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Mexico – New Zealand

Report of Joint Experts Group on the Strengthening of Bilateral Economic Relations

Executive Summary

New Zealand and Mexico enjoy a warm and positive relationship. In considering the state of the broad relationship – both its political and commercial dimensions – it is considered the latter lags behind the former.

Reflecting this, both countries agreed in 2002 to analyse the trade and economic benefits of negotiating a closer economic partnership (CEP). Both studies saw a closer economic partnership as having the potential to promote greater well-being in both economies and to serve as a vehicle to further strengthen the bilateral relationship and diversify trade.

These positive findings encouraged both Governments to establish this Joint Experts Group (JEG) which was charged with the responsibility to explore further the case, and options, for a closer trade/economic relationship.

The Joint Experts Group, which included experts from the official, academic and private sectors from both countries, has concluded through its formal meetings that a case exists for deepening and widening the existing trade relationship. The following key points are highlighted:

- In broad terms, Mexico and New Zealand are complementary, not competing, economies. Mexico's export profile is dominated by manufactured goods whilst for New Zealand the primary sector is more significant.
- Neither country has secured a large market share in the other, suggesting there is significant potential for two way growth. However, in certain specific products New Zealand is an important, albeit not dominant, supplier.
- Potential for growth is constrained due to the existence of tariffs and various other barriers to two-way trade.
- Some Mexican exports to New Zealand face tariffs of 17.5%, and its significant electrical/machinery exports face tariffs of 7%. These tariffs constrain the growth of Mexican exports to New Zealand.
- At the same time, tariffs on New Zealand's exports to Mexico, range in the main from 10%-25%.
- A more formal Government-to-Government trading environment between New Zealand and Mexico could be expected to improve:
 - two way trade flows (allowing each country to maintain and develop its market share of imports in the other, vis-à-vis third country suppliers);

- technology transfer and cooperation (discussions highlighted the potential for this to flow as a part of an enhanced trading relationship in a range of areas: agriculture, agribusiness, science, and education);
 - tourism and international education links and;
 - investment (whilst both countries are net capital importers it was recognised that outward investment does take place and typically follows trade flows).
- It was recognised that increasingly Government-to-Government trade agreements involve a mutually beneficial blend of promotion, liberalisation and cooperation. New Zealand highlighted its most recent experience with the 'Trans-Pacific Strategic Economic Partnership' (involving New Zealand, Singapore, Chile and Brunei) which incorporates a strategic partnership chapter and has an open accession clause.
 - The private sector is generally supportive of the initiative to promote the trade and investment relationship between Mexico and New Zealand. It was recognized, however, that some agricultural sectors in Mexico (dairy, meat and temperate fruits) were reluctant to embrace a closer relationship. New Zealand acknowledged these sensitivities, but noted it did not expect the impact on these sectors to be significant (and that, nonetheless, appropriate phasing arrangements could address such concerns).
 - The Joint Experts Group discussed a range of possible options for taking the relationship forward:
 1. Maintain in the short term the current state of the trade relationship – seeking to strengthen it by adopting a more active bilateral trade and investment promotion programme.
 2. Negotiate a 'Free Trade Agreement' which, recognising the differences in the levels of development and size between Mexico and New Zealand, establishes mechanisms to deal with more sensitive sectors.
 3. Negotiate an 'FTA plus' agreement which, going beyond a traditional FTA, establishes a mechanism for 'strategic economic cooperation' which will look to more fully capture the benefits of a closer bilateral economic partnership.

The JEG acknowledged that Options 2 or 3 would represent a more significant change in the relationship than would Option 1.

Introduction

At the APEC Joint Ministerial Meeting held in Los Cabos, Mexico, at the end of 2002, it was agreed between Ministers that Mexico and New Zealand would each undertake studies of the costs and benefits of negotiating a Closer Economic Partnership (CEP) agreement. These studies have been completed and reports exchanged (see below, paragraph 10, for further information). As both reports identified benefits from a CEP, it was, at the end of 2004, further decided to form a Joint Experts Group (JEG) to study the bilateral relationship in more detail.

2 The operative paragraphs of the Terms of Reference for the JEG are as follows:

“Mexico and New Zealand will establish a Joint Experts Group (JEG) to study ways of strengthening bilateral economic, trade and investment relations.

The JEG will:

- (i) Identify and discuss issues and areas for improvement and cooperation to further promote bilateral economic relations, such as trade, investment, and industrial cooperation: and
- (ii) Produce a joint report.”

3 Members of the JEG were drawn from the government, business and academic sectors of both countries. The JEG formally met in New Zealand on 27-28 June 2005, and in Mexico on 28 November 2005. In addition, associated meetings were also held with a wider array of government, business, and academic institutions in both countries.

4 As per the Terms of Reference, this report has been agreed by both countries, for the consideration of Ministers.

Overview of the Bilateral Relationship

5 Mexico and New Zealand enjoy a warm and constructive bilateral relationship across a wide range of political, social, economic, and cultural issues and activities. Diplomatic relations were established in 1973, and resident Embassies opened in 1983 (Mexico City) and 1993 (Wellington). Agreements have been signed on Scientific and Technological Cooperation (1983, 2004), Trade Promotion (1992), Trade and Investment (1994), Air Services (1999), Education Cooperation (2004), and the text of a Double Taxation Agreement was finalised in 2005 (signature pending).

6 Mexico and New Zealand work together constructively in many international fora, including APEC, the OECD, the WTO, and the UN. The two countries have cooperated closely on disarmament issues for many years.

Both are members of the New Agenda group dedicated to making progress on nuclear disarmament issues, and belong to regional Nuclear Weapon Free Zone treaties.

7 New Zealand was a strong supporter of Mexico's successful candidacy for a seat on the UN Security Council 2000-2002 and worked constructively with Mexico on difficult issues that arose during that term. In 2004, Mexico established a Group of Friends of UN Reform, and New Zealand is a member of that group. New Zealand supported the successful Mexican candidacy for Secretary General of the OECD in 2005. Cooperation is also frequent on a range of human rights and environmental issues, including climate change and whales.

