Source: Authors' calculations based on World Development Indicators.
Note: Proportions do not sum to 100% for LAC due to averaging.

Box 1.1. Energy Transition

The global energy transition illustrates one area in which these complementarities could become increasingly important. Growing demand for critical minerals and their downstream processing has raised the economic relevance of both LAC's resource endowment and Japan's technological and industrial capabilities, potentially creating new opportunities for economic cooperation.

LAC's endowment is concentrated precisely in those minerals where global supply is most geographically concentrated, giving the region an important role in the resilience and diversification of global supply chains. Chile and Peru together accounted for 35% of global copper mine output in 2025 (24 and 12%, respectively), while Chile and Argentina produced 23% of global lithium mine output. Brazil was the world's fourth-largest producer of natural graphite. Across the six critical minerals most relevant for clean-energy technologies, the three largest producing countries account for between 50% of global mine output in copper and 88% in natural graphite. Copper is the least concentrated of these minerals, largely because of LAC's production. Lithium output in Chile and Argentina is projected to increase by around 50% by 2030.[5]

Japan also has significant capabilities in downstream segments of critical-mineral value chains. Although its domestic mineral endowment is limited, Japan has developed significant refining and processing capabilities for several critical minerals. In 2025, it accounted for 5.1% of global refined copper output, ranking fourth worldwide, and 2.9% of refined nickel production. In battery-grade graphite, Japan was the world's second-largest producer, with output comparable to Brazil's natural graphite mine production. Japan's battery-grade graphite production is projected to more than double by 2030.

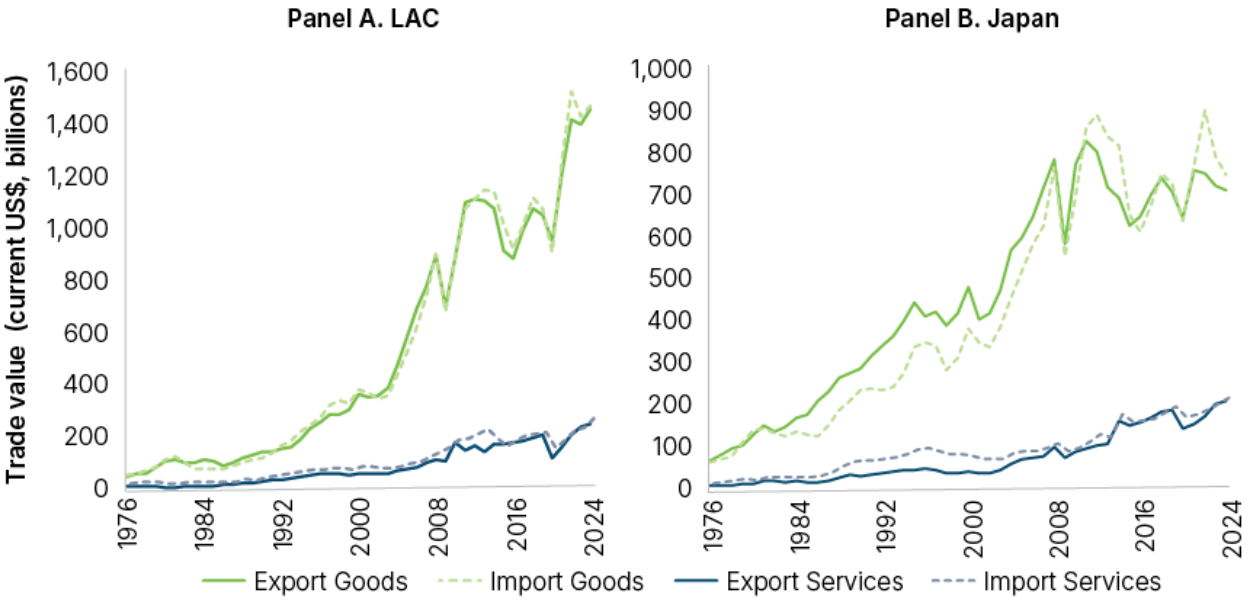
The energy transition also creates scope for cooperation beyond mineral extraction. While several LAC countries already possess refining and processing capabilities, Japan also has advanced processing technologies, engineering expertise, and long-standing commercial relationships. Together, these capabilities could support deeper integration along critical mineral value chains where economic conditions make such investments viable.

1.3 LAC and Japan Became More Integrated with the World Economy

Both Japan and LAC have become substantially more integrated into the global economy over the past five decades. Total trade in goods and services increased substantially in both economies between 1980 and 2024, reflecting the broader increase in international economic integration. Total exports and imports of goods and services reached nearly US$1.9 trillion in Japan in 2024, approximately 79% in goods and 21% in services. In LAC, cross-border trade expanded to US$3.4 trillion, approximately 85% in goods and 15% in services (see Figure 1.5).

[5] International Energy Agency (2026).

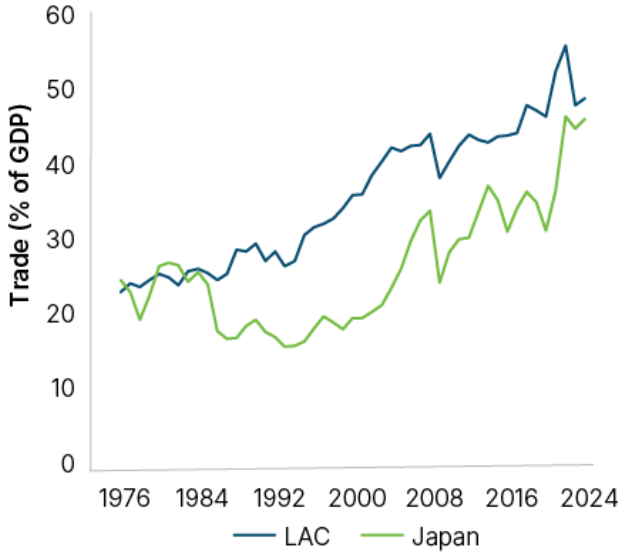
FIGURE 1.5. Total exports and imports of goods and services, Japan and LAC, 1980-2024, US$ billion.



Source: Authors' calculations based on World Development Indicators.

Trade has also become more important relative to economic activity in both Japan and LAC over the period. Starting from broadly similar trade-to-GDP ratios in the mid-1970s, LAC's ratio rose from about 23% in 1976 to 49% in 2024. By 2024, the two ratios were again broadly comparable, with Japan's standing at 46% (see Figure 1.6).

FIGURE 1.6. Trade to GDP ratio, Japan and LAC, 1976-2024, %.



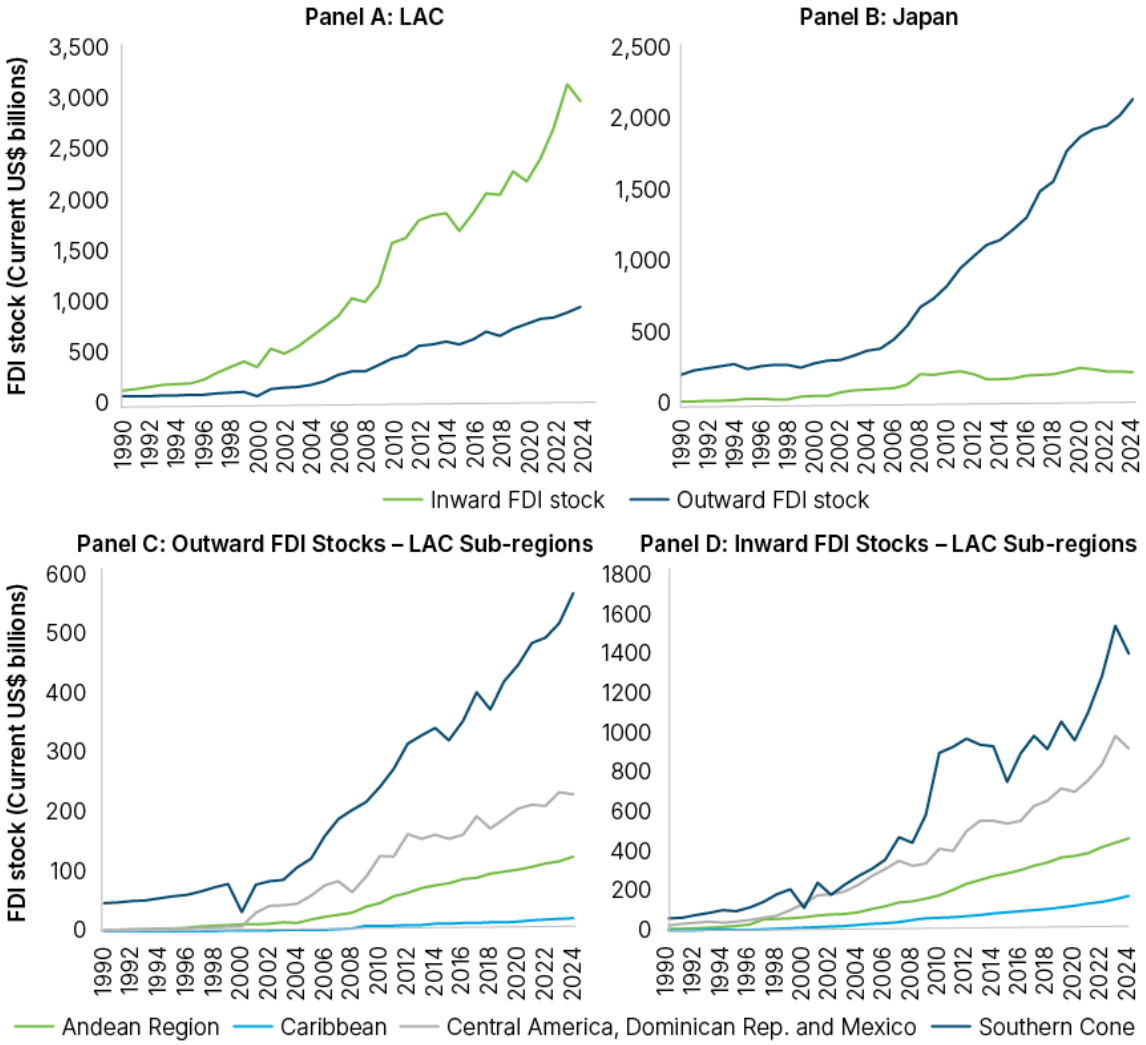
Source: Authors' calculations based on World Development Indicators.

Note: LAC refers to the 26 IDB borrowing member countries. Regional trade is calculated as the sum of trade across countries. The trade-to-GDP ratio is computed by dividing total regional trade by the corresponding sum of country GDP.

1.4 LAC and Japan Deepened Their Investment Links

Foreign direct investment (FDI) has also become an increasingly important channel of international integration for both Japan and LAC. LAC has consistently been a net recipient of FDI, with its inward stock rising from about US$108 billion in 1990 to nearly US$3.0 trillion in 2024, compared with an outward stock of about US$941 billion. In Japan, outward FDI stock expanded more than tenfold, from US$201 billion to over US$2.1 trillion, while inward FDI stock stood at around US$220 billion in 2024 (see Figure 1.7, Panels A and B). Within LAC, inward FDI stocks are concentrated in the Southern Cone and Central America, Dominican Republic, and Mexico, which together account for nearly four-fifths of the region's inward FDI stock and are therefore its main destinations for international investment (see Figure 1.7, Panels C and D).

FIGURE 1.7. Inward and outward FDI stocks, Japan and LAC sub-regions, 1990-2024, US$ billion.



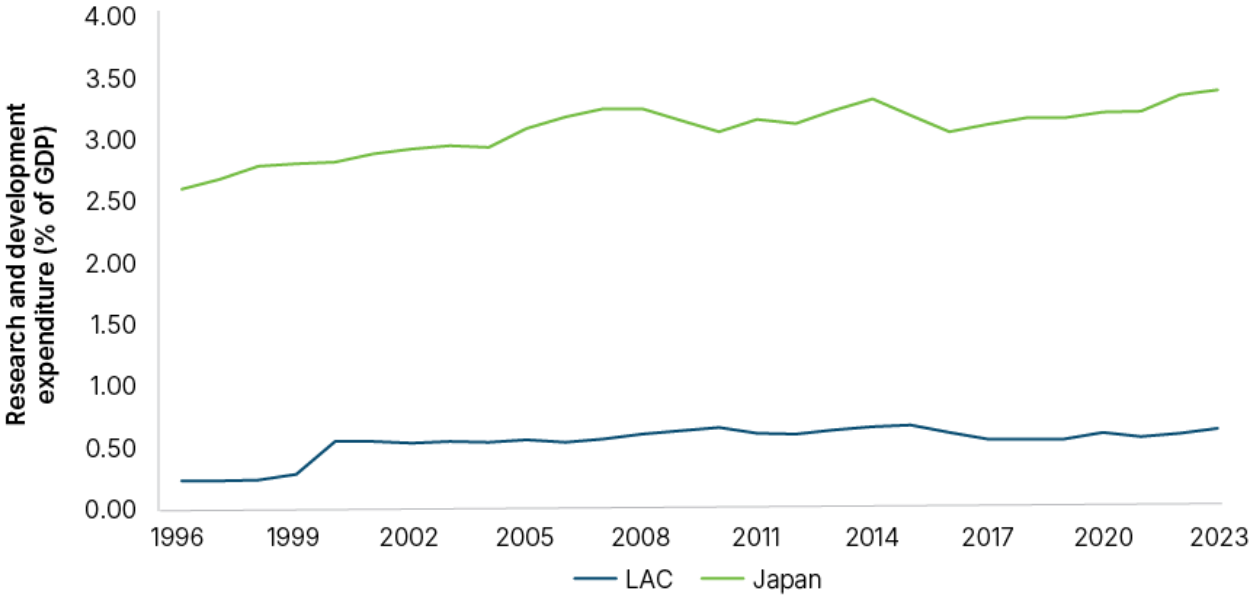
Source: Authors' calculations based on UNCTADStat.

Both regions have built extensive multinational networks spanning well over a hundred countries, with Japan maintaining the larger affiliate network. Japan has developed an extensive global corporate network, with around 10,700 multinational firms operating through more than 110,000 affiliates across 169 countries. LAC also has a substantial international footprint, with approximately 6,500 firms and nearly 27,500 affiliates spanning 142 countries. While both networks are concentrated in manufacturing and trade activities, Japan's global presence is more heavily oriented toward wholesale trade and manufacturing, whereas LAC multinationals display a more balanced distribution across manufacturing, wholesale and retail trade, finance, and information services. These networks provide an important foundation for deepening economic linkages between the two regions.

1.5 LAC and Japan Have Complementary Innovation Profiles

Japan sustains a high and rising level of investment in research and development (R&D), which creates considerable scope for technology transfer, knowledge exchange, and collaborative innovation with the region. Japanese R&D expenditure averaged around 3% of GDP between 1996 and 2023 and has followed a broadly increasing trend, reaching approximately 3.4% in recent years. In LAC, it has averaged around 0.6% and remained relatively stable over the period (see Figure 1.8). Innovation capacity can be considered along two dimensions: what a region invests in generating knowledge and the outputs associated with that investment. Japan records higher levels than LAC on both dimensions.

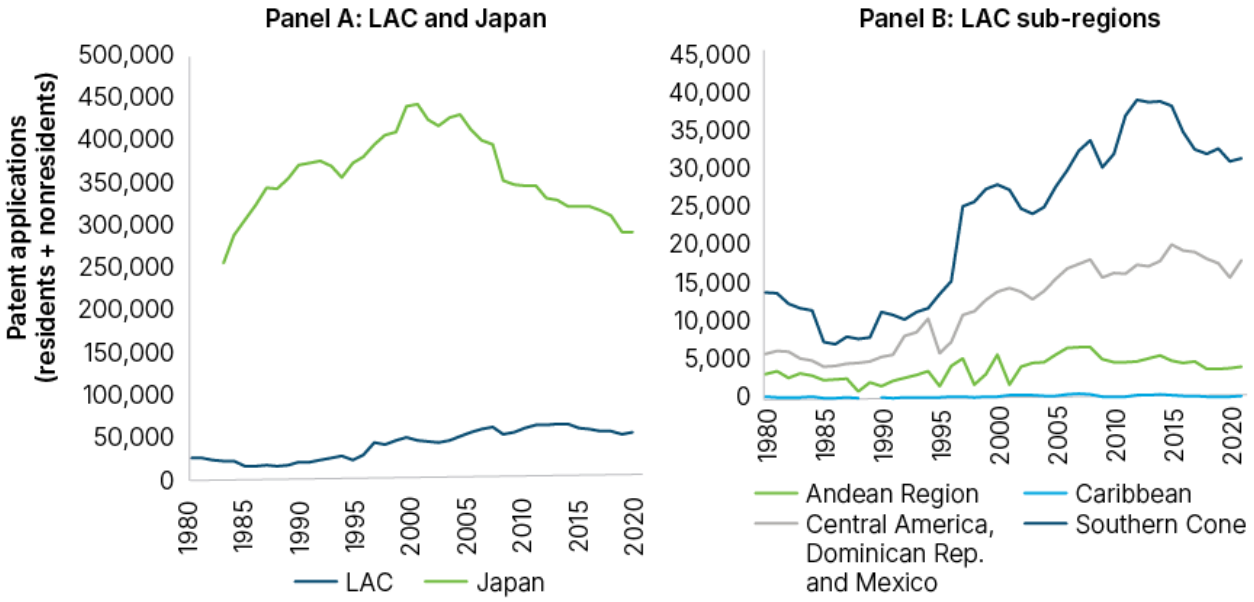
FIGURE 1.8. Research and development expenditure, % of GDP, Japan and LAC, 1996-2024.



Source: Authors' calculations based on World Development Indicators.
Note: LAC is the aggregate of the 26 IDB borrowing member countries, computed as total R&D expenditure divided by total GDP.

Patenting activity in Japan has remained at a larger scale than in LAC throughout the past four decades. Japan recorded around 289,200 applications in 2021, after peaking at about 439,200 in 2001. LAC recorded approximately 53,900 applications in 2021, compared with a historical peak of around 63,600 applications in 2015 (see Figure 1.9, Panel A). Within LAC, the Southern Cone registered the highest number of applications (31,347), followed by Central America, Dominican Republic, and Mexico (18,024), the Andean Region (4,162), and the Caribbean (340) (see Figure 1.9, Panel B). These differences in patenting activity are part of broader differences in innovation capacity between Japan and LAC. Chapter 2 examines how the broader complementarity between the two economies is reflected in investment, multinational activity, and value-chain linkages.

FIGURE 1.9. Patent applications by residents and non-residents (total), Japan and LAC sub-regions, 1980-2021.



Source: Authors' calculations based on World Development Indicators.
Note: LAC is the aggregate of the 26 IDB borrowing member countries. The Caribbean series is discontinuous due to the unavailability of data for 1989. Data for Japan are unavailable for 1981 and 1982.

1.6 Structural Differences That Set the Stage for a Deeper Bilateral Relationship

The evidence presented in this chapter points to several structural features that shape the Japan–LAC economic relationship during the 50 years since Japan joined the IDB. The longer-run growth evidence, which extends back six decades, Japan and LAC followed different development paths. Japan's growth relied primarily on capital accumulation and productivity gains, whereas LAC reflected a larger contribution from labor and educational attainment while continuing to exhibit scope for further improvements in capital accumulation and productivity. These different trajectories resulted in distinct income levels and production structures. LAC maintains a stronger specialization in agriculture, mining, and other resource-based activities, while Japan has a larger manufacturing base and a different composition of services, particularly in knowledge-intensive activities.

Both economies also became substantially more integrated into the global economy through trade, investment, and multinational production networks. Japan emerged as a major source of international investment, while LAC became an increasingly important destination for foreign capital. At the same time, significant differences in innovation activity and technological capabilities create opportunities for deeper cooperation in areas such as knowledge exchange, technology diffusion, and business partnerships.

These structural characteristics help explain why the Japan–LAC relationship has expanded over time and where further opportunities may lie. At the same time, LAC is far from homogeneous. The subregions differ markedly in income levels, trade integration, investment patterns, and innovation capacity, implying that the relationship with Japan is better understood as a set of distinct bilateral relationships rather than a single regional pattern. The following chapters build on this perspective by examining how these structural features are reflected in bilateral trade, investment, and firm-level linkages.

2 TRADE AND INVESTMENT AS PILLARS OF THE JAPAN-LAC RELATIONSHIP

Chapter 2. Trade and Investment as Pillars of the Japan-LAC Relationship

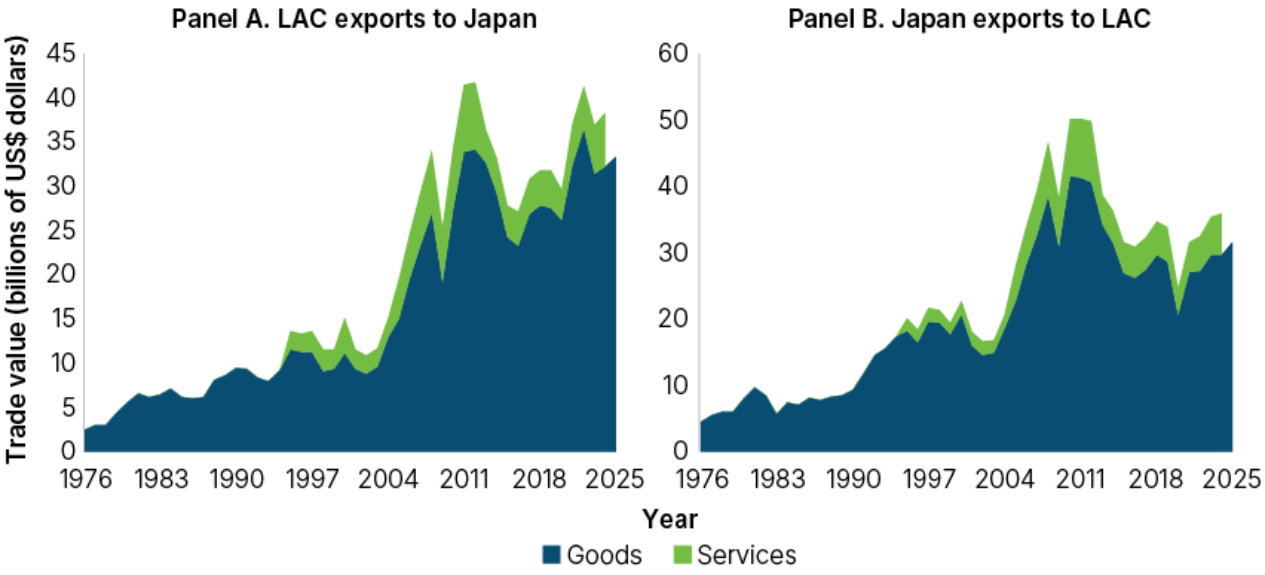
Economic linkages between Japan and LAC have deepened markedly over the past fifty years. Bilateral trade has grown significantly in both directions, Japanese investment in the region reached record levels during the 2020s, and the two economies are more deeply integrated in advanced manufacturing value chains than either is with the world. Services also play a larger role than conventional trade statistics suggest, accounting for around 35% of the value added embodied in LAC's exports. This chapter documents how these linkages have evolved and highlights the main areas where further integration remains possible.

2.1 LAC-Japan Trade Grew Along Complementary Lines in Goods and Services

Trade between Japan and LAC has expanded substantially over the past five decades, proving resilient through commodity cycles, financial crises, and the COVID-19 pandemic. LAC's goods exports to Japan increased from about US$2.4 billion in 1976 to a peak of US$35.6 billion in 2022 before settling at US$32.6 billion in 2025 (see Figure 2.1). Japan's goods exports to LAC followed a similar trajectory, rising from US$4.5 billion in 1976 to a peak of US$41.6 billion in 2010, standing at US$31.7 billion in 2025. Services trade has also become an increasingly important component of the bilateral relationship (see Figure 2.1). Since comparable bilateral data became available in 1995, LAC's services exports to Japan increased from US$2.1 billion to US$5.9 billion in 2024, while Japan's services exports to LAC rose from US$1.9 billion to US$6.3 billion over the same period. Although goods continue to account for the bulk of bilateral trade, the steady expansion of services has broadened the economic relationship and increased the range of cross-border activities linking the two regions.[6]

[6] In relative terms, LAC accounted for about 7.7%of Japan' s exports in 1976 and about 4.3% in 2025, while its share of Japan' s imports rose slightly, from 3.9 to 4.3%; over the same period East Asia and the Pacific rose from 25.4 to 51.2% of Japan' s exports as Japan integrated into regional production networks. These shares are computed on nominal values and therefore combine volume and price effects, so they are not a direct measure of changes in the underlying trade relationship.

FIGURE 2.1. Total LAC-Japan trade in goods and services, 1976-2025, US$ billion, by direction.



Source: Authors' calculations based on UN Comtrade accessed via the World Bank's WITS server and BaTIS
Note: The goods series covers 1976–2025, while the services series covers 1995–2024, reflecting data availability.[7]

2.1.1 Goods Trade Reflects LAC's Resource Base and Japan's Manufacturing Strength

Bilateral trade in goods largely reflects the broader comparative advantages of the two regions. Japan exports manufactured and capital goods, while LAC exports agricultural products, minerals, and other resource-based goods. That complementarity has persisted even as the composition of bilateral trade has evolved over time, without fundamentally changing the underlying pattern.[8]

LAC exports to Japan are concentrated in industrial supplies, followed by food and beverages and capital goods and parts. Industrial supplies reached US$15.9 billion in 2025, accounting for more than half of the region's exports to Japan (53%). Food and beverages were the second-largest category, at US$7.3 billion (24%), followed by capital goods and parts, at US$3.7 billion (12%). Fuels, transport equipment, consumer goods, and other categories each represented less than 5% of LAC exports to Japan (see Figure 2.2).

Japan's exports to LAC are dominated by transport equipment and parts, followed by capital goods and industrial supplies. Transport equipment and parts reached US$16.8 billion in 2025, accounting for nearly 59% of Japan's exports to LAC. Capital goods and parts were the second-largest category, at US$5.5 billion

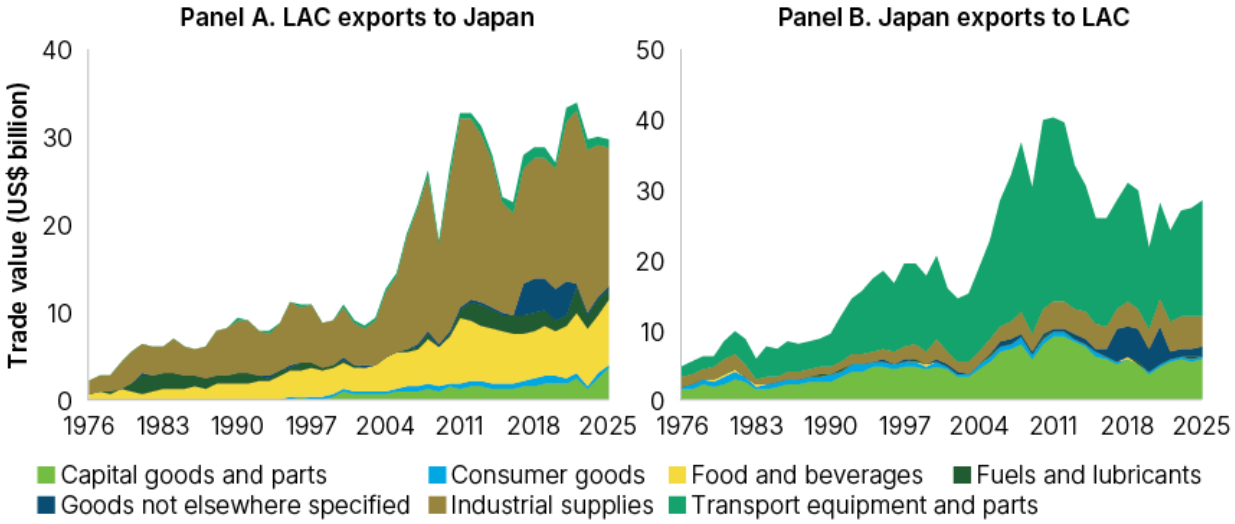
[7] Goods trade values are based on reported trade flows from UN Comtrade, whereas services trade values are estimates from BaTIS. BaTIS estimates are used because comprehensive and consistent bilateral services trade data are not available for all LAC countries over the period considered. Therefore, goods and services values should be interpreted with caution, as they are based on different types of underlying data and are not strictly comparable in terms of measurement.

[8] Inter-American Development Bank (2013) documents the same resource-for-manufactures pattern in the earlier phase of the relationship. IDB work on China-LAC relations frames the Asian demand shock as both a market opportunity and a competitive challenge (Rodriguez-Clare, Devlin, and Estevadeordal 2011).

(19%), followed by industrial supplies, at US$4.2 billion (15%). Consumer goods totaled US$0.3 billion, while food, fuels, and other categories each represented less than 1% of Japan's exports to the region (see Figure 2.2).

This composition highlights the predominantly business-oriented nature of bilateral goods trade. The relationship is centered on intermediate inputs, capital goods, and production equipment that support industrial activity rather than final consumption.[9]

FIGURE 2.2. Japan-LAC bilateral trade by product category, 1976-2025, US$ billion.



Source: Authors' calculations based on UN Comtrade accessed via the World Bank's WITS server.
Note: Product categories are defined according to the Broad Economic Categories (BEC) classification. The categories shown are capital goods and parts; consumer goods; food and beverages; fuels and lubricants; goods not elsewhere specified; industrial supplies; and transport equipment and parts.

Box 2.1. Firm-level evidence from customs data: Selected LAC countries

Japan–LAC trade is carried by relatively few firms. In 2024, 250 Colombian exporters (2.6% of all exporters in the country), 56 Uruguayan exporters (3.1%), and 431 Peruvian exporters (4.4%) served the Japanese market. On the import side, 639 Colombian firms (2.5% of all importers in the country), 251 Uruguayan firms (1.6%), and 2,287 Peruvian firms (5.6%) sourced goods from Japan (see Figure B.2.1 Panel A). Despite the large difference in the size of these economies, the share of exporters reaching Japan is remarkably similar, highlighting Japan's role as a specialized export destination in these countries.

