SPECIAL REPORT

European Union - Mexico: working together to face global challenges

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developing ideas

LLORENTE & CUENCA

1. MEXICO IN THE CONTEXT OF THE RELATIONS BETWEEN THE EU AND LATIN AMERICA

The relations between Europe and Latin America and the Caribbean are showing signs of weakness and thus, the challenge for the leaders of both regions will be to enhance these relationships to promote and strengthen them.

The evolution of the American continent, from north to south, as well as the increasing economic interdependence with the Pacific countries, particularly with China, undoubtedly influence Latin American countries. However, there are cultural ties, common languages and, above everything, values that create special connections between societies and which enable both regions to have the privilege of sharing the same Western vision in the complex context of globalization. Therefore, economic relations should be seen as an element of the set, but not as its cornerstone and fundamental leitmotif, unlike the situation in other regions around the world.

In the case of Mexico, despite being a strategic partner, the relations with the European Union have not progressed with the intensity that could be expected from the aforementioned status. There are certain signs of weariness which make it mandatory to add new elements of discussion and reflection which contribute to the promotion of these relations placing them, at least, at the same level as the relations that the EU has with other regions of the world.

Mexico's relationship with the EU has always been quite important thanks to the opportunities for economic growth it has entailed for both regions. For Mexico, it is one of the best options to further diversify its economic and trade relations, which mainly focus on the U.S. and Canada. For Europe, it is crucial to have a strategic partner like Mexico, both at international forums and in the Americas.

"Mexico has a global ICD responsibility"

2. MEXICO NOWADAYS

According to the International Monetary Fund (IMF), Mexico will surpass Spain in 2015 and place fourteenth in the list of world economies ranked by size of gross domestic product (GDP) in current dollars.

From a GDP per capita point of view, Mexico is still far behind, with a forecast of 10,174 dollars for the present year compared to the figure recorded in Spain: USD 26,517. Moreover, the higher population growth in Mexico results in a slow closing of the gap, even though the Mexican economy is still growing at a faster pace than its Spanish counterpart.

Mexico is a large country compared to the rest of the world. It is one of the richest countries by GDP, has an area of almost 2 million km2 and a population of just over 121 million people.

BUSINESS APPROACH

The services sector is the largest element of the national GDP: 65%, followed by the industrial sector with 31%. The primary sector only accounts for 4% of the GDP. The country has a workforce of approximately 47 million people of which 13.7% carry out mining activities, 23.4% work in the industrial sector and 62.9% in the field of services.

Mexico is an export-oriented economy. It is one of the most open to trade countries and, according to the value of the goods, a true trading power with the most free trade agreements. In 2014, Mexico was the 13th most important exporter and 12th importer worldwide.

In 2012, Mexico exported goods to the United States worth USD 66,708 million, which represented a fall of 3.7% compared to 2011. 90% of the Mexican exports and 55% of the imports are linked to the United States.

THE COOPERATION STRATEGY

Currently and since 2011, the body responsible for the Mexican strategy on International Cooperation and Development is the Mexican Agency of International Cooperation for the Development (AMEXCID), a decentralized body of the Ministry of Foreign Affairs.

As a middle-income country, Mexico has a global ICD responsibility in order to reassert its leadership among similar countries. Similarly to countries like India, China, Brazil, Chile or Turkey, Mexico has a dual ICD policy, i.e., it is both a recipient and provider of cooperation.

POLITICAL AND SOCIAL ISSUES

The particular case of Mexico should be divided into two important points that must be analyzed: first, the regulatory restructuring of the country, which is heading into a more open policy as regards global market and is having positive consequences; second, the crisis of corruption, insecurity and violence that results in a poor international image.

"The European project grew from a mere dream to an undertaking"

Mexico was not immune to the global economic crisis which entailed a weak and asymmetric growth, a labor crisis and social inequalities. This translated into a growing loss of trust in an already weakened political system.

The new government proposed a series of structural reforms which, allegedly, would improve the social and economic landscape of the country. However, the intention to modify leftist political ideals which had been embodied in the constitution since the Revolution generated a tense atmosphere; society was skeptical about the implementation of these reforms.

The aforementioned amendments mainly focused on the political, tax, energy and labor sectors. In the end, there were no major conflicts in the long process of approving these measures. However, due to the lack of an efficient and timely implementation of the aforementioned reforms the latter did not live up to the expectations.

The case of the 43 missing students in the state of Guerrero sparked a social crisis due to the poor response of the Government to a case that clearly violates the protection of human rights, with a dubious rule of law and a weak justice system.

Finally, the biggest problem of the Mexican foreign policy, for now, revolves around fulfilling internal obligations to guarantee human rights and, thus, end the huge social inequalities that affect the country.

