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Who is Setting the Agenda?**

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Japan and Panama: Who is Setting the Agenda?1

Introduction

Panama is second only to the United States as a host country for Japan's direct overseas investment.² Japan is the second largest user of the Panama Canal. Moreover the Japanese government is participating in a Commission to Study Alternatives to the Panama Canal, that was established in June 1986, together with the Panamanian government and the United States. Although evidently the United States has always been Panama's number one foreign policy concern, Japan is becoming an increasingly important country for Panama.³

This raises some interesting questions about U.S.-Japan relations, and the role Japan is playing in Panama. Whose interests are being served? is Japan competing with the United States? or

1 The author is a research economist in the Panamanian Center for Research and Social Action, CEASPA. This paper will draw on research carried out between 1986 and 1989, some of which appeared in the study Japan and the United States: Stakes in the Future of the Panama Canal, USJP Occasional Paper 88-12, Program on U.S.-Japan Relations, Center for International Affairs, Harvard University, 1988. This paper was presented at the XV International Congress of the Latin American Studies Association, Miami, December 1989.

2 As of March 31, 1988, Japanese investment in the United States amounted to US\$50,159 million: in Panama \$11,146, Indonesia \$9,218 million, and in the United Kingdom \$6,598 million. See Japan 1989 An International Comparison, Keizai Koho Center, Tokyo, April 30, 1989, p. 56.

3 General Noriega even sought "the good offices of Japan" to help negotiate a settlement to the political crisis in Panama after the annulment of the general elections in May 1989, according to the National Information System of Panama. He made the request in an interview with Japanese journalists. UPI, "Noriega asks Japan to help end crisis", Tropic Times, June 2, 1989, p. 24.

is it a complementary strategy? what does this triangular relationship have to tell us about "spheres of influence"? burden sharing? about the possibilities of Panama's breaking away from dependence on the United States?

In the following, these questions will be looked at through the prism of the historical background, a specific look at the future of the Panama Canal issue, the peculiar nature of Japanese trade and investment in Panama, political relations, and prospects for the future.

Historical Background

Panama was the first area of Latin America to be visited by Japanese after their forced reentry into contact with the outside world in 1853. The Panama railroad was the route chosen to cross the American continent for the official Japanese mission to the United States, in 1860. This was their first encounter with a railway, and "an electrical device made of wire, over which business may be transacted between Panama and Aspinwall, (today's Colon), a distance of 57 miles, in the time it takes for a smoke". "How it works I have not the faintest idea", confessed one of the members of the mission in his diary.⁴

The first human contact was not promising, though somewhat prescient of things to come. Referring to the local population,

⁴ Masakiyo Yanagawa, The First Japanese Mission to America (1860), translated into English by Junichi Fukuyama and Roderick H. Jackson, (J.H. Thompson & Co. Ltd., Kobe, Japan, 1937, reprinted by Scholarly Resources, Inc., Wilmington, Delaware, 1973), p.35.

the ambassador wrote: "The natives were brown and their hair very curly. They were naked and barefooted and their character was bad. Although the character of the natives worried the Americans they could do nothing to correct the conditions because this is Spanish territory."⁵ The Panamanians, for their part, were disappointed in their expectations of the long awaited Ambassadors from Japan. The newspaper of the day noted, "a great crowd gathered eagerly awaiting the Japanese. But they lost interest right away--no doubt they were expecting something different, instead of which they were disenchanted, as the Japanese are nothing but Chinamen, only they appear to be more civilized".⁶

Forty years after this encounter, when Japanese contract labor was being used on a large scale in Peru and Mexico, conditions in Panama were considered to be too bad to send Japanese workers. Though nine thousand Japanese laborers were transported to Mexico between 1901 and 1906 to work on the Central Railway, the Oaxaqueña sugar plantation and coal and copper mines⁷ and the needs for labor for the construction of the Panama Canal would have seemed an ideal opportunity for Japanese contractors, "an inspection team from Japan, representatives of large contractors of Japanese labor, reported the Isthmus too unsafe to risk the lives of their men".⁸

⁵ *ibid.* p.34.

⁶ Juan Antonio Susto, "Los Japoneses visitan el Istmo de Panama por primera vez, en 1860", *Loteria*, (May 1961), vol. VI. no. 66, p. 19, quoting from *La Estrella de Panama*, 26 April, 1860.

⁷ María Elena Ota Mishima, *Siete Migraciones Japoneses en México 1890-1978*, El Colegio de México, 1982, p. 51.

⁸ From David McCullough, *The Path Between the Seas: the Creation of the Panama Canal, 1870-1914*, (Simon and Schuster, New York, 1977), p. 473.

Other destinations in Latin America for emigrants from Japan in the first decades of this century, due to concern about overcrowding in the home islands, were Chile and Brazil, Paraguay and Bolivia. Central America and Panama were not attractive areas for organized emigration from Japan, so the few Japanese immigrants came on their own.

However, shipping was already a high priority sector in the Japanese economy and the opening of the Panama Canal increased the opportunities for expansion in this sector. Prior to the opening of the Canal, Japanese trade with the United States consisted in the export of raw silk to Seattle or San Francisco where it continued by rail to New York. Imports were in machinery and raw cotton, which came mainly from the east or southern United States, and travelled to Japan via the Suez Canal.⁹

With the opening of the Canal, freight rates became cheaper, though the time taken for shipping goods between Asia and the United States east coast was longer than by the ship and rail route. Raw silk was a high-priced commodity, so time was of the essence; once the price of raw silk came down, it became more profitable to use this cheaper route.¹⁰

⁹ William D. Wray, Mitsubishi and the NYK 1870-1914: Business Strategy in the Japanese Shipping Industry, Harvard East Asian Monographs, Cambridge, Massachusetts: Harvard University Press, 1984.

¹⁰ Keiichiro Nakagawa, "Japanese Shipping in the 19th and 20th Centuries: Strategy and Organization" in Business History of Shipping, ed. Tsunehiko Yuyi and Keiichiro Nakagawa, Tokyo: University of Tokyo Press, 1985, p. 13.

Another route that used the Canal was initiated in 1917, by the OSK line, opening a South America line via East Africa to carry goods and emigrants to Brazil.¹¹ It took coal from Natal, South Africa, en route and, for lack of a direct return cargo for Japan, OSK carried Brazilian coffee from Santos to New Orleans, where it was replaced with raw cotton for Japan, which went through the Canal.

Japanese shipping policy from an early date was designed to promote international trade and to earn foreign exchange, not just to carry Japanese trade. In order to assure independence from foreign carriers, the shipping policy included construction, so that while in 1854 Japan had not one single ocean-going vessel, by 1900 Japan was fourth in world wide new construction tonnage, behind the British, the United States and Germany, and its merchant fleet was eleventh in size.¹² By 1920, Japan had the third largest merchant fleet in the world and shipping was built up to such an extent, to carry both Japanese and third-country trade, that during the inter-war years shipping was the third largest earner of foreign exchange for the Japanese economy.¹³

The Second World War brought about a break in the possibilities for development of closer relations between Japan and Panama. After the bombing of Pearl Harbor, the United States was

11 *ibid.* p. 17.

12 Thorsten Rinman and Rigmor Brodefors, The Commercial History of Shipping, translated by Peter Hogg, Gothenburg, Sweden: Rinman & Linden AB, 1983.

13 Nakagawa, 1985, *op. cit.* See also article by Ryoichi Miwa, "Maritime Policy in Japan: 1868-1937", pp. 123-156, in the same volume.

particularly nervous about the possibilities of damage to the Panama Canal. Not only did the United States adopt a policy of internment of Japanese nationals in the United States, but Japanese residents of twelve Latin American States were also sent to the United States for internment. Those from the five states of Central America and from Panama were sent to New Orleans, for detention in Texas, in March 1942.¹⁴

Once again after the War, shipping and shipbuilding were priority sectors and by 1955 Japan became the foremost shipbuilding nation in the world.¹⁵ This position was maintained until the early 1980s, when orders in Korean shipyards topped those in Japan. The Panama Canal regained its importance for Japan after the War, as Japan imported vast quantities of raw materials to feed its industrial development. By 1960, two thirds of all the seaborne transport in coal and iron in the world went to Japan.¹⁶ In 1972 29 percent of all the cargo going through the Canal was en route between Japan and the United States, and it was calculated that nearly 11 percent of Japan's oceanborne commerce passed through the Panama Canal.¹⁷ The comparable figures for

¹⁴ Charles Harvey Gardiner, "The Japanese and Central America" Journal of Interamerican Studies and World Affairs, Vol. 14, no. 1, February 1972, p. 22.

