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3-21-2018

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Recommended Citation
Navarro, Carlos. "Mexico Joins 10 Nations in Signing Reformulated Trans-Pacific Trade Agreement." (2018).
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LADB Article Id: 80555
ISSN: 1054-8890

Mexico Joins 10 Nations in Signing Reformulated Trans-Pacific Trade Agreement

by Carlos Navarro
Category/Department: Mexico
Published: 2018-03-21

On March 8, Mexico and 10 other countries formalized the reformulated Trans-Pacific Partnership (TPP), an agreement that brings together Latin American and Asian countries, along with Canada, in a huge trade bloc. The original TPP was approved and signed in 2017 (SourceMex, Oct. 28, 2015, and NotiSur, Feb. 12, 2016), but the accord had to be reworked after the administration of US President Donald Trump rejected the pact negotiated by his predecessor, Barack Obama (SourceMex, April 26, 2017).

The reworked agreement is formally known as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and informally referred to as TPP 11, indicating that there are now 11 countries instead of the original 12. Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam opted to stay in the agreement after the US left. The 11 countries together represent a market of 498 million people with a per capita income of more than US$28,000. The new bloc would account for about 15% to 18% of global trade, compared with 40% when the US was a participant.

The accord was originally conceived by the Obama administration as a mechanism for countries in the Americas and the Asia-Pacific region to better compete with China, a growing economic power on the world market. Analysts said the departure of the US does not weaken the goal of the agreement. "Eleven countries, united and working together, can negotiate better with China than if each of these countries attempted the negotiations by itself," said Fernando Estenssoro, director of the Institute of Advanced Studies (Instituto de Estudios Avanzados) at Universidad de Santiago de Chile.

The CPTPP creates increased market access in several areas, including services and investments, and addressed many areas of interest for member countries, such as the environment, labor, electronic commerce, and purchases from government entities. "Additionally, it incorporates sections on topics that were not addressed in the original TPP, such as small- and medium-sized businesses (pequeñas y medianas empresas, PYMES), gender, corruption, competitiveness, state enterprises, development, and regulatory coherence," said Agence France-Presse.

A signal to the Trump administration

The signing ceremony occurred shortly after Trump announced massive tariffs on steel and aluminum, although he exempted two of the CPTPP countries, Mexico and Canada, pending the conclusion of negotiations on a revised North American Free Trade Agreement (NAFTA) (SourceMex, March 14, 2018). The 11-member bloc used the ceremony to send a message to the Trump administration. "When tariffs are placed on certain products, and the threat of a trade war emerges, we are sending a signal that we are opening our markets," said Chilean Foreign Minister Heraldo Muñoz, whose country hosted the signing ceremony in its capital, Santiago. "This free-trade agreement is the most important, the largest, and the one with the highest standards that has been signed at the global level."

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The CPTPP contains almost two dozen important changes from the original TPP, eliminating some of the protections that the US had requested, including intellectual property.

Membership could grow

South Korea and Taiwan, two strong economies in the region have asked to be considered for membership in the CPTPP.

"We have already received a request from South Korea to join the bloc," Mexico's Economy Secretary Ildefonso Guajardo told reporters in Mexico City. "All a country has to do is to demonstrate its desire to become a member of the partnership, and then the actual members will make the decision."

Taiwan also confirmed its desire to join. "Taiwan will do its best to take part in the CPTPP at an appropriate time," the country's Ministry of Foreign Affairs said in a statement.

Guajardo noted that new applications cannot be considered formally until the agreement is ratified by the appropriate legislative bodies in each country and fully in place. This is expected to occur by end of 2018 or the beginning of 2019, he said.

Protecting Mexican industry

While the signing ceremony for the CPTPP presented a picture of harmony, there were some doubts about the agreement from Mexican business sectors that would be affected by market-opening mechanisms, with special concern expressed about clothing, textiles, and footwear from Vietnam and dairy products from New Zealand.

Guajardo reassured business groups in these areas that the Mexican government would work closely with key players in these industries to create protections.

