

# **MEXICO-JAPAN RELATIONS: THE BILATERAL ECONOMIC AGENDA (1950-1990)**

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## **INTRODUCTION**

Mexico and Japan relations in the postwar period can be divided in two parts. The first one was the reestablishment of bilateral diplomatic and economic links. Japan concentrated on pursuit its economic recovery and becoming an industrial power. For its part, Mexico focused on industrialization scheme based on import substitution industrialization (ISI). Both countries had a close relationship with the United States and depended strongly on trade and technology transference. Japan and Mexico were part of capitalist block leaded by the United States. Both countries kept a low profile in the International Arena. Japan separated political and economic aspects from diplomacy and Mexico acted according to its old foreign policy principles of "no intervention in the internal affairs" and a defensive stand in its bilateral relations with the United States.

Second, the dynamic transformation of the world affairs with the introduction of new actors cracked the old rigid bipolar system. Japan was on its way to become an emerging economic superpower. In Mexico, the exhaustion of ISI strategy and the autocratic rule of the official party were the main cause that induced a changing process in Mexican domestic and international policies.

The government of Luis Echeverria (1970-76) proclaimed the necessity to modify Mexico's role in the world politics based on an "active" foreign policy and a radical change in its relation of dependence with the United States. Mexico's strategy looked at Japan as a perfect partner to expand economic relations. After the "oil shock in 1973" Japan was looking for an alternative source on raw material and energy as part of a new doctrine of "Economic Security." The discoveries of oil reserves in Mexico and its transformation as an important non-OPEC oil exporter, trade and financial links with Japan rose quickly. However the "honeymoon" ended with the external debt crisis.

Finally, Mexico's continuous efforts to regain Japanese confidence during the late 80s and 90s, it was not an easy task. Although there was friendly diplomatic relations, Japanese corporations were not too enthusiastic in expanding economic links. According to Yoshihiro Kanazawa, director of the Latin America office at the MITI, "Japanese companies still have clear, bitter memories of the 1980s".<sup>1</sup>

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<sup>1</sup> Quoted by John E. Pluenneke. " Many Japanese have done well in Latin America..." *Business Week*, July 19, 1993 4p

Mexican officials tried to convince his skittish partner that the economic and political reform sponsored by President Carlos Salinas de Gortari (1988-1994) was changing Mexico's image into a secure and profitable place to invest in Latin America.

This paper aims to explore Mexico and Japan links from the 50s to 90s. It is important to review again this period of the bilateral economic history to rescue our “lost memory” and to put in the real perspective the positive and negative aspects inside this 120<sup>th</sup> year of formal diplomatic links.

## **1. AFTER THE SECOND WORLD WAR INTERLUDE**

### ***1.1 The Diplomatic Scenario***

During the Second World War, Mexican embassy in Tokyo was destroyed by aerial raids. The government received notification the building's devastation through the Swedish Foreign Ministry which was in charge of Mexican affairs since May 1942 Mexican declaration of war.

Three years after Japanese defeat on August 1945, Mexico in the General Assembly of United Nations requested the rapid conclusion of the peace treaty with Japan. In 1952 Mexico ratified, after Great Britain, the peace treaty and officially announced the reestablishment of diplomatic relation.<sup>2</sup>

After that there were high level bilateral negotiations which concluded with the negotiation of a cultural agreement in 1954 and one year later a commercial and navigation treaty. In this period step by step efforts were made by both countries to restore diplomatic relations. The restoration Mexican legation's property in Nagata-cho and the payment for damages caused during the World War II was the first step. Second, Japan dispatched a provisional diplomatic mission headed by Ko Chiba, Eikichi Hayashiya and other assistants to set up a Japanese embassy in Mexico City. Mexico sent a diplomat personal to reestablish Mexican embassy in Tokyo.

In general terms, these years were characterized by bilateral efforts to restore diplomatic relations. Most of them were protocol acts with strong emphasis in building cordial and friendship links centered on mutual respect and a desire for peace. In Japan's case the real diplomatic strategy was concentrated on the United States and Asia Pacific. Latin America became a more and more attractive place for investment when Japan started its economy recovery. The Japanese Foreign Ministry and Ministry of Industry and International Trade (MITI) increase the number of its diplomatic and economic mission to intensify the political and commercial relations in that area.

In 1959 Shinsuke (Nobosuke) Kishi was the first Japanese Primer Minister to officially visit Mexico. Three years later the Mexican President, Adolfo Lopez Mateos, went to Tokyo and he became the first Mexican head of state to travel to Japan.

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<sup>2</sup> See Boletín de Prensa sobre la Reanudación de Relaciones Diplomáticas con Japón ( Press Bulletin about the Reestablishment of Diplomatic Relations with Japan) April 2, 1952 in Hideo Furuya. 99p

## 1.2 Trade in the Fifties

There was insignificant amount of trade exchanges in the late forties. The unstable trade balances which began in the 30s continued through this period. In 1948 Japan had a deficit of 4,245 thousand dollars, but in 1949 had a surplus of 292 thousand dollars (See Table 1). The fluctuation in the demand of Mexican goods during this time was due to the "limitation of available dollars". This phenomenon was caused as imports of natural resources and energy expanded. "There must be also an increase in exports to bring in more dollars to finance them. If, a shortfall occurs and the central bank is forced to increase the interest on the money lent to commercial banks (at official rate) and implement a policy of restricting money. Under these conditions, domestic demand will be suppressed and the import of resources and energy will fall."<sup>3</sup> When a shortage of dollars was a menace, there was pressure to export more manufactured goods and cut imports from non priority countries. This process can explain the slow growth of Japanese exports to Mexico because it was considered like a secondary natural resources supply country. At the same time, Japan exports were concentrated in East Asia with the Korea War in 1950 and the payment of war reparations to its former colonies in the Asia-Pacific region this fact was decisive in support Japan's further economic restoration. During the fifties and sixties a deficit was seen in the trade bilateral trade with Mexico.

The recovery of Japanese economy was the major factor to increase demand for products, most of them natural resources. In 1951 there was an extraordinary increase of imports from 16,525 thousand dollars in 1950 to 111,404 thousand dollars. (See Table 1) This period is called a "revival period" by the economist. The access into the United States' big market was one of the most important factors of Japanese economic recovery. According to the Japanese Finance Ministry in 1950 total exports were 2 011 millions dollars, of this amount 22.02% went to the United States.<sup>4</sup> The United States was a prominent source of technology, manufactured goods, intermediate and capital goods which supported the Japan's intensive industrialization process.

| Table 1. Japan-Mexico Trade Balance 1948-195<br>(Thousand Dollars) |         |         |          |
|--|---------|---------|----------|
| YEAR   | EXPORTS | IMPORTS | BALANCE  |
| 1948   | 63      | 4,308   | - 4,245  |
| 1949   | 493     | 201     | 292      |
| 1950   | 3,461   | 16,525  | -13,064  |
| 1951   | 3,348   | 111,404 | -108,056 |
| 1952   | 6,120   | 71,375  | -65,255  |
| 1953   | 12,01   | 84,167  | -72,157  |

Source: JETRO. *The History of Twenty Years of Japan Foreign Trade in the Postwar*.

<sup>3</sup> See Boletín de Prensa sobre la Reanudación de Relaciones Diplomáticas con Japón ( Press Bulletin about the Reestablishment of Diplomatic Relations with Japan) April 2, 1952 in Hideo Furuya. 99p

<sup>4</sup> Nichi Boku Kyokai. *Nichi Boku Koryu Shi*. PMC editions, 1990. 821-822p.

