



# **COUNTRY STRATEGY PAPER**

**2002-2006**

**MEXICO**

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## INTRODUCTORY REMARKS

This strategy is part of the new framework for EU-Mexico relations which follows on from the signing on 8 December 1997 of the Agreement on Economic Partnership, Political Co-ordination and Co-operation (the "Global Agreement"). This Agreement, which entered into force on 1 October 2000, is intended to define the framework for this bilateral relationship. It opens new prospects in terms of politics (institutionalisation of dialogue), economics and trade, with the establishment of a free trade area for goods and services (FTA), as well as in terms of co-operation.

The Global Agreement is based on respect for human rights and democratic principles, which form the Agreement's core.

This strategy paper reiterates the most important points made in the Country Strategy Paper drawn up in 2000, which was then discussed with the Mexican authorities and subsequently submitted to the May 2000 meeting of the PVD-ALA Committee. It also reiterates the priority lines of the co-operation Memorandum of Understanding initialled by the Mexican authorities and the Commission in June 2001.

Final project selection and amount will be subject to a detailed identification and appraisal to be undertaken by the Commission. The scheduled work programme will be subject to the availability of respective funds in the overall EC budget.

## 1. DESCRIPTION OF EU/EC CO-OPERATION AIMS

The **overall aims** of the European Community's co-operation policy set out in Article 177 of the EU Treaty, are to encourage: the sustainable economic and social development; the smooth and gradual integration of the developing countries into the world economy; and the fight against poverty within the developing countries themselves.

Furthermore, Community policy should also contribute to the general objective of developing and consolidating democracy and the rule of law, as well as to ensure respect for human rights and fundamental freedoms.

In more concrete terms, the Joint Statement of the Council of Ministers and of the European Commission on the development policy of the European Community (November 2000) established as the main objective of EU co-operation "the reduction of poverty with a view to its elimination in the long term. This objective involves support for sustainable economic, social and environmental development,...".

With regard to the **specific objectives of co-operation with Latin America**, Council Regulation (EEC) No 443/92 of 25 February 1992<sup>1</sup> points out that the priorities for action are the reinforcement of

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<sup>1</sup> Council Regulation (EEC) N 443/92 of 25 February 1992 on financial, technical and economic cooperation with the countries of Asia and Latin America

the co-operation framework, the promotion of sustainable development, economic, social and democratic stability through institutional dialogue, and economic and financial co-operation.

The Communication from the Commission to the Council, to the EP and to the Economic and Social Committee, on the new partnership between Latin America and the EU,<sup>2</sup> again focuses on the themes of the rule of law, the reduction of the social debt and the consolidation of economic reforms as priorities for action.

Within the framework of the follow-up actions to the EU Latin-America Heads of State and Government Summit (Rio de Janeiro, 1999) the Commission<sup>3</sup> confirmed its priorities for the region: the rule of law and human rights, support for social policies and integration with the international economy.

Community priorities for the second Summit of the Rio Group which will take place in May 2002 in Madrid are: human rights, information society and social equality.

With regard to **EC-Mexico co-operation**, the Global Agreement widened the fields of co-operation by including for the first time specific reference to co-operation in the fields of human rights, democratisation and refugees.

A Memorandum of Understanding was agreed for the years 2001-2006 which includes 4 priority action lines: (1) the fight against poverty and for social development, (2) co-operation in the economic sector, (3) scientific and technical, educational and cultural co-operation, and (4) consolidation of the rule of law and institutional support.

## **2. POLITICAL AGENDA OF THE BENEFICIARY COUNTRY**

### **2.1. Internal agenda**

During the first months of its mandate, the administration of President Fox drew up a number of plans or planning documents, intended to establish the priorities of government action for the six years ahead, in particular with regard to development policy.

The 2001 - 2006 National Development Plan was devised in a context of political, economic, social and demographic transition; it determines a certain number of priorities which should inspire the actions of the current administration:

- "Social and human development" component. The promotion of more balanced development and a more effective approach to social problems, in particular education. The main objectives are: improving Mexicans' level of education and well-being; enhancing equity and equality of opportunities; promoting education to develop personal capacities and both individual and collective initiative; strengthening social cohesion; establishing harmony between social and human dialogue, and nature; and making the government more responsive so as to restore citizens' confidence in the institutions.
- "Growth with quality" component. Objectives include: improving the economic competitiveness of the country through responsible management of the national economy; improving education, vocational training and scientific and technological development; a development process which is inclusive of the entire population, particularly those sectors hitherto excluded; balanced regional

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<sup>2</sup> COM(1999) 105 final

<sup>3</sup> COM(2000) 670 final;

economic development; creating the conditions for sustainable development which ensures the quality of the environment and the availability of natural resources.

