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Latin American Trade Relations with Japan: New Opportunities in the 1990s?

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LATIN AMERICAN TRADE RELATIONS WITH JAPAN: NEW OPPORTUNITIES IN THE 1990s?

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I. INTRODUCTION

Latin America's interest in Japan has increased substantially during the 1980s. Unfortunately for the region, Japan's priorities have moved in the opposite direction—toward more advanced industrial countries, especially the United States and booming Asia. Although the Latin American share of Japan's economic transactions has fallen, the absolute value of those transactions has stayed constant or even increased, thus providing significant help in the face of an otherwise depressing international picture. In addition, and contrary to this downward trend, some Latin American countries have successfully stepped up their relations with Japan, regarding both trade and foreign investment.

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In view of the topic of the conference, this paper focuses on Latin America's trade with Japan. It should first be recognized, however, that trade has been the lagging sector of Japan's economic relations with the region. As will be discussed in more detail later on, trade relations have centered on Japanese exports of industrial goods in exchange for raw material. Although exports to Latin America accounted for as much as eight percent of Japanese trade in the 1950s, that figure dropped to around four percent during the last half of the 1980s. Unlike the trade-dominated interactions with the United States, Japan's relations with Latin America have been investment and finance-dominated. This disparity is analyzed in the first section of the paper which puts trade within the overall context of the economic relations between Japan and Latin America. The second and third sections look at quantitative trends with respect to trade. Section four examines some "special features" of Japanese trade, especially the general trading companies or *sogo shosha*, the links between trade and investment, and governmental attempts to promote trade. The fifth section briefly compares U.S.-Latin American trade with the data already presented for Japan. Finally, the paper outlines three possible scenarios for the future of trilateral trade and economic interaction between the United States, Japan, and Latin America.

II. JAPANESE ECONOMIC RELATIONS WITH LATIN AMERICA

Japan's initial relations with Latin America came through immigration.[1] Beginning in the last quarter of the nineteenth century, over 300,000 Japanese citizens migrated to Latin America and it is now estimated that well over one million people of Japanese lineage live in the region. While the great majority is in Brazil,[2] other countries such as Mexico, Peru and Paraguay also have substantial Japanese populations. It is generally thought that the large group of Japanese descendants in Brazil was one reason for Japan's strong economic interest in that country in the post-World War II period. A more recent demonstration of interest in Latin Americans of Japanese ancestry was the publicity surrounding the election of Alberto Fujimori as President of Peru and the ensuing pos-

1. For a summary discussion of immigration trends, see Kunimoto, *Japanese Migration to Latin America*, in THE UNITED STATES, JAPAN, AND LATIN AMERICA: A NEW TRILATERALISM IN THE WESTERN HEMISPHERE? (B. Stallings & G. Szekely eds.) (forthcoming).

2. Brazil counts over 800,000 people of Japanese descent, 18 INTER-AMERICAN DEVELOPMENT BANK 6 (March 1991). *See* Hollerman *infra* note 23, at 27 n.3.

sibility of large-scale aid to that country. Since this original influx of immigrants, Japan has developed through trade, direct investment, and both public and private financing, multi-faceted relations with Latin America.

A. Direct Foreign Investments

Currently Japan has some $32 billion of direct foreign investment (DFI) in the region, which represents 17 percent of Japanese direct investment worldwide.[3] While this figure has remained more or less constant for several decades, the 1980s have seen an important—and negative—change in the composition of both U.S. and Japanese foreign investment in Latin America. Two parallel processes have been occurring.

Principally, the bulk of Japanese investment has shifted away from mainland Latin America toward the tax havens of the Caribbean and flag-of-convenience companies of Panama. At the same time, there has been a move away from the productive sectors toward services. In the 1970s, for example, 46 percent of Japanese direct foreign investment was in manufacturing (mainly in Brazil and Mexico). Another 30 percent was in agriculture, fishing, mining, and construction. Only 24 percent was in services, including finance and transportation. By the second half of the 1980s, those figures had changed dramatically. Manufacturing was down to 6.5 percent, other productive sectors had dropped to 1.4 percent, while services had ballooned to 92 percent. This spectacular increase was due mainly to flag-of-convenience shipping in Panama and offshore financial services in the Caribbean. If we eliminate these two categories, Japanese direct investment stock in Latin America drops from $32 billion to around $10 billion or only 5 percent of worldwide Japanese investments.

Of this $10 billion of "real" investment, over half is in Brazil with iron ore and steel as the single largest area of Japanese investment, followed by machinery and textile. Mexico is the second major site of "real" Japanese DFI in Latin America. There, the automobile industry is the key sector, followed by mining and

3. Data on direct foreign investment by Japan are kept by the Ministry of Finance. Unfortunately, they consist of companies' *intentions* to invest, as reported to the Ministry. No data on a regional basis exist for actual investment. Likewise, data on reinvestment are not available. My assumption in using the data for "accumulated investment" is that those investments that are declared but not actually are more or less offset by reinvestment.

steel. Despite the recent years of devastation, Peru's mining sector still retains significant Japanese capital. Finally, it should be added that several promising investments have emerged in the last year. New capital was injected into Chile's copper mining and into its paper and forestry sector. New investments will also be made in aluminum production in Brazil and Venezuela, as well as in the automobile industry in Mexico and perhaps Brazil. Whether these recent announcements are the beginning of Japan's new confidence in Latin America remains to be seen.