3. WHAT ABOUT THE EUROPEAN UNION?

The EU emerged after WWII with the main goal of building a solid and lasting peace among the nations of a continent devastated by destruction. This led to the creation of the ECSC (European Coal and Steel Community), in order to unify the production of the main materials required to wage war. Over the years, there was a clear rapprochement between the old European nations and thanks to the contribution of men like Monnet and Schumann, the European project grew from a mere dream to an undertaking that nowadays involves a continent of 500 million people and the world's largest GDP.

The European Union has a population of over 500 million people, a figure over that of the U.S. and Russia together. It is the largest trading power in the world and generates one quarter of the global wealth. It is also the most important contributor to the development of poor countries. Its common currency, the Euro, is the second most important currency in international markets after the USD.

The EU is the main trading partner of Russia, most African countries, the European countries outside the EU and, since 2005, the PRC, with operations amounting to over EUR 100 billion per year.

According to the 2014 IMF data, the GDP (nominal) of Europe amounts to USD 18.5 trillion (U.S.

“The EU is the largest trading power in the world”

USD 17.42 trillion). Therefore, the 2014 nominal GDP per capita in the EU is USD 30.425 (versus USD 54.596 in the U.S.).

It should also be noted that the European economy is leaving behind an economic crisis that has led to a negative economic growth in some of the founding countries. However, although the European economy is growing at a slower pace than the U.S. or China, there are signs of an economic recovery, which could be affected by the final solution to the Greek problem, the uncertainties generated by the British referendum on the United Kingdom membership of the EU, the significant structural unemployment in some of the Member States and the levels of debt/GDP.

BUSINESS VISION

The EU negotiates its own bilateral trade agreements with countries or regional groups of countries actively participating in the World Trade Organization (WTO) establishing the rules for a multilateral world trade system.

The EU is the largest trading power in the world, accounting for 20% of the total imports and exports. Since its inception, free trade among all Member States has been a source of growing prosperity for them.

COOPERATION

Although it originally focused on Africa, since the mid-70s it expanded to Asia, Latin America and the southern and eastern Mediterranean countries. Its main purpose is to support the growth and sustainable development of the partner countries so that they acquire the necessary resources to fight and eradicate poverty.

The EU agreements with its partners around the world do not merely involve trade-related issues or traditional technical and financial assistance, but also economic and other reforms, as well as aid for the areas of infrastructure, healthcare programs and education.

The trade development strategy of the EU results in infrastructure enhancements for poor countries, development of their productive potential and more efficient public institutions. With this support, some countries might seize trade opportunities to ensure further domestic investments to strengthen their economic structure. This is essential for them to become part of the global economy and reach a sustainable growth and development.

POLITICAL AND SOCIAL ISSUES

Europe is currently correcting its course to come out of a complex process and restore an optimal economic condition, following the financial crisis it has been facing since 2008. As a result, a series of social and political moves have taken place questioning the adequacy of the European integration project.

The crisis affected the public opinion as regards the viability

"The EU-Mexico relation goes back to 1960"

and relevance of the Union, which has entailed a more nationalist and protectionist trend, both from an economic and social point of view. The relevance of the political parties that have emerged after the crisis, unthinkable before the recession, clearly illustrate this new context.

The political challenge that the European Union needs to address as regards its foreign policy revolves around the idea of legitimizing the European ideal and providing structural security within the organization in order to strengthen its relations with the rest of the world and, thus, promote a greater international stability.

4. RETROSPECTIVE VIEW OF THE RELATIONS BETWEEN EU AND MEXICO

The importance of Mexico makes it a very crucial global partner for the European Union. The bilateral relationship has a high degree of institutionalization, favoring the political dialogue in several issues of the bilateral and multilateral agenda. The scope of its membership in the NAFTA Treaty, both in economic and diplomatic terms, as regards the global transatlantic agreements with North America and the various significant cultural ties with Europe, make its relationship with the EU a very important link to promote the efforts made by the Mexican Government to strengthen the social structures and, thus, build a more just society within the framework of progress and welfare.

The EU-Mexico relation goes back to 1960, when a special delegation of the Latin American nation came to the EEC, but it was not until 1975 when a second generation agreement of purely commercial nature was signed. It established a mixed committee comprising representatives of Mexico and the European Community and translated into eight meetings between 1975 and 1989.

In 1991, the Framework Cooperation Agreement between the European Community and Mexico came into force and basically focused on promoting the negotiations aimed at accessing and opening the markets. However, the Agreement was limited by the negotiations to foster the NAFTA agreement, between 1992 and 1993, as it overshadowed any other trade cooperation strategy developed by Mexico.

