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Chihuahua, Federal Government Continue Feud Over Imports of Used Cars

by LADB Staff

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The state of Chihuahua and President Ernesto Zedillo's administration are embroiled in a bitter dispute over the federal government's refusal to allow registration of cars imported into Mexico illegally. The Secretaria de Hacienda y Credito Publico (SHCP) has refused to provide registration decals to cars brought from the US without authorization. Many of these cars are introduced into Mexico by agricultural workers and other Mexicans who reside temporarily in the US (see SourceMex, 1999-04-21).

Chihuahua Gov. Patricio Martinez has taken matters into his own hands and has proposed to register 2 million such cars within the state's borders. But this proposal has angered the federal government, which has jurisdiction over automobile licensing and registration.

The SHCP and the Secretaria de Comercio y Fomento Industrial (SECOFI) have threatened to withhold revenue-sharing funds for Chihuahua and any other states that register illegally imported cars. "[Gov. Martinez] should refrain from this action or he will face the consequences," said Trade Secretary Herminio Blanco. Blanco said the governor's actions could harm the Mexican automobile sector.

"We cannot legalize these cars," Blanco told participants at an auto-parts convention in Mexico City in mid-May. "This would be unfair to motor-vehicle manufacturers who invested US\$5 billion in Mexico and created new jobs for 500,000 Mexicans."

An SHCP spokesperson said the terms negotiated by Mexico under the North American Free Trade Agreement (NAFTA) prohibit the importation of used motor vehicles until January 1, 2008. After that date, used cars and trucks will be allowed to enter the country upon payment of appropriate taxes. All tariffs on new and used cars imported from the US and Canada are scheduled to be removed by 2020. Martinez, who has gained the reputation as the "rebel governor," has pledged to continue to fight the SHCP to legalize the used cars. "I will not accept any directives that I consider harmful to our state," he said.

The disagreement over auto registration in Chihuahua is the first high-profile dispute between a member of the governing Partido Revolucionario Institucional (PRI) and the PRI-led federal government. States seek more federal revenues, taxation powers. The conflict also reflects the growing split between state leaders and the federal government on taxation and revenue sharing. For years, mayors and governors particularly those affiliated with opposition parties have clamored for the federal government to increase revenue allocations and to allow states to collect their own taxes.

Tlaxcala Gov. Alfonso Sanchez Anaya, elected as a candidate for a PRD-led coalition earlier this year, proposed that the government increase allocations to state treasuries by between 2% and 4% and allow states to collect their own taxes. In September of last year, a SHCP plan to give states taxation powers was under consideration, but no action has been taken since then (see SourceMex, 1998-09-30). The federal government modified the Ley de Coordinacion Fiscal, including increasing the amount of money distributed to states from special federal taxes on alcohol and tobacco.

At the same time, the government has cancelled a special program to help states pay off some of their debts (Programa para el Fortalecimiento de la Coordinacion Hacendaria con Entidades Federativas). Juan Jose Leon Rubio, Aguascalientes state finance secretary, said the program provided important assistance for states, which are under constant pressure to balance their budgets. "We received 54 million pesos (US\$5.6 million) from this program in 1997," said Leon Rubio. "In 1998, we received nothing, and this year we were informed that the program has been cancelled."

Mexican states, which have been forced to borrow heavily to continue to provide services, have seen their debt skyrocket in just three years. The collective debt owed by Mexico's 32 states had surged to 71.3 billion pesos (US\$7.3 billion) as of year-end 1998, compared with only 39.6 billion pesos (US \$4.1 billion) at the end of 1995. "Cancellation of the program will force us to pay off debts with funds originally intended for social or infrastructure programs," said Guanajuato state treasurer Jose Luis Romero Hicks.

Some Mexican senators have criticized the Zedillo administration for refusing to consider comprehensive tax reforms that would benefit state governments. Sens. Jose Luis Medina Aguiar of the PRI and Rosendo Villarreal of the PAN said the centralized taxation system is designed to inhibit states from adopting their own fiscal strategies. "Whoever controls the money, controls the power," said Villarreal. Unless the tax structure is reformed, said the two senators, other states will take fiscal matters into their own hands. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on May 26, reported at 9.67 pesos per US\$1.00] (Sources: La Jornada, 04/22/99; Spanish news service EFE, 05/03/99; Excelsior, 05/03/99, 05/05/99; El Universal, 04/28/99, 04/29/99, 05/03/99, 05/04/99, 05/07/99, 05/13/99, 05/19/99; El Economista, 04/29/99, 05/19/99; Proceso, 05/02/99, 05/23/99)

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