

MEXICO AND THE EUROPEAN COMMUNITY

This information note was prepared for the visit to Mexico of Mr Wilhelm Haferkamp, Vice-President of the Commission of the European Communities, from 12 to 16 November, during which he met Mexican leaders and presided over the third meeting of the EEC-Mexico Joint Committee.

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With the countries of the European Community, Mexico has maintained for four centuries political, economic and cultural links of importance. Today Mexico constitutes an increasingly significant partner of the European Community with which it reached an Economic and Commercial Cooperation Agreement in 1975, the first of a 'new generation' of such agreements covering several areas of economic cooperation which the Community has recently concluded with a number of developing countries on the verge of industrialization. The European Community entered into this Agreement in recognition of the economic potential offered by Mexico and in response to the Mexican Government's declared wish to diversify its international economic relations.

Among other objectives, the Agreement is intended to reduce Mexico's continuing trade deficit with the Nine, which together represent that country's second trading partner, after the United States.

THE ECONOMIC CHALLENGE OF MEXICO

With a GNP *per capita* of USD 1 100, Mexico has one of the 'take-off' economies of the developing world, with a relatively high proportion of industrialization (35%) and services (55%), with a large land area (2 million km²) and one of the fastest-growing populations in the world (its present population of 68 million is expected to double by the year 2000): Rapid urbanization has not only made Mexico City the world's largest conurbation (approximately 14 million inhabitants) but has also swelled the size of several provincial cities, notably Guadalajara and Monterrey, with all the attendant problems of fast-growing conurbations.

Mexico possesses a wide range of mineral resources, including gold, silver (the world's first producer), sulphur, lead, zinc, copper, iron-ore and cadmium; its recent discoveries and exploitation of oil and uranium promise to alter radically the Mexican economic outlook.

Proven reserves of oil deposits are now estimated at 40 000 million barrels and possible reserves at 280 000 million barrels. With known reserves of uranium estimated at 150 000 tonnes, total probable reserves of this mineral are believed to reach 600 000 tonnes. Mexico also possesses rich resources of tropical forest.

Although employing about one-third of the labour force, the agricultural share in Mexico's GDP is less than 10%, reflecting in particular a number of structural problems in the country's rural economy.

Relations between the European Community and Mexico

The world context

The last decade has witnessed a number of important steps taken by the Mexican Government to restructure its relations with the United States, strengthen its ties with the European Community and also extend the scope of its links with Japan, China and Comecon. In the same period Mexico has been in the vanguard of the developing countries in their quest for a new economic order based on more equitable forms of exchange and cooperation. The country's enormous reserves of oil and gas are in the medium term expected to help resolve a number of structural problems.

Towards a partnership

By virtue of its capital and technology, the European Community is a natural partner for development cooperation with Mexico. Indeed the Mexican Government's policy of diversifying its trading and economic links offers Europe particularly favourable prospects. In 1977, 64% of Mexico's imports derived from the United States, compared with only 15% for the European Community, 5% for Japan and less than 1% for Comecon countries.

Similarly in the same year approximately 80% of foreign investment in Mexico originated in the United States, while only some 10% in European Community countries. It is in this context that the Community's Economic and Commercial Agreement with Mexico was concluded in 1975, following the visit to the Commission at Brussels of the then President Echeverría (1973) and the visit to Mexico (1975) of Sir Christopher Soames, then Vice-President of the Commission in charge of external relations.

The Economic and Commercial Cooperation Agreement between the European Community and Mexico

The non-preferential Agreement¹ between the Community and Mexico was signed on 15 July 1975, and came into force on 1 November 1975 with an initial validity of five years, being then automatically renewable on a yearly basis. The broad objectives of the Agreement are:

- to reduce Mexico's commercial deficit with the Community, by expanding exports to the Nine;
- to diversify Mexico's economic relations; and
- to establish relations with the Community in line with the aspirations of the developing countries and the Community's own policy of development cooperation with non-associated developing countries.