B. *Financial Involvement*

The other area where Japan is a major presence is with respect to Latin America's foreign debt. By some measures, Japan is now the leading creditor for the region as far as medium and long-term private bank loans are concerned. Official Japanese statistics for 1989 show that Japanese banks held $46 billion of Latin debt, which would represent 18 percent of total Japanese bank loans.[4] While U.S. government data shows that U.S. banks hold $36 billion of Latin American loans, differences in accounting procedures make these figures difficult to compare. Nonetheless, if Japan is not Latin America's largest creditor, it is certainly the second largest. While U.S. banks have been withdrawing from the Latin American market since the debt crisis began in 1982,[5] the Japanese banks have continued to participate. Thus, the decreasing U.S. involvement in the region has resulted in a dramatic increase of Japan's share of the Latin American financial market. This trend, however, seems to have been reversed during 1990. Japanese banks have become more conservative and have elected to take write-downs on their loans rather than provide new money. At the same time, the U.S. has renewed its economic interest in the region with the implementation of the Brady Plan[6] for Mexico and Venezuela.

In addition to private finance, the Japanese have also provided important public-sector credits to Latin America. This is accomplished both directly through bilateral arrangements and indirectly

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4. On debt and the role of the banks, *see* Stallings, *The Reluctant Giant: Japan and the Latin American Debt Crisis*, 22 J. LATIN AM. STUD. 1 (1990); Horizaka, *Japanese Banks and Latin American Debt Problems*, 4 LATIN AM. STUD. Occasional Papers, (GEO. U. 1990).

5. And this, despite repeated attempts by the IMF and the Federal Reserve to keep all banks involved in rescheduling negotiations.

6. The Brady Plan, named after Treasury Secretary Nicholas Brady, proposes debt-for-equity exchanges to allay Latin America's debt crisis.

through contributions to the multilateral agencies, including the Inter-American Development Bank. Japanese public funds are distributed through four main agencies. The first two, the Ministry of Foreign Affairs and the Japanese International Cooperation Agency (JICA), handle grants and technical assistance. Although by definition there is no outstanding debt through this source, an idea of its importance can be seen by the latest annual figures. In 1988, Latin America received about $280 million in grant and technical assistance which amounts respectively to 6.5 percent and 13 percent of the total aid issued by these two agencies.[7]

The second channel for public monies is the Overseas Economic Cooperation Fund (OECF), which distributes soft loans to developing countries. The interest rate on the loans is 2.6 percent with a maturity of 28 years. As of March 31, 1990, Latin America had loans outstanding to OECF in the amount of $1.6 billion, representing about four percent of the Fund's total loans.[8] Typically Latin America has not been eligible for much money from this source since it is aimed only at the poorest countries (the current per capita income ceiling is $2200). Although arrears must first be cleared, OECF officials say that they intent to increase in the coming years both Latin America's share of funds as well as the absolute amount. This source will become increasingly important since Japan has now displaced the United States as the leading supplier of Official Development Assistance (ODA) and will distribute some $50 billion over the next five years.

The biggest source of public funds for Latin America is the Export-Import Bank of Japan (JEXIM), although that name is somewhat misleading. Like its sister organizations in the United States and Europe, JEXIM began in order to promote Japanese exports. Its most important function today, however, is to provide "untied direct loans" to governments of middle-income developing countries at rates similar to those of the World Bank. Latin America's $6.9 billion loans outstanding to Japan's Export-Import Bank represent almost one-fifth of JEXIM's total loans.[9] If we combine the OECF and JEXIM funds, Latin America accounts for close to ten percent of the debt owed to the Japanese public sector.

JEXIM and OECF are also the two organizations responsible

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7. MINISTRY FOREIGN AFFAIRS, *ODA, Japan's Official Development Assistance*, 1989 ANNUAL REPORT (1990).

8. *See* OVERSEAS ECON. COOP. FUND, 1989 ANNUAL REPORT (1990).

9. THE EXPORT-IMPORT BANK OF JAPAN, 1989 ANNUAL REPORT (1990).

for disbursing loans under Japan's "recycling fund" measures of which Latin America has become a leading recipient. This fund, now in its second phase, will provide $65 billion by its conclusion in 1992. A substantial part will go directly to the international financial institutions, but JEXIM will distribute $23.5 billion and OECF $12.5 billion, through co-financing and direct loans. As of mid-1990, JEXIM had committed 29 percent of its "recycling fund" loans to Latin America while OECF committed 16 percent.[10]

The preceding discussion has concerned *stocks* of Japanese capital in the region: 17 percent of Japanese direct investment, 18 percent of total private bank debt, and 10 percent of public-sector debt are located in Latin America. These numbers contrast sharply with the trade figures since Latin America accounts for less than four percent of Japanese trade. If we look at *flows* over the past five years, rather than stocks, some similar results emerge (see Table 1). In general over that period, Latin America has become less important to Japan, displaced by the United States, Southeast Asia, and increasingly Europe. Conversely, Japan has become more important to Latin America as other sources of capital have dried up. In particular, Table 1 suggests that Japan has provided about $9 billion per year on a net basis compared to less than half that amount from the United States.

III. Japanese Trade with Latin America

Trade between Japan and Latin America has never been of major importance for either side. Nevertheless, it has provided each partner with an avenue to diversify trade relations so as to be less dependent on its principal markets and suppliers. According to Japanese figures, total trade with Latin America (exports plus imports) was running at about $17.5 billion in 1989, representing 3.6 percent of Japan's total trade.[11] After peaking to almost ten per-

10. The best overall report on the recycling fund is Kinoshita, *Japan's Current 'Recycling Measures:' Their Background, Performance, and Prospects*, Export-Import Bank of Japan (October 1988). Updated information comes from unpublished data from JEXIM and OECF.

11. Trade data used here are from the IMF, Direction of Trade Statistic Yearbook (various years). They are based on Japanese government statistics; figures from the Latin American side vary, even in the same publication. The IMF figures for Japan's Western Hemisphere trade also differ slightly from those published by Japan's Ministry of International Trade and Industry. *See* Ministry Int'l Trade & Industry (MITI), White Papers on International Trade (JETRO trans. 1990). The main difference concerns inclusion of countries; the MITI figures include areas that are not independent of which the most impor-

cent of Japan's total import/export in the mid-1950s, Latin America's share of Japanese trade has been consistently decreasing (see Table 2). Despite the falling share, however, the nominal value climbed rapidly until the early 1980s. Since then, there has been a stagnation; only in 1989 did the total value of trade exceed the previous peak in 1981. Of course, the real value remains well below the peak level of 1981.

