Japan is embarking on a new phase in its relations with Latin America and the Caribbean (LAC). Though committed to stronger ties with LAC on the basis of economic complementarity and shared values, Japanese investors are facing seismic shifts in economic and geopolitical environment in LAC and other regions.

The trend toward global protectionism, evident in developed and developing countries alike, has already impacted some of the long-standing trade agreements from which Japan has historically benefitted. China, which has established a remarkable presence in LAC over the past two decades, is both an occasional partner to and competitor for Japan, but one that has yet to fully embrace rules-based economic order to which Japan closely adheres. The political and economic environment in LAC is also increasingly uncertain, as the region grapples with humanitarian and migration crises, growing populist tendencies, relentless corruption, and climate change, among other factors.

Despite some obstacles, Japan sees considerable value in enhanced engagement with the region, both from an economic perspective and as part of a broader, global effort to build consensus on a rules-based international order. A new series of policy objectives, announced during Prime Minister Shinzo Abe’s visit to Argentina in 2018 to attend the G20 summit, aim to strengthen economic cooperation with LAC, uphold shared values with the region, and support innovative solutions to development challenges in the region.
The Inter-American Dialogue and the Japan Association of Latin America and the Caribbean (JALAC) are pleased to publish this report by Akio Hosono, vice chairman of JALAC, and Margaret Myers, director of the Dialogue's Asia & Latin America Program. One of Japan's premier experts on Latin America, Hosono is Senior Research Advisor for the Japan International Cooperation Agency (JICA) Research Institute and was formerly Ambassador of Japan to El Salvador. Myers is a widely recognized authority on Asia's evolving relations with Latin America. Kotaro Horisaka, managing director of JALAC and professor at Sophia University, and Mikio Kuwayama, managing director of JALAC and Research Fellow at the Economics and Business Research Institute at Kobe University, also contributed extensively to the report.

This report presents findings from "Japan's Latest Moves in LAC: Reshaping the Partnership," a meeting co-hosted by the Dialogue and JALAC in Washington, DC in December 2018. The event convened public and private sector representatives for a two-day-long, wide-ranging discussion on Japan's evolving foreign and economic policies in the Latin American and Caribbean (LAC) region.

The authors describe a new phase in the long-standing relationship between Japan and LAC. While Japan remains firmly committed to engaging the region, Tokyo and Japanese companies are grappling with major shifts in the economic and political landscape, whether in LAC or globally. Japan’s newest policy measures take these shifts into account, while affirming Japan’s commitment to free trade, quality infrastructure development, and other forms of development assistance. Enhanced trade and other ties will be critical to both Japan and LAC nations in the event of slowing growth on either side of the Pacific.

JALAC was founded in 1958 as a Japanese forum for public and private sector engagement with LAC. Based in Tokyo, the organization's membership includes approximately 100 companies and organizations and 260 individuals. The Inter-American Dialogue and JALAC began collaborating in September 2015 to examine and advance the Japan-LAC relationship through joint seminars, roundtable meetings, and publications. Joint meetings have so far been held in Washington, DC, Tokyo, and Mexico City. The Dialogue and JALAC are grateful to Mitsubishi Corporation (Americas), Nippon Koei LAC, PS Solutions Corp. (a subsidiary of SoftBank Corp.), ANA, and Prudential for their support of this publication.

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Japan and LAC: A Strong Foundation

Though the product of multiple phases of engagement—from extensive Japanese migration since the Meiji period and mega-projects in the 1960s and 1970s, to periods of economic turmoil in the 1990s—Japan’s long-standing ties to the LAC region have been generally positive and mutually beneficial, built on growing trade, diversified investment, and wide-ranging development assistance.

