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Economic impact of Economic Partnership Agreement Mexico – Japan

– theoretical and empirical aspects –

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Advantages of the Mexico – Japan Economic Partnership Agreement for Mexican manufacturing exports companies located in Jalisco state

Rafael González Bravo

Summary

This article analyses the advantages of the Economic Partnership Agreement between Mexico and Japan, specifically the exportations from manufactures located in the state of Jalisco. This article discusses the advantages of the Economic Partnership Agreement between Mexico and Japan (EPA), with exports from manufacturing companies located in the state of Jalisco. One aim of the agreement is to strengthen the relationship between Mexico and Japan, and increase trade of Jalisco companies with Asian nation, so this research discloses the views of entrepreneurs, in order to detect main advantages that promote exports to Japan, and information about rooms and export quotas in order to promote development and improvement of the same EPA. This study will begin specifying the generalities of the Agreement, to make way for an analysis of global trade between Jalisco and Japan to quickly describe specifically manufactured exports to Japan, generating proposals to be implemented within the EPA. At present, international relations and mainly trade between countries play a very important role, especially intensified by the process of globalization, so that they seek to advance free trade, through international agreements and treaties. On this issue, Mexico has been characterized by openness, which is reflected in trade agreements with 42 countries. The aim of foreign policy is to develop the country's international trade, controlling imports, increased foreign direct investment, and increasing exports.

Introduction

Trade relations between Mexico and Japan started on the sixteenth century with the arrival of the first Japanese to Mexican territory. The next transcendent event in the history of these nations came with the signing of the Treaty of Friendship, Commerce and Navigation in 1888, immediately and over the years, Mexico and Japan have built ties that currently are being developed through Economic Partnership Agreement of Mexico – Japan since 2005. The EPA, opens the possibility of increasing trade in goods and services between the two countries, in order to complement the advantages and disadvantages of the parties. This agreement is the first which is signed by Mexico with an Asian country and likewise, Japan held with a Latin American country.

Meanwhile, Jalisco is one of the leading exporters of manufactured goods states nationwide, so detecting the advantages that favor exports can continue to promote trade in this sector to the Asian country, also you have to take into that Japan is one of the largest importers in the world, and through the Agreement gives Mexican products preferential treatment over other countries. For all this, Japan now represents an important potential market for manufacturing companies of Jalisco.

In principle, as general knowledge about Mexico's exports, this makes about 80% of its exports to the United States, northern neighbor with which it has a guaranteed market, but equally represents a risk to depend economically on a single country, and it is noteworthy that Mexico has lost competitive positions in the North American market and is necessary to readjust the foreign trade strategy to expand markets, so Japan is an alternative, using the opportunities offered by the Japanese market, given their purchasing power and the advantages of EPA. It is mentioned that although there is a big difference between exports and imports between Mexico and Japan, the main objective of Mexico may be obtain foreign direct investment that favors Mexican economic and develop exports to other countries (Carrillo, 2010).

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Guadalajara, in his research project “Commercial Trade and cooperation under the Economic Partnership Agreement between Mexico and Japan,” funded by the National Council for Science and Technology (CONACYT) and which aims, locate the obstacles that have possibly existed in the economic rapprochement and cooperation between Mexico and Japan.

Generalities of the Agreement

The Economic Partnership Agreement Mexico – Japan (EPA) had its origins in 2001 when President Vicente Fox Quesada attempts to analyze the feasibility of signing an economic partnership agreement with that country. After a series of 14 rounds of negotiations, the two countries saw fit to sign a treaty so, in a ceremony on September 17, 2004 in the hall of the Treasury of National Palace in Mexico City was signed the EPA, by the president of Mexico, Vicente Fox, and Prime Minister of Japan, Junichiro Koizumi, and in force since April 1, 2005.

