Mexico's Foreign Trade Policy Between Puebla and Cancun[1]

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Minister of the Economy Fernando Canales Clariond, left, and Minister of Foreign Relations Luis Ernesto Derbez, right.

Mexico's economic diplomacy under the Vicente Fox administration has been visible in international fora and events held in our country. This was the case in 2002 of the March UN Summit on Financing for Development in Monterrey and at the November leaders forum of the Asian Pacific Economic Coordination (APEC) in Los Cabos. The year 2003 will also see important meetings and international economic negotiations in Mexico. Puebla will be the host for the last stretch of the negotiations for the Free Trade Area of the Americas (FTAA), while in September, Cancun will be the venue for the Fifth Ministerial Meeting of the World Trade Organization (WTO), which will continue the debate on the broad agenda of the Doha Round. The Euro-Latin American Summit is also coming up soon.

At first glance, economic diplomacy can be considered successful in terms of the visibility that Mexico has achieved worldwide by hosting these events. However, the country's leadership is not completely clear, given that in addition to being host, Mexico could well use these fora to promote its interests.

True, it is difficult to promote specific agendas in the UN, the APEC, the FTAA and/or the WTO under current conditions. For example, in Monterrey, the theme of financing for development paled in the shadow of the U.S. slogan of making the priority the fight against financing terrorism. Something similar happened at the APEC meeting, where the main resolution hinged precisely on the struggle against terrorism. In other words, terrorism —and now war is "eating up" the specific

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Table 1
Mexico's Ten Most Important Exporters

Position	Exporter	Total Exports (billions of pesos)	Main Exports	Destination
1	Petróleos Mexicanos/Mexico City	108.676689	Crude oil	U.S.
2	Volkswagen de México/Puebla, Puebla	51.888227	Automobiles, auto parts	U.S./Canada/ Germany
3	General Motors de México/Mexico City	48.078236	Automobiles	U.S./Canada
4	Cementos Mexicanos/Monterrey, Nuevo León	25.379117	Cement, concrete	ND
5	Ford Motor Company/Mexico City	25.041676	Vehicles, auto parts	U.S./Canada
6	Teléfonos de México/Mexico City	15.205416	International long distance services	U.S.
7	Alfa y Subs/Garza García, Nuevo León	9.508944	Various	U.S./Canada/ Latin America
8	Desc/Mexico City	9.281357	Auto parts, chemicals, food products	U.S./Canada
9	Hewlett-Packard de México/ Mexico City	8.881294	Microcomputers, computers and printers	U.S./Canada/ Australia
10	Grupo Bimbo/Mexico City	7.659875	Bread products	U.S.

Source: *Expansión* magazine, 16-30 August 2000, pp. 92-95.

agendas of the international bodies and fora.

What can be expected from the negotiations slated for Puebla and Cancun? Even though the Iraq affair and the struggle against terrorism will be present, the issues specific to these fora —that is, the creation of a hemisphere-wide free trade area and liberalization of international trade— should be dealt with. Mexico, as host, will have a great responsibility. But, the question is, does Mexico have the capability to exert leadership in these fora, leadership that can aim to satisfy its particular interests at the same time that it generates niche agendas that are also in the interest of other nations? To respond to this question, we must take a look at the country's foreign trade policy.

Foreign trade policy is part of overall foreign policy. Its task is to promote Mexico's trade interests throughout the world. To do that, it includes a series of initiatives that on different levels can combine unilateral action and bilateral, regional and multilateral negotiations.

Nevertheless, only by identifying the country's specific needs can a successful foreign trade policy be developed in which, for example, the signing of free trade agreements is part of a master plan, an industrial policy, since otherwise, they will become ends in themselves. Therefore, it is necessary to first of all define industrial policy and then clearly establish the place that Mexico's trade negotiations with the world will occupy.