8 In 2000, the New Zealand government launched a Latin America Strategy aimed at strengthening its relationships with that region. From the strategy's inception, Mexico has been a high priority partner country. As a result there has been a significant increase in political contact in recent years, with visits to Mexico being undertaken by New Zealand's Prime Minister (2001), Minister for Disarmament (2001 and 2005), Minister of Education (2004), and Speaker of the House of Representatives (2005). In addition, Mexico's President and Ministers visited New Zealand for APEC meetings in 1999, as did New Zealand's Prime Minister and Ministers to Mexico in 2002. Leaders and Ministers have continued to meet regularly in the margins of APEC, and UN, meetings. Cultural activities have also become more frequent, with a focus on regular attendance by leading New Zealand performers at the Cervantino Performing Arts Festival held each year in Guanajuato, and visits to Mexico by Maori cultural representatives. There have also been several exhibitions of Mexican culture in New Zealand in recent years, including a major exhibition of the works of Mexican painter Frida Kahlo.

9 New Zealand and Mexico have a mutually beneficial, but not extensive, trading relationship. The JEG agreed that the positive bilateral relationship that exists across the political, social, and cultural spheres provides a sound basis for a higher level of economic and commercial engagement – the latter seen as lagging somewhat behind the deepening and warm political relationship. This economic relationship, therefore, is the principal subject of this report.

Key Point: The JEG agreed that the positive bilateral relationship that exists across the political, social, and cultural spheres provides a sound basis for a higher level of economic and commercial engagement – the latter seen as lagging somewhat behind the deepening and warm political relationship.

10 As noted earlier, following agreement at Los Cabos, Mexico in 2002, both Mexico and New Zealand undertook studies into the benefits of negotiating a

Closer Economic Partnership (CEP) with each other. The main findings of these studies are as follows:

Mexico's Study: Study on the Strengthening of the Economic Bilateral Relationship between Mexico and New Zealand¹

- A CEP would promote greater well-being in both countries, and strengthen the bilateral relationship;
- Opportunities for Mexico would be in increased exports in some agricultural products (tropical fruits and juices), as well as industrial products such as textiles, footwear and clothing; increased investment; and enhanced bilateral cooperation;
- Trade in services, especially tourism and education, would benefit;
- The two economies were more complementary than competitive;
- Adjustment costs would be centred in sensitive sectors; these could be mitigated by phased tariff reductions and joint investment;
- Possible areas for cooperation included technology, education, public institutions, and environmental sustainability;
- Despite these benefits there was opposition within Mexico to the idea of a CEP with New Zealand – with emphasis in the dairy and meat sectors.
- Structural reforms in both countries have resulted in greater openness to foreign investment. From 1994-2000, New Zealand was the source of 0.1% of FDI in Mexico. Investment opportunities for Mexico in New Zealand are found in information and communication technology, biotechnology, specialised manufacturing, film production, horticulture, forestry, and food-processing.

New Zealand's Study: "An Initial Analysis of the Trade and Economic Benefits of Negotiating a Closer Economic Partnership with Mexico"

- A CEP would bring benefits to both countries;
- Mexican consumers and businesses would benefit from greater choice;
- A CEP would expand the scope for Mexican and New Zealand businesses to work cooperatively, including through technology transfer, training, investment, and improvements in business practice;

¹ "Estudio sobre el Fortalecimiento de la Relación Económica Bilateral entre México y Nueva Zelanda", Departamento de Estudios del Pacífico, Universidad de Guadalajara.

- Mexican producers would not suffer negative effects, given Mexico's other FTAs;
- New Zealand exports represented only 24% of foreign-sourced dairy products, and 1.67% of foreign-sourced meat (figures from 2002);
- Opportunities exist for Mexican exporters, especially given that New Zealand's GDP per capita was US\$23,500 (2002);
- There are already several examples of New Zealand companies making solid contributions to the Mexican economy, including through technology transfer and training;
- These contributions occurred through normal commercial interactions, which were, however, inhibited by tariff barriers.

Key Point: The Mexico and parallel New Zealand studies into the benefit of a Closer Economic Partnership both concluded that a CEP would promote greater well-being and strengthen the bilateral relationship. Mexico's study, however, also identified opposition from the dairy and meat sectors based on their perception of the impact this might have on their sectors.

Economic Structures and Export Profiles

11 With a total GDP of US\$768 billion and GDP per capita of US\$7,450 (2005), Mexico is a significant economic powerhouse and is located as the world's 14th largest economy. In 2005, the great majority of Mexico's GDP was generated in the services (69.8%) and industry (26.2%) sectors, while agriculture only represented 4%². During the same year, in Mexico's export profile, manufactured goods (83.9%) and oil products (11.6%) were prominent, while agriculture accounted for 3.4% of exports.³

12 New Zealand, on the other hand, has a GDP per capita of US\$26,500 (2005) and a total GDP of US\$106 billion - 15% that of Mexico. The composition of the New Zealand economy is broadly similar to that of Mexico in terms of the relative contribution of services, manufacturing, and agriculture to total GDP. The export profiles, however, are quite different, with New Zealand's exports weighted towards agricultural products, including dairy produce (17%) and meat (15.5%). Forestry products and fish (not considered agricultural under the WTO definition) contribute a further 7.1% and 4.7% respectively.

² V Informe de Gobierno, Presidencia de la República, 2005.

³ Source: INEGI and Banco de Mexico.

Key Point: The external trade profiles suggest an important degree of complementarity between the two economies, with an associated potential for gains from facilitating trade between Mexico and New Zealand.

Trade Policy Strategies

13 Mexico and New Zealand both consider the WTO to be of primary importance to their trade policy strategies, but also consider regional and bilateral initiatives to be important additional vehicles for advancing trade policy and broader strategic interests.

14 Mexico has the impressive record of having already signed 12 Free Trade Agreements (FTAs) with 43 countries, one of the largest number in the world. The most significant of these is NAFTA, with the US and Canada. Others of note include those with Japan, the EU, and much of Latin America, including Chile.

