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Université de Montréal

**The European Union-Mexico Partnership Agreement as an Innovation in the
European Union's external relations**

Par

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Mémoire présenté à la Faculté des études supérieures en vue de l'obtention du grade de
Maître en Science Politique

Janvier 2002

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JA

39

054

2002

n. 015

Université de Montréal
Faculté des études supérieures

Ce mémoire intitulé

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Présenté par

Nadia Karina Ponce Morales

a été évalué par un jury composé des personnes suivantes :

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Sommaire

Le contexte actuel d'intégration économique croissante incite la négociation des accords commerciaux entre partenaires auparavant distants. Ceci a été le cas du Mexique et de l'Union européenne qui ont signé un accord d'Association en 1997. Au cours du processus de négociation, le Mexique et l'Union européenne ont dû considérer la multiplicité d'acteurs qui peuvent exercer une influence sur la ratification de l'entente. Le rythme, structure et le contenu de l'accord ont reflété ces considérations. De cette manière, ce mémoire cherche à démontrer le caractère novateur de l'entente dans le contexte des relations extérieures de l'UE. Le contexte, la structure des négociations et le contenu de l'accord ont résulté de l'interaction entre deux niveaux de politiques : le domestique et l'international.

Afin de démontrer la nouveauté de l'accord, l'auteure de ce mémoire a fait appel à l'approche théorique de négociation à deux tables, proposé par Robert Putnam, approche qui a été développée par de nombreux auteurs. Après avoir passé en revue des entretiens avec des négociateurs des deux parties, la rare littérature académique sur le sujet, des articles de presse mexicaine et européenne et des ouvrages académiques, l'auteure conclut que l'accord entre le Mexique et l'Union européenne n'a pu pas être approuvé sans la prise en compte des intérêts, préférences et institutions domestiques et internationales. La principale contribution de ce mémoire est d'ouvrir une porte à l'analyse politique des accords entre des partenaires avec des différences de développement économique et politique.

Cette étude se divise en quatre chapitres. Le premier met en place le cadre théorique : il explique l'approche formulée par Robert Putnam et développe son utilité pour analyser les négociations entre le Mexique et l'Union européenne. La révision des ouvrages et d'articles académiques permet de constater que cette approche a été rarement utilisée pour expliquer les relations extérieures de l'Union avec des pays tiers autres que les États-Unis. De cette façon, les concepts qui découlent de cette approche ont été adaptés aux spécificités des négociations avec le Mexique.

Le deuxième chapitre est une mise en contexte historique qui précise la trajectoire des relations entre le Mexique et l'Union européenne. Il décrit, en premier lieu, la politique

commerciale de l'Union en générale et ensuite, le processus qui a avancé l'approfondissement des relations avec l'Amérique Latine, pour étudier finalement, le contexte économique et institutionnel qui a contribué au début des négociations bilatérales avec le Mexique. Le troisième chapitre fait un examen du processus de négociation qui a été divisée en trois parties : l'accord global (avec le cadre normatif des négociations ainsi que les aspects politiques et de coopération), l'accord intérimaire (libéralisation de biens), et la déclaration sur la volonté des parties à entreprendre les négociations sur le secteur des services. L'adoption d'un accord intérimaire permettait la définition des aspects techniques de la libéralisation dans une période de temps relativement courte. Le secteur des services, par contre, constitue un secteur de compétences mixtes, raison pour laquelle ce secteur fut l'objet d'une déclaration.

Le dernier chapitre analyse deux secteurs spécifiques inclus dans l'accord comme études de cas qui démontrent bien l'intersection des politiques domestiques et internationales dans la libéralisation commerciale : l'agriculture et les services. Ces deux secteurs exemplifient comment le processus de prise de décision à l'intérieur des parties et la concentration des intérêts des acteurs sociaux ont eu une influence sur les possibilités de négociation.

L'étude de cet accord mène à la conclusion qu'il constitue le traité commercial le plus complet jamais négocié par l'Union européenne. En contraste, les aspects politiques et de coopération restent encore à développer. L'importance de son étude réside dans le fait que l'Union européenne a signé un accord qui encourage la coopération dans plus de vingt secteurs d'activités qu'ils soient technologiques, environnementaux, culturels, anti-drogues, etc., ce qui pourrait contribuer à une plus grande influence politique dans le continent américain. Il est le premier véritable accord de libre-échange transatlantique. De ce point de vue, l'accord avec le Mexique peut être considéré comme une réponse stratégique à la future libéralisation des échanges dans la région.

Mots clés :

Négociation à deux tables -- Relations extérieures -- Communauté Européenne -- Relations extérieures - Mexique

Résumé

La signature de l'accord d'Association Économique, Concertation politique et Coopération entre le Mexique et l'Union européenne, en 1997, marque le début des efforts pour approfondir le rapprochement des deux partenaires. Cet accord est le premier que l'UE ait signé avec un pays latino-américain et le premier véritable accord de libre-échange transatlantique. Il a suivi un long processus de négociations dont le résultat représente le traité commercial le plus complet jamais négocié par l'Union européenne. Cet accord peut être considéré non seulement comme le produit du processus croissant d'intégration économique dans le contexte international, mais aussi comme l'aboutissement de l'interaction entre les politiques internes et externes des deux partenaires.

Axé sur l'approche théorique de Robert Putnam, qui propose l'étude de deux niveaux de politiques pour comprendre une négociation, le présent mémoire vise à expliquer le processus interactif survenu entre le Mexique et l'Union européenne afin d'arriver à la signature du traité. Effectuant une analyse des entretiens avec des négociateurs, de la littérature scientifique et des articles de presse, l'auteure entend démontrer que l'accord d'association entre le Mexique et l'UE constitue une innovation dans les relations extérieures de l'Union européenne. Cette étude situe l'accord bilatéral dans le cadre du processus d'internationalisation en considérant les divers intérêts, préférences et institutions domestiques et internationales. Elle démontre bien comment les divers acteurs qui ont eu une influence dans les deux niveaux de politique ont imprimé un caractère unique à l'accord.

Le cadre théorique

Afin de développer ces idées, le présent mémoire explique les concepts développés dans le cadre de l'approche proposée par Robert Putnam. Cet auteur propose un jeu à deux tables pour étudier une négociation internationale. Il soutient la présence d'un premier niveau de politiques, l'international, et d'un deuxième, la sphère des politiques internes, où les négociateurs cherchent à légitimer leurs décisions face aux citoyens. D'après Putnam, l'État assume le rôle de « gardien », entre les niveaux international et domestique. Le lien théorique entre les deux se trouve dans la nécessité d'assurer la ratification d'un accord à l'intérieur des frontières. La complexité du jeu résulte du fait qu'une décision prise au niveau international peut être impopulaire politiquement au niveau interne. Conséquemment, il est essentiel d'arriver à une congruence entre les deux niveaux.

L'utilisation de cette approche est justifiable pour les négociations commerciales de l'Union européenne. Même si cette institution ne constitue pas encore un État fédéral achevé, la Politique Commerciale Commune constitue une compétence exclusive de l'Union, qui parle pour les États

membres avec « une seule voix » à l'international. La Commission européenne assume, de cette manière, le rôle de négociateur en matière des accords de libéralisation commerciale. Cette approche a aussi l'avantage de permettre d'étudier la diversité que caractérise les négociations avec l'Union européenne en raison des préférences, acteurs et institutions qui ont une influence sur les négociations avec un pays tiers. Selon Ole Elgström et Michael Smith, il y a une diversité de stratégies et de styles de négociation et de communication qui convergent dans l'Union, ce qui se manifeste à travers une diversité de résultats. L'Union doit donc, équilibrer les intérêts de divers agents économiques avec ses engagements pris à l'extérieur.

Par conséquent, la méthode utilisée dans ce mémoire se rapproche de l'économie politique internationale. Cette étude identifie les participants qui ont été pertinents dans la conclusion de l'accord : les institutions européennes, les États membres de l'Union, les acteurs corporatifs, les organisations non gouvernementales et les négociateurs mexicains dans un contexte d'internationalisation qui tient compte des relations entre les États, entre les institutions et entre les États et les acteurs privés.

Les antécédents à la signature de l'accord

Dans le cas des négociations avec le Mexique, il a été possible de constater l'influence du développement des politiques internes sur la relation bilatérale. La profondeur des engagements entrepris dans les accords antérieurs à 1997 était le reflet du degré d'intégration européenne et des changements dans la mise en place de la politique de coopération de l'Union. Enfin, l'évolution des relations bilatérales répond aussi au processus de renouvellement de la politique européenne de coopération vers l'Amérique Latine, qui a été expliqué par l'entrée de l'Espagne dans l'Union, parmi d'autres facteurs. La décision de négocier un accord cadre avec le Mexique en 1997 peut donc s'interpréter en fonction des changements produits sur la scène internationale, des transformations politiques et économiques à l'intérieur de l'Union européenne et du Mexique, ainsi que des effets de ces changements sur les relations entre les deux parties.

Le Mexique avait un intérêt très fort à conclure un traité de libéralisation commerciale avec l'Union européenne. Cet accord était perçu comme un moyen de réduire la dépendance économique du Mexique envers les États-Unis. D'autre part, l'Accord de libre échange nord-américain, ALÉNA, avait démontré son importance pour l'attraction des investissements et pour l'augmentation des échanges commerciaux du pays. D'autre part, les relations commerciales entre l'Union européenne et le Mexique ne s'étaient pas développées au même rythme que les relations que le Mexique entretenait

avec d'autres pays. L'ample réseau des accords de libre-échange signés par le Mexique avait, sans doute, contribué à la diminution de la proportion des échanges avec l'UE.

De cette façon, la motivation principale de l'UE pour signer une entente avec le Mexique était le détournement des échanges ayant résulté de l'ALÉNA. De plus, le Mexique représentait un important marché et une porte d'entrée en Amérique du nord pour les exportations européennes. Il est aussi possible d'affirmer que les discussions pour arriver à une intégration dans les Amériques étaient une motivation très forte pour renforcer la présence européenne dans le continent. En conséquence, l'un des premiers objectifs de l'UE pour négocier avec le Mexique a été d'obtenir la parité avec l'ALÉNA (*NAFTA parity*), c'est-à-dire, le même traitement que les partenaires nord-américains du Mexique dans la même période du temps (libéralisation complète en 2003).

Ces facteurs se sont rassemblés pour commencer les négociations. En fait, il est possible de considérer les motivations pour débiter les négociations comme un jeu à deux tables. Au niveau interne, l'Espagne avait un intérêt à poursuivre des négociations avec le Mexique afin d'équilibrer les relations de l'Union avec d'autres régions. Les investisseurs européens, pour sa part, cherchaient à acquérir les mêmes avantages que leurs concurrents nord-américains. Au niveau interne, l'approfondissement progressif du contenu et de la spécialisation des compétences de l'Union européenne a provoqué le renforcement de la présence européenne dans le marché mexicain. Au niveau international, l'Union européenne cherchait à maximiser sa capacité à faire face aux pressions internes déclenchées par la diminution du commerce et de l'investissement entre les deux régions. Ces éléments ont contribué à la transformation des stratégies des négociateurs, des institutions, des préférences et des coalitions qui ont façonné un contexte gagnant pour les négociations.

Le processus de négociation

La première étape des négociations constitue l'une des plus difficiles du processus. Il s'agissait du débat mené à l'intérieur de l'UE pour définir le format et structure de la négociation. Une fois que les États membres ont décidé d'octroyer un mandat à la Commission européenne pour négocier avec le Mexique, les secteurs à considérer ont été différenciés selon la distribution des compétences de l'Union. Chaque secteur a été négocié séparément. La structure de négociation de l'accord constitue donc, une innovation dans les relations extérieures de l'Union européenne. En effet, afin d'accélérer le processus de négociations au niveau commercial, l'accord a été divisé en trois parties : l'accord global (base légale des négociations, contient les aspects politiques et de coopération), l'accord intérimaire (libéralisation de biens), et la déclaration sur les services.

L'accord global, le cadre de la concertation politique et de la coopération, a constitué l'aspect dont sa négociation a été la plus longue. Le processus de négociation a connu des difficultés en raison de l'introduction d'une clause garantissant le respect de la démocratie et des droits de la personne. L'Union européenne avait établi en 1995 comme condition aux accords d'association avec des pays en développement, l'introduction d'une clause démocratique. Cependant, certains secteurs politiques au Mexique étaient très réticents à une telle idée, puisque ce pays a toujours défendu très fortement sa souveraineté nationale. Ce débat était présent au sein des divers acteurs : des organisations civiles, des corporations et à l'intérieur des gouvernements. Les négociateurs ont inclus finalement, une clause démocratique qui s'accompagnait avec une déclaration de la part du Mexique sur ses principes de politique extérieur, notamment le principe de non-intervention. Il est important de souligner que les dispositions sur la coopération ont manqué de mécanismes concrets pour sa mise en place. De plus, l'entrée en vigueur de l'accord à part entière a été conditionnée aux secteurs du commerce et de services.

Les dispositions qui font référence à la libéralisation des biens ont pris la forme d'un véritable accord de libre-échange (Accord intérim) et ont réglementé la diminution des droits de douane et l'accès préférentiel, ainsi que les marchés publics, la concurrence et la résolution de différends. Enfin, les dispositions en matière de services ont pris initialement la forme d'une déclaration qui garantissait les négociations dans ce secteur, puisque les services constituent un secteur qui ne relève pas de la compétence exclusive de la Commission européenne. La libéralisation dans le secteur des services est entrée en vigueur en mars de 2001 à travers la *Décision no. 1* de la Commission mixte UE-Mexique. La décision couvre les aspects des marchés publics, la coopération en faveur de la concurrence, les consultations en matière de propriété intellectuelle, et le règlement de différends.

Il apparaît évident que cette structure de négociation s'est caractérisée par un déficit démocratique. Contrairement aux « accords intérim » liés aux ententes de l'Union avec d'autres pays, l'accord signé avec le Mexique en 1997 a été un texte instrumental qui ne contenait pas des concessions commerciales, mais qui établissait uniquement les objectifs, institutions, procédures de prise de décisions et méthodes de travail pour la négociation et l'application de la libéralisation commerciale. En effet, les neuf séries de négociation commerciale entre les parties ont été conduites exclusivement par l'Exécutif mexicain et la Commission européenne. Cependant, les négociateurs devaient considérer les intérêts et préférences des acteurs afin d'assurer l'approbation de l'accord. Le contenu de l'accord a reflété ces considérations.

Les résultats des négociations

L'accord institutionnalise le dialogue politique et élargie le champ de coopération économique et politique. Il constitue une innovation du point de vue politique puisque c'est la première fois que le Mexique, un pays qui est très sensible aux aspects de non-intervention, négocie un accord qui est directement lié aux aspects politiques. Pour sa part, l'Union européenne a signé un accord qui encourage la coopération dans vingt secteurs, ce qui pourrait contribuer à une plus grande influence politique dans la région. Pour conclure une telle négociation, les négociateurs ont du prendre en compte les deux niveaux des politiques.

Afin d'illustrer l'intersection des politiques domestiques et internationales dans la libéralisation commerciale entre le Mexique et l'Union européenne, il semble adéquat d'approfondir dans l'étude de deux secteurs en particulier : l'agriculture et les services. Ces deux secteurs démontrent bien comment le processus de prise de décision à l'intérieur des parties et la concentration des intérêts des acteurs sociaux ont eu une influence sur les possibilités de négociation. Dans le cas de l'agriculture, l'UE avait de nombreux problèmes à négocier en raison de la Politique agricole commune. Pour sa part, le Mexique ne voulait pas mettre en péril la signature de l'accord en raison de ce secteur. Les négociateurs ont opté pour l'option passive, c'est-à-dire, de limiter les négociations à la représentation des intérêts à l'interne.

D'autre part, le secteur services a été un accord ample, mais qui entrera en vigueur juste en 2003. Il reproduit, en grande partie, la structure de négociation de l'ALÉNA, qui a servi de modèle pour de nombreux traités en Amérique Latine. Les négociateurs ont entrepris comme stratégie la création des conditions propices à la négociation à travers les accords bilatéraux d'investissement, ce qui s'ajoutait à l'importance de ce secteur dans la relation bilatérale, tant en termes quantitatifs que qualitatifs. Les institutions chargées de négocier cette libéralisation ont compté sur un mandat fort, ce qui a augmenté le déficit démocratique de l'accord. Ce fait se démontre par le manque de mécanismes efficaces de protection des droits de l'homme et de l'environnement. Cependant, il faut noter que l'Union européenne fait une promotion de plus en plus ample de la coopération à travers des acteurs civils transnationaux. Le futur du domaine de la coopération dépendra donc du soutien à ces acteurs par les deux parties. Il faut reconnaître que la relation avec le Mexique n'est pas prioritaire pour l'Union européenne, mais l'entente a ouvert la possibilité d'accroître non seulement les relations inter-institutionnelles, mais aussi les relations entre les différents acteurs qui ont un intérêt dans le développement économique et politique des deux partenaires.

Summary

The current context of increasing economic integration encourages the negotiation of trade agreements between partners that were distant before. That was the case for Mexico and the European Union, parties that signed an Association Agreement in 1997. During the negotiation process, Mexico and the European Union had to consider the multiplicity of actors that could have an influence on the ratification of the agreement. The rhythm, structure and contents of the agreement have reflected such considerations. In this vein, this thesis seeks to demonstrate the innovative character of the agreement within the context of the European Union external relations. The context, the structure of the negotiations and the contents of the agreement were the result from the interaction between the two policies' level: the domestic and the international.

In order to demonstrate the innovative character of the agreement, the author of this thesis applies the two-level game theoretical approach, proposed by Robert Putnam, which has been also developed by numerous authors. After having analyzed the interviews realized with negotiators from the two parties, the rare literature on the subject, the articles published in European and in Mexican press, as well as some published books, the author concludes that the agreement between Mexico and the European Union could not have been approved without taking into account the interest, preferences and institutions at the domestic and at the international level. The main contribution of this thesis is to open a gate for the political analysis of agreements between partners with different levels of economic and political development.

This work is divided into four chapters. The first one introduces the theoretical framework: it explains the approach formulated by Robert Putnam and develops its convenience for analyzing the negotiations between Mexico and the European Union. The study of academic articles and books allows asserting that this approach has been rarely used to explain the external relations of the Union with third countries, with the exception of the United States. The concepts refined by this approach have been adapted to the specificities of the negotiations with Mexico.

The second chapter, the historical context, studies the trajectory of the relations between Mexico and the European Union. It describes in the first place, the commercial policy of the Union in general, and it continues to describe the process that conduced to the deepening of its relations with Latin America to end with the study of the economic and institutional context that contributed to the start of bilateral negotiations with Mexico. The third chapter examines the negotiation process that was divided in three parts: the global agreement (that included the normative framework of negotiations and the political and cooperation aspects), the interim agreement (good liberalization), and the services declaration. The adoption of an interim agreement allowed the definition of the technical aspects of liberalization in a relative short period of time. The services sector, on the other hand, constitutes a mixed-competence sector, which explains its inclusion under the form of a declaration.

The last chapter analyzes two specific sectors included in the agreement as case studies that demonstrate well the intersection of the domestic and international policies in trade liberalization: agriculture and services. These two sectors constitute an example of how the decision-making process at the internal level and the concentration of social actors' interests had an influence on the possibilities for negotiation.

The study of this agreement allows the author to conclude that it constitutes the most comprehensive trade agreement that has ever been signed by the European Union. In contrast, the political and cooperation aspects are still to be developed. The importance of its study is explained by the fact that the European Union has signed an agreement that encourages bilateral cooperation in more than twenty sectors of activity, being technological, environmental, cultural, anti-drogues, etc., which could contribute to increase its political influence in the American continent. It is the first real transatlantic trade agreement. From this point of view, the agreement with Mexico can be considered as a strategic response to the future trade liberalization in this region.

Keywords:

Two-level games -- European Community – External Relations -- Mexico – External relations

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Abbreviations

ACP	Africa, the Caribbean and the Pacific countries
ALA	Asia and Latin America countries
AMDH	Academia Mexicana de Derechos Humanos (Mexican Academy of Human Rights)
APRIS	Acuerdos de proteccion reciproca a las inversiones (Reciprocal bilateral investment agreements, Mexico)
BANXICO	Banco de México (Central Bank)
CANACINTRA	National Chamber of the Transformation Industry (Mexico)
CAP	Common Agricultural Policy (Europe)
CCP	Common Commercial Policy (Europe)
CEEC	Central and Eastern European Countries
CFSP	Common Foreign and Security Policy (Europe)
CIFCA	Copenhagen Initiative for Central America
CIS	Community of Independent States (ex-URSS states)
CONAI	Comisión Nacional de Intermediación (National Mediation Commission, Mexico)
COREPER	Committee of Permanent Representatives of the Member States (Europe)
EEC	European Economic Community
EFTA	European Free Trade Association
EP	European Parliament
ETUC	European Trade Union Confederation
EU	European Union
FDI	Foreign Direct Investment
FIDH	International Human Rights Federation
FTA	Free Trade Agreement
FTAA	Free Trade of the Americas
GSP	Generalized System of Preferences
IA	Interim Agreement
ICFTU	International Confederation of Free Trade Unions
IGC	Intergovernmental Conference (Europe)
ILO	International Labor Organization
ITTO	International Tropic Timber Organization
MAI	Multilateral Agreement on Investments
MEA	Multilateral Environmental Agreements
MERCOSUR	Southern Common Market
MFN	Most Favored Nation
NAFTA	North American Free Trade Agreement
NGO	Non Governmental Organization
NTB	Non Trade Barriers
PRI	Partido Revolucionario Institucional (Institutional Revolutionary Party, Mexico)
PRD	Partido de la Revolucion Democratica (Democratic Revolution Party, Mexico)
PSOE	Partido Socialista Obrero Español
PTA	Preferential Trade Agreements
PYMES	Pequeñas y medianas empresas (small and medium sized enterprises, Mexico)
RMALC	Red Mexicana de Accion contra el Libre Comercio
SEA	Single European Act
SECOFI	Secretaría de Comercio y Fomento Industrial, known today as Secretaría de Economía (former Mexican Ministry of Commerce, today, Ministry of Economy)
SEM	Single European Market
SPS	Sanitary and Phytosanitary Measures
UN	United Nations
WCL	World Confederation of Labour
WTO	World Trade Organization

Remerciements

Je remercie Mme Jane Jenson d'avoir accepté de diriger ce mémoire. Je tiens à lui exprimer ma profonde gratitude de m'avoir fait bénéficier de ses vastes connaissances et de sa riche expérience. Son contact au fil des jours, comme directrice et comme professeure et comme une personne avec une grande qualité humaine, a été pour moi une source constante de stimulation. Je n'ai jamais hésité à lui demander conseil et je lui dois d'avoir dépassé mes propres attentes en finissant cette maîtrise.

J'exprime ma gratitude envers Mme Graciela Ducatenzeiler, qui m'a toujours encouragé et conseillé plus comme amie que comme professeure.

Mes remerciements s'adressent aussi à mes chers professeurs, qui en plus de partager leurs connaissances avec moi, m'ont toujours inspiré et impliqué dans leurs projets.

J'éprouve une reconnaissance toute spéciale envers Isabelle Giraud, ma chère amie.

De mon entourage, je ne saurais pas nommer tous les amis grâce à qui j'ai apprécié ma vie étudiante à l'université.

Je voudrais, finalement, témoigner ma reconnaissance aux institutions suivantes :

À l'Institut d'Études Européennes à Montréal, pour son soutien financier ;

À la Chaire Jean Monnet et plus particulièrement, à son ancien titulaire Panayotis Soldatos, grâce à qui je dois le début de ma compréhension du processus d'intégration européenne

Au Centre canadien d'études allemandes et européennes, et spécialement, à M. Laurent McFalls et M. Philippe Despoix, pour toujours avoir alimenté mon esprit de recherche.

À Carl ,
con quien he aprendido no solo a ser yo, sino contigo.

A mis papás,
quienes en la distancia me quieren y me apoyan.

A Ana,
quien espero que algun día este tan orgullosa de mi
como yo lo estoy de ella.

To Kathy, thank you
For always being there.

À Roselyne,
pour qui le mots n'expriment suffisamment toute ma reconnaissance.

Introduction

The Mexican and European economies are involved in a process leading towards increased market openness and internationalization. In spite of the enormous differences of the level of development, there are some common characteristics of the economic and political process of the two partners that were decisive factors which contributed to the signature of an economic and political agreement in 1997, and that will certainly influence the future of their relations.

Structural changes in the international political economy have certainly altered the nature of international relations by affecting the actions and responses among states. While the decline in protectionism since World War II has stemmed partly from unilateral changes in trade policy by some countries, it also has been an outgrowth of agreements among countries to liberalize commerce, leading to a more profound internationalization¹. Much recent economic analysis has been devoted to exploring the effects of such internationalization on macroeconomic policy options, national competitiveness, and rewards to various factors of production. International trade, as one of the elements of this internationalization, is presented as one means by which the world's economic actors cooperate to enhance growth and meet the needs of the world's consumers². Since economics and politics are so closely linked, there is reason to expect deep political effects as well: in particular, domestic politics in countries around the world should show signs of the impact of the world economy³.

The Economic Partnership, Political Coordination and Cooperation Agreement between the European Union (EU) and Mexico, signed in 1997, is the first such agreement the EU has reached with a Latin American country⁴. This accord, known as the Global Agreement

¹ I will adopt Milner and Keohane's definition of internationalization: "the processes generated by underlying shifts in transaction costs that produce observable flows of goods, services and capital". Helen Milner and Robert Keohane, eds., *Internationalization and Domestic Politics* (Cambridge, New York, Cambridge University Press, 1996)

² Directorate General for Trade of the European Union, Trade, Trade Policy and Sustainable Development, in *The Non-Trade Impacts of Trade Policy – asking questions, seeking sustainable development*, January 8, 2001

³ Helen V. Milner and Robert O. Keohane, Internationalization and Domestic Politics: an introduction, in Helen Milner and Robert Keohane, eds., *Internationalization and Domestic Politics* (Cambridge, New York, Cambridge University Press, 1996): 3

⁴ Please note that given that this thesis will refer to the Common Commercial Policy, which is stated in article 113 of the Treaty of Rome. According to this legal basis, this thesis refers to the European Community, even if it constantly uses the term "European Union", given the generalization that the reviewed literature on the subject makes.

constitutes the basis for relations between the two partners, and constitutes the general framework that enabled the parties to agree on other two economic policy instruments: the *EU-Mexico Free Trade Agreement in goods*⁵ (which covers tariff dismantling for preferential access for exporters, public procurement, competition, and dispute settlement), and the *Free Trade Agreement in services*⁶ (which includes the liberalization of trade in services, of investment and related payments, and protection of intellectual property rights). These two instruments were ratified in 2000 and in 2001 respectively.

The Global Agreement's dispositions on liberalization of goods took the form of an Interim Agreement in 1997 in order to enable the parties to implement more quickly the provisions covering trade in goods and trade-related matters. It entered into effect on July 1, 1998, and on July 14, 1998, a Joint Council was set up. This organ formally launched negotiations to pursue a true Free Trade Agreement in goods. Formal talks began in November 1998, and nine rounds of negotiations followed alternately in the cities of Mexico and Brussels⁷. The Global Agreement included also dispositions on services trade, which do not make part of EU's exclusive competence. A declaration engaging both parties to negotiate was signed in 1997, and it became the Free Trade Agreement in Services in 2001, when it came into effect. The table I.1 on page 3 presents a chronology of this complex negotiation process.

It can be noticed that the Global Agreement signed in 1997 constituted only a general framework, even if three aspects were included: political coordination and cooperation, trade liberalization in goods and liberalization of the bilateral exchanges in services. A mandate was given to the Mexican executive, and to the European Commission to pursue negotiations in order to specify the technical dispositions on trade, both in goods and services. This explains the differences in the dates of entry into force of the different dispositions. It is important to remember that liberalization of trade in goods constitutes an exclusive competence of the European institutions, and the liberalization of trade in services is an aspect of shared competence between the EU and the member states.

⁵ *Decision 2/2000 of the Joint EU/Mexico Council*

⁶ *Decision 2/2001 of the Joint EU/Mexico Council*

⁷ Mexican Trade Office, *Mexico and the European Union*, <<http://nafta-mexico.org/mex-eu.htm>>, October 4th., 2000

Table I.1 Chronology of the association agreement between Mexico and the European Union

8 December 1997	Mexico and the EU sign the three instruments serving as legal basis for the new bilateral relation: a Global Agreement, an Interim Agreement and a Final Act.
23 April 1998	The Mexican Senate approves unanimously the Interim Agreement.
13 May 1998	The European Parliament approves the Interim Agreement.
1 July 1998	The Interim Agreement enters into force.
14 July 1998	Creation of the Joint Committee of the Interim Agreement. Launching of free trade agreement negotiations.
From November 1998 to November 1999	Free trade agreement negotiations: Nine technical rounds of negotiation were alternatively held in the city of Mexico and in Brussels, the capital of Belgium.
6 May 1999	The European Parliament approves the Global Agreement.
24 November 1999	Negotiations of the free trade agreement conclude.
16 March 2000	The European Parliament itself gives a favorable opinion on the results of the free trade negotiation.
20 March 2000	The Senate approves the Global Agreement and the results of the free trade negotiation. The European Committee approves the results of the negotiation in the matter of goods.
23 March 2000	Sitting of the Joint Committee of the Interim Agreement and adoption of the results in the matter of goods. Signature of the Lisbon declaration on the new association between Mexico and the European Union.
1 July 2000	Entry into force of the agreement in the matter of goods.
27 February 2000	Sitting of the Joint Committee of the Global agreement and adoption of the results of the free trade negotiations in the matter of trade in services, movements on capital, related payments and intellectual property.
1 March 2000	The agreement enters into force in the matter of trade in services, movements on capital, payments and intellectual property. All legal instruments of the agreement enter into force, including the political and cooperation aspects of the Global Agreement.

From the Mexican perspective, the signature of the agreement with the EU was generally seen as a major accomplishment in Mexico's quest to reduce its long-standing economic dependence on the United States⁸. The United States had always been a powerful force in the Mexican economy, long before the North American Free Trade Agreement (NAFTA). During the first five NAFTA years (1994-98), the United States accounted for well over four-fifths of Mexico's trade and 60 percent of its foreign direct investment (FDI) inflows⁹.

