Japanese investment in Peru: limits of developmental investment

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JAPANESE INVESTMENT IN PERU:
Limits of Developmental Investment

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Summary

Japanese Investment in Latin America was considerable in the 1960s and 1970s, but the investment never took off in the developmental style as in East Asia.

The author examines why Japanese Foreign Direct Investment in Peru did not follow the pattern of developmental investment, analyzing the elements involved regarding policies in Peru and particular circumstances in Japan in the last decade.

This essay shows recent trends on bilateral relations Peru-Japan and concludes with general considerations for public policy.

Japanese investment has been seen in developing countries as having special capacity for generating employment, transferring technology, and serving as an engine for growth and development. In part this must be due to the accelerated growth and development that Japan achieved following the end of World War II, as well as the role that it played in the industrialization of South and East Asia.

In Latin America, Brazil has always been the primary destination of Japanese investment in the region, and Mexico because of its presence in the North American Free Trade Area (NAFTA). Most of the countries have received investments in mining, agriculture and oil sectors.

Peru's case, however, is special. Its relation with Japan is intertwined with the history of the Japanese immigration, thereby creating strong emotional ties between the two nations. With almost 120,000 *Nikkei*, Peru's population of Japanese descendants living in Latin America is second only to Brazil, which has almost a million.

At the beginning of Fujimori's term a study[1] concerning the image of Japan in Latin America in evaluating the possible range of future relations between Peru

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and Japan indicated that 84% of the Peruvians polled thought that the relations should both expand and improve. Another poll, the *Latinobarómetro* taken in nine major cities throughout Latin America also reflected a positive image of the Japanese and Japanese enterprises, with a clear higher percentage of Peruvians expressing pro-Japanese sentiments.[2]

Diplomatic ties were strong during Fujimori's tenure. At the beginning of the 1990's, Peru was isolated from international finance because the previous president Alan Garcia declared a moratorium on payments of the external debt; so Peru was not eligible for loans or assistance from international institutions including the IMF and the World Bank. Japan supported Peru at international level and helped to form support groups for Peru at meetings with debtor nations and organizations.

Peru also became member of APEC in 1997 with important backup from Japan. In addition to the numerous official exchanges, the level of financial cooperation reached exceptional levels, surpassing even Japan's guidelines which limit the amount of money that can be assigned to a country based on predetermined GDP level per capita of that country.

1. Japanese Investment in Global Context

Japanese FDI began to grow at an accelerated pace during the second half of the 1980's. Until that period production was concentrated in Japan because the cheaper yen made the Japanese archipelago an excellent springboard for exportation to the United States, and Europe.

Japanese investments have been concentrated in developed countries, in 2002, the Japanese FDI was distributed as follows: United States was the most important recipient (23.5%), followed by Asia (25.3%), Western Europe (30.2%), and Central and South America (12.6%) (See Table 1).

The percentage corresponding to Central and South America includes "financial paradises," such as the Cayman Islands with a total of 10.7%. Only less than 2% of

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[1] See (Horisaka, 96) referring to a poll taken in 1990, just before the election in Peru won by Alberto Fujimori.

[2] In the Latinobarómetro, a survey annually taken in Latin American countries, 58.4% responded that they preferred to receive investment from Japan; 19.9% favored the United States; and only 6.6% indicated a preference for Europe. See Latinobarómetro, 1995, Mori Consultants, Chile.

the Japanese FDI found its way to Central and South America, a percentage that shows the marginal nature of the region as a target for investment.

Table 1 Regional Distribution of Japanese FDI

Region	2002
TOTAL	**100.0**
North America	**26.8**
United States	23.5
Western Europe	**30.2**
Asia	**25.3**
ASEAN 4	6.8
Asia NIES	9.3
China	8.1
Latin America and Caribbean	**12.6**
Caiman Islands	10.7
Others (Africa, Middle East, Australia, Eastern Europe)	**5.1**

Note: Data on Balance of Payments basis. Mexico's data are included in Central and South America.
Source: JETRO based on Japan's Ministry of Finance, *Ministry of Finance Statistics Monthly*, various editions. JETRO 2003.

