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Latin America and Japan's Lost Decades

– The Emergence of China and the Republic of Korea –

Introduction

This paper discusses Japan's decline and the emergence of China and the Republic of Korea (hereafter referred to as South Korea or simply Korea following commonly used notations in Japan), in the sphere of economic relations with Latin America and Caribbean countries (hereafter referred to as LAC) in the 21st century. As the leading industrialized country in Asia and the world's second-largest economy until the 1990s, Japan played a vital role as the foremost trade and investment partner to Asian and LAC. By 2010 however, sustained rapid economic growth saw China's Gross Domestic Product (GDP) surpass that of Japan, thus seeing China displace Japan to become the world's second-largest economy after the United States of America (hereafter the US). South Korea has also been catching up to Japan quite rapidly. Korea's per capita GDP (\$30,000) has almost equalled Japan's (\$31,000). According to the Human Development Index (HDI), Korea now occupies the 11th position, just one place behind 10th-placed Japan (UNDP [2018]).

The ascendancy of China and South Korea is not limited to the economic sphere. As shown in the latest issue of Times Higher Education's (THE [2019]) ranking of the world's top 200 universities, 7 Chinese and 6 Korean universities made it into the ranking while only two Japanese universities – Tokyo University and Kyoto University – featured in the rollcall. According to Scimago Institutions Rankings, China is now second only to the US in the ranking of countries whose universities appear most in journal citations. Japan sits at the fifth position (SCIMAGO [2019]).

Worthy of mention, Japan holds an excellent record for the number of Nobel Prizes, having produced 27 Nobel laureates in the fields of physics, medicine, and engineering. Also in this prestigious league are Japanese born in Japan but who also identify with other nationalities. Given China's advances, particularly in the natural sciences, one could speculate that in no distant time, Chinese researchers will clinch more Nobel Prizes to close the distance with their Japanese counterparts.

Most Japanese were shocked by an article titled "Heisei era was an age of defeat", published in a widely circulated monthly magazine. The author is one of the leading business leaders and Chairman of Keizai Doyukai (Japan Association of Corporate Executives) (Kobayashi [2019]). He provided a simple table showing the ten largest companies in the world and market capitalization ranking (see Table 1).⁽¹⁾ As the data reveals, until 1989, Japanese companies occupied 7 out of the top 10 spots for the world's largest companies. By 2019, no Japanese company featured among the top ten.

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Table 1 Top 10 Market Capitalization (MC) Rankings, 1989 and 2019 (Billion dollars)

1989			2019		
Company	MC	Country	Company	MC	Country
NTT (Nippon T&T)	164	Japan	Microsoft	905	US
Industrial Bank of Japan	72	Japan	Apple Inc.	896	US
Sumitomo Bank	70	Japan	Amazon.com	875	US
Fuji Bank	67	Japan	Alphabet Inc.	817	US
Daiichi Kangyo Bank	66	Japan	Berkshire Hathaway	494	US
IBM	65	US	Facebook Inc.	476	US
Mitsubishi Bank	59	Japan	Alibaba group	469	China
Exxon	55	US	Tencent	438	China
TEPCO ⁽²⁾	55	Japan	Johnson & Johnson	372	US
Royal Dutch Shell	54	UK	Exxon Mobil	342	US

Notes: Market Capitalization refers to the total value of a company's shares on a stock market.

Source: Bloomberg, Business Week 1989/7/17, The Week Global 1000.

The business model in the 1980s, which featured much larger firms, gave eminence to Japan's financial sector and boosted its global dominance. From the 1990s, however, most of the major firms went into bankruptcy that compelled mergers and acquisitions that shrank rather than expand their influence. For example, due to bankruptcy, the Industrial Bank of Japan merged with the Fuji Group (now called Mizuho FG: Financial Group). Sumitomo Bank merged with Mitsui Bank (now called Sumitomo Mitsui Banking Corporation). The most powerful of them, Mitsubishi Bank, merged with some other banks to become MUFG Bank, Ltd. Thus, Japan's financial sector, which once was a dominant force in the global economy, has shrunk considerably.

