

**Fujimori's Financiers: How Japan Became the Largest
Aid Donor in Latin America and Its Implications
for Future Economic Development**

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ABSTRACT

This paper analyzes the historical development of Japan's economic relationship with Latin America and describes trends observed in the short and medium term. The main types of relations examined are trade, direct foreign investment, and official development assistance. Emphasis is placed on how Japan's postwar economic development is mirrored in its changing relationship with Latin America. The importance of relationships for both Japan and the United States is discussed, as are competing broad theoretical hypotheses about the nature and evolution of these relationships. The concluding section explores the impact of the Asian economic crisis on Latin America and assesses the feasibility of free trade agreements between Japan and certain Latin American nations.

RESUMEN

Este trabajo analiza el desarrollo histórico de la relación económica de Japón con América Latina y describe las tendencias observadas en el corto y el mediano plazo. Los principales tipos de relaciones examinados son las comerciales, las inversiones extranjeras directas y la ayuda oficial al desarrollo. El texto enfatiza cómo la cambiante relación con América Latina refleja el desarrollo económico japonés de la posguerra. Se discute la importancia de las relaciones tanto para Japón como para los Estados Unidos así como las grandes hipótesis teóricas alternativas acerca de la naturaleza y la evolución de estas relaciones. La sección final explora el impacto sobre América Latina de la crisis económica asiática y evalúa la posibilidad de acuerdos de libre comercio entre Japón y ciertas naciones latinoamericanas.

I. Introduction

Economic relations between Japan and Latin America in the wake of World War II played a major role in the development of their respective economies. Japan is now Latin America's second largest trading partner, after the United States, and provides more economic assistance than any other nation, while Latin America supplies Japan with a high proportion of its oil, minerals, food, and other raw materials. However, these ties have not always progressed steadily and have been beset by difficulties resulting from different goals, philosophies, resources, and geographic and political constraints. Moreover, the consequences of these developments may have far-reaching implications for both economies, and may not yet be fully appreciated or understood by either Japan or Latin America.

Four questions need to be answered if one is to grasp the trends, risks, and future consequences of these developments for Japan and Latin America, as well as for other economic regions. They are:

- (1) What factors contribute to increased trade practices and policies between the two economies?
- (2) What factors impede this development?
- (3) How does the Japanese-Latin American trade relationship affect other trading partner relationships, namely with the United States?; and
- (4) What incentives and risks exist for Japan to enhance its trade with Latin America?

To answer these questions, the dynamics in the patterns of trade and capital movements will be examined, followed by an analysis of Japan's postwar economic policy vis-à-vis Latin America. This interregional relationship will be explored through the perspectives of three political economy paradigms: economic nationalism, neoliberal expansionism, and neo-Marxism. Using typologies developed by political scientist

Stephen Krasner, it will be argued that each political economy critique relates to a specific period of Japanese economic development and, in turn, Latin American-Japanese relations. Finally, the concluding section explores the impact of the Asian economic crisis on Latin America and assesses the feasibility of free trade agreements between Japan and certain Latin American nations.

This paper is confined by two major limitations. First, the analysis highlights post-World War II Japanese-Latin American relations and therefore excludes the rich partnership that existed between Japan and Latin America for several hundred years prior to World War II. Economic relations date back to 1613, when Date Masamune, a *sendai daimyo*, (the Warlord in the Sendai region) sent a trade mission to Mexico. This mission coincided with an intensification of Spanish trade in the region, where for two hundred years the silver piece of eight pesos and its smaller denominations—minted in Mexico City, Lima, and Potosi—was the standard currency for trading on the Chinese coast.¹ In excluding this era of history from analysis, the authors assume that the present-day economic relationships were not determined by events preceding World War II and Japan's rise to power throughout the late twentieth century. Second, this paper will focus more on the incentives for Japanese investment in Latin America rather than vice versa. Though more recently certain Latin American countries have begun exporting industrial products to the Japanese consumer market, as is the case with Brazil's export of small aircraft to Japan (Frischia 1992, 13), these trends became more prominent in the last decade and merit a separate analysis.

II. Japan's Economic Initiatives in Latin America

What does Japan gain, or hope to gain, through enhanced economic relationships with Latin American nations? We have identified at least nine incentives or motives. The primary incentive is to secure and develop a supply of natural resources in Latin America

for Japanese domestic use. Others prominent motives include: (2) the sale of Japanese products to Latin American consumer markets, (3) bank lending to Latin American nations through bilateral and multilateral assistance, (4) access to workers in Latin America, especially those of Japanese origin known as *dekasegi*, (5) the use of Latin America as a production base for export to third countries, primarily to the United States, (6) enhanced US-Japanese economic relations, (7) geopolitical security, (8) altruistic/humanitarian motives, and (9) maintenance of ties with Latin American citizens and residents of Japanese origin.

1. Japan's Interest in Latin American Natural Resources

The need to procure natural resources for Japanese economic security has been of central concern to policymakers in postwar Japan. Although today Japan uses 60 percent fewer raw materials to produce each unit of economic output than in 1973, Japan has virtually no domestic oil reserves, nor any substantial amounts of mineral deposits. It must import 87 percent of its primary energy needs and 66 percent of its grains,² all of its aluminum and nickel, 99 percent of its iron ore, 98 percent of its tin, 96 percent of its copper, 82 percent of its lead, and 69 percent of its needed zinc (Akao 1983, 16–17). Such a high dependence on foreigners for its supplies of energy and minerals led to the endorsement of a foreign policy known as *kaihatsu yunyu* (development import) (Horisaka 1993, 54). After the 1973 oil crisis, Japanese foreign policy adhered to the *kaihatsu yunyu* scheme to “provide capital and technical assistance to develop and process natural resources in recipient countries for their eventual export to either Japan or third countries” as Japanese economist Sukehiro Hasegawa notes (1975, 78).

As an important target in the *kaihatsu yunyu* strategy, Latin America not only offered basic resources, but developed—often with Japanese funding—those resources that were most in demand: crude oil, textile articles, and foodstuffs. In Chile, for

example, Japan financed the development of the Los Pelambres Copper Mine Project. The mine is scheduled to produce copper ore concentrate for at least thirty years and deliver half of this production to Japanese refiners, thereby supplying over 10 percent of Japan's demand for refined copper (Japan Export Import Bank 1998, 31). Though Chile's copper mines are among the largest in the world, Japan's economic security priorities require that it procure its raw materials from a variety of countries, including Malaysia, Indonesia, and South Korea. Nevertheless, diversification has often favored Latin America. For instance, Japan's investment in the Mexican and Venezuelan oil industries reduced its overreliance on Middle Eastern oil sources; a dependence that in 1978 was calculated at 74 percent of Japan's oil imports (Akao 1983, 16). Japan's interest in Latin America was therefore prompted largely by its economic need to both expand and diversify its foreign markets.