The LAC region has long been and remains a critical source of raw materials, agricultural goods, and intermediate goods for Japan, as well as a valuable market for Japanese exports. Despite a slump in 2016, Japan’s trade with the region has averaged approximately $58 billion over the past five years (see Figure 1), and consistently accounts for about 4 percent of Japan’s total annual trade. The commercial relationship is predicted to continue growing as Japan’s trade agreements with LAC nations generate new linkages. Japan maintains bilateral trade agreements known as economic partnership agreements (EPAs) with Chile, Mexico, and Peru, and will engage with these three countries and other nations along the Pacific Rim through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, or TPP11), which took effect on December 30, 2018, without US participation.

Though not of the same scale as other major LAC partners, such as China or the US, Japan’s trade relations with the region are nonetheless viewed as a critical and beneficial feature of the relationship, often in ways not captured by trade statistics. Many Japanese manufacturers use LAC investments to sell to third markets, for example, directly increasing the region’s exports. Also, Japan has worked for many years to integrate LAC industry into its global value chains (GVCs) through targeted investment and technical cooperation. These initiatives are supportive of both Japanese and LAC exports of manufactured goods.

Mexico is the most prominent example of Japan’s efforts to build industrial supply chains in LAC. In addition to extensive direct investment by Japanese auto manufacturers, such as Nissan, Honda, Mazda, and Toyota, Japan is also working to develop technical capacity in Mexico’s manufacturing hubs through training and other programs. In 2012, the Japan International Cooperation Agency (JICA), the country’s provider of overseas development assistance.


Japanese Engagement with LAC

3
development assistance, initiated a program to identify and increase the productivity among potential Mexican suppliers through training in Japan’s “kaizen” management practices, which promote continuous improvement of manufacturing processes. A second phase of the program will focus on the development of automotive “clusters,” including support for automobile industry associations, such as the Automotive Cluster of Guanajuato (CLAGTO), and technical education in automobile manufacturing hubs.

Efforts to expand local production capacity are also evident elsewhere in the region. Nissan recently announced a US$1.2 billion expansion of its plant in Brazil’s Rio de Janeiro state. Toyota completed a US$800 million expansion of its operations in Argentina in March 2019, boosting production there from 92,000 to 140,000 vehicles. Toyota has also worked in recent years to build markets across Central and South America as Brazil, its primary importer in LAC, experienced a protracted economic recession. Taking advantage of Mercosur’s trade arrangements, Japanese auto part firms are also investing in Paraguay to supply Japanese producers in Brazil.

Development assistance also remains a common feature of Japanese engagement with LAC, even though the region is not a top priority for JICA, which is tasked with Japan’s overseas aid. JICA is nonetheless committed to maintaining strong cooperative relations with a wide range of LAC countries. The organization provided upwards of $325 million to LAC governmental agencies in 2017, whether through technical cooperation, finance, or grants, according to its annual report. As incomes rise across the region, Japan is shifting from a traditional donor-recipient relationship toward a focus on technologically-intensive sectors in LAC, technology transfer, and skills development in a growing number of partner nations.

JICA also continues to focus on the agroindustry in Brazil and Chile and auto sector development in Mexico. Japanese assistance has contributed to the development of an extensive supply chain in Brazil’s Cerrado region, for example, including production of agricultural inputs and upstream goods and services.

Along with JICA, the Japan Bank for International Cooperation (JBIC) also offers a handful of loans to the region. JBIC has focused in recent years on extractive sector and infrastructure projects, but with a considerable focus on so-called GREEN Operations, which support energy efficiency and quality infrastructure development. In 2018, JBIC issued approximately $1.3 billion in finance to Argentina, Brazil, Central America, and Mexico. China, by contrast, issued just under $7.7 billion in development bank finance to LAC in 2018, $5 billion of which was given to Venezuela for oil-sector development. The remainder went to Argentina, Ecuador, and the Dominican Republic. Since the beginning of 2019, JBIC has announced finance for the expansion of the Los Pelambres Copper Mine in Chile.

**Emerging Economic and Geostrategic Considerations**

Despite a long history of overseas engagement, Japanese banks and companies are now finding themselves navigating exceedingly complex trade and investment environments, whether in LAC or other regions, amid seismic shifts in the global economic and geostrategic landscape.

