

Japan's Investment in Mexico. Some Considerations on the Past and its Future

La inversión de Japón en México. Algunas consideraciones sobre el pasado y su futuro

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Abstract

Japan's foreign direct investment flows to Mexico have increased significantly since the entry into force of the Agreement for the Strengthening of the Economic Partnership between Mexico and Japan in 2005. This article seeks, from a retrospective perspective, to analyze the initial settlements of Japanese corporations in Mexico, and then identify some of their future challenges posed by a volatile global environment and in the face of institutional change initiated in Mexico since 2018.

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Resumen

Los flujos de inversión extranjera directa de Japón en México aumentaron significativamente con la entrada en vigor del Acuerdo para el Fortalecimiento de la Asociación Económica entre México y Japón en el 2005. En este artículo se busca, a partir de un estudio retrospectivo, analizar los inicios del establecimiento de las corporaciones japonesas en el país, para después identificar algunos de los desafíos futuros presentados por un entorno mundial volátil combinado con los esfuerzos de cambios institucionales iniciados en México desde el 2018.

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Keywords

Investment, business, government, Mexico, Japan

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Palabras Clave

Inversión, empresas, Gobierno, México, Japón

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Introduction

It is all too clear that the world is experiencing a profound process of disconcerting and volatile transition. Expressions of this take many forms, including the power nodes of regional-global scope that have been generated (through emerging alliances) that in their interaction, at the inter and intra-sectional level, undermine the structure of the traditional hegemonic poles. That is, we are in the middle of a “great disruption” that is impacting on the political and economic structures that transitioned into the 21st century, and have expressed themselves in a new stage of the post-Cold War period.

Within this warp and weft of changing processes and trends, capital flows have been sensitive and resilient, adapting to new conditions and re-considering the mechanisms they use to determine how and where to do safe and profitable business. Among these transformations, Japanese corporations have significantly adjusted their strategic planning for opening new businesses abroad.

In this context, this article seeks, through a historical-descriptive approach with a qualitative orientation, to identify the challenges of foreign direct investment (FDI) from Japan in Mexico within the framework of the combination of two factors. On the one hand, the effects of the COVID-19 pandemic, together with the growing Sino-American economic tensions

and the Russian invasion of Ukraine, which have generated unprecedented international conditions. On the other hand, the institutional transformations and the changes in the way of doing politics in Mexico since the new administration took power in 2018. The combination of both exogenous and endogenous factors marks new directions for the nation project with direct implications for the country's development model.

Here, an extensive historical review will be offered of the principal stages of Japanese companies' presence in the country, before making a brief diagnosis of the problems that currently concern diplomats and businesspeople in Japan, related to the operations of their corporations in Mexico, and then reflecting on the possible challenges for both the continuation and the increase of Japanese capital in the country.

Survey of the past

Against the backdrop of the 135 years of the commencement of diplomatic ties between Mexico and Japan, signed by the two countries on November 1, 1888, some initial business proposals aimed at activating economic relations may be identified. At the very end of the 19th century, Mauricio Wollheim alerted people to the opportunities that existed for Mexican tobacco¹ in the growing Japanese market, as well as other mineral, metal and natural products (raw cotton, henequen ixtle, and others).² The bilateral economic relations at the end of the 19th century and the beginning of the 20th century comprised modest trade flows, where imports and exports from Mexico and Latin America increased in an irregular manner due to the strengthening of the demand for natural and strategic resources, in line with the increase in Japan's industrial capacity during its military expansion process.³

¹ Mauricio Wollheim, "El tabaco mexicano en el Japón," *El Economista Mexicano*, September 28, 1895, p. 101.

² M. Wollheim, "Tráfico del Japón," *El Economista Mexicano*, July 11, 1896, pp. 278-279.