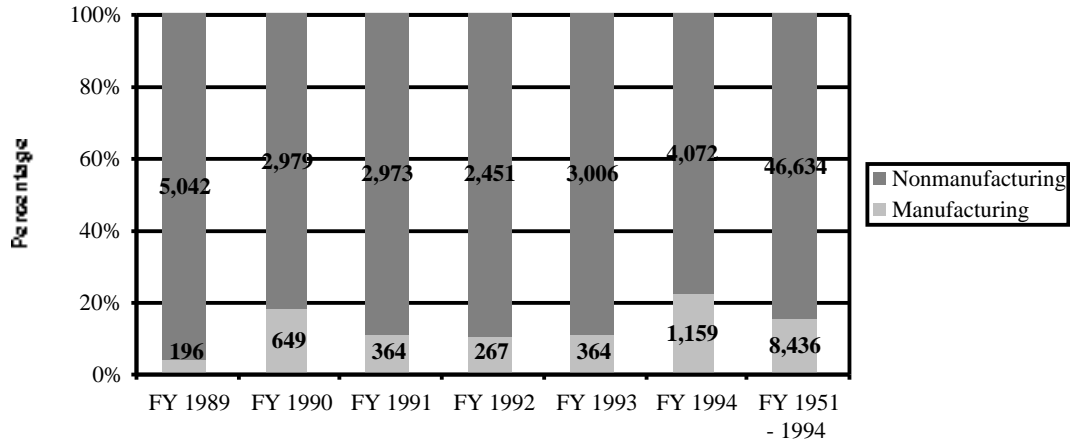
Today, Latin America is vital to Japan as a source of minerals such as iron ore, aluminum, copper, cotton, lead, and zinc (Farmer 1990, 330). Since 1992, oil imports from Latin American nations, mainly Mexico and Venezuela, have surpassed imports from the Middle East (Funabishi 1997, 152). Other major items that Japan imports from the Latin American region as a whole include foodstuffs, metals, textiles, lumber, fertilizer, and petrochemicals (Sistema Económico Latinoamericano May 1996). The three countries of Brazil, Chile, and Mexico accounted for 36 percent, 24 percent, and 15 percent, respectively, of exports to Japan (1994 figures; see Horisaka 1993, 53). For Chile, Japan is its largest market, consuming 16.6 percent of Chilean exports, from fish meal to refined copper (Nash 1993, D-1).

Japanese investments have not been limited to natural resource extraction; Japanese aid and foreign direct investment have supported a wide range of indigenous industries comprising manufacturing, transport, finance, insurance, agribusiness, and other nonmanufacturing activities. In fact, the proportion of nonmanufactured products

has dropped considerably as Latin America has increased its export of industrial products, particularly iron ore, steel products, and nonferrous metals. For example, some 350 Japanese companies are active in Brazil in such sectors as finance and manufacturing, especially in steel mills, metallurgy, automobiles, elevators, and printers (Ministry of Foreign Affairs of Japan, "Japan-Brazil Relations," 2). For this reason, Brazil recently ranked eleventh in the world as a target of Japanese direct investment, following such countries as the United States, Indonesia, and the United Kingdom. In a similar fashion, Brazil continues to market its exports in Japan and is now a major supplier of such advanced industrial products as small aircraft (Frischia 1992, 13). The significant increase in the manufacturing component of *Kaihatsu yunyu* (shows that Latin America's exports to Japan are particularly noteworthy, as they demonstrate the region's recent gains in comparative advantage, improved export promotion, and technological improvement (Frischia 1992, 13). While 17 percent of Latin America's total exports to Japan were composed of manufactured products in 1990, three years later the figure rose to 21 percent (Sistema Económico Latinoamericano May 1996). Nevertheless, the vast majority of Japanese funds earmarked for Latin America are aimed at the traditional mineral and oil extraction industries. Statistics from Japan's Ministry of Finance show that of the total Japanese direct investment in Latin America during the 1951–1994 period, only 15 percent of the funds went to manufacturing (see Graph 1).

The 1994 Uruguay Round Agreements of the General Agreement on Trade and Tariffs (GATT) opened more markets in Japan and led to an increase of Latin American exports. As a result of the GATT negotiations, Japan lowered its average tariff duties on Latin American imports to 4.6%. Duties on agricultural products were set at 3.7 percent, industrial products, 4.7 percent, and mineral products, 0.1 percent. These changes continued until 2000, when the tariff rate on industrial products fell to 1.7 percent (Sistema Económico Latinoamericano May 1996). Through the GATT negotiations,

Graph 1: Composition of Japanese Foreign Direct Investment in Latin America (millions of US\$)



Source: Ministry of Finance of Japan. Cited in Japan Ministry of Foreign Affairs, "Trends in Foreign Direct Investment of Japan."

Japan also agreed to reduce its tariffs on Latin American agricultural products by 36 percent over a period of six years beginning in 2000 and agreed to a complete tariff elimination on 381 agricultural goods. Considering that Japan's most important imports from Latin America are agricultural and mineral products, the elimination of import quotas and the reduction of tariffs in key sectors implied that the accords would amplify the economic relationship between Latin America and Japan (Sistema Económico Latinoamericano May 1996).²

However, competition from East Asia poses a threat to Latin American exports to Japan. A whopping 60 percent of Japan's imports from Asia are manufactured goods, indicating that region's economic superiority over Latin America as a source of Japanese purchases. This is a trend that will most likely continue. In fact, Asia supplied 47.6 percent of all Japanese imports in 1996, compared to only 2.3 percent from South America. In the same year, East Asia recorded a 19 percent increase in exports to Japan

compared to Latin America's rate of 14.7 percent (Sistema Económico Latinoamericano May 1996). The substitution of Asian goods for Latin American products is partly due to a Japanese aid policy that prioritizes aid to Asia over Latin America. In the 1980s, the Japanese government adopted its 7-1-1-1 policy, the goal of which was to have 70 percent of its aid go to Asia, with the rest evenly divided between the Middle East, Africa, and Latin America (Cox and Warrett, 1989, 12) Though East Asia still offers key advantages over Latin America, with lower shipping costs, advanced technology, and a strong Japanese multinational corporate community, Japan will continue to look to Latin America for raw materials, fuels, and agricultural goods.

2. Access to Latin American Consumer Markets

While Japan's primary interest in Latin America has been access to its natural resources, other benefits of the relationship to Japan have been more or less incidental to the primary objective, and related to specific historical contexts. In times of relative prosperity in Latin America, the Japanese found an enthusiastic market for its value-added products. While Japanese imports from Latin America were concentrated in raw materials, Japanese exports to the region were almost the opposite—95 percent industrial products, with motor vehicles, financial services, and electronics dominating (Frischia 1992, 9).