The EPA is a treaty under international law, for which both countries imposes certain duties and obligations. The purposes of the agreement are to promote liberalization of trade and investment as well as the free flow of people to business objectives between Mexico and Japan. The Agreement also seeks to promote comprehensive economic cooperation, including competition policy, improvement of business environment and bilateral cooperation in the field of both vocational education and training, and the support for small and medium enterprises.

The EPA covers four main objectives:

- **Export:** to develop the presence of Mexican and Japanese products in new markets.
- **Import:** supply to facilitate a lower cost of inputs, particularly of high technological content, and enhance production.
- **Attracting investment:** to shore up the production of high value-added sectors.
- **Bilateral cooperation:** to promote trade and investment, support for SMEs, research, science and technology, education and job training, intellectual property, agriculture, tourism and environment.

The agreement consists of 18 chapters containing 177 articles altogether. In addition, to enrich the content of the agreement, there are 18 chapters related annexes.

One of the fundamental parts of the statement of this article lies in Chapter 6, Article 53, paragraph 13 which states that the parties will review the provisions of EPA, after 10 years of the entry into force, the Protocol Amending the Agreement conducted in 2015 by the governments of both countries, in particular by the joint committee (highest body of the agreement) and the committee to improve the business environment, aims to assess the agreement, improvements to the conditions of access market and if necessary to make the negotiations a better use of the agreement, creating benefits and advantages for exporting companies and therefore generate economic development of both countries.

To develop the presence of Mexican products in the Japanese market, the EPA has several advantages for exporters as the elimination or reduction of duties, the establishment of export quotas and improvement in procedures of customs procedures, the Agreement specifies the benefits offered to exporters and the elimination of tariffs on 91% of the tariff on the date of entry into force of treatment, 4% in 2010 and the remaining 5% in 2015. (EPA, 2004).

Romero, M. Mendoza, E. (2011) conducted a study on the cooperation schemes as an incentive to boost strategic sectors in Mexico, and its conclusions are that there is no complementarity, although the official discourse asserting this: the data shown by them has a wide disparity putting as evidence the great Japanese development and the weak Mexican economy. Mexico remains primarily a supplier of raw materials to Japan, with very few products of high added value, the long-awaited transfer technology that should be obtained as one of the benefits of the agreement is still on the waiting list. Furthermore, I believe that the actions achieved under the agreement on SMEs do not meet the needs of this sector in Mexico. The creation of forums and training advisers will not make more efficient and better articulated to the Mexican SMEs in the supply chain.

On February 21, 2011, they took place a few rounds of negotiations with the theme “Deepening the Agreement for the Strengthening of the Economic Partnership

Agreement between Mexico and Japan,” after concluding improvement was achieved in access to products of interest to Mexico, which unfortunately have not been fully exploited, such as ketchup and orange juice, no reported export quotas despite negotiate 800 and 1125 tonnes respectively, It is further agreed to make another Protocol Amending the Agreement in 2015, and to make negotiations of other products and reforms to improve the business environment between the two countries as for example, simplify the export process, encouraging more Mexican products into Japanese market to achieve greater diversification of markets that is exported, these and other advantages to serve exporters to develop their business with Japan.

Global trade between Jalisco and Japan

Economic dependence on a market (EUA) is crucial for the Mexican economy, so that the current foreign policy implemented by the Mexican government in international trade, where they signed agreements and free trade agreements with other countries is aimed at expand markets and borders, it is vital to create an awareness among exporters about the markets than other countries represented, and the facilities that need to enter these.