¹⁵ Rinman and Brodefors, op. cit., p. 101.

¹⁶ *ibid.* p. 103.

¹⁷ The 29% figure was calculated from the Panama Canal Company, Canal Zone Government Annual Report, Fiscal year ended June 30, 1972, tables 21 and 22. The 11% figure was quoted in Norman J. Padelford and Stephen R. Gibbs, Maritime Commerce and the Future of the Panama Canal, Cambridge: Cornell Maritime Press, Inc. 1975, p. 72, taken from Shipping and Canal Operations, Hearing before the Subcommittee on Panama Canal of the Committee on Merchant Marine and Fisheries, House of Representatives, 93rd Congress, 1st session, July 17, 1973, Ser. No. 93-19, pgs. 4, 12. The 1986 figures come from the Panama Canal Commission Annual Report 1987, and from tables prepared by the Office of Executive

1986 are 21 percent of total cargo on the U.S.-Japan route, and 5.3 percent of Japan's seaborne trade volume used the Panama Canal.

The closure of the Suez Canal in 1967 was a heavy blow to all users of that Canal. It had enormous repercussions on shipping, particularly on the size and design of bulk carriers. Once ships had to be routed round the Cape of Good Hope, it made sense to realize the economies of scale in large size ships, as previously they had been restricted by the size of the Canal, to 70,000 deadweight ton tankers loaded, and 150,000 dwt tankers unloaded. Japan exploited that insight in its shipbuilding strategy, and the day of the Very Large and Ultra Large Crude Carriers was born.

After the war, when cleanup of sunken ships could begin, plus a US\$1 billion expansion program to attempt to win back some of the lost traffic, Japanese money, dredging companies and technology were active in the Suez Canal. The Penta-Ocean Construction Company was prime among them. It had held a dredging contract with the Suez Canal since 1961, and developed specialized dredging technology.¹⁸

The Japanese government in general paid a great deal more attention to the Middle East after the Suez Canal was closed, and particularly after the first oil shock in 1973, when Japan's oil

Planning.

18 M. Fujimori, "The Penta-Ocean Construction Co. Ltd," The Oriental Economist May 1980, p. 32, and "The Second Panama Canal Project", Japan Quarterly, XXVII, No. 3 (July-September, 1980) p. 305.

supplies were cut off. These events spurred the awareness in Japanese decision-making circles of the need to adopt more active measures to prevent such sudden and drastic disruptions of their economic development.

There were some direct links between the Suez Canal project and Japan's interest in the Panama Canal. The Panama Canal had traditionally been seen as a United States concern. During the time in the sixties that the Atlantic-Pacific Interoceanic Canal Studies Commission was conducting studies for a sea-level canal across the isthmus between Mexico and Colombia, the Japanese were consulted, and expressed interest in the United States building a new canal. However, as the Executive Director, Colonel John P. Sheffey later told Congress,

"When we touched on construction money, the attitude was it's a United States problem.... Why should we Japanese get involved in this complicated problem of relations with Panama?"¹⁹

However, as it became clearer that the United States and Panama were entering into a different relationship, with the Panama Canal Treaties of 1977, the Japanese realized that it was in their interests to get involved. They could no longer continue to rely on the United States to keep the Canal open and operating efficiently. Soon it would be a Panamanian responsibility, and they were anxious to ensure that that responsibility would be

¹⁹ Statement by Colonel John P. Sheffey, former Executive Director of the Atlantic-Pacific Interoceanic Canal Commission, before the United States Congress, House Committee on Merchant Marine and Fisheries, Subcommittee of the Panama Canal and Outer Continental Shelf, Hearings on the Sea-level Canal Studies. 95th Cong., 2nd Sess., 21, 27, 28 June, 1978, p. 312.

carried out. Just as the Japanese government had worked with the Egyptian government in the expansion of the Suez Canal, so Japan was interested in promoting actions in Panama that would help to keep the operation flowing smoothly, and to ensure that the Canal capacity would meet the need for seaborne transport of goods, whether for Japan or for other countries.

The Penta Ocean Co. itself prepared plans for a sea-level canal in Panama, based on study of the voluminous Anderson Report in the Library of Congress.²⁰ This they presented to Shigeo Nagano, retired President of Nippon Steel, and head of the Japanese Federation of Chambers of Commerce and Industry, who came to be known as "Mr. Panama" for his enthusiasm for the project, and considered himself a latter-day Ferdinand De Lesseps.²¹

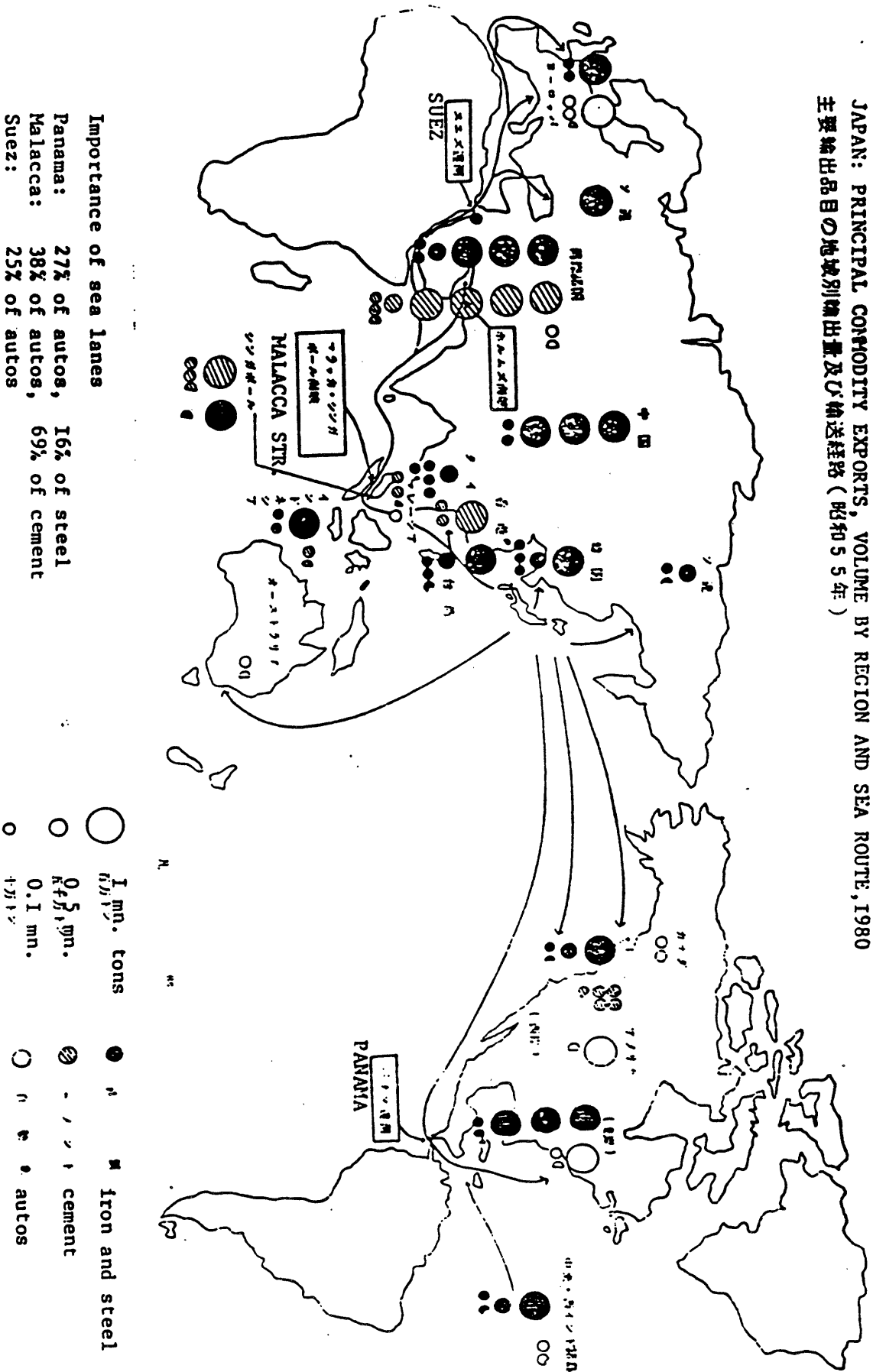
Uninterrupted sea-lanes have always been of enormous concern to Japan, which considers itself as a vulnerable country entirely dependent on the import of raw materials for survival. The critical straits from Japan's point of view are the Malacca and Singapore Straits, the Gulf of Hormuz, the Suez Canal and the Panama Canal. The accompanying maps indicate the importance to Japan of those straits and Canals for Japan's exports and imports in 1980.

