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Mexico, Chile to Implement Expanded Free Trade Agreement at End of July

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After more than one year of negotiations, Mexico and Chile have completed an expanded trade accord that complies more closely with the North American Free Trade Agreement (NAFTA) and other multilateral agreements. The agreement, which will go into effect July 31, will replace the 1992 Chile-Mexico agreement. The new accord will expand the categories of products eligible for tariff reductions and will include sections dealing with services, rules of origin, dispute-resolution mechanisms, and health codes for animals and plants.

Eduardo Solis, Mexico's deputy trade secretary for Latin American trade negotiations, said the agreement will also eliminate a number of nontariff barriers and remove some ambiguities on rules of origin that existed in the old accord. The two countries had interpreted origin based on regulations under the Asociacion Latinoamericana de Integracion (ALADI). The two sides had hoped to complete the agreement in April 1998 (see SourceMex, 1998-03-25). Negotiations took longer than expected because of disagreements on agriculture, rules of origin, and other key areas.

As a result of the extended negotiations, Mexico was able to gain exemptions on key agricultural products like beans, barley, and wheat from the list of tariff reductions awarded to Chile. Solis said the new agreement will build on the success the two countries have had in expanding bilateral trade in less than a decade. Mexico-Chile trade totaled US$1.338 billion in 1998, compared with only US $158 million in 1990. Statistics published by Mexico's Secretaria de Comercio y Fomento Industrial (SECOFI) show bilateral trade in January- April of this year reached US$310.7 million, including US $111.3 million in Mexican exports to Chile and US$199.4 million in imports of Chilean products.

The new agreement is also expected to expand investment between the two countries. Mexican companies, in particular, have increased their presence in the Chilean market in recent years. Statistics from the Mexican Embassy in Santiago show Mexican companies invested US$140 million in various projects in Chile between January 1994 and December 1997. Mexican companies have continued to invest in Chile in the last couple years. For example, Mexican cement company CEMEX acquired a 12% share in Chilean counterpart Cementos Bio Bio in June of this year (see SourceMex, 1999-06-30).

But another Mexican company, Grupo Tribasa, may lose its foothold on the Chilean market because of financial problems. Tribasa, which missed a debt payment on a Eurobond earlier this year, has faced cash-flow difficulties with many of its domestic and international operations, including in Chile. The company is behind in payments of US$1.5 million to Chilean subcontractors. Some of those subcontractors took over a section of Santiago streets to protest Tribasa's nonpayments. The situation concerned Chilean government officials and legislators, who threatened to withdraw public-works concessions for Tribasa unless the company resolves its debt problems.

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Mexico seeks tariff accords with Uruguay, Brazil

In addition to Chile, the Mexican government is making efforts to expand trade relations with other South American countries. Mexican officials began discussions with counterparts from Uruguay and Brazil in mid-July to establish ground rules for negotiating tariff agreements. The discussions were scheduled to coincide with the consultation on the Free Trade Area of the Americas (FTAA) in Bolivia, beginning July 28. Mexico, which negotiated a tariff agreement with Uruguay in 1986, is pushing to expand that agreement to increase the number of products eligible for tariff reductions and implement some mechanism on rules of origin and dispute resolution.

Some products are also covered through an agreement Mexico has negotiated with the Southern Cone Common Market (MERCOSUR). Solis said the two countries concluded a successful round of negotiations July 23 and are expected to pick up on those discussions in Montevideo in early August. "We had very positive results in our first meeting," said Solis. Mexico's trade relations with Brazil have been a little more rocky in recent years. The two countries had negotiated a tariff agreement in 1995, but the accord was scrapped in 1997 because of disagreements on access to the US market.

Many Brazilian industrial groups had complained that Mexican products had gained an unfair advantage under NAFTA and displaced Brazilian exports to the US market. To compensate for the loss of sales to the US, Brazil demanded that Mexico offer similar tariff concessions to MERCOSUR countries as it did to the US and Canada. Mexico refused, resulting in the cancellation of the tariff-preference accord. Brazil is the only country in Latin America that lacks a tariff agreement with Mexico.

In May of this year, the two countries committed to resume negotiations on a tariff agreement at the FTAA meetings in Bolivia (see SourceMex, 1999-05-05). "We first have to evaluate how we want to structure this agreement and later discuss more specific aspects," Solis said. Mexico also has a tariff agreement with MERCOSUR member Argentina.

But the accord has not overcome a simmering dispute over Mexico's health restrictions on imports of Argentine beef. In early July, a special panel of the World Trade Organization (WTO) agreed to hear Argentina's complaint about restrictions imposed by Mexico and South Korea on Argentine beef imports. "We would like the two countries to explain their reasons for maintaining the restrictions, when Argentine beef is exported to more than 70 countries under the highest sanitary conditions," said Luis Barcos, an officer with the Argentine government's Servicio Nacional de Sanidad y Calidad Agroalimentaria (Senasa). [Sources: Agence France- Presse, 07/05/99; El Universal, 07/06/99, 07/26/99; El Economista, 07/21/99, 07/26/99, 07/27/99; Excelsior, 07/27/99; Notimex, 07/20/99, 07/26/99, 07/28/99]

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