❑ MEXICO AND THE FREE TRADE AREA OF THE AMERICAS

By Luis Ernesto Derbez, Secretary of the Economy, Mexico

Since the mid-1980s, Mexico has undertaken profound economic and legal reforms that have overhauled its trade, investment, and financial policies, providing macroeconomic stability and the basis for long-term sustainable development, says Luis Ernesto Derbez, Mexico's secretary of the economy. He credits those reforms with making Mexico one of the few emerging economies that provides a stable environment for business in spite of the economic uncertainty in much of the world today.

In this article, Derbez presents an overview of Mexico's integration into the world economy and the most important results of its network of free trade agreements. He also underscores Mexico's commitment to working toward the success of the Free Trade Area of the Americas, emphasizing its importance to growth, jobs, and rising standards of living for all countries in the region.

Mexico is firmly committed to economic liberalization. In the last 16 years, Mexico has made a dramatic transition from a relatively closed economy to one of the most open countries in the world. It has abandoned price controls and encouraged competition through regulatory reform and by eliminating artificial barriers to entry. Furthermore, it has abandoned the closed import substitution model of industrial development in favor of export-led growth.

After an initial unilateral reduction of tariffs and the elimination of import permits, Mexico in 1986 joined the General Agreement on Tariffs and Trade (today the World Trade Organization, WTO), has since followed free market policies with great determination and commitment, and actively engages in trade negotiations at the bilateral, regional, and multilateral levels.

Mexico joined the Asia-Pacific Economic Cooperation forum (APEC) in 1993 and became a member of the Organization for Economic Cooperation and Development (OECD) in 1994. It has implemented 10 free trade agreements (FTAs) and one agreement on economic complementation involving 32 countries on three continents. These accords have contributed significantly to our integration into the world economy and our dynamic export performance.

Mexico is hosting and chairing APEC during 2002 and will also host the Fifth WTO Ministerial meeting in Cancun in 2003. In addition, Mexico is hosting the last stage of the negotiating process for the Free Trade Area of the Americas (FTAA) from March 2003 until its scheduled conclusion in 2005.

MEXICO'S NETWORK OF FREE TRADE AGREEMENTS

Mexico's FTAs are a vital component of its economic strategy to improve global competitiveness and ensure long-term growth.

Mexico has negotiated 10 FTAs with: Chile (1992); the North American Free Trade Agreement (NAFTA), with the United States and Canada (1994); Bolivia (1995); Costa Rica (1995); Colombia and Venezuela (G-3, 1995); Nicaragua (1998); Israel (2000); the European Union (2000); Iceland, Norway, Liechtenstein, and Switzerland (EFTA, 2001); and Guatemala, Honduras, and El Salvador (North Triangle, 2001).

Since implementation of the accords, bilateral trade with Chile has increased 702 percent, trade with Bolivia 22 percent, with Colombia 103 percent, with Costa Rica 566 percent, with Venezuela 130 percent, and with Nicaragua 78 percent.

The Mexico-European Union FTA created the first free trade area between Europe and the American continent. During the first 18 months of the FTA's entry into force, total trade between Mexico and the EU grew 28.6 percent.

FTAs have also proven to be a critical instrument in mitigating the effects of adverse international circumstances, such as the sharp fall in oil prices, the decrease in international capital flows, and the global economic slowdowns.

MEXICO'S TRADE AND INVESTMENT PERFORMANCE

Mexico's trade liberalization measures and its network of free trade and investment agreements have made an important contribution to our long-term economic development. Ten years ago, few could imagine Mexico would become the seventh leading trading nation in the world and the first in Latin America, with 46 percent of the region's exports and 47 percent of its imports.

In 2001, despite the global economic slowdown and the terrorist attacks of September 11, Mexico's foreign trade surpassed $326 billion. The nearly $159 billion in exports registered last year more than tripled the amount that we exported in 1993.

Our market policies and network of FTAs have made Mexico one of the most attractive countries for national and foreign direct investment (FDI). Since NAFTA entered into force in 1994, Mexico has received more than $112 billion in FDI. This represents an annual average of almost $14 billion, more than three times the annual amount received in the six years prior to NAFTA. We can argue that these dramatic increases in FDI are largely due to the establishment of a legal framework that provides certainty and transparency for business transactions.

Investments contribute to increasing productivity, which in turn leads to higher wages. In the last seven years, employment in firms with FDI has grown more than twice as fast as the national average. Firms with FDI have created one out of every three new jobs since 1994 and currently retain more than 20 percent of the employed population.

Trade liberalization policies have also helped Mexico diversify its export base at both the sectoral and regional levels. In the early 1980s, oil and related products represented the majority of our exports. Today, nearly 90 percent of our foreign sales are manufactured goods.

The benefits of trade liberalization are spreading throughout the country. In the past, our export potential was limited to our northern border. Today, almost every state in Mexico participates in export activities. In fact, more than half of the new maquiladoras established in Mexico since 1994 are located outside the border region. This diversification is important because it brings jobs to the people, rather than the reverse. It also has a larger economic impact in the communities where operations are established.