Total accumulated investment amount in 1951-2002 shows that manufacturing sector was only 35.4%, and for non-manufacturing sector 64.5%, with considerable allotments to finances and securities, real estate, and services. Concerning the distribution of investments by sectors, more than half of the Japanese FDI, 55.7%, is directed to non-manufacturing, which includes services, finances, and raw materials. The manufacturing sector received 35.4%. Japan relies heavily on imported raw materials, but the proportion of its investment in raw materials seems relatively small from the total investment. Nevertheless, Japanese investment is not directly directed to these sectors, but the requisite materials are obtained through trade or from loans (as we shall see in the case of mining in Peru). Consequently, a large portion of the Japanese FDI in finances, securities, and commerce represents an indirect investment in raw materials (see Table 2).

Table 2 Distribution of Japan's FDI Flows

Sectors	2002 (%)	1950-2002 (%)
TOTAL	100.0	100.0
Manufacturing	37.6	35.4
Foodstuff	0.4	0.8
Textile	0.2	0.1
Rubber – Leather Products	0.0	0.5
Chemical	19.0	10.0
Oil	2.8	2.8
Glass – Stone Products	0.0	0.2
Metallic Products	0.8	1.2
Machinery	12.4	18.7
Other	2.0	1.1
Nonmanufacturing	62.4	64.5
Construction	0.1	0.1
Real State	1.3	2.4
Commerce and Trade	11.8	13.3
Service	11.3	11.2
Transport - Logistics	0.1	0.2
Communications	7.9	13.0
Finance & Insurance	29.6	19.7
Other	0.3	0.8

Note: Official figures for 2002 and thereafter have been converted to yen, and have been converted to U.S. dollar by the exchange rate of the Bank of Japan calculated for each year.

Source: Ministry of Finance Statistics Monthly No 620. December 2003

2. Japanese Investment in Peru

The history of Japanese investment in Peru begins towards the end of 1960's when Japan was in a period of rapidly accelerating growth with increased exportations signaling the need to insure future sources of raw materials. In 1967, Japan started a policy of liberalization that was completed in 1973, the same year the oil crisis occurred and the flexible exchanges rates was adopted by world powers. Japan foresaw two major problems: the petroleum crisis reminded that Japan will be unstable unless assure a stable supply of raw materials.

The change in the monetary system, on the other hand, showed it was urgent to modify the industrial system from producer of low value-added, such as steel, coal and textiles, to go toward the production of higher profit margin products to secure trade surplus.[3]

In this context, supported by different indirect mechanisms by the Japanese government (Ministry of Finance and Ministry of Industry) a wave of investments started in Latin America with the entry of Japanese manufacturing companies and *Sogo-Shosha* (Japanese trading companies)[4] mainly in the mining sector.

a. Peru: Investment in Manufacturing

In early 1970s, Japanese companies also went to Latin America to secure market share against protectionist agreements such as the Andean Pact (created in 1969 with Peru, Ecuador, Bolivia, Colombia, and Chile which withdraw from the pact in 1976, Venezuela was included in 1973). Negotiations underway would exclude limit foreign investment and imports of foreign goods. Peru served as an ideal site for this expansion, Toyota and Nissan began the production of vehicles, National of Peru (Matsushita) started to produce home appliances, and Ajinomoto produced its famous food seasoning.

According to the reports of Toyo Keizai[5] and information from Japanese companies in Lima, Japanese businesses in Peru were and are focused on the following areas—Toyota: assembly and import of vehicles; Química Sol: industrial dynamite and gunpowder; Honda of Peru: motorcycles; Ajinomoto: monosodium glutamate seasoning; and National Peruana: dry batteries. In addition, it appears that the Compañia Minera Santa Rosa, owned by Mitsui Kinzoku and Mitsui Bussan, has been active in developing sources of lead and zinc. The rest of the businesses deal with trade or services, Kawasaki del Peru: shipping; Kintetsu World: transport of fish cargo; Nikko Creative Service: tourism; Nissan Maquinarias: importation and sale of tires; and Mitsui Automotriz: importation of

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[3] "In 1973, industries requiring high levels of energy such as iron and steel, non-ferrous metals, chemicals, paper pulp and paper, declined to a point of depression, while the production of automobiles and electronic products soared due to the relatively low use of energy for their production (See Kagami 1995, pp. 128-129).