20 M. Fujimori, op. cit., and Interoceanic Canal Studies 1970, by the Atlantic-Pacific Interoceanic Canal Study Commission, Washington, D.C., 1970, the official title of the Anderson Report.

21 This was rather ironic in view of the history of De Lesseps-glorious triumph in building the Suez Canal, and disastrous failure in Panama. David McCullough tells the story in Path Between the Seas: The Creation of the Panama Canal 1870-1914, New York: Simon and Schuster, 1977.

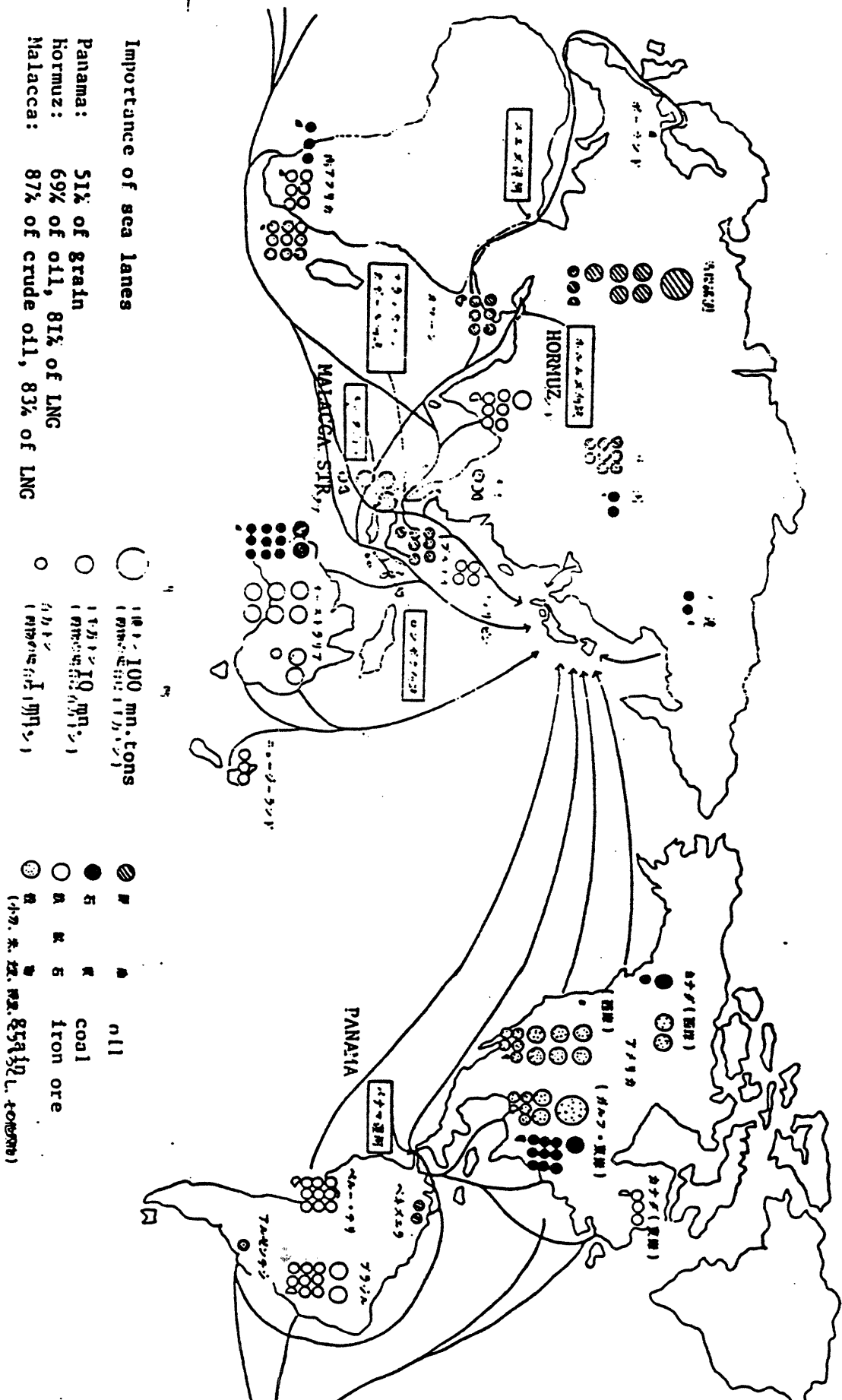
Figure 1.

JAPAN: PRINCIPAL COMMODITY EXPORTS, VOLUME BY REGION AND SEA ROUTE, 1980
 主要輸出品目の地域別輸出品量及び輸送経路(昭和55年)



Source: Japan. Transport Policy's Council's Subcommittee on Comprehensive Security, The Direction of Transportation Policy Relative to Comprehensive Security, Tokyo, 1983.

Figure 2.
 JAPAN: PRINCIPAL COMMODITY IMPORTS, VOLUME BY REGION AND SEA ROUTE, 1980
 主要輸入品目ごとの地域別輸入量及海上輸送経路 (昭和55年)



Importance of sea lanes

○ 100,000 mt. tons (100,000トンの輸入)
 ○ 10,000 mt. tons (10,000トンの輸入)
 ○ 1,000 mt. tons (1,000トンの輸入)

● oil
 ○ coal
 ○ iron ore
 ○ grain

(小丸: 米, 大丸: 小麦, 丸: 大豆, 丸: 小麦)
 (小丸: 米, 大丸: 小麦, 丸: 大豆, 丸: 小麦)

Panama: 51% of grain
 Hornumiz: 69% of oil, 81% of LNG
 Malacca: 87% of crude oil, 83% of LNG

Source: Transport Policy Council's Subcommittee on Comprehensive Security.
 The Direction of Transportation Policy Relative to Comprehensive Security, Tokyo, 1983.

In a 1983 Ministry of Transport study on the contribution of maritime transport policy to comprehensive security,²² the authors point to the availability of substitute routes as indispensable. If no alternative sea route is available, then a landbridge or pipelines should be developed. The study points out that the Panama and Suez Canals serve the function of providing an alternative route to the other, at least for some commodities. (During the time that the Suez Canal was closed, Japan-related trade using the Panama Canal increased noticeably.)

In some cases, the study indicated, to secure safe passage it may be necessary to help countries neighbouring on the straits to develop hydrographic surveys, charts, and navigation signals. This policy was adopted by Japan in the Straits of Malacca in 1974 and more recently in the Gulf of Hormuz, during the Iran-Iraq war.