Mexico adopted ISI as a center piece of its development model. Mexican government tried the implement a solid national industry based in the internal market and protected from foreign competition. In order to accomplish this plan, Mexico needed technological assistance, know-how and the access of vital industrial goods that could be obtained mostly from the United States.<sup>5</sup> For this reason, Mexico proceeds to cut imports from other regions a policy which directly affected the growth of Japanese exports to Mexico.

The increase of Japanese exports to Mexico in the period 1950-1958 was not spectacular compared with Brazil or Argentina. From the total Japanese exports to the region, Mexico occupied 7.32% in 1950; 11.13% in 1952 and 1954 was 13.79%, years later with 6.14%. The best markets were Brazil and Argentina; in 1954 they combined for almost 61% of the Japanese exports. (See Table 2) In 1958 the share was down to 32.95% because of expanding Japanese exports to Panama.

| Table 2. Japanese Exports to Select Latin America Countries<br>(Thousand dollars) |        |        |         |         |         |
|---|--------|--------|---------|---------|---------|
| Country   | 1950   | 1952   | 1954    | 1956    | 1958    |
| MEXICO  | 3,461  | 6,120  | 28,787  | 7,078   | 12,679  |
| CUBA  | 3,912  | 1,845  | 3,033   | 3,793   | 5,372   |
| ARGENTINE   | 20,993 | 9,136  | 48,866  | 38,933  | 26,156  |
| BRAZIL  | 2,300  | 10,950 | 78,244  | 45,156  | 41,874  |
| LATIN AMERICA TOTAL   | 47,270 | 54,957 | 208,736 | 172,458 | 206,434 |

Source: JETRO. *The History of Twenty Years of Japan Foreign Trade in the Postwar.*

However, Mexico was the main exporter of natural resources to Japan in Latin America. Its share jumped up from 24% in 1950 to 41.64% in 1952. The imports from Brazil increased in 1954, and the Mexican percentage went down to 29.74%. During 1956-1958 Mexico had about 36% of the total Japanese imports from Latin America. In 1950 Latin America had 7% of the total Japanese imports in the world, 10% from 1953-56 and then it was reduced again to 8% during 1961-65.

| Table 3. Japanese Imports to Select Latin America Countries<br>(Thousand dollars) |        |         |         |         |         |
|---|--------|---------|---------|---------|---------|
| Country Year  | 1950   | 1952    | 1954    | 1956    | 1958    |
| MEXICO  | 16,525 | 71,375  | 92,276  | 128,106 | 93,605  |
| CUBA  | 12,470 | 50,828  | 24,275  | 61,496  | 48,422  |
| ARGENTINE   | 30,740 | 3,657   | 60,778  | 36,008  | 26,786  |
| BRAZIL  | 1,648  | 15,458  | 73,832  | 50,209  | 27,101  |
| LATIN AMERICA TOTAL   | 68,838 | 171,396 | 310,191 | 350,826 | 260,800 |

Source: JETRO. *The History of Twenty Years of Japan Foreign Trade in the Postwar.*

<sup>5</sup> During the period of 1939 until the end of the fifties, the Import Substitution process was more clear to the Mexican authorities. It was extended gradually from the consumption good to the intermediate goods and finally the capital goods sector. José Luis Flores Hernández. " Algunas Consideraciones sobre el Financiamiento Externo y la producción de Bienes de Capital" in *Inversión Extranjera Directa e Industrialización en México*. México, UNAM, 1986, 51p. op. cit.,

Cotton was Mexico's largest export item to Japan. This tendency started in the 1930's and continued after the Second World War. In 1950, cotton represented 74% of the total Japanese imports from Mexico. In 1950 was 91% and 1956 was 97% respectively.<sup>6</sup> Also Mexico was an important supplier of salt to Japan. The end of the fifties showed a diversification process of Mexican exports to Japan. Notwithstanding, cotton and salt were still dominant, Mexico sold other products like corn, cocoa, linen, and other products (See table 4).

In 1956 Mexico occupied the sixth position between the major supply-countries, behind Malaysia, Saudi Arabia, Canada, Australia and The United States respectively. The following year dropped to ninth, because of a drastic reduction of cotton imports from Japan. In 1958, temporally jumped up to seventh place, but in 1959 again had the ninth position.

The United States was the major competitor of Mexican cotton exports. Both countries switched sometimes the number one and two positions in the Japanese market. However, Mexico lost terrain in that sector and could not be compensated exporting other goods because cotton was the major Mexican export product in the bilateral trade with Japan.

| Table 4. Japanese Imports From Mexico 1956-1959<br>(Thousands of Dollars) |         |        |        |         |
|---|---------|--------|--------|---------|
|   | 1956    | 1957   | 1958   | 1959    |
| CORN  | 0       | 0      | 0      | 15      |
| COCOA   | 0       | 5      | 257    | 190     |
| COTTON  | 124,710 | 76,073 | 91,512 | 117,048 |
| LINEN   | 208     | 196    | 0      | 1,000   |
| SALT  | 0       | 0      | 178    | 374     |
| TOTAL   | 128,107 | 82,741 | 93,605 | 123,108 |

Source: JETRO *The History of Twenty Years of Japan Foreign Trade in the Postwar*.

The main products that Mexico imported from Japan in this period were textile goods, medicine, plastic and machinery such as sewing machine, radios and cars. (See Table 5) The composition of the foreign trade reflects a classic pattern. Mexico sold mostly natural resource products meanwhile it bought from Japan manufactured goods and products intensive in capital. On one hand, Japan was in its process of increasing exports and developing quality products in order to compete in the international market. Mexico was seen as both an alternative natural resource supply country, especially cotton, and one of several potential purchase-countries in Latin America.

| Table 5. Selected Mexican Imports From Japan 1956-1959<br>(Thousand Dollars) |      |      |      |      |
|--|------|------|------|------|
|  | 1956 | 1957 | 1958 | 1959 |
| COTTON GOODS   | 44   | 18   | 47   | 150  |
| MEDICINE   | 72   | 182  | 221  | 286  |
| PLASTIC  | 26   | 58   | 29   | 43   |

<sup>6</sup> JETRO. *Sengo Nippon No Boeki 20 Nen Shi*. Tokyo, 1967, 396p

|                |     |          |     |       |
|----------------|-----|----------|-----|-------|
| RADIOS         | 67  | 59       | 554 | 392   |
| AUTOMOBILE     | 116 | 143      | 282 | 605   |
| CAMERA         | 19  | 143      | 282 | 605   |
| SEWING MACHINE | 649 | 116<br>1 | 957 | 1,330 |

Source: JETRO *The History of Twenty Years of Japan Foreign Trade in the Postwar*.

Mexico desired to push up its plan to develop a "national industry" with a captive internal market and protection from foreign products. American multinational enterprises flowed into Mexico and trade with the "northern neighbor" became very close. Mexico was able to diversify its trade relationships. In 1950 the American share of the total of exports and imports with Mexico was 84.7% and in 1955 was reduced to 78.4%.

The nature of the relationship between Mexico and Japan during the second half of the forties and the fifties evolved from symbolic gestures to more economic ties. As trade partner, there were continuous commercial contacts but in low profile activities compared with Asia or the United States. Mexico and Latin America in general, wanted to achieve its industrialization programs, obtain technology transference and attract foreign investment and fortify local business to sustain its development model. They were trying to reinforce its relations with America and Europe. Japan was not seen yet as an alternative because it was immersed in its economic restoration process. The sixties experienced the growth of economic, cultural and political links with Japan as it was becoming an important factor in the international economy.

