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Mexican, Costa Rican Presidents Sign Bilateral Free Trade Agreement

by Carlos Navarro

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On April 5, Presidents Carlos Salinas de Gortari of Mexico and Rafael Calderon of Costa Rica formalized a bilateral free trade agreement which both leaders promoted as the first step in the economic integration of Mexico and Central America. The agreement, which is expected to gain easy approval in the legislatures of the two countries, is scheduled to go into effect on Jan. 1, 1995.

The new accord proposes to eliminate import tariffs in three stages for more than 8,400 products traded among the two countries. Roughly 70% of those products will be eligible for immediate duty-free status as of the day the accord goes into effect. Tariffs on the next 20% of products will be phased out over a five-year period, and the final 10% over a ten-year period ([SourceMex, March 9, 1994](#)).

Trade and investment regulations on services are excluded from the pact, since Costa Rican law prohibits foreign investment in the financial sector and in state-run electricity and telephone services.

During negotiations, the two sides were eventually able to reach a compromise allowing them to overcome a major disagreement in the area of trade in agricultural products. Trade in dairy products had presented the greatest challenge, since there was strong pressure from the Mexican dairy industry on Mexican negotiators not to make too many concessions regarding imports of powdered milk and other dairy products.

On the other hand, Costa Rican negotiators were seeking duty-free access for dairy products to the Mexican market. According to Costa Rican Trade Minister Roberto Rojas, in the end the two sides agreed to allow preferential treatment for a certain level of imports of Costa Rican powdered milk to Mexico. He said the two countries were scheduled to meet in April to set amounts and prices for imports of Costa Rican powdered milk.

Rojas said Costa Rica would have the capacity to export about 10,000 metric tons of powdered milk per year to Mexico, if allowed unrestricted access to the Mexican market. In addition, Costa Rica was also able to negotiate preferential access for sugar to the Mexican market. Amounts and prices are also to be determined during April. Rojas estimated that Costa Rica has the capacity to supply about 1,000 MT per year of sugar to Mexico, representing only a small portion of the country's import needs.

A precedent for other regional accords

The new trade agreement is expected to have an impact far beyond bilateral trade between Mexico and Costa Rica. At the signing ceremony in Mexico City, President Calderon said that the agreement not only sets a precedent for accords among other Latin American countries, but also places Costa Rica in an advantageous position vis-a-vis the North American Free Trade Agreement (NAFTA). For their part, Mexican officials consider the new agreement with Costa Rica the first step in the process

of hammering out individual bilateral agreements with all of the Central American countries, as well as for the eventual goal of signing a multilateral trade pact with the region as a whole.

On April 7, Mexico's deputy trade secretary Herminio Blanco told reporters Mexico will attempt to expedite negotiations with a four-nation bloc of Central American countries Guatemala, El Salvador, Nicaragua, and Honduras now that the accord with Costa Rica has been concluded. In fact, during a visit to Mexico on April 6, Nicaraguan President Violeta Chamorro told reporters she expected Mexico to finalize bilateral trade accords with each of those four Central American countries by late 1994 or early 1995. Even though Mexico is negotiating an accord with the four countries as a bloc, discussions over the past three years have taken place on a bilateral basis.

The agreement with Costa Rica and the other possible accords with Central American countries are expected to particularly benefit Mexico's southern states. Leaders of business organizations in Quintana Roo and Campeche states, and state legislators from Tabasco state, praised the accord asserting that the southern region of Mexico stands to benefit the most from the Costa Rica-Mexico accord.

Culmination of negotiations on the free trade agreement is one of the last achievements of Costa Rican President Rafael Calderon, who will hand over power to president-elect Jose Maria Figueres on May 8. Nonetheless, members of the Figueres administration have already endorsed the accord. According to Costa Rican vice president-elect Rebecca Grynspan, the agreement will pave the way for Costa Rica to reduce its trade deficit with Mexico, which has averaged US\$80 million in recent years.

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