15 New Zealand's most significant FTA is the CER agreement with Australia. It has also signed a bilateral FTA with Singapore, another with Thailand, and a four-way agreement with Singapore, Chile, and Brunei (the Trans Pacific Strategic Economic Partnership or "P4"). Negotiations are underway with China, Malaysia, and (in conjunction with Australia) the member countries of ASEAN. An increasing feature of the more recent agreements has been the emphasis given not only to trade liberalisation but also cooperation. This is a particular feature of P4, which includes a specific chapter on strategic partnership, with articles covering Economic Cooperation, Science, Education, Culture, and Primary Industry. It also has an open accession clause.

16 In the last 3-4 years, Mexico has placed an emphasis on deepening and strengthening its existing trade agreements, with a focus on such issues as rules of origin, standards, security, textiles, agriculture, services, and investment. While Mexico's current efforts are focused in the strengthening of NAFTA, New Zealand works with Australia in order to intensify CER, with the vision of achieving a single economic market. Mexico has also supported negotiations towards the Free Trade Area of the Americas (FTAA). During this period, however, new FTAs remained under discussion, and an Agreement with Japan entered into force in 2005. Negotiations towards an economic complementarity agreement with Korea were recently announced. Negotiation of further FTAs is now under consideration.

17 New Zealand and Mexico cooperate on trade policy issues in various fora – most notably the WTO and APEC. Leaders and Ministers regularly meet in the context of APEC meetings, and the Trade and Investment Agreement (TIA) signed in 1994 allows for regular meetings to discuss issues of trade policy.

Key Point: Both Mexico and New Zealand have broadly similar trade policy strategies. For both the WTO is a priority, but opportunities for enhanced cooperation can also be advanced via bilateral FTAs.

Bilateral Trade in Goods/Investment/Services/Economic cooperation

Bilateral Trade

18 Internationally it is not uncommon for one country's export data to be different to the corresponding country's import data. Sizable discrepancies will typically be attributable to trade flowing to a market via a third/entrepot market. The JEG noted that data discrepancies exist on trade flows from Mexico to New Zealand, with an acknowledgement that, almost certainly, the explanation for this specific discrepancy is that many of the Mexican products that are destined for New Zealand have been trans-shipped through the USA, and are recorded in the Mexican statistics as being exports to that country, rather than to New Zealand. This report uses data sourced from each country's import data

19 Mexico's exports to New Zealand for the period 1995-2005 are summarised in Annex Table 1.

20 Examining such data, it becomes apparent that Mexican exporters have, from a low base, steadily increased the value of their exports to New Zealand, from US\$20 million in 1995 to US\$83 million – an increase of 312% (the increase in the single year from 2004 to 2005 was 19%). It is also apparent that the exports are heavily focused in the manufacturing/industrial sectors where New Zealand is a traditional importer.

21 Annex Table 2 examines Mexico's exports to New Zealand in terms of shares of the total import market in key products:

22 Data in this table confirms the steady increase in the level of Mexican exports to New Zealand (for example, the top export, electrical machinery, has improved its share of imports from 0.2% to 1.07% between 1995 and 2005), but also reveals that as yet Mexican exporters have not secured significant shares of the import market – the highest ranking is 2.9% for beverages, while most of the others are at less than 1%. In terms of tariffs, there are various around 17.5% which will be limiting growth in Mexico's textiles and apparel exports, and others around 7% having a similar impact on machinery.

23 These tables indicate that Mexico has achieved a base of exports to New Zealand, with positive trend lines, but also that considerable potential exists for

further increases and greater market penetration. The existence of tariffs inhibits the realisation of this potential.

24 New Zealand's exports to Mexico for the same time period are summarised in Annex Table 3.

25 This data highlights the importance of agricultural exports from New Zealand to Mexico, particularly dairy and meat products (both of which are presented at the more detailed HS four digit level), and also casein (HS35). In these areas of some comparative advantage to New Zealand, it is considered that Mexico, reflecting its population growth and increasing consumer wealth, will continue to be a net importer – with demand increasingly outstripping domestic supply.⁴ As with the case of Mexico, the data also shows that there has been a steady increase in the value of New Zealand's exports, from US\$75.9 million in 1995, to US\$385.1 million in 2005.

26 Annex Table 4 shows New Zealand's share of the import market for its top ten exports to Mexico. From this table it is evident that New Zealand's share of the Mexican import market for dairy products (subheadings 0401-0406) has remained a little over 20% for the period 2001-2005. The table also shows that New Zealand is an important supplier of some meat products to Mexico, notably sheep meat and frozen beef, but that overall its share of the import meat market remains minor.

27 Horticultural products also feature in New Zealand's exports to Mexico – primarily apples and kiwifruit. Volumes and market share, however, remain modest (US\$1.01 million in 2005, only 0.30% of the import market).

28 Live animals are another product of interest of New Zealand. Trade effectively began in 1999, to a value of US\$2.61 million. This remained steady for a few years, before increasing to US\$39.4 million in 2005, 26.1% of the market (from 8.2% the previous year).⁵ This trade improves the genetic/breeding stock of the Mexican cattle herd (from a disease-free source), and provides an example of technology transfer and of the mutual benefits of trade.

29 Technology transfer is also a feature of other aspects of New Zealand's exports to Mexico. A good example in the "agritech" sector is that of electric fencing equipment (HS85) which enhances the productivity of pasture management by Mexico's farmers. A non-agricultural example is in the area of high-tech medical instruments (HS90)⁶.

⁴ This is the conclusion reached by all relevant studies. See, for example, *OECD-FAO Agricultural Outlook 2005/2014* and *World Dairy Products: FAPRI 2005 Agricultural Outlook*.

⁵ Biosecurity New Zealand

⁶ Companies producing this equipment, TruTest and Fisher and Paykel Healthcare, were visited as part of the programme for the first JEG meeting.

30 The most significant impediments to increased trade from New Zealand to Mexico are the various tariffs and quotas that apply to products of interest. Examples include: out-of-quota tariffs on milk powder of 10-125.1%, 20% on yoghurt and butter, 20%-50% on cheese, 9-15% on casein, 20% chilled beef, 25% frozen beef, 10% sheep meat, 20% apples and kiwifruit, 10% on electric fencing equipment, and 18% on medical instruments. New Zealand is concerned that the impact of these tariffs on New Zealand's trade is, in effect, being exacerbated by the lowering or removal of tariffs for suppliers from other countries with which Mexico has FTAs.

