

Mexico-Japan Economic Partnership Agreement. A Success Story



Dr. Sergio Inclán

Minister, Embassy of Mexico in Japan
Representative in Japan, Ministry of Economy of Mexico

Antecedents

Mexico and Japan share a long history of Friendship, Commerce and Cooperation. The first contacts between the two Countries date back to the XVI Century. Two years ago, we commemorated the 400th Anniversary of the Commercial Mission led by Hasekura Tsunenaga, whom arrived in Acapulco, Mexico, in January 1614 with the objective to establish direct trade between Japan and Mexico.

In 1888, Mexico and Japan concluded a very important Agreement, the Friendship, Commerce and Navigation Treaty which represented for Japan its first Treaty on an equal basis with a Western Country. This important Treaty served as the legal precedent that allowed the Meiji Government to finally review the unequal Treaties that Japan had concluded previously with Western powers. For Mexico, the Treaty of 1888 with Japan was its first Commercial Agreement with an Asian Nation.

At the beginning of the XXI Century, Mexico and Japan made a very important decision, to further strengthen their Friendship, Commerce and Cooperation by negotiating a Free Trade Agreement.

Mexico-Japan EPA. Key Features

The historical friendship, cooperation, and high level of economic complementarity between Mexico and Japan were among the main elements that motivated both Nations to seek a modern Agreement for the XXI Century. Negotiations for the conclusion of a Free Trade Agreement between Mexico and Japan started in November 2002. After almost two years of an intense process of negotia-

tions, both countries signed the Economic Partnership Agreement (EPA) on September 17th 2004. The Agreement entered into force on April 1st 2005 after the corresponding ratifications by the Congress of Mexico and the Diet of Japan.

As a result, Mexico and Japan concluded a new generation, and at that time a state of the art Trade Agreement, establishing all the disciplines comprising a Free Trade Agreement: Trade and Investment Liberalization; Market Access Improvement; Investment Protection; Dispute of Settlements; Government Procurement; Customs Procedures; Rules of Origin; etc. Additionally, the EPA includes a strong mechanism of bilateral cooperation to further strengthen the economic relationship, and maximize the trade and investment liberalization between both countries through several Sub-Committees. The EPA includes a Joint Committee and a very important mechanism for the improvement of the business environment as well, through the Improvement of Business Environment Committee, where representatives of both Governments and the private sector give recommendations in order to further strengthen the Mexico-Japan economic partnership and move it forward.

For Japan, the EPA with Mexico was its first full-fledged Free Trade Agreement including all sectors, even agriculture, and according to WTO disciplines. For Mexico, the EPA with Japan was its first Free Trade Agreement with a country from Asia, and it further consolidated Mexico's FTAs Network with preferential access to more than 45 countries around the World.

Mexico-Japan EPA: 10th Anniversary. Positive Results

April 1st of 2015 marked the 10th Anniversary of the EPA entering into force. As we will now describe, as a result of the great efforts by the private sector and Governments of Mexico and Japan, the EPA has been a Success story for both Countries in the first 10 years of its implementation. The EPA has further strengthened bilateral trade, the flow of direct investment, is supporting industries and small and medium size companies, and is fostering cooperation in key sectors of their respective economies, which is strengthening the economic partnership between both countries further.

Bilateral Trade

Since the EPA was signed, bilateral trade has increased 71.4% from USD 12,752 million in 2004 to USD 21,857 million in 2014. During this period, Japanese exports to Mexico increased 65.7% from USD 10,583 million to USD 17,544 million. Main Japanese products exported to Mexico included automobiles, auto parts, precision tools and instruments, electronic boards, etc.

In the same period Mexico's exports to Japan increased 98%, from USD 2,169 million to USD 4,313 million. Mexico's main products exported to the Japanese market were auto parts, machinery, electronic components, optical instruments, chemicals, agriculture products and other commodities.

As a positive result of the EPA, the composition of Mexico's exports to Japan has been changing.

Mexican exports of manufactured and added value products to Japan accounted for more than 45% in 2014, serving as evidence of the crucial role of the automotive, electric, energy, chemical among others, in the bilateral trade. Moreover, these industries are helping to increase and diversify our trade and to link global supply chains in which both countries are involved, benefiting both countries.

