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Opening Markets without Reciprocity: Explaining Mexico's Trade Policy, 2000-2010

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Abstract

Over the last decade, Mexico changed from being the poster child for trade liberalization and a strong proponent and advocate of FTAs to a timid actor in bilateral and regional trade negotiations. This deviation from Mexico's strategy to open new markets for its products cannot be explained by the adoption of a new trade policy model; Mexico did not move away from export-oriented development nor did it cease to depend on external markets —international trade, FDI, oil revenue, tourism and remittances— for its domestic growth. This paper examines organized interests and institutions to explain these apparently contradictory trends in Mexican trade policy: a slowdown in trade negotiations even as Mexico liberalized trade unilaterally. I argue that Mexico's institutional design helps us explain Mexico's trade policy suboptimal outcome: tariff liberalization without reciprocity.

Resumen

Durante la última década, México pasó de ser el paladín de la liberalización del comercio y un fuerte proponente y defensor de los acuerdos de libre comercio a un actor tímido en las negociaciones comerciales bilaterales y regionales. Esta desviación de la estrategia de México para abrir nuevos mercados para sus productos no puede ser explicada por la adopción de un nuevo modelo de política comercial; México no se apartó del modelo orientado a la exportación ni dejó de depender de variables externas —el comercio internacional, la inversión extranjera directa, los ingresos del petróleo, el turismo y las remesas para su crecimiento interno. Este artículo examina los intereses y las instituciones para explicar estas tendencias aparentemente contradictorias en la política comercial mexicana: una desaceleración en las negociaciones de acuerdos comerciales y un avance en la liberalización unilateral del comercio de México. En este trabajo argumento que el diseño institucional de la política comercial de México nos ayuda a explicar los resultados de un política comercial subóptima: la liberalización arancelaria sin reciprocidad.

Introduction

On November 12, 2003, Mexico's then Secretary of Economy, Fernando Canales Clariond, made an unexpected announcement: Mexico would establish a moratorium on the negotiation of new free trade agreements (Ramírez, 2004). The news came as a surprise to many because it signaled an abrupt reversal from Mexico's aggressive pursuit of free trade agreement (FTA) negotiations initiated in the early 1990s. Canales' rationale for "no more free trade agreements" was that Mexico still needed to take advantage of its then 11 FTAs before entering into any new agreement, since at that "stage of Mexico's development we already (had) enough FTAs."[1] In his opinion, only NAFTA – which accounts for roughly 85% of Mexico's exports —had proven its worth (El Tiempo, 2004). Because the other FTAs had underperformed, it made little sense to maintain an FTA negotiation agenda. Consequently, Mexico sent to the backburner new FTA negotiations with countries such as Panama, Singapore, or South Korea, and refused to consider new negotiations with countries such as Australia or New Zealand with which Mexico had established working groups to explore how to strengthen the economic bilateral relation (Damm, 2004).

In its trade policy agenda, the Calderon Administration did not explicitly reject the possibility of launching new FTA negotiations but did support the leading business association's request to take advantage of Mexico's existing FTAs before entering into new agreements. In fact, President Calderón championed export promotion and in July 2007 he created PROMEXICO, a new export and investment promotion body that replaced Mexico's foreign trade bank (BANCOMEXT) as the principal promoter of Mexican exports. In the same venue, in 2009 Secretary of Economy Gerardo Ruiz Mateos renamed the former Undersecretariat for International Trade Negotiations (*Subsecretaría de Negociaciones Comerciales Internacionales, SNCI*) to Undersecretariat of Foreign Trade (*Subsecretaría de Comercio Exterior, SCE)* so as to make clear that FTA negotiations were no longer a policy priority.

Mexico's business associations widely supported Secretary Canales' decision. Leaders gathered in the Business Coordinating Council (*Consejo Coordinador Empresarial, CCE*) led by Héctor Rangel Domene, applauded the decision and acknowledged that the proposal for an FTA moratorium in fact had originated in the private sector, with which Secretary Canales had very

[1] At the time of this statement in 2003, Mexico had 11 FTAs with 31 countries (NAFTA 2, EU 15, EFTA 4, Israel 1, 3 with 5 Central American countries and 4 with 5 Latin American countries). Mexico's EU FTA agreement gave access to 27 countries after the 2004 and 2007 EU enlargements. In 2006, Venezuela withdrew from the G3 FTA. In 2009, Bolivia requested Mexico the downgrading of its FTA to an Economic Complementation Agreement (ACE) in order to eliminate disciplines on Intellectual Property Rights, Investment and Services. The ACE 66, which replaced the Mexico-Bolivia FTA, became effective on June 7, 2010. Reuters News Agency. "Suficientes, no más TLC", published in El Siglo de Torreón. November 13, 2003.

strong ties.[2] Rangel Domene justified this position arguing that it was necessary to first take advantage of Mexico's existing network of FTAs, and also contended that Mexico needed to make greater progress in areas such as infrastructure and productivity to increase competitiveness before pursuing further trade liberalization (Hernández, 2003). Mexico's Foreign Trade Council (COMCE), which has consistently opposed new FTA negotiations, has supported that position: before any new FTAs are signed Mexico needs to evaluate the ones in place since there are concerns related to competitiveness (Anderson, 2007).

A crucial actor in supporting this "no more FTAs" position has been the agriculture sector represented by the National Agriculture Council (CNA). The CNA has adamantly opposed further opening the agriculture sector to any imports regardless of their origin, either through unilateral trade liberalization or through FTA negotiations, arguing that NAFTA and other FTAs have had disastrous effects on Mexican agriculture (Alvarado, 2008: 23-26). Most recently, their mobilization in Congress effectively stalled the approval process of the Mexico-Peru FTA[3] as well as any possible approach from the Executive branch to launch a trade negotiation with Brazil (CNA, 2011).

While the trade negotiations agenda is moving at a very slow pace, the same cannot be said of unilateral tariff liberalization, another trade policy instrument used by the Executive to promote competitiveness. Both in 2006 and 2009 the Ministry of Economy (SE) through the Undersecretary of Industry implemented two extensive unilateral tariff reductions on industrial product imports from all over the world. These reductions led to deeper liberalization of the Mexican economy, but without achieving market access reciprocity. As a consequence, Mexican industry finds itself not only with less protection in the domestic market, but also without preferential access to new potential export markets.

SE's motivation behind the tariff reductions has been the need to boost competitiveness, in the same fashion as policy decisions taken in the 1980s. Since the Mexican economy is highly dependent on exports that require imported inputs it made sense to lower duties as a means to reduce the cost of inputs used by the manufacturing industry in the midst of vociferous FTA negotiations opposition. The fact that Mexico has been unable to enact a series of trade reforms that require Congressional approval has left government with tariff policy as the main —if not the only— instrument for promoting competitiveness.

In September 2006, SE enacted a decree that provided for a unilateral tariff reduction for more than 6,000 tariff headings that reduced by 30%

[2] Secretary Fernando Canales Clariond had strong links to the Monterrey business community. His National Action Party (PAN) affiliation led him to become the governor of his state, Nuevo León, which later catapulted him in the Fox Administration as Secretary of Economy (2003-2005) and of Energy (2005-2006).

[3] Peru concluded its domestic procedures to implement the Mexico-Peru FTA on July 20, 2011.