On the one hand, support for the free flow of goods, services, capital, and ideas—a prevailing feature of international trade policy since the end of WWII—is under considerable pressure, including by one-time proponents of free and open markets such as the United States.

Global publics, including in the US, the United Kingdom, and other nations have expressed growing reservation about the benefits of free trade. The Trump administration, which seemingly shares these reservations, has fundamentally altered US trade policy over the past two years, including by launching a now year-long trade dispute...
The North American Free Trade Agreement (NAFTA), which has been a driving force behind Japanese cooperation with the Mexican manufacturing sector, was also reworked to include new provisions on agriculture and new rules of origin for the automotive sector. Some Japanese companies, such as Nissan Mexicana S.A. de C.V. and Honda De Mexico, S.A. entered Mexico long before the agreement existed, but many of the now 1,200 Japanese enterprises in Mexico were drawn to the region by NAFTA’s enlarged market and the Japan-Mexico EPA, which entered into force in 2005, and resulting supply chain configurations (see Figure 2).

Having benefitted from both bilateral and regional free trade agreements in LAC and other regions, Japan is actively gauging the effects of shifting attitudes on global commerce. Japan Minister of Foreign Affairs Taro Kono traveled to Mexico twice in 2018 to meet with Mexico’s Foreign Minister and Mexican Presidents Enrique Peña
Japanese automobile manufacturers are working closely with advisors to determine how best to proceed in the North American region.
TABLE 1. JAPAN’S POLICY TOWARD LAC
Source: Japan Ministry of Foreign Affairs, 2018.

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<th>2014 - 2018</th>
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<td>“Juntos!!”</td>
<td>“Juntos+” – Enhancing Japan-LAC Connectivity</td>
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they are also facing competition from China’s state-owned enterprises (SOEs), which are increasingly proficient at operating in LAC and other regions.

Other challenges stem from developments in LAC itself, although Japan has been remarkably steadfast in its engagement with the LAC region. Mitsubishi, Mitsui, Marubeni, Nissan, Sumitomo, and many other Japanese companies have maintained a presence in LAC despite economic downturns on both sides of the Pacific and troubling security environments in some LAC nations. Japanese firms such as Iusa (a subsidiary of Toyobo) and Insinca (a subsidiary of Toray) stayed in El Salvador throughout the country’s civil war, for example.14

Regional issues, including economic and political crises, and deteriorating security situations in some countries, are nonetheless challenging for Japanese companies. The LAC region finds itself at a moment of enormous change, wherein “the region’s ability to preserve its conquests and overcome its faults and limitations will be put to a severe test,” according to former President Laura Chinchilla of Costa Rica.15 In some ways these changes are hopeful and will promote more engagement from external actors. But other developments, such as the protracted humanitarian crisis in Venezuela, violence in Central America, and the region’s many corruption scandals, have unfortunate consequences for both local populations and Japanese and other foreign investors.

**Reframing the Relationship**

With these and other economic and geostrategic developments in mind, Japan has sought to both grow and reorient its approach to LAC in recent years. Initial efforts to convey Japan’s renewed interest to the region were evident in 2013, during then Japanese Foreign Minister Fumio Kishida’s visit to Mexico City, where he spoke of embarking on a “new voyage” with LAC marked by “enhanced cooperation for mutual prosperity.”16

Prime Minister Abe’s five-country tour of LAC in July and August 2014, the first in a decade by a Japanese head of state, further underscored Japan’s focus on LAC. While in São Paulo, the prime minister outlined Japan’s newest foreign policy agenda for the region. That speech, titled “Juntos!! Bringing infinite depth to Japan-Latin America and the Caribbean Cooperation,” suggested that Japan and LAC progress together (“progredir juntos”), lead together (“liderar juntos”), and inspire together (“inspirar juntos”), as well as enhance economic engagement and cooperate on regional and international affairs, social and economic development, and cultural exchange.17

Most recently, during his 2018 visit to Argentina, the Japanese Prime Minister announced yet another initiative to enhance connectivity between Japan and LAC. Built on the previously articulated “Juntos” policy, this policy upgrade envisions a relationship built on three “pillars of connectivity”—economies, values, and wisdom.
As regards economic connectivity, Japan imagines “progressing together” with LAC through mutual promotion of free and open economic systems, with emphasis on promotion of GVCs and quality infrastructure. Japan also envisions “leading together” with LAC on values connectivity by jointly supporting values-based and rules-based multilateralism. And knowledge connectivity is aimed at “inspiring together” through collaboration on the sustainable development goals (SDGs), employing innovative and evidence-based approaches to address regional development challenges.

