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Chavez Threatens to Withdraw Venezuela from Accord with Mexico, Colombia

by LADB Staff

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In early May, Venezuelan President Hugo Chavez threatened to pull out of its trilateral trade agreement with Mexico and Colombia, drawing mixed reactions in Mexico. The agreement, known as the Group of Three (G-3) accord, has been in effect since 1994. Under the accord, the countries agreed to eliminate tariffs on various products, established a mechanism to protect intellectual property, facilitated government-to-government purchases, and promoted investment (see SourceMex, 1994-06-22 and 1998-0422).

In his statement, Chavez said the agreement promotes unfair trade because its benefits are reaching only a handful of companies in Venezuela. Furthermore, he said, the accord is helping expand the gap between the wealthy and the poor in that country.

Chavez's proposal to abandon the G-3 followed his decision to abandon the Comunidad Andina de Naciones (CAN) just a few days earlier (see NotiSur, 2006-05-05). That decision was made in retaliation for the bilateral trade agreements signed by CAN members Colombia and Peru with the US earlier this year (see NotiSur, 2006-01-13 and 2006-03-10). "Venezuela is studying the possibility, and it is a strong possibility, of abandoning another old accord that is hurting our country and benefiting only a few companies," the Venezuelan president said in his weekly television and radio program *Alo Presidente*.

Chavez said his country is looking to expand its trade with the Southern Cone Common Market (MERCOSUR), comprising Brazil, Argentina, Paraguay, and Uruguay. In late 2005, MERCOSUR voted to incorporate Venezuela as a full member, but that status will not become official until late 2006 (see NotiSur, 2005-12-02). Chile, Bolivia, Ecuador, Colombia, and Peru are associate members of the trade bloc, with Mexico also entering into a working relationship with MERCOSUR (see SourceMex, 2004-08-04). "We are looking to the south not the north," Chavez said.

The Venezuelan leader's position regarding the G-3 may also relate to a strained relationship with Mexican President Vicente Fox. In November 2005, Fox criticized Chavez and Argentine President Nestor Kirchner for opposing the Free Trade Area of the Americas (FTAA), whose principal proponent is the US. In his comments, Fox suggested that Chavez was merely trying to divert attention from some controversies at home. This angered Chavez, who called Fox a "lapdog of imperialism," in reference to the Mexican president's close relationship with the US (see SourceMex, 2005-11-16). Fox revisited the issue at a summit of Latin American nations and the European Union (EU) in Vienna in mid-May. "He should apologize [for that comment]," the Mexican president told reporters.

Chavez said no apology was forthcoming. "President Fox should remember that he was the one who took an aggressive stance against us, and we merely responded," said the Venezuelan president.

Mexico has also accused Chavez of violating the Mexican Constitution by becoming involved in the presidential campaign of Andres Manuel Lopez Obrador, a member of the center-left Partido de la Revolucion Democratica (PRD). Both the PRD and the Venezuelan government have denied any direct role of the Chavez administration in the campaign (see SourceMex, 2006-04-05).

Fox administration downplays move; business sector worried

Chavez's proposal to withdraw from the G-3 drew mixed reactions in Mexico, with President Fox's administration downplaying the impact of Venezuela's withdrawal from the accord and the business community raising some concerns. "We regret the position of the Venezuelan government," said presidential spokesperson Ruben Aguilar Valenzuela. "But each government is a sovereign entity that makes decisions according to its own interests."

Foreign Relations Secretary Luis Ernesto Derbez acknowledged that the loss of Venezuela could have some economic effect on Mexico, but not a deep impact. "We have a good economic relationship with that country, but I don't think this development would have negative results," said Derbez. The Mexican Congress also criticized Venezuela's possible withdrawal from the agreement as "irresponsible."

PRD Deputy Juan Jose Garcia Ochoa raised concerns that the move would especially affect cooperation in the oil sector. "This agreement provides a forum in strategic areas such as petroleum," said Garcia Ochoa. Derbez raised the possibility that Mexico would expand trade with several other countries in the region using the framework of the G-3 accord. Mexico is especially pushing to integrate Panama in the accord but is also using the agreement to expand economic relations with Peru and Ecuador.

The business community reacted with more concern about a possible Venezuelan withdrawal from the G-3, especially since Mexico is the largest Latin American investor in Venezuela, with holdings in that country reaching US\$3 billion. The Consejo Empresarial Mexicano de Comercio Exterior (COMCE) said many large corporations like TELMEX, Grupo Maseca, Tubos de Aceros de Mexico, CEMEX, Coca-Cola FEMSA, Grupo Bimbo, and the state-run oil company PEMEX have extensive investments in Venezuela. "There is no doubt that there would be some impact, but I don't know to what degree," said COMCE president Rafael Urquiza. "Even though Venezuela is not as important overall in our economic picture, some sectors or companies could suffer more than others."

Venezuela's withdrawal from the accord could also affect total trade between the two countries, estimated at about US\$2 billion annually. Of special concern are Mexico's automobile exports to Venezuela, which stand at about 4,000 units annually. Under the G-3, the two countries had proposed to boost those exports to about 10,000 motor vehicles a year, said the Mexico City daily newspaper Milenio Diario. (Sources: Reuters, 05/07/06; El Financiero, Notimex, 05/08/06; Reforma, 05/08/06, 05/09/06; El Informador, 05/09/06; El Universal, 05/09/06, 05/12/06; Excelsior, 05/12/06; Milenio Diario, 05/08/06, 05/12/06, 05/15/06; La Jornada, 05/09/06, 05/12/06, 05/15/06; El Economista, 05/12/06, 05/15/06; La Crisis, La Cronica de Hoy, 05/15/06)

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