Mexico's weighted average most favoured nation (MFN) import tariff.[4] Once again starting in 2009 Mexico implemented yet another deep tariff phase out of Mexico's applied MFN tariff to 80% of all industrial tariff item lines: mainly inputs and intermediate goods in the manufacturing sector (no agriculture products were liberalized). As a result, by 2013, 69% of all tariff item lines will either have no duties or will have undergone a substantive tariff reduction. At the same time, if no new FTAs are approved Mexico will have no reciprocity in new foreign markets.

In sum, over the last decade, Mexico evolved from being the poster child of trade liberalization and a strong proponent and advocate of FTAs to a timid actor in bilateral and regional trade negotiations. This deviation from Mexico's strategy to open new markets for its products cannot be explained by the adoption of a new trade policy model; Mexico did not move away from an export-oriented model nor did it cease to depend on external variables —international trade, FDI, oil revenue, tourism and remittances— for its domestic growth. How then do we explain these apparently contradictory trends in Mexican trade policy: a slowdown in FTA negotiations but progress in Mexico's unilateral trade liberalization?

In this paper I assess two variables to address this puzzle: *a)* the interests of the private sector leading business organizations and those of government with respect to trade policy choices: trade negotiations versus unilateral liberalization, and *b)* decision-making institutions where the Executive has the capacity to enact tariff reductions while an FTA negotiated by the Executive needs the Senate's final approval. I argue that while interests define policy options, institutions matter most in explaining Mexico's recent trade policy outcomes. In the Mexican case, while FTAs require Congressional approval, unilateral tariff liberalization is an Executive power; in examining how these interests are channelled through the decision making policy process I will look at how institutions shape trade policy outcomes.

I argue that both the private sector and government sought the same goal: increased competitiveness. However, each one articulated its interest through different preferences and institutional channels, and ended up with different outcomes. In the SE, the former SNCI (today SCE) had the negotiation responsibility and pursued an FTA negotiation agenda, while the Undersecretariat of Industry (*Subsecretaría de Industria y Comercio, SIC*) has the capacity to reduce tariffs and pursues a competitiveness agenda; both are supposed to complement each other. The private sector's interests meant no more FTAs and opposition to any tariff elimination unless the government offered improved competitiveness conditions, while the government's interest was to push for policies that could increase competitiveness either by negotiating FTAs or reducing tariffs, given its inability to pass structural

[4] An MFN import tariff refers to the tariff level that a member of the GATT/WTO charges on a good to other members.

reforms (e.g. fiscal, labor, energy) the country needs to effectively boost the country's competitiveness. While the SNCI/SCE's mission is limited by Congress, the SIC enjoys the autonomy granted by Executive faculties. At the end both the private sector and government sought the same goal: increased competitiveness.

The policy outcome was conditioned more by Mexico's trade policy institutional design than each actor's actual preferences and interests. Since the Senate has the final word in the approval of FTAs, leading business organizations (CCE, COMCE, COECE) reached key Senators with veto power in the Trade Commission seeking to slow down and even halt the FTA negotiation agenda. The private sector "politicized" the FTA agenda by reaching both to the Senate and the Chamber of Deputies seeking to reject any new FTA, as it happened prior to April 2011 when the Executive concluded the Mexico-Peru FTA and submitted it to the Senate for its final approval. In contrast, those business organizations had very limited capacity to stop the SE from enacting Executive Decrees to unilaterally reduce import duties since their leverage was much lower given the trade policy institutional design. The Executive Branch has the power to reduce tariffs and can act with a larger degree of autonomy. This institutional design exposed Mexican industry to further competition in the domestic market but failed to get any reciprocity in foreign markets. Thus it is Mexico's institutional design that helps us explain this suboptimal outcome: tariff liberalization without reciprocity.

The paper proceeds as follows. I start by explaining Mexico's trade developments since 2000. I then analyze the private sector and bureaucratic interests in defining trade policy outcomes and the institutional design of Mexico's trade policy. I explain how institutions define trade policy outcomes and explain why Mexico's trade policy today is characterized by unilateral opening for imports without reciprocity for exports.

1. The Context: Mexico's Place in International Trade

Since the 1980s trade liberalization and secured market access for exports has been at the forefront of Mexico's economic agenda. Trade liberalization has been an instrument of macroeconomic policy but also a tool to boost competitiveness as it has offered access to cheap imported inputs, which are used in the manufacturing and the maquiladora sectors. In fact, in 2010 more than ¾ of Mexican imports were inputs (76.2%) for the manufacturing sector while capital goods represented 10% and consumer goods 13.8% (INEGI, 2010a).

Trade opening and an intense FTA negotiation agenda in the 1990s made Mexico a global player in the world economy. In 2009, Mexico ranked 9th in world merchandise trade (excluding intra-EU27 trade), accounting for 2.5% of total world trade (WTO, 2011). Mexico is the 10th exporter (2.4%) and importer (2.5%) in the world and the leading exporter in Latin America accounting for 33% of the region's exports; trade accounts for 58% of its GDP. When Mexico became a GATT member in 1986, Mexico's total trade added up to US$27 billion. By the end of 2010, it had reached US$599.8 billion; a 21-fold increase in this 25 year period (INEGI 2010b). In addition, when Mexico decided to open its economy in the mid 1980s around 70% of its exports were oil and oil-related products. In three decades, Mexico's export platform completely changed and diversified from a single commodity to a variety of manufactured goods with automotive and electronic sectors representing more than half. In 2010 manufactured goods accounted for 82.4%; oil represented 14% (down from 70% in the early 1980s) and agriculture amounted to 2.8% of Mexico's total exports (INEGI 2010c).

Mexican exports to its FTA markets have experienced dynamic growth rates outpacing the growth rate of Mexican exports to markets with no preferential access. For example, since 1995 when the Mexico-Colombia FTA became effective, Mexican exports to Colombia grew by 12 from US$300 million in 1994 to US$3.76 billion in 2010. With Chile Mexican exports grew by 9 from US$199 million in 1993 to US$1.865 billion in 2010. With Uruguay the numbers have also increased by 6 from US$34 million to US$207.7 million between 2003 and 2010. FTAs have actually increased not only trade but also Mexico's exports to those markets (see Table 1). While only 6% of Mexican exports are destined for the EU, they experienced a 234% increase going from US$5.1 billion in 1999 to US$17.2 billion in 2008, a 13.4% annual growth rate.

TABLE 1. GROWTH RATE OF MEXICAN EXPORTS TO FTA MARKETS

FTA PARTNER (YEAR BEFORE IMPLEMENTATION)	STARTING EXPORT VALUE (MILLION US DOLLARS)	EXPORTS IN (MILLION US DOLLARS) 2008	2009	GROWTH RATE SINCE IMPLEMENTATION 2008	2009	ANNUAL GROWTH RATE 2008	2009
CANADA (1993)	1,568	7,129	8,375	354%	434%	23.6%	27.12%
CHILE (1993)	199	1,588	1,053	697%	427%	46.46%	26.81%
COLOMBIA (1994)	306	3,036	2,500	892%	717%	63.71%	51.21%
COSTA RICA (1994)	94.6	921	652	873%	589%	62.35%	39.26%
EFTA (2000)	131.5	643	479	389%	264%	48.62%	29.33%
EU (1999)	5,162	17,267	11,414	234%	121%	26.05%	12.11%
ISRAEL (1994)	3.4	220	85.4	6370%	2401%	455%	160.8%
JAPAN (2004)	1,190	2,068	1,614	73%	35%	18.25%	6.8%
NICARAGUA (1997)	88.6	371	220	319%	149%	28.97%	20.69%
NORTHERN TRIANGLE (2000)	1,029.1	2,619	2,033	155%	97%	19.37%	10.77%
URUGUAY (2003)	34.3	169.4	99.9	394%	191%	79.4%	31.83%
UNITED STATES (1993)	42,850.9	234,557	184,878	447%	331%	29.77%	20.6%
TOTAL (1993)	51,832	292,636	229,620	464%	341%	31.5%	21.40%

Source: Banco de México.