Other means suggested to ensure safe passage include international cooperation to neighbouring nations to deter military and political situations that might cause disruption. The general idea is to achieve this goal "through stabilization of the economy and the political situation through friendship with Japan and economic development".²³ This theme had previously been emphasized by the Ministry of International Trade and Industry, MITI:

²² Japan, Transport Policy Council's Subcommittee on Comprehensive Security, The Direction of Transportation Policy Relative to Comprehensive Security: Promotion of International Cooperation and Maintenance of Transport, Tokyo, 14 February 1983, p. 23.
²³ *ibid.* p. 25.

"Particularly for an island country like Japan, which is highly dependent on international trade, ensuring the safety of its maritime transport is critical to its economic development. Japan's supply of certain critical materials are concentrated in a few selected countries. So its dependence on certain sea lanes is higher than any other industrial country. Therefore, a disruption of free passage through these sea lanes will have grave consequences for the economy of Japan. Points on the sea lanes which are particularly critical to the economic security of Japan include the Strait of Hormuz, the Strait of Malacca, Panama Canal, Suez Canal, and the Cape of Good Hope. And not a few countries bordering on or adjacent to straits or canals, particularly in the Middle East, Central America and southern Africa, are politically unstable.

In view of this situation, specialized studies must be carried out on how to ensure safe passage through these points. In the final analysis, however, the surest insurance of free and safe passage through these straits and canals lies in the peace and order of contiguous countries brought about by the smooth development of their economies and stabilization of their people's livelihood. Therefore, it is necessary for Japan to cultivate closer relations with these countries and contribute to their economic development, that is, to place emphasis on preventive measures, in concert with other industrial nations concerned."²⁴

This government policy statement reads like a blueprint for Japan's policy in Panama. Many of Japan's actions in Panama over the last ten years or so fit into that framework, and represent an effort to (a) cultivate closer relations, (b) to contribute to Panama's economic development and (c) to work in concert with other industrial nations- in this case the United States- to take preventive measures.

The Panama Canal Issue Today

Japan's initial interest in the Panama Canal in the seventies was in a sea-level canal. This was a time of global

²⁴ Japan, Ministry of International Trade and Industry, Economic Security of Japan 1982. Background Information B1-49, Tokyo, 1982, p. 12-13.

trade expansion, not just of the Japanese economy. Plans for the Suez Canal in the seventies included both the Phase I expansion to widen the Canal, that was carried out, and a Phase II to build a parallel canal, to allow traffic in both directions simultaneously, that has since been set aside. It was a time when Japan's demand for raw materials was still expanding, and the iron and steel industry was one of the hungriest consumers.

Shigeo Nagano, with a lifetime in the steel industry, and former President of Nippon Steel, the largest steel company in the world, would have felt personally the need to ensure guaranteed cheap supplies. A Nippon Steel publicity brochure has this to say about the tasks of management:

"In resources-poor Japan, the steel industry depends on imports for most of its principal raw materials, including iron ore and metallurgical coal. Securing stable supplies of these raw materials has always been among the most important tasks for steel management. The Japanese steel industry as a whole is now producing about 100 million tons of crude steel a year, with its raw materials imports accounting for nearly half of the world's total trade volume in these materials.

As Japan's largest steelmaker, Nippon Steel has played a central role in arranging for stable supplies of raw materials.... Nippon Steel was also a pioneer in the use of large ore carriers to link raw materials shipping ports directly with the steel-works, thus cutting transportation costs.

The first oil crisis, however, had diverse effects on the raw materials supply/demand situation. Soaring oil prices triggered substantial increases in raw materials costs which, together with rises in the price of bunker oil for ore carriers, placed a great burden on the management of Japanese steelmakers.

Nippon Steel has taken all possible steps to reduce raw materials transportation costs, including design of an innovative energy-efficient ore carrier. At the same time, the company has tried to maintain good relations with governments in resources-exporting countries."²⁵

²⁵ Nippon Steel Corporation, This is Nippon Steel, Tokyo, privately printed, nd, p. 20.

This statement provides plentiful justification for Nagano's interest in the Canal. Brazil was always mentioned by Shigeo Nagano as one of the places from which raw materials would be routed through a new sea-level canal in Panama.²⁶ He would have been personally involved in the initial development stages of the huge Carajás iron ore project in Brazil, which has iron concentration of 67%, and reserves for more than 400 years at the planned annual extraction rate of 35 million tons. This huge project must have influenced his thinking on the need for cheaper transportation to Japan.

Other new routes and cargoes mentioned by Nagano and other Japanese spokesmen as candidates to use a new sea-level canal in Panama were grains from Brazil, from the Cerrados project²⁷, which the Japanese government and private enterprise have been developing in an attempt to diversify food sources away from the United States, and oil from Venezuela. At the end of the seventies, the Japan International Development Center collaborated with the UN Economic Commission for Latin America on a study of possibilities for economic cooperation between Japan and Latin America, recommending among other things "joint efforts for the introduction of innovations in maritime transport of bulk

²⁶ Fernando Manfredo, Jr. Deputy Administrator of the Panama Canal Commission, interview by author, 13 May 1989, in Balboa, Panama.

²⁷ For an overview of the background to this huge project, covering an area larger than the whole of the Japanese home islands, see Paulo San Martin and Bernardo Pelegrini, Cerrados: uma ocupacao japonesa no campo, Rio de Janeiro: Editora CODECRI, 1984.

cargoes, like new ocean transportation routes" and mentioning the second Panama Canal as part of that effort.²⁸

One of the participants in that study, Professor Akio Hosono, was to recommend a packet of projects to alleviate geographical distance and fuel costs and to improve the efficiencies of ocean and other modes of transport between Japan and Latin America, to include a second Panama Canal, a Pacific coast port in Mexico, the Export Corridor project in Brazil, and Asiaport.²⁹ This would be a huge relay port in southern Japan, "which would receive mammoth carrier ships from Brazil and transship their contents in smaller vessels to various destinations in Asia, including China and other NICs".³⁰

These huge projects formed part of an elaborate plan developed in 1977 by the president of the Mitsubishi Research Institute, Masaki Nakajima, calling for a Global Infrastructure Fund. The super-projects identified included a Canal across the Kra Isthmus in Thailand, that would obviate the need to use the Malacca Straits, providing an alternative access route to the Indian Ocean; the construction of a second Canal in Panama, and one in Nicaragua; a global network of Super Ports; greening of

²⁸ United Nations, Cuadernos de la CEPAL, Towards New Forms of Economic Cooperation Between Latin America and Japan No. 51, Santiago, Chile, 1987, (1st edition 1980), p. 57 and 169.

²⁹ Akio Hosono, "Japan and Latin America", in Robert S. Ozaki and Walter Arnold, Japan's Foreign Relations: A Global Search for Economic Security, Boulder, Colorado: Westview Press, 1985, p. 222.

³⁰ Leon Hollerman, Japan's Economic Strategy in Brazil: Challenge for the United States, Lexington: Lexington Books, 1988, p. 103.

the deserts; and electricity generating projects, using solar heat, sea currents and hydro power.³¹

Among the eminent persons whom Nakajima called on to form a GIF study group in 1981 were Toshio Doko and Saburo Okita, both of whom were important players in having the Panama Canal plan converted into a national project.³² As one Japanese reporter wrote in April 1980, "both the Ministry of Foreign Affairs and the Transport Ministry have adopted a positive attitude toward the Nagano plan. Although the business and industrial circles were originally against the idea, they have since come around to support it after chairman Toshio Doko of the the prestigious Keidanren (the Federation of Economic Organizations) changed his position and endorsed it."³³

Another important player in getting the Panama Canal project off the ground in Japan was Kisaburo Ikeura, President of the Industrial Bank of Japan. From 1975 when Ikeura became President, the watchword in the bank was to push internationalization. At the time only 10 percent of the bank's profits came from overseas, and his aim was to increase that to 20-30 percent. The IBJ occupies a special role in Japanese banking and the economy. It was a government bank until 1950, and still maintains close links with and access to government bureaucrats. The IBJ lists as its clients 180 of Japan's 200 largest corporations. According to an

31 Masaki Nakajima, "Towards Globalism", Mitsubishi Research Institute, Research Review, vol.1 no. 1, August 1986, pp.4-5.

