

EU trade and investment with Mexico before the new trade agreement

Maria Helena FIGUEIRA

Paolo PASSERINI

During the last decades the so-called emerging markets have been of increasing interest to EU economic actors. Most of this interest was an attempt to access markets that during decades had recorded strong growth rates. Mexico was one of those markets which gained increasing importance due to its favourable position as part of the NAFTA¹ trade agreements signed in 1994 with the USA and Canada. In November 1999, the EU and Mexico concluded a Free Trade Agreement (see box on page 3). This article looks at the main characteristics of the current and financial account transactions between the EU and Mexico in recent years.

Summary

Trade between the EU² and Mexico grew continuously and vigorously since the 1995 Mexican peso crisis. Total current transactions (credit + debit flows) soared at an average 24% since 1995. Nevertheless, Mexico accounted for only 1% of EU total current transactions with the rest of the world in 1998. Trade in services represented 17% of EU total current transactions with Mexico. The expansion of EU trade in services with Mexico was fuelled by transportation, travel and business services. European tourists travelling to Mexico represented half of the total EU imports of services from this country. EU direct investments in the Latin American region rose significantly during recent years. However, only a minor part of these investments actually reached the Mexican market. Dutch direct investors are making up for an ever increasing share of EU investments in Mexico.

Table 1: Selected indicators in 1998

| | EU | Mexico |
|-------------------------------------|--------|--------|
| Population (millions) | 375 | 96 |
| Area (1000 sq km) | 3 191 | 1 953 |
| GDP at market prices (billion US\$) | 8 519 | 413 |
| GDP composition (%) | | |
| Agriculture | 2% | 6% |
| Industry | 31% | 26% |
| Services | 67% | 68% |
| Current account balance (% of GDP) | 0.21% | -3.80% |
| Capital account balance (% of GDP) | -0.04% | 3.90% |
| FDI inflows (% of GDP) | 2.6 % | 1.6 % |

Sources: New Cronos (theme2/sec) and Bank of Mexico. GDP breakdown for the EU as for 1997.

Statistics in focus

ECONOMY AND FINANCE

THEME 2 – 19/2000

BALANCE OF PAYMENTS

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¹ North American Free Trade Agreement

² EU includes the 15 Member States and the European Union Institutions

Solid growth of trade between the EU and Mexico after the 1995 crisis

EU total current transactions with Mexico, measured as the sum of credit and debit flows, grew by 24% on average since 1995, and reached ECU 20 billion in 1998. Total EU **exports** to Mexico accounted for ECU 13.2 bn, almost twice as much as in 1995 and 21% more than in 1997. EU **imports** from Mexico lagged behind, amounting to ECU 6.9 bn. The EU current surplus with Mexico soared to a record ECU 6.3 bn value in 1998, growing at an average of 29% since 1995.

EU exports to Mexico grew by 25% on average since the 1995 crisis with a 22% average increase of EU imports from Mexico in the same period. Mexico accounted for 1% of EU total current transactions with the rest of the world in 1998.