⁸ Magda Kornis "The United States Dwarfs the European Union in Mexican Trade and Investment" in *ITC International Economic Review* April/May 2000, 4

⁹ Michael Mortimore, "Inversión Extranjera en América Latina y El Caribe, Informe, 1999", Chapter 2, Mexico, CEPAL, January 2000, URL: < <http://www.cepal.org> >

NAFTA, which took effect on January 1, 1994, benefited Mexico in many ways. This was especially evident during Mexico's so-called "peso crisis," which erupted at the end of the first NAFTA year. NAFTA constituted one of the factors that explained a quick recovery of the Mexican economy, given the advantages of a close association with the United States world's largest economy. Nonetheless, since taking office, the Zedillo government (1994 – 2000) had expressed concern with Mexico's economic dependence on the United States and sought to diversify the country's commercial partnerships. Mexico expected, as well, that the FTA with Europe would trigger substantially increased trade-related FDI inflows from this region, much as it experienced an acceleration of FDI inflows from the United States and Canada after NAFTA came into force.

From the European perspective, the recent deterioration of the EU's share in the Mexican market, attributed to NAFTA, was the principal reason that disposed European officials to favor a FTA with Mexico. The economic goal of the EU was to achieve parity with NAFTA provisions by 2003, the year when the last NAFTA tariffs are scheduled to be phased out. In addition to carving out a larger share of the Mexican market, European exporters hoped that Mexico would serve as a launching pad to other markets in the Americas, including the U.S. and Canadian markets. Indeed, the EU-Mexico FTA appears to be part of a broader EU strategy to increase its participation in Latin America so as not to be locked out of its markets if the Free Trade Area of the Americas goes into effect.

Nevertheless, the Global Agreement contains political considerations that go beyond trade. The debate in Europe over the last few years about the consequences of trade and globalization and about the validity of established EU trade policy prescriptions has probably provoked the introduction of development considerations in its economic policy towards non member countries like Mexico. The European Union intends to include the concept of sustainable development in its foreign economic relations, in the search of legitimacy¹⁰. This is understood to mean that both developed and developing economies pursue economic strategies that secure non-inflationary growth while preserving environmental resources and

¹⁰ Sustainable development has been defined by the 1987 Brundtland Report "Our Common Future" as a process that "meets the needs of the present without compromising the ability of future generations to meet their own needs"

promoting social equity¹¹. The balance to be achieved between these three components of sustainable development is the subject of much controversy within civil societies, as well as among corporate actors, states and international organizations, and it has acquired growing importance in the EU's trade policy.

In strictly trade terms, the EU's main objective now is to concentrate resources on removing specific barriers, to maximum economic benefit, through different means: WTO Dispute Settlement; bilateral agreements; bilateral consultations; bilateral market access packages with non-WTO countries and the Millennium Round¹². The Union also seeks a presence in the world's emerging regions, of which Latin America is one. Indeed, political efforts at multilateral and European level - combined with the increasing impact of Latin American reforms aimed at modernizing the production apparatus – seek to improve international competitiveness and bring about an increase in trade between Latin America and the Union¹³. Within this dynamics, the EU has reached a political and economic agreement with Mexico. This thesis provides a political analysis of the multiple dimensions of the European Union economic policy that had an influence on Mexico-EU negotiations, and multiplied the number of possible options for governments and for private actors, making it increasingly complex for both partners to manage multiple agendas during the negotiations. This work aims to show how the development of the EU's policy, at the internal and external level, affected its ability to link and control its economic and political affairs with Mexico.

The argument that trade and investment will bring prosperity, and then will bring democracy has been challenged by international actors which affirm that the persistent mantra of corporate and government leaders alike about the necessity of remaining competitive in a global economy requires governments to cut regulations and to encourage a favorable climate for foreign investment, often at the cost of worker rights and environmental integrity. This debate has been present at international negotiations, which unlike the agreement between

¹¹ European Union Direction General for Trade, *op. Cit.*

¹² European Commission, *Market Access Strategy*, January 2000, <http://www.europa.eu.int/comm/trade/mk_access/index_en.htm>

¹³ Commission Communication to the Council and the European Parliament, *The European Union and Latin America, The present situation and prospects for closer partnership, 1996-2000*, CAB III/164/95-EN, <URL: <http://europa.eu.int/en/comm/dg1b/en/den-com95495.htm#INTRODUCTION>>

the EU and Mexico, had extensive coverage by the media, which contributed to criticism by members of the civil society¹⁴.

The Mexico-EU FTA, on the contrary, was negotiated with almost absent participation of movements against corporate-led globalization or media coverage. The European Commission in January 2000 and by the European and the Mexican Parliaments in March, despite concerns about Mexican human rights abuses and some misgivings on trade issues approved it. Even in the absence of a strong influence of transnational coalitions, the Global Agreement is based on democratic principles and the respect for human rights, and institutionalizes a regular political dialogue and extends the bilateral cooperation. It definitively marks an innovation in foreign EU's relations, and it constitutes a valuable study case for evaluating the interaction between domestic and foreign politics.

Approach

In order to present an analysis about the conditions leading to the conclusion of the Mexico-European Union Agreement, this thesis will adopt Putnam's two-level-games approach. The first part of this work will present, from a historical perspective that will take into account the evolution of the international environment, the EU's competence on trade and development matters, in order to explore the motivations that led to the beginning of negotiations between Mexico and the European Union.

Negotiation has been defined as « a process in which explicit proposals are put forward ostensibly for the purpose of reaching agreement». A negotiation, or bargaining, situation is characterized by interdependence and by the existence of both common and conflicting interests¹⁵. Clearly, there is a close relationship and partially an overlap between “negotiation” and decision-making”. The aim of both processes is to reach an agreement. Decision-making will normally comprise negotiations, but may also exhibit other traits: voting is obviously one form of collective decision-making (which normally is preceded by

¹⁴ The case of NAFTA offers a valuable example.

¹⁵ Christer Jönsson, *Communication in International Bargaining* (London: Pinter, 1990): 2.

negotiations and coalition-building), rule application is yet another type of a more legal nature. When in this thesis it is claimed that EU's decision making affected the negotiation process with Mexico, a two-level perspective on the making of the treaty will be necessary, and it will emphasize certain characteristics of the policy-making process at the expense of others. The study of shared and contrary interests of the EU actors, the strategic interaction, and the linkage between different games and issue-areas will be a first step to analyze the compromises made at the end.

The second part of this thesis constitutes the analysis of the political events that led to the signature of the agreement. It will show the interaction between the domestic and the international level. This section will also study the events that constrained or favored the negotiation and approval process of the three instruments that serve as a basis for the relations between Mexico and the European Union: the Global Agreement, the Free Trade Agreement on goods and the Free Trade Agreement on services. It will be explained how the domestic process of decision-making and the concentration of social interests influenced (or not) the bargaining possibilities.

The independent variables in this study will be the internationalization process of economic exchanges, as expressed by the European level and transnational actors, as well as the domestic constraints presented to negotiators. The method of analysis in this work is close to the international political economy, which considers "the social, political and economic arrangements affecting the global systems of production, exchange and distribution¹⁶". As the product of an analytical method, this work is based on the assumption that what occurs in the economy reflects, and affects, social power relations. This thesis will identify the relevant participants in the conclusion of the agreement: EU's institutions, corporations, non-state political organizations in a context of internationalization which includes inter-state, inter-institutional and relations of states with non-state actors.

¹⁶ Susan Strange *States and Markets* (London, Pinter Publishers, 1988):18

Chapter 1 Theoretical framework

Economic adjustment related to trade liberalization cannot be understood as the State's abandonment of its economic functions but rather as shifts in the way the state intervenes in the economy, as well as in its relations with civil society, technocratic elite, and corporate interests. These shifts occur constantly. To understand this phenomenon, it is helpful to use a dynamic perspective that studies rational interests, as well as the institutions and actors that affect its achievement. Being that the question that this thesis aims to study is the economic and political agreement between Mexico and the EU as an innovation in Europe's external relations, the approach adopted is an extended version of Putnam's two-level interactive bargaining framework.¹⁷ It is possible to identify the international setting, in which the European Commission acts as negotiator and a second level within the politics of the Commission as negotiator on behalf of its member states. Transnational actors that can potentially constrain the win-sets of the negotiating parties will be considered, as well. The following pages will clarify these notions.

International bargains deal not only with interstate relations. The possibility to conclude international accords, and to ratify their content, are jointly determined by domestic and international factors. Negotiating actors are compelled to calculate not only the external, but the domestic implications of their actions, because they seek not only to reach an international agreement, but also to secure its domestic ratification¹⁸. The case of the European Union's foreign economic relations constitutes a clear example of the importance of considering the domestic level, given the fact that there are several instances that participate in the formulation of a Common Commercial Policy (CCP).¹⁹ In procedural terms, the Council acts on the basis of qualified majority and mandates the Commission to negotiate

¹⁷ Robert Putnam, "Diplomacy and Domestic Policies. The logic of two-level games" In *International Organization* 42 (Summer 1988): 427-460

¹⁸ Peter B. Evans, "Building an Integrative Approach to International and Domestic Politics", In Robert Putnam, Peter Evans and Harold K. Jacobson, *Double-Edged Diplomacy, International Bargaining and Domestic Politics* (Berkeley and Los Angeles, University of California Press, 1993): 397

¹⁹ The Common Commercial Policy (CCP) was established in the articles 110-116 of the Rome Treaty, and it "aims to contribute to the harmonious development of world trade and the progressive removal of tariffs". See next chapter.

on its behalf with third countries or in international organizations²⁰. The European Court of Justice has repeatedly confirmed that the member states are no longer competent to act on their own in the field covered by the CCP, and the other contracting parties also recognize this.

At the same time that the EU tries to reinforce its bargaining power at the international level, it continues to consolidate its system of governance, and seeks to be capable of acting in a united way towards other actors in trade policy matters. Although the European Union has formally had jurisdiction over trade policy since 1969, in practice, it still struggles to consolidate its exclusive authority to enter into international trade agreements. It tries to speak on behalf of its member states in areas where common (internal) EU rules exist or where the development of such would be hindered by national action.²¹ These aspects reveal that the EU as an international actor is far from being an unitary rational entity with stable preferences across outcomes, and a fixed ability to mobilize domestic bargaining resources²².

There is a Federalist school of thought that considers European integration as the creation of a territorial super state on classic Westphalian lines. That is, it has clearly demarcated territories whose constituent units have equal rights and obligations and have pooled their sovereignty in a common supranational system of governance²³. But even this school recognizes the presence of signs of heterogeneity, and lack of a cohesive organization, with notions such as *Europe à la carte*, variable geometry, multi-speed Europe, concentric circles, etc²⁴. The other major approach, the intergovernmentalist school claims that EU politics are

²⁰ The Treaty of Nice has modified some procedural features of article 133 of the Amsterdam treaty in order to treat agreements on services and trade-related aspects of intellectual property under the same qualified majority rule that was applicable since 1957. Since the signature of the Treaty of Rome, such agreements were treated as “mixed” and subject to the unanimity rule.

²¹ Anna Murphy and Rory O'Donnell, «The relevance of the European Union and European integration to the world trade regime» In *International Journal*, 49, 3, (1994): 536-567.

²² These qualities were given to States as the main actors in international relations in neo-realist theories. See Kenneth Waltz, *Theory of International Politics*, Reading, (Mass., Addison-Wesley, 1979): 91-92

²³ See, for example, the chapter on Federalism, Functionalism and Transactionalism in Ben Rosamond, *Theories of European integration* (New York, St. Martin's Press, 2000)

²⁴ James Caporaso, “The European Union and forms of state: Westphalian, Regulatory or Post-Modern?” *Journal of Common Market Studies* 34,1 (1996): 29-52

“the continuation of domestic politics by other means”²⁵. This theoretical tradition builds on the assumption that states are the principal actors in the international system, and that interstate bargains reflect national interest and relative power. EU institutions are conceptualized as a regime that will eventually shape interstate politics by providing a common framework that reduces the uncertainty and transaction costs of interstate negotiations²⁶.

From both perspectives, it is clear that the European Union’s and its member states have not resolved the issue of the best policy processes and instruments to establish relations with its external environment. Thus, there is a need for an integrated analysis of how these systems of governance relate to each other, which focuses on the multi-layered nature of policy-making where the various actors taking part in the policy process have several access points for influence. Taking these considerations into account makes it necessary to adopt a broad approach covering both the politics and the economics of the EU in order to be able to evaluate an economic and political instrument, such as the Mexico-EU agreement. This thesis proposes that the final text of such an agreement has resulted not only from the historical and institutional background of the negotiations, but also from the domestic factors that influence the international policy agenda.

The European Union: governance and a diversity of actors and actions

This work intends then, to speak not of a single government, but of governance, as it encompasses broader aspects than the formal institutions of the states²⁷. As Simon J. Bulmer argues, given the fact that the European Union does not constitute yet a government, it is necessary to develop an approach that considers its integration, not only as a process, but as a transformation of the traditional system of “nation states” and of the role of the member states. This transformation has derived from other processes, such as economic globalization,

²⁵ Andrew M. Moravcsik, Negotiating the Single European Act: national interests and conventional statecraft in the European Community» In *International Organization*, 45, 1, (1991): 25.

²⁶ *Ibid.* 27

²⁷ Simon J. Bulmer, “New Institutionalism, The Single Market and EU Governance” In *ARENA Working Papers* 25, 1997, <URL: http://www.arena.uio.no/publications/wp97_25.htm> Consulted on November 21, 2001

and the responses the public administrators have given to it²⁸. There is thus, a necessity to facilitate the connection of legal and political aspects and of policy-making and public administration of the EU. Furthermore, the EU cannot function without sharing its power at different levels of governance. In vertical terms, there are some instances in which the EU shares its power with the member states, not only through the Council, but also in the informal advisory contacts before the decision-making process. In horizontal terms, governance is not just about institutions, given the presence of different interest groups organized at the EU and at the member states level. As a matter of fact, the political groups and the national parties, as well as individual firms, and public opinion, in general, have the capacity to engage with issues such as economic liberalization²⁹.

This way of approaching the EU- Mexico Agreement is reasonable if it is recognized that the dominant characteristic of negotiation processes in the EU is diversity, which permeates the central elements of the process. O. Elgström and Michael Smith suggest that the EU is characterized by diversity of negotiating contexts and occasions³⁰. Although it is legitimate to envisage a continuous multilateral negotiation process³¹, it is clear that such a vision “hides” the range of contexts and occasions generated by the EU’s internal and external development. A key element for analysis is thus the coexistence of the structured and the unstructured, the public and the private in EU negotiations. Elgström and Smith argue, as well, that the EU is characterized by diversity of actors and preferences³². Although it can be considered that the preferences of governmental actors are the dominant and often determinant ones³³, in the “internal” negotiation of EU affairs, there is a wide range of institutional, governmental, non-governmental and quasi-governmental participants that actually take part in negotiations. Following these scholars, it is possible to argue that there

²⁸ Ibid.

²⁹ Idem.

³⁰ Ole Elgström and Michael Smith, “Introduction: Negotiation and policy-making in the European Union processes, system and order”, *Journal of European Public Policy*, 7, 5 (Special Issue 2000): 673-683

³¹ Beate Kohler-Koch, “Catching up with change: the transformation of governance in the European Union”, *Journal of European Public Policy* 3, 3: 367

³² Elgström and Smith, op.cit., 675

³³ Andrew Moravcsik, «Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach» *Journal of Common Market Studies*, 31,4 (1993): 473-524

are a diversity of strategies, negotiation styles and communication that converge in the EU, which are manifested through a diversity of outcomes³⁴.

Nevertheless, the EU can be treated as a distinctive entity for political analysis, and this implies the necessity to identify the interdependence of actors, their interests, the regularities of their interactions, and the presence of (informal and formal) rules or institutions. It is important to consider, as well, that linkages between levels and sectors characterize not only EU internal negotiations, but also between internal and external negotiations³⁵. The EU is not only an arena for negotiation among its members and those wishing to influence its institutional or policy development, but it is also a major participant in external negotiations. The boundary between these two arenas is often difficult to define, and the often intense linkages between the “internal” and the “external” in commercial policies, are a key feature of the EU negotiation system. When this is coupled with the linkages between levels and sectors implicit in the EU’s expansion of its territorial and functional responsibilities, it is bound to have implications for the analysis of negotiation process and negotiation outcomes.

The two-level game

Scholars have recently sought to integrate domestic and international politics. Robert Putnam has sought to capture the complexity of international negotiations with the metaphor of a “two-level game”. Recognizing that domestic politics and international relations are entangled, Putnam conceives the politics of international negotiations as constituting a two-level game where the state acts at two levels simultaneously, the domestic and the international. At level one, the world of structural realism, there are interactions between international actors. At level two, the world of domestic politics, negotiators are accountable to a wider domestic audience. He defines the logic of the two-level game in the following way:

At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to

³⁴ Elgström and Smith, *op. cit.*, 675

³⁵ *Ibid.*

satisfy domestic pressures, while minimizing the adverse consequences of foreign development³⁶.

Between the international and the domestic level, the state functions as “gate-keeper», and a crucial theoretical link between the two levels is the requirement of domestic ratification of the international agreement. He adds that the complexity of this game stems from the idea that a rational move at one board may not be acceptable at the other board. Consequently, “there are powerful incentives for consistency between the two games”.³⁷ Putnam's game implies that the possibility of agreement is limited to an area that overlaps what is acceptable to the winning coalitions in each of the parties in the negotiation. This area is called a “win-set”.

The win-sets are important for two main reasons. First of all, the decision-makers at the Level I game have to take into account that they will need a ratification of their agreement. The more formal the ratification process, the more constrained are the decision-makers in their international negotiations. The second reason is “that the relative size of the respective Level II win-sets will affect the distribution of the joint gains from the international bargain”.³⁸ This last point is fundamental to understand the logic of the two-level game: the larger the win-set of a negotiator, the more he can be pushed around by the other Level I negotiators. Hence, “[a] government that is internally divided is more likely to be able to strike a deal internationally than one that is firmly committed to a single party”.³⁹ Transnational linkages are other important aspects of the two-level of analysis metaphor. As Andrew Moravcsik puts it, “[t]he statesman can also target policies directly at domestic groups in foreign countries, seeking allies “behind the back” of his international counterpart.” Yet, a decision-maker does not always have to launch a “covert” operation to facilitate his task. Often, an international alliance is natural⁴⁰.

³⁶ Robert Putnam, “Diplomacy and Domestic Politics: the Logic of Two-Level Games,” *International Organization* 42 (Summer 1988): 432

³⁷ *Ibid*

³⁸ *Ibid.* 440

³⁹ *Ibid.* 445

⁴⁰ Andrew Moravcsik, “Introduction: integrating International and Domestic Theories of International Bargaining” in Robert Putnam et al., eds. *Double-Edged Diplomacy, International Bargaining and Domestic Politics*, 15

Leonard Schoppa terms the contribution by Putnam as the opening up of a “window of opportunity” for understanding how states interact with the European Union which increases their “power” in providing two arenas for policy-making, since he develops a view of how a “chief negotiator can change the domestic game facing his counterpart by expanding the level of participation in his decision-making process and by specifying alternatives for consideration within his domestic policy process”⁴¹. A two-level analysis shows then, how internal politics serves both as a constraint on the negotiator and as a potential source of leverage in international negotiations⁴².

The extended two-level approach

It is noteworthy that in the EU’s case, this analysis is made more complex by the existence of different actors that operate at the two-levels of governance. However, their presence has not been always been recognized by scholars. According to Sophie Meunier, two-level games studies have been often concentrated in only one aspect of the European Union’s common position: the impact of domestic ratification procedures on international agreements⁴³. Meunier offers an innovative model for considering EU trade policy in a dynamic two-level game which claims that given exogenous member states’ preferences, the institutional mechanisms through which member states transfer their sovereignty affect international trade agreements⁴⁴. In this way, two-level analysis may be extended to consider the role that different actors and institutions play in negotiations⁴⁵.

⁴¹ Leonard Schoppa, “Two-Level Games and Bargaining Outcomes: Why Giatsu Succeeds in Japan in Some Cases but Not Others”, In *International Organization*, 47, 3 (Summer 1993): 353-386.

⁴² Howard P. Lehman, and Jennifer L. McCoy, “The Dynamics of the Two-Level Bargaining Game: The 1988 Brazilian Debt Negotiation.” *World Politics* 44 (1992): 600-44.

⁴³ See for example, the work of Helen Milner, “Regional economic co-operation, global markets and domestic politics: a comparison of NAFTA and the Maastricht Treaty”, In *Journal of European Public Policy* 2,3 (September 1995): 337-60

⁴⁴ However, Sophie Meunier states that it is possible to speak of three levels that interact in international bargaining, being the domestic, supranational (European) and international. Meunier develops a model that takes into consideration not only the two-levels advanced by Putnam, but also the supranational context. She presents three variables present at conflictual trade negotiations: 1) the internal voting rules in the EU, 2) the nature of the delegation by the member states to their negotiating agent, and 3) the negotiating context relative to the status quo. However this “three-level” approach will not be adopted in this thesis. In the Mexico-EU Association Agreement the European Commission obtained a strong political mandate. Sophie Meunier, “What Single Voice? European Institutions and EU-US Trade Negotiations, In *International Organization*, 54,1 (Winter 2000): 10

⁴⁵ Some other authors like Klaus Günter, state that in the case of the EU, the analysis of the two-level games can be transformed into a three-level one. Günter presents three extensions of the concept within the framework of

The two-levels in European negotiations with third countries

Two European policies are particularly relevant to the negotiation with Mexico: the Common Commercial Policy (CCP), as well as the Development Policy. Even if they constitute the basis for the EU foreign relations, their application has to deal with domestic developments. As some authors state, the policies framed at the European level, can have a repercussion on legal and administrative structures, as well as in the patterns of interest mediation, and in discourses⁴⁶. For these reasons, it is important to study these two policies from a two-level perspective.

Level 1: the international level

Since its foundations, whether in bilateral, regional or multilateral trade negotiations, Europe formally “speaks with one voice” and negotiates through one agent, the European Commission. Despite some efforts by certain member states seeking to regain some of their lost sovereignty in the realm of trade, as the longest and deepest integrated policy in the EU, external trade can be treated as a policy area in which the European Union acts as one. The Commission usually negotiates on the basis of Council mandates, which reflect compromises among member states with divergent interests, and tend thus, to be very broad. However, the Commission has considerable leeway with respect to the interpretation of the mandate, to conduct the negotiations. Because Commission officials cannot rely on direct democratic legitimization, they must act within the political boundaries set by member governments.

Nonetheless, the European Commission officials also defends and promotes the institutional self-interest of the Commission in its autonomy and its power vis-à-vis both private constituencies and governments.. An overview of trade-policy developments during this

interactive bargaining theory: first, two layers of ratification in the EU (at the domestic and at the Community level); second, the preferences of the Commission officials as negotiators within an international context; and third, transnational groups and firms as constituencies. However, it must be recognized that it is very difficult to speak of a third arena for the action of these constituencies, since they continue to interact with the formal institutions at the international and domestic levels. Klaus Günter Deutsch, *The Politics of Freer Trade in Europe* (New York, St Martin's Press, 1999): 100

⁴⁶Claudio Radaelli, “How Does Europeanization Produce Policy Change? Corporate Tax Policy in Italy and the UK” *Comparative Political Studies* 30,5 (1997): 553-575.

period reveals a remarkable pattern of trade policy liberalization that extend across sectors and across types of trade policy instruments. At the global level, the EU has been one of the main players in international trade negotiations and has been actively involved in the GATT and its successor, the WTO. This has resulted in an increased market access for non-EU countries, since the EU agreed to deep tariff cuts, reducing its tariffs on manufactured goods by an average of 38 percent⁴⁷. In addition, tariffs have been eliminated for many product categories, including construction equipment, agricultural equipment, medical equipment, pharmaceuticals, most steel categories, paper products, and furniture.

A second change in the EU trade policy is related to the introduction of reciprocity in preferential trade agreements (PTA). According to Pitou van Dijck and Gerrit Faber, this can be explained by the influence of the enlargement of the EU membership, as well as other external phenomena, such as the increasing openness of the EU economy, the competition in world markets, the stronger rule enforcement by the WTO and disappointment with the outcomes of non-reciprocal preferences. Hence, non-reciprocal systems are giving way to reciprocal agreements, such as FTAs and customs union, as illustrated in the following table.

Table 1. 1. The changing nature of preferential trade agreements between the EU and third countries

	Reciprocal	Non-reciprocal
Discriminating	-Turkey, Malta, Cyprus, -New MENA Agreements -CEEC (Europe Agreements) -European Economic Area -EU/South Africa FTA -Future: EU-ACP PTAs, PTAs with Mexico, Mercosur, Chile	-Previous Lomé conventions, -Pre-1995 MENA association agreements
Non-discriminating	GATT/WTO agreements	GSP (non graduated developing countries) 2000 Cotonou Agreement

Source: G. Faber, N. Duykers and H. Roelfsema, *The EU Preferential Regime towards Developing Countries: Law versus Economics?*, Utrecht 1998.

The rationale for this change can be explained in terms of the “new regionalism”, characterized by a range of possibilities for institutionalized cooperation. According to

⁴⁷ Pitou Van Dijck and Gerrit Faber, “The EU in the World Economy: New Policies and Partnerships” in Pitou Van Dijck and Gerrit Faber, eds., *The External Economic Dimension of the European Union* (The Hague (Netherlands), Boston, Kluwer Academic Publishers, 2000): 27

Winters, it is possible to distinguish four sets of motivations for the EU to start negotiations to achieve a PTA with a third country, which are interrelated in a different degree for each of the various agreement: relations with the geographically close countries, their development and political stability, and the defense of markets⁴⁸. In this sense, it can be said that non economic motivations will prevail in the EU's relation with the East and the South. In contrast, the PTAs with more distant partners, such as South Africa, Asia or Latin America, seek to avoid discrimination in trade and investment. As Van Dijck shows, the negotiations of the EU with Mexico, MERCOSUR and Chile answer mainly to economic considerations, face to the actual trade-diversion effects of NAFTA and MERCOSUR, as well as the potential effects of the FTAA⁴⁹.

Third countries might then have an interest in negotiating with the EU in economic and political terms. A PTA with the EU might improve access to the large EU market, and increase the support for the liberalization policies (as making them more credible), as well as investment and growth. From a political perspective, a close relation with the EU is seen as a positive factor to development of institutions and domestic policy, as well as political security⁵⁰.

Level 2: the domestic EU level

The European institutions constitute the internal level of negotiation, even if the Commission as negotiator still has a limited status. The history of European integration since the signing of the Treaty of Rome in 1957 is mainly one of progressive expansion of the Commission's competence over an ever broader range of policy areas -from Research and Development in the 1970s, to the environment through the 1986 Single European Act, to regional development, social policy and finally monetary policy with the 1992 Maastricht Treaty. However, most of these areas have not been fully transferred to the European level. By contrast, a few policies have been under Community competence from the very beginning.

⁴⁸ Alan Winters, "EU's Preferential Trade Agreements: Objectives and Outcomes" In Peter van Dijck and G. Faber (eds.) op. cit. 195-222

⁴⁹P. Van Dijck, "Meeting Asia and Latin America in a new setting", In P. Van Dijck and G. Faber (eds.) op. cit., 293-318

⁵⁰ Ibid.

The common commercial policy is the most prominent, along with the internal market, the competition policy and agriculture.

The member states do, of course, play a central part in the policy development in the European Union, but the EU policy is not only shaped from an intergovernmental bargaining, but it is also shaped by initiatives deriving from EU institutions. It appears evident that the size of the win-set of the Commission is determined, first, by the “preferences, powers, and coalition alternatives of member states”⁵¹. Most international agreements have not only to be approved by the Council, at least by a qualified majority of votes, but also by all member states. The win-set at the Commission-level represents the common ground of member states. And the political institutions, the division of responsibilities and powers in Brussels, and decision rules with those institutions also determine the size of the win-set. Klaus Günter states it as follows: “...the Council may usually give a mandate to the Commission for the conduct of an international negotiation (authorization), will vote on the outcome (approval), or will, at times, simply rely on intergovernmental consensus (acquiescence) on external positions adopted by the Commission during a pending negotiation”⁵².

The EU institutions can act as a single unit when an ample mandate is granted, even if the influence of the member states is always present. EU’s rules designate the Commission as the Community’s agent dealing with third parties on matters relating to the Common Commercial Policy, as well as on several other issues. Under the Treaty of Rome’s Article 113, the Commission makes recommendations to the European Council. The Council authorizes the Commission to open negotiations with third countries, and under Articles 114 and 228, the Council is empowered to conclude such agreements on behalf of the EU, acting by qualified majority. The Commission is also required to consult during the trade-negotiation process with a special advisory committee appointed by the Council, known as the 113 Committee. The following lines describe these articles with more detail.

⁵¹ Klaus Günter, *op. cit.*, 100

⁵² Klaus Günter, *op. cit.* p.102

The legal basis for the Common Commercial Policy

The key provisions for the Common Commercial Policy (CCP) regarding trade agreements are found in Article 113 the Treaty of Rome which states that the CCP shall be based on:

uniform principles, the conclusion of trade and trade agreements, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in case of dumping or subsidies.

Probably the most important provision of the Treaty regarding trade is that the common commercial policy is based on uniform principles, in particular regarding tariffs and trade arrangements with third countries (Article 113).⁵³ The main elements of the CCP were set out in Articles 110 to 116 EEC. Article 112 EEC required them to harmonize their systems of export aids, and Article 113 EEC identified the need for “uniform principles” to underpin the CCP with regard to tariff rates, the conclusion of trade agreements, liberalization measures, the promotion of exports, and instruments of commercial defense against dumping and subsidies. In the case of economic difficulties, the Commission may authorize the affected member state to take the necessary protective measures (Article 115)⁵⁴. There are two other safeguard provisions in the Treaty. If there is a sudden crisis in the balance of payments, the member state concerned may take the necessary protective measures (Article 109). In the chapter on full elimination of quantitative restrictions on internal trade, Article 36 allows member states to prohibit or restrict trade or the transit of goods that jeopardize public morality, policy or security, or endanger the health or life of humans, animals or plants.

Furthermore, member states should operate in international economic organizations on the basis of common action (Article 116). This provision is supposed to enhance the bargaining power of the EU, and in practice, small member countries particularly benefit from it⁵⁵. There is also an agreement to associate the non-European countries that have special

⁵³ Common instruments of EU commercial policy include the common external tariff, quantitative restrictions, customs variation regulation, rules of origin, anti-dumping and countervailing policy, and common trade arrangements with external countries and measures to counter the violation of intellectual property rights.

⁵⁴The removal of internal border controls achieved by the 1992 Programme made Article 115 ineffective. In any case, the authorization of actions (most of them referred to trade in textiles) based in this Article was in a steady decline during the 1980s. From over 300 authorizations in 1980, they had more than halved by the end of the decade.

⁵⁵

relations with the EU (Article 131)⁵⁶. The associated countries would have the same treatment in trade as the members of the EU (Article 132). The EU may conclude association agreements with a third country, group of countries or an international organization (Articles 228 and 238). Any European state may apply for membership in the EU (Article 237). Article 100a refers to the establishment and operation of the internal market. Save for fiscal, free movement of persons and rights of employees, the earlier principle of unanimity is replaced by one of qualified majority in the decision making process.