The balance of trade between Japan and Latin America has shifted over the period. During the 1950s and 1960s, Japan was running a small deficit as its import demand exceeded the goods it was able to sell in the region. In the early 1970s, Japanese imports increased but were still outpaced by exports. Initially the resulting imbalance owed to the availability of borrowed resources in Latin America, but the pattern continued even after the debt crisis began in 1982. Up until 1987, the Japanese surplus was running at about $2 billion per year. As of 1989, it had fallen to about $200 million, mainly because of an increase in Latin American exports (see Table 2).

The trade figures, and their country distribution within Latin America, are confused by Japan's relations with Panama. Since the mid-1970s, Japan has been using Panama as an important registry for its shipping fleet. Thus, sales of ships to Japanese companies in Panama have inflated trade figures for Latin America by a substantial amount. During the 1980s, Japanese data (also used by international organizations) show Panama as the recipient of $26.4 billion of Japanese exports or one third of Japan's total export to Latin America. The Panamanian figures, by contrast, do not include the shipping exports, since they have little or nothing to do with the Panamanian economy. These massive exports to Panama also distort the trade balance calculations since there is no corresponding inflation of imports. Without the very large surplus in Panama, Japanese trade with Latin America is in deficit.[12]

Aside from Panama, Japan's largest trade partner in Latin

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tant is Puerto Rico. The MITI data, used in the paper for sectoral analysis, show trade for 1989 of about $18 billion.

12. On the shipping trade and Panama's relations with Japan in general, see Elton, *Japan and Panama: The Role of the Panama Canal*, in THE UNITED STATES, JAPAN AND LATIN AMERICA: A NEW TRILATERALISM IN THE WESTERN HEMISPHERE, *supra* note 1 at __. Elton explains the link between large investments and the trade figures. Since the Japanese definition of direct investment includes loans, it is loans to the shipping companies (recorded as DFI) that finance the import of Japanese boats by Japanese companies in Panama.

America has been Brazil. In 1989, Brazilian trade accounted for 25 percent of Japan's total involvement in the region—29 percent if the Panamanian ships are excluded. Typically, Brazil has had a large surplus in its Japanese trade balance. Mexico comes second with 21 percent of Japan's Latin American trade. The balance of Japanese-Mexican trade in the last decade has depended heavily on the price of oil. In 1988-89, Mexico had a small deficit with Japan. The third largest partner is Chile with 11 percent of Japan's Latin American trade, with a large surplus in Chile's favor. Others, in order of importance, include Colombia (4.5 percent), Venezuela (4.3 percent), Argentina (3.4 percent), Peru (3.3 percent), Ecuador (1.3 percent), and Honduras (1.1 percent).

The content of Japanese-Latin American trade has been and remains a typical "colonial" pattern. Japan imports raw materials from Latin America and exports industrial goods in return. While U.S. trade with Latin America has shifted away from this pattern, as will be discussed below, Japanese trade has not changed very much. A superficial look at Table 3 may give a mistaken impression of Japan's imports from Latin America. While it appears that 41 percent of Japanese imports from the region are "manufactured goods" this figure includes not only finished goods, but also what have traditionally been called "semi-manufactured goods." Thus, a closer look shows that about three quarters of these "manufactured goods" are in fact semi-processed metals. Turning to look at trade patterns in more detail, Table 3 shows the main categories as of 1989. Some 92 percent of Japanese exports to Latin America are "heavy and chemical industry" products. Of that amount, the largest share (46 percent of the total) is transport equipment. Once again the shipping trade with Panama creates confusion since more than half of the transport category is comprised of ships. Aside from that, general machinery, electrical instruments, and motor vehicles are the most important items.

Imports from Latin America are more varied. Raw materials account for 26 percent, with iron ore as the most important item. Foodstuffs are 20 percent, with coffee as the largest single import. Finally, petroleum is another 12 percent. As mentioned above, "manufactured goods" appear as the largest category. Breaking down this figure, however, shows that machinery and textiles provide three percent and steel another nine percent while the remainder is mostly semi-processed metals. Exporters of manufactured goods, rather than semi-manufactured, are mainly Brazil, Mexico, Argentina, and Venezuela. In general, however, Latin American countries have had little success in competing with Asia for the growing Japanese market for manufactured products. However, despite Latin America's low overall share of Japan's market, there are specific items for which the region is an important supplier. According to unpublished data provided by the Ministry of International Trade and Industry (MITI), Latin America provides at least 20 percent of Japan's imports of seven food products and a number of raw materials. The largest items include iron ore ($960 million, 30 percent of Japanese imports), coffee ($587 million, 66 percent), inwrought copper ($574 million, 34 percent), ferro-alloys ($285 million, 23 percent), silver ($174 million, 76 percent), pig iron ($128 million, 36 percent), emeralds ($102 million, 28 percent), forage ($101 million, 55 percent), and salt ($95 million, 46 percent).

Notwithstanding the isolated products above, Latin America is not a very important trade partner for Japan. The trade picture changes, however, when studied from the Latin American side. For the 19 Latin American countries, Japan accounted for a little over eight percent of their trade in 1989. In other words, Japan is about twice as important for the Latin American countries as they are for Japan. Japan is more significant as an exporter—10 percent of Latin American exports—than as an importer (less than 7 percent of Latin American imports originate in Japan).

