3-3-2010

Brazil, Mexico Announce Intention To Move Forward On Bilateral Free-trade Agreement

LADB Staff

LADB Article Id: 50634
ISSN: 1054-8890

Brazil, Mexico Announce Intention To Move Forward On Bilateral Free-trade Agreement

by LADB Staff
Category/Department: Mexico
Published: 2010-03-03

Presidents Felipe Calderon of Mexico and Luiz Inacio Lula da Silva used the summit of Latin American and Caribbean nations in late February to advance discussions on a possible bilateral free-trade agreement (FTA) between the two largest economies in Latin America. Trade between Mexico and Brazil approached US$6 billion in 2009, and the two countries believe an FTA could boost that total considerably in the long term. Some forecasts put bilateral trade at US$7 billion in 2010. But not everyone in Mexico favors the accord, with the agricultural sector raising concerns about being unable to compete with imports of Brazilian food products. There are also concerns about Brazilian tariff and nontariff restrictions, which could make Mexican products less competitive in Brazil.

The Latin America and Caribbean summit, held in Quintana Roo state on Feb. 23-25, provided leaders from many countries the opportunity for one-to-one contacts (see other story in this issue of SourceMex). Lula and Calderon met after the summit to sign a memorandum of understanding expressing their countries' intentions to move forward with an FTA. The proposed accord would be on par with the North American Free Trade Agreement (NAFTA) or the Mexico-Chile bilateral agreement. Brazil and Mexico already have a tariff-reduction agreement in place (SourceMex, June 19, 2002) and have announced plans for Petrobras and PEMEX to cooperate in deep-water oil exploration and production (SourceMex, August 26, 2009). In addition, Brazil and Argentina have supported the idea of Mexico joining the Southern Cone Common Market (MERCOSUR) as a full member (SourceMex, August 08, 2007). "Our governments have agreed to formally launch a working group to evaluate and determine the areas of opportunity, potential, benefits, and practicality of an economic-integration agreement between Brazil and Mexico," Calderon said at a joint press conference with Lula following a meeting between the two leaders.

Mexico's Secretaria de Economia (SE), which handles trade and investment, said there are good opportunities for companies in both countries in the manufacture of industrial goods and medical equipment and in health care. Calderon said Brazil and Mexico see the accord as a vehicle to promote growth and economic development, not only through trade but also through investments. Mexico's foreign direct investment (FDI) in Brazil is currently estimated at about US$17 billion, while Brazilian investment in Mexico stands at about US$450 million. In his remarks, the Brazilian president urged Mexico to "look toward South America" when formulating its trade policies, instead of remaining fixed in only one direction. He was referring to Mexico's strong reliance on trade and economic integration with the US, the destination for 80% of Mexico's exports. "The world is round, not rectangular, and it is necessary to look in all directions," said Lula. Lula also emphasized that Mexico and Brazil have many cultural and political similarities, and conditions exist for the two countries to become close allies. "The opportunity is on the table," said Lula.

LADB Article Id: 50634
ISSN: 1054-8890

The Brazilian president said it was "a shame" that bilateral trade between the two countries stands at only about US$7 billion. In addition to addressing the trade accord, Calderon and Lula took the opportunity to announce that state-run oil company PEMEX, Mexican engineering company Grupo Idesa, and private Brazilian petrochemical consortium Braskem have reached an agreement to construct a plant in Veracruz state to produce ethylene (see other story in this issue of SourceMex). Mixed reaction in Mexico to possible accord There are mixed feelings in Mexico about a bilateral agreement with Brazil, with most opposition coming from the agricultural sector.

Groups like the Consejo Nacional Agropecuario (CNA) fear that many agriculture producers could end up at a disadvantage against Brazilian counterparts because Brazil offers more supports to its farmers than Mexico and imposes more restrictions on imports. "Without doubt, this agreement is not convenient for Mexican agriculture even though our two countries are the two largest economies in Latin America," said Benjamin Grayeb Ruiz, the CNA's vice president for trade. "In agriculture, Brazil is much stronger, ranking fourth globally." Grayeb said Mexico is already at a disadvantage in agricultural trade with Brazil. Mexico's accumulated agricultural trade deficit with its South American partner amounted to US$141 million between 2004 and 2008.

The CNA and other organizations like the Consejo Coordinador Empresarial (CCE) argue that Brazil imposes more tariffs and other trade restrictions than Mexico, which would leave Mexican exporters at a disadvantage. "Our internal deficiencies, like the lack of structural reforms [in energy, labor, tax structure, agriculture] would leave us at a competitive disadvantage in a new agreement," said Grayeb. Detractors also note the structural disadvantages could expand, not contract, Mexico's overall trade deficit with Brazil, which in 2009 reached slightly more than US$1 billion. Statistics from the Mexican trade promotion organization ProMexico show that Mexico's exports to Brazil amounted to US$2.4 billion last year compared with imports of about US$3.5 billion. And the CNA reported the accumulated deficit between 2004 and 2008 approached US$3.6 billion.

Conversely, some analysts say Mexican manufacturing sectors could benefit from such an agreement. "Although we do not know for certain which sectors would benefit from a trade agreement, it is likely that manufacturing and electronics industries would benefit," said analyst Maria Cristina Capelo of the Centro de Investigacion para el Desarrollo AC (CIDAC). Roughly 99% of Mexican exports to Brazil involve automobiles, telecommunications equipment, and auto parts. Capelo noted that Brazil and Mexico are home to many multinational companies, and a bilateral agreement would be extremely helpful in investment, earnings, and exports. She noted, for example, that a company like Volkswagen, which has major operations in both countries, would benefit greatly because of being able to move components across the two borders without having to pay tariffs. And some industry organizations like the Confederacion Patronal de la Republica Mexicana (COPARMEX) wholeheartedly endorse an accord because it provides an opportunity to diversify exports of manufactured products. "We should not lose sight of the need to diversify our markets, and Brazil is a good alternative," said COPARMEX president Gerardo Gutierrez Candiani. "It is the fifth-most-populated nation in the world....It has a GDP close to US$1.5 trillion annually, and it is one of the 10-largest economies in the world."

Luis de la Calle, who helped negotiate NAFTA, is also among supporters of an agreement with Brazil. "Mexico must seriously explore a free-trade agreement with Brazil," said de la Calle, who

ISSN: 1054-8890

is now director of a private trade consulting company. Regional organizations like the Economic Commission for Latin America and the Caribbean (ECLAC) have endorsed a Brazil-Mexico trade agreement. ECLAC specialist Osvaldo Rosales agreed with Capelo that such an accord would create the conditions for Mexican and Brazilian companies to forge partnerships, which would allow the development of more efficient supply chains and a general productive integration. Furthermore, say supporters, a trade agreement would strengthen the ability of companies that have operations in both countries to compete in overseas markets. "When one looks at the companies in the region that have established a presence overseas, the list is no doubt led by Brazilian enterprises, followed by Mexican companies," said Rosales. "A bilateral agreement would create the conditions for these companies to form alliances."

Still, Mexican officials have promised to proceed with caution in negotiating an accord with Brazil. Economy Secretary Gerardo Ruiz Mateos, for example, told business leaders that Mexico would push for Brazil to eliminate nontariff barriers that could pose a problem in bilateral trade, including policies regarding import permits, phytosanitary regulations, and quotas. Calderon made the same promise, saying that one of the top priorities of the agreement would be to guarantee easy access for products from the two countries. But he hinted that this effort would be most beneficial for Mexican companies. "We have to promptly and efficiently address all the barriers that our exporters are facing," said the president.

-- End --