Economic Partnership Agreement
Mexico - Japan and its Impact on Foreign Direct Investment An Strategic Analysis

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ABSTRACT

This research is intended to analyze the advantages to associate with a developing country like México from the perspective of the theories of the Agency, Institutional, Resource-based Theory and the Theory of Transaction Costs. Generally, FDI contributes to capital formation, expansion and diversification of exports, increasing competition, provide access to top technology and improving management systems.

Keywords: Japan, Mexico, spillovers, strategy.
The objective of this study is to know the impact of Japanese FDI in the manufacturing sector in Mexico. In terms of technological spillovers arising in the sector. Additionally, establish whether there are flaws that do not allow that technological spillovers generated, if any, are greater.
INTRODUCTION

Mexico and Japan have economic characteristics that make them complementary to each other, mainly in the food sector, where Mexico could position itself as a leading supplier of agricultural and livestock products. This complementarity should contribute to economic development in both countries through trade and investment.
Mexico, like other countries invested in measures to attract foreign direct investment to their territories. Trade liberalization becomes stronger in the eighties, significantly reducing import tariffs on average that passed during the course of a period of three years from 23.5% to 11.8%. The base of products with low tariffs was from 92% to 25.4% during the same period 1985-1987.
MEXICO-JAPAN RELATIONSHIP

Mexico-Japan economic partnership agreement, in 2005.
MEXICO-JAPAN RELATIONSHIP

- Mexico is the world's ninth largest economy and represents a market of about 100 million people (Secretaría de economía, 2015). It is a country with abundant flora and fauna, with young and dynamic labor at low cost and in constant training work. Japan is the second largest economy and has an active market of 126 million people, is a country with high capital, purchasing power and leading edge technology.
Based on a friendly relationship led for decades between Japan and Mexico, it was consolidated with the signing of AAEMJ in the year 2005. The agreement was in negotiation for two years. A study group was formed for the realization comprised of government officials, businessmen and academics from both countries. On September 17, 2004 it was signed, during the government of Vicente Fox Quezada, coming into force on April 1, 2005.
Location of FDI in Mexico

Location by State

Source: own authorship data Ministry of economy.
Location of FDI in Mexico

Location by State:

- **Mining of minerals (non-metallic and non-metallic, except petroleum and gas)**
  - Coahuila
  - Durango
  - Guanajuato
  - Sinaloa
  - Sonora
  - Zacatecas

- **Fabrication of machinery**
  - Aguascalientes
  - Chihuahua
  - Guanajuato
  - Hidalgo
  - Puebla
  - Querétaro

- **Services of subcontracting**
  - Baja California Sur
  - Coahuila
  - Colima
  - Nayarit
  - Quintana Roo
  - Yucatán

- **Fabrication of machinery of computing and measurement**
  - Baja California
  - Jalisco
  - Tamaulipas

- **Agricultural industry**
  - Chihuahua
  - Nuevo León

- **Basic metal industries**
  - Michoacán
  - San Luis Potosí
Foreign direct investment

Location factors:

Public policies
Economies of agglomeration
Size of the market
Production costs

Localization (Jordaan, 2009)
Japanese FDI in Mexico

- Mainly located in the western part of Mexico.

- Sixth position in FDI to Mexico. 931 companies mainly in the transportation equipment manufacturing subsector.

- Aguascalientes, Guanajuato, Jalisco, Distrito Federal, Querétaro.
CONCEPTUAL AND THEORETICAL FRAMEWORK

Spillover is the way that technology and human capital spills and is transmitted to local companies or endogenous, from FDI. Four channels for the transmission of spills from product of FDI are identified:

• Effects of demonstration and Imitation, local businesses learn by imitating and observing foreign companies.

• Effects of competition, through competitive firms increase production and become more competitive.

• Effects of connection with foreign companies, through linking companies, foreign ones transmit knowledge to endogenous.

• Training effects. Local companies hire people who were previously trained by multinationals as a means of transmitting knowledge or technology (Kinoshita, 2001).
How do you have any productive spillovers?

Through externalities

Marshall-Arrow-Romer (Glaeser et al, 1992)

Concentration of firms spills production

Espionage, imitation, movement of human capital

Porter 1990

Concentration of firms spills production.

Local competition forces companies to innovate and adapt.

Inter-industry agglomeration (Jacobs 1969)

Many advances are generated outside of the industry

The inter-industrial agglomeration is required
Agency theory

- Agency theory arises from the need for organizations to delegate and make decisions. When the owners or principals at top management positions begin to delegate decision-making to other individuals or agents in a process that involves monitoring, control and error correction begins.
The industry is analyzed by companies to make tools that allow them to understand the preferences of consumers in relation to their product or service offered and the position of competing companies in consumer preference. Porter designed the model of the five forces that shape the vision of industry-based strategy.
Theory of transaction costs

• Transaction costs are the costs incurred by the company or provider to get their goods or services to consumers. The agenda of the organizations is the value that is given to the decisions made in terms of getting information that the company needs (Vargas-Hernandez, Guerra García, Bojórquez Gutiérrez, Bojórquez Gutierrez, 2014).

