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# Mexico, Bolivia Replace Free-trade Agreement With More Limited Accord

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Mexico and Bolivia have agreed to terminate a free-trade agreement that had been in place since 1995, replacing it with a more limited tariff-reduction scheme. The change primarily affects the rights of Mexican investors in Bolivia, but the two countries will continue to promote and expand the exchange of goods and services.

The Bolivian government requested the move from the full accord (Tratado de Libre Comercio, TLC) to the more limited agreement (Acuerdo de Complementación Económica, ACE) shortly after its new Constitution was approved in February 2009(NotiSur, March 27, 2009). The new Constitution places some limits on private property, which make it incompatible with certain provisions of the full bilateral accord, negotiated in 1994 and implemented in 1995(SourceMex, Sept. 7, 1994).

A clause in the TLC allowed either party to begin procedures to opt out of the agreement. President Evo Morales' administration, which began the process in December 2009, said it was not targeting Mexico specifically but was renegotiating all free-trade agreements that were incompatible with the new Constitution.

"The Bolivian government requested the change because several chapters in the full accord related to investment, services, intellectual property, and government purchases were deemed incompatible with its new Constitution, which went into effect in February 2009," Mexico's Secretaría de Economía (SE) said in a statement.

The new ACE required approval by legislatures in both countries before the changes could be implemented. The Mexican Senate approved the more limited agreement earlier this year, and Mexican and Bolivian officials signed the document at a regional meeting in Uruguay in May.

In Mexico, the change went into effect on June 7, when President Felipe Calderón's administration published the decree in the government's daily register (Diario Oficial de la Federación).

## *Investors no longer protected*

The changes primarily affect Mexican companies that had invested in Bolivia, including telecommunications companies Telmex and América Móvil, food processors Grupo Bimbo and Grupo Maseca, retailer Grupo Elektra, and Envases Universales, a manufacturer of food and industrial containers.

Mexican companies had invested about US$96 million in Bolivia as of May 2010, which is only 0.2% of the total investments of Mexican firms in Latin America and the Caribbean.

"We no longer have a mechanism of international arbitration in case the rights of our investors are violated," said deputy economy secretary Beatriz Leycegui. "While the provisions for direct trade remain unchanged, any Mexican company seeking to invest in Bolivia will now think twice before doing so."

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The change also removes protections for the very small amount of Bolivian investment in Mexico. As of the first quarter of 2010, Bolivian interests had invested about US$100,000 in Mexico, said the SE.

There was no immediate comment from the Mexican companies that invest in Bolivia, but Mexico's top exporters organization, the Consejo Mexicano de Comercio Exterior (COMCE), said it was not too concerned with the changes. "Everything seems to indicate that our relationship with Bolivia is going to remain unchanged," said COMCE president Valentín Díez Morodo. "There won't be any problems."

## *Bilateral trade expected to remain strong*

Leycegui and Díez Morodo emphasized that the new ACE keeps intact the trade relationship between the two countries. The limited agreement contains language that promotes exports of small and medium-sized businesses in Mexico to the Bolivian market. The ACE will come under the auspices of the Asociación Latinoamericana de Integración (ALADI), a regional organization to which both Bolivia and Mexico belong.

Leycegui said the TLC had allowed Mexico to more than quadruple exports to Bolivia since its inception in 2009. "Even though it is a small country, Bolivia is the top export customer for 20 Mexican products, including cotton cloth, harvesters, and chemicals," said the SE official.

Other Mexican exports to Bolivia include steel and iron bars, copper sulfate, shampoo, smart cards, infant formula, and disodium triosphate.

Bolivia has also benefited from the commercial exchange, doubling its exports to Mexico since the bilateral accord went into effect. "They are our top provider of tin, antimony oxide, Brazil nuts, and other products," said Leycegui. Mexico also imports wooden furniture, sesame seeds, leather, machinery, and other products from Bolivia.

Still, despite the strong bilateral exchange since the Bolivia-Mexico accord went into effect, the trade balance has tended to favor Mexico, and there is no reason to believe that the situation is going to change under the ACE. Total trade between the two countries surpassed US$106 million in 2009, including US$62 million in Mexican exports to Bolivia and US$45 million in imports of Bolivian products. In January-February of this year, bilateral trade approached US$17.5 million, including US$12.6 million in Mexican exports to Bolivia and US$4.9 million in Mexican imports of Bolivian products.

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