Mexico, Modern Diplomacy And the European Union

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Over the last decade the strategy to diversify Mexico's relations with the world has become a priority; this consists of seeking more solid links with different groups of countries through formal institutional mechanisms.

Globalization and the formation of regional blocs have imposed the need for Mexican diplomacy to develop new practices in order to lead the country toward the center of the world dynamic. This goal is embodied in the national development plans of the last two administrations as well in their respective reports.

Mexico's geopolitical situation has been altered by international transformations that demanded a more active, specialized strategy to try to fulfill the main interest of our foreign policy: strengthening national sovereignty and promoting the country's economic and social development through inserting itself better in today's world. In that sense, contacts with all the regions of the globe mounted and political and economic exchanges intensified through an aggressive strategy of signing international instruments, outstanding among which are accords on education, science and technology and, of course, free trade. But the task has merely been outlined and therefore remains unfinished.

The diversification and intensification of external links with a greater number of countries and regions required the design, implementation and follow-up of a series of actions aimed at reaffirming Mexico's presence in Europe, Latin America, the Caribbean and the Pacific Basin countries, as well as in the institutions and groups that promote economic and social development both in developed and developing nations.[1]

The Challenge of Diversification

On the threshold of the twenty-first century, Mexico's foreign policy has gone through significant changes in its design, leadership and implementation. These modifications have occurred parallel to the profound and varied transformations of the structure and dynamic of the international system. The end of bipolarism, the processes of political and economic integration, the growing advance of economic globalization and the importance of the debate about democracy, human rights, the environment, etc., have changed the priorities on the agenda. While the doctrine, principles and objectives of foreign policy have remained firm, it is also true that the speed of world events has forced it to be increasingly pragmatic.

On the other hand, economic reorientation and political changes inside the country have also had an impact on the new dynamic of Mexico's foreign policy. In this context, over the last decade the strategy to diversify Mexico's relations with the world has become a priority;[2] this consists of seek-

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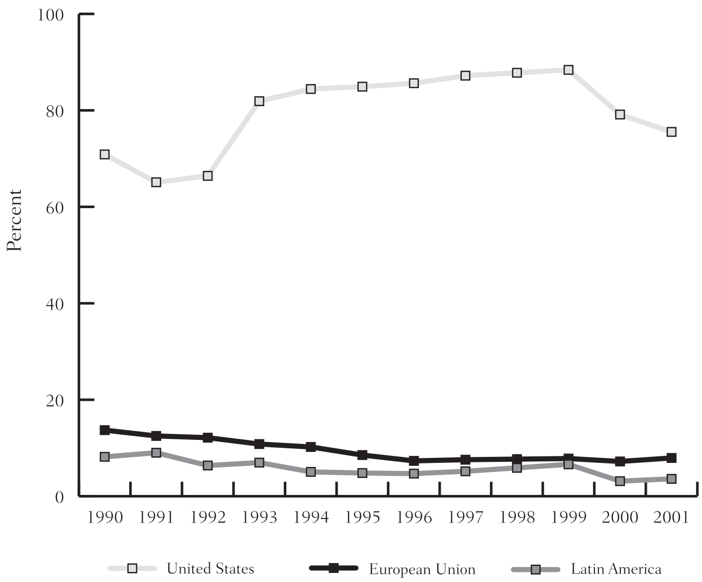
GRAPH 1
DISTRIBUTION OF MEXICO'S TRADE



Source: Secretaría de Economía using BANXICO figures.

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ing more solid links with different groups of countries through formal institutional mechanisms that attempt to create conditions of certainty and legal security in the relationship with Mexico for the world's leading investing powers and, of course, with the most dynamic markets.

THE EUROPEAN UNION AND DIVERSIFICATION

The European Union (E.U.) as a regional regimen has tended to regroup the most influential nations of Europe in the post-Cold War period. The E.U. is the world's foremost trading power and largest market. Its 15 countries are home to 375 million inhabitants; its joint gross domestic product is U.S.$8.3 trillion, equivalent to that of the United States. In addition, the E.U. concentrates about one fifth of the world's trade.

The Evolution Of Mexico-E.U. Relations

Since the 1975 signing of the first important trade agreement between Mexico and the then-European Economic Community, relations between the two have intensified in the political sphere but diminished in the economic sphere.

Today, the E.U. has great weight and political and economic influence in the dynamics of international relations; it is also Mexico's second trading partner (6.5 percent) and second source of foreign investment (20.3 percent).[3] This means that the potential for our country and the world's main trading bloc complementing each other takes on special significance.

