Dragon Mart Project Back on Track After State Supreme Court Orders Local Authorities to Grant Construction Permit

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The huge megaproject sponsored by the Chinese government in Quintana Roo state is back on track after receiving a favorable court ruling that overrode strong opposition from the municipal government of Benito Juárez, which includes the resort of Cancún. The Dragon Mart project has been proposed for a 120,000-square meter site in the community of Puerto Morelos, just outside Cancún and within the borders of Benito Juárez (SourceMex, Jan. 16, 2013).

The huge facility, modeled after a similar center with the same name in Dubai, would be the largest exhibition and commercial center of its kind in Latin America. The complex is intended primarily to showcase products manufactured in China to potential customers in Mexico, the rest of Latin America, the US, and Canada, but the site would offer spaces for products from other countries to be exhibited.

The project received a setback in April of this year, when authorities in Benito Juárez denied a building permit for the project because of environmental concerns about the high-density project (SourceMex, May 1, 2013).

As expected, the company—Real Estate Dragon Mart Cancún, S.A. de C.V.—immediately filed a lawsuit against Benito Juárez. In late August, the Quintana Roo Supreme Court (Tribunal Superior de Justicia del Estado de Quintana Roo) said the municipality’s decision violated the state’s constitution and ordered Benito Juárez officials to award the construction permit.

On Sept. 9, authorities in Benito Juárez reluctantly awarded the construction permit to Dragon Mart for the project, which is estimated to cost about US$180 million. "Despite all the questions about the project and the obstacles presented in this process, Dragon Mart reiterates its pledge to respect the rule of law, all institutions, and Mexican laws," said Project director Juan Carlos López.

López said the company plans to begin construction in October, a process that could take about 16 months to complete. Dragon Mart plans to begin the preliminary sale of units in the complex in November of this year.

The Chinese-funded company has sought to deflect criticism by announcing that Mexican companies will be hired to construct the facility. "Mexican labor is of high quality and reliable," López told reporters.

**Opponents plan appeal**

Despite the order issued by the Quintana Roo high court and the company’s offer of an olive branch, opposition to the project remains strong. Municipal authorities and some environmental organizations are planning to appeal the decision from the Quintana Roo high court, especially since
the first phase of construction is planned in an environmentally sensitive area. The site is home to the second-largest reserve of coral in the world.

Business organizations also continue to oppose the project. "The restlessness arises from concerns that [businesses] will be competing with products from China that are actually manufactured in Mexico," said the author of the column Garra de León, published in the Mexico City daily newspaper Milenio. "Mexican manufacturers have offered proof that their products will lose market share to the Chinese products [manufactured on Mexican soil]."

Some organizations appealed to President Enrique Peña Nieto’s administration to file an injunction against the project, but the government turned them down. Economy Secretary Ildefonso Guajardo said Mexico does not want to be seen as a country that discriminates against foreign investment. He asked the business community to consider the reality of Mexico’s relationship with China, which offers great business opportunities.

Business organizations in Mexico are concerned about unfair competition from inferior products that will be sold at a lower price in the Mexican market. Guajardo said, however, that Dragon Mart investors have presented a business model where they pledge not to sell substandard and pirated products and to follow all the rules of international law. Investors will avoid dumping—the sale of products at below the market price in Mexico—and triangulation, where a Chinese product would be falsely labeled as originating in a third country.

If investors comply with these promises, then there is no reason to block the construction of the complex outside of Cancún, said Guajardo.

But some observers said the skepticism is justified (SourceMex, May 14, 2003, Jan 14, 2004, Dec. 5, 2007, and Dec. 14, 2011). "Mexican businesses have suffered more than two decades of unfair competition from Chinese products that have been smuggled into the country and have avoided applicable import tariffs," José Yuste, a financial columnist wrote in the Mexico City daily newspaper Excélsior. "Sometimes these products are brought to Mexico via another country, violating intellectual-property rules and avoiding taxes."

Some legislators from opposition parties have demanded that the federal government launch an investigation into the circumstances that led the Quintana Roo Supreme Court to rule in favor of Dragon Mart. Sen. Rosa Adriana Díaz Lizama, a member of the center-right Partido Acción Nacional (PAN), suggested that international observers participate in the revision of the ruling, which failed to consider the environmental concerns such as the threat to a protected area and the high density of housing required for the employees who will be brought to live at the site.

Díaz Lizama said the company’s pledge to create construction jobs in the area would offer only passing benefits to the local economy. "These will be temporary jobs and will provide employment only to those workers who are skilled in construction," said the senator.

Sen. Daniel Ávila Ruiz, also a member of the PAN, offered another reason to oppose the project: the Mexican Constitution. According to Ávila Ruiz, the project violates provisions of Article 27, which prohibit foreigners from buying land that gives them control over land and water within 50 km of the coast and 100 km of the nation's borders.