During the two decades following the Treaty of Rome, the Commission successfully negotiated on behalf of its members two major trade rounds under GATT, as well as a host of bilateral trade agreements. The emergence the services sector onto the international trade agenda in the mid-1980s, started to question the clear foundations of the Community's trade competence. Such issues had been discussed already at the close of the Tokyo Round in 1979, but most member states considered these too domestically sensitive to leave entirely to the Commission⁵⁷. The subsequent expansion of the world trade agenda onto policies traditionally not "at the border" (e.g. tariffs and quotas) but "inside the state"(e.g. national laws and regulations) forced an explicit internal EU debate on the issue of competence. Given the unfavorable legal and political context, the Commission approached the trade competence issue very cautiously. It explicitly stated that it was not necessary to extend Article 113 to the new areas of "trade and the environment" and "trade and social standards."⁵⁸

⁵⁶ One of the crucial French demands during the negotiations that led to the signature of the Treaty of Rome was an association of its overseas territories. France was a big colonial power at that time and wanted its colonies, predominantly in Africa, to get preferential status in the EU. At the same time, Germany and Italy wanted to secure their traditional suppliers for bananas and coffee. So, a liberalization of trade with the EU coexisted with « special » trade relations with selected external countries.

⁵⁷ At that point, they found a compromise solution whereby the Community concluded all the agreements of the Round, while the ECSC Tariff Protocol, the Standards Code and the Civil Aircraft Code were concluded jointly by the Community and the Member States. See Kees Jan Kuilwijk, *The European Court of Justice and the GATT Dilemma: Public Interest vs. Individual Rights?* (Beuningen, Nexed Editions, 1996).

⁵⁸ European Commission, DGI, Intergovernmental Conference Personnel Representatives, "Adjustment of Article 113," October 16, 1996, I/330/96.

Actually, the Treaty of Rome's original wording of Article 113, which grants the Community exclusive competence in "trade" policy (without defining the term), remained almost unchanged until the Amsterdam Summit⁵⁹. The provisions determining the trade policy-making process delegated authority from the individual states and their parliaments to the assembly of European states, acting collectively through the Council of Ministers. This approach can be understood in classical principal-agent terms: the member states (principals) have delegated their authority to conclude trade agreements to the European Community (agent), acting on their behalf.⁶⁰ This contrasts with areas of "mixed" competence (such as the negotiation of association agreements), where formal authority remains with the individual member states, in particular through parliamentary ratification. In both cases, the member states represent the ultimate authority, but in the former it is as voting parties in the EU structures, while in the latter it is through their sovereign parliament. The Maastricht Treaty included a protocol that enlists the sectors to which article 113 applies. Article 113 dispositions can be modified by the Council by unanimity, after the proposal of the Commission and the Parliament's opinion. This may allow a progressive adaptation of the external competence to the evolution of international exchanges⁶¹.

The 1996 Inter-Governmental Conference (IGC) was originally called for in the Maastricht Treaty to amend its foreign policy provisions and possibly revisit the "third pillar" on justice and home affairs. Subsequently the IGC took on board a host of new provisions on human rights and citizen-related issues, as well as the task of designing an institutional reform that would enable the Union to function with 25 members in the next millennium. The revision of Article 113 was tacked onto this broad and ambitious agenda. The precedents of the Commission in the WTO negotiations, and in other processes were very strong to let to reach an agreement easily. The lack of confidence to the commission, born immediately after the

⁵⁹ See Maresceau *The European Community's Commercial Policy after 1992: The Legal Dimension* (Dordrecht, Martinus Nijhoff Publishers, 1993) for a description and analysis of the changes to commercial policy brought about by the Maastricht Treaty.

⁶⁰ Kalypso Nicolaïdis "Minimizing Agency Costs in Two-Level Games: The Controversies over Trade Authority in the United States and the European Union", In Robert Mnookin and Larry Susskind, *Negotiating on Behalf of Others* (New York, Sage Publication, 1998).

⁶¹ It is important to notice that the protocol included a long list of exceptions, concerning particularly the exercise of public authority, the adhesion and participation of member states to the IMF and the IBRD, the precaution measures, the official systems of social security, the policies for the third age population, the third countries immigration measures, etc.

Blair House agreement, was always present and made negotiations difficult.⁶² The project presented by the Netherlands' presidency to the European Council included three propositions. Firstly, article 113 would be modified to include the services and intellectual property rights in the sectors considered by the protocol. It was specified that in the absence of harmonization, the states would remain free to adopt or to modify their legislation in this sectors, hoping that they would respect the agreements reached by the EC. Secondly, the protocol that enlisted the sectors included in article 113 could be modified by the Council, buy unanimity, after the proposal of the Commission and the *avis conforme* of the Parliament, which would allow a progressive adaptation of the external competence to the evolution of international exchanges⁶³. The third aspect of the agreement was about transparency. A protocol fixed the rules that assured the Council's control of the Commission's negotiating activities. The discussions at the Amsterdam European Council would show that this formulation of compromise would not be adopted by unanimity.

At the end of Amsterdam IGC, the Commission itself persuaded the Presidency to withdraw its proposed compromise, which had become fraught with exceptions, caveats, and the introduction of cumbersome control procedures. Even though the proposal represented a limited success on scope expansion, the Commission preferred the status quo. The member states eventually agreed to a simple and short amendment to Article 113 (renumbered 133) allowing for future expansion of exclusive competence to the excluded sectors through a unanimous vote of the Council⁶⁴. In the most optimistic interpretation, this outcome was

⁶² The long-standing dispute over competence crystallized over the EC-US "Blair House Agreement" on agriculture, negotiated by an autonomous Commission in November 1992 after six years of deadlock . Once US negotiators leaked details of the agreement, France declared its absolute opposition and eventually rallied several member states, including Germany, around its position. After difficult exchanges with the US, the agreement was eventually renegotiated partially, with symbolic concessions to France's position. Nevertheless, the Blair House crisis represented a turning point in the delegation of negotiating authority to the supranational representatives. A serious questioning of Community decision-making followed the informal "flirtation" with majority rule and increased autonomy of Commission negotiators, which had enabled the initial agreement to be concluded. Meunier, op.cit

⁶³ It is important to notice that the protocol included a long list of exceptions, concerning particularly the exercise of public authority, the adhesion and participation of member states to the IMF and the IBRD, the precaution measures, the official systems of social security, the policies for the third age population, the third countries immigration measures, etc.

⁶⁴The new Article 113 (5) as finally adopted reads as follows: "The Council, acting unanimously on a proposal from the Commission and after consulting the European Parliament, may extend the application of paragraph 1 to 4 to international negotiations and agreements on services and intellectual property insofar as they are not covered by these paragraphs."

perceived by some observers as an EU version of the American fast-track whereby member states decide at the beginning of a negotiation that the end result will be ratified on a qualified majority basis. Reasserting member state control is quasi-impossible under permanent exclusive competence. This new provision may give greater flexibility to the Council, allowing it to revisit past decisions if necessary. Arguably, the very possibility of such flexibility, or the “reversibility of delegation”, may make it more acceptable to delegate powers to the Commission in the first place⁶⁵.

During the Summit of Nice, there were still some modifications to the Treaty. Qualified majority was extended to services exchanges; and unanimity was kept for the questions of culture, health and education⁶⁶. These minimal changes occurred in spite of Pascal Lamy’s campaigning to acquire the qualified majority decision in services, intellectual property rights and investment in international trade. There were two actors opposed to this reform: national parliaments, and civil society actors. A wide mobilization expressed its concern about three main issues in the Nice IGC: the inclusion of a Charter of Fundamental Rights, the Institutional reforms to prepare an enlargement to the East, and the revision of article 133.

According to Ville-Veikko Hivela, from Friends of the Earth, a deeper amendment of article 133 would have drawn wide public attention to EU activities that would have resulted in the EU generating the for itself public hostility similar to that which the WTO faces. Other observers, including Europe Corporate Observatory, a Brussels-based NGO, affirmed the fact that corporate lobbying groups had been involved in an intense campaign to change the EU policy in international trade⁶⁷. However, according to Marchées Européennes, the text is open to many possible interpretations⁶⁸:

⁶⁵ Coglianese, Cary and Kalypso Nicolaïdis “Securing Subsidiarity: Mechanisms for Allocating Authority in Tiered Regimes”. In Stephen Woolcock (ed.), *Subsidiarity in the Governance of the Global Economy* (Cambridge, Cambridge University Press, 1998)

⁶⁶ This mobilization included groups like Marchés européennes, ATTAC, Movimiento de resistencia global in Spain, etc.

⁶⁷ Opinions quoted by Margrete Strand Rangnes, MSTRAND@citizen.org, “NGOs Mobilising Against « Fast-Track » to the European Commission”, Tuesday, November 14, 2000, 8:59:25 –0500, *MAI Mailing List*, <URL : <http://www.tradewatch.org>>

⁶⁸ Marchés Européennes (European Coordination) Article 133-Treaty of Nice, <URL :<http://www.euromarches.org/english/01/nice11.htm#4>>

“in this connection, by way of derogation from the first subparagraph of paragraph 5, agreements relating to trade in cultural and audiovisual services, educational services, and social and human health services, shall continue to fall within the shared competence of the Community and its Member States. Consequently, in addition to a Community decision taken in accordance with the relevant provisions of article 300, the negotiation of such agreements shall require the common accord of the Member States. Agreements thus negotiated shall be concluded jointly by the Community and the Member States”.

Transnational constituencies and two-level bargaining

As Keohane and Milner argue, internationalization affects the opportunities and constraints that social and economic actors face. Consequently, their policy preferences are affected by the way in which policies will be framed in order to best achieve their fundamental goals⁶⁹. Internationalization also modifies the aggregate welfare of countries, as well as the constraints and opportunities faced by governments, as it modifies their sensitivity to external changes. Possible changes are then to be expected in economic policies and in political institutions⁷⁰. Internationalization alters the nature of the policy-making process.

Goods production has become more integrated on a transnational scale, with States losing some influence over where investments are made. The growing number of financial transactions has led to an increased interdependence and to closer linkages between domestic financial services markets; and the deepening and diversification of domestic markets.⁷¹ This liberalization has lowered the ability of States to influence the cost of money, which constrains both macroeconomic options and the allocation of credit for industrial and agricultural policies. A third sector, which is also increasingly globalized, is services. Global interconnectedness is actually creating “chains of interlocking political decisions and

⁶⁹ Helen Milner and Robert Keohane, eds., *Internationalization and Domestic Politics* (Cambridge, Cambridge University Press, 1996):4

⁷⁰ Possible changes include the liberalization of foreign trade and investment policies, the deregulation of domestic markets, shifts in fiscal and monetary policy, and changes in the institutions designed to affect these policies. Helen V. Milner and Robert O. Keohane, “Internationalization and Domestic Politics: an introduction”, in Helen Milner and Robert Keohane, eds., *op.cit.*, p. 3

⁷¹ W.D. Coleman, *Financial services, Globalization and Domestic Policy Change: a comparison of North America and the European Union*, Basingstoke, Macmillan, 1996, p.p.5-8

outcomes” that are transforming national political systems⁷², as well as macroeconomic policies like the adoption of free trade agreements.

The need for all States to coordinate more macroeconomic policy has several consequences. First, although States remain responsible for social welfare in the minds of citizens, they may have less capacity to meet these demands. Links between citizens and the State may then weaken, opening the door to civil society movements⁷³. Second, as Cox anticipates, states must ensure the necessary infrastructural support for research and development, and providing effective public services to facilitate integration into the global economy⁷⁴.

Finally, as Pauly has outlined, states face a legitimacy problem⁷⁵. States have decided to usher in a new economic order, which requires a partnership with other States and globalized economic organizations to deliver prosperity and fund social welfare functions. Governments have yet to secure the legitimacy of the new order, which could begin with ensuring transparent accountability to one another for economic policies in international institutions. Democracy presumes that political leaders secure the consent of their citizens for significant economic and social changes. But political leaders have not normally sought public approval for their participation in the changing international environment. In fact, some leaders may have consciously sought to restrict the powers of domestic state intervention by committing their governments to global liberalization⁷⁶. Once these decisions are taken, the resulting economic, political, and legal interconnectedness among states leave little room for securing consent.

⁷² Stanley Hoffmann, « Obsolete or Obsolete? France, European Integration and the Fate of the Nation-State », In Stanley Hoffman, ed., *The European Sisyphus: Essays on Europe, 1964-1994* (Boulder, Westview Press, 1995): 71-106

⁷³ Jane Jenson, “Mapping, Naming and Remembering: Globalization at the End of the Twentieth Century”, *Review of International Political Economy* 2,1 (1995): 96-116

⁷⁴ Robert Cox, *Production, Power and World Order: Social Forces in the Making of History* (New York, Columbia University Press, 1987): 258

⁷⁵ Louis W. Pauly « Capital Mobility, State Autonomy and Political Legitimacy, » in *Journal of International Affairs*, 48,2 (1995): 369-88

⁷⁶ Eric Helleiner, “Democratic Governance in an Era of Global Finance”, in Maureen Molot and Maxwell Cameron *Canada among nations* 1995, (Ottawa, Carleton University Press, 1995) : 279-98

This particularly affects the European Union because of its “democratic deficit”. This is a concept invoked principally by the argument that the European Union suffers from a lack of democracy and is becoming remote from the ordinary citizen because its method of operating is too complex. As Majone points out, the term “democratic deficit” refers to defects of public policy-making such as lack of transparency, insufficient public participation, excessive technical and administrative discretion, and inadequate mechanisms of control and accountability⁷⁷. The European Union plays an important role in traditionally domestic areas of policy, but a great part of the population see the Union as distant, and believe there is little room for involvement and influence.

At the external level, the fact that the European institutions are not fully democratic has important implications. Internationalization can also modify the participants in the policy process. Foreign representation is far from being the monopoly of the diplomatic service; large numbers of government agencies are involved in overseas representation these days. However, the fact remains that diplomatic services continue to play an important role in the coordination of representation even within the EU, where links between equivalent departments from different member states are strong. Diplomats continue to dominate the most strategic decision making bodies such as COREPER, the committee of permanent representatives that settles many contentious issues. The mechanisms member states establish for coordinating the handling of different issues inevitably bring a range of actors – diplomats, heads of government and their staffs, cabinet committees- into policy areas once characterized by more specialist policy networks⁷⁸.

As Keohane and Milner put it: “Institutions may enable actors who would lose from internationalization to halt any such change”. Institutions may facilitate the organization of groups opposed to change, or give them privileged political access. They may deny political representation to groups benefiting from the changes advanced by internationalization. Existing institutions may be simply able to block any changes from occurring even in the

⁷⁷ Giandomenico Majone, “The Regulatory State and Its Legitimacy Problems”, (Vienna, Institut für Höhere Studien, 1998) : 21

⁷⁸ Ola Jølstad Finn Interactive Levels of Policy-Making in the European Union«s Common Commercial Policy *ARENA Working Papers*, 97,13 <URL: <http://www.arena.uoi.no/publications>>

face of internationalization⁷⁹. These authors identify three different effects of domestic institutions on the process linking internationalization to domestic politics:

- 1) they may block relative price signals from the international economy from entering the domestic one, thus obscuring actors' interests;
- 2) they may freeze coalitions and policies into place by making the costs of changing these coalitions and policies very high; and
- 3) they may channel leaders' strategies in response to international economic change⁸⁰.

In the case of the European Union, internal protectionist lobbies in the EU are quite strong. Farmers are the most obvious example. They are followed by both manufacturers, whose output, and trade unions, whose jobs, are "jeopardized" by a surge of foreign imports (steel, for example). Their influence is strong during recessions. There are constant opportunities to employ "temporary" safeguard measures as allowed by both the Treaty of Rome (Article 109i) and Article XIX of the GATT This introduces uncertainty in trade relations⁸¹.

This reinforces the idea that transnational groups and firms must be considered in a two-level game approach. The preferences, power, and coalition alternatives of transnational groups and corporations help to determine the size of the win-set of the EU. This thesis will identify in the case of the EU-Mexico Association Agreement, the relevant participants in the conclusion of the agreement: EU's institutions, corporations, non-state political organizations in a context of internationalization which includes inter-state, inter-institutional and relations of states with non-state actors. In fact, such policy preferences, as well as the trade policy considered in a two-level perspective will constitute the main variables that influenced negotiations between the European Union and Mexico. Before studying the negotiations of the agreement, as well as their final result, it is important to give a brief historical background of the EU's Common Commercial Policy, in general, and in particular, of the bilateral relation. This will be subject of the following chapter.

⁷⁹ Keohane and Milner, op.cit.,20

⁸⁰ Ibid.

⁸¹ Miroslav N. Jovanovic, *European Economic Integration. Limits and prospects*, p. 273

Chapter 2 The Background to the EU-Mexico Agreement

Since the beginning of the 1990s, international trade relations have gone through considerable transformations, not only in terms of trade and investment flows, but in the formulation of trade policies. The European Union has reacted to this context through the efforts to deepen its integration model, and to extend simultaneously its foreign relations to diverse sectors and areas of the world. At the EU level of the game, the Maastricht Treaty modified the European institutional framework to establish relations with the rest of the world.

In addition to the traditional cooperation agreements, the Maastricht Treaty included association agreements with the candidate countries to the accession to the EU. The Treaty considered also the Partnership Agreements for the countries with which the EU proposed closer relations concerning political dialogue, in every field of cooperation considered, and that in addition, contained free trade dispositions. This model, which came into force in November 1993 with articles 113 and 238 of the Maastricht Treaty, constituted the legal framework to begin negotiations with Mexico⁸². In this way, the EU repositioned itself in the two-level game, seeking a stronger response to the globalization forces.

The European Union and international trade

Two parallel processes are crucial to the international activity of the European Union. Intra-EU developments have a projection into the international arena at the same time as external developments and external actors can become part of the EU bargaining process⁸³. The developments of multilateral negotiations in the GATT/WTO and other instances, as well as some recent political developments on the international stage, have exercised an influence on the trade policies of the EU, and most particularly, those towards developing countries. Not

⁸² For a very complete work on the historical evolution of the Common Commercial Policy from this approach, see Kalypso Nicolaïdis and Sophie Meunier, *Who speaks for Europe? The delegation of trade authority in the European Union*, article presented at the Third Pan-European International Relations Conference, Vienna, Austria, 16-18 September 1998, <URL: <http://www.ksg.harvard.edu/prg/nicolaidis/europe.pdf>>

⁸³ Michael Smith "The European Union, foreign economic policy and the changing world arena" In *Journal of European Public Policy*, 1, 2 (Autumn 1994): 283-302.

only has the EU expanded its policies toward the developing countries in terms of the number of countries with which it has agreements, but it has also assumed larger roles with regard to its international obligations, as shown by the Mexican case. As this work intends to demonstrate, this has been the result of both external forces and internal factors such as the widening and deepening of the EU.

As stated in the previous chapter, the emergence the services sector onto the international trade agenda in the mid-1980s raised issues about the Community's trade competence⁸⁴. In fact, from the beginning of the 1990s to the present time, the European Commission has sought to increase its bargaining power at the international level, and to be granted the exclusive authority to negotiate trade agreements on all types of services and intellectual property on grounds of efficiency⁸⁵. It could be argued then, that EU trade policies in the 1990s have an outward-oriented direction. In world trade diplomacy, the EU has assumed joint leadership responsibilities with the major world economic power, the United States, and has paved the way for significant sector agreements in the WTO in information technology products, telecommunications applications, and financial services⁸⁶. At the same time, it should be analyzed if this leadership has evolved also in its trade relations with the South, through a commitment to an agenda of economic empowerment, in the case of Latin America, and particularly, to Mexico. These two aspects will give a more complete panorama on the distribution of "power, preferences and possible coalitions" of the EU and Mexico at the international level⁸⁷. It will be possible then, to observe how a greater autonomy of central decision-makers (the Commission) from constituents (the member states in this case) can increase the win-set and then, the possibility of concluding an international agreement with developing countries.

The EU and Latin America

⁸⁴ Pierre des Nerviens, "Les Relations extérieures", in *Revue Trimestrielle de Droit Européenne*, 33,4, (October – December 1997) : 802-3

⁸⁵ Meunier and Nicolaïdis, op. Cit.

⁸⁶ Klaus Günter, *The Politics of Freer Trade in Europe*, 42

⁸⁷ Putnam, "Diplomacy and Domestic Politics", 443

The EU motivations to give priority to a negotiation with a specific region or country are often influenced by the internal developments of the Union itself. It is well known that the involvement of the European Union with developing countries has been heavily influenced by the colonial past of some of its member states. In particular, France played a decisive role in shaping European policies since the 1950s towards Africa. The Yaoundé Conventions, and then the Lomé Conventions since 1975, as well as the 2000 Cotonou agreement, involve trade preferences and aid flows to African, Caribbean and Pacific countries (ACP). However, as new members acceded to the European Community, they brought with them historical relationships with former colonies and other trading partners. These have had the effect of expanding its role in international development⁸⁸.

This is particularly evident in the case of Latin America. Until the 1970s, Europe's role in Latin America was almost negligible. The region was in what could be described as an "in between" position: not enough underdeveloped (compared to ACP countries) to get aid from the then European Community, but not enough developed to be considered as a potential economic trade partner. Therefore, according to Amaury Hoste, Latin America did not attract the Community's attention by itself, and there were no real supporters inside the EC before the Spanish accession⁸⁹. Moreover, according to Federico Birocchi, in the pyramid of the EU trade preferences, both Asian and Latin American countries have been at the bottom, coming after the ACP and Mediterranean countries⁹⁰. Trade relations between Latin America and the EU had been characterized by a lack of dynamism and wide asymmetries over the past decades, as a result of which the share of the EU in Latin American exports and imports has decreased considerably.

In June 1987, a year after Spain's accession, the final policy guidelines issued by the European Council of Ministers, broke little economic or political new ground, but they did constitute the first strategy paper committing the European Community to action in Latin

⁸⁸ Olufemi Babarinde, "The European Union's relations with the South: a commitment to Development?" in Carolyn Rhodes, ed., op. cit., 144.

⁸⁹ Amaury Hoste, *The New Latin American Policy of the EU*, European Development Policy Study Group Discussion Paper no. 11, February 1999.

⁹⁰ Federico Birocchi, University of Bradford, *The European Union's Development Policies towards Asian and Latin American Countries*, DSA, European Development Policy Study Group Discussion Paper no. 10, February 1999.

America.⁹¹ However, it was only when Spain held the presidency of the Community that cooperation went beyond good-will declarations⁹². Since 1989, on Spanish insistence, the Union has acted on a number of fronts⁹³. The European Community established during this period a broad institutional relationship with Latin America. The number of EU diplomatic delegations was expanded. The European Commission acquired observer status at the Organization of American States and set up cooperation mechanisms with such organizations as the Latin American Economic Integration Association and the Inter-American Development Bank.

The end of the Cold War also induced geopolitical changes, which, according to Wolf Grabendorff, contributed to the slow decline of the hegemonic presence of the United States in Latin America and the Caribbean and the emergence of a renewed role for Europe in the hemisphere.⁹⁴ With the end of the Cold War and the collapse of international communism, the potential for a greater presence of the European Union increased: the United States no longer had an overriding concern with hemispheric security, and the renewed commitment by Latin America to expanding trade and investment ties between the region and the international system would provide opportunities for Europe to assume a greater role in the hemisphere.

In addition, the emergence of trade blocks in different areas of the world favored a reconsideration of the EU presence in the Western Hemisphere. The European Union would seek then, to develop a more sophisticated strategy to improve relations with this region that had been neglected before. At the same time, the network for non-preferential agreements with Latin America widened, the Europe's development aid was re-conceptualized. In the 1991-1995 EC guidelines for Asia and Latin America, there was a reorientation beyond

⁹¹ This document intitled "Nuevas orientaciones de la Comunidad Europea para las relaciones con América Latina" is known also under the name of "Documento Cheysson", Angel Viñas « Spanish Policy Towards Latin America : From Rhetoric to Parnership" ,Occasional paper of the Iberian Studies Institute, University of Miami, May 1992, 17.

⁹² Manuel Montobbio, "La Política Exterior Española y las Relaciones Union Europea-América Latina » In *Revista Española de Desarrollo y Cooperación* 3 (1998) : 17-31

⁹³ Edward Schumacher, "Spain and Latin America" in Kaufman Purcell and Simon, eds., op. cit., p. 121-2

⁹⁴ See Wolf Grabendorff "Reevaluating the Atlantic Triangle: An Overview, in Wolf Grabendorff and Riordan Roett, eds., *Latin America, Western Europe and the Us: Reevaluating the Atlantic Triangle*, (New York, Praeger Publishers, 1985): XIV

traditional technical and financial co-operation to include such matters as integration, education, the environment, urban problems, and the encouragement of private business⁹⁵.

EU-Mexico bilateral relations prior to 1997

The evolution of these preferences and institutions for the cooperation with Latin America, would obviously affect bilateral relations with Mexico. This section will refer to the evolution of political and economic ties between both parties. As it will be observed, an evolution of the role of the European Union had an influence on the increasingly close relation that it held with Mexico. This was evident for the first agreements that were signed in 1975 and in 1991.

Diplomatic relations between Mexico and Europe began during the early 70s, with the establishment of a Mexican diplomatic mission, but the initial stages of the bilateral relation were mainly focused on economic matters. During that decade, the Customs Union was formally achieved among the first six member states. Prior to that, relations with Mexico would not be that different from those maintained with other countries, given the fact that the Europe's external bargaining capabilities have always been directly related to its institutional structure. Once the customs union was achieved, the Commission would seek to establish deeper relations with third countries⁹⁶. In this regard, after establishing preferential agreements with the AC (African and Caribbean) and the Mediterranean countries, some agreements of generalized preferences would be applied to the ALA (Latin America and Asia) countries.

⁹⁵ Communication de la Commission au Conseil et au parlement européen, *Union Européenne-Amérique Latine. Actualité et perspectives du renforcement du Partenariat 1996 – 2000*, October 10, 2000, <URL : [http : //www.europa.eu.int](http://www.europa.eu.int)>

⁹⁶ Fernando de Mateo, "Mexico and the European Economic Community: Trade and Investment", in Peter Coffey and Miguel Wionczek, eds. *The EEC and Mexico* (Dordrecht, Martinus Nijhoff Publishers, 1987) : 15ss

Mexico would seek, at the same time, to counterbalance its “special relation” with the United States, menaced by protectionist measures⁹⁷. For Mexico, country that was not still party to the GATT, it was essential to obtain the Most Favored Nation (MFN) treatment in its relations with the European Common Market in a range of aspects that included customs and some other trade barriers, such as internal taxes, merchandise transit, imports regulations, etc. Consequently, Mexico had to advance its economic interests by foreign policies, aimed at influencing other nations’ (in this case, Europe) internal and external affairs⁹⁸. On September 1975, a first Framework Agreement was signed in Brussels between Mexico and the European Economic Community⁹⁹. The two parties granted each other the most favored nation treatment, and expressed the desire to encourage commercial and economic cooperation in “all sectors of interest to them so as to contribute to their economic and social progress and to the balance of the reciprocal trade at the highest possible level taking into account Mexico’s special situation as a developing country”. To facilitate the successful implementation of the agreement, a Joint Committee was set up, composed of representatives of both parties.

This agreement was very general in scope and quality. One of the objectives of the EEC was to gain privileged access to Mexican natural resources, particularly petroleum. Its interests were, as a matter of fact, limited to an extended economic cooperation in science and technology and tourism.¹⁰⁰ Mexico did not get better access to the European market, which would difficult this country’s efforts to eliminate its chronic deficit towards the EEC. According to José Antonio Sarahuja, its limited impact was a consequence of Mexico’s Third World foreign policy orientation (*tercermundismo*), and its inward-directed development strategy. The EEC had, as well, adopted several protectionist measures, which peaked in the 1970s¹⁰¹. The EEC was not prepared to reduce trade barriers or to abolish preferences

⁹⁷ Given the unbalanced size of both economies, there were little chances for Mexico to rely on threats, and this country will try to opt for incentives to increase the probability of change of the US policies to make them compatible with its trade interests.

⁹⁸ Robert A. Pastor, “United States and Central America. Interlocking Debates” In Robert Putnam et al, eds. *International Bargaining and Domestic Politics*, 325.

⁹⁹ *Agreement for Commercial and Economic Cooperation between the EEC and Mexico*, Official Journal of the European Communities, L.274/75.

¹⁰⁰ Esperanza Duran, *Mexico’s relations with the European Communities*, Madrid, IRELA, Working Paper 33, 92 (1992):12

¹⁰¹ Sarahuja, “The EU and Mexico” *Journal of Interamerican Studies and World Affairs*, 42, 2:36

conceded to the “associated” ACP countries. In this case, the institutional arrangements made by the two parties strengthened its position at the domestic level, but they contributed to the weakening of their international bargaining position, that was not a priority at the time¹⁰².

The aim of the 1975 agreement was to achieve “the highest and most balanced trade relation possible”, but the agreement did not contain any dispositions that the Community had not signed with any other country. Moreover, the application of the MFN clause was not less advantageous than any other preferential treatment that either the UE or Mexico could concede to any other party under the GATT. The agreement had a very narrow reach in technical aspects related to non tariff measures included in the GATT, which were in the process of negotiation in the Tokyo Round¹⁰³. The lack of certitude at the international level contributed then, to the narrowing the “win-set” of both countries at the international level.

It must be recognized, nevertheless, that a Joint Commission was created, institution that increased the opportunities for bilateral dialogue. This organism would constitute a means to achieve a closer cooperation between the business communities of the two parties, as well as the identification of sectors and products that could widen the bilateral exchanges.¹⁰⁴ These conditions remained until the domestic priorities of both parties would be different in social, economic and politic terms changed in the 1980s.

Mexico faced during that decade the 1982 crises, and the main instrument of its economic policy became the process of economic openness, which was to be manifested through its adhesion to GATT and the beginning of negotiations with the United States to achieve commercial liberalization. At the domestic level, Mexico needed economic openness in order to accelerate its process of economic recuperation. The effects of the stabilization policies could be diminished through economic growth, based in a more extensive flow of foreign

¹⁰² Robert D. Putnam, “Diplomacy and Domestic Politics”, 460

¹⁰³ Miguel Angel Díaz Mier and Penelope Gonzalez del Río, “Los acuerdos de fin de siglo entre la Unión Europea y México”, In *Comercio Exterior* 50, 8 (August 2000): 676

¹⁰⁴ Table 2.2 in the Appendix reveals the initial business-oriented cooperation between the two parties.

resources in order to finance imports, simultaneously with the foreign debt payment.¹⁰⁵ Trade liberalization began in 1985 in Mexico, when almost all import licenses were suppressed and the import tariffs were reduced.¹⁰⁶

From a political perspective, Mexico's external vulnerability had created a favorable climate for a closer relation with Europe. For example, the participation of Mexico in the Contadora group, which sought to end the Central American crisis, constituted a point of convergence with Europe. Furthermore, after 1981, Mexico's trade balance with Europe began to be positive, with a record surplus of US \$3 billion in 1984¹⁰⁷. A second important change was the diversification of Mexican exports to the EEC. Between 1984 and 1989, the share of petroleum and its derived products fell from 85 to 49 percent, and exports of manufactured goods increased¹⁰⁸. In this context, Mexican priorities changed from increased trade access in the previous decades to the cooperation in "new issue" trade areas, such as energy, trade, investment promotion, and science and technology.