- **“Order and respect” component.** Improving the state’s functioning, by achieving the following objectives: defending territorial independence, sovereignty and integrity; drawing up a new framework strategy for national security in the context of democratic governance and constitutional order; helping ensure political relations are conducted within the new democratic framework; building up a responsible collaboration between different national authorities, and advancing towards real federalism; eradicating corruption and creating a transparent federal public service; guaranteeing public safety so as to reassure citizens; and guaranteeing justice is properly administered.

The government’s strategy addresses those domestic problems which cannot be treated in isolation from the country’s development policy and which lie at the heart of the pacification process in the state of Chiapas. On different levels, the National Development Plan, the Puebla-Panama Plan and the law on indigenous rights and culture are all conceived within the framework of this problem.

## **2.2. External agenda**

The National Development Plan conceives relations with the European Union primarily within the framework of diversifying its foreign policy, of which the United States remains the main focus and central political priority.

The Fox administration has decisively chosen to intensify relations with the United States, the long-term objective being to deepen NAFTA (NAFTA +) by following the EU’s integration model. This objective has been reflected in the short term by a joint solution to the problems of Mexican immigration to the United States, by better integration of the energy sectors of the three NAFTA partners, by better control of the southern border of Mexico, and by an urgent appeal for investment by the United States.

Mexico’s second political priority is political alignment with Brazil. Mexico has given up its attempt to compete with Brazil for the leadership of Latin America, deeming this approach to have been fruitless. In the long term, Mexico supports the Mercosur process, as well as the FTAA, as an inevitable integration process, but one which should not be rushed. As regards Central America, Mexico has positioned itself as a brother, seeing support for development and strengthening of democratic structures in these countries as a moral obligation. Breaking with its non-interventionist past, Mexico now seeks to play a key role on the American continent in consolidating democracy and ensuring respect of human rights, and has taken an active part within the OAS in drawing up the Democratic Charter adopted by this organisation.

In parallel with the National Development Plan, Mexico launched the Puebla-Panama Plan, which seeks to create the conditions for integrated development in the southern half of the country and throughout the Central American isthmus. This is an ambitious initiative, whose regional vocation is innovative. At this stage, this programme seems to be focused on building infrastructure and developing economic relations between the countries and regions concerned.

### 3. ANALYSIS OF THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

#### 3.1. Political situation

##### 3.1.1. *Changes in the Mexican political scene*

The victory of Vicente Fox of the Partido Acción Nacional (PAN) in the presidential election of 2 July 2000 marked the end of a very long political chapter that began with the launch of the Mexican revolution in 1910 and which was marked by the uninterrupted 71-year rule of the Partido Revolucionario Institucional (PRI). This change gave a new impetus to national political life and raised great hopes amongst the population.

This alternation at the head of the Mexican state opened a new chapter in Mexican political life and constitutes a substantial qualitative leap forward towards the democratic consolidation of the country.

That is all the more true as the new President does not command a majority of the seats in the Chamber of Deputies and the Senate, and he will therefore have to seek the support of either the PRI (which has the greatest number of seats in both the Chamber of Deputies and the Senate), or the Partido de la Revolución Democrática (PRD - which brings together various components of the Mexican left and is currently the third political force in the country).

The political class as a whole is currently undergoing far-reaching change. The three principal parties (PRI, PAN and PRD) are subject to deep internal tensions, and are aware of the need to reposition themselves ideologically and to modernise their working procedures. In this context, since the beginning of Fox's six-year mandate, the most reticence with regard to the reforms has generally been at the level of the federated states and the Congress.

Several bills which the executive considers essential (tax reform, reform of the state, and reform of energy policy, for instance) are struggling, having been blocked by Congress where the parties seem more interested in tactical fighting than in completing essential reforms. Implementation of government policy in the years ahead will depend to a large extent on their approval.