In 1997, the EU and Mexico signed an Economic Partnership, Political Coordination and Cooperation Agreement, known as the Global Agreement, which entered into force in the year 2000. This agreement is based on three main points: political dialogue, trade and cooperation.

In October 2008, the European Council approved the establishment of a Strategic Partnership between Mexico and the EU and, consequently, in May 2010, the Joint Executive Plan of the Association was passed. This document contains fourteen

"European investments are characterized by their reliability"

specific actions and initiatives of multilateral scope, four of regional nature and fourteen further measures for the bilateral relations. A broad series of institutionalized dialogue mechanisms between Mexico and the EU have been created to develop the aforementioned points, such as the Biennial Summit (including the Forum for Dialogue with the Civil Society), the Annual Joint Committee or nine sectorial forums covering issues which range from human rights and climate change to cultural affairs.

The cooperation between Mexico and the EU is structured under four complementary ways. Firstly, through bilateral cooperation, whose program for the 2007-2013 period establishes the following priority issues: social cohesion, sustainable economy, competitiveness, education and culture. Secondly, through cooperation in sectorial areas such as human rights and democracy, non-state actors, environment and nuclear safety, health, migration and asylum. Thirdly, through the active participation of Mexico in the regional programs for the whole Latin American and Caribbean region. Finally, through the direct participation of Mexico in other Community programs such as the Seventh Framework Program for RTD.

TRADE AND INVESTMENT ISSUES

In 2014, the EU accounted for 8.2% of the total trade in Mexico and was its third largest trading partner, behind the United States (65.2%) and China (8.9%). From the European point of view, Mexico ranked 15th, accounting for a mere 1.4% of the total foreign trade of the Union (DG Trade 2014).

The EU accounted for 21% of the total inward FDI in Mexico in 2012 and 47% by 2014 (USD 10.6 billion). European companies invest in a wide variety of sectors with high added value, such as the agrifood, automotive and aerospace sectors. European investments are characterized by their reliability and technology transfer, as well as by their social and economic responsibility.

The total trade in 2014, according to the European Commission, reached a value of EUR 46,698 million. The EU exported 28,476 million –mainly machinery, chemicals and manufactured products– and imported from Mexico goods worth 18,222 million –machinery and transport equipment, fuel and manufactured products–.

In Mexico, there are currently near 15,000 European companies, which account for over 26% of all foreign enterprises in the country. They mainly focus on the manufacturing sector (48.9% of which 11% are processed foods organizations and 5.3% automotive companies), financial services (23%), insurance (20%), construction (7%) and media (6%).

As regards Mexico's investment in the EU, until 2011, Mexican enterprises had invested EUR 20.4 billion in the EU, a figure that has grown in the last year, par-

"Mexico ranks 18th as an exporter to the European Union"

ticularly in Spain and Austria. In 2012, for the first time, the FDI of Mexico in the EU was higher than that of the EU in Mexico.

Historically, the trade balance of the EU had an overall surplus with Mexico. In 2014, it amounted to EUR 10,254 million.

Europe has nine of the twenty largest economies in the world and is a center of technological development and home to leading companies in strategic sectors (automotive, aerospace and pharmaceutical) for Mexico.

Currently, Mexico ranks 18th as an exporter to the European Union and 24th as an importer, while the European Union has been established as the second destination for Mexican exports and second largest source of foreign investment in Mexico.

Some of the main exported products by Mexico to the EU are cars, mobile telephones, appliances and instruments used in the medical, surgical, dental and veterinary sectors and computers; while the most important imported products are drugs, cars and appliances used for the manufacture of electrical circuits.

COOPERATION ISSUES

Within the Agreement, various cooperation programs were implemented

- **Multiannual Programs for Development Cooperation:** Two programs were carried out during the 2002-2006 and 2007-2013 periods which involved the allocation of EUR 196 million and projects and actions in areas of unquestionable importance such as: social development, administration of justice, SMEs, trade facilitation, competitiveness and innovation, science and technology, social cohesion (including tax administration, urban poverty, health systems, social security, access to justice and public safety), human rights, higher education and culture.

  In addition to these programs a Special Action worth EUR 2.2 million was implemented in order to promote cultural activities between Mexico and the EU and two projects on nuclear security which amounted to EUR 3.3 million.

  Three major projects are currently being carried out:

  » EU-Mexico Integrated Social Cohesion Program (EU-Mexico Social Cohesion Laboratory).

  » Social Cohesion Laboratory II.

  » Competitiveness and Innovation Program (PROCEI).

