



200 Years of Mexico's External Trade

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Excerpts from the magazine "Negocios" published by ProMéxico

From Mexico's Independence to the Reform, from the Porfiriato era to the Revolution, from the oil boom to NAFTA, Mexico's bilateral trade relations have undergone major changes and have witnessed to the country's historical evolution.

How much can a country change in 200 years?. Two centuries can seem like a short time if one considers the various countries with millenary histories such as some Asian and European civilizations. But in 200 years –the period since Mexico won its independence from Spain, during which it has suffered from internal divisions, foreign invasions and a Revolution– the country has gradually progressed toward modernity and globalization.

Mexico changed from being a Spanish colony that basically exported silver, to being an independent country with trade agreements with over 40 countries around the world and various exports totaling 230 billion dollars at the beginning of the 21st century (in 2009).

This transformation has taken place at varying rates and speeds: from periods of geographical isolation to communications development, and from being a closed economy to being open to trade and foreign investment.

The transformation has also been qualitative. Exports no longer consist purely of commodities and agricultural produce. Since the end of the 1980s, the country has been exporting manufactured products of higher value-added, such as electronic devices and cars.

"Of the 141 billion dollars of Mexican exports registered during the first quarter of 2010, around 115 billion –or 81.5%– were created through the sales of manufactured products," says Fernando Ruiz Huarte, technical director of the private sector's Mexican Foreign Trade Council (COMCE).

The US is now Mexico's largest trade partner, representing 84% of the value of Mexico's exports, followed by its trade relationships with Canada and Germany. In terms of imports, the relationship with the US is also the most relevant, but in recent years the significance of imports from China, Japan and South Korea has increased, ranking second, third and fourth respectively.

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The following is a brief account of the evolution of Mexico's external trade history.

Links to Europe

For almost three centuries of Spanish colonization (1521-1821), Mexico –known then as New Spain– had a preferential trade relationship with the Kingdom of Spain. “As a dependent colony of the crown, it was obliged to trade exclusively with Spain,” explains Paolo Riguzzi, economic historian of Mexico and researcher at El Colegio Mexiquense (CMQ).

New Spain's trade was mainly based on the export of silver, which was practically the only Mexican product to be exported in large quantities.

This mono-exporter trade system lasted for many years, even after Mexico achieved independence from Spain in 1821. “For several decades after Independence, Mexico was a very weak exporter,” says Riguzzi.

During the colonial period, there was also a major trade relationship with the Far East, when Spanish galleons departed from the port of Acapulco and headed for the China coasts via the Philippines.

For a number of years, New Spain imported luxury products such as silk and spices from China and India, in exchange for silver. However that connection was lost some years after Independence, adds the historian.

During the first five decades of independence from Spain (1820-1870), Mexico underwent one of the most violent and difficult periods in its history. Fierce struggles between liberals and conservatives plunged the country into a series of political conflicts. As a result, Mexico faced a break in its incipient trade relations with Europe.

However, toward the end of the same century, Mexico renewed trade with various European countries, such as Great Britain and, to a lesser extent, with France. In the 1870s, it began to trade with Germany, shortly after that European country was formed.

Each of these three countries had a special interest in maintaining a trade relationship with Mexico. “Since the independence of the Ibero-American colonies, the vacuum left by Spain had been fought over by the three major trading powers of the time, so that it is unsurprising that they would strive to acquire a major stake in Mexico's external trade,” indicates Sandra Kuntz, economic historian and researcher at El Colegio de México, in her book *El comercio exterior de México en la era del capitalismo liberal (1870-1929)* [Mexico's foreign trade in the era of liberal capitalism (1870-1929)].

In those days sea transport was the backbone of Mexican trade, which had turned toward Europe once again, and with silver representing two thirds of the value of Mexican exports.