Key Point: The picture that emerges is of a trading relationship that brings benefits to both countries, reflecting the largely complementary nature of the two countries' exports. Trade takes place predominantly in products that each country does not produce in sufficient quantities to meet domestic demand (machinery, vehicles, chemicals, textiles for New Zealand; dairy and meat for Mexico), and/or in products that can help the importing country lift its levels of productivity. In those instances where tariffs apply this is limiting the potential to fully realise the benefits of the two complementary economies.

Investment

31 The JEG noted that investment, and investment strategies, play a key role in the modern global economy and that there has been a strong growth in Foreign Direct Investment (FDI), world wide, in recent years. As this has coincided with a general relaxation in FDI regimes, it seems clear that there is a link between FDI flows and the nature of regulatory frameworks. The relationship between trade and investment is more complex, but it was observed, in general, that investment tended to follow trade flows. Academic studies have suggested that this was due to the investment strategies typically followed by firms. Business representatives confirmed this relationship – as industries gained confidence by exporting and becoming familiar with a market, investment often followed.

32 Mexico and New Zealand both recognise that FDI is an important and beneficial component of a country's international connections. As both are net importers of capital, bilateral investment flows are modest, with Mexico registering a total of US\$54 million of FDI from New Zealand. New Zealand's total stock of FDI abroad is around NZ\$20 billion, over 70% of it in the APEC region.

33 It was noted that having a chapter on investment in trade agreements was a useful and efficient way of promoting bilateral investment. This was the

experience of Mexico with NAFTA, and a similar pattern seemed to be developing with Japan; in the New Zealand case, two-way investment with Australia had increased markedly following the negotiation of the Closer Economic Relations (CER) agreement.

Key Point: Whilst both Mexico and New Zealand are net capital importers, there is potential for enhancing investment flows each way. Given the trend for investment to follow trade, a more formal and facilitatory trade relationship has the potential to promote such flows.

Services

34 Service industries make a vital contribution to the economies of both Mexico and New Zealand (in Mexico, the services sector represents 70% of GDP and 60% of employment; in New Zealand, the figures are very similar). Mexico and New Zealand both pursue a policy of liberalisation of services trade, and Mexico has identified five service industries with potential for increased relations with New Zealand: telecommunications, audiovisual, construction, temporary entry of business people, and professional services to enterprises.

35 New Zealand's major exports of services are tourism and international education. Current New Zealand-Mexico links could deepen if a more formal intensification of the bilateral trade relationship were promoted by both countries.

Key Point: Both countries have identified areas of services activity which could be enhanced via a more intensive Government-to-Government relationship.

Existing and Potential Cooperation/Collaboration

Agriculture

36 The New Zealand authorities (the New Zealand Food Safety Authority – NZFSA – and Biosecurity New Zealand) and Mexico's Ministry of Agriculture, Livestock, Rural Development, Fisheries, and Food (SAGARPA) have a history of working together on various Sanitary and Phytosanitary (SPS) issues, including the negotiation of import health requirements, and the introduction of electronic sanitary certification (e-cert). There is potential for this work to intensify, and be extended to other activities, including the sharing of research and other information, joint training, risk analysis, and trade facilitation. A bilateral agreement is under consideration.

37 New Zealand agricultural industries seek to develop ongoing, mutually beneficial, relationships with other countries – including through the sharing of information and technology. This applies not only to technologies related to production, but also to areas such as storage, transport, and quality control, as well as business practices and marketing. Fonterra makes a major contribution already to Mexico's social programmes through its close commercial relationship with LICONSA.⁷

Agribusiness

38 There is already a relationship developing between Mexico and New Zealand in the general area of agritech/agribusiness. An example, which was referred to earlier, is the New Zealand Company TruTest, which produces electric fencing equipment and other electronic products. It has established an office in Mexico, manufactures insulators in Monterrey, sources wire and posts from within Mexico, and routinely provides training in the appropriate farm management techniques to both distributors and farmers. When used correctly, the electric fences can reduce the cost of fencing by 55%, and reduce feed costs by 25% (through improved pasture management). The transmission of these benefits, however, is hindered by a tariff of 10% on the electrical unit that is exported from New Zealand. Similar issues arise with other companies involved, for example, in manufacturing equipment for the transport of perishable produce, agritech equipment, seeds, genetic material, and farm equipment. The benefits of technology transfer from trade in live animals have been discussed earlier.

Education

39 An MOU on cooperation in education was signed between Ministers in 2004. Mexico's Vice Minister of Education visited New Zealand in 2005 for discussions on a number of proposals to increase interactions, including: post-doctoral exchanges, language education, teacher education, indigenous education, and the use of information technology. There are also a number of existing institution-to-institution linkages involving UNAM, CIDE, ITAM, Colegio de Mexico, Colima, Guadalajara, Anahuac, Veracruz, ITESM, Universidad de las Americas, CESSA, and UADY, and most New Zealand universities. The University of Auckland is home of the New Zealand Centre for Latin American Studies and the APEC Studies Centre and is looking to further strengthen ties with Mexico.

40 New Zealand outlined that its education system was compact, but high-performing; OECD studies showed it to be generally in the top 10-15% on key indicators, including literacy and numeracy, and three of its universities were in

⁷ See later section on the Bilateral Business Environment.

The Times ranking of the world's top 200. New Zealand's education system was also well connected internationally, with between 15% and 20% of students being international students. Recent initiatives to further encourage internationalisation included doctoral scholarships, allowing doctoral students to pay domestic fees (about 25% of cost), undergraduate scholarships, awards for New Zealanders to study abroad, and permission for foreign students to work for two years in New Zealand after graduation.

41 These initiatives could provide more opportunities to deepen the relationship between Mexico and New Zealand. It was noted that study at Ph.D. level is a particularly useful way to encourage technology transfer.

Trade Promotion

42 Both Mexico and New Zealand have organisations dedicated to the promotion of trade and investment – Bancomext and New Zealand Trade and Enterprise (NZTE) respectively. Bancomext has a large regional office in Singapore which has responsibility for New Zealand, while NZTE has an office in Mexico City. The two organisations are interested in working together to increase two-way trade, for example through trade missions and/or seminars (one of which was held successfully in Mexico City in March 2006).