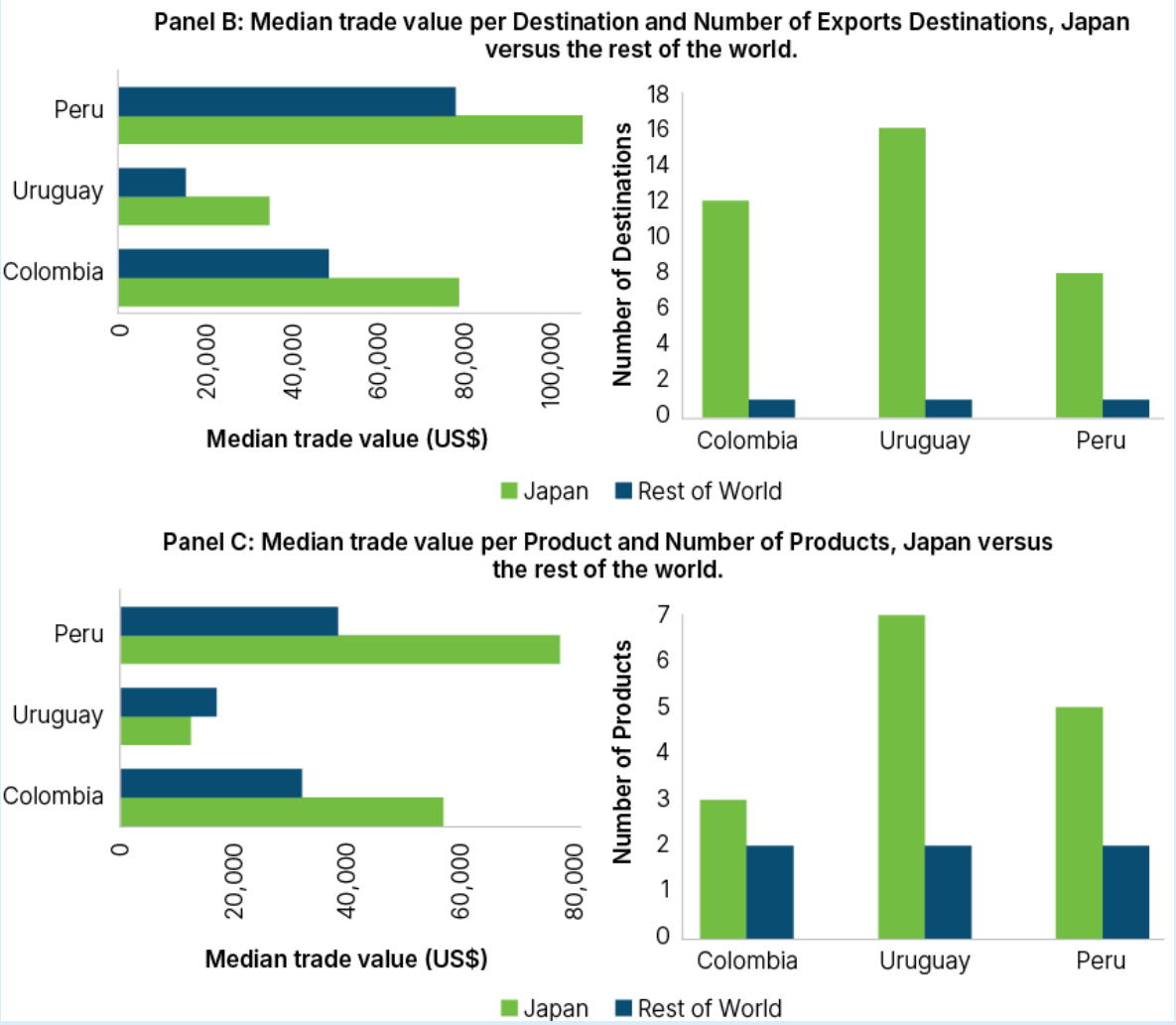
Firms that trade with Japan tend to be larger than firms trading elsewhere, consistent with the finding that only large, highly productive firms can serve distant and less familiar markets. Colombian, Uruguayan, and Peruvian exporters serving Japan operate in a median of 12, 16, and 8 foreign markets, respectively, compared with just one for exporters serving the rest of the world. They also export a

[9] This persistence is consistent with ECLAC (2011), which finds that Asia-Pacific-LAC trade has largely remained inter-industry.

broader product portfolio, with median values of 3, 7, and 5 products, respectively, compared with 2 products among other exporters. At the same time, exporters to Japan record higher median values per destination, per product and (when available) per buyer than exporters serving the rest of the world, indicating more intensive commercial relationships despite the small number of firms involved (see Figure B.2.1 Panel B and C). This pattern is consistent with the fact that only larger and more productive firms can absorb the fixed costs of entering distant and less familiar markets. On the import side, firms sourcing from Japan in Colombia and Uruguay record higher values per transaction, per product, and per supplier than firms importing from other origins, consistent with Japan's role as a supplier of higher-value manufactured goods and intermediate inputs. This pattern is less evident in Peru, where firms importing from Japan tend to record lower median values than those sourcing from other foreign suppliers.

Firms that reach Japan have a broader diversification strategy. For Colombian and Peruvian exporters serving Japan, large extra-regional markets, particularly the United States and Asian economies, rank among their top export destinations. For Uruguayan exporters serving Japan, Mercosur markets occupy the leading positions alongside their links with Japan. In both cases the firms trading with Japan are among those already operating across several markets.

FIGURE B.2.1. Firm-level evidence from customs data: Selected LAC countries (Colombia, Peru and Uruguay), 2024.



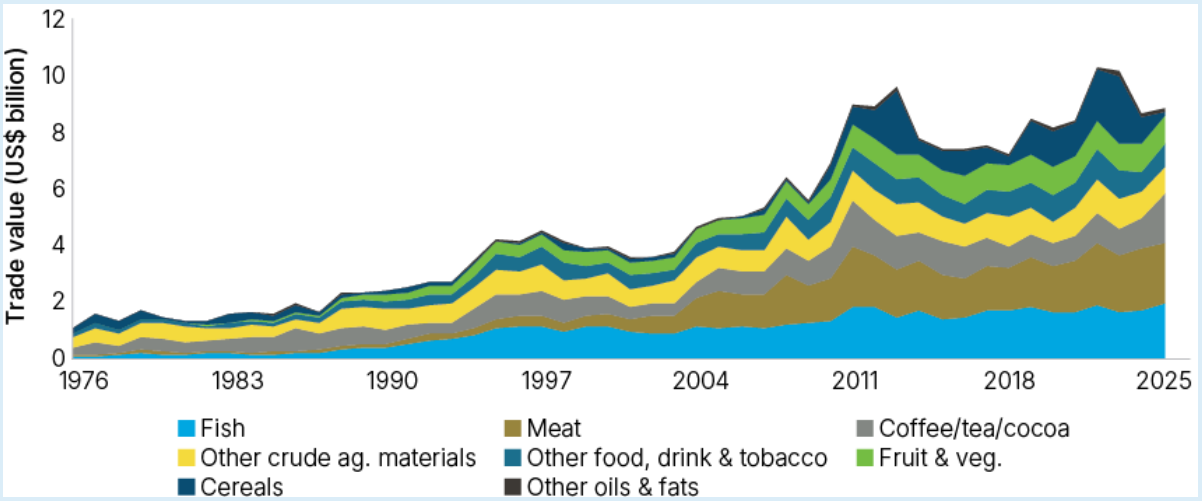
Source: Author's calculations using customs data from Colombia, Uruguay and Peru for 2024.

Box 2.2. Agricultural trade

LAC's agricultural exports to Japan span several product categories, with differing trajectories over time. Aggregate agricultural exports have been volatile but have followed an upward trend. In the latest period, meat is the largest category, followed by fish and coffee, tea, and cocoa. Fruit and vegetables have recorded particularly strong percentage growth from a low base, while cereals have shown greater volatility (see Figure B.2.2).[10]

[10] Inter-American Development Bank (2013) likewise emphasizes the role of agricultural products in LAC exports to Japan.

FIGURE B.2.2. LAC agricultural exports to Japan by product category, 1976-2025, US$ billion.

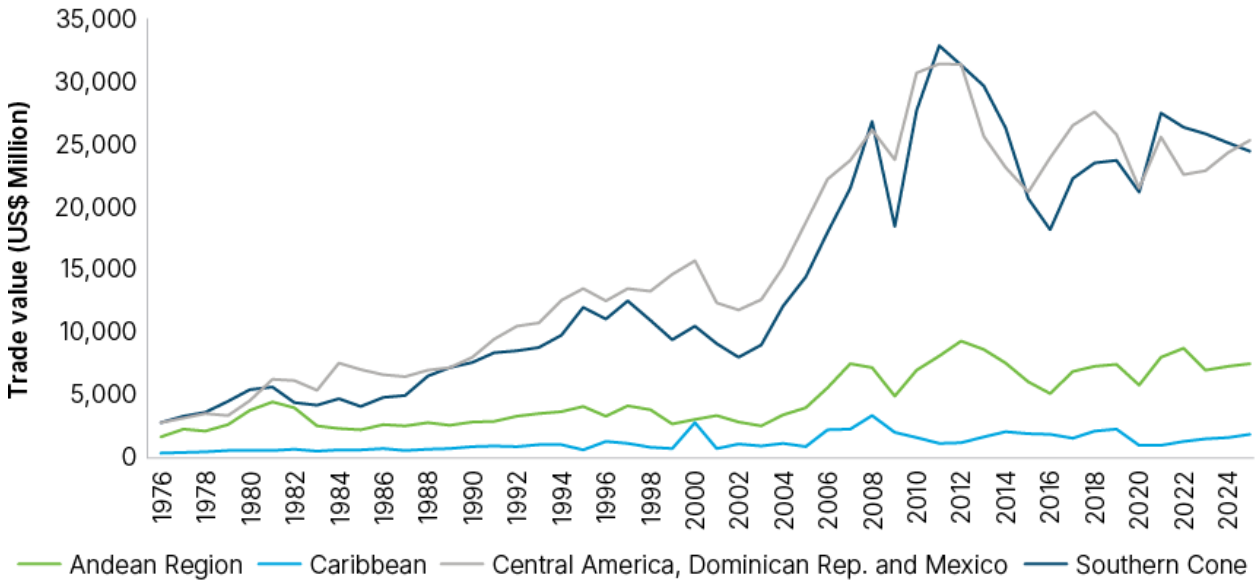


Source: Author's calculations using UN Comtrade accessed via the World Bank's WITS. server. Note: Agricultural product categories are defined according to the Standard International Trade Classification (SITC). The categories shown are meat; fish; cereals; fruit and vegetables; coffee, tea, and cocoa; other crude agricultural materials; other food, drink, and tobacco; and other oils and fats.

Set against LAC's other agricultural markets, what distinguishes Japan is the breadth of what it buys rather than the speed at which its purchases grew. Japan's import demand from LAC followed a gradual growth path while maintaining a relatively diversified product composition. Exports to the rest of Asia, by contrast, accelerated sharply after 2006 but concentrated in a narrow set of categories: other food, drink and tobacco, other crude agricultural materials, and fruit and vegetables. Europe follows a third pattern again: gradual growth, comparative stability over time, and a broadly diversified basket led by coffee, tea, and cocoa; other crude agricultural materials; other food, drink, and tobacco; and fruit and vegetables. Japan is therefore closer to Europe than to the rest of Asia in the structure of its agri-food demand.

The regional composition of bilateral trade has also evolved over time. While the Southern Cone dominated trade with Japan during the 2000s, Central America and Mexico have steadily increased their relative importance, leaving both subregions at broadly comparable trade levels in recent years. The Andean Region has also expanded its participation, whereas the Caribbean continues to account for only a small share of bilateral trade (see Figure 2.3).

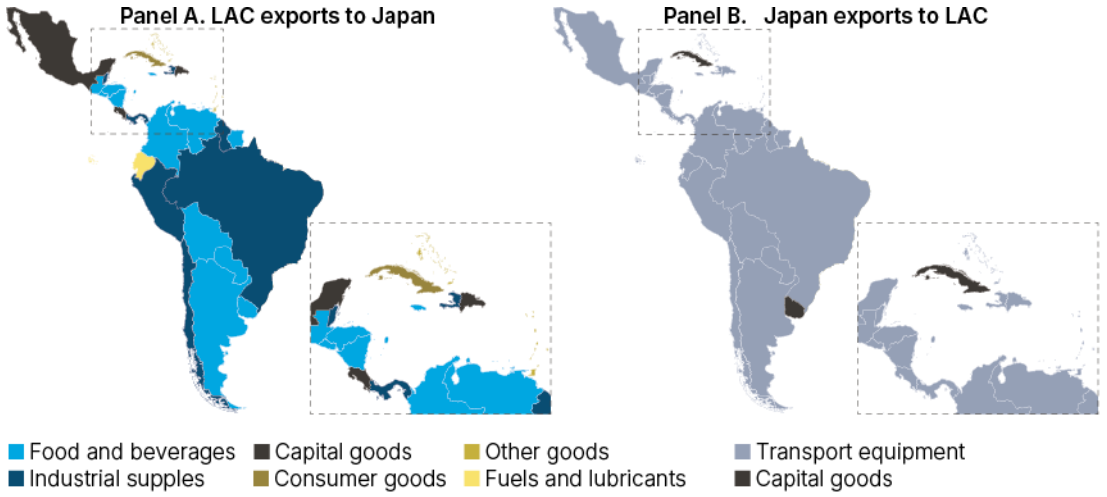
FIGURE 2.3. Total bilateral goods trade with Japan by country within the IDB subregion, US$ million, 1976-2025.



Source: Authors' calculations based on UN Comtrade data (Japan reporting).

There is no single Japan-LAC goods relationship but several, differentiated by subregional structure and concentrated in a few countries within each. The Southern Cone's trade with Japan is dominated by agriculture, while Central America and Mexico have larger shares of fuels, lubricants, and industrial supplies; imports from Japan are more uniform across subregions, centered on transport equipment. Mexico and Brazil are the largest bilateral partners in absolute terms, though Chile's trade with Japan rivals Brazil's on the strength of copper and other minerals (see Figure 2.4 Panel A).[11]

FIGURE 2.4. Leading product category in LAC countries' trade with Japan, 2025.

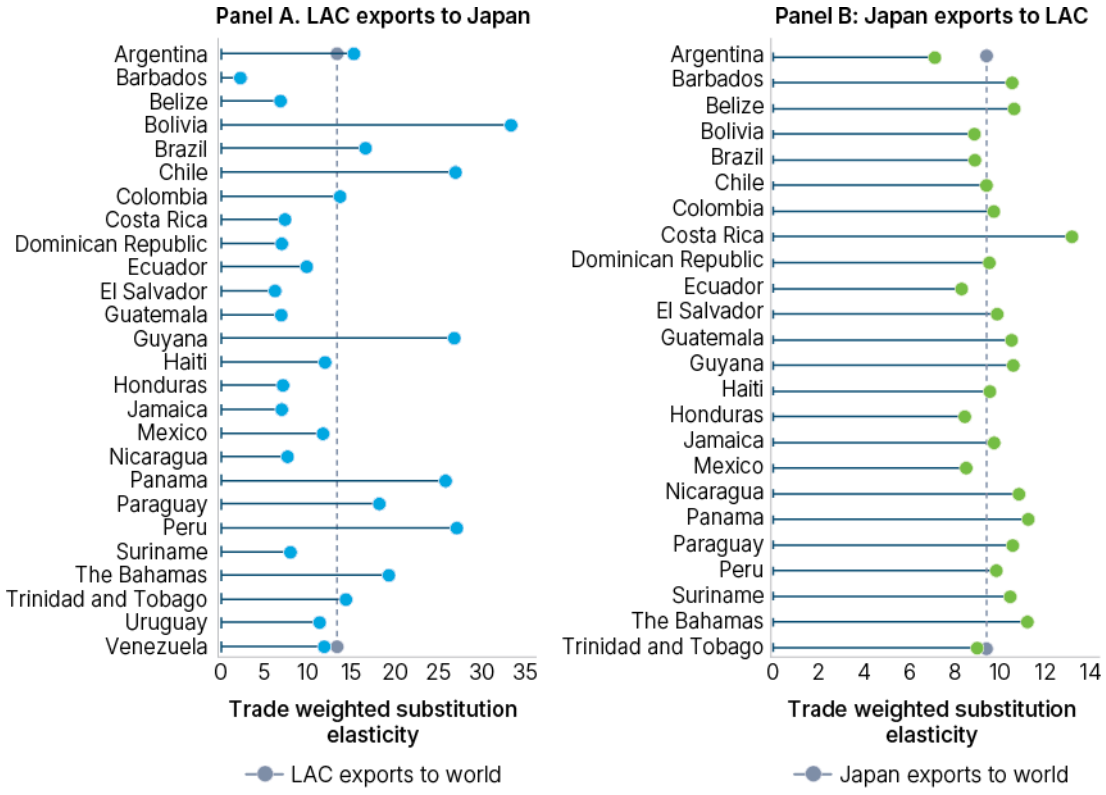


[11] Kahn et al. (2012) similarly emphasize that Asia-LAC integration differs sharply across countries.

Source: Authors' calculations based on UN Comtrade data, accessed through the World Bank's WITS server, and the United Nations Classification by Broad Economic Categories.
Note: Product categories are defined according to the Broad Economic Categories (BEC) classification. Each country is shaded according to the product category accounting for the largest share of its trade flow with Japan in 2025. Panel A refers to LAC exports to Japan and Panel B to Japan's exports to LAC, based on trade reported by Japan. Capital goods exclude transport equipment, which is reported separately. Insets enlarge areas that are difficult to display at the main map scale; smaller economies are shown as point markers.

The degree of product differentiation in bilateral trade also varies across countries and trade directions. To assess this dimension, we use trade-weighted substitution elasticities calculated following Fontagné, Guimbard, and Orefice (2022). Higher values indicate greater substitutability and therefore lower product differentiation, while lower values indicate greater differentiation. LAC exports to Japan exhibit considerable variation in these elasticities across economies (see Figure 2.5, Panel A). Japan's exports to LAC, in turn, exhibit a degree of product differentiation broadly comparable to its exports to the world, although differentiation varies across destination markets (see Figure 2.5, Panel B).

FIGURE 2.5. Trade-weighted substitution elasticities of trade between Japan and LAC, 2025.



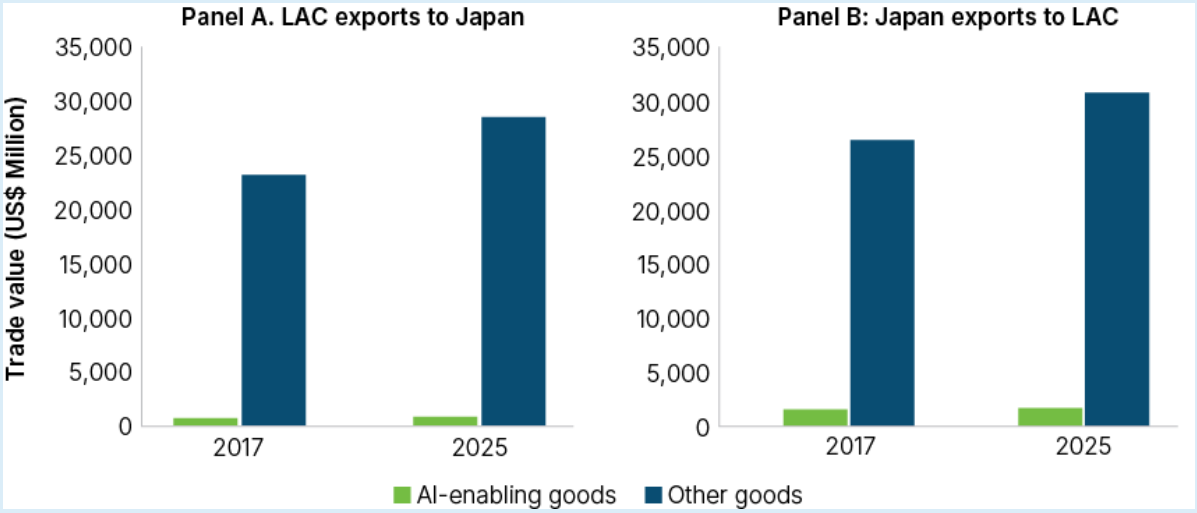
Source: Authors' calculations based on UN Comtrade data accessed via the World Bank's WITS server and Fontagné, Guimbard, and Orefice (2022).
Note: Country coverage differs across panels because the substitution-elasticity estimates are subject to data availability. Uruguay and Venezuela are not included in Panel B.

Box 2.3. AI-enabling products

AI-enabling goods remain a relatively small component of Japan–LAC trade, despite their rapid expansion in global trade. AI relies on an ecosystem of enabling products, including semiconductors, computers, and other technological goods. In 2025, AI-enabling goods accounted for about US$1.6 billion of Japan's roughly US$32 billion in exports to LAC, or around 5% of the total, and represented a similarly small share of LAC exports to Japan. By comparison, these products accounted for almost 9% of Japan's trade with North America and Europe and more than 25% of its trade with the rest of Asia (see Figure B.2.3).

The relatively small bilateral share coexists with the growing importance of AI-enabling goods in global trade. These products have become one of the fastest-growing segments of international trade, driven by rising demand for semiconductors, computing equipment, and other digital infrastructure (Garcia and Duran-Fernandez, 2026). The World Trade Organization (2025) estimates global trade in AI-enabling goods at US$2.3 trillion in 2023. Latin America's participation remains concentrated in a small number of economies: among LAC countries, only Mexico appears among the world's top ten importers, while Mexico and Japan both rank among the top ten exporters.

FIGURE B.2.3. AI-enabling vs. other goods trade, Japan-LAC bilateral, 2017 and 2025.



Source: Authors' calculations based on UN Comtrade/WITS data and the WTO's AI-enabling goods classification (World Trade Organization 2025).
Note: The WTO classification of AI-enabling products covers goods only.

2.1.2 Services Trade Grew Rapidly and Is Increasingly Digital

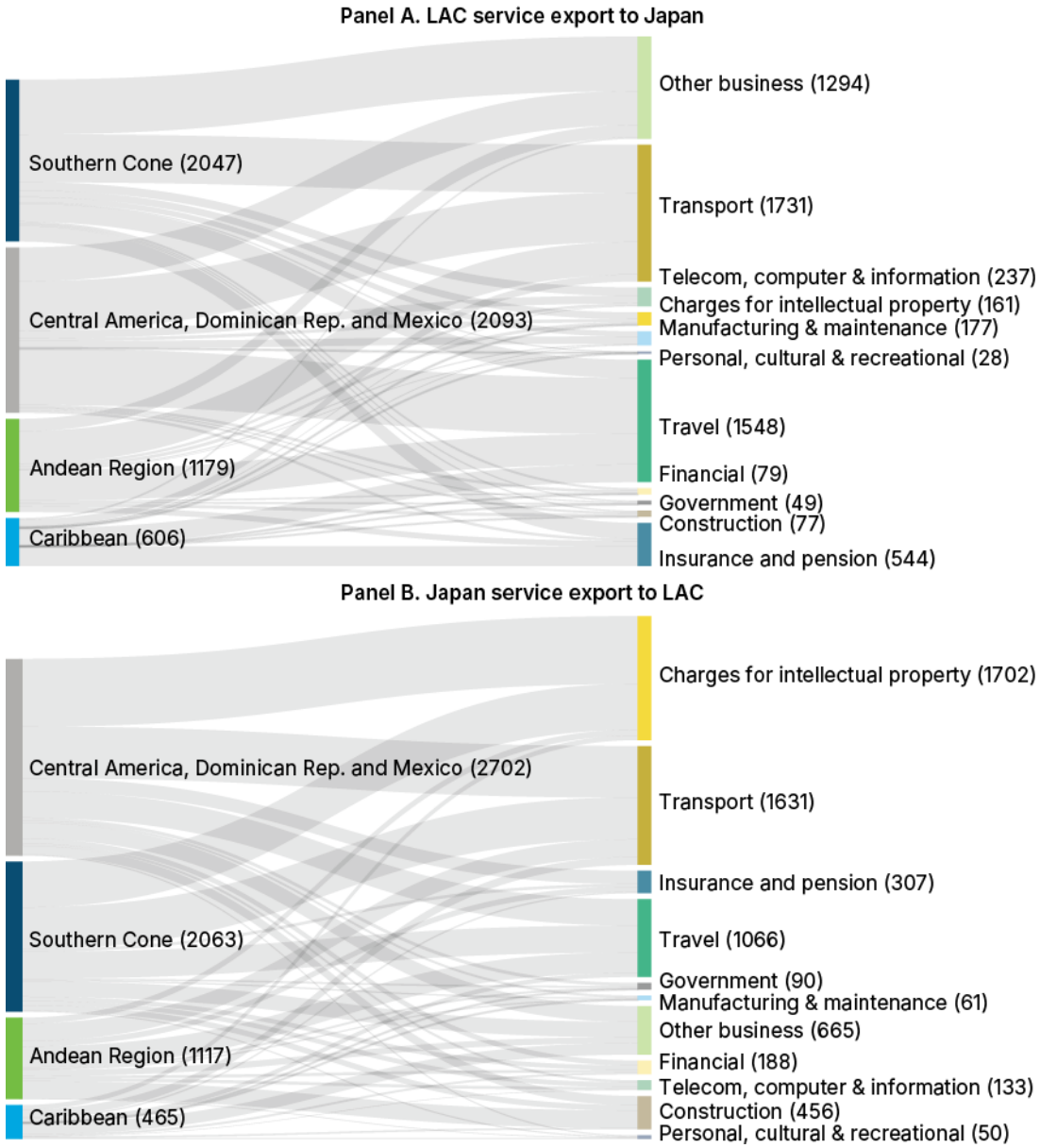
Services trade between Japan and LAC is concentrated in a few broad service categories, although its composition differs across directions. This pattern should be interpreted in light of the level of aggregation of the data, as services in this analysis are grouped into broader categories than goods. LAC's exports to Japan are led by travel (US$1.5 billion), transport (US$1.7 billion), and other business services

(US$1.3 billion), which together account for roughly three-quarters of bilateral services exports. Insurance and pension services also represent a sizeable component (US$0.5 billion), while telecommunications and computer services remain comparatively small (US$0.2 billion) (see Figure 2.7 Panel A).[12] The composition varies across subregions. The Southern Cone stands out for its specialization in other business services, while transport and travel dominate exports from Central America, Dominican Republic, and Mexico. Insurance services account for a relatively larger share in the Caribbean, while telecommunications and computer services have gained greater importance in the Andean Region.

Digitally deliverable services have become an increasingly important component of Japan's services exports to LAC, reflecting the growing role of knowledge-intensive activities in the bilateral relationship. Their share rose from about 22% of Japan's services exports to LAC in 1995 to nearly 48% in 2024, while remaining broadly stable at around 30% in LAC's exports to Japan. This difference is reflected in the composition of bilateral services trade. Japan's exports are led by charges for the use of intellectual property (US$1.7 billion), followed by transport (US$1.6 billion), travel (US$1.1 billion), and other business services (US$0.7 billion). Insurance and pension services (US$0.3 billion) and financial services (US$0.2 billion) also represent meaningful components, while telecommunications and computer services remain relatively limited (see Figure 2.7 Panel B). Across subregions, exports to Central America, Dominican Republic, and Mexico account for the largest share of intellectual property charges. By contrast, LAC's digitally deliverable services exports are concentrated in other business services, insurance and pension services, and telecommunications, computer and information services, pointing to different areas of specialization rather than direct competition.

[12] Services trade values are estimates from the OECD–WTO Balanced Trade in Services (BaTIS) database. BaTIS estimates are used because comprehensive and consistent reported bilateral services trade data are not available for all LAC countries over the period considered. Accordingly, services trade values should be interpreted with caution.

FIGURE 2.6. Services exports from LAC to Japan (upper panel) and Japan to LAC (lower panel), 2024.



Source: Author's calculations using OECD-WTO BaTIS database.
Note**:** The figure illustrates the distribution of bilateral services exports by IDB subregion and service sector. The width of each flow is proportional to the value of exports. Numbers in parentheses indicate total exports for each subregion and service category at US$ million.

Box 2.4. Services trade evolution: Evidence from reported bilateral data

Reported bilateral data available for selected LAC economies show services trade patterns broadly consistent with the evolution captured by the BaTIS estimates used in this chapter. For this cross-

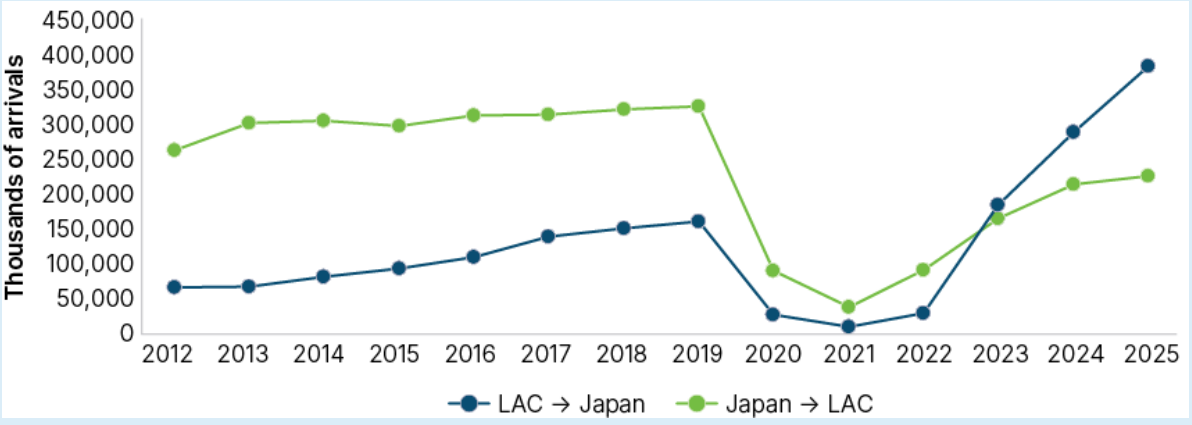
check, we use bilateral services trade data from the OECD and the U.S. International Trade Commission (USITC), which compile country-reported bilateral flows where available. BaTIS estimates are used because comprehensive and consistent bilateral services trade data are not available for all LAC countries over the period considered; accordingly, the estimated services values presented in the chapter should be interpreted with caution. For countries where reported bilateral data are available, they provide a useful cross-check of the evolution of services trade with Japan.

The reported data show sustained but differing trajectories across countries. Mexico has consistently been the largest market among the selected economies for Japanese services exports, with annual exports exceeding US$1 billion for most of the period since the mid-2000s and reaching nearly US$2.0 billion in 2024. Japanese services exports to Brazil exceeded US$1.5 billion during the late 2000s and early 2010s before moderating to around US$800 million in 2024. Exports to Chile increased more recently, rising after 2020 to almost US$900 million in 2024. Available reported data for services exports from LAC economies to Japan similarly show bilateral flows evolving over time, although generally at lower levels.

Box 2.5. Tourism

Travel between Japan and LAC has grown substantially, and the dominant direction of the flow reversed between 2019 and 2025. Bilateral arrivals data for a constant set of eight countries show arrivals from Japan to LAC running well ahead of arrivals from LAC to Japan throughout the 2010s, at a ratio of 2.07 to 1 in 2019. By 2025 that ratio had inverted to 0.58 to 1: arrivals from Japan remained 31.4% below their 2019 level, while arrivals from LAC to Japan exceeded theirs by 143.8%. Because the comparison uses the same set of countries in both directions throughout the period, the reversal is not driven by changes in country coverage (see Figure B.2.5).

FIGURE B.2.5. Bilateral visitor arrivals between Japan and LAC: constant set of eight countries, 1995-2025.



Source: Authors' calculations based on JNTO for arrivals to Japan; national statistical and tourism offices for arrivals to LAC.

Note: The figure covers Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Peru, the eight countries with continuous data in both directions over 2012–2025. 2026 is excluded as a partial year. Comparable bilateral coverage is more limited for arrivals from Japan to LAC than for arrivals from LAC to Japan; the constant country set is therefore used to ensure comparability across directions and over time. The World Tourism Organization (UNWTO) does not publish destination-country arrivals disaggregated by country of origin, and the Japan National Tourism Organization (JNTO) does not publish data on the destinations of Japanese travelers. Arrivals to Japan are counted by nationality and include re-entries by long-term residents, expatriates, and students; the series therefore measures trips rather than distinct travelers and is best interpreted as visitor arrivals rather than tourism in the strict sense. 2026 is excluded because it is a partial year.

Services account for roughly a third of the value added embodied in LAC's exports, meaning that their contribution to the bilateral relationship is substantially larger than direct services trade alone would suggest. Services also enter bilateral trade indirectly as value added embodied in goods exports through activities such as transport, finance, engineering, and business services. Across LAC economies, services make up around 35% of the value added embodied in total exports: about 82% of services exports, but also 21% of manufacturing exports and 15% of agricultural exports. The same pattern holds in Japan, where services account for around 21% of the value added embodied in both manufacturing and agricultural exports. Logistics, finance, design, software, and professional inputs travel with traded goods, shaping the cost and feasibility of goods trade, investment, and value-chain participation alike. Lowering services trade costs therefore supports the Japan-LAC relationship well beyond directly recorded services flows, strengthening goods trade and broader value-chain integration.[13]

2.2 LAC and Japan Are Also Linked by Investment and Multinational Production

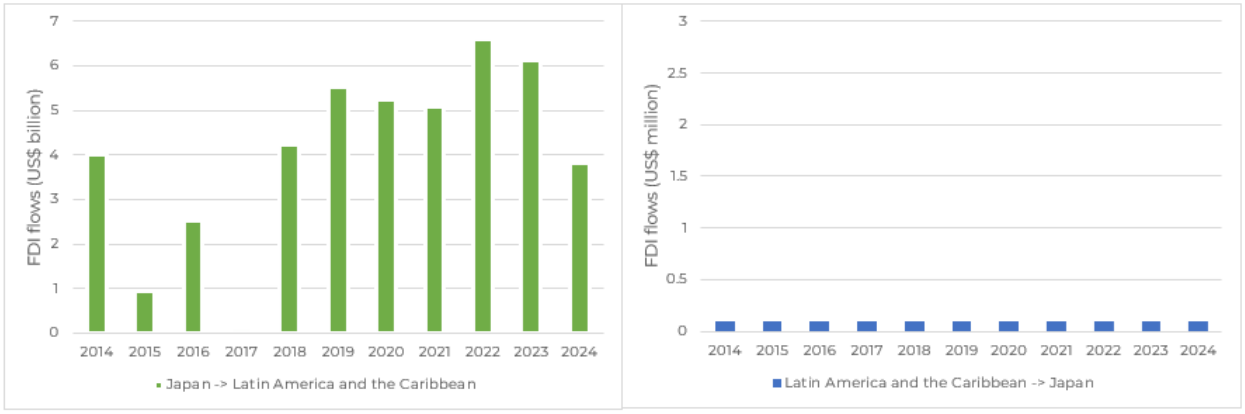
Japanese investment has established a substantial and persistent presence in LAC over the past decade. Japanese FDI flows to the region, have exceeded US$4 billion in most years since 2018, reaching US$6.6 billion in 2022 and US$6.1 billion in 2023, before moderating to US$3.8 billion in 2024. The cumulative position followed the same path, with Japanese FDI stock in LAC standing at US$36.5 billion in 2014 and US$34.3 billion in 2024, after peaking at US$38.7 billion in 2023. Investment from LAC to Japan has grown gradually over the past decade, with the cumulative stock rising from US$2.2 billion in 2014 to US$2.5 billion in 2024. The Japanese investment presence in the region is therefore well established and remains substantial, whereas investment from LAC to Japan remains at a comparatively early stage.[14]

[13] OECD (2023) trade-in-value-added estimates; on the size and persistence of services trade costs, see Miroudot, Sauvage, and Shepherd (2012) and (2013).