The Railways: the Driving Force Behind Trade with the US

Despite being neighbors, Mexico had not had an intense trade relationship with the US for most of the 19th century. An enormous desert separated both countries and there was no means of transport to close that gap. “Mexico and the US were geographic but not economic neighbors,” states Riguzzi.

However, that isolation ended from the 1880s with the laying down of the trunk railways that linked the center of Mexico with its border cities and gave access to the trunk railway lines in the US.

That marked the beginning of the US' predominance as Mexico's foreign trading partner. “The US became the main market for Mexican exports and that has not changed since then,” adds Riguzzi.

Diversification of Mexican exports

Over the following six decades (1870-1930), Mexican exports began to diversify. Silver was no longer the only product to be exported in great quantity. The country also began to export agricultural products and other types of metal, initially copper and lead and then zinc and gold.

Mexico's Total Trade in July (billion US\$)			
	2009	2010	%
Total	37.3	47.7	28.0
Exports	18.0	23.3	29.5
Exports (excluding oil)	15.1	19.9	31.9
Imports	19.3	24.4	26.5

Source: Banco de México

Mexico's Trade with EU and EFTA (million US\$)			
January - July	2009	2010	%
Exports to the EU	6,221.7	7,752.6	24.6
Imports from the EU	14,994.0	17,973.5	19.9
Exports to the EFTA	249.6	574.2	130.0
Imports from the EFTA	765.7	914.8	19.5

Source: Banco de México

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Import substitution and trade opening

The start of World War II opened a window of opportunity for Mexico's trade and industrialization.

During the seven years of the war (1939-1945), European countries stopped exporting and the US began focusing on producing military goods. Mexico, meanwhile, took advantage of the situation to export manufactured products such as textiles and uniforms, food and drink and raw materials such as iron ore.

During the 1930s, with the inauguration of the Panamerican Highway, foreign trade was given the option of using road freight. Over time and with the development of other highway programs, that transport alternative gained increasing relevance, until it overtook the railways in terms of volume of freight at the end of the 20th century.

Twenty years later, during the 1950s, Mexico entered a phase of industrialization based on the import substitution model. It raised its customs duties, isolating the Mexican economy in relation to the rest of the world. Foreign trade decreased in importance in the country's Gross Domestic Product (GDP).

That model lasted for 25 years until the mid-1970s when large oil reserves were found in the Gulf of Mexico. "The decision to substitute imports was reversed due to the petrolization of the economy," indicates Riguzzi.

By 1982, the import substitution model had run its course and the exports of crude oil dominated all others, accounting for around 80% of the value of Mexican exports.

At that point, the Mexican government decided it was time to diversify its exports and start out on a policy of becoming open to trade and liberalizing investment.

In 1986, Mexico joined the General Agreement on Tariffs and Trade (GATT) which evolved in what we know today as the World Trade Organization (WTO).

Eight years later, in 1994, the North American Free Trade Agreement (NAFTA) entered into force between Mexico, the US and Canada. That caused a surge in exports and imports.

Over the following years, Mexico concluded a number of bilateral and regional trade agreements, reaching a total of 49 trade partners*.

Over the past 17 years (1993-2009), the total amount of Mexico's exports have risen from 52 billion to almost 230 billion dollars (an increase of 343%), while imports have increased from 65 billion to 234 billion dollars, according to figures released by the Mexican Ministry of the Economy.

Due to that trade liberalization and NAFTA, Mexico's exports have completely revolutionized in the past 24 years. "Until the 70s and 80s, Mexican foreign trade was considered as a mono-exporter model due to oil," says Ruiz Huarte of COMCE, "but today the relationship has inverted and manufacturing companies represent just over 80% of our exports."

Mexico now has the world's tenth-largest automotive industry, with a production of 1.5 million vehicles in 2009. Mexico also has a major electronic, pharmaceutical and chemical industry, among many other high value-added industries.

"For the first time in history, Mexican exports are no longer predominantly related to agriculture, livestock or minerals. For the first time, it is exporting industrialized products with a higher added-value," concludes Riguzzi.