### ***1.3 The "Miracles"***

The economic growth achieved by Japan during the sixties was impressive. From 1960 - 1965 growth was 9.7 percent. After the slowdown of 1965 (It was known as the "recession of the year 40") the economic growth reached an annual rate of 11.8 per cent. The Japanese export-oriented industries gained terrain in the international market because they were able to produce high value added products. It would not be an exaggeration to say that Japan accomplished a successful technological revolution. In others' words, Growth, Modernization and Technological advance were symbols of the New Japan.<sup>7</sup> This skyrocket recovery is known as "Japanese Miracle".

This decade was named the "Golden Sixties". The world, with industrialized countries in the top, experienced considerable economic development. The industrial growth rate between 1950 and 1977 was in Japan 12.7 %, Western Europe 5.2 %; The United States and Canada 3.6 %, Socialist Countries 10.2 % and Developing Countries 7 %.<sup>8</sup> However, in the sixties the economic growth was higher.

Mexico was not the exception. In 1950-1978 the Domestic National Product had an annual growth of 6 % and the industrial production was growth 7.3%. The sixties are

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<sup>7</sup> Nasanori Nakamura. *Keizai Hatten to Minshushugi*. Tokyo, Iwanami Shoten, 1993, 148-149pp

<sup>8</sup> Fernando Fajzylber. *La Industrialización Trunca de América Latina*. México, Nueva Imágen, 1983, 35p.

known as "Stabilized Development Period" in the Mexican economic history. In that time the press called it as the "Mexican Miracle".

Japan began a profound internationalization and its enterprises spread gradually in the world. In the fifties and the sixties American companies lead this process, followed by European firms. The "late comers" were the Japanese, but after a couple of years they became a serious competitor in the international market.

The advance of Japanese corporations in Mexico in the sixties was notable. Big companies like Mitsui, Hitachi, Nissan, Matshushita, NEC, Ajinomoto, Citizen, Japan Airlines and other small companies, in total 27 companies set up operation facilities in the manufacturing, electronics and service sectors.<sup>9</sup>

The most important was Nissan. On September 1961 Nissan opened a manufacture plant in Cuernavaca city, State of Morelos. The beginning was not easy. The market was controlled by Ford, General Motor and Chrysler (the "Big Three"), European and local industries. "They faced profound problems of adaptation to the norms, tradition and rules - written and unwritten- of operation".<sup>10</sup> For this reason Nissan's presence in the national market was modest. In 1966 the company produced less than 1500 cars with 800 workers, but they expanded very fast and the infusion of capital was considerable from the original 50 million pesos to 435 million in 1975. They were able to produce 30 000 units with a total of 2600 employees.<sup>11</sup> Nissan was (and still is) the most important Japanese investor in Mexico.

Trade relations during the sixties followed the same pattern observed in previous years. There was a continuous surplus in favor of Mexico (See Table 6) and its main export product was cotton. In 1960 Japan renewed the purchase of Mexican shrimp and its demand grew very fast in the market. Five years later Japan bought 5210 metric tons up from the initial 52 metric tons to become the second most important supplier after China. In 1970 Mexico had the number one position with 7210 metric tons. Also Japanese imports of corn and salt had a rapid expansion.

Japanese exports increased in areas such as chemicals and manufactured goods. However Japan share in Mexican trade were still insignificant. In 1965 it was 2.3% compared with 64.1% from the United States, German had 8.4% and Great Britain 3.6%. At the end of the sixties, there was an enlargement of Japanese exports increasing Japan's share to 4.3%, behind Germany with 7.5% and The United States 62.9%.

| Table 6. Japan -Mexico Trade Balance 1960-1969<br>(Thousands of Dollars) |         |         |         |
|--|---------|---------|---------|
|  | EXPORTS | IMPORTS | BALANCE |

<sup>9</sup> Nichi Boku Kyokai 827-828pp.

<sup>10</sup> Luis Rubio "Japan in Mexico: A Changing Pattern" in Susan Kaufman Purcell and Robert M. Immerman. *Japan and Latin America in the Global Order*. United States, Americas Society, 1992, 71p.

<sup>11</sup> Mikoto Usui. "Transferencia Internacional de Tecnología Industrial: Una evaluación del desempeño japonés en los Países Recientemente Industrializados de América Latina" in Isaac Minian (editor) *Transnacionalización y Periféria Semindustrializada*. Vol. I, México, CIDE, 1983, 318p.

|      |         |         |          |
|------|---------|---------|----------|
| 1961 | 21,124  | 134,989 | -113,885 |
| 1962 | 22,600  | 127,774 | -105,114 |
| 1963 | 24,505  | 134,152 | -109,647 |
| 1964 | 34,002  | 144,226 | -110,224 |
| 1965 | 40,649  | 144,784 | -104,135 |
| 1966 | 50,193  | 177,724 | -127,531 |
| 1967 | 91,752  | 171,796 | -80,044  |
| 1968 | 106,276 | 172,898 | -66,622  |
| 1969 | 88,437  | 215,553 | -127,080 |

Source: JETRO. Kaigai Shiyo Hakusho 1971 85p.

In 1968, Japanese-Mexican Economic Commission was created and one year later both governments signed a commercial treaty that had the intention of being a framework to enhance bilateral trade relations.<sup>12</sup>

Japanese exports increased in the area of chemicals and manufactured goods. However Japan share in Mexican trade were still insignificant. In 1965 it was 2.3% compared to 64.1% from the United States, Germany had 8.4% and Great Britain 3.6%. At the end of the sixties, there was an enlargement of Japanese exports increasing Japan's share to 4.3%, behind Germany with 7.5% and the United States 62.9%. In 1968 the Japanese-Mexican Economic Commission was created and one year later both governments signed a commercial treaty that had the intention of being a framework to enhance bilateral trade relations. In general terms, the Japanese commercial strategy was to expand its exports into foreign markets using efficient products to compete with quality goods, and to secure the supply of vital natural and strategic resources. From 1960-1981 an average annual rate of increase of 18.4% in exports and 15.7% in imports from Latin America was recorded.<sup>13</sup>

Although bilateral economic relations increased, Mexico was losing terrain as Japan's major trade partner in Latin America. In the first half of the sixties, Japan increased imports from Chile and Peru. Brazil was in the process of becoming the principal market in the region. During this period the nature of the relations between Mexico and Japan were more concentrated in economic aspects and diplomatic protocol than political relations as was the case in the prewar period. Mexico and Japan were under the United States' nuclear umbrella as members in the capitalist block. The Japanese approach to Mexico and other countries in the region focused on developing basic trade links rather than political relations. According to Professor Hiroshi Matsushita, Japan's diplomatic relations in the postwar period displayed a low-profile activity and a pro-American stance. "At the same time, Japanese businessmen have been very active in foreign countries, and the Japanese government has made every effort to facilitate their activities.

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<sup>12</sup> According to the content of the commercial treaty, each countries compromised to concede the same advantage and privilege offered to a product originated in a third country. Also was established the "Most Favored Nation Clause". See Alfredo Romero Castilla. " Retrospectiva Histórica de las Relaciones entre México y Japón desde 1952" in Omar Martínez Legorreta and Akio Hosono. *Relaciones México-Japón: Nuevas Dimensiones y Perspectivas*. México, Colmex, 1985, 43p.

<sup>13</sup> See Akio Hosono. "economic Relationship between Japan and Latin America" *Latin America Studies*, Num.6, 1983, 76p.