Looking at these figures, which show Mexico's increased presence in international trade, it is hard to explain Mexico's apparent withdrawal from the world trade policy scenario, and its decision to shy away from FTA negotiations as well as the backlash against maintaining an open trade agenda seem puzzling.

PAN right wing governments and their Ministers of the Economy such as Fernando Canales (2003-2005) and Gerardo Ruiz Mateos (2008-2010) considered "no more FTAS" a good trade policy alternative to pursue Mexico's long-term economic and development interests and apparently sided with private sector interests. However, this alignment stopped where bureaucratic capabilities could offer another policy option, i.e. unilateral tariff reductions as one of the few real alternatives left to address Mexico's most pressing economic problems: low economic growth rates, scarce job creation, low productivity records and reduced competitiveness.

PAN governments, and more specifically the Calderon administration, have very little to show in terms of trade negotiations. Since 2000 Mexico put in place FTAs with the Northern Triangle (El Salvador, Guatemala and Honduras) and European Free Trade Area (EFTA) in 2001, with Uruguay in 2004 and with Japan in 2005. In August 2009 Mexico concluded a negotiation with Colombia, which included new agriculture products (beef, powdered milk, sweetened milk, etc.), liberalized trade in vehicles, adapting some rules of origin to adjust to Venezuela's withdrawal from the Agreement and some trade facilitation provisions. Although the scope of the negotiation package was quite small, the animosity from agriculture producers gathered in the CNA was huge and threatened to stop approval in the Senate. The package was only submitted to Congress in April 2011 and its passage was quite controversial in spite of the limited opening it provided given the politicization of this limited liberalization by agriculture producers.

Mexico concluded an FTA negotiation with Peru in April 2011 but the Senate refused voting on it given huge CNA opposition. Last, but not least, President Calderon committed himself to launching a negotiation for a Mexico-Brazil FTA in spite of staunch opposition from the private sector. In February 2011 the launching of the negotiations had to be postponed for a future unknown date.

It is true that throughout developed and developing economies political support for FTA negotiations has waned. However the number of regional trade agreements (RTAs) negotiated is still on the rise. According to the WTO "the surge in RTAs has continued unabated since the early 1990s. As of 31 July 2010, 474 RTAs have been notified to the GATT/WTO and 193 are currently in force compared to 123 notifications of RTAs in the period 1948-1994" (WTO, 2010).

Competitiveness and slow economic growth rates have been a key concern for Mexican government and business actors. However, in the World Economic

Forum's Global Competitiveness Index Mexico has lost positions going from 43 in 2003 to 66 in 2010.[5] In Latin America, Mexico went down from 2nd to 5th place in this same period. Mexico's economic growth rates have averaged a disappointing 2.2% between 1982 and 2010. On the side of the private sector, its frustration with the lack of economic growth and reforms in areas such as taxation, labor and energy has translated into a preference for "no more FTAs" unless domestic competitiveness conditions improve and offer them the conditions to compete at home and abroad (Mayoral, 2011). The Executive, however, has been unable to pass such reforms, which require Legislative approval and has been left with only a few instruments to boost competitiveness, namely import tariff maneuvering or deregulation actions, which are limited in scope but are within the limits of the Executive's institutional capacities.

2. Interests: Shaping Preferences to Obtain the Preferred Trade Policy Outcome

Haggard & Webb explain trade liberalization policies as a result of the support that governments can get from societal groups that favor free trade. Governments seeking to liberalize trade need to develop strong linkages with private sector organizations with export interests (1994: 19). Support for trade liberalization policies will come from an export-oriented sector while import-competing firms forced to face foreign competition will shy away from further openness and will seek government protection either through trade instruments or any other policy instrument available (e.g. subsidies, preferential credits, trade remedies). Mexico's export activities are concentrated in no more than 1% of firms established throughout the country: data from the SE reveals that in 2010, 35,101 firms were direct exporters out of a universe of 5,000,144. Moreover, only 435 companies (0.7% of all firms) were responsible for US$186 billion worth of exports (62.4% of Mexican exports in 2010). If we consider those companies whose annual exports exceed US$5 million we have 2,984 firms, which account for no more than 0.6% of Mexico's total firms (Saldaña, 2011).[6] The problem then is not solely Mexico's limited ability to participate in other export markets. The main problem is that trade liberalization and FTAs have had a very limited outreach that has not been enough to promote the development and growth the country needs, which overshadow any argument supporting FTAs as a development and economic instrument.

[5] In 2003 the WEF Global Competitiveness Index included 102 countries; in 2010 139 countries were considered.
[6] According to the Mexican Business Information System (SIEM) out of the 714,296 companies registered in that directory only 15,526 export, which represent only 2.17%. (Secretaría de Economía, 2011).

FTA's have not yielded the same results for all productive groups nor for all the regions in the country; in fact, Mexico-US trade under NAFTA has further exacerbated regional disparities that were already in place but became more pronounced with the Agreement's implementation. Today, 10 out of 31 states and Mexico City concentrate 75% of all exports. NAFTA has not created the kinds of linkages into the Mexican economy to allow for spillover effects, something that has made the private sector uneasy about the benefits of free trade and trade agreements for all overall economy. This deficiency cannot be attributed solely to trade policy but rather to the lack of "effective policies for industrialization" (Zepeda, 2009). So Mexico's economic opening and access to new markets has remained highly concentrated and the benefits of such activity have had limited spillover effects throughout the economy and the country; thus the constituency of export-oriented firms requesting FTAs has vastly diminished even if the Executive may support this agenda.

Foxley argues that "bottom-up approaches, in which companies develop supply chains across borders", such as in the NAFTA, are more effective in facilitating trade negotiations rather than "top-down approaches imposed by governments." This is the case of Mexico's proposed negotiation for an FTA with Brazil (2010: 6), which has faced adamant opposition from almost every sector.

For his part Flores suggests that interest groups in Mexico have exercised pressure on governments to get the kinds of trade policies of their choice both before and after the policy making process and have had the muscle to shape government decisions (1998, 19). By examining the political economy of trade protection in Mexico between 1970 and 1994, he explores why some Mexican industries received protection while others do not and looks at the factors that determine the changes in the level of protection of the Mexican economy. He turns to the Mexican private sector preferences to explain trade policy outcomes and argues that trade policy officers will more likely protect those industries that exert the strongest political muscle. Flores argues that the private sector in Mexico has actively pursued trade preferences, and finds that bureaucratic preferences can only change trade policies within narrow limits (1998: 17).

However, under the PAN governments, where politics have become more competitive, interests are only part of the story and not enough to explain Mexico's trade policy outcomes in the last decade. I argue that we need to look into the institutional design of Mexico's trade policymaking process to understand how interests have shaped or not trade policy outcomes: unilateral tariff reductions and a slowdown in Mexico's FTA negotiations. Institutions matter to understand trade policy outcomes. On one hand, unilateral import duty cuts, while not the preference of the private sector, are possible because this is an Executive power. Although consultations with private sector representatives do take place through the Foreign Trade Commission (COCEX), the Executive has a high level of autonomy to decide how far it can go. COCEX is a consultative body that gathers different government agencies (Economy, Finance, Agriculture, Environment, Foreign Affairs, Health, the Central Bank and the Federal Competition Commission) that discuss all government resolutions regarding tariff changes and new trade measures or restrictions. Before any Decree is enacted it needs COCEX's approval.