- **Cooperation in the EU financial framework 2014-2020:** The 2014-2020 Multiannual Financial Framework of

"EU incorporates various tools that will enable the Union to finance its external action"

the EU incorporates various tools that will enable the Union to finance its external action and tackle international challenges in the fight against poverty and the promotion of peace, stability and prosperity.

- **Cooperation in Science and Technology:** In 2014, the EU launched Horizon 2020 (H2020), a new framework program for research and innovation for the 2014-2020 period. The program is open to everyone and has nearly EUR 80 billion of funding for the aforementioned period. Its objective is to fund research and innovation in order to create sustainable growth and high-quality jobs across Europe. It focuses on scientific knowledge; global challenges, such as infectious diseases, energy security, food security and climate change, as well as the challenge of making the industry more competitive (particularly SMEs), by linking it with innovation so as to provide enhanced products and services.

POLITICAL AND SOCIAL ISSUES

The Strategic Partnership and the Join Executive Plan further specified various issues of common interest to both parties such as social cohesion, regional development and decentralization, migration, economic cooperation, environment, fight against transnational organized crime, exchange of health-related information, scientific and cultural cooperation and a greater coordination at the international forums.

The implementation of the constitutional reform on human rights and the political amendment seeking to establish a healthier democracy and reduce inequality in Mexico are actions to facilitate the international negotiations and become a major player in the global economic arena.

This is due to the political dialogue offered by the EU, which contains a clause that enables the Union to suspend or cancel the trade or aid if the partner country violates any human rights. For example, in 2003 the EU decided that all new agreements should include a clause in which its partners commit themselves to comply with the non-proliferation of weapons of mass destruction initiative.

Finally, the EU will have to ensure a political and financial security for it to be seen as a strong community with a promising future for those willing to establish any future negotiations and shall provide economic quality to all Member States.

5. ASSESSMENT OF THE GLOBAL AGREEMENT

From a purely commercial point of view, the Agreement of 1997 can be seen as cautiously positive for both parties. Bilateral trade has tripled from 2003 to 2013 and Mexico has increased its

"European Union is the third largest trading partner of Mexico"

share of exports to the European Union from 1% to 1.7%, while the latter has had an almost constant trade surplus during this period of EUR 7-10 billion. This places Mexico as the fifteenth largest trading partner of the EU, accounting for 1% of the total imports of the European Union. However, this figure is still below the importance of Mexico in the world's GDP (2%). At the same time, the European Union is the third largest trading partner of Mexico behind the United States and China.

Furthermore, important direct investments have been made both by the European Union in Mexico (EUR 11,138 million in the 2008-2012 period) and by Mexico in the EU (particularly in the cement, telecommunications and food sectors). In general, Mexico has signed bilateral investment protection treaties with all countries of the European Union and there is even a bilateral agreement between Mexico and the European investment Bank to fund activities in the country, providing loan facilities which amounted to EUR 495 million since the year 2000.

However, these figures are conditioned by the traditional Mexican policy of liming access for foreign investors to strategic sectors such as energy and postal services (established in the Mexican Constitution) or telecommunication services and land passenger transport. Many of these rules are being removed through the Mexico Development Plan 2013-2018. However, the approval of a specific regulation is still pending to effectively grant investors access to these sectors.

As regards supporting and strengthening the Mexican civil society, a wide range of joint projects have been implemented, such as the creation of a Social Cohesion Laboratory, multiple projects funded by the European Instrument for Democracy and Human Rights on issues of equality and protection of children as well as fifteen projects focusing on "non-state actors". Finally, initiatives have been developed in the health, migration and asylum fields.

The strengthening of competitiveness and protection of the environment has entailed initiatives developed under the Competitiveness and Innovation Program (PROCEI), aimed at enhancing the Mexican SMEs and several sectorial initiatives on agriculture, climate change and nuclear security. Mexican researchers, research centers and universities also have access to the Horizon 2020 program of the European Union.

Several interesting projects have been developed in the cultural area under the "Mexico-European Union Cultural Fund", during phases I and II, with CONACULTA as the main representative of the Mexican party.

An aspect that promptly led to some differences of interpretation was the application of the principles of "consistency and

"Mexico and the EU undertake to strengthen the areas of political dialogue in the region"

conditionality" that the European Union promotes in its external agreements with other countries and regions. Specifically, the aspects of conditionality were met with resistance in Mexico as it was seen as *"an interference in its internal affairs"*, particularly in relation to the strengthening of democracy and human rights and the treatment of indigenous communities.

