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In what some described as "the day the shoe industry was dreading," Mexico lifted tariffs on footwear and over 200 other products from China on Dec. 11 to meet a commitment made to the Asian country 10 years ago. The two countries negotiated a bilateral agreement in 2001, the year China joined the World Trade Organization (WTO). Under the accord, China agreed to allow Mexico to delay a tariff reduction on imports of Chinese products for 10 years. The original tariffs of 50% to 250% were to be reduced to between 20% and 35%, affecting textiles and apparel, footwear, toys, and other products.

In 2008, Mexico and China amended the agreement, setting quotas and further limiting the tariffs to between 60% and 140%. These tariffs would be reduced gradually through December 2011 when they would be eliminated entirely.

The textile and clothing industry could feel some effect from the increased imports of Chinese goods, even though the majority of the production is exported. Still, roughly 30% of the textile and apparel produced in Mexico is sold on the domestic market and subject to increased competition from China. "Mexican textile producers are concerned that the industry is vulnerable to Chinese products, which are essentially subsidized by China's financial structure," one industry analyst said. Mexico exports about 70% of its textile manufactures, primarily to the US market.

The reality is that Chinese imports have already eroded jobs in the Mexican textile industry. "The Cámara Nacional de la Industria del Vestido reported the loss of 400,000 jobs since 2000, primarily because of Chinese imports. And now that the doors are being opened to Chinese imports, there is concern that some of the 300,000 remaining jobs could be lost," columnist Enrique Campos Suárez wrote in the Mexico City daily newspaper El Economista. "So there is no doubt that the manufacturers of clothing, toys, footwear, and plastics are right in raising concerns."

Footwear industry at risk

The footwear industry has raised the greatest concerns about the tariff elimination on Chinese products, since its annual production of about 250 million pairs of shoes is at risk. Most of these shoes are produced in the states of Guanajuato and Jalisco. The Cámara Nacional de la Industria del Calzado (CANAICAL-MEXICO) estimates that imports could reduce domestic production by about one-third between now and 2015, which could threaten about 35,000 jobs in a sector that employs nearly 500,000 people.

"The day the footwear industry in León [Guanajuato] dreaded is about to arrive, and its leader Armando Martín Dueñas acknowledges that there is risk that the market could be flooded by Chinese imports," Mileno.com said just days before tariffs were lifted.

Still, shoe-industry executives say they do not necessarily oppose competition from Chinese imports as long as they are valued at a fair price.

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Mexican footwear manufacturers say more than 96 million pairs of shoes from China and other Asian countries entered Mexico illegally at below-market prices. Mexico's tax agency, the Sistema de Administración Tributaria (SAT), said customs agents seized tens of thousands of undervalued shoes that were headed for the Mexican market.

Footwear manufacturers have met with officials from the Secretaría de Economía (SE) to map out a strategy to protect their industry, including an effort to combat illegal imports of undervalued products from China. "We have to watch the situation very carefully, and that's why we're working very closely with federal authorities to monitor and verify all shoe imports," said Martín Dueñas. "In those cases where market distortions have been detected, authorities have promised to impose safeguards within 20 days."

Although Mexico has agreed to comply with the agreement, the government has made an issue of China's selling its products at below-market prices, in a practice known as dumping. In early 2011, the SE asked businesses from 14 productive sectors affected by Chinese imports to present information about any cases of dumping that could lead to an investigation. Only manufacturers of footwear and bicycles had presented evidence as of early December, said Lorenza Martínez, the SE's deputy secretary for industry and trade.

Mexico seeks to halt imports of undervalued products, triangulation

As part of the effort to protect local business, the SE has also developed the Sistema de Prevalidación de Precios de Importación to track and confiscate products that have been imported at less-than-fair-market prices. The scheme, which targets more than 400 products, seeks to punish importers with fines and other penalties. But the directive is having some unintended negative consequences in Mexico. Some merchants in border cities like Ciudad Juárez are caught in the middle, since much of the increased scrutiny will be on products entering via the US. Chinese exporters, in an effort to take advantage of lower tariffs under the North American Free Trade Agreement (NAFTA), ship their products to the US market and then try to introduce them into Mexico as a "US product," in a practice commonly known as triangulation.

Merchants in Juárez agree with the government's efforts to crack down on imports of undervalued products, but they are also urging authorities to consider the impact on their business operations. Among other concerns, the merchants are worried that tight inspections could result in long delays in the receipt of their merchandise. "The last thing that an established merchant wants is to sell a product at a price below the established market level," said Armando Prado Rojas, director of the trade division of the Cámara Nacional de Comercio, Servicios y Turismo de Ciudad Juárez.

President Felipe Calderón's administration has raised the issue of triangulation before global trade authorities. In a letter to China's Commerce Minister Chen Deming, Economy Secretary Bruno Ferrari asked Chinese officials to address trade practices that are distorting and hurting several sectors of Mexico's manufacturing industry. If China did not respond to this request, said Ferrari, Mexico would seek arbitration against China at the WTO.

This would be the fourth time that Mexico took action against China at the WTO since China joined in 2001. Mexico has been involved in disputes with China on several trade matters within and outside the WTO, including illegal subsidies, commodity exports, and intellectual property rights (SourceMex, July 17, 2002, March 7, 2007, and Dec. 5, 2007).

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Still, some observers suggest that the Mexican government and private sector should view China under a different lens, especially given major efforts in the Asian country to implement fair-trade practices. "The truth is that China has undergone radical changes in the past decade," Campos Suárez said in El Economista.

Campos Suárez attributed the changes to economic growth and the Chinese government's greater understanding of the global economy. "China has invested in training its workers and in developing its own technological advances. It has improved its fabrication mechanisms, resulting in a more sophisticated manufacturing process and higher-quality products," said the columnist.

But Campos Suárez acknowledged that China’s transformation does not mean that the potential to smuggle low-cost substandard products into Mexico and other countries has disappeared. "The decision of the SAT, the private sector, and the Procuraduría General de la República (PGR) to greatly expand monitoring Chinese imports is the best option during this new phase of bilateral relations," said the columnist.

Other analysts agree that increased economic ties to China will force Mexico and other economic powers in Latin America to consider measures that will keep a more balanced relationship with the Asian giant.

"Mexico is joining a small club of Latin American states with significant manufacturing sectors under threat from Chinese competition. Both Brazil and Argentina have, in the past several years, voiced serious concerns about Chinese competition and the possible hollowing out of their own manufacturing sectors," analyst Karen Hooper wrote in Stratefor Global Intelligence. "Brazil, in particular, has emphasized its concerns about China’s decision to keep the value of the yuan tied to the US dollar, and in November the WTO agreed to arbitrate on the case."

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