From 1985 to 1989, European Community aid to Mexico rose to ECU \$33 million, in contrast with the ECU \$2.2 million that the EC had granted Mexico between 1979 and 1984¹⁰⁹. Among the institutional aspects that contributed to this steady rise in bilateral aid, it is possible to mention the creation of the Mexico-European Union Business Council, which was part of a set of increased trade promotion and business cooperation programs; as well as the inauguration of the European Commission Representative Office in Mexico City.

At the internal level of the European Union, important institutional reforms were taking place. The Single European Act modifying the Treaty of Rome was signed in Luxembourg in 1986. The chief internal changes included in the Single European Act (SEA) would be decisive for future relations of Europe with countries like Mexico. Briefly, the innovations of

¹⁰⁵ Jaime Ros, "Mexico and NAFTA: Economic Effects and the Bargaining Process" In Bulmer, Thomas V., et al (eds) *Mexico and the North American Free Trade Agreement: Who will benefit?* (London, Institute of Latin American Studies, 1994): 62

¹⁰⁶ The imports increased from 9.5 % of the total GDP in 1985 to 12.5% in 1989.

¹⁰⁷ European Commission Delegation to Mexico, *Euronotas 2000*, México, D.F.

¹⁰⁸ Juan Ramon Lanzas Molina and Encarnación Moral Pajares, "Las relaciones de la Unión Europea y España con México" In *Comercio Exterior*, 50, 8 (August 2000): 659 –673

¹⁰⁹ Sarahuja, "The EU and Mexico", 37.

the SEA had as main purpose to create an European “area” without borders for the free movement of goods, people, services and capital, besides establishing the bases for the future development of the economic and monetary union, as well as allowing the Community institutions to have a direct intervention in social affairs. The community would further support technology research and development by implementing projects that would strengthen the scientific and technological basis of the European industries and strengthen their international competitiveness. In addition, it provided for interventions to safeguard the environment by EC actions for preventing and recovering damages to the environment. The SEA reshuffled the “interests” card in a significant way, altering forms of competition, trade and other policies.

The increased openness of both Mexico and the European Community, eventually resulted in the framework cooperation agreement of Luxembourg, signed on April 26, 1991¹¹⁰. The SEA and the liberalization process that accompanied internal policies made the EC a very important area for the Mexican exports and for European investments in that country. This shift would be reflected in the new treaty. It covered aspects like double taxation, industrial cooperation, promotion of investments, technological development, intellectual property and a wide variety of aspects. The 1991 agreement with Mexico has been frequently compared to similar agreements signed with other Latin American countries, but this treaty was a special case. It did not include the “democratic clause” that made cooperation conditional on the respect of certain principles. In contrast, the agreements signed with other Latin American countries, which were called “third generation” treaties, included political criteria as the basis for the cooperation, and they did not only cover trade aspects, but some other issues related to economic, scientific and technical cooperation.

The main objective of the 1991 agreement was explicit in Article 1, and established that “both parties are engaged to give a renovated impulse to their relation”. The agreement was structured in six main chapters, which would consider economic cooperation (art.2 to 10), commercial cooperation (art.11-18), scientific and technical (art. 19-22), cooperation in

¹¹⁰ Miguel Angel Díaz Mier and Penelope Gonzalez del Río, “Los acuerdos de fin de siglo entre la Unión Europea y México” In *Comercio Exterior*, 50, 8 (August 2000) : 681-2

various fields (public health, financial, industrial, investing, drug traffic, tourism, environment, public policy and culture, art 23-38), institutional cooperation (art.39), and the technical aspects of the agreements (art.40-41). This agreement led to the creation of three new organisms to promote Europe-Mexico trade (Eurocentros, Nafin, Bancomext), which would foster closer relations between the two business communities.

The agreement was not preferential and it was perfectly in accordance to Mexico's adhesion to GATT. However, the inter-relation of different fields of cooperation was very important. Article 22 included industry, intellectual property, technology transfer, agriculture, fisheries, energy, natural resources, services, and information exchange on currency matters. Noteworthy too, was the establishment of new cooperation formulas, like the creation of joint ventures, the constitution of networks of economic operators, etc. From a trade perspective, this agreement was less precise than the former, and such imprecision was due mainly to the rules included in GATT. Explicit compromises were achieved only at the technical level (the cases of dumping or the temporary import of merchandise).

Some authors argue that the lack of precision constrained the instruments that would eventually allow an increase of the bilateral trade market¹¹¹. Another important void was the absence of a legal framework that would protect European investments in Mexico. Furthermore, the Mexican exports would not be diversified as a result of the agreement.¹¹² However, the positive impact of the agreement can be observed particularly through the stimulation of cooperation between firms, and the creation of a favorable framework for the intensification of a political dialogue between the two partners.

The immediate antecedents of the Mexico-EU 1997 Agreement: the shift of the parties' strategies, institutions, preferences

Several factors led to a change in the legal basis for bilateral relations. Mexico and the European Community would sign preferential agreements with other partners, which caused

¹¹¹Ibid.

¹¹² Jose Ahuja, *México y la Unión Europea, hacia un nuevo modelo de relación?* Documento de Trabajo 1, 1997, Instituto Complutense de Estudios Internacionales, Madrid, 1997

a decline of the trade between Mexico and the EU vis-à-vis other preferential trading partners. On the Mexican side, the crisis of 1982 forced it to abandon its costly, inward-oriented, and protectionist economic development strategy based on import substitution. The country began to open its economy to increase its efficiency, but the improvement of the performance of its economy would be accompanied of a decline of the trade relations with the European Community. The EC share in Mexico's total trade dropped from 21% in 1982 to just 6.5% in 1999. In 1998, Mexico ranked 21st as a market for EC exports and 34th as a source of EC imports. This fact contrasts with the remarkable growth that Mexico and its FTA partners have experienced in their bilateral trade, as the following figure 2.1 and 2.2 show.

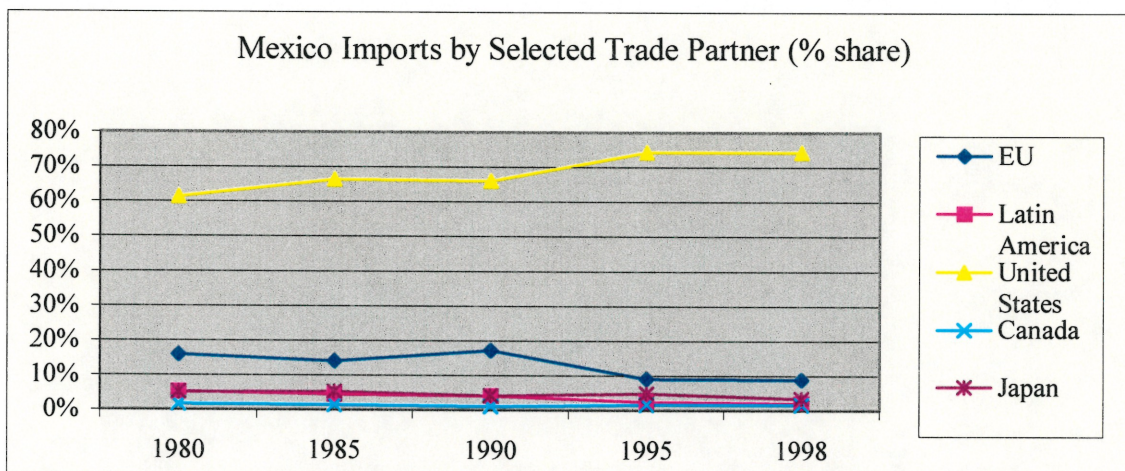


Figure 2.1 Mexico Imports by Trade Partner, Source: SECOFI

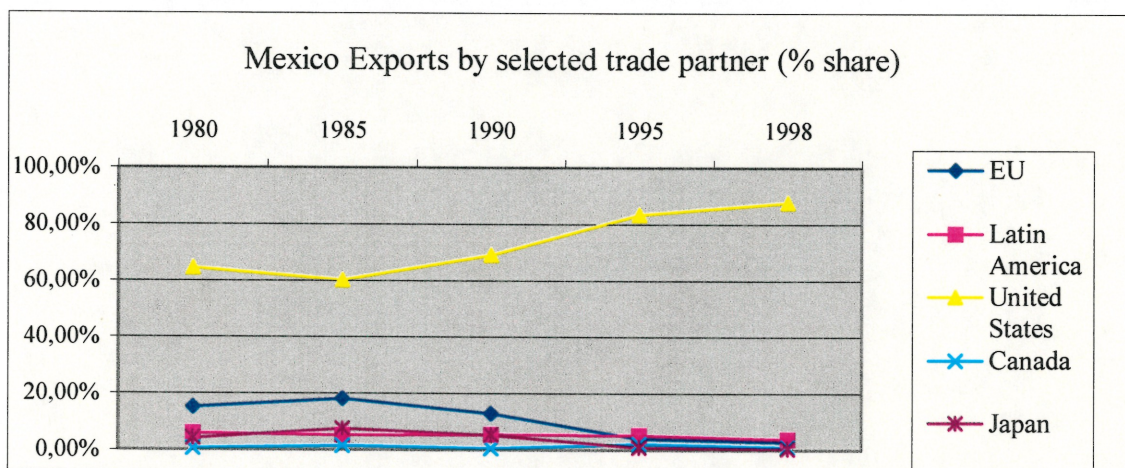


Figure 2.2 Mexico Exports by Trade Partner, Source: SECOFI

This decline in trade between the two parties was related to the consolidation of each party's liberalization process with other trading partners. Both had signed several FTAs and preferential agreements that placed EU exporters to Mexico and Mexican exporters to the European market in a disadvantageous position. Actually, EU tariffs on imports from Mexico were above those applied on the majority of EU trading partners as late as 1996. Furthermore, Mexico applied higher import duties to European goods than those applied on goods coming from countries that had a free trade agreement with Mexico; i.e. Chile, Bolivia, Colombia and Venezuela, Costa Rica, Nicaragua, and Canada and the U.S.

In order to overcome this challenge and boost commercial flows, both parties agreed to negotiate a free trade agreement. There were also political and geopolitical reasons to strengthen the relations between them. Some authors have argued that after the collapse of the Soviet Union, the ability of countries to compete economically replaced the earlier Cold War focus on military competitiveness. A new increasingly tripolar structure emerged, dominated by regional economic groupings in Europe, Asia, and the Americas¹¹³.

The EU began then, to consider a closer relation with Latin America at the regional and at the bilateral level. In this sense, the EU presented Latin America with the possibility of trade liberalization for the first time, through diplomatic initiatives by some member states, European Commission proposals, and a formal proposal by the European Parliament in April 1994¹¹⁴. The most important changes leading to this shift at the domestic level were the reactivation of regional integration processes in Latin America, the development of the CFSP, the beginning of the process to achieve the SEM and the establishment of a common currency in Europe through Maastricht, as well as changes in trade and investment flows in both regions¹¹⁵. At the international level, the GATT Uruguay Round agreements of 1994

¹¹³ Susan Kaufman Purcell & Françoise Simon, *Europe and Latin America in the World Economy* (Colorado, Lynne Rienner Publishers, 1995): Introduction.

¹¹⁴ European Parliament, Resolution of April 22 on economic and trade relations between the European Union and Latin America, *OJ C* 128, May 9, 1994: 443.

¹¹⁵ See Francisco Aldecoa, El acuerdo entre la Unión Europea y el MERCOSUR en el marco de la intensificación de las relaciones entre Europa y América Latina, *Revista de Instituciones Europeas* 22,3 (1995):761-92; Susan Kaufman Purcell and Françoise Simon, The Impact of Regional Integration on European-Latin American Relations in Purcell and Simon, eds., *Europe and Latin America in the World Economy* (Boulder, Lynne Rienner, 2000): 39-84.

had important implications for relations between the EU and Latin America. One of the effects of the multilateral liberalization was to reduce the ACP countries' preference within the EU's preference hierarchy¹¹⁶.

Furthermore, liberalization within the GATT, and then the WTO (1994) reduced progressively the costs of extending preferences to other countries or areas such as Latin America. The growth of exports and the large European trade surplus also reduced the cost of an eventual liberalization. However, these phenomena could have been counterbalanced by the trade diversion caused by the integration process in Mexico within NAFTA, leading to a reduction of market quotas for the EU. In addition, European investors would receive less favorable treatment than the countries from the region, since the United States began to push forward to establish by 2005 a Free Trade Area of the Americas (FTAA) to include the entire region. For the European Commission, this was, and continues to be, one of the main arguments for proposing the establishment of a new generation of agreements with Latin America¹¹⁷.

The EU's new policy for Latin America, and Mexico can, therefore, be considered a strategic response to the threat of the FTAA. For Latin American countries, the European option is also strategically valuable. It represents a diversifying option and gives the countries of the region a counterweight against the strong influence of the United States, thus widening the margin of negotiation within the FTAA. More specifically, the financial crisis of December 1994 strengthened Mexico's traditional position as "a country of multiple memberships that requires selective and flexible alliances"¹¹⁸ in order to diversify its external links. Mexico has signed liberalization agreements with Colombia and Venezuela, associates of the "Group of Three", and with Chile, Bolivia, Central America, and members of Caribbean States.

¹¹⁶ Jose Antonio Sarahuja, "Trade, Politics and Democratization : The 1997 European Agreement between the European Union and Mexico", In *Journal of Interamerican Studies and World Affairs*, 42,2 (1998): 44

¹¹⁷ European Commission, *Hacia un fortalecimiento de la política de la Unión Europea respecto de MERCOSUR. Comunicación de la Comisión al Consejo y al Parlamento Europeo* COM (94) 428 final, October 19, Brussels, European Commission, 1994; European Commission, *La profundización de las relaciones entre la Unión Europea y México, Comunicación de la Comisión al Consejo y al Parlamento Europeo*, Com (95) 03 final, February 8, Brussels, 1995.

¹¹⁸ Jorge Chen, « Las relaciones entre México y Europa hoy », in *Revista Mexicana de Política Exterior*, 42 (Winter 1996): 149-58

In Mexico, a diversification strategy was part of its National development Plan 1995-2000 and the Industrial and Foreign Trade Policy Program of the Mexican Ministry of Trade (SECOFI). According to the latter, foreign trade negotiations are essential to increase and diversify exports, as well as sources of foreign direct investment. This policy aims to achieve reciprocity of market access, through a gradual opening on the part of Mexico¹¹⁹. According to the former Finance Secretary José Angel Gurría, the trade agreement with the EU was a top priority for diversification and the establishment of a counterweight to U.S. trade influence. In this view, the Pacific Basin was not a tangible alternative, and Latin America has been often considered more a competitor than a source of diversification¹²⁰.

Conditions for reciprocity were especially important in the European case because the process of unilateral liberalization that Mexico had started since the mid-1980s placed European exporters in a disadvantaged position.¹²¹ Reciprocity of access would ease and neutralize the negative effects of trade barriers arising from the SEM, the growing competition from Eastern Europe and the new Generalized System of Preferences (GSP). In this sense, the former Mexican ambassador to the EU, Manuel Armendáriz, noted that the Mexican government hoped to “sign a true free trade agreement with the European Union, whose economic and trade dimensions would entail much more than the third generation agreement signed in 1991”¹²². The new agreement should establish a precise calendar of liberalization, immediate in some areas and gradual in others, recognizing existing asymmetries and Mexico’s position as developing country.

For the EU, Mexico represents a market of almost 20 million consumers. It is an important trade associate and, above all, an export “platform” to the U.S. and Canadian markets. According to Mexican estimates, trade liberalization with Mexico would allow for an increase of around US \$ 5 billion in EU exports to NAFTA. The EU also believed that a new

¹¹⁹ Mexican Ministry of Economy Officer, Personal Interview, Paris, September 20, 2001.

¹²⁰ Jose Angel Gurría, « Principios, objetivos y estrategias de la política exterior de México » in *Revista Mexicana de Política Exterior* 46 (Spring 1995) : 284-301

¹²¹ Mendel Goldstein, European Commissioner, Personal interview, September 25, 2001.

¹²² Posturas divergentes en el primer encuentro México-Union Europea, *Excelsior*, October 15, 1996, 14

agreement would allow it to retain its market share and consolidate its position in Mexico, thus confronting trade diversion caused by NAFTA¹²³. As a matter of fact, a number of Mexican negotiators agree that the agreement with the EU would have never been possible without NAFTA¹²⁴.

A poll published in 1995 by the European Commission Delegation in Mexico revealed that European companies in Mexico's internal sectors such as telecommunications, automobiles, chemicals, pharmaceuticals, textiles and footwear felt that their competitive position would be adversely affected by NAFTA.¹²⁵ The European Union was also worried about the unfavorable position in which its companies would continue to operate without an agreement. This was clear after considering the benefits granted by NAFTA to North American companies in fields such as telecommunications, financial services, insurance, and investment. The investment regime was particularly important, considering Mexico's ambitious program of privatization. The EU and its member states perceived that a new agreement could contribute to an improvement in both areas.

NAFTA makes no distinction between companies of its members in terms of public contracts, which resulted in disadvantages for EU suppliers of services. With regard to intellectual property rights, NAFTA's protection regime is superior to that of the WTO. Thus there was a risk that Mexican trade protection would increase, as the tariffs that Mexico imposed on EU exports were inferior to those agreed on within the WTO. It is important to notice, finally, the EU wanted to sign a fourth-generation agreement and not a full free trade agreement because the former would permit the establishment of liberalization calendars at a later stage, as well as the creation of exclusion lists for sensitive products, thus making the agreement politically feasible.

¹²³ European Commission, *La profundización de las relaciones entre la Unión Europea y México, Comunicación de la Comisión al Consejo y al Parlamento Europeo*, Com (95) 03 final, February 8, Brussels, 1995, 12.

¹²⁴ Mexican trade official, Personal interview, Paris, September 21, 2001; Mexican services trade negotiator, Personal interview, October 3, 2001.

¹²⁵ European Commission Delegation in México, *Informe de la evolución de las relaciones Unión Europea-México*, Mexico City, October 1995.

The politics of the negotiations with Latin America, and specially with Mexico, can be conceived as a two-level game. At the EU internal level, Spain had an interest on pursuing negotiations with this country, in order to balance relations with other regions, while European investors were interested in acquiring the same advantages as their NAFTA competitors. At the international level, the EU would seek to maximize its own ability to cope with the internal pressures following the diminution of the trade and investment flows between both regions. As a matter of fact, the progressive deepening of the contents and the specialization of competence of the European Union provoked an evolution of the European presence in Mexico trade and investment sectors, as the different factors for a win-set in the bilateral diplomatic relations suffered progressively a transformation of the negotiators' strategies, the institutions, and the preferences and coalitions of the different parties.

Chapter 3 The negotiation process

Mexico and the European Union signed a Political and Economic Association Agreement on December 8, 1997, after two years of talk and a difficult negotiation process. The agreement provides for an institutionalized political dialogue based on mutual respect for democracy and human rights, creates a framework to negotiate the liberalization of trade in goods and services as well as investment flows, and calls for reinforced economic cooperation. The agreement seeks to promote more dynamic trade and investment relations between Mexico and the EU, as the "association" proposed by the agreement constitutes an attempt to overcome the somewhat stagnant relations of the 20 years before its signature. More specifically, it also constituted the framework for the negotiation of the free-trade in goods dispositions through the Interim Agreement, which has been described by the Commissioner of Commerce, Pascal Lamy, as the broadest free-trade agreement the EU has ever negotiated.

This chapter will examine the reasons that explain why the EU became interested in negotiating with Mexico. It will also show why the two-level bargaining process eventually resulted in an association agreement without precedent through the ratification of all its dispositions (political and cooperation, goods and services) in March 2000.

The two-level negotiations in the 1997 Global Agreement

The EU-Mexico agreement constitutes an empirical case of the two dimensions present in international negotiations. As Robert Putnam states, the strategies and tactics chosen by negotiators are constrained by what domestic constituencies are expected to be willing to ratify and by the expected reactions of other actors¹²⁶. The outcome of these negotiations depended on the ability of both parties to influence their own and their counterpart's domestic politics. Furthermore, a “democratic difference”¹²⁷ in foreign economic policy appeared evident during the negotiations. This chapter will map the different strategies chosen in order to exploit control over information, to target policies directly at domestic groups, or to change the character of domestic constraints during the different stages of negotiation.

The domestic level: the pre-negotiation of the Global Agreement

On May 15, 1995, under the French presidency, officials from the European Commission and the Council met in Paris with a Mexican delegation to sign a “solemn declaration”, with three central objectives: to strengthen political dialogue and consultation within international organizations; to intensify cooperation in bilateral programs; and to seek a “favorable framework for the development of exchanges in goods, services and investment, including a progressive and reciprocal liberalization of trade, taking into account the sensitivity of certain products, and in accordance with relevant WTO rules”¹²⁸.

The European Commission made public in April 1995 a study that revealed that the sensitive products for the EU and its associates would affect only between 10 and 11 percent of total Mexican exports and could be excluded from the agreement without violating the WTO rules. In June 1995, following an *impasse* provoked by the British veto over the “mad cow” disease crisis, the Council of Ministers agreed to the definitive guidelines for negotiation.

¹²⁶ Quoted in A. Moravcsik, “Introduction. Integrating International and Domestic Theories of International Bargaining”, in Robert Putnam et al, eds., op. cit., 15

¹²⁷ Term coined by Edward D. Mansfield, Helen V. Milner, and B. Peter Rosendorff, “Free to trade: Democracies, autocracies and international trade”, *American Political Science Review* (June 2000), on-line version <URL: <http://www.columbia.edu>>

¹²⁸ Quoted by Jacques Lecomte, « Las relaciones entre la Unión Europea y México: tres generaciones de acuerdos de cooperación », in IRELA *La Unión Europea y México: una nueva relación política y económica* (Madrid, Instituto de Relaciones Europeo-Latinoamericanas, 1997): 1

Negotiations were to be carried out on a sector-by-sector basis and had to involve both the member states and the Commission, as the agreement would include services, which constitutes a sector of mixed competence, as seen in the previous chapter.

The next step came with Madrid Summit (15-16 December 1995), which instructed both the Council of Ministers and the European Commission to “...initiate, as soon as possible, negotiations with Mexico for a new political, economic and trade agreement, including the progressive and reciprocal liberalization of exchanges, taking into account the sensitivity of certain products, and in conformity with WTO rules¹²⁹.” It established then, the three pillars of a future agreement. First, it called for a reinforced, high-level political dialogue. Second, it called for a framework for investment and trade, as well a intensification of economic cooperation. The declaration served to assure the respective markets and demonstrate EU commitment to the Mexican economy in the wake of the peso crisis¹³⁰.

Another antecedent for the new cooperation agreement with the European Union was the visit of former president Ernesto Zedillo Ponce de León to the United Kingdom on January 29, 1996, when the Joint Plan of Action United Kingdom-Mexico took shape. It reinforced bilateral cooperation, and made the UK one of the two most important supporters of the EU-Mexico Agreement. It is interesting to notice that president Zedillo sought not only to get the British government’s support, but he also addressed corporate actors, which could potentially constitute allies “behind the back”¹³¹.

The President was accompanied by the Ministers of Foreign Affairs, Finance and Trade and Industry, as well as by 15 high-level Mexican businessmen whose purpose was to establish contacts with their counterparts already taking advantage of or interested in NAFTA¹³².

¹²⁹ Conclusions de la présidence, In *Europe* no. 6629 (édition spéciale – n.s., December, 17, 1995).

¹³⁰ “La UE respalda a México con la firma de un preacuerdo de asociación », *El País*, May 3, 1996 :55

¹³¹ A. Moravcsik, Introduction, 15

¹³² President Zedillo participated in a Roundtable, hosted by the Governor of the Bank of England, with British CEO's and chairmen of major British industries, both already active in Mexico as well as intending to join the growing number of foreign direct investors taking advantage of the NAFTA. Besides, he spoke at the House of Lords in Westminster to an audience of the all-party parliamentary group and invited guests. He was scheduled to address around 400 members of the Confederation of British Industries (CBI). At smaller events hosted by banks and individual companies, the Mexican President had the opportunity of meeting additional groups of businessmen. Mexican Embassy at London, “June 1st, 2001, <<http://www.embamex.co.uk/press>>

According to Manuel Armendariz, the European firms conducted an extensive lobbying campaign, which would make the European Union receptive to the Mexican initial proposition to negotiate¹³³. As Susan Strange et al assert, « firms have become more involved with governments and governments have come to recognize their increased dependence on the scarce resources controlled by firms»¹³⁴.

However, EU member states had different opinions about the scope and the content of trade liberalization and the agreement itself. Given that the EU is a non-coercive and consent based system¹³⁵, unanimous voting procedures would coincide with more complex procedures and processes. The member states had to choose in this very specific case, between the creation of a zone of free commerce with Mexico and a less comprehensive reduction on tariffs. At the Council of Ministers of General Issues in February 1996, Spain and the United Kingdom favored an agreement leading to a free trade area through a “single-phase” negotiating process. Germany, France, Portugal, and Austria were opposed to free trade and a possibly indiscriminate liberalization process and proposed deferring this through a “two-phase” negotiation similar to that used with MERCOSUR.

France claimed that free trade, particularly in the agriculture and livestock sector, could hurt the Common Agricultural Policy (CAP) and preferences granted to the ACP countries. French resistance stemmed from fears that the agreement with Mexico would serve as a model for future agreements. While the agricultural and livestock sector was not sensitive in the Mexican case, it certainly was in the case of MERCOSUR or South Africa¹³⁶. For the Spanish official, Carlos Westendorp, the debate inside the EU was “complex” because the future agreement with the Mexicans would serve as “model” to establish similar pacts with

¹³³ Manuel Armendáriz Echegaray, former Mexican Ambassador to the European Union, « Antecedentes de la Nueva Relación México-Union Europea: El Acuerdo de Asociación Económica, Concertación Política y Cooperación 1997” In *Mercado de Valores*, June 2000: 25

¹³⁴ Susan Strange, John Stopford, and John S. Henley, *Rival States, Rival Firms, Competition for world market shares* (Cambridge University Press, 1991): 1

¹³⁵ Erik Oddvar Eriksen and John Erik Fossum “The EU and Post-National Legitimacy”, *ARENA Working Papers* 26, 2000, <<http://www.arena.uio.no/publications>>

¹³⁶ « UE-México : la posición de negociación aprobada por el Consejo implica que el objetivo final sera el libre cambio, aunque quedan por negociar las modalidades y el calendario” In *European Information Bulletin*, Brussels, 3, 748, May 20-21 1996 : 6.

other Asian and Latin American countries¹³⁷. The Italian presidency of the EU failed to reach an agreement or an intermediate solution, and the negotiation guidelines returned without approval to the Committee of Permanent Representatives of the Member States (COREPER) for reconsideration.

Finally, the Council of General Issues, meeting in May 1996, arrived at a compromise on the negotiation guidelines. It is important to acknowledge the role of the British Presidency, which presented to Member States (at technical level) a compromise that strengthened a Commission recommendation¹³⁸, transforming the negotiation “guidelines” into “directives” and strengthening the Council’s control on the overall result of the negotiations in the field of goods and services. Nevertheless, given the resistance of Denmark, France, Holland, and Portugal, the goal was a gradual and reciprocal liberalization, slower than the initially proposed by Spain and the United Kingdom¹³⁹.

Visible divergences between Mexico and the EU also emerged at a technical meeting in October 1996 regarding the negotiation method, the content of trade liberalization, and the democracy clause.

Regarding the negotiation method and the content of the agreement, Mexico preferred a “global and simultaneous” process covering the three areas (political dialogue, trade liberalization and economic cooperation), undertaken by a joint committee. As recalled by a Mexican official “nothing would be negotiated until everything was fully negotiated” (“nada estaria negociado hasta que todo estuviera negociado”), a formula that sought to assure that a comprehensive free trade agreement would be concluded¹⁴⁰.

The European Commission, on the other hand, wanted to negotiate economic cooperation and an institutional framework first, and in a second round, trade liberalization. As a matter of fact, the EU proposed an agreement similar to those signed with MERCOSUR and Chile, but the Mexican delegation claimed that the Solemn Declaration provided for an immediate free trade negotiation that differed from the so-called fourth-generation agreements¹⁴¹. The

¹³⁷ *La Jornada*, February 27, 1996

¹³⁸ See Agence Europe, *Bulletin Quotidien Europe*, March, 5, 1998, 6

¹³⁹ *Europe Information Bulletin* 3, 748, May 20-21 1996, 20.

¹⁴⁰ Mexican trade representative, Personal interview, Brussels, October 3, 2001.

¹⁴¹ Mexican official, Personal interview, Ottawa, June 2001.

Commission accused Mexico of advocating the NAFTA model and warned that trade liberalization would require a long and difficult negotiation, given European preoccupations with the single currency, enlargement to the East, and the reform of key EU policies. Thus, in the Commission's view, the most viable option would be to sign a framework agreement rapidly and later focus on trade liberalization¹⁴². In this case the EU's internal politics, and its institutional decision-making mechanisms served non only as constraints, but as a source of leverage in bilateral negotiations¹⁴³. According to a Mexican negotiator, Mexico had the perception of dealing with a "huge elephant, that after taking a step forward, it could not move easily in a different direction"¹⁴⁴. Institutional constraints were used strategically as a means of getting concessions from Mexico¹⁴⁵.

The inclusion of the democratic clause in the agreement: the entanglements of domestic and international politics

The democracy clause had already constituted an obstacle to the 1991 agreement. Again in 1995, the initial Mexican position, which had wide domestic support, considered the clause a "unilateral imposition" and an "unacceptable condition". This attitude was especially strong among the more conservative sectors of the Institutional Revolutionary Party (PRI) and the executive branch of the government¹⁴⁶. However, this vision was not generalized, since members of the official opposition manifested the necessity for the democratic clause to be included. As the Ambassador to the EU, Porfirio Munoz Ledo, asserts, this reticence from the Mexican government was completely erroneous, because Mexico was one of the major sponsor of the UN Declaration of Human Rights, as well as signatory to the San José Pact and the Inter-American Convention of Human Rights. According to Munoz Ledo, member of the Parliamentary opposition at the time, Mexico wasted an opportunity, because negotiators could have insisted on reciprocity, and on the universality and indivisibility of human

¹⁴² « El marco de las pláticas no fue muy favorable, dice el vocero de la CE » *El Economista*, Mexico City, October 16, 1996: 9

¹⁴³ Howard P. Lehman, and Jennifer L. McCoy, "The Dynamics of the Two-Level Bargaining Game: The 1988 Brazilian Debt Negotiation." *World Politics* 44 (1992): 600-44.