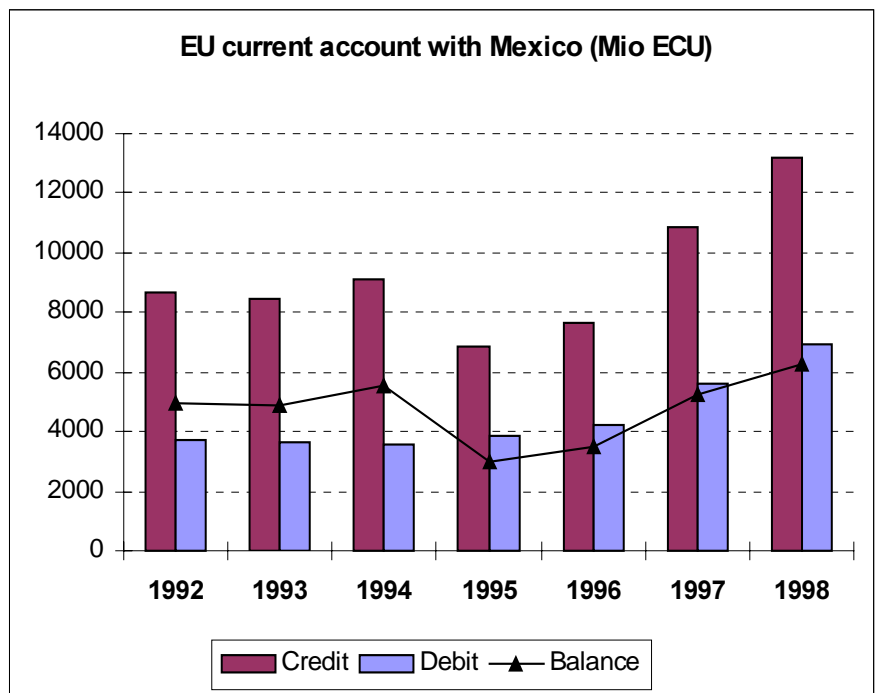
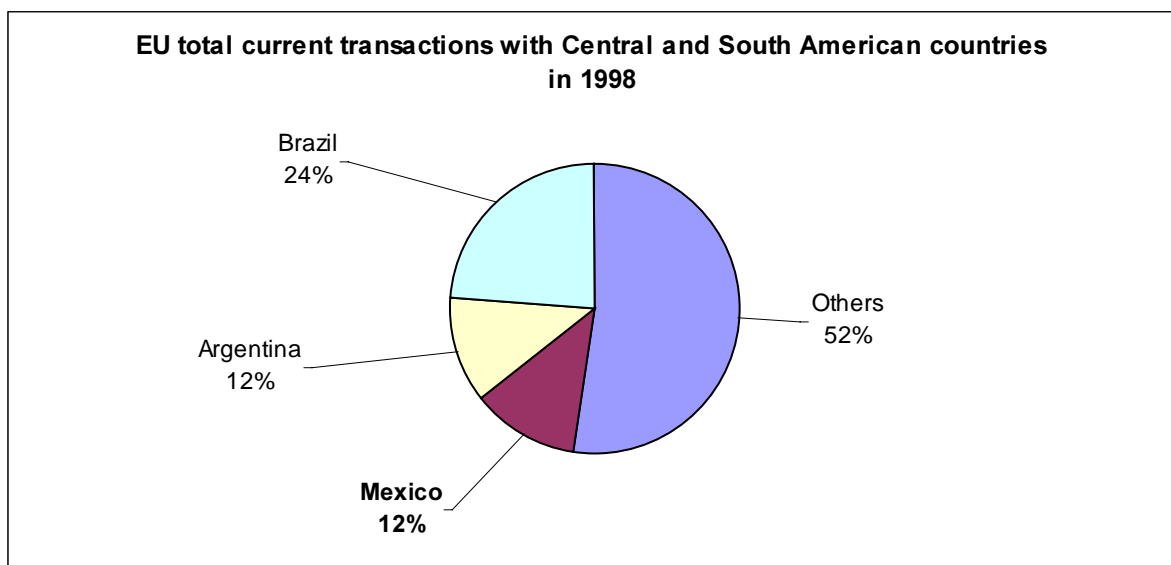


Table 2: EU current account with Mexico

(Mio ECU)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|----------------|-------|-------|-------|-------|-------|--------|--------|
| Credit | 8 705 | 8 485 | 9 124 | 6 856 | 7 679 | 10 850 | 13 171 |
| Debit | 3 745 | 3 617 | 3 564 | 3 870 | 4 196 | 5 599 | 6 896 |
| Balance | 4 960 | 4 869 | 5 561 | 2 986 | 3 483 | 5 252 | 6 275 |

12% of EU total current transactions with Central and South America were with Mexico in 1998

