

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(95) 03 final

Brussels, 08.02.1995

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL  
AND THE EUROPEAN PARLIAMENT

**TOWARDS CLOSER RELATIONS BETWEEN  
THE EUROPEAN UNION AND MEXICO**

## TOWARDS CLOSER RELATIONS BETWEEN THE EUROPEAN UNION AND MEXICO<sup>1</sup>

(Commission Communication to the Council and Parliament)

In its conclusions of 24 and 25 June 1994 the Corfu European Council "reaffirms the importance it attaches to its relations with Latin American countries and their regional groupings. It expresses its satisfaction with the progress achieved in the areas of democracy and respect for human rights, peace and disarmament, economic reforms and regional integration.

In this context, the European Council welcomes the accession of Mexico to the OECD and expresses its wish to strengthen its political and economic relations with this country. It also confirms the intention of the European Union to strengthen its relations with Mercosur. It invites the Council and the Commission to pursue these questions further."

In its conclusions of 9 and 10 December 1994, the Essen European Council "urges the Council and the Commission (...) to put ideas on the future form of treaty relations with Mexico (...) into concrete form without delay."

These conclusions had been preceded by a report drawn up by the Council (General Affairs) of 28 November which called on the Commission to put before the Council in the very near future, at the latest by end March 1995, a paper outlining the strategic options and including specific proposals and to this end to establish close links with the new Mexican government.

In addition, in the "basic paper" on EU relations with the Latin American and Caribbean States adopted by the Council (General Affairs) on 31 October this year, the European Union expresses its readiness to start talks with a view to more far-reaching agreements, better adapted to our partners' economic potential and to the emergence of forms of regional integration.

This Communication from the Commission to the Council and the European Parliament aims at meeting the requests made by the European Council and the Council of Ministers and covers the following:

- strategic aspects of EU-Mexico relations;
- Mexico's recent history and its current place on the international scene;
- a discussion of existing EU-Mexico relations;
- a Commission proposal for closer relations between the Union and Mexico.

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<sup>1</sup> For the sake of simplicity this Communication refers to the "European Union". This reference is without prejudice to the Community's powers to adopt at a later date such legal instruments as may be required.

## 1. STRATEGIC ASPECTS OF EU-MEXICO RELATIONS

### a) Increasingly complementary mutual interests.

The Union's interests in closer links with Mexico are both political and economic. At a political level, the EU's interest in principle in the consolidation of the current democratization process and our shared values and historic, political, economic and cultural links should be mentioned.

From the economic standpoint, Mexico, thanks to the process of domestic and external liberalization pursued over the last few years and despite the recent financial crisis, is perceived as a highly promising market by European economic operators and an attractive destination for their investments. It is essential that the lack of a suitable contractual framework should not weaken the Union's economic position in Mexico at a time when the country, richly endowed with natural and human resources, seems poised to fulfil its promise.

Mexico's interests in closer cooperation with the European Union are also of a political and economic nature. At political level, such cooperation would contribute to the successful outcome of the efforts undertaken by the Mexican government towards a comprehensive democratization of the country and greater closeness between the machinery of government and civil society. In addition, closer political cooperation would enable the country to improve the balance of its relations with the other signatories to NAFTA.

At economic level, the Community is an attractive, relatively accessible market for Mexican products, and a good source of capital, modern technology and cooperation. What is more, greater involvement of European business in the Mexican economy would enable the latter to become more competitive.

### b) Mexico's role in EU-Latin American relations

Relations between the European Union and Latin America as a whole have developed at three different levels:

- regional level through the Rio Group, with which the Union has had formal political dialogue links since 1990;
- sub-regional level with the countries of Central America, with which the Union has held regular "San José" meetings since 1984;
- bilateral level, with various countries and groupings of countries (Andean Pact and Central American countries) with which the EC has signed "third generation" cooperation agreements.

Mexico is a member of the Rio Group, participates in San José meetings as one of the three observer countries and its relations with the Community are governed by a framework cooperation agreement signed on 26 April 1991.