43 The Latin America – New Zealand Business Council, based in Wellington, has good links into various Chambers of Commerce and the New Zealand business community. It is committed to work alongside Bancomext and NZTE to facilitate greater business-to-business contact. The Australia/New Zealand/Mexico Chamber of Commerce (ACANZMEX), based in Mexico City, also works to facilitate trade and investment between the business sectors of New Zealand and Mexico.

44 A useful example of a trade promotion activity was the visit to Mexico during 2005 of the Director of the New Zealand Fresh Produce Importers' Association, accompanied by a representative of Biosecurity New Zealand. As a result, additional areas of Mexico have been recognised as free of fruit-fly, and important commercial contacts have been made. Increased trade from Mexico to New Zealand is likely to result.

Tourism

45 There is a steady, if modest, flow of tourists between Mexico and New Zealand, with 5,250 tourists from New Zealand visiting Mexico (2005), and 2,778 from Mexico visiting New Zealand (2005). It was noted that the Air Services Agreement signed in 1999 had facilitated a code-share arrangement between Air New Zealand and Mexicana via Los Angeles; and that tourism, and trade, would be improved by direct air links. For some years, New Zealand and Mexico have been investigating the possibility of establishing a Working Holiday

Scheme (WHS) that would allow young people from each country to work in the other whilst on holiday. It was agreed that such a scheme would serve to enhance the tourism relationship.

46 There has also been some New Zealand investment in tourism in Mexico (typically in niche adventure tourism areas), and the Auckland University of Technology is currently collaborating with the Universidad Anahuac del Sur to assist it develop a Tourism Research Institute.

47 Mexico and New Zealand have an interest in sharing experiences in the development of infrastructure related to sailing and boating, drawing on developments in such places as Auckland, Wellington, Christchurch, and Dunedin in New Zealand, and Acapulco and the Mar de Cortés in Mexico.

Research, Science, and Technology

48 Cooperation agreements on Research, Science, and Technology (RS&T) between Mexico and New Zealand were signed in 1983 and 2004. New Zealand has developed expertise in agriculture, horticulture, environmental science, food related research, aquaculture, geological science, forestry, medicine, engineering, the humanities, public sector and corporate governance, and business studies.

49 It was agreed that there is potential for Mexico and New Zealand to collaborate more on RS&T, both on policy issues (such as commercialising research results, intellectual property, and licensing) and on research projects. One example in the latter category was a project run by the New Zealand Crown Research Institute (CRI) AgResearch in the state of Michoacan, assisting with the control of corn pests. This project had begun with funding from the New Zealand government, and was now continuing with support from CONACYT and the state government. A further CRI, HortResearch, is developing relationships with Mexican producers in products of interest, including kiwifruit and avocado⁸. Another useful relationship is that between Massey University and the University of Chapingo, with several staff of the latter having studied for doctoral degrees in agricultural sciences at the former.

50 In order to develop this potential further, a CRI delegation from New Zealand visited Mexico in March 2006. Delegation members represented AgResearch, HortResearch, Environmental Science and Research (ESR), and Geological and Nuclear Science (GNS). Meetings were held with a wide variety of Mexican organisations including the National Science and Technology Council (CONACYT), Ministry of Foreign Affairs (SRE), Ministry of the Economy (Economía), the National Autonomous University (UNAM), the Universities of Chapingo and Veracruz, Ministries of Public Security and Energy, the Food

⁸ A visit to HortResearch was included in the programme of the first JEG meeting.

Research and Development Centre (CIAD), the National Institute of Forestry and Agricultural Research (INIFAP), the National Centre for the Prevention of Disasters (CENAPRED), and representatives of the states of Michoacán, Nuevo Leon, Tamaulipas, Chihuahua, and Mexico City. These discussions revealed a wide range of areas where there is potential for Mexico and New Zealand to develop productive, collaborative partnerships and benefit further from each other's expertise. These included agriculture, horticulture, genetics, phytosanitary systems, forensic science/DNA profiling, tropical diseases, nutrition, the environment (including water quality), geology, geothermal activity, seismic hazard mapping, drug testing, and information management. Delegation members underlined that the capacity for organisations to identify, and follow up on, opportunities such as these was greatly enhanced when governments led the way by establishing conditions conducive to international trade and investment.

Key Point: The JEG identified a wide range of areas where there is potential to unlock much greater bilateral cooperation. In order to reap these benefits to their full advantage it was recognised that the frameworks the two governments put in place would be both symbolically and substantively critical.

Bilateral Business Environment

51 As is evident from preceding sections, bilateral business relations between Mexico and New Zealand have an established base, featuring bilateral trade, some investment, and some cooperative activities. This has been supported by a range of government-to-government agreements.

52 The most mature aspect of the business relationship is the presence of the New Zealand dairy cooperative Fonterra in Mexico. Fonterra bases its regional office for the whole of the Americas, including the US, in Mexico. It also has a research centre in Guadalajara. Fonterra's principal client in Mexico is the social agency LICONSA, which, through its social programmes, is responsible for distributing milk products, primarily milk powder, to lower socio-economic groups throughout Mexico. Fonterra's ability to reliably and consistently supply high quality product has contributed greatly to these programmes – for example, it has been able to develop a highly nutritious fortified milk powder to LICONSA's specifications.

53 The meat industries of New Zealand and Mexico are also developing a relationship, primarily through the Five Nations Beef Conference, of which both are members. Via the Conference, cooperation is under way on research and the promotion of increased beef consumption.

54 Within these two industries, however, and even more so beyond them, the further development of business relations is constrained by the existence of market access barriers, primarily tariffs.

55 These tariffs (mainly on agricultural, horticultural, mechanical, and high-tech products on Mexico's part; and machinery, clothing, textiles, and footwear on the part of New Zealand) are particularly significant given the trade agreements that each country has signed with other countries. For example, New Zealand agricultural producers are increasingly competing at a disadvantage when compared to exporters from the NAFTA countries. Similarly, it was noted that Mexico's ability to penetrate further with its exports was also constrained by the existence of tariffs.