[4] See Kojima and Ozawa (1984)

[5] See Toyo Keizai, 2004.

vehicles and components. There are no records of new Japanese companies during the current Toledo administration.

The Japanese manufacturing companies entered Peru between 1965 and 1975, during President Fernando Belaúnde's term (1965-68) and Velasco Alvarado (1968-75) (See Table 3). It should be noted that the nascent military regime of Velasco did not discourage the opening of new businesses, such as Ajinomoto, Kawasaki de Peru, and other affiliates of Mitsui Bussan. Viewed with hindsight, the economic and political stability of Latin American countries was more important for Japanese private investment than the kind of regime.[6]

No new businesses were initiated during the succeeding governments. Only Honda was established during the Morales Bermúdez's term (1975-80), but it was and investment agreed upon schedule. During Belaúnde's second term (1980-95) and Alan Garcia (1985-90) no new businesses were opened.

All companies established during Alberto Fujimori's term (1990-2001) were liaisons or representation offices, although there were some small investments in mining in partnership with other foreign or national firms, no real presence of Japanese investment was present.

[6] During this same time, almost all the countries in Southeast Asia were governed by de facto governments, without affecting the flow of Japanese FDI.

Table 3 Japanese Companies Established in Peru

Government	Term	Founded	Company Name	Property	Category
Fernando Belaúnde	1965-1968	1965	Mitsubishi Perú S.A.	Mitsubishi Shoji	Trading Company
		1966	Panasonic Peruana S.A.	Matsushita Denki Sangyo	Manufacturing
		1966	Matsushita Electric del Perú	Matsushita Denki Sangyo	Manufacturing
		1966	Toyota del Perú	Toyota Jidosha / Mitsui Bussan	Manufacturing
Velasco Alvarado	1968-1975	1969	Ajinomoto del Perú	Ajinomoto	Manufacturing
		1969	Cía. Minera Santa Luisa	Mitsui Kinzoku / Mitsui Bussan	Mining
		1970	Química el Sol	Asahi Kasei / Mitsui Bussan	Manufacturing
		1970	Mitsui del Perú	Mitsui Bussan	Manufacturing
		1972	Kawasaki del Perú	Kawasaki Kisen	Manufacturing
Francisco Morales	1975-1980	1975	Honda del Perú S.A.	Honda Giken Kogyo	Manufacturing
Fernando Belaúnde	1980-1985	-	-	-	-
Alan Garcia	1985-1990	1985	Nikko Creative Services	JAL Pack	Liason
Alberto Fujimori	1990-2001	1993	Tyre Service Peru	Mitsui Bussan / Mitsui del Perú	Liason
		1994	Mitsui Automotriz S.A.	Mitsui Bussan / Mitsui del Perú	Liason
		1995	Sumitomo Corp. del Perú	Sumitomo Shoji	Liason
		1995	Kintetsu World Express	Kintetsu Ekusupuresu	Liason
		1996	Nissan Maquinarias S.A.	Nissan Jidosha / Marubeni	Liason
		1998	Epson Peru	Seiko Epson Latin America	Liason
		1999	MC Autos del Peru	Mitsubishi Shoji	Liason
		1999	Cobre Tire Service Peru	Brigestone (Mitsui Bussan)	Liason
Alejandro Toledo	2001-2006	-	-	-	-

Note: (1) The data only show Japanese companies that exist today. They do not include for example, the Bank of Tokyo, which withdrew from Peru in 1990.
Source: Author's presentation based on Data Bank: Kaigai Shinshutsu Kigyo Soran 2004 [Data Bank: Compendium of Overseas Investments of Japanese Businesses, reported by type of business and countries]. Toyo Keizai Shuppansha. Tokyo. Toyo Keizai 2004.