Likewise, as a result of the Transparency Law all resolution drafts need to be disclosed for private sector opinion. Nonetheless if the Executive's preference is to reduce tariffs there is little the private sector or the Legislative branch can do to stop such policy decision; at the end, the government has a high level of autonomy in this area. On the other hand, while FTAs are negotiated by the Executive their final approval requires the Senate's consent, thus making it much more difficult for the Executive's interests to prevail and shape the policy outcome since the private sector has found a political ally in Congress to defend their anti FTA negotiations agenda. By examining the institutional venue in the trade policy-making process I explain why the private sector has been more successful in impeding FTA approval and less so in the unilateral tariff elimination process.

MEXICO'S TRADE POLICY MAKING PROCESS: INTERESTS AND INSTITUTIONS

PRIVATE SECTOR INTERESTS	EXECUTIVE INTERESTS	INSTITUTIONAL VENUE	POLICY OUTCOME
PROTECTION = NO FTAS	SUPPORT EXPORTS PREFERENTIAL MARKET ACCESS = FTA	CONGRESSIONAL APPROVAL = POROUS INSTITUTIONAL DESIGN	NO MORE FTAS = NO MORE PREFERENTIAL MAKET ACCESS; NO RECIPROCITY
	1. MEXICO – BRAZIL FTA (2011) 2. MEXICO - PERU FTA (2005-2011) 3. MEXICO - SOUTH KOREA FTA (2006) 4. MEXICO – SINGAPORE FTA (2000)	1. AGRICULTURE (CNA) AND INDUSTRY OPPOSITION 2. AGRICULTURE OPPOSITION (CNA) 3. INDUSTRY OPPOSITION ACROSS THE BOARD 4. INDUSTRY OPPOSITION ACROSS THE BOARD	1. NEGOTIATION ANNOUNCED BUT NOT STARTED 2. FTA NEGOTIATION ENDED IN APRIL 2011; PENDING MEXICAN SENATE'S APPROVAL 3. DERAILED NEGOTIATION 4. DERAILED NEGOTIATION
	PARTIAL OPENING OF MARKETS ECONOMIC COMPLEMENTATION AGREEMENTS (ACE)	EXECUTIVE FACULTY	
	1. MEXICO – BRAZIL ACE 53 2. MEXICO – MERCOSUR (ACE 55) 3. MEXICO –	ALADI REGIME: 1980 MONTEVIDEO TREATY. EXECUTIVE FACULTY TO REDUCE TARIFFS WITH ALADI MEMBERS. NO CONGRESSIONAL APPROVAL REQUIRED	1. ACE ENLARGEMENT. PARTIAL OPENING TO INTERESTED SECTORS (2003) 2. LIBERALIZED AUTOMOTIVE INDUSTRY, 2002 3. LIBERALIZATION FOR

PRIVATE SECTOR INTERESTS	EXECUTIVE INTERESTS	INSTITUTIONAL VENUE	POLICY OUTCOME
	ARGENTINA (ACE 6)		INTERESTED SECTORS, 2006
PROTECTION = NO TARIFF ELIMINATION	COMPETITIVENESS = UNILATERAL TARIFF ELIMINATION	BY EXECUTIVE DECREE = HIGH DEGREE OF AUTONOMY 1. *DIARIO OFICIAL DE LA FEDERACIÓN* SEPTEMBER 5, 2006. 2. *DIARIO OFICIAL DE LA FEDERACIÓN* DECEMBER 24, 2008.	TARIFF REDUCTION = UNILATERAL LIBERALIZATION, NO MARKET ACCESS RECIPROCITY 2006: MORE THAN 6,000 TARIFF HEADINGS REDUCED BY 30% MEXICO'S WEIGHTED AVERAGE MOST FAVOURED NATION (MFN) IMPORT TARIFF 2009: DUTIES REDUCED TO 69% OF ALL TARIFF ITEM LINES.

2a. Private Sector Interests

When Secretary Canales announced that Mexico would stop negotiating FTAs he argued that the decision was the result of consultations with Mexico's business community (Villalobos, February 2011). The private sector's opposition to pursuing an FTA negotiation agenda seriously hampered government efforts.

In the case of South Korea, in 2006 Mexico launched a negotiation process in spite of adamant opposition from almost every sector in Mexico's industry, but support from the agriculture sector. Mexico's industrial sector which included those who had been the main support of FTA negotiations; i.e., automobiles (AMIA) and autoparts (INA), trucks and buses (ANPACT), chemicals (ANIQ), household appliances (ANFAD), textiles (CANAINTEX), clothing (CANINVEST), footwear (CANAICAL), pharmaceuticals (CANIFARMA), among others. In contrast, the agriculture sector gathered in the CNA did support this negotiation given that South Korea is a net food importer, it would have opened export opportunities for a variety of products (seafood, pork, fruits, vegetables, sugar, beverages, etc.) and did not represent a threat to Mexican ag producers. Such negotiation was postponed in June 2006 and in August 2007 under Economy Secretary Eduardo Sojo there were attempts to retake it although since 2008 there has been no progress. In July 2010 President Calderon offered to relaunch those negotiations during the visit of South Korea's president, Lee Myung-Bak, to Mexico, but that never happened (Valle, 2010).

In the case of FTA negotiations with Latin American countries such as Colombia, Peru or Brazil, Mexico's CNA totally refused to take part in any FTA that involved any minimal liberalization either through FTAs or ACEs within the ALADI framework. The industry sector was divided in that it supported including new products in Mexico's FTA with Colombia and establishing an FTA with Peru but refused to negotiate with Brazil (except for industries such as autoparts, chemicals or pharmaceuticals).

In the case of negotiations with Singapore, they started in July 2000 but after six rounds of trade talks they were suspended given business opposition. With Panama negotiations were suspended in 2003 after several rounds of negotiations. In this case although the FTA faced serious industry opposition given misgivings about transshipment, the main reason had to do with Panama's decision to link non-trade issues. The CNA did support an FTA with Singapore where it saw export opportunities but was unwilling to consider any liberalization with Panama.

New negotiations with countries such as Australia or New Zealand that are strong agriculture producers never went beyond the working group phase that only explored ways to strengthen the economic bilateral relation but negotiations were never launched.

The CCE opted to balance individual interests by retrenching from any new FTAs. Even in cases where industry considered there would be gains (e.g. Perú) or where agriculture showed interest (e.g. Singapore or South Korea), the private sector's position unified against new negotiations.

Why did the private sector elite gathered in business associations and chambers (CCE, COMCE, COECE, CONCAMIN, CANACINTRA, CNA) adopt a "no more FTA" position vis a vis the Executive's preferences? How did they articulate their interests and how did they maneuver to push their trade policy preferences? I follow to address these questions in what remains of the paper.