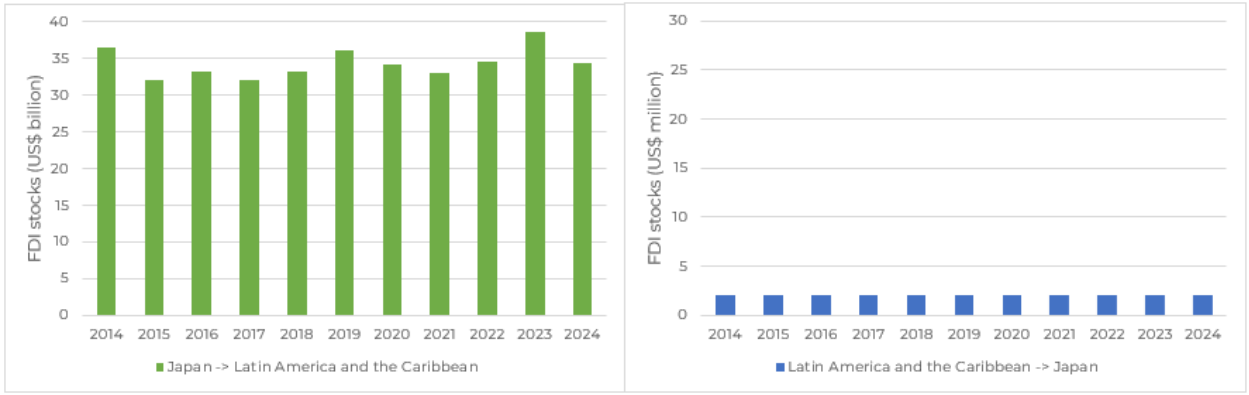
[14] OECD data cover 26 LAC economies. Trends were cross-checked against JETRO statistics for Brazil and Mexico, the two countries JETRO identifies separately, and are consistent; levels differ between the two sources because of valuation and residence criteria and are not directly comparable.

FIGURE 2.7. FDI flows and stocks between Japan and LAC, 2014-2024.

Panel A. FDI Flows



Panel B. FDI Stocks



Source: Authors' calculations based on OECD FDI Statistics.
Note: FDI flows and stocks correspond to outward foreign direct investment reported by the investing economy. LAC corresponds to the 26 IDB borrowing member countries.

Although LAC accounts for a relatively small share of Japan's global multinational network, the presence of Japanese firms provides an important channel for technology, knowledge, and intermediate inputs to reach the region. Japanese multinational activity in LAC has expanded steadily over the past decades. Around one in twenty Japanese multinationals already operates in the region: 524 parent firms manage 2,196 affiliates in LAC, representing 4.9% of Japan's multinational firms and around 2% of its worldwide affiliate network. The location and sectoral composition of these affiliates provide information on the geographic and functional footprint of Japanese multinational activity in the region. In the opposite direction, 31 LAC multinationals operate 35 affiliates in Japan, equivalent to 0.48% of the region's multinational firms and 0.13% of their global affiliate network.

The functional composition of Japanese affiliates varies across LAC subregions, revealing distinct patterns of specialization. Central America, Dominican Republic, and Mexico exhibit the strongest manufacturing orientation, with nearly 42% of Japanese affiliates engaged in manufacturing. In the

Southern Cone, Japanese activity is more evenly distributed across manufacturing, wholesale and retail trade, and business services. The Andean Region places greater emphasis on wholesale and retail trade alongside primary-sector activities, while the Caribbean has a relatively stronger concentration in service activities. Relative to other multinational firms operating in the same subregions, Japanese affiliates are generally more concentrated in manufacturing and wholesale and retail trade and less represented in finance and real estate (see Figure 2.8).

FIGURE 2.8 Affiliate composition by sector and destination subregion, Japanese and other multinational enterprises in LAC.

Panel A. Japan

Panel B: Rest of the World (Non-Japan)

Source: Authors' calculations based on Dun & Bradstreet (D&B) WorldBase.
Note: Each panel corresponds to a Global Ultimate Owner region of origin; rows are affiliate destination subregions, and columns are sectors. Cell values show the share of affiliates whose Global Ultimate Owner is located in the indicated region and that operate in each sector within the corresponding LAC subregion.

2.3 LAC and Japan Hold Complementary Positions in Global Value Chains

LAC and Japan participate in global value chains (GVC) at nearly the same rate, and both stand well below advanced economies. Value added crossing borders during production accounts for 44% of LAC's gross exports and 47% of Japan's, against 63% for advanced economies. For Japan this reflects economy size as much as trade policy: large economies internalize more of their supply chains, and the United

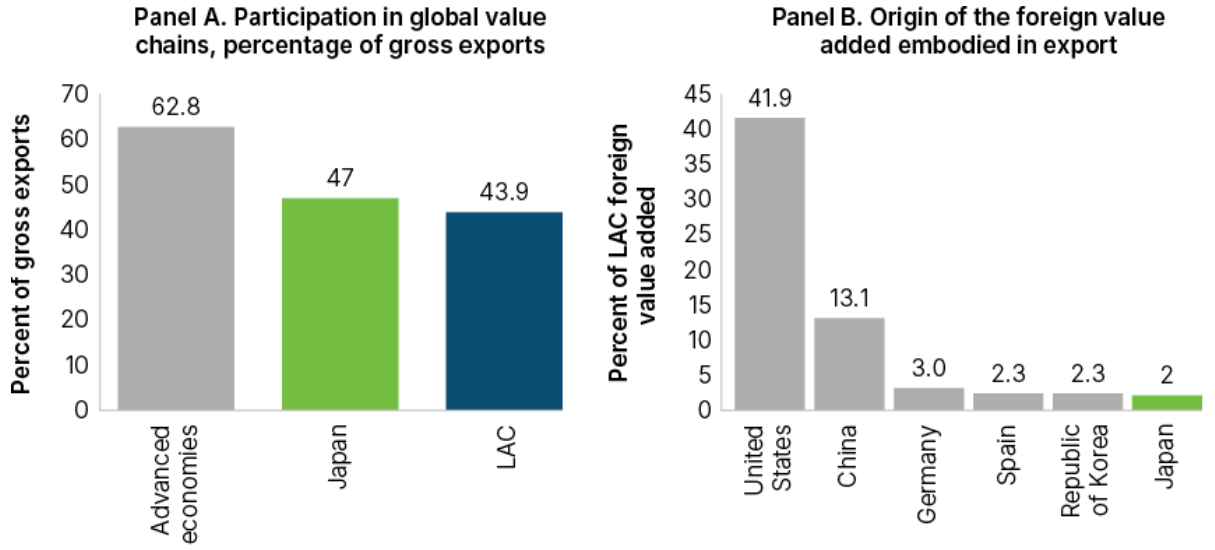
States records a nearly identical 47%. For LAC, which has no comparable domestic scale, the same figure reflects a genuinely thinner insertion into international production networks.

The two economies reach that similar level from opposite directions, highlighting the complementary nature of their production structures. Japan has a relatively low backward participation, with foreign value-added accounting for 18% of its exports, and a relatively high forward participation, at 29%: it is a net supplier of inputs that other countries embody in their own exports. LAC is evenly split, at 22% on each side. Japan specializes in supplying precisely the kind of intermediate input that deeper GVC insertion in the region would require.

Within LAC, that complementarity is concentrated in the northern subregion. Central America, Mexico, and the Caribbean draw 29% of their export value from foreign inputs and supply 18% forward, the profile of economies positioned downstream, assembling and transforming imported intermediates. By contrast, the Southern Cone shows the mirror image, at 12% backward and 28% forward, a profile close to Japan's own (see Figure 2.9, Panel A). The two subregions therefore offer Japanese firms different propositions: a downstream manufacturing platform in the north and an upstream supply base in the south.

Japan currently accounts for 2.0% of the foreign value added embodied in LAC's exports. Among the major partners shown in Figure 2.9, Panel B, the United States accounts for the largest share, at 41.9%, followed by China at 13.1%. Japan is part of a group of other partners with considerably smaller and relatively similar shares, ranging from 2.0% to 3.0% (see Figure 2.9, Panel B).

FIGURE 2.9. Global Value Chain Participation and the Origin of Foreign Value Added in LAC Exports, 2022.



Source: Authors' calculations based on UNCTAD-Eora GVC Database.
Note: Participation in global value chains is measured as the sum of the foreign value added embodied in an economy's exports (backward participation) and the domestic value added embodied in other economies' exports (forward participation), expressed as a share of gross exports. Group aggregates are unweighted averages. Advanced economies comprise 26 countries and include Japan, which is also shown

separately. LAC includes the IDB borrowing member countries. Panel B excludes value added originating within LAC.

Bilateral value-chain linkages in medium- and high-technology manufacturing are particularly intensive relative to what Japan and LAC each record with the rest of the world. In this sector, backward and forward linkages account for 24% and 22%, respectively, of LAC exports to Japan, and for 16% and 23% of Japan's exports to LAC. Taken together, these linkages point to a comparatively strong bilateral connection in medium- and high-technology manufacturing.[15]

The extent of value-chain integration depends not only on firms' capabilities but also on the costs of operating across borders. Participation in international markets alone does not by itself imply movement into higher value-added activities: firms need the capabilities to source, transform, and deliver intermediate goods and services reliably, while trade costs shape the extent to which complementary production structures translate into deeper trade and investment linkages.

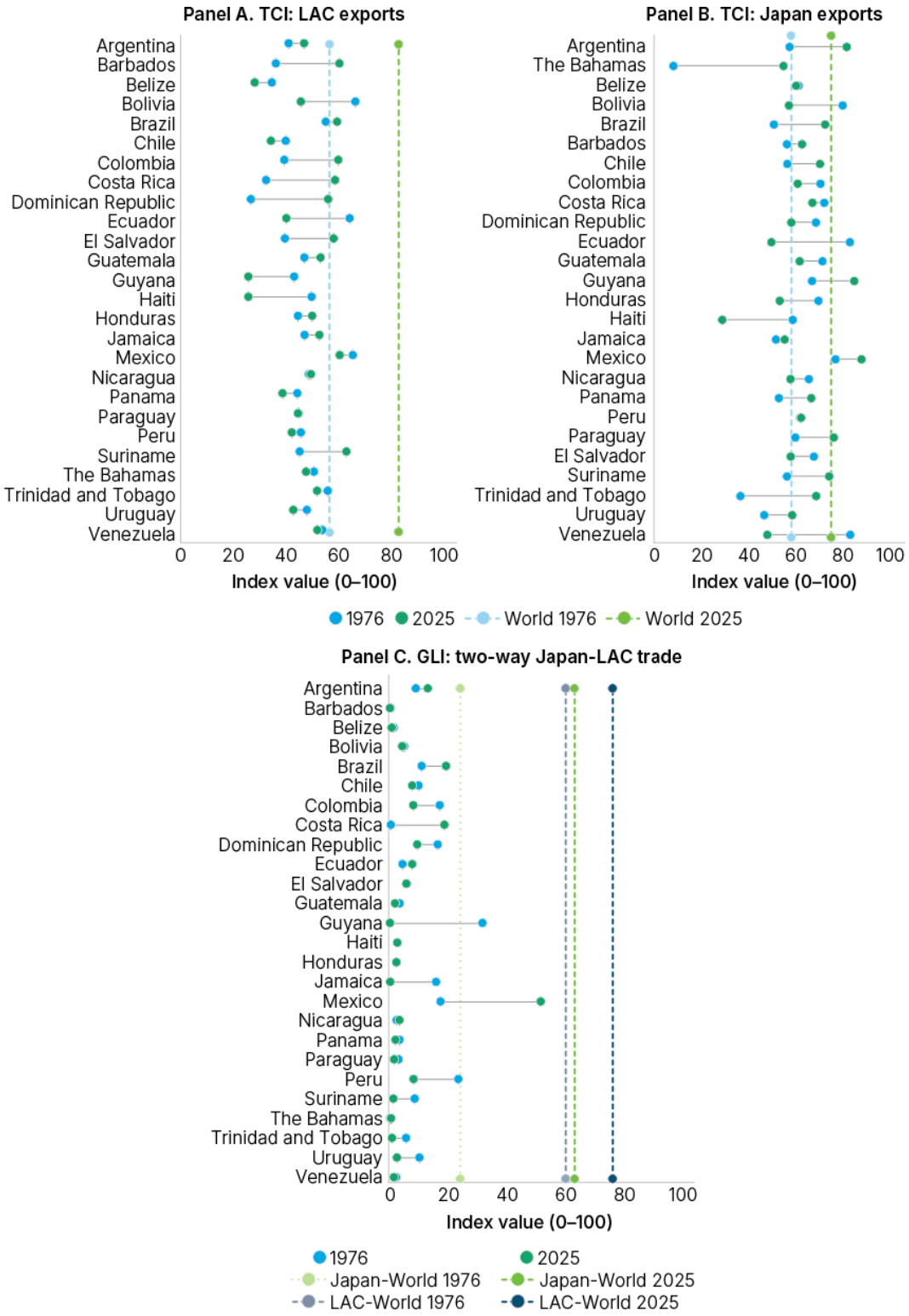
2.4 Trade Costs Limit a Complementarity That Has Strengthened Over Five Decades

Trade costs to constrain Japan–LAC goods trade, preventing the two economies' underlying complementarities from being fully realized. This can be seen by comparing measures based on observed trade with their potential counterparts, which abstract from bilateral trade costs. The Trade Complementarity Index (TCI) measures the degree of alignment between one economy's export structure and its partner's import structure, while the Grubel-Lloyd Index (GLI) captures the extent of two-way intra-industry trade. Their potential counterparts—the Potential Trade Complementarity Index (PTCI) and Potential Grubel-Lloyd Index (PGLI)—are calculated using counterfactual trade flows that remove the influence of bilateral trade costs while preserving countries' productive structures.

Observed trade patterns do not reveal a uniform regional trend in Japan–LAC complementarity. Using actual trade flows, the TCI and GLI display substantial heterogeneity across country pairs between 1976 and 2025: complementarity strengthens for some bilateral relationships but weakens for others, making it difficult to identify a clear regional pattern from observed trade alone (see Figure 2.10, Panels A, B, and C).

[15] Sectoral GVC estimates are based on the ADB Multiregion Input-Output Tables for Japan and five LAC economies—Argentina, Brazil, Colombia, Ecuador, and Mexico—using the most recent input-output table available for each economy. The sectoral estimates use a different input-output framework from the UNCTAD-Eora aggregate measures presented above; levels are therefore not directly comparable across the two sources and should be interpreted as indicative.

FIGURE 2.10. TCI and GLI for Japan-LAC goods trade, 1976 and 2025, index.

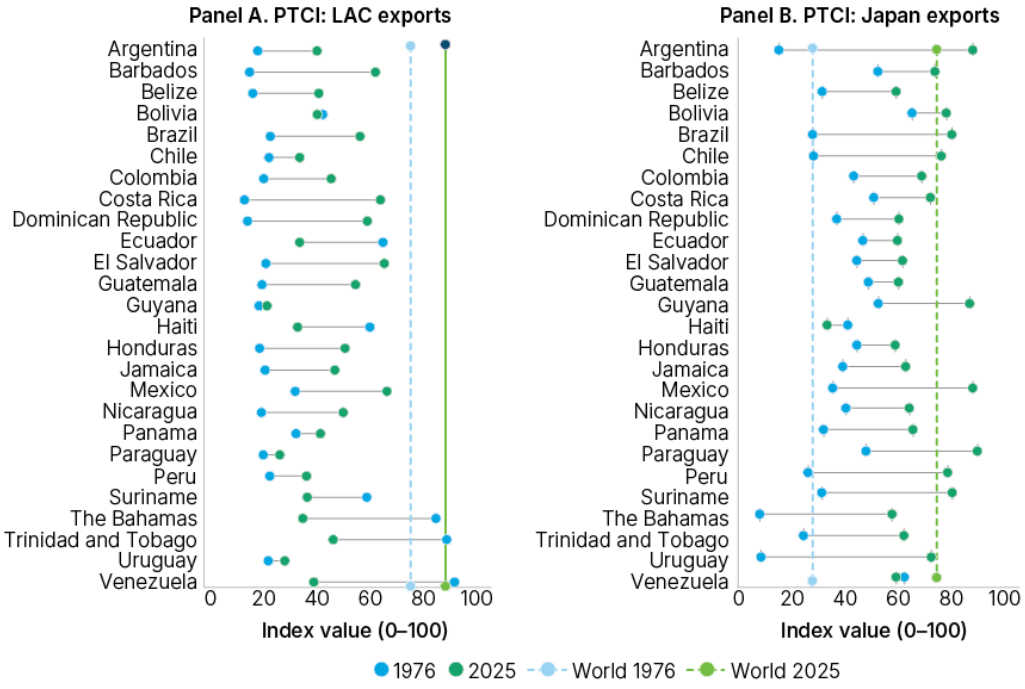


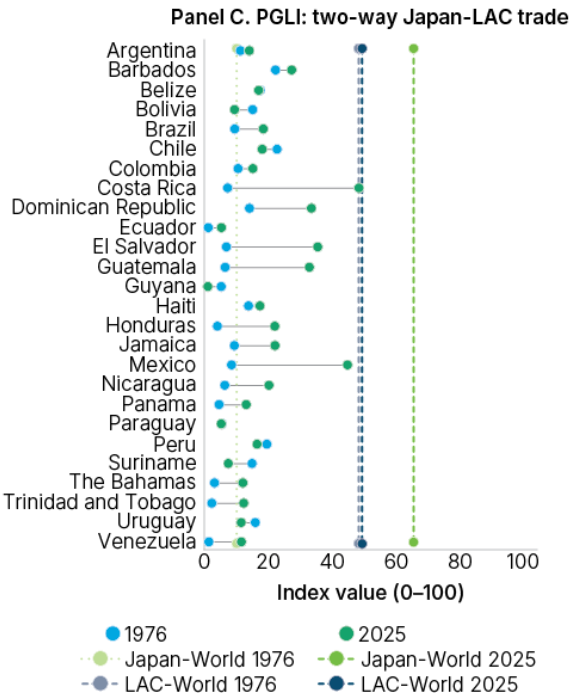
Source: Authors' calculations based on UN Comtrade data accessed via the World Bank's WITS server.

Note: Both indices range from 0 to 100. Higher TCI values indicate a closer match between export and import structures, while higher GLI values indicate greater two-way intra-industry trade. Calculations are based on SITC Rev. 1 data at the one-digit level.

Once bilateral trade costs are set aside, the underlying productive structures of Japan and LAC appear increasingly complementary over time. This result emerges from computing the same two indices in their potential form, the Potential Trade Complementarity Index (PTCI) and the Potential Grubel-Lloyd Index (PGLI), using counterfactual trade flows derived from the structural gravity model, which preserves countries' productive structures while removing the influence of bilateral trade costs. Under this counterfactual measure, the PTCI increases for most Japan–LAC country pairs over the period, while cross-country dispersion becomes substantially smaller than in the observed-trade results (see Figure 2.13 Panel A, B and C). The comparison suggests that bilateral trade costs continue to prevent these underlying complementarities from being fully reflected in observed trade.

FIGURE 2.11. PTCI and PGLI for Japan-LAC goods trade, 1976 and 2025, index.





Source: Authors' calculations based on UN Comtrade data accessed via the World Bank's WITS server.
Note: Both indices range from 0 to 100. Higher PTCI values indicate a closer potential match between export and import structures, while higher PGLI values indicate greater potential two-way intra-industry trade. The indices are calculated using counterfactual trade flows derived from the structural gravity model, which removes the influence of bilateral trade costs while preserving countries' productive structures. Calculations are based on SITC Rev. 1 data at the one-digit level.

Box 2.6. Complementarity and Intra-industry indices

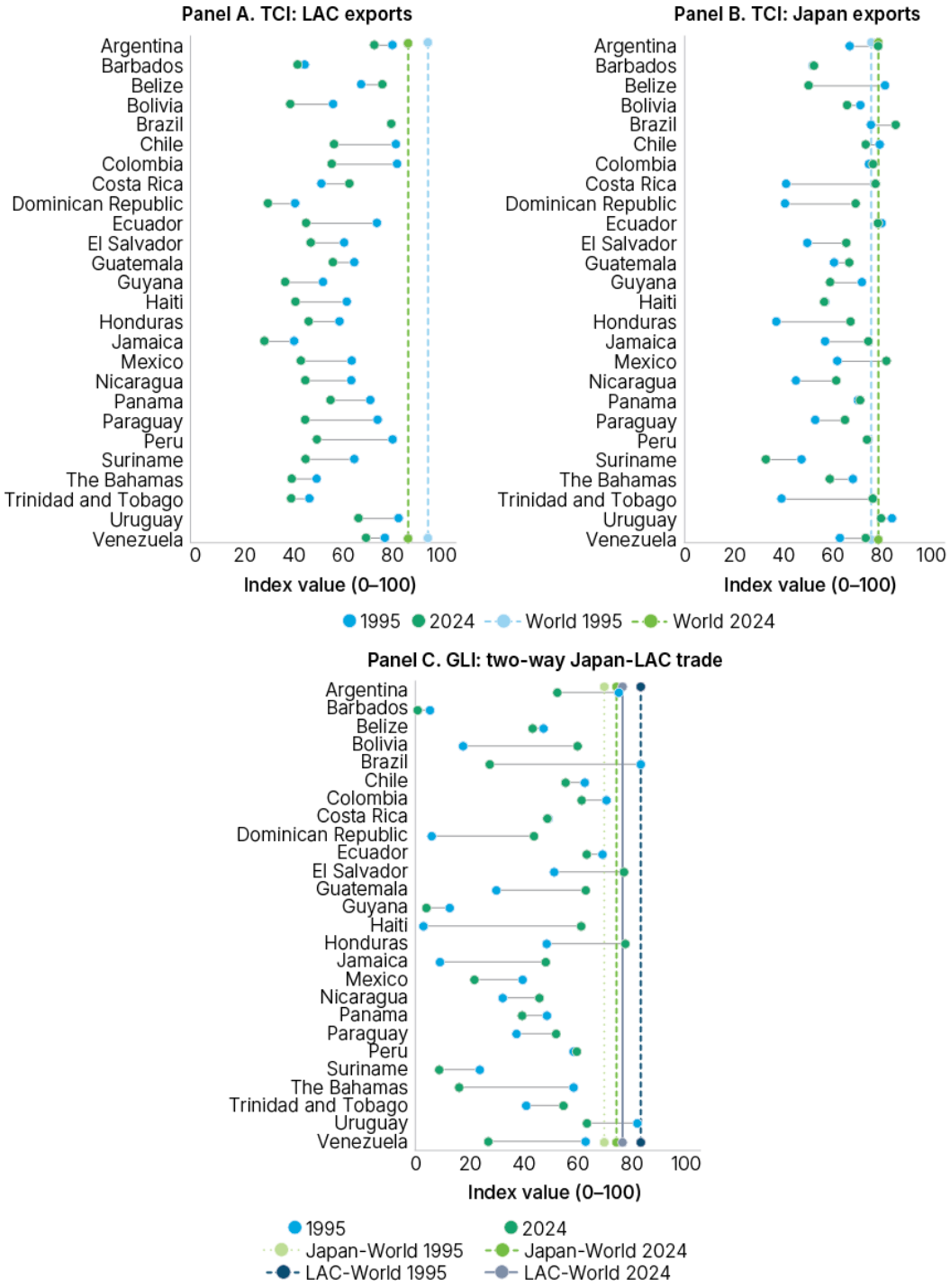
The TCI measures how closely one economy's export structure matches another's import structure, while the GLI measures the extent of two-way intra-industry trade. Both range from 0 to 100, with higher values indicating greater complementarity and intra-industry trade, respectively.

The indices are computed using both observed bilateral trade flows (TCI and GLI) and counterfactual trade flows generated by a structural gravity model. The counterfactual removes the bilateral trade-cost component while preserving exporter and importer characteristics, allowing the indices (PTCI and PGLI) to measure the complementarity and intra-industry trade that would emerge in the absence of bilateral trade frictions.

Services trade between Japan and LAC appears substantially more complementary and diversified than observed trade alone would suggest. Observed trade already reveals growing complementarities across many bilateral relationships, particularly in Japan's services exports to the region, although changes are more heterogeneous for LAC's exports to Japan and for two-way trade (see Figure 2.12 Panel A, B and C). The PTCI increases across most bilateral relationships over the period, while the PGLI also rises for most

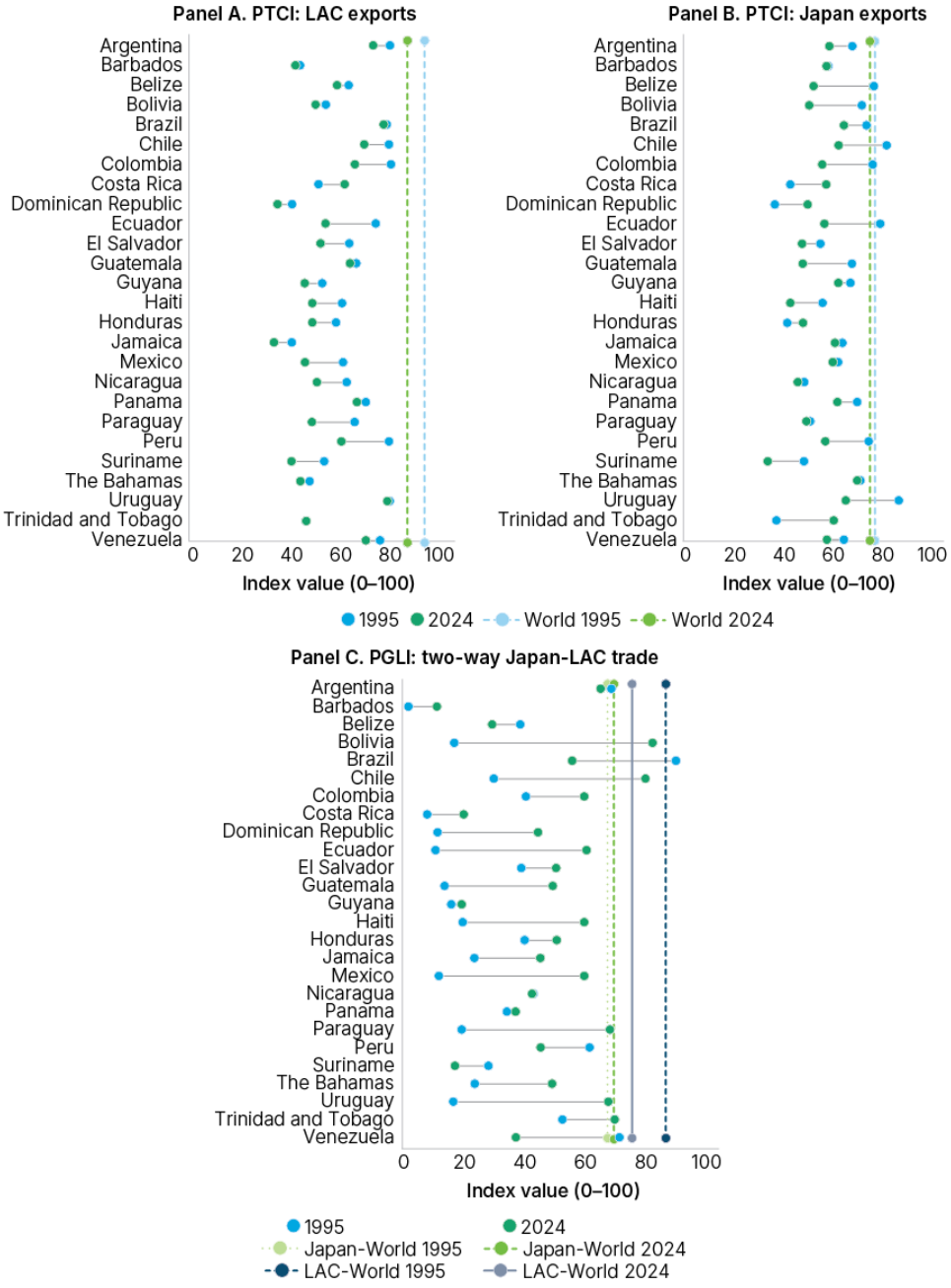
country pairs (see Figure 2.13 Panel A, B and C). Together, these patterns indicate that the structural basis for bilateral services trade has strengthened over time and that the relationship is becoming increasingly diversified rather than narrowly specialized.

FIGURE 2.12. TCI and GLI for Japan-LAC services trade, 1995 and 2024, index.



Source: Authors' calculations based on OECD-WTO BaTIS data.
Note: Both indices range from 0 to 100. Higher TCI values indicate a closer match between export and import structures, while higher GLI values indicate greater two-way intra-industry trade. Calculations are based on data at the single-code level of aggregation.

FIGURE 2.13. PTCI and PGLI for Japan-LAC services trade, 1995 and 2024, index.



Source: Authors' calculations based on OECD-WTO BaTIS data.
Note: Both indices range from 0 to 100. Higher PTCI values indicate a closer potential match between export and import structures, while higher PGLI values indicate greater potential two-way intra-industry trade. The indices are calculated using counterfactual trade flows derived from the structural gravity

model, which removes the influence of bilateral trade costs while preserving countries' productive structures. Calculations are based on data at the single-code level of aggregation.

2.5 The Untapped Potential of the Japan-LAC Relationship

Japan and LAC are more complementary today, and their economic relationship now spans a broader range of channels. Alongside the traditional exchange of resource-based and manufactured goods, bilateral linkages increasingly include services, digital trade, investment, multinational activity, and participation in global value chains. At the same time, observed trade patterns do not fully reflect this underlying complementarity: counterfactual measures that abstract from bilateral trade costs, understood as the frictions that make cross-border trade more costly or difficult, point to stronger and more broadly shared complementarity across the region. Together, these findings indicate that part of the potential of the Japan–LAC economic relationship remains latent.

3 UNDERSTANDING THE DRIVERS OF JAPAN-LAC ECONOMIC ENGAGEMENT: PAST, PRESENT, AND FUTURE

Chapter 3. Understanding the Drivers of Japan-LAC Economic Engagement: Past, Present, and Future

In the absence of trade costs, trade between Japan and LAC would be both larger and more diversified, as shown in Chapter 2. These costs are shaped by tariffs, technical requirements, customs procedures, transport connectivity, services regulation, and the institutions that address information frictions and support commercial relationships; each responds to a different instrument. This chapter examines the main sources of trade costs that continue to constrain firms' ability to realize that potential and the areas where policy can help reduce them.