This is the reason for Mexico's strategy of deepening and broadening out links of all kinds mainly with the E.U., without disregarding its relations with the new states that have emerged in Central Europe and the Balkans, at times wrapped up in overcoming their own internal problems.

On May 2, 1995, Mexico and the European Union announced the decision to broaden and deepen their bilateral relations creating a new framework that would make it possible to bolster political dialogue, establish a free trade area and intensify cooperation with the aim of contributing in the long term to the promotion of the fundamental values of respect for human rights, the rule of law, democracy and security. In this same vein, on December 8, 1997, another of the most significant steps in the strengthening of bilateral relations between Mexico and the E.U. was taken: the negotiations for the E.U.-Mexico Economic Partnership, Political Coordination and Cooperation Agreement, also known as the "Global Accord," began. This instrument, which entered into force very recently, pulls together in a single text political, trade and cooperation issues, making it the most complete and ambitious one Mexico has ever signed and the only one of this type that the E.U. has negotiated with a non-European nation.[4] Also signed were the "Interim Accord on Trade and Matters Related to Trade" and a joint declaration, which ratifies the mandate to negotiate a free trade zone. The process leading up to these signings began in 1998 and culminated successfully November 24, 1999.

Negotiating The Free Trade Agreement

The signing of the "Global Accord" was the step that preceded the signing of the Mexico-European Union Free Trade Agreement (Mexico-E.U. FTA) in March 2000 by then-President Ernesto Zedillo in Lisbon, giving Mexican products access to a 375-million-person market.

With this agreement, the Mexican economy is expected to benefit from the high potential for European investment as well as from its advanced technology. At the same time, the European Union benefits by being able to compete in equal conditions with the countries with which Mexico already has free trade agreements. This will allow the E.U. to recover and extend its presence in the Mexican market, which, despite its continuing to be Mexico's second trade partner, in the last decade had dropped 43 percent, sinking from 11.4 percent of all of Mexico's foreign trade in 1990 to 6.6 percent in 2001 (see graphs 1 and 2).

The European Union is also our second source of foreign direct investment (FDI), with 20.2 percent of the total (U.S.$74 billion) that entered the country between 1994 and June 2001 (see graph 3). In June 2001, the 5,066 companies with European capital made up 23 percent of the 22,002 firms in Mexico with FDI, with U.S.$15.1 million in investment.

The results of the negotiations were approved March 20, 2000 by Mexico's Senate —together with the "Global Agreement"— and by the European Council of Ministers of Member States; and July 1, 2000, the part of the Free Trade Agreement with the European Union corresponding to goods entered into effect.

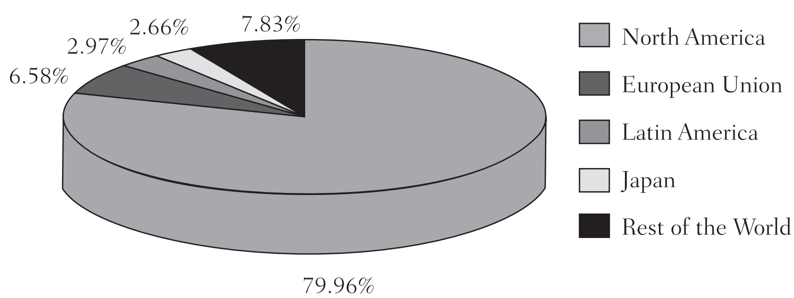
Finally, in his last European tour from May 14 to 18, 2002, President Zedillo inaugurated a program to accelerate tariff reduction between Mexico and the European Union which included trade for U.S.$1.7 billion. Firm commitments for almost U.S.$300 million in investments from Spain were achieved and high expectations centered on European firms' investing in Mexican telecommunications, electricity and petrochemicals. However, this is still subject to the arrival at consensuses among the different branches of government to create the legislative framework that would allow it.

The North American Free Trade Agreement

As a result of Mexico's decades-long strategy abroad, and after signing several different trade instruments with the United States, relations with our neighbor to the north are constantly