A more detailed look at the region's exports show that Japan is, after the U.S., the second largest export market for five Latin American countries. They include Chile (12.5 percent of exports are sold to Japan), Brazil (12.2 percent), Peru (11.9 percent), Honduras (9.8 percent), and Mexico (7.1 percent). For Colombia, Japan is the third most important market with 5.2 percent of their exports. Similarly for imports, Japan is the second largest provider, again following the United States, for six countries: Ecuador (13.9 percent), Colombia (10.9 percent), Panama (10.6 percent), Honduras (9.0 percent), Haiti (5.4 percent), and Mexico (5.3 percent). For five others, Japan is third most important: Dominican Republic (14.4 percent), Paraguay (13 percent), Chile (7.7 percent), Costa Rica (6.7 percent), and Brazil (6.6 percent). All data are for 1989.[13]

Although the region's share of Japanese trade has fallen, some Latin American countries have successfully improved their relations with Japan. For example, between 1986 and 1989 Chilean ex-

13. Calculated from IMF, DIRECTION OF TRADE STATISTIC YEARBOOK (1990).

ports to Japan increased almost threefold from $533 million to $1.3 billion. While Chile's traditional copper export has fallen, despite the high world prices, non-traditional goods—especially fish, fruits, and forestry products—have grown rapidly. Mexico also has been trying to increase non-traditional exports. In the last year alone, non-oil exports to Japan have increased by 14 percent.[14]

IV. Special Features of Japanese Trade

Three special features are found in Japanese trade with Latin America. First is the role of the trading companies. Second is the close link between trade and investment, in which the trading companies are heavily involved. And third, is the important role of the government in promoting trade.

Behind the quantitative data on Japanese-Latin American trade lies the fascinating story of Japan's trade process. The key actors are the giant general trading companies or *sogo shosha* which are among the most powerful companies in Japan.[15] Some of the *sogo shosha* date back to the last century and were central figures in the *zaibatsu* (conglomerates), which led Japan's dramatic industrialization drive in the late nineteenth and early twentieth centuries. The most powerful *sogo shosha*, like the *zaibatsu* themselves, were broken up during the postwar U.S. occupation. By the 1950s, however, U.S. opinion shifted and the trading companies were encouraged to regroup. After various mergers and divisions, there are now generally considered to be nine main *sogo shosha* at the top of the trading sector with hundreds of smaller, more specialized firms. The nine companies are huge even by American standards. Their trading exchanges in the 1989 fiscal year ranged from $35 billion (kanematsu) to $143 billion (Sumitomo). The six largest have an average of 150 international offices in over 80 countries in addition to their 50 or so offices in Japan.

The general trading companies have three principal functions. First is the obvious role of intermediary. The companies purchase goods of all kinds—"noodles to missiles" in the popular par-

14. Data provided by the Chilean and Mexican embassies in Tokyo.

15. Several analyses of the *sogo shosha* are available in English. The most useful is Kojima & Ozawa, *Japan's General Trading Companies: Merchants of Economic Development*, (OECD ed. 1984). For a more historical analysis, see also Y. Kunio, Sogo Shosha: The Vanguard of Japanese Economy (Oxford University Press, 1982).

lance—and sell them to clients, primarily in Japan but also in third countries. In the process they may transport and warehouse these goods thereby increasing efficiency and profit. Second, the *sogo shosha* act as bankers. Much of the short-term trade credit is provided by the trading companies themselves. As will be discussed below, they also provide significant amounts of equity capital to secure suppliers. Finally, the trading companies gather information of many types: social and political as well as economic. Some say this information is far superior to that of the Japanese government itself. Large amounts of money are now being devoted to improve communication equipment to process and transmit this information through the trading companies' vast international network.[16]

Although the *sogo shosha* were involved in international trade almost since the beginning, most of their initial efforts focused on the needs of the Japanese market. Thus, their primary activity involved purchasing raw materials abroad and selling the output. In the 1970s, however, large Japanese companies departed from their original focus and began to develop their own sales operations and financing. This led many economists to predict that the trading companies would disappear. Quite to the contrary, they transferred a substantial part of their operations abroad, especially to Third World countries and in the process increasingly became organizers of projects as well as sales agents.

Several of the *sogo shosha* set up offices in Latin America before World War II, but it was really in the postwar period that they became major actors in the region. Since the larger companies tend to move in tandem, it is possible to trace waves of movement into Latin America. For example, in the 1950s, the trading companies established themselves in Brazil, Argentina, and Mexico. In the 1960s, they entered Chile, Peru and Venezuela. Colombia and Panama followed in the 1970s, and Ecuador came in the 1980s. Many other countries have representatives or liaison offices. While these offices cannot formally sign contracts or accumulate profits, they are a crucial part of the international network of the firms. Indeed the international span of operations is one of the key characteristics of the *sogo shosha*. Table 4 shows the location of trading company offices in Latin American. As can be seen, the six largest

16. *See* Kojima & Ozawa *supra* note 15. While Kojima and Ozawa list these three categories, they are merely reporting what all economists and business people in Japan say about the role of the trading companies.

companies have offices in thirteen or fourteen Latin American countries while the smaller ones cover from five to nine countries.

Trading remains the main activity of the *sogo shosha* in Latin America. However, despite having 10 percent of their offices in the region, largest companies average only $2-3 billion in transactions per year. this represents approximatively 2 percent of their yearly trade. In a typical situation, one-third of that amount is exports from Japan, another third is imports to Japan, and the final third is offshore or third-country trade. This means that over half of the yearly $18 billion of Japanese-Latin American trade is handled by the nine *sogo shosha*. More surprising is that as much as 10 percent of total Latin American trade worldwide is also handled by these same firms.[17]

There are two main types of Japan-Latin American trade not handled by the *sogo shosha*. First, the major Japanese corporations with subsidiaries in Latin America generally export and import their own goods. This is an extension of the process that took place in Japan itself as manufacturing firms became increasingly independent of the trading companies. Second, large Latin American firms—especially state corporations—also deal directly with customers in Japan. Examples include *Petroleos Mexicanos* (PEMEX), which sells about $1 billion of oil each year to a Japanese consortium of refiners; *Companhia Vale do Rio Doce* (CVRD), the Brazilian firm that sells iron ore and other raw materials to Japan; *Corporación del Cobre* (CODELCO), which sells Chilean copper; and *Minería Peruana Comercial* (MINPECO) that distributes various Peruvian mineral products. In fact, of the large ticket raw materials that Latin America exports to Japan the trading companies only play a major role in the export of Colombian coffee and Mexican salt.