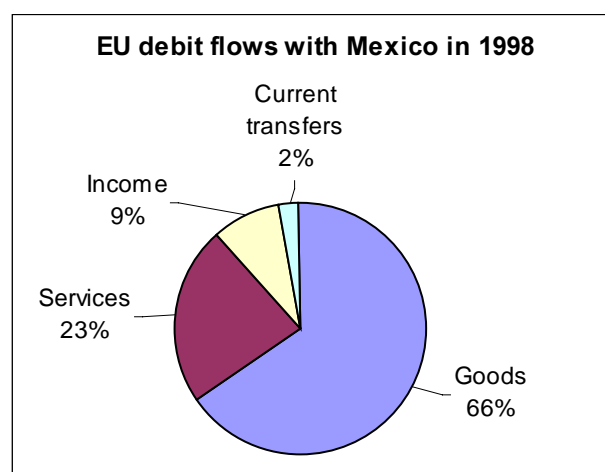
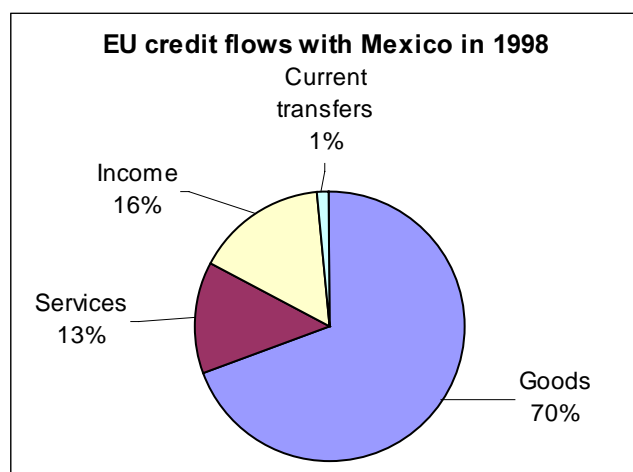


Trade in services represented 17% of EU total current transactions with Mexico in 1998

Table 3: EU current transactions with Mexico

(Mio ECU)

| | Credits | | | Debits | | | Net | | |
|--------------------------|---------|-------|--------|--------|-------|-------|-------|-------|-------|
| | 1992 | 1995 | 1998 | 1992 | 1995 | 1998 | 1992 | 1995 | 1998 |
| Current account | 8 705 | 6 856 | 13 171 | 3 745 | 3 870 | 6 896 | 4 960 | 2 986 | 6 275 |
| Goods | 5 876 | 4 342 | 9 124 | 2 478 | 2 747 | 4 486 | 3 398 | 1 595 | 4 639 |
| Services | 1 042 | 905 | 1 760 | 611 | 673 | 1 600 | 431 | 232 | 160 |
| Income | 1 576 | 1 530 | 2 097 | 528 | 337 | 647 | 1 048 | 1 193 | 1 451 |
| Current transfers | 76 | 79 | 186 | 118 | 114 | 165 | -42 | -35 | 21 |



Expansion of EU trade in services with Mexico fuelled by Travel & Business services

Table 4: EU trade in services with Mexico

Mio ECU

| | Exports | | | Imports | | |
|-------------------------------------|---------|-------|--------|---------|-------|--------|
| | 1995 | 1998 | Change | 1995 | 1998 | Change |
| Total Commercial services | 895 | 1 745 | 95% | 647 | 1 573 | 143% |
| Transportation | 254 | 516 | 103% | 198 | 356 | 80% |
| Travel | 141 | 419 | 198% | 223 | 827 | 270% |
| Other services * | 487 | 807 | 66% | 221 | 387 | 75% |
| Of which | | | | | | |
| Royalties & licence fees | 66 | 118 | 77% | 12 | 36 | 203% |
| Other business ** | 219 | 439 | 101% | 153 | 246 | 61% |

* Excluding Government services, n.i.e.. **Business services** can be considered as a broad approximation to Other services

