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JAPANESE BUSINESS MOVES INTO MEXICO

1988 is a special year for Mexico-Japanese relations. It marks the 100th anniversary of official trade and diplomatic ties.

Mutual respect and the absence of any important difficulties are characteristics of these commercial and financial relations according to Armando Martínez, subdirector of the Japan External Trade Organization's Mexico offices (JETRO) who was asked to evaluate the 100 year-old relationship.

While officials in both countries stress the importance of the centennial, important ties between the two nations have only begun to develop since the mid-1970s and have intensified in the 1980. At a time when Mexican leadership has placed a priority on industrial reconversion and modernization, improved relations with the world's foremost technological, financial and trade power are virtually imperative.

While Mexico and Japan have had official relations for 100 years, trade has only been important during the last ten years

President Miguel de la Madrid's trip to Japan in December 1986 and the tour a few months later by Carlos Salinas de Gortari, then Budget and Planning Minister and currently the ruling party's presidential candidate, underscore the political and economic priority assigned to strengthening Mexican-Japanese relations.

There are currently more than 180 businesses with Japanese interests operating in Mexico. That figure reaches close to 400 if trade representatives and official and semiofficial agencies are also included, explained Martínez. Japan has become the world's second most important buyer of Mexican products, surpassed only by the United States. And unlike its trade balance with the U.S., Mexico has maintained a positive balance with the Asian power since 1982.

The latter is clearly due to Japanese imports of Mexican oil. Japan must obtain practically all of its oil on the international market, and the strategy from Tokyo has been to avoid depending on a single supply source. Thus, Japan's interest in increasing its oil purchases in Mexico goes hand in hand with its efforts to diversify its supply sources.

In 1987, Japan bought 180,000 barrels of Mexican crude a day, and a contract for a similar amount has already been renewed for this year. This figure represents 14 percent of total Mexican crude oil exports in 1986.

In analyzing trade between the two nations in 1987, Mexican officials emphasized the growth of non-oil exports with its Asian trading partner. In 1986 non-oil exports totaled some 600 million dollars, a figure that doubled last year to 1.2 billion dollars.

Despite the fact that this increase in the value of non-oil exports was accompanied by greater diversification in the products sold to Japan, Mexican officials responsible for foreign commerce are far from satisfied. Last year Mexico produced 149 different exportable products, including oil, but just 18 percent of that list accounts for 96 percent of sales on the Japanese market.

These officials are pleased, nonetheless, that Mexico has been able to maintain a positive balance with its second, largest trading partner. 1984 was the best year in this respect, with a hearly 1.4 billion dollar trade surplus. In 1986 the trade balance was 408 million dollars, and during the first eight months of 1987, it was 389 million dollars.

The most dynamic aspect of Mexican-Japanese relations is in the area of direct investment. Attracted by cheap and abundant labor, comparatively lower installation and production costs, fiscal incentives and the proximity of its principal market —the United States—, Japanese investments in Mexico have increased since the beginning of the 1980s.

Correspondent in Mexico for the news agency Acen-Siag.

Prospects for Investment

With the exception of the dramatic drop in new investments in 1983, the current decade has been characterized by both absolute and relative increases in direct Japanese investment (see Table). While in the 28 year period from 1951 to 1979, cumulative Japanese investment in Mexico totaled 376 million dollars, the figure more than doubled for the next eight year period, with the 1980-1987 cumulative figure reaching 781.7 million dollars.

Japanese investments represented 6.5 percent of all direct foreign investment (DFI) in Mexico, as of June 30, 1987, making it third on the list of foreign investors. While it is far behind the United States, which has 11.5 billion dollars invested here, representing 64.6 percent of the DFI, Japan could soon surpass West Germany, currently in second place with 1.4 billion dollars invested, or 8 percent of the total.

Sergio González Gálvez, Mexico's ambassador in Japan, believes that Japanese investment here could reach 3 billion dollars in 1988. This optimistic projection, which does not coincide with the statistical trends, does however reflect the Mexican government's interest in attracting even more Japanese capital into increasingly diversified areas of the national economy.

CUMULATIVE JAPANESE DIRECT INVESTMENT IN LATIN AMERICA AND THE CARIBBEAN, BY SUBREGIONS
(Fiscal years 1951-1984)

Subregions	Billions of Dollars	Percent of Total
Subregion A	6.947	53.4
Subregion B	5.419	41.6
Others	.653	5.0

Subregion A includes Panama, Mexico, Bermudas, Dutch Antilles, Cayman Islands and Puerto Rico.
Subregion B icludes Brazil, Argentina, Peru, Chile and Venezuela.
Others includes all other countries, those where cumulative investments do not reach 100 million dollars.
Source: Office of Information and Research on Foreign Investment, Ministry of Trade and Industrial Development. Mexico, City.

