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Latin American Trade Partners Worried About Impact of Peso Davaluation

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During January, a handful of Latin American countries that entered into free trade agreements with Mexico at the beginning of 1995 asked President Ernesto Zedillo's administration to take steps to ensure that the devaluation of the peso does not create unfair trade advantages for Mexico. Last year, Mexico negotiated bilateral trade agreements with Costa Rica and Bolivia, plus a trilateral agreement through the Group of Three (G-3) accord with Colombia and Venezuela. All of those agreements became effective on Jan. 1, 1995. However, in statements to the press, officials from the four Central and South American countries emphasized that they were not "overly concerned," and were mainly seeking reassurances that Mexico would take steps to correct any imbalances caused by the devaluation. In fact, in early January, the Colombian government issued a statement urging members of the business community not to cancel plans to conduct business with Mexico because of the devaluation.

Theoretically, the devaluation of the peso is advantageous for Mexico from a trade standpoint, reducing the cost for Mexican exports while increasing the cost of imports. The four countries that signed agreements with Mexico have some reason for concern, since the reduction or elimination of tariffs that took place on Jan. 1 magnifies the impact of the lower-cost imports from Mexico. At the same time, the higher cost of exporting to Mexico minimizes the benefits of reduced tariffs. Of the four countries, the strongest concerns were voiced by Costa Rica, which sent a delegation to Mexico City on Jan. 22 to meet with representatives from Zedillo's cabinet to discuss steps to compensate for the devaluation. The delegation was composed of representatives from the Central Bank and the Finance and Trade Ministries.

Costa Rican officials emphasized, however, that the purpose of the mission was simply to discuss safeguards, since Costa Rica was not necessarily expecting a "flood" of imports from Mexico in the short term. Earlier in the month, Costa Rica's Finance Minister Fernando Herrero told Mexico's official news agency Notimex that any increase in imports from Mexico would be short-lived, since trade between the two countries is based on dollar denominations. He also noted that Costa Rican exports to Mexico are currently very small and would feel very little impact from the devaluation. He estimated that Costa Rica's exports to Mexico totaled US$47 million in 1994.

During January, high-level Colombian and Venezuelan officials also pledged to monitor the situation very closely to ensure that the devaluation does not provide Mexico with an unfair trade advantage. Venezuela's Foreign Minister, Miguel Angel Burelli Rivas, told reporters that President Rafael Caldera's administration had started consultations with Mexico to discuss steps to deal with the situation. For his part, Colombia's Trade Minister Daniel Mazuera noted that the section on safeguards in the G-3 agreement deals with such situations as the Mexican devaluation. Meantime, Colombian Finance Minister Guillermo Perry said Colombia has the capability of compensating for the impact of the devaluation. Perry noted that Colombia has established strong relations

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with partners in Europe and other regions and can easily increase exports to those destinations if exports to Mexico decline "temporarily" as a result of the devaluation. For its part, the Zedillo administration has taken steps to reassure Colombia and Venezuela that invoking the section in the G-3 agreement on safeguards remained a viable option. In addition, in late January Juan Manuel Nungaray, a trade official at the Mexican Embassy in Caracas, raised the possibility that Mexico will take other steps such as expand the number of Colombian and Venezuelan products that will be allowed to enter the country duty-free during the first year of the agreement. He also said tariff rates could be adjusted proportionally to reflect the effects of the devaluation. For example, he said Mexico was considering reducing tariffs for products that do not qualify for duty-free status in the first year of the agreement.

The devaluation of the peso has also caused concern among officials from the four countries in Central America that are currently negotiating free trade agreements with Mexico. The so-called Northern Triangle countries El Salvador, Honduras, and Guatemala are simultaneously negotiating separate but similar bilateral accords with Mexico. For its part, Nicaragua is conducting an entirely separate bilateral agreement with Mexico, and in fact had hoped to complete negotiations on the accord by the end of the January-March quarter of this year. However, Nicaraguan Trade Minister Oscar Aleman told reporters that President Violeta Chamorro's administration has decided to delay completion of the agreement until later in the year to assess the possible impact of the devaluation on Nicaraguan-Mexican trade.

In Honduras, some business leaders have also urged President Carlos Roberto Reina's administration to postpone completion of any agreement with Mexico until the Mexican currency becomes more stable. In a request to the Reina administration, the National Association of Industrialists (Asociacion Nacional de Industriales, ANDI) said the Honduran economy, which lacks investment and diversification, is in no condition to compete against Mexican products, which have gained an advantage due to the peso devaluation. In response, Honduran Economy Minister Delmer Urbizo said the concerns of the business sector are legitimate and would be taken seriously. However, he emphasized that the impact of the devaluation is not all bad for the Honduran private sector, since the lower-cost of imports would allow Honduran manufacturers to import raw materials more cheaply, thus reducing the final cost of production. (Sources: La Jornada, 01/09/95; Notimex, 01/11/95, 01/23/95, 01/22/95; Agencia Centroamericana de Noticias-Spanish news service EFE, 01/09/95; Agence France-Presse, 01/06/95, 01/10/95, 01/17/95, 01/22/95, 01/26/95)

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