The private sector's no more FTAs policy option was consistent with the agenda of "business leading organizations" gathered in Mexico's Business Coordination Council (Consejo Coordinador Empresarial, CCE), which represents the most influential business organizations in Mexico —CONCAMIN (Mexico's Confederation of Industrial Chambers), CONCANACO (National Chambers of Commerce Confederation), COPARMEX (Confederation of Mexican Business Owners), CMHN (Mexico's Council of Businessmen), CNA (National Agriculture Council), ABM (Mexico's Banking Association) and AMIS (Mexico's Insurance Association). Other associations invited to participate in the CCE are COMCE (Mexico's Foreign Trade Council), CANACINTRA (National Chamber of Manufacturers), ANTAD (National Association of Retailers) and Mexico City's Chamber of Commerce.

Although it would be an exaggeration to argue that each and every actor in the private sector opposed FTAs, those organizations gathered in the above mentioned associations formally did so, as a matter of principle. Other business groups and firms in exporting sectors such as the Maquiladoras gathered in the CNIME (National Council of the Exporting Maquila Industry) or importers gathered in ANTAD (National Association of Retailers) highly dependent on imports were less enthusiastic about stalling the trade agenda but have never pursued openly an FTA defense agenda since maquilas already have preferential access to the US market and ANTAD gathers mostly importers whose main interest is to import goods with the lowest possible tariff. The export interests of the former are already covered through NAFTA while the latter can be satisfied through unilateral tariff reductions since they do not represent the interests of the Mexican producers (Villalobos, February 2011). It should also be mentioned that the while the agriculture sector has not been subject to Mexico's unilateral trade opening it has been extremely active in stopping the FTA negotiations agenda and has moved its political agenda to Congress where it has found strong political allies that support their interests.

In Mexico, the leading business organizations created for promoting exports (COMCE) and for representing the private sector's interests in trade negotiations (COECE) also fell into the same position: oppose any further liberalization through FTAs or through unilateral measures. Given the nature of these organizations whose mission is to promote trade and negotiate FTAs we would expect that both organizations would support trade negotiations as a general proposition. However, since 2003 both have consistently opposed negotiating new FTAs unless competitiveness conditions are improved and Mexico's private sector can actually take advantage of current FTAs.

The private sector's withdrawal in its support for FTA negotiations can be explained by two key factors that affected COECE. The first one has to do changes in COECE's leadership. In 2005 COECE elected a new Director, who aligned with the CCE's position that was more defensive towards trade liberalization. Second, in 2004 COECE became part of the CCE's structure and became responsive to the CCE's agenda opposing, in principle, any new FTA negotiation. Both situations weakened the position of sectors and leadership more akin to trade opening, and narrowed down the possible coalitions that had made possible, until then, Mexico's FTAs (NAFTA, EU, Japan). COECE had worked out a negotiation formula whereby winners in one FTA would agree to help out others in another FTA, thus balancing costs and benefits among private sector groups. COECE had successfully balanced winning and losing sectors in previous FTA negotiations. COECE's changes in leadership also showed a different vision with respect to FTA negotiations and decided to work out the balance against FTAs even in spite of support from certain groups or sectors.

Regarding COMCE, it does not depend from CCE as COECE does and its mandate is not to negotiate but to promote trade. COMCE's position is aligned with that of the CCE. COMCE's President Valentín Díez Morodo has been very critical of Mexico's FTAs and their results while he has openly opposed new FTA negotiations. So the two key business organizations in Mexico whose natural mandate would be to propose and even demand further trade liberalization actually reversed from that role and tried to find new mechanisms to get more protection.

Competitiveness has been the argument behind the private sector's protectionist stand. Since Mexico opened its economy in the mid 1980s local industry has found itself in front of serious competition in its market and abroad while competitiveness has eroded. This was especially evident in the case of China after its accession to WTO in December 2001. Chinese participation in world trade has put pressure across the board and very much so on a number of industries in Mexico not only in its export markets but also at home. The "China factor" raised a number of questions regarding Mexico's openness and the effectiveness of FTAs to boost growth and development. All Mexican industries across the board felt Chinese competition once that country became a WTO member in 2001. Specifically, labor-intensive industries such as footwear, textiles and clothing, and toys, among many others suffered from direct competition from Chinese products, which displaced local production and eliminated jobs. For example between 2001 and 2003, the Mexican textile industry lost 250,000 jobs. CANAINTEX attributed this loss to Chinese competition (González, 2005). In fact, China today has become Mexico's second largest trading partner going from US$3.2 bn in 2000 to US$49.8 bn in 2010 where imports are the main component.

TABLE 2. MEXICO CHINA TRADE; BY SECTOR, 2010

PRODUCT	MEXICAN IMPORTS FROM CHINA, 2001 (MILLION US DOLLARS)	MEXICAN IMPORTS FROM CHINA, 2010 (MILLION US DOLLARS)	AVERAGE ANNUAL GROWTH RATE 06/10	% SHARE IN MEXICO'S TOTAL IMPORTS
MACHINERY AND EQUIPMENT	1385	21,755	17%	30.1%
OPTICAL EQUIPMENT	177	2,065	15%	20.2%
TOYS	286	1,353	2%	66.2%
NUCLEAR REACTORS, VAPOR BOILERS	683	1,065	17%	23.7%
MISCELLANEOUS ARTICLES OF BASE METAL	30	360	8%	20.7%
CERAMIC PRODUCTS	25	200	19%	34.2%
KNITTED OR CROCHETED FABRICS	13	163	8%	20.5%
OTHER MADE UP TEXTILE ARTICLES	2.4	126	32%	31.4%
OTHER BASE METALS; CERMETS ARTICLES	8.8	74	17%	28.8%
WATCHES, CLOCKS	44	63	-2%	22.4%
HEADGEAR AND PARTS THEREOF	10	48	8%	61.3%
UMBRELLAS	8.7	27	12%	90.6%
BASKETS	2.5	9.7	.5%	79.6%
SILK	0.281	3.2	9%	37.9%

Source: Trade Map. International Trade Center. UNCTAD/WTO.

The overwhelming Chinese presence in the Mexican and US markets raised questions regarding the benefits of Mexico's trade liberalization and its FTA negotiation agenda. Mexico's industry inability to compete resulted in private sector's preference for shielding the Mexican economy from more Chinese competition and from imports alike. This translated into policies that could offer protection for their industries and jobs, even when Mexico had negotiated a seven-year transition period in WTO in which Chinese products would be subject to countervailing duties to protect Mexico's domestic industry without China having the right to contest their applicability. More recently, during the Mexico Peru FTA debate the Plastics Industry Association (Anipac) opposed the Agreement arguing that it would open the door to triangulating Chinese products to the Mexican market through Peru. The ANIPAC feared unfair competition from subsidized Chinese products such as food plastic packaging paper, which in Mexico represents the cornerstone of the plastics industry (Gómez, 2011).

Mexico's industry has a very low participation in the export activity. In fact, the export-oriented industry depends on imports of inputs, machinery and equipment to produce final goods (Ibarra, 2011: 203). Half of Mexico's exports are in-bond or maquiladora products, which typically incorporate very low levels of local content given the lack of Mexican value chains. Since most of the inputs used to produce Mexican goods are imported, the ratio of imports to local content in Mexican exports is quite low. Studies reveal that for every dollar that Mexico exports, its multiplying effect on its economy is only 1.8 times while in the U.S. this factor is 3.3 times and in Brazil 2.3 (Milenio, 2010). This figure shows that Mexico's export activity does not show upstream links to the overall country's economy, and helps to understand the disenchantment of the business community in terms of the benefits that trade and exports were supposed to bring to the Mexican economy.