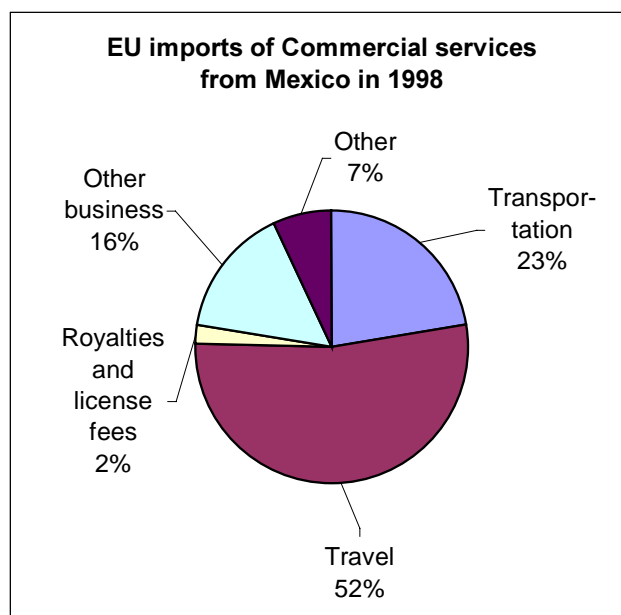
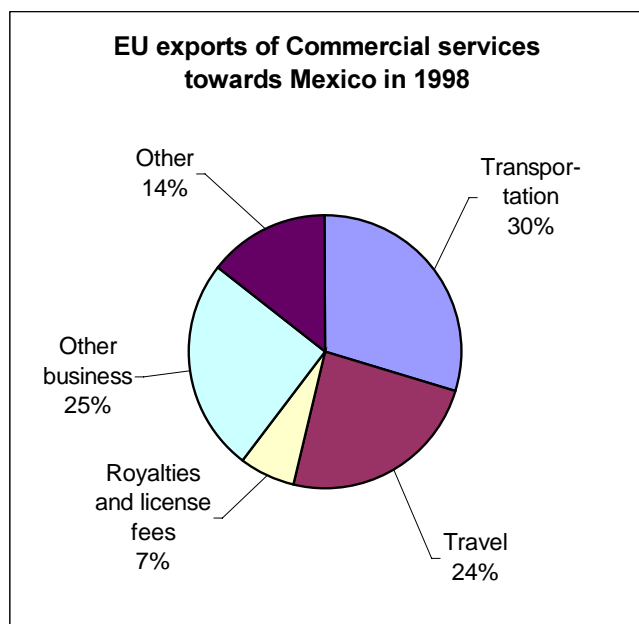
** **Other business services** cover highly varied services such as trade earnings, legal fees, accounting, management, consulting, advertising, market research, public opinion polling, research & development, architecture, engineering, agriculture, mining, etc.

EU - Mexico Free Trade Agreement

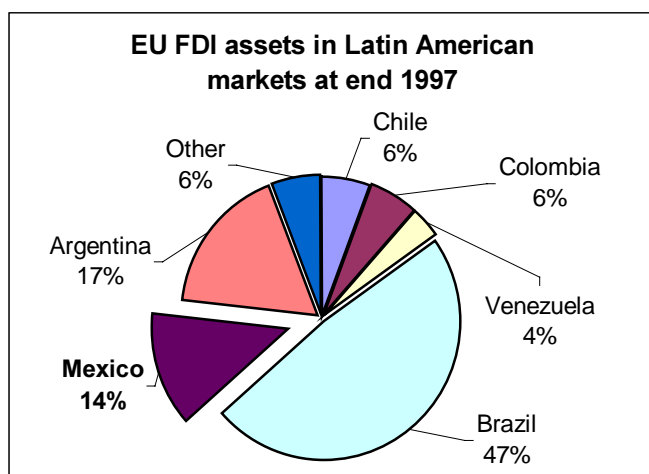
The Commission formally approved on 18 January 2000 the results of the Free Trade negotiations between Europe and Mexico concluded by Commissioner Lamy and Mexican Trade Minister Blanco in November 1999. On the basis of the agreed package, EU exports of **goods** to Mexico will be granted similar treatment to that enjoyed by the USA and Canada in real time. By 2003 over 50% of exports will enter duty-free and remaining tariffs will be reduced to a residual maximum of 5%. All duties will disappear at the latest by 2007. Mexican exports to the EU will enter duty-free in 2003. In **services**, EU operators will benefit from the best possible treatment offered by Mexico and will have guaranteed access to Mexico's markets in **public procurement**. EU operators will also benefit from a high level of protection for their **intellectual property**. Substantive disciplines on **competition** will ensure a level playing field for economic operators.