The Zapatista uprising has led to unanimous consensus regarding the need to integrate indigenous peoples (12 % of the population) more fully and to take their interests more into account. After a long period during which negotiations were blocked, President Fox's victory has created hopes that the process would be revived, and this was confirmed by the thaw which ensued during the first months of his mandate. However, in April 2001 Congress passed a law on indigenous peoples which was more restrictive than that presented by President Fox and than the demands of the indigenous peoples and the EZLN (Ejército Zapatista de Liberación Nacional), thus once more paralysing the dialogue process.

Beyond the armed conflict in the Chiapas, which helped polarise and disintegrate the political and social life of this state, addressing and resolving the indigenous problem will have considerable impact in coming years on a number of key issues for the country as a whole: human rights, social integration, and economic development in the south of the country. It will also, obviously, have a great influence on the success (or not) of the Puebla Panama Plan.

Indigenous problems and the Chiapas pacification process represent two sources of ongoing instability in the country.

##### 3.1.2. *The subject of human rights*

Despite Mexico's political, economic and social development over recent years, the human rights situation remains ambivalent and uncertain.

Problems in this field stem, initially, from the malfunctioning of both the police force and the judicial system as a whole. Sometimes, the system fails to ensure satisfactory access to justice for the people (laws are at times obsolete, staff training and numbers are insufficient, legal processes are slow, there is insufficient geographical coverage, and the impunity rate is very high) or act as an obstacle to justice (corruption, arbitrary decisions, the public prosecutor's office is administratively attached to the executive). In such a context, abuses by the authorities at the expense of the people are still a reality in Mexico, although the fight against them is now being waged at the highest levels of the state.

In recent years, a culture of human rights has progressively taken root, in particular through democratic consolidation, the rise of civil society and changes - uneven, but also undeniable - in Mexican society, which has become both more aware and more demanding in this respect. The opening up of the country to the outside world has also played a considerable role in this phenomenon.

The potential impact of these changes, however, has been largely neutralised by the alarming climate of violence which dominates certain parts of the country (northern and southern border regions, and the large cities), and which is connected not only with crime, but also with the emergence of guerrilla movements and the activity of the drug cartels. In this context, corruption, the weakness of the institutions and the expansion of the army's mandate to tasks which should in theory be the responsibility of the civilian authorities have led to human rights excesses and violations, which generally remain unpunished.

The current administration has declared this issue a priority; while it is too early to judge its actions in this respect, the administration has demonstrated considerable openness to Mexican civil society and to the international community (in particular, the UN system), and has drawn up its own unflattering diagnosis of the situation in this area.

### *3.1.3. Consolidation of the rule of law*

Consolidating the rule of law will require a number of things: a new balance of power, in a country which has traditionally had a very strong president; progressive decentralisation towards the states; and, the reform of the presently inadequate civil service. In this context, the new administration has to tackle the malfunctioning of the police force and the judicial system, as well as the corruption<sup>4</sup> which affects the institutions concerned. These endemic problems are in good part responsible for the high level of crime and the importance of the drug trade. In addition to their harmful consequences for daily life, they also affect the economic interests of the country and constitute a threat to national security.

These needs and objectives are ambitious, and the logic behind them is long-term. To address them will require a substantial increase in the state budget, as well as significant changes in society, in particular, better social and ethnic integration.

## **3.2. Economic situation**

### *3.2.1. Economic situation, structure and performance*

Mexico has undergone a significant economic transition in the last decade, becoming a much more open economy. In its pace and depth the Mexican reform process has surpassed those of most developing countries that have undergone similar economic adjustments in recent years. Mexico is the world's 13<sup>th</sup> largest economy, the eighth largest exporter of goods and services (maquiladoras activity included), and fourth largest oil producer. The financial crisis of late 1994 had a major negative impact

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<sup>4</sup> 2000 CPI score for Mexico is 3.7 (10= highly clean ; 0= highly corrupt).



on real economy. However, structural reform, in particular trade liberalisation, contributed to a rapid economic transformation via an export-led recovery which brought the average annual economic growth rate close to 7% at the end of year 2000.