b. Peru: Investment in Natural Resources

In addition to the establishment of manufacturing plants, Japanese investment was very dynamic in natural resources. From the almost US$2 billion accumulated Japanese FDI in Peru, around 80% (US$1,7 billion) went to the mining sector (see Table 4). In this sector the Japanese preferred to either sign long term contracts or offer loans in order to establish leverage for their positions as purchasers, before directly buying assets. One of the reasons for this policy was to avoid nationalistic reactions which the Japanese had encountered various countries of Southeast Asia, but as De la Flor [1993] noted, copper was an exception to this preference because signing long term contracts did not assure delivery of the metal. Because of this situation, they positioned themselves for the purchase of the Katanga mine in 1973 by forming a consortium of Mitsui Mining and Smelting and Nippon Mining; through the 1975 purchase of Santa Lucia (zinc and tin) by the same consortium; and—also in 1975—through the formation of the Corporation of Copper of Michiquillay in order to invest in copper on a grand scale,[7] unfortunately, it was an objective never realized because of the failure to negotiate an acceptable agreement concerning both the manipulation of foreign capital and the question of labor policies with the Peruvian government.

In addition, in the field of petroleum the Japanese government in coordination with private companies offered loans at low rates of interest and with very advantageous conditions in order to insure a stable flow of oil. Three Japanese global trading companies, Mitsui, Marubeni and Mitsubishi, formed JAPECO (Japan-Peru Oil Corporation), to work with Petroperú and Cofide (Two Peruvians official institutions) in order to construct the North-Peru oil pipeline. There were, in addition, similar financial arrangements for developing the mines of Cuajone and Huanzalá as well as other projects such as the copper refinery of Cajamarquilla, and the copper operation of Cerro Verde. In the field of telecommunications, NEC directed the work for the construction of Peru's first satellite. NEC then served as the source of equipment for the communication networks with Entel Peru as well as collaborating with the Peruvian Telephone Company in developing telephone centers.

[7] For a detailed chronology of this first period of Japanese investment with major emphasis on raw materials, see De la Flor, 1993.

What stands out about this style of investment is the fact that investments were made in packages where private capital was directly involved and coordinated with governmental agencies, such as the Japanese Eximbank and Japan's Overseas Economic Cooperation Fund (OECF)[8]. Since early 1980s, Japanese development assistance was closely tied to the local needs of Japanese companies, and investments were made in tandem with financing from the Japanese government agency, the private firm, and contractors in an integrated package. Today Japanese companies are more flexible and acquire products from non-Japanese contractors in order to avoid the complaints and demands of local factories in the host countries.

[8] Both were merged and are now the Japan Bank for International Cooperation (JBIC).

Table 4 Total Accumulated Japanese Investment in Peru

	Accumulated Number of Cases	**1951-2002 Amount (In millions of Yens)**
Industry	31	12,070
Food	7	4,071
Textiles	5	343
Chemical	6	237
Metals	2	203
Machinery	-	-
Electricity	3	1,256
Transport Equipment	8	5958
Agriculture	1	1
Fishing	19	5,708
Mining	30	173,581
Construction	2	9,471
Commerce	13	7,325
Finance/Insurance	1	1
Other	5	3,671
Subsidiaries	5	1,989
Property	5	479
TOTAL	112	214,247

Note: Registered Investment Flow prepared from official data from the Ministry of Finance of Japan.
Source: Ministry of Finance Statistics Monthly.

3. Fujimori's Term and the Lost Opportunities

During the administration of Alberto Fujimori (1990-2001), political and economic cooperation was very active. Peru was a privileged recipient of technical assistance and loans, directly from the Japanese government and through international organizations. However, in comparison to the amount provided by ODA (Official Development Assistance), private investment was small.[9]

Peru was the first country where an ethnic Japanese became President. Fujimori's parents where from Kumamoto Prefecture, and during the election campaign in Peru many issues emerged about Alberto Fujimori having born in Japan, those were proven false but the issue provides a background about the perception in both countries, Japan and Peru. Also in 1991 during the first visit of Fujimori to Japan, he was received by the Emperor as a special guest and considered son of Japan[10].

The government of Japan committed to support Peru, but although provided considerable amounts of assistance could not convince the private sector to invest because of the following reasons: (i) Instability in Peru, (ii) Recession in Japan, which began at the beginning of 1990s, (iii) The so-called "syndrome of the lost decade" by which senior executives were reluctant to invest in the region; and (v) the lack of a targeted investment policy. These four elements are explained later in this section.

Japanese companies were badly affected by economic recession and the end of the "bubble economy", and most of the senior managers of Japanese companies in Japan at Latin American departments were junior managers in the region in the 1980s, when several countries including Peru decided to stop payment of the external debt.