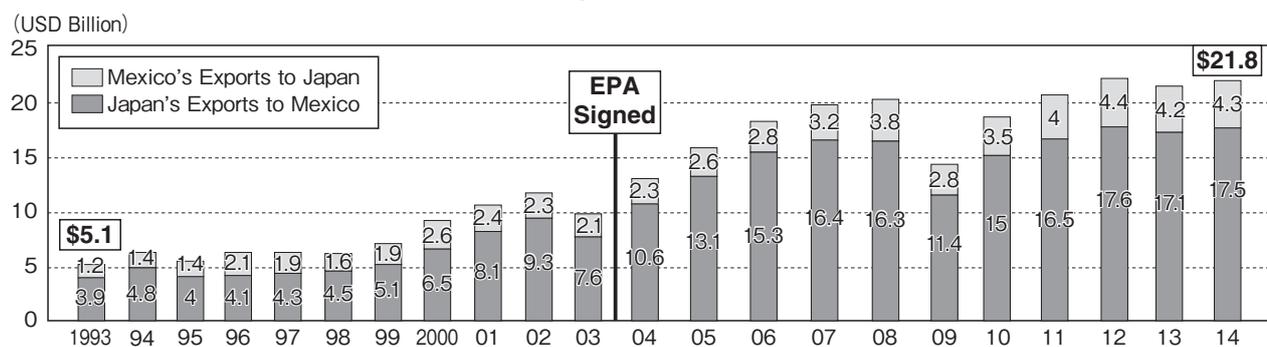
Thanks to the EPA, Japan is for Mexico its Third most important trade partner just after its NAFTA partners, the United States and Canada. Moreover, Japan has become the second most important market for Mexico's exports of agriculture, fisheries, and beverage products just after the United States, accounting for USD 977 million in 2014.

From January to November of 2015, bilateral trade has reached USD 20,275 million with an increment compared with the same period of 2014. During the same period, Mexico's exports to Japan accounted for USD 4,326 million, while Japanese exports to Mexico reached USD 15,949 million.

Japanese Direct Investment into Mexico

The EPA contains state of the art provisions that give certainty and legal security to the flow of direct investment. Chapter 7 of the EPA recognizes important principles like National Treatment and the Most Favored Nation Treatment for investors of both Countries. As we will now describe, the economic and political stability of the Country, Mexico's vast Free Trade Agreements Network, including the EPA with Japan has further consolidated Mexico as an important destiny of foreign

Mexico-Japan Trade 1993-2014



Since EPA was signed in 2004, Bilateral Trade has grown 71.4%.

Source: Office of the Ministry of Economy of Mexico in Japan with data from the Bank of Mexico and the Ministry of Finance of Japan

direct investment. Investors take advantage of Mexico's preferential access to the most important markets in the World, competitive human resources, and its strong business environment.

Since the EPA entered into force in 2005 until September of 2015, there has been an unprecedented flow of Japanese Direct Investment into Mexico. Japanese companies have announced major investment projects in Mexico for more than USD 19.6 billion in several sectors key of the Mexican economy including but not limited to: Automotive; Energy; Infrastructure; Electric and electronics; Metallurgic; Agroindustry, among others.

Once again, the legal protection and certainty that the EPA offers, political and economic stability, strong business environment in the country, and Mexico's strong FTA's Network with preferential access to more than 45 of the most important markets of the World, have catalyzed the flow of Japanese companies investments in the Country to serve not only the Mexican market but North America, Latin America and Europe as well. Thus, Mexico has become an important platform for Japanese companies for their production and exports to the most important markets in the World.

As a result, Japan has become the most important source of foreign direct investment from Asia into Mexico. Moreover, Japan is now the third most important source of foreign direct investment into Mexico worldwide.

Japanese Investment in Mexico's Automotive Industry

Japanese OEMs have been operating and contributing to Mexico's Automotive Industry for many years now. Nissan Motor started operations in May of 1966 with its First plant in Cuernavaca-Morelos, Mexico. A Second plant was built in Aguascalientes, Mexico, starting operations in November of 1982.

Honda Motor started production of motorcycles in Jalisco, Mexico, in 1971. Later on Honda started the production of vehicles and auto parts in 1996.

Toyota Motor Sales of Mexico initiated operations in April of 2002. Later on, Toyota Motor Manufacturing initiated operations in Baja California, Mexico in 2004, for the production of Tacoma for the US market.

Since the EPA was concluded in 2005, Japanese Direct Investment into Mexico has been more heavily concentrated in the Automotive Industry. All major Japanese OEMs and their suppliers have announced major investment projects for the production of automobiles and products in related sectors such as electronic components, specialized steel, plastic, chemicals, etc., serving North America (Mexico, US and Canada), Europe, and Latin America.

In 2011, Mazda Motor announced an investment of USD 770 million for the construction of its First plant in Mexico. Mazda de Mexico started production of Mazda 3 in its new plant in Salamanca Guanajuato, Mexico, in January of 2014. The plant has a production capacity of 200,000 units.

