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LADB Staff

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China Pledges to Curb Smuggling of its Products into Mexico

by LADB Staff
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The Chinese government has made a commitment to fight the smuggling of its products into Mexico, but local business leaders are skeptical that this gesture will make much difference. Chinese Prime Minister Wen Jiabao made the offer to curb the contraband of textiles, footwear, handicrafts, and a wide range of other items during a two-day summit with President Vicente Fox in Mexico City in mid-December.

The textile and footwear industries, in particular, have suffered from the smuggling of Chinese products, which are brought into the country without paying the appropriate import taxes and are frequently sold on the black market at cut-rate prices. Almost 60% of the clothing sold in Mexico is smuggled into the country and offered through the informal economy or even through established retail operations, said the Camara Nacional de la Industria del Vestido (CANAINVES).

The competition from unfair imports forced thousands of clothing-related companies to close in recent months, resulting in the layoffs of tens of thousands of workers (see SourceMex, 2003-05-14). The Chinese prime minister did not offer details on exactly what steps his country would take to curb smuggling, but the Fox administration and Mexican business leaders welcomed the offer. "This is good news," Fox said, adding that Mexico's efforts will now become much more effective with China's cooperation.

Mexican corruption makes task difficult

The Fox government has had little success during the past year in its efforts to counter smuggling even with tighter customs controls, the confiscation of contraband, and a "Buy Mexican" advertising campaign. Mexico has imposed anti-dumping duties as high as 500% on many Chinese products, but many items are able to enter the country because of corruption at Customs stations or because they are imported under false labels from third countries, including the US.

"Even with a more intense fight against smuggling and an increase in the number of confiscated products, the level of contraband increased by 400% last year," said Leon Halkin Bider, president of the Confederacion de Camaras Industriales (CONCAMIN).

While textiles, footwear, and toys are prominent among the products that are smuggled, the contraband includes videotapes, electronic equipment, computer products, wines, and liquor. Smugglers have even introduced counterfeit handicrafts and traditional furniture into the country, which they attempt to sell as genuine Mexican products (see SourceMex, 2003-09-17)

"There are very significant amounts of contraband Chinese products that enter Mexico, affecting our jobs and affecting, unjustly, the competitiveness of our companies," Fox said in a session with reporters from China and other countries ahead of Wen's visit.
The Chinese smuggling operations would not be possible without the cooperation of dozens of Mexican companies. Mexican customs officials say they have identified 117 Mexican companies that have conducted business through five phantom operations based in Hong Kong. "We suspect that the products sold by these 117 companies came from China and that the products were moved through Hong Kong to circumvent rules of origin," said Jose Guzman Montalvo, director of the Administracion General de Aduanas.

'A partial solution'

Mexican business leaders welcomed China's offer as a partial solution in the short term, but raised concerns about upcoming changes in the global economic structure that could give China an unfair advantage in the long run. China stands to benefit from a clause in the World Trade Organization (WTO) that eliminates import duties for textiles for all members of the organization in 2005. The Mexican textile industry, which reported a decline in production of between 6% and 7% in 2003, is concerned not only about China but all other WTO members that are able to produce clothing and apparel at lower costs than Mexico.

As a result, the textile industry has asked the Fox administration to provide some incentives in the face of the increased competition. "We want tax breaks and preferential rates for electrical energy," said Rosendo Valles, president of the Camara Nacional de la Industria Textil (CANAINTEX). The Mexican business sector also remains concerned about other imbalances in the economic relationship with China, including the lower labor costs that have resulted in the flight of many maquiladora operations to the Asian country (see SourceMex, 2002-07-17 and 2003-10-22).

Business leaders have also raised strong concerns about the widening of Mexico's trade deficit with China, which now stands at US$5.8 billion. The concerns about the economic imbalance between the two countries were among the topics of discussion at the Fox-Wen summit. The two leaders decided to lay the groundwork for a strategic-association agreement, which they expect to sign in the near future. "We have come up with a general outline of this strategic-association accord, which will include five points aimed at broadening our bilateral relations," Fox said.

The accord, first proposed by Mexico, will call for establishing a permanent bilateral commission that would handle intergovernmental relations, intensifying exchanges between the Chinese and Mexican legislatures and political parties and increasing trade and scientific cooperation, as well as promoting closer interaction on the world stage. The Chinese prime minister said the two countries were also interested in consolidating their positions at the UN and in the Asia-Pacific Cooperation (APEC) forum. "China and Mexico share a great interest in preserving peace and development," Wen told reporters. (Sources: Associated Press, 12/12/03; Agence France-Presse, 12/12/03, 12/13/03; The Herald, 12/15/03, 12/16/03, 12/18/03; Los Angeles Times, 12/14/03; El Universal, 12/16/04; El Financiero, 12/16/03, 01/06/04; La Cronica de Hoy, 01/06/04; El Sol de Mexico, 01/07/04; Milenio Diario, 01/08/04, 01/09/04)