“Progressing Together”

Amid growing global support for protectionist policy-making, “Japan remains firm in its commitment to open markets and global free trade,” according to Takahiro Nakamae, Director General for Latin America and the Caribbean at the Japan Ministry of Foreign Affairs, and is seeking partnership with like-minded countries in LAC and other regions to promote open economic systems. Japan will aim to create one of the world’s largest liberalized trade zones through a recently-orchestrated agreement with the European Union (EU). Japan also remains committed to its EPAs in LAC and globally, which incorporate facilitation, cooperation, and investment provisions, while seeking progress toward a series of new agreements. Japan negotiated its second bilateral trade agreement in 2005 with Mexico and signed EPAs with Chile and Peru in 2007 and 2012, respectively.

Tokyo began EPA talks with Colombia in 2012, but differences on tariff provisions have slowed their conclusion. However, if Japan becomes the first East Asian nation to achieve free trade agreements with all four Pacific Alliance members (Chile, Colombia, Mexico, and Peru), this provides a unique opportunity to both advance Japan’s own relations with the Pacific Alliance and to support intra-Pacific Alliance trade integration.

Japan has also been a major force behind TPP11, which includes Chile, Mexico, Peru, and seven other nations along the Pacific Rim. The plurilateral agreement, which represents a combined GDP of $10.6 trillion and annual trade valued at $5.3 trillion, will ideally open new avenues for LAC member nations to engage with Asia-Pacific countries, and Japan in particular. Even without the US, the agreement is expected to help safeguard the multilateral trading system, in which Japan and LAC nations have a considerable stake. This effect would be strengthened by US involvement at a future date—something that the Trump administration reportedly considered, but has since dismissed.

Although expectations are high among Japan’s corporate sector and authorities in Mercosur nations, the Japanese government has not yet officially taken a stance on FTA negotiations with Mercosur. A possible eventual EPA between Japan and Mercosur, along with growing convergence in trade rules between the Pacific Alliance and Mercosur, could nonetheless help to preserve open trade regimes, according to Mikio Kuwayama, research fellow at the Research Institute for Economics and Business of Kobe University, while making the LAC market a more attractive one to international investors.

In order to further strengthen “economic pillars of connectivity” with LAC, Tokyo is also working to mobilize public and private resources to build out LAC infrastructure. JICA, JBIC, and Nippon Investment and Export Insurance (NEXI) would all presumably play a role in this process, having already financed a range of infrastructure projects in LAC.

In addition to multiple government-backed initiatives, Japan’s private sector has also expressed growing interest in the region, with a focus on technology and infrastructure. Japan’s SoftBank plans to launch a $5 billion fund to invest in technology start-ups across Latin America, for example, noting the degree of “innovation and disruption” in the region and resulting business opportunities. Japanese firms are otherwise engaged in a wide range of investments in LAC, from the participation of Hitachi Ltd., Mitsubishi Corporation, and Nippon Koei Co.
Ltd. in the development of Line No. 3 for the Panama City Metro System to PS Solutions Corporation’s introduction of technologies for crop cultivation and monitoring.

“Leading Together”

The LAC region has historically had little relevance to Japan from a national security perspective, but according Director General Nakamae, this has changed as the world’s economic gravity shifts to the Asia-Pacific region, and as a result of “more diverse and dynamic engagement by global powers in the region.” In this context, Japan increasingly views LAC as a strategic partner in defending the rules-based international order, from which both Japan and LAC have benefitted.