The Agreement introduces the most-favoured-nation principle, not only with regard to customs duties, but also to administrative regulations, taxes on goods or services imported or exported, quantitative restrictions, payments and transport. Exceptions to the most-favoured nation principle are accorded to Mexico in respect of its trade with other developing countries, especially those in Latin America and the Caribbean.

The Agreement also provides for economic cooperation in a broader sense, linked with the expansion of trade.

In the first four years of its functioning, more concrete success has been registered in the commercial sector (notably through better use of the Community's generalized system of preferences and export promotion facilities) than in the equally promising fields of investment cooperation and technical cooperation.

The Agreement is supervised by an *EEC-Mexico Joint Committee* whose third meeting takes place, at Mexico City, in November 1979.

Trade between the European Community and Mexico

The trade pattern between the two partners has been characterized by steady growth on the one hand (trade doubled in the period 1968-77) and by a large and continuing deficit, in the Community's favour, on the other (USD 427 million in 1977). A persistent deficit is also registered in Mexico's recent trade with other Western industrialized powers.

Geographic structure and balance of Mexico's trade 1976-77

(in millions of USD)

	Mexico's exports				Mexico's imports				Trade balance	
	1976	%	1977	%	1976	%	1977	%	1976	1977
Total	3 472	100.0	4 168	100.0	6 036	100.0	5 486	100.0	-2 564	-1 318
I. Developed countries	2 739	78.9	2 952	70.8	5 523	91.5	5 107	93.1	-2 784	-2 155
– EEC	295	8.5	250	6.0	985	16.3	809	14.7	- 690	- 559
– USA	2 111	60.8	2 426	58.2	3 773	62.5	3 493	63.7	-1 662	-1 067
– Japan	177	5.1	83	2.0	307	5.1	296	5.4	- 130	- 213
– Other industrialized countries	156	4.5	193	4.6	458	7.6	509	9.3	- 302	- 316
II. State-trading countries ¹	57	1.6	61	1.5	37	0.6	22	0.4	+ 20	+ 39
III. Developing areas	570	16.4	634	15.2	472	7.8	351	6.4	+ 98	+ 283
– Latin America ²	423	12.2	505	12.1	286	4.7	281	5.1	+ 137	+ 224
– Others	147	4.2	129	3.1	186	3.1	70	1.3	- 39	+ 59

¹ Including Cuba.

² Excluding Cuba.

Source: IMF, Direction of Trade.

¹ See OJ L 247 of 23.9.1975.

Trade between the Community of the Nine and Mexico

(in millions of EUA)¹

Year	Community imports	Community exports	Balance
1958	123	157	+ 34
1968	195	404	+ 209
1975	321	969	+ 648
1976	376	971	+ 595
1977	429	800	+ 371
1978	389	1 281	+ 892

¹ European unit of account.

Source: Eurostat.

Of Mexico's imports from the Community, some 60% comprises machinery and transport equipment, while manufactured goods and chemical products together account for 30%.

The Community's imports from Mexico are, however, more diverse, with 30% made up of food products, 25% manufactured goods, 16% raw materials, 10% chemical products and 9% machinery.

Mexico's share of Latin America's trade with the European Community has at the same time fallen in the last decade, its share of Latin-American exports to the Community dropping from 5.7% in 1968 to 4.3% in 1977, and of Latin-American imports from the Community, from 14.6% in 1968 to 5.7% in 1977.

It is evident, none the less, that Mexico's oil production could help substantially reduce the country's trade deficit in future years.

The Community's system of generalized tariff preferences

The Community offers to Mexico, as to all developing countries, its generalized system of preferences (GSP), expanded and improved year by year. This system makes it possible for a complete range of manufactured and semi-manufactured industrial goods and a growing number of agricultural products from developing countries to enter the Community's market of 270 million consumers largely or entirely free of tariffs. The object of the system is threefold, namely to stimulate trade flows, help the industrialization of the developing countries and thus diversify their economies.