In other words, the Japanese government acted positively in the economic field but reluctantly in the field of international politics".<sup>14</sup>

In the Cold War Period, especially after Cuban revolution and Missile crisis in 1962, Washington became greatly concerned by any kind of political, economic or ideological influence from abroad in the region (menace of communism) which might deteriorate its hegemonic presence in Latin America. American officials observed Japan's initially trade expansion in the region without any fear because Japanese products lacked the competitiveness compared to American goods. However, this expansion was latter a subject of concern.

## **2 THE WAVE OF DIVERSIFICATION**

### ***2.1 Japanese card***

During the 70s the economic diversification idea revived in Mexico. There were several internal and external factors that had direct influences in designing the new diplomatic strategy. First one was related to the breakdown of the rigid bipolar system and the economic recovery of Europe and Japan. Second, the crisis of ISI model in Mexico.

Japan became the target of a strategy to expand Mexico's trade relations. As a symbolical step, President Echeverria decided to go to Japan as his first official foreign trip breaking the tacit rule that every Mexican head of State had to visit the United States first.

Mexico expanded diplomatic relations with almost 62 countries mostly in Asia and Africa. The government adopted the "New International Economic Order" (NIEO) as a centerpiece in its foreign policy and it played an active role in becoming a leader in "Third World" affairs. By that time Mexican government had signed 160 economic, technology assistance and cultural agreements or treaties with other countries and international organization.<sup>15</sup>

In 1971 Mexico and Japan agreed to establish a special student exchange program in which it was decided to train 100 youths in fields such as technology, engineering, computers, etc. and on the Japanese side; Spanish studies, culture, history and politics in Mexico. It was a year later that President Echeverria went to Japan on his first official foreign trip and in 1974 Prime Minister Kakuei Tanaka traveled to Mexico.<sup>16</sup>

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<sup>14</sup> Hiroshi Matsushita. "Japanese Diplomacy toward latin America after World War II" in Barbara Stallings and Gabriel Szekely ( editors). *Japan, The United States and Latin America. Toward a Trilateral Relationship in the Western Hemisphere ?* London, 1993, 75p.

<sup>15</sup> See Takeshi Kishikawa. " Gendai Mekishiko Gaiko -1970 Nen Dai Iko" in Akio Hosono and Keiko Hata. *Raten Amerika Kokusai Kankei*. Tokyo, Latin America Series, Num. 3, Shin Hyoron, 1993, 195p.

<sup>16</sup> Both countries endorsed the " Mexico-Japan Joint Communication". They reaffirmed the necessity to have a real economic balance between the development and developing countries and the role of the United Nation's General Assembly to adopt the " Chart of the Economic Rights and Duties among the States" ( the masterpiece of the Echeverria's International policy). In the bilateral level, they agreed to institute investment projects, technology transference, as well as cultural, educational and exchange programs.

However, bilateral relation with Japan did not expand very fast and failed to become close. According to Professor Matsuo Yamada, there were two main reasons: First, the Japanese businessmen thought that Brazil was a better market and a major source of natural resources compared with Mexico. Second, the "Third World" ideology was contrary to the Japanese leader's conservative orientation.<sup>17</sup> This idea is shared by Professor Takashi Fuchigami. He asserts that Japan had a cautious stand against NIEO and failed to understand Mexico's trade and political diversification strategy.<sup>18</sup>

This idea of "Diversify the dependency" had a relative success in the commercial field. In 1970 Mexico's total exports were 1,290 million dollars, 68.2% of this exports went to the United States. Five years later, the share was reduced in 57.9%. In 1975 imports from the United States had a share of 62.8% from the total, compared with 63.6% in 1970.<sup>19</sup>

The foreign direct investment had the same pattern. In 1970 the United States had a share of 79.4%. In 1976 it decreased to 71.1%. Japan had a poor quota of 0.8% in 1970 and 1976 grew up to 3.2% distributed mostly in the industrial (automobile), commercial and the mining sector.<sup>20</sup> Trade relations expanded firmly and had two fundamental changes. On one hand, Mexican cotton exports to Japan lost dynamism and simultaneously there was an increase of products like salt, manganese, copper, coffee and especially frozen shrimp. In 1970 the cotton was 51.5% of the total exports to Japan. In 1972 was 45.66%, by 1973 was down to 24.21%; it recuperated the following year to 42.61% and finally in 1977 was 40.5%

On the other hand, according to the Japanese government sources the bilateral trade balance in 1975 had a surplus in favor of Japan, breaking the traditional deficit trends since the forties.<sup>21</sup> (See Table 7) During 1965-1975 Mexican imports from Japan reached 22%, and it represented 4.6% of Mexico's total imports.<sup>22</sup> As it was already referred above, the composition of Mexico's imports from Japan reflected the change to more high-value-added commodities like manufactured goods; electrical, communication and transportation equipment; capital and intermediate goods.

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<sup>17</sup> Matsuo Yamada " Retrospectiva Historica de las Relaciones entre México and Japón desde 1952" in Omar Martínez Legorreta and Akio Hosono. *Relaciones México y Japón: Nuevas Dimensiones y Perspectiva*. México, Colmex, 1985, 55p.

<sup>18</sup> Takashi Fuchigami. " Japón y México desde 1970: Una Evaluacion Tentativa." *Latin America Studies*. Num.6, 1983, 108p.

<sup>19</sup> Sidney Weintraub. *A Marriage of Convenience. Relations between Mexico and the United States*. New York, Oxford University Press, 1990, 73p.

<sup>20</sup> Source from Banco de México quoted by Luis Rubio 74p.

<sup>21</sup> There are a seruous discrepancy in Mexican and japanese sources about this subject because they have a different accounting ptocedures. " According to Mexican government sources...a trade deficit with Japan every year 1970 to 1980 ( comparable data for 1965-1970 are unavailable). But if we are to belive Japanese sources equally, we must accept that in 1971 both Japan and Mexico suffered equally, we must accept that in 1971 both Japan and Mexico suffered trade deficit of \$68.5 and \$25.7 million respectively, and that for 1972 both were simultaneously in the black - Mexico by 4.1 million and Japan by \$51.1 millions" Luis Rubio 75p.

<sup>22</sup> Andres Canalizo. " El Comercio México-Japón Retrospectiva, Actualidad y Perspectivas a Mediano Plazo" in Omar Martínez Legorreta and Akio Hosono. 328-329pp.

| Table.7 Japan-Mexico Trade Balance 1970-1976<br>(Thousand Dollars) |         |         |         |
|--|---------|---------|---------|
| YEAR   | EXPORTS | IMPORTS | BALANCE |
| 1970   | 93,949  | 151,209 | -57,260 |
| 1971   | 102,001 | 170,502 | -68,501 |
| 1972   | 150,663 | 201,821 | -51,158 |
| 1973   | 190,672 | 275,474 | -84,802 |
| 1974   | 305,231 | 308,411 | -3,180  |
| 1975   | 347,220 | 212,214 | 135,006 |
| 1976*  | 385,902 | 248,224 | 137,698 |

Source: Tsusansho Hakusho( MITI White Book) 1972 and 1975

\* United Nations Year Book of International Trade 1979.

The effort to widen Mexico's trade and financial relations had more limits than probability to achieve it. Perhaps, because Japanese leaders wanted to avoid any conflict with the United States, they did not express more interest in making closer political and economic relation with Mexico (in its character as *l'enfant terrible* vis a vis the United States).

