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During the first two months of 1996, President Ernesto Zedillo's administration resumed intensive efforts to advance trade negotiations with several Central American countries and also took the first step toward forging an economic agreement with the Southern Cone Common Market (MERCOSUR). On the other hand, the administration experienced a slight setback after the European Union delayed consideration of a plan to forge an economic and trade agreement with Mexico. Mexico's commitment to resume negotiations with Central American countries was announced at a Mexico-Central America economic summit held in San Jose, Costa Rica, on Feb. 15-16.

At the summit, Zedillo and Central American leaders reached an agreement to further develop trade and economic ties. In addition to Zedillo, the summit was attended by Presidents Alvaro Arzu of Guatemala, Carlos Roberto Reina of Honduras, Armando Calderon Sol of El Salvador, Violeta Chamorro of Nicaragua, Jose Maria Figueres of Costa Rica, and Ernesto Perez Balladares of Panama, and Prime Minister Manuel Esquivel of Belize. The San Jose summit was a follow-up to a similar regional meeting held in Tuxtla Gutierrez, Mexico, in 1991. At that meeting, Mexico and five Central American countries Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica signed a framework accord to promote a free-trade zone before 1997 (see SourceMex, 01/16/91).

Until the recent meeting in San Jose, the 1991 meeting was commonly known as the "Tuxtla Gutierrez Summit." That name was changed to the "Tuxtla Gutierrez Summit I," following the recent San Jose meeting, which then became known as the "Tuxtla Gutierrez Summit II." At the Tuxtla Gutierrez II summit, Mexico and the five original Central American participants, along with newcomers Belize and Panama, extended the deadline to sign a framework accord for the "Mesoamerican trade bloc" until the year 2000. Any agreement reached within the context of the Tuxtla Gutierrez I and Tuxtla Gutierrez II summits, however, is largely symbolic, since each country must negotiate separate agreements with Mexico. Mexico was already engaged in intense bilateral negotiations with Nicaragua and the "Northern Triangle" countries (Guatemala, El Salvador, and Honduras) in 1994, but was forced to suspend those discussions in 1995 to allow President Zedillo to concentrate on dealing with the economic crisis that followed the devaluation of the Mexican peso in December 1994.

In the discussions with the Northern Triangle countries, Mexico is negotiating jointly with El Salvador, Guatemala, and Honduras, but will sign separate accords with each of the three countries. Negotiations with Nicaragua are occurring independently from those with the Northern Triangle countries. In addition to those four Central America countries, Mexico has announced intentions to begin negotiations on a bilateral trade agreement with Panama. Zedillo traveled to Panama from Costa Rica after attending the Tuxtla II summit.

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Speaking to reporters after meeting with Zedillo in Panama City on Feb. 14-15, Panamanian President Perez Balladares said a wide range of business interests in Panama, including organizations representing agriculture producers and Chambers of Commerce, have expressed strong support for developing a direct trade link with Mexico. "In Panama, there is a broad consensus for us to negotiate and sign a free trade agreement with Mexico," said Perez Balladares. However, some Panamanian business leaders urged Perez Balladares to proceed cautiously in the negotiations. The greatest concerns were voiced by Juan Kinner, president of Panama's organization of industrialists (Sindicato de Industriales), who told Perez Balladares that a series of "working protocols" with Mexico on trade and investment had yet to provide tangible benefits for Panama since they were signed in 1986.

Meantime, Guatemalan President Arzu traveled to Mexico City just days after the summit to discuss several common issues, including drug trafficking, treatment of refugees, and the status of negotiations with the Northern Triangle countries, especially the proposed Mexico-Guatemala accord. According to Guatemalan presidential spokesman Ricardo de la Torre, Arzu told Zedillo during their meetings on Feb. 26-27 that his country considers a bilateral trade accord with Mexico a link to the North American Free Trade Agreement (NAFTA).

Indeed, according to economist Alejandro Alvarez of the Universidad Nacional Autonoma de Mexico (UNAM), Central American countries now view their prospective agreements with Mexico as a gateway to establishing greater trade links to NAFTA and the huge US and Canadian markets. Alvarez noted that trade between Mexico and Central America has been relatively insignificant in recent years, even with the enactment of the Mexico-Costa Rica bilateral accord on Jan. 1, 1995. He said Mexico has traditionally supplied about 5% of the total imports of the Central American countries.

In turn, the Central American region has provided about 1% of Mexico's total imports. During 1995, Central American countries exported only about US$86 million to Mexico, while importing about US$658 million. In contrast, in 1994, Central American exports to Mexico reached US$138 million, compared with imports of US$523 million. This widening of Mexico's trade surplus with Central America is attributed in part to the opening of the Costa Rican market after the Mexico-Costa Rica bilateral accord was implemented in 1995. The greatest factor in the expansion of Mexico's trade surplus with the region, however, was the devaluation of the peso, which reduced export prices for Mexican products, while increasing the cost of imports.

Coincidentally, the Costa Rica-Mexico trade accord went into effect only weeks after the devaluation of the peso in late 1994, immediately placing Costa Rica at a disadvantage. Costa Rica's widening trade deficit with Mexico during 1995 led some legislators and business leaders to urge the Costa Rican government to renegotiate the bilateral accord with Mexico. For example, economist Otton Solis, a member of the opposition National Liberation Party (PLN), said the bilateral agreement has failed to open the door for increased exports of Costa Rican agricultural products to Mexico, including meat, sugar, and seafood.