3.1 Trade Growth Reflects Supply-Side Factors, Demand-Side Factors and Bilateral Trade Costs

The sectoral decomposition shows that supply-side factors and lower bilateral trade costs have been the main drivers of growth in LAC goods exports to Japan, while Japanese demand has generally played a more limited role. Supply-side factors, reflecting improvements in productivity, technology, production capacity, and firms' ability to compete in international markets, are the dominant contributor across sectors, such as food products, chemicals, mineral fuels, and miscellaneous manufactures. Lower bilateral trade costs are particularly important in crude materials, beverages and tobacco, and machinery and transport equipment. Japanese demand is the largest contributor only for manufactures classified chiefly by material. Overall, the evidence suggests that growth in LAC goods exports to Japan has been driven primarily by supply-side improvements and lower bilateral trade costs, with Japanese demand playing a more limited role (see Figure 3.1, Panel A). Box 3.1 describes the methodology used to decompose export growth into these three components.

Box 3.1. Decomposing Japan-LAC trade growth

Understanding what drives bilateral trade and investment growth matters because different sources of growth call for different policy responses. Trade and investment between two countries can expand for three broad reasons. Producers in the exporting country may become more productive or more competitive, increasing their ability to serve foreign markets. Demand in importing countries may grow. Or the bilateral relationship itself may improve as the costs of trading between the two partners decline through lower tariffs, better transport and logistics, more efficient border procedures, greater regulatory compatibility, or lower information and search costs. While all three channels can be influenced by policy to varying degrees, the trading cost is the one most directly shaped by bilateral trade and investment policies and institutional arrangements.

The decomposition is based on a structural gravity model in which exporter-, importer, and country-pair-specific factors are estimated econometrically and applied separately to goods trade (1976–2025), services trade (1995–2024), and multinational activity (1975–2024). Working in natural logarithms, growth between the initial and final year for each country-sector is decomposed

additively into a supply-side term, a demand term, and a bilateral term. The bilateral component captures changes that are specific to the country's pair after accounting for exporter and importer effects. According to the trade literature, these pair-specific effects are driven primarily by bilateral trade costs, including those associated with transport, border procedures, regulatory agreements, information frictions, and other barriers to international exchange (Head and Mayer, 2014; Yotov et al., 2016). Because these effects may also absorb persistent bilateral characteristics that are not separately identified, the bilateral component is interpreted throughout this chapter primarily as reflecting changes in bilateral trade costs.[16]

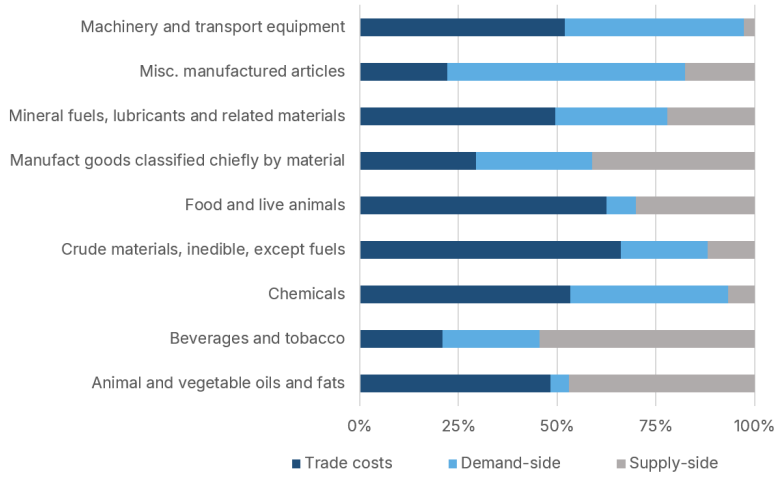
Two cases show how differently this plays out. Mexico's machinery and transport equipment exports to Japan grew roughly 1,200-fold between 1976 and 2025, from about US$1 million to US$1.3 billion; the supply-side term alone would predict close to a 600-fold increase and demand a 4-fold increase, while the bilateral term is a mild drag— a supply-driven story. Costa Rica's crude materials exports to Japan also grew roughly 1,200-fold, but from about US$11,000 to US$12.8 million; here the supply-side term would predict only a 9-fold increase and demand a 6-fold increase, while the bilateral term alone would predict more than a 21-fold increase. Most of Costa Rica's growth in this sector came from an improving bilateral relationship rather than from a general gain in capability.

Bilateral trade costs play a larger role in shaping Japan's goods exports to LAC. Falling bilateral trade costs are the largest contributor to growth across a broad range of sectors, including food products, crude materials, chemicals, machinery and transport equipment, and mineral fuels. Supply-side factors dominate mainly in beverages and tobacco and manufactures classified chiefly by material, while LAC demand is the leading driver only for miscellaneous manufactured articles. Overall, the evidence suggests that the growth of Japan's goods exports to LAC has been driven primarily by a reduction in bilateral trade costs, complemented by supply-side improvements, while demand expansion has played a more limited role (Figure 3.1, Panel B). Box 3.2 compares this pattern with the region's trade with other major partners.

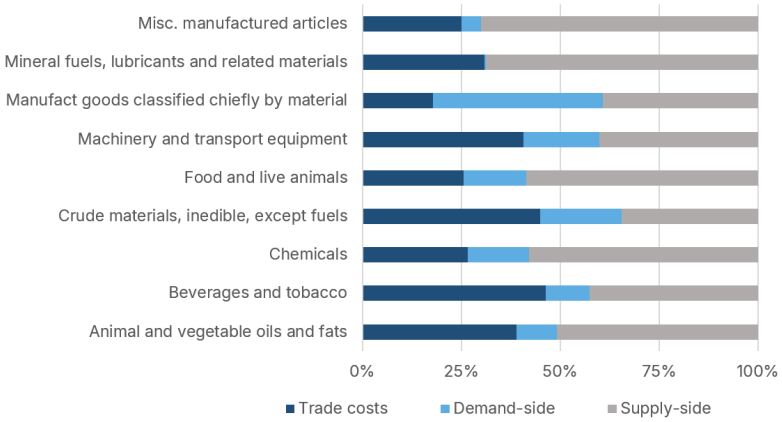
[16] An analogous approach is not feasible for foreign direct investment due to the lack of sufficiently disaggregated data.

FIGURE 3.1. Main factors driving changes in goods trade between Japan and LAC, 1976-2025.

Panel A. LAC goods exports to Japan



Panel B. Japanese goods exports to LAC



Source: Authors' calculations based on UN Comtrade data accessed via the World Bank's WITS server.
Note: Components correspond to the supply, demand, and bilateral terms from the decomposition described in Box 3.1. For each sector, bars show the average absolute magnitude of each component across all valid country-pair decompositions, expressed as a share of the sum of the three components within that sector.

Box 3.2. LAC's trade with other partners is driven by the same factors, but with a different distribution

Set against LAC's other major partners, the Japan relationship sits between a relationship that is even more supply-driven and one driven almost entirely by demand. Supply-side gains dominate LAC's goods exports to the United States more strongly than to Japan, in 62% of country-sector cases against 56%, with trade costs again second at 32%, consistent with the depth of LAC-US supply-chain integration. LAC's exports to China show a different pattern: demand dominates in 87% of cases,

reflecting China's import growth from a very low base rather than any general improvement on the LAC supply side.[17]

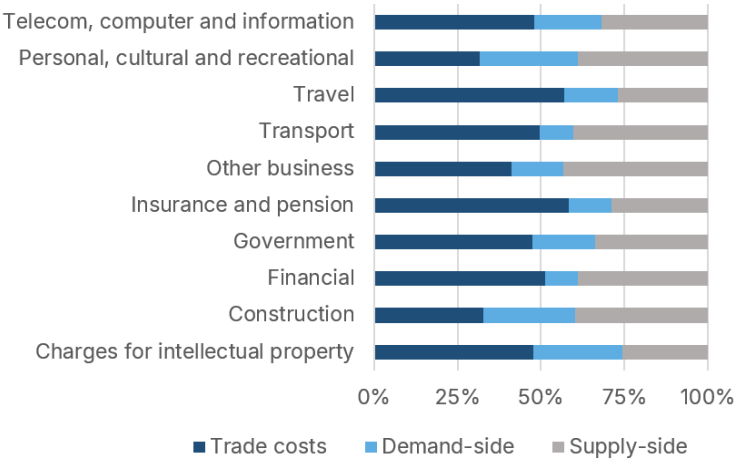
Japanese demand plays a prominent role in the growth of several of LAC's key services exports to Japan, while declining trade costs have been particularly important for trade in knowledge-intensive business services. The sectoral decomposition of LAC services exports to Japan from 1995–2024 shows that the relative importance of trade costs, demand, and supply varies considerably across service activities. Japanese demand is the main driver of growth in travel, transport, government services, and charges for the use of intellectual property, while falling trade costs are the dominant factor boosting trade in other business services, personal, cultural, and recreational services, and telecommunications, computer, and information services (Figure 3.2, Panel A).

By contrast, the sectoral decomposition for Japan's services exports to LAC points to a stronger role for reductions in bilateral trade costs. Falling trade costs are the dominant driver of trade across most service sectors, including transport, travel, financial services, insurance and pension services, government services, telecommunications, computer and information services, and charges for the use of intellectual property. Supply-side factors play the leading role in construction, other business services, and personal, cultural, and recreational services, while LAC demand does not emerge as the dominant factor in any major sector. Compared with LAC's services exports to Japan, Japanese services exports therefore appear considerably more sensitive to regulatory and institutional trade costs (Figure 3.2, Panel B).

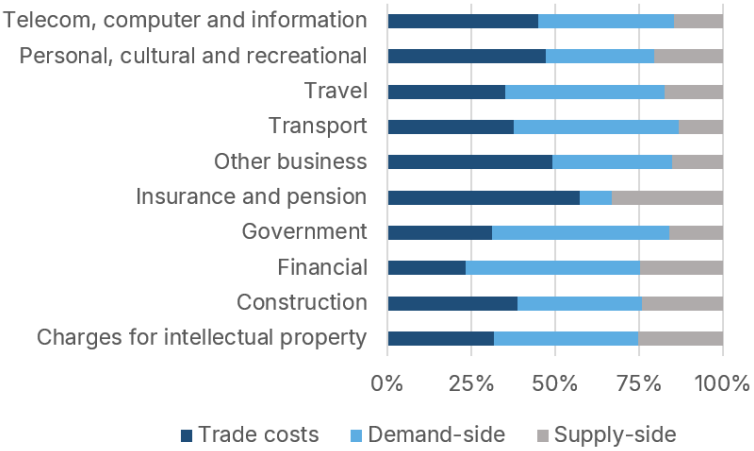
[17] The comparison with China should be interpreted with caution because usable 1976 data for LAC-China pairs cover only five countries and eight sectors.

FIGURE 3.2. Main factors driving changes in services trade between Japan and LAC, 1995-2024.

Panel A. LAC services exports to Japan



Panel B. Japan services exports to LAC



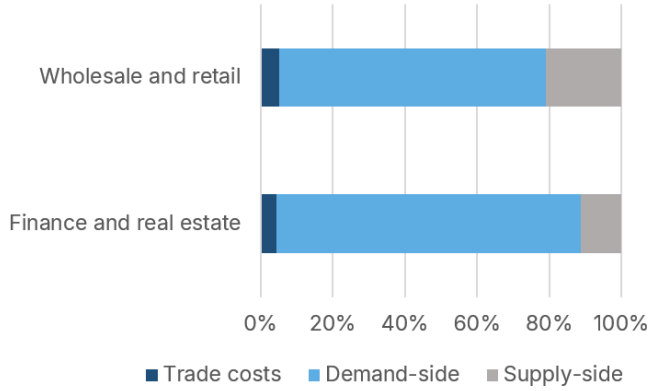
Source: Authors' calculations based on WTO BaTIS data.
Note: Note the change in data collection methodology in 2005 from BaTIS. Components correspond to the supply, demand, and bilateral terms from the decomposition described in Box 3.1. For each sector, bars show the average absolute magnitude of each component across all valid country-pair decompositions, expressed as a share of the sum of the three components within that sector.

Evidence for LAC multinationals investing in Japan points to a different pattern. Across the dominant sectors where LAC multinationals invest, finance and real estate, and wholesale and retail, local demand accounts for the largest share of affiliate growth, while supply-side factors and bilateral trade costs play comparatively smaller roles. This suggests that LAC firms investing in Japan do so primarily to serve the Japanese market rather than to exploit production-cost advantages or organize regional production networks (see Figure 3.3, Panel A). This is consistent with the broader evidence presented in Chapter 2, which shows that LAC investment in Japan remains concentrated in activities primarily oriented toward serving the domestic market.

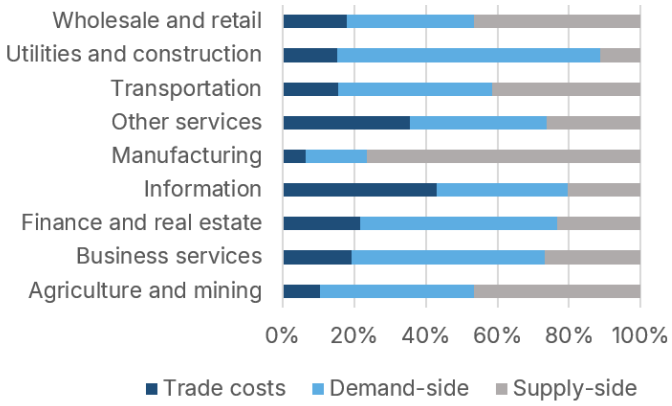
The drivers of Japanese multinational activity in LAC vary systematically across business functions. Supply-side factors account for most of the growth in production and commerce: manufacturing, wholesale and retail, and agriculture and mining. Demand, by contrast, is the main driver in finance and real estate, business services, utilities and construction, and contributes substantially to transportation activities, consistent with the need to serve local markets. Trade costs play a comparatively larger role in selected service activities, particularly information services, where they represent the largest component of growth, and, to a lesser extent, other services, suggesting that improvements in connectivity and the ease of operating across borders are especially relevant for knowledge-intensive activities (see Figure 3.3, Panel B).

FIGURE 3.3. Main factors driving changes in the number of multinational affiliates between Japan and LAC, 1995-2024.

Panel A. LAC to Japan



Panel B. Japan to LAC



Source: Authors' calculations based on Dun & Bradstreet (D&B) WorldBase.
Note: Components correspond to the supply, demand, and bilateral terms from the decomposition described in Box 3.1. For each sector, bars show the average absolute magnitude of each component across all valid country-pair decompositions, expressed as a share of the sum of the three components within that sector.

Trade costs extend well beyond production costs and shape firms' ability to trade, invest, and operate across borders. They include those associated with tariffs, transport and logistics, customs and other

administrative cross-border procedures, regulatory differences across countries, and information frictions that make it costly for firms to identify business opportunities and establish commercial relationships. A large body of literature has shown that these frictions are an important determinant of both trade and foreign direct investment, shaping firms' decisions to export, diversify products and destinations, invest abroad, and participate in global value chains (Anderson and van Wincoop 2004; Mesquita Moreira and Stein 2019; Ramondo, Rodríguez-Clare, and Tintelnot 2015).

Trade costs arise from multiple and mutually reinforcing sources, each affecting international integration through distinct channels. Geography, transport connectivity, and logistics determine the cost and reliability of moving goods across borders (Mesquita Moreira, Volpe Martincus, and Blyde 2008). Administrative border procedures, customs modernization and trade facilitation influence the time and cost required to complete international transactions (Volpe Martincus 2016). Technical regulations and conformity assessment procedures may either facilitate market access or raise compliance costs depending on their design (Blyde, 2024). Finally, information frictions increase the fixed costs of identifying business opportunities, commercial partners and investment locations, making export and investment promotion institutions important instruments for reducing these barriers (Volpe Martincus 2010; Volpe Martincus et al. 2021).

Bilateral trade costs are an important factor shaping the Japan–LAC economic relationship and a key margin on which bilateral policy can act. The remainder of this chapter focuses on the main sources of these costs and the scope for reducing them. While supply-side factors reflect the productivity of individual firms and the fixed costs they bear in exporting to any destination, and demand-side factors depend on market size and growth in the destination market, the bilateral component responds to policies directed at the relationship between the two partners. The following sections examine the main dimensions of these costs in turn: transport and logistics, tariffs and non-tariff measures and services regulation, administrative border processing, information frictions, and the institutional framework governing trade and investment, identifying the principal sources of bilateral frictions and the areas where Japan and LAC can strengthen trade, investment and business linkages through closer cooperation.

3.2 Transportation Costs, Infrastructure and Connectivity

Transport costs are a major determinant of export performance in LAC. Simulations for the region indicate that a 10% reduction in international transport costs produces a median expansion of intraregional exports almost 5 times larger, and a median increase in the number of products exported to the region 3 times larger, than a 10% reduction in tariffs (Mesquita Moreira, Volpe Martincus, and Blyde, 2008).[18] Similarly, firm-level evidence from LAC indicates that a 1% proportional decrease in international transport costs increases firm export values by 6.5% (Volpe Martincus, Carballo, Garcia, and Graziano, 2014).

[18] Estimates are medians across sectors for nine countries in the region, computed from simulations of equivalent 10% reductions in transport costs and in tariffs with 2004 as the benchmark year, and refer to intraregional exports. Ratios vary by country and by sector.

Transport costs act as an ad valorem wedge on every shipment, and firms absorb them by adjusting how much and how often they ship. Firm-level evidence identifies the margin on which the wedge operates: when transport costs rise, exporters reduce the size and the number of their shipments, while the set of buyers they serve and the continuation of existing export relationships remain unchanged, because firms prefer to keep exporting rather than pay the fixed cost of reentering a market later (Volpe Martincus et al. 2014). Incidence is uneven across goods: the wedge weighs more heavily on products with a low value-to-weight ratio and on products shipped frequently and therefore bears on which goods can be moved economically over long distances (Volpe Martincus and Blyde, 2013).

Transport costs respond to a defined set of policy instruments. Port and airport infrastructure sets the vessel and aircraft sizes, handling capacity, and turnaround times that a route can accommodate. Port efficiency accounts for about one-third of the observed differences in ocean freight rates on exports from the region, and airport efficiency for close to half of the corresponding difference in air freight rates. Convergence in port efficiency is estimated to lower ocean transport costs by about 20% for the typical country in the region (Mesquita Moreira, Volpe Martincus, and Blyde, 2008). Competition conditions in maritime and air transport services determine the markup that carriers add over operating costs, and freight rates fall as the number of carriers serving a route rises. Consistent with this, convergence in the number of carriers serving each route is estimated to lower ocean transport costs by a further 4% for the typical country in the region (Mesquita Moreira, Volpe Martincus, and Blyde, 2008).[19] Domestic road, railway, and waterway networks and the logistics corridors built on them govern the cost of the inland leg that connects production sites to ports of exit and set the distance and time that each shipment must cover before it reaches the point of export. A 1% reduction in ad valorem domestic transport costs is associated with increases in regional exports of about 4% to 7.9% (Mesquita Moreira et al., 2013). Firm-level evidence confirms these findings (Volpe Martincus and Blyde, 2013; Volpe Martincus, Carballo, and Cusolito, 2017).

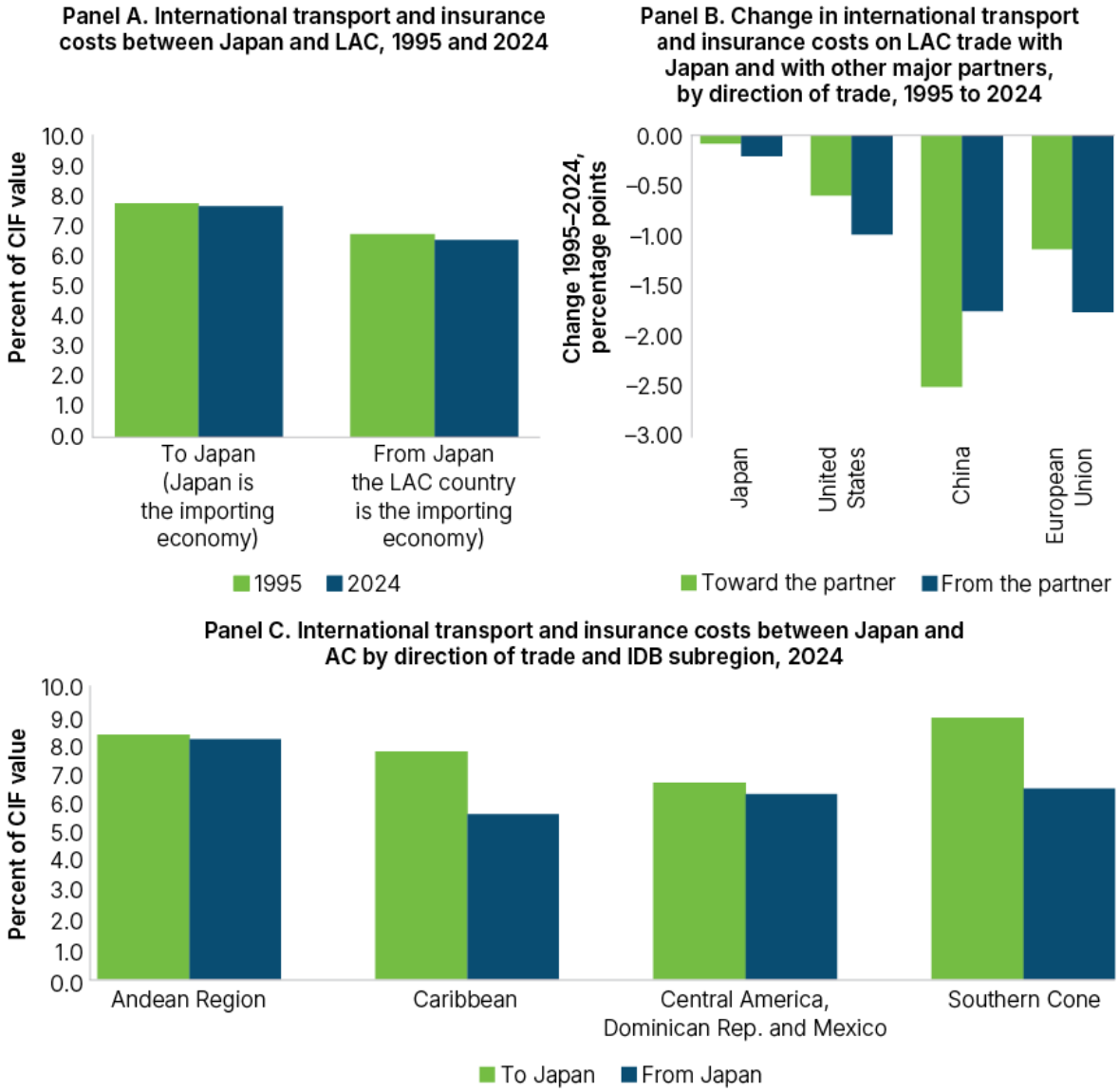
International transport and insurance costs between Japan and LAC have remained broadly unchanged over the past three decades, while those associated with LAC's trade with other major partners have declined. Costs on the flow toward Japan averaged 7.8% of the cost, insurance, and freight (CIF) value of imports in 1995 and 7.7% in 2024, while costs on the flow from Japan averaged 6.7% in 1995 and 6.5% in 2024 (Figure 3.4, Panel A).[20] Over the same period, and for the same 25 LAC countries, average costs on the flow toward the partner fell by 0.6 percentage points for the United States and 1.1 for the European Union, compared with 0.1 for Japan. On the flow from the partner, they fell by 1.0 percentage point for the United States and 1.8 for the European Union, compared with 0.2 for Japan (Figure 3.4, Panel B).

[19] Shares refer to decompositions of observed differences in ad valorem freight rates between exports from the region and exports from European comparators selected on the basis of published port and airport facility rankings, 2000 to 2005. Port efficiency is measured as the estimated port fixed effect by country. Convergence simulations refer to imports by countries in the region, base year 2005, and use the number of carriers serving a route as a proxy for market power on that route.

[20] Values are Cost, Insurance and Freight (CIF) / Free on Board (FOB) margins for total merchandise trade, expressed as a percentage of the CIF value of imports, and each direction is reported by the importing economy. Regional and subregional figures are simple averages of country-level margins; trade weights are not distributed with the source. The margin is an ad valorem measure and reflects the weight-to-value composition of each flow in addition to route characteristics. The source combines reported margins with model-based estimates, and vintages are not comparable.

Differences also remain across LAC subregions: in 2024, costs on the flow toward Japan exceeded those on the flow from Japan by 2.4 percentage points in the Southern Cone, 2.1 in the Caribbean, and 0.4 in the Andean Region, while the difference was close to zero in Central America, Haiti, Mexico, Panama, and the Dominican Republic (Figure 3.4, Panel C).

FIGURE 3.4. International transport and insurance costs on LAC trade with Japan and with other major partners, 1995 and 2024.

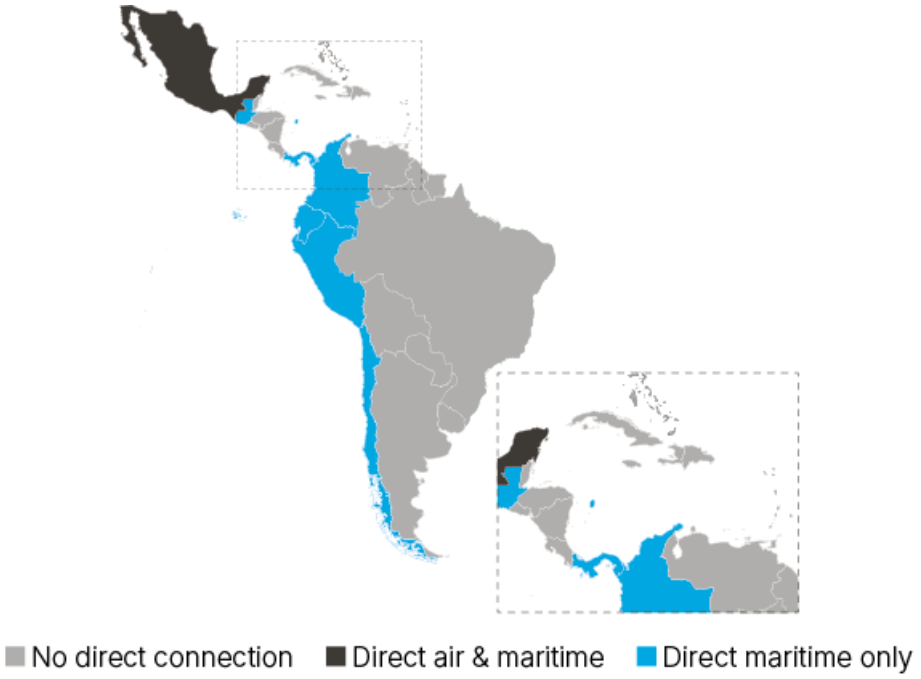


Source: Authors' calculations based on OECD, International Transport and Insurance Costs of Merchandise Trade (ITIC).
Note: Values are CIF/FOB margins for total merchandise trade, expressed as a percentage of the CIF value of imports, and each direction is reported by the importing economy. The margin is an ad valorem measure and reflects the weight-to-value composition of each flow in addition to route characteristics. All figures are simple averages of country-level margins over the same 25 IDB borrowing member

countries, the borrowing members with data in both directions; Haiti reports only as an exporter in the source and is therefore outside the sample. Panels A and C report the level of the margin, and subregions in Panel C correspond to IDB regional country departments. Panel B reports the change in the margin between 1995 and 2024, in percentage points, and not its level, which is not comparable across partners at different distances; the European Union figure is an average across the 27 member states.

Direct air and maritime connectivity between Japan and LAC is concentrated on the Pacific coast. Mexico is the only LAC country with a scheduled nonstop passenger flight to Japan, and routings from every other LAC country include at least one intermediate stop. The number of viable one-stop gateway options across North America, Europe, and the Gulf ranges from 1 to 17: Brazil has 17, and Colombia has 14, and Guyana, Paraguay, Suriname, and Uruguay have one each.[21] Direct container liner calls from Japan reach seven countries, all with Pacific coastlines: Chile, Colombia, Ecuador, Guatemala, Mexico, Panama, and Peru. Cargo bound for the Atlantic coast is relayed through Asian transshipment hubs, including Busan, Shanghai, and Singapore. Mexico is the only LAC country served by both a direct air link and direct maritime calls (see Figure 3.5).[22]

FIGURE 3.5. Direct air and maritime connectivity between Japan and LAC, July 2026.



Source: Authors' compilation based on IDB-compiled air and maritime connectivity data, July 2026.

[21] Counts refer to scheduled passenger service as of July 2026 and to gateways in North America, Europe and the Gulf. Maritime coverage refers to scheduled container liner service and does not include chartered bulk or tanker voyages.

[22] Domestic transport costs from production sites to ports average 3.4% to 5.5% ad valorem across Brazil, Chile, Colombia, Mexico, and Peru, with substantial within-country variation. A 1% reduction in these costs is associated with export increases of 7.9% in agriculture and 7.8% in manufacturing in Colombia, and 4% in agriculture in Mexico. Country-specific simulations estimate export gains of about 10% to 45% under infrastructure and cost-reduction scenarios (Mesquita Moreira et al., 2013). Estimates are based on different reference years and methodologies and are not directly comparable with international transport and insurance costs.

3.3 Tariffs, Non-Tariff Barriers, and Policies to Improve Market Access

An important subset of the barriers affecting bilateral trade is determined by domestic policy decisions rather than bilateral negotiations. Applied tariffs, non-tariff measures on goods and the regulation of services trade are established by the importing economy and, in most cases, apply to imports from all origins. Their reduction therefore does not require a concession from a trading partner in return, and it takes effect for every trading partner at once rather than for one.[23]

3.3.1 Tariffs

Tariffs affect not only how much firms trade, but also whether they enter foreign markets in the first place. Evidence for Latin American countries indicates that these effects operate through both the intensive and extensive margins and differ in timing (Morales, Pierola, and Volpe Martincus 2019; Merchán and Mesquita Moreira 2019). Following a tariff change, the adjustment in the average value exported per exporter occurs first, while the number of exporters responds about one year later. The intensive margin accounts for 61% of the total effect of tariffs on bilateral exports, and higher tariffs are associated with lower rates of firm entry into export markets. Evidence on the range of products exported emerges only over a longer horizon.[24]

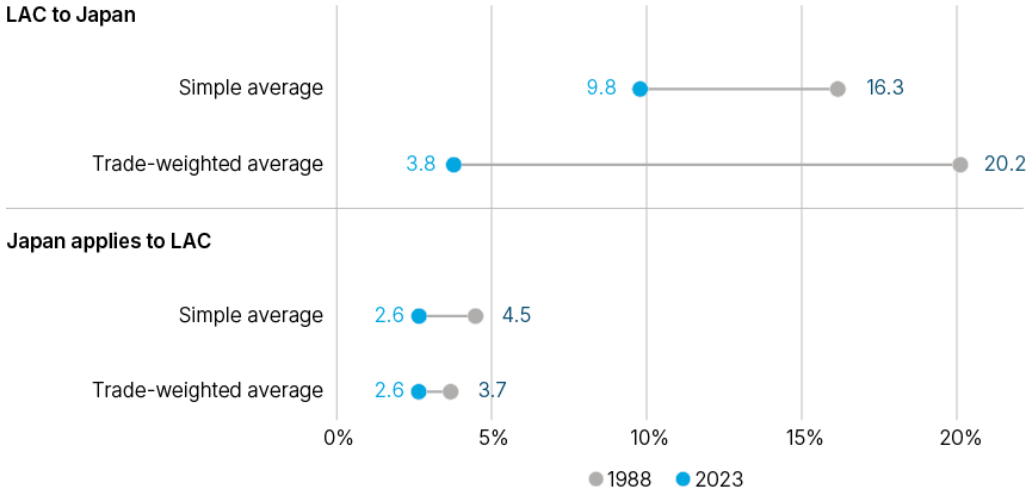
Applied tariffs are lower today than three decades ago and remain below 4% on bilateral trade in both directions. In 2023, the simple average tariff applied by LAC to imports from Japan was 9.8%, and the trade-weighted average was 3.8%, while Japan's simple and trade-weighted averages on imports from the region were both 2.6%. In 1988, the earliest year available on the same basis, the corresponding averages were 16.3% and 20.2% for the region and 4.5% and 3.7% for Japan (see Figure 3.6). The gap between LAC's simple and trade-weighted averages partly reflects preferential treatment under the CPTPP for Chile, Mexico, and Peru in the sectors covered by the data.[25] Applied tariffs leave scope for domestic policy decisions within existing commitments, while preferential market access under trade agreements is discussed separately below.