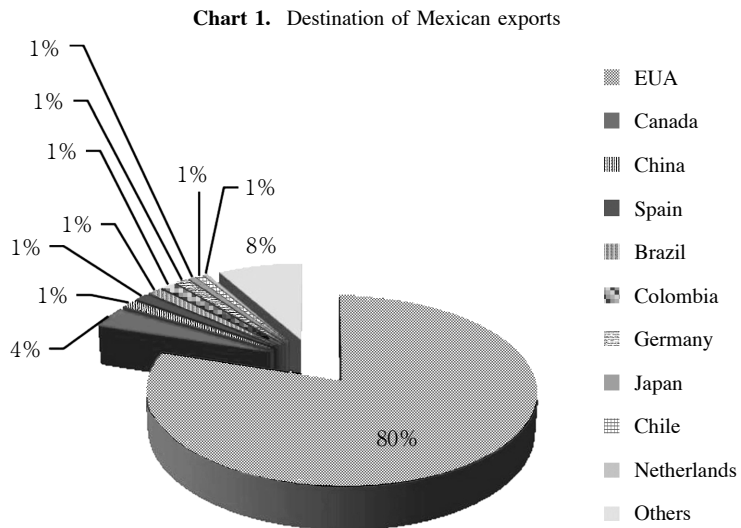
For Mexico, Japan is the eighth recipient nation of Mexican goods, and it is worth noting the No. 3 spot occupied by the Republic of China, the country that is not in NAFTA, according to the INEGI, the main destinations of Mexican exports below in the **chart** below (1).

Mexican exports by destination, reflects an annual growth from 2005 to 2010, mainly to Asia with an increase of 17.5%.

The Ministry of Economy estimated in 2004 that the Agreement Mexican exports to Japan could grow to a rate of 10.6% annual average flows of foreign investment into Japan could grow to a rate of 10% annual average flows foreign investment from Japan in 10 years could reach 12.7 billion dollars (an annual average of 1.3 billion dollars), and growth in Japanese exports and direct foreign investment will have a significant impact on employment of about 40,000 annual direct plazas

and at least another 40,000 indirect.

Regarding exports of Mexico to Japan, the last 10 years before the EPA (1995-2005), the average of exports was constant, from the signing of the Agreement, exports have maintained an upward trend, which is expected to continue this year, as the **chart (2)** reflects:



No.	Country	% export
1	EUA	80.00%
2	Canada	3.60%
3	China	1.40%
4	Spain	1.30%
5	Brazil	1.30%
6	Colombia	1.30%
7	Germany	1.20%
8	Japan	0.60%
9	Chile	0.60%
10	Netherlands	0.50%
	Others	8.20%
	TOTAL	100.00%

Source: Based on data from INEGI, 2010.

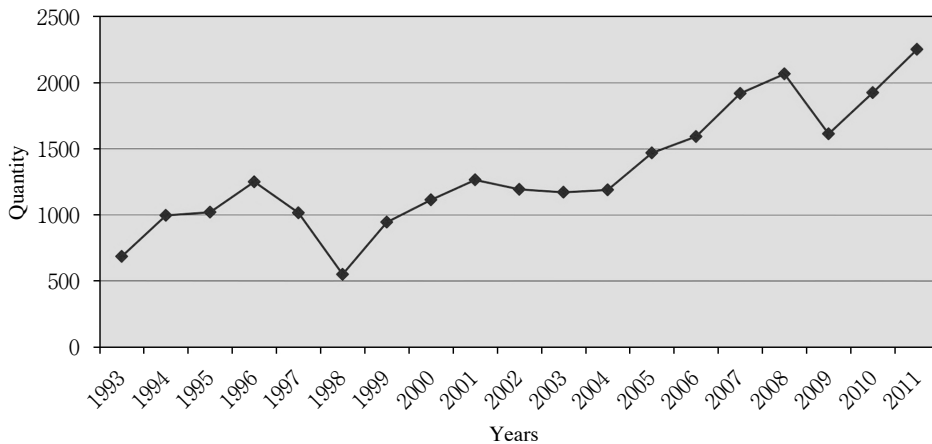
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Analyzing the statistics of imports and exports Jalisco between Japan and trade balance is clearly the negative for Jalisco status, increasing year by year although exports have grown up, too, but not at the same level of imports. The next one is **Chart (3)** where it's visualized the balance of trade from Jalisco to Japan and the imports that Asian country does to the state of the West in Mexico.