In addition, Solis charged that Mexico has reneged on promises made when the agreement was first negotiated, including a pledge to buy 300,000 quintals of Costa Rican sugar last year.

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Solis also raised concerns that the provisions that opened investment to Mexican companies were counterproductive. Rather than investing money to construct new plants in Costa Rica, he said, Mexican companies were buying up Costa Rican counterparts, which had the effect of reducing competition. Several large Mexican companies such as Grupo Bimbo and FEMSA last year expanded into the Costa Rican market through the purchase of existing Costa Rican companies (see SourceMex, 10/11/95). Mexico's giant construction and tourism-oriented company Grupo Situr also has made major investments in Costa Rica.

While negotiations continue with Central America, the Zedillo administration is also attempting to advance trade accords in South America. In the past several years, Mexico completed bilateral trade agreements with Chile and Bolivia, as well as the Group of Three (G-3) accord with Colombia and Venezuela. The Zedillo administration also hopes to resume negotiations soon on a bilateral accord with Peru, which were delayed last year because of the economic crisis.

Additionally, Mexico is attempting to develop an economic relationship with the Southern Cone Common Market (MERCOSUR). As a first step, Mexico has initiated efforts to expand trade and economic relations with Brazil, one of the four MERCOSUR members. The other three members of that trade bloc are Argentina, Uruguay, and Paraguay. Mexico's intention to develop a closer relationship with Brazil was announced during a two-day state visit by Brazilian President Fernando Henrique Cardoso to Mexico City on Feb. 18- 20. In a joint communique, the two leaders announced an agreement to pursue a "strategic alliance" to promote free trade between their countries.

The agreement reached between Zedillo and Cardoso, while largely symbolic, is considered the first step in linking Mexico with MERCOSUR. According to Mexican government sources, Zedillo proposed to Cardoso that the two countries consider such measures as a reduction in tariffs, increased trade in services, promotion of direct investment, and protection of intellectual property.

According to Mexican government statistics, Mexico turned its trade balance with Brazil into a surplus of US$223 million in 1995 from a deficit US$849 million, largely due to the devaluation of the peso. Cardoso and Zedillo announced some concrete agreements, such as the creation of a mechanism for consultations on such matters as investment, trade promotion, exchange of economic data, tourism, and cultural exchanges. A key element of this agreement was to more closely monitor the flow of foreign capital into their countries to avert the "domino effect" experienced by Latin American financial markets following the devaluation of the peso in late 1994. "This mechanism will not only allow us to forge closer ties at the bilateral level but also help us harmonize our positions at multilateral meetings," Zedillo told reporters.

Notwithstanding the optimism that followed the Mexico- Brazil meeting, some Brazilian officials sounded a note of caution. In an interview with the daily newspaper O Estado de Sao Paulo, Brazilian Foreign Minister Luiz Felipe Lampreia raised concerns about rules within MERCOSUR that would make a comprehensive bilateral Mexico-Brazil accord virtually impossible. Lampreia said the customs rules are so stringent under MERCOSUR that Brazil would have considerable difficulty entering into any negotiation that did not involve the three other members of the bloc. On the other hand, NAFTA regulations offer Mexico more leeway to enter into bilateral accords outside of the agreement.

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In contrast to the progress toward trade agreements with other Latin American countries, a proposed accord with the European Union (EU) has been delayed at least until the second half of this year. After a heated debate during a session of the foreign ministers of the fifteen member countries on Feb. 26, the EU decided to postpone consideration of a trade agreement with Mexico because of a lack of consensus among the 15 members. The proposed EU agreement with Mexico had received strong support from Britain and Spain. Spain had been acting as the main liaison between Mexico and the EU. On the other hand, France and the Netherlands called for a postponement on discussions with Mexico. Representatives of the two countries said their position was not directed specifically at Mexico. Rather, they expressed concern about the speed with which the EU was rushing to negotiate free-trade agreements with different countries around the world.

In postponing the agreement with Mexico, the EU directed a special panel of European trade experts to draft a more gradual timetable to open trade with Mexico. According to some trade analysts, the EU decision means that a trade agreement with Mexico may not go into effect until sometime in 1998 or 1999. Among the concerns raised by members of the EU was that a rapid opening of the EU to foreign goods could undermine the economies of countries such as France and Portugal, whose economies rely heavily on agriculture. In addition, Austria expressed concern that any trade privileges awarded to Mexico would have to be provided to its NAFTA partners, the US and Canada.

As a compromise, a group of countries led by Germany, the Netherlands, and Belgium proposed that the EU open up trade to Latin America in two phases, concentrating first on developing a link with the Southern Cone Common Market (MERCOSUR). For its part, the Mexican government expressed disappointment at the EU decision, especially given the intense lobbying by Zedillo during a trip to Europe in January. However, in a prepared statement, the Trade Secretariat (SECOFI) said the government respects the EU's right to postpone a decision on the agreement. Additionally, the SECOFI statement said the Zedillo administration would continue consultations with proper authorities in the EU to lay the groundwork for an eventual accord. (Sources: La Jornada, 02/16/96, 02/27/96; Notimex, Reuter, 02/19/96; Excelsior, 02/21/96; Agence France-Presse, 01/15/96, 02/19/96, 02/26/96; Inter Press Service, 02/14/96, 02/16/96, 02/17/96, 02/23/96, 02/24/96, 02/27/96; El Financiero International, 02/26/96, 03/04/96)

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