The *sogo shosha* are crucial in three areas: Exports of nontraditional goods to Japan, third-country trade in general, and investment in products that are then exported. The *sogo shosha* have been particularly important for small and medium-sized firms—both in helping such Japanese firms operate abroad and helping foreign firms trade with Japan. The Mexican government, for example, says that the trading companies handle almost all exports of Mexican manufactured goods. Chilean fruits, seafood and forestry products are also exported by the *sogo shosha*. Likewise,

17. Based on confidential interviews at the major trading companies.

the traders promote exports of machinery from Brazil, textiles from Central America, and many other new products.

During the 1980s, third-country trade has been of increasing importance for the *sogo shosha* in Latin America. As the investment market in the region slowed down, fewer imports were required from Japan. It was also extremely difficult for Latin American goods other than raw materials to compete on the Japanese market. Thus, in its 1990 annual survey, the trading company *C.Itoh* reported that 45 percent of its Latin American business had now become third-country trade. Unpublished data from other *sogo shosha* suggest figures ranging up to one-third. Most of this trade is between Latin America and the United States but goods are also shipped from Latin America to Asia and Europe. All of the trading firms declare that an increase in third-country trade is among their goals for the 1990s.

Finally, the *sogo shosha* are at the center of the link between trade and investment which has always been a dominant characteristic of Japan's international activities. The traders themselves have become equity investors, often buying a small interest in firms offering good possibilities for export. Having such a share enables the trading companies to bring about changes not only to increase the firms' profitability but also to improve their products, so as to make them more marketable. For example, one company reports bringing not only a substantial rise in productivity in the automobile industry of a Latin American country, but also sufficient improvements in agricultural products to enable them to compete on the Japanese market. While the trading companies usually hope to make profits from their investments, they are also interested in generating future trade opportunities.

The Japanese government also plays a crucial role in international trade and investment. Perhaps the best known format is the so-called "national project." While there are many definitions of this term, its crucial aspect is the link between the public sector (usually through OECF) and local private industry, including the participation of a wide variety of private-sector Japanese firms. The trading companies often act as organizers of the projects. Three important examples of such cooperation are located in Brazil: *Cerrado*, an agricultural complex that began in *Minas Gerais*; *Cenibra*, a paper and pulp project in the same region; and *Alunorte*, an aluminum project in Carajas. Two other steel projects are located in Mexico.

Another government role is to provide investment insurance through the Ministry of International Trade and Industry (MITI). Like the participation of the OECF in the national projects described above, MITI insurance functions as a governmental approval or disapproval of particular projects and countries. Only very large firms or projects that are particularly lucrative will go ahead without MITI insurance. Another way in which the government has stimulated trade in the past is through Official Developmental Assistance (ODA). That is, ODA projects—often promoted by the trading companies themselves—generally revolve around the guarantee that the equipment needed for the project will be purchased from Japanese firms. More recently, the practice of tied loans has ended and the link between trade and ODA has weakened. Since Latin America gets very little Japanese Developmental Assistance, this link is not very important. More relevant in the past were the JEXIM loans to promote Japanese exports. These loans have also dried up, in response to frictions arising from Japan's trade surpluses. Now JEXIM loans to Latin America are mostly untied. In general, the public-private links that spurred trade in the past are on the decline. This, in turn, has softened private support for lending to developing countries.

V. Comparisons Between U.S. and Japanese Trade with Latin America

Japan's economic relations with Latin America differ substantially from that of the United States. First and foremost U.S. trade in the region is much more important quantitatively to both the United States and Latin America. Equally different are the sectoral composition U.S.-Latin American trade and the trade process itself. Obviously there is no U.S. equivalent of the *sogo shosha* and the U.S. government plays only a small role in the promotion of trade. Instead, links between trade and investment come through the multinational investors themselves.

Table 5 shows long-term trends in U.S.-Latin American trade in the postwar period. A comparison with Table 2 reveals two interesting points. The United States carries on much more of its trade with Latin America than does Japan. In 1989, for example, 12.7 percent of U.S. trade—some $109 billion—was with western hemisphere countries compared to only 3.7 percent for Japan or $18 billion. Latin America was slightly more important as a market for U.S. exports—13.5 percent of U.S. exports—as it was a source of imports—12.2 percent of U.S. imports. Again, these numbers contrast sharply with the Japanese trade figures. These differences are not at all surprising, however, given the geographical and historical ties between the two markets. More interesting, therefore, is the major similarity in the two tables: the declining importance of Latin America for both the United States and Japan. In fact, the timing pattern is also very similar. In both cases, the peak of Latin American participation was in the 1950s. There has been a fairly steady decline ever since, although the drop became more pronounced in the late 1980s. These trends, of course, are matched in other areas. Two decades ago, Anibal Pinto was already writing about the increasing marginalization of Latin America.[18] The trade component of this marginalization is consistent with the import-substitution development strategy followed by Latin America and the "export pessimism" that accompanied it. Since the Asian countries were promoting trade—or at least exports—at the same time, they eventually overtook Latin America in share of world trade. The four East-Asian NICs (Korea, Taiwan, Hong Kong, and Singapore) now supply a larger volume of U.S. imports than do all Latin American countries combined.

The relative importance of individual Latin American nations provides another interesting contrast. Even leaving aside the anomalous situation of Panama, the differences remain significant. For Japan, Brazil is the most important trade partner. With the exception of Mexico (a close second behind Brazil), almost all of Japan's trade is with *South* America. For the United States, Central America and the Caribbean dominate largely the rest of the region. Mexico alone accounted for 48 percent of U.S. trade with Latin America in 1989. The rest of Central America and the Caribbean account for another 15 percent while giant Brazil, for example, represented only 13 percent of the total U.S. trade with the region. These geographical differences might provide the basis for complementary relations between the United States and Japan, or for increased friction. We will return to these issues in the concluding section.