While Mexico in 1977 occupied fourth place in Latin America (after Brazil, Venezuela and Argentina) as a utilizer of the Community's GSP, it ranked in only fifteenth place among developing countries as a whole. Nevertheless it is noteworthy that the 1977 figure represented an improvement of 11% on 1976, and equally that in 1977 21% of all the Community's imports from Mexico were effected under the GSP.

There is still much to be done by the Community and also by the authorities in the beneficiary countries, to make exporters more aware of the chances which a better use of the GSP will give them. Every year the Commission organizes a series of information seminars on the system in different Latin-American countries. Appropriately enough, several such seminars are scheduled for the end of 1979, in Mexico City, Guadalajara and Monterrey respectively.

Export promotion

Increasingly important as an element in the European Community's development cooperation with non-associated countries, various export promotion schemes have, since 1974, been offered to Latin-American countries, including Mexico. This programme is essentially a practical one, and responds to the respective needs of individual countries by compensating for their handicaps in the commercial sphere, caused by the geographic factor and the considerable differences in consumer trends on either side of the Atlantic.

In recent years the programme for Latin America has included a number of export promotion schemes of particular benefit to Mexico, notably seminars on the marketing of Mexican handicrafts and leather goods respectively, a seminar on tourism development, two seminars (in Mexico City and Guadalajara) on sales promotion in general, a mission to Mexico of European buyers (in 1977) and a visit to Community countries of a delegation of Mexican exporters to examine sales possibilities (in 1978).

Textiles

In the framework of the Multifibre Arrangement on Textiles, the Community concluded an agreement with Mexico, as also with thirty-one other countries including Argentina, Brazil, Colombia, Guatemala, Peru and Uruguay, which took effect on 1 January 1978.¹ This important agreement ensures that, over the period 1978–82, the trend of the Community's textiles imports will be orderly, channelled within the bounds of what the Community economy can stand, and will thus offer security for the textile industries of the Nine. In return, the low-cost exporting countries will have guaranteed access to Community markets over a period of five years, a prospect likely to promote the industrial diversification of Mexico and the other countries in question.

Cooperation in other sectors

It is expected that the third meeting of the EEC-Mexico Joint Committee will also point the way to concrete programmes of collaboration in the fields of industrial cooperation, scientific cooperation, and joint projects in telematics and key areas of energy technology (petroleum, natural gas, uranium, nuclear energy, solar energy and geothermal energy).

OTHER INSTITUTIONAL LINKS

In addition to the bilateral Economic and Commercial Agreement between the European Community and Mexico, the two partners also collaborate in other multilateral forums, especially those which bring the Community together with Latin America as a whole:

The European Community – Latin-American Dialogue

Mexico is, naturally enough, an important participant in the so-called Community – Latin-American Dialogue which, since 1971, has brought the Commission, the nine Community Member States and the Latin-American countries (represented at ambassadorial level) together in Brussels for twice-yearly meetings in order to discuss outstanding topics.

SELA (The Latin-American Economic System)

Since 1977 the European Community has developed its official contacts with the Permanent Secretariat of SELA (the Latin-American Economic System) at Caracas. This new institution, established on the inspiration of Mexico and Venezuela, has been given the task of coordinating Latin America's position with regard to international organizations and third countries. The Commission is considering ways and means of cooperating within certain projects of the Action Committees set up by SELA for various sectors.

Parliamentary relations

Since 1974 the *European Parliament* and the *Latin-American Parliament* have met four times (at Bogota in 1974, Luxembourg in 1975, Mexico City in 1977, and Rome in 1979), to debate principal political and economic issues of mutual interest to them, notably economic and commercial cooperation between the two sides, development questions, the state of parliamentary democracy in the two regions, human rights, international terrorism and the law of the Sea. President López Portillo inaugurated the joint session in 1977.

Latin-American Free Trade Association

In view of its commitment to regional integration in the European and other regions, the Community regularly gives technical aid to Latin-American organizations working for economic integration, including the Latin-American Free Trade Association (LAFTA/ALALC), one of whose members is Mexico, and with whom there is collaboration in the spheres of regional policy, information, customs union problems and statistics.

¹ See OJ L 357 of 31.12.1977.

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