In the manufacturing and service sectors, businesses were restructured (see Table 4). Mitsui Bussan and Mitsui del Perú merged to create Tyre Service del

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[9] For example an opinion column in 1998 in Peru's Gestión Newspaper was titled "The Illusion of Japanese Investment" (Bustamante, 1998).

[10] See Jochamowitz (1993), author of a biography of Alberto Fujimori. Currently Fujimori is in Japan claiming double nationality, Japanese and Peruvian, and the current administration in Peru wants him back to Peru to face several charges after he fled in 2000.

Perú; Mitsui Bussan is joint owner with Toyota Jidosha of Toyota del Perú; in this same manner Nissan Jidosha and Marubeni joined to create Nissan Maquinarias from the same company that was closed years before. Kintetsu, a railroad company of the Kansai region, which also controlled more than 160 businesses including one of the largest supermarkets in the country, was also formed in 1995.

The most significant Japanese investment during Fujimori's term was the Cominco/Marubeni—a consortium comprised of businesses from Japan, Canada, and Great Britain aimed at expanding the refinery of Zinc de Cajamarquilla. Marubeni also made another small investment of US$10 million in 1996 in a pulp paper plant of Yukari to supply their Asian market.

In comparison with the previous decade, the 1990s were a fairly good time to invest in Latin America. The so-called "Washington Consensus" advocating liberalization with openness to trade and privatization of public companies was adopted by most of the governments of Latin America. So investment from European countries, mainly Spain, and from the United States, and also within the region was considerable. Japanese companies, despite good perspectives and a "Nikkei" President were not interested in investment in Peru, neither in manufacturing plants nor privatization.

Japanese FDI is also low compared with the amount invested in Chile, a neighbor country of Peru where Japan until 1998 was fourth among major investors. Since 1998, the year in which Japan invested in the copper mine *La Escondida*, its investments have increased substantially with the cupriferous projects of *La Candelaria*, and with the development of *Los Pelambres*, an enormous project of US$1,3 billion. Although the privatization of public companies started in Chile in 1982, the Japanese were not immediately attracted and began to invest six years later with *La Escondida* mine. Distribution by industrial sectors shows that besides interest in copper, large Japanese investments were made in fishing, forest products, and agriculture, mainly natural resources that were then exported to the Japanese market.

A historical background provides light to the lower levels of investment during Fujimori's term. In the 1970s, despite good financial conditions for Japanese firms, several projects never progressed. At that time Japan was interested in establishing a permanent source of copper in Latin America, a role later won by Chile. Also, at the beginning of the 1980s, Peru just decided not to pay Marubeni a debt for the construction of the North-Peruvian oil pipeline; again, five years afterwards during the government of Alan García, private Japanese banks were affected by the imposed moratorium on the external debt.

To those issues must be added the unstable situation of Peru. At the end of the 1980s terrorist attacks targeted the Bank of Tokyo and Nissan Motors (Bank of Tokyo immediately withdraw from Peru and Nissan closed down his plant several years later). Again, in 1993 three engineers from the Japan International Cooperation Agency (JICA) were assassinated in Huaral, a city at the North of the capital Lima, and the event caused enormous commotion in the Japanese public. Lastly, when the perspective of Japanese investment seemed to improve, in December 1996 the residence of the Japanese ambassador in Lima was seized and after a five-month standoff the terrorists were overcome, but it affected several investment plans in the country.

The economic recession in Japan also provided a cause for restraining. With limited room for maneuver Japanese firms preferred to focus in Asia and Western Europe, and in Latin America in some countries such as Mexico (who as a member of the NAFTA agreement was a door to the US market), instead of risk capital in Peru.

Japanese FDI was also limited in the 1990s by the "syndrome of the lost decade". Senior managers in companies in Japan in the 1990s, who were junior or middle managers in the 1980s when debt moratorium also affecting Japanese private banks were imposed by several countries were afraid of further future instability.