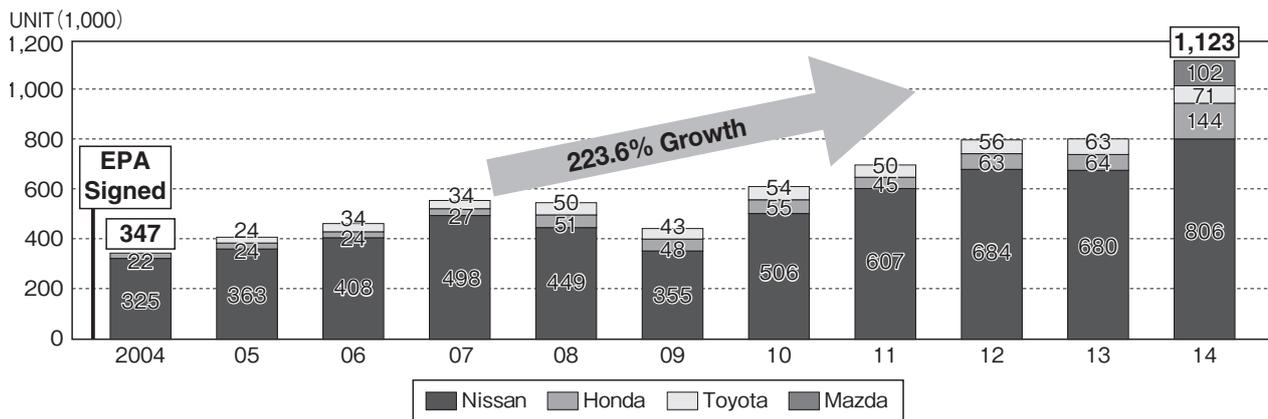
In January of 2012, Nissan announced an investment for USD 2 billion for the construction of its Third plant in Aguascalientes, Mexico. In November of 2013 the new plant of Nissan was inaugurated with a production capacity of 175,000 units.

Additionally in 2014, Nissan announced another investment project in Mexico, together with Daimler AG, worth USD 1.2 billion for the construction of a plant for the production of high end automobiles, Infinity and Mercedes Benz. The new Nissan-Daimler AG plant in Mexico will have a production capacity of 300,000 units per year when it reaches full capacity.

In February of 2014, Honda announced an investment of USD 1.2 billion for the construction of its Second Plant in Guanajuato, Mexico, with a production capacity of 200,000 units. In February of 2014 Honda began production of the Fit model mainly for the North American market as well.

In 2012, Toyota Motor Corp. announced a new investment project in Guanajuato, Mexico, for production of automobiles in the Mazda Plant within the framework of the Investment and Sup-

Japanese OEM's Production in Mexico has increased 223.6% with the EPA.



Production of Japanese OEM's in Mexico reached more than 1.12 million units in 2014.

Source: Office of the Ministry of Economy of Mexico in Japan with data of AMIA

ply Agreement between the two Japanese OEMs. Additionally in April of 2015, Toyota announced an investment for approximately USD 1 billion to build a new plant in Guanajuato, Mexico. The new plant will have an annual capacity of 200,000 units, starting production in 2019.

Since the signing of the EPA and due to the major projects announced by the Japanese OEMs and their suppliers, Nissan, Honda, Toyota and Mazda have increased production in Mexico by 223.6%, from 346,626 units in 2004 to 1,123,447 units in 2014.

Japanese Investment in Energy Sector

Since the Mexico-Japan EPA came into force in 2005, Japanese companies have been winning more public biddings for energy projects with PEMEX and CFE, with an amount of approximately USD 5,044 million until 2014. The EPA has been a key element for the increasing participation of Japanese companies in Mexico's energy and infrastructure sectors like Mitsui & Co, Mitsubishi Corporation, Mitsubishi Heavy Industries, Sumitomo Corporation, Toshiba Ltd, Chubu Electric Power, etc., and with the financial support of JBIC in some projects.

On December 23rd 2013, Mexico's Energy Reform formally became law following the approval in Congress and the ratification by the majority of Mexico's States Legislatures. The objective of the Energy Reform is to increase the competitiveness and efficiency of the energy sector to contribute to Mexico's sustainable economic growth. The re-

form modified three articles of the Constitution of Mexico, allowing domestic and foreign private investment together with PEMEX and the Mexican utility company CFE.

Mexico's energy reform is generating high expectations in the international markets and among Leading Energy's companies Worldwide. The Energy reform represents a great opportunity for Japanese companies in order to participate more actively in Mexico's Energy market, and to increase their presence in North America at the same time, with the possibility to diversify their sources of energy.

Mexico and Japan have shared a Global vision based on the principles of Friendship, Commerce and Cooperation for more than 400 years. The first 10 years of the Mexico-Japan EPA have been a Success story based on the results described above. Moreover, Asia-Pacific is the most dynamic region in the World, with more economic growth expected in the future. Based on the principle of co-existence of current FTAs in the region, the Trans Pacific Partnership Agreement will further strengthen the Mexico-Japan EPA, as well as the Global Strategic Partnership between both Nations that our Leaders have recognized in a Joint Declaration.

Finally, we strongly believe that our EPA, the Trans-Pacific Partnership Agreement (TPP), increasing investment and joint venture projects by Mexican and Japanese companies in the Energy sector will fuel a new era of Mexico-Japan Economic Partnership for the XXI Century. 