¹⁴⁴ Mexican trade official, Personal interview, Paris, September 21, 2001.

¹⁴⁵ Thomas Schelling, *The Strategy of Conflict*, cited by Sophie Meunier, "Divided but united", 195

¹⁴⁶ One of the most extreme examples was an editorial in the Mexican daily *Excelsior* of October 14, 1996, which declared that the democracy clause was "humiliating" and typical of "a relationship of domination" also exemplification of "a relationship of domination" also exemplified by the Helms-Burton Law. "Posturas divergentes en el primer encuentro Mexico-UE" *Excelsior*, October 15, 1996, 12.

rights¹⁴⁷. In this way, Mexico could have insisted on the necessity to protect economic and social rights, which are inseparable from individual rights and “third generation rights” rights (gender, environment, etc.).

The Mexican government’s rejection of cooperation in the realm of democratization and human rights promotion revealed its extreme sensitivity to the issue. In 1996, the Mexican representative in Brussels succeeding in keeping the European Commission from co-financing a US\$320 000 project, Services for Peace, promoted by the CONAI (National Mediation Commission) to facilitate a dialogue between the government and the EZLN¹⁴⁸. In January 1997, Mexico tried to block final approval of EU financing of electoral observers from the Mexican Academy of Human Rights (AMDH), a NGO that had already received Community funding. According to Mexico, the Commission had not undertaken the pertinent consultations and the 1991 did not extend to the political arena, such the grant constituted an “unacceptable interference” in internal Mexican affairs¹⁴⁹. The deeper question at stake, however, which even the Mexican government recognized, was how to handle the debate about the democracy clause¹⁵⁰.

For the EU it was important to state clearly that the new association with Mexico was based on democratic principles, respect for the rule of law, and human rights. In 1991, the position of the then EEC was different, as development policy and the Common Security and Foreign Policy (CFSP) had not been yet established in the EU Treaty. After the signature of the Maastricht treaty in 1992, the democratic base of cooperation acquired a solid legal foundation. New rules about Europe’s economic assistance to developing countries were

¹⁴⁷ Porfirio Muñoz Ledo, Personal Interview, Brussels, October 4, 2001.

¹⁴⁸ « Entorpeció el Gobierno la visita del Parlamento Europeo al area zapatista » *Proceso*, No. 1015, April 15, 1996.

¹⁴⁹ « Protesta la AMDH : impidió el Gobierno a la Unión Europea financiar un proyecto de vigilancia electoral » *Proceso*, no. 1052, March 9, 1997; « El Parlamento Europeo dará batalla para otorgar ayuda a la AMDH » *Proceso*, no. 1063, March 16, 1997.

¹⁵⁰ The Federal Electoral Institute issued a resolution recalling that electoral monitoring with external funds does not contradict the Mexican Constitution and favours the transparency of elections. Mexico’s final proposal was to channel the grant through governmental institutions. “SRE: dinero foráneo a observadores” *La Jornada*, March 25, 1997.

approved in 1992, including an express commitment to “democratic conditionality”¹⁵¹. In May 1995, the Council of Ministers of General Issues stated that all EU agreements should include standard democracy clauses in accordance with the proposal of the European Commission of May of the same year¹⁵². The proposal stated that the clauses must be accompanied by an “application clause”, whereby one party has to consult the other before adopting punitive measures, but that in cases of “special urgency” one side can adopt unilateral measures without previous consultation¹⁵³.

In the particular case of Mexico, the legitimacy crisis of its political system, continued human rights violations¹⁵⁴, and the situation of impunity in Mexico made this clause highly problematic. The discussions on the new agreement with the European Union went hand-in-hand in Mexico with a complex internal political process of democratization and reform of the system, the most characteristic feature of which was reflected in the outcome of the elections of July 6, 1996. These difficulties highlighted the importance of the democracy clause to instances accountable to the civil society, such as the European Parliament. Actually, this instance had expressed particular concern to these problems¹⁵⁵. According to the report presented by Ana Miranda de Lage, the EP had expressed the view that in Mexico, economic opening had not been accompanied by parallel progress in the political area or by a more equitable distribution of wealth with large sections of the population still living in poverty:

...the process of reform currently underway is also being hindered by a range of other factors such as corruption, impunity, drugs trafficking, the conflict in Chiapas, the activities of

¹⁵¹ European Council, *EEC Council Regulation no. 443/92 on assistance to the developing countries of Latin America and Asia* OJ L52, Brussels, February 27, 1992.

¹⁵² European Commission, *Comunicación de la Comisión sobre la inclusión del respeto de los principios democráticos y de los derechos humanos en los acuerdos entre la Comunidad y terceros países*, COM (95) 216 final, Brussels, May 23, 1995. See also « Une communication de la Commission Européenne propose un dispositif pour tous les nouveaux accords avec des pays tiers » *Europe Information Bulletin*, Brussels, May 26, 1995.

¹⁵³ Almudena Moreno, *La cláusula democrática en la acción exterior de la Union Europea*, Working Paper, Madrid, University Institute for Development and Cooperation, Complutense University 1996.

¹⁵⁴ The extreme case was the murder of 45 indigenous peasants in the Mexican state of Chiapas, see European Parliament, Resolution B4-0056, 0057, 0066, 0073 and 0095/98, OJ C34/161, January 15, 1998.

¹⁵⁵ Parliament’s December 1996 report on the communication from the Commission on the prospects for closer partnership 1996-2000 – Bertens report- points out that democratic clauses should “be implemented and should apply equally to all geographic regions” PV January 15, 1997. The Carnero report on the inclusion of respect for democratic principles and human rights in agreements between the Community and third countries also points out that the democratic clause should be applied without discrimination between states and that the most advanced form of the clause should be used.

guerrilla movements in a number of areas and the human rights situation, on of the most dramatic recent examples being the massacre which occurred in Acteal on 22 December 1997 and which was strongly condemned by Parliament in its resolution of 15 January 1998...¹⁵⁶

The European Parliament, therefore, considered that it was essential to include the democracy clause in the new agreement. The applicability of the agreement would be conditional on strict respect for that clause, since it reflected the need of the EU to provide itself with a “comprehensive, coherent policy on opening up to the outside”¹⁵⁷. Furthermore, the European Parliament called for a specific section in the agreement to be devoted to developments in and monitoring of the human rights situation, as well as for an increased participation of the civil society.

There was an active communication with members of NGOs that worked on human rights issues and reflected the importance of the transnational coalitions in the negotiations. As Duchesne states, the power of information in a negotiation is derived out of the internal structure of the government and its relationship with the civil society¹⁵⁸. These factors constitute some resources that the negotiator can have in regard to power. That is to say that information as power is relational; depending on the respective structure of government and state/civil society relationship, some negotiators may hold more informational power than others may. In this specific case, the European negotiators were closer than Mexican officials to the Mexican NGOs that began an outstanding mobilization.

In November 1996, Mexico proposed a “two-phase” negotiation and accepted the inclusion of the democracy clause, but insisted that the clause’s reciprocal character should be explicitly recognized and rejected any “unacceptable unilateral supervision.” It stated, furthermore, that the clause should be worded differently from the standard clause and should be negotiated before, or simultaneously with a trade agreement¹⁵⁹. In April 1996, a

¹⁵⁶ Ana Miranda de Lage, reporter, Committee on External Economic Relations, *Recommendation on the proposal for a Council decision concerning the conclusion of the interim agreement on trade and trade-related matters between the European Community, on one part, and the United Mexican States, on the other part*, PE 225.176/FIN., April, 27 1998.

¹⁵⁷ Ibid.

¹⁵⁸ Eric Duchesne, *International bilateral trade and investment negotiations theory, formal model and empirical evidence*, Ph. D. Dissertation, University of Michigan State, 1997, p. 5

¹⁵⁹ « Diferencias de « ritmos » y « metodologías » en las negociaciones entre México y la Unión Europea, *Europe* No. 1050, December 15, 1996.

compromise was reached. Mexico formally accepted the democracy clause according to the formula used in other agreements. This clause states that respect for democratic principles and fundamental rights as stated in the Universal Declaration of Human Rights should inspire the domestic and international policies of both parties and constitute an essential element of the agreement. Mexico, however, managed to delete the reference to domestic policies and, with European Commission negotiators' agreement, replace it with a unilateral Mexican declaration enunciating the constitutional principles governing foreign policy, including non-intervention¹⁶⁰.

Because that the agreement did not include any means to reinforce the democracy clause, it continued to create controversy during and after trade negotiations. At a June 1997 meeting of COREPER, the final text of the Global Agreement was questioned by all member states except Denmark, Spain and the United Kingdom. The dissenting group, headed by France, charged that the inclusion of a modified version of the democracy clause violated negotiation guidelines approved by the Council. The "exceptional treatment" accorded Mexico was rejected and the authority of the European Commission challenged. The vice president of the Commission criticized the "double standard".

In April 1997, the Council of Ministers approved a negotiation method that, without deviating with the guidelines already approved, included part of Mexico's proposals. Negotiations took place between that date and June 11, when, after a 48-hour marathon, both sides reached a final agreement outlined in three interrelated documents. The first was the Agreement on Economic and Political Association and Cooperation, the so-called Global Agreement. It included the democracy clause and established an institutional framework for political dialogue. It stated that both parties aimed toward "bilateral and preferential, gradual and reciprocal liberalization of trade of goods and services, in conformity with WTO norms and taking into account the sensitivity of certain products and service sectors".

The agreement was signed two years and a half after the Solemn Joint Declaration had committed both Mexico and the European Union to negotiate. The Commission should also

¹⁶⁰ Mexican Economy Minister, Personal interview, Paris, September 20, 2001.

ensure customs cooperation with Mexico, given the European concern on rules of origin¹⁶¹. Given the structure of exchanges, the Member States did not ask for the list of products to be excluded from liberalization to be defined, as they had done for negotiations with South Africa¹⁶². In the case of this country, the list was crucial from a domestic European point of view; in order to keep the member states together on one line. In addition to more specific concerns, member states were particularly concerned about the “*erga omnes*” clause of the WTO, meaning that concessions given to one should be given to everyone¹⁶³.

The distinctive character of the Mexico-EU agreement in the external level of the EU trade policy

It is noteworthy that this Global Agreement went beyond the fourth-generation agreements signed with Chile and MERCOSUR, which aimed only to “foment the increase and diversification of trade and to prepare their ulterior progressive and reciprocal liberalization” and did not include a calendar for liberalization. The agreement with Mexico established a Joint Council composed by the European Commission, the EU member states, and Mexico that would decide the calendar and content of the liberalization of trade in goods and services, the movements of capital and payments, and the opening of public procurement markets. The Joint Council could also decide on competition police and intellectual property rights.

Where cooperation is concerned, the agreement is wider ranging and more systematic than its predecessor of 1991, including new areas, such as the fight against drugs (on which they had also signed an agreement in October 1996), democratization and human rights, and joint EU-Mexico cooperation with Central America. The agreement also includes a “national security

¹⁶¹ The aim, shared by the Mexican authorities, was to avoid fraud and trade deflection that would, for example, allow exports of agricultural products from the United States or Canada through Mexico.

¹⁶² The European Union produced, at the beginning of the negotiations, a list of agricultural products to be excluded from negotiations –which South Africa claimed that “*excluded about 40% of Southern African agricultural products from free trade*”. It only covered 4% of EU exports to South Africa. Fixed EU prices, subsidies, custom duties and tariff quotas protect this list of sensitive products. Trade in these products from South Africa to the EU is negligible, but if the European market were opened, it could potentially increase rapidly. See *Europe*, no. 7148, Thursday, January 29, 1998, p.8; and *Europe*, no.6696, Wednesday, March 27, 1996.

¹⁶³ This meant that member states wanted assurance that products twchich are not even currently produced in countries such as South Africa would be classified as “sensitive” in the light of agricultural trade with other countries. *Europe*, no. 6676, Wednesday, February 28, 1996, 4

clause”, which is a novelty. It states that none of the dispositions of the agreement can become an obstacle to decisions that both parties consider essential to guarantee in the event of international conflict or grave domestic disturbances, or to enabling them to avoid the diffusion of information contrary to their essential interests. Nevertheless, the clause does not include trade liberalization in the defense sector.

Furthermore, the Global Agreement states that the framework for political dialogue and cooperation would remain suspended until decisions on liberalization were finished. In this way, it ensured that a final agreement would take effect only with all its parts were fully operational: the global agreement on political aspects, on cooperation and trade, and on matters related thereto; and a protocol on services, necessary for the European Commission to be able to negotiate the tariff relief on this area on behalf of the member states. Once the negotiations were concluded, the agreements underwent a “technical clean-up” and translation process that led to the signature of the Global Agreement and the Ad Interim Agreement in Brussels on December 8, 1997¹⁶⁴.

A strategy to entangle domestic and international politics: the negotiation of the Interim Agreement

After the difficult process for negotiating the global agreement, a strategy was sought in order to expand the “win-set” of both parties. As Robert Putnam states, the greater the autonomy of central decision-makers from their domestic constituencies is, the larger their win-set will be. In the specific case of trade aspects in the Mexico-EU negotiations, institutional arrangements were made in order to increase the likelihood of achieving the agreement¹⁶⁵. The second document, the Interim Agreement, allowed for the *immediate* establishment for the Joint Council and the *immediate* start of negotiations in areas under EU competence, notably goods.

¹⁶⁴ Mario Lopez Roldán, The European Union Free-Trade Agreement: an Association without Precedent, *El Mercado de Valores*, May-June 2000, 36

¹⁶⁵ Robert Putnam recognizes, nevertheless, the difference between the “state strength” and the “state autonomy”. The “strong states” in terms of autonomy from domestic pressures, are WEAKER at the international level than diplomats representing a democracy. R.D. Putnam, “Diplomacy and Domestic Politics”, 450

Unlike the “interim agreements” linked to the previous ententes with other countries, the agreement between the EU and Mexico was an instrumental text that did not contain trade concessions, but rather established the objectives, institutions, decision-making procedures and working methods for the negotiation and implementation of the liberalization of the trade between the parties. The first meeting of the EU/Mexico Joint Council took place in July 14 in Brussels to initiate negotiation between the two parties. Participants included Mexican Ministers of Foreign Affairs Rosario Green and External Trade Herminio Blanco, EU Council President Wolfgang Schäussel and European Commission Vice-President Manuel Marin. The objective was to “reiterate both parties’ political will to pursue the process *rapidly*”¹⁶⁶, given the fact that the *real* negotiating work would begin in the autumn, at technical level in the Joint Committees created by each specific area.

The Interim Agreement would become applicable only when the Global Agreement would enter into force. It is also an innovation in EU-Latin American relations and it was presented as a form of “fast-track” negotiation. According to a Mexican negotiator, one of the most efficient negotiating strategies of the European team was to argue precisely that a particular Mexican proposal made necessary for them to obtain a new mandate of the Council, which – due to the international commitments of the EU- could take too long¹⁶⁷. A strategy of “tying hands” attempted to constrict the win-set and induce Mexico to compromise at closer points to the EU preferences. As a matter of fact, the Interim Agreement enabled the parties to implement more quickly the provisions on goods and to adopt disciplines in the field of competition, intellectual property and public procurement, which constituted the main economic goals of the European Union.

As a result, negotiations with Mexico were unique and broke new ground: the agreement with Mexico did not follow any of the previously existing models like the “Europe agreements” for association, the new Euro-Mediterranean partnership agreements or the cooperation and partnership agreements with the CIS republics¹⁶⁸. Unlike the “interim

¹⁶⁶ Statement of Mexican diplomats, *Europe* no. 7262, July 11, 1998, 5

¹⁶⁷ Mario Lopez Roldán, Personal Interview, Mexican Embassy to France, Paris, September 21, 2001.

¹⁶⁸ Some of these agreements can be seen as a mechanism to ensure economic reforms in developing countries, which it is not the case in Mexico, country that had started its liberalization process since the mid 1980s.

agreements” linked to the previous ententes with other countries, the EU-Mexico interim agreement was an instrumental text that did not contain trade concessions, but rather, established the objectives, institutions, decision-making procedures and working methods for the negotiation and implementation of the liberalization of the trade between the parties.

It is important to acknowledge, nevertheless, both parties were pressed by time. As negotiations advanced at the end of 1999 drew near, the internal and external commitments of the EU had more weight in the discussions. From the year 2000, the relevance of the negotiations with Mexico would start to diminish, since the attention of the Community institutions and the European governments was closer to the major EU transformations: the Eastern enlargement and the EU’s institutional reforms. For the Mexican negotiators, it was important to achieve negotiations quickly, given that elections were very close, and there was a risk of having the president from an opposing party signing the FTA with the EU¹⁶⁹.

Negotiations were divided into nine rounds that lasted for a little more than a year (November 9, 1998 to March 23, 2000). The political issues and cooperation matters, which were formally negotiated in two days, in contrast to the pre-negotiation process, which had been long and difficult. On November 9, 1998, the first round of negotiations was held. It was not still clear if the outcome would be a genuine FTA. It was during this stage that the representatives of the European Commission and the Government of Mexico turned the free-trade expectations into a FTA. According to some observers, this was one of the main achievements of the Mexican negotiators, which were experts in international economic negotiations, and not members of the diplomatic service, as EU negotiators may have expected. The support of the Ministry of Foreign Affairs was important, because of its knowledge of the decision making process within the EU, but also because of its persisting lobbying of the Community governments. Negotiations were conducted, however by the Minister of Commerce, Herminio Blanco, and then by Jaime Zabłudowsky, Under-Secretary for International Negotiations, one of the main constructors of NAFTA and several other

¹⁶⁹ It is important to notice that the Mexico’s official party, the Partido Revolucionario Institucional, PRI, had been in power for more than 70 years, and there were few chances of being re elected at the elections that were going to take place in July 2000. Face to a first real challenge to the continuity in power, the PRI wanted to assure the signature of the agreement with Europe before leaving office.

Mexico's FTAs¹⁷⁰. The "cognitive frameworks" of negotiators were fundamental for the achievement of the FTA, given that they were free-trade advocates and they coincided on the set of policies that could improve the status quo¹⁷¹.

The Mexican government used also some of the strategies it had learned in negotiating NAFTA: adding parties. As Klaus Günter has advanced, adding parties to a negotiation is a possible strategy to affect coalition dynamics and ratification prospects¹⁷². Mexican negotiators were always accompanied by numerous members of the entrepreneurial area, the so-called "*cuarto de al lado*". This couple government/entrepreneurs had provided important results in NAFTA negotiations, and it was a determining element in Mexico's negotiating strategy with Europe. This scheme not only allowed Mexico to make fast decisions during the negotiations, in consensus with the leaders of the main entrepreneurial organizations, but Mexico also benefited from the support of transnational corporations, such as Volkswagen, who lobbied for support in their countries of origin¹⁷³. In fact, it is estimated that over 100 CEOs from different sectors participated in consultations with Mexico during the negotiations through organizations such as the National Chamber of the Transformation Industry (CANACINTRA).

However, the differences in the private actors' position in the international market must be acknowledged, since they can influence their participation in the negotiations. Peter B. Evans differentiates private actors between those who have acquired a position in transnational alliances, the potential players in international markets or "wannabes", and the domestic actors who lack the capacity to take full advantage of the international market opportunities¹⁷⁴. In the case of the Mexico-EU negotiation, the small and medium enterprises did not have an active participation and were likely to be more opposed to the accord,

¹⁷⁰ Even the negotiators of the Global Agreement were experts in international economy with no diplomatic background.

¹⁷¹ For a case in which the negotiators' divergent cognitive frameworks was at the origin of the failure of an agreement see Barry Eichengreen and Marc Uzan, "The 1933 World Economic Conference as an Instance of Failed International Cooperation", in Robert Putnam et al, eds., *Double-Edged Diplomacy*, 171-206

¹⁷² Klaus Günter, op. cit. p. 98

¹⁷³ Mexican negotiator, Personal Interview, Brussels, October 3, 2001.

¹⁷⁴ Peter B. Evans, "Conclusion. Building and Integrative Approach", In Robert D. Putnam et al, *Double-Edged Diplomacy*, 420

because they did not count with the organizational nor the economic resources to benefit from a FTA with Europe¹⁷⁵.

In the European Union, experts recognize that European corporate constituencies usually have more important ties to their governments than Euro-groups at the Council level¹⁷⁶. The different actors seek to put forward their preferences through an intense lobbying activity within the Member States, which can have an influence on the EU's ability to negotiate¹⁷⁷. Sylvia Ostry, former Canadian sherpa, has referred to the Euro-groups in the European trade policy-making as it follows:

In the EC the system was designed to broker the policy pressures emanating from member-states. Private groups have far less influence over the final outcome at the Commission level (except through the member-states), although on sensitive technical or bureaucratic issues the Commission negotiators work closely with representatives of Community-wide industrial groups on a product-specific rather than generic policy basis¹⁷⁸.

There was thus, another type of constraint for the European negotiators. Following Klaus Günter, in international negotiations, government may tie their hands to reach a desirable goal, and the European Union did so in the negotiation with Mexico. According to some Mexican negotiators, even if the European Commission led the negotiations on the European side, Member States were always present, which notably exercised some pressure on the EU negotiators¹⁷⁹. Member States assisted the Commission in the services sector, area that is not an exclusive competence of the European institutions. Some times, member countries came forward with "suggestions" about sensitive products that should be excluded from liberalization¹⁸⁰.

The structure of the negotiation was divided into five parts: access to markets, customs proceedings, and rules of origin, public sector purchasing, investment and institutional matters (including the topics of competence, settlement of disputes and safeguards). During

¹⁷⁵ Some dissident opinions were expressed during the process among the Mexican private sector. For full quotations see appendix, table 3.1.

¹⁷⁶ Sylvia Ostry, *Governments and Corporations in a Shrinking World. Trade and Innovation Policies in the United States, Europe and Japan* (New York and London, Council on Foreign Relations, 1990):31

¹⁷⁷ Elgström and Smith, op. Cit., p. 65

¹⁷⁸ Ibid.

¹⁷⁹ Mexican Chief Representative, Personal Interview, The NAFTA Office of Mexico in Canada, Embassy of Mexico, June 29, 2001.

¹⁸⁰ Mexican diplomats expressed disagreement face to such "suggestions" made by France, Spain, Belgium and Germany.

the first rounds, proposals for the explicit contents of the different chapters of the agreement were exchanged and there was a movement on the problematic sectors: public sector purchases, intellectual property rights, competence and standards. In the third round, lists of custom relief and rules of origin were exchanged, the two most difficult aspects within trade negotiations¹⁸¹. The main problems began during the fourth round. From then on, the parties had to face what represented the greatest challenge: the so-called NAFTA parity in the industrial goods tariff elimination.

In fact, the Commission's main objective, as stated in the mandate of the EU Council of Ministers, was to eliminate tariffs on their industrial exports to Mexico in 2003, the same year set for the USA and Canada. The EU's original proposal introduced complete elimination of tariffs for industrial trade –which represented about 93% of the goods exchanged- in two phases: 82% immediately and the remaining 18% in 2003. From its perspective, Mexico proposed a considerably longer calendar: immediate tariff reduction of 42.5% of the industrial goods of their Community markets, another 6% in 2003 and the rest in additional phases until 2009. For Mexico, the social cost of completely opening the Mexican market to the US, Canada and Europe at the same time was too high, especially for small and medium domestic companies, PYMES (pequeñas y medianas empresas). The PYMES had a limited participation in the negotiation process. Moreover, there were some representatives from several sectors that were in disagreement with the Interim Agreement: furniture producers, cloth industry, potato producers, auto-parts, fisheries, and even some representatives from the chemical industry of the CANACINTRA¹⁸².

A clear example of the cost of liberalization for Mexico was the difficulties that this country had to maintain equilibrium in its balance of payments in 1999. A few years before the second round of negotiations, Mexico announced its fiscal package, which included the increase of the tariff levels for the countries that did not have a free trade agreement with Mexico. The reaction was immediate, and the Europeans called this measure “unilateral,

¹⁸¹ The negotiation of reliable rules of origin proved to be one of the major difficulties at the beginning of negotiations because of Mexico's membership to the NAFTA, because trade deflection was to be avoided.

¹⁸² RMALC, Análisis Preliminar del Tratado de Libre Comercio entre México y la Unión Europea, Equipo Técnico de Ciudadan@s de México ante el Acuerdo de Libre Comercio con la Unión Europea, February 25, 2000

discriminatory and obsolete”¹⁸³. According to some Mexican negotiators, the Europeans perceived this measure as a means to put on pressure and accelerate negotiations, but it was not the case. International pressures made the Mexican government cancel this measure¹⁸⁴.

On April 14, 1999 –during the fourth round of discussions-, as a result of the Mexican reticence to accept the European timetables, the EU threatened to cease negotiations and to seek another mandate from the Council. On May 17, 1999, before beginning the fifth round, Mexico presented a new proposal offering a 60% tariff reductions on the Community industrial exports for 2003, and to phase-in of the rest up to 2007¹⁸⁵. The new Mexican offer broke the deadlock on the negotiations. During the sixth round, the negotiations became more and more complex when the most sensitive topics were dealt in more detail; access to market, rules of origin, capital movements and payments, and services.

The question of the rules of origin was left, which remained the principal stumbling bloc, with Mexico expecting concessions from Europe before agreeing to enlarge access for European industrial goods to its market in 2003. Rules of origin had been defined for nearly 80% of industrial products during the first rounds, but the most difficult sectors were cars, electronics and textiles¹⁸⁶. In the automotive sector, the Europeans asked for 60% of Mexican production before a vehicle could be entitled to benefit from the preferential scheme, whereas the Mexicans proposed 40%. A first compromise was made after the fifth round: the adoption a rule of origin close to 50%, which would be gradually extended to 60% over ten years. Mexico struggled to obtain better access to European electronics and household appliance market. Difficulties arose in terms of the customs classification of components, depending on their level of processing. In the textile and footwear sector, Mexico sought to protect its market from products benefiting from European preferential agreements with third countries.

¹⁸³ *La Jornada*, January 13, 1999.

¹⁸⁴ Mexican trade officer, Personal Interview, Ottawa, June 29, 2001.

¹⁸⁵ European Information Service, EU/Mexico: Negotiation on Free Trade Agreement resume on Monday, focusing on rules of origin, agriculture and public procurement, *Bulletin Quotidien Europe*, 7588 Brussels, November 5, 1999.

¹⁸⁶ European negotiator, Personal Interview, October 5, 2001.

During the seventh and eighth round, the sessions of negotiation were more dynamic. Nevertheless, the last round proved to be one of the most difficult, mainly because the fact that the clarification of the rules of origin needed a case-by-case negotiation. Finally, after being extended by extraordinary meetings, this round concluded in November 24, 1999, resulting in the most extensive agreement the European Union had ever negotiated with a third country¹⁸⁷.

In effect, the rapid evolution of the negotiations with Mexico contrasts with those of MERCOSUR and Chile. In July 1998, the European Commission approved the negotiation guidelines to begin talks after great debate. Even the Commission's agriculture commissioner at the time was opposed to the agreement, because he claimed that opening the EU market to MERCOSUR and Chilean agricultural goods, particularly cattle, wine, and cereals, would imply annual spending of 5 700 to 14 300 Euros (about one-third of the EU's total agricultural budget)¹⁸⁸. In contrast, Mexican agricultural sector accounted for less than 9% of trade. The parties agreed to liberalize these products in several stages: immediately, then in 2003, in 2008 and in 2010. The sensitive products on both sides (cereals, dairy products, beef) were not covered by the agreement and the parties committed to return to the question in 2002. The parties also annexed a declaration, to negotiate a mutual recognition agreement of denominations of origin for wines, on the model for the agreement already concluded for spirits, called the "Tequila agreement".

The joint declaration on services and investment: an expansion of the domestic win-set

For the Commission, the negotiated trade package in services was "of key offensive interest to the EU"¹⁸⁹. In the area of services, liberalization covered all sectors with the exception of audio-visual services, maritime cabotage and air transport. Nevertheless, negotiators agreed not to modify existing measures during a three-year period and subsequently to examine lists of commitments (standstill clause). With just weeks to go before the launch of the WTO

¹⁸⁷ Mexican Ministry of Economics, *International negotiations*, June 2000 <<http://www.se.gob.mx>>

¹⁸⁸ José Antonio Sarahuja, "The EU and Mexico", 53

¹⁸⁹ EC, January 18, 2000. Quoted by Caroline Lucas, report on the proposal for a Council decision establishing the Community position within the EC-Mexico Joint Council with a view to the adoption of a decision implementing Articles 6, 9, 12(2)b) and 50 of the Economic Partnership, Political Coordination and Cooperation Agreement COM (2000)739, Brussels, PE 297.123, January 30, 2000.

multilateral negotiations in services, several Member States, with France leading the way, blocked the Commission's bilateral negotiating possibilities in this area.

Furthermore, the treaty dispositions concerning investment included direct investment, real estate, and purchase of securities. Title IV on Investment and related Payments, article 33 b) concerned the "development of a legal framework favorable to investment in both sides, particularly through the conclusion, where appropriate, by the Member States of the Community and Mexico of bilateral agreements promoting and protecting investment and preventing double taxation". It is important to remember that Mexico and the EU member countries had already signed bilateral agreements on investment, the so-called APRIS. It can be argued that in the investment sector the negotiators sought to pursue what authors call the "cutting slack" strategy, i.e. the parties' attempt to expand the domestic win-set in order to accommodate an international agreement¹⁹⁰. Even if there were few chances for the agreement to be rejected, the parties had the recent experience of the failure of the MAI, and the bilateral agreements offered an alternative solution for a legal framework to protect investment. Statesmen often tend to expand the win-set when they favor agreement, as its ratification would mean a political victory, especially for the Mexican party¹⁹¹.

The "double-edged" approval process

The chosen legal framework (global agreement, interim agreement and joint declaration) and the working method adopted (which ensured the realization of the parallel negotiations in all fields and that all results would come into force simultaneously in a single final agreement) sought to avoid the political difficulties that would arise from institutional constraints and domestic opposition. The European Commission and the Mexican Executive concluded the negotiations. Neither the Mexican Parliament nor the European Parliament or the national parliaments participated in the negotiations. Not surprisingly, the European Parliament expressed concerns about setting a precedent that would have institutional implications for

¹⁹⁰ A. Moravcsik, Introduction, 28.

