Japan, Mexico Conclude Negotiations on Bilateral Trade Agreement

LADB Staff

Follow this and additional works at: https://digitalrepository.unm.edu/sourcemex

Recommended Citation

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
Japan, Mexico Conclude Negotiations on Bilateral Trade Agreement

by LADB Staff
Category/Department: Mexico
Published: 2004-03-17

After 16 months of difficult negotiations, Mexico and Japan concluded a bilateral free-trade agreement that will open a new market for a wide range of Mexican agricultural products. Negotiators expect to have the full text of an agreement ready for President Vicente Fox and Japanese Prime Minister Junichiro Koizumi to sign in the next several weeks. The agreement will then have to be ratified by the Mexican Senate and the Japanese Parliament.

The two sides had hoped to complete this agreement in late 2003, but differences regarding Japanese restrictions on imports of Mexican pork, orange juice, and other products prevented the completion of an accord (see SourceMex, 2003-09-24 and 2003-11-19). The disagreements had been so strong on this issue that Mexico threatened to cancel all future negotiations if there was no breakthrough by the end of March. Mexico's threat to withdraw from the talks prompted the intervention of Mexican Economy Secretary Fernando Canales Clariond and Japanese Trade Minister Shoichi Nakagawa in the negotiations.

Negotiators overcome differences on pork, oranges

The two senior trade officials not only agreed on a timetable to eliminate Japanese restrictions on pork, orange juice, oranges, beef, and chicken, but also reached an accord on increasing access for Mexican tomatoes, broccoli, cabbage, lemons, avocados, eggs, wine, tequila, tobacco, and other agricultural products to the Japanese market. Mexico also gained preferential treatment for exports of some industrialized products like steel, clothing, and footwear. "Our improved commercial relationship with Japan creates the greatest export opportunities for agriculture," the Secretaria de Economia (SE) said in a statement released upon the conclusion of negotiations.

Japanese officials said the agricultural concessions granted to Mexico represent a change in direction from the government's recent closed-door policies on agriculture. "The agricultural and industrial structures of a country cannot be changed overnight," said Mutsuyoshi Nishimura, Japanese ambassador to Mexico. "But we made a conscious decision to open our markets, beginning with Mexico." Nishimura said Japan currently imports about US$46 billion in agricultural products annually, with Mexico accounting for only US$400 million of this total. "This trade agreement gives Mexico access to our agricultural market, which is one of the largest in the world," said Nishimura.

Mexican agricultural producers were generally pleased with the new agreement, which should create special opportunities for the poultry industry. Poultry producers had already seen an increase in Japanese interest in acquiring chicken products from Mexico because of the recent outbreak of avian flu in Thailand and other traditional suppliers in Asia (see SourceMex, 2004-02-18). "We are not yet aware of all the details of the agreement in relation to poultry, but we are pleased that Mexican products will have another alternative on the international market," said Cesar de Anda Molina, president of the Union Nacional de Avicultores (UNA).
The tequila industry was also pleased about the prospect of expanding its sales into Japan. More importantly, said Ramon Gonzalez Figueroa, president of the Consejo Regulador del Tequila (CRT), tequila will gain special recognition and protection in Japan as a unique Mexican product. This designation is similar to the one negotiated in Mexico’s agreement with the European Union (EU) in 1997 (see SourceMex, 1997-02-12). In exchange for the special designation for tequila, Mexico agreed to apply a similar treatment to sake, the Japanese rice-based liquor, said Gonzalez Figueroa.

In the eyes of some exporters, however, the agreement with Japan fell short of Mexico’s original goals. One organization, the Consejo Mexicano de Comercio Exterior (COMCE), criticized the Fox administration for accepting an export quota of only 80,000 metric tons of pork to Japan annually, when Mexico had originally sought to ship as much as 150,000 MT to that country. "We are not happy," said COMCE president Carlos Rojas Magnon. "I don’t think that the Senate is going to approve this agreement."

A handful of agricultural and food products including pineapples, wheat, pasta, and juices produced from pineapples or apples are excluded from the agreement for three years. The tariff structure for these products will be revisited at the end of the three-year period.

**Mexico agrees to open steel, auto markets to Japan**

In exchange for access to the Japanese agricultural markets, Mexico agreed to offer Japan concessions on steel, motor vehicles, and auto parts. In addition to the disagreements on agriculture, steel tariffs had been a major area of contention for negotiators during the past two months. After the intervention of Canales and Nakagawa, the two sides were able to establish a timetable to phase out Mexican tariffs on Japanese steel imports over the next 10 years.