Still, some industry spokespersons raised questions about the changes in the agreement that affect Mexican manufacturing after the departure of the US from the TPP. For example, Arturo Rangel, president of the foreign trade commission in the manufacturing industry chamber (Cámara Nacional de la Industria de Transformación, CANACINTRA), pointed out that Mexican industrialists had agreed to greater exchange with Asian countries while the US was part of the agreement. Without the US, "the incentives have been reduced," Rangel said.

"The idea was to bring parts from Asia, transform them in Mexico, and then place the products in the US," Rangel said. "But without our northern neighbor in the agreement, this operation would not be in place, and we would become inundated with Asian products."

In the last round of negotiations, Vietnam had also reached an agreement with the US to import parts from countries outside the agreement, particularly China, and use them to manufacture products to ship to the US market.

"Mexico opposed this measure on the grounds that Vietnam would be gaining a competitive advantage in sales to the US market," said the online business news site Expansión.

"In the end, the US withdrew from the agreement, and the document was left with a few holes in the area of rules of origin and market access," said Alejandro Gómez, president of the Guanajuato shoe industry chamber (Cámara de la Industria del Calzado del Estado de Guanajuato).

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The Mexican business sector presented concerns to Guajardo about other practices that would give Vietnamese shoes, clothing, and textiles an unfair competitive advantage in the Mexican market. These are lower cost for materials, lower pay for labor, and government subsidies to manufacturers, all of which made products from the Asian country cheaper. “Vietnam has positioned itself as the second largest manufacturer of footwear at the global level,” said the daily business newspaper El Economista.

In the dairy sector, Mexico blocked a provision that would give New Zealand powdered milk full access to the Mexican market. “We offered a quota-based access,” said Guajardo. Under this scheme, Mexico agreed to increase the quota of imports of powdered milk from New Zealand to about 40,000 tons annually over a 10-year period.

At present, the Mexican dairy industry only covers about 70% of domestic needs, and the rest (about 300,000 tons) is imported. The majority of the imports come from the US, and the rest from Uruguay, Canada, Chile, and New Zealand.

The problem is that the increase in the New Zealand quota, when added to quotas of 80,000 tons each from the US and Canada and 40,000 tons from the European Union (EU), could saturate the market.

“This situation has created a sense of unease among the companies that form part of the dairy industry chamber (Cámara Nacional de Industriales de la Leche, CANILEC), which are concerned about a possible erosion of their market,” columnist Alberto Aguilar wrote in the daily newspaper El Heraldo de México.

Overall, the agriculture provisions in the CPTPP are expected to bring many benefits to Mexico. Duties would be eliminated immediately for 72% of agriculture and food products, while the remainder would be phased out over a period of three to 16 years, which could benefit Mexican consumers.

“At the same time, Mexico would gain duty-free access for some products to new markets like Australia, Brunei, New Zealand, Malaysia, and Singapore,” columnist Rodrigo Alpízar wrote in the daily newspaper El Sol de México.

As was the case with the TPP, the CPTPP will require ratification from the appropriate legislative body in each of the 11 countries. The Mexican Senate is expected to consider the negative repercussions against specific industrial sectors during the debate. However, some senators believe the agreement has strong support among members of the upper house. “As opposed to the past, there does not appear to be an ideological opposition to trade agreements,” said Sen. Héctor Larios Córdova, who chairs the trade and industrial promotion committee (Comisión de Comercio y Fomento Industrial).

In addition to the CPTPP, the Senate might eventually have to ratify a renegotiated NAFTA. According to Sen. Laura Angélica Rojas, who chairs the Senate foreign relations committee (Comisión de Relaciones Exteriores), the inability of Mexico and Canada to find sufficient common ground with the US could extend the negotiations for some time (SourceMex, Jan. 31, 2018, and March 14, 2018).

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"Regarding NAFTA, I do not believe that the current Senate will be the one to ratify the agreement, as there is no clarity [in terms of] when negotiations will be concluded," Rojas said. "There are many significant issues pending, and many important areas have not even been addressed."

-- End --

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