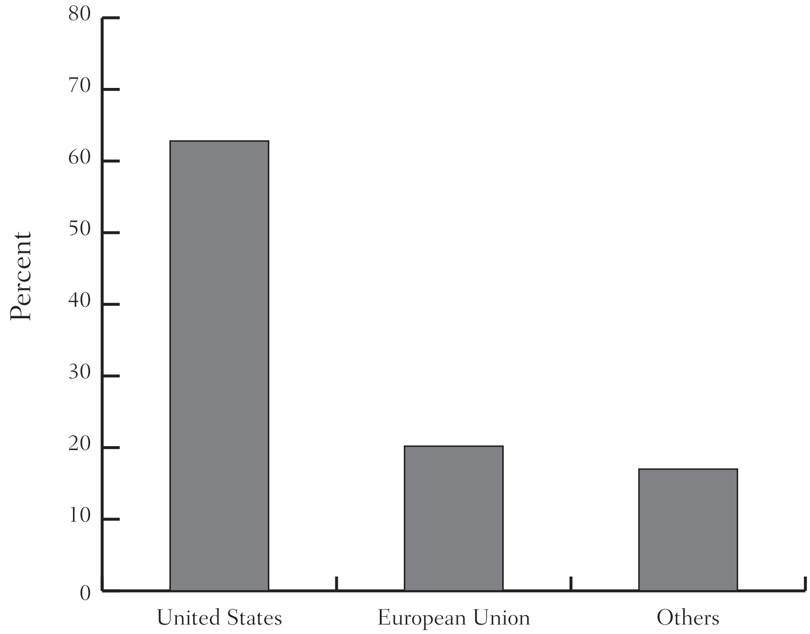
With the Mexico-E.U. FTA the Mexican economy is expected to benefit from the high potential for European investment as well as from its advanced technology.

Graph 2
Mexico's Total Trade (2001) (millions of dollars)



Source: SECOFI, using BANXICO figures.

GRAPH 3
SOURCES OF FOREIGN DIRECT INVESTMENT IN MEXICO (1994-JUNE 2001)



Source: Dirección General de Inversión Extranjera, Secretaría de Economía.

improving. The profound changes that Mexico has been undergoing have given our bilateral economic relations greater affinity than ever before in history. Through new trade instruments like the framework agreements of the 1980s, as well as others regarding investment, tourism, agricultural cooperation, etc., the first steps were taken toward a new course for relations between our two countries. However, these instruments still excluded some basic trade issues like the application of tariffs or the abuses of legislation about unfair trade practices, and retained their protectionist approaches. These matters were overcome.

The North American Free Trade Agreement, negotiated from 1990 on with the United States and Canada, came into effect in 1994 with the following explicit aims:

a) Promoting better and more secure access for Mexican products to the United States;
b) Reducing the vulnerability of Mexico's exports vis-à-vis unilateral and discretionary measures;
c) Allowing Mexico to deepen the structural change of its economy, strengthening domestic industry through a solid export sector and with more competitiveness; and
d) Contributing to the creation of more productive jobs and increasing the well-being of the population.

MAIN RESULTS OF THE NEGOTIATIONS

NAFTA, in addition to establishing a program to reduce tariffs among its members, includes stipulations about eliminating non-tariff barriers; states specific rules of origin for products from the region; opens up a significant portion of government purchasing to its members; has a specific chapter that sets bilateral commitments between Mexico and the United States and between Mexico and Canada about agricultural products that include domestic supports and subsidies to exports; and contains a special program to lower tariffs for auto products with a rule of origin of an average 60 percent.

With regard to energy, Mexico has been released from the application of the disciplines agreed on by the other signers; for textile products, it has been stipulated that the treaty will prevail over the Multi-fiber Accord and other international conventions on the issue. NAFTA also includes norms about safeguards and unfair trade practices and a chapter about trade in services, which deals not only in general principles but involves specific areas like financial services, insurance, land transportation and telecommunications, among others.

Final Considerations

The differences between NAFTA and the Mexico-E.U. FTA are not to be found in the instruments negotiated since both are mechanisms dealing with similar issues and with norms that fall within the framework of the World Trade Organization. What marks the differences between these two treaties are the circumstances and premises that gave rise to their negotiation and the expectations about the results.

When negotiations began with the United States and Canada, 72.4 percent of all of Mexico's trade was with the United States. When the process began with the European Union in 1998, Mexico's total trade with it was only 6.4 percent (and this percentage is a matter of greater concern if we consider that at the end of 2001, Mexico's trade worldwide had tripled vis-à-vis the beginning of the 1990s, and had reached U.S.$326 billion).

For these reasons, we can conclude that while NAFTA was negotiated in the light of the need to create a normative, formal framework for already existing trade flows with the United States, Mexico-E.U. FTA was signed based on the premise of diversifying the prevailing concentration of Mexico's trade flows and attracting investment from the world's largest market.

Notes

[1] Andrés Rozental, *La política exterior de México en la era de la modernización* (Mexico City: FCE, 1993), p. 55.

[2] Poder Ejecutivo Federal, *Plan Nacional de Desarrollo, 1995-2000* (Mexico City: Poder Ejecutivo Federal, 1995), p. 12.