32 See L. Hollerman, op. cit. p. 103.

33 N. Fujimori, (1980) op. cit., p. 34. For further information on the relations between Shigeo Nagano, Toshio Doko and Saburo Okita see Charlotte Elton, (1988), op. cit., p. 28-29.

official of Japan's Export-Import Bank: "IBJ is the only bank in Japan that has the staff, the funds and the power to bring together all of the big industrial groups."³⁴

The overseas projects in which the IBJ participated in its drive to internationalize were largely natural resource development projects, in aluminum, oil, liquid natural gas, coal and uranium and iron ore--Carajás being one of them. As the 1982 Annual Report states, "IBJ is Japan's leading bank in the field of international finance and acts as coordinator, financial advisor and financier for major natural resources and related infrastructure development projects overseas."³⁵

Ikeura was considered almost a national hero for his role in obtaining alternative sources of supplies of crude oil, which would obviate dependence on the volatile and strife-ridden Middle East, and on transport through the Malacca and Singapore Straits. The country in which he helped to bring about this coup was Mexico. The project was for an oil for a loan deal, by which Mexico offered to supply Japan with 100,000 barrels per day and the IBJ arranged for a \$500 million loan to build a 300 km. pipeline to Salina Cruz on the Pacific coast. Eventually a joint venture was established among Japanese private interests, which included twenty four oil refineries, nine trading companies and three banks, of which one was the IBJ.³⁶

34 Stephen Bronte, "Ikeura's international way with IBJ", Euromoney, (August 1980), p. 36.

35 Industrial Bank of Japan, Annual Report 1982, Tokyo, p. 12.

36 Andrew Spindler, The Politics of International Credit, Private Finance and Foreign Policy in Germany and Japan, Washington, DC.: The Brookings Institution, 1984, p. 166.

As regards the Canal project, by mid-1980 Kisaburo Ikeura was trying to obtain co-financing for his "pet scheme", from the Japanese Export-Import Bank, the World Bank and the U.S. government, as the expected \$12-13 billion cost was too much for Japanese banks to cover alone.³⁷ By 1986, when the tripartite Japan-United States-Panama Commission to Study Alternatives to the Panama Canal was finally established, Ikeura was President of the Japan-Panama Friendship Association, and in that capacity invited General Manuel Antonio Noriega to Tokyo, to give a speech before the members of the Association on Japan and Panama's mutual interests regarding future alternatives to the Canal.³⁸

In January 1988, the consortium in which the IBJ is participating was unofficially declared the winner on technical merit of the contract to carry out the feasibility study of the best alternative to the Canal, and to write the final report for the Study Commission. Other members include the Bechtel Corporation and Stone and Webster Engineering.³⁹

The IBJ had been active in Panama since 1980, when it participated with the World Bank in financing a multimillion dollar project for developing the Colon Free Zone, at the Atlantic end of the Canal. In February 1982, a representation office of the IBJ was established in Panama-- the only others in Latin America

37 S. Bronte (1980), op. cit., p. 40.

38 See General Manuel Antonio Noriega, Los Intereses Mutuos de Panamá y Japón y las Alternativas del Futuro Canalero, speech given before the Japan-Panama Friendship Association in Tokyo, 12 December 1986, (Panama: Defense Forces) privately printed, 1987.

39 At the time of writing, August 1989, negotiations are under way to finalize the terms of the contract, prior to signature.

being located in Mexico, Sao Paulo and Rio de Janeiro. The IBJ also provided a \$80 million loan to the central government, and represents Japan on the creditor committee for Panama, whereas the Bank of Tokyo performs that role for all other Latin American countries, except for Panama's neighbours, Costa Rica and Colombia.⁴⁰

In addition to the IBJ's interest in the Panama Canal studies project, of particular interest to Japan is the project to widen the Canal throughout the 9-mile narrow stretch known as Gaillard Cut, to allow passing of the wide beam ships that use the Canal. In 1987, 20 percent of ships were over 100 foot beam, and it was projected that this would increase to 50 percent within 15-20 years. The fear is that longer costly waiting times will be incurred, unless the Widening project is carried out.

It was apparently to discuss this project that General Noriega was invited to Japan in 1986, as he noted in his speech "several sectors in Japan have made known their interest in contributing to the financing and execution of this work (the Cut Widening project)."⁴¹ Panama's President, Eric Arturo Delvalle later confirmed this to an American journalist, saying "Japan is more than willing to finance the whole thing 100 percent, both

⁴⁰ For details of Panama's external debt, see Panama, Contraloria General, Informe del Contralor General de la Republica, Panama, 1986, pp. 190-A and 191-A. On the creditor committees, see Barbara Stallings, "The reluctant giant: Japan and the Latin American debt crisis", in Susan J. Pharr, ed., Japan and the Third World, forthcoming.

⁴¹ Noriega, (1987) op. cit. p.50.

the Japanese government and the Industrial Bank, which is very keen on the idea."⁴²

The decision on this project, however, lies within the purview of the Panama Canal Commission, a U.S. Federal Agency, and the project is explicitly excluded from the terms of reference of the Study Commission. Possible Japanese financing of the project seems to have been a sensitive subject. Despite the President's statement, no official overtures were made to Panama Canal Commission officials about Japanese financing of the project.⁴³

There were many reasons which led Japan into favouring participation in efforts to upgrade the Canal. It looked positive in so many dimensions: in addition to providing construction work for Japanese firms on the grand scale, it involved a developing country, which could help Japan gain favour with the South; it would help international trade, and would contribute to the western alliance by increasing the security value of the Canal to the United States, a Japanese contribution to burden-sharing. It was seen as a project that would help the United States, and further promote U.S.-Japan relations.

The second Panama Canal project was also used as an example of how Japan could become an economic power without substantial

⁴² Allan Dodds Frank, "Everyone wants us" Forbes (23 February 1987), p. 37.

⁴³ Statement by Fernando Manfredo, Jr., Deputy Administrator of the Panama Canal Commission, in response to questions in CADE 87, a business-sponsored conference on the Canal in the Year 2000, Panama, 27 April, 1987. For further details on the Cut Widening project and other alternatives to the Canal, see Charlotte Elton, "Studies on Alternatives to the Panama Canal", Maritime Policy & Management, 14, no.4 (October-December 1987), pp. 289-299.

military might, through becoming an "aid great power."⁴⁴ These national prestige considerations carry considerable weight and should not be underestimated, particularly at a time when Japan is searching for a more active international role, an honored place in the world community, and to escape from the characterization of being an "economic giant, political pygmy".⁴⁵

After three years of meetings of a Preparatory Committee, from 1982-1985, the terms of reference for the Study Commission were finally agreed upon by the three governments involved, in September that year, during a meeting of the United Nations General Assembly. The Study Commission itself was finally established in Panama City in June 1986, but it advanced very slowly due to delays by the United States in appointing its delegates to the Commission.⁴⁶

C. JAPANESE AID, TRADE AND INVESTMENT IN PANAMA

Japan's involvement with Panama stems from the 1970's, when private sector and official attention was drawn to the country as

44 Dennis Yasutomo, The Manner of Giving: Strategic Aid and Japanese Foreign Policy, Studies of the East Asian Institute, Columbia University, Lexington, Mass: Lexington Books, 1986, p. 24.

45 See for example Shotaro Yachi's Japan's Search for an Honored Place in the World Community, paper prepared as a Fellow, Center for International Affairs, Harvard University, 1988, also Edwin O. Reischauer, "Can Japan stay an economic giant but a political pygmy?" Harvard International Review, X, No. 4 (April-May 1988), p. 27.