¹⁹¹ Mexican negotiator, Personal interview, Mexican Embassy to Canada, Ottawa, June 29, 2001.

the Parliament's own legislative activity¹⁹². The Parliament had to give its *avis conforme* to the Global and the Interim Agreements. Because both agreements did not include explicit concessions, such an action implied that the European Parliament would effectively renounce to express its position at the end of the negotiation process, when the technical dispositions would be agreed.

The Commission and the Council were offered an authorization where the Parliament stated its position on the basis of the agreement's objectives rather than on its results in specific concessions. It meant that the Parliament would not participate in the setting of aspects like the sectoral timetables for the removal of tariff and non-tariff barriers to trade in goods and services; the measures and timetables for lifting the restrictions on capital movements and investment, the provision of the gradual and reciprocal opening up of the markets in public contracts, and the measures to ensure the protection of intellectual property rights. Being that these institutions do not have an enduring autonomy (in the sense of Putnam's "relative autonomy" concerning the size of the win-set), the win-set was enlarged by an issue-specific institutional process, which enlarged the limits on executive prerogatives¹⁹³.

Once the Commission had acquired the mandate to negotiate, the European Parliament was consulted on four different parts of the agreement, according to the progress of negotiations. The first consultation concerned the Global Agreement; the second one was about the Interim Agreement as a whole; the third was about the articles 3, 4, 5, 6 and 12 of the Interim Agreement; and the fourth concerned the services and investment sectors. The first two times, a member of the PSOE, party that was very close to the Mexican government, presented a relatively positive vision towards the agreement¹⁹⁴. The reports presented by Ana Miranda de Lage presented the agreement as the means to "open up broad prospects for cooperation between the two parties and for financial and technical assistance from the EU to

¹⁹² Debates of the European Parliament, Sitting of Tuesday May, 12 1998. Interim Agreement on trade with Mexico, June 13, 2001 <URL: <http://www.europarl.eu.int>>

¹⁹³ A. Moravcsik, Introduction, 40n.59.

¹⁹⁴ Member of the European Parliament, Personal interview, September 27, 2001.

Mexico for social programs covering the fight against poverty, regional development, cooperation on human rights issues and protection of the indigenous communities”¹⁹⁵.

However, the uprising in Chiapas attracted the attention of the European Greens and the United Left, groups that insisted of the inclusion of the democratic clause in the agreement. Exchanges grew between the Mexican members of the Senate (specially the left) and the EP and between the civil society both from Mexico and from Europe with the EP in order to advance this cause. As a member of the Parliament notices, the members of the EP did not struggle to include this clause with the illusion that it was going to change the situation in Mexico, but it allowed them to raise constantly within the EP a very sensitive subject: the zapatista movement and the human rights situation in Mexico¹⁹⁶.

The third report was elaborated by Concepción Ferrer, who reiterated the conclusions exposed by Miranda de Lage, and recognized the advances in Mexico concerning democracy, as well as its participation as observer to the Council of Europe¹⁹⁷. The report presented benefits of implementing articles 3, 4, 5, 6 and 12 of the Interim agreement, covering trade in goods, public procurement, competition, the consultation mechanism for questions relating to intellectual property and dispute settlement. In her document, Ms. Ferrer recognized, nevertheless, the flaws in certain sectors, for example concerning textiles, where the rules of origin issue caused great concern. This report argued that the effects would be beneficial for both the European Union and Mexico:

For the European Union, because the establishment of a free trade area will enable it to rebuild the presence Member States had in Mexican markets before the NAFTA agreement came into force, involving new expansion opportunities for European companies. For Mexico, because it will be able to diversify and introduce balance into its external trade, currently 80% dependent on its NAFTA partners, and at the same time

¹⁹⁵ Ana Miranda de Lage, rapporteur, Recommendation on the proposal for a Council Decision concerning the conclusion of the Economic Partnership, Political Coordination and Cooperation Agreement, Committee on External Economic Relations, April 22, 1999. p.10

¹⁹⁶ Interview with member of the European Parliament, Group of the Greens/European Free Alliance, September 27, 2001.

¹⁹⁷ Observer status have only been granted to four other countries: the Holy See, the United States, Canada and Japan. Council of Europe, *Mexico granted observer status with the Council of Europe*, Strasbourg, December 1st, 1999

increase the volume of its exports to the European Union, with the consequent favorable impact this increase will have on the Mexican economy¹⁹⁸.

The two-levels and the participation of the constituencies

The Group of the Greens/European Free Alliance, political group that maintains a constant communication with Mexican and European NGOs, made the last report. Caroline Lucas presented a more critical report than her predecessors, and it reflected many of the concerns that member of groups like the RMALC (Red Mexicana de Acción contra el Libre Comercio), CIFCA (Copenhagen Initiative for Central America), or the PRD had expressed. In fact, it made reference to the proposals made by organizations such as the FIDH (International Human Rights Federation), ICFTU (International Confederation of Free Trade Unions), etc. Following Keck and Sikkink, it is possible to assert that network actors began to bring new ideas, norms, and discourses into these policy debates¹⁹⁹. Mexican and European civil organizations would serve as sources of information and testimony.

In Mexico, the sole party that opposed the process was the left-oriented Partido de la Revolucion Democrática (PRD), who refused to ratify the Global Agreement because it had not been debated in the Mexican Senate (foreign policy is under the competence of this body, articles 72 and 89 of the Constitution). They denounced the following aspects:

- the lack of timely, substantive and relevant information being provided on the negotiations;
- the lack of consultation and evaluation over key areas;
- the exclusion of the Mexican civil society
- the lack of provisions to guarantee social and economic equity between Europe and Mexico;
- the lack of respect for sovereignty and self-determination in matters of economic policy
- moves to incorporate substantial elements of the Multilateral Agreement on Investment (MAI) into the agreement

¹⁹⁸ Concepción Ferrer, reporter, *Informe sobre la propuesta de decisión de la Comunidad en el Consejo conjunto CE-México respecto de la aplicación de los artículos 3, 4, 5, 6 y 12 del Acuerdo interino*, Commission on Industry, External Trade, Research and Energy, PE 232.910 final, March 13, 2000.

¹⁹⁹ Margaret E. Keck and Kathryn Sikkink, *Activists Beyond Borders* (Ithaca and London, Cornell University Press, 2000): 3

They also contested the legal character of the Joint Council, given that it had acquired powers that were beyond the Mexican Constitution. According to article 133 of the Mexican Constitution, international agreements have the same character as law, so they cannot be amended but through the same organ that approved them (the Senate, in this case). According to a Mexican observer, the Executive resolved this controversy by arguing that the Senate had granted its authorization for the Commerce Ministry to negotiate. In addition, the two dominant parties, the PAN (Partido de Acción Democrática) and the PRI (Partido Revolucionario Institucional) promoted the agreement as an essential instrument to counterbalance dependence on the US market²⁰⁰. From this perspective, a free trade zone with the EU, and its high-income Member countries, could be a potential source of technology transfer through its effect on bilateral trade, and favor FDI flows²⁰¹, which could eventually contribute to a greater convergence between the two economies.

It is important to notice that even if negotiations were finished on November 1999, it was not until February 29 of the next year that the text was presented to the Permanent Commission of the Congress in order to turn it to the Senate for discussion during its regular session. Some days before, representatives of the civil society (RMALC) had access to the final text through some PRD senators. However, the version that they obtained was subject to “a process of language verification”, which meant that they did not have in their hands the final official version. It can be said then, that there was never a debate about the final text. Later on, some NGOs delivered a petition to the unified Commissions of Trade and Foreign Relations of the Senate for a wide consultation and discussion before the ratification of the treaty²⁰². The Senate did organize some information sessions, but they were not open to the public: they were consultations among some officers of the Trade Ministry, some Senators, and closed consultations with the leaders of the productive sector.

These unified commissions delivered a motion for approval in a single session on March 15 (only fifteen days after the official delivery of the text), and five days later; the Senate ratified it with 9 votes against from the PRD. This party elaborated a particular vote against,

²⁰⁰ Mexican officer, Personal interview, Embassy of Mexico to Canada, July 30, 2001.

²⁰¹ Anthony J. Venables, Les accords d'intégration régionale, facteurs de convergence ou de divergence?, *Revue d'économie du développement* 1-2 (2000) : 245-6

²⁰² RMALC, March 15, 2001.

with some explicative notes, arguing that it voted in favor for Article 1, about the nature and scope of application; for Title II, about the dispositions on political dialogue; and for Title VI, about the cooperation within the Global Agreement. At the same time, the PRD voted against paragraph b) of Article 15, of the same Title VI, that concerned the promotion of agreements for the reciprocal promotion and protection of investments. The parliamentarians presented as well, some alternatives to the dispositions, documents that contributed to unify the position of several European and Mexican NGOs, and some Mexican and European Parliamentarians.

At the EU member states level, there was not a comprehensive debate, with the exception of some Parliaments that expressed their concerns on the Human Rights situation in Mexico. For example, a Resolution of the German Parliament claimed for “regular consultations, regular reports, and a constant monitoring of the human rights situation, with the inclusion of Mexican NGOs”²⁰³. This resolution was notably influenced by the mobilization of the German Coordination for Human Rights, which is a network of 10 NGOs in Germany that followed closely the Global Agreement negotiations. In Belgium, some members of the Federal Parliament expressed their concern about the “violent actions occurring constantly in the states of Chiapas, Guerrero and Oaxaca, as well as for the deterioration of the human rights in Mexico”²⁰⁴. They asked the Belgian government to insist the High Commissioner for Human Rights to open a permanent office in Mexico, in order to make the follow-up of the human rights situation. They also asked the European Commission to elaborate the necessary mechanisms to enforce the application of the democratic clause, and to present an annual report based on both, governmental and non-governmental sources.

Human Rights concerns also reached the sub-federal level, in the case of the Flemish Parliament, which also included environmental considerations. In a resolution approved by unanimity within this instance asked the Belgian Government to:

- “2. verify that the environmental dispositions of the Global Agreement presented in the cooperation agreement, to be fully respected;
- 5. ask for the resolution of political conflicts without the use of armed forces
- 6. verify that the international human rights organizations and the Human Rights NGOs to be able to work within the Mexican territory

²⁰³ *Resolution of the German Parliament*, July 15, 1999.

²⁰⁴ *Resolution of the Belgian Parliament*, April 22, 1999.

7. ask to the European Commission to elaborate mechanisms to watch for the total respect of the democratic clause...²⁰⁵

These recommendations sought not strengthen the economic ties of the parties, but their political and social relations, and they were the outcome of an intensive lobbying of advocacy groups²⁰⁶. It is interesting to notice that these groups had their origins in 1994, with the uprising of the Chiapas EZLN. They began to organize to support this movement, and they acquired a broader mandate: to support and strengthen the respect for human rights in Mexico, and to promote an exchange of information with Mexican NGOs. These organizations often benefited from the support of left-wing parties in Parliament. They knew that it was illusory to expect they could avoid the ratification of the agreements, but they managed to provoke debate and to have an influence on the creation of parallel resolutions on human rights and democracy in countries that were favorable to the agreement²⁰⁷.

Some countries were less favorable to the signature of the agreement. As a matter of fact, the last country that ratified the agreement was Italy, in which the press had a very active role in informing the population, and increasing the awareness of human rights issues. Although some officials perceived this mobilization as a means of gaining political visibility on the part of the Parliamentarians, there were actually several hearings and the human rights question was frequently debated. The fact that Mexico had expelled some Italian observers contributed to making an issue out of the ratification of the agreement with an “undemocratic country”²⁰⁸. However, it was not possible to get a resolution of conditioned approval as in the German, Belgian, or Flemish cases because there was a total opposition to the agreement by the mobilizing groups and parties. Simultaneous to this mobilization, there was an excellent work of public relations conducted by the Mexican Ministry of Economy in almost every member country.

These interactions among the internal and external level of negotiations with international constituencies would not end, nevertheless, with the ratification process of the Global Agreement. The technical dispositions would be the outcome of this multi-level game, as the

²⁰⁵ *Resolution of the Flemish Parliament*, February 2, 2000

²⁰⁶ Member of CIFCA, Personal Interview, Brussels, October 1st, 2001.

²⁰⁷ *Ibid.*, This was also asserted by the representative of the FIDH at Brussels, October 1st, 2001.

²⁰⁸ *La Jornada*, January 28, 1998.

sectors analyzed in the following chapter would reveal. The contents of the agreement would be the result of two-level games at the international, and domestic levels. Moreover, the contents of the agreement would reveal the interaction between the political and economic contexts as differences across democratic and autarchic regime types influence patterns of economic cooperation²⁰⁹. As Christian Deblock asserts, the growing tendency towards the internationalization of policies: the development of trade and investment exchanges has been accompanied with a more ample recognition of human and democratic rights, even if it has often been limited to the establishment of a more favorable institutional environment for investment and trade flows²¹⁰.

Chapter 4 The outcome of the negotiations

This research has applied an interactive approach to understand the negotiation process between Mexico and the European Union. The analysis of the bilateral negotiations has shown how patterns of interdependence between the domestic and the international levels constrained the parties to negotiate. The parties, represented by the Mexican Executive and the European Commission were influenced by numerous actors, which determined, to a great extent, the final dispositions of the treaty. This chapter studies some specific dispositions of the Partnership Agreement, and has as purpose to reveal by which political and economic processes, and structures²¹¹ the final text of the agreement came about.

The general structure of the Agreement

According to Andrés Peñaloza Méndez and Jorge A. Calderón Salazar the Mexico-EU Partnership Agreement is the result of the work of the federal government of Mexico, along with the elite of political and economic power in Europe in order to give solutions to the

²⁰⁹ Helen V. Milner, Edward V. Mansfield and B. Peter Rossendorf, Why Democracies Cooperate More: Electoral Control and International Trade Agreements, Working Paper, Columbia University, February 18, 2000.

²¹⁰ Christian Deblock « La coopération économique internationale au tournant du millénaire » *Continentalisation*, Cahier de recherche 99-3 (Université du Québec à Montréal, Montreal, January 1999)

²¹¹ By structure, this research work adopts the Susan Strange's concept : "a framework within which participating units function and relate to one another". This notion suggests that there is a certain rough predictability about the behaviour of decision-makers within a certain structure. Susan Strange, "Structures, Values and Risk", in R.J. Barry Jones, *Perspectives of Political Economy* (London, Routledge, 1983) : 214,

corporate agenda.²¹² These authors have claim that this treaty reproduced to a large extent the technical dispositions of NAFTA, and gave priority to trade liberalization,, while the cooperation areas were neglected. However, it can be argued that the influence of corporate actors was not as strong as a first analysis would indicate. A closer analysis reveals the influence of the European institutions' quest for legitimacy, the external environment, and civil society actors on the final dispositions of the agreement. This chapter will present a political analysis of two specific sectors in which trade was liberalized: agriculture and services; and in a last part, a brief study of the treaty's dispositions on the protection of human rights and the environment. Analysis will be preceded by a brief description of the liberalization`dispositions of the agreement²¹³.

An overview of the final 1997 Mexico-EU agreement trade liberalization dispositions

The trade liberalization concessions that were included in the Mexico-EU agreement are very similar to those found in previous free trade agreements signed by Mexico, which have been the result of its commitments made as party to the GATT and the WTO. The objectives of the 1997 treaty with Europe were established as follows:

- (a) the progressive and reciprocal liberalization of trade in goods, in conformity with Article XXIV of GATT 1994 (Articles 2-24 of the Interim Agreement);
- (b) the opening of the agreed government procurement markets of the parties (Art. 25-38 IA);
- (c) the establishment of a cooperation mechanism in the field of competition (Art. 39 IA);
- (d) the setting up a consultation mechanism concerning respect of intellectual property matters (Art. 40 IA); and
- (e) the establishment of a dispute settlement mechanism (Art. 41-47 IA).

The Mexico-EU agreement also considers the elimination of customs; qualitative restrictions to trade; antidumping or countervailing duties; safeguard measures; rules of origin; customs cooperation; sanitary and phytosanitary measures; standards, technical regulations and

²¹² Penalzoza Mendez ad Calderon Salazar, « The Mexico-European Accord: what was presented as a new kind of agreement turns out to be a repeat of NAFTA », *Laboris*, Montréal, Université de Québec à Montréal, October 1999, < <http://laboris.uqam.ca/>>

²¹³ As discussed in chapter 2, the economic dispositions of the agreement were negotiated as the Interim Agreement.

conformity assessment procedures; and the restrictions concerning balance of payments difficulties.

With respect to the accomplishment of trade liberalization of goods, Mexico agreed to liberalize 52% of its industrial products by 2003 (47% in 2000 and a further 5% in 2003). The remaining 48% will be liberalized either in 2005 or 2007, depending on the sector. During this period, Mexican tariffs on the remaining products will not exceed 5%. On the other hand, the European Union will have liberalized all its industrial sectors by 2003 (82% in 2000 and 18% on January 1st, 2003). On rules of origin, the Europeans secured that EU regulations prevail for most industrial goods, while Mexico obtained temporary exemptions from EU regulations to allow certain sectors such as automobiles, auto parts and clothing to adapt to EU standards²¹⁴.

Concerning agriculture and fishing goods, some 62% of agricultural trade, which accounted for 7% of total bilateral trade in 1997, will be liberalized progressively. Tariffs on more sensitive goods in these two sectors will be eliminated over a ten-year period. Very sensitive European products, such as wine, alcoholic beverages and olive oil, will benefit in the short term, as will major Mexican agricultural exports such as concentrated orange juice, avocados, and cut flowers. The agreement liberalized 99% of trade (by volume) in fish products. EU rules of origin apply to all agricultural and fisheries products covered by the agreement. The document considers, also, undertaking a future review on a case-by-case basis, of the customs duties applicable to this category of products.²¹⁵

With respect to trade in services, the document establishes that trade will be liberalized over a maximum ten-year period and will cover all sectors except audio-visual services, cabotage²¹⁶ and air transportation. The agreement covers a number of particularly important sectors, including financial services, telecommunications, distribution, energy, tourism, and

²¹⁴*Interim Agreement*, Section 2 Industrial Products, arts. 4 – 6. According to some observers, the difference between the North American and the European standards has been a challenge for the Mexican exporters to the Union in the early implementation of the agreement.

²¹⁵*Interim Agreement*, Section 3 Agricultural products and fisheries, arts. 7-10

²¹⁶ This was due to a intense lobbying by some member states: France in the case of audio-visual and Greece, in the case of cabotage.

the environment. Liberalization of investments, as well, will begin within three years, while related payments will be progressively liberalized.

The impact of the two-level game in the final dispositions of the Mexico-EU agreement

In order to discuss the political aspect of the renewed European trade policy towards Mexico, some specific sectors of the agreement are presented as case studies. The analysis of the dispositions on agriculture and services will show how a two-level bargaining process in which the Commission, the Council, the national and transnational constituencies, and the Mexican government were involved, shaped the technical aspects. Domestic and external trade politics interacted in various ways. Conflicting economic interests and varying capacities of domestic institutions to cope with the pressure and demands of foreign governments created a political space for key negotiators –both government leaders and Community officials- to set the EU on a course of gradual and controlled liberalization towards Mexico, as part of NAFTA and Latin America.

The liberalization of agriculture: the parties' passive option

Agriculture has always been a controversial aspect in the EU politics and policies. Since the beginning of the EU-Mexico negotiations, this sector proved to be matter of concern by both parties. In Mexico, this sector has been one of the most affected by the redefined role of the state in the economy²¹⁷. In Europe, France and Germany were particularly worried that the CAP be protected. Other Southern member states, such as Spain were fearful of competition for certain agricultural products, such as fruits. The Spanish presidency ordered the elaboration of a study in order to show that a FTA with Mexico did not constitute a danger for the European agricultural sector. Indeed, Mexico is a net importer of agricultural

²¹⁷ Mexico's administration has deregulated markets, lowered internal trade barriers, eliminated red tape for investors and reduced government intervention. The government has divested itself of state corporations such as Tabamex and Azúcar S.A., former state tobacco and sugar monopolies. The role of Conasupo, a government corporation engaged in the distribution of agricultural commodities, has been reduced to the marketing of corn and beans, the country's staples. Fertimex and Pronase, state-owned enterprises that controlled the fertilizer and seed markets now have private competitors. This deregulation has been accompanied by the reform of article 27, which has contributed to the fragmentation of the community owned property. (Embassy of Mexico to Canada, Agribusiness in Mexico, February 28, 2001, <<http://www.embamexcan.com/english/agriculture/agribusiness.html>>

products, and agriculture accounts only for 7.7% of its exports; 7.9% to the US and 7.1% to the EU.

The memorandum elaborated by Carlos Westendorp estimated that « it would be easy to establish limits to the exports of sensitive agriculture and fisheries products within a FTA agreement with Mexico. Only 2.3% from the total of the Mexican agricultural exports were considered as sensitive (frozen shrimps, natural honey, asparagus, bananas, strawberries, frozen strawberries, and canned tuna) and only honey, asparagus, bananas, strawberries, and tuna were considered as very sensitive. These products represented, in 1994, only the 1.18% of the total Community imports from Mexico. While judging that the perspectives of growth of the Mexican agriculture within the framework of a possible FTA were weak, the Spanish document suggested excluding from the free trade some products which Mexico could export in the future, such as fresh tomatoes, onions, fresh cut flowers and certain canned products. On the other hand, Mexico was in chronic deficit for oleaginous plants, cereals and dairy products²¹⁸.

At the end of the negotiations, agriculture was one of the sectors that revealed the most the fact that political institutions can block and refract the effects of internationalization²¹⁹. Final results were very similar to the Spanish proposition. From the perspective of Mexican negotiators, it was not worth risking the rest of the agreement while liberalizing the agricultural sector. Following Putnam, both parties acted like agents, given that they did not look forward to the enlargement of the win-set. The Mexican Executive and the European Commission opted for “the passive option of letting the ratification play itself out in response to the existing correlation of domestic forces”²²⁰.

The context for trade liberalization in agriculture: the multilateral negotiations and the difficulties for CAP reforming

Upon the mandate of the article 20 of the WTO Agriculture Agreement, negotiations for a more extensive liberalization at the multilateral level were foreseen. The creation of the WTO had set up the long-term objective of substantial, progressive reductions in support and

²¹⁸ See *Europe*, no. 6693, March 22, 1996, p. 10-11

²¹⁹ Robert Keohane and Helen V. Milner, Introduction, 8

²²⁰ Peter Evans, Conclusion, 406

protection in the agriculture sector. Face to this reform, the European Union has established a position that claimed for special and differential treatment of developing countries, the consideration of non-trade aspects, as well as the necessity of establishing a fair and market-oriented agricultural trading system²²¹. This context would have some influence on the European agricultural negotiations with third countries.

Faced with such concerns, the win-set of the European Union is limited with respect to its external trade relations. Yet, the evolution of the multilateral system has failed to foster a deep revision of the CAP: the Uruguay Round did not seriously challenge the CAP, and the WTO offers little chance to do so. In the case of the negotiations with Mexico, this aspect was accompanied by the Mexico's lack of interest to link other issues in order to get more concessions in this sector. Negotiators can often get "linkable issues" and suasive transnational allies to assist in efforts at reshaping the win-set²²². However, in this case, none of them were present.²²³

The Common Agricultural Policy (CAP) underwent significant reform in 1992, as the European Commission moved agricultural policy in a new direction. The thrust of the reform was a shift from price support to direct income support, achieved by lowering the

²²¹ Later, on October 11-12, 1999, the General Affairs Council and the trade ministers reached a political agreement incorporating the conclusions of this Agriculture Council into the Commission's general remit for the negotiations. The ministers confirmed their resolution to promote the European model of agriculture, based on "multi-functional, sustainable and competitive farming throughout the Union, including rural areas facing special difficulties" Concerns of consumers were addressed, as food safety and quality and environmental protection European Commission Directorate-general of Agriculture, *The Fifteen at the WTO: a stronger, more united voice*, Newsletter No. 16, October 1999

²²² Peter B. Evans, Conclusion, 407

²²³ The difficulties to achieve full trade integration in the agricultural sector are exemplified by the case of NAFTA. The trade agreement among Mexico, the United States and Canada is not a trilateral agreement as far as the agrifood sector is concerned. Instead, the agricultural provisions consist on three bilateral agreements with major difference among them. The EU continues then, to represent the only case of full integration of this sector in a regional trading bloc. Of course, the EU has grown into more than a regional block and is now a becoming a common economic and monetary union. Simultaneous to this evolution, the EU has undertaken the reform of the CAP in 1999 to prepare the agricultural sector and rural economies for new challenges requirements ("Cross-compliance"). T. Josling and R. Barichello, *Agriculture in the NAFTA: a Preliminary Assessment*, Toronto, CD Howe Institute Commentary 43, 1993; Crescenzo de l'Aquila, Rakhil Sarker and Karl D. Meilke, *Regionalism and Trade in Agrifood Products*, Canada, International Agricultural Trade Research Consortium, Working Paper 99-5, May 5, 1999, 13

intervention prices, while compensating farmers via acreage and headage premiums²²⁴. With the benefit of hindsight, it can be concluded that the measures relieved international tensions on agricultural export markets, and virtually saved the Uruguay Round, resulting in the World Trade Organization²²⁵. Furthermore, the compensation payments turned out to be generous, as market prices became higher than anticipated. Subsequently, the CAP essentially remained unchanged, although pressures for further reform have been building up.

The interests, preferences and institutions at the two-levels in the negotiations with Mexico

In the negotiations with Mexico, the European Union was negotiating with a partner that sought to: a) gain preferential conditions for access to the European market; b) protect its industry from the subsidies protection applied by the EU; and c) establish a mechanism to resolve disputes concerning sanitary and phytosanitary measures. It must be remembered that Mexico does not have any mechanism for direct support to the exports. Mexico is also committed by NAFTA to not subsidize trade goods unilaterally²²⁶. In contrast, one of the traditional instruments that the CAP has used to make community's agricultural produce competitive at the foreign market has been to subsidize them through export refunds²²⁷. Such measures pose an important constraint on the EU in negotiating with third countries. In the case of the negotiations with Mexico, the latter established the elimination of such subsidies as a condition for the elimination of tariffs²²⁸.

²²⁴ Michel Keyzer and Max Merbis, CAP Reform in Agenda 2000: Logic and Contradictions, in P. Van Dijck and G. Faber (eds.) *The External Economic Dimension of the European Union* (The Netherlands, Kluwer Academic Publishers, 2000): 151-173

²²⁵ GATT, *The Results of the Uruguay Round of Multilateral Trade Negotiations, the Legal Texts*, GATT secretariat, Geneva, 1994.

²²⁶ NAFTA, Art. 705 alinéa 3. «Lorsqu'une Partie exportatrice estime qu'un produit agricole importé depuis un pays tiers sur le territoire d'une autre partie bénéficie d'une subvention à l'exportation, la Partie importatrice devra, sur demande écrite de la Partie exportatrice, engager des consultations avec celle-ci en vue de convenir des mesures spécifiques que la Partie importatrice pourrait adopter pour neutraliser l'effet de telles importations subventionnées. »

²²⁷ The subsidy consists on the difference between internal and external prices, which has as result a competitive price in the international markets. These subsidies are granted to cereals, dairy products and meat produce, among others.

²²⁸ Ministry of Agriculture, Mexican permanent mission to the European Union, Information booklet, September 2000.

With respect to Mexico's third objective, it was essential to establish clear rules in order to avoid disguised obstacles to trade through sanitary and phytosanitary measures (SPS). It must be remembered that the tuna dispute almost blocked NAFTA negotiations, and Mexico wanted to establish a climate of certainty in its negotiations with Europe. Some observers have recognized, however, that at the stage of the application of the agreement, environmental European consumers' concerns have limited Mexican access to that market²²⁹.

The European Union did not seek comprehensive liberalization in the agricultural sector. Its principal objective in the general negotiation was the NAFTA parity in the industrial sector. The EU would adopt a defensive position in agricultural sector, while its strategy was very offensive regarding industrial products. Therefore, the tariff reductions that each party agreed with the other are equivalent, and they represent identical rhythms in a ten year time-table:

Category of product	Pace of liberalization
1	Liberalization on the date of the Interim Agreement's entry into force
2	Progressive liberalization to be completed on 2003
3	Progressive liberalization to be completed on 2008
4	Ten years after the date of entry into force of this Decision, all duties shall be completely eliminated. Duties would remain constant for three years, and progressive liberalization would take place during the remaining seven years
4a	Progressive liberalization to be completed within ten years after the agreement's entry into force
5	Standstill list (This list includes the products that were left out of the agreement, given the sensitivities that each party had respect to them and they were subject to art. 10 that included a review clause).
6	Products with tariff quotas with reduced customs duties
7	Processed agricultural products

Table 4.1 Pace of liberalization in agriculture

Even if these negotiations appear to be symmetric, and gave some legitimacy to the agreement among domestic constituencies, especially in the European Union, some asymmetries appear evident when taking a second look to the agreement²³⁰. The added-value imports liberalized by the European Union contrast with the kind of products liberalized in the Mexican market. On the other hand, the Mexican products are, for the most part, perishable products. According to some observers, the agreement would create a favorable

²²⁹ Mexican trade minister, Personal Interview, Paris, September 20, 2001.

²³⁰ Javier Aguilar, *Agricultura y productos agropecuarios*, in Alberto Arroyo Picard and Andrés Penaloza Mendez, coord., *Derechos Humanos y Tratado de Libre Comercio México-Union Europea*, (Mexico, RMALC, 2000) : 28-32

climate mostly for the European companies, given that liberalization of goods and liberalization of capitals are treated in a different way. It must not be forgotten that stagnation of markets has affected the private sector in Europe²³¹. These enterprises have sought alternative markets, and have been investing in Mexico in the most competitive companies: Bachoco (poultry, eggs), Gruma (corn, corn flour), Bimbo (bread), Grupo Viz (animal feed, beef), Sigma Alimentos (poultry, pig, beef, artificial flavours), and Modelo (beer)²³².

At the European level, it is also difficult to speak of the same regulation concerning exchanges of goods and flows of capital in the agricultural sector. The CAP is largely concerned with prices and premiums at the farm level, which is only the primary level of production, and with the markets for these products in raw form. Almost all measures relating to products at a higher level of processing are derived on the basis of the raw-material content. There is no explicit policy with respect to agribusiness and the relationship between agribusiness and the farm sector beyond the sponsoring of investment projects in the context of regional development activities. Similarly, when assessing the effects of policy changes on countries and regions, the Commission focuses on incomes from farming, and does not consider other sources of income for farmers, neither the effect on incomes earned in the agribusiness. This happens even in an economic environment where members of farm households are often engaged in non-agricultural activities and the relations between farm and the agribusiness become ever tighter both upstream in the provision of inputs and downstream in processing and marketing.

The influence of constituencies in the agriculture negotiations

Consumer concerns play a role of increasing importance in the EU agricultural politics. The BSE crisis constitutes an example. In the case of Mexico, beef was put in on the list of products which were not liberalized immediately²³³. This happened even if Mexican growers

²³¹ See Jacques Marseille, dir., *Les industries agro-alimentaires en France* (Paris, Ed. Le Monde, 1997).