Main contributors to EU trade in Commercial services with Mexico: Transportation, Travel & Other business services

European tourists travelling to Mexico represent half of EU imports from this country



Mexico was the destination of 14% of all EU FDI assets in Latin America at end 1997...



Brazil was by far the preferred market in Latin America for EU direct investors (47% of all assets in Latin America) at the end of 1997. With a 14% stake Mexico ranked third after Argentina which hosted 17% of the other EU engagements in this region.

EU FDI assets amounted to less than one third of the United States' FDI capital invested in the Mexican market by the end of 1997. This relatively higher focus by American investors is most likely the result of the proximity of Mexico as well as the plans to establish a free trade zone in the beginning of the nineties.

Table 5: EU and United States FDI assets in Latin American countries

| Partner | FDI assets 1997 (Mio. ECU) | | | |
|----------------------|----------------------------|-----|---------------|------|
| | EU15 (excl. intra-EU) | % | United States | % |
| World | 658 570 | 100 | 783 846 | 100 |
| of which | | | | |
| Latin America | 50 546 | 7.7 | 161 659 | 20.6 |
| of which | | | | |
| NICs2LA* | 42 866 | 6.5 | 70 866 | 9.0 |
| of which | | | | |
| Mexico | 6 859 | 1.0 | 21 899 | 2.8 |

* New industrialized countries of second wave in Latin America: Brazil, Argentina, Chile, Mexico

...but only few of recent years' increasing FDI flows to Latin America reached Mexico

EU FDI flows to Latin America rose significantly in the nineties, particularly during 1997 and 1998. These new engagements can be seen as an attempt by EU

investors to establish a strong position in markets that are expected to expand strongly at the beginning of the new century.

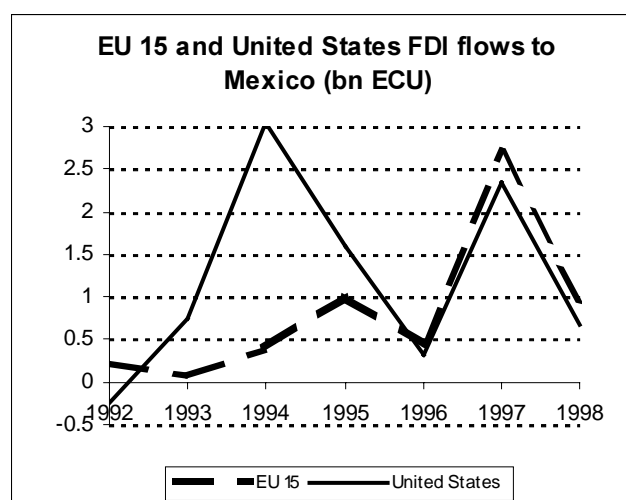
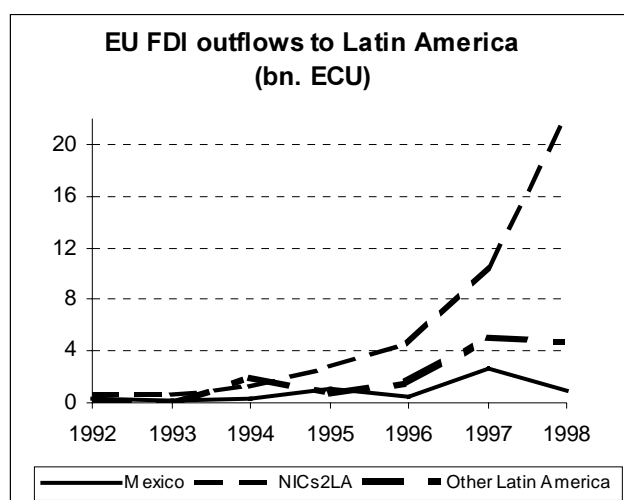
Table 6: Total EU FDI outward flows to Latin America (ECU Mio, equity and other capital)