SONY, once a leading company in the manufacture of audiovisual products, and who invented the WALKMAN, has now transformed into a Game Entertainment company, losing competition in the rapidly growing market of Tablet-type devices and smartphones. Electric company SHARP was acquired by a Taiwanese company Hon Hai Precision Industry Co. or FOXCONN group in 2016. TOSHIBA that once was among the leading manufacturing companies in Japan is rebuilding its business.

TOYOTA Motor Corporation appears to be the only company that maintains some level of global competitiveness. Japan's declining global economic influence is a great concern for Japanese people as a significant share of the country's revenues come from the automobile and parts manufacturing industry which accounts for about 30% of all of Japan's visible goods export. In this sector, South Korea has been catching up quite successfully, too. Overseas markets, particularly Central America, that were once dominated by Japanese automobiles, now see a growing influx of South Korean cars such as KIA and Hyundai brands that were nonexistent four decades ago.⁽³⁾

As shown in Table 1, internet-related technology has created mega-firms that now constitute a leading global industry. The majority of companies in this industry are American famously known by the abbreviation AGFA. Two Chinese companies listed among the top 10 in the industry, Alibaba and Tencent, do not only model their business after their American competitors, but they also give the Americans a run for their money. Japan, known for its innovations in internet and computer technology until the late 1980s, has surprisingly been far less dominant in this industry. This paper thus asks the question: why is Japan rapidly losing its economic dominance, particularly in LAC? Several answers have been provided in the literature.

In this paper, however, the focus is on two factors.

The first factor is the series of management failures by Chief Executive Officers (CEOs) of major Japanese companies. A typical case is TOSHIBA. The company acquired WESTINGHOUSE, a world-famous nuclear energy firm in 2016. The huge cost of constructing nuclear plants all over the world and the accident at the Fukushima Nuclear power plants in 2011 hit the company heavily. But the principal cause of the bankruptcy of TOSHIBA was the series of window-dressing settlements and fraudulent secret bank accounts overseen by three consecutive CEOs. Due to Japan's traditional management style that requires that an outgoing CEO chooses his followers as successors, TOSHIBA's ex-CEOs now face shareholder lawsuits.

The second factor is the declining birthrate and an ageing population. In 2018, Japan's 126million population decreased by 0.20%, and major projections show that it is a trend that will continue. Japan is among countries in the Organization for Economic Cooperation and Development (OECD) (except Italy and Germany) that are experiencing an alarming rate of decline of their population. Japan's current fertility rate is 1.43, a far cry from the 2.07 rate necessary for a population to preserve itself. Also, as of 2016, the elderly (persons aged 65 years and above) accounted for 28% of Japan's total population. According to projections, this demography will expand to about 38% by 2050. Elderly support ratio (Number of people aged 65 and over as % of labor force age 15-64) is 46%, this is surprisingly high compared to other developed countries (UN [2019]).

Hence, social security expenses in Japan make up about 56% of the government's expenditure. The trend has created apprehension among many Japanese who wonder whether they can receive pension commensurate with the contributions they have made given that Japan's pension system is a "pay-as-you-go" model. The fear is that a smaller labor force translates to fewer returns. Due to these population issues and the effect on the government's balance sheet, Japan's deficits in 2018 reached 237% of GDP, the highest not only among industrialized nations but also among developing countries.

Japan's situation calls to mind T. Carlyle's words about T. R. Malthus's *Principle of Population*: "Economics is a dismal science".⁽⁴⁾ Today, Japanese people do not spend money in order not to level down their living standard in the future. The situation has brought about deflation spiral phenomenon, negative interest rate, fewer new investment, export drive, promotion of inbound tourism, and so forth. It is essential to mention that China will similarly face rapid population decrease from 2040. In the case of South Korea, the birthrate is much lower at 0.98, and according to forecasts, by 2067, South Korea's current 51million will have reduced to 34million (UN [2019]).

