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## **Mexico, European Union Complete Free Trade Agreement**

*by LADB Staff*

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After 16 months of difficult negotiations, Mexico and the European Union (EU) completed a comprehensive free-trade agreement in late November. The two sides completed the text of the accord during the latest round of talks in Brussels, overcoming differences on key issues such as rules of origin, which had delayed completion of the accord for several months (see SourceMex, 1999-08-11, 1999-10-20). The agreement, which the two sides would like to implement in July 2000, covers 90% of the goods and services traded between Mexico and the EU's 15 member nations.

Under a timetable established in the accord, most Mexican products would gain duty-free status in the EU by 2003. In turn, Mexico would phase out tariffs for most EU products by 2007. Accord expected to reduce Mexico's dependence on US Mexican government and business officials said completion of the accord is a major step toward reducing the country's dependence on the US economy.

"This agreement gives us a great opportunity to diversify our export markets and not depend exclusively on the North American market," said Alejandro Martinez Gallardo, president of the Consejo Nacional de Camaras Industriales (CONCAMIN).

Trade Secretary Herminio Blanco, summoned to testify before the Senate about the new accord, said it should boost Mexican exports to the EU. The 15-nation bloc accounted for only 3.2% of Mexico's total exports in 1998, compared with 21% in 1982. "This year, our exports to the US will reach about US\$100 billion," Blanco said. "In contrast, Mexican exports to the European Union in 1999 are projected at only US\$5 billion, which illustrates the great potential of that market."

More importantly, said Blanco, the accord could help narrow Mexico's US\$7.9 billion trade deficit with the EU. In 1998, Mexican exports to the EU totaled only US\$4.3 billion, compared with imports of US\$11.7 billion from the European bloc.

President Ernesto Zedillo's administration is also depending on the agreement to increase European investments in Mexico and boost the flow of capital into the country. "More men and women will be able to find work in the businesses that have trade relations with Europe," Zedillo said in a radio address.

As part of the agreement, Mexico's foreign-trade bank (Banco Nacional de Comercio Exterior, BANCOMEXT) and the European Commission have launched a program to support cooperative agreements between Mexican and European companies. BANCOMEXT director Enrique Vilatela said 120 Mexican and EU companies are expected to participate in the program, which will target 10 industrial sectors, including pharmaceuticals, furniture, plastics, and textiles.

## *EU to boost direct investments in Mexico*

Manuel Sanchez Gonzalez, head of economic research at Grupo Financiero Bancomer (GFB), said the accord could eventually boost overall direct foreign investment in Mexico by about US\$2 billion per year. Direct foreign investment currently stands at between US\$11 billion and US\$12 billion. "It wouldn't surprise me to see investment levels reach US\$13 billion to US\$14 billion in a couple of years," Sanchez told Reuters news service.

Prominent western European companies such as German automobile manufacturer Volkswagen and Dutch electronics company Phillips have operated in Mexico for years. Others, like French cement manufacturer Lafarge, have recently announced plans to enter the Mexican market. The Mexican government's anti-trust agency (Comision Federal de Competencia, CFC) recently granted Lafarge permission to acquire the cement and transportation units of Cementos Portland de Mexico.

The agreement will also open the door further for Mexican companies to invest in Europe. In late November, Mexican bread manufacturer Grupo Bimbo announced plans to open plants in EU member Austria and in the neighboring Czech Republic, which is not a member of the bloc. Similarly, Mexican telephone giant TELMEX formed a consortium with other European companies to bid for wireless telephone frequencies being auctioned by Spain's government.

## *Agreement has plenty of detractors*

The EU-Mexico accord was met with great skepticism outside the administration and the business community. Among other things, critics said the administration failed to push for greater protections for Mexican agriculture and other disadvantaged sectors. Jose Neme Salum, a columnist for the daily newspaper Excelsior, likened Zedillo's negotiating stance to that of former president Carlos Salinas de Gortari, Mexico's principal proponent of the North American Free Trade Agreement (NAFTA). "Under this agreement, Mexico will be treated like a developed country just because we are members of the Organization for Cooperation and Economic Development (OECD)," said Neme Salum.

Anibal Gutierrez, an economist at the Universidad Nacional Autonoma de Mexico (UNAM), said the EU's principal intent in negotiating the accord was not necessarily to enhance its economic relations in Mexico, but rather to gain access for their products to the other North American markets. "The agreement will allow the Europeans to manufacture their products in Mexico for re-export to the US and Canada," said Gutierrez. In contrast, said Gutierrez, Mexican products may not be able to compete in EU countries even with the tariff reductions. "Our products lack the standards, price, and innovative qualities necessary to attract the interest of European consumers," he said.

Gutierrez's concerns were supported by trade analysts from Bursametrica and Standard & Poor's, who said inadequate technology, a lack of access to credit, and other factors could keep Mexican companies from competing on an equal footing with European counterparts. Sen. Adolfo Aguilar Zinser, who is not affiliated with any political party, criticized the administration for rushing to complete the agreement rather than holding out for more favorable terms for Mexico, particularly for agriculture and small businesses. "It will take months and perhaps years to fully realize the consequences of this accord for our national economy," Aguilar said in a nationally

syndicated column. "Mexican producers and workers will be the ones who gradually discover these consequences."

Sen. Jorge Calderon Salazar of the center-left Partido de la Revolucion Democratica (PRD) pledged that his party would ask the Mexican Senate to closely examine each section of the accord and demand that the administration renegotiate the provisions and chapters that are not in Mexico's best interest. Calderon said the PRD supports in principle the sections that deal with expanding economic relations with the EU but opposes certain investment provisions that eliminate government control over key sectors of the economy.

The potential PRD opposition to the accord may not be sufficient to prevent Senate ratification. Senators of the governing Partido Revolucionario Institucional (PRI) and the center-right Partido Accion Nacional (PAN) have already said they support the accord. The ratification process also faces some minor hurdles in Europe, where the agreement must be approved by the legislatures in each EU member country and by the European Parliament.

In Italy, the foreign affairs committee of parliament has tied ratification to the restoration of human rights in Chiapas. During initial discussions of an EU-Mexico agreement, some European countries insisted on inclusion of a clause committing Mexico to respect human rights. But the matter was set aside in May 1998 when the European Parliament approved parameters for negotiations of an agreement (see SourceMex, 1998-03-11, 1998-05-20).

The agreement with Mexico is expected to establish a precedent for a future EU accord with the Southern Cone Common Market (MERCOSUR). Negotiations between the EU and MERCOSUR are scheduled to begin in March 2000. (Sources: Spanish news service EFE, 11/24/99; The Dallas Morning News, 11/25/99; El Universal, 11/24/99, 11/26/99; The News, 11/25/99, 11/26/99; Reforma, 11/25/99, 11/26/99; Associated Press, 11/24/99, 11/27/99; Excelsior, 11/25/99, 11/26/99, 11/29/99, 11/30/99; Notimex, 11/25/99, 11/28/99, 11/29/99; Reuters, 11/17/99, 11/19/99, 11/24/99, 11/25/99, 11/30/99; Novedades, 11/24-26/99, 11/29/99, 11/30/99; Los Angeles Times, 11/25/99, 11/30/99; El Economista, 11/24-26/99, 12/01/99; La Jornada, 11/24-26/99, 11/29/99, 12/01/99)

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