| Partner | Total outward flows to Latin America | | | | | | |
|----------------------|--------------------------------------|--------|--------|--------|--------|--------|---------|
| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Extra-EU15 | 17 828 | 24 157 | 24 129 | 45 580 | 47 412 | 90 095 | 190 498 |
| of which | | | | | | | |
| Latin America | 878 | 598 | 3 345 | 3 475 | 6 125 | 15 568 | 26 916 |
| of which | | | | | | | |
| NICs2LA | 659 | 574 | 1 291 | 2 753 | 4 625 | 10 514 | 21 916 |
| of which | | | | | | | |
| Mexico | 235 | 88 | 383 | 1 010 | 449 | 2 696 | 922 |

A review of FDI flows to Latin America, shows that most of these new investments were destined to the NICs2LA* which received up to 80% of all FDI capital flowing into the region. Table 6 shows that inside this group, Mexico did not keep up with the other three

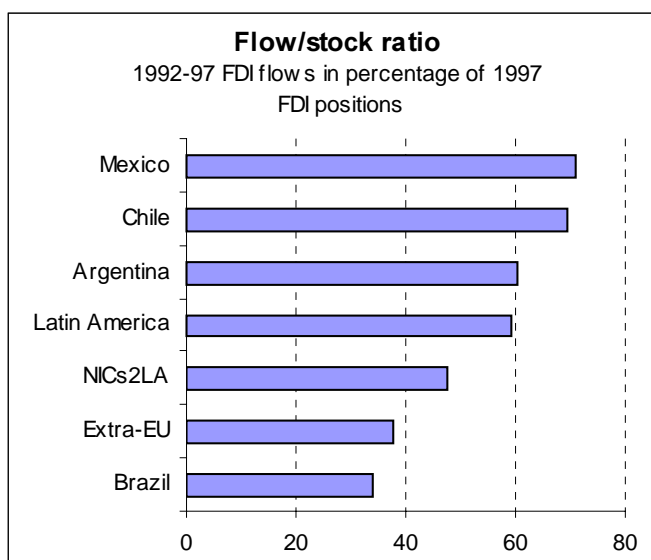
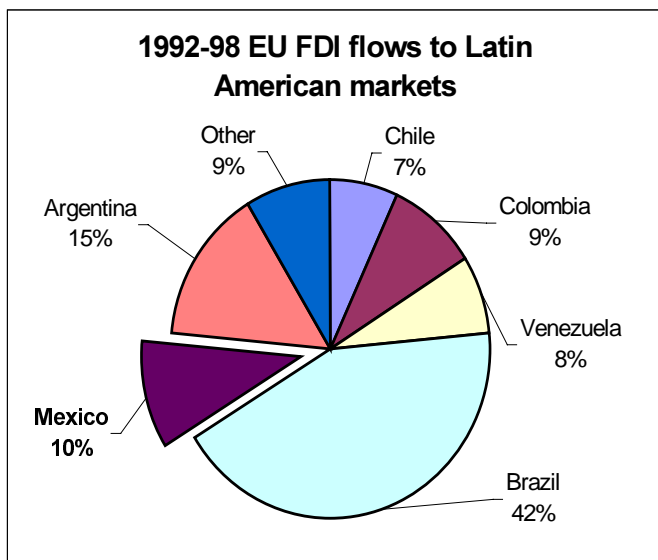
countries in terms of attracting EU direct investments, particularly after 1995. While investments in the NICs2LA doubled every year since 1995, a diminishing fraction of these flows actually reached the Mexican market.