Last but not least, one of the main obstacles to increase Japanese investment was the lack of a targeted promotion policy such as East Asian countries implemented. In early 1990s, after Fujimori came to power, Peruvian economy was sonly stabilized and terrorist defeated, so foreign investment (non-Japanese) started to increase in amounts which probably made considered unnecessary to seek Japanese investment. A closer trade promotion policy with Japan, let alone Asia, was absent and the usual biannual meetings of the Japan-Peru private companies failed to produce any concrete result.

4. Japanese FDI in Peru in the Latin American context

Japan's foreign investment has two principal objectives: (1) To guarantee a consistent source of raw materials; and (2) To protect herself against the formation of potential regional agreements that might exclude her, and especially so in vehicle and electronic industries.

Japanese industry began its postwar reconstruction with an increased growth in the exportation of manufactured goods, principally to the United States and then to Southeast Asia, all of which added to the accelerated development of the Japanese domestic market. These were all factors that created a demand for a much higher quantity of raw materials. In Latin America, the Japanese FDI started between the 1950's and 1960's, primarily in Brazil. The oil crisis in 1972 coincided with the first stages of accelerated growth in Brazil, the so-called "Brazilian Miracle," and Japan's financial interests were redirected towards countries that had petroleum, thereby accentuating investments in Mexico and Venezuela.

Towards the end of the 1970's, Japanese companies began to invest in the emerging industrialized nations of Asia, Taiwan, Singapore, South Korea, and Hong Kong, where Japan began to apply a new strategy of transferring the manufacturing of their second generation products to these emerging industrial nations. Furthermore, with the support of ODA, they began to establish a structure of production that embraced all Southeast Asia.

In the 1980's, the accumulation of enormous cash reserves and the existence of an industrial network gave Japanese companies the role of a major transnational player. In Latin America towards the latter part of the 1970's, the concept of "import substitution" as well as a tendency towards strong protectionism was still in place, but potential problems with foreign debt began to appear on the horizon. At that moment it might have been possible for the Japanese to put together a solid infrastructure for inter-regional production in Latin America, but due to the situation such as recession and external debt crisis, Japanese business gave priority to other regions. Investment in the United States was increased, and the continuing focus on South and East Asia was reinforced.

It is important to note that until 1988, Peru ranked third behind Brazil[11] and Mexico as a Latin American target for Japanese FDI. The statistics from the Japanese Ministry of Finance show that between 1952 and 1988, Brazil received US$4.8 billion; Mexico received US$1.5 billion; and Peru received US$0.6 billion. These numbers include sums that were invested in the financial sector, including the purchase of properties and securities, construction and real estate. Even when the amount invested in the financial sector is subtracted, however, the three countries retain their same ranking.

Towards the end of 1989, the situation began to change. In addition to Brazil, the importance of the FDI investment in Panama and Chile began to increase. Brazil, of course, continued to maintain its importance because of its relation with MERCOSUR; Panama grew in importance as a financial bridge; and in Chile the FDI expanded under the impact of steadily increasing commercial activities with Japan.

a) In Latin America

Production plants to supply internal market Textiles, Vehicles and Basic electronic products	Secure raw material sources Oil, Mining, Natural Gas, Forestry	Production Bases: Towards NAFTA (Maquiladoras), and MERCOSUR (Brazil and Argentina)		Back to raw materials?
1950-1970	1971-1980	1981-2002		Next

b) In Southeast Asia

Raw materials	First generation industries Textiles, Agribusiness	Second generation industries Home appliances, Vehicles, Semiconductors, Computers	Regional Production Network Vehicles, Computers, Electronic goods	▸	Consolidating a Global Production Network
1950-60	1961-1970	1971-1980	1981-2002		Next

Figure 1 Evolution of Japanese Investment in Asia and Latin America[12]

[11] See Hollerman (1988) for a complete description of the Brazilian case.
[12] Prepared by the author.

What have been the determining factors of the Japanese FDI in Latin America? The strategy can be divided into four stages (see Figure 1). Between 1950 and 1970, given the rapidly accelerating growth of the Japanese economy (average annual increment 16%), an assured source of raw materials was sought along with the creation of factories in order to obtain a portion of the overseas markets, especially in the fields of textiles, vehicles, and basic electronic products, taking advantage of the geographical axis running through Brazil, Mexico, and Peru. Between 1970 and 1980 attempts to insure a ready and consistent source of raw materials continued as a high priority. Beginning in 1980, the objective was to secure bases for production in a movement towards the huge consumer markets such as MERCOSUR, NAFTA, and various regional markets established through bilateral agreements.