Echeverria established a State subsidy policy and decreed a Foreign Investment Law which allowed a maximum of 49% in the participation of external capitals. These policies were not welcomed by the national and foreign businessmen. In addition, there were several problems of corruption, inefficiency and a lack of serious planning (sometime linked with political arrangements) some industrial projects became a virtual "White Elephants".

During the final days of Echeverria's government, Mexico had a severe economic crisis. The financial speculation, the peso devaluation, the growing inflation and the climate of economic instability pushed up a process of capital flight estimated at 2 600 millions dollars in 1976.<sup>23</sup> Washington with International Monetary Fund (IMF) prepared a "rescue financial program" to avoid further deepening of the so called "fiscal crisis".

The dream of "diversify the dependence" could not be reached and again it was obvious to the Mexican political elite that the trade and political ties with the United States were still dominant. The discovery of vast oil fields in Mexico and its transformation of an important exporter provoked a change in the Mexican economic and commercial international strategy. Oil was used as a "bargaining tool" in foreign policy and as a potent magnet to attracting potential trade partners. Japan responded *ipso facto* to the "luring sing of the Sirens".

## 2.2 Oil and Oil

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<sup>23</sup> Miguel Angel Rivera Rios. *Crisis y Reorganización del Capitalismo Mexicano 1960-1985*. México, ERA editors, 1986, 82p.

In the 1970s Japanese Miracle faced its first challenge. The 1973 "Oil Shock" had shown Japanese economic vulnerabilities and the high dependency to imported raw material and energy. Tokyo rushed to find an alternative oil source and tried to reduce the heavy dependency on the Middle East's oil. The economic comprehensive security doctrine indicated the urgency to find a stable supply of strategic resources in order to keep Japan's economic machinery protected against any external factors. In other words, the Japan's top economic priority was to enhance security in the raw materials and energy supply network.

The discovery of enormous oil fields during 1977 and 1978, Mexican government tried to develop a secondary import substitution process. Mexican strategist established an "ambitious program of public investment to endow the country with the necessary infrastructure for an expander export capacity, as well as to establish complementary industries to that of oil industry. This lead to a rapid increase in imports and external debt."<sup>24</sup>

President Jose Lopez Portillo (1976-82) practically abandoned the austerity plan imposed by IMF because he was convinced that Mexico was becoming a full developed country. Mexico was thinking that high oil prices would be maintained permanently in the international markets. The government sustained that there would be a fixed source of revenue and oil production could be utilized as a strategic tool in Mexico's diplomacy.

Lopez Portillo administration continued the old populist ideology and followed an active foreign policy. Mexican government's international activity was centered on the idea of "Dialogue North-South"; and the World Energetic Plan. Mexico's traditional nationalistic stand was the element behind the refusal to become a General Agreement of Trade and Tariff (GATT) member and negative to form the North America Common Market proposed by Washington.

Mexico's commercial policy used oil as mechanism to accomplish its anxious plan of economic diversification. According to Professor Mutsuo Yamada, "Japan discovered the strategic importance of Mexico in 1976, at the beginning of the administration of Lopez Portillo, when Mexico transformed in an oil export country outside of OPEC. After that, in 1978, during his trip to Japan the bases for a bilateral interdependence were built in turn of Mexican oil and Japanese economic cooperation".<sup>25</sup>

After the second oil crisis in 1979 Japan sought a definitive oil purchase agreement with Mexico. On August of that year Masumi Ezaki from MITI and Sunao Sunoda, Ministry of Foreign Affairs, went to Mexico and celebrate a deal to buy 100 thousand barrel per day that would start delivering from the following year. Japan became the second most important oil trade partner behind the United States with 400,000 barrel per day.

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<sup>24</sup> Rene Vilareal. " Latin America Strategy of Import Substitution: Failure or Paradigm for the Region" in Gary Gereffi and Donald L. Wayman (editors). *Paths of Industrialization in Latin America and East Asia*. USA, Princeton University Press, 1990, 299p.

<sup>25</sup> Mutsuo Yamada 56p.

The 10 years oil accord seemed satisfactory for both parts. Mexico was looking for financial and technical cooperation. Japan wanted to buy expensive Mexican oil. The price of Mexican oil was 40% (sometimes 70%) higher than Arabian. One of the reasons was the transportation fee. (From Mexico Gulf to Japan via South Africa) Mexican negotiators requested economic cooperation in change of Mexican oil price would be reduced.<sup>26</sup>

Mexico wanted to improve port facilities and establish an industrial center in the Pacific coast as part of a regional development policy. Thus, Mexico sought Japanese assistance. Mexican government thought those port facilities would increase economic links with Asia and South Pacific countries as well. In other words, Mexican elite desired the promotion of economic relations with Pacific Rim countries in the middle and long term. Other goals were commercial diversification process and regional industrial development in the states facing the Pacific Ocean.<sup>27</sup>

Among those projects were: a) Joint venture to construct a steel mill. Mexico was represented by Nafinsa and Sidermex. The Japanese side formed a Kaigai Keizai Kyoryoku Kikin integrated by Kobe Seikosyo, Mitsubishi-Shoji, Mitsui-Bussan, etc. The plant was located inside SICARTSA in Lazaro Cardenas, in the state of Michoacan, with a capital of 150 millions of pesos; b) Tubs of big diameter. Established on November 1980 the capital amount was 1300 million to construct tubs for the oil industry. Nafinsa, Siderme, Kaigai Keizai Kyoryoku Kikin and other private enterprises such as Sumito-Kinzoku, Sumitomo-syoji, Kogin formed the joint venture. c) SICARTSA facilities' expansion in charge by Shin-Nittetsu; c) The improvement of Salinas Cruz industrial port and the construction of a floating pipeline. Nissho-Iwa and Mitsubishi-Juko with a credit provided by Japan's Imports and Export Bank and others private financial institutions were in charge. Later was added the construction of a oleduct pipeline with a length of 267 kilometer from Minatitlan, in the state of Veracruz to Salinas Cruz. This oleduct pipeline was linking the major oil fields situated in Mexico's Gulf area and the port facilities in the Pacific side to avoid costly transportation fee and provide direct oil shipment to Japan and other potential partner in the zone. These joint ventures were known as the Pacific Petroleum Project (PPP).

The oil's introduction in the bilateral relations boosted trade and financial ties. In 1982 Japanese imports from Mexico amounted 1 552, 146 millions of dollars and oil imports represented 72.52 % . Oil replaced the traditional cotton imports that had been showing signs of slow growth.<sup>28</sup> ( See Table 8). In 1983 cotton represented a modest 3.4% from the total imports and the following year was an insignificant 2.8%. This reduction was caused because the introduction of synthetic fibers and the lost of the Mexican exports

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<sup>26</sup> Nichi Boku Kyokai 862-863pp.

<sup>27</sup> *Informe Final del Grupo de estudio México-Japón sobre las Relaciones Bilaterales a Largo Plazo* ( *Final Report of the Mexico-Japan Study Group about Bilateral Relations in Long Term*) México, Foreign Ministry, 1985, 10-11p.