The country is therefore well represented in all the bodies where political and economic dialogue between the Union and the Latin American countries takes place. It goes without saying that any EU strategy intended to strengthen the Union's relations with Mexico must not call into question its dialogue with the Rio Group and the San José countries. It should be considered rather as a means to push that dialogue further in such a way that the specificities are given due consideration in the Union's own interest.

This means that the new strategy proposed by the European Union in relation to Mexico cannot be developed in a vacuum and, while taking the country's specificity into account, must form part of an overall Union strategy towards the Latin American countries and in particular the Rio Group.

In this context the basic paper on relations between the EU and Latin America and the Caribbean countries adopted by the Council of Ministers at its meeting of 31 October 1994 should be mentioned. In it the Union formally declared its readiness to open discussions with a view to concluding new, more ambitious agreements, better suited to the economic potential of our partners in the region.

Similarly, the Council conclusions called for an increase in the volume of trade between Europe and the emerging economies of Latin America, in particular through the speedy implementation of tariff reductions and the elimination of trade barriers.

**c) Mexico as participant in multilateral organizations and member country of a large integrated regional grouping.**

Over the last ten years Mexico has become a contracting party to a number of multilateral bodies, notably the GATT and the OECD, and has played an active role in its regional context, mostly within APEC, the Asia-Pacific Economic Cooperation Forum, and the recently established Association of Caribbean States (AEC).

In addition, the launch of NAFTA has increased the relative importance of the links between the EU and Mexico. From now on Mexico, already a sizable regional power, is to be looked upon as a founding member of one of the two largest markets in the world. This awareness must inform any discussion of future EU-Mexico relations.

As highlighted by the recent Summit of the Americas in Miami, NAFTA is likely to grow (negotiations with Chile should start in spring 1995) and should provide a model for the establishment of an 800-million strong free-trade area spanning Alaska and Cape Horn by 2005.

These prospects should also be borne in mind when selecting the contractual framework for the Union's relations with Mexico.

## II. MEXICO'S RECENT HISTORY AND ITS CURRENT PLACE ON THE INTERNATIONAL SCENE

### a) Economic developments

At the beginning of the 1980s Mexico was struggling with the legacy of decades of protectionism and a highly regulated economy. Serious macro-economic imbalances (budget deficits, soaring inflation, overvaluation of the peso, the flight of capital and rising foreign debt) were compounded by serious micro-economic distortions.

The Mexican economy has undergone substantial changes. The key elements of the recovery programme were:

- A sustained long-term budget reform policy.
- A social pact between the government and the two sides of industry which came into effect in December 1987 and facilitated the implementation of macro-economic stabilization policies.
- A strict macro-economic policy which has enabled significant reductions in the rate of inflation.
- A reduction in state control over the economy, in particular through a vast privatization programme (there were 1155 State-owned companies in 1982 compared with 200 today).

The opening up of the economy to the outside world, through the liberalization of external trade (see point (b) below) and foreign investment (new legislation introduced on 27 December 1993 considerably reinforced legal security in the field of investment, increased the number of areas in which foreign investors can hold 100% of the share-capital and radically simplified the administrative procedures - now any request submitted by a foreign investor is considered authorized if the competent authorities have not opposed it in within 45 days of its submission).

This transformation of Mexico's economic landscape is reflected in the country's main economic indicators:

	1982-87	1988-89	1990	1991	1992	1993
GDP: average annual growth rate <sup>2</sup>	-0.1	2.4	4.4	3.6	2.8	0.4
GDP per capita <sup>2</sup>	2 271	2 200	2 256	2 291	2 307	2 262
Inflation: annual variation <sup>2</sup>	83.6	67.1	26.7	22.7	15.5	9.8
Current account balance as a percentage of GDP <sup>3</sup>	0.8	-1.7	-3.1	-5.2	-7.5	-6.6

<sup>2</sup> Source: IBD (Interamerican Development Bank), *Progreso Económico y Social en América Latina, Informe 1994*, Washington DC, October 1994.

<sup>3</sup> Source: Banco de México.