In terms of individual countries, Mexico is the largest importer of Japanese goods. During the 1980s, Mexican consumers purchased 16 percent of Japanese exports to Latin America, while Brazil purchased 11.6 percent (Horisaka 1993, 53). In specific sectors, such as automobiles, Brazil leads in purchases, importing 30.7 percent of its cars from Japan (Gazeta Mercantil Online 1996). Although Brazil and Mexico import from a wide variety of countries, import dependence on Japan, measured in terms of import share, tends to be higher for smaller economies that rely particularly on Japanese motor vehicle

and electronics imports. The Bahamas, for instance, imported 16 percent of their total imports from Japan in 1991; Colombia, 10.5 percent; Ecuador, 8.7 percent; and Paraguay, 8.7 percent of its imports from Japan (Frischia 1992, 14). For these regional economies, on average, eight cents of every dollar spent on imports would accrue to Japan (Peters and Sobel 1996, 8A).

With much of Latin America growing, and the Japanese economy eager to recover from its recession, Japanese exporters are still confident of finding Latin American consumers for their high-value-added products like machinery and technical equipment.

3. Bank Lending to Latin America via Bilateral and Multilateral Assistance

The close cooperation between business and government is evident in the Japanese philosophy of development, one that stresses national self-sufficiency over economic interdependence. This is reflected in its bias for loans over grants. In this context, Japanese aid has promoted the idea of “self-help” by the recipient. Japan has been quick to remind developing countries of its own rapid modernization process from the Meiji period (1868–1912) onwards, based on strong leadership and control, deliberate adaptation of Western industrialization, and an imperial expansion to support domestic economic growth. As a result, Japan justifies its low grant content through its own development experience (Rix 1993, 15). An official assistance report even stated that “Japan has some reservations about the prevailing belief in Europe and the United States that grants are better than loans. Japan’s own experience of the development process leads it to believe that self-help efforts can be better motivated by a repayment obligation” (Ministry of Foreign Affairs, “Japan’s Official Development Assistance,” 1989 Annual Report, 14 [cited in Friscia (1992, 45)]. Accordingly, Japan maintains the lowest proportion of grant aid among the top twenty donor countries; from 1996–1997,

39.6 percent of Japanese aid was in the form of grants, compared to the US proportion of 98.8 percent (Ministry of Foreign Affairs of Japan, “Chart 4”).

In addition, a large proportion (24.3 percent in 1989) of Japanese official development assistance (ODA) goes to multilateral assistance—in such institutions as the World Bank, Asian Development Bank, and Inter-American Development Bank (IDB) (Ibid). Japan quickly rose to become the largest single donor of ODA to multilateral agencies in 1987 (Emig and Yanagihara 1991, 44). In Latin America, Japan cofinanced two major World Bank policy-based lending packages: the Structural Adjustment Loan for Costa Rica and the Financial Sector Adjustment Loan for Bolivia. In another instance, the Export-Import Bank of Japan signed a cofinancing agreement with the IDB to commit US\$300 million to help Latin American countries privatize selected state enterprises. This program helped reduce government financial support for public enterprises as well as improve the environment for investment (*Journal of Commerce* 1991). Consistent support for the IDB prompted the 1995 opening of an office in Tokyo that maintains Japanese contributions to the bank at over one-third of the bank’s total financing (Ishibashi 1995, 15).

4. Access to Latin American Labor Markets

Periodically since the 1960s, Japan’s growing economy has been constrained by labor shortages. To alleviate some of this problem, the Japanese government has utilized Latin American laborers of Japanese origin known in Japan as *dekasegi*. In contrast to other nations that have experienced similar labor shortages and imported workers, Japan has traditionally discouraged permanent or even temporary immigration of foreign workers. Because many Japanese families migrated to Latin American countries before the 1920s, their offspring constitute a large pool of workers. The reverse migration of the *dekasegi* began in the early 1960s when Japan relaxed its immigration policies to allow

entrance of Latin American workers of Japanese descent to help build facilities for the 1964 Olympics in Tokyo. Japan forced these workers to return to Brazil when the task was completed. Nevertheless, since 1990, 220,000 of the 1.3 million ethnic Japanese in Brazil have moved to Japan. Such a migration has been responsible for making Brazilian-Japanese the third largest group of foreigners in Japan, after Koreans and Chinese (“Japan: Brazilians” 1999).³ But the *dekasegi* are rarely on safe ground, as the Japanese policy toward these workers closely follows cycles of the Japanese economy. When Japan has an ample supply of workers, many of the *dekasegi* are required to return to their countries of origin, and coercive measures are often taken to assure their compliance. However, they are invited back when labor shortages recur.

5. Latin America as a Production Base for Export to Third Countries

The fifth incentive for Japan’s economic relationship with Latin America is to use the region as a production base for exporting to third countries. By “piggy-backing” onto a Latin American country that enjoys certain trade privileges with another market, the Japanese producer shares many advantages of this agreement. The most notable example involves the North American Free Trade Agreement (NAFTA) and the Japanese-owned *maquiladora* operations along the US-Mexican border. Here, the products of Japanese companies are assembled more inexpensively by Mexican factory workers and are sold in the United States with a lower tariff than if goods were to come directly from Japan.

The incentives for Japanese investment in *maquiladoras* are threefold. First, the temporary American imports are free from Mexican taxes, and *maquiladora* industries are allowed duty-free import of raw materials, machinery, and equipment. Second, foreign investors are eligible for 100-percent ownership, a fact especially appealing to the Japanese. Several of the firms currently owned by Japanese investors were former state-run enterprises. It is worth mentioning that the reform measures of former Mexican

presidents Miguel de la Madrid Hurtado (1982–1988) and Carlos Salinas de Gortari (1988–1994), which were financed partly by the Bank of Tokyo and Fuji Bank, led to the selling and merging of more than 80 percent of the 1,155 state-run Mexican enterprises (Ozawa and Reynolds 1996, 112).

The third incentive for Japanese investment is that Japanese companies gain access to benefits under NAFTA, particularly lower tariffs. These attractive investment policies attract hundreds of Japanese firms to Mexico; Tijuana alone boasts 515 *maquiladoras*, with heavy investment from the Sony Corporation, with 5,200 employees, and the Sanyo Electric Company, with 4,500 workers. In sum, Japanese direct investment in Mexico forms a strategy to enhance its access to US markets, as Japanese investors look for cheap labor power, availability of raw materials, and industrial capacity.

6. Fostering US Ties by Facilitating US-Latin American Relations

Economic ties between Japan and the United States remain of crucial importance to both nations. Although in recent years, Japan appears to be acting more independently of US influence, as evidenced by Japan's support of Alberto Fujimori's 1992 coup despite US and German suspension of economic aid, Japan's relationship to several Latin American nations continues to be conditioned by the United States.⁴ A high-ranking official in Japan's Ministry of Foreign Affairs once noted that "25 percent of the Japanese diplomacy towards Latin America is practically directed to the United States" (Aoki and Ogura 1996, 29; cited in Matsushita 1998, 143). Japanese collaboration with US anti-Communist policies in the 1980s particularly showed the degree to which US interests framed Japanese policies. For example, after Nicaragua's Sandinista Revolution in 1979, Japan withheld economic aid to Nicaragua per the US government's request (Orr 1993, 148; cited in Matsushita 1998, 151). Thus, a sixth incentive for Japan to develop

economic relationships with Latin American nations is the attempt to satisfy some expectations of the nation that represents its most important market.