²³² Aguilar, op. cit. p. 29

²³³ Simultaneously, it could be possible to advance that EU's concerns on food safety have had an influence in Mexico. Mexico expressed, on its comments to the EU white paper on food safety, its "proactive stance in developing a comprehensive food safety framework in Mexico through close cooperation and technical assistance from its trading partners, such as the United States...The government of Mexico has implemented an

are held to stricter regulations than their US and Canadian counterparts in North America, since all commodities exported from Mexico are inspected at the border by the US authorities (Customs Service, Federal and State Departments of Agriculture, the Food and Drug Administration, the Department of Transportation and Plant Protection and Quarantine, in random proportions)²³⁴. Furthermore, Mexico has been affected several times by restrictions under sanitary and phytosanitary measures. Mexico is favorable to the precautionary principle advanced by the EU at the international level, except when exchanges are affected by its misuse as disguised form of protection. Some security considerations, such as labelling and packaging could be problematic for Mexican producers, especially in a context when consumer mobilization is growing.

A feature that is worth of consideration, and that supports the argument that the agreement was result of a two-level game is the shortage clause, included in Article 16, which allows export restrictions or export customs duties if compliance with the provisions of Chapter I or Article 12²³⁵ leads to “a critical shortage, or threat thereof, of foodstuffs or other products essential to the exporting Party”. This clause can be considered an answer to the development asymmetries between Mexico and the European Union, so the former would not risk the food supply within the country as a consequence of its commitments within the treaty. This could be explained as the need of congruence of the general development policy of the EU and the particular negotiation with Mexico. Nevertheless, this clause uses very general terms like “critical”, “essential”, which could make it inoperative.

Trade liberalization in services: a NAFTA-type conciliation of the two-level politics

Services, the last part of the agreement that was implemented through the *Decision No. 1 of the Joint Council*, constitutes a particularly interesting aspect of the agreement, given its importance in quantitative terms²³⁶:

integrated policy designed both to guarantee the timely and sufficient supply of food and to ensure the health of the consumers as well as that of the environment, plant and animals.”

²³⁴ Mexican Ministry of Agriculture representation to Canada, Food Safety in Mexico, February 28, 2001, <<http://www.embamexcan.com/english/agriculture/agriculture/agrfoodsafety.html>>

²³⁵ Art. 12 envisions the elimination of all import or export prohibitions or restrictions in trade other than customs duties and taxes, whether made effective through quotas, import or export licenses or other measures.

²³⁶ For more detail, see table 2.6 in the statistical appendix

Table 4.2 EU Trade in services with Mexico (Mio ecu)

	1996	1997	1998		1996	1997	1998
Imports	902	1 314	1 573	Exports	1 470	1 802	1815
Share of EU Total	0.5	0.6	0.7		0.8	0.8	0.8
Services Balance	568	488	242				

Source: Trade DG A2/CG/RQ, European Commission, Brussels, September 26, 2000.

Surprisingly, the final agreement contains provisions and disciplines similar to those of NAFTA, even if the EU is a major power in international services trade, and it could have been possible to think a dominant role of the EU in negotiations (a “hawk” role, in Putnam terms). NAFTA has been the cornerstone of Mexico’s approach to the liberalization of services trade, and Mexico would seek to negotiate a NAFTA-type services agreement with the EU²³⁷. The agreement would, in addition, guarantee the right to invest for all service sectors covered by the agreement, without limits on the form, size, or equity of the investment, unless specified. More specifically, the agreement would aim to achieve :

- (a) the progressive and reciprocal liberalization of trade in services, in conformity with Article V of GATS;
- (b) the progressive liberalization of investment and related payments;
- (c) ensuring an adequate and effective protection of the intellectual property rights, in accordance with the highest international standards; and
- (d) establishing a dispute settlement mechanism.

The interests, preferences and institutions at the two-levels in the negotiations with Mexico

The approach for negotiations was very similar to some other services agreements that Mexico has negotiated with Latin American countries. This scheme features a “negative list” or “top-down” approach, which includes the following elements:

- Coverage of all service sectors, with limited exceptions;
- Consolidation of measures upon entry into force of the agreement;
- Annexes setting out reservations (nonconforming measures);

²³⁷ In NAFTA, the chapters that apply to services trade are: Chapter XI (Investment), Chapter XII (Cross-Border Trade in Services), Chapter XIII (Telecommunications), Chapter XIV (Financial Services), and Chapter XVI (Temporary Entry of Business Persons). Carlos Piñera Gonzalez, « Mexico’s Free Trade Agreements : Extending NAFTA’s approach” in Sherry M. Stephenson, ed. *Services Trade in the Western Hemisphere* (Washington, OAS and Brookings Institution, 2000): 139-153

-A ratchet clause²³⁸; and

-A phase-out calendar

Through consolidation, the parties pledge to “freeze” their national laws that are applicable to the various service activities. In other words, they commit themselves to consolidate the degree of liberalization that exists upon entry into force of the agreement and not to establish additional measures that restrict or limit that degree of liberalization. In the case of the Mexico-EU agreement, such dispositions are self-reinforcing with the agreements on investment (APRIs) since they offer legal certitude to investors in the services sector. Furthermore, such agreements can be considered as a first strategy of the Mexican government to “cut slack” in order to expand the domestic win-set before starting negotiations. In the international context, this was perceived by civil society networks as a “behind the back” door face to the failure of ratification of the Multilateral Agreement on Investment, MAI. This reinforces the idea that diplomacy is a process in which actors must consider the expected reactions of other actors at the internal and external levels²³⁹.

With respect to the inclusion of exceptions to the liberalization in services between Mexico and the EU, there were two options: to include either a list of bound measures or a list of unbound or future measures. The second approach was chosen, a listing of the future sectors and activities exempted from the provisions of the services chapter and for which the parties could issue even more restrictive provisions than those that the agreement reinforced. According to a negotiator, the “negative list” option prevailed because of a defensive attitude from the European side. Europe is very important as an exporting service party, and this sector is constituted by medium enterprises. Following Klaus Günter, sectoral protectionism, except, at times, for both agriculture and steel, usually did not originate in the past from an explicit policymaking approach to trade adjustment. Rather, protection has often been granted as a response to intense pressure, not according to visions of industrial policy or broadly based economic policy strategies²⁴⁰. Yet industries have achieved quite a number of

²³⁸ The principle behind the ratchet clause is that if a party amends its legal framework in a way that eliminates or reduces restrictions on a service sector or activity when the agreement is already in force, the party is automatically compelled to consolidate this new degree of liberalization with respect to members of the agreement. Carlos Piñera, *Mexico: extending NAFTA’s approach*, p. 151.

²³⁹ A. Moravcsik, *Introduction*, 15.

²⁴⁰ K. Günter, *op. Cit.* P. 63

success stories in low-track trade policy. They have often convinced officials to use their administrative discretion in applying trade remedy measures to provide relief to their respective industries.

The constraints to liberalization in services: a limited win-set at the domestic level

Liberalization of trade in services is a delicate question at the European level, which seems to be one of the reasons to avoid concrete wording in the agreement with Mexico. As far as the Common Commercial Policy is concerned, the final agreement in the Nice IGC was to allow, in principle, the broader area of trade in services to be decided by qualified majority²⁴¹, but only after accepting exemptions for France in culture and audiovisual services. According to a Mexican negotiator, it was precisely France which exercised a great influence to keep a limited scope in the EU-Mexico agreement²⁴².

In addition, the agreements related to the harmonization of cultural and audiovisual services, education services, social and health services continue to be the subject of responsibility shared with the Member States. These features made it difficult for the agreement with Mexico to include those sectors, even if the attitude of the Commission officers was rather cooperative, in contrast with some member states during the negotiations²⁴³. In fact, the Commission negotiators seemed to be favorable to the potential use by the efforts of their Mexican colleagues to alter domestic constraints known through *reverberation*, which consists in the transformation of the expectations about an agreement held by domestic groups in a foreign country. It appears clear, given the results of the negotiations, that there were some tensions between the need to protect the EU's internal services providers in some sectors and the importance for the continuing of the liberalization in the specific sector of the financial services. According to some observers, Spain supported Mexico in the negotiations, being the importance of its financial and tourism services providers in this country.

²⁴¹ The final compromise of Nice included the negotiation and conclusion of international agreements in the area of trade in services and the commercial aspects of intellectual property.

²⁴² Mexican officer, Personal Interview Brussels, October 3, 2001.

²⁴³ Mexican negotiator, Personal Interview, Ottawa, July 29, 2001.

The influence of transnational constituencies: the case of the financial services sector

There is a sector in services in which comprehensive liberalization was achieved: financial services. It represents one of the strongest sectors of European investment in Mexico. Spanish capital has been present in the Mexico's banking sector since 1991. For example, the Banco Bilbao Vizcaya, BBV acquired a major participation in the Financial Group Probursa, purchase that allowed the Mexican institution to continue operating after the peso crisis²⁴⁴. In 1996, Mercantil Probursa ceded to the Spanish Bank Bilbao Vizcaya 70% of his stock capital, which represented at the time almost 350 millions of dollars, which was followed by the acquisition of the complete network of branches of the fifth most important bank in the country, including Banca Cremi and Banca del Oriente²⁴⁵. The banks Santander and Central Hispano, on its part, have also managed to penetrate the Mexican market in a very important way: in 1998, its participation was of 33% of the total assets of the foreign banks²⁴⁶. It was very important for the European services providers to get access to the NAFTA market, and in the EU-Mexico Agreement, each party committed to allow the cross-border provision of financial services²⁴⁷.

The principles established in the chapter on financial services apply to measures that affect the delivery of services by financial institutions (banking, insurance and securities) and other financial services. The parties included, as well, a list of commitments establishing the level of liberalization that they agreed to grant each other at the end of a transitional period of ten years from the entry into force of the treaty. The provisions in this chapter allow financial services providers of a member country to establish themselves in another member country to conduct banking, insurance and securities operations and any other type of service that the host country deems financial in nature. Each country is to permit its residents to acquire

²⁴⁴ *La Jornada*, June 10, 1996.

²⁴⁵ Banco Bilbao Vizcaya payed for Banca Cremi and Banca del Oriente 160 000 millions to the federal government, an amount equivalent to the 6,7 percent, in real terms, of the amount in which both institutions were reprivatized in June and August of 1991, *La Jornada*, August 9, 1996.

²⁴⁶ Alvaro Calderón and Casilda Ramón, *Grupos financieros españoles en América Latina: una estrategia audaz en un difícil y cambiante entorno europeo*, CEPAL, September 1999, < <http://www.eclac.org>>

²⁴⁷ *DECISION No 2/2001 OF THE EU-MEXICO JOINT COUNCIL* of 27 February 2001 implementing Articles 6, 9, 12(2)(b) and 50 of the Economic Partnership, Political Coordination and Cooperation Agreement (2001/153/EC) Official Journal of the European Communities, March 12, 2001

financial services in the territory of another party. The concluded agreement was very ample, as there was an interest of actors with transnational ties on concluding the agreement, and there was a consensus on the potential of the distributive consequences of a stronger protection of investment in the bilateral relation²⁴⁸.

In fact, denial to the provision of a service in the territory of the parties can only answer to “prudential reasons”. Such prudential reasons can be the base for measures for :

(a) The protection of investors, depositors, financial market participants, policy-holders, policy-claimants, or persons to whom a fiduciary duty is owed by a financial service supplier;

(b) The maintenance of the safety, soundness, integrity or financial responsibility of financial service suppliers; or ensuring the integrity and stability of a Party’s financial system.

Such dispositions create even more certainty for financial investors, and secure the financial sovereignty along with the general exceptions that include dispositions concerning the balance of payments. However, these measures are limited since they shall not be more burdensome than necessary to achieve their aim. In addition, there is nothing that commits a party to disclose information relating to the affairs or any confidential or proprietary information in the possession of public entities. These characteristics deem, again, the transparency of such measures, and transfer important authority to the instance created by the dispositions of this decision: the Special Committee on Financial Services. It is noteworthy how the authority of this institution, as well as of the Joint Council could avoid the possibility for contesting groups to intervene in this sector. Such dispositions increase the democratic deficit already found in the agreement, since ratification by Parliaments is not explicitly stated. The Joint Council may amend the liberalization calendar and the lists of commitments established, with a view to remove or add exceptions.

The Unachieved areas of the agreement: the protection for Human Rights and the Environment

²⁴⁸ Peter B. Evans, Conclusion, 418-9

The European Commission has stated that “The EU’s trade policy should be viewed within the context of its general approach to sustainable development”²⁴⁹. The EU’s treaty requires (Art. 6) integrating environmental concerns into all EU policies as the best way to achieve sustainable development, which is one of the key objectives of the EU (Article 2). However, none of the agreements that the EU has negotiated, with the exception of the East and Central countries, contains a true mechanism for making these objectives operational²⁵⁰. In the Mexico-EU negotiations the role of internal processes was determinant for the limited wording related to the respect for human rights and the environment. These aspects are included, to a certain extent, in the different chapters on cooperation, but there are not clear mechanisms to reinforce these two aspects of the bilateral relation.

The internal level: the European Union and the promotion of social rights and the environment in trade instruments

At the internal level, the EU has adopted various measures, both positive and negative to ensure increased protection of human rights by third governments. Some of these measures relate to social rights. In 1994, as a result of a long-term trade union campaign, the EU decided to include certain basic workers’ rights within the EU’s GSP. As a first step, the prohibition of forced labor was included. From January 1995, beneficiary countries stood to lose their GSP benefits if they did not respect ILO Conventions 29 and 105 in this regard. As a second step, from 1998, the EU undertook to implement incentive clauses concerning trade union rights and the prohibition of child labor²⁵¹.

In the case of negotiation with Mexico, there was not a wide participation of the European labor associations and Mexican trade unions were not sufficiently active in the process. Consequently, there was not a wide coverage of labor rights²⁵². Labor associations are important actors because of their experience in negotiating with the corporate and the

²⁴⁹ European Commission, *Policy Statement on the Trade Policy of the EU*, Note to all heads of Delegations, Brussels, 7 June 2000, I-G/HJD(2000)32478

²⁵⁰ Actually, it is very interesting to compare the democratic clause included in the agreement with Mexico to the several agreements that the EU has signed with other countries of the Latin American region. However, this thesis will not do so.

²⁵¹ ETUC, ICFTU, WCL *Assessment of New European Union (EU) Regulation on Special Incentive Arrangements for labour rights and environmental protection*, 1998, mimeo.

²⁵² Interview with activist, CIFCA, October 1st, 2001.

government sector. In the absence of important union mobilization, the possibility to raise the salience of the issue, and to make it resonate with the public was absent. It must be remembered that on the Mexican side, independent unionism has appeared very recently (1972-1989), and that in Europe, attention was given mainly to the aspect of the democratic clause²⁵³.

Some members of NGOs have, as well, recognized that there were several limitations on the part of the transnational coalitions formed between European and Mexican organizations. There were coordination problems, an insufficient dialogue between European and Mexican organizations, and sometimes, a lack of consensus about the strategies to follow. The lack of public debate contributed also to the reduced mobilization to struggle to include a mechanism for the reinforcement of human rights in the agreement.

With respect to the protection of the environment, the agreement states in its article 34 the engagement of the parties develop cooperation:

...to prevent degradation of the environment; to promote the conservation and sustainable management of natural resources; to develop, spread and exchange information and experience on environmental legislation, to stimulate the use of economic incentives to promote compliance; to strengthen environmental management at all levels of government; to promote the training of human resources, education in environmental topics and the execution of joint research projects; to develop channels for social participation.

There are not any concrete measures to make operative such dispositions. In recent negotiations with MERCOSUR the idea of an Environmental Impact Assessment on trade agreements has been advanced²⁵⁴, but environmental dispositions in the Mexico-EU agreement still constitute declarations. Mobilization was absent to demand the inclusion of such measures, and in Europe, environmental cooperation is mostly directed to South America²⁵⁵. Given the general wording of the disposition, it is possible to advance the possibility of a mechanism of environmental cooperation, which will depend on the political will of the parties, as the treaty states that cooperation between the Parties may lead to the

²⁵³ Unfortunately, there is a lack of analytical connection between the democratic clauses included in free-trade agreements and the respect for human rights, even if several organizations struggle to introduce them simultaneously. This thesis does not address the question, even if the author recognizes its importance for further research.

²⁵⁴ Ibid.

²⁵⁵ European Parliament member, Personal Interview, September 27, 2001.

conclusion of an agreement in the field of environment and natural resources if deemed appropriate (paragraph 4). These measures are, as in the majority of trade agreement non compulsory, in contrast with trade liberalization dispositions.

The increasing dialogue among constituencies and the possibilities enhancing human rights and environmental protection

Even if the results in the areas of the protection of human rights and the environment appear to be limited, there are some unofficial channels that have been developed in a parallel way to negotiations. Cooperation might be reinforced through a wider participation of the civil society through several channels. NGOs have emerged as privileged channel of EU cooperation with Latin America. The Commission's co-financing with European NGOs, which began in 1976, reached by the end of 1994 the 1 billion-ecu mark. The Commission's support to NGOs goes both to their development projects in developing countries and to their activities to mobilize public opinion in favor of development and North-South relations²⁵⁶. Actually, about 53 percent of all aid flowing into Latin America comes from the countries of the European Union and the EU institutions, aid that is directed through nongovernmental organizations, which are gaining influence as key external actors for the transformation of these countries²⁵⁷. These organizations have embarked since the beginning of the 1990s in a series of activities consisting on activities aimed to build citizenship, developing civil society, and promoting democratization as the key to long-term development in the region²⁵⁸. In this way, it will be fundamental to consider the evolution of the exchanges between NGOs from Mexico and Europe, since agreement on the means of cooperation is fundamental. However, European NGOs diversity of size, organizational culture, relationship with the state and with supranational bodies, modes of operation, geographical experience and ideological orientation must not be neglected.

²⁵⁶ European Commission, DG VIII, *Partners in development. The EU and NGOs*, Luxembourg, European Communities, 1995.

²⁵⁷ Jean Grugel, "Romancing Civil Society : European NGOs in Latin America", In *Journal of Interamerican studies and world affairs*, 42, 2 (1999): 87

²⁵⁸ Robinson states that these activities are stimulated by the new policy agenda of the EU, M. Robinson, "Governance, Democracy and Conditionality: NGOs and the New Policy Agenda" In Andrew Clayton, *Governance, Democracy and the Conditionality: What role for NGOs?* (Oxford, INTRAC, 1993): 25-34

Some authors have advanced that this encouragement for the participation of the civil society aims to give the EU an international profile of a “civilian power”²⁵⁹, that is to base the role of the EU on a:

Distinctive set of principles [...] emphasizing diplomatic rather than coercive instruments, the centrality of mediation in conflict resolution, the possibility of long-term economic solutions to political problems...all of these in contradistinction to the norms of super-power politics²⁶⁰.

The agreement with Mexico actually considers the possibility for consultations with civil society, but such dispositions were not stated for an immediate application. It was only at the aftermath of negotiations, regular exchanges have been considered by both parties, given the ample mobilization from organisms like CIFCA in Europe and the RMALC in Mexico. The European Parliament has often supported the celebration of meetings in order to advance such agenda. According to some Mexican and European officials, the Joint Committee of October 2, 2001 began to address the question²⁶¹. However, there is still a difficulty in defining “civil society”, as it occurs frequently in transnational action seeking to open new spaces in the political opportunity structure. As Jenson and Papillon put it: “identities are never essences: they adjust in response to claims making”²⁶².

Some authors have advanced, as well, the idea of “parliamentarian diplomacy” in the Mexico-EU relation. According to a member of the Mexican permanent delegation to the EU, both parties are trying to give political content to the agreement²⁶³. Mexico takes into effect an extensive activity of monitoring of the EP initiatives in order to develop common European and Mexican fronts in the international level. Following Fernando Solana, this kind of diplomacy can be an efficient way to cooperate in a more legitimate and democratic

²⁵⁹ Catriona Gourlay and Eric Remacle, “The 1996 IGC: The Actors and Their Interaction” In Kjell Eliassen, ed., *Foreign and Security Policy in the European Union* (London, Sage, 1998):90

²⁶⁰ Christopher Hill and William Wallace, “Introduction: Actors and actions”, In Christopher Hill, ed., *The Actors in Europe’s Foreign Policy*, (London, Routledge, 1996):1-6

²⁶¹ Mexican official, Personal interview, October 3, 2001; European official, Personal interview, October 5, 2001.

²⁶² In their work the authors present empirical evidence to illustrate the case of “weak transnational collective action” which gives a strategic answer to a controversy in which the main opposite party is the state. Jane Jenson and Martin Papillon, “Challenging the Citizenship Regime: The James Bay Cree and Transnational Action” In *Politics and Society*, 28, 2 (June 2000): 245-264

²⁶³ Parliamentarian affairs counsellor, Personal Interview, Mexican Mission to the EU, Brussels, October 4, 2001.

way²⁶⁴. The mechanisms for continuing this cooperation are present: the participation of Mexico as observer to the Council of Europe, and the bilateral parliamentary relations, and there is a clear need for its reinforcement.

Finally, regional cooperation makes part of the agenda of both parties. Mexico has recently proposed the Plan Puebla-Panama, which involves the Central American countries of Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama, and the Mexican states of Campeche, Chiapas, Guerrero, Oaxaca, Puebla, Quintana Roo, Tabasco, Veracruz and Yucatan. This project aims to promote the development of the Southern region of Mexico through the attraction of investing, infrastructure projects, and focused actions of social policy. At the international level, it has as objective to give impulse to the cooperation with Central America, by the strengthening of the liberalization process, as well as the political dialogue²⁶⁵. In the agreement with Mexico, cooperation with this region is clearly stated:

Article 37 Regional cooperation

1. The Parties shall promote activities aimed at developing joint actions by means of cooperation, mainly in Central America and the Caribbean.

2. Priority shall be given to initiatives channeled towards promoting intra-regional trade in Central America and the Caribbean; stimulating regional cooperation on the environment and on technological and scientific research; promoting the development of the communications infrastructure needed for the economic development of the region and supporting initiatives to improve the standard of living of those living in poverty.

The European Union could offer a solution for the financing of a wide agenda on regional integration and cooperation, with positive consequences for Mexico²⁶⁶. A more extensive participation of civil society can contribute also to advance some aspects in the region, like gender issues, indigenous rights, environmental protection, etc. In a provisional report at the European Parliament, a new bioregional common strategy is being formulated that considers

²⁶⁴ Fernando Solana, Las Relaciones Parlamentarias entre México y Europa, In *Mercado de Valores*, July 2000, 3-7

²⁶⁵ The EU maintains close cooperation relations with this region, which accounts for the major part of EU aid in proportional terms. The San José dialogue has played a major role in the process of pacification and democratization of the region, politically supporting the efforts of the Contadora Group and the Esquipulas Peace process. The community cooperation in the region has the following priorities: support for the strengthening and consolidation of the rule of law, modernization of public services, social policies, the Central American integration process and its integration into the world economy

²⁶⁶ In an internal proposal for resolution, members of the European Parliament have already studied the possibility of supporting such a project.

the establishment of a Birregional Solidarity Fund²⁶⁷. The future of the reinforcement of the protection of human rights and the environment is then, an aspect that is still incomplete, but that leaves room for improvement if a more active role of transnational constituencies is not only allowed but encouraged at the two levels: the domestic and the international.

Conclusions

This work aimed to study how the development of the EU's policy, at the internal and external level, affected its ability to link and control its economic and political affairs in a cooperative way with Mexico. For this purpose, a political analysis of the multiple dimensions of the European Union economic and development policies that had an influence on Mexico-EU negotiations was presented. These dimensions multiplied the number of possible options for governments and for private actors, making increasingly complex for both partners to manage two-level agendas during the negotiations. This was true for the whole negotiation process, and for the technical aspects in two specific sectors developed as case studies: agriculture, services, as for the inclusion of social and environmental considerations in the agreement.

Several strategies and tactics were used by negotiators, which had to take into account the interests, institutions and preferences not only of the other party, but also of external actors. In the case of agriculture, liberalization was achieved by including a pace liberalization and a list of sensitive products, which modified the status quo in a very restraint way. Negotiators adopted the role of agents, i.e., they acted accordingly to their internal constituencies' interests. In the case of services trade, a comprehensive agreement was reached in the case of financial services sector, in which the negotiators assumed a "dove" position, as being more sympathetic to the position of the other state, given the solid investment in this sector. In the case of social and environmental considerations, the negotiators were in a domestically vulnerable position, specially in the case of Mexico, which avoided a comprehensive approach to such aspects.

²⁶⁷ European Parliament, *Proyecto de Informe sobre una Asociación global y una Estrategia Común para las relaciones entre la Unión y América Latina* (2000/2249(INI)), Comisión de Asuntos Exteriores, Derechos Humanos, Seguridad Común y Política de Defensa, PE302.042, July 5, 2001. (provisional)

Through the analysis of the negotiations, it was possible to demonstrate the innovative character of the agreement. The legal framework consisted on three instruments: the global agreement, the free trade agreement on goods (Interim Agreement), and the free trade agreement on services. This agreement institutionalizes a regular political dialogue at the highest level and extended bilateral co-operation that existed in the 1991 Framework Agreement. With respect to trade, it sets out the objective of establishing a free trade area in goods and services, the mutual opening of the procurement markets, the liberalization of capital movements and payments, as well as the adoption of disciplines in the fields of competition and intellectual property rights. Mexico and the EU began to negotiate an association agreement based on three pillars: politics, cooperation and trade.

Given the potential opposition of the agreement, from the NGOs and some parliamentarians, on one hand, and the potential advantages envisaged by the corporate sector, on the other hand, free trade negotiations were achieved fast. Unlike the Global Agreement, whose negotiations took more than a year, and which had to be ratified by the European Parliament, the member states parliaments, and the Mexican senate, the Interim Agreement negotiations took only two days. Unlike the “interim agreements” linked to the previous ententes with other countries, the agreement between the EU and Mexico was an instrumental text that did not contained trade concessions, but rather, established the objectives, institutions, decision-making procedures and working methods for the negotiation and implementation of the liberalization of the trade between the parties. The technical aspects of the *entente* were to be negotiated in the nine rounds of negotiations within the Joint Council. Strategically speaking, both parties enlarged the win-set in granting more autonomy to the negotiators.

In this sense, the agreement was not only innovative being the first real transatlantic FTA, but it broke new ground in its negotiation process. The Interim Agreement enabled the parties to implement more quickly the provisions on goods and to adopt disciplines in the field of competition, intellectual property and public procurement, which constituted the main economic goals of the European Union. Nevertheless, this structure of negotiations engendered a democratic deficit on negotiations. Neither the European nor the Mexican

parliaments participated to the negotiation. Moreover, the agreement did not contain any disposition to establish a mechanism for the participation of the civil society.

The quest for legitimacy and coherence in the European Union relations with the developing countries forced the inclusion of a democratic clause to which the Mexican government was opposed. This created a first obstacle for the accomplishment of the negotiations. In this stage of the negotiations, the participation of international advocacy groups, constituted by European parliamentarians and NGOs that had been familiar mainly with the situation in Chiapas, as well as human rights NGOs and the RMALC in Mexico introduced to the agenda the protection of human rights and the reinforcement of the democratization process. Because of the scarce involvement of actors participating in the economic process, such as labor unions or small entrepreneurs, the inclusion of social rights was not fully realized.

The negotiation of the Interim Agreement was accompanied by an ample consultation with the corporate sector. Mexican negotiators were in constant consultation with the “cuarto de al lado”, the business leaders that constituted the former Business Coordinating Body for Foreign Trade (COECE). An important delegation of the private sector was always present during the negotiations. During the last round, held in Brussels, more than 85 representatives of the private sector comprised this Body.²⁶⁸ The negotiators from the European Commission were as well, accompanied by the representatives of the member states through the COREPER, which held consultations with each of its own corporate sector. It is important to notice, as well, the constant lobbying efforts from the part of the Mexican government, aside with companies from some member countries to individual member states.

These characteristics produced the most comprehensive agreement that the European Union had signed with a non-member country. The dispositions of the agreement were determined, as well, by the international context, noticeably the prospective WTO negotiations, the trade diversion originated by the FTA that both parties had signed, including NAFTA (in the 1990s, the EU's share of Mexican trade fell from 11% in 1990 to 6% in 1998). The EU

²⁶⁸ Web page of the Mexican Ministry of Economy (former Secretaría de Comercio y Fomento Industrial, Secofi) September 14th, 2000, <URL: <http://www.secofi.gob.mx>>

achieved its main objective in the liberalization of manufacturing goods, the NAFTA parity, that is liberalization in the same time set than the Mexican concessions to the United States and Canada. In the agricultural sector, the agreement left out of the liberalization some of the most sensitive products. In the services sector some important sectors will be liberalized for European investors, such as financial services, telecommunications, distribution, energy, tourism and the environment. Liberalization of investment was established to begin in 2003, and related payments will be progressively liberalized as well.

In general terms, it is possible to argue that the effects of the agreement, from an economic perspective, will be manifested through an increase of FDI flows to Mexico. According to the IRELA, in the short term, Mexican exports to the EU will tend to react more slowly in the initial phases of free trade because of some structural factors. Among these features, it is possible to mention the relative higher degree of internationalization of European small and medium sized firms, compared to their Mexican counterparts. In addition, a large share of Mexican exports consists of intra-firm trade by US multinationals. The level of economic integration between Mexico and the United States economies is very important and it leads Mexican exporters with little cross-borders experience to view the US as their natural market abroad.

Even if the new agreement takes into account, to a certain extent, the imbalances between Mexico and the EU during the period of tariff reduction and rules of origin, in the short and medium term, the agreement shall boost intra-firm business opportunities for companies in Mexico and the EU, specially in the manufacturing sector, and more specifically the automobile sector. Some large foreign firms that export to the EU and that already have production plants in Mexico and use sufficient amounts of local factors of production might also benefit by exporting from Mexico to Europe. This could be an important outcome of the new agreement in terms of trade and investment flows between Mexico and the EU: intra-firm trade, which would lead probably to increased sectoral interdependence, as it occurred with NAFTA.

If cooperation and political relations are considered, future estimations are more difficult to make in a conclusive way. In contrast to the Maastricht Treaty, which considers the goal of sustainable development as the integration of economic efficiency, macro-economic stability, social justice and environmental sustainability, the EU agreement with Mexico is closer to the formula that considers that investment and trade will lead to growth, and then to sustainable development. The complex goal of social development to which the orientations of the EU policy towards Latin America and the San José Dialogue make reference, is highly relevant Mexican economy, because of the huge social inequalities and correspondingly large numbers of people in poverty, as well as the rapid rate of environmental deterioration. Nevertheless, the agreement with Mexico lacks of any proactive measure in these areas.