Another argument used by the CCE and its allied organizations to articulate their interests in seeking protection and opposing FTA negotiations or any further trade liberalization has been that Mexico's exports are excessively concentrated on the US market while the NAFTA has in fact increased Mexico's dependence and vulnerability on the US market (Anderson 2007). Mexico's export dependence on the US market was exacerbated by the NAFTA, which increased Mexico's vulnerability to the US business cycle. Private sector elites consider this a clear evidence of the failure of Mexico's trade policy and FTA negotiation policies; the effects of the 2008 recession were evidence to support their position and to oppose negotiating any new FTAs since the ones in place have not resulted in export market diversification.

Yet another private sector argument to oppose FTAs has been that while Mexico's exports have remained extremely dependent on the US market, Mexico has not taken advantage of the FTAs in place since Mexican exports to

FTA partner markets have not experienced any growth. In September 2010, Salomon Presburger, President of the National Confederation of Industrial Chambers (Concamin) said that the industrial sector in Mexico has no interest in having new FTAs since "for the most part, those in place have not been really used" (González, 2010).

2b. Government Interests

With the advent of the PAN, a right wing party, the expectation would have been that its trade policy preferences would have remained on the side of trade liberalization. While the economic model remains similar to the one from the 1990s, at the outset of his administration President Fox did claim that his would be the government of business, which translated into making government preferences those from the private sector elites, and not a government that aimed at liberalizing markets through more competition and stricter regulations. The story is far more complex than that.

Although President Fox was sympathetic to the private sector's agenda of not seeking new FTA negotiations, during his administration the SE concluded an FTA with Uruguay and another one with Japan. New FTA negotiations with Peru started in November 2005 and with South Korea in February 2006. The first one took more than 5 years to complete and its final approval in Mexico's Congress in June 2011 was still uncertain, while the second one was derailed and sent to the freezer, in both cases due to staunch business opposition.

The policy decisions of a PAN government look very much like those of the PRI governments from the 1980s, when trade liberalization and unilateral tariff elimination took place as part of Mexico's macroeconomic stability package. Unlike the Salinas and Zedillo administrations, when Mexico sought reciprocity and ensured market access for its exports through trade negotiations, both the Fox and Calderon administrations opted for unilaterally reducing import tariffs as a means of increasing the economy's competitiveness and efficiency, in spite of private sector opposition. The Fox and Calderon administrations were interested in boosting the country's competitiveness and unilateral tariff cuts was a real policy choice given the private sector's animosity to pursue an FTA negotiation agenda. It was also consistent with a liberalization agenda ingrained in Mexico's Ministries of Economy (SE) and Finance (SHCP) since the 1980s (Villalobos, January 2011). This seems, however, a losing proposition for the private sector; i.e. liberalizing the economy to imports without getting preferential access to third markets.

How do we account for this trade policy choice? Since the mid-1980s Mexico's trade bureaucracy has used tariffs for different goals. The story of Mexico's import regime since the 1980s is not one of linear liberalization; it has also shown some hints of protectionism mainly with the purpose of raising revenue; when Mexico suffered the effects of the 1994 peso crisis, Mexico increased MFN tariffs in order to raise government revenue. Zabludovsky (2005) argues that at that time while Mexico continued to liberalize trade through FTA negotiations, the levels of protection that Mexico applied to imports from the rest of world actually went the opposite way. As part of the emergency programs implemented to address the economic effects of the 1994 peso crisis MFN tariffs applied to imports of textiles, clothing and footwear went up. Once again, in December 1998, the Zedillo Administration was unable to eliminate special tax regimes or to increase the VAT rate to address Mexico's growing spending needs. Fiscal pressures were addressed though MFN tariff increases in the same way as Mexico did in 1989. As a result President Zedillo opted to apply a generalized 3% increase to MFN tariffs that resulted in a higher applied tariff of 16.5% and a 10% surcharge to luxury goods (WTO, 2008). This 3% increase was not reversed until 2005 when Mexico's MFN import tariff went back to its 1998 levels.

Under the PAN, the policy reversed; i.e., Mexico slowed down trade liberalization through FTA negotiations while it still opened its economy by reducing its applied MFN import duties for non-FTA partners. Mexico's tariff structure in 2001 showed a tariff escalation where certain inputs had higher import tariffs than its final product, similar to what Mexico experienced in the 1970s (WTO, 2002). In the case of agriculture, tariff protection was substantially higher than protection offered to the manufacturing sector. By 2006 Mexico had increased the number of tariff rates from 5 in 1990 to 16. Mexico's import regime also became very complex and showed a variety of alternatives (e.g.: maquiladoras, temporary imports *PITEX*, highly exporting *ALTEX*, antidumping, safeguards, etc.) that became too costly to administer both for business and government. To address this situation, which was affecting the country's competitiveness, on September 29, 2006, Mexico's Undersecretary for Industry within the Ministry of the Economy decreed a unilateral tariff reduction for 6,089 tariff headings that basically benefited non-FTA originating products. As a result Mexico's average MFN import tariff went down to 12.6%, while the weighted average MFN import tariff was 11.8%, which meant a 30-33% tariff reduction (WTO, 2002). Even then, Mexico's MFN tariffs remained among the highest in Latin America.

The 2006 tariff reduction can be explained by "the challenges raised by a more competitive world environment that brought a need to reassess trade policy to reduce the costs of inputs required by producers and exporters", particularly when those inputs originate in countries with the highest growth rates and with which Mexico does not have FTAs (WTO, 2008). The government's interest was to reduce the cost of inputs used by the manufacturing industry as well as to eliminate tariff discrepancies and incentives to evade payment of tariffs.

TABLE 3. EVOLUTION OF MEXICO'S IMPORT TARIFF STRUCTURE, 1982-2007

	1982	1986	1989	1990	1991	2006	2007
NUMBER OF TARIFF ITEMS	8,008	8,206	11,838	11,817	11,812	11,846	12,014
AVERAGE TARIFF	27%	23%	13%	13%	13%	13%	14%
WEIGHED AVERAGE TARIFF	16%	13%	10%	11%	11%	11%	12%
NUMBER OF RATES	16	11	5	5	5	16	30
HIGHEST TARIFF	100%	100%	20%	20%	20%°	50%	254%

Source: Ministry of Finance. Mexico's Import Tariffs, 2008.

Once again starting 2009 Mexico implemented yet another tariff phase out of Mexico's applied MFN tariff to 80% of all tariff item lines in the manufacturing sector; mainly inputs and intermediate goods. In fact, in February 2008 the Undersecretary of Industry, Rocío Ruiz, presented a 10 point program to enhance Mexico's competitiveness. The program included trade facilitation measures where tariff simplification and reductions were one of the main policy instruments for that purpose (Hernández, 2008).

By January 2010, Mexico offered duty free access to 6,629 tariff item lines, around 60% of the whole import tariff (12,119 tariff item lines in Mexico's import tariff); by 2013, 69% of all import tariff item lines will have either duty free access or a lower import duty. Mexico's applied tariffs to almost all industrial goods went from a 12% average to an expected 4.3% by January 2013, the lowest for any country in Latin America, even lower than Chile's. This policy choice from trade policy makers responded to the need to promote Mexico's competitiveness in line with an economic model that is highly dependent on imports of inputs, capital goods and technology. Such policy actions resulted in a reduction of Mexico's applied tariffs to almost all industrial goods, from a 12% average to an expected 4.3% by January 2013, the lowest for any country in Latin America.

