Executive Summary

July 1st 2000 marked the first anniversary of the free trade area (FTA) between the European Union (EU) and Mexico. While trade flows grew significantly in the period, the risk that the FTA could increase the Mexican trade deficit with the EU emerged. Both Mexico and the EU have to benefit from a good performance of the FTA. Mexico aims at reducing its dependence from the North American economies by increasing the number of its trade partners. The EU wishes to gain back the shares of the Mexican market it lost in the last decade and to limit the risk that the Free Trade Area of the Americas (FTAA) - planned for year 2005 - will further erode its trade flows with Mexico.

From 1990 to 2000 the value of Mexico’s exports more than quadrupled and by 2000 the country was the 13th largest exporter in the world with 2.6% of the world exports against, for instance, Italy’s 3.7%. However, the growth in trade volumes was very concentrated geographically. In 2000 the United States purchased almost 90% of Mexican exports, compared to about 70% in 1990. Over the same period, the market share of the EU, Mexico’s second largest trade partner, fell sharply: EU’ import share from Mexico halved while the share of Mexican export sold in the EU fell from 13.2% to 3.4%.

The FTA with the EU is part of a wider strategy of bilateral trade liberalisation implemented by Mexico over the past ten years. Mexico signed FTAs with other 16 countries, in addition to the EU: Chile (1992), the USA and Canada (1994), Colombia and Venezuela (1995), Bolivia (1995), Costa Rica (1995), Nicaragua (1998), Israel (2000), Island, Norway, Liechtenstein and Switzerland (2001) and Guatemala, Honduras and El Salvador (2001). Trade liberalisation has fostered trade growth and attracted a huge amount of foreign direct investments. By being the first to adopt such a strategy in Latin America, Mexico gained considerable economic ad-vantages, which, however, are bound to decrease with the probable creation of the FTAA.

In the mid-nineties the political dialogue between the EU and Mexico strengthened, leading to the “Economic Partnership, Political Co-ordination and Co-operation Agreement between the Euro-pean Union and Mexico”, signed in December 1997. The Agreement, that entered into force on October 1st 2000, covers three ar-eas: political dialogue, trade liberalisation and co-operation. On July 1st 2000 the progressive and reciprocal trade liberalisation in goods began, allowing for preferential access to European and Mexican exporters into their respective
markets. The liberalisation of the trade in services, of investment and related payments; protection of intellectual property rights started on March 1st, 2001. By 2007, over 96% of EU-Mexico trade will be liberalised. Most of tariff dismantling (industrial products) will be completed by January 1st 2003: all Mexican exports will enter the EU free of duty while EU exports will only have to pay tariffs on nearly half of to-tal exports, with a maximum tariff of 5%.

The Mexican-EU trade is highly concentrated in just a few EU countries. On the import as well as the export side, the two main European trade partners have more than 50% of total bilateral trade. In 2000, Germany and Spain were the two main importers of Mexi-can goods, while Germany and Italy were the two main exporters. Over the time the relative importance of European countries has con-siderably changed, with Germany increasing its share of bilateral flows and Spain’s and France’s shares falling. The product composi-tion of trade shows a strong concentration on manufactured goods: in 1997-99 manufactured products covered 90% of Mexican imports from the EU and 61% of Mexican exports to the EU.

The Mexican trade balance with the EU is negative and rising - by year 2000 Mexico’s deficit was 5.5 times larger than in 1990, as the country’s imports from the EU grew more than its exports to the EU. In 2000 Mexico reported a trade surplus only with the Netherlands, Portugal and Spain. Bilateral trade between Italy and Mexico has a very small share on their total national trade; however, in few sectors the share is rather important, namely industrial machinery and equip-ment, electrical machinery and equipment, and energy products.

During the first year of existence of the FTA, EU-Mexico trade grew considerably, but also trade unbalance widened. The Mexican trade deficit with the EU increased by 25.3% in the period July 2000-June 2001 compared to the previous twelve months. The Mexican trade balance worsened with all the European member countries, with the exception of Spain. The FTA will tend to inten-sify as well as diversify trade flows, particularly in the sectors with the highest national comparative advantages. As the bilateral trade between Italy and Mexico is concerned, Mexico is expected to in-crease exports of consumer electronics in Italy, while Italy should further increase its exports of non-electric machinery to Mexico.

Both the EU and Mexico have to take actions to guarantee that the FTA will continue to foster the growth of trade between them. European countries’ must find ways to rebalance the bilateral trade flows and remove non-tariff barriers. Mexico will have to better promote its products in Europe, following a strategy similar to the one it used within the NAFTA during the nineties.