The Joint Executive Plan of 2010, developed by the Strategic Association Mexico-European Union, established that: *"Mexico and the EU undertake to strengthen the areas of political dialogue in the region, fostering bi-regional dialogue, particularly with the Rio Group at the Latin America and the Caribbean-European Union Summits (ALCUE), promoting triangular cooperation through the Integration and Development Project of Mesoamerica. Mexico and the EU will also explore options to engage a triangular cooperation with other regions, such as Africa"*.

Since Mexico is a country with a sufficiently-high GDP, it is quite likely that it will stop receiving the bilateral cooperation support that the European Commission grants to less developed countries.

The analysis of the records of the various institutional meetings that the European Commission and Parliament held with its Mexican counterparts show no results that demonstrate that this strategic partnership is entailing tangible results that come up to its political importance. These records show a diplomatic language which reflects that no efforts are made to thoroughly address the current small differences or to provide specific guidelines to further develop the aforementioned Strategic Partnership.

Negotiating a Free Trade Agreement between the United States and the European Union (Transatlantic Trade and Investment Partnership-TTIP), will inevitably affect the relations of North America, both in relation to the EU and the region as a whole. Once the negotiation is complete, Canada, the U.S. and Mexico will have signed agreements with the EU. In this sense, it should be considered whether a major treaty between North America and the EU should be established. This would increase efficiency in the relations between both regions and give the opportunity to set a common economic agenda.

Although Mexico and the EU pioneered in establishing a Free Trade Agreement in 1997, the successive agreements with many other countries in America and the rest of the world have enhanced the points established in the agreement. Thus, the latter has become obsolete and no longer makes Mexico a political and trade priority and a strategic partner of the EU.

The FTA entailed the immediate removal of tariffs on a large amount of goods and the gradual removal for the remaining products; liberali-

"The trade deficit was reduced during the years after the crisis"

zation took place at different paces and times depending on the product and was carried out under a pre-established schedule. The treaty covers all industrial products and a substantial part of agricultural and fishery products.

Industrial products accounted for 90% of the trade in goods between Mexico and the EU in 2000 and were classified into four groups according to the liberalization schedule.

In addition to trade liberalization, the FTA also established the necessary measures for the gradual and reciprocal liberalization of trade in services and investment, as well as the related payments.

Along with the gradual liberalization of services, the FTA includes the principles of the "most favored nation" and "national treatment". In this sense, the principle of most favored nation stipulates that the treatment granted to service providers of the opposite party shall not be less favorable than the one granted to similar service providers of any third country. For its part, the principle of national treatment establishes that each party will provide services and service providers of the other party a treatment equal to the treatment provided to domestic services or service providers.

The FTA increased the exports of various products in both economies; the positive effect entailed by the agreement could be clearly seen years after the complete removal of the tariffs, which was to be expected as companies need some time to adjust when starting to export to new markets.

In addition to identifying the increase in the share of Mexican products within the EU imports and vice versa, it is important to analyze the weight of the aforementioned products in the exports of each country/region. By studying the composition of the EU exports to Mexico we can see the importance of chemicals and similar products as well as the relevance of transport equipment.

The analysis of the flow of exports and imports as a whole shows that Mexico has had a deficit from a trade point of view with the EU during the 2000-2013 period. However, the trade deficit was reduced during the years after the crisis compared to the 2000-2009 period. This indicator dropped to an average of 0.9% of the nominal GDP from 2010 to 2013, versus the average of 1.1% recorded in the previous period.

In recent years, especially since 2000, Latin American countries have been attractive recipients of FDI. During the 2000-2013 period this type of investment greatly grew compared to the investment flow of 1990-1999. The main recipients during the 2000-2013 period were Brazil with USD 484 billion and Mexico with 342 billion. The latter stands out since it produces goods of a higher added value and due to

"The telecommunications reform introduces measures that will foster greater competition in the sector"

its geographical advantage of being close to the U.S. market.

AVENUES TO MODERNIZE THE RELATIONS BETWEEN THE EU AND MEXICO

As previously stated, in the past two years Mexico has passed a series of structural reforms which should contribute to increasing factor productivity and, thus, the annual growth rate of the country.

The reforms promote competition in sectors that had been isolated for decades and also entail a greater market flexibility and investment in human and physical capital. The main reforms were implemented in the energy, telecommunications and labor sectors.

The energy reform opens this sector –oil, gas and electricity– to private investment. For over seven decades, this field was closed off to foreign investors.

Almost a third of the tax revenue came from Pemex and, therefore, the room for investment was limited. The reform has changed the situation dramatically. Not only will private enterprises be eligible to participate in the exploration and extraction of oil and shale gas and the production and distribution of electricity, but Pemex and CFE will also become state productive organizations.