Why is an industrial policy necessary in the first place? A review of Mexico's foreign trade reveals deficiencies that can only be resolved if there is a master plan. Today, Mexico is the world's eighth largest exporting economy. If, as the theorists say, the ultimate end of economic activity is social well-being, it should be noted that in 2002, Mexico rated fifty-fourth of all the world's countries with regard to human development indices. It headed up the countries with "medium human development" and was ranked lower than

TABLE 2
MEXICO'S TEN MOST IMPORTANT IMPORTERS

POSITION	IMPORTER	TOTAL IMPORTS (BILLIONS OF PESOS)	MAIN IMPORTS	COUNTRY IMPORTED FROM
1	General Motors de México/Mexico City	34.080926	Auto parts, automobiles	U.S.
2	Ford Motor Company/Mexico City	31.824284	Auto parts, automobiles	U.S.
3	Petróleos Mexicanos/Mexico City	25.490776	Gasoline	U.S.
4	Volkswagen de México/Puebla, Puebla	24.502605	Auto parts, automobiles	Germany/ Brazil/Spain
5	Carso Global Telecom/Mexico City	19.871281	ND	ND
6	Teléfonos de México/Mexico City	19.524042	Telephone equipment	U.S./Canada/ Europe
7	Savia/Monterrey, Nuevo León	14.088240	Cardboard, film, cellulose fiber, seeds	U.S.
8	Grupo Carso/Mexico City	7.543274	ND	ND
9	Aerovías de México y Subs/Mexico City	6.711112	Airplane parts, accessories and spare parts	U.S.
10	Desc/Mexico City	5.956383	Auto parts	U.S./Canada

Source: *Expansión* magazine, 16-30 August 2000, pp. 96-99.

other Latin American and Caribbean nations like Antigua and Barbuda (fifty-second on the list), Trinidad and Tobago (fiftieth), Costa Rica (forty-third), Bahamas (forty-first), Uruguay (fortieth), Chile (thirty-eighth) and Barbados (thirty-first). That is, Mexico's trade dynamism has not made for well-being for its inhabitants.

Mexico's trade is notably versatile due largely to the economic reforms that began to be put in place in the second half of the 1980s. These reforms, brought on by the crisis suffered throughout the so-called "lost decade" and influenced by a broad range of events worldwide, exposed the domestic economy to the demands and scrutiny of the international economy.

The economic reforms led to the trade opening, which happened very rapidly, contributing to the inability of an enormous number of small and medium-sized companies to adapt to the new conditions. We should not lose sight of the fact that three-quarters of all jobs in Mexico are with small and medium-sized companies and that the trade opening produced one of three effects in them: 1) they went under because they were unable to compete; 2) "attractive" firms were able to merge with foreign companies; or 3) some became "distributors" or "representatives" of foreign companies. In other words, the trade opening produced a break in productive chains that has considerably affected the profile of Mexico's foreign trade.

Of course, this has not been an isolated process. In the globalized world, economic power is one of the main roads to political power. There are actors on the international scene with enormous influence because of the economic resources they command. Among those actors are multinational corporations, which try to substantially decrease the mechanisms of control that states have traditionally exercised over them. It is also the corporations that think trade agreements are desirable given that, as everyone knows, a substantial part of international trade is intra-firm.

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Thanks to free trade, they can slash their production costs because they face fewer obstacles to entering different countries, saving both time and material resources. With regard to governments, the impact that dismantling obstacles to trade has on tax revenues is seldom analyzed. Certainly, economies as open as Mexico's, Argentina's and Chile's take in smaller revenues through imports than countries like Brazil, which continues to have important barriers to the flow of goods and services from abroad.

Given this, the participation of oil in Mexico's foreign trade ceded ground to manufactured goods. While this has been considered positive given that the "petroleum-ization" of the economy was largely responsible for the crisis the country went through in the 1980s, a more careful analysis will show that while oil and its derivatives no longer dominate Mexican exports, they do play a preponderate role in the generation of the country's net income. Why?

When national productive chains disappeared (given that, as different businessmen have pointed out, practically all productive activity in the country requires imported inputs), Mexican exports became very dependent on imported inputs. In other words, to export more, you have to import more.

In practice, this leaves oil exports with the responsibility of generating a substantial part of net income, given that it is a product which, compared to manufactured goods, requires fewer imported inputs. This means that the country went from having "petroleum-ization" of exports to having "petroleum-ization" of income.