Negotiators also agreed on a timetable to phase out Mexican tariffs on imports of Japanese motor vehicles. Negotiators developed a mechanism by which Mexico would eventually allow imports of Japanese automobiles, trucks, and buses to enter the country duty free as long as they do not exceed an annual quota equivalent of 5% of the Mexican auto market. Any imports above this quota would then be subject to import tariffs. Japan’s three motor-vehicle giants Toyota, Honda, and Nissan are expected to benefit from the agreement because the three companies currently account for about 25% of sales in the Mexican motor-vehicle market, said the Japanese business newspaper Nihon Keizai.

Mexican auto-industry executives said they welcomed the bilateral trade agreement because of the potential for increased investment by the three Japanese auto giants in Mexico and perhaps an eventual boost in exports of Mexican motor vehicles from Japanese-owned plants in Mexico. The accord could help Nissan expand operations at its assembly plant in Aguascalientes, while Toyota and Honda have both moved to construct facilities in Mexico. "This agreement will help create a better climate in our country for Japanese investment and will also help consolidate our exports to that country," said Cesar Flores Esquivel, president of the Industria Automotriz (AMIA). The bilateral agreement also eases tariff restrictions on imports of Japanese electronic and technological products, such as telecommunications equipment, televisions, photocopiers, and compact-disc players.
In addition, Mexico will phase out tariffs on imports of Japanese motorcycles and musical instruments. Another major benefit for Japan is a provision in the accord that opens the door for Mexican government agencies to make purchases of parts and equipment from Japanese companies. "A significant provision in the accord allows Japanese firms to compete for sales to large government entities like the state-run oil company PEMEX and the Comision Federal de Electricidad (CFE)," said Ambassador Nishimura.

More importantly, said officials, Japan views the agreement with Mexico as an important first step to expanding its commercial relations with Latin America. Mexican officials said they were also pleased by the opportunity to gain a foothold in Asia and by the prospect of increasing the country's market share in what is considered the world's third-largest market, surpassed only by the US and the EU.

As a result of the agreement, Mexico expects to boost direct exports to Japan by about US$1.5 billion per year, Fox told participants at a trade-association meeting in Mexico City in mid-March. Canales later said the increased exports could also help reduce Mexico's trade deficit with Japan, which has risen to about US$3 billion. The economy secretary also predicted that the agreement would generate direct Japanese investments of US$12 billion and create about 277,000 new jobs during the next 10 years. "This gives us a great opportunity," said Canales. "We are the first country to which Japan has granted preferential tariffs."

Mexico is only the second country to sign a trade agreement with Tokyo, although terms of the new accord are more liberal than with Japan's other trade partner Singapore. Japan is in the early stages of trade negotiations with Asian neighbors South Korea, Thailand, the Philippines, and Malaysia. Japanese agency grants loan to Mexico for natural-gas projects The improved relations are also expected to help Mexico continue to draw on Japanese government loans for key projects.

In a development that coincided with the announcement of the agreement but is not directly related to the accord the Japan Bank for International Cooperation (JBIC) approved a loan of US$500 million to PEMEX subsidiary Pemex-Exploracion to develop new sources for natural gas. The loan, provided in conjunction with credit from private institutions, will be used to develop natural gas from five projects in the Gulf of Mexico: Crudo Ligero Marino, Ixtal Manik, Macuspana, Costero Terrestre, and San Manuel. The JBIC said the loans would also indirectly benefit Japanese companies because they would be among those considered for participation in PEMEX natural-gas projects.

The loans are intended to help foster development of Mexico's natural gas, which Mexico has had to import because of the inability to extract its vast reserves in the northeastern regions of the country and the Gulf of Mexico. To gain access to northeastern reserves, Fox has launched a controversial program offering exploration and development contracts to private entities (see SourceMex, 2003-10-29 and 2004-01-28). Opponents have pledged to fight the initiative on the grounds that it violates the Mexican Constitution. (Sources: Dow Jones news service, 01/15/04; The Financial Times-London, 01/21/04, 03/10/04; Agence France-Presse, 03/05/04, 03/10/04; Spanish news service EFE, 02/04/04, 03/02/04, 03/11/04, 03/12/04; Unomasuno, 02/10/04, 02/23/04, 03/10/04, 03/12/04; El Sol de Mexico, 02/23/04, 03/10-12/04; Associated Press, 03/05/04, 03/10/04, 03/12/04; The Herald-Mexico City, 03/09/04, 03/11/04; Milenio Diario, 03/09/04, 03/11/04, 03/12/04; El Universal, 03/09-12/04; El
Independiente, Notimex, La Cronica de Hoy, 03/10-12/04; Reuters, 03/10/04; La Jornada, 03/10/04, 03/11/04, 03/15/04)

-- End --