In terms of the total trade between Jalisco and Japan, every year has existed a deficit in exports, on average is Imported 280 million more than it is exported as a result of the great demand of Japanese products auto parts and electronics.

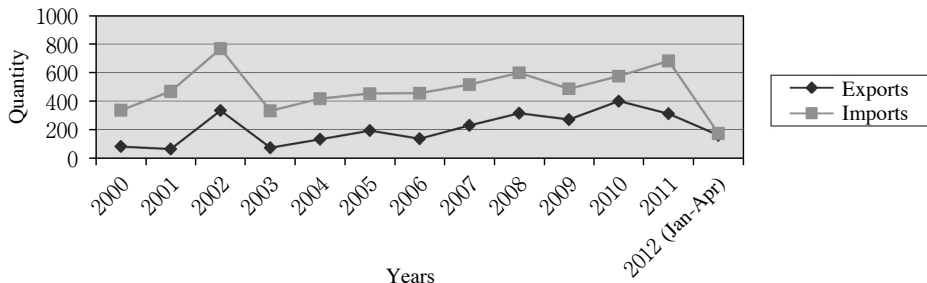
About exports, in the year 2000, Jalisco just exported 80, 02 millions of dollars to Japan that represent the 0,5% of the total exported for this state. For the 2005

Chart 2. Exports from Mexico to Japan.
(Millions dollars)



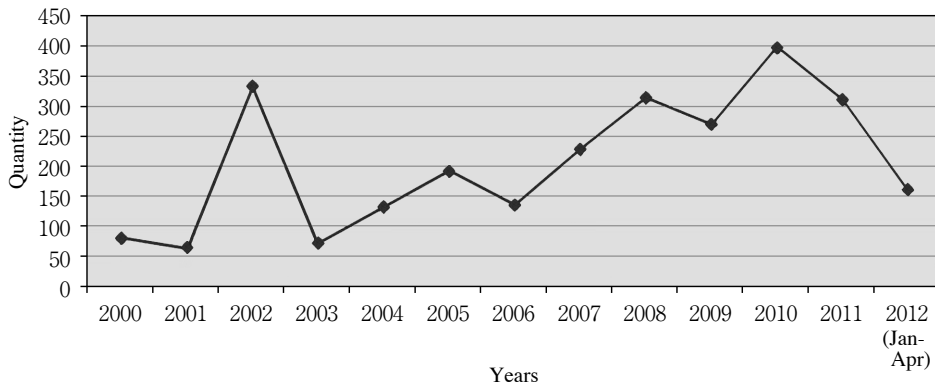
* (Millions dollars) Source: Own elaboration with data from JETRO.

Chart 3. Trade between Jalisco and Japan.



* (Million dollars) Source: Own elaboration, with data from SEIJAL.

Chart 4. Export from Jalisco to Japan.
(Millions dollars)



*(Million dollars) Source: Own elaboration with data from SEIJAL

year (entry into force of EPA) quantity went from 192, 44 millions of dollars to Japan that represent the 1, 21% exports of total in the state. By 2008 the amount had risen to 314.22 million dollars representing 1.89% of total exports and for 2011, was estimated at 310.82 million dollars, being 1.52% of total exports from this state in that year.

chart (4) its shown the history of exports that Jalisco has developed over time to Japan, where can see growth in exports in recent years, despite 2006 and 2009, years in which there is described a decrease in exports. Although in relative terms the exports from Jalisco to Japan are still well below other trading partners, there is a notable encouragement of export after the EAP.

Also, Jalisco state has promoted different businesses with Japanese businessmen. To the extent that the government of this entity has instituted an agency called *Jaltrade*, since 1999 to date supports the trade and the exports around the world being Japan one of its priorities.