This is why devaluations are so bad for Mexico, whose economy depends so much on the importation of inputs. This greatly diminishes exports' competitiveness, since the country is frequently accused by its trade partners of dumping, given that the depreciation of Mexico's currency in effect makes exported products seem cheaper than in the domestic market. In addition, we should remember that there are imports that Mexico simply cannot stop buying, for example, food and basic grains, given that the country lost its self-sufficiency in food production long ago. Today, Mexico's agricultural sector vis-à-vis the free trade agreement is cause for broad debate, but this is neither a new issue nor is agriculture's deterioration unexpected.

The architects of Mexico's rapid trade opening have said that dependence on inputs from abroad is not negative because it allows the country access to technologies that it otherwise would not have. However, large multinational corporations increasingly condition technological transfers to the countries where they operate adopting certain rules with regard to intellectual property, and their point of view is not based mainly on a transfer-of-technology-development equation. The issue is important because the main Latin American corporations are subsidiaries of giant multinational companies that tend to shore up their position in world markets and therefore, foment the transfer of technology in order to improve productive efficiency to increase competitiveness, not necessarily to foster social well-being in the places where they operate.

Foreign investment follows this same dynamic. In other times, governments could impose the condition that multinational corporations employ domestic labor, repatriate only part of their profits and transfer technology. Today, many corporations impose the condition that governments interfere as little as possible with their operations under threat of their seeking other locations that would regulate less. In other times, governments could apply codes of conduct to corporations. Today, the most that can be hoped for is that multinationals take on a non-obligatory commitment like the UN Global Compact under the flexible aegis of "corporate responsibility."

In addition to Mexico's dependence in matters of international trade and foreign investment, the country's foreign trade relations are becoming Americanized. The United States is our main partner and the North American Free Trade Agreement broadens and intensifies those links. Despite this, Mexico has aggressively developed trade negotiations with different countries of the world, some very far away, like Israel. Currently, ten "new generation" trade agreements (so called because they go far beyond simple tariff deregulation) are in force. Most of these were signed with Latin American countries, plus the European Union and Israel. The argument in favor of these agreements is diversification, although it seems difficult, at least in the short

Table 3
Mexico's Ten Most Important Multinationals

2000	1999	Name	National Sales (billions of dollars)	Number of Employees (Mexico)	National Assets (billions of dollars)	Origin	Sector	Mother Company
1	2	Daimler Chrysler de México Holding	7.3164	11,500	2.9219	U.S./ Germany	Auto	Daimler Chrysler
2	1	General Motors de México	7.3039	12,080	4.1525	U.S.	Auto	General Motors
3	4	Volkswagen de México	6.8730	15,977	3.1492	Germany	Auto	Volkswagen
4	3	Wal-Mart de México	6.3570	70,700	4.4400	U.S.	Retail	Wal-Mart Stores
5	5	Ford Motor Company	4.6102	7,868	2.8248	U.S.	Auto	Ford Motor Company
6	13	IBM de México	3.3930	132	0.0368	U.S.	Electronics	International Business Machines
7	10	Nissan	2.6836	8,311	ND	Japan	Auto	Nissan Motor
8	30	Motorola de México	2.6000	1,885	0.1915	U.S.	Electronics	Motorola
9	6	Sabritas	2.4850	17,000	ND	U.S.	Food products	Frito Lay
10	9	SBC Communications (Telmex)	2.4683	17,718	4.579	U.S.	Telecommunications	SBC Telecommunications

Note: According to *Expansión* magazine, other companies should be included in this table, but are excluded because they did not respond to the survey sent by Grupo Expansión. These companies are Hitachi, Toshiba, Renault, Carrefour, Avantel, BMW, Texaco Mexicana, JC Penney, Intel, Johnson & Johnson, Costco, UPS, Samsung Electronics, Dell Computer, Alcatel Indetel, Canon Mexicana, Nortel, American Express, Sanyo Electric, Roche-Syntex, Johnson Controls, Smithkline Beecham, MacDonalds Sistemas de México, Danone de México, Cía. Hulera Goodyear.

Source: Table developed by the Department of Research and Development, *Expansión* magazine, 17-27 December 2000, pp. 63-65.

term, because of the lack of infrastructure and the inexperience of Mexican small and medium-sized companies in doing business in non-traditional, unknown markets different from that of the United States, with which they prefer to deal despite everything.

