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## Mexico Moves To Expand Trade with Argentina, Peru

by LADB Staff

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Mexico is moving quickly to expand trade relations with two South American partners, Argentina and Peru, partly filling the potential loss of trade with Venezuela, which recently announced plans to withdraw from the Group of Three (G-3) agreement with Mexico and Colombia (see SourceMex, 2006-05-17).

In mid-June, the Mexican and Argentine governments completed negotiations to expand their economic-cooperation accord in effect since 1999. The original accord eliminated tariffs only on a few product categories, prompting officials from the two countries to enter into negotiations in 2004 to expand their agreement to include a broader range of products. Under the expanded accord, Mexico and Argentina will completely eliminate tariffs on 1,460 products, accounting for 60% of bilateral trade.

The move is expected to especially benefit the automotive sector, but also covers agriculture products, chemicals, machinery and tools, plastics, rubber, metals, and electrical goods, said Mexico's Secretaria de Economica (SE). The SE said the expanded accord would help boost bilateral trade, which surpassed US\$1.8 billion in 2005. The trade balance favored the South American country, with total Argentine exports to Mexico surpassing US\$1 billion.

The expanded economic-cooperation agreement with Argentina is Mexico's second comprehensive accord with a member of the Southern Cone Common Market (MERCOSUR).

Mexico signed a similar tariff-reduction accord with Brazil in 2002 (see SourceMex, 2002-06-19). The economic-cooperation accords with Argentina and Brazil are more limited than free-trade accords, which include a wider range of tariffs and other areas such as protection of intellectual property.

### *Argentine accord another a step for MERCOSUR integration*

Mexican and Argentine officials said the expansion of the agreement is another step to consolidate Mexico's status as an associate member of the Southern Cone Common Market (MERCOSUR). In 2004, MERCOSUR voted to accept Mexico and Venezuela as associate members of the bloc, joining Chile, Peru, and Bolivia (see NotiSur, 2004-04-23, and SourceMex, 2004-08-04). "Without doubt this agreement is one of many steps in the effort to negotiate a full free-trade agreement between Mexico and MERCOSUR," said Alfredo Chiadria, Argentina's trade and international economic relations secretary.

Chiadria led the Argentine delegation in negotiations with Mexican counterparts, led by Angel Villalobos, deputy secretary for international commercial negotiations. Villalobos said the recently negotiated agreement would create more opportunities for Mexico to remain in contact with Argentina and other trade-bloc members. "We are building up our qualifications to eventually join MERCOSUR," said the Mexican trade official.

MERCOSUR, which also includes Uruguay and Paraguay as full members, voted in late 2005 to accept Venezuela as a full member effective the end of 2006 (see NotiSur, 2005-12-02). Venezuela said its decision to withdraw from the G-3 agreement with Mexico and Colombia was partly to put all its efforts into joining MERCOSUR.

### *Mexico seeks full trade accord with Peru*

In June, Mexico also concluded its fifth round of negotiations with Peru to expand their economic-cooperation agreement into a full trade agreement. "Through this negotiation, Mexico and Peru are seeking a broad opening of their markets within a legal framework that promotes the free flow of goods and services, investment, and clear and transparent rules," the SE said following the conclusion of negotiations. The two countries have not specified a target for completion of an agreement but have already developed an important economic relationship.

In 2005, Peru ranked 10th among Mexico's trading partners in Latin America and the Caribbean, said a recent report from the Asociacion Latinoamericana de Integracion (ALADI). Mexico incurred a trade deficit with Peru last year, with Mexican imports of Peruvian products reaching US\$445 million, compared with Mexican exports of US\$234 million. The SE said, however, that the value of Mexican exports to Peru last year was 30% higher than during 2004. Mexico's primary exports to the South American country are low-value products such as medications, infant formula, and photographic film.

In contrast, Mexico's imports from Peru include industrial products like silver, iron, lead, wood, and some manufactured goods. Mexico is looking primarily to expand cooperation in the energy sector with an eye on importing natural gas from Peru to make up for its domestic deficit (see SourceMex, 2006-03-08). The Mexican government may have a strong ally in Peru's President-elect Alan Garcia, who shortly after his election called Mexico "a strategic ally," and promised to explore opportunities to export gas to Mexico. "The export of gas to Mexico...is important to our country because of the revenues it will generate," said Garcia.

### *Mexico fails to take advantage of Japan, EU accords*

While Mexico expands trade with South America, the Mexican government and the private sector have been strongly criticized for failing to take full advantage of existing trade agreements with Japan and the European Union (EU). The Mexico-Japan agreement, which went into effect in April 2005, has increased bilateral trade, but mostly to Japan's benefit. The two countries reached the agreement after years of difficult negotiations (see SourceMex, 2004-03-17 and 2004-12-01).

Trade between the two countries reached US\$15.5 billion, but Japanese exports to Mexico accounted for two-thirds of the total, SE statistics showed. The SE is not as concerned about the large trade deficit with Japan, pointing out that imports from that country are important to help promote growth in Mexico. "It is important to point out that more than 90% of the Japanese products entering the Mexican market are intermediate goods, which contribute to our domestic production and ultimately to our exports," the SE said.

Mexico has succeeded in breaking into the Japanese agricultural market, increasing exports of products like avocados, citrus, poultry meat, coffee, pork, and shrimp. Mexico now accounts for

about 95% of the avocados consumed in the Japanese market, with exports to that country valued at US\$57.6 million in 2005.

Mexico also expects to boost exports of tomatoes to Japan after that country agreed in May of this year to lift all phytosanitary restrictions on tomato imports from all Mexican states except Chiapas. Concern about an outbreak of the Mediterranean fruit fly in some Central American countries has prompted Japan to maintain the restriction on tomato imports produced near the western border with Guatemala.

Mexican agricultural producers have been criticized for focusing all their efforts on exporting their produce to the US while ignoring the EU. Mexico and the EU completed negotiations on their trade agreement in 1999 (see SourceMex, 1999-12-01). The accord has done little to reduce Mexico's trade deficit with the EU (see SourceMex, 2001-03-28 and 2002-05-15).

While EU countries have taken advantage of the opening provided by Mexico, critics contend the opposite is not true for the Mexican private sector, particularly agriculture producers. "Broccoli, onions, mushrooms, strawberries, and bananas are [Mexican] products that have great potential in the EU market but which are not being exported to the region," said German Cano Munoz, who directs a program to support small businesses in Spain. Cano said there is especially strong demand for fruits and vegetables in Germany, Italy, Britain, France, and Spain. "These countries are seeking a diversity of products, including organic produce and items that are quick and easy to cook," said the Spanish official. (Sources: La Cronica de Hoy, 04/03/06; Reforma, 06/05/06; Prensa Latina-Cuba, 06/06/06; Associated Press, 06/08/06; El Universal, 06/23/05, 04/03/06, 06/09/06; The Herald-Mexico City, 04/04/06, 06/09/06; La Jornada, 04/04/06, 05/12/06, 06/09/06; Excelsior, 05/03/06, 05/11/06, 06/05/06, 06/09/06; El Economista, 06/07/06, 06/09/06)

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