The Jalisco's state government strategy to develop the international trade is continue promoting the training to the businessmen about the exporter process, so they are developing the platform I Export, which can train to the businessmen with online courses, moreover to keep with the calls for businessmen can participate in trade shows and international missions, specifically to encourage the trade with Japan, the government will search promote scholarships for the Japanese language

study.

MANUFACTURE EXPORTS TO JAPAN

This article is performed about manufactured products because the 55% of the Mexican exports to Japan are products of this sector where highlights the automotive area and the electronic, as well as silver, while a 22% of the exports are foods, mainly meat of the swine species (ProMexico, 2010).

However, although it has with a wide range of susceptible products of marketed, are a few which are promoted, mainly for the little interest of export to another country other than united states, looking at both geographic proximity, like TLCAN, result a destination less complicated and for easier access than Japan.

The total number of exporters companies in Jalisco to the year 2007 is from 1138, considering that the total of this universe only export to Japan 29 enterprises, namely the 3% total of the enterprises looked at a really low proportion, taking into account the 10 years that has the EPA in development.

Actually from 29 manufactured companies of Jalisco that make exports to Japan, they can be observed tequila enterprises, frozen fruits, crafts, denim shirts, other products.

Conducting an analysis by rotation of a company, and the products they export to Japan, it get the next **table (1)** where 45% of companies are tequila producers, and 8% export crafts and prepared foods, together these three rotations are more than 80% Jalisco enterprises that export to Japan.

Among Jalisco exports to Japan, these they are concretized in 9 tariff sections that represent the 99% total Jalisco exports with Japan. The main section is that include machinery, electronics and appliances which represent within period from 2000-2011 the 46% Jalisco exports to Japan (**table 2**).

The exports flows in this section were recorded in 200.04mdd in 2010 and 241.81mdd in 2011.

Significantly that relative importance of this section has diminished from entry into force of EAP, from 2005 to 2011 represented the 36.41 % total exports to Japan.

Table 1. Course of manufacturing companies in Jalisco

Course of business	Number of companies	Percentage
Tequila producers	13	45%
crafts	5	18%
Prepared foods (frozen fruits, sauces and edible oils, honey)	5	18%
Clothing, textiles	3	10%
footwear	1	3%
Plastic manufactures, and metal	1	3%
Electronic components	1	3%
TOTAL	29	100%

Source: Own elaboration based on data from SEIJAL.

Table 2. Main sections tariff exports from Jalisco to Japan

	2010	2011	2000-2011	2005-2011	% 2000-2011	% 2005-2011
SECTION XVI Machinery, Electrical Equipment and Parts Thereof; Apparatus for Recording or Reproducing Sound, Apparatus for Recording or Reproducing Images and Sound on Television, and Parts and Accessories Thereof	200.04	241.81	1774.23	1078.63	46.01%	36.41%
SECTION I Living Animals	130.79	96.16	540.45	510.22	14.01%	17.22%
SECTION XVII Transport Material	45.29	39.73	454.09	393.67	11.77%	13.29%
SECTION VII Plastic and their Manufactures; Rubber and their Manufactures	70.73	44.49	328.37	326.93	8.51%	11.04%
SECTION VI Products from the Chemical Industries or from Related Industries	65.82	51.80	222.31	216.86	5.76%	7.32%
SECTION IV Products from Food Industries; Beverages, Alcoholic Drinks and Vinegar, Tobacco and Prepared Snuff Substitutes	32.31	36.54	185.11	153.08	4.80%	5.17%
SECTION VIII Optical Instruments and Apparatus, Photographic, Cinematographic, for Measuring, Checking, or Precision; Medical Surgical instruments and devices; Parts and Accessories Thereof.	5.94	19.85	153.46	126.47	3.98%	4.27%
SECTION XX Merchandise and Diverse Products	2.84	1.69	91.8	77.07	2.38%	2.60%
SECTION II Vegetable Products	29.78	9.27	67.89	62.01	1.76%	2.09%
Totals	583.53	541.32	3817.70	2944.94	99.0%	99.4%

(Millions of dollars) Source: Based on data from SEIJAL.

