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Mexican Business Sector Continues to View China with Suspicion

by LADB Staff
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The Mexican business sector continues to view China with a wary eye, even as President Vicente Fox pushes his free-trade agenda that requires Mexico to retain a level of open commerce with the Asian giant. The strong consensus among many Mexican business organizations and some government officials is that China is at least partially responsible for the sluggish performance of the Mexican economy in the past couple of years. China is blamed for using unfair practices to lure existing businesses and potential new investors away from Mexico and for supplying a large share of the low-cost apparel, electronics, and textiles sold on the Mexican black market.

A recent report from the UN Conference on Trade and Development (UNCTAD) estimates that Mexico lost about US$11.7 billion in direct investment in 2002, largely because of the migration of factories to China and other lower-wage countries. Of the 3,700 maquiladora plants that existed in Mexico in 2001, roughly 500 have shut down their operations in Mexico in recent years. The UNCTAD report said Mexico's loss of direct investment was the fourth largest on a list of 30 countries, surpassed only by the US, Great Britain, and the Netherlands.

At the same time, the report said China was the country that captured the second-most direct foreign investment last year with US$53 billion. A separate report from the Banco de Mexico (central bank) said the trend was continuing this year, with direct investment levels reaching only US$5.2 billion in January-June, a 20.8% decline relative to the same period in 2002.

The Fox administration has also threatened to file a complaint against China through the World Trade Organization (WTO) for offering unfair subsidies to lure maquiladora operations (see SourceMex, 2002-07-17, 2002-12-13).

Some estimates show the exodus of manufacturing plants has contributed to the loss of more than 250,000 jobs in the maquiladora sector between the end of 2000 and the middle of 2003. This total does not include jobs lost in nonmaquiladora operations, especially the footwear and textile industries, which are hurt by the illegal influx of inexpensive products from China (see SourceMex, 2003-05-14).

A recent report from the government's statistics agency (Instituto Nacional de Estadistica, Geografia e Informatica, INEGI) said employment levels in manufacturing-related industries have declined for 32 consecutive months. Some observers fault the Fox administration for failing to take actions to improve the competitive position of the maquiladora sector, such as easing tax restrictions, said Jorge Carrillo, a researcher at Colegio de la Frontera (COLEF).
Exodus of manufacturing jobs could minimize recovery

Others say the exodus of manufacturing jobs from Mexico to China and other countries could minimize the impact of a recovery in the US economy on Mexico, whenever this recovery occurs. "This year, Mexico has lost markets in 12 of its 20 exporting industries," said the US-based financial-analysis company Merrill Lynch. "While Mexico should benefit from a spike in industrial production in the US, this will happen to a lesser extent than in the past." Merrill Lynch noted that Mexican exports to the US are lagging behind imports of US products for the first time in 16 years, even though exports of crude oil have risen by 30% from a year ago.

"If you are looking for an economy to react to a recovery in the US, the best investments are in Asia, not Mexico," said Merrill Lynch specialist Ed Butchart. Exports from the maquiladora sector during the first half of this year declined to their lowest level since mid-2001, totaling US$36.8 billion. Mexico remains the largest supplier to the US of large-scale capital goods like automobiles, auto parts, and appliances such as large-screen televisions, which are typically not produced at maquiladora plants.

Conversely, China has overtaken Mexico in its exports of footwear, electrical components, plastics, toys, and sporting goods, which are traditional maquiladora exports. "Mexico has nearly lost the battle on low-skilled, labor-intensive industries, where it simply cannot compete with China on labor costs and will likely continue losing market share," Merrill Lynch said in a recent report.

The weakness of the Chinese currency versus the dollar and other currencies has accentuated the country's export advantages. A recent WTO report said Chinese exports increased by an average of 18.7% annually between 1999 and 2002 because the Chinese currency was able to retain a fixed rate of 8.28 yuans per US$1.00. During 1999-2002, the report said, Mexico only increased its exports by 5.6% annually. In the first half of this year, China became the second-largest source of imports for the US.

China accused of producing counterfeit handicrafts

China appears to have penetrated one of Mexico's most traditional economic activities: arts and crafts. The Asociacion de Fabricantes de Articulos para Regalos, Decoracion y Artesanias (AMFAR) has complained to the government that Chinese manufacturers are making exact replicas of Mexican handicrafts and paying indigenous artisans to sell them as if they were their own. As an example, said AMFAR president Maribel Fernandez, Chinese entrepreneurs are copying traditional furniture from Puebla and having it sold as a Mexican product. "The only role of the supposed Mexican artisans' in the whole process is to lend their names to the product," complained Fernandez.

Some industry sources estimate that the introduction of counterfeit Chinese handicrafts has resulted in losses of almost 1 billion pesos (US$91.6 million) annually since 2000. "These imports are not even handicrafts because they are mass-produced," artisan Elvira Rivera told the Mexico City daily newspaper Milenio Diario. "Their price is 10 times lower than what we offer because the costs of production are much lower."
Many of the mass-produced items, including religious articles, are sold by street vendors, but sometimes the products end up at established businesses. AMFAR and other organizations have complained about the trend to the government, but the Procuraduría General de la República (PGR) said there is nothing to stop China from duplicating Mexican handicrafts unless a violation of intellectual property is involved. The only way to stop the practice is to crack down on smuggling, and in this area the government has had mixed results (see SourceMex, 2001-11-07 and 2003-03-15).

Beyond handicrafts, many larger industries remain concerned about the continued influx of Chinese-made products like textiles and footwear into both the informal and formal economy. This has prompted some organizations like the Camara Nacional de la Industria Textil (CANAINTEX) and the Camara Nacional de la Industria del Vestido (CANAINVES) to join forces to counter what they perceive as China's unfair trade practices. "Many products imported from China enter the country as US products, which have tariff benefits under the North American Free Trade Agreement (NAFTA)," said CANAINVES president Raul Garcia.

The Fox administration has given mixed signals regarding its position on China. In addition to condemning what it calls unfair Chinese subsidies, the Fox administration has openly condemned that country's low wages. At the same time, the administration has come out in support of a full bilateral free-trade agreement with that country. Mexico already has a partial trade accord with China, which sets a timetable to phase out tariffs on various products. "Mexico will intensify bilateral relations with China with the goal of breaking the inequity in our trade balance," Economy Secretary Fernando Canales Clariond said in an interview in mid-September.

The Secretaría de Economía (SE) said China's trade surplus with Mexico has increased to US$5.8 billion. Canales said a bilateral agreement with China will also enable the two countries to exchange information to develop a better strategy to combat the influx of contraband. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Sept. 17, reported at 10.91 pesos per US$1.00] (Sources: Milenio Diario, 08/05/03; The San Diego Union-Tribune, 08/06/03; El Financiero, 06/02/03, 08/28/03; El Universal, 07/22/03, 08/05/03, 08/28/03; El Sol de Mexico, 08/28/03; The New York Times, 09/03/03; La Cronica de Hoy, 06/30/03, 07/22/03, 07/24/03, 08/06/03, 09/04/03, 09/05/03; La Jornada, 06/13/03, 07/22/03, 07/28/03, 09/17/03; Unomasuno, Reforma, 09/05/03, 09/17/03)