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## **Mexican Senate Ratifies Bilateral Trade Agreement with Japan**

*by LADB Staff*

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The Mexican Senate has unanimously ratified the Mexico-Japan trade agreement signed by President Vicente Fox and Japanese Prime Minister Junichiro Koizumi in September. Under the agreement, Japan agreed to eliminate restrictions on a wide range of agricultural and manufactured products in exchange for Mexican concessions on steel, motor vehicles, and auto parts (see SourceMex, 2004-03-17).

The Senate ratified the accord following strong recommendations from committees dealing with trade (Comision de Comercio y Fomento Industrial) and foreign relations (Comision de Relaciones Exteriores). "The agreement should be approved because it creates an instrument to promote real development and growth for some of our productive sectors," the committees said in a written recommendation to the rest of the Senate.

The text said, however, that the approval must be accompanied by a series of recommendations to the federal government to take certain steps to ensure that the agreement is beneficial to Mexico from the very beginning. The accord is scheduled to go into effect on April 1, 2005. The statement reflected concerns some senators raised during debate on whether the agreement was truly beneficial to Mexico. "We are opening great possibilities to imports from Japan but few opportunities for our exports to that country," said Sen. Raymundo Gomez Flores, a member of the former governing Partido Revolucionario Institucional (PRI).

The Secretaria de Economia (SE) acknowledged Sen. Gomez's concerns, saying that even with the accord Mexico would account for only about 1% of Japan's total imports. In a recent report, the SE said Mexico faces stiff competition in the Japanese market from China, the US, and South Korea in the food, fuel and mineral, and electronic and machinery sectors. Accord expected to narrow trade deficit with Japan Notwithstanding its limitations, the SE said Mexico is better off with the agreement than without it.

### ***Exports to Japan expected to grow by 10% annually***

Economy Secretary Fernando Canales Clariond said the reduction of Japanese tariffs on certain Mexican products could boost exports to that country by 10% annually. The accord, said the SE, would also help narrow Mexico's wide trade deficit with Japan, which stood at US\$6.4 billion in 2003. Mexican imports from Japan grew by an average of 7% annually between 1993 and 2003, while Mexican exports to that country rose by 1% in the same period.

The Centro de Estudios Economicos del Sector Privado (CEESP) agreed that the accord could help reduce some of the trade imbalances with Japan. The organization cautioned, however, that the agreement might not be as beneficial to Mexico unless the Mexican government takes an active role

in helping promote exports to Japan. "The opportunity has been created," said the CEESP. "It's a matter of taking advantage of this opportunity."

As a parallel, the CEESP pointed to Mexico's trade agreement with the European Union (EU), which has helped boost Mexican exports to that region, but not sufficiently. "The trade agreement with the EU has a tremendous potential that has not yet been exploited," said the CEESP. The center said Mexico's capacity to export has been limited in part by the lack of technology, which has limited productivity and production in Mexican industry.

The CEESP said the government should devise a strategy to take advantage of the growth of the EU, which is now the world's largest trade bloc. "We have new opportunity with the incorporation of 10 new countries into the EU," said the CEESP.

During the debate on the Japanese accord in the Mexican Senate, some members also raised concerns that Mexico may not be able to take full advantage of the agreement because of disadvantages in some areas relative to counterparts in Japan. "Japanese workers receive very strong training, which puts Mexico at a disadvantage from a labor standpoint," said Sen. Nicolas Teodoro Salas Perez, a member of the center-left Partido de la Revolucion Democratica (PRD).

### *Japanese investments expected to increase*

The SE said, however, that the agreement offers other benefits to Mexico, such as an increase in Japanese investment. "The flow of investment from Japan could increase by an average of US \$1.2 billion annually, resulting in 40,000 direct and 40,000 indirect jobs," said the SE. The bilateral agreement could create opportunities for the two countries to promote tourism, Fox government officials also said.

As part of the agreement, the two countries agreed to expand the exchange of visitor information and other data relevant to the tourist trade. The Secretaria de Turismo (SECTUR) says an average of 60,000 Japanese tourists have visited Mexico annually in recent years. The number of Mexicans traveling to Japan has averaged slightly more than 23,000 annually. Some Mexican senators worried that Japan may use its bilateral accord with Mexico as a steppingstone to the North American Free Trade Agreement (NAFTA) and the lucrative US market. "One must not lose sight that Japan's priority is not the Mexican domestic market," said PRI Sen. Alejandro Gutierrez.

Still, proponents of the agreement say Mexico is important because it is the only country in Latin America that has an accord with Japan. This status may not last, however, because the Japanese government has expressed interest in negotiating trade agreements with Chile and Brazil. The concerns of the Mexican Senate notwithstanding, the upper house voted to support the bilateral accord without a dissenting vote.

The Senate approval occurred just weeks after the Japanese Diet (parliament) also overwhelmingly voted to support the agreement. There had also been some early resistance among Japanese legislators to the accord, especially to any measures that would open up Japanese markets to imports. The opposition from the Japanese legislators was not sufficient to sway Prime Minister

Koizumi, who views bilateral accords as an alternative to accepting the broader market-opening measures dictated by the World Trade Organization (WTO).

Before completing the bilateral accord with Mexico, Japan's only trade agreement was with Singapore. Japan has since completed the framework for a free-trade agreement with the Philippines and has begun similar negotiations with Malaysia and Thailand. South Korea also seeks agreement with Mexico. South Korea has also made some overtures to Mexico about a bilateral agreement. The two countries are expected to complete a study in August 2005 that would list the best options to boost trade and investment, including a full trade accord. "We are aware that South Korea has expressed interest for some time in entering into a trade accord with us," said Gerardo Traslosheros, director of international negotiations at the SE.

Traslosheros said Mexico would benefit from the accord because of the investment possibilities for South Korean companies in the Mexican electronics, motor-vehicle, and auto-parts industries. "South Korean companies are already very prominent in Mexico, and the potential for further investment is strong," said the SE official. South Korean investment in Mexico totaled US\$640 million between 1994 and 2003, primarily in the manufacturing and retail industries, said the SE.

The agreement could also provide another outlet for Mexican agricultural products, given South Korea's strong demand for food imports. South Korea imports about US\$10 billion in agricultural and food products annually. Traslosheros said Mexico's agreement with Japan set a favorable precedent for a similar accord with South Korea. "For South Korea, it is important to negotiate an agreement similar to the one we have with Japan," said the SE official. (Sources: Associated Press, 09/18/04; United Press International, 09/18/04; Daily Yorituri-Tokyo, 09/20/04; The Financial Times-London, 09/20/04; Yorituri Shimbun-Tokyo, 09/20/04; El Financiero, 09/22/04; The Japan Times-Tokyo, 10/06/04; La Cronica de Hoy, 09/20/04, 10/07/04; Kyodo news service, 10/05/04, 11/10/04; Spanish news service EFE, 11/10/04; La Crisis, 11/19/04; Notimex, 11/09/04, 11/18/04, 11/28/04; La Jornada, 09/20/04, 09/27/04, 10/04/04, 11/12/04, 11/22/04, 11/24/04, 11/29/04; El Universal, 11/11/04, 11/15/04, 11/29/04; Unomasuno, 09/20/04, 11/30/04)

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