[23] The region's liberalization is defined as a process carried out through unilateral, preferential and multilateral initiatives; only the first of the three is examined in this section. Volpe Martincus and Estevadeordal (2009) estimate the unilateral and preferential channels separately for ten Latin American countries.

[24] At the level of the economy, a tariff reduction of 56%, the median cut recorded in the region between 1990 and 2010, is estimated to have accelerated the annual growth of GDP per capita by 0.61 percentage points, with the largest effects associated with the rates applied to capital goods and intermediate inputs (Mesquita Moreira, Li, and Merchán 2019).

[25] See Box 3.4 for further discussion of the CPTPP.

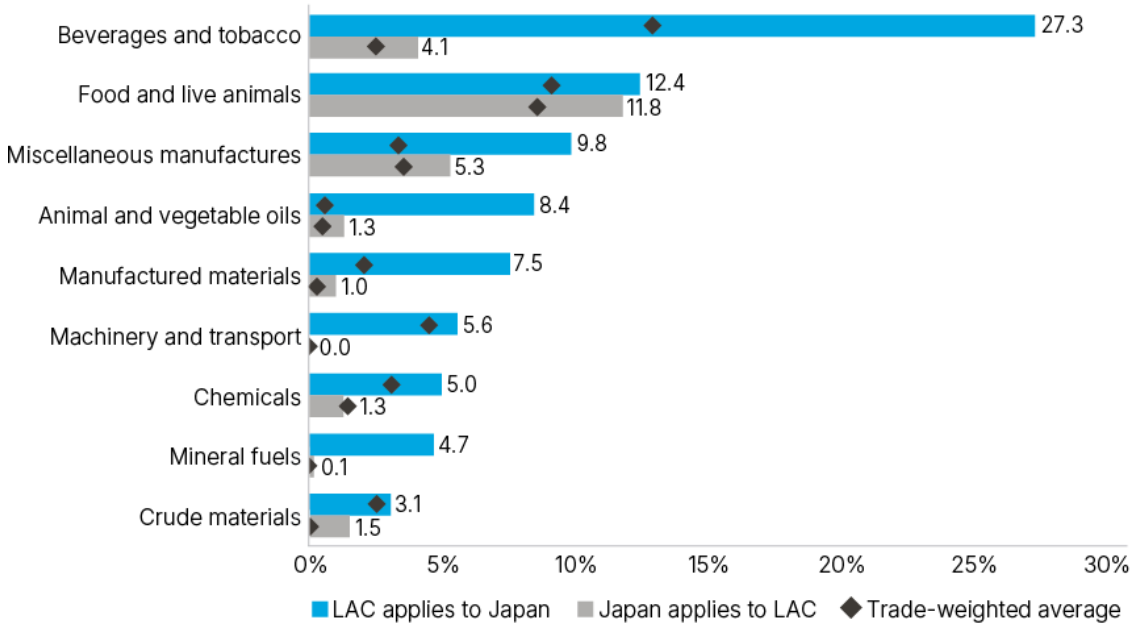
FIGURE 3.6. Average applied tariffs between Japan and LAC, earliest and latest years available.



Source: Authors' calculations based on UNCTAD TRAINS database, accessed via the World Bank's WITS server.
Note: The years shown are 1988 and 2023, the earliest and latest years for which comparable applied tariff data are available for Japan–LAC trade. Simple averages are unweighted across SITC sections; trade-weighted averages use observed import values.

Applied tariffs vary considerably across sectors in both Japan and LAC. In 2023, Japan's simple average tariff was at or below 1.5% in six of the nine sections and reached 11.8% in food and live animals. LAC's simple average rates ranged from 3.1% in crude materials to 27.3% in beverages and tobacco. Food and live animals was the only section in which both sides maintained double-digit simple average tariffs. In every section, LAC's trade-weighted tariff was below its simple average (see Figure 3.7).

FIGURE 3.7. Applied tariffs by sector between Japan and LAC, 2023.



Source: Authors' calculations based on UNCTAD TRAINS database, accessed via the World Bank's WITS server.
Note: SITC sections. Bars show simple averages across tariff lines; diamonds show trade-weighted averages. Section 9, commodities not classified elsewhere, are excluded.

3.3.2 Non-Tariff Barriers for Trade in Goods

Non-tariff measures (NTMs) can represent an important source of trade costs. NTMs include measures that establish product requirements, such as sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT), licensing requirements, and conformity assessment procedures. They pursue public policy objectives such as protecting human, animal, and plant health, ensuring product safety, safeguarding the environment, and providing consumer information. Depending on their design and implementation, however, they can also raise trade costs and act as barriers to market access. Their design and implementation are subject to multilateral disciplines that emphasize transparency, notification, scientific justification where appropriate, and the use of international standards. Because most NTMs apply to imports of all origins rather than to specific trading partners, governments can revise them without requiring reciprocal concessions.

NTMs impose fixed compliance costs that firms incur before their first shipment, making them particularly important for the decision to enter a market. Adapting products to destination requirements, obtaining the necessary approvals or registrations, and securing certification involve upfront costs that are not recovered if no sale follows. Testing and inspection to demonstrate conformity add recurrent costs that depend on shipment volumes and the applicable control regime. Together, these requirements raise the fixed cost of market entry, discouraging firms from exporting when expected sales are insufficient to recover them, even where they could compete on price. The estimated effect is measurable at that margin: firm-level evidence places the reduction in the probability that a firm exports a given product at about 4% where an SPS measure applies and has been raised as a trade concern (Fontagné et al. 2015).[26]

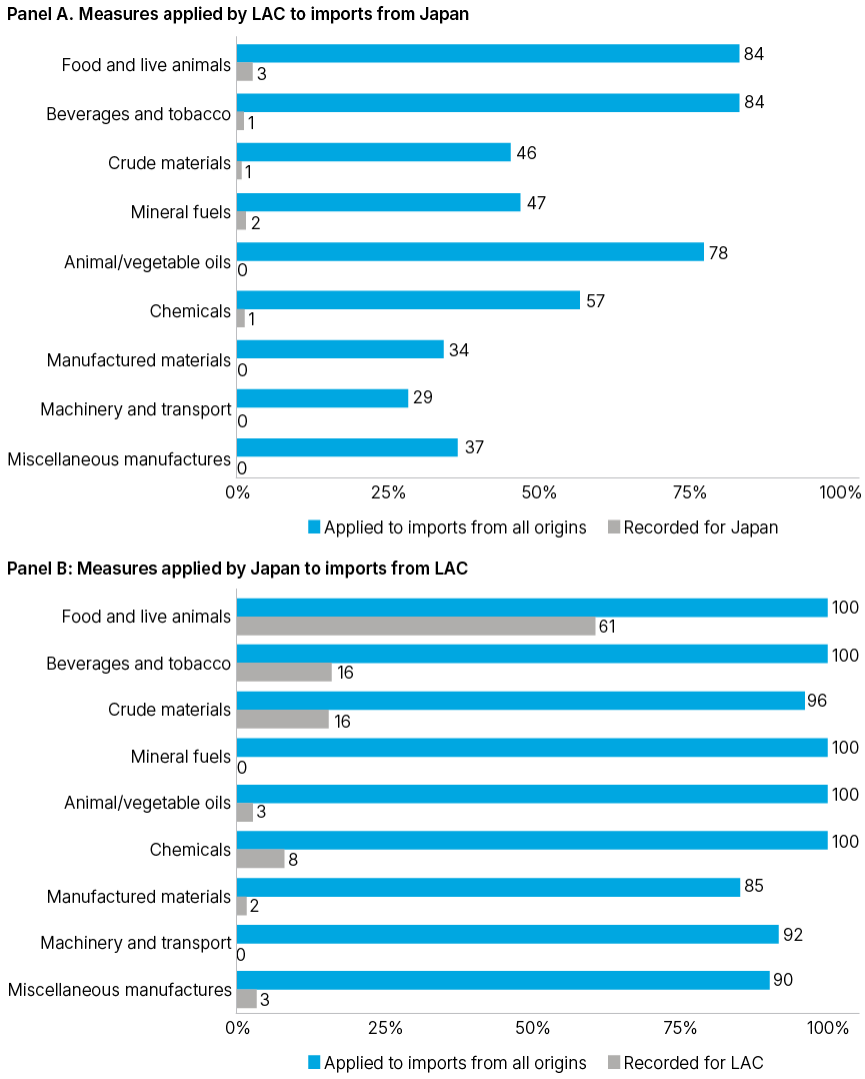
The evidence shows that greater regulatory distance significantly reduces the likelihood that firms enter export markets. Evidence for LAC shows that a 10% increase in regulatory distance, the difference between the technical requirements that two economies apply to the same products, reduces the probability that a product enters a market by 1.18 percentage points, equivalent to a 25.5% decline relative to the average probability of entry into world markets and 16% relative to the average within LAC (Blyde, 2024). The effect is strongest in agriculture, weakest in mining, and close to the average in manufacturing, suggesting that regulatory convergence would be particularly valuable in agricultural trade.

Across sectors, NTMs applied to imports from all origins cover a larger share of product lines than measures recorded for specific trading partners. This pattern holds in both directions. Among partner-

[26] The estimate is based on French exporters and on measures raised as specific trade concerns at the World Trade Organization. It refers to that population of firms and not to trade between Japan and the region.

specific measures, food and live animals has the highest incidence in both panels, particularly for measures applied by Japan to imports from LAC (see Figure 3.8).[27]

FIGURE 3.8. Incidence of non-tariff measures on bilateral trade between Japan and LAC, latest available year.



Source: Authors' calculations based on UNCTAD TRAINS database and authors' calculations.

Note: Incidence is the share of product lines within each SITC section subject to at least one recorded non-tariff measure. World-applied measures apply to imports from all origins, while partner-specific measures are recorded as applying specifically to imports from Japan in Panel A or from LAC economies in Panel B.

[27] Incidence records the presence of at least one non-tariff measure on a product line and therefore captures regulatory coverage, not restrictiveness or compliance cost. The relatively high incidence in food-related sectors is consistent with the prevalence of sanitary, phytosanitary, and other product requirements in these sectors. Values for LAC are simple averages across the 26 IDB borrowing member countries and may therefore mask higher incidence in individual economies. The figures should be interpreted as indicators of where measures are concentrated, not as estimates of the costs they impose or their effects on welfare.

Values for LAC are simple averages across the 26 IDB borrowing member countries. Incidence measures regulatory coverage, not restrictiveness or compliance costs.

Reducing compliance costs offers scope to facilitate trade without weakening regulatory objectives. Because most non-tariff measures apply to imports from all origins, improving market access does not generally require reciprocal concessions. Instead, governments can reduce compliance costs through regulatory dialogue, greater transparency, improved administrative procedures, and, where appropriate, mutual recognition or equivalence agreements. The objective is not to lower regulatory standards, but to achieve them at a lower cost. Technical cooperation on conformity assessment is particularly relevant in sectors where regulatory requirements are most demanding, especially agriculture. Pilot products, regular dialogue among regulators, and the elimination of duplicative conformity assessment procedures provide practical avenues for cooperation. Whereas tariff reductions lower the tax burden at the border, regulatory cooperation reduces the cost of complying with market requirements.

Private standards and certification requirements represent an additional source of trade costs beyond public regulation. Many product requirements are established by buyers rather than governments and are therefore not captured in official databases on non-tariff measures. Firms demonstrate compliance through certification. The value of these credentials depends on the quality infrastructure that supports them, including standards, metrology, accreditation, and conformity assessment systems, which determine whether certificates and test results are recognized abroad (Kellermann, 2019). Evidence shows that certification is associated with stronger export performance: firms certified to international management standards export more (Volpe Martincus, Castresana, and Castagnino, 2010).[28]

3.3.3 Regulations for Services

Services regulation affects both services trade itself and goods exports because many services are essential inputs into production and trade. As discussed in Chapter 2, services account for a substantial share of the value added embodied in exports in both Japan and LAC. Regulations affecting logistics, finance, telecommunications, professional services, engineering, and digital services therefore shape the cost of producing, exporting, and participating in global value chains. Because these regulations are generally applied on a non-discriminatory basis, reducing their trade costs primarily depends on domestic regulatory reform.

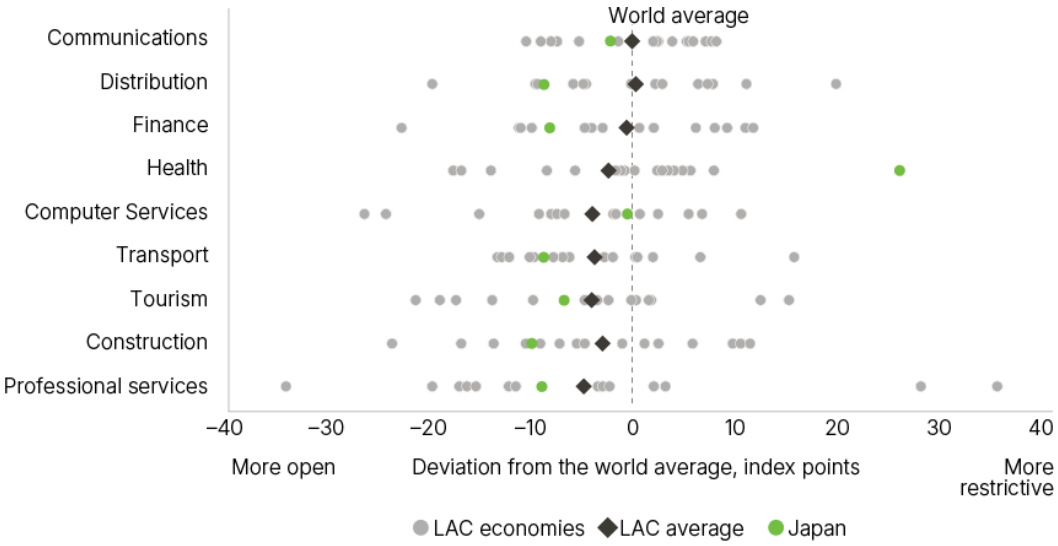
Reducing restrictions on services trade improves the performance of downstream industries that rely on services as intermediate inputs, while regulatory disparities can also limit bilateral services trade. Across 57 economies, eliminating restrictions on services supplied through commercial presence is associated with an average 22% increase in labor productivity in downstream manufacturing sectors (Beverelli, Fiorini, and Hoekman, 2017). The effect is stronger where economic governance is of higher quality. Greater regulatory distance between countries is also associated with significantly lower bilateral

[28] Evidence from developing countries also indicates that a one-percentage-point increase in certified agricultural area is associated with a 1.86% increase in agricultural exports (Dolabella and Saeteros, 2024).

services trade, and LAC exhibits its largest regulatory distances with respect to Asia, although Japan is not identified separately within that group (Blyde, 2026).

Services trade restrictions in Japan are generally below global averages, while the LAC regional average remains close to them, with substantial variation across individual LAC economies. Measured as the difference between each economy's sector-specific World Bank–WTO Services Trade Restrictions Index (STRI) score and the corresponding world average, the LAC regional average remains within five index points of the world average in every sector. Japan records lower restrictions than the global average in most sectors, with health services as the main exception, where restrictions are comparatively higher. The dispersion across LAC economies indicates substantial cross-country variation, with no clear regional pattern (see Figure 3.9).

FIGURE 3.9. Services trade restrictions relative to the world average, LAC, and Japan, latest available year.



Source: Authors' calculations based on World Bank-WTO Services Trade Restrictions Index, Services Trade Policy Database.
Note: Each dot represents an economy's sector-specific STRI score relative to the world average, measured in index points. Positive values indicate restrictions above the world average and negative values indicate restrictions below it.

3.4 Administrative Cross-Border Processing Costs and Trade Facilitation Policies

The cost of completing cross-border formalities can be large, especially when procedures are manual and paper-based. Compliance with trade-related regulatory requirements has been estimated at 3.5% to 7% of the value of the goods and can reach 10% to 15% of that value when submitted documents contain typing and similar errors (Volpe Martincus 2016).[29] Time spent at the border accounts for a comparable

[29] The estimate refers to the cost of complying with the documentary and procedural requirements attached to a border crossing, not to the substantive regulatory requirement itself. The upper end of the range corresponds to consignments whose submitted documentation contains errors requiring resubmission.

share of the delivery cycle. Transaction-level maritime import records for a Latin American economy in 2013 show that total border times and port and customs processing times averaged 37.3% and 21.9%, respectively, of the total time elapsed between departure from the origin port and release from customs (Volpe Martincus 2016).

Trade facilitation policies reduce border processing costs, and differences in their implementation across countries affect how efficiently procedures can be completed. Effective risk management systems target inspections to higher-risk shipments, thus reducing customs interventions and release times for larger shares of flows. Authorized Economic Operator (AEO) programs grant trusted firms fewer inspections and faster customs clearance times. Electronic trade single windows (ETSWs) provide a single digital entry point for submitting information and obtaining trade-related permits and certificates, thereby expediting trade flow. Transit regimes allow shipments crossing multiple borders to be processed only once. All these initiatives reduce the costs associated with the completion of procedures required to comply with trade regulations. In particular, they lower the fixed costs of each shipment. Digitalization further reduces these costs.

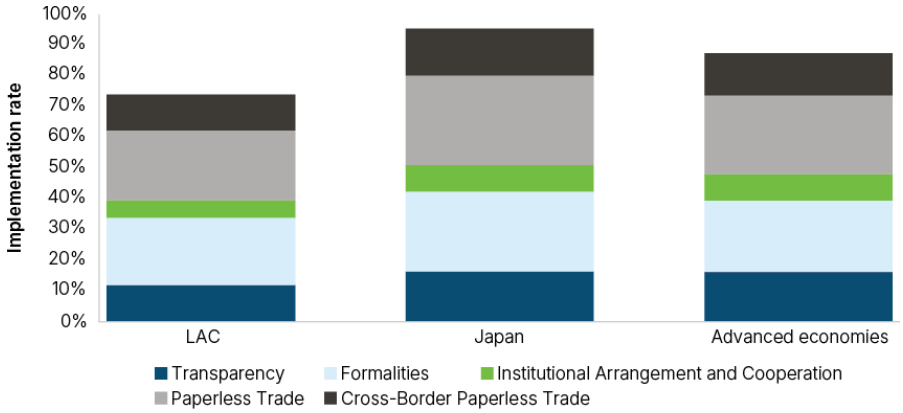
Trade facilitation reforms in LAC have encouraged firms to export more, primarily by shipping more frequently, and have led to large aggregate trade gains. Notably, they have also proved cost-effective. Evidence for Costa Rica indicates that implementation of an ETSW that allows for digital issuance of agri-food permits and certificates has been associated with increases of 46% in the value exported of the respective products, 11% in the number of exporters, and 31% in export values per firm, along with higher shipping frequencies (Carballo, Graziano, Schaur, and Volpe Martincus, forthcoming). Similarly, evidence for El Salvador reveals that an improved regional transit regime has resulted in an increase of export values of 44%, number of exporting firms of 14%, and export values per firm of 26%, and has had an estimated return on public investment of US$ 3 to 1 (Carballo, Graziano, Schaur, and Volpe Martincus, 2024). Furthermore, Mexican firms certified as AEO experienced 73.1% higher export growth, which, given the relevant average rate, amounted to a 2.8 percentage points higher growth rate than that of counterparts lacking such certification. The main channel of this effect has been the number of shipments, which increased by 46.7% (Carballo, Schaur, and Volpe Martincus, 2016).

Trade gains are larger when partner countries implement complementary reforms. Thus, mutual recognition agreements (MRAs) of AEO programs allow customs authorities to recognize each other's trusted traders, granting reciprocal fast-track treatment. Evidence from LAC shows that the benefits of AEO certification are especially larger when firms are certified on both sides of the border (Carballo, Schaur, and Volpe Martincus, 2016). Similarly, firms' export increases have been found to be twice as large when both economies operate ETSW (Carballo, Graziano, Schaur, and Volpe Martincus, forthcoming).

While Japan has already implemented most trade facilitation measures, there remains substantial scope for progress across LAC. Japan's implementation rate, which captures how close a country is to full implementation of the measures tracked by the UN Global Survey on Digital and Sustainable Trade Facilitation, reaches 94.6% in 2025. This is around 25 percentage points above the global average of 70.1%

and above the 86.7% recorded for advanced economies.[30] Japan records full implementation in transparency, formalities, and paperless trade, and reaches 88.9% in institutional arrangements and cooperation and 77.8% in cross-border paperless trade, in both cases above the global averages of 71.7% and 48.6%. In LAC, overall implementation reaches 73.3%, with rates ranging from below 25% to 87% across countries. The largest gaps are in institutional arrangements and cooperation (59.6% versus 88.9%) and transparency (73.0% versus 98.8%), while differences are smaller in formalities and paperless trade. Specifically, implementation of ETSWs remains partial, averaging 68.2% of the maximum score across the region, while Japan records full implementation (see Figure 3.11). Indeed, cross-border paperless trade initiatives are an area that depends on the counterpart border agencies as much as on one's own. What remains to be gained bilaterally therefore lies in the instruments that require both administrations to act together.

FIGURE 3.10. Trade facilitation implementation. Overall implementation rate, by contributing dimension. 2025.



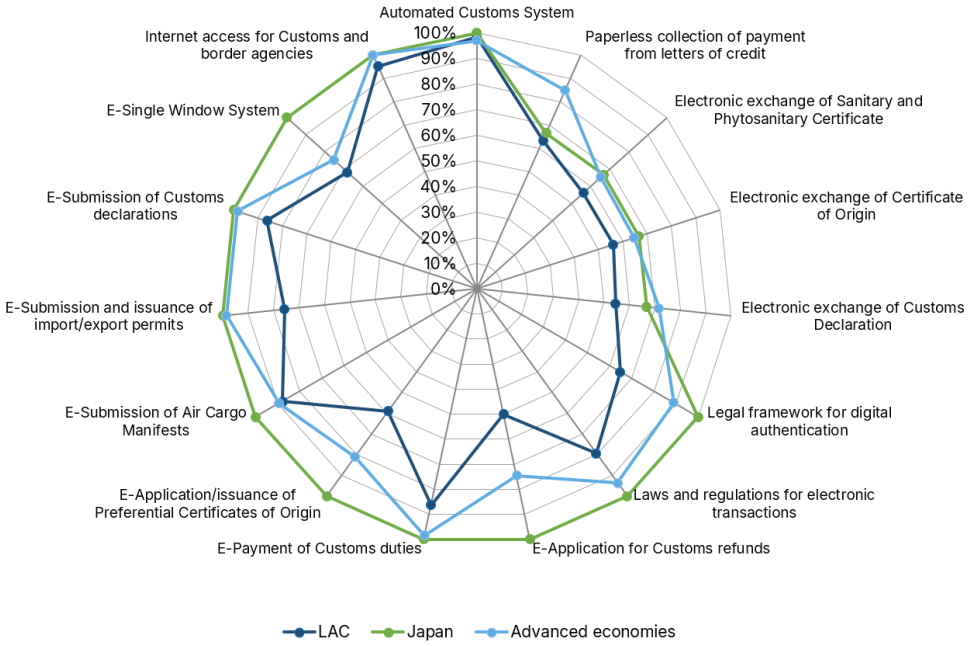
Source: Authors' calculations based on data from the UN Global Survey on Digital and Sustainable Trade Facilitation, 2025.
Note: The figure compares the implementation of trade facilitation measures in Japan and LAC using the survey's implementation rate. This is computed over 31 measures grouped in five dimensions: transparency, formalities, institutional arrangements and cooperation, paperless trade, and cross-border paperless trade. Each measure is scored from 0 to 3, and a country's overall rate is its total score expressed as a percentage of the maximum possible. Each bar segment shows a dimension's contribution to that overall rate.

Authorized Economic Operator programs are well established on both sides, yet no mutual recognition arrangement exists between them. Japan has concluded 13 mutual recognition arrangements worldwide and is negotiating a further one. None is with a customs administration of LAC, where 13 administrations operate AEO programs and 27 concluded arrangements already link economies of the region to partners

[30] The 2025 round covers 180 economies. Group values are unweighted averages across economies and are IDB staff elaboration. LAC covers the 22 IDB borrowing member countries with 2025 data; four borrowing member countries have no data for the round. Advanced economies cover 23 economies of Western Europe, North America, Japan, Australia, and New Zealand, and therefore includes Japan. The global average is computed over the 177 economies with data.

outside it.[31] Japan also maintains customs mutual assistance agreements, a distinct instrument, with Bolivia, Brazil, Mexico, and Uruguay.

FIGURE 3.11. Digital trade facilitation measures, 2025.



Source: Authors' calculations based on data from the UN Global Survey on Digital and Sustainable Trade Facilitation, 2025.
Note: The figure covers the measures that make up the paperless trade and cross-border paperless trade dimensions.

3.5 Information Frictions and Diplomatic Missions and Trade and Investment Promotion Policies

Information frictions are a significant source of trade and investment costs, and they operate at two levels. The first is knowledge of the destination market, including the regulations and standards that apply there. The second, and the more demanding, is identifying a potential business partner and assessing its reliability, capabilities, and timeliness (Rangan and Lawrence, 1999; Carballo et al. 2022). Search costs on this second dimension are high: they can exceed US$50,000 for a non-exporting firm seeking to secure one potential client per year (Eaton et al., 2014). Evidence on buyer networks illustrates the importance of these frictions: nearly 80% of firm–destination–product export flows rely on a single foreign buyer, while firms with multiple buyers export between 70% and 167% more than comparable firms with only

[31] Counts are IDB staff elaboration based on the World Customs Organization Online AEO Compendium, accessed August 5, 2026, and on information from national customs administrations. Concluded arrangements are those recorded as operational or signed by all parties; two further arrangements involving economies of the region are under negotiation. The extra-regional count comprises 26 bilateral arrangements and 1 plurilateral arrangement, counted once, held by nine economies. Canada and the United States are treated as extra-regional partners and account for nine of the 27. The compendium records concluded arrangements for a small number of administrations without a corresponding program entry, so program counts should be read as a lower bound.

one buyer (Carballo, Ottaviano, and Volpe Martincus, 2018). Firms considering an investment face a higher-dimensional version of the same problem, which extends to the costs and conditions of establishing and operating in the destination country and to the network of local suppliers available there (Volpe Martincus et al. 2021).

Trade and investment promotion agencies and the economic sections of diplomatic missions help lower the search and matching costs firms face when entering foreign markets. Their services include market intelligence, capacity building, participation in trade fairs and business missions, business matchmaking, investment facilitation and aftercare, among others. These networks operate through overseas offices, whose geographical distribution closely overlaps with that of diplomatic missions (Volpe Martincus and Sztajerowska, 2019).

The evidence shows that trade and investment promotion instruments are effective where information frictions are greatest. Assistance from national export promotion agencies is associated with 17% higher export growth, 7.8% more export destinations, and 9.9% more exported products, with little effect on average sales per destination or product (Volpe Martincus and Carballo, 2010). Firm-level evidence shows that participation in a purely informational business platform increased export values by 17%, with the largest gains for smaller firms, firms without their own digital presence, differentiated products, and less familiar destinations (Carballo et al. 2022).[32] Institutional presence abroad also matters: an office of the promotion agency in the destination market is associated with a 27.6% increase in the number of exported products, compared with just 0.5% for an additional diplomatic representation, with the strongest effects in differentiated goods (Volpe Martincus et al. 2010). On the investment side, promotion agency support increases the probability that a multinational establishes a first affiliate by 8.2 percentage points and generates an estimated US$56 of additional FDI for every dollar spent (Volpe Martincus et al. 2021).[33] These effects are largest for firms headquartered in countries from which information on the host economy is harder to gather.

Most LAC economies maintain a resident diplomatic presence in Japan, although dedicated trade and investment promotion offices are less common. Twenty of the region's 26 economies maintain resident embassies in Tokyo,[34] while the remaining six rely on concurrent accreditation.[35] Only Chile, Colombia, and Peru operate dedicated trade and investment promotion offices, whereas the remaining economies conduct commercial promotion through the economic sections of their embassies (see Figure 3.12). Despite this thin on-the-ground promotional presence, Japan is among the foreign investment sources

[32] The platform studied is purely informational and enables neither transactions nor payment or logistics, which allows the estimated effect to be attributed to search costs rather than to transaction costs. The evidence covers one country in the region over 2013–2018.

[33] The investment estimates cover 12 countries in the region and measure changes in the probability that a firm opens an affiliate, against an unconditional probability that is very low. The return per dollar combines first establishment and reinvestment.

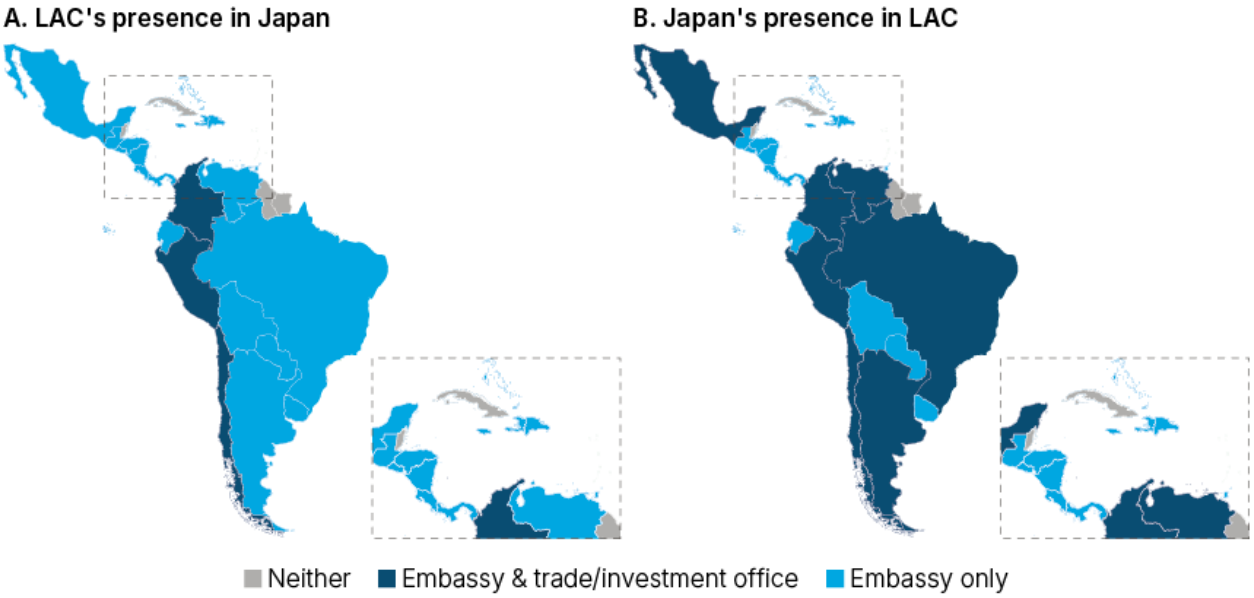
[34] A country is recorded as maintaining a dedicated office where the official registry of foreign missions in Japan lists a commercial section with its own address, or where the agency's own network of offices reports a post in Japan. Under this criterion the count is three. The absence of a commercial section in the registry is strong but not conclusive evidence.

[35] The counts exclude honorary consulates, which the registry records alongside embassies and consulates general. Countries in the region account for a substantial number of these posts, several of them hosted within private companies and located outside Tokyo, each with a defined territorial jurisdiction. The registry does not report the activities they carry out, so their commercial function cannot be established from this source.

most frequently prioritized by investment promotion agencies in LAC. A 2017 survey of 51 national investment promotion agencies found that most target specific source countries, sectors, and investors, with Japan consistently identified as a priority because of its technological capabilities (Volpe Martincus and Sztajerowska, 2019).[36]

Japan maintains an extensive institutional presence across LAC, combining broad diplomatic representation with trade promotion offices in the region's main economies. Japan has resident embassies in 23 of the 26 countries, with concurrent accreditation covering the remaining three, and additional consular offices in four countries. Its trade and investment promotion agency, the Japan External Trade Organization (JETRO), operates offices in Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela (see Figure 3.12).}

FIGURE 3.12. Diplomatic and trade/investment promotion representation between Japan and LAC, by direction, July 2026.



Source: Authors' calculations based on official data from Japan's Ministry of Foreign Affairs and from national trade and investment promotion agencies.

3.6 Preferential Trade, Investment, and Tax Agreements

Preferential trade, investment, and tax agreements differ from other instruments in that no government can adopt them on its own. The three instruments act on different costs through different channels: a trade agreement removes uncertainty about the terms of market access, an investment treaty lowers the risk attached to capital once it is committed, and a tax treaty determines how cross-border income is taxed and so bears on the choice between exporting and establishing an affiliate.

