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Mexico, U.S., Canada Discuss Tariff Uniformity in Textiles, Other Products

by LADB Staff

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The US, Mexican, and Canadian governments are considering unifying some of their tariffs under the North American Free Trade Agreement (NAFTA), but at least one of the affected sectors in Mexico has asked President Vicente Fox's administration to proceed with caution. The three countries briefly discussed a plan to create a uniform set of tariffs for the steel, textile, clothing, footwear, and processed-food industries. The issue was among the agenda items at a summit in Texas hosted by US President George W. Bush in March.

Angel Villalobos, Mexico's deputy economy secretary for international negotiations, said the proposal is only in its initial stages, with the three countries still considering how the changes would be applied. "We have not set an actual date for the tariff unification," said Villalobos. Other Mexican Cabinet officials were less cautious. Economy Secretary Fernando Canales Clariond said the tariff unification would result in more flexible rules of origin in the five sectors, which would boost trade among the three countries and generate more jobs.

Canales said integrating the textile and apparel industry in North America could create 160,000 jobs in Mexico in its first year, although the job-creation rate would decline in subsequent years. The economy secretary also suggested the unification of tariffs could serve as a model to help the three countries find a common immigration policy. "We may find the solution to our differences over migration through this proposal for investment and commerce," said Canales, who said the tariff unification could come "in the medium term."

Foreign Relations Secretary Ernesto Derbez echoed Canales' statements in a radio interview. "We would be able to improve our competitive position relative to other regions such as Asia," said Derbez. "In particular, I am referring to countries like China and India." Textile industry concerned about Chinese imports The Mexican textile industry has pleaded with the Fox government to reconsider including the textile and apparel industries in the plan for tariff harmonization.

Textile industry worried

The Camara Nacional de la Industria Textil (CANAINTEX) has raised strong concerns that the changes would work against Mexico. The organization questioned whether lower tariffs on imports from the US and Canada would actually help reduce costs of production. "It would be a mistake to think that we could get cheaper inputs," said CANAINTEX. "We would not be receiving less expensive cloth, but rather our market would be flooded with finished clothes and apparel."

Furthermore, CANAINTEX president Rosendo Valles Costas said the tariff harmonization would encourage triangulation, by which other countries would smuggle textiles into the US and Canada and move them into Mexico at significantly reduced tariff rates. One of the countries of greatest

concern to the Mexican textile industry is China, which appears to be benefiting from the lifting of global textile quotas on Jan. 1, 2005 (see NotiCen, 2005-01-13).

The elimination of quotas on Chinese textiles was a condition of the World Trade Organization (WTO) for China's entry into the organization in 2001. Mexico was among a handful of countries that had petitioned the WTO to delay the elimination of global quotas for China, citing concerns that the Asian country would come to dominate global trade in textiles because of unfair advantages such as government subsidies and an undervalued currency. The Mexican textile industry has already begun to feel the effects of Chinese competition in the US market. Mexican textile and clothing exports to the US have declined in all categories so far in 2005.

In contrast, China has picked up market share in almost every category where Mexican textile and apparel exports have declined. China's rapid incursion into the US market has raised strong concerns within the Bush administration, which has opted to consider a temporary safeguard put in place when China was admitted to the WTO.

At the behest of the US textile industry, the US Commerce Department's Committee for the Implementation of Textile Agreements has initiated an investigation to determine whether imports of Chinese-made cotton shirts, cotton trousers, and cotton and synthetic-fiber underwear are disrupting the US market. If the committee decides that there is disruption, the Bush administration would be required to negotiate a solution with China. If the two sides were not able to reach an agreement, the US could claim the right to impose a quota equal to 7.5% more than the amount of goods imported in the previous 12 months.

The provision that allows the US or other countries to implement the quota safeguards expires in 2008. Mexican textile manufacturers are pleased that the US has decided to investigate imports of Chinese apparel. "I'm thrilled," Ernesto Moguel, president of the CANAINTEX Puebla-Tlaxcala chapter, told the Los Angeles Times. "We have been pointing out all along the cheating that China is doing. It's outrageous."

Textile leaders say proposal needs further study

Still, CANAINTEX leaders are urging the Fox administration to delay any decision on tariff integration with the US and Canada. "Before accepting a tariff harmonization, the administration should conduct a comprehensive analysis to determine whether the advantages are greater than the disadvantages," said Valles.

CANAINTEX urged the Fox administration to seek other ways to assist the Mexican textile industry such as reducing the cost of energy. High energy prices are threatening the viability of Mexican textile and apparel manufacturers, which could result in the loss of 50,000 jobs in 2005. "Our utility costs are twice as high as those in competing countries," said Valles.

CANAINTEX's concerns are supported by a recent report from the Secretaria de Economia (SE), which cited negative results for the textile, apparel, and leather industry in recent years. The SE report said the GDP for the sector declined by 7.8% during 2001-2003, compared with a growth rate of 5.1% during 1995-2000. "This production chain, comprising links such as synthetic fibers,

textiles, and clothing, represents the fourth-most-important manufacturing activity in Mexico," said the SE report. "Yet, in the last two years, this chain has fallen into a critical situation because of international competition." (Sources: Associated Press, Notimex, 03/28/05; El Universal, 03/29/05; El Financiero, 03/29/05, 03/31/05; Los Angeles Times, 04/05/05; La Jornada, 04/06/05)

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