* *New industrialized countries of second wave in Latin America: Brazil, Argentina, Chile, Mexico*



The moderate interest by EU direct investors in the Mexican market is shared by their American counterparts. Thus, since 1996, direct investments from the EU and the United States have been largely

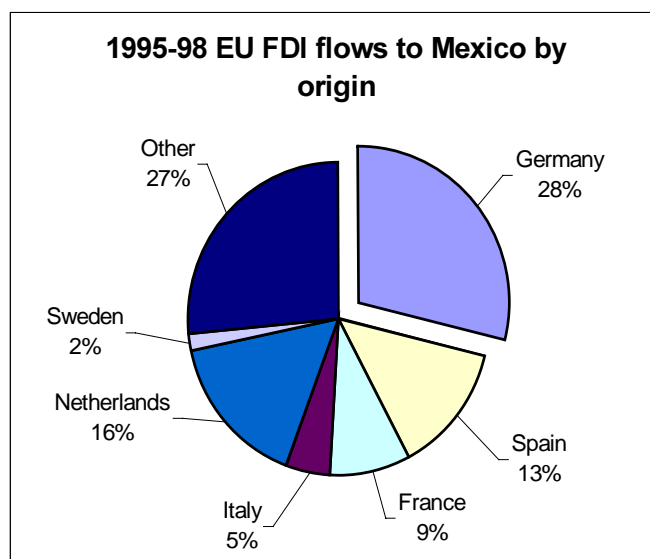
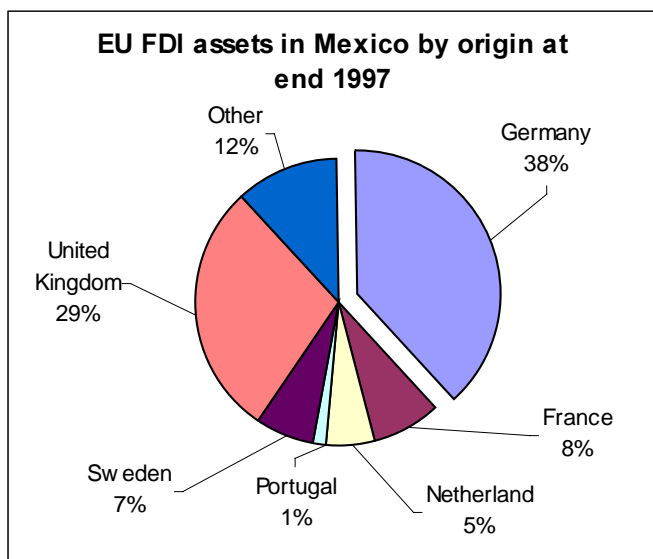
comparable. Over the period 1992-98, however, EU direct investments in Mexico appear to be some of the most recent in Latin America. About 70% of all EU FDI assets were in fact established during this period.



Dutch direct investors step up their presence in the region

About two thirds of all EU FDI capital in Mexico originated from German or British investors, the main EU investors in this market. The figures suggests that German investors' role in the Mexican market diminished in recent years. Thus only 28% of all EU