The sectoral composition of trade is yet another area of contrast between Latin American economic relations with the United States and Japan. A couple of decades ago, the United States basi-

18. Pinto, *Economic Relations Between Latin America and the United States: Some Implications and Perspectives*, in LATIN AMERICA AND THE UNITED STATES: THE CHANGING POLITICAL REALITIES 100 (J. Cotler & R. Fagen eds. 1972).

cally supplied industrial goods to Latin America in exchange for raw materials, much like the Japanese do today. That pattern, however, changed substantially during the 1980s. A comparison between Table 6 and Table 3 highlights these changes. For example, raw materials represent only 4 percent of U.S. imports from Latin America, while they represent more than a quarter of Japanese imports from the region. Similarly, 27 percent of U.S. imports consist of machinery as opposed to 2.5 percent for Japan. These differences appear also on the export side where the U.S. exports a much smaller percentage of machinery than the Japanese. To some extent, of course, the trade differences between the United States and Japan are due to the greater natural resources of the former. The interesting question still remains, however, why has Latin America been so successful at exporting light manufactured products to the United States while being almost completely shut out of the Japanese market?

Finally, there are differences in the trade process that should be briefly mentioned. Clearly there are no U.S. equivalents of Japan's trading companies. The key intermediaries are the producing multinationals themselves. That is, intra-company trade is a major source of imports to the United States from Latin America. Some of this is done in connection with special facilities set up in Central America and the Caribbean such as the Caribbean Basin Initiative and Mexico's *maquiladora* program. Japan has also been quick to take advantage of the latter. Figures vary, but probably about 50 Japanese firms have assembly plants along the Mexican border to facilitate exports to the United States.[19]

Ironically, the U.S. government is not active in promoting U.S. exports, to Latin America or elsewhere, despite the declared need to close the trade gap. Export-Import Bank loans have ground to a halt. Likewise, U.S.AID is no longer a trade stimulus (except for certain Central American countries). Indeed, it is the Japanese government that is trying to stimulate U.S. exports to Latin America. This is an open aim of the "recycling fund." The idea being that if Latin American countries have more foreign currency, they will use it to buy goods from the United States and perhaps take some pressure off Japan. Whether this is true or not is open to question, but the idea alone is interesting to say the least.

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19. JAPANESE EXTERNAL TRADE ORGANIZATION (JETRO), JAPANESE DIRECT FOREIGN INVESTMENT (JETRO Ed. 1990) (in Japanese).

VI. Scenarios for the Future

Moving from the past to the future, there are three main trade scenarios involving Japan, the United States, and Latin America. They include a Western Hemisphere trade bloc with little role for Japan; a Japanese "headquarters strategy" in which Japan displaces the United States, at least in South America; and some type of "cooperative" U.S.-Japanese approach.

The extreme version of the trade bloc scenario, which has been under discussion for several years, envisions three major trade areas: Europe, East Asia, and the Americas. The Americas portion of that plan took a more concrete form with Carlos Salinas' proposal for a U.S.-Mexican Free Trade Area. Combined with the existing free-trade agreement with Canada, this would provide a market of over 300 million people. The Mexican proposal was further expanded—although in an extremely vague way—by George Bush's "Enterprise for the Americas"[20] Initiative. Since then, the United States has agreed to pursue free trade talks with several Latin American countries, but clearly the Mexican proposal is the most immediate. The future of trade with Latin America will depend largely on whether the U.S. and Mexican congresses ratify the proposed union and whether this agreement will later be extended further south. In any case, even if such agreements are concluded it is not clear what impact, if any, those external barriers will have on Japan and others.

While I think there is no better than a fifty percent chance that the Mexican agreement will be ratified, I will nevertheless concentrate my remarks on the potential impact that such an agreement would have on Japanese trade with both the U.S. and Latin America. Although Japan officially supports the Mexican agreement, the Japanese investors are privately suspicious that the intention, or at least the result, will be to limit their participation in the resulting market. I have heard some off-the record comments to this effect, but a recent article in the *Wall Street Journal*[21] made the position public. Japanese investors are fearful that the agreement will impose a stiff local content law for duty-free

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20. *President Bush's Address on "Enterprise for the Americas" Proposal and Accompanying White House Fact Sheet, Released June 27, 1990 (Text)*, Daily Rep. for Execs. (BNA) No.125, at M-1 (June 28, 1990).

21. *Japanese Investors Worry as U.S., Mexico Plan Talks on Free Trade*, Wall St. J., Nov. 19, 1990, at 6, col. 1 (Asian ed.).

exports in either direction. It would also likely eliminate the duty-free imports of inputs that the *maquiladoras* now enjoy. According to the president of Nissan Mexicana, many Japanese would invest directly in the United States rather than in Mexico if confronted by such changes.

Nearly the opposite position has been put forward by Dr. Gabriel Szekely, an expert on Japanese-Mexican relations.[22] Szekely argues that the only way for Mexico to attract Japanese trade and investment is by establishing a free trade area with the United States. At the same time, he also claims that Japanese participation is a crucial factor to make an agreement work. Szekely's perspective shades off into the third (cooperative) scenario. I consider the exclusive version of the trade bloc theory to be highly unlikely, despite the recent collapse of the GATT negotiations. An "Americas bloc" is simply not an attractive alternative for the United States. Even if stronger than expected protectionism emerges in Europe, a more likely response would be a very broad Pacific Basin strategy.