³ In data terms, we may broadly state that, by 1941, Mexican exports amounted to MXP 21 million, while imports were a little over MXP 25 million. See Carlos Uscanga and Ricardo

The “export” of Japanese capital was concentrated, initially, in areas where it exercised its hegemony beyond its borders, such as the Korean peninsula, the annexation of which was formalized in 1910, and later in Manchuria during the 1930s. Likewise, during the 1920s (before the crisis of 1929 and the subsequent Great Depression) the United States was not only an important supplier of investment to Japan, but also a recipient of Japanese capital since the Meiji era. According to Mira Wilkins, in 1929 investments from the United States amounted to USD 60.7 million, but those from Japan reached USD 41 million in 1937, concentrated in portfolio investments in the banking sector and in the distribution sector, and to a lesser extent in transportation.⁴

In this sense, the fact that during the critical years of the Venustiano Carranza government, in the framework of the negotiations for the acquisition of ammunition and the manufacture of rifles during 1917, the minister Manuel Pérez Romero (brother of Sara Pérez Romero, wife of Francisco I. Madero) informed Ernesto Garza Pérez, Deputy Minister of Foreign Affairs, that a group of Japanese investors (backed by the *zaibatsu* Mitsu), were proposing a joint business model for the establishment of a “cooperative company” with a Mexican steel company to which both parties could contribute five to ten million pesos.

The Mexican steel company (Pérez Romero considered the Monterrey Iron and Steel Foundry company as ideal) would have to expand its installed capacity in order to be able to produce the volumes of high-quality iron and steel (requiring a guarantee of having access to a continuous supply of coal), and as soon as that goal was met, more resources would be provided by the Japanese.

Likewise, this production would be directed towards the manufacture of rifles for consumption in Mexico, while the surpluses could be exported to other Latin American countries. The proposal also contemplated

Vladimir Acosta Matuz, *Relación estadística del comercio exterior entre México y Japón (1920-1942)*, Mexico, Secretaría de Educación Pública (SEP)/Consejo Nacional de Ciencia y Tecnología (Conacyt) (Cuaderno de investigación. Proyecto SEP-Conacyt de Ciencia Básica 150933, 1), 2013, p. 23.

⁴ Mira Wilkins, “American-Japanese Direct Foreign Investment Relations, 1930-1952,” in *The Business History Review*, vol. 56, no. 4, Winter 1982, p. 507.

building a shipyard for the construction of boats.⁵ Although the initiative was never brought to fruition, it would have been a historical precedent not only for its joint Mexican-Japanese investment; but also for the first experiences of large-scale investments coming from Asia to Latin America. In the end, the Mexican Government secured the support of the Imperial Japanese Navy for advice on the manufacture of weapons and cartridges, one of the priority projects of the Carranza administration.⁶

Likewise, it is possible to identify the presence of Japanese capital (under the guise of “covert” investments) in the oil industry in Mexico. During the deepening of the military intervention in China in 1937, the demand for energy and other strategic resources expanded. In addition to the above, Washington’s embargo policies led to a search for alternative sources of supply.

As a result, by means of the companies Nippon Loda Oil Company, Pacific Petroleum Company and Mitsui, resources were provided to the businessman Kisō Tsuru—a naturalized Mexican—to obtain (with the support and collusion of senior officials of the Lázaro Cárdenas government) the oil field exploitation concessions that were awarded to two companies: La Veracruzana and La Laguna. The important factor in this case was that both “Mexican” companies operated from 1934, expanding their concessions after the oil expropriation of March 1938, until the breaking of diplomatic relations with Japan on December 8, 1941.⁷

Despite the fact that the Mexican Government was the third country to ratify the San Francisco Peace Treaty of 1951, a legal instrument which restored diplomatic ties between Mexico and Japan, while speeding up the

⁵ Manuel Pérez Romero, “Exportación de acero a Japón,” November 22, 1917, Centro de Estudios de Historia de México, Fondo Manuscritos del Primer Jefe del Ejército Constitucionalista 1889-1920, Folder 119, Bundle 13497, at <http://www.cehm.org.mx/Buscador/VisorArchivoDigital?jzd=janium/JzD/xxi/119/13497/1/xxi.119.13497.1.jzd&fn=27550> (date of access: April 2, 2023).

⁶ C. Uscanga, “La Armada Imperial Japonesa en México: ¿Buscando una alianza militar o desplegando estrategias geopolíticas?,” in *Revista de Estudios de Asia y África*, vol. 56, no. 3, September-December 2021, pp. 561-564.