	1982-87	1988-89	1990	1991	1992	1993
Exchange rate in real terms, <sup>4</sup>	110	99	119	108	102	95
External debt (USD billion) <sup>2</sup>	86.1	96.9	106.0	115.3	113.4	118.9
Long term public debt (USD billion) <sup>2</sup>	51.6	72.7	77.5	79.0	72.3	74.3
External debt servicing as a percentage of exports <sup>2</sup>	36.1	29.05	24.1	21.4	18.9	16.8

These figures should not, however, be allowed to overshadow certain fundamental problems which must be resolved if Mexico is to contemplate the future with confidence. These are in the main:

- poverty: despite the achievements of the "Solidaridad" programme, almost 20% of the population lives below the poverty line as defined by the World Bank. The new Mexican administration has chosen the fight against poverty as one of the fundamental objectives of its six-year term of office.
- the average level of education, which is still relatively low.
- numerous environmental problems which must be tackled by the present Government.
- The growing current account and trade balance deficits, which could not be financed from foreign investments, often too ephemeral.
- A currency kept artificially overvalued.

These problems, compounded by uncertainty over the country's political climate and the outcome of the political and social conflict in Chiapas, precipitated the financial crisis Mexico has been contending with since December, characterized by a sharp devaluation of the peso and a steep rise in interest rates.

The measures adopted by the Mexican government, helped by the international community, in response to the crisis highlight the progress made by the country since the early 80s in transforming and restructuring its economy.

The government lost no time in adopting an emergency plan which draws together business and labour and aims at restoring macro-economic equilibria and hence foreign investors' confidence.

In addition, the US, Canada, the Bank for International Settlements, the OECD, the IMF, the World Bank and Japan have all come to Mexico's rescue by shoring up investors' confidence with reassuring statements and, above all, by providing very substantial credits. Some Member States of the Union have announced their intention of taking part in this effort.

<sup>4</sup> 1980 = 100.

The European Commission for its part issued a statement on 11 January welcoming the efforts made by the international community and Mexico and announcing its forthcoming proposals for the strengthening of political, economic and trade links between the Union and Mexico.

#### **b) Mexico's progress in the international economic arena**

Over the last ten years Mexico, through its accession to various major international organizations, has progressively established its credibility as a serious partner on the world economic scene: contracting party to the GATT in 1986, founder member of the EBRD in 1990 and full member of the OECD in 1994.

Apart from participating in international and multilateral organizations, Mexico has considerably enhanced its integration in the regional economy by concluding a series of free trade agreements with most of its neighbours.

In June 1994, the Group of 3 (Mexico, Venezuela and Colombia) signed a free trade agreement which will come into force in January 1995 and will be implemented over a 10 year period. The Group of 3 accounts for 35% of total GDP in Latin America and the Caribbean.

In January 1991 in Tuxtla Gutiérrez the Presidents of the Central American countries and Mexico issued a statement laying down the basis for an Agreement on Economic Complementarity, which will gradually lead to the establishment of a free trade area. In its wake, a free trade agreement was signed with Costa Rica in April 1994. It will enter into force on 1 January 1995 and will be implemented progressively over a 10-year period. Negotiations along the same lines are under way with El Salvador, Guatemala and Honduras, as well as Nicaragua.

Chile and Mexico signed an economic complementarity agreement in 1991.

A free trade agreement was concluded between Mexico and Bolivia on 10 September 1994.

Mexico is an active member of APEC and is playing a significant role in the launch and consolidation of the AEC.

Lastly, on 1 January 1994 the North American Free Trade Agreement (NAFTA) entered into force. This agreement, concluded between Mexico, the United States and Canada, accounts for around 20% of world trade.

#### **c) NAFTA**

NAFTA divides products into four groups according to the speed of tariff reductions (products in the first group have been zero-rated since 1 January 1994 while those in the fourth group will not achieve this status until 1 January 2008).

NAFTA is unusual in that it involves asymmetric dismantling of duties to reflect the difference in the level of economic development between Mexico and its northern neighbours: for example, on 1 January 1994 Mexico abolished import duties on 43% and 41% of its imports from the United States and Canada respectively while the US and Canada abolished duties on 84% and 79% of their imports from Mexico.

NAFTA also provides for the abolition of non-tariff trade barriers.

NAFTA includes safeguard clauses valid for the 15-year transitional period which allow the parties to suspend the tariff reduction process or even re-introduce pre-NAFTA duties if imports from the other two members constitute a substantial threat to a domestic industry, though compensation would have to be offered on other products.