<sup>28</sup> Eichiro Yonenaga. " El Comercio México-Japón: Retrospectiva, Actualidad y Perspectivas a Mediano Plazo" in Omar Martínez Legorreta and Akio Hosono 314p.

share against other competitors from Asia. In general terms, Mexican economy was becoming more dependent on oil exports.<sup>29</sup>

| Table. 8 Selected Japanese Imports from Mexico 1982-1984<br>(Thousand dollars) |        |        |        |           |           |
|--|--------|--------|--------|-----------|-----------|
|  | Shrimp | Cotton | Salt   | Oil       | Total     |
| 1982   | 7,068  | 61,173 | 67,998 | 1,125,720 | 1,552,146 |
| 1983   | 11,054 | 44,598 | 65,453 | 1,453,305 | 1,888,969 |
| 1984   | 8,803  | 64,560 | 67,449 | 1,787,386 | 2,259,813 |

Source: Tsusansho Hakusho

Prime Minister Masayoshi Ohira and MITI Minister, Rokusuke Tanaka, traveled to Mexico looking for a oil imports increase (300,000 barrel ) in exchange for a credit of 150 billion yen. Although Mexico received the loan, they could not reach any concrete agreement. Japan did not insist more in the point because the rapid change of the energetic condition in the middle of 1981. On June 1982, the director of Pemex (Mexican Petroleum Company), Rodolfo Moctezuma Cid, went to Tokyo and offered to augment the amount of oil to 150,000 barrel per day, later was increased to 160,000.

Mexican elite's optimistic vision changed because the oil prices decreasing tendency. Public and private investment was reduced and forced Mexican government to utilize domestic financial resources. When these resources were not enough, Mexico started a heavy borrowing from external capital market.<sup>30</sup> Notwithstanding, the "loans from Japanese banks had poured into Mexico even prior to the latest discovery of oil as a result of Mexican demand and excess liquidity deriving from petrodollars deposits. Japanese expouse increased when Mexico's government demanded two additional credits to secure the oil agreement".<sup>31</sup>

According to JETRO, in 1977 Mexican external debt's Japanese share was 5.4% (1 237 millions dollars); 1978 was 12.9% (3, 388), 1979 had a participation of 14.8% (4 404), 1980 was 16.9% ( 5 410) and in 1985 amounted 10 billions of dollars, 16.5% from the total. At the beginning, the Japanese banks poured money to supply Mexican financial needs. However, they were "forced" later to participate in the financial rescue and debt relieve plan organized by IMF and Washington.

The economic crisis in 1982 affected Mexico-Japan bilateral economic relations. It was a retraces in foreign trade, investment and the development of big projects. The Japanese exports to Mexico were reduced by one third in two years. Additionally, the Miguel De la Madrid (1982-1988) administration achieved an economic reorganization and austerity plan that affected Japanese goods demand.

According to Mexican statistics, the trade balance was becoming in favor to Mexico, because oil exports and imports reduction. In 1980 was reported a deficit of 228 millions of dollars, which was becoming a continuous surplus during this decade. (see Table 9).

<sup>29</sup> Andres Canalizo 332p..

<sup>30</sup> See *Transfondo de las Recomendaciones del Grupo de Estudio sobre las Relaciones Bilaterales México-Japón a Largo Plazo*. México, Foreign Ministry, 1985, 15-16pp.

<sup>31</sup> Luis Rubio. 77p.

Mexico learned a difficult lesson. The developed countries power in the natural resources in the international market was not a fact that it could be underestimated. The producers might have a temporally good bargaining position (as it was the OPEP case) but does it not mean that it has to be permanently. The Mexican politicians gambled with one single card (oil) and lost the game. Instead of increasing a trade diversification, not only in terms of assorted trade partners but also of exports' products, made the country a dangerous and fragile energetic mono-export economy. The oil was not the magic key to open the doors for development

| Table 9. Mexico-Japan Trade Balance 1980-1987<br>(Millions U.S Dollars) |      |       |       |       |       |       |       |       |
|---|------|-------|-------|-------|-------|-------|-------|-------|
|   | 1980 | 1981  | 1982  | 1983  | 1984  | 1985  | 1986  | 1987  |
| Exports   | 671  | 1,157 | 1,450 | 1,512 | 1,868 | 1,709 | 1,065 | 1,348 |
| Imports   | 899  | 1,095 | 777   | 320   | 457   | 723   | 771   | 795   |
| Balance   | -228 | 62    | 673   | 1,192 | 1,411 | 986   | 294   | 553   |

Source: Quoted by Luis Rubio 97-98pp.

Mexico and others Latin American nations entered into the "Lost Decade" in which the economic growth was absent in their economic figures. During postwar period trade relations between Mexico and Japan's followed the classic pattern. Mexico as a supplier of natural resources, first cotton and later oil, and Japan exports were goods with more value-added. To restore economic relations and consolidation between two countries were forged during the fifties and sixties. During the seventies and eighties experienced an enlargement of economic and financial ties Nevertheless, when the interests of the Japanese banks were affected by the debt crisis Japan became a reluctant and skeptical partner.

### 3. JAPAN: THE RESENTFUL PARTNER

#### 3.1 *Fractured Association*

Japanese banks forced to participate (Baker and Bradley Plan) in Mexican debt renegotiation provoked a huge loss. It was estimated around US\$4 billion. Just before the 1982 crisis, Japanese financial institution engaged in a heavy lending process in Latin America. They "operate in cycles. A small beginning was made in 1972-3, but loans ceased abruptly after the first oil shock. A second spurt occurred in 1978-9, with the second oil shock leading to another decline. Finally, lending increased for the third time in 1981-2"<sup>32</sup> According to the World Bank, in 1989 Latin America concentrates 434 billions of dollars (33.7%) from the world external debt calculated in 1,280 billions.

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<sup>32</sup> Barbara Stallings. "The Reluctant Giant: Japan and the Latin American debt Crisis". *Journal Of Latin American Studies*, February 1990, 4p.

On 13 August 1982, when Finance Ministry announced Mexico could not continue to service its debt, Japanese had a share of 10.5% the second most important lender behind the United States. Japanese Banks such as Dai-Ichi Kangyo, Fuji, Sumitomo, Mitsubishi, Sanwa, Industrial Bank of Japan and Bank of Tokyo, were the principal actor in the Mexican debt crisis drama. Japanese government, especially Ministry of Finance, pressured them to participate in the rescheduling because Washington desired a full Japanese involvement in the debt renegotiation. However, Japanese banks general idea was Mexico became an "American problem". Although they participated in the debt relief programs, they had a low profile activity.<sup>33</sup>

Japanese financial institution's bad experience in Mexico and Latin America was the fundamental reason that they stayed away as an active investor in the area. Professor A. Blake Friscia said "This near-default of the region's external debt had adverse consequences in the form of a sharp fall in finance, foreign investment and economic growth, Latin America's attractiveness suffered and Japanese investment in manufacturing dropped off, while the pace of trade slackened. External debt problems had the effect of reverse the gains that had been made in the previous two decades".<sup>34</sup> After the Plaza Accord in 1985 and the rapid appreciation of the Japanese currency (Endaka), East and Southeast Asia became more attractive to Japanese businessmen. This process reshaped the international division of labor in the area. Also it had influence supporting the high economic growth achieved in countries such as Malaysia, Thailand and Indonesia, the second generation of NICs in the Asia-Pacific.

On the other hand, Latin America suffered a Japanese disinvestment process. Japanese direct investment oriented to productive activities where overtook by "paper investment.". "Latin America's leading sectors are finance, insurance, shopping, and transport. Compared to other major regions, Latin America has the lowest share and the smallest absolute amount (\$6.3 billion) of manufacturing facilities."<sup>35</sup> Meanwhile, Latin America attracted big amount of "paper facilities" investment (especially Panama with the "flag of convenience" and the new "fiscal heavens" in the Caribbean sea, such as Cayman Island and Bahamas), the United States and Asia concentrated major foreign investment amount.