[3] "La diversificación de las relaciones, prioridad de la política exterior," *Enlace mexicano*, March-April 2000, (Mexico City), p. 1.

[4] Ibid, p. 2.

Main Accords in the Mexico-E.U. Free Trade Agreement

I. Market Access

- Gradual, reciprocal elimination of import tariffs.
- The asymmetry between Mexico and the European Union is recognized through differentiated time limits for tariff elimination.
- Europe will eliminate tariffs in 2003, Mexico in 2007.
- Preferential access for Mexican exports in the general system of preferences.
- Establishment of a 10-year, linear elimination of tariffs for agricultural and agro-industrial products, import quotas and a waiting list for products protected by the European Union.
- 95 percent of Mexico's agricultural exports to the European Union will have preferential access.
- Quantitative restrictions and prohibitions (import or export permits) will be eliminated, but the right to adopt measures needed to protect human, animal or vegetable life and health and public morality will be preserved.

II. Rules of Origin

- Rules of origin were negotiated guaranteeing that the benefits from the agreement remain in the region.
- Among the most important rules of origin are those for textiles, transportation, auto parts, electrical appliances, footwear and plastics.

III. Technical Norms

- It was agreed that the right to adopt and apply norms will be preserved as long as they do not become unnecessary obstacles to trade.
- A special committee will be created to foster cooperation in information exchange about systems of normalization and the solution of problems of access related to technical norms.

IV. Sanitary and Phytosanitary Norms

- A specialized sub-committee will be formed and will meet yearly to exchange information, identify and facilitate the solutions of problems of access, promote equivalent norms in Mexico and the European Union and foster the recognition of areas free of disease.

V. Safeguards

- Safeguards can be adopted for a maximum of three years to provide temporary relief to a sector that might face serious damage or the threat of damage due to substantial increases in imports.
- In all cases, the application of a safeguard will require compensation. If an agreement cannot be reached about the amount of the compensation, a measure with equivalent effects can be adopted to compensate for the damage to trade.

VI. Investment and Related Payments

- The current opening will be consolidated in national legislation.
- For Mexico, this will not imply additional opening to FDI in any sector.
- International commitments with regard to investment will be reiterated.
- The right to adopt safeguards because of problems related to exchange rate, monetary or balance of payment policies will be preserved.

- A mechanism will be instituted to promote reciprocal investment through information exchange for identifying business and corresponding legislative opportunities.
- The commitment to reciprocally promote investment and design ways to carry out joint investments will be established.

VII. Trade in Services

- Mexican service providers will have access to the E.U. service market without restrictions on the number of operations or providers and will enjoy national treatment and most-favored-nation status.
- The current degree of economic opening stipulated in national laws will be consolidated to guarantee that none of the countries pass more restrictive legislation.

VIII. Public Procurement

- Mexican exporters of goods and services to the E.U.'s 10,000 public sector institutions and companies that make more than U.S.$400 million in purchases a year will be given better access than other E.U. trade partners; in addition, they will enjoy national treatment.
- The aforementioned measure will include purchasing by Mexican federal government institutions and companies as well as the entities of the central governments and para-state companies of the member states and the executive body of the E.U.
- This measure will be applied on acquisitions of goods and services including those for construction, whose value exceeds certain amounts.
- Mexico will have a transitional reserve for seven years for purchases by PEMEX, the Federal Electricity Commission, non-energy sector construction and the acquisition of non-patent medicines.
- These measures will not enter into force until the E.U. presents detailed, disaggregated statistics for the purchases of at least 150 public companies.

IX. Competition

- To guarantee an environment conducive to entrepreneurial activity, competition will be promoted and monopolistic practices combatted.
- A working group will be established to promote technical cooperation and information exchange; to coordinate general studies on the matter as well as specific consultations; and to consider issues linked to the relationship between policies and the laws of competition and trade, to avoid the application of restrictive trade measures.

X. Intellectual Property

- According to respective legislations, obligations will be established about the acquisition, conservation and exercise of intellectual property rights.
- A special consulting committee will be established to deal with issues and disagreements in matters of intellectual property, while the right to resort to the dispute settlement mechanism established in the agreement will be preserved.
- The rights and obligations established in signed international treaties and conventions are confirmed.

XI. Dispute Settlement

- A consultation and dispute settlement mechanism is established with clear, expedite procedures.
- Priority will be given to conciliation for settling disputes.
- The right to appeal to the World Trade Organization's dispute settlement mechanism is preserved.
- Arbitral procedures will be agile and transparent.
- In case of non-compliance, equivalent agreed-upon benefits may be temporarily suspended until such time as the decision of the arbitral panel is carried out.