⁷ Sergio Hernández Galindo, *La guerra contra los japoneses en México durante la Segunda Guerra Mundial. Kisō Tsuru y Masao Imuro, migrantes vigilados*, Mexico, Ítaca, 2011, pp. 81-94.

opening of the Mexican embassy in Japan in the summer of 1952,⁸ the decision and political will to negotiate a bilateral trade agreement was postponed until the end of Gustavo Díaz Ordaz's administration. This was due to opposition from Mexican businessmen who viewed Japanese companies as serious competitors in the domestic market.⁹

Despite the above, in 1953 the company Sidena Toyota de México S.A. de C.V. (the predecessor of what we know today as Toyota), formed an investment consortium of MXN 60 million with Nacional Financiera (NAFINSA), Toyota and the *sogo sosha* Itochu, for the production of textile machinery in response to the Mexican Government's interest in processing cotton (one of the main export products) for the production of fabrics as part of its import substitution policies.¹⁰ After many problems, its operations ceased in 1959.¹¹

Two years after this failure, Nissan Mexicana, S.A. de C.V. was established, entering into the operations of CIVAC (Industrial City of the Cuernavaca Valley) in 1966 as part of the internationalization processes of Japanese corporations during the post-war period, which was aimed at the local and U.S. markets. Despite federal protectionist policies, which laid down percentages of local content and the application of import permits for auto parts, the Morelos state government rolled out incentives and tax exemptions, which allowed the company to remain and to contribute to local development, generating jobs and helping to forge a pole of industrial growth in the area.¹²

⁸ C. Uscanga, *México y Japón: el restablecimiento de las relaciones diplomáticas en la posguerra*, Mexico, FCPyS-UNAM (Cuadernos de Estudios Regionales), 2012, p. 11.

⁹ C. Uscanga, *Los instrumentos de comercio dentro de las relaciones económicas entre México y Japón: una perspectiva histórica*, Mexico, La Biblioteca, 2015, pp. 128-138.

¹⁰ Benito Yamazaki Endo, *México y Japón: crónica de 400 años de relaciones amistosas y económicas y 50 años de vínculos empresariales*, Mexico, Benito Yamazaki Endo, 2008, p. 147.

¹¹ Leticia Gamboa Ojeda, "Toyoda y Sidena: fracaso de dos empresas de bienes de capital para la industria textil mexicana," paper presented at the First Congress of Economic History of Mexico, Association of Economic History, Mexico City, October 24-26, 2001.

¹² Virginia Leticia Valdivia Caballero and Vania De la Vega-Shiota González, "De Yokohama a Cuernavaca. Reflexiones sobre el establecimiento de Nissan CIVAC," in Alejo Ebergenyi (ed.), *Los japoneses en Morelos. Testimonios de una amistad*, Mexico, Fondo Editorial del Estado de Morelos, 2018, pp. 117-119.

The advance of Japan's intensive growth model starting in the 1960s led to an increase in FDI worldwide. In 1972, the flow of capital reached USD 2 billion, and 16 years later, it amounted to USD 47 million.¹³

The 1960s and 1980s marked a period of intensification of bilateral economic relations between Mexico and Japan, but also a period of bad business for Japanese corporations and failure in joint investment projects. During the dollar crisis of 1973 and the oil crisis of 1979, the industrialized powers saw structural modifications to their growth models. At that juncture, Mexico gained visibility for Japan, further enhanced when it became an oil-producing country.

This was noted among the great torrent of capital that arrived in the shape of co-investments or loans. While Japan's accumulated FDI in Mexico between 1954 and 1973 had been USD 91.1 million,¹⁴ the government of Luis Echeverría received a line of credit from the Japanese Eximbank for JPY 71 917 million to strengthen the electrical and port infrastructure and the construction of the Lázaro Cárdenas-Las Truchas steel plant. These megaprojects, added to others, did not achieve their intended goals. The devaluation of the peso at the end of the administration of Echeverría and José López Portillo, as well as the subsequent foreign debt crisis, changed the positive perception of Japanese capital towards Mexico. While in 1977 Japan had a share of 5.4% of Mexico's foreign debt, by 1980 it had risen to 16.9%.¹⁵ Japanese banks demoted Mexico from its position as a reliable partner for financing large and long-term investment projects.

For the remainder of the 1980s, a significant proportion of the new Japanese companies in Mexico (many of them focused on the northern part of the country) remained, as part of the maquiladora program. However,

¹³ Ryutaro Komiya and Ryuhei Wakasugi, "Japan's Foreign Direct Investment," in *The Annals of the American Academy of Political and Social Science*, vol. 513, no. 1, January 1991, pp. 49-51.