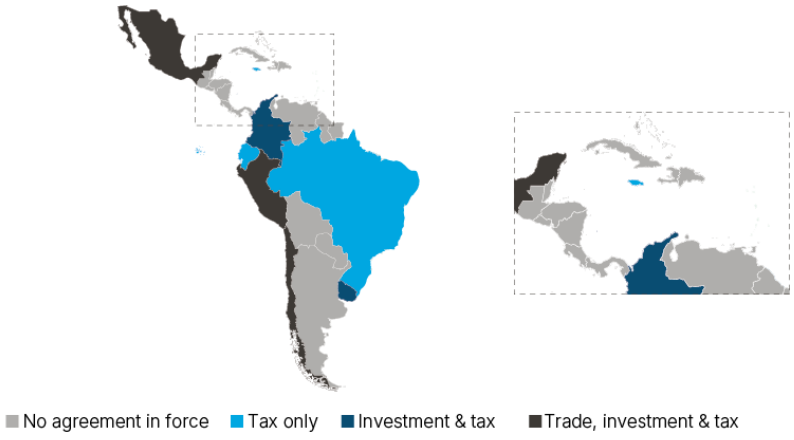
[36] The survey records self-reported prioritization. Prioritization indicates where agencies direct promotional effort; it does not measure investment received, and the survey does not report outcomes associated with prioritization.

The preferential dimension of trade policy accounts for about half of what trade liberalization delivered to LAC. A general equilibrium assessment of the liberalization of the region between 1990 and 2015 attributes roughly half of the estimated impact on trade flows to preferential liberalization, and the remainder to reductions in most-favored-nation tariffs (Mesquita Moreira and Stein 2019).[37]

Preferential agreements move investment, and the measured effects differ across instruments and across margins. On the extensive margin, entry into force of a bilateral investment treaty is associated with an increase of 6% to 7% in the probability that an investment relationship exists, a double taxation treaty with 5% to 6%, and a trade agreement with 2% to 3% (Mesquita Moreira and Stein 2019). On the intensive margin, only double taxation treaties show a statistically significant effect on bilateral investment relationships and are associated with investment stocks 10% higher and 3% more affiliates. Holding two instruments yields more than the sum of the individual effects, and countries holding all three record an increase above 15% in the probability of hosting affiliates.

Coverage of the three instruments with Japan is uneven across the region, and for most countries no bilateral instrument of any kind is in force. Figure 3.13 combines the three instruments (preferential trade, investment, and tax agreements) and considers their coverage between Japan and LAC countries. Eighteen of the 26 borrowing member countries of the IDB hold none of them, while only three countries have the full set of preferential agreements with Japan.[38] Box 3.3 reports estimates of how each instrument relates to the presence of multinational affiliates, and Box 3.4 examines the agreement that links Japan with three countries of the region.

FIGURE 3.13. Japan's trade, investment, and tax treaty coverage in LAC, August 2026.



[37] The decomposition refers to the general equilibrium impact of the reduction in most-favored-nation and preferential tariffs on trade-to-GDP ratios between 1990 and 2015 for countries of the region. It measures the liberalization of the region itself, not liberalization between the region and Japan.

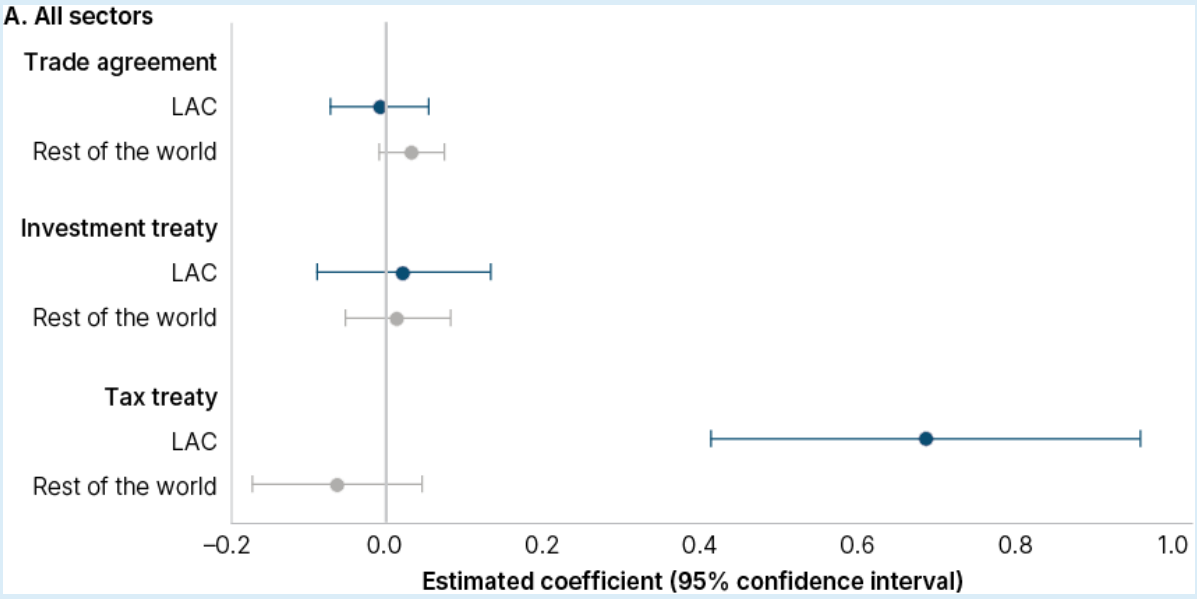
[38] The classification combines three sources, one per instrument, and counts only instruments in force. It was checked against the Regional Trade Agreements Information System of the World Trade Organization, which records the legal coverage of each agreement and the provision under which it was notified. Because that system does not score agreement content, it serves to verify which agreements are in force and what they legally cover, and is not a substitute for the content index reported above.

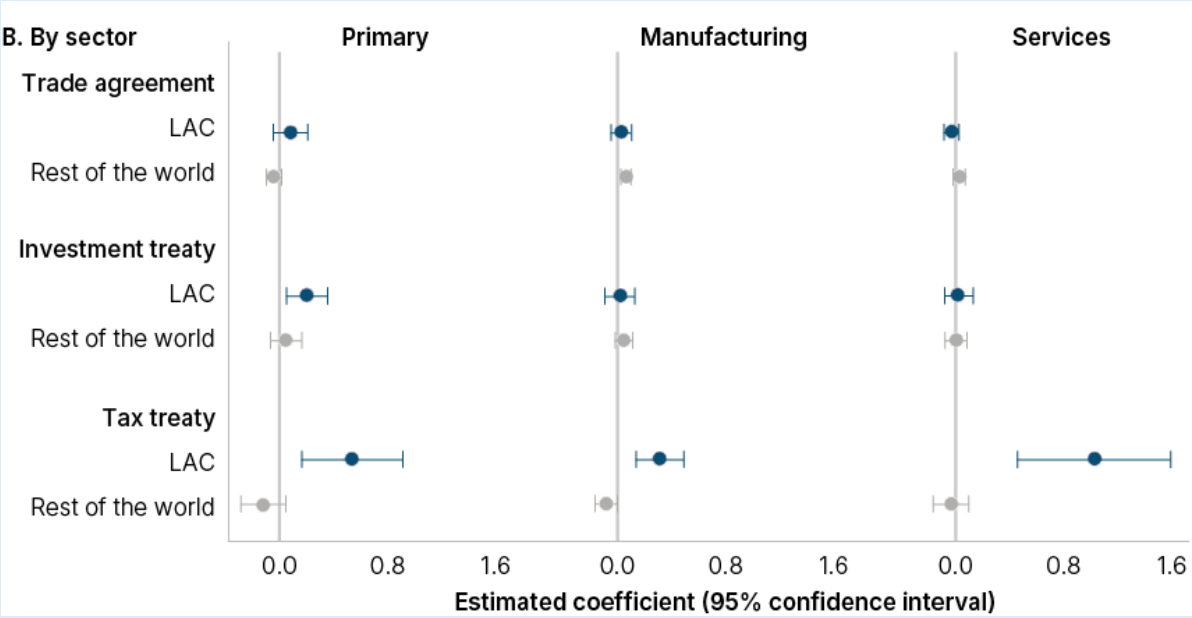
Source: Authors' compilation based on DESTA (trade agreements), the UNCTAD International Investment Agreements Navigator (investment treaties and treaties with investment provisions), and Japan Ministry of Finance tax convention data.
Note: The figure records instruments in force between Japan and each of the 26 borrowing member countries of the Inter-American Development Bank. Instruments signed but not yet in force are not counted. Tax instruments are double taxation conventions; tax information exchange agreements are not counted. Four categories occur: all three instruments, investment and tax instruments, tax instrument only, and no instrument in force.

Box 3.3. The effects of trade, investment, and tax agreements on multinational production

Gravity estimates show that double taxation treaties are associated with a greater stock of multinational affiliates in the region. The estimation considers the three instruments discussed (preferential trade, investment, and tax agreements) and their relation with the stock of multinational affiliates, distinguishing by whether the host country belongs to LAC. For countries in the region, a double taxation treaty is associated with a substantially larger affiliate stock across all economic sectors, with the strongest association in services. Notably, the same instrument shows no significant relationship for host countries elsewhere in the world. Bilateral trade and investment treaties, on the other hand, show no significant relationship with affiliate presence at the aggregate level, but investment treaties are positively associated with multinational activity in the primary sector. Beyond the individual effect of each instrument, there are also complementarities among them: the positive relationship is larger when the tax treaty is combined with other instruments.

FIGURE B.3.3. Institutional drivers of multinational affiliate location: gravity estimates on the cumulative stock of affiliates.





Source: Authors' estimates based on Dun & Bradstreet and treaty data from the World Trade Organization, the UNCTAD International Investment Agreements Navigator, and the ICTD Tax Treaties Explorer.
Note: The figure reports Poisson pseudo-maximum likelihood estimates of a gravity equation in which the dependent variable is the cumulative number of affiliates of multinational firms in the host country. Explanatory variables are binary indicators for a trade agreement, a bilateral investment treaty, and a double taxation treaty in force between the home and host country each interacted with an indicator for whether the host country belongs to LAC (defined as the 26 borrowing member countries of the Inter-American Development Bank). Panel A covers all sectors; Panel B reports the same specification estimated separately for primary activities, manufacturing, and services. The specification includes home country-year, host country-year, and country-pair fixed effects. Standard errors are clustered at the country-pair level. Dots are point estimates; segments are 95% confidence intervals. Sample period: 1975–2024. Coverage: 210 home countries and 218 host countries. Observations: 466,000 in the aggregate specification. The estimates cover multinational investment from all home countries and do not identify the response of Japanese firms.

Box 3.4. CPTPP and the Japan-LAC agenda

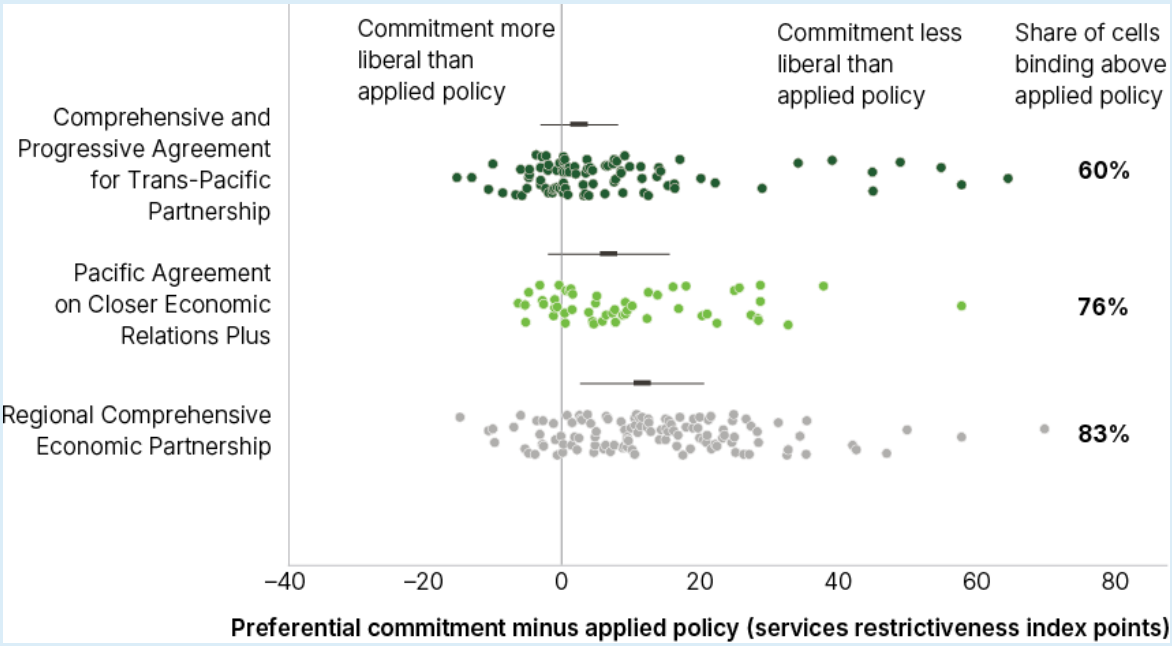
The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is the widest institutional link between Japan and the region, and it shows both what a deep agreement covers and where preferential commitments stop. Three countries of the region (Chile, Mexico, and Peru) share membership with Japan, and the text covers goods, services, investment, customs, technical and sanitary measures, electronic commerce, regulatory coherence, and transparency. The CPTPP has substantial depth relative to other agreements: based on The Design of Trade Agreements Database (Dür, Baccini, and Elsig 2014), the CPTPP obtains the maximum score of 7, which means it

includes substantial provisions in all areas counted by the index.[39] This compares with a world average of 2.8 and an average of 1.97 for other agreements within the region.

Beyond the areas an agreement covers, a second dimension is the degree of liberalization achieved within each. Figure B.3.4 illustrates the case of services provisions, and displays the gap between how liberal the policies effectively applied by countries are relative to the commitments made in an agreement. The sample of three agreements shows that, despite the floor set by the agreement, the policies that parties effectively apply are more liberal in many services sectors.[40] However, the CPTPP has more liberal commitments than other comparable treaties.

The accession agenda has continued since the agreement entered into force: Costa Rica concluded its accession negotiations on May 6, 2026, and the legal instrument is being prepared; Uruguay entered the accession process in November 2025, and Ecuador has also submitted an application.[41]

FIGURE B.3.4. Preferential services commitments compared with applied policy, three agreements.



[39] The index records the presence of substantive provisions in each area (tariff reductions, services, investment, standards, public procurement, competition, and intellectual property), not the degree of liberalization achieved within it, and 7.0 is the maximum of the scale rather than a position on an open range. Agreements at the maximum are not distinguished from one another by this measure. World and regional averages are computed on the same variant of the index.

[40] The comparison sets the level of restrictiveness bound in each agreement against the level applied on a most-favored-nation basis. Binding above applied policy is the general pattern in services schedules. Coverage is partial and the result is reported at the aggregate level, without identifying the sectoral composition that produces it.

[41] Accession positions were verified against the published statements of the parties, consulted on August 6, 2026. Each of the three processes advances on its own timetable, and the positions reported here are subject to change.

Source: Authors' calculations based on World Bank–WTO Services Trade Restrictions Index and Preferential Services Trade Restrictions Index.
Note: Each dot is one services sector–economy pair covered by an agreement. A positive value indicates that the preferential commitment binds a less liberal level than the policy applied on a most-favored-nation basis. Bars span the interquartile range, and the vertical mark is the median. Nine services sectors, all modes of supply, applied policy as of 2022. The three agreements are those for which preferential commitments are recorded in the database. Individual sector–economy pairs are not identified.

Treaty coverage is not fixed: Japan and Mercosur launched negotiations for an economic partnership agreement in June 2026. The two sides established a strategic partnership framework in December 2025, under which officials met during the first half of 2026. On June 16, 2026, the Prime Minister of Japan and the President of Brazil agreed to open negotiations, and on June 30, 2026, the members of Mercosur announced the start of negotiations at their summit in Asunción. The joint statement issued on that occasion records a shared objective of expanding market access for agricultural and non-agricultural goods, and of deepening cooperation and mutual investment through the integration of value chains between the two economies.[42]

The institutional agenda between Japan and the region has several tracks open at once. One accession has been substantially concluded, and two further accession processes are at different stages. A negotiation with a subregional bloc has also been launched. The evidence assembled in this section indicates that the three instruments operate through distinct channels and reinforce one another where they coincide. However, some countries in the region report no bilateral trade, investment, or tax instrument with Japan, either in force or in process. This suggests that there is scope to strengthen bilateral economic relations through these instruments.

3.7 Reducing Trade Costs Is the Practical Lever for the Next Phase

Reducing bilateral trade costs is a key margin for strengthening trade and investment between Japan and LAC. Many of these costs can be influenced through bilateral cooperation between Japan and LAC economies, alongside domestic policy reforms. The decomposition in this chapter shows that lower bilateral trade costs have contributed to the growth of the relationship. Because these costs arise from multiple sources, progress requires action across several areas rather than reliance on a single instrument.

Different sources of trade costs call for different policy instruments. Transport and logistics costs are shaped by infrastructure, connectivity, and competition among carriers. Tariffs remain relevant in

[42] The announcement describes an area of about 400 million people with a combined gross domestic product of about US$7 trillion, in which Japan ranks among the ten largest trading partners of the bloc, with bilateral trade of US$13.7 billion in 2025. The negotiation postdates the evidence assembled in this chapter, and the coverage of any resulting agreement remains to be determined by the parties. Dates and content are taken from the published statements of the parties, consulted on August 6, 2026; the section reports only what those documents state, and positions held by either party in the course of the negotiation are not reported.

selected sectors, while the costs associated with non-tariff measures and services regulation can be reduced through greater transparency, regulatory dialogue, and improved administration. Border-processing costs can be reduced through trade facilitation and cooperation among the agencies that administer cross-border procedures. Information frictions can be addressed through trade and investment promotion agencies, the economic sections of diplomatic missions, and digital platforms, while bilateral agreements provide frameworks for cooperation on trade, investment, and taxation.

The appropriate mix of actions differs across LAC economies, reflecting variation in connectivity, border administration, regulatory conditions, and agreement coverage. Several of the mechanisms that can support further integration are already in place across the region, although their coverage and their links with Japan vary across countries. The firm-level cases in Chapter 4 illustrate how these different sources of trade costs enter business decisions and how firms have addressed them in practice. Chapter 5 then examines the cooperation instruments that can support progress across these areas.

4 BUSINESS LINKAGES IN PRACTICE: FIRM-LEVEL EXPERIENCES AND ILLUSTRATIVE CASES

Chapter 4. Business Linkages in Practice: Firm-Level Experiences and Illustrative Cases

Firm-level evidence documents decisions that Japan–LAC trade statistics capture only through their outcomes. Chapters 1 and 2 establish the structure of the relationship and the extent to which underlying complementarities are reflected in observed flows, while Chapter 3 examines the trade costs associated with those flows. The quantitative firm-level evidence in Chapter 2 also shows that relatively few LAC firms trade with Japan and that those that do tend to sustain concentrated, long-standing relationships. Drawing on five illustrative cases based on structured interviews, this chapter sheds light on dimensions that aggregate and administrative sources do not capture, including the search processes behind observed trade, customer-specific requirements, the functions performed by foreign affiliates, financing arrangements, and the capabilities firms build to establish and sustain cross-border relationships.

Three findings recur across the five cases. First, the commitments that made investment possible were long-dated: a fifteen-year supply contract, two-year fixed-price contracts with growers, a buyer specification met without interruption for fifteen years, and a multi-year investment plan behind an operational center. Second, the requirements firms had to satisfy were set by private buyers or by national regulators rather than by trade instruments and are therefore not measurable through indicators of trade policy. Third, in four of the five cases, an institutional actor preceded the commercial relationship, providing an introduction at a trade fair, temporary office space, or a standing forum for contact with counterparts. These actors included national trade or investment promotion agencies, sector federations, and bilateral business councils.

Box 4.1. Case selection criteria

The cases were selected to illustrate wider dynamics rather than to represent individual business experiences. Two selection criteria were applied.

A direct relationship with Japan. Each firm either holds an established commercial or investment relationship with Japan or is actively preparing to enter the market. Firms at the pre-entry stage were included deliberately, since the requirements a firm identifies at that stage are not observable in export records.

Variation across the set. Cases were sought so that the set as a whole would vary in country, sector, type of firm, and form of engagement rather than concentrate on a single configuration.

Firms were identified through ConnectAmericas, the Americas Business Dialogue, IDB Invest and IDB Lab portfolios, and direct outreach.

The resulting set meets both criteria across every dimension. It covers four firms originating in the region and one Japanese firm so that both directions of the relationship are represented. It ranges from a family-owned processor to a global multinational and covers four forms of engagement: no linkage yet established, indirect supply through a global trader, a wholly owned affiliate in the

counterpart market, and long-term supply contracts alongside an affiliate that originated as a joint venture. Stages of the relationship range from a firm preparing to enter the market to one that has supplied it since 1954 (Table B.4.1).

Table B.4.1. The five cases by country of origin, sector, type of firm, form of engagement and stage of the relationship.

Firm	Country of origin	Sector	Type of firm	Form of engagement with Japan	Stage of the relationship
Argensun Foods	Argentina	Agri-food: confectionery sunflower	Family-owned processor and exporter	No linkage yet established	Preparing entry
Uchuspice	Ecuador; operations in Peru and Paraguay*	Agri-food: industrial ingredients	Grower, processor and exporter	Indirect supply through a global trader	Supplying for approximately fifteen years
Daabon	Colombia	Agri-food: organic palm oil, coffee and bananas	Family-owned group, third generation	Wholly owned affiliate in Japan	Affiliate established in 2001
Astellas	Japan	Pharmaceuticals	Global multinational	Wholly owned affiliates in the region	Present in Mexico since 2020
Vale	Brazil	Mining and metals	Global multinational	Long-term supply contracts and an affiliate in Japan that originated as a joint venture	First sales in 1954

Source: Authors' elaboration based on structured interviews with the firms.
Note: * The group also includes a Colombian sister company managed independently under its own commercial contract.

Each case rests on a structured interview with the firm, complemented where available by identified external sources, and claims are attributed to their source throughout. Participation depended on firms agreeing to be interviewed, and the composition of the set reflects that: three of the five firms operate in agri-food, one in pharmaceuticals, and one in mining and metals. The set is not a representative sample of firms trading with Japan, and the cases are used to identify mechanisms rather than to measure how widespread they are.

4.1 An Exporter Already Meeting Sophisticated-Market Requirements Is Positioned to Enter Japan, with Buyer Matching the Remaining Step

A firm holding the attributes associated with entry into sophisticated markets with high-quality standards is preparing its entry into Japan. Argentina's Argensun Foods has processing plants in Luján and Pergamino, in the province of Buenos Aires, and in San Rafael, Mendoza. It leads the Argentine confectionery sunflower segment, accounting for between 40% and more than half of the country's

exports of that product depending on the year and the source consulted,[43] and it holds the domestic consumer market through a brand that has become the generic name for the category. According to the company, the group currently records annual sales of approximately US$ 80-90 million, of which around US$25-30 million correspond to exports, employs approximately 200 employees, and exports to more than 70 countries. It maintains commercial offices in Egypt, Spain, England, and New Zealand alongside its Argentine headquarters. It has no recorded shipments to Japan to date.

The capability to meet a destination market's requirements is already built and was built for other Asian markets. For Malaysia and Singapore, the company obtained Halal certification, following a sequence it describes as understanding the consumer, the regulations, and the quality requirements first, then passing the audit stages, then certifying, a process it characterizes as slow rather than difficult. Today, its quality management system is supported by internationally recognized certifications, including FSSC 22000 Version 6, Halal, Kosher, and the SMETA 4-Pillar (Sedex) ethical trade audit. These capability extends beyond the company's own operations. Argensun represents third-party Argentine producers on an exclusive basis and exports on their behalf, so the certification and quality burden covers a supplier network rather than a single plant. The company also integrates its own genetic development and processing. Standards of capacity are therefore not the element it lacks.

The firm has opened its other markets through institutional introductions combined with trade fair presence. Argensun entered New Zealand, Australia, Singapore, and Thailand through a combination of embassy introductions and trade fair presence, and it exhibits with its own stand at the major food exhibitions. In Greece, an embassy, arranged a full schedule of commercial meetings that the company only had to attend.

That channel has been engaged for Japan and has performed part of the task. The company approached the Argentine embassy in Japan roughly two years before the interview and describes the market information and statistics it received as strong, with the resulting analysis confirming Japan as an attractive market for its product. The embassy has since offered to put the company in contact with Japanese representatives and firms. What has not yet followed is the identification of an importer that handles this specific product and can be approached commercially. The company reports a specific limitation of commercial intelligence platforms: they identify the importer of record, but the importer’s registered line of business does not necessarily reveal whether it is a commercially relevant buyer or distributor for the product.

The case distinguishes between two services that are often treated as one: establishing that a market is worth entering and identifying the counterpart through which to enter it. The first has largely been addressed. Through the support of the Argentine Embassy in Japan, the company has gained access to market intelligence, importer directories, sector profiles, and opportunities to participate in trade fairs such as FOODEX, confirming Japan as an attractive destination. The second, however, remains the critical

[43] Bichos de Campo, June 2024, reports 40% of Argentine confectionery sunflower exports, equivalent to 18,000 metric tons; Agro Bonaerense, 2025, reports more than 50% of the export market share. The two figures are reported as published and are not reconciled here.

bottleneck. The challenge is no longer identifying potential Japanese importers but reaching the appropriate decision-maker and securing a trusted introduction.

4.2 A Japanese Buyer's Specification Built Compliance Capability Beyond What Regulation Required

A firm with annual sales of one to two million dollars has supplied the Japanese market for roughly fifteen years, and the specification it meets there is the most detailed in its portfolio. Ecuador's Uchuspice grows, processes, and exports hot peppers as a semi-processed industrial ingredient, dried, dehydrated, smoked, milled to powder, and as mash, to food manufacturers rather than to consumers. It operates in Ecuador, Peru, and Paraguay, and sources from a network of more than three hundred smallholder farming families.[44] The group also includes a Colombian sister company managed independently under its own commercial contract. Sales to Japan run at approximately one hundred thousand dollars a year and are made to a single buyer through a global ingredient trader.

The specification that organized this company's production, quality control, and documentation for the Japanese market was written by the buyer, and it is exact. The buyer prescribes sampling at the level of procedure, identifying which portion of which lot is to be drawn and how it is to be handled. It subdivides granulometry more finely than the company's other industrial customers require, working to mesh ranges those buyers treat as a single band. Its tolerance for extraneous matter is the most demanding the company encounters in any market and is verified instrumentally rather than by visual inspection. Japan's regulatory framework on the analytical parameters is separately comprehensive and clearly defined. The positive list system for agricultural chemical residues has been applied under the Food Sanitation Act since 2006, with a uniform limit of 0.01 ppm, where no maximum residue level has been established[45], and the company meets those parameters through the certified food safety systems it already operates. The incremental effort fell on the physical specification.

Meeting that specification required organizing compliance as verification of every lot, and that is the capability the relationship built. Each shipment is analyzed before departure; the company runs its own pre-screening to establish that a lot will pass before it is sent, and the buyer analyzes the samples it receives. The relationship is sustained on that accumulated analytical record rather than on physical presence: continuity across fifteen years has rested on documentation rather than on travel. The processing capacity behind that consistency was assembled progressively: dehydration lines in Ecuador in 2006 and in Peru in 2014, ISO 22000 certification for the Ecuadorian operation in 2008, FSSC 22000 in 2017, and a research facility, seed bank, and model farm in 2018.[46]

The company carries the working capital and the price risk of its supply base well ahead of any sale. It develops and holds its own seed, contracts smallholders on two-year agreements at a fixed price for a defined quantity, provides agronomists who support those growers through the cycle, receives the fresh

[44] UCHU Spice, corporate website, company history and supplier network.
[45] Ministry of Health, Labour and Welfare of Japan, Positive List System for Agricultural Chemical Residues in Food.
[46] UCHU Spice, corporate website, company history and supplier network.

crop at its own collection centers, and processes it. Commitments to growers are made and priced before the destination and the season's demand are known.

Because the commercial relationship is held by the trader, the recorded bilateral flow does not necessarily correspond to the underlying one. Where a transaction supplying a Japanese buyer is invoiced to the trader's United States ingredients business rather than to its Japanese entity, product grown and processed in the Andean region may be recorded as an export to the United States rather than to Japan. Trade between Latin America and Japan is then smaller in the records than in substance, and the direction of the error is systematic: intermediated relationships are the ones most likely to be misattributed, and they are common among smaller suppliers.

A national trade and investment agency approached the company at a trade fair in Asia, and the contact produced an investment in that country rather than a sale. Paraguay's trade and investment agency made contact with Uchuspice at the Seoul Food exhibition in 2024. That contact led to a company visit to Paraguay, technical training for local producers, and the inauguration in September 2025 of the country's first pepper processing plant, at Guayayví in the department of San Pedro, with the national agencies accompanying each stage from seed importation through industrial registration.[47] The arrangement targets a thousand metric tons within two years.

What the company identifies as its constraint is the concentration of its Japanese business in a single commercial relationship. The undifferentiated bulk segment is supplied at scale and at low cost, with prices set by large-volume suppliers; the company locates its own space in specialty and heirloom varieties, higher-specification lots, and the development of new flavor profiles with customers. It has completed two shipments to Korea and regards that market as expandable, and entry to China involves an importer registration process that it has not yet completed. It regularly uses Peru’s export promotion services for fairs, training, and market access support.

The clearest opportunity this case identifies is direct engagement between a capable supplier and the market it already serves. The company has met the most demanding specification in its portfolio for fifteen years, and its executive’s familiarity with Japan predates the commercial relationship by two decades, originating in graduate study there in the 1980s under a Japanese government scholarship program that has operated through embassies and universities since 1954.[48] The link between that supplier and its market has nonetheless been mediated throughout. The Paraguayan experience indicates what a single institutional introduction can produce, and the same instrument applied to a direct producer–buyer relationship is where the returns to cooperation are most visible in this case.

4.3 The Affiliate That Opened the Japanese Market Became the Group's Financing Center

Colombia's Daabon operates a Japanese subsidiary with its own balance sheet, and the function it performs is not distinguishable in any count of affiliate presence. The group was founded in Santa Marta

[47] Agencia de Información Paraguaya, February 25, 2026.
[48] Study in Japan, Ministry of Education, Culture, Sports, Science and Technology of Japan.

in 1914, is now in its third generation, employs more than five thousand people across four continents,[49] and operates fully owned subsidiaries in Colombia, the United States, the United Kingdom, Germany, Australia, and Japan.[50] Daabon Japan Co., Ltd. was established on 14 June 2001 with a capital of 71 million yen and imports and sells organic agricultural products and processed organic foods sourced from the group's own farms and facilities in Colombia and from partner organic producers. [51] The company describes the Japanese entity as a profit center rather than a cost center: it purchases on its own account, takes positions, carries working capital, and arranges its own financial leverage.

The affiliate performs commercial, inventory, and financing functions, and it began inside another Colombian institution's premises. It started operating from the offices of Colombia's national coffee growers' federation in Tokyo, at a point when the group's business there was Colombian coffee. Years later, the group's Korean operation began inside the offices of Colombia's export promotion agency in Seoul, with a staff member working for the company from within them. Institutional presence at the point of entry reduced the cost and risk of establishment on two separate occasions, twenty years apart and in two different markets, and in both cases this temporary institutional support gave way to the company's own presence. The company observes that very few Colombian firms hold a direct commercial presence in Japan.

What the affiliate sells in Japan has been rebuilt over time, and certification attaches at the point where transformation occurs. From 2001 to 2017 the affiliate exported organic fruit, freeze-dried and green coffee, and palm. From 2017 the weight of the business shifted to palm oil and its derivatives, alongside exports to Korea and China, regional business with the group's Australian company, and a renewed focus on freeze-dried coffee under the group's own brand, green coffee, and export business elsewhere in the region. Credentialing runs through all of it: the group holds Roundtable on Sustainable Palm Oil (RSPO), Fair Trade, Rainforest Alliance, and Regenerative Organic Certified certifications alongside United States and European organic certification and kosher certification.[52] The Japanese affiliate itself holds RSPO certification, which evidences chain of custody in palm; it imports, distributes, and sells rather than transforming, and so does not hold organic certification directly, although organic credentials are central to the group's Asian business. Where industrial transformation does take place, in the Australian operation, the corresponding certifications are held at that level.