The Executive branch faced staunch criticism from business when it decided to eliminate tariffs both in 2006 and 2009. While the CCE/COECE has been able to present a unified position to exert pressure to establish a moratorium on FTA negotiations, in spite of its opposition and lobbying in the Executive and Legislative branches, its capacity to stop the gradual opening of the Mexican economy to foreign imports was very limited as it has faced bureaucratic decisions that ran counter to their preferences for protection.

3. Institutions: Shaping the Trade Policy Making Process

The institutional design of Mexico's trade policy-making process sets the limits for the Executive to use different trade policy instruments. The Executive through the Ministry of Economy (Undersecretariat for Foreign Trade) has the power to negotiate free trade agreements (Article 89 of Mexico's Constitution; Art IV. 5 of Mexico's Foreign Trade Law) *but* these require the Senate's consent for their implementation. The Executive negotiates and the Senate approves, which in a more politically competitive environment that Mexico has experienced since December 2000 means that the Executive requires a great deal of political manoeuvring in the Senate while business organizations also have found in the Senate a venue to stop decisions that they disapprove.

Likewise, the Executive also has the power to manipulate tariffs. Mexico's Foreign Trade Law establishes that tariff policy is an Executive faculty that can be implemented through the enactment of a Presidential Decree published in Mexico's Official Gazette (*Diario Oficial de la Federación*) to become effective. The SIC in Mexico's Ministry of Economy is responsible for implementing tariff elimination, once COCEX approves it. Although this is more limited in scope, its impact may be even deeper than liberalization under an FTA, which only applies to the partner country as opposed to all WTO members.

By comparison, the trade liberalization agenda has been firmly ingrained in the Mexican bureaucracy both in the Ministries of Economy (SE) and Finance (SHCP) but not in Agriculture. The Executive has been able to operate with some degrees of freedom and has been able to isolate itself from manufacturing sector pressures regarding unilateral liberalization as a result of Mexico's trade policy making institutional design (Ruiz, 2011). This is the case because the government has some level of autonomy; the President has the faculty to decree tariff reductions without Congressional approval. Thus, in September 2006 and then again in January 2009, the Executive successfully implemented drastic and gradual unilateral trade openings in spite of private sector opposition. Although both tariff cuts involved private sector consultation and huge opposition from import-competing producers faced with bureaucratic politics and preferences the policy outcome was possible given the institutional design of tariff implementation in Mexico.

Mexican business organizations defined their interest as no more FTAs and no further liberalization unless competitiveness conditions improved. They were able to maneuver through the trade policymaking institutions mobilizing political support to ensure that their trade policy preferences translated into their desired outcome: no more FTAs by directly lobbying the Senate Commissions responsible for reading and evaluating FTAs; namely, Foreign

Trade, Rural Development, and Foreign Affairs. They held meetings with Senators who in turn issued Congressional statements (*Puntos de Acuerdo*) asking the Executive to consider the different productive sectors' concerns. Their demands for protection were echoed by a number of state government officers and legislative representatives. Economy Ministers such as Fernando Canales (2003-2005) or Gerardo Ruiz (2008-2010) both responded to protectionist concerns from the private sector and did mark a deviation from Mexico's free trade negotiations policy.

PRI senators have appropriated the anti-trade rhetoric from private sector groups to raise political support for their own agendas. For example, at a forum on trade agreements organized by Mexico's Senate Commission for Rural Development, PRI Senator and party leader Manlio Fabio Beltrones declared "it is no longer necessary to have FTAs with any of the countries with which negotiations are ongoing (Brazil and Peru)" because these negotiations could further damage domestic industries, including Mexico's agricultural sector (Miller, 2010). Likewise, PRI Senator from Nuevo Leon, Eloy Cantú, President of the Trade and Industrial Promotion Commission basically adopted the agenda of his state's industrial constituency: no more FTAs. In November 2008, Senator Cantú bluntly stated that "a Mexico-South Korea FTA would not receive Senatorial approval" (Diariocritico, 2008), which responded to the Nuevo Leon business community. Likewise, PRI Senator Francisco Arroyo Vieyra, vicepresident of the *mesa directiva* of Mexico's Senate said during a press conference that "Mexico cannot keep signing more free trade agreements, in fact some of the FTAs in place should be revised", while acknowledge that Mexico's unilateral tariff elimination has been done without any reciprocity, and such decision can negatively impact exports (Olvera, 2011).

Agriculture producers have used their access to diverse senators to make a point about their resistance to further opening their sector in an FTA negotiation with Colombia, Peru or Brazil. The CNA found allies in all political parties alike —PAN, PRD, PRI and Green Party— to oppose FTA approval in Congress. PRD Senator from Zacatecas Antonio Mejía Haro embraced agricultural producers' concerns regarding any trade liberalization under FTA negotiations.

In opposing an FTA with Brazil, the footwear and agriculture sectors have found responsiveness in PRI, PAN and PRD Senators as well as in the Chamber of Deputies (even if only the Senate gives its final approval) (Becerril, 2010). In March 2010, PAN Senator Ricardo Torres Orejel from Guanajuato issued a Congressional Statement (*Punto de Acuerdo*) whereby the Senate rejects including the footwear sector in the Mexico-Brazil FTA negotiation as long as there is no federal support program to increase the sector's competitiveness (Cueroamerica, 2011).

By using the trade policy making institutional processes and design the private sector succeeded in slowing down the FTA negotiation agenda. Through senators and deputies statements, and by making this a political issue the business community put pressure on the Fox and Calderon governments against any trade liberalization through FTAs. The institutional constraints were found in the need to obtain the Senate's final approval.

4. Analyzing the Puzzle

In spite of business opposition to launching new trade negotiations, the SE has not completely given up pursuing a bilateral negotiation agenda. In fact, in 2002 Mexico set in place the Mexico-Mercosur trade agreement (Economic Complementation Agreement, ACE 55). In 2003 Mexico set in place the ACE 53 with Brazil and in 2006, Mexico concluded a trade negotiation with Argentina that enlarged the ACE6. All there were partials negotiation in which only certain sectors took part. The implementation of both ACE 53 and 55 and the enlargement of the ACE6 did not involve major opposition from business and did not require Congressional approval for its implementation since only those sectors interested in liberalizing trade took part. This was possible since the ALADI framework provided by the 1980 Montevideo Treaty granted the Executive branch the authority to negotiate market access with ALADI members and all unilateral tariff eliminations are done through Executive order. Although consultations did take place not having to submit the Decree to Congressional approval insulated Government from pressures that otherwise FTAs would have faced for the final approval in the Senate.

Likewise, in early 2006, under Secretary Sergio García de Alba, Mexico launched a new FTA negotiation process with Peru that was not concluded under the Fox presidency and was rolled over to the Calderón Administration. The Agreement faced fierce opposition from the private sector; specifically, from Mexico's agriculture sector gathered in the CNA. This FTA did need the Senate's consent and, in spite of industry's support, key senators in the PRD and PRI refused to approve the Agreement when the Executive submitted it for final approval responding to CNA's concerns.

The private sector has shown little ability to stop government decisions when it has come to the unilateral opening of the economy since this is an Executive faculty. The Executive has used its power to modify tariffs within WTO bound limits. Mexico's Foreign Trade Law (art. 131) allows the Executive the capacity to handle import tariffs and to act with higher levels of autonomy, although not completely. Tariff elimination processes in 2006 and 2008 involved consultation with private sector groups and other government entities in Mexico's Foreign Trade Commission, the consultative body that revises and approves tariff changes or trade measures implementation. However, the tariff elimination Decree was set in place in spite opposition from business organizations such as CONCAMIN, the main industrial producers association that felt threatened by imports from third markets.