7. Geopolitical Security

Japan's interest in the Latin American region also reflects particular foreign policy priorities, namely the maintenance of geopolitical stability. Since Japan's military expenditure is restrained by Article 9 of Japan's "peace" constitution and by a self-imposed "under 1 percent of GNP" ceiling, its self-defense must come from means other than military hegemony, namely extensive economic alliances with other nations (Katada 1997, 933). To this end, Japan's ODA program has targeted Latin America for both political and economic reasons. On the crucial question of defense, the Japanese governments have supported the idea of aid as an acceptable substitute for defense spending. In this regard, Zenko Suzuki, a former prime minister (1980–1982), actively sought to increase aid as a substitute for military defense efforts and as a means to ensure comprehensive security (Farmer 1990, 326).

In addition, Japan looks to the United Nations as the major forum for its security policy. It has been seeking admission into the UN Security Council as a Permanent Member and can only achieve such a position through the support of many allies in the UN. By providing economic assistance to countries in Latin America and the Caribbean, such as Costa Rica and Jamaica, policy analysts, such as Saori Katada, argue that Japan hopes to create allies among developing countries in order to cultivate its way to the Permanent Member seat (Katada 1997, 933).

8. Altruistic/Humanitarian Motives

The last two incentives Japan has for improving economic relations with Latin American nations are motivated more by "personal" and "human" factors and are the product of Japan's values and unique history. In terms of ODA, Japan provides more

economic and other forms of assistance to Latin America than does any other nation. Japan's Ministry of Foreign Affairs recently explained the purpose of aid and diplomacy to Latin America:

The basic policy targets Japan has set in its diplomacy toward Latin America are to secure long-term stability, to help democratic systems and market economies take root, and to strengthen international cooperative mechanisms. Toward this end, Japan extends support to the "two D's"—Democracy and Development. That is, it provides aid to promote democratization in Latin America, and it cooperates in economic reforms aimed at building market economies. The conviction that has shaped this policy is that democracy and development are like the two wheels of a cart, that true peace and prosperity cannot be reached when only one wheel is turning (Ministry of Foreign Affairs of Japan, "Japan's Foreign Policy Toward Latin America").

The first "D" of development is represented by concessional credit and technical cooperation. Concessional loans are primarily concentrated in Brazil, Mexico, and Peru, while technical cooperation has been more prevalent in Bolivia, Brazil, Mexico, and Paraguay. Unlike other nations that may direct development funds to countries with higher per capita income—as is the case with US aid to Colombia, Turkey, and Egypt—Japan's grant aid policy contains a per capita income prerequisite for recipient nations. In 1995, the criterion for grant aid eligibility was that per capita income must be less than US\$2,785. Accordingly, this disqualifies the largest Latin American nations like Mexico, Brazil, Argentina, and Venezuela, and increases the proportion of bilateral aid to sub-Saharan African nations.⁵ More important, these prerequisites make the least-developed countries in Latin America, such as Nicaragua, Honduras, and Haiti, the largest recipients of Japanese aid.⁶ For example, in 1997 81.5 percent of total ODA destined for Saint Vincent came from Japan, followed by a Japanese share of 55.3 percent in the Dominican Republic, and 44.8 percent in Paraguay (Ministry of Foreign Affairs of Japan, "Chart 46"). Donations for postwar reconstruction and humanitarian assistance, usually for refugees and emergency relief, have been targeted to Central America. In

October 2000, Japan extended 5.26 million yen in emergency assistance to Panama (Ministry of Foreign Affairs of Japan, “Emergency Assistance to Panama”).

The second “D” of democracy consists in the dispatch of Japanese election observers to Latin America. The Japanese Ministry of Foreign affairs sent six observers (one Foreign Ministry official, three former Japanese Overseas Cooperation Volunteers [JOCV] members, two former special assistants at embassies) to the Nicaragua general election on February 25, 1990; four observers (all Foreign Ministry officials) to the El Salvador National Assembly election on March 17, 1991; fifteen observers (three Foreign Ministry officials, one local government official, 11 nongovernmental observers) to the El Salvador presidential, national, and local assembly elections in March and April, 1994; and four observers (secretaries from diplomatic posts in neighboring countries) to the Guatemala presidential preliminary and run-off elections in 1995 and 1996. Japan has also financially contributed to the Organization of American States (OAS) and UN election-monitoring operations in Central America (Ministry of Foreign Affairs of Japan, “Recent Trends in Japan-Central America Relations”).

9. Maintaining Ties with Latin Americans of Japanese Origin

Japan’s relationship with Latin American countries in which descendants of Japanese settlers reside is particularly strong. The first Japanese settlers arrived on Peruvian shores in 1899 with intentions of making money and returning to Japan. However, the majority stayed in Peru—of the original 6,295 immigrants to Peru, 5,158 were living there ten years later (Gardiner 1975, 29). Japanese migration to Peru continued steadily until 1923, when Japanese migration to Peru by contract was abolished (Ibid., 33). As for Brazil, the first group of Japanese immigrants arrived in Brazil in 1908, and were followed by a steady stream of Japanese until the 1950s. Japanese governments have remained committed to the Japanese diaspora. This can be seen in the preferential

treatment accorded to Japanese descendants in Latin America who apply for work visas in Japan. In addition, Japanese governments have funded several cultural centers. The Japan Cultural Center in São Paulo, Brazil, offers Japanese language and art classes to some of the 1.3 million Brazilians of Japanese descent (Ministry of Foreign Affairs of Japan, “Japan-Brazil Relations,” 1; the website of the Japan Cultural Center in São Paulo can be found at www.fjssp.org.br).

II. Japan’s Postwar Economic Development and Japanese-Latin American Relations

The evolution of postwar Japan’s economic interest in Latin America roughly corresponds to the historical stages of its economic development. Borrowing Stephen Krasner’s political typologies, later modified by T. J. Pempel, Japan’s rise to global economic power and growing influence in Latin America can be described by three levels of development.

In order of increasing political-economic power, the typology scheme consists of: (1) the “receiver” countries, (2) the “convulsional” countries and, (3) the “maker” countries.⁷ Over the course of Japan’s transition from reconstruction to the status of an economic giant in the postwar era, Japan has sequentially played the roles of “receiver,” “convulsional,” and “maker.”

As a “receiver” country, postwar Japan was mainly concerned about the rebuilding of its infrastructure and the securing of its access to foodstuffs and raw materials to expedite economic recovery from war. In the wake of economic reconstruction, “convulsional” Japan began to invest in Latin America, largely confined to less risky ventures and often to those that gave Latin Americans little discretion over the operation of Japanese-financed businesses. Later, as a “maker,” a more important

relationship with Latin America emerged: Japan started to invest large amounts in foreign direct investment, becoming the largest donor in Latin America.