56 In addition it is acknowledged that consumer choice, the efficiency of processing industries, trade diversion, and economic performance are also unintentionally affected by tariff barriers.

57 These barriers limit trade for reasons of simple economics – they make it more difficult for an exporting country to compete on price. More than this, however, they also make it difficult for international partnerships to be developed. The LANZBC (Latin America-New Zealand Business Council), based in Wellington, has surveyed its members on this question and received replies that trade, cooperation, technology transfer, training, and investment would all be encouraged by a more liberalised trading environment.

58 Another, not unrelated, challenge facing the bilateral business environment is a lack of familiarity between the broader business communities of Mexico and New Zealand. This is a recurring issue for Mexico: as is to be expected given that the US is the destination of 87.5% of its exports, and the source of 56.3% of its imports⁹, its business community tends to focus the great majority of its attention north of the border. For New Zealand, lack of awareness is also an issue, although of lesser significance than other issues outlined earlier in this section. The JEG process itself has been very helpful in terms of information exchange and promoting mutual awareness and understanding of opportunities. As noted at the beginning of this report, opportunities have been taken for meetings involving public and private sector organisations in both countries and there has been a significant amount of information shared. There is still more to be done, but so far the JEG process represents a good example of a government initiative providing incentive to private sector activity. A decision by Ministers to move to a "next phase" in terms of strengthening bilateral economic relations would assist greatly with further improving mutual familiarity.

Key Point: Neither Mexico's nor New Zealand's private sector has great familiarity or comfort with the other's market. In the absence of more positive signals/leadership from Governments, both markets are likely to continue to be perceived as difficult/unwelcoming.

Private Sector Views

59 Private sector views, in broad terms, are supportive of initiatives to promote the trade and investment relationship between New Zealand and Mexico. Representatives agree that liberalisation would increase trade flows in both directions, encourage investment, and lead to an increase in the amount of cooperation, technology transfer, and training.

60 The primary benefit of liberalisation is seen to be a “levelling of the playing field”, which would mean that each country would be able to compete on more even terms with third countries currently supplying the market under preferential circumstances. This would increase choice for consumers, and, importantly, for the processing industries, leading to greater economic efficiency.

61 It is recognized, that some sections of the private sector, however, are concerned about the idea of a closer, more formal, relationship – principally Mexico’s livestock, dairy and temperate fruit sectors.

62 There are views in some sensitive sectors which express reluctance to support the idea of a closer, more formal, relationship. In New Zealand, those sectors competing with Mexico’s industrial exports would not necessarily push for a closer commercial relationship with Mexico. In Mexico, there is opposition from some agricultural sectors – conscious that New Zealand’s export profile is weighted towards those sectors.

63 The JEG noted these sensitivities. Whilst these concerns necessarily have to be recorded, the JEG was also conscious that, given the existing level of trade between the two countries there is potential to enhance the bilateral trade, investment and economic cooperation relationship. To this end, it is important to remain mindful of anticipated overall outcomes.

Key Point: In broad terms, private sector views are supportive of initiatives to promote the trade and investment relationship between Mexico and New Zealand. Some sectors are reluctant to embrace a closer relationship, but overall there is potential to enhance the bilateral trade, investment and economic cooperation relationship.

Conclusion

64 As is clear from this report, Mexico and New Zealand have complementary export profiles and an existing trade/investment/cooperation relationship upon which to build. There is untapped potential to improve all aspects of the relationship, including trade in goods, trade in services, investment, cooperation, technology transfer, training, education, science, agriculture, trade promotion, and tourism.

65 The main impediment to realising that potential is the existence of market access barriers. A further issue is a lack of awareness on behalf of the private sectors in both countries, of the business opportunities available in the other country.

66 This environment would be improved by government action to encourage trade, which would also promote investment and cooperation in all its forms. Such action could also address other issues highlighted in this report. It could, for instance, help increase mutual business familiarity, and provide an incentive for increased attention to air services, education initiatives, and tourism links.

67 Specific options for deepening the relationship are outlined in the following section.

Options for Improving the Bilateral Trade and Economic Relationship

The Joint Experts Group discussed a range of possible options for taking the relationship forward:

- 1 Maintain in the short term the current state of the trade relationship – seeking to strengthen it by adopting a more active bilateral trade and investment promotion programme.
- 2 Negotiate a 'Free Trade Agreement' which, recognising the differences in the levels of development and size between Mexico and New Zealand, establishes mechanisms to deal with more sensitive sectors.
- 3 Negotiate an 'FTA plus' agreement which, going beyond a traditional FTA, establishes a mechanism for 'strategic economic cooperation' which will look to more fully capture the benefits of a closer bilateral economic partnership.

The JEG acknowledged that Options 2 or 3 would represent a more significant change in the relationship than would Option 1.



NEW ZEALAND MINISTRY OF
FOREIGN AFFAIRS & TRADE
MANATŪ AORERE

Table 1: Top Ten Mexican Exports to New Zealand (HS 2 chapters)