Although, debt crisis was a major factor that induced the absence of important Japanese foreign investment programs in Latin America. There were also other internal factors

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<sup>33</sup> The roll of Japanese banks was passive and they limited to follow the United States banks and government proposals, they not have an independent posture. But it was in march 1987 when they established the JBA Investment Inc, a factoring company set up in the Cayman Islands. " It was jointly owned by the 28 Japanese banks that had loans outstanding to Mexico, and each contributed part of the \$84,000 capitalization. The initial loans to be purchased amounted to less than \$1 billion, but it was expected that the plan would later be expanded. Funds to purchase the loans were to be raised by offering preferred shares in the company to the banks selling the loans. In other words, only paper transactions were involved.,The factoring company would hold the loans and try to collect full face value of principal and interest from the debtor countries. nay money collected was to be distributed to members banks in the forms of dividends". Stallings12p.

<sup>34</sup> A. Blake Friscia "Japanese Economic Relations with Latin America: An Overview" in Susan Kaufman Purcell and Robert M. Immerman. *Japan and Latin America in the New Global Order*. USA, America Society,1992, 5p.

<sup>35</sup> Ibid 23p.



that played an important role. A side of the traditional problems that always is affecting an undeveloped area such as lacking of good infrastructure, poor quality and productivity standard; in Mexico there was an excessive red tape, deficiency in planning and political consideration that impelled a smooth and efficient economic partnership.

### ***3.2 Joint Venture or "Single Misfortune"***

Mexican economic relations with Japan had been plagued with the most unbelievable histories of deficiency in business activities and the failure of investment project due to political factors. However, it can be sustained that there are some good examples of how Japanese investor, Mexican workers and local capital can work together with high efficiency.

In 1978 was established a plant in San Juan del Rio (center part of Mexico) to make electrical parts for Mexico City's subway. Mitsubishi Electric Corporation participated with US\$10 millions. It seemed a profitable business because the subway network was expanding rapidly. However, after the external debt problems Mexico City administration unilaterally decided to reduce the construction. Years later, Mitsubishi's train subsidiary became in red numbers and the "rolling stock production line sits idle. 'It's a waste', says a Mitsubishi Electrical official in Tokyo." <sup>36</sup>

The steel project in Lazaro Cardenas deserves special treatment. As it was explained before, this venture was agreed in 1980 with the support of the Japanese government and businessmen. Although Mexico wanted a full involvement of Japanese capital (49% was the limit allowed by the foreign investment law of 1973), it had only a very small portion (2.6% of the total capital). According to Wilson Peres, "From a technological perspective, the iron and steel complex joint venture represented an important advance in the country's productive capacity. The new plant produces draws of up to 150 tons of molten steel, with an annual capacity of 90,000 tons. In smelting, the firm can cast pieces of up to 130 tons, with an annual limit of 20,000 tons." <sup>37</sup>

The plant was finally installed in 1986 in the middle of the Mexico economic recession. From 1979-81 Mexico had 8% economic growth, after 1982 was almost zero. The government investment and steel demand reduction aroused an immediate loss. "The iron and steel plan/foundry complex tried to adapt to these changing circumstances, most notably by trying to penetrate foreign markets. In just one year, from 1987 to 1988, it was able to increase its exports from approximately 12 to 31 percent of total sales, mostly through sales to the United States. These gains were insignificant, however, in relation to the US\$350 millions invested in the project, and the Mexican government decided to

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<sup>36</sup> Stephen Baker and Karen Lowry Miller " Why Japan Inc. is steering clear of Mexico" *Business Week*, November 25, 1991, 25p.

<sup>37</sup> Wilson Peres " Japanese Joint venture with the Mexican State: The Limits of Forced Cooperation" in Gabriel Szekely (editor) *Manufacturing Across Borders and Oceans. Japan, The United States and Mexico*. USA, Center for U.S-Mexican Studies, University of California, San Diego, Monograph Series 36, 1911, 85p.

privatize the firm in May 1989".<sup>38</sup> This bitter experience was behind the refusal to acquire the entire complex when it was proposed by the Mexican officials.

Mexico-Japan joint venture to produce large-diameter steel pipe to carry petroleum and natural gas had the same destiny. This project had a 400,000 tons per year production capability supplying the flourished oil industry in Mexico and, thus eliminate the costly 300,000 tons imported by PEMEX. Kobe Steel provided technical assistance and began operations in 1986. However, petroleum equipment demand decreased because new exploration of oil fields was stopped. Then, the joint venture tried to penetrate without success in international markets when PEMEX, its only buyer, could not absorb steel pipes production.

Although this joint venture was mainly oriented to provide Mexico oil monopoly cheap steel pipeline, it seems that the PEMEX directors did not think the same way. This problem of lack of coordination and continuity based on political factors and corruption damaged Mexico image as trustful partner. In December 1989, Mexican central government ordered to close the plant. This unfortunate episode is still fresh in the mind of the Kobe Steel officials when they affirmed that "Mexico's not in the picture".<sup>39</sup> In other words, Kobe Steel will not engage in any project with Mexico.

" In these ventures, the Japanese assumed that they would have a significant say in decisions; over the years, they realized they would have no influence on those firms' development and, also, they were appalled at the way their operations were managed, particularly what they regarded as rampant corruption. Not surprisingly, they lost interest and left those partnerships with very sour thoughts of the whole venture. Much of that experience still haunts Japanese firms today".<sup>40</sup> Mexican government as majority owner had control of the administration and is able to designate the director's board. The appointment is based on political consideration rather than capacity. Additionally, the bureaucratization, lack of productivity, absence of Mexican workers motivation are some elements frequently used by Japanese firms when they are describing Mexico's business condition.

President Carlos Salinas tried to attract new Japanese investors without any success. In fact, Japanese business community had also sour experience with his government caused by the Mitsui incident. In 1988, just after the beginning of his administration "PEMEX officials traveled to Japan in search of petrochemical partners. In a much-bally-hooded deal, PEMEX reached a preliminary agreement with Mitsui Co. for a \$450 million aromatics plant near Monterrey (capital of the State of Nuevo Leon, north part of Mexico). Mitsui would build the plant for PEMEX and receive payment in product."<sup>41</sup> However, when the negotiators came back to Mexico, the parastatal directors judged that the deal was too generous and unfavorable. The project was reopened and the France's Spie Batignolles won the contract, the previous deal with Mitsui was practically dropped out.

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<sup>38</sup> Ibid. 86p

<sup>39</sup> Stephen Baker and Karen Lowry Miller. 26p.

<sup>40</sup> Luis Rubio 72p.