Japan purchased 14 percent of total Mexican crude oil exports in 1986

Speaking before the 18th Plenary Session of the Mexico-Japan Bilateral Businessmen's Committee, Trade and Industrial Development Minister Héctor Hernández Cervantes stated that one characteristic of Japanese investment in Mexico is its concentration in a small number of industries, mostly in large-scale operations. Automobiles, iron, steel, basic chemicals and household appliances are the most important industrial sectors from this perspective.

In December 1986, of 138 firms with Japanese capital participation, 86 (that is, 62.3 percent) were involved in manufacturing, 4 in extractive industries, 21 in commerce and 27 in services. In particular, the last three years have brought a notorious increase in Japanese investment in *maquiladora* industries (in-bond assembly plants). Of the 19 firms of this type with Japanese capital in Tijuana and Ciudad Juárez, only five were established before 1985.

The increase in Japanese *maquiladoras* was encouraged by the Law for the Promotion and Operation of *Maquiladora* Export Industries. Passed in August 1983, it grants certain benefits and incentives to these industries, such as duty-free imports of raw materials, machinery and equipment; allowing 100 percent foreign capital composition; tax incentives and preferential treatment in changing foreign currencies. The *maquiladoras* also take

JAPANESE INVESTMENT IN MEXICO
(millions of dollars)

Year	New Investment	Cumulative Investments	Total Value DFI	Percent of Total
1951 to 1979		376.0	6 836.2	5.3
1980	123.1	499.1	8 458.8	5.9
1981	212.1	711.2	10 159.9	7.0
1982	65.4	776.6	10 786.4	7.2
1983	3.8	780.4	11 470.1	6.8
1984	35.6	816.0	12 899.9	6.3
1985	79.3	895.3	14 628.9	6.1
1986	142.2	1 037.5	17 053.1	6.1
1987*	120.2	1 157.7	17 798.4	6.5

* Through June 30.
Source: Foreign Investment Office. Ministry of Trade and Industrial Development.

JAPANESE INVESTMENT IN LATIN AMERICA

One indicator of Japan's surprising economic recovery since the end of World War II has been its transformation from an importer to a net exporter of capital. While in 1945 Japan was not on the list of financial resources exporters, by 1960 it would have some two billion dollars invested abroad and in 1987, 5.9 billion dollars invested in the United States alone.

Today Japan is what specialists call a "mature" creditor nation, needing to recycle some 25 billion dollars each year in long term capital in the international financial system.

Due to questions of geographic proximity and a kind of international division of spheres of economic influence, Japanese capital was initially oriented preferentially toward other Asian countries. But during the past two decades, the structure of Japanese foreign investment began to change noticeably. By 1978, cumulative Japanese capital investment in Latin America since 1951 represented 16.3 percent of all Japanese foreign investment, making it the third most important region for Japan, exceeding Western Europe (12.7 percent) and following behind Asia (28.6 percent) and the United States (25.2 percent). In 1985 the United States absorbed 30 percent of Japanese investment, Asia 25.2 percent and Latin America 18.5 percent.

In absolute figures for Latin America, these percentages represented 200 million dollars in 1952 and grew to more than 13 billion dollars by March 30, 1985.

The bulk of Japan's direct investment at the end of its 1980 fiscal year (March 30, 1981) was concentrated in five countries: Brazil, Mexico, Perú, Chile and Venezuela. These five countries absorded some 4.5 billion dollars or 81 percent of Japan's cumulative investment. Of that amount, more than half —2.9 billion dollars— was in Brazil.

In the 1980s, however, there was a new trend for investment to be channeled away from the southern part of the Latin American continent, toward the subregion made up of Mexico, Central America and the Caribbean. Panama and Mexico have been most favored by this trend. Panama listed 4.9 billion dollars in direct investments in 1985, directed primarily to the transport sector and banking activities.

It is well known that Panama provides attractive fiscal benefits for merchant ships sailing under its flag, at the same time its capital city is one of the world's most important financial centers. Panama City is home to branch offices for Japan's 11 largest banks.

Even Central America's small economies are increasingly attractign Japanese capital. Since the beginning of the present decade, the region's five countries have been testing a new development model based on promoting non-traditional exports, including products.

This model has taken on a more concrete form since the implementation of the U.S. Caribbean Basin Initiative (CBI). As a result, the region is now flooded by investment coming from Japan, South Korea and Taiwan.