The next sections look at how Japan's current situation has impacted its relations with LAC, and how China and South Korea have emerged as major players in this global region once dominated by Japan.

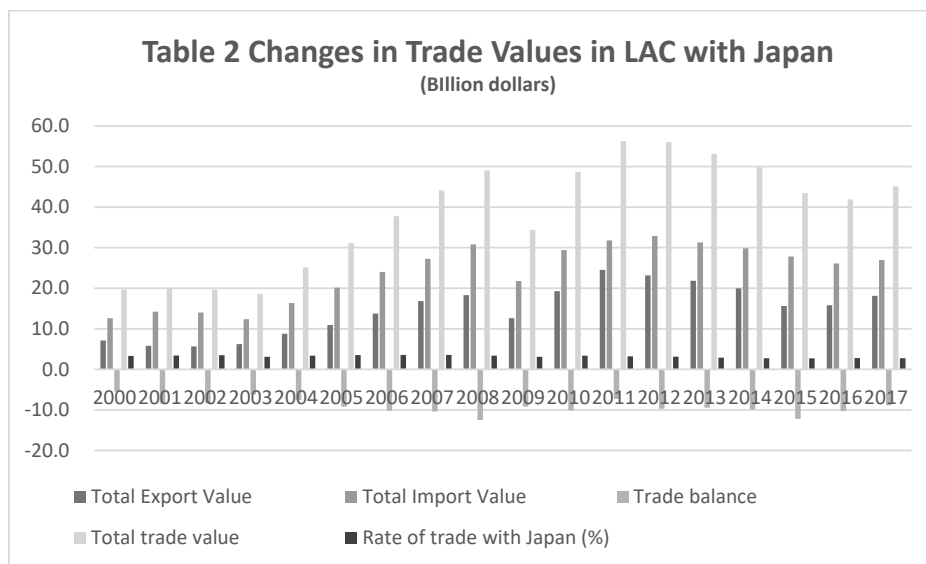
1. Japan's Ties with LAC: Emigrants, Trade, FDI and Cooperation

Japan's relations with LAC, from a historical point of view, is unique. Due to Japan's isolated location in the Pacific Ocean, the flow of people and goods between Japan and the people of the area that would eventually become known as LAC was quite limited for a long time. During the colonial period, the famous Galleon navigation route between Acapulco and Manila connected Asia and LAC, though Japan closed its door to foreign countries during that time. Peru was the first country to establish diplomatic relations with Japan in 1873, followed by

Brazil in 1895. The relations reached a milestone in the 19th century when Japanese emigrants moved in droves to LAC, most of them taking up roles as agricultural laborers or “colonos”. Later on, some of them ascended the social ladder to engage in white-collar jobs in government and the private sectors. A number of them became business executives, medical doctors, engineers, lawyers etc.

The population of “Nikkei” or Japanese descendants living in LAC today is about 1.8 million, with the largest number living in Brazil, followed by Peru. Available data shows that the number of Nikkei living in Japan is around 300,000.⁽⁵⁾ Because LAC had no direct involvement in the Second World War (WW II), the Nikkei were not affected drastically by the outcome of the war. For Japanese living in China, Korea, and many other Asian countries, the experience was different. Following Japan’s surrender on August 15, 1945, Japanese in these places had no choice than to flee to their homeland to escape hardship and retribution. Being in many regards diaspora Japanese, the Nikkei have been in cordial relations with Japan, a factor that enhanced Japan’s trade and diplomatic relations with LAC.

Japan’s trade and investment relations with LAC, in the post-WW II period, began in the 1950s. The first Foreign Direct Investment (FDI) was Toyobo spinning company establishing textile factories in Brazil and El Salvador in 1955. With the industrial advancement of Japan, FDI in LAC shifted to shipbuilding, steel, automobile, etc. Japan-LAC trade relations experienced substantial boosts in the 1960s and 1970s when annual exchanges were between 15% and 20%. This improvement was due to increased demands for large-scale logistical services, energy, and other infrastructure in Japan (Myers 2016).



