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# Mexico Files Complaint wiith WTO Against Chinese Subsidies

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Mexico has filed a complaint against China with the World Trade Organization (WTO) charging the Asian nation with providing illegal subsidies to manufacturers. The Secretaria de Economia (SE), which handles trade matters, said the complaint was filed because imports of illegally subsidized Chinese products continue to displace Mexican products on the domestic market. Among the industries that have suffered most from unfair Chinese competition are textiles and apparel, footwear, toys, and even handicrafts and dried chiles (see SourceMex, 2004-12-08, 2005-08-03, and 2005-09-07).

SE officials say China's unfair practices are also hurting Mexican manufacturers of steel, computers, wood, and paper, and producers of information technology. Mexico considered a complaint against China several years ago (see SourceMex, 2002-07-17), but decided at that time not to take action. The Mexican government opted to proceed with a complaint this year at the urging of the US government and US manufacturers.

## *Mexico joins US, other countries in action against China*

The Mexican complaint follows similar actions by the US and Japan against China. The Mexican and Japanese complaints could possibly be incorporated into the US complaint, along with those of other parties like the European Union (EU) and Australia. The Office of the US Trade Representative (USTR) claims that the Chinese government offers hefty tax breaks to Chinese companies that gear most of their production for export.

The USTR said China also gives financial incentives for its factories to purchase Chinese-made machinery, putting foreign equipment makers at a disadvantage. US trade groups were also instrumental in convincing Mexico and other countries to join in the action against China. "We should not have to compete with the deep pockets of the Chinese government," said Frank Vargo, vice president for international economic affairs with the National Association of Manufacturers (NAM).

In its complaint, Mexico listed nine illegal subsidies provided by the Chinese government to induce foreign manufacturers to establish plants in China. "These measures include a reduction of as much as 50% in the income tax [impuesto sobre la renta, ISR] to companies that export 70% of what they produce," said Beatriz Leycegui, the SE's deputy secretary for trade negotiations. "In cases where the company exports 100% of its production, the rebate on the ISR is 85%."

Additionally, many of these companies receive a rebate of 40% of the value-added tax (impuesto al valor agregado, IVA) when they purchase machinery, said the SE trade official. Leycegui said this particular WTO complaint against China is simple because there is no requirement that

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complainants prove damage to their domestic industries. "These government supports, known as 'red subsidies,' are clearly prohibited," she said. "A country does not even have to prove damage to its industry, but simply provide evidence that the supports are in place."

## *China criticizes Mexico's "protectionist" policies*

Mexico's decision to file the WTO complaint elicited an angry response from the Chinese government, which accused President Felipe Calderon's administration of protectionism. "As a victim of protectionism, China is opposed to protectionist practices," Qin Gang, a spokesperson for China's Foreign Relations Ministry, told reporters in Beijing. Qin said China respects the WTO regulations. "We wish to carry out our commercial relationships with other countries based on these principles," said Qin. He said China would prefer to resolve the disputes with other governments through bilateral consultations rather than through the WTO.

In addition to its unfair subsidies, Chinese exports have gained an advantage since late 2004 because of the revaluation of the Chinese currency, the yuan, and an increase in productivity in various industries in that country. For example, said Deutsche Bank, the profit margins for products such as textiles, electronics, and machinery, which make up 60% of China's exports, have increased significantly compared with a year ago.

The burgeoning Chinese imports have caused Mexico's trade imbalance to widen significantly in recent years. In 2006, Mexico recorded a trade deficit of US$22 billion with China, a tenfold increase in just six years. Besides industrial manufactured products, China has been flooding the Mexican market with nontraditional products such as handicrafts and furniture. These products, manufactured en masse in China, are smuggled into the country and sold as Mexican products (see SourceMex, 2003-09-17).

China has also used the North American Free Trade Agreement (NAFTA) to advance its commercial interests. Several Chinese companies have established maquiladora plants in Mexico to take advantage of reduced tariffs for shipments from Mexico to the US and Canada (see SourceMex, 2005-08-04). China has also been using the tariff system to ship products like beans into Mexico, via the US, at reduced costs (see SourceMex, 2004-03-24). The most recent complaint against China has come from the fishing industry in Veracruz state, which claims that imports of Chinese tilapia are displacing their sales on the domestic market.

The Chinese tilapia, produced in fish farms, is shipped frozen to the US and introduced into the Mexican market as a US product. The frozen fish imported from China is often a higher quality than fresh fish produced in Mexican fish farms. Some industry sources say Mexican fisheries have the ability to compete with the imports if they make some adjustments. "Mexican producers have to learn the feeding techniques used in China and the US to produce higher quality fish," said Jose Bustamante Sanchez, a Mexican distributor of the imported fish.

Conversely, a handful of Mexican companies, such as the popular restaurant chain El Fogoncito, have succeeded in penetrating the Chinese market. The restaurant, which specializes in tacos and other traditional Mexican food, opened its first restaurant in Beijing at the end of January. The company plans to invest about US$1 million to open up restaurants in Beijing in time for the 2008

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Olympics. Twenty-five more restaurants are planned for Beijing and Shanghai by 2011. "I think it is the first traditional Mexican restaurant [in China]," said El Fogoncito operations manager Sergio Rosas. "We found some taco places, but they had nothing to do with the traditional Mexican concept. They were American investors offering Tex-Mex," a mix of Mexican and American cuisine. (Sources: Associated Press, 01/26/07; Agencia de noticias Proceso, 02/26/07; The Herald-Mexico City, Los Angeles Times, 02/27/07; Agence France-Presse, Spanish news service EFE, 02/28/07; El Universal, Notimex, 02/27/07, 03/01/07; Excelsior, 03/01/07; El Economista, 02/27/07, 03/01/07, 03/02/07; Reforma, 03/01/07, 03/02/07; El Financiero, 03/02/07)

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