¹⁴ C. Uscanga, *Las relaciones económicas de México y Japón en los años setenta: la institucionalización del diálogo bilateral*, México, SEP/Conacyt (Cuaderno de investigación. Proyecto SEP-Conacyt de Ciencia Básica 150933, 6), 2017, p. 24.

¹⁵ C. Uscanga, *Las relaciones diplomáticas y económicas entre México y Japón en el marco de la Cuenca del Pacífico: un análisis del concepto de diversificación*, Nagoya, University of Nagoya (Cuadernos de Investigación del Mundo Latino), March 1997, p. 31.

their number was modest: by 1987 there were 21 (eight of which declared they held Japanese capital, and thirteen capital from Japanese companies located in the United States). That is, 1.8% of the total of the 1168 companies of that type then operating in Mexico.¹⁶

The Carlos Salinas de Gortari government considered rapprochement with Japan a priority. During the visit of the president to that country during the summer of 1990, he presented his neoliberal economic program to Japanese businesspeople, emphasizing trade openness, inflation control, and the consolidation of public finances. However, his new policies did not lead to changes Japan's cautious attitude. In a frustrated tone, he was quoted as saying: "I told them that if they continue to wait, they would end up waiting forever. That would benefit neither them nor us."¹⁷ In annual terms, the arrival of Japanese FDI was fluctuating; while in 1988 it was USD 132.8 million, the following year it fell to USD 15.7 million, before climbing again in 1993 to USD 73.6 million.

However, the announcement of the start of negotiations on the North American Free Trade Agreement (NAFTA) and its subsequent signing changed Japan's reluctant attitude towards Mexico. Data from 1994 recorded the presence of 270 companies (195 with majority Japanese participation and 75 with minority participation) reporting in that same year an amount close to USD 700 million,¹⁸ increasing the number of maquiladoras to 64, which generated 25 000 jobs.¹⁹

According to Melba Falck, there is no doubt that NAFTA generated a significant expansion of gross fixed capital formation (GFCF) in Mexico; this climbed from an average of 4% in the 1970s to 10% in the late 1980s and 1990s. The above represented the arrival of constant capital flows; between 1999 and 2004, investment in the country was an annual average

¹⁶ Víctor Kerber and Antonio Ocaranza, "Las maquiladoras japonesas en la relación entre México, Japón y Estados Unidos," in *Comercio Exterior*, vol. 39, no. 10, October 1989, pp. 838-839.

¹⁷ Stephen B. Shepard, "President Salinas: 'My People Are in a Hurry'," *Business Week*, August 12, 1991, p. 19.

¹⁸ Dirección General de Asia Pacífico-SRE, *Japón, México, SRE*, September 1995, p. 25.

¹⁹ Alfonso Mercado and Oscar Fernández, "La estrategia de inversión japonesa en México en el marco del TLCAN," in *Comercio Exterior*, vol. 46, no. 12, December 1996, p. 1001.

of USD 19 billion.²⁰ Likewise, an increase in FDI was observed through Japanese subsidiaries located in the United States, which by 2000 (added to the volumes of capital coming directly from Tokyo), represented 20% of the total in Mexico, maintaining a constant number of Japanese companies (347) from 1999 to 2005.²¹

The signing of the Agreement to Strengthen the Economic Partnership between Mexico and Japan (AAEMJ) in 2004 (an instrument that entered into force on April 1, 2005), marked a new direction in bilateral economic relations. It was clear that (through the existence of a new-generation trade agreement) it enabled the expansion of trade flows, but it also generated greater certainty and incentives for Japanese corporations in the territory. The Agreement allowed for significant growth in cooperation, as well as the establishment of a committee to improve the business environment (CIBE), which has played a key role in the evaluation of the AAEMJ. Likewise, it has been a successful forum for communication between the Mexican government and the business sector, as reflected in the 2012 amending protocol,²² since these mechanisms favor constant dialogue between the parties to identify areas of improvement within the provisions of the bilateral trade agreement.