The company regards its Japanese and Korean business as a qualification that travels. It characterizes both as highly selective and highly competitive markets and holds that a supplier able to meet their requirements is thereby able to sell in any other market. On that view, the return to the Japanese relationship is not confined to Japanese revenue: the specification, documentation, and consistency built to serve it are assets in every other market the group enters. The affiliate has extended commercially into Korea, is working toward China, and sells into Southeast Asia.

[49] Daabon Group, corporate website; El Tiempo, March 2026.
[50] Sustainable Palm Oil Choice, participant profile.
[51] Daabon Japan Co., Ltd., corporate profile.
[52] El Tiempo, March 2026; Daabon Group, corporate website.

The affiliate carries a currency exposure across three currencies, and holding the operation locally is part of how the company manages it. Costs are incurred in Colombian pesos, purchases are made in United States dollars, and sales in Japan are made in yen. The company mitigates the resulting exposure by selling into other markets in dollars from the Japanese entity and by operating in the market rather than serving it from a distance, which it also describes as improving its understanding of how the local system works.

What the affiliate became is measurable in equity rather than in sales. In 2019, it acquired a 25% shareholding in the group's Australian company and took a seat on its board. Those resources, together with funds from the group and external leverage, financed a vegetable oil refinery that entered operation in 2021 at an estimated cost of 30 million dollars, supplying local and international customers in sectors with demanding specifications, including infant nutrition. The affiliate's own annual turnover has ranged between 5 and 10 million dollars since 2001, against a business plan targeting 28 million by 2028; the group's companies together turn over more than 1.5 billion dollars a year. An entity that began in 2001 operating from another institution's offices held, eighteen years later, a quarter of the equity and a board seat in a manufacturing company on another continent.

The bilateral trade statistics do not capture what this relationship has become. Trade between Colombia and Japan records goods shipped from one to the other. It does not record that the Japanese affiliate buys on its own account, holds inventory and takes positions; that it sells into Korea, China, and Taiwan; that it conducts regional business with the group's Australian company; or that it holds a quarter of the equity in that company. A relationship that began as an export flow is now a commercial and financial presence operating across several Asian markets and one manufacturing investment on another continent, and the measure that names it counts only the first of those.

The constraint the company identifies is distance and routing, and transit times have roughly doubled. Its production is on Colombia's Caribbean coast, and its Asian markets lie across the Pacific. The company estimates current transit between Santa Marta and Yokohama at 50 to 70 days, compared with 25 to 35 days before the pandemic —the consideration that moved the affiliate's mix toward storable industrial products.

The company built its Japanese business without a bilateral agreement in force and identifies firm-level preparation as what determined the outcome. It names three requirements for operating in the market: understanding the counterpart’s negotiation process and business culture, which it treats as a subject to be studied rather than absorbed; holding a competitive advantage the company can state precisely, which in its case is organic production, certification, and vertical integration; and working to a defined three-to-five-year plan. Negotiations for an Economic Partnership Agreement between Colombia and Japan began in December 2012, with thirteen negotiating rounds held through September 2015. Colombia’s embassy in Japan reports that 16 of the agreement’s 18 chapters have been agreed, with rules of origin and market

access remaining outstanding. In September 2025, the Colombian government announced its intention to seek the reactivation of the negotiations; no subsequent negotiating round has been announced.[53]

The case documents two occasions, two decades apart, on which the group used institutional premises at the point of entry, and on both occasions the arrangement was transitional. In Tokyo and later in Seoul, the company operated initially from offices held by a Colombian institution, and in each market, it moved to its own premises once the operation was established. The group's trajectory also indicates that firm-level preparation and an eventual agreement are complements rather than alternatives: the capability was built first, and an agreement would apply to a firm already able to use it.

4.4 A Japanese Pharmaceutical Group's Presence Moved from Serving the Region to Operating from It

Japan's Astellas operates one of its three global capability centers in Mexico City, alongside those in Poland and India. The group was formed in 2005 through the merger of two Japanese pharmaceutical companies, is headquartered in Tokyo, and has a presence in more than 70 countries, with more than 20% of global revenue committed to research and development. Its Latin American presence began with a small affiliate in São Paulo and now comprises affiliates in Brazil, Colombia, Mexico, and Chile, with distributor relationships covering the remaining markets. The region has moved from being a market the company serves to being a location from which it operates, and the capability built there is clinical and operational rather than commercial.

The center in Santa Fe, Cuajimalpa, Mexico City, concentrates medical research, technology, digital and innovation functions, connecting local talent with the group's global ecosystem. The affiliates carry out sales and commercialization, and alongside them the company conducts a substantial volume of clinical trials in Latin America, a program it describes as having accelerated following regulatory change in Brazil. It does not manufacture in the region: production is concentrated in Japan, Ireland, the United States, and China. The commitment behind the Mexican center is of a scale consistent with that shift. Since arriving in Mexico in 2020, the company has invested more than 107 million dollars in infrastructure, operations, and talent development and has tripled its direct headcount, a figure stated consistently by the company and by the Mexico City government.[54] For the center itself, the company states an estimated constant investment of 14 million dollars annually, under an accelerated five-year growth plan focused on highly specialized employment and the strengthening of local scientific and technological capabilities.[55]

One capability was required specifically by the region and is not required in the company's other major markets. Several Latin American countries require that imported products be tested by a local laboratory, whereas most G7 economies accept testing performed by their reference agencies. The company had to

[53] Japan Ministry of Foreign Affairs (2012); Embassy of Colombia in Japan; Colombia Ministry of Commerce, Industry and Tourism (2025).

[54] Astellas Farma México, press release, January 2026; Secretaría de Desarrollo Económico, Government of Mexico City, inauguration announcement.

[55] Astellas Farma México, press release, January 2026. The Mexico City government announcement of the same inauguration states an estimated annual investment of 1,080 million pesos in the center. Both figures are presented as estimated annual investment; neither source publishes a conversion or an exchange rate, and the two are not reconcilable as stated.

develop a partner relationship in the region to carry out quality control and product verification, a requirement it describes as serving both an investment purpose and the safety assurance of imported products.

The structure of pharmaceutical production means trade costs accumulate across multiple border crossings rather than one. The company notes that complex products are not made in a single facility: the active ingredient is produced in one location and the packaging in another, so a product may cross borders several times before it is finished. It draws the comparison with automobile manufacturing, where a vehicle may move back and forth during assembly, and observes that where tariffs apply at each crossing they influence where production is placed. On that structure, preferential treatment for goods in transit affects investment location in a way a single-crossing calculation would understate.

The company reviews trade agreements when making investment decisions but does not describe them as determining those decisions. It examined the Japanese agreements in force in the region some years ago, specifically to compare how they treated intellectual property protection and regulatory data protection, both of which bear on its ability to sustain profitability and patient access in a market. Agreements are consulted, and they play a role, but the company states that they are not on their own a definitive reason for an investment.

What it identifies as the determining factor is regulatory predictability, and it distinguishes predictability from deregulation. Its formulation is explicit: the requirement is not fewer regulations, and not simpler ones, but certainty that the regulatory environment will be consistent, fair, and enforced through even-handed rule of law, so that a business decision made today rests on conditions that will still hold when the investment matures. This is a proposition about the character of the framework rather than its content, and it sits alongside rather than against the aggregate finding in Chapter 3: institutional instruments are associated with where affiliates are located, while the investor identifies predictability as what governs whether that presence deepens.

Where the company engaged institutional support, it did so through its home country's channels. It has held discussions with Japan's trade and investment promotion organization, which it describes as helpful in engaging with local business and government counterparts, while the company maintains its own direct relationships. It also notes that any significant investment is preceded by a detailed analysis of the jurisdictions under consideration, including the benefits available in each, and that several countries in the region have established their own investment attraction initiatives.

The company describes its regional relationship in terms of the health systems it serves. It states that it is honored to serve patients throughout Latin America and to partner with doctors, hospitals, patients, health systems, and governments in bringing innovation to those systems, and that it is proud to invest in the Latin American environment. This case documents the reverse direction of the relationship: the same region that supplies specialized agricultural inputs and iron ore to Japan also hosts one of three locations from which a Japanese pharmaceutical group operates globally, and complementarity in this relationship runs in both directions at the level of capability, not only of goods.

4.5 A Long-Term Purchase Commitment Financed the Infrastructure That Enabled Trade

A supply contract signed with Japanese steel mills in 1962 paid for a port that did not yet exist, and the trade followed the asset rather than preceding it. Brazil's Vale is a mining and metals company established in 1942 through the consolidation of existing operations in Minas Gerais, with mining operations today in Brazil, Canada, and Indonesia. Its first sales to Japan were made in 1954. The contract concluded in 1962 provided for the supply of 50 million metric tons of iron ore over 15 years, a scale without precedent at the time, and the Port of Tubarão in Vitória was built on the strength of that contract and inaugurated in 1966, designed to receive vessels of up to 150,000 metric tons at a point when most of the world fleet did not exceed 60,000.[56]Japan remains one of Vale's most important international markets. In 2025, it accounted for approximately 8.5% of the company's net operating revenue (US$2.5 billion). The previous year, Japan was Vale's second-largest international market, representing around 8% of net operating revenue (US$3 billion), following a similarly high share of 7.7% (US$3.2 billion) in 2023.

A forward purchase commitment of that duration and volume converted the buyer's demand into collateral against which the company financed fixed assets, and the contract required in return delivered scale and reliability. Connecting mine, railway, and port into a single coordinated system was the operational answer to a commitment of that size. The same requirement, at greater scale, defined the project that followed: the mineral reserves identified in the southeast of Pará in the late 1960s could only be reached by building roughly 890 kilometers of railway to a deep-water port that also had to be constructed, and close to two decades separated the discovery from the first production.

That second project is the only case in this chapter where entry was financed by a consortium of the counterpart, multilateral lenders, and Brazil's federal development bank. The financing plan comprised a World Bank loan of US$ 304.5 million approved in August 1982, approximately US$ 530 million from Japanese, European and United States lenders, and just over US$ 1.2 billion from Brazilian sources other than the company, principally the National Bank for Economic and Social Development (BNDES).[57] The World Bank loan represented 20.4% of external funding and 6.7% of anticipated project financing net of contingency commitments. Most of the Japanese and European financing was conditional on World Bank approval of the project, while the effectiveness of the World Bank loan was in turn conditional on that of the parallel Japanese and European loans. By mid-1982 the company had already negotiated long-term sales contracts with Japanese, German and other foreign customers covering nearly 25 million metrics tons a year of iron ore from the deposit.[58] The full length of the railway was inaugurated in February 1985, iron ore mining and export began in May 1985, and the mine, railway, and port system entered operation with the start of ship loading at Ponta da Madeira in January 1986.[59] The construction of the Carajás Complex was supported by Japanese and European financing. Japan was also the first destination for

[56] Vale, corporate publication marking sixty years of the Tubarão unit, May 2026.

[57] The Banco Nacional de Desenvolvimento Econômico e Social (BNDES), Brazil's federal development bank, which was expected to provide US$700 million of the project's domestic financing.

[58] World Bank, News Release No. 83/7, 12 August 1982; World Bank, Project Performance Audit Report, Carajas Iron Ore Project (Loan 2196-BR), Report No. 8869, 1990.

Carajás iron ore: the inaugural shipment of 31,000 metric tons departed for the ports of Oita and Kimitsu on April 30, 1985, reinforcing a commercial relationship that has continued to the present day.

The infrastructure produced a platform rather than a flow. The inauguration of the port is credited with attracting industrial investment to Espírito Santo over the following decades, including the pulp and steel operations that established themselves around the complex, and the company's own first major venture abroad was a joint venture with a Japanese steelmaker in California.[60] A supply contract produced a port, and the port preceded two decades of investment in sectors unrelated to iron ore.

Assets in this relationship run in both directions. The company operates the Matsusaka refinery in Mie Prefecture, with a capacity of 66,000 metric tons, the largest nickel refinery in Japan; following expansions in 1997 and 2014, it is among the largest producers of nickel oxide sinter in Asia, supplying customers in Japan and the group's affiliated refinery in the United Kingdom.[61] The asset entered the group through the acquisition of Inco in 2006, at the time the largest acquisition ever made by a Latin American company.[62] The Japanese entity itself originated as a joint venture with Japanese trading houses and steelmakers, whose shareholdings the group acquired progressively over the following years.[63] A Latin American firm holding production capacity inside Japan is uncommon, and it is not distinguishable in bilateral investment aggregates from a commercial representation office.

The relationship also has a standing institutional channel led by the private sector. The company participates in the Brazil–Japan Business Council, established in 1974 as the Brazol-Japan Economic Committee by the private sector of both countries. The Council brings together Brazilian and Japanese companies under the joint secretariat of the Brazilian National Confederation of Industry (CNI) and the Japan Bussiness Federation (Keidanren) and is currently chaired by Vale on the Brazilian side and Mitsui on the Japanese side. It meets regularly to identify priorities for the bilateral economic relationship, discuss measures to facilitate trade and investment, and formulate recommendations on regulatory and policy issues. Vale also participates in the Wise Group, a complementary high-level business dialogue established in 2007, which has met annually since 2013 (except in 2020) to develop recommendations for strengthening the strategic economic partnership between Brazil and Japan.

The company identifies the shift toward lower-carbon steelmaking processes as the next phase of the relationship, with a potential role as a supplier of hot briquetted iron. In the blast furnace route that remains most widely used, coal is not only an energy source but also the reductant in the reaction that converts iron ore into steel, which is what makes substitution difficult. The company expects a progressive shift toward the electric arc furnace route, which removes coal from that reaction and uses natural gas and potentially hydrogen, and which requires renewing the industrial plant rather than adapting the existing furnace. It does not intend to produce steel itself; it envisages supplying hot briquetted iron, the

[60] Vale, corporate publication marking sixty years of the Tubarão unit, May 2026; Vale, corporate website, California Steel Industries.

[61] Vale, corporate website, Japan operations.

[62] Vale, corporate announcement on the Inco acquisition.

[63] Vale Japan Limited, corporate history.

intermediate product the electric arc route requires, to Japanese and other customers, and indicates that such production could be located in geographies where natural gas is available at a competitive cost.

A second line of the same agenda is already under development and testing, building on Brazil's comparative advantage in biofuels. In 2025, the company launched the Dual Fuel project in partnership with the Japanese mining equipment manufacturer Komatsu and the United States engine manufacturer Cummins to develop and test off-road haul trucks capable of operating on blends of up to 70% ethanol and diesel. The trucks, with capacities of 230 to 290 metric tons, would be the first vehicles of their size in the world to operate on such high ethanol blends and have the potential to reduce direct carbon dioxide emissions by up to 70% relative to conventional diesel operation. As with the company's strategy for steelmaking, the project seeks to reduce emissions by adapting existing production systems rather than replacing them entirely, since the conversion is designed as an engine retrofit carried out during scheduled maintenance stops rather than through fleet replacement .[64]

Across the relationship, long-term commitments with Japanese partners supported investments beyond individual sales. A supply contract produced a port; a mineral discovery combined with a financing consortium produced a railway and a second port; an acquisition produced a refinery inside Japan; and the current agenda is a jointly developed technology intended for use in the company’s own operations. The instrument that recurs across all of them is a commitment long enough to justify capital, and that is a form of cooperation distinct from market access.

4.6 What Recurs Across the Cases Is the Length of the Commitment

In each case where a durable capability was built, what made the investment possible was a commitment long enough to justify it. A fifteen-year supply contract financed a port before the trade existed. Two-year fixed-price contracts with smallholder growers place the price risk on the processor ahead of any sale. A buyer specification met without interruption for fifteen years built a system of lot-by-lot analytical verification. An affiliate operating on its own balance sheet purchases on its own account and arranges its own leverage. A multi-year investment commitment stands behind an operational center that now performs global functions. In none of the five cases did tariff access determine whether the relationship formed, and two of the firms state expressly that trade agreements were not what decided their investment. Agreements operate on a different margin from the one these firms describe.

In four of the five cases, a national sector federation, a national trade and investment promotion agency, or a bilateral business council facilitated engagement with relevant counterparts by providing introductions, premises, or standing channels for contact. Daabon began inside the offices of Colombia's national coffee growers' federation in Tokyo and repeated the arrangement two decades later inside the offices of Colombia's export promotion agency in Seoul. Uchuspice was approached by Paraguay's trade and investment agency at a Seoul exhibition, and that contact was followed by the establishment of a processing plant in Paraguay. Astellas engaged Japan's trade and investment promotion organization for its dealings with local counterparts. Vale participates in a standing bilateral business council whose

[64] Company announcements on the dual-fuel program, July 2024, and testing update, 2025.

secretariat is held by the two countries' industry federations. Argensun entered the markets of New Zealand, Australia, Singapore, Thailand, and Greece by the same route, and has been engaging Japanese institutional counterparts for approximately two years; what has not yet followed is the identification of importers that handle the product and can be approached commercially. Facilitating contact with relevant counterparts is the function that recurs most consistently across these cases.

The requirement that bound each firm was established by a private buyer or by a national regulator rather than by a trade instrument. Uchuspice's Japanese business is organized around a customer specification governing sampling procedure, granulometry, and tolerance for extraneous matter, the most demanding in its portfolio, and a specification of that kind is set in a commercial contract rather than in any public instrument; Japan's regulatory parameters were met through certification systems the firm already operated. Astellas encountered a requirement of the second kind: several countries in the region require that imported products be verified by a laboratory located in the country. Daabon treats organic certification as the entry credential for Asia and layers further standards on top of it. Once built, the capability travels. Daabon holds that a supplier able to meet Japanese and Korean requirements can sell in any market, and Argensun's Halal capability, built for Malaysia and Singapore, could support a potential entry into Japan.

Long-term commitments were one source of financing in these cases, alongside other mechanisms used to support entry and ongoing operations. Vale's fifteen-year contract with Japanese steel mills financed the port that made the shipments possible, and the project that followed was financed by a consortium of multilateral, Japanese official, and Brazilian government funds. Daabon operated twice from premises held by Colombian institutions, transitional on both occasions, and its Japanese affiliate now carries working capital and arranges its own leverage. Uchuspice finances its supply base ahead of any sale. Argensun, at the pre-entry stage, is investing in access to a matching venue.

None of the firms identified tariffs as the constraint on doing more, and each named something different. Argensun names the cost of identifying a counterpart; Uchuspice, the concentration of its Japanese business in a single mediated relationship; Daabon, distance and routing for products with a limited shelf life; Astellas, regulatory predictability, which it distinguishes explicitly from deregulation. Vale describes the next phase of its relationship a shift away from coal-based routes for reducing iron ore, a change of process rather than of input. The origin of the binding requirement also differs across the cases: in the agri-food cases, the specification that organized the business was written by a private buyer, and in the pharmaceutical case, by a national regulator.[65] Four of these correspond to instruments examined in Chapter 3: trade and investment promotion and matching, transport connectivity, the treatment of goods that cross borders more than once, and the predictability of regulatory frameworks.

The cooperation instruments that appear in these cases act at the point of entry, before a commercial relationship exists. These instruments include premises held by a national institution and made available to a firm establishing itself abroad, an approach at a trade fair, a graduate scholarship that placed a future exporter in Japan two decades before the commercial relationship began, and official financing within a project consortium. Chapter 5 examines Japan–IDB development cooperation over the past fifty years,

[65] What the firms named is what was salient to them at the time of the interview rather than the incidence of each friction.

including current operations in agro-industry, health, financial inclusion, and agricultural technology in which Japanese and IDB Group resources are combined. What the cases add is evidence on when such support enters the sequence: in two of the five cases, institutional support preceded the establishment of commercial relationships that remain active today.

5 JAPAN AND LATIN AMERICA AND THE CARIBBEAN: EVOLVING PATTERNS OF DEVELOPMENT COOPERATION

Chapter 5. Japan and LAC: Evolving Patterns of Development Cooperation

The relationship between Japan and LAC extends well beyond trade and investment. Its foundations were laid in the early twentieth century, when Japanese migrants settled in countries such as Brazil and Peru and established communities that became an enduring bridge between Japan and the region. These early links gave the relationship a strong social and cultural foundation and helped open the way for closer diplomatic and economic engagement (Inter-American Development Bank, 2013).

Over time, these cultural and social ties developed into a broader and more structured partnership. Trade, diplomacy, knowledge exchange, and institutional cooperation expanded throughout the years, while development cooperation became an increasingly important channel of engagement. Japan's accession to the Inter-American Development Bank (IDB) as its first non-regional member fifty years ago marked a major step in this process, anchoring its relationship with LAC in a lasting regional institution (see Box 5.1).

Cooperation has proved to create benefits for both sides. On the one hand, LAC has benefited from Japan's experience as one of the world's largest and most advanced economies, including its capabilities in technology, infrastructure, public institutions, human capital, and long-term development planning. Japan, on the other hand, has leveraged the region's advantages in areas such as economic diversification, resilience, energy transition, and access to strategic resources (Myers and Hosono 2019). Hence, development cooperation offers a useful lens through which to understand the growing ties between Japan and LAC.

This chapter provides an overview of the evolving landscape of development cooperation between Japan and IDB borrowing member countries, examining how cross-regional engagement has unfolded in recent years. It assesses the main trends in Japanese development finance in the LAC region[66] and highlights the sectors, instruments, and channels shaping this emerging partnership. Building on this analysis, the section identifies how collaboration could generate even greater development impact. The aim is to offer an evidence-based understanding of current dynamics while highlighting concrete opportunities to strengthen interregional cooperation in support of development.

[66] The scope of this analysis covers only the 26 IDB borrowing member countries. Accordingly, all references to LAC or 'the region' throughout this chapter should be understood as referring exclusively to these countries.

Box 5.1. Japan and the Inter-American Development Bank Group

Japan became the first non-regional member of the IDB in 1976, marking the beginning of a long-standing institutional partnership with LAC. Today, Japan holds a 5% share in the IDB, making it the Bank's largest non-regional shareholder. Its engagement has extended beyond its shareholding role to include support for the wider IDB Group and its different mandates (Inter-American Development Bank, 2026).

Japan reaffirmed this institutional commitment in 2025. In August, it deposited its Instrument of Subscription for the Third General Capital Increase of IDB Invest, contributing to efforts to strengthen the institution's capital base and capacity to support private-sector development. In December 2025, Japan also deposited its Instrument of Contribution for the Fourth Replenishment of the Multilateral Investment Fund, supporting IDB Lab's work on innovation and early-stage development solutions (Ministry of Finance of Japan, 2026).

The 50th anniversary of Japan's membership, in 2026, offers an opportunity to reflect on how the partnership has evolved. Over five decades, cooperation has moved beyond conventional financial contributions toward a broader network of institutional collaboration involving the IDB Group, the Japan International Cooperation Agency (JICA), and the Japan Bank for International Cooperation (JBIC), and other Japanese institutions. This approach has allowed Japanese development finance, technical expertise, and private-sector support to be combined with the IDB Group's regional presence and operational capacity.

Several initiatives illustrate this increasingly structured relationship. For instance:

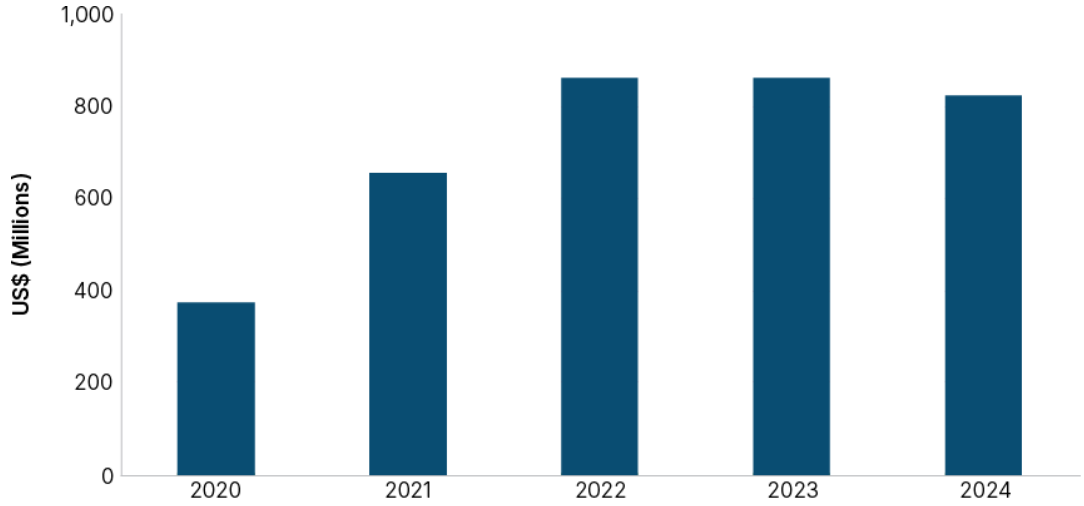
- **The Cooperation for Economic Recovery and Social Inclusion (CORE):** provides a cofinancing framework between JICA and the IDB Group (see Box 3) (Inter-American Development Bank, 2024).
- **The Trust Fund Achieving Development of LAC (TADAC)**: channels Japanese support through IDB Invest (IDB Invest, 2025).
- **The Transformational Start Ups' Business Acceleration for the Sustainable Development Goals Agenda (TSUBASA)**: brings together IDB Lab and JICA to support start-ups (IDB Lab, 2025).
- **JBIC has also worked with the IDB Group** through a range of cofinancing arrangements (Japan Bank for International Cooperation, 2023).

Taken together, these mechanisms show how the partnership has become more diversified over time. Japan's role is not limited to that of a shareholder or financial contributor. It also acts as a long-term institutional partner, using cofinancing, trust funds, and joint initiatives to support public and private investment, innovation, and economic development across the region.

5.1 Cross-Border Support to the LAC Region

Between 2020 and 2024, Japan provided nearly US$3.58 billion in cross-border development finance flows to IDB borrowing member countries through 10,945 activities. Japanese development cooperation to the region increased substantially over this period, rising by approximately 120% from US$373.41 million in 2020 to US$822.49 million in 2024 (see FIGURE 5.1). Flows grew each year, peaking in 2023 before declining marginally in 2024, but remaining well above their 2020 level. This general upward trend reflects Japan's sustained commitment to supporting the region's development priorities and its continued interest in strengthening bilateral and regional partnerships.

FIGURE 5.1. Total Cross-Border Support from Japan to LAC (2020-2024).

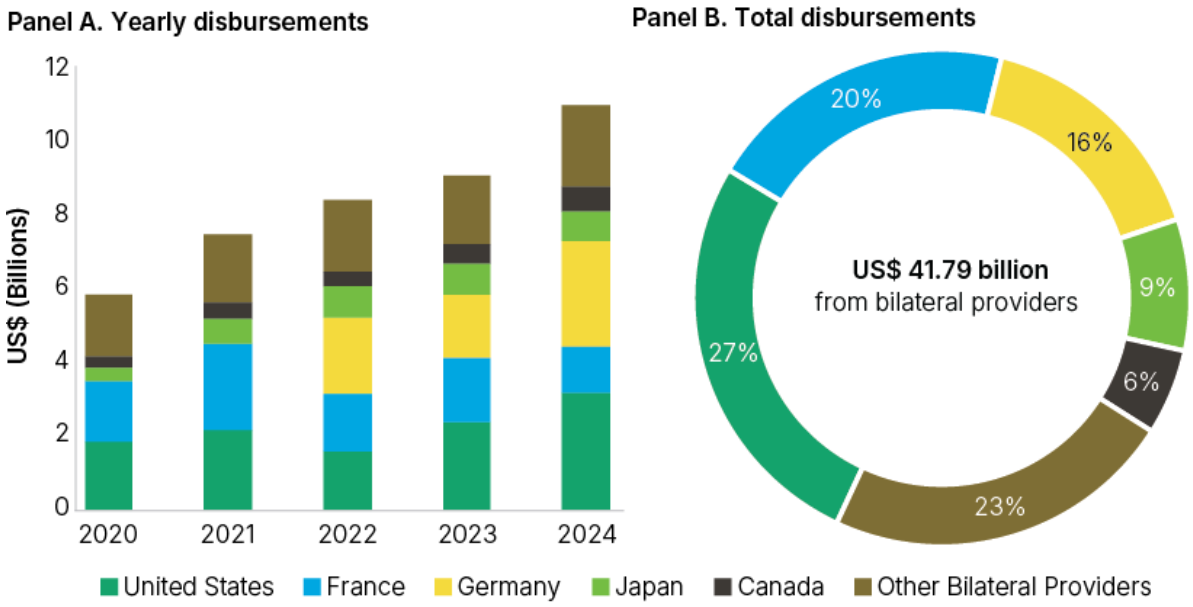


Source: Authors' calculations based on IDB based on Total Official Support for Sustainable Development (TOSSD) Dataset (2026).[67]

While Japan's development cooperation represents a relatively modest share of the total cross-border development finance received by LAC, it ranks among the region's strongest bilateral development partners. Between 2020 and 2024, bilateral providers disbursed approximately US$41.79 billion in cross-border development flows to the region (see Figure 5.2). The United States was the largest bilateral provider over the period, contributing US$11.15 billion (27% of total bilateral support), followed by France (US$8.46 billion – 20% of total bilateral support) and Germany (US$6.68 billion – 16%). Japan ranked fifth among bilateral providers, with cumulative disbursements of nearly US$3.58 billion (9% of bilateral support), exceeding those of Canada. Compared with several major bilateral providers, Japan's development cooperation was characterized by relatively stable annual disbursements, whereas other donors exhibited more pronounced yearly fluctuations, often reflecting the timing of large individual operations. This relatively consistent level of financing underscores Japan's sustained engagement with the region.

[67] About the TOSSD Data: Unless specified otherwise, this chapter is based on TOSSD Pillar 1 data from the period 2020-2024 (the latest available data as of August 2024). TOSSD data are presented from the recipient perspective, and totals are based on gross disbursements.

FIGURE 5.2. Cross-Border Support to LAC by Provider (2020-2024).



Source: Authors' calculations based on IDB based on TOSSD Dataset (2026).

While cross-border development finance provides an important perspective on Japan's engagement in LAC, it does not capture all ways through which Japan supports development in the region. Beyond the flows reflected above, Japan is also contributing to mobilizing private capital for development in the region through official interventions. These mechanisms can help catalyze additional resources from commercial and institutional investors, extending the development impact of public finance and increasing the overall pool of resources available for development in the region (see Box 5.2).

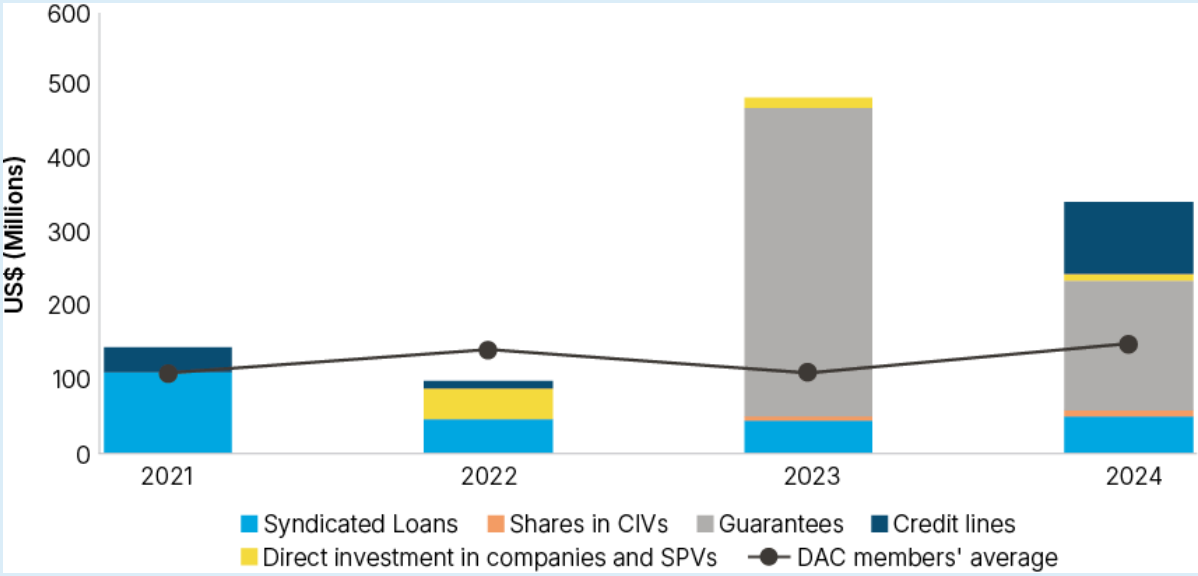
Box 5.2. Private Capital Mobilization in LAC by Japan

As development financing needs continue to exceed the availability of public resources, mobilizing private capital has become a central part of the international development agenda. The Addis Ababa Action Agenda (AAAA) reflects this shift by calling for private investment to be better aligned with sustainable development objectives and for governments and development institutions to create conditions that can attract and direct private finance. Within this broader agenda, Japan has supported private capital mobilization in LAC through its development finance institutions and partnerships with multilateral development banks. These efforts have helped channel investment toward projects with development impact in the region.