In 2008, both Lorenza Martínez, the Undersecretary for Industry and Gerardo Ruiz, the Secretary of Economy, faced strong opposition from CONCAMIN's Ismael Plascencia, who adamantly opposed the 2008 tariff elimination. As a result the SE decided to phase out tariff elimination for certain products so the cuts were scheduled for annual cuts planned to end on January 1, 2013. This was the case for automotive, textile and footwear industries to adjust to the tariff reductions. The steel and aluminum industry, metal containers, electric manufactured products, tires, pharmaceutical products and wood were finally exempted from the duty free schedule originally planned, although import duties in such sectors were reduced. The SE did go forward with this liberalization and the Decree was published on December 24, 2008.

In 2009 Salomon Presburger, Concamin's president, stated that the private sector conceded this tariff reduction because the Ministers of Finance, Agustín Carstens, and of Economy, Gerardo Ruiz Mateos, signed an agreement in which the Executive agreed to implement a comprehensive program to enhance competitiveness, but in their opinion, the 2009 work agenda (example: improve customs procedures, reduce costs of operating in Mexico) was only partially implemented while Mexico continued to lose competitiveness (Morales, 2009).

While business was unable to maintain protection in the industrial sector, the same cannot be said of the agriculture sector. In fact, not only was agriculture not part of the unilateral trade liberalization agenda of SE or SHCP, but it also became a vociferous opponent to negotiating FTAs with Latin American countries

Conclusions

Mexico has dramatically opened its economy to competition from all 152 WTO members, seeking economic efficiency through tariff reductions while it has failed to obtain any reciprocity in terms of market access for its products in countries with which Mexico does not have FTAs; specifically those located in the "south"; i.e., in the most dynamic emerging economies such as Brazil, China or India, which have increased their market share in world trade and boast the most dynamic economic growth rates.

This puzzle needs to be understood to identify what Mexico's alternatives are in a global economy. A standstill of the trade negotiation agenda has yet to prove that it can actually contribute to Mexico taking advantage of its FTAs and increasing Mexican exports to FTA partner markets.

Private sector leaders argue that Mexican exports have not grown when compared to US trade. Mexico's trade with different FTA partners has actually grown more than trade with the world, which expanded 7.4% on a yearly basis between 2000 and 2008. The assertion that all other FTAs have not been used probably can also be explained by the small export values to those markets rather than with the fact that FTAs have had no impact in promoting exports to markets other than the US. Thus the private sector's preferences for more protection resulted from increased competition at home as a result of trade liberalization and from a lack of an export-oriented constituency, which basically has its eyes set on the US market.

The question is if the "no more FTAs" principled position can be considered the solution to the problem, and whether this discourse is a symptom of something deeper that Mexico needs to solve: the future of its trade policy within a larger framework of an economic policy that can support higher rates of economic growth.

Clearly interests and preferences from Mexican business and bureaucracies in SE and SHCP have not been in agreement in how to shape Mexico's trade policy. However, it seems that business choices in trade policy may have arisen from frustration with trade policy and FTAs results. Mexico's open trade policy has maintained a trade deficit, which can be explained by industry's needs to acquire inputs and capital goods that cannot be supplied by local producers. In fact, one of the main weaknesses of Mexico's economy has been the lack of backward linkages to national production value chains that can actually participate in the export activity.

In macroeconomic terms exports have increased and Mexico is among the most important exporting countries in the world. However, because Mexico produces relatively little value added, those exports have a low multiplying effect over the domestic economy. One study revealed that for every dollar that Mexico exports, its multiplying effect on its economy is only 1.8 times while in the U,S, this factor is 3.3 times and in Brazil 2.3 (Milenio, 2010). This figure shows that Mexico's export activity has been unable to create upstream links to the overall country's economy, and helps to understand the disenchantment in terms of the benefits that trade and exports are supposed to bring to the Mexican economy. However, integration in not the problem; the crucial dilemma is how to promote more local content into Mexico's export activity. While this is a question of economic development and creating value chains in Mexico it is not clear that halting the FTA negotiation agenda will be the solution.

The implementation of both tariff reduction decrees in 2006 and 2008, led to a suboptimal trade policy outcome whereby Mexico opened its economy without obtaining any reciprocity for its exports. Such policy choices ended up undermining the Mexican business agenda that COMCE's technical Director Fernando Ruiz Huarte recently acknowledged that "it was better to have reciprocity" and not just open the Mexican market without obtaining any further concession (El Financiero, 2007).

In spite of this outcome Mexico's private sector leader still maintain that before negotiating any new FTA Mexico needs to become competitive. COMCE's Technical Director, Fernando Ruiz Huarte, contends that "at this time the private sector is more concerned with the question of competitiveness and passing the reforms the country needs to be more competitive, than to launch any new negotiation that will not yield any positive results" (El Financiero, 2007) However, stalling the FTA negotiations agenda has had no impact on the actual competitiveness levels of the Mexican economy.

The 2008 financial crisis made it evident that Mexico's network of FTAs was built to guarantee preferential access for Mexican exports in developed economies such as the US and Canada, the EU, EFTA countries[7] and Japan whose markets suffered most the effects of the global economic recession. In the last decade Mexico has only put in place FTAs with Japan and Uruguay, while none have been established with emerging markets (in Asia and the most dynamic in Latin America) that have shown the most dynamic growth rates and import capacity. Mexico's reticence to negotiate any new FTA condemns its export activity to its traditional situation of high dependence of the US market and high vulnerability to the US business cycle.

In practice unilateral tariff elimination opened Mexico's market to imports from all over the world without getting any reciprocal market access for its exports in any new market, particularly those in the south that have become key import suppliers for Mexico in Asia such as China, Indonesia, Malaysia, South Korea, Taiwan or in Latin America such as Brazil. It did not contribute either to building a long term strategy to link Mexico under preferential

[7] These are Iceland, Lichtenstein, Norway and Switzerland.

conditions to those emerging markets that are experiencing the most dynamic growth in the years to come such as those mentioned above but also other such as the United Arab Emirates or former Soviet Republics such as Kazahjstan, Ukrania, Georgia or Azerbaijan.

Mexico got this policy outcome because the institutional design for tariff policy allows the Executive more autonomy in making decisions. This option seems to only take into consideration one part of the economic model: make competitive exports since unilateral trade liberalization provides access to cheap imports. But the policy outcome is explained by the leverage the private sector exercised on Congress, which allowed it to translate its interests into the policy process. However, it dismisses the other side of the coin: ensuring long term preferential access to more markets in the world. This move can be explained by the understanding from trade policy officers that they needed to provide optimal economic conditions for Mexico to produce exports for the US market, while renouncing to the possibility of developing any new export market for Mexican products.

The private sector's position has resulted in neither further protection for Mexican industrial producers nor in improved competitiveness since the reforms that Mexico needs to boost growth are stalled in Congress and the domestic market remains weak. On one hand, simply halting FTA negotiations does not constitute a development strategy. On the other hand, unilaterally opening the economy seems a distant second best, since Mexico could achieve both market access reciprocity and economic efficiency (Hernández, 2003). The negotiation of FTAs is not an isolated policy, but rather an integral part of Mexico's trade and economic policies, and as such private sector and government instances need to be considered as key actors in promoting not only their negotiation but more importantly their implementation. It may well be the case that the private sector's main competitiveness concerns will not be solved by seeking protection or opposing trade liberalization.

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