Source : METI[2019]

According to the Ministry of Economy, Trade and Industry (METI [2019]), Japan’s trade with LAC reached \$45.1billion in 2017. Out of that figure, exports made up \$18.1billion while imports amounted to \$27billion, leaving Japan with a trade deficit of about \$8.8billion (See **Table 2**). Among LAC, Mexico has the highest trade volume with Japan, as total trade between both countries (export and import) amounts to \$24,530million. Japan exports goods and services to Mexico worth about \$18,193million, while Japan’s import is about

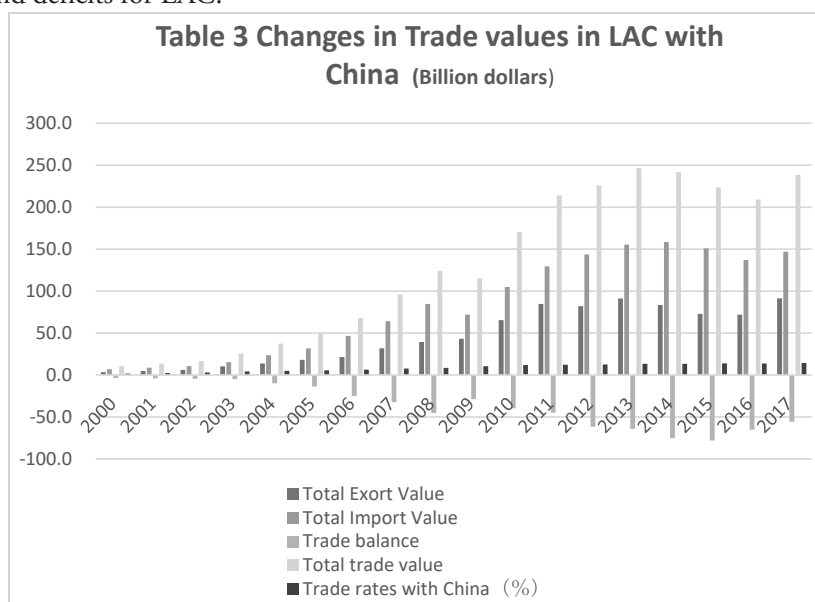
\$6,337million. Brazil places second, followed by Chile. LAC's exports to Japan include ores & concentrates, iron ore, meat, maize, coffee, etc. Their imports from Japan include manufactured and intermediate goods, etc.

Japan-LAC relations have not only been in the sphere of trade and investment. As early as 1968, JICA (Japan International Cooperation Agency) dispatched young volunteers (Seinen kaigai kyoryoku tai) to El Salvador and later to almost all LAC. The volunteer program was similar to the Peace Corp of the US. Since then, the total number of Japanese youths dispatched to LAC has grown to 14,663. Honduras has received the most number (1,239), Paraguay comes second (1,237), and Bolivia third (1,033). The youngsters operate with the motto: "together with the local people" in assigned countries (JICA [2019]), and some of them got married in their countries of dispatch where they live with their families.

JICA also executed other impactful projects in LAC. In Chile, for example, Japanese salmon experts under the auspices of JICA supported the locals with more efficient salmon-farming techniques. The cooperation helped improve salmon farming in Chile. Today, Chile's salmon industry accounts for around one-third of salmon production in the world (Hosono [2016a]). JICA again played an important role in the Cerrado Agriculture development in Brazil. The Brazilian Agricultural Research Corporation (EMBRAPA) was established in 1973, and the Japan-Brazil Agricultural Research Cooperation program in Cerrado came on stream in 1977 with facilitation by JICA. Cerrado is located in a remote corner of Bahia state and was once considered inapt for agriculture because of poor soil quality. However, the area was transformed into one of the leading soybeans producing areas in the world, a feat many have come to regard as a miracle of agricultural science in the 20th century (Hosono [2016b]). Although these historical successes give Japan a unique advantage over others in the engagements with LAC, in recent times, China and South Korea have improved their presence in these countries.