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This indicates that agreement besides stimulating exports has diversified them, increasing the importance of other sections during period.

It should also be noted that once the agreement was operating, zero tariffs were applied on Mexican exports of leather shoes, and has a quota of 250 thousand pairs with no domestic inputs which will increase by 20% annually, the garments manufactured in Mexico are tariff free, and there will be a quota of 200 million dollars annually for clothes whose fabric is not of national origin. The EPA is also favorable for the chemical industry in Mexico, because it has preferential access to 91% of their products immediately.

In 2011, the quotas increased for agricultural products in Mexico, including pork meat, which went from a quota of 33,078 tons in 2008 to 80,000 tons in 2011 and 83,000 tons in 2012, and is expected to increase to 90,000 tons by 2015. Other examples of products for which quotas were increased include beef, chicken, orange juice and agave syrup (**Table 2**). This indicates a greater interest from Japan for Mexican products and creates possibilities for companies from Jalisco.

In the case of Jalisco, as shown above, the EPA has stimulated and diversified export flows to Japan. However, it is still not used in the best way, especially in the manufacturing sector where the negotiated quotas are not used.

Table 2. Products that applied registry under the EPA quota

Product	Negotiated Quota	Used Quota	% of Used Quota
Natural Honey	145 tons	26 tons	18.1%
Bananas	4830 tons	1164 tons	24.1%
Fresh Oranges	530 tons	140 tons	26.5%
Shoes	99214 pairs	27383 pairs	27.6%
Frozen orange juice	2434 tons	1214 tons	49.9%
Pork	33078 tons	16836 tons	50.9%
Beef	2290 tons	1747 tons	76.3%

Source: Based on data from PROMEXJ.

Conclusions

The obtained results reflect the point of view of 65% of the companies that export from Jalisco to Japan, starting with the year of their first business operations exporting to Japan where 8 companies started to export since 2005, which means that the EPA was already working and they took advantage of their benefits to initiate exporting, the rest of the 13 companies were already exporting before EPA was even established, so, because of the Agreement, the number of companies that amplified their market to Japan, increased in a 60%.

About the annual range of exportations, most of the companies said that the quantity of dollars they export is less than 250,000 dollars, and the 19% of the companies export more than a million dollars every year, and this same percentage is for the companies that handle quantities between two hundred fifty thousand dollars and a half, this reflects that the companies do not commercialize big economic quantities to the Asian country.

About the tendency that the exportations to Japan in the last 5 years have presented, 71% of the companies considers that their amounts have increased, and the 29% say that their amounts have been the same during those 5 years, it is important to mention that none of these companies have diminished their exportation amounts.

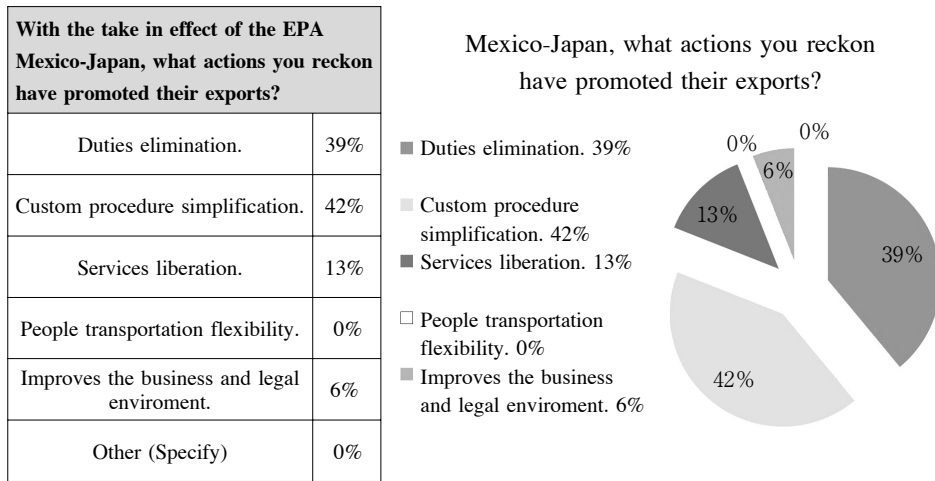
Referent to the measurements that have promoted the exportations, ever since the establishments of the EPA (**Chart 3**), the companies consider that the simplification of customs procedures and the elimination of duties are the main export-encouraging actions.