46 The Panamanian President Nicolas Ardito Barletta was forced to step down from his position a few days after the signing of the agreement to establish the Commission in New York. Though the two events were unconnected, the change in the Panamanian President led to a marked cooling of relations between the United States and Panama.

a result of the Canal Treaty negotiations. Japanese economic cooperation with the country shows all the characteristics of strategic aid, as Panama fits into the category of a country with which Japan has a relation of economic interdependence, because of the transit of raw materials and export products through the Canal, and could be considered a place critical for world peace and stability. Though Panama could not qualify for assistance on humanitarian grounds, due to the per capita income of over \$2,000, the other criteria could overwhelm that one in some cases.

Panama was the first Latin American country to raise money on the Tokyo capital market, through the use of yen bonds, in March 1978, and appears to have had privileged access to Japanese funds for loans. At the end of 1987, Japanese financial institutions held \$0.6 billion of Panama's total foreign debt of \$4.9 billion, just over 12 percent.⁴⁷ This proportion is similar to Japan's overall exposure to Latin American debt. (Panama was also the first country to default on a yen bond issue, in March 1988, when banks in Panama closed after the United States had frozen assets of the Banco Nacional de Panama.)

Technical assistance projects in Panama covered a variety of fields, from cartographic and fishing resources surveys, to equipping the National Cancer Institute, and upgrading the telecommunication system. Two integrated economic cooperation projects in which the Japan International Cooperation Agency, JICA, is

⁴⁷ Nihon Keizai Shimbun, 10 March 1988.

involved are the establishment of an educational television channel, and a vocational training institute.⁴⁸ The former gives local exposure to Japanese culture and programs made in Japan, while filling an important gap in the programming of commercial stations. At the Panamanian-Japanese Center, Japanese experts train their counterparts to improve labour skills in electronics, auto mechanics, bodywork and painting.

The potential spinoffs for Japanese business are high. The vocational project could help Japan to resolve a serious handicap in its sales expansion to Latin America-- the distance from service centers. A virtuous circle will be created as the graduates of the program go to work for local companies selling and servicing Japanese goods. In fact several Japanese companies chose Panama as their marketing, distribution and service centers for South America, Toyota and Sony, for example. A Mitsui consultant, in a report to the Ministry of Planning and Economic Policy, suggested that a possible land-use for the former Albrook Air Field, that reverted to Panama under the Canal Treaties, and is conveniently situated near the Canal and the city, be used as a hi-tech service center, among other uses.

It is arguable to what extent economic cooperation can achieve the goals that Japan has proposed for it, namely to encourage friendship with Japan, promote economic development and

⁴⁸ The Japanese delegates to the Commission to Study Alternatives to the Panama Canal are also JICA personnel. The insistence that the Japanese participation be handled through JICA, according to Panamanian sources, led to some difficulties in reaching agreement on Commission procedures.

to stabilize the local economy and political situation. This should be an important question for Japan, now it is on its way to becoming the number one aid donor in the world, in dollar terms. The Panama case, though relatively small figures are involved, could be an interesting one to evaluate the success of the strategic aid policy.

Another related project in Panama important for Japan's commercial expansion in Latin America is the Colon Free Zone, a tax free warehousing operation at the Atlantic entrance to the Canal. With an annual turnover of goods peaking in 1982 at \$4 billion, it claims to be the largest free zone in the world after Hong Kong. The goods traded there came primarily from Japan, 23 percent of the total. Goods from Taiwan follow with 15 percent, and from the United States (11 percent) and Hong Kong (9 percent).⁴⁹ One purpose of the IBJ-World Bank loan for the development of Colon was to carry out a landfill project to permit expansion of the Colon Free Zone. A Japanese company, Aoki, was awarded the contract, for \$60 million, in 1981.⁵⁰

Japanese banks also became active in the international banking center in Panama particularly since the end of the seventies, coinciding with deregulation in Tokyo of international financial

⁴⁹ Data provided by the Statistics Department, Colon Free Zone.
⁵⁰ Aoki Corporation, Annual Report, 1982. Other contracts won by Aoki in Panama include the Vacamonte fishing port, financed by the Bank of Tokyo, and the first phase of the Fortuna Dam hydroelectric project. Aoki bought the Marriott Hotel, in 1983, and the Contadora Hotel in 1987. The President of the Aoki Corporation, Hiriyoshi Aoki, is the Director General of the Japan-Panama Friendship Association, and invited General Noriega to be guest of honor at his daughter's wedding, during Noriega's trip to Japan in December 1986.

operations, and expectations of greater trading links between Japan, and North and South America. The Bank of Tokyo set up its Panama operation in 1973. It was followed by the Sanwa Bank (1978), the Dai-Ichi Kangyo Bank in 1979, the Sumitomo and Mitsui Banks in 1980, the Mitsubishi Trust and Banking Corporation in 1981 and the Mitsubishi Bank in 1983.

There was a rapid build up of their assets in Panama. By the end of 1984, they amounted to 17 percent of the \$38 billion total reported to the National Banking Commission. At that time, Panama's banking center hosted 109 banks, from 25 countries. Japanese assets were second only to those of the twelve United States banks, whose assets that year amounted to 26 percent of the total, as shown in Table 1. By March 1987, Bank of Tokyo assets had increased to \$1.8 billion, the Sanwa Bank to \$1.5 billion, the Sumitomo Bank, to \$1.4 billion.

(A year later, their assets were reduced to a shadow of their former selves as a result of the instability, rumours of printing currency, culminating in a nine-week bank closure, from March to May, 1988.)

Seven of the nine largest Japanese general trading companies, the sogo shosha, have offices in Panama, all established since the Mitsubishi Corporation came in 1970. This was the year that Panama passed its modern banking law, which established the ground rules for the international banking center. Mitsui, Sumitomo and C. Itoh followed in 1972, Marubeni in 1973,

Table I

**Assets of United States and Japanese Banks in the Panama
International Banking Center, 1984**
(in millions of \$)

Bank	Assets (12-31-84)
Total all banks	<u>37,985</u>
Total assets in U.S. banks	<u>9,737</u>
First National Bank of Chicago	3,651
American Express Bank (Panama) S.A.	2,531
Chase Manhattan Bank	641
Bank of America N.T. & S.A.	632
Citibank N.A.	586
Citicorp International Bank, S.A.*	537
Merrill Lynch International Bank	487
Bankers Trust Co. Inc.	241
Republic National Bank of N.Y., Inc.*	195
Marine Midland Bank, N.A.	130
First National Bank of Boston	102
Banco de Credito Internacional, S.A.	4
Total assets in Japanese banks	<u>6,305</u>
Bank of Tokyo Ltd.	1,330
Sumitomo Bank, Ltd.	1,250
Sanwa Bank, Ltd.	1,043
Dai-ichi Kangyo Bank	984
Bank of Tokyo (Panama) S.A.*	686
Mitsubishi Trust & Banking Corp.*	593
Mitsui Bank, Ltd.	380
Mitsubishi Bank (Panama) S.A.*	39

* International license, i.e for offshore business only.

Source: National Banking Commission, Panama.

Kanematsu-Gosho in 1975, and Nissho-Iwai in 1980.⁵¹ A JETRO office was also established in 1978, as a regional office to cover Panama and Central America. A director of that office declared that among the reasons Japanese businessmen liked doing business in Panama, in addition to stability and good living conditions, the use of the U.S. dollar and the good airline connections and telecommunications, was that it was a free-flow information center, where it was easier for a Japanese banker to meet with his U.S. counterpart than in New York.⁵²

Extraordinary though it may seem, Japan's overseas direct investment has increased from a mere \$112 million in 1977, when it was behind Mexico (\$171 million), Bermuda (\$313 million), Peru (\$457 million) and Brazil (\$1.8 billion), to \$11.1 billion in 1988, second only to the United States. The explanation for this expansion becomes a little clearer by understanding Panama's tax-haven status, the ease of registry of corporations, and open registry for ships. According to a JETRO White Paper on FDI in 1987:

"Japanese subsidiaries in Panama are heavily concentrated in the service sector, such as information, finance and securities business, which operate either in free zones or the offshore markets in Panama. Though there are many Japanese paper com-

51 The dates are taken from the Oriental Economist, Japanese Overseas Investment. A Complete Listing by Firms and Countries, 1984-1985, Tokyo, 1984. Marubeni closed down its office in 1988, because its operations in Panama had been in banking.