US\$ millions, Calendar years

Top 10 Mexican Exports to NZ		US\$ mil										
HS	Description	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
85	ELECTRICAL MACHINERY	3.0	4.5	6.2	18.9	28.5	40.9	38.6	20.6	17.3	25.3	24.8
84	MACHINERY	0.8	1.5	2.7	5.7	6.5	6.3	8.8	12.7	13.5	11.9	21.3
22	BEVERAGES	1.5	1.5	2.6	2.3	1.5	1.8	2.3	3.6	4.4	6.4	7.7
87	VEHICLES, NOT RAILWAY	0.0	0.2	0.1	0.1	0.4	6.3	7.6	3.8	5.3	8.9	5.0
90	OPTIC,NT 8544;MED INSTR	0.3	0.5	0.4	0.6	0.7	0.9	1.3	1.4	2.7	3.6	4.8
29	ORGANIC CHEMICALS	2.0	0.9	1.2	1.1	0.6	0.9	1.1	1.5	1.1	2.4	3.1
48	PAPER,PAPERBOARD	0.1	0.1	0.5	0.3	0.2	0.0	0.2	0.1	0.4	1.3	1.9
39	PLASTIC	0.2	0.2	0.4	0.5	0.4	0.3	0.3	0.3	0.2	0.6	1.8
63	MISC TEXTILE ARTICLES	0.1	0.1	0.1	0.2	0.3	0.3	0.4	0.5	0.6	1.2	1.2
32	TANNING,DYE,PAINT,PUTTY	0.0	0.0	0.0	0.0	0.2	0.2	0.8	0.6	0.9	0.9	1.0
TOP TEN SUBTOTAL		7.8	9.5	14.3	29.7	39.4	58.1	61.3	45.1	46.3	62.4	72.6
TOTAL IMPORTS		20.2	28.4	41.9	57.2	58.2	72.2	71.0	55.5	56.8	70.2	83.5
BEVERAGE AS % OF TOTAL		7	5	6	4	3	3	3	7	8	9	9
VEHICLES AS % OF TOTAL		0	1	0	0	1	9	11	7	9	13	6
MACHINERY AS % OF TOTAL		18	21	21	43	60	65	67	60	54	53	55
TOP TEN AS % OF TOTAL		39	34	34	52	68	80	86	81	82	89	87

Source: Ministry of Foreign Affairs and Trade, New Zealand

Table 2 Top Ten Mexican Exports to New Zealand: Share of Import Market (%)
Calendar years

Top Ten Mexican Exports to New Zealand: Share of Import Market (%)												
HS	Description	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
85	ELECTRICAL MACHINERY	0.20	0.30	0.42	1.52	1.95	2.70	3.08	1.63	1.07	1.18	1.07
84	MACHINERY	0.04	0.06	0.12	0.3	0.34	0.34	0.5	0.6	0.54	0.37	0.6
22	BEVERAGES	1.24	1.18	1.99	1.81	1.04	1.3	1.65	2.18	2.09	2.62	2.9
87	VEHICLES, NOT RAILWAY	0	0.01	0.01	0.01	0.02	0.39	0.45	0.17	0.18	0.25	0.1
90	OPTIC,NT 8544;MED INSTR	0.07	0.1	0.08	0.15	0.17	0.23	0.33	0.31	0.46	0.51	0.6
29	ORGANIC CHEMICALS	0.9	0.45	0.64	0.66	0.36	0.54	0.71	0.97	0.64	1.13	1.4
48	PAPER,PAPERBOARD	0.03	0.03	0.11	0.08	0.05	0.01	0.04	0.02	0.07	0.2	0.3
39	PLASTIC	0.025	0.033	0.068	0.092	0.072	0.056	0.054	0.05	0.033	0.073	0.2
63	MISC TEXTILE ARTICLES	0.08	0.18	0.13	0.34	0.41	0.42	0.5	0.53	0.53	0.9	0.7
32	TANNING,DYE,PAINT,PUTTY	0.01	0.02	0.04	0.03	0.17	0.14	0.59	0.41	0.54	0.53	0.6

Source: Ministry of Foreign Affairs and Trade, New Zealand

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Table 3: Top Ten New Zealand Exports to Mexico (HS 2 chapters)

