

# **PART 1**

## **OVERVIEW**

## PART1: Overview

1. The economies of Japan and Mexico are endowed with conditions to complement each other. This complementarity should contribute to further promoting the economic development in both countries, by making use of their respective economic strengths through bilateral trade and investment activities. Mexico is the ninth economy in the world, representing a market of about 100 million people<sup>1</sup>. Mexico is rich in natural resources and land, and has an abundant young and relatively skilled labor force. Japan, on the other hand, is the second largest economy in the world, and has a market of 126 million people. Japan has accumulated capital and technology.
2. The strengthening of economic relations between Japan and Mexico will be of great significance for both countries in realizing their economic development.
  - (1) For Japan, Mexico, being one of the most promising economies in Latin America, is strategically important as a gateway to North America, Latin America and Europe. Mexico has thus far concluded FTAs with a total of 32 countries<sup>2</sup> including the ones with the US and Canada, with the EU, with the EFTA, with Israel and with some Latin American countries<sup>3</sup>. Mexico's FTA network covers about 60% of the world's GDP. The strengthening of bilateral economic relations with Mexico, which has a preferential access to these markets, will prove to be an important element in Japanese enterprises' efforts for international business development.
  - (2) For Mexico, Japan is an influential partner in the realization of its economic growth. Japan is an important source of foreign direct investment (FDI) and a very large market for Mexican exports. Investment flows from Japan into Mexico and the technology transfer embodied in it will contribute to the growth of production, employment, and competitiveness in the latter. The strengthening of Mexico's economic relations with Japan would help to diversify its exports markets.
  - (3) Strengthening the economic relationship between Japan and Mexico will contribute to further enhancing the positions of both Japan and Mexico in the context of strong global competition and, at the same time, will reinforce the position of the Japanese enterprises in Mexico as well as the geopolitical and competitive advantages of Mexico through, for example, brushing up of supply chain management capability.
3. However, the potential economic benefits of a strong Japan-Mexico relation have not been fully realized. Although trade and investment volume in absolute terms have increased, the relative weight of mutual economic relations has rather waned. Mexico's share in Japan's trade has generally levelled off, whereas Japan's importance as a Mexico's trading partner decreased. Because of the conclusion of NAFTA and Mexico-EU FTA, Mexico's trade with North America and Europe has grown sharply. In contrast, Japan's share in Mexico's total imports in value diminished from 6.1% in 1994 to 4.8% in 2001, while the share of Mexico's exports to Japan in Mexico's total exports in value dwindled from 1.6% in 1994 to 0.3% in 2001. These figures were clearly lower than the U.S. share of 68.0% in Mexico's imports and 88.5% in its exports, and the EU's share of 9.6% in Mexico's imports and 3.4% in its exports, all figures being in value. With regard to investment, Japan's share in terms of foreign direct investment (FDI) which Mexico received accounted for only 3.3% in the cumulative total during 1994-2001. This share was clearly smaller than investments from U.S. (67.3%) and EU (18.6%)<sup>4</sup>. There is an urgent need

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<sup>1</sup> Mexico's nominal GDP: \$ 617.7 billion in 2001, Secretaria de Economia

<sup>2</sup> n.b. the European Union is counted as 15 countries and the EFTA as 4 countries.

<sup>3</sup> Costa Rica, Nicaragua, Venezuela, Colombia, Bolivia, Chile, Guatemala, Honduras and El Salvador.

<sup>4</sup> Figures for 2001, Secretaria de Economia

to solve the problems that have hindered the exploitation of the complementarities of the Japanese and Mexican economies for the benefit of both countries.

4. The Joint Study Group identified issues for improvement and areas for cooperation in order to further promote the bilateral economic relations and to fully develop the potential of their bilateral economic relations.

The Joint Study Group concurred in recognizing that there is an urgent need for both countries to improve the following situations restricting the development of Japan-Mexico bilateral trade and investment:

- (1) Japanese enterprises are placed in a disadvantageous position with regard to tariffs, compared to their U.S./European counterparts, as a result of Mexico's conclusion of NAFTA in 1994 and Mexico-EU FTA in 2000. At the same time, Mexican government extends preferential treatment to enterprises of the countries with which it has concluded FTAs in the areas of trade in services, investment and government procurement.
- (2) The further opening up of their respective markets will contribute to the economic growth, and job creation in both countries and, especially for Mexico, to the diversification of exports.
- (3) In order to realize a smooth flow of goods and investment between Japan and Mexico, both countries should cooperate in improving the business environment and in working on various projects for trade and investment promotion.

5. The Joint Study Group comprehensively studied concrete ways and means to address the issues mentioned above. The members of the Joint Study Group shared the view that Japan and Mexico should proceed with liberalization in such areas as trade in goods, investment, trade in services and government procurement, as an effective measure for strengthening the bilateral economic relations. As to specific steps for liberalization, members of the Joint Study Group reaffirmed the importance of trade liberalization in WTO for both Japan and Mexico, but further concurred in recognizing that an early conclusion of an FTA is the desirable and effective instrument to advance such liberalization. Given that the current situation in the said areas requires prompt solutions, an FTA will enable both countries to put the mutually complementary characteristics of their economies into full play in a prompt way while taking into consideration the domestic interests and sensitivities of each other. Further, the members concurrently recognized that, considering the urgent need to solve some of the existing problems, it is desirable to consider the adoption of individual liberalization measures as early as possible.

The Study Group stressed the need to ensure the consistency of a possible Japan-Mexico FTA with the WTO rules.

At the same time, the Joint Study Group pointed out the need to give consideration to the sensitive sectors of both Japan and Mexico in the course of negotiations of a possible FTA between the two countries. For instance, agriculture, in which Mexican side desires to expand its exports to Japan, is one of the sensitive sectors for Japan, and the view that there is difficulty in liberalizing this sector was introduced from the Japanese side. In response, the Mexican side expressed its view that certain agricultural liberalization is indispensable in the final package of a possible FTA, explaining that Mexican agriculture is also sensitive, and that Mexican agricultural products will not constitute a threat to the Japanese agricultural sector.

The Joint Study Group also shared the view that, in order to further strengthen the Japan-Mexico economic relations, apart from the measures supporting the bilateral liberalization process, others are needed in the field of trade and investment facilitation. Bilateral cooperation could be also important in other fields. In order to achieve the ultimate goal, the Joint Study Group concluded that an agreement to strengthen the economic partnership between Japan and Mexico could include all the above-mentioned elements.

6. In fact, several studies show that positive macro-economic effects on both economies resulting from measures for such an extensive economic partnership, including an FTA, would be significant<sup>5</sup>.
7. In conclusion, the Joint Study Group proposes that the two governments, while endeavoring to gain understanding from both Japanese and Mexican public, overcome various problems identified in the process of discussions of the Joint Study Group, and promptly start working with the aim of concluding an agreement for strengthening bilateral economic partnership, which includes the elements of an FTA, as a concrete measure for strengthening the bilateral economic relations.

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<sup>5</sup> See the studies in ANNEX.