Parties also have the right to refuse to import products which do not comply with their environmental standards, but at the same time measures have been introduced to align upwards the environmental standards of the three members. On similar lines, a clause exists to prevent "social-dumping".

As for economic dumping, NAFTA panels will have the task of seeking a consensus. Any proposal by a member to modify its anti-dumping legislation will likewise be subject to advance scrutiny by a NAFTA panel.

The provisions relating to public procurement provide for the progressive abolition of all restrictions on competition from other NAFTA members over a 10 year period. Certain product areas, such as military equipment and basic communications, are not covered by these provisions.

Beyond what is specifically provided for by the agreement, NAFTA will also have an indirect influence on Mexican legislative activity in a number of areas. For example, it is likely that standards systems will be aligned.

#### **d) The political situation**

Over the last few months a number of major events have left their mark on Mexican political life and have called into question principles which had hitherto seemed immutable. The social and political problems facing the country are many and far from simple.

The new Mexican government's key objectives are to promote genuine participation by certain population groups and classes in the country's development, to consolidate the reforms introduced to ensure pluralism and transparency in the political life, and to undertake a comprehensive reform of the judiciary.

In January the new Mexican administration took its first steps in this direction: since 15 January the Mexican interior minister himself sits on the National Conciliation Committee, whose task is to examine possible solutions to the conflict in Chiapas.



Similarly, on 17 January a pact known as "Agreement for Democracy" which sets out a negotiating base for the launching of a far-reaching reform of the electoral system was signed by the ruling party (PRI) and the three main opposition parties: the Labour Party (Partido Trabajador), the Democratic Revolution Party (Partido de la Revoluci3n Democr3tica - PRD) and the National Action Party (Partido Acci3n Nacional - PAN).

### **III. RELATIONS BETWEEN THE EUROPEAN UNION AND MEXICO: STATE OF PLAY**

Economic relations between the European Community and Mexico have become much closer since the recovery of the Mexican economy and as its liberalization has progressed.

#### **a) trade flows and investments**

Trade statistics for the 15 Member States of the Union are shown in the table below (in million of Ecu and as a percentage of the total)<sup>5</sup>

	1980	1985	1990	1993
<b>EC imports from:</b>				
Mexico	2 054	5 275	3 012	2 421
Latin America	18 105	32 226	27 063	23 386
% share <sup>6</sup>	11.3	16.4	11.1	10.4

#### **EC exports to:**

Mexico	2 671	3 091	4 250	6 159
Latin America	14 738	16 833	16 946	25 412
% share	18.1	18.4	25.1	24.2

#### **Balance of trade and export/import ratio:**

EC/Mexico balance of trade	617	-2 184	1 238	3 738
% exports/imports <sup>7</sup>	130	58.6	141.1	254.4

<sup>5</sup> Source: Eurostat, Comext-Databank

<sup>6</sup> % share refers to EC/Mexico (imports/exports) compared with EC/Latin America imports/exports.

<sup>7</sup> Exports/imports refers to EC exports to Mexico compared with EC imports from Mexico.

Aggregate levels of direct foreign investment from the European Community, the United States and Japan are as follows (in USD billion and as a percentage):<sup>8</sup>

Year	Direct foreign investment	US/Canada	EC	Japan
<b>USD billion</b>				
1990	30.31	19.50	6.18	1.45
1991	33.87	21.96	7.03	1.52
1992	37.47	23.70	7.78	1.61
1993	42.40	27.30	8.38	1.69
<b>Percentages</b>				
1990	100	64.3	20.4	4.8
1991	100	64.8	20.8	4.5
1992	100	63.3	20.8	4.3
1993	100	64.4	19.8	4.0

Direct foreign investment flows have changed (in percentage) over the last few years as shown below:<sup>8</sup>

<b>Annual flows (as a percentage)</b>			
Year	US/Canada	EC	Japan
1990	63.4	25.0	3.3
1991	69.1	23.9	2.0
1992	48.3	20.6	2.5
1993	73.1	12.2	1.4

The following points should be considered in conjunction with these statistics:

- Exports from the Community have doubled since 1985. Thus in 1993 Mexico accounted for 24% of EU exports to Latin America compared with 18% in 1985. Around 90% of the exports consist of manufactured goods, with machinery and transport equipment accounting for over half.
- Mexican exports to the EC, however, have made little headway at around 13% of total exports. Their value in ECU indeed fell by 20% between 1992 and 1993. Consequently, Mexico's share in total exports from Latin America dropped from 16% in 1985 to 10% in 1993. Note that manufactured products account for around 50% of the country's exports to the Community.
- The Community balance of trade with Mexico has therefore moved from a ECU 2 184 million deficit in 1985 to a surplus of ECU 3 738 million in 1993.

<sup>8</sup> Source: V informe de Gobierno (1994), & Dirección General de Inversiones Extranjeras, SECOFI.

- Mexico is the only member of the OECD to benefit from the Community GSP. The proposal adopted by the Council last December will enable Mexico to continue to benefit from this system.
- European investments in Mexico are largely directed towards the privatization programme launched by the Salinas administration.
- 47% of European investment in Mexico is in manufacturing, 15% in transport and communications and 12% in social and private services.
- Note that the flow of European investments to Mexico has somewhat contracted over the last few years.<sup>9</sup> Conversely, investments from the US and Canada have increased, especially in 1993. In terms of aggregate amounts, the EC accounts for 20% of the total and the US and Canada together account for 64%.

Viewed against their general background, current and prospective economic relations between the Community and Mexico may be summed up as follows:

- Since the end of the 1980s, Mexico has been engaged on a comprehensive transformation of its economy.
- As a result, economic relations between Mexico and the EC have intensified, providing a sound indication of the potential for complementarity between the two parties. However, there is still a very obvious imbalance of trade flows, which suggests substantial scope for further development with a view to "rebalancing" trade upwards.
- Mexican membership of NAFTA, however, could affect the level of our trade relations since in the medium term it is more likely to divert Mexican trade with the EC than increase it (especially in sectors such as textiles, clothing and telecommunications).

Furthermore, the very stringent rules of origin which are now applicable to petrochemical and energy products will certainly have a negative effect on European investment in these sectors.

- In brief, the existence of NAFTA risks hampering or even eroding economic relations with Mexico in the medium term, unless a new contractual framework governing EU/Mexico relations is rapidly established.
- Going beyond this direct effect on bilateral relations, the existence of NAFTA, without an appropriate contractual framework governing EC-Mexico relations, could engender a reduction in relative terms of European influence within the various multilateral economic organizations. It should also be borne in mind that, in the medium term, NAFTA will very probably open its doors to other major Latin American economies.

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<sup>9</sup> At this stage it would be premature to assert that this trend is due to European investors being replaced by other investors.

Note, too, that in the foreseeable future around 70% of Mexican imports will be from countries or regions with which Mexico has concluded free trade agreements.

### **b) Cooperation between the EC and Mexico**

Relations between the EC and Mexico are governed by the framework cooperation agreement of 26 April 1991.

In the last few years the amounts committed by the Community to finance cooperation with Mexico have grown consistently:

1990	ECU 6 million
1991	ECU 11 million
1992	ECU 13 million
1993	ECU 17 million
1994	ECU 20 million (approx.)

So far the Community has not carried out traditional cooperation projects in Mexico (such as rural development and infrastructure). This can be explained by the relatively high level of Mexico's GDP per head of population and by the country's choice to base its relationship with Europe on partnership, capitalizing on its economic and technological achievements.

This choice is borne out by the dynamism and quality of economic cooperation with Mexico, which point at the country's determination and the interest it arouses in Europe.

In this context a few initiatives may be mentioned as a good example of the way Mexico and the Community have succeeded in developing genuine cooperation based on mutual interest and cofinancing: Mexico is the chief beneficiary of the EC Investment Partners Programme and one of the Community's main scientific and technical cooperation partners; a multiannual (1995-1998) programme of meetings between Mexican and European businessmen is under way: some 2 300 European and 2 150 Mexican businesses are expected to take part in it.

### **c) Political dialogue**

Reflecting a real need, the meetings between senior Mexican and EU officials have increased in number over the last few years. This dialogue, however, has never been given an official framework.