The telecommunications reform introduces measures that will foster greater competition in the sector: a tender for a third television network, greater powers to the Federal Telecommunications Institute in the field of sectorial competition and the creation of specialized courts, among others. Additionally, it will completely open up the sector for foreign investment (previously, in certain branches of the industry, companies could only have up to 49% foreign participation).

The labor market reform provides greater flexibility to this market, since it includes more flexible contracts (part-time, on trial), reduces the costs of firing people and establishes simpler mechanisms to solve labor disputes.

In order to attract foreign investment, efforts have been made to make the country more attractive in relation to four key elements:

- Size of the domestic market
- Availability and cost of labor
- Natural resources
- Appropriate infrastructure

In this respect, Mexico stands out as it ranks 13th out of 120, while Chile, Colombia and Peru have less potential due to the lack and lower-quality of skilled labor and infrastructure.

These four points, the new reforms and the proximity of the country to the United States show that FDI in Mexico will

"Investment in infrastructure is a strategic and priority issue for Mexico"

greatly grow in the coming years, which may encourage international companies to penetrate the market as soon as possible.

Tax burden is one of the factors which have an impact on the operating costs and, therefore, the profitability of the companies established in Mexico. According to the World Economic Forum, Mexico is competitive in terms of corporate tax (over Brazil, China and India) and only requires six tax payments per year, thus being in a much better relative position compared to other developing countries.

In this sense, Mexico has important advantages in relation to free trade agreements and the number of required procedures to start exporting. Regarding the trade agreements, so far Mexico has signed agreements with 45 countries, thus being one of the most open nations to international trade worldwide.

The quality of the transport, electricity, telecommunications, roads, railways, ports, airports and mobile infrastructure is significantly high, unlike nations such as Brazil or India. For its part, Mexico ranks 50th in the Logistic Performance Index of the World Bank (out of 160), also ahead of India and Brazil.

Moreover, the National Infrastructure Program expects an investment of MXN 7.7 trillion (2.8 from the private sector) which shall cover a wide range of sectors, including: communications and transportation, energy, sanitation, health, tourism, urban development and housing.

The new airport in Mexico City will require a total investment of MXN 169 billion, with up to 71 billion coming from the private sector. The new airport will have an operational capacity of 50 million passengers and 550,000 operations per year during the first stage, with a potential of up to 120 million passengers and one million operations in the years to come.

Investment in infrastructure is a strategic and priority issue for Mexico since it eases the mobility of goods, people and information and, in this sense, is essential to achieve a greater competiveness. The new investments put Mexico on the right track to give greater opportunities to foreign investors and exporters.

Nowadays, Mexico's labor costs are 20% lower than those of China, which translates into a competitive advantage for the export industry. This situation could last for a decade due to the growth of the population of working age.

On the other hand, skilled workers are creating an increasingly attractive environment for high-tech companies. In recent years, Mexico has become a world leader in the production of computers and mobile phones. Similarly, automotive companies have benefited from the sound ability of Mexican engineers to design automotive components.

"The main foreign investor in Mexico is the U.S."

Besides the low labor costs and the increased supply of human capital, Mexico is an attractive country for foreign investors and exporters thanks to its competitive exchange rate. During the 2000-2014 period, the yuan appreciated by 24% in real terms compared to the U.S. dollar, while the Mexican peso depreciated by 90% in real terms over the same period.

La tendencia de la industria automotriz en México, refleja el enorme potencial que el país representa para las cadenas globales de suministro. Esta industria es el ejemplo más palpable del fortalecimiento de los procesos productivos locales, que cada día agregan más valor a las cadenas de producción como resultado de una mayor integración y participación de los proveedores domésticos de primer y segundo nivel en el proceso.

The trend of the automotive industry in Mexico reflects the huge potential that the country offers to global supply chains. This industry is the most evident example of the strengthening of the local production processes, which increasingly add more value to the production chains as a result of a greater integration and participation of the tier one and two domestic suppliers in the process.

The Free Trade Agreement between Mexico and the European Union, besides positively affecting the trade between both regions, has been a catalyst for investment flows. Although the main foreign investor in Mexico is the U.S., with 45.7% of the total investment of the past 15 years, the EU follows closely with 38.7% of the total investment. In fact, in several regions of the country, the EU is the largest investor.

Although Europe invests in all sectors of the Mexican economy, it mainly focuses on, at least, six sectors:

- Generation, transmission and distribution of wind power and natural gas.
- Mass media.
- Construction.
- Recreational services.
- Health services.
- Professional and scientific services.

Considering the fact that the main trade partner of Mexico is the U.S. thanks to the North American Free Trade Agreement (NAFTA) which grants free access to the U.S. and Canadian markets to a large part of Mexico's exports, investors from the EU might benefit to the extent of the good being sufficiently transformed and exporting their goods to the U.S. and Canada.