In comparing the evolution of Japanese FDI in Latin America with the strategy employed in Asia, a number of variables stand out. Between 1960 and 1970, textile factories and processing of agricultural products were created in Southeast Asia, and immediately in the ensuing period between 1970 and 1980 factories for the production of "Second Generation" goods were established, those are products goods which had slide on technological importance and profit margin are low. For example, the production of black & white TV sets became second-generation product when color TV appeared on the market just as the laser printers displaced the earlier ink jet printers. The establishment of regional production network in Latin America has not been possible by several factors, including (i) the lack of an integrated transport and logistic infrastructure, (ii) standardization of trade policies in the region for tariff, and non-tariff barriers, (iii) incipient trade exchanges among countries, (iv) lack of cooperation and simultaneous investment promotion policies, and (v) lack of economies of scale due to inequality and limited demand.

These factors include those lacking in Peru, which as a medium size country with a strategic geographical position should be privileged for investment in the Western coast of South America, however has not been able to use his relatively closeness to Japan. The next section offers a framework to improve cooperation and exchanges.

5. Toward a New Framework for Cooperation and Investment

The election of President Fujimori in 1990 created exaggerated expectations for Japanese investment, which did not prospered due to Japan's economic problems and lack of focused reforms and promotion in Peru. Peru should start with the assessment made by Japan in recent years.

In the 1980s, a former Minister of Foreign Affairs of Japan, Saburo Okita, advocated the framework of Flying Geese development in Latin America[13]. With that philosophy the "Okita Foundation" was created in Argentina to be a center for continuous expansion of a co-prosperity sphere in Latin America.

Flying Geese scheme, however, requires not only a country passively receiving investment and assistance, but a decidedly policy of promotion of investment, trade toward the investment source country and domestically strong and promptly progress on human recourse development to support further waves of investment and continuous upgrading.

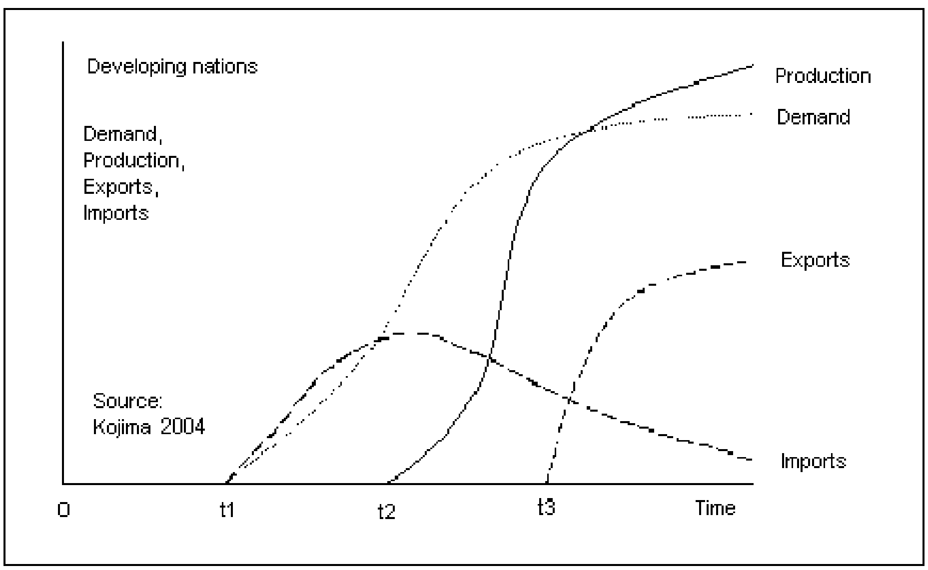

Figure 2 Akamatsu's Pattern of Development

[13] See Okita, 1980.

The original Akamatsu's scheme is divided in stages, with times (see Figure 2), where in t1: certain goods are imported, in t2: domestic production starts, in t3: domestic production increases and exports increase. This scheme assumes foreign investment and domestic institutional and economic reforms.