The intensification of the processes of fragmentation of production at a global level at the beginning of the 21st century brought about the growth of a more diversified group of companies that arrived in Mexican territory as part of the supply chains of parts and components, turning the Bajío²³

²⁰ Melba Falck Reyes and C. Uscanga, *Las relaciones comerciales y financieras entre México y Japón en el marco del Acuerdo de Asociación Económica*, Mexico, FCPyS-UNAM, 2009, pp. 69-70.

²¹ M. Falck Reyes and C. Uscanga, *op. cit.*, pp. 71-76.

²² See "Decreto Promulgatorio del Protocolo Modificadorio al Acuerdo para el Fortalecimiento de la Asociación Económica entre los Estados Unidos Mexicanos y el Japón, firmado en la Ciudad de México el veintidós de septiembre de dos mil once," *Diario Oficial de la Federación*, vol. DCCII, no. 21, March 30, 2012, first section, pp. 2-24.

²³ Ministry of Economy, *2005-2020. Quince años del Acuerdo para el Fortalecimiento de la Asociación Económica entre México y Japón (AAEMJ)*, Mexico, Secretaría de Economía, 2020, p. 32, at https://www.gob.mx/cms/uploads/attachment/file/598884/Compilado_XV_AAEMJ_Completo_vf__Revisado__Oficina_de_la_Secretaria__revDRR_1125_V2_003_1503.pdf (date of access: April 20, 2023).

into a key node for the Japanese automotive industry.²⁴ This meant that, by 2016, the number of Japanese companies had exceeded 1000, reaching 1300 in 2022. Of these, 85% are located in the manufacturing sector, particularly in the automotive and auto parts industry.

An unclear future?

The high presence of Japanese corporations in Mexico does not entail that their operations have been exempt from a series of vicissitudes, both logistical (deficiencies in road, port and digital infrastructure) and in terms of insecurity. In that regard, since the government of Enrique Peña Nieto, the business sector has been more open and articulate about the need to address these problems.

In 2016, Shigeo Hiruta, director of the Japanese Chamber of Commerce and Industry of Mexico, warned that the state of Guanajuato could lose its Japanese investments if it could not guarantee the security of its operations. Specifically, Hiruta pointed to the constant thefts from freight transport on roads and railways, in addition to the robberies impacting on its workers and managers.²⁵ The then Japanese ambassador to Mexico, Yasushi Takase, added his voice, stating that the security variable influenced Japan's determination to invest in the country.²⁶

The arrival of Andrés Manuel López Obrador to the Mexican presidency in 2018 increased the demands to address this agenda. Ambassador Takase

²⁴ M. Falck Reyes and V. De la Vega-Shiota, "El papel de la inversión extranjera directa japonesa en las redes de producción en México. El sector de equipo de transporte," in C. Uscanga (coord.), *México y Japón: socios estratégicos en el Acuerdo para el Fortalecimiento de la Asociación Económica*, Mexico, FCPyS-UNAM, 2016, p. 98.

²⁵ Jorge Escalante, "Preocupa seguridad a japoneses," in Press Reader, October 25, 2016, at <https://www.pressreader.com/mexico/corredor-industrial/20161025/281487865891123> (date of access: April 28, 2023).

²⁶ Ivet Rodríguez, "Corrupción e inseguridad, las mayores preocupaciones de inversionistas asiáticos," *Expansión*, November 1, 2017, at <https://expansion.mx/empresas/2017/11/01/corrupcion-e-inseguridad-las-mayores-preocupaciones-de-inversionistas-asiaticos> (date of access: April 28, 2023).

himself endorsed the fact that, for the success of Japanese investment, it was necessary to guarantee public safety.²⁷

Indeed, internal and external factors of stability are undoubtedly key to the expansion of Japan's long-term investment strategies.²⁸ An additional factor of concern on the part of Japanese corporations has been the frequent legislative proposals to promote changes to constitutional provisions and secondary laws. It is clear that foreign capital is very sensitive to any element that may change the existing conditions for the deployment of its business strategies.²⁹

Likewise, it is worth considering that state authorities have served as receptive and open interlocutors, who have focused on resolving issues that impact Japanese corporations, in order to retain them as well as to attract new investments to the automotive industry (particularly in the electric vehicle sector), as well as in the medical and aerospace sectors, which are areas of interest for international investors in the near future.