Investment from the EU does not only benefit from the strong commercial integration between Mexico and the U.S., but is also directly affected by the treatment received; equal to that of domestic enterprises in Mexico.

"The main topic of interest to both parties is the investment opportunities"

The implementation of a trade agreement between Mexico and the European Union has enhanced the trade flows and investment. This is shown by the increase of the share of exports of certain groups of products in the imports of other countries/regions.

A new treaty between Mexico and the European Union could be a great opportunity to boost both markets and try to reverse the crises that both regions are currently facing. However, it should be noted that, although foreign investment and trade liberalization can solve high-profile problems such as unemployment, it is necessary to establish certain guidelines to promote a healthy trade relationship to somehow protect the domestic market.

Governmental contacts are common, since over hundred agreements on health, education, aviation, energy and scientific-technical and economic-commercial cooperation have been signed since president Peña Nieto took office.

The negotiations to update the agreement stem mainly from the new negotiations that have taken place globally, the prime example being the renegotiation of the treaties signed by the EU with the United States and Canada, placing the current negotiations with Mexico at a disadvantage.

The main topic of interest to both parties is the investment opportunities, thanks to the new reforms in Mexico, to promote the economic growth, particularly in the energy and telecommunications sectors.

The update of the bilateral relationship is based on the vision that the EU and Mexico share and which seeks to: 1) enhance the common prosperity; 2) strengthen their role as international players with a global responsibility and 3) strengthen the links between their societies. The respect for democratic principles and fundamental human rights as well as the fight against the proliferation of weapons of mass destruction are essential elements to build this bilateral relationship.

This modernization should take three factors into account: 1) the current importance of Mexico as a global and systemic player; 2) the new EU's internal revolution and enlargement and 3) the geopolitical trend and the emergence of new economies which call for new balances.

The Economic Partnership, Political Coordination and Cooperation Agreement, known as the "Global Agreement", in force since 2000, is the most important legally binding instrument between Mexico and the EU. The evolution of the relations with other countries and groups of countries of both the EU and Mexico requires this relationship to be updated.

Considering that the EU is a conglomerate of 28 nations linked through a process of integration and the fact that Mexico is a

"The Global Agreement organizes the relation from a horizontal point of view"

country with a remarkable trade openness but a relatively new democratic liberalization, there is a clear asymmetry that needs to be regulated to guarantee the benefits for both parties.

The evaluation of the relations between EU and Mexico comes at a very appropriate time, since both parties have tested both the limitations and the potential of bilateral relations over the past 15 years. In fact, both parties have evaluated the bilateral relation and enhanced it through the creation of new mechanisms of collaboration and adapted it through the decisions of the Joint Council, a bilateral body established by the Global Agreement at ministerial level which has met seven times since 2000. A notable addition to the bilateral relations was the implementation of the Strategic Association between EU and Mexico in 2008, which recognized the increasingly important international role that Mexico was playing and strengthened the bilateral cooperation.

The analysis of the Global Agreement of 2000 and the Strategic Association of 2008 shows two different approaches to address the bilateral relationship. The Global Agreement organizes the relation from a horizontal point of view and focuses on the three main areas: political dialogue, economic partnership and co-operation. Instead, the Strategic Partnership tackles the relationship from a territorially vertical approach, focusing on multilateral, regional and bilateral issues.

POLITICAL DIALOGUE

The political dialogue contained in the Agreement has evolved: initially, it focused on the democratic issue, now the main topic is the rule of law due to the significant changes that the democratic evolution has entailed; in 2000 the Institutional Revolutionary Party lost the elections after 70 years. On a different note, violence and corruption have become one of the most important problems of the country as well.

As regards human rights, both parties have already carried out actions to strengthen and enhance the functioning of the Human Rights Council of the United Nations and supported initiatives of the UN Council and General Assembly on various human rights issues, such as eliminating all types of discrimination, improving women's rights and abolishing capital punishment.

In the field of international security, arms, illegal drugs and human trafficking are quite relevant since Mexico is constantly facing these problems. The efforts made so far to solve them seem insufficient at all levels: from governance to the administration of justice.

TRADE

If we take a close look at the context and time in which the agreement was signed, we can see that the main topics were related to tariffs. However, the evolution of global trade has changed the landscape and the updated agreement will probably focus on non-tariff barriers.

After the gradual removal of trade barriers as provided in the agreement, it is necessary to implement a new regulatory and institutional framework that takes into account non-tariff barriers and the emergence of new regulatory and policy frameworks in the EU and Mexico in sectors such as agriculture, telecommunications, intellectual property rights and competition.