The region’s strategic importance to Japan has also arguably grown in pace with China’s global rise. With China’s maritime claims and activity very much in mind, Japan, the US, and other nations have called for stronger protection of a free and rules-based maritime order. Although the LAC region is not directly involved in ongoing maritime disputes in Asia, Japan has noted the importance of policy dialogue with LAC governments on maritime governance, especially as China establishes an increasingly global presence, with numerous port projects ongoing in LAC alone. In order to protect freedom of navigation, “there may also be a need to improve maritime enforcement capabilities in the [LAC] region,” Director General Nakamae suggested.

In this sense, Japan’s newest connectivity-based policy toward LAC shares some common ground with the “Free and Open Indo-Pacific Strategy.” A still largely conceptual initiative supported by the Australia, India, Japan, and the US, the Indo-Pacific strategy is described as promoting quality infrastructure development and free and open sea lines of communication and airways, among other objectives, in the Indo-Pacific region.

The TPP11 is also largely aimed at reinforcing a rules-based order by upholding prevailing market economy conditions and the opportunities they bring for private enterprise throughout the Asia-Pacific region, including parts of LAC. Because China was not party to the TPP negotiations and is unlikely to meet its conditions in the foreseeable future—much less in light of Xi Jinping’s defense of SOEs—the liberalization agenda has focused for the time being on partnership with China’s neighbors and like-minded nations in the Western Hemisphere. But commitment among TPP11 signatories to favor inbound investment from private rather than public sectors could potentially alter the trajectory of Asian integration, especially if the agreement attracts new membership.
“Inspiring Together”

According to its newly articulated policy, Japan also aims to secure peace, stability and prosperity in the international community by means of development cooperation with LAC and other regions. Under its “Development Cooperation Charter,” which was upgraded in 2015, Japan will aim to achieve “quality growth” with developing countries by supporting “quality infrastructure” and sustainable development goals, among other objectives.

Japan’s focus on connectivity in LAC, as articulated by Prime Minister Abe in 2018, supports the application of shared (Japan-LAC) “wisdom” to address common development challenges, including natural disaster mitigation, aging societies, and a range of environmental and urban problems. Japan’s work in Costa Rica is emblematic of this approach. In addition to providing technical training for experts at the Costa Rica Electricity Institute (ICE), a state-run electricity and communications provider, JICA has provided low-interest loans to the organization to support geothermal energy development. Japan-Costa Rica energy sector cooperation accounts for a considerable share of Japan’s development assistance to Costa Rica since 2007 (see Figure 3). Japan also envisions cooperation with LAC nations on pressing social and economic issues through human resources development, academic and governmental engagement, and private sector collaboration.

Tokyo has additionally prioritized “triangular cooperation” in the region, wherein LAC recipients of Japanese development assistance share acquired knowledge with other LAC nations. Costa Rican teams are actively sharing information on disaster management in El Salvador and elsewhere, for example, after years of cooperation with Japan on the issue.

Crafting a “Model” Relationship

The LAC region has been a valuable partner to Japanese companies and the Japan’s government for over a century, in many cases. For a number of LAC countries, Japan is their oldest Asian partner. Japan also boasts a community of over 2 million Japanese descendants in the region, the result of state-supported migration of Japanese citizens to Brazil, Peru, Argentina, Paraguay, and other LAC nations. These historical ties have provided the basis for fruitful collaboration in recent decades.

Although Japan’s financial flows to LAC are generally smaller than those of other major partner nations, Japan’s long-standing ties to LAC, its decades-long commitment to the region’s economic development, and its enduring support for free and open markets will increasingly distinguish it from LAC’s other major economic partners. As former US Trade Representative Carla Hills indicated at a December 2018 event on Japan-LAC relations at the Inter-American Dialogue in Washington, DC, Japan’s constructive actions will serve as a model for the rest of the world at a time when understanding and appreciation of open markets and a rules-based order is in a state of decline.

FOOTNOTES