US\$ millions, Calendar years

HS	DESCRIPTION	1995	%	1996	%	1997	%	1998	%	1999	%	2000	%	2001	%	2002	%	2003	%	2004	%	2005	%
04	DAIRY, EGGS, HONEY, ETC	50.34	66.4	104.03	78.8	119.83	79.3	118.72	76.3	107.67	73.2	100.21	60.5	172.33	66.2	160.44	65.2	183.76	66.0	176.51	62.8	240.55	62.5
	DAIRY (0401-0406)	50.34	66.4	104.03	78.8	119.83	79.3	118.72	76.3	107.67	73.2	100.20	60.5	172.33	66.2	160.44	65.2	183.76	66.0	176.51	62.8	240.55	62.5
0402	Milk, cream conc, sweet.	34.13	45.0	71.30	54.0	76.72	50.8	78.37	50.4	55.91	38.0	43.97	26.6	100.59	38.6	83.33	33.9	103.99	37.3	87.11	31.0	116.98	30.4
0405	Butter, oils from milk	6.86	9.0	12.47	9.4	16.04	10.6	19.99	12.9	28.17	19.2	30.01	18.1	37.19	14.3	41.17	16.7	44.65	16.0	54.08	19.2	80.66	20.9
0406	Cheese and curd	6.70	8.8	17.31	13.1	24.00	15.9	15.84	10.2	17.80	12.1	18.66	11.3	23.33	9.0	25.78	10.5	24.98	9.0	23.13	8.2	29.22	7.6
0403	Buttermilk, yogurt, etc.	2.32	3.1	2.42	1.8	2.17	1.4	3.32	2.1	4.64	3.2	6.69	4.0	10.51	4.0	9.37	3.8	9.32	3.3	11.27	4.0	12.43	3.2
0404	Whey, other milk prods	0.29	0.4	0.49	0.4	0.84	0.6	1.09	0.7	1.00	0.7	0.70	0.4	0.53	0.2	0.60	0.2	0.56	0.2	0.49	0.2	0.83	0.2
0401	Milk, cream, n swt/conc.	0.05	0.1	0.04	0.0	0.06	0.0	0.11	0.1	0.15	0.1	0.17	0.1	0.19	0.1	0.19	0.1	0.27	0.1	0.42	0.1	0.42	0.1
02	MEAT	8.55	11.3	5.84	4.4	9.48	6.3	9.48	6.1	8.92	6.1	16.02	9.7	37.85	14.5	31.79	12.9	46.15	16.6	45.98	16.4	45.63	11.8
0204	Sheep or goats	8.16	10.8	5.23	4.0	8.15	5.4	8.02	5.2	7.88	5.4	12.99	7.8	24.71	9.5	22.41	9.1	31.86	11.4	32.21	11.5	30.46	7.9
0202	Beef, frozen	0.11	0.1	0.22	0.2	0.47	0.3	0.51	0.3	0.49	0.3	1.76	1.1	10.76	4.1	7.00	2.8	12.72	4.6	11.34	4.0	13.70	3.6
0206	Edible animal offal	0.23	0.3	0.29	0.2	0.71	0.5	0.83	0.5	0.49	0.3	1.09	0.7	1.74	0.7	1.10	0.4	1.46	0.5	1.92	0.7	0.87	0.2
0208	Other frozen or fresh	0.06	0.1	0.08	0.1	0.09	0.1	0.07	0.0	0.05	0.0	0.14	0.1	0.12	0.0	0.08	0.0	0.10	0.0	0.17	0.1	0.43	0.1
0201	Beef fresh / chilled	0.00	0.0	0.01	0.0	0.05	0.0	0.04	0.0	0.00	0.0	0.01	0.0	0.52	0.2	1.20	0.5	0.02	0.0	0.33	0.1	0.18	0.0
01	LIVE ANIMALS	0.00	0.0	0.00	0.0	0.02	0.0	0.01	0.0	2.61	1.8	2.30	1.4	1.78	0.7	4.27	1.7	2.07	0.7	7.39	2.6	39.41	10.2
35	CASEIN	6.04	8.0	8.58	6.5	8.68	5.7	10.65	6.8	10.53	7.2	13.67	8.3	24.79	9.5	31.19	12.7	24.65	8.9	21.42	7.6	19.29	5.0
84	MACHINERY	2.42	3.2	1.11	0.8	0.89	0.6	4.01	2.6	3.12	2.1	10.15	6.1	2.78	1.1	2.07	0.8	5.41	1.9	2.48	0.9	12.44	3.2
85	ELECTRICAL MACHINERY	0.41	0.5	0.74	0.6	1.29	0.9	0.89	0.6	4.01	2.7	14.15	8.5	4.67	1.8	3.06	1.2	3.84	1.4	9.94	3.5	8.27	2.1
76	ALUMINUM	0.72	0.9	0.02	0.0	0.06	0.0	0.04	0.0	0.07	0.0	0.07	0.0	0.44	0.2	0.11	0.0	0.27	0.1	2.74	1.0	4.89	1.3
90	OPTICAL AND MEDICAL INST.	0.35	0.5	0.27	0.2	0.80	0.5	0.46	0.3	0.61	0.4	0.77	0.5	1.74	0.7	1.83	0.7	1.11	0.4	1.65	0.6	1.98	0.5
73	ARTICLES OF IRON OR STEEL	0.75	1.0	0.27	0.2	0.29	0.2	0.62	0.4	0.66	0.4	0.50	0.3	0.36	0.1	0.62	0.3	0.79	0.3	0.39	0.1	1.24	0.3
08	EDIBLE FRUIT AND NUTS	1.45	1.9	1.07	0.8	0.92	0.6	1.65	1.1	0.51	0.3	1.27	0.8	0.93	0.4	0.55	0.2	0.75	0.3	1.73	0.6	1.01	0.3
	TOP TEN IMPORTS FROM NZ	71.04	93.7	121.94	92.3	142.25	94.1	146.54	94.2	138.73	94.3	159.10	96.1	247.68	95.1	235.93	95.9	268.81	96.5	270.23	96.1	374.73	97.3
	TOTAL IMPORTS FROM NZ	75.85		132.07		151.11		155.56		147.10		165.58		260.56		246.02		278.44		281.18		385.19	

Source: Ministry of Economy, Mexico
*/ annual average rate growth

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Table 4: Top Ten Mexican Imports from New Zealand: Imports Share of Import Market (%)
Calendar Years

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
HS	DESCRIPTION	Share	Share	Share	Share	Share	Share	Share	Share	Share	Share	Share
04	DAIRY, EGGS, HONEY, ETC	11.9	18.6	21.2	23.4	22.3	16.9	21.3	24.5	25.1	19.7	21.0
	DAIRY (0401-0406)	12.2	19.2	22.3	25.3	23.3	17.6	21.9	25.6	26.2	20.1	21.5
	0402 Milk, cream conc, sweet.	12.7	19.1	22.2	30.5	24.0	14.6	22.8	30.0	31.9	22.6	23.1
	0405 Butter, oils from milk	15.1	26.8	32.4	38.0	43.2	51.5	56.3	59.1	55.0	37.3	44.5
	0406 Cheese and curd	14.8	28.4	31.4	19.1	18.0	14.5	12.8	14.4	13.2	10.3	11.4
	0403 Buttermilk, yogurt, etc.	13.7	29.8	19.6	18.5	28.0	31.7	41.0	42.9	44.7	62.0	47.2
	0404 Whey, other milk prods	1.7	1.6	2.5	2.5	2.7	1.8	1.2	1.5	1.5	0.9	0.8
	0401 Milk, cream, n swt/conc.	0.2	0.2	0.3	0.8	1.3	0.8	0.7	0.5	0.6	0.8	0.9
02	MEAT	1.9	1.0	1.1	0.9	0.8	1.0	2.0	1.7	2.4	2.2	1.9
	0204 Sheep or goats	41.6	28.2	27.6	26.3	24.0	28.0	37.1	35.5	44.5	49.2	42.9
	0202 Beef, frozen	0.4	0.6	1.0	0.9	0.9	2.9	18.2	12.7	24.1	23.0	25.4
	0206 Edible animal offal	0.3	0.3	0.5	0.7	0.4	0.6	0.7	0.5	0.6	0.8	0.3
	0208 Other frozen or fresh	11.3	19.6	17.7	14.1	15.6	37.8	27.7	17.9	11.2	39.9	73.2
	0201 Beef fresh / chilled	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.0
01	LIVE ANIMALS	0.0	0.0	0.0	0.0	1.4	1.0	0.8	1.9	1.9	8.2	26.1
35	CASEIN	3.4	4.2	3.5	3.7	3.4	4.0	6.8	8.5	6.5	4.6	3.6
84	MACHINERY	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
85	ELECTRICAL MACHINERY	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
76	ALUMINUM	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2
90	OPTICAL AND MEDICAL INST.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
73	ARTICLES OF IRON OR STEEL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
08	EDIBLE FRUIT AND NUTS	1.0	0.6	0.4	0.7	0.1	0.3	0.2	0.1	0.1	0.3	0.2

Source: Ministry of Economy, Mexico