The second scenario, with Japan displacing the United States in Latin America, has been most forcefully advanced by Prof. Leon Hollerman.[23] Using Brazil as an example, Hollerman makes a two-fold argument. First, he points out that the United States and Brazil are basically economic competitors, while Japan and Brazil have complementary economies. Moreover, the United States has alienated Brazil on many issues, while Japan is perceived as more cooperative. Second, Hollerman outlines a "headquarters" strategy, whereby Japan would increase its links with Brazil at the expense of the United States. In particular, Japan would take a multilateral approach, limiting its trade with the United States while helping Brazil to expand its U.S. exports. The trading companies would play a key role in the process. "The ultimate implication for the United States is that instead of being *confronted* by Japan, it will be *outflanked* by Japan in accordance with the headquarters-country strategy."[24]

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22. Szekely, *Japan, Mexico, and the United States: An Unusual Trilateral Relationship*, in THE UNITED STATES, JAPAN AND LATIN AMERICA: A NEW TRILATERALISM IN THE WESTERN HEMISPHERE, *supra* note 1 at ___.

23. Hollerman, *The Role of Brazil in Japan's Economic Strategy: Implications for the United States*, 24 J. WORLD TRADE 25 (1990). (This paper was originally presented at the University of California San Diego conference on Japan and Latin America, (April 1990)).

24. Id. at 27; *see also* L. HOLLERMAN, JAPAN'S ECONOMIC STRATEGY IN BRAZIL: CHALLENGE FOR THE UNITED STATES (Lexington Books 1988).

I also find this scenario unlikely. My own interviews in Japan over the past three years find little interest in Latin America. Most of Japan's official activity in the region is to protect its relationship with the United States. As far as the private sector is concerned, I have met no one who expects a return to the level of activity of the 1970s. The banks have opted out; non-financial investors are retaining their holdings but not expanding except in very special circumstances like Mexico's *maquiladoras* and Chile's natural resources. Of course, if growth and stability return Japan will be present. There is little inclination, however, to help bring about these changes. Hollerman is correct in his focus on third-country trade, but it seems more a defensive strategy than an offensive one.

The United States and Japan officially endorse the third scenario, that of cooperation. Although what it involves is not exactly clear, the preferred U.S. version would be for Japan to provide the money and for the United States to spend it. Clearly this approach would be unacceptable to the Japanese over the long run although this is not unlike what the U.S. has been doing over the last several years. Ultimately, if Japan is to continue to provide resources, it must also have a say in how they are spent. When that comes about, conflicts are bound to emerge because Japan's views about development and how to achieve it are different from those of the United States. At the moment, the Japanese limit themselves to expressing "puzzlement" over the U.S.-approved strategies that most Latin American governments have adopted over the last several years. These strategies are very different from the one that proved so successful for Japan and its neighbors in East Asia.

The Japanese claim to be waiting for some serious indication of U.S. interest in Latin America. After all, Japan considers that Latin America is in the U.S. sphere of influence. If the United States takes the lead, they will be willing to assist. The form and content remain to be clarified, and a problem-free cooperative venture is unlikely.

Table 1. US and Japanese Economic Transactions with the world, 1985-89 (annual averages, billions of dollars)

Type of Flow	United States		Japan	
Trade[a]				
Advanced industrial nations	$434.2	(63.7%)	$215.4	(56.5%)
Third World	247.9	(36.3)	165.6	(43.5)
Latin America	88.9	(36.3)	15.2	(4.0)
Asia	119.1	(17.5)	111.0	(29.1)
Africa	16.7	(2.4)	7.6	(2.0)
Middle East	23.2	(3.4)	31.8	(8.3)
Total	682.1	(100.0)	381.0	(100.0)
Private Bank Loans[b]				
Advanced industrial nations	-2.4	(n.a.)	25.4	(69.2)
Third World	-4.6	(n.a.)	10.8	(29.8)
Latin America	-2.5	(n.a.)	4.4	(12.2)
Asia	-1.5	(n.a.)	5.7	(15.7)
Africa	-0.3	(n.a.)	0.6	(1.6)
Middle East	-0.3	(n.a.)	0.1	(0.3)
Total	-7.0	(n.a.)	36.2	(100.0)
Direct Foreign Investment				
Advanced industrial nations	22.0	(76.7)	20.1	(70.0)
Third World	6.7	(23.3)	8.6	(30.0)
Latin America	6.0	(20.9)	4.6	(16.0)
Asia	1.0	(3.5)	3.5	(12.2)
Africa	-0.1	(-)	0.4	(1.4)
Middle East	-0.1	(-)	0.1	(0.3)
Total	28.7	(100.7)	28.7	(100.0)
Development Aid[c]				
Third World	7.4	(100.0)	4.5	(100.0)
Latin America	1.6	(22.2)	0.3	(7.4)
Asia	1.4	(19.4)	3.3	(72.6)
Africa	1.0	(13.5)	0.5	(11.2)
Middle East	3.3	(44.9)	0.4	(8.8)

[a]Exports plus imports
[b]Medium and long-term loans
[c]ODA only

Sources: IMF, Direction of Trade Statistics (US and Japanese trade); OECD, Development Cooperation (US and Japanese trade); Country Exposure Lending Survey (US bank loans); Finance Ministry, Annual Report of International Finance Bureau (Japanese Bank loans); Survey of Current Business (US direct investment); JEI Report 31A, August 11, 1989 (Japanese direct investment).

Table 2. Japanese Trade with Latin America, 1950-89

Year	Export Value	Percent*	Import Value	Percent*
1950	$47.1mn	5.7%	$67.1mn	6.9%
1955	185.6	9.2	243.4	9.8
1960	298.3	7.4	309.6	6.9
1965	457.9	5.4	707.9	8.7
1970	1,112.2	5.8	1,368.7	7.2
1975	4,667.0	8.4	2,510.0	4.3
1980	8,572.0	6.6	5,702.0	4.0
1981	10,119.0	6.7	6,595.0	4.6
1982	8,726.0	6.3	6,201.0	4.7
1983	5,902.0	4.0	6,368.0	5.0
1984	7,899.0	4.7	7,097.0	5.2
1985	7,753.0	4.4	6,188.0	4.7
1986	8,716.0	4.1	6,087.0	4.8
1987	8,151.0	3.5	6,221.0	4.1
1988	8,673.0	3.3	8,198.0	4.4
1989	8,837.0	3.2	8,639.0	4.1

*Percent of total (worldwide) Japanese exports/imports

Source: IMF, Direction of Trade Statistics Yearbook, various issues.