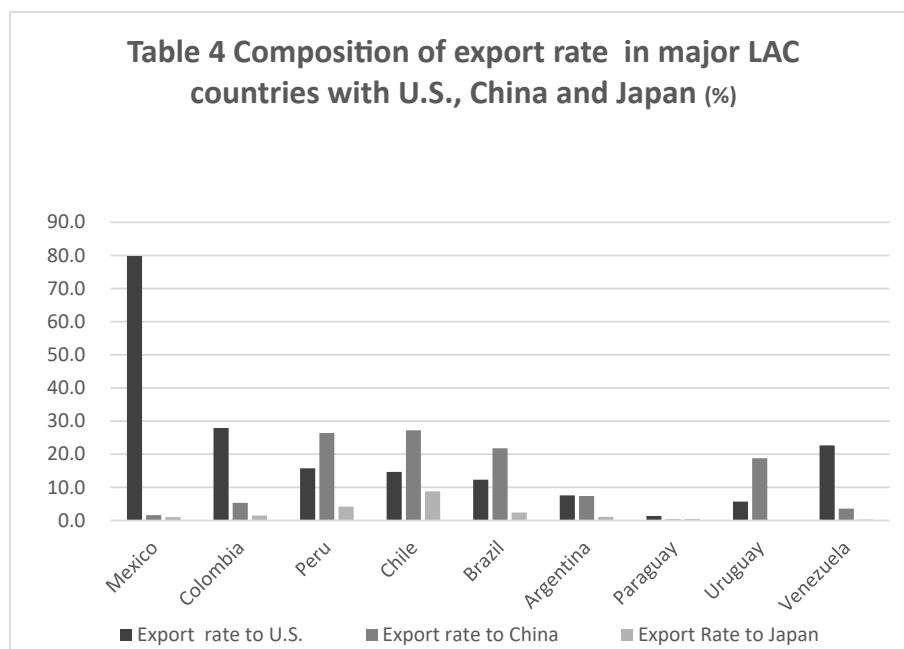
2. China and LAC

As shown in **Table 3**, Chinese trade with LAC has resulted in a \$67billion surplus for China and deficits for LAC.



Source : METI[2019]

In 2017, China received 10% of the Latin American total goods export and 18% of the region's imports. This trading scheme has two main features. The first is the concentration of trading partners and trading goods. Brazil stands out as China's foremost import destination for finished goods and agro products like soybeans. Brazil, however, imports only a few products from China. Thus Brazil enjoys a substantial surplus in its trade with China (See **Table 4**).



Source : METI[2019]

The second is that in other cases such as Mexico, China smiles away with the surplus. Unlike Brazil, Mexico records a trade deficit of \$64.1 billion with China. A deduction we can make about China-LAC trade is that while LAC's exports to China consist mainly of agricultural products and natural resources – Brazil's soybeans export is a good example – China's exports to LAC consist of high to medium-tech manufactures.

The **Table 5** below shows how successfully China has penetrated the market in Latin America. In 2017, China became the largest export destination for LAC (UNCTAD [2019], JETRO [2019]). The figures in parentheses are in US \$millions.

Table 5: LAC Export to China

Country	1 st (million \$US)	2 nd (million \$US)	3 rd (million \$US)	4 th (million \$US)
Argentina	Brazil (9,307)	US (4,517)	China (4,325)	
Brazil	China (47,488)	US (27,148)	Argentina (17,619)	
Chile	China (19,091)	US (9,997)	Japan (6,445)	
Cuba	Venezuela (352)	Canada (292)	China (277)	
Peru	China (11,626)	US (6,940)	Switzerland (2,349)	
Uruguay	China (1,481)	Brazil (1,299)	US (458)	
Mexico	US (327,358)	Canada (11,376)	Germany (6,950)	China (6,713)

Source: UNCTAD, *UNCTAD STAT*. JETRO, *Sekai Boueki Toushi Houkoku : World Trade and*

Investment Report.