The economic centerpiece of the agreement is the creation of a free trade area, with some clauses that liberalize trade in services and trade flows. It is true that international trade and investment bring benefits to poor people's lives through increased income and security, economic opportunities and resources to improve social services, but there is nothing automatic about it, as NAFTA has shown. A liberalization of trade and investment that is not accompanied by social considerations may also contribute to marginalize vulnerable regions, and lead to hither rates of inequalities. In Mexico, in the 1980s and 1990s, the barriers to free trade and investment have often been removed without putting into place new national or international measures to protect citizens or the environment. Some provisions have been included in the agreement with Europe, but they are based on the political will of the parties, and on the possibilities of attracting investment in social and environmental sectors. It must be recognized, nevertheless, that the agreement leaves room for the further consideration of poverty and social issues during the implementation of the agreement, in addition to the opportunities that a joint cooperation in Central America represent.

The Mexico agreement constitutes an advance on earlier generations of agreements with Latin America, since it contains references to human rights and social rights, a formal commitment to democracy on both sides and a provision for suspension of the agreement should obligations not be fulfilled. However, these clauses do not go beyond a statement of principles and there are no effective monitoring mechanisms. The challenge of human

development and poverty reduction is relegated to the cooperation program rather than occupying center stage in the design of the economic components.

Indeed, cooperation in Latin America and in Mexico takes place increasingly through NGOs. However, there are no mechanisms for the participation of these actors into the agreement. Democratic channels for participation such as the Parliament, or public consultation with civil society were excluded from the process of negotiation. However, there is still room to make amendments in order to include them, as the meeting of October 2nd, 2001 of the Joint Committee demonstrated. In Europe, some Human Rights NGOs have brought up a number of initiatives in order to elaborate assessment of the social and environmental impact of FTAs. This would improve the coherence of the external relation with the obligations under the Maastricht Treaty, and a gender approach would be in accordance to the 1995 Council resolution on women and development. Internal development would be more coherent with the EU external dimension. The agreement could then further add to the advances achieved in trade some dispositions concerning:

- a) Environmental responsibilities;
- b) Codes of conduct and social responsibility and
- c) Corporations' implications for the welfare of workers.

In this way, the social actors could begin to be fully integrated into a continuing process of association and integration. In this sense, the agreement would not only be a product of strategic interaction, but the outcome of such an exceptional bilateral association would increase the added value to the economic effects of liberalization.

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Appendix A Statistical Tables

1. The economic background of the EU-Mexico negotiation

Table 1.1 World Trade (Billions of dollars and Annual Growth Percentage)

Exports		Region	Imports	
1998	1990-1995		1998	1990-1995
5 225	7.5	World Total	5410	7.5
898	8.5	North America	1 151	8.0
118	14.0	Mexico	129	12.5
157	7.0	Rest of Latin America	211	15.5
2 338	6.0	Western Europe	2 359	5.5
2 172	6.5	European Union	2 163	5.5
178	7.0	Transition economies	207	5.5
99	7.5	Central and Eastern Europe	133	11.5

Source: WTO, *Annual Statistical Report*, Geneva, April 1999.

Table 1.2 Major trading countries in the world

TOTAL TRADE (BILLION USD, 1998)	
1. US	1 626
2. EU (extra-EU trade)	1 615
3. JAPAN	669
4. CANADA	420
5. HONG KONG	362
6. CHINA	324
7. MEXICO	247
8. KOREA	226
9. TAIWAN	214
10. SINGAPORE	211

Source: WTO Annual Report, 1999

Table 1.3 Total Trade of the European Union (billions of dollars)

Year	Exports			Imports			Balance			Total Trade		
	Total	Intra-UE	Extra-UE	Total	Intra-UE	Extra-UE	Total	Intra-UE	Extra-UE	Total	Intra-UE	Extra-UE
1990	1,508.8	979.7	529.1	1,558.0	981.5	576.5	-49.2	-1.9	-47.4	3,066.8	1,961.2	1,105.6
1991	1,492.8	988.3	504.4	1,578.9	989.5	589.4	-86.2	-1.2	-85.0	3,071.7	1,977.8	1,093.9
1992	1,584.2	1,044.6	539.6	1,654.0	1,047.6	606.5	-69.9	-3.0	-66.9	3,238.2	2,092.1	1,146.1
1993	1,468.7	917.2	551.5	1,477.8	918.3	559.5	-9.1	-1.0	-8.0	2,946.5	1,835.5	1,111.0
1994	1,664.5	1,037.6	626.9	1,662.5	1,038.7	623.8	2.0	-1.2	3.1	3,327.0	2,076.3	1,250.7

1995	2,051.4	1,295.4	756.1	2,012.0	1,296.8	715.2	39.4	-1.5	40.9	4,063.4	2,592.2	1,471.2
1996	2,110.5	1,312.5	798.0	2,053.0	1,314.0	739.0	57.5	-1.5	59.0	4,163.5	2,626.5	1,537.0
1997	2,100.0	1,277.0	823.0	2,045.0	1,276.8	768.2	55.0	0.2	54.8	4,145.0	2,553.8	1,591.2
1998	2,171.0	1,357.2	813.8	2,163.0	1,361.6	801.4	8.0	-4.4	12.4	4,334.0	2,718.8	1,615.2

Source : WTO, Press Release, April 15, 1999.

Table 1.4 Commercial exchanges of Latin American and the Caribbean with the European Union (billions of dollars)

Year	Exports from Latin America to the EU	Imports of Latin America from the EU	Trade balance
1975	9 799	10 415	-616
1980	23 216	19 516	4 060
1985	23 110	11 874	11 236
1986	20 000	14 277	5 723
1987	22 681	16 072	6 609
1988	27 676	16 240	11 436
1989	29 150	17 269	11 881
1990	32 704	20 033	12 671
1991	36 859	29 538	7 321
1992	35 626	34 367	1 259
1993	30 781	36 606	-5 825
1994	36 510	41 856	- 5 346
1995	42 801	51 194	- 8 393
1996	41 664	53 455	-11 791
1997	42 808	53 905	-11 097
1998	42 677	59 670	-16 994

Source: Eurostat and IMF

Table 1.5 Total Trade of Mexico

Country	1993	1994	1995	1996	1997	1998	1999	2000	2001
TOTAL	117,198.6	140,163.1	151,993.6	185,472.5	220,045.0	242,832.6	278,365.9	340,897.0	244,707.1
North America	90,889.5	109,539.1	123,462.9	152,025.7	180,311.2	199,991.5	231,000.4	282,575.8	197,348.3
United States	88,145.5	106,435.6	120,101.2	148,110.1	176,187.0	196,182.3	225,660.2	275,205.5	191,905.2
Canada	2,744.0	3,103.5	3,361.7	3,915.6	4,124.2	3,809.2	5,340.2	7,370.3	5,443.1
ALADI	3,767.5	4,186.0	4,267.8	5,189.5	6,009.6	5,552.7	5,007.6	6,670.7	5,514.3
Argentina	534.9	580.4	503.6	819.5	733.8	648.1	467.7	536.1	449.1
Bolivia	33.3	32.5	29.3	38.4	41.9	41.5	39.4	39.9	27.6
Brazil	1,493.0	1,601.6	1,365.5	1,568.6	1,572.3	1,573.3	1,528.3	2,320.3	1,968.2
Colombia	322.8	427.1	550.9	535.2	637.6	600.4	588.0	735.2	621.4
Chile	329.8	434.4	644.0	859.4	1,214.7	1,177.0	1,049.9	1,325.1	1,013.1

Ecuador	94.1	199.2	184.8	182.9	194.2	193.3	128.7	183.2	180.1
Paraguay	17.6	15.4	24.4	48.4	34.6	16.4	11.5	11.1	11.9
Peru	264.1	321.3	277.6	328.0	380.0	338.6	358.6	386.7	247.6
Uruguay	222.8	102.8	94.1	151.4	104.3	114.7	102.1	191.2	134.3
Venezuela	455.0	471.2	593.6	657.7	1,096.2	849.5	733.3	941.9	861.0
Central America	621.5	710.5	810.4	1,061.2	1,348.8	1,542.5	1,613.5	1,740.1	1,366.4
Belize	30.2	33.1	24.2	34.7	35.0	39.4	39.6	45.9	28.6
Costa Rica	121.4	122.2	157.5	245.8	298.6	369.6	441.8	466.3	394.4
El Salvador	127.1	147.8	155.6	177.0	238.3	243.3	262.6	264.9	218.5
Guatemala	266.0	301.7	361.3	436.9	578.9	672.4	626.2	625.6	480.3
Honduras	44.8	73.6	72.3	102.0	122.4	146.8	164.0	217.0	146.4
Nicaragua	32.0	32.1	39.5	64.8	75.7	71.1	79.2	120.3	98.2
European Union	10,587.4	11,864.1	10,085.7	11,250.4	13,904.9	15,588.5	17,945.5	20,365.9	16,157.4
Germany	3,282.9	3,495.6	3,202.6	3,814.5	4,621.1	5,695.0	7,125.2	7,272.7	5,765.4
Austria 1/	149.5	131.1	100.3	123.1	155.2	202.4	180.8	193.9	181.4
Belgium	501.0	607.3	696.5	647.3	700.0	585.8	545.9	692.6	753.3
Denmark	148.1	152.5	78.5	89.3	127.0	155.1	175.6	187.0	153.9
Spain	2,073.1	2,196.1	1,490.9	1,536.4	1,916.7	1,970.5	2,144.3	2,958.6	2,298.4
Finland 1/	51.6	70.7	65.3	86.1	105.7	123.7	184.0	216.0	197.7
France	1,561.4	2,044.6	1,462.6	1,445.0	1,612.3	1,831.3	1,682.5	1,841.8	1,445.4
Greece	28.4	28.7	18.7	18.5	27.9	15.8	23.5	40.2	22.7
Netherlands	434.8	414.5	395.0	416.9	523.6	667.1	813.3	802.7	727.5
Ireland (Eire)	272.3	249.3	251.6	385.3	378.9	345.6	396.7	515.7	545.0
Italy	919.2	1,107.5	968.7	1,139.0	1,599.4	1,762.5	1,819.7	2,071.5	1,738.0
Luxembourg	3.9	10.5	10.9	11.1	19.1	22.8	15.9	25.3	21.5
Portugal	84.5	80.7	100.1	78.3	131.4	131.0	232.5	245.1	189.6
UK	794.7	973.9	1,012.7	1,211.3	1,579.4	1,695.2	1,882.2	1,961.4	1,450.0
Sweden 1/	282.2	301.0	231.1	248.3	407.1	384.7	723.3	1,341.5	667.4
EFTA	682.4	700.1	1,039.1	883.3	975.2	924.0	1,233.0	1,437.5	1,051.3
Island	1.1	0.4	1.3	0.9	2.9	2.0	1.8	0.9	0.9
Norway	43.0	51.9	41.0	65.4	69.4	75.7	66.2	130.7	108.3

Switzerland	638.3	647.8	996.8	817.0	902.8	846.3	1,165.0	1,305.9	942.1
Rest of the world	2,768.1	3,487.5	3,596.5	4,874.4	5,852.1	6,623.2	6,903.5	9,231.7	7,725.2

Source : Ministry of Economy with data from BANXICO
 1/ These countries became part of the European Union in 1996

Table 1.6 Mexico's trade balance

Country	1993	1994	1995	1996	1997	1998	1999	2000	2001
TOTAL	-13,534.5	-18,528.7	7,087.5	6,535.0	428.6	-7,913.5	-5,583.6	-8,048.9	-5,789.9
North America	-2,050.5	-3,283.2	13,057.4	13,466.4	12,370.6	8,894.3	14,568.0	19,411.4	18,448.0
United States	-2,443.8	-3,145.4	12,444.2	13,037.9	12,182.6	9,665.6	15,125.5	20,074.3	19,194.3
Canada	393.3	-137.8	613.1	428.4	188.1	-771.3	-557.5	-662.9	-746.3
ALADI	-564.2	-988.3	1,438.8	1,725.2	1,464.7	431.6	-662.2	-1,308.3	-1,110.8
Argentina	30.9	-85.0	122.2	220.2	261.4	120.9	44.4	41.3	-60.1
Bolivia	0.8	-5.7	19.0	22.4	21.3	27.6	23.8	13.2	8.1
Brazil	-908.6	-849.4	235.0	188.5	-166.4	-502.3	-729.5	-1,285.5	-1,025.2
Colombia	154.8	185.0	356.0	341.2	389.1	297.7	147.3	188.4	169.1
Chile	69.6	-25.7	335.5	517.9	469.9	73.1	-317.0	-462.4	-418.6
Ecuador	19.0	20.3	47.3	58.9	91.7	53.0	9.0	32.8	4.4
Paraguay	7.6	5.7	18.9	12.1	13.0	13.2	5.4	8.7	8.2
Peru	-75.8	-100.5	80.1	94.7	96.8	52.7	-2.5	33.3	21.9
Uruguay	136.2	-9.3	59.2	79.8	34.0	53.0	17.8	24.8	35.9
Venezuela	1.1	-123.6	165.6	189.6	253.8	242.6	139.1	97.2	145.6
Central America	383.1	409.9	633.3	716.8	945.2	1,099.6	980.3	1,073.9	822.7
Belize	23.3	21.7	20.3	31.7	31.0	36.0	36.2	41.6	26.5
Costa Rica	77.8	67.1	126.3	130.5	143.9	194.7	59.1	106.1	100.8
El Salvador	98.8	109.2	139.7	139.1	190.0	192.7	226.3	225.3	178.0
Guatemala	141.7	134.8	259.1	283.4	418.0	509.9	461.0	444.0	343.7
Honduras	32.1	66.5	65.1	91.7	109.6	122.5	148.1	190.4	122.7
Nicaragua	9.3	10.6	22.7	40.4	52.8	43.9	49.7	66.5	51.0
European Union	-5,010.1	-6,252.2	-3,378.7	-4,230.7	-5,929.7	-7,810.1	-7,540.1	-9,124.2	-7,909.7

Germany	-2,422.0	-2,706.2	-2,171.7	-2,532.8	-3,183.6	-3,391.8	-2,939.0	-4,184.1	-3,440.6
Austria 1/	-62.0	-111.0	-74.8	-103.2	-123.6	-181.3	-159.3	-159.8	-155.7
Belgium	-49.1	-65.7	276.6	169.8	45.4	-125.0	-64.5	-238.5	-260.0
Denmark	-112.2	-109.3	-63.3	-52.0	-65.9	-84.1	-77.3	-97.1	-89.9
Spain	-237.6	-480.4	102.8	277.5	-38.7	-543.5	-499.4	98.5	-288.5
Finland 1/	-48.7	-61.5	-61.6	-83.2	-95.6	-120.3	-167.6	-207.4	-183.1
France	-648.9	-1,009.1	-495.7	-593.1	-752.5	-1,028.5	-1,104.9	-1,091.4	-878.3
Greece	-17.1	-18.7	-2.0	-0.8	-6.5	2.9	-8.4	-19.5	-11.8
Netherlands	-48.3	-65.7	-40.8	-33.4	-0.2	10.3	162.1	76.5	37.3
Ireland (Eire)	-30.2	-26.2	-110.6	-93.0	-152.9	-271.4	-262.7	-291.5	-272.4
Italy	-750.6	-935.3	-574.2	-859.2	-1,052.6	-1,399.7	-1,479.1	-1,627.2	-1,363.6
Luxembourg	-3.6	-9.9	-5.1	-5.9	-13.6	-10.5	-4.1	-9.3	-5.1
Portugal	60.2	39.3	62.6	35.2	63.1	43.5	128.2	142.2	35.9
UK	-391.3	-439.4	-50.8	-147.5	-251.1	-417.2	-388.2	-221.1	-401.6
Sweden 1/	-248.5	-253.2	-170.3	-209.2	-301.5	-293.7	-675.8	-1,294.5	-632.3
EFTA	-378.9	-360.7	210.6	-85.0	-258.3	-372.7	-321.1	-264.6	-284.0
Island	0.8	0.1	-0.5	-0.2	-1.0	-0.7	0.0	0.2	-0.2
Norway	-23.3	-28.1	-8.3	11.3	-42.4	-40.8	-45.3	-65.3	-98.3
Switzerland	-356.4	-332.7	219.5	-96.1	-215.0	-331.2	-275.8	-199.5	-185.5
Rest of the world	-550.6	-1,321.3	-270.6	-129.4	-1,217.3	-1,778.4	-2,238.5	-3,339.0	-3,037.2

Source : Ministry of Economy with data from BANXICO

1/ These countries became part of the European Union in 1996

2. The bilateral Relation

Table 2.1 Cooperation with Mexico

Year	Number of projects	Total Amount (European Commission) (euro)
1990	57	5 918 771
1991	54	11 409 968
1992	84	14 256 081
1993	113	18 642 050
1994	89	20 550 634
1995	70	10 733 107
1996	53	11 650 316
1997	45	9 366 083
1998	44	15 366 145
1999	20	12 660 252

Source: European Commission Delegation in Mexico, *Informe de Cooperacion 1999*, EC, Mexico, 2000.

Table 2.2 Summary of EU-Mexico Cooperation Programs

Program	Description
AL-INVEST	<p>In order to enable companies from the EU and Latin America to increase their competitiveness by means of reciprocal opening of their markets, the EU launched this program, which includes three basic types of actions: sponsoring sector business meetings, arranging meetings for companies in both regions, and promoting activities among Latin American countries</p> <p>In Mexico there are three Eurocenters for commercial cooperation: Bancomext, Canacintra and Nafin. They have organized business meetings in the following sectors: mechanics, agro-industry, auto parts, furniture, sugar, plastics and footwear, among others. In Mexico, the AL-Invest program has generated 40 business deals with more than \$30 million</p>
ARIEL (Active Research in Europe and Latin America)	Economic cooperation project which is often applied at the bilateral level. This program seeks to increase the negotiating capacity of Mexican companies, to systematize and apply instruments of technical diagnosis to measure the internationalization of the company, avoid the promotion of proposals which lack potential and optimize those resources assigned to a project.
AL-Partenariat	The European Commission created this program to help small and medium sized enterprises in Latin America. Usually, such companies are deficient in organizational resources, access to new technologies and are not always able to integrate to the international context. In February 1998, the European Commission organized the AL-Partenariat Mexico-Central America in Mexico City.
Business Fora	Meetings have been organized in various sectors such as auto parts, furniture, construction, pharmaceuticals, plastics and agro-industry. During the period 1995-1998, more than 10 000 business fora were attended by 2 300 companies from Europe and 2 150 companies from Mexico.
Project to promote Mexican Exports to the EU	In 1995, the European Commission sent an expert to Mexico to structure a project to assist and promote Mexican exports to the EU in the following sectors: fresh fruit and vegetables, processed food, seafood, construction materials, gift items. This project was finished in 1998.
ECIP (European Community Investment Partners)	Mexico was one of the countries that benefited the most of this program until its closure on December 1999, being only the second after China. ECIP was a mechanism that offered some facilities to assist in the creation of joint ventures in developing countries in Asia, Latin America and the Mediterranean. In Mexico, during the period 1998 to 1999, projects amounted for more than 24,4 millions of Euros. The Commission has evaluated the possibility of implementing similar mechanisms.
ALURE	This program seeks to encourage cooperation among actors from the energy sector in Europe and Latin America. For example, the project COSEDIS was financed in Mexico, with the participation of the following institutions: Comisión Federal de Electricidad (Mexico), Systems Europe (Belgium) and COGEDEL (Luxembourg).
Norms and certification	This project was initiated in 1991, and in 2000, Mexico and the EU began to form Mexican experts in the sectors of quality certification and metrology.
ECHO (European Community Humanitarian Office)	The ECHO program has granted aid two populations in emergency situations, such as the Hurricane Paulina (1997) and the conflict in Chiapas (1994 and 1998-1999)
Cooperation with NGOs	There are several sectors of activity, such as public health, women issues, civil society strengthening, rural development, etc. For example, the DG for Development granted a total of 1 590 688 euros in 1999 for five projects executed by NGOs.
Environmental cooperation	Cooperation is held in order to manage and protect tropical forests

Center for European Studies	At the present time, there is only one partner, the ITAM (Instituto Tecnológico Autónomo de México) as a pilot project
URB-AL	Cooperation exchanges in urban development

Source: European Commission, Mexico. Country Strategy Paper (Draft), DG External Relations, Direction Latin America, Brussels, May 2000 and European Commission Delegation to Mexico, Cooperation Report with Mexico 1998, 1999, 2000, Mexico, 2001.

Table 2.3 ECIP Projects in Mexico by sector

Sector	Number of Projects
Multi-Sector	32
Agriculture/Agro-industry	39
Machines	20
Shoes	10
Chemicals/Pharmaceuticals	8
Environment	7
Automobiles/Autoparts	8
Metals	7
Textiles	5
Plastics	6
Information/Telecomms	5
Tourism	3

Source : *Amerikan Markkinat*, February, 1999.

Table 2.4 Mexico total trade with the European Union

	1993	1994	1995	1996	1997	1998	1999	Var 99/93	2000ene-abr
Exports	2.7	2.8	3.3	3.5	4.0	3.9	5.3	96.29%	1.8
Imports	7.8	9.0	6.7	7.7	9.9	11.7	12.7	62.82%	4.4
Total trade	10.6	11.9	10.1	11.2	13.9	15.6	18.0	69.81%	6.2

Source: SECOFI with data from Banxico

Table 2.5 EU Imports from Mexico by selected products (1998) (Million ecu)

EU	France	Bel-Lux	Neth	Germany	Italy	UK	Ireland	Denmark	Greece	Portugal	Spain	Sweden	Finland	Austria
TOTAL	4034.7	546.2	237.7	339.2	894.5	193.7	718.4	56.3	46.4	105.3	777.5	51.3	16.6	33.5
Agricultural products	432.7	53.4	20.4	48.3	70.9	40.2	62.5	2.0	19.2	9.9	86.2	7.0	3.9	1.2
Fuels	628.8	18.6	9.6	26.0	0.0	4.8	63.6	0.0	-	0.0	429.1	0.2	-	-
Machinery	893.9	211.7	37.9	61.2	137.4	49.7	260.1	26.4	3.0	0.2	59.7	29.2	4.5	5.5
Transport Material	672.2	156.4	3.5	1.1	368.7	9.4	20.9	0.0	0.4	-	0.0	92.2	1.7	17.3
Automotive Products	516.1	73.1	3.0	0.1	315.9	8.5	5.1	0.0	0.2	-	0.0	91.8	0.6	17.2
Parts and Accessories	106.0	1.7	0.9	0.0	70.6	2.7	2.8	0.0	0.2	-	0.0	26.3	0.2	0.4
Chemical products	346.8	20.1	64.7	70.7	52.2	33.4	48.2	4.2	1.5	2.2	3.1	41.1	4.5	0.7
Textiles, clothing	91.9	16.8	5.6	9.8	12.3	13.7	14.1	0.1	0.4	0.7	2.1	14.8	1.1	0.3

Table 2.6 EU Exports to Mexico by selected products (1998) (Million ecu)

EU	France	Bel-Lux	Neth	Germany	Italy	UK	Ireland	Denmark	Greece	Portugal	Spain	Sweden	Finland	Austria
TOTAL	9.320,0	1.223,6	355,0	340,8	3.594,2	1.197,0	793,3	164,2	82,2	27,3	1.047,3	238,3	93,9	159,0
Agricultural products	380,8	61,7	20,7	59,7	46,4	12,4	74,0	21,7	9,3	1,4	58,8	2,9	9,1	0,9
Fuels	91,6	0,8	0,1	0,0	5,1	0,1	85,4	0,0	0,0	-	0,1	0,0	-	0,0
Machinery	3.519,6	520,6	138,8	66,4	1.175,1	728,3	245,5	32,5	30,0	14,8	289,8	159,2	46,7	71,8
Transport Material	1.721,7	244,8	18,0	44,4	1.063,5	35,5	130,7	4,9	0,4	3,7	134,2	7,0	0,2	34,3
Automotive Products	1.338,1	56,2	13,8	37,5	952,4	30,7	113,9	0,2	0,3	1,0	92,6	5,9	0,0	33,5
Parts and Accessories	1.039,1	48,7	13,6	37,4	759,9	18,9	61,1	0,0	0,3	1,0	60,1	5,5	0,0	32,8
Chemical products	1.227,7	194,5	106,4	101,8	326,1	85,7	154,9	96,4	9,7	1,0	113,6	18,8	6,0	12,3
Textiles, clothing	236,0	14,7	10,7	3,0	41,9	79,4	6,9	0,2	0,1	2,4	70,1	0,2	0,1	6,2

Source: EUROSTAT (COMEXT) Brussels, 18 January 2000
DG TRADE T2/CG/RQ

Table 2.7 Distribution by sector of the European enterprises with FDI in Mexico (December 1999)

Sector	Participation in the Investment		Enterprises
	Less than 50%	More than 50%	
Agriculture	14	30	44
Mining and extracting industries	14	29	43
Manufacturing	224	1 113	1 337
Electricity and water	4	8	12
Construction	52	75	127
Commerce	151	823	974
Transports and communication	25	34	59
Financial services	100	243	343
Other services ^a	219	946	1 165
Total	803	3 301	4 104

^a Social and community services; hotels and restaurants; professional and technical services. This section includes services to agriculture, construction, transports, finance and trade. (see statistical annex for more detail)

Countries	Agri- culture	Extrac- ting	Manu- facturing	Electri- city and water	Construc- tion	Trade	Trans- ports and commu- nications	Finan- cial services	Other Servi- ces	Total
Germany	6	8	289	0	14	155	7	65	160	704
Austria	0	2	14	0	0	6	0	2	16	40
Belgium	1	6	23	0	1	23	0	8	16	78
Denmark	0	0	19	0	2	25	1	2	5	54
Spain	10	6	286	2	44	256	9	109	287	1 009
Finland	0	1	7	0	0	2	0	0	3	13
France	5	0	134	9	19	134	12	26	158	497
Grece	0	0	1	0	0	1	0	2	1	5
Netherlands	6	7	184	0	7	105	14	30	158	511
Ireland	0	2	10	0	1	5	2	5	7	32
Italy	6	0	126	0	17	115	3	36	139	442
Luxembourg	0	0	18	0	1	15	1	9	23	67
Portugal	0	0	3	0	0	4	0	0	10	17
United Kingdom	10	10	189	1	21	100	8	47	168	554
Sweden	0	1	34	0	0	28	2	2	14	81
EU	44	43	1 337	12	127	974	59	343	1 165	4 104

Note: companies were considered according to the country which accounts for the major participation in the total corporate capital

Source: Secofi , Direction General of Foreign Investment, Mexico, July 2000.

3. The negotiation process

Table 3.1 Dissenting opinions on the Mexico-European Union Agreement

Actor or Sector	Declaration or Position	Source
Ma. De la Paz Zarzosa, President of the CANACINTRA Council of Furniture producers	"It is not possible that the government be so obstinate to sign a trade agreement with the countries from the old continent, when in Mexico there is almost no support for the minor-scale cloth industries"	<i>El Financiero</i> , January 28, 1999, 19
Roberto Sandoval, Carlos Gonzalez Fich and Victor de las Fuentes, members of the Council of Capital Goods of CANACINTRA	They made the Commerce Minister that the opinions expressed by this sector had not been taken into account within the signature of the agreement	<i>El Financiero</i> , January 28, 1999, 19
National Council of Agriculture	They manifested their concern about the decision of the Mexican government and the EU authorities to liberalize agro-food produce	<i>El Financiero</i> , January 28, 1999, 18
Jorge Marin Santillán, President of the Confederation of Industrial Chambers (CONCAMIN)	The textile sector was fearful of the effects of the agreement if the asymmetries between small and large produced was not recognized.	<i>El Financiero</i> , February 23, 1999, 12.
Romárico Arroyo Marroquín Minister of Agriculture (Mexico)	He noticed that the Agreement between Mexico and the European Union could imply a level of liberalization less than desirable in agricultural matters if the European refused to restrict the subsidies that they apply to their exports.	<i>El Financiero</i> , March 4, 1999, 16
Enrique Bautista Villegas, PRD Deputy and President of the Commission on Agriculture	He manifested his disagreement on the fact that the trade authorities did not consider the Congress to define their position in the agreement with the EU and considered inadequate to finish the negotiations on the same year.	<i>El Financiero</i> , March 12, 1999
Adán Rivera, president of the National Association of the Transformation Industries (ANIT) (Declarations in the press conference of the RMALC)	Micro, small and medium entrepreneurs are opposed to the European objective to liberalize 80% of the tariffs in 200 and 20% in 2003.	<i>El Financiero</i> , March 15, 1999.
Red de Ciudadanos de México Ante la Unión Europea	They asked for the inclusion of a social agenda, which would help to avoid the European transnationals to take advantage of the low social, environmental and wages levels in Mexico	<i>El Financiero</i> , April 15, 1999, 12
Ciudadanos de Mexico ante la Union Europea	They addressed a letter to the European Parliament to alert them on the consequences of allowing a "fast-track" negotiation of the agreement	<i>Reforma</i> , April 21, 1999.
Representatives of the National Chamber of the Clothing Industry (CNIV)	They mentioned that the objectives of this industry to negotiate with the European Union are very different from the ones achieved in NAFTA, being that the EU is very competitive on this sector.	<i>El Financiero</i> , April 28, 1999.
Representatives of Amnesty International, Human Rights Watch, the FIDH, and CIFCA International Confederation of Free Labour Unions (Confederacion Internacional de Sindicatos Libres, CIOSL), Alejandro Villamar (RMALC)	They asked for the inclusion in the agreement of compelling mechanisms for the respect of labour, human, social and environmental rights. They denounced that there is not enough transparency nor information on the human rights situation in Mexico	<i>Reforma</i> , April 28, 1999, 4A

Actor or Sector	Declaration or Position	Source
Felipe Cedillo, President of the National Association of Milk Producers (ANGLAC)	They will not sign the FTA with Europe if the subsidies to the dairy products in Europe are not eliminated (US\$3 billion, which accounts for the 52%)	<i>El Financiero</i> , May 11, 1999
Paul Emile Dupret, Advisor on Foreign and Economic Relations of the Partido Español Izquierda Unitaria	He considers that there is some pressure from the Spanish popular and socialist blocs in order to negotiate an agreement extremely quickly, which satisfies the big transnationals, given the lack of participation in the negotiations of the labour sector, of the human and environmental rights organizations, and of the small and medium enterprises.	<i>Reforma</i> , May 26, 1999, 7 section Negocios.
Juan Manuel Quiroga Lam, director of the National Council of Foreign Trade (CONACEX)	He asserts the convenience of not ceding to pressures of granted reductions, in exchange of the already acquired advantages at the WTO.	<i>Excélsior</i> , June 11, 1999, 38

Compilation by Roos de Witte, CIFCA, 2000.