52 The JETRO office is another casualty of the political crisis in Panama. It closed in March 1989. A regional office is due to open in Costa Rica in October, 1989.

panies, there is not a single Japanese subsidiary engaged in manufacturing business in Panama."⁵³

The law that controls Japanese investment abroad defines it as to include both acquisitions by the residents of shares issued by a corporation established under a foreign law, *or loans* to such corporations, provided such acquisition or loan is done with the objective of establishing a permanent economic relation with the corporation.⁵⁴

The fact that overseas investment includes loans could explain why it also appears that Panama does more trade with Japan than do any of the other Latin American countries, as seen in Table 2. Trade consists largely of ships, "exported" to Panamanian subsidiaries of Japanese corporations, presumably bought with loans from the parent company, which appear in the overseas investment statistics.

Panamanian statistics show a very different pattern of trade. In 1986 Japan was Panama's second most important supplier of imports, after the United States, with \$108 million, compared with \$436 million from the United States. (To these should be added an estimated \$30 million worth of Japanese products, imported to Panama through the Colon Free Zone.) Two years

⁵³ JETRO, JETRO Hakusho Toshishen, 1987: Sekai to Nihon no Kaigai Chokusetsu Toshi--Endaka de Shin Kyokumen o Mukaeta Kaigai Toshi (JETRO White Paper, 1987 Investment: World and Japanese Foreign Direct Investment-- Foreign Investment Entered a New Phase in an Era of the Highly Valued Yen), Tokyo, 1987, "Panama" pp. 82-84. My thanks to Takako Kishima for the translation.

⁵⁴ The Foreign Exchange and Foreign Trade Control law, as amended in December 1979, as described by Hiroki Sakamoto, in "Japan's outward and inward FDI", The CTC Reporter, No. 27 (Spring 1989), p. 64.

Table 2
Japan's Trade with Selected Latin American Countries
1986

	Exports	Imports
Total	<u>9,494</u>	<u>6,194</u>
Panama	3,197	84
Mexico	1,032	1,439
Brazil	973	1,875

Source: Keizai Koho Center, Japan 1988 An International Comparison, Tokyo 1987, pp. 36-40, from Japan Tariff Association, The Summary Report: Trade of Japan.

previously, two thirds of the direct imports from Japan were of vehicles and car parts. On the other side of the coin, Japan purchased from Panama goods worth a mere \$240,000, mainly scrap metal. The peak value of Panamanian goods exported to Japan was in 1984, when it reached just under one million dollars.

This dismal imbalance tells its own story of Panama-Japan relations. Between 1983 and 1987, Panama pursued a policy of structural adjustment aimed at increasing exports to help pay the foreign debt, in accordance with World Bank and International Monetary Fund prescriptions. Despite the extensive nature of economic and financial links between Panama and Japan existing at the time, Panama was unable to exert any leverage to raise the paltry level of commodity exports to Japan. On the contrary, it declined.

The Panamanian ship registry has expanded greatly, and Japanese-owned ships were responsible for more than 20 percent of the increase between 1978 and 1984, when the total Panama flag fleet tonnage increased from 27.6 million deadweight tons to 62.1 million dwt.⁵⁵ Whereas in 1978 Japan had 30 percent of its total open registry under the Panamanian flag, by 1984 that percentage had increased to over 55 percent, Table 3, indicating a marked preference for the Panama registry over the many competing ones, (twenty of them according to a recent count). These data are confirmed by the growing importance of Panamanian consulates in

⁵⁵ UNCTAD, Review of Maritime Transport 1978, United Nations: New York, 1981, p. 11, and UNCTAD, Review of Maritime Transport 1984, United Nations: New York, 1985, p. 10.

Table 3
Use of the Panama Flag, 1978-1984

	Percentage in Panama	
	<u>1978</u>	<u>1984</u>
Total open registry tonnage	14	31
Total open registry ships	35	60
Japan's open registry tonnage	30	55
Japan's open registry ships	63	83
U.S. open registry tonnage	10	15
U.S. open registry ships	26	43

Source: Author's calculations from UNCTAD Review of Maritime Transport 1979 and 1986, New York, based on data supplied to the UNCTAD Secretariat by A. and P. Appledore, Ltd.

Japan, as sources of consular revenue for Panama. Whereas in 1979 they produced 12 percent of total consular revenue, by 1983 they produced 31 percent of the total.⁵⁶ Total income to the Panama government from ship registry and other consular activities is around \$45 million. Business generated for private sector lawyers and accountants could be at a similar level. The ship registry business appears not have been affected by the crisis.

However, for other sectors, the panorama has changed. By February 1989 only two Japanese banks were offering complete services. An estimated half of the Japanese community had left, and all economic cooperation projects in the pipeline were on hold. As mentioned above, even JETRO left, the overseas arm of MITI, indicating a lack of faith in a short to medium term return to stability.

The Japanese reaction to the crisis gives some indication of the nature of Japan's interests in Panama. While Panama is a useful and convenient place to do business, it is by no means indispensable, as some Panamanians like to think. Nor does the Japanese reaction give much credence to the hypothesis that Japan is attempting to oust the United States in this part of the world. Japan's expectations of stability in Panama, compared with the rest of the Central American region, were related to the high United States' presence in the country. When, despite, that presence, the United States was not able to take action to maintain that stability, (it could be argued that its actions made

⁵⁶ Figures from the annual reports of the Panama Contraloria General de la Republica, various years.

the situation worse) the Japanese were in no position to challenge the United States, or to take independent action to guarantee their interests. As a Washington lobbyist for Japanese companies put it, "the United States gave the Japanese the signal that Noriega was the man to deal with; then they pull the rug out from under him, and the Japanese were left stranded."⁵⁷

Despite the efforts made to implement a comprehensive security policy, to ensure Japanese interests independently, this crisis has indicated that in this part of the world, Japan has to rely on the United States, even though it may not agree with United States policy.⁵⁸

D. POLITICAL RELATIONS AND PROSPECTS FOR THE FUTURE

United States policy towards Central and South America is dominated by security considerations, and Panama is no exception to that rule. Japan does not always share the perceptions of its principal ally regarding the nature of threats to United States security, whether directly from the Soviet Union, or in the Third

⁵⁷ Personal communication, Washington D.C. May 1988. The lobbyist wished to remain anonymous for commercial reasons.

⁵⁸ Japan clearly sees the United States as guarantor of uninterrupted passage through the Panama Canal. As the Chief Researcher for the Japan Maritime Research Institute wrote in June 1988, "As long as the United States participates in the Canal, it is almost certain that there will be no unrest, and safety for general commercial transit will be ensured." In a section headed "Shutdown of the Panama Canal" he writes: *As long as the United States is in charge of the management of the Canal, like now, the Canal will not be shut down easily.* Seizi Nagatzuka, "The Present and the Future of the Panama Canal: Its Role in Maritime Transport and its Relation to Japan", JAMRI Bulletin. June 1988. Unofficial translation from the original Japanese, p. 2 and 11.

World. In the Central American region and Panama, it should be pointed out that for the United States the complexities are uncomfortably close to home and full of historic intimacy, while for Japan they are physically remote and historically unfamiliar.

The United States continues to be Japan's prime reference for policy in Latin America, so much so that personnel in the Japanese Embassy in Washington are assigned exclusively to the task of following United States policy in the region, and the Vice-Minister of Foreign Affairs of Japan told an audience in Boston, in February 1988, "we share the view that the economic stability and development of Latin American countries are crucial to the United States economy and security, and hence to the interest of Japan."⁵⁹

However, Japan does not always conform without question to the dictates of United States foreign policy. Japanese companies have continued to trade with Nicaragua and Cuba, despite commercial embargoes placed by the United States. When the Central American peace plan was first signed in Guatemala (the Esquipulas Accords) in August 1987, Japan was among the first governments to hail this breakthrough as a hopeful indication for a negotiated peaceful settlement, whereas the United States was wary of the process.