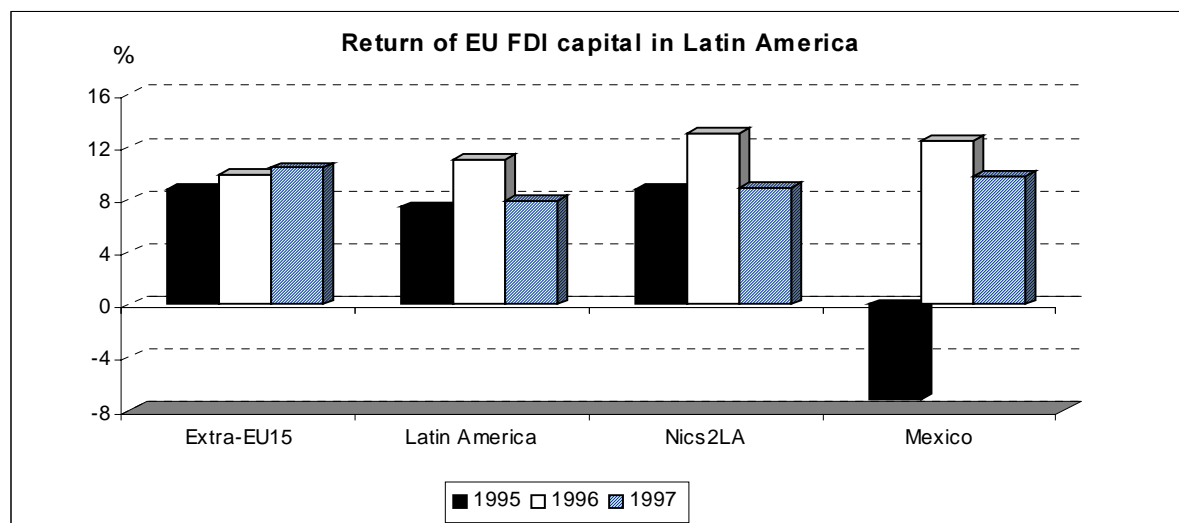
investments in Mexico originated from Germany during the 1995-98 period, while investors from the Netherlands stepped up their engagements in the market during the same period.



Recovery of EU FDI earnings³ in Mexico after the 1995 "Peso crisis"

In 1996 and 1997 EU FDI earnings in Mexico recovered after the effects of the 1995 "Peso crisis". The Mexican market was still returning lower earnings than the rest of the region and particularly in comparison to the other three NICs2LA. This is perhaps a factor behind the

developments described above. The negative return on investments recorded in Mexico in 1995 seems to be unique to the Mexican market and can most probably be explained by the currency crises Mexico experienced at that time.



➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

The balance of payments (BOP) of the European Union is compiled as the sum of harmonised balance of payments accounts of the fifteen Member States. Added to the European Union aggregate is the balance of payments of the European Union Institutions. The methodological framework is that of the fifth edition of the International Monetary Fund (IMF) Balance of Payments manual.

The **current account** takes care of real resources and is subdivided into four basic components: *goods, services, income* and *current transfers*.

Goods cover general merchandise, non monetary gold, goods for processing, repairs on goods and goods procured in ports by carriers. When calculating the balance of payments both exports and imports should be valued free on board (f.o.b.).

Trade in *services* is the second major category of the current account, and it is subdivided in three components: transportation, travel and other services.

Income contains two main items: **Compensation for employees** records wages, salaries and other benefits, in cash or in kind, earned by individuals for work performed for economic units whose place of residence is different from their own. **Investment income** covers income which a resident entity derives from the ownership of external financial assets (credit) and income non-residents derive from their financial assets invested in the compiling economy (debit). This includes interest and dividends on direct, portfolio and other investments.

Current transfers are all transfers that are not transfers of capital. They directly affect the level of disposable income and should affect the consumption of goods and services.

Foreign direct investment (FDI) is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the investor on the management of the enterprise. Formally defined, a direct investment enterprise is an unincorporated or incorporated enterprise in which a direct investor owns 10% or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

FDI flows and positions: Through direct investment flows, an investor builds up a foreign direct investment position that features on his balance sheet. This FDI position (sometimes called FDI stock) differs from the accumulated flows because of revaluation (changes in prices or exchange rates, and other adjustments like rescheduling or cancellation of loans, debt forgiveness or debt-equity swaps).

³ Return rates are calculated by dividing total income in period *t* with total positions in the previous period (*t-1*)

Further information:

➤ Reference publications

“International trade in services – EU, 1989-1998”(KS-28-00-139-3AC, EUR 65)
 „European Union Direct Investment Yearbook 1999“ (CA-25-99-425-EN-C, EUR 30)

➤ Databases

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For information on methodology

Maria-Helena Figueira - Paolo Passerini, Eurostat/B5, L-2920 Luxembourg, Tel. (352) 4301 35754, Fax (352) 4301 33859,
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