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JAPAN FACING A NEW LATIN AMERICA

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Japan today faces a Latin America completely different from the one it knew ten or fifteen years ago. The old Latin America was a continent of hyper inflation and turbulent economics. It was rife with political instability, fluctuating between military/autocratic regimes and moderately authoritarian ones. Internationally, the region was subject to the strong influence of the United States and U.S.-dominated international and regional organizations. The new Latin America is more

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self-affirmative. It is more stable and prosperous economically and more democratic politically. But Japan itself also has changed. Its economic ascendance has tapered off while the importance of China and other Asian countries has expanded markedly. Consequently, Asia-Latin America economic relations, once monopolized by Japan, have diversified. In the face of these transformations on both sides, Japan is being compelled to readjust its relationship with Latin America.

Latin America was an important trade and investment site for private Japanese companies before the accumulated debt problem erupted in 1982. Assistance to those private initiatives, along with consideration for the significant number of ethnic Japanese residents in the region, was among the major objectives of Japanese diplomacy. In most instances, however, Japan had little latitude and was constrained to support the anti-Communist policy of the United States, which meant limiting or refusing official development assistance (ODA) to leftist governments.

During Latin America's "lost decade," the interest of private Japanese companies in Latin America declined significantly while the presence of the Japanese government expanded through the recycling of \$5.6 billion in foreign reserves to alleviate the countries' debt burdens and through the provision of generous official aid for post-conflict reconstruction in Central America. The share of Japan's ODA to Latin America, which was a mere 6.0% in 1980, increased to 8.1% by 1990 and reached a peak of 11.8% in 1996. By contrast, Japan's exports to Latin America declined from 6.4% of its total exports in 1980 to 3.4% in 1990. The stock of Japanese direct investment in the region went from 14.7% of global Japanese investment to 13.0% between 1980 and 1990.

Latin America started to show its new face in the course of the 1990s and the transformation became even clearer in the new millennium. With only a few exceptions, countries of the region have come to have historically low inflation rates. Helped in part by this price stability and in part by high export prices for their natural resources, their growth rates have increased. Furthermore, relatively healthy conditions in external and financial sectors limited the adverse effects on them from the recent global financial crisis. The

Brazilian economy has demonstrated especially dynamic development, as a result of which Brazil, together with Mexico and Argentina, has been invited into the G-20.


Now confident of their actual and potential capacity, Latin American countries have launched autonomous regional initiatives. ALBA (Bolivarian Alternative of the Americas) was created by Venezuela and Cuba in 2004 as a leftist anti-U.S. organization. In the same year, the heads of the South American governments agreed to form an EU-like entity. The latter initiative, strongly endorsed by Brazil, materialized in 2008 as the UNASUR (Union of South American Nations) Constitutive Treaty, with former Argentine president Nestor Kirchner elected in 2010 as its first Secretary General. The Latin American inclination toward autonomy is being matched by a conciliatory posture on the part of the United States. Due to the end of the Cold War and to the spread of U.S.-favored market economies and democracies in Latin America during the 1990s, U.S. strategic concern in the region had declined even before President Obama changed his predecessor's unilateral stance and adopted a multilateral and more compromising policy toward Latin America.

This transformation of U.S.-Latin American relations broadened the space for autonomous Japanese diplomacy. Ironically, however, the decline in Japan's economic power narrowed its policy tools. Japanese ODA to Latin America has declined in both absolute and relative terms, down from the peak 11.8% share in 1996 to only 3.9% in 2008. This decline is equally attributable, however, to improvement in the per capita income of many Latin American countries, some of which – Brazil, Argentina, Mexico, Chile – are now Japan's partners in offering assistance to less developed countries in Latin America and Africa. A prime example of this is the Japan-Brazil joint assistance project for the development of savanna agriculture in Mozambique.

Compensating for the retreat of the public sector, Japan's private sector is reinvigorating its relations with Latin America. The Latin American share in Japan's exports improved to 5.0% in 2008 from 3.4% in 1990. The Latin American share in Japanese direct investment (stocks) expanded from 8.5% to 13.3% between 2005 and 2008. New investment is noticeable in the mining

sector, partially due to competitive pressure from Chinese investors. According to the annual enterprise survey conducted by the Japan Bank for International Cooperation (JBIC), Brazil and Mexico have become increasingly popular among Japanese companies as local market-oriented production sites.

The increased importance of private initiatives does not exclude a role for the public-sector in high-tech sectors, as is attested by the successful promotion of the Japanese digital broadcasting system by the public broadcasting corporation NHK in competition with U.S. and E.U. systems. Most South American countries, including Brazil, Peru, Argentine, and Chile, have adopted the Japanese system. This will enhance business opportunities for Japanese companies in the electric, electronic, and ICT sectors.

The Latin America that Japan faces today is a new incarnation, with a vibrant economy, an enduring democracy, and an autonomous regionalism. This puts Japan-Latin American relations more certainly on an equal and more business-like footing than they were a decade or more ago. 

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