It is interesting to note that ascendancy in Japan’s economic power status has been accompanied by changes in its ideological perspectives on international economic relations. Thus, in explaining Japan’s motives for seeking close economic ties with Latin America, three ideological perspectives can be advanced. Specifically, such paradigmatic political-economy concepts as economic nationalism, neoliberal expansionism, and neo-Marxism can be applied not only to evolving relations with Latin America, but also to the dynamics in Japan’s global power status. Table 1 below highlights the evolving relationship between Japan’s global status and its economic policy paradigm, corresponding to the distinct historical stages in the country’s economic development.

Table 1

Global Status, Policy Paradigm, and Stages in Development		
Global Economic Power	Corresponding Paradigm	Years
receiver (-)	economic nationalism	1946–60
convulsionary (+/-)	neoliberal expansionism	1960–75
maker (+)	neo-Marxism	1975–present

Building upon the framework above, the following sections detail how the relative level of Japanese economic development is reflected through the nation’s relationships to Latin America. Though elements of each paradigm extend across time periods, the broad trends in Japan’s relationship with Latin America are underscored. Moreover, the different approaches should not be viewed as competing, since each stresses different elements that become relevant as Japan’s political-economic power shifts. For instance, economic nationalism’s power lies more in explaining the motives of Japanese

government, whereas neoliberal expansionism aims more at its role vis-à-vis the market, and neo-Marxism stresses the question of Japanese ownership of resources and utilization of labor in Latin America.

1. Immediate Postwar relations (1946–1960 with Latin America: Nation-Building based on economic Nationalism

From postwar reconstruction up to the high-growth period of the late 1950s, Japan's main economic objective was to recuperate from a recession that had eroded Japan's prewar growth rates. The collaboration between corporations and society at large, under the common goal of state-building, characterized Japan's postwar economic policies. The chief proponent of economic nationalism in Japan, Yoichi Itagaki, believed that official development assistance and private investment should be geared toward export promotion. As a former consul-general of Japan in New York argued, "...the public and private sectors must work not as adversaries, but as partners in development...the donor government [Japan] should not hesitate to create opportunities for its business community to participate in aid programs" (Hanabusa 1991, 88–104.) Accordingly, Japanese economic nationalists regarded the safeguarding and promotion of national economic interests as the minimum requirement for the security of the state (Gilpin 1987, 31–32).

Equally important, proponents of economic nationalism valued national security over corporate wealth and competitiveness. The loss of Manchuria during the war reduced access to the region's vast natural resources and, in effect, converted Latin America into a crucial zone of importance. For instance, the repatriation of Japanese from Manchuria—an area that absorbed nearly a fourth of Japanese emigrants before 1941—created a serious problem of over-population after World War II, and forced Japan to endorse immigration to Latin America.⁸

In line with a nationalist approach, Japanese ODA to Latin America took the form of the so-called “national project.” According to Saori Katada, this scheme encompassed projects (a) that were directly related to the national interest, particularly with regard to natural resource security; (b) in which Japanese companies could participate as a group; and (c) that were supported directly or indirectly by governmental organizations (Katada 1997, 933). Such projects included a pipeline in Peru, steel complexes in Mexico, and agricultural and mineral developments in Brazil (Frischia 1992, 28).

Under the “national project” rubric, direct investments in Latin America were promoted via a triad of actors, consisting of the *sogo shosha* (Japan’s trading firms), the *keiretsu* firms (subsidiary enterprises attached to the parental corporations), and the Japanese government itself, which used capital to support and coordinate investment activities. The *sogo shosha* established offices in Latin America, controlled export operations, and organized large projects, while the *keiretsu* firms were manufacturing companies, banks, or groups composed of competing firms from the same industry. Within the context of the *sogo shosha* organization, the government played the third role, financing large infrastructure projects with official aid funds (Horisaka 1993, 65–66). The *sogo shosha* was instrumental in Japan’s investment in Latin America, as investors were allowed greater control over funds, lower risks, and new sources of raw materials for export to Japan.

The synergy between corporate interests and national priorities was manifest in Japan’s mercantilist aid policy toward Latin America. There is considerable evidence that proposals for projects (as well as decisive pressure for their acceptance) originated from Japanese corporations operating in developing countries. Frequently Japanese companies requested and even administered development projects. Commercial influences on aid policy did not stop with management of projects; Japanese companies were allowed to serve simultaneously as advisers to the governments of developing countries that were

seeking project funding from Japan and as guarantors to the ODA agencies that the projects would be completed. As one Liberal Democratic Party (LDP) politician characterized Japan's aid policy, "MITI [The Ministry of Trade and Industry] has always viewed aid as a means of benefiting Japanese companies, and this thinking still remains" (Yasutomo 1986, 69).

Ultimately, once the accelerated growth of the late 1950s made it possible for Japan to foster more investments and disburse more aid to the Latin American region, Japan's private sector collaborated with the state in striving for the common goal of nation-building under the scheme of "national projects." Japan's policy initiatives vis-à-vis Latin America during the period must thus be understood in the context of emerging national forces.

2. Neoliberal Expansionism (1960–1975) and Latin American Policy

During the first, "receiver", stage, Japan was mainly concerned about importing the natural resources required to sustain its economic security and satisfy the basic needs of its population. The subsequent neoliberal expansionist era (1960–1975) witnessed a stable Japanese economy more concerned with maximizing trade between Japan and Latin America rather than simply securing a base of natural resources. This transition from a "receiver" in world politics to a heightened position came at the heels of strong economic growth in the late 1950s and culminated with an explosive economic expansion in the 1960s. Hiroshi Matsushita of the University of Kobe notes that during the 1960s Japan's growth rates exceeded projected goals and aspirations; in only ten years the country was able to increase its per capita income by 100 percent (Matsushita 1998, 145). This growth was fueled by raw materials and petroleum imports from Latin America, as the total trade volume grew 15 percent annually in the 1960s (Frischia 1992, 9). The paradigm of "state-building" was replaced by "economy-building", as Japan prioritized

Latin American consumer markets over raw-materials procurement and the obtainment of a place for Japanese emigration.

The adoption of the *seikei bunri* (separation of politics from economics) policy best characterizes Japan's shift from a nationalist to a neoliberal approach in Japanese-Latin American relations. This policy originated in the 1950s to justify trade with communist China, despite the absence of diplomatic relations. To the chagrin of the United States, the *seikei bunri* policy was later extended to several other communist nations, Cuba among them, where Japan took advantage of the US embargo on Cuba. Again, while the United States disapproved of the actions of Arab countries, in 1973 Kakuei Tanaka's government in Japan assumed a "pro-Arab" stance to secure additional sources of oil (Frischia 1992, 14).