<table>
<thead>
<tr>
<th>Year</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>1,470.0</td>
</tr>
<tr>
<td>2006</td>
<td>1,594.0</td>
</tr>
<tr>
<td>2007</td>
<td>1,912.6</td>
</tr>
<tr>
<td>2008</td>
<td>2,046.0</td>
</tr>
<tr>
<td>2009</td>
<td>1,600.6</td>
</tr>
<tr>
<td>2010</td>
<td>1,925.6</td>
</tr>
<tr>
<td>2011</td>
<td>2,252.3</td>
</tr>
<tr>
<td>2012</td>
<td>2,610.7</td>
</tr>
<tr>
<td>2013</td>
<td>2,244.1</td>
</tr>
<tr>
<td>2014</td>
<td>2,609.20</td>
</tr>
</tbody>
</table>

* Value in Million
Source: Based on data from the Ministry of Economy (May, 2015).
Institutional theory

- The institutions based view claims that the conditions of the business and industry should consider the impact of state and society when framing its strategy. The laws, regulations and rules are the regulatory pillar of the behavior of individuals and businesses.
On productive spillovers


- Productive spillovers are analyzed through changes in the productivity of local enterprises.

- Initially the studies were focused on intra-industrial spills.

- Forward and backward productive spillovers.
On productive spillovers

On productive capital and technological spillovers. Kinoshita (2001) identifies four channels:

- Competition effects
- Effects of connection with foreign companies
- Demonstration and imitation effects
- Training effects
<table>
<thead>
<tr>
<th>Autores</th>
<th>Resultados</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blömstrom y Sjöholm (1998)</td>
<td>From an industrial survey in Indonesia they conclude that local companies do benefit from the spills of technology even though there is no association between MNEs and local enterprises.</td>
</tr>
<tr>
<td>Fauzel, Seetanah y Sannasee (2015)</td>
<td>They study flows of FDI to manufacturing industry and sector productivity in Mauritius. The productivity of capital and labor has increased. They also conclude that the results are visible in the medium and long term.</td>
</tr>
<tr>
<td>Hu y Jefferson (2002)</td>
<td>They analyze for the Chinese electronic and textile sector the impact on the productivity of FDI in both sectors. Positive impact for the company receiving FDI, local companies lose market in the short term. For the textile industry, the advantage gained through FDI disappears in the medium term.</td>
</tr>
<tr>
<td>Pritish y Sakiru (2013)</td>
<td>They conclude that FDI in manufacturing in India has impacts not only on the company that receives it, but on the industry as a whole.</td>
</tr>
</tbody>
</table>
In this paper we make a theoretical review and the literature on Foreign Direct Investment from Japan in Mexico in the manufacturing sector. From the qualitative and quantitative results obtained by different authors, we can determine the impact of FDI in terms of the technological spills that are generated.
Barriers to productive spills

• Inefficiencies of Mexican companies, observed through a survey of Japanese Companies in the West of Mexico carried out in 2013.
• Japanese companies hire foreign suppliers to a greater extent.

When endogenous suppliers are linked ...  
• They prefer foreign suppliers for topics related to high technology, technical assistance
• Mexican suppliers for low added value activities.

Obstacles to linking
• 60% of Japanese companies consider that Mexican women do not meet quality standards.
• Little productive capacity of Mexican companies.
• Suppliers do not produce what businesses need.
SOLUTIONS AND RECOMMENDATIONS

• Japanese companies used more to foreign suppliers to Mexican suppliers.
• For poor countries, spills occur through demonstration effects channel through competition effect, whereas in developed countries spills occur.
• Finally, it is important to consider that Japanese multinationals consider that there are significant differences between endogenous suppliers and foreign suppliers.
Japan imports 60% of its food consumption, but Mexico's share in total imports of food products from Japan is negligible.

Both countries are net importers of cereals, fodder, oilseeds, dairy products and meat, using third country imports to meet domestic demand.

Imports of Mexican origin belonging to groups 0: Food and live animals and 2: inedible raw materials were the main beneficiaries of the EPA; in 2004, the first year of operation of the Agreement, the import value of the two groups was 52,000 million yen and 32,000 million yen, respectively; in 2013, it was 89,000 million yen and 48,000 million yen.

### Table 2. Products exported to Japan. Main products that Mexico currently exports to Japan

<table>
<thead>
<tr>
<th>Crude oils</th>
<th>Aguacate</th>
<th>Salt commonly used</th>
<th>Bluefin tuna in the Atlantic and Pacific Bladders (except fish)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper minerals</td>
<td>Silver minerals</td>
<td>Animal (except fish) casings</td>
<td></td>
</tr>
<tr>
<td>Stomachs of animals (other than fish)</td>
<td>Tequila</td>
<td>Stout</td>
<td>Adapters</td>
</tr>
<tr>
<td>Transmitters</td>
<td>Photographic plates</td>
<td>Cylinders</td>
<td>Photovoltaic cells</td>
</tr>
</tbody>
</table>

Source: Based on data from Secretaría de Economía (Mayo, 2015)
Promexico (s.f.) México y sus tratados de libre comercio. Recuperado el 13 de mayo de 2015, de http://www.promexico.gob.mx/comercio/mexico-y-sus-tratados-delibre-comercio-con-otros-paises.html