In Panama, there was little problem in political relations for Japan until the unrest began in June 1987, though no critical

⁵⁹ Hiroshi Kitamura, Japan Deputy Minister of Foreign Affairs, "The growing role of Japan in the world", speech given before the Japan Society of Boston, 24 February, 1988.

choices had to be made until the ouster of President Eric Arturo Delvalle in March 1988, when Manuel Solis Palma became Minister-in-Charge of the Presidency. The United States continued to recognize Delvalle, and referred to the Panamanian government as the Noriega/Solis Palma regime, and brought pressure to bear on several allied governments to prevent them from recognizing the new President.

They virtually succeeded, as there were considerable protests in Congress and in the United States administration at the news that Japan saw no problem in dealing with an administration headed by Solis Palma. The Japanese government backed off, and only formally recognized the government after the Toronto G-7 Summit, in June 1988, after the Federal Republic of Germany did so.⁶⁰ This does not mean that the Japanese government has a greater degree of moral approval of the present government of Panama than the United States does, but from a diplomatic point of view Japanese government policy is to apply the test of who has effective control, and considers the government of a country to be its internal affair.

Another critical moment came in May 1989, after the opposition claimed victory in the elections, their leaders were beaten, and the elections declared null and void. The Japanese Foreign Ministry emitted a communiqué that the Panamanian opposition distributed freely, though it was not published in its entirety in

⁶⁰ Recognition by the FRG came only after recognition by Nobel Peace Prize Winner, Oscar Arias, President of Costa Rica, who has become a lodestone for democracy in the area.

the government-controlled press. A few days later, the Japanese Ambassador's wife was making a much-publicized courtesy visit to the Presidency.

While the Ministry of Foreign Affairs attempts to move through this diplomatic minefield, private sector interests have voted with their feet, as indicated above. Under what conditions would Japanese private investment and funds be likely to return to Panama? As expressed by a the manager of a Japanese bank in Panama, first there would have to be an agreement between the United States and Panama; that agreement would have to be backed up by bilateral government aid, and the renewal of aid from multilateral institutions like the World Bank, the International Monetary Fund and the Inter-American Development Bank. Only then would the climate be right for the return of the private sector.⁶¹

Japan's strategy as regards Panama has evolved over the last few years. One declared Japanese vision of Panama, as the site of a sea level canal linked with superports in Brazil and Japan has been overtaken by events. The economic/commercial rationale for such a combination does not appear to be there. With the trend in the Japanese economy to "the light, the thin, the short and the small", which expresses itself concretely in a decrease in raw materials input per unit of production, Japan's demand for raw materials will grow at less than the growth in its economy, and that is probably true for other expanding economies in Asia.

⁶¹ Personal communication, interview by author in Panama City, August 1988. The banker's expectations were that such a recovery would be at least three to five years down the road.

In the most recent studies of traffic demand for the Panama Canal, admittedly for the existing lock-limited Canal, market research findings, based on interviews with Canal users, indicated among other things:

- Brazil/Argentina to Japan/Far East grain is a future trade potential, probably bypassing the Canal,

- Brazil-Far East steel is a growing trade but mostly moves via South Africa;

- Japan will begin to take Colombian coal in Cape-size ships via South Africa.

- decreased automobile shipments to the United States east coast through the Canal.

Overall, cargo using the Canal is not expected to grow at more than 1.6% per annum through the year 2010, and ship transits at 0.6%, as the average ship size will increase.⁶²

A second vision linked Panama to Pacific Basin development. According to this view, Panama will play an important role in the Pacific era as the link of greatest importance between the Pacific and Atlantic Basins. However, this would require some adaptation, such as expansion and diversification of trade, and greater sophistication in transport and financial services.

These factors would require modernization of the physical infra-

⁶² Temple, Barker & Sloane, Inc., Traffic Demand Forecast, prepared for Panama Canal Commission, 1989, p. III-16 to III-23, III-71.

structure of the Canal, and related facilities, such as the Colon Free Zone and of Panama's financial infrastructure.⁶³

Japanese commercial and economic interests in Panama, as discussed above, certainly appeared to fit in with this scenario for Panama. However, they received a rude shock with the development of the political and economic crisis in Panama, which disrupted the free flow of goods, money, people and information for which Panama was famous.

A third interpretation of Japan's activities in Panama is as a hedging strategy. Though it is not clear how things will develop, the geographic location of the isthmus means it will continue to be an important crossroads, and it makes sense for Japan, with a domestic economy still dependent on foreign trade and long maritime transport links, to take part in the decision-making over future transport modes across this narrow neck of land between the Atlantic and Pacific Oceans.

Moreover, Japan has assumed the position that it has an international responsibility regarding the Panama Canal. Japan is currently one of the main users of the Canal, and, while in the future the Canal may be less important for Japan, it has to become a good international citizen and contribute to solutions regarding the future of the Canal, precisely because the Canal provides an international public service.

⁶³ Akio Hosono, "Planificación y desarrollo a la luz de la experiencia japonesa", Suplemento Embajada del Japón, Panama, 29 April, 1986, p. 23. This view was given by Prof. Hosono in a speech at the Hotel Marriott, Panama City, which was later published by the Embassy.

As regards a sea level canal, though in the last decade it seems to have become increasingly less viable as a commercial proposition, new technologies for high-speed ships under research in Japan, with the encouragement of the government, could revolutionize shipping routes and their economic justification, and hence the economics of a sea level canal.⁶⁴ The techno super liner 93 and the electromagnetic propulsion ship could lead to ship speeds double or triple the current ones, which potentially would make sea transport more attractive relative to air transport. Moreover, at present the superconductivity technology being developed requires sea water to function, rather than fresh water.

Discussions of the prospects for a new canal in Panama cannot omit consideration of the joint Nicaragua-Japan studies for a canal, announced publicly in March 1989. While the Japanese government has declared its commitment to the Panama studies, indicating that those involved in the Nicaragua project are from the private sector, this does not mean that the results would not be available to the government.

Carrying out studies in Nicaragua is entirely consistent with a risk-spreading and hedging strategy by Japan, promoting diversification of alternatives. A canal in Nicaragua was always included among the megaprojects of the Global Infrastructure

⁶⁴ These developments are described in Stephen Kreider Yoder, "Japan is harnessing superconductivity to conquer the high seas", Asian Wall Street Journal, August 22, 1988, pgs. 1, 11, and in Transport in Japan 1989, Ministry of Transport, Tokyo, 1989, pp. 49-50.

Fund, discussed above. The uncertain outcome of the situation in Panama may have tipped the scales in favour of initiating studies in Nicaragua, particularly once it became clear that a military solution to the situation in Nicaragua was unlikely.

This would not be the first time that canal alternatives in Nicaragua and Panama have been played off one against the other by external actors, in an attempt to bring pressure on the other. It could also represent an attempt by Japan, using the private sector as the spearhead, to test the waters of taking action which, while not antagonistic to the United States, is unlikely to meet with its official approval.

On the other hand, the prospects for bilateral cooperation between Japan and the United States in providing strategic aid to Central America, or other countries in Latin America, will have been altered by this negative experience in Panama. One possible outcome may be a greater inclination for Japan to participate in multi-country models of cooperation, rather than bilateral ones, such as the Sanford Commission.⁶⁵

The crisis in Panama has shown beyond doubt that the Japanese government does not enjoy sufficient freedom of action in this part of the world to take an independent stance. The United States expected a certain amount of deference, and got it. It seems quite clear also that Japan is not seeking to usurp or

⁶⁵ Duke University Center for International Development Research, Report of the International Commission for Central American Recovery and Development, 1989. The Japanese participants in the Commission are Professor Yuzo Kamo, Aoyama Gakuin University, and Mikio Kojima, President of JETRO, New York.

replace the United States' role in the region. Those people in Panama who see Japan as an alternative to the United States fail to see Japan's true intentions-- to protect its commerce and to help the United States.

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