Ironically, the combination of the *seikei bunri* policy with Latin America's import substitution industrialization (ISI) strategy caused Japanese exports to grow by over 20 percent annually during the 1970s. Instead of becoming a target of protectionist infant-industry policies abroad, Japan emerged as the beneficiary of ISI by supplying equipment and technology to Latin America (Hollerman 1988, 99). For Latin America, the problem in pursuing ISI was that native firms were generally too small and inexperienced to withstand direct competition from northern exporters. Indeed, only a few Latin American countries could accomplish the first elementary phase of ISI, "the relatively easy substitution of domestically produced simple consumer goods for previously imported items" (Love 1990, 148). As some Latin American nations moved to the second stage—production of diverse final goods and their inputs—and the third stage—production of capital goods—they sought to emulate the technological prowess and economic self-sufficiency of Japan by heavily importing its machinery. While these Latin American nations acquired and/or upgraded existing machinery, they began to raise protectionist barriers to reduce foreign imports and give local firms "breathing space."

Such a strategy included the “deepening” of ISI—an attempt to develop manufacturing capabilities in such intermediate industries as steel and capital goods. Generally, these investments involved larger-scale commitments of capital and more sophisticated technologies than in consumer goods industries (Lairson and Skidmore 1997, 238). During the 1970s, Japan confidently lent to Mexico, Brazil, and other countries with little reserves to finance their increasingly expensive oil imports and machinery. In fact, during the 1970s and early 1980s, Japanese private banks made 70 percent of their developing country loans and 38 percent of their total international loans to Latin America. By 1982, Japan’s marked presence in Latin America was most evident by its share of private bank loans, as Japan attained a 16 percent share of all loans, compared to the US rate of 31 percent. Economist Blake Friscia reflects, “[t]his was quite impressive, given that the United States had much greater experience in Latin America and the relative newness of the region to the Japanese banks” (1992, 28). This optimism was in part due to the Japanese firms’ assumption that national projects were firmly backed by their governmental guarantees.

At the time of Latin America’s debt crisis in the early 1980s, Japan was the holder of 15 percent of Latin America’s total debts (US\$50 billion) (Farmer 1990, 332). With spiraling oil prices, mismanaged capital, and artificially supported exchange rates, economic conditions worsened and the region experienced severe capital flight, damaging Japanese investors’ confidence in the process. Between 1976 and 1984, for instance, Mexico experienced US\$54 billion in capital flight, Argentina, US\$28 billion, and Venezuela, US\$35 billion. Staggered by this predicament, Latin American nations continued to borrow, exacerbating the crisis and ensuring the loss of millions of Japanese yen in unpaid loans (Hall 1994).

Paradoxically, nonetheless, the ISI strategy’s inherent needs for technology, combined with increased Japanese financing to Latin America, made the region more

dependent upon Japan, resulting in Japan's emergence as an economic potentate in the region. In less than fifty years, Japan rose from postwar recovery to a veritable "hegemon" in Latin America.

3. Japan as a Hegemon in Latin America: Neo-Marxist Critique

By 1970, the almost equal economic footing on which Latin America and Japan stood in the immediate postwar era quickly shifted, as Japan's power in the region escalated into what several critics define as a "neoimperial" presence. In 1970, Japan imported more from Latin America than exported to the region (5.8 percent compared to 7.2 percent), but five years later, Japan exported 8.4 percent of its products to Latin America and imported only 4.3 percent of its total from Latin America (International Monetary Fund, *Directions of Trade Yearbook*, cited in Berrios 2000, 5).

Whereas Japan encouraged emigration of its population to Latin America in the immediate postwar era, during the 1980s Japan transformed into a labor-importing country. Between 1986 and 1989, 25,000 Brazilians of Japanese ancestry, or *dekasegi*, arrived to work in the assembly lines of automotive and electronics factories (Laumonier 1998, 199). This trend accelerated in the early 1990s, when the country witnessed an explosion of more than 85,000 new *dekasegi* workers over a three-and-a-half-year period. Economic opportunities were so prevalent in Japan and so inadequate in Latin America that during the 1980s and 1990s, half of the Peruvian *dekasegi* who claimed Japanese ancestry to receive working visas did so with falsified documents (Ibid., 209).

Spiraling Latin American debts, a growing presence of 100-percent Japanese-owned firms, and Japan's high proportion of tied economic aid, all engendered a change in public opinion regarding Japan's involvement. In some countries, such as Peru, Japan was even perceived as a more powerful presence than the United States. For example, in a 1992 survey conducted by the magazine *Apoyo*, responses to the question, "What ten

men have the most influence on the Peruvian government?” (“¿Quiénes son los 10 hombres de mayor influencia en el gobierno del Perú?”) included a few *nisei* (second-generation Japanese) and the Japanese ambassador, Nobuo Nishisaki (Andrade 1998, 183).

Table 2

Temporary *Dekasegi* Workers in Japan

	6/1991	12/1991	6/1992	12/1992	6/1993	12/1993	6/1994
Brazil	88,201	119,333	139,072	147,803	155,714	154,650	154,762
Peru	17,350	26,281	30,886	31,051	33,233	33,169	34,088
Argentina	3,105	3,366	3,331	3,289	3,199	2,934	2,860
Bolivia	1,021	1,766	2,265	2,387	2,652	2,932	2,994
Paraguay	900	1,052	1,188	1,174	1,166	1,080	1,130
TOTAL	110,577	151,798	176,742	185,704	195,964	194,765	195,834

Source: Department of Immigration of the Ministry of Justice of Japan. Cited in Laumonier (1998, 217).