In Latin America the Flying Geese have many starts but also stop because they are unsustainable. See lines in blue in Figure 3 where "Production" cannot increase because productivity increases are constrained by lack of human resources and small domestic or regional markets. So exports never take off, or if they do, arte not in a sustainable to sustain subsequent waves of investment and exports enough to create a flying geese of industrial pattern of development.

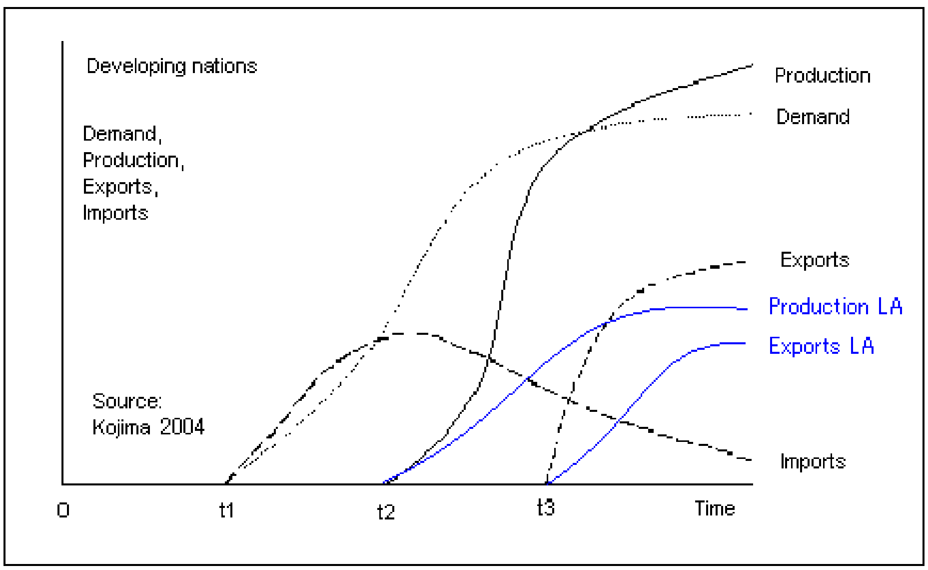

Figure 3 Flying Geese Starts and Stops in Latin America (LA)[14]

Countries like Peru cannot escape from the "Start and Stop" trap because human resources development and foreign investment are linked and should increase and improve simultaneously.

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[14] Blue Lines for Latin America (LA) added by the author.

Documents produced by Japanese scholars such as Okita's essays and several report and country studies require more attention. For example, in 1998, the Japan International Cooperation Agency produced its Country Report on Peru. The study was led by Akio Hosono, senior scholar and Ambassador of Japan in El Salvador. The JICA report recommends development with participation and industrial growth. One of the appendixes includes a study by Mitsuhiro Kagami on cluster development, à la Michael Porter[15] style, in which an isolated firm needs a comprehensive framework of related industries and infrastructure to develop as a industrial cluster. Kagami identifies nascent Peruvian clusters and recommends promoting them at a domestic level in Peru, and through rights promotion policies. Not surprising, the report repeats previous studies from public organizations in Japan (unpublished studies by JETRO and METI) about increase assistance on education and development of human resources. Hosono dedicates a whole chapter to propose a more participatory agreement in Peru to reduce inequality and promote participation which will lead to more opportunities on the labor market and on education.

Further analysis of why the Flying Geese start and stops are pending research topics which are extremely relevant to Peru, in a moment when foreign investment Chinese, this time probably from China, is starting to enter into the region. Though the framework that supports investment from Japan in recipient countries is different from China, the US, or Europe, a broader analysis is needed incorporating more layers such as competitiveness, historical and cultural backgrounds and probably cluster analysis.

This essay emphasizes however the obstacles that investment, in particular developmental, which is sustained for a long time framework developing industries and countries, is not sustainable in countries like Peru until more reforms are done. Success of those reforms will depend of a specific context, because it is unlikely a wave of Japanese investment is soon over there, however emphasis in human resources and broadening of markets to amplify economies of scale as well as targeting investment promotion policies are needed whether toward Japan or for new investment players in the region like China.

[15] Harvard Business School Professor of management, author of several books and advocate of cluster development.

§.

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