Table 3. Japanese Trade with Latin America by Sector, 1989

Goods	Value	Percent
EXPORTS FROM JAPAN	$9,380.8mn	100.0
Foodstuffs	41.5	0.4
Raw Materials and Fuels	74.1	0.8
Light Industrial Goods	525.5	5.6
Textiles	(75.5)	(0.8)
Other	(450.0)	(4.8)
Heavy Industrial Goods	8,641.7	92.1
Chemical Goods	(227.0)	(3.0)
Metal Goods	580.1)	(6.2)
Machinery	(7,784.5)	(83.0)
General	[1,257.7]	[13.0]
Electrical	[1,940.4]	[20.7]
Transportation	[4,299.1]	[45.8]
Precision Instruments	287.3]	[3.1]
Non-classified	98.1	1.0
IMPORTS TO JAPAN	8,870.6	100.0
Foodstuffs	1,761.2	19.9
Raw Materials	2,335.4	26.3
Textile Materials	(138.9]	(1.6)
Metallic Materials	(1,446.2)	(16.3)

Others	(750.3)	(8.5)
Mineral Fuels	1,055.1	11.9
Manufactured Goods	3,657.4	41.2
Chemicals	(573.1)	(6.5)
Machinery	(223.8)	(2.5)
Metal Goods	(2,477.7)	(27.9)
Iron and Steel	[834.2]	[9.4]
Nonferrous metals	[1,638.5]	[18.5]
Others	(382.8)	(4.3)
Non-classified	61.6	0.7

Source: MITI White Paper on International Trade, Japan 1990.

Table 4. Japanese Trading Company Offices in Latin America by Country, 1990*

Country	MI	MB	SU	MA	CI	NI	KA	NC	TO
Mexico	3	2	2	2	1	3	2	1	1
Guatemala	1	1	1	1	1	1	1	0	0
El Salvador	0	1	1	0	1	0	0	0	0
Nicaragua	1	0	0	0	0	0	0	0	0
Costa Rica	0	0	1	1	0	1	1	0	0
Panama**	1	1	1	0	1	1	0	1	1
Cuba	1	0	1	1	1	0	1	0	0
Dominican Republic	0	0	0	0	0	1	0	0	0
Venezuela	1	2	1	1	1	1	0	1	0
Colombia	1	1	1	1	2	1	0	0	0
Ecuador	2	1	1	1	1	1	0	0	2
Bolivia	0	1	0	1	1	1	0	0	0
Peru	1	1	1	1	1	1	1	1	1
Chile	1	1	1	1	1	1	1	0	0
Paraguay	1	1	0	1	1	1	1	0	0
Argentina	1	1	1	1	1	1	1	1	1
Uruguay	0	0	0	0	0	0	0	0	0
Brazil	6	7	7	5	3	3	2	2	3
Number of offices*	21	21	20	18	17	18	11	8	8
Number of countries	13	13	13	13	14	14	9	7	5

*Includes trading subsidiaries and representative/liaison offices
**Several companies also have an "international" office in Panama

MI=Mitsui	MA=Marubeni	KA=Kanematsu
MB=Mitsubishi	CI=C.Itoh	NC=Nichimen
SU=Sumitomo	NI=Nissho Iwai	TO=Toyo Menken

Source: Annual reports.

Table 5. US Trade with Latin America, 1950-89

Year	Export Value	Percent*	Import Value	Percent*
1950	$2.8bn	27.2%	$3.1bn	34.8%
1955	3.5	22.4	3.6	31.6
1960	3.9	19.0	3.9	26.5
1965	4.3	15.6	4.4	20.6
1970	6.5	15.0	6.0	15.0
1975	17.1	15.8	16.2	16.4
1980	38.7	17.6	37.2	15.2
1981	41.9	17.6	40.8	14.9
1982	33.2	15.6	39.5	16.2
1983	25.3	12.9	43.5	16.1
1984	29.2	12.6	50.1	14.7
1985	30.3	13.8	49.2	13.3
1986	30.6	13.5	43.9	11.3
1987	34.4	13.6	49.0	11.6
1988	43.6	13.6	53.7	11.7
1989	49.1	13.5	60.1	12.2

*Percent of total (worldwide) US exports/imports

Source: IMF, Direction of Trade Statistics Yearbook, various issues.

Table 6. US Trade with Latin America by Sector, 1988

Goods	Value	Percent
EXPORTS FROM UNITED STATES	$43,749.7mn	100.0
Foodstuffs	3,846.2	8.8
Raw Materials and Fuels	4,369.1	10.0
Light Industrial Goods	4,077.9	9.3
Heavy Industrial Goods	29,575.8	67.6
Chemical Goods	(5,564.6)	(12.7)
Metal Goods	(4,468.7)	(10.2)
Machinery	(19,542.5)	(44.7)
Non-classified	1,880.5	4.3
IMPORTS TO UNITED STATES	51,271.8	100.0
Foodstuffs	8,631.9	16.8
Raw Materials	1,848.1	3.6
Mineral Fuels	11,154.4	21.8
Manufactured Goods	27,853.6	54.3
Chemicals	(1,694.6)	(3.3)
Machinery	(13,791.0)	(26.9)
Metal Goods	(6,394.0)	(12.5)
Others	(5,744.0)	(11.2)
Non-classified	1,783.8	3.5

Source: Department of Commerce, US Foreign Trade Highlights, 1988.