MEXICO AND THE NORTH AMERICAN FREE TRADE AGREEMENT

NAFTA, which wiped out most restrictions on the flow of goods, services, and investment, has been a turning point in the economic integration of the United States and Mexico. Mexico and the United States share the second-largest bilateral trading relationship in the world. We also share an extensive border where millions of citizens on both sides live, work, and interact with one another. This is a reality reflected in the economic and social integration that we are experiencing today and that will be strengthened in years to come.

Through NAFTA, Mexico has consolidated its position as the second-largest trading partner of the United States. In 2001, bilateral trade exceeded $245 billion — an increase of nearly 188 percent since 1993. On average, the United States and Mexico trade more than $1.7 billion every day. The United States' trade with Mexico has grown faster than with any other major U.S. trading partner, including China, Germany, Korea, and the United Kingdom. Mexican exports to the United States have grown twice as fast as those from the rest of the world. As a result, Mexico has increased its share of total U.S. imports from 6.8 percent in 1993 to 12 percent in May 2002.

With Canada, our trade has increased from $4 billion to $12 billion in eight years, and, most importantly, we have become the fourth-largest supplier for Canada and the first in Latin America.

But looking beyond trade figures, we see the great advantage of NAFTA in terms of its contribution to job creation and to economic growth. Companies across the world increasingly view Mexico as part of the North American market. Hence, their investments are similar to those that take place in Canada and the United States. Mexico's attractiveness for investment is largely the result of an abundant skilled labor force that is young and has a proven ability to learn new production processes.

FDI has contributed to the regional boom of joint ventures in sectors such as automotive, electronics, and textiles. Increasingly, companies consider themselves as

North American because they source from and to a North American market, raising the competitiveness of their products worldwide.

FREE TRADE AREA OF THE AMERICAS

The FTAA is the most ambitious trade instrument that has ever been negotiated, both in terms of content and in number of participating countries. When completed, this agreement will encompass the biggest free trade area in the world, covering 34 democracies and comprising 800 million people.

In 2001, more than 80 percent of Mexico's total trade was carried out with economies of the Western Hemisphere — 95 percent of exports were traded within the FTAA region, while 78 percent of our imports came from those same economies.

Mexico is fully committed to the success of the FTAA. It has been deeply engaged in the negotiations since they began in 1994. In fact, Mexico has participated actively in all of the more than 300 meetings at all levels and has chaired a number of important negotiating groups.

Even if Mexico already has trade agreements with 12 countries of the American continent, the FTAA is extremely attractive, since it will create a wider framework for our relationship with the countries of the hemisphere, allowing us to diversify our markets.

Trade with those countries or regions with which Mexico does not have an FTA — such as MERCOSUR or CARICOM, the Caribbean Community — holds enormous potential for expanding not only the exchange of goods but also the flow of trade in services and investment. The FTAA will allow small and medium-sized enterprises to better integrate into regional trade patterns by providing them with easier access to specific market niches.

A fundamental aspect of the FTAA process is the interaction between governments and civil society. Mexico, aware of the need to consult civil society for the formulation of trade policy, organized on July 18, 2002, the North America Regional Seminar on the FTAA in order to reinforce the exchange of viewpoints between government and civil society in Canada, Mexico, and the United States. The seminar — the first of its kind in our hemisphere — is just one of several mechanisms by which the Mexican government consults with different segments of society with the goal of creating consensus for its participation in the FTAA negotiations.

On a parallel track, Mexico's entrepreneurial community has been actively participating in the Americas Business Forum, which gives private sector representatives an opportunity to formulate recommendations to FTAA trade ministers.

Mexico is now getting ready to host the FTAA negotiation process, from March 1, 2003, to early 2005. The venue will be the Convention Center of the city of Puebla — 80 miles east of Mexico City's airport.

THE FTAA: BENEFITS AND GOALS

At the center of the Americas, and as part of both the Pacific Rim and the Atlantic Basin, Mexico — the only country in the world with preferential access to the largest markets in the world (the United States and the European Union) and to the emerging economies in Latin America — is becoming the natural gateway for trade between North, South, East, and West.

Mexico is keen to share its experience and use its privileged relationship with its partners in the Americas to build a broad consensus in multilateral economic arenas such as the WTO and, above all, in our main regional trade initiative, the FTAA.

I am convinced that the FTAA will help the countries of the Western Hemisphere to increase and diversify investment and trade flows, to strengthen the productivity and competitiveness of our industries, and to create more and better-paid jobs.

Mexico has been an active supporter of the FTAA negotiations and now, as the host of the last stage of the negotiating process of the FTAA, commits itself to contribute toward a comprehensive and balanced agreement for all of our countries.

Our ultimate goal must be the improvement of the standards of living in the American continents. The FTAA will be a great step in that direction. ❑
