Mexico Greatly Expands Economic Relations with Japan

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Category/Department: Mexico
Published: 1994-11-16

In an attempt to increase economic relations with Japan, President Carlos Salinas de Gortari's administration has launched a dual strategy over the past three years. On the one hand, the government has sought to increase direct Japanese investment in Mexico, while on the other hand, the government has aggressively attempted to boost Mexican exports to Japan to reduce Mexico's trade deficit with that country.

The strategy to attract more direct investment appears to be succeeding, since the number of Japanese companies establishing direct operations in Mexico has increased significantly in recent years. According to El Financiero International weekly business newspaper, Japan has become Mexico's fifth largest source of foreign investment, accounting for 4% of the total funds brought into the country. Trade and financial analysts suggest the investment strategy is mutually beneficial to the two countries, since Mexico gains a new source of foreign capital while Japanese companies gain access to benefits under the North American Free Trade Agreement (NAFTA) through lower tariffs.

Japanese companies invest in Mexico
Electronics companies such as Mitsubishi, Panasonic, Kenwood, Hitachi, Sony, and Toshiba have either established new facilities in Mexico or announced plans to expand existing plants to supply the US and Canadian markets. In the process, the Japanese companies have helped create new jobs in Mexico. Because of rules of origin regulations under NAFTA which call for the setting of tariffs based on the percentage of North American content Japanese manufacturers are encouraging their suppliers to establish operations in Mexico. This year, for example, the Japanese automobile parts companies Yoruzu and Nippon Denso announced plans to construct facilities in Mexico to supply Mexican assembly operations for Nissan and Toyota.

According to El Financiero International weekly business newspaper, Japanese companies have also invested in other sectors, ranging from the construction of a cellular telephone manufacturing plant in Guadalajara (electronics company NEC) to a zinc and copper joint mining venture in Mexico state (mining concern Dowa) and a golf course in the resort of Cancun. The construction of the golf course in Cancun which is run as a partnership between Aoki Corporation and industrial bank Nihon Cogyo Ginco underscores the opportunities in the tourism sector for Japanese investors. The Aoki Corporation is also the principal investor in the Caesar Park Hotel in Cancun.

The Japanese government is helping finance some of the large-scale projects in Mexico. Roughly 50% of the financing for construction of the Caesar Park Hotel was provided by Japan's Export-Import Bank. The Bank also provided financing for Nissan to expand its Aguascalientes facility. The Japanese private banking sector is also expected to help finance Japanese investments in Mexico. For instance, two Japanese banks that recently received approval from the Finance Secretariat (Secretaria de Hacienda y Credito Publico, SHCP) to operate in Mexico are expected to direct most of their loans to Japanese companies or Japanese-Mexico conglomerates doing business in Mexico.
Two Japanese banks the Bank of Tokyo and Fuji Bank, are among 18 foreign banks that are expected to begin operations in Mexico during the first half of 1995.

"Our strategy is to concentrate our resources on Japanese companies of all sizes that want to do business in Mexico," Tomomi Taguchi, representative for the Bank of Tokyo in Mexico City, told the Journal of Commerce. "Our second tier strategy will be to finance Mexican companies which have business ties or some other connection to Japan." The Japanese government is also encouraging Japanese companies to begin exporting products from Mexican plants back to Japan, in order to help reduce the large Japanese trade surplus with Mexico. Most prominent among these companies is Nissan, which last year initiated exports of Tsubame models from Aguascalientes to Japan.

Notwithstanding the drive to boost exports, the wide Japanese trade surplus with Mexico is expected to continue for some time. According to the Mexican Trade Secretariat (Secretaria de Comercio y Fomento Industrial, SECOFI), Japan held a trade surplus of US$2.4 billion with Mexico in 1993. This contrasts with a surplus of US$230 million Mexico had with Japan in 1989, the first full year after President Salinas took office.

Despite the continuing trade imbalance with Japan, Mexican officials remain encouraged by the potential for increased exports of Mexican products to that country. In a speech to an industry group in October, deputy trade secretary Pedro Noyola optimistically reported a 42% increase in Mexican exports to Japan so far this year, although he did not offer specific statistics on volume and dollar amounts. According to SECOFI, Mexico’s exports to Japan last year included US$465.4 million in crude oil, US$86.9 million in salt, US$31.5 million in automobiles, US$34.2 million in silver ingots, US$24.3 million in squash, US$23.1 million in pork, and US$18.8 million in television sets.

**Mexican beer in demand**

Noyola acknowledged that motor vehicles and crude oil remain the largest exports to Japan, but said agricultural products, processed foods, electronics, and minerals are increasingly finding new markets in Japan. In fact, according to SECOFI, exports of agricultural, food, and beverage products to Japan are especially promising. For example, exports of fresh asparagus during January-June were 60% higher than a year ago, while shipments of frozen vegetables had risen by 150%, coffee by 364%, and liquor by 213%. Indeed, according to Tendencias, an economic magazine published by Grupo Expansion, beer is becoming a popular Mexican import in Japan. The Mexican brand Tecate, produced by Grupo Femsa, for instance, is now among the top 10 selling beers in Japan.

Mexican beer sales entered the Japanese market in 1987, with the introduction of specialty Corona Extra, produced by Mexico's other large brewer Grupo Modelo. Toshihiro Takahashi, director of a distributing company that has an agreement with Femsa, said Mexican beer manufacturers have been able to take advantage of an overall growth in popularity of beer among Japanese consumers in recent years. According to Takahashi, overall beer imports now average between 24,000 and 32,000 boxes, compared with only 2,000 to 3,000 annually just a few years ago. Sonora is one of the states that appears to be drawing the greatest benefits from increased agricultural exports to Japan. According to Carlos Iberri Marquez, director of a squash producers organization in Sonora state, local farmers are expected to harvest about 12,000 metric tons of sweet squash per hectare this year,
all for export to Japan. In addition, hog producers in Sonora are expected to export about 5,000 MT of pork cuts to Japan this year, earning about US$25 million in revenues.

Alfonso Tapia Abascal, an official with the State Union of Pork Producers, said Sonora is the largest single source of Mexican pork exported to the Japanese market, even though six other states are also major hog producers. For his part, Jorge Mazon Rubio, president of the National Agricultural Council (Consejo Nacional Agropecuario, CNA) in Sonora said demand in Japan for Mexican pork this year has stabilized at last year's levels, but exports are expected to increase during 1995.

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