Another aspect that must be taken into consideration is the orientation adopted by the Mexican government in the management of its international relations in general. It is a fact that there is less energy being dedicated by the executive to the deployment of focused and more visible actions in the Asia-Pacific region. Mexico's clear loss of visibility on key issues in that region is plain to see, having delegating the management of its political and economic ties to senior officials at the Ministry of Foreign Affairs and the Ministry of Economy. That is to say, the tendency to "manage"³⁰ issues related to Pacific countries has continued.

²⁷ Editorial Enfoque, "Pide embajador de Japón a Diego seguridad en Guanajuato," *El Otro Enfoque*, April 11, 2019, at <https://elotroenfoque.mx/pide-embajador-de-japon-a-diego-seguro-en-guanajuato/> (date of access: April 28, 2023).

²⁸ José Luis Ramos, "Próximo gobierno será mejor para la industria: Takao Nakahata," *El Sol de México*, October 6, 2022, at <https://www.elsoldemexico.com.mx/finanzas/proximo-gobierno-sera-mejor-para-la-industria-takao-nakahata-8994278.html> (date of access: March 2, 2023).

²⁹ Efrén García, "Constantes cambios a las leyes mexicanas frenan inversiones: Takao Nakahata," *El Sol de León*, September 6, 2022, at <https://www.elsoldemexico.com.mx/finanzas/entrevista-constantas-cambios-a-las-leyes-mexicanas-frenan-las-inversiones-takao-nakahata-8848591.html> (date of access: April 28, 2023).

³⁰ The meaning of "manage" applies to three levels: a) the Mexican president being represented by the chancellor at meetings of regional mechanisms (with the exception of

As stated previously, we are currently experiencing a moment of great disruption in the international political and economic sphere. The changes generated by the then Donald Trump government and its neo-protectionist policies marked a substantial change in the trade priorities of the United States. The decision to leave the Trans-Pacific Partnership Agreement (TPP), as Trump's first executive decision, and the subsequent decision to cancel NAFTA, led to the negotiations and subsequent entry into force of the United States-Mexico-Canada Agreement (USMCA). The new trilateral trade instrument increased the rules of origin and changes in labor matters, among others, which were a source of concern on the part of Japanese investors. Takanobu Itō, president of Honda Motors and head of a business mission (representing 60 members of the Japanese Chamber of Commerce and Industry), warned of an impact on the growth of Japanese FDI in Mexico, with the exception of the auto parts sector that would have to adapt gradually to the new contents of the rules of origin.³¹

In addition, the disruptive effects of the COVID-19 pandemic on global supply chains, the escalation of trade tensions between the United States and China, and the impact of the Russian intervention in Ukraine, have brought about a substantial change in the fundamentals of the mobility of production factors under the patterns forged by globalization. This has led to attempts to transfer industrial operations that participated in different segments of the global value chains outside of Chinese territory to third countries, with the goal of operating closer to the final

the APEC Leaders summit in San Francisco, held on November 16-17, 2023), and international ones (G20 in Osaka); b) maintaining the agenda with the countries in question through meetings with counterparts at the respective levels, whether at the level of ministerial representatives or senior officials; and c) attention to bilateral issues through existing commissions or consultation mechanisms with the countries in the Asia-Pacific region. See C. Uscanga, "La Política Exterior de México en la región del pacífico asiático. Balance y pocas perspectivas (2012-2019)," in Ana Covarrubias Velasco, Humberto Garza Elizondo, Jorge A. Schiavon and Rafael Velázquez Flores (eds.), *Fundamentos internos y externos de la Política Exterior de México (2012-2018)*, Mexico, El Colegio de México/CIDE, 2020, pp. 230-231.