As part of the preliminary work for the Essen European Council, the Council of Ministers meeting in Brussels on 28 and 29 November this year stressed the need to intensify relations with Mexico at both political and economic level, and to institute consultation machinery in the very near future.

The dialogue, which initially focused essentially on the bilateral aspects of EU/Mexico relations, is expected to progress beyond these limits. The synergism between the interests and perceptions of the two sides could work in many fields and no doubt a large number of multilateral questions could be addressed through enhanced consultation and result, in particular, in the two parties adopting coordinated positions in certain multilateral organizations.

#### **IV. TOWARDS CLOSER RELATIONS BETWEEN THE UNION AND MEXICO**

The modernization and liberalization of the Mexican economy are well under way and it seems likely that closer relations between the Community and Mexico would better enable the country to overcome some of the remaining obstacles and bring to fruition its efforts to establish itself in the international economic arena, going beyond the regional level to become a world-class economic and trade partner.

European business has had a role to play right from the outset and this presence - both trade interests and investments - has helped in preparing the Mexican industry to compete on world markets. It has also helped Europe to secure advantageous economic positions.

Despite the recent financial difficulties, Mexico is beginning to reap the rewards of its brave economic reform programme. If this continues, then in view of the country's membership of NAFTA a sizeable consumer market with a high growth potential is likely to take shape.

If the EU fails to take appropriate steps, its relations with Mexico run the risk of being eroded by the existence of NAFTA, particularly if other Latin American countries join up. The available figures on direct investment trends show that the risk of European operators being marginalized is a very real one.

Also, as a result of the Uruguay Round, Mexico's bound tariffs are much higher than those actually applied. Currently Mexico's customs tariffs average 20%, whereas the bound tariffs stand at 35% and reach 50% for certain products.

The present agreement, while important in promoting closer relations between the EU and Mexico, offers no means of facing the new challenges. The Commission, in accordance with the guidelines set by the various Council meetings, has approached the Mexican authorities to discuss the new framework for Mexico-EU relations.

#### **V. OPERATIONAL CONCLUSIONS**

The Commission feels that only an agreement combining economic partnership and political consultation would meet the Union's and Mexico's mutual interests in full. Such an agreement would aim at strengthening EC-Mexico cooperation based on a balanced and mutually advantageous partnership spanning economic, political and trade aspects.

As far as trade is concerned, a form of liberalization should be envisaged, the actual scope and practical details of which should be determined by the negotiating mandate following discussion in the various Council bodies. At any rate, the Commission will ensure that its proposals are fully compatible with the Community's international obligations, including those derived from WTO membership.

Enhanced cooperation, to include political issues, would also be sought.

In accordance with the basic paper on relations between the EU and Latin America and the Caribbean countries adopted by the Council at its meeting of 31 October last year, in which the Union affirmed its readiness to open discussions with a view to concluding new, more ambitious agreements, better suited to the economic potential of our partners in the region, the agreement would cover three areas: political issues, economic issues and cooperation.

#### a) Political issues

It is in the EU's interest to strengthen dialogue with Mexico. The mechanism chosen for political consultation should take into account the fact that Mexico, within NAFTA, is the partner of countries such as the United States and Canada, with which the EU has agreed formal political dialogue procedures. However, the special relation between the EU and those two countries in the field of security should not be overlooked.

Political dialogue would be based on respect for human rights, democracy, good governance and the rule of law, which is one of the basic tenets of relations between the two parties.

Consultation would take the form of meetings at presidential, ministerial and senior official level between Mexico and the various EU institutions, including the Commission. At presidential level, meetings between the Mexican President, the President of the European Council and the Commission President could take place every two years. For the other levels, the frequency would be dictated by the requirements jointly agreed by the two parties. At any rate, efforts would be made to proceed on the basis of pre-arranged schedules detailing the topics of mutual interest to be discussed.

A solemn declaration signed by the two parties at the highest level would specify the actual rules.

In view of the current Mexican administration's stated intention to work towards political openness and transparency, the EU would be particularly anxious to promote exchanges between the various political entities of the two parties, for instance by arranging regular contacts between the European and the Mexican Parliaments.