On the occasion of Mexico's 200th birthday, its foreign trade is more diversified, stronger and more productive than ever before.

* NORTH AMERICA: Canada and the United States of America

LATIN AMERICA AND THE CARIBBEAN: Argentina, Bolivia, Brazil, Chile, Costa Rica, Colombia, Cuba, Guatemala, Honduras, Nicaragua, Peru, El Salvador, Uruguay and Mercosur.

ASIA: Israel and Japan.

EUROPE: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland and United Kingdom.

Mexico's Economic Indicators	
Inflation rate: 0.28% (August, 2010); 3.68 % (2010, annual)	
Industrial Production: 5.4% (July 2010 / July 2009) Manufacturing: 8.8%; Construction: -2.8%, Mining: 5.3%	
General Index of Economic Activity: 6.77% (June 2010 / June 2009)	
Consumer Confidence Index: 88.7 pts. (August 2010) 7.2 percentage points (August 2010 / August 2009)	
Open unemployment rate: 5.70 % (July 2010)	Source: INEGI

Mexico's Financial Indicators
Foreign exchange rate: 12.76 peso/dollar (September 20, 2010)
International reserves: \$106,861 million dollars (September 10, 2010)
Mexican stock market index (IPC): 33,274 (September 20, 2010)
Interest rate treasury bonds CETES 28 days: 4.45 % (September 15, 2010)

Mexico's Official Gazette Notices

- **02/08/2010** Final resolution of the antidumping investigation on imports of black or covered carbon steel nuts, originating from China, regardless of the shipping country. This merchandise is classified, according to the Mexican Custom Tariff Schedule, under item 7305.19.01.
- **10/08/2010** Resolution concluding the sunset review and the *ex-officio* review of the countervailing measures imposed on imports of bovine meat originating from de the United States of America, regardless the shipping country. This merchandise is classified, according to the Mexican Custom Tariff Schedule, under items 0201.20.99, 0201.30.01, 0202.20.99 and 0202.30.01.
- **11/08/2010** Resolution concluding the review of the countervailing measure imposed on imports of fresh, chilled or frozen boneless bovine meat originating from the Unites States of America, regardless the shipping country. This merchandise is classified, according to the Mexican Custom Tariff Schedule, under items 0201.30.01 y 0202.30.01.
- **17/08/2010** Twentieth amendment to the Agreement through which the Ministry of the Economy issues general rules and practices on foreign trade.
- **19/08/2010** Agreement modifying the provisions establishing the classification of merchandises subject to import and export regulation by the Inter-ministerial Commission for the Control of the Process and use of Pesticides, Fertilizers and Toxic Substances.
- **27/08/2010** Agreement amending the provisions establishing the classification of merchandises subject to import and export regulation by the Ministry of Environment and Natural Resources.

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- **06/08/2010 L205** Information concerning the entry into force of the Agreement between the European Community and Australia on trade in wine
- **06/08/2010 L207** Decision of the Council and the Representatives of the Governments of the Member States of the European Union, meeting within the Council of 30 November 2009 on the signing and provisional application of the Agreement on Air Transport between the European Community and its Member States, of the one part, and Canada, of the other part
- **20/08/2010 L219** Commission Regulation (EU) No 748/2010 of 19 August 2010 initiating an investigation concerning the possible circumvention of anti-dumping measures imposed by Council Regulation (EC) No 1425/2006 on imports of certain plastic sacks and bags originating in the People's Republic of China by imports of certain plastic sacks and bags channelled via a Chinese company subject to a lower duty rate, and making such imports subject to registration
- **25/08/2010 L223** Decision of the Council and the Representatives of the Governments of the Member States of the European Union, meeting within the Council of 24 June 2010 on the signing and provisional application of the Protocol to Amend the Air Transport Agreement between the United States of America, of the one part, and the European Community and its Member States, of the other part

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