“The main challenge of the update in the field of cooperation is financing and financial resources”

The automotive and energy sectors are clear examples of the aforementioned point; they have attracted many investors for over a decade and will continue attracting more investment in the future.

Mexican investments in the EU are mainly carried out by large companies of international relevance, for example, the enterprises of Carlos Slim, Pemex and Cemex.

Besides services and manufacture, there are other issues to be addressed, such as intellectual property, competition and public procurement. The aforementioned points are highly important to keep a healthy trade that does not promote piracy and counterfeit products, which fosters antitrust measures to attract investment and carry out a trade liberalization that encourages good practices.

COOPERATION

In the field of cooperation, the achievements of successful programs should be analyzed to learn how to tackle the new priorities of cooperation, in a context in which the economic resources have been significantly reduced.

Considering the above, the main challenge of the update in the field of cooperation is financing and financial resources, which have been reduced significantly due to the economic crisis that has entailed a new expenditure approach.

Most of the cooperation programs between the EU and Mexico focus on providing basic elements to provide greater power and capabilities to groups in need and strengthen the new practices that require more time to produce tangible and sustainable results in areas such as good governance, human rights, social cohesion and learning of competitive business practices, to name a few. In this regard, if the programs are not updated, the modernization of the Global Agreement could jeopardize some of the cooperation achievements between the EU and Mexico. Thus, the aforementioned modernization will enhance the cooperation between EU and Mexico as long as they identify which programs should still be carried out and find alternative funding sources.

6. CONCLUSIONS

In order to modernize their relations, Mexico and the European Union must analyze the strengths and weaknesses

“Mexico has made a huge legislative effort to improve the protection of intellectual property”

of their already long relationship and, based on a revision and extension of the existing agreement, use the experience obtained through the partnership agreements signed in recent years between the EU and several countries worldwide. Likewise, this modernization must become a dynamic element for the relations between the EU and Latin America and the Caribbean.

As regards trade and investment, both parties should analyze the non-tariff barriers, the investment protection regime and the aspects of intellectual protection. The first is the desirability of a comprehensive agreement on investment with the EU, replacing and consolidating the bilateral agreements that the Latin American country previously signed with many European nations. Mexico has made a huge legislative effort to improve the protection of intellectual property, but its implementation has not been effectively carried out. Thus, formulas should be found to strengthen an efficient implementation, particularly on the issue of trademark protection against counterfeiting. In relation to non-tariff barriers, Mexico does not allow foreign owners to register geographical indications, unlike the agreements signed between the EU and Colombia and Peru. This poses a great difficulty to enhance the trade of various Community products.

Mexico is also aware of the need to find ways to promote better access for the agricultural products into the Community markets, which would help reduce the current trade gap.

The participation of civil society organizations in Mexico and the European Union should be particularly important to successfully develop the cooperation objectives included in the agreements of both parties. They should rethink their priorities in this field taking into account the financial resources at their disposal and try to promote a complementary approach to generate a positive synergy. So far, this point was not achieved as there was no proper connection between the individual projects.

There are three priority areas for this participation: an enhancement in governance, scientific and technical research and, finally, cooperation on environmental affairs.

The issue of governance should be, without a doubt, the cornerstone of the cooperation policy. It is essential for Mexico to gradually include the various “best practices” of this sector and adapt them to its national circumstances in order to systematize the actions of civil society, enabling its consolidation and efficient organization, becoming a complement to the traditional political power in Mexico and contributing to a better enforcement of human rights.

As regards scientific and technical research, efforts should be

"Both Mexico and the EU have enough elements at all levels, to implement many of these initiatives"

made so that universities and researchers play a more active role in the R&D programs of the European Union, such as Horizon 2020. The focus should be put on priority areas of Strategic Partnership like the mitigation and adaptation to climate change in order to seek common positions on these issues. To this end, the EU-Mexico International Cooperation Fund in Science and Technology (FONCICYT) could be established again; in force until 2011.

As regards the environment, besides specific projects on climate change, other projects could be set to cover issues such the reduction of pollutant emissions, minimizing the discharges to the aquatic environment and groundwater contamination and the treatment and recycling of all types of waste.

Both Mexico and the EU have enough elements at all levels, executive, parliamentary and civil society, to implement many of these initiatives without needing to wait for a new agreement. Therefore, the EU-Mexico Summit that was hold on June 12 in Brussels is a great opportunity to confirm their willingness to develop and deepen their relations based on shared strategic objectives in the face of globalization.

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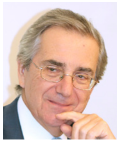

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