<sup>41</sup> Stephen Baker and Karen Lowry Miller 26p

### 3.3 Repairing the Economic Partnership ?

In 1990 President Salinas visited Japan looking for reaching a deal with Japanese corporations to pour fresh capital and financial resources into the starving Mexican economy. Tokyo did not make any signal to accomplish his request. Afterwards, Salinas said "I told them that if they continued to wait, they would end up waiting forever. That would benefit neither them nor us."<sup>42</sup> Notwithstanding, the real problem was not the "waiting" of Japanese attitude, it was the "decreasing" trend in term of trade and investment. The Japan Export Trade Organization (JETRO) reported a share of 6.8 percent in 1983 in Mexico total foreign investment. Two years later this figure decrease to 6.1 percent and in 1987 it was 5.0 percent. In 1990 it was 4.8 percent and in 1992 (January-June) was only 4.4 percent.<sup>43</sup>

Trade relation had the same fate. Mexico imports increased rapidly. In 1992 reached 3,803 million dollars, 35 % up from 1991 ( 2,817 million dollars). However, the exports were only 1,242 million dollars, a plummet of 28.6 % ( 1,741 million dollars in 1991) which contribute to increase the trade deficit from 1,706 million to 2, 561 million dollars last year.<sup>44</sup> (See table 10) Although energy represented 57.16 % of the total exports to Japan, it was the sector most affected. In 1991 Mexico sold 1,001 million of crude oil, it was reduced to 710 millions in 1992.<sup>45</sup>

| Table 10. Japan-Mexico Trade Balance 1988-1992<br>(Millions of dollars) |       |         |         |         |
|---|-------|---------|---------|---------|
| YEAR  | TOTAL | EXPORTS | IMPORTS | BALANCE |
| 1988  | 3,363 | 1,591   | 1,772   | -181    |
| 1989  | 3,638 | 1,730   | 1,908   | -178    |
| 1990  | 4,202 | 1,931   | 2,271   | -340    |
| 1991  | 4,558 | 1,741   | 2,817   | -1,076  |
| 1992  | 5,045 | 1,242   | 3,803   | -2,561  |

source: MITTI, White Book 1993.

President Salinas did not want to give up and he made a serious effort to reshape the economic partnership with Japan. High rank officials and Mexican businessmen visited

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<sup>42</sup> Stephen B. Shepard " President Salinas: 'My People are in a Hurry'. *Business Week*, Auguts 12, 1991, 19p

<sup>43</sup> JETRO. 1993 *JETRO Hakusho. Seikai to Nippon No Kaigai Chokusetsu Toshi*. 1993, 148p.

<sup>44</sup> Tsusansho. Shusho Hakusho 1993. 605p.

<sup>45</sup> The official position about focused the problem in the Mexico effort to increase others product and thus avoid the oil dependency in the Mexican Export sector. "... The commercial relation with Japan is not longer characterizaded by its oil content, in part of the reduction of its sales aboard as a result to the ending of the Mexico oil framework (signed with Japan ), but particulary as result of the economic modernization process that had been impulsed the development of productive process more elaborated". *Mexico: Actualidad y Tendencias de la Relacion Economica con Japon*. Secretaria de Relaciones Exteriores, 1992, 3p.

Japan several times trying to convince the private sector about the present advantage to pour their money in Mexico.

During NAFTA's negotiation, Japanese government and business circles often claimed fear about the transformation in a trade block that could raise a large scale protectionism trend in the World Economics.<sup>46</sup> In the government side there were two "incidents": First, a report published by the Economic Planning Agency affirmed NAFTA violates the GATT rules because it discriminates no-members countries, and also remarked that the agreement could shift foreign investment from Asia to Mexico by moving assembly plants. Washington reacted by saying that NAFTA's structure is not against the GATT regulation.<sup>47</sup> Second, Yasuo Tanabe, a MITI official, said NAFTA was a "Sneaky Protectionism" and accused the trilateral agreement was "harming efforts to wrap up what should be the world's top priority, the Uruguay Round".<sup>48</sup> Tokyo immediately denied the statement saying Tanabe's remarks was a personal point of view and it did not reflect any official position.

When NAFTA was enacted there was mixed reaction in Japan. It can be identified as two groups: The first, Japanese government and some business circles reacted favorably because NAFTA would influence the conclusion of the Uruguay Round. (Finally ended after seven years of problematic negotiation on December 15, 1993) NAFTA defeat "would have damaged the United States stature internationally and would have adversely affected the global economy by driving other countries into protectionism."<sup>49</sup> Big Corporation such as Toyota, Nissan, Matsushita and Ajinomoto were the first to break the "wait and see" attitude arguing the benefits that will bring NAFTA approval.

Other group insists NAFTA had protectionist characteristics. Gaishi Hiraiwa made some remarks about the high percentage of the rule of origin that may lead discriminatory practices against third countries. "Companies that did not have a production plant in Mexico now would be blocked from Mexican market for 10 years from NAFTA's official start (January 1, 1994). The trade barrier would be rather higher for no-members countries"<sup>50</sup> There were some opinions less optimistic about Mexican trade links with Japan. A JETRO official declares NAFTA won't produce radical change in the Japanese economic relations in the zone or increase trade and investment in Mexico.<sup>51</sup>

After NAFTA endorsement the Mexican government implemented an aggressive diplomatic strategy to convince the skeptical Japanese firms about the advantage to invest

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<sup>46</sup> "Hogoteki Ugoki O Keikai" *Sankei Shinbun*, August, 13, 1992

<sup>47</sup> "NAFTA hit as closed" *The Japan Times*, August 5, 1993, 12p.

<sup>48</sup> Anita Snow. MITI Official Rains on NAFTA's Parade. *The Japan Times*. October 24, 1993, 21p. and "Kantor: NAFTA to benefit U.S." *The Daily Yomiuri*, October 10, 1993, 5p. Also an extensive reference about the Japanese criticism about NAFTA or in Japanese *Nihon No NAFTA hihanron*. See Eiichi Furogawa. "Nihon Ha Chiikishugi E No Taion O Tenkanseyo" *Boeki To Kansei*. December, 1993, 50-57pp.

<sup>49</sup> "Japanese business mixed about NAFTA approval" *The Daily Yomiuri*. November 20, 1993, 20p.

<sup>50</sup> Japanese Business...20p.

<sup>51</sup> "Temor en Japón de que se Fortalezca el proteccionismo mundial si rechazan TLC" *UnoMasUno*, November 11, 1993, 22p.

in Mexico. Monterrey city, capital of the northern state of Nuevo Leon, hosted a conference with 50 Japanese company heads, bankers and government officials to discuss ways to increase the economic bilateral relations. Japan's ambassador in Mexico, Mitsuru Donowaki, said "there is more interest to invest in Mexico because of the trade agreement". The conference was closed to the press at the request of the Japanese delegation; this fact can be explained as an initial and exploratory effort to study business possibilities in Mexico.<sup>52</sup>

President Salinas wanted to reinforce the newly Japanese investors' interest in his visit to Japan on December 19-22, 1993, the second time in his administration. Mexico opened a Consulate General in Osaka city with the main purpose to increase trade relations with the Kansai area. President Salinas had private meetings with 30 Japanese business leaders from Osaka Chamber of Commerce and Industry and the Kansai Association of Corporate Executives. In the talks he explained NAFTA will ensure equal treatment for Japan and advantage inside the new direct investment law approved recently by Mexican Congress. This law will allow 100 % foreign capital in some areas and treat foreign companies in the same terms as Mexican firms. Also, announced Mexico currently restriction to establish foreign banks will be revoked and Japanese banks will be able to set up subsidiary banks or those which already have in United States or Canada would be able to do business in Mexico freely.

Finally, President Salinas made a remark at the Japan National Press Club in Tokyo,, "under the NAFTA accord all the foreign business firms that will invest in Mexico will be given equal treatment under the same laws and same systems, whichever country they may originate from".<sup>53</sup> He denied NAFTA as an exclusive club based on a regional block, and also said the agreement does not contradict GATT rules. Also he said Mexico should not be considered as a transit country where goods are passed to third country because Mexico was able to become a production base and reliable trade partner for Japan.

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<sup>52</sup> " Japanese Firms eye Investment in Mexico" *The Daily Yomiuri*. December 3, 1993, 17p.

<sup>53</sup> " Salinas: NAFTA ensures equal treatment for Japan" *The Daily Yomiuri*. December 22, 1993, 8p