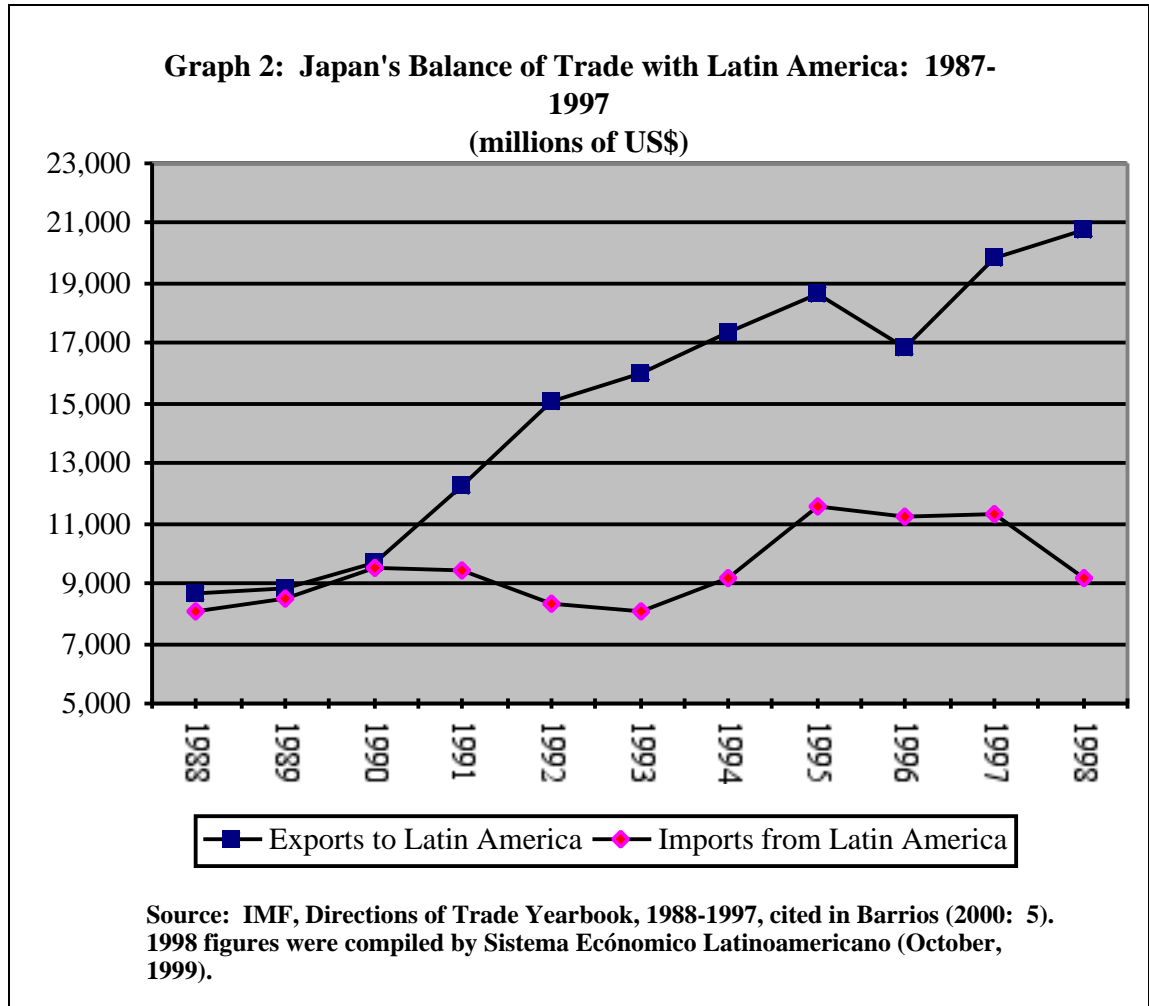
According to Matsushita, Japan’s transition from a “convulsionary” to a “maker” nation is best symbolized by Japan’s entrance into what was the G7 in 1975 (1998, 145). While Japan was primarily concerned with sending back profits to rebuild Japan during the “receiver” and “convulsionary” eras, Japanese businesses in the 1980s appeared more concerned with where to store the enormous amounts of money they had already made. Accordingly, the decade of the 1980s saw a changing composition in Japanese investment—traditional manufacturing investment coupled with the support of financial ventures in offshore Caribbean tax havens and flag-of-convenience shipping.⁹ The Bahamas, Cayman Islands, and Panama, for instance, recorded a gross increase in Japanese investment from US\$640 million in 1981 to US\$5 billion in 1988—a rise by a factor of eight (Frischia 1992, 19). The Cayman Islands alone recorded an astronomical

increase in Japanese investment from US\$1 million to US\$1.2 billion from FY1984 to FY1987. In sum, close to 90 percent of Japan's investment went to the offshore banking centers of these countries (Cox and Warrett 1989, 67).

In this context, it is worth noting that the relative importance of the Latin American region to Japan declined over the same period. This was caused by the shift in Japan's economic interest to Asian markets and the aggravation of Latin America's debt crisis. Although Japanese imports from Latin America during the 1980s rose by over 47 percent, this was less than the 65 percent increase in purchases from all countries. Overall, the Japanese share of exports to Latin America dropped from almost 7 percent of the world total in 1981 to only 3.4 percent by 1989. As multinational corporations developed new raw material sources in Asia, demands for minerals and fuels in Latin America decreased (Frischia 1992, 11). In addition, as if to prove the supremacy of the Japanese economy, while Latin American exports to Japan barely grew in the 1990s, the value of Japanese exports to Latin America almost doubled. Exports to Latin America jumped by US\$10 billion from 1990 to 1997, while the total value of exports from Latin America to Japan rose by less than US\$2 billion over the same time period, as shown by Graph 2.

As Japan emerged as a global superpower, the government increasingly politicized its relationship with Latin America. The 1983 annual yearbook of the Ministry of Foreign Affairs, known as the *Diplomatic Bluebook*, illustrates this reorientation: "Japan should assume a more positive role, including in the political sphere, to respond to what the world expects from us" (Ministry of Foreign Affairs of Japan 1983, 1; quoted in Matsushita 1998, 148). Japanese foreign policy toward Latin America shifted away from the "*seikei bunri*" policy of the neoliberal era and began to utilize economic assistance as a diplomatic sanction. During the 1980s, Tokyo withheld aid to Cuba for political reasons

and cancelled agreements with the Socialist Republic of Vietnam, Angola, and Afghanistan.



Critics of Japan's Latin American policy, in the context of Japan's rising trade surplus and creditor status in the region, viewed the extension of Japan's sphere of domination as inevitable. Neo-Marxist scholars in Japan further extended the dependency theory to include Japan as the "core" country that expropriates labor's "surplus value" and exploits the raw materials of "peripheral" Latin American nations. In this configuration, the core (Japan) draws first upon its own resources (limited), then begins

to industrialize the periphery to extract primary goods that form the “accumulated capital” necessary to drive the system (Kazuji 1974, 153). As Japanese neo-Marxist scholar Nagasu Kazuji put it:

...the whole manufacturing process that produces goods for re-export is carried out in Japan. We import only low-value-added minerals or agricultural products; the higher value-added manufactured products all accrue to Japan. A vertical division of labor recurs: they supply raw materials and we process them, they do the agriculture and we have the industry. (Ibid.)

According to this interpretation, Japan’s aid policy serves as a tool to perpetuate an asymmetric relationship between the proletariat and the bourgeoisie in recipient countries. Kazuji states, “[w]e in Japan are all too prone to forget that the elite benefit from economic aid and cooperation, but the masses languish in their impoverished misery” (Ibid.). Thus, the “labor exploitation motive” has been seen as another important reason for Japan’s overseas investment. As Japanese wages rose, Japanese investors had all the more reasons to invest in low-wage developing countries (Kazuji 1974, 156). *Maquiladoras* along the US-Mexico border epitomize this production process of using low-wage Mexican labor, Japanese technology, and a strategic point of entry into US markets.¹⁰ The plants, most of them established on the US border, assemble components from Japanese joint ventures in the US and re-export the products to the home plants, which apply the finishing touches before putting the end result on US markets. In one typical case, the Furukawa electronics company and United Technologies of Detroit established an auto parts plant in Ciudad Juarez. This plant manufactures electrical systems for cars made at the parent plant, located in El Paso, Texas (SourceMex 1994, 2). In 1996, these firms and other Japanese-owned *maquiladoras* employed approximately 40,000 Mexican workers, with firms such as Sony and Matsushita employing more than 5,000 workers each (Kenney and Goe 1998, 269).