As the table illustrates, in 2017, Brazil's exports to China were worth \$47.488million, while that to the US was \$27.148million. Being one of the largest economies in Latin America, Mexico is the only exception listed above. China, with \$6.713million, is ranked fourth after the US with \$327.358million. Canada comes at \$11.376million, while Germany follows at \$6.950million. As it seems, it may only be a matter of time before China surpasses Germany as an export destination for Mexico. Astonishingly, Japan only appears in third place among Chile's trade partners. Japan's imports from Chile include copper, ore, salmon trout, etc.

As the figures further show, all of the economically powerful LAC have maintained strong commercial ties with China. Brazil is particularly crucial to Chinese trade relations with Latin America. Brazil is the largest economy in the region, has the 8th largest GDP in the world, and is a major player in BRICS – an association of five emerging economies (Brazil, Russia, India, China and South Africa). China overtook the US as Brazil's largest trading partner in 2009 and has since then maintained its position with Brazil.

In 2013, Chinese President Xi Jinping announced the Belt and Road Initiative, a large-scale infrastructure project to connect Asia, Africa and Western economies to facilitate international cooperation and trade (ECLAC[2018: p17]). In January 2018, at the second China-CELAC (Community of Latin America and Caribbean States, a region-wide organization that excludes the US and Canada), both sides agreed to an updated cooperation plan that will run until 2021(Congressional Research Service [2019]). Under the various initiatives for cooperation, China has expanded its FDI with Latin America. Between 2005 and 2016, Chinese loan commitment to the region soared to \$ 141 billion, exceeding the combined loan (\$117.8billion) provided by IDB (Inter-American Development Bank), the World Bank and the Development Bank of Latin America (CAF) for the same period.

Venezuela and Brazil are the primary recipients of Chinese loans. Both countries receive about 70% of total Chinese loans allotted to the region. The loans go toward building infrastructure, developing hydrocarbons, and power generation and distribution. A notable feature of Chinese involvement in LAC is the “currency policy” which aim is to facilitate trade and investment through a currency swap scheme that conducts all transactions in yuan (ECLAC [2018: p18]). Between 2005 and 2017, Brazil was the biggest recipient of Chinese FDI as it received about 55%. Chinese FDI in Brazil is concentrated in the natural resource and energy sectors. The most significant investment is by State Grid Cooperation of China which acquired Sao Simao Hydroelectric power plant valued at \$10.290million (op. cit., pp. 56-58).

3. South Korea and LAC

South Korea has also expanded its influence in LAC over the years. In 2018 alone, Brazil's total exports to South Korea amounted to \$3440million while its total imports from South Korea was \$5.381million. In the same year, Brazil's total imports from Japan was only \$4.356million. With a South Korea-Brazil free trade agreement negotiation underway, South Korea stands to further expand its economic relations with the South American country.

According to a recent report, between 2009 and 2018, South Korean FDI in LAC averaged \$1.7billion per year, a remarkable increase from an average of \$100million as of 2000 (ECLAC [2019:p101]). The principal destinations of South Korean FDI in Latin America have changed over the years. Between the periods from 2000 to 2009, 33% of South Korea's FDI went to Brazil, 24% to Panama, and 18% to Mexico. Between 2010 and 2018, this changed as Brazil

received 40%, Mexico got 26%, while Panama and Peru received 11% respectively.

About 16% of South Korea's FDI in LAC was in the automobiles, auto parts, steelmaking and metal products sectors. As noted in the ECLAC report: "Korea's investments in the manufacturing industry bolstered the electronics and communications equipment, and other machinery and equipment, along with the processing of natural resources thanks to the establishment of steel plants. In this way, Korean companies played an important role and in that of the steel industry" (op. cit., p.107). A symbolic FDI case is that of Dongkun Steel Company's investment in Companhia Siderúrgica do Pecém (CSP) steel mill located in Ceará state in Brazil. The steel mill which started operation in 2016 produces 3 million tons of steel slabs a year. CSP is a joint venture between Dongkun and POSCO, the two largest South Korean steel manufacturers, and Vale S. A., a Brazilian mining giant. The joint venture partners hold 30%, 20% and 50% of shares, respectively, thus given South Korea 50% stake in the operation (see ECLA [2019 : Chapter II]).