## b) Economic issues

In time, and as far as economic and trade relations are concerned, only an agreement entailing the progressive and reciprocal liberalization of trade as a whole, bearing in mind the sensitivity of certain products and in line with relevant WTO rules, would enable trade flows to achieve optimum levels in both directions.

In this context, the Commission will see to it that its proposals reconcile the requirements of the CAP with the Community's international commitments, including those undertaken within the WTO.

Even before the beginning of negotiations, a specific protocol aimed at controlling fraud and providing mutual administrative assistance in customs matters and origin rules would be concluded.

Pending the outcome of the negotiations, the two parties would maintain the actual current conditions for access to their respective markets.

As recommended in the basic paper on EU-Latin America relations adopted by the Council at its meeting of 31 October last year, there would also be provisions for cooperation and dialogue on trade issues and the liberalization of movements of services and capital. In addition to the reciprocal dismantling of tariffs particular importance would be attached to the gradual two-way liberalization of investment conditions and the regulatory measures concerning products and services.

Such an approach is justified inter alia in the light of the following considerations:

- Building on its experience within NAFTA, Mexico should be able to cope with the economic implications of liberalizing its trade with the EU.
- The prospect of a contractual framework would act as a powerful incentive on European productive investments in Mexico, and this would go along way towards improving the country's financial situation.
- Without a new, more advantageous contractual framework for trade, Mexico has considerable scope for protecting its market while increasing its customs tariffs within GATT limits.
- Trade liberalization with Mexico would enable Mexico and the EU to boost bilateral trade and make the most of the mutual advantages brought about by NAFTA membership.
- For agricultural products, the advantages of liberalization would be less obvious (exports are expected to grow by 14%-15% over the next ten years).
- Liberalization would be perceived as a sign of strength and increased stability by European investors, who would view it as a guarantee for their investments in Mexico and a means to diversify them.

The most profitable sectors are expected to be power generation, public procurement and financial services.

- For the EU, trade liberalization negotiations with Mexico should be helped by the arrival of the new Mexican administration (strongly in favour of free trade) and the country's recent NAFTA experience. Generally speaking, the negotiations should pose no intractable problem since Mexico's economy enjoys excellent growth prospects, its export structure is mainly aimed at the US and its sectoral specialization is complementary to that of the Union.
- In addition, the significance of closer political ties, advocated by both parties, would be reduced if they were not accompanied by an economic and trade partnership to match.

### c) Cooperation

We know from experience that Mexico is seeking advanced, mutually beneficial cooperation that is likely to increase its economy's competitive edge and international posture. Thus, alongside more ambitious programmes to promote contacts between firms from the two sides, administrative cooperation (particularly in the field of competition) would be developed, with a view to facilitating trade between the two parties. In this context, particular efforts should be made in the fields of environmental cooperation (projects to encourage the transfer of European technology), scientific and technical cooperation, education and training.

The new agreement, unlike the existing one, would give Mexico the opportunity to take part in certain European cooperation projects and programmes focusing on:

- industry,
- culture,
- R&D
- information and telecommunication technologies and the information society.

As regards industrial cooperation, an enhanced dialogue and ad-hoc initiatives in restructuring information technology and telecommunications undertakings would be launched. In addition, the negotiating directives for the future agreement would include guidelines for the regulatory framework needed to ensure the development of the information society.

There would also be scope to involve Mexican partners in pilot projects run by European companies.

It would also be possible to negotiate specific agreements on topics such as cooperation in education and training, statistics, customs, competition, indirect taxation, standards and power generation.



#### **d) Operational follow-up**

In the light of the above and in accordance with the conclusions of the Corfu and Essen European Councils, the Commission calls on the Council to approve the proposed strategy with a view to concluding an agreement with Mexico combining economic partnership and political consultation.

The Commission will present the necessary draft negotiating directives to the Council in the course of the coming year.

Progress in the implementation of the strategy outlined above will be reviewed regularly by the Council (General Affairs).

ISSN 0254-1475

COM(95) 3 final

# DOCUMENTS

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Catalog number : CB-CO-95-039-EN-C

ISBN 92-77-85349-2

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Office for Official Publications of the European Communities

L-2985 Luxembourg