A vivid example of Japan's pursuit of capitalist hegemony in the region can be seen in their support of Peru's Alberto Fujimori in 1990. Soon after the installation of the Fujimori government, Japan welcomed the new regime with an increase in US\$257 million in Japanese ODA.¹¹ In the view of the Peru-based *Tupac Amaru Revolutionary Movement* (MRTA),¹² the Fujimori regime exemplified the Japanese attempt to dominate the region by supporting business elites. Japan also suspended economic aid following the rise of the Sandinistas in Nicaragua, where socialist "pro-poor" policies were being implemented. As mentioned above, less than 40 percent of Japanese aid is untied (Ministry of Foreign Affairs of Japan, "Chart 4").

III. Prospects for Japanese-Latin American Economic Relations

Drawing upon recent economic experience, future economic trends between Latin America and Japan may be delineated. As the Latin American region started to recover from the debt crisis and rebuild in the 1990s, Japan took advantage of renewed opportunities for trade and investment, as evidenced in its increase of direct investment from US\$364 million in 1993 to US\$1.1 billion in 1994 (Japan-Latin American Economic Relations, 9/3/98). In the late 1990s, the outbreak of the Asian economic crisis in 1997 began to adversely affect the financial markets of Brazil and other countries in Latin America.¹³ Japanese exports to Latin America fell by 2.3 percent in 1998, to a total of US\$20.78 billion, while Japanese imports from the Latin American region shrank by a hefty 20.8 percent, amounting to US\$9.16 billion (Sistema Económico Latinoamericano October 1999). Nevertheless, the fallout of the Asian economy did not affect Latin America as negatively as anticipated.

Latin American markets, as a whole, weathered the Asian crisis remarkably well, with a 5.5 percent GDP growth rate recorded for 1997 and a 5.2 percent growth in imports in 1998 (Ibid.). This can be attributed largely to the vast restructuring of Latin

American banking systems and financial market reforms undertaken during the late 1990s.¹⁴ Undoubtedly, the “cleaning up” of the banking system and attendant financial reforms have attracted foreign investment, including that from Japan. Thus, even throughout the Asian crisis and the prolonged economic recession in Japan, Japanese investments continued, attracted by growing trends in deregulation, privatization, and macroeconomic stability in the region.

The unified regional economies, particularly the North American Free Trade Agreement (NAFTA), *Mercado Común del Sur* (MERCOSUR), and the proposed development for the Free Trade Area of the Americas (FTAA), are expected to contribute to economic growth in the region. In terms of access to natural resources, consumer markets, and a production base for export to US markets, these developments create a large opportunity for Japanese investment. Terusuke Terada, Japan’s former ambassador to Mexico, summarizes the attraction of Japanese businesses to Mexico, a country that has “...three great fortunes, the first one is to be part of the North American Free Trade Agreement, the second one is to be part of the Asia-Pacific region, and the third is to be Latin American” (Notimex 1997).

In conclusion, Japan’s economic relationship with Latin America shows a mixed future. On the one hand, continuing high poverty rates in Haiti, Nicaragua, and Guatemala ensure that Japan will be needed for humanitarian aid and economic development programs. As the United States reduces its foreign aid budget and the World Bank wrestles with Latin America’s debt, Japan is an even more important source of investment and foreign aid for Latin America. To this extent, it would serve much the same role as it does to several developing nations in sub-Saharan Africa. However, for the more developed countries in Latin America, such as Mexico, Chile, and Brazil, their economic relations with Japan are predicted to strengthen. Indeed, the current free trade negotiations between South Korea and Chile may provide the future framework for a

Japan-Mexico free trade agreement. Although an ocean apart, these two regions will continue to grow closer as long as Japanese multinationals extend their networks abroad and Latin America maintains economic stability and growth.

Endnotes

¹ Richardson 2001. Other significant pre-WWII events between the two regions include the signing of the *Japan-Mexico Treaty of Amity, Commerce, and Navigation* (1888) and the sale of two Argentine battleships for use by the Japanese Navy in the Russo-Japanese War. See Ministry of Foreign Affairs of Japan, "Amigos Across the Ocean."

² The information detailed in the Sistema Económico Latinoamericano was taken from GATT Secretariat, "Trade Policy Review Mechanism-Japan," March 7, 1995.

³ See also Simon Romero, "Brazilians Work Their Way Back to the Ancestral Home," *New York Times*, October 16, 1999. "Foreigner Wins Racism Case," *Mainichi Daily News*, October 13, 1999, "Court orders Damages in Discrimination Case," *Japan Economic Newswire*, October 12, 1999.

⁴ On April 5, 1992, Fujimori suspended the constitution, dissolved Congress, and fired half of the country's top judges, thereby concentrating all the state's powers in his hands.

⁵ Since many of these countries are highly indebted, Japan makes an exception to the GNP per capita standard if a country's debt to service ratio is higher than 25 percent. Cited in Berrios (2000,12).

⁶ The evidence for this policy can be found in Central America, where Honduras has become the largest recipient of Japanese economic aid. Between 1989 and 1993, Japan sent US\$1.1284 billion to the region, of which \$654.3 was in the form of donations and \$474.1 in loans (*La Nación* 1996).

⁷ The typologies developed by Stephen Kransner and Pempel were applied to the case of Japan in Matsushita (1998, 144).

⁸ Pressure from Japan to accept immigrants to mitigate its postwar population boom was applied to several Latin American Nations. As a result of such pressure, Paraguayan President Alfredo Stroessner inaugurated a plan to attract one million Japanese to Paraguay in August 1954. See Matsushita (1998, 146).

⁹ Investment in Panama, for example is represented by flag-of-convenience shipping and financial services from the 1,300 Japanese companies that are registered in Panama mainly for tax reasons. See Horisaka, 1993.

¹⁰ Beyond the *maquiladoras* along the US-Mexico border, Japanese influence has spread from a cellular telephone manufacturing plant in Guadalajara to a zinc and copper joint mining venture in México state to a golf course in the resort of Cancun. Most recently, the increased popularity of beer in Japan has prompted investment the Mexican brand Tecate, produced by Grupo Femsa. Today it is among the top-ten selling beers in Japan. See Gabriel Székely.

¹¹ Japanese aid to Peru rose from US\$95.21 million in 1990 to US\$352.85 in 1991. Source: La Sociedad Latinoamericana. 1997. "Chunanbel shokoku yoran." Cited in Matsushita (1998, 164).

¹² The MRTA seized the Japanese embassy in Lima on December 17, 1996, holding the embassy for 126 days, until Peruvian military commandos killed all fourteen MRTA members.

¹³ On October 9, 1998 the Tokyo Stock exchange reached its lowest value during the crisis (12,880). Its peak in the 1990s was June 28, 1996 (22,531), well below its historic high (38,916, - on December 12, 1989), coinciding with the zenith of the so-called "Speculative bubble," at the end of the 1980s (Sistema Económico Latinoamericana October 1999, footnote 7).

¹⁴ According to a survey of 159 Latin American banks, solvency ratios and liquidity indicators showed gradual improvement during the 1990s, especially during the period 1994. Cited in Sistema Económico Latinoamericano, June 1998.

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