As Brazil and Mexico continue to be the major destinations for South Korean FDI, other Central America and Caribbean countries are receiving less by the year. Typical cases are Guatemala, El Salvador and Honduras. Those countries showed strong growth in import substitution and Maquila industries, which mainly export to U.S. market, now face a declining stage. This might be a prejudice but author understands that Central American entrepreneurs are conservative in general and do not venture new business. Hence Central America is left behind the stream of the transformation of industrial structure which is taking place in the global level. There is no new IT related industry in the Isthmus.

Concluding remarks

As the paper has attempted to show, while Japanese presence in Latin America has been on a steady decline for decades, Japan's Asian rivals, China and South Korea, have been expanding their influence in the hemisphere. China's growing presence in LAC has been so tremendous that it resulted in a spat between China and the US. The disagreement between both superpowers was over a revelation that the residents of Isla Perico, an island off the shores of mainland El Salvador that is also a strategic sea border separating El Salvador from Honduras and Nicaragua, were offered \$7,000 to leave the island. According to the report, the move "was necessary to help achieve China's plan for turning a downtrodden patch of Central America into a global trade hub and manufacturing powerhouse" (*New York Times* [2019]).

As was further revealed, Chinese state-owned company Asia Pacific Xuanhao prepared a document titled: "Shared Opportunities, Shared Future", explaining China's strategic plan of establishing an alternative trade route to the Panama Canal to enhance China's commerce in the isthmus. The Chinese company requested a 100-year lease of a 1,076 square mile area, which translates as 13% of the total land area of El Salvador. The company also wanted tax exemptions for three decades.

Worthy of note, the major port in the area, La Union, located just in front of the Isla Perisco and which may fall under Chinese control, was expanded and modernized by Japanese aid through a long-term financing program that gulped the Yen equivalent of \$100million. Regretfully, the La Union port, which has a modern container terminal and completely new port infrastructure is yet to go into practical use. The sea level at the port is too shallow and needs constant dredging. There is also disagreement among agencies within the El Salvadoran government over who will manage the port. Due to the controversies surrounding the port, a foremost businessman described it as a "white elephant" project.⁽⁶⁾ Without a doubt, Japan is

partly to blame for the technical and managerial problems that bedevil the port.

As Japan's footprints in LAC become fainter and those of her Asian competitors appear to not only be more pronounced but also expanding, we can infer that LAC has entered a new era in their quest for development partners. The multiplicity of partners willing to trade and exchange vital technology with LAC has the potential to accelerate progress. To regain its historical right of place in LAC, Japan must live up to the times, reconsider its strategies and make adjustments as necessary.

NOTE

- (1) The author checked with other relevant data sources in addition to the original article.
- (2) "TEPCO" is an abbreviation for Tokyo Electric Power Company, which owned and operated the Fukushima Nuclear power plant that was destroyed by the Tsunami in 2011. TEPCO is currently in de-facto bankruptcy and under government control. NTT was a state Telegraph and Telephone enterprise and was privatized in 1985. NTT showcased their original telecommunication technology on mobile phone system but lost the competition in the world market.
- (3) The author visited the Isthmus for the first time about forty years ago. At the time of the visit, Japanese car brands saturated the area. In recent visits, however, Korea-made cars are growing in their number, and made eventually phase out Japanese cars.
- (4) Malthus emphasized that population growth rate will surpass that of food production. In this sense, population decrease may have positive effects on sustainable growth.
- (5) Many Nikkei now live in Tokai Area where Toyota automobile factories operate. Careful observation reveals that the number of students of Hispanic/Japanese origin is steadily increasing in the area.
- (6) The interview was conducted with a major player in the industrial sector in San Salvador on September 3, 2019.

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