The businessmen mention that their main issues are the annoying customs procedure, the low port services level and the insecurity en the transport routes, this difficulties limit the participation of a bigger number of companies in exporting activities.

It also highlights that their main obstacle when starting their exports to Japan, was the lack of information and that they found difficulties with the Japanese legal

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Chart 3. Exports promotion.



*Source: Own elaboration with Information from PROMEX

Table 4: Difficulties to export

What are the main problems of the environment in your company for export?	
Insufficient road infrastructure.	6%
Low level and high cost of port services.	26%
Inadequate railway infrastructure.	9%
Insecurity in transportation routes.	20%
Difficult customs procedures	33%
Other (Specify)	6%

*Source: Own elaboration with Information from PROMEX

regulations on tax issues and the environment. Also they say that they had trouble promoting their products in Japan, these difficulties are the first thing that the Mexican and Japanese government, as the private initiative need to work on together, this causes that the company do not start its exports to the Asian country, despite having all the potential and resources to do it, without forgetting that you have to work on creating human resources to develop business with Japan, to master the

language and traditions of the land of the rising sun.

About the government involvement in relevant policies to encourage exports to Japan, entrepreneurs expect that the government policy of export incentives improves, because currently they only receive help to attend fairs and commercial missions, going through and exaggerated red tape to get this incentive, entrepreneurs expect higher tax, financial and customs incentives to encourage export activities, they also make mention of the simplification of customs procedures which it may take a long time to complete, delaying the arrival of goods to the Asian country. They also consider that is of vital importance to promote export business consulting, improving the information on the markets of Japan, in order to make the best decisions when exporting.

Mexican foreign policy has contemplated to Asia Pacific as the most suitable option to diversify its relations, history has brought us to these nations through history, but despite the efforts there are no concrete strategies, actions are volatile and scattered to export to Japan. The EPA has represented a link in negotiations with Asia, it has also managed to establish an agreement with the second largest economy, with an important US partner and a major investor in Mexico; the results of its inception 10 years show no mutual benefit. Therefore I make some recommendations, which I believe can generate a greater number of exports to Japan, and thus generate economic development in Jalisco:

- 1) ***Get information about Japanese market:*** Develop a model of Jalisco Houses located in Tokyo, Japan, in order to generate information for businesses that seek or develop business with the Asian country, and create synergy between the parties.
- 2) ***Improve customs offices inspections.*** As well as improved administrative procedures between customs, customs agents and exporters, it is necessary to improve the process of inspection of commodities by the units responsible to perform them, and so do more efficient the customs clearance process.
- 3) ***Increase incentives to exporters.*** Some companies in Mexico generates profits and they get satisfaction with what obtained, having the potential to

take their products to other parts of the world, and if current tax benefits (eg 100% are granted forgiveness to pay income tax in the first year and 50% the second year), benefits on economy, infrastructure and foreign direct investment, because they provide incentives for companies to start their export processes, this generates business growth and consequently more jobs, better paid, and economic development society.

I believe there are viable alternatives to Mexico in Japan, but must address two key issues: the design of a long-term strategy, well structured and that show knowledge of partners and Japanese markets and clarity of objectives and goals, which want to be achieved. Actions should consider the consensus among actors involved in the decisions (private and public sector) and a clear understanding of the policies and quality standards in Japan.

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