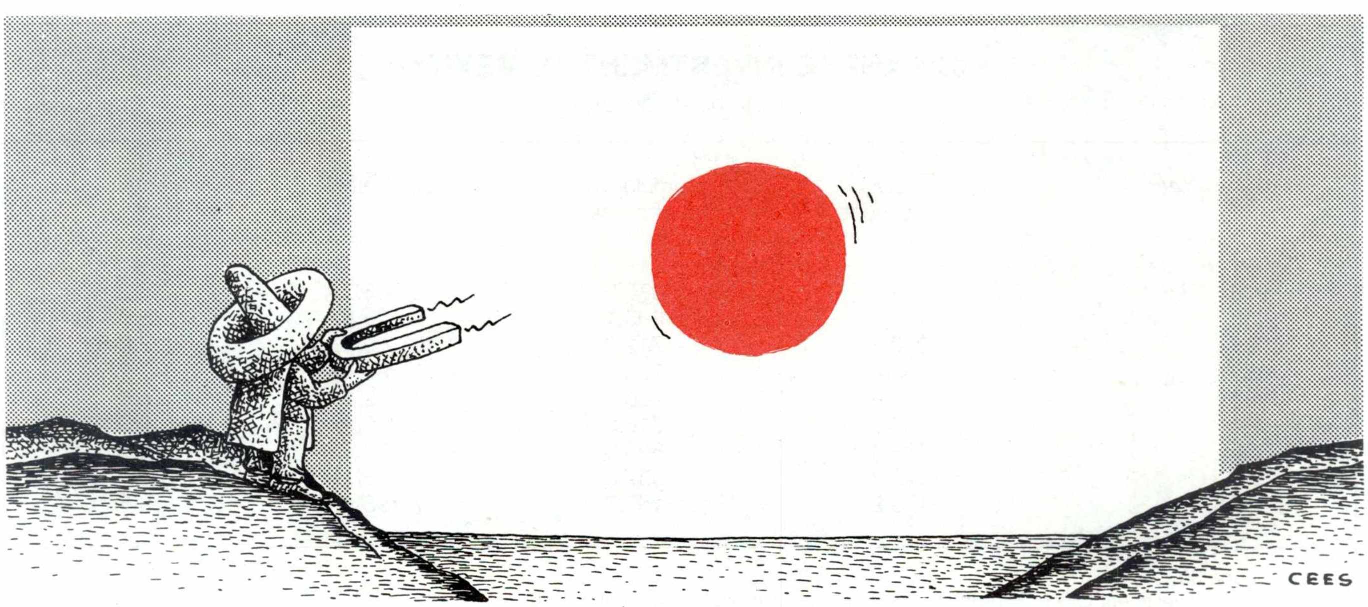
Just as in Mexico, the Central American countries and some of the Caribbean islands are trying to create fiscal "havens" and take advantage of their cheap and abundant labor forces to attract *maquiladora* plants. These operations will produce primarily for the U.S. market, using the mechanisms created by the CBI.

advantage of the proximity to U.S. —markets an hourly wage rate eight times lower than in the U.S.— and installation costs per square meter of productive plant three times lower than in Mexico's northern neighbor.

Some of these firms have adopted the so-called "Twin-Plant" system, whose main characteristic is the division of productive process between plants belonging to the same company, some located in Mexico, others in the United States. *Maquiladora* plants are most commonly used for labor-intensive aspects of production, thus optimizing the advantages of their lower labor costs.

Substituting the Debt

Japanese businessmen have also been very active in the SWAPS program, in which they exchange investment for



Attracted by low labor costs and Mexico's proximity to the U.S. market, Japanese investment has increased in Mexico since the early 1980s

a part of the public debt. This has allowed them to acquire interests in a number of previously state-managed enterprises and to carry out operations worth more than 125 million dollars as of March 1987.

In a recent trip here, Hirotake Fujino, executive director of JETRO, lamented the Mexican government's decision to suspend the SWAPS program at the end of last year. He expressed his government's interest in having this novel investment plan reopened. This January, the Japanese National Tributary Agency announced tax exeptions for companies that invest in the capitalization of the foreign debt in Third World countries.

While certain manufacturing industries have attracted most Japanese investment, other sectors —especially services— are just beginning to be more important in this regard. Only a few months ago, in November 1987, the Nikko-Mexico Hotel, a jointly financed investment project worth more than 100 million dollars was inaugurated in Mexico City.

The flow of Japanese capital to Mexico has still another channel: loans. By 1982, some 12 percent of the Mexico's foreign debt corresponded to loans from private Japanese banking institutions. By the end of 1987, when Mexico owed a total of 70 billion dollars to foreign private banks, 13 billion dollars, or 18.6 percent were owed to Japanese banks.

This figure does not include the loans coming from the Export-Import Bank (Eximbank). On the occasion of President De la Madrid's visit to Japan at the end of 1986. Eximbank provided one billion dollars worth of financing to be invested in the Pacific Oil Project, the Lázaro Cárdenas-Las Truchas Ironworks and in a program designed to promote the export of Mexican manufactured goods.

In the recent meeting of the Mexico-Japan Bilateral Businessmen's Committee, the Japanese delegation expressed its desire to see changes in the Mexican economy which could make it an even more attractive country for investments. They requested greater clarity in the laws regulating foreign investment, improvements in support infrastructures for *maquila* industries, quicker procedures for obtaining government authorization and permits and better training for the potential labor force.

These concerns confirm that for Japan's businessmen, the increasing flow of their capital into Mexico is no temporary matter. To the contrary, today Mexico has become the new attractive pole for Japanese investment in Latin America. □