

## **Advantages of the Mexican Free Trade Agreements' Network**

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Mexico is the country that has signed more Free Trade Agreements (FTA) in the world; as back as 2001 it had a total of ten FTAs with 31 countries, resulting in preferred access to a 860 million consumers' market. Such agreements were:<sup>1</sup>

- FTA with Chile, which became effective on January 1<sup>st</sup>, 1992.
- FTA with the United States of America (USA) and Canada, which became effective on January 1<sup>st</sup>, 1994 (NAFTA).
- FTA with Venezuela and Colombia, which became effective on January 1<sup>st</sup>, 1995.
- FTA with Costa Rica, which became effective on January 1<sup>st</sup>, 1995.
- FTA with Bolivia, which became effective on January 1<sup>st</sup>, 1995.
- FTA with Nicaragua, which became effective on June 1<sup>st</sup>, 1998.
- FTA with the European Union, which became effective on July 1<sup>st</sup>, 2000.
- FTA with Israel, which became effective on July 1<sup>st</sup>, 2000.
- FTA with Honduras, El Salvador and Guatemala, which became effective on January 1<sup>st</sup>, 2000.
- FTA with the European Free Trade Association (EFTA), which will become effective upon its confirmation by the respective legislative bodies of each member country.

Because of its privileged geographical position, Mexico has attracted the attention of the American, European and even the Asiatic economies, as its neighbor is the most powerful country in the world in economic, politic and military sense, which is also a country with a huge consumption potential: the USA.

The triggering factor for the Mexican FTA network currently in place was definitively the implementation of NAFTA. Mexico is currently the second commercial partner of USA and, among the Latin-American countries, the second of Canada.

The implementation of NAFTA immediately resulted in a chain of negotiations between Mexico and other countries regarding FTAs, and one after the other a number of FTAs were implemented and Mexico became the country with the most number of FTAs.

FTAs result, among other things, in providing preferential access of goods and services between its members by means of gradual elimination of import duties; simplification of the

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<sup>1</sup> Please note that this information is updated as of 2001, date in which this article was originally written.

import and export procedures; creation of new jobs and the foster of state-of-the-art technology among member countries. However, we believe that the main reason why Mexico dedicated so much efforts to building this network is to attract direct foreign investment to compensate a strong indirect foreign “portfolio” investment which by nature is extremely volatile.

The advantages and benefits that FTAs provide to its members are generally similar; we have classified them as follows:

**Duties.** One of the FTA’s main objectives is to eliminate the import & export duties’ barriers in respect of goods and services, and accordingly, import and export transactions among member countries may be accomplished without any duties. Additionally, preferential duties are commonly granted among member countries for those items in which the full duty elimination is not possible.

**Rules of Origin.** The FTAs establish clear rules and simple common proceedings in order to determine which products will be deemed to be “made” within the member countries, and therefore subject to the benefits of the respective FTA.

**Settlement of Disputes.** The main principles and commitments (and in some cases the proceedings) for the resolution of disputes and controversies are typically a part of a FTA, attempting to resolve disputes quickly and fairly, where arbitration is generally the common denominator.

**Principles.** Similarly to most international trade organizations, such as the WTO, FTAs sets forth its respective principles and objectives. The principles commonly include criteria or fundamentals seeking fairness and protection among its members, and look after the FTA’s accurate fulfillment of such principles.

**Principle of National Treatment.** This principle consists of granting all products, whether nationals or imported, with the same treatment. Once a product has been imported into a member country, it must be considered to be a national product and not be subject to special duties or taxes solely due to its foreign origin.

**Principle of the Most Favorable Country.** Any benefit or special treatment that a member grants to any other country must be extended to the members of the same FTA.

**Principle of the Minimum Treatment Level.** Members of the same FTA must grant to the others members’ products and investments an equal treatment to the one that they grant on similar circumstances to others countries’ products or investments, whether or not these other countries are members of the respective FTA.

The aforementioned benefits are just a few of those which can be obtained strategically through the Mexican FTAs network. There are many options and means in order to export and import goods and services into Mexico, among which are taking hand of the FTAs and additionally seeking other incentives through the Mexican Programs for the Export Foster (including several temporal import programs).

To conclude, we propose a very simple example of the network’s operation: a Mexican company (Mexco) imports fresh olives from Spain under the benefits of the Free Trade

Agreement among Mexico and the European Union, to which no duties (or preferential duties) apply. After the fresh olives are imported into Mexico, Mexco processes them and stuffs them with Mexican sweet pepper and bottles them. Since Mexico substantially changed the product originally imported and such change results in a modification of products international tariff classification in accordance with the rules of origin, Mexco may then export the processed and bottled olives into any of the countries with which a FTA is available providing benefits for such product.

The options are endless. Through professional legal advice, companies may obtain the greater benefits from the Mexican network of free trade agreements.

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