³¹ Daniel Blanco, "Armadoras japonesas invertirían en México para poder cumplir con las reglas del T-MEC: presidente de Honda Motors," *El Financiero*, February 13, 2019, at <https://www.elfinanciero.com.mx/economia/armadoras-japonesas-invertirian-en-mexico-para-poder-cumplir-con-las-reglas-del-t-mec-presidente-de-honda-motors/> (date of access: April 22, 2023).

destination of the manufactured product (*nearshoring*). This is an important issue that is linked to the construction of a nation project with solid foundations to guarantee economic stability, while also offering certainty to foreign capital.³²

In short, the existence of various interpretations of the ideal conditions to continue the upward trend for the flow of capital from Japan to Mexico is symptomatic. But it is also true that a stage (perhaps a temporary one) of greater prudence may be observed, as Japanese investors did after the external debt crisis and throughout the 1990s, when they held that the macroeconomic fundamentals were not solid, and that the structural changes implemented by the Mexican government to accelerate the opening of the country were not wholly persuasive. Mexico has extensive comparative advantages due to its proximity to the U.S. market, its competitive workforce and its extensive network of free trade agreements. However, Japanese investors may maintain their traditionally cautious approach, until greater guarantees and clearer strategies to encourage investment emerge based on the robustness of the institutions of the Mexican State, while waiting for greater clarity in commercial and industrial policies for the operation, expansion and permanence of their operations in the country.

Final thoughts

An initial and obligatory question would be: What should be done to avoid a gloomy future in the face of an uncertain scenario for the growth and diversification (sectoral and regional) of Japanese FDI in Mexico?

In the history of Japanese companies in Mexico there have been ups and downs. We may recall situations related to bad practices in the business relationship with Mexican suppliers, problems of adaptation by Mexican workers to the Japanese work culture, government decisions to condition

³² Nilsa Hernández, "Ante cambio de Gobierno, Japón pide certeza para trasladar su 'nearshoring' a México," *Milenio*, December 11, 2023 at <https://www.milenio.com/negocios/japon-pide-certeza-en-nearshoring-para-mexico-por-cambio-de-gobierno> (date of access: December 11, 2023).

the presence of Japanese capital on unsuccessful joint ventures, etc. Added to the above are the limitations of physical and digital connectivity, the infrastructure deficit, and the growing insecurity that directly affects their business activities.

However, the successful experiences that have allowed Japanese corporations to remain in the country must also be noted. One such case would undoubtedly be the resilience of Nissan Mexico, which for more than 60 years has been able to overcome these ups-and-downs, adapt and learn how to operate and adjust its business strategies under different political and economic circumstances in the country.

There is an indisputable correlation between the behavior of FDI flows and changes arising within the international economy and politics, which define their behaviors and trends. The other nodal variables are the internal conditions of the host country: its strategic location for its business plans, institutional stability, the educational levels of its workforce, the quality of its infrastructure, and the characteristics of its public policies (favorable and friendly) to the reception of foreign capital.

It is possible that the policies initiated in 2018 are part of a transition process (regardless of the means and forms employed) whereby the changes in the institutional framework of the Mexican State put sensitive international capital on high alert. In this regard, it is interesting to note how Japanese businesspeople and diplomats accredited in Mexico have been more open (in a manner that had rarely been seen) in expressing their concern about the conduct of Mexican public policies.

The adoption of a less intensive strategy to channel greater volumes of new Japanese FDI to the country would depend on a change in the signals issued by the Mexican government. There is even a risk for Mexico that, if these signals are not clear and forceful, the trend of capital being redirected to its other USCA partners could accelerate, where there are better conditions for the manufacture of auto parts and for final assembly of the new generation of electrical vehicles.

One advantage in its favor is, undoubtedly, that the nearshoring trend will continue, in the light of escalating China-U.S. trade tensions and other factors of instability in the world order, although these will be very vigilant of the conditions and guarantees that Mexico can offer. These go beyond its geographical proximity to the United States, as it must also seek

to display willingness to attract supply chains located in China and other parts of the world.

This establishes an agenda requiring short-term instrumental actions that must consider the following:

- Restore reciprocal communication, where greater convergence of policies at the federal and state levels is observed. Japanese companies now give greater priority to dialogue with state governments, as these are expected to improve and guarantee the basic conditions for the proper management of their operations.
- Intensify multilevel reciprocal communication and the resolution of possible incidents within the framework of the AAEMJ mechanisms, such as the CIBE, which is a key forum for monitoring of existing obstacles in business practices, to be discussed between representatives of the business sector and the government.

These two points, among many others, simply invite us to deepen dialogue in a continuous and consistent manner, involving all private and government actors to provide an assertive response to the issues of concern to Japanese corporations, both for those that already have a presence as well as those that may view Mexico as an attractive, desirable and reliable place to pursue new investment opportunities.