In contrast, European small and medium-sized businesses and those from other partners in Mexico's trade agreements have experience in exporting to more diverse markets, which could make for trade deficits (or an increase in the already existing deficits) if these nations, and not Mexico, make the best of the terms of the agreements in the short term.

With the signing of the Mexico-European Union Free Trade Political Negotiation and Cooperation Agreement (FTA), Mexico is inaugurating an era of a new type of agreements that go beyond the strictly economic sphere by including political and foreign policy commitments (such as respect for democratic institutions and human rights). These items could be demanded in the future by other partners, like the United States. Therein lies their importance. For now, suffice it to mention that the FTAA negotiations already include a democracy clause, which conditions the enjoyment of preferential treatment to the respect for human rights, governability and democratic institutions. Clauses like this one are already standard in international trade negotiations.

Clearly numerous challenges exist that only an industrial policy could help to face. An industrial policy would have to take into account domestic needs and capabilities given global demands, in order to design a strategy that would make it possible to promote Mexico's trade interests worldwide. It must be understood that free trade agreements with specific partners are no substitute for an industrial policy and cannot be seen as an end in themselves. That is, the ultimate end of the European Union agreement was not its own signing and coming into force, but rather to serve as an economic and, above all, political instrument so that Mexico could agree to more favorable negotiating conditions with Western Europe and other trade partners. Mexico's being the first country to reach an agreement like this with the European Union put it in the vanguard, but the process is not over when the instrument enters into effect. Quite to the contrary: what is really important for the E.U.-Mexico FTA is just beginning because the agreements are merely means of access to markets. Chile, a country which has much more diverse international trade relations than Mexico, recently signed a free trade agreement with the European Union that was much more sophisticated than the Mexican one. This gives Chilean products advantages, particularly because it is more accustomed to entering remote markets, a marked difference with Mexican small and medium-sized companies.

Mexico's hosting international economic fora makes for a good moment to review the broad gamut of trade commitments that it has signed with the world, to evaluate the unilateral, bilateral, regional and multilateral initiatives it participates in within the framework of an industrial policy, to determine lines of action, one of which must point to evaluating the agreements already in effect to determine whether new accords should be signed.

It would also be important to be very clear on what Mexico's foreign trade policy is not, given that there seems to be a tendency to understand it as identical to foreign policy, when it is only part of it. In point of fact, the non-economic part of foreign policy seems to be rapidly losing ground in the face of the imperative of effecting multiple trade negotiations. This implies a risk: when the political dimension of any negotiation is lost from sight, commitments can be made that do not guarantee an appropriate promotion of Mexico's interests in the world.

To the frustration of developing countries, global agendas do not often consist of what they suggest, given that, internationally, the realities of power give only certain players a privileged position. The negotiating schedule, for example, of the Uruguay Round was marked by the U.S. Congress because it had placed specific time limits on President Clinton's authority to negotiate. Not concluding the multilateral negotiations in 1993 would have led to much more protracted negotiations in what was already the longest round in the history of the General Agreement on Tariffs and Trade (GATT). Despite this, as host of regional and multilateral trade negotiations, Mexico could take advantage of the debate and the creation of consensuses around certain issues in which it had particular interest, for example, the agricultural negotiations inside the FTAA or the WTO agenda on development. In the Doha Round, there are, in fact, working groups on cardinal issues, such as, for example, the one that looks at the relationship between international trade and foreign debt, a topic of great importance in Latin America, particularly for a nation like Argentina with its virtual moratorium, and also for countries like Brazil and Mexico, the countries with the highest debts in the region. In that sense, the priority issues for Mexican interests have already been included one way or another in the FTAA and WTO agendas. Therefore, perhaps what is needed is to push them decisively so that, regardless of the resolutions approved with regard to the fight against terrorism, they get the attention they deserve. And Mexico can certainly carry out that task. VM

NOTES

[1] A preliminary version of these reflections was part of a paper prepared for the International Forum of Compared Policy "Diplomacy, Foreign Trade and the Law," held August 22-24, 2002 in Goiania, Goiás, Brazil.