Between 2021 and 2024, Japan mobilized approximately US$1.07 billion in private capital for development in LAC. Japanese annual volumes exceed the average of amounts mobilized in the region by OECD Development Assistance Committee (DAC) members. Mobilization rose sharply over the period, reaching US$483 million in 2023 and remaining relatively high at US$342 million in 2024 (**Error! Reference source not found.**). Guarantees accounted for more than half of the total, while syndicated loans were the second-largest instrument. Credit lines, direct investments in companies and

special purpose vehicles, and shares in collective investment vehicles (CIVs) made smaller but still meaningful contributions. These results point to Japan's growing capacity to use public development finance to attract additional private investment, and sustaining the levels reached since 2023 would further strengthen its contribution to financing development in the region.

FIGURE B.5.2. Mobilized Private Finance by Japan in LAC (2020-2024).

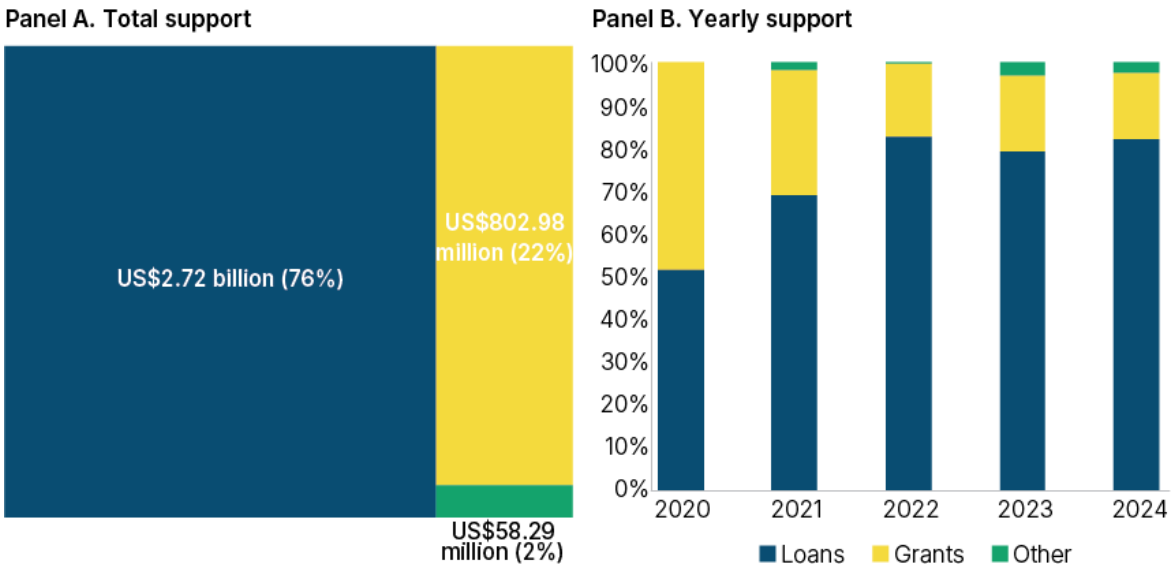


Source: Authors' calculations based on IDB based on CRS-Mobilized private finance for development (2026).
Note: The data covers all LAC DAC eligible recipient countries of official development assistance (ODA), regardless of their IDB membership.

5.2 Financial Instruments and Sectoral Distribution of Japanese Cross-Border Support

Loans were the main instrument used by Japan to channel development finance to LAC between 2020 and 2024. They accounted for approximately US$2.72 billion, or 76% of total support, compared with around US$803 million in grants, equivalent to 22% (see Figure 5.3). The yearly composition also changed considerably over the last few years. In 2020, loans and grants represented broadly similar shares of annual support. However, loans became increasingly dominant from 2021 onward and accounted for around four-fifths of yearly flows between 2022 and 2024. Loans and grants play complementary roles within development finance, with their use depending on the nature of each operation and the specific needs and circumstances of recipient countries. Loans can provide financing for larger-scale investments and programs, while grants can support activities where non-repayable resources are more appropriate, such as technical assistance and capacity building. Maintaining a flexible mix of instruments can therefore help ensure that development cooperation remains responsive to different development priorities and country contexts across the region.

FIGURE 5.3. Instrument Mix of Japanese Development Finance in LAC (2020-2024).



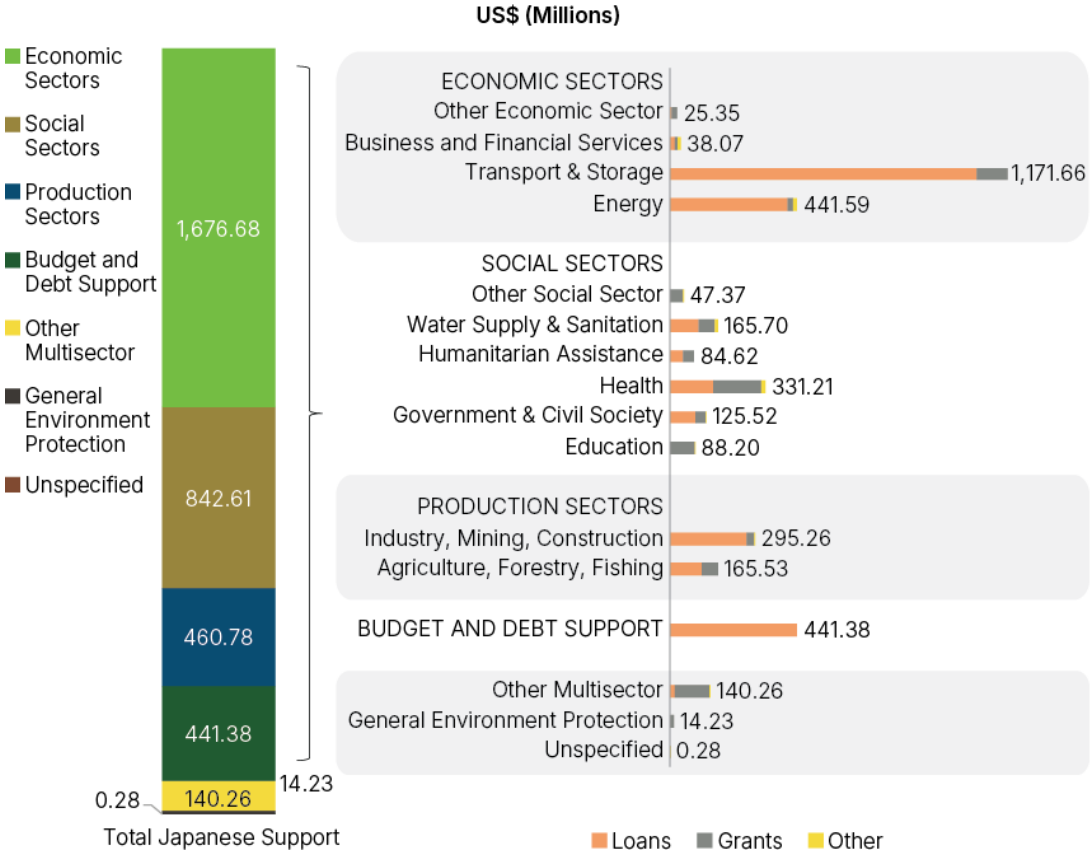
Source: Authors' calculations based on IDB based on TOSSD Dataset (2026).

Japanese cross-border development finance in LAC was concentrated by value in selected economic sectors, even though development cooperation extended across a much broader range of sectors. Between 2020 and 2024, support for economic sectors reached almost US$1.68 billion, equivalent to approximately 47% of total flows (see FIGURE 5.4). Within economic sectors, transport and storage alone accounted for US$1.17 billion, almost one third of total support, followed by energy at US$441.59 million, or around 12% of total support. This concentration is even more accentuated when comparing financing volumes with the number of activities: economic sectors represented only 1,880 activities, or 17% of the portfolio. Transport and storage and energy together accounted for fewer than 900 activities, or approximately 8% of the total. The presence of high financing volumes within a relatively limited number of activities points to a portfolio shaped by large infrastructure operations, consistent with Japan's long-standing technical and financial expertise in transport, connectivity, and energy. It also means that aggregate annual flows are influenced by the timing of a relatively small number of major projects.

At the same time, Japan's cooperation extended well beyond large infrastructure projects, with lower volumes of financing distributed across a much broader range of activities. Social sectors received approximately US$842.61 million (around 24% of total support), mostly through loans, making them the second-largest sectoral group by value but accounting for 5,635 activities, or just over half of all activities recorded. Production sectors similarly received US$460.78 million—almost 13% of total support—through 1,677 activities. The remaining US$596.15 million was distributed across 1,753 activities, covering multisector activities and general environmental protection, as well as general budget and debt support for the region. This contrast suggests a two-part cooperation model in which a relatively small number of large operations in economic infrastructure are complemented by a much wider set of smaller interventions in social and productive sectors. Such a profile allows Japan to combine long-term

investment in physical infrastructure with more targeted support that can respond to local needs and reach a broader range of institutions and communities.

FIGURE 5.4. Sectoral Allocation of Japanese Development Finance to the Region (2020-2024).



Source: Authors' calculations based on IDB based on TOSSD Dataset (2026).

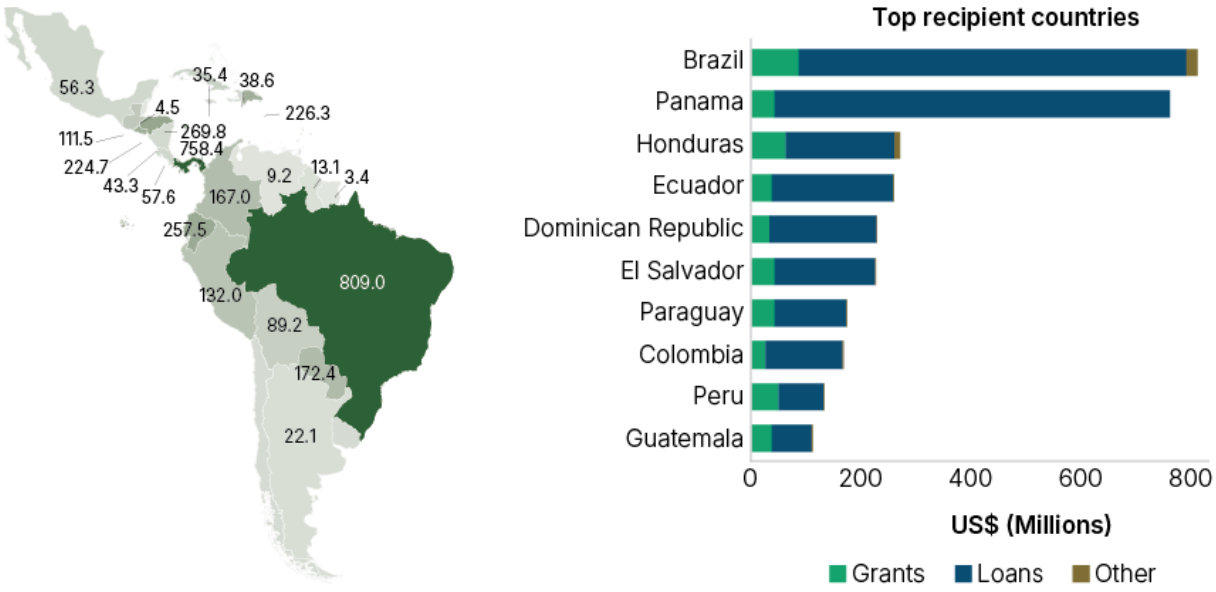
Taken together, the choice of financing instruments and the sectoral allocation of Japanese development cooperation form a coherent and complementary cooperation model. The predominance of loans aligns with the concentration of financing in transport, energy, and other economic sectors, where projects typically require substantial volumes of long-term capital. At the same time, grants continue to play an important role by supporting a broader range of interventions, particularly across social and multisector areas. These activities can provide technical cooperation, strengthen institutional capacities, support project preparation, and address development needs for which lending may be less suitable. This combination enables Japan to support large-scale investments in physical and productive infrastructure with more targeted interventions that respond to local needs and reach a wider range of institutions and communities.

5.3 Geographic Distribution of Cross-Border Resources

Japan's cross-border support reached a broad set of countries across LAC, but the largest volumes were concentrated in a relatively small group of recipients. Japanese development finance flows reached more than 20 countries in the region (see

FIGURE 5.5). Still, the ten largest recipients captured close to 87% of total regional flows from 2020 to 2024. Brazil and Panama received approximately US$809 million and US$758 million, respectively, and together accounted for around 44% of total support between 2020 and 2024. Beyond Brazil and Panama, allocations were considerably smaller: the other eight countries in the top ten received an average of approximately US$195 million each. Among the remaining countries, all except Bolivia received less than US$60 million, pointing to a portfolio with broad geographic reach but a marked concentration of financing in a few major recipient countries. Moreover, countries that are not ODA-eligible, such as Chile and Uruguay, did not receive cross-border support during the period, despite being eligible recipients under the TOSSD framework.

FIGURE 5.5. Geographic Allocation of Japan's Cross-Border Support to LAC (2020-2024).



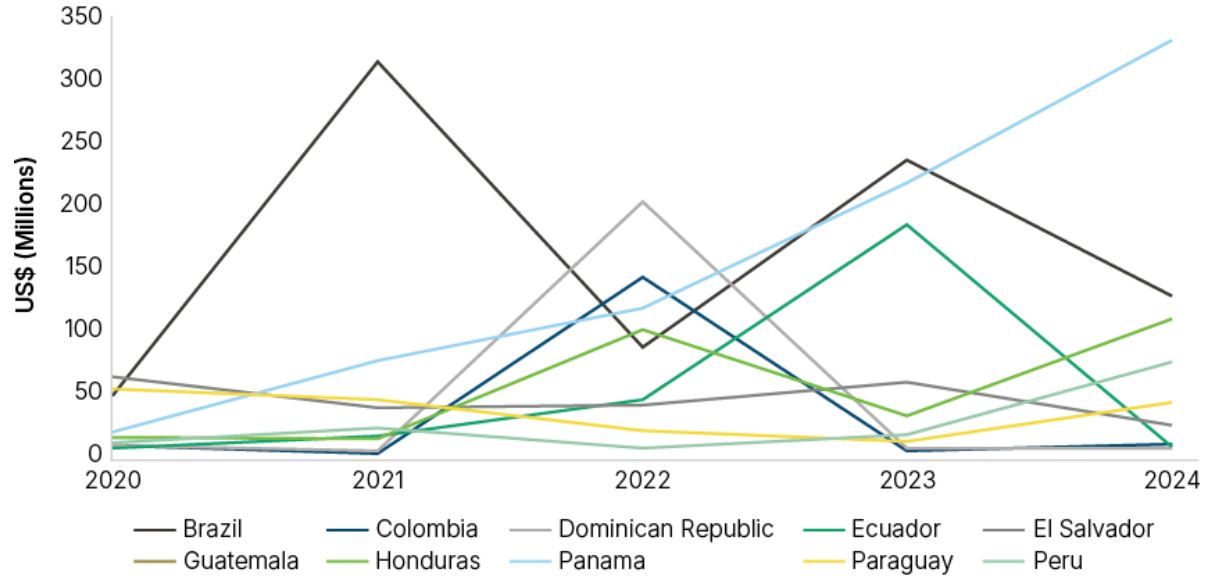
Source: Authors' calculations based on IDB based on TOSSD Dataset (2026).

The distribution also points to strong engagement in Central America and the Caribbean, with Panama, Honduras, El Salvador, and Guatemala all ranking among the ten largest recipients. This concentration suggests that Japan's regional cooperation was anchored in a limited number of major country relationships but maintained a particularly visible presence in Central America. Japan has approached the Caribbean as a distinct policy area, supported by a dedicated framework for cooperation with the Caribbean Community (CARICOM) (Caribbean Community, 2024; Ministry of Foreign Affairs of Japan, 2025). Its engagement has placed particular emphasis on the vulnerabilities of Small Island Developing States (SIDS), including exposure to climate change and natural disasters, as well as on maritime issues,

human security, institutional ties, and cooperation in international forums (Ministry of Foreign Affairs of Japan, 2024).

Nevertheless, a yearly breakdown of flows reveals important differences in how Japanese support has evolved. Financing to Brazil and Panama was relatively high across the 2020-2024 period, although Brazil reached its highest level in 2021, while support to Panama followed an upward trajectory and peaked in 2024 (see FIGURE 5.66). Conversely, support to several other top recipients was heavily concentrated in a single year. For instance, the Dominican Republic received nearly 90% of its five-year total in 2022, largely driven by a loan cofinanced with the IDB under the CORE Framework (see Box 5.3) (Japan International Cooperation Agency, 2021). Similarly, more than 70% of Ecuador's support was recorded in 2023 under a COVID-19 Crisis Response Emergency Support Loan (Japan International Cooperation Agency, 2022). These patterns indicate that Japan's engagement combined relatively continuous financing in some countries with larger flows linked to particular operations in others.

FIGURE 5.6. Yearly Cross-Border Japanese Support to Top 10 LAC Recipients.



Source: Authors' calculations based on IDB based on TOSSD Dataset (2026).

While loans are the main instrument used to provide cross-border support, Japan did not deploy loans to the same extent in every country. Loans accounted for most financing in the largest recipients. By contrast, grants accounted for a greater share of support in several smaller Caribbean economies. This pattern is consistent with tailoring the choice of instrument to each country's circumstances and to the nature of each intervention, with grants playing a larger role where concessional terms were more appropriate.

Box 5.3. The Cooperation for Economic Recovery and Social Inclusion (CORE) Framework and the 2021 Loan Agreement with the Dominican Republic.

The Cooperation for Economic Recovery and Social Inclusion (CORE) framework illustrates how the partnership between the IDB Group and the Japan International Cooperation Agency (JICA) has evolved in response to the region's changing development needs. Established in 2011 as the Cofinancing for Renewable Energy and Energy Efficiency initiative, CORE initially focused on supporting clean energy investments. Its scope was gradually broadened, and in 2021 the framework was renamed to reflect its expanded focus on quality infrastructure, disaster resilience, universal health coverage, poverty reduction, and climate action. This cooperation was further strengthened in 2024 when the IDB Group and JICA agreed to provide an additional US$1 billion in cofinancing and co-investment resources. The agreement increased the program's total funding to US$4 billion and extended its implementation period through December 2028, reinforcing CORE as a central mechanism for Japan's development cooperation with LAC (Inter-American Development Bank, 2024; Inter-American Development Bank, 2026).

2021 Loan Agreement with the Dominican Republic

The 2021 loan to the Dominican Republic marked an important expansion of cooperation between JICA and the IDB under the CORE framework. On July 28, JICA signed an agreement to provide up to US$200 million in Japanese development financing for a program designed to strengthen public policy and fiscal management in response to the health and economic effects of COVID-19. Cofinanced with the IDB, the operation supported the design and implementation of effective and fiscally responsible policy measures intended to preserve economic stability and sustain the country's development efforts. The agreement was also notable as JICA's first budget support loan in LAC and the first operation approved under CORE following its 2021 expansion into quality infrastructure, disaster risk management, and global health (Japan International Cooperation Agency, 2021).

5.4 A Diversified Cooperation Model Provides the Foundation for a Deeper Partnership

Japan's development cooperation with LAC reflects a partnership that has become increasingly diversified, strategic, and institutionally grounded. Beyond the volume of resources provided, Japan has established a cooperation model that combines long-term financing, concessional resources, technical expertise, cofinancing arrangements, and growing efforts to mobilize private capital. The evidence presented in this chapter suggests that Japan has been able to align its support with areas where it possesses recognized comparative advantages, particularly infrastructure, energy, resilience, and institutional development, while maintaining engagement across a broad range of countries and development challenges.

Nonetheless, the evolving development landscape creates opportunities to further enhance the effectiveness and mutual benefits of the partnership. Building on the solid foundations established over the past decades, Japan and the region have an opportunity to deepen their partnership by aligning financing more closely with regional priorities, expanding successful cofinancing models, and making greater use of instruments that can mobilize additional capital.

6 CONCLUSIONS AND A FORWARD-LOOKING AGENDA

Chapter 6. Conclusions and a Forward-Looking Agenda

Over the past 50 years, Japan and LAC have built an increasingly deep and mutually beneficial economic relationship, underpinned by growing structural complementarity. Yet important gains remain unrealized because firms continue to face policy-related frictions that raise the cost of doing business across borders and limit trade, investment, and business linkages. This chapter synthesizes the report's main findings, identifies where the greatest scope for deepening the partnership lies, and outlines priorities for the period ahead.

6.1 From Complementarity to Deeper Integration

Japan and LAC have developed increasingly complementary economic structures over the past half century. Japan's growth has been driven primarily by capital accumulation, productivity gains, and technological upgrading, while LAC has relied more on labor accumulation, with considerable scope for further gains in these other dimensions. Across sectors, Japan has developed strengths in manufacturing, knowledge-intensive services, innovation, and technology, whereas LAC maintains comparative advantages in natural resources and agri-food production.

This growing complementarity has created substantial opportunities for deeper economic integration, yet bilateral trade costs continue to prevent that potential from being fully realized, and specifically the number of business ties from further expanding. These costs extend well beyond tariffs to encompass those associated with transportation and logistics, regulatory requirements and service regulations, border procedures, information frictions, and the broader institutional framework for trade and investment. Chapter 4 case studies highlight the challenges that firms face to meet public and private standards and finding reliable partners, and thus how these frictions affect their day-to-day operations.

Addressing these frictions therefore represents one of the clearest opportunities to translate the regions' economic complementarity into deeper trade, investment and mutually beneficial growth opportunities. Although these frictions differ in nature, they share one important feature: they can be addressed through a combination of unilateral reforms, bilateral cooperation, and stronger institutional linkages. Firm case studies illustrate the important role of these policy initiatives such as support services provided by trade promotion agencies and business associations in helping firms transform potential opportunities into durable business relationships.

Development cooperation can also help improve the conditions under which firms establish and expand long-term commercial relationships, complementing private economic integration by strengthening capabilities, supporting institutional development, and mobilizing investment, as the long-standing partnership between Japan and the IDB Group shows.

6.2 An Agenda for Deepening the Japan–LAC Partnership

The recommendations below translate the findings of this report into an agenda for realizing potential business opportunities and thus further deepening, expanding, and diversifying the LAC-Japan economic

partnership. This agenda encompasses both coordinated policy actions to improve the bilateral institutional framework and address each of the main components of trade costs that prevent these opportunities from materializing and builds upon the fruitful cooperation between Japan, the IDB Group, and the region to support deeper economic integration.

6.2.1 Strengthening Trade and Investment Linkages

Expand institutional trade and investment framework. The network of bilateral trade, investment, and tax agreements that underpin long-term economic relations between Japan and LAC address different dimensions of economic integration, from market access and investment protection to the taxation of cross-border income, and, together, provide a more predictable environment for firms operating across borders. A new empirical analysis produced for this report finds that tax treaties deserve particular attention, given their strong association with multinational investment in LAC, especially when combined with other bilateral agreements. Because countries differ substantially in their existing institutional relationship with Japan, priorities should reflect the instruments already in place.

Invest in quality infrastructure, transport connectivity, and logistics services. International transport costs between Japan and LAC have remained broadly unchanged over the past three decades, whereas those with other regions have declined, and direct air and maritime services continue to reach only a limited number of countries in the region. Greater investment in ports, airports, multimodal logistics corridors, and domestic transport networks would reduce the cost and increase the reliability of bilateral trade while strengthening connectivity with global markets more broadly. Existing cooperation mechanisms, including Japan–IDB Group partnerships on quality infrastructure, provide a strong platform for mobilizing financing and technical expertise to support these investments.

Promote an enabling regulatory environment for trade and investment. Appropriate tariff policies, greater transparency in the implementation of non-tariff measures, and regulatory frameworks that facilitate services trade can reduce unnecessary trade costs and improve the conditions under which firms engage in bilateral trade and investment. As services become an increasingly important component of the Japan–LAC economic relationship, both through direct services trade and as essential inputs into goods production and exports, improving the regulatory environment for services can strengthen competitiveness, support value-chain participation, and generate benefits that extend well beyond services trade itself.

Strengthen trade facilitation through deeper cooperation among border agencies that administer cross-border regulatory requirements and procedures to comply with them in general and digital initiatives in particular. This includes, for instance, MRAs of AEO programs and deeper technical dialogue on sanitary, phytosanitary, and other regulatory requirements, particularly in agri-food sectors where regulatory compliance remains a major barrier. At the same time, expanding the interoperability of digital systems (e.g., customs and ETSWs) across the two sides can broaden participation in bilateral trade and investment, particularly among smaller firms, for which the fixed administrative cost of each shipment weighs most heavily.

Further reduce information frictions through stronger trade and investment promotion and more effective business matching. The evidence presented in this report shows that, despite technological progress, information frictions, particularly the difficulty of finding and assessing reliable foreign partners, remain one of the principal barriers to trade and investment between Japan and LAC. The firm-level case studies reinforce this conclusion: business matching consistently emerged as one of the main challenges to building and expanding long-term commercial relationships. Policy actions should therefore strengthen the mechanisms that help firms identify commercial opportunities and connect with suitable partners. These include trade and investment promotion agencies and the economic sections of diplomatic missions, joint promotion initiatives, and AI-enhanced digital business platforms that increase firms' visibility to foreign buyers. Such instruments are most valuable in distant and less familiar markets, where search costs are highest, as is the case between Japan and LAC.

Box 6.1. Building Better Statistics for Greater Impact

As the Japan–LAC partnership continues to deepen, the value of more granular and internationally comparable bilateral statistics will continue to grow. Greater availability of bilateral information on services trade, including tourism, foreign direct investment and multinational firms, innovation activities and outcomes, and value chains would improve the ability to monitor economic integration and maximize the impact of bilateral cooperation. Continued statistical collaboration between Japan and LAC would strengthen this evidence base and inform future bilateral initiatives.

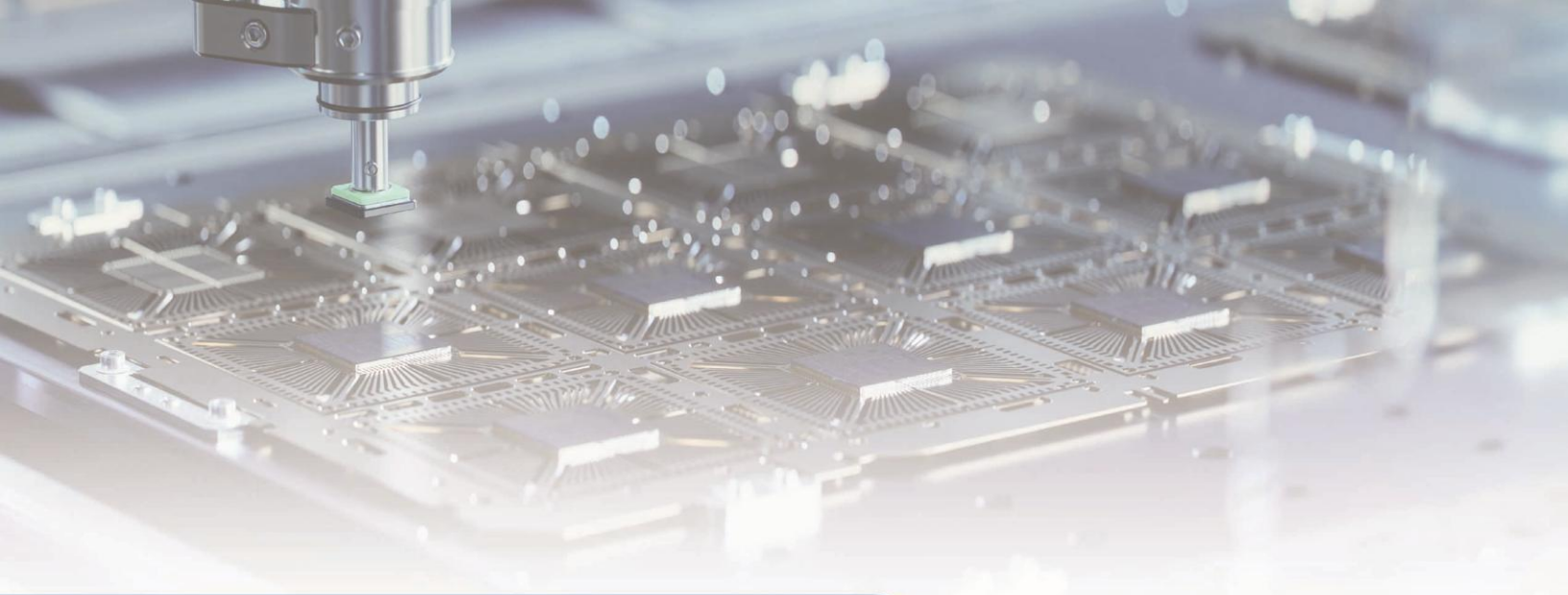
6.2.2 Strengthening Cooperation for the Next Stage of the Partnership

Use the IDB Group as a Platform to Scale Regional Cooperation. Japan, the IDB Group, and its borrowing member countries can use their long-standing partnership to expand the scale and reach of development cooperation in LAC. The IDB Group has served as a regional platform for identifying country priorities, developing a stronger pipeline of projects, and connecting the region with Japanese financing and expertise. As evidence shows, establishing cofinancing arrangements, trust funds, and joint initiatives with the IDB and Japan reduces fragmentation, strengthens implementation, and produces tangible development impact in the region.

Expand the mobilization of private capital. Japan, the IDB Group, and IDB borrowing countries can keep working together to expand the use of development finance to mobilize private investment. Japan has demonstrated a growing capacity to mobilize private finance in the region, particularly through guarantees and partnerships with development institutions. While mainstream development finance approaches such as loans and grants remain very relevant for development purposes, future engagements could place additional emphasis on scaling innovative development finance approaches such as blended finance to crowd in private sector capital flows. Such an approach would allow for public resources to act as a catalyst for larger volumes of investment supporting development objectives, particularly at a time of global decline in concessional funding and the need for leverage. LAC countries can support these efforts by identifying viable projects, strengthening enabling conditions for investment, and working with the IDB Group and Japan to develop financing structures suited to their national priorities.

Align development cooperation with emerging areas of strategic complementarity. As regional priorities evolve, Japan may have opportunities to strengthen or renew cooperation with countries in LAC where development finance engagement has been relatively limited in recent years. Areas such as the energy transition, critical minerals, resilient infrastructure, supply chain diversification, digital transformation, innovation ecosystems, and disaster resilience offer potential avenues for enhanced collaboration. This could provide further opportunities to build on existing regional relationships while responding to evolving areas of mutual interest and development need.

Deepen integrated partnerships that combine finance, knowledge, technology, and private sector engagement. As development challenges become more complex and public resources remain constrained, the value of development cooperation will increasingly depend on how effectively financing is combined with Japan's broader capabilities. These include recognized strengths in digital transformation, infrastructure, transport systems, public sector management, disaster-risk management, and energy efficiency. Building on established platforms such as CORE, TADAC, and TSUBASA, Japan, the IDB Group, and borrowing member countries could further combine financing with technical cooperation, policy dialogue, institutional strengthening, and private investment in ways that reflect country circumstances. This could allow the partnership to respond effectively to evolving development needs while deepening knowledge exchange, innovation, investment, and economic ties between Japan and LAC.



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