The Mexican economy grew very rapidly during 2000, but the rate of growth decreased in the third quarter as real rates of interest rose and the U.S. economy decelerated. By July 2001, the Mexican economy had experienced three quarters of seasonally adjusted negative annual growth. Thus, the economy is technically in a recession. Open unemployment reached 3.3% in June 2001, the highest figure since March 1999, as the corporate sector has been affected by high interest rates, the increasing local cost of energy, and lower external demand.

The growth in U.S. demand, the increase in U.S. asset prices, the rise in the price of oil, and large foreign direct investment (FDI) inflows were major factors behind Mexico's boom in 2000. The Mexican economy grew at close to 7% in 2000. However, estimating potential real GDP in Mexico is particularly difficult, since the economy has been subject to deep structural reform, major exogenous shocks, and recurrent crises for the last two decades.

GDP per capita was USD 5,008 in 2000<sup>5</sup>, although income distribution remains highly distorted, even by Latin American standards, and 50% of the population remains in poverty.

The Banco de Mexico has followed a flexible exchange rate policy since 1994 and has made the reduction of inflation the principal goal of **monetary policy**. The inflation target has been achieved with a margin during the last two years (inflation 2000: 9.5%; projected 2001: 6.5%). As with exchange rate targeting, inflation targeting requires a supportive fiscal policy. A too-lax fiscal policy in 2000 had to be offset by an unnecessary tightening bias in monetary policy. Having monetary policy bear the burden of the policy tightening alone put upward pressure on real interest rates and on the currency to appreciate, thus impairing external competitiveness, as large capital flows entered the country. The Banco de México plans to bring inflation down gradually to a low and sustainable rate consistent with its main partner-country inflation (around 3%) by 2003.

Concerning **fiscal policy**, the government is committed to addressing fiscal weaknesses and lowering the reported budgeted deficit to 0.65% of GDP in 2001 from 1.1% of GDP in 2000, as well as to bringing down the "public-sector borrowing requirements" (PSBR) to 3.7% from 4% of GDP. Tax revenue is not only low, but highly vulnerable to oil price swings. Tax revenue, at 11% of GDP in 2000, is significantly lower than the 14% average for Latin America. Public-sector debt (including financial restructuring) fell to 44% of GDP in 2000 from 52% in 1999. The federal government took advantage of favourable conditions to reduce its external debt to 16% of GDP in 2000 from 21% and its domestic debt to 26% of GDP from 30%.

The current Government inherited an economy characterised by decelerating growth and fiscal imbalances. Although the officially reported fiscal deficit for 2000 was 1.1% of GDP, with a more internationally accepted methodology, the deficit was about 4% of GDP. This figure, representing PSBR, reflects the large claims on the economy of the consolidated public sector. A lax fiscal policy in 2000 pushed aggregate demand to grow much faster than GDP (10% vs. 7%). In conjunction with a strong peso, this resulted in a surge in imports of consumer goods and a deterioration of the non-oil current account deficit to over 6% of GDP.

During his election campaign, President Fox made commitments to increase social spending, particularly to improve services in education and health to the most vulnerable groups of society, but

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<sup>5</sup> BID Data. It is important to take into account that BID data concerning GDP per capita fluctuates in function of the source to almost + 50%.

within a framework of fiscal prudence. Recognising the need to increase permanent sources of revenue in order to reduce its fiscal vulnerabilities, accommodate higher spending, and reduce the budget dependence on oil revenue, the government has been working to widen the tax base, increase tax and customs efficiency, eliminate loopholes, crack down on evasion, and tackle corruption. Some of the measures required to achieve these goals still require approval by Congress; others have already been adopted. The basic objective of such reform is to increase government tax revenue and decrease budget reliance on oil. Proposed changes will make the system simpler, and non-distorting, and the increased revenue would allow the government to carry out a higher level of social expenditure, although well below what would be needed to fill the substantial social gap that Mexico faces. To summarise, Mexico currently collects about 11 % of GDP, whereas the financing of urgent needs are estimated to require between 17 to 20% of GDP in fiscal revenues

Without tax reform, tax revenue is likely to fall in 2001 because of the deceleration of the economy and the fall in oil revenue (due both to a fall in price and the appreciation of the peso), and this would then require further expenditure cuts in order to comply with the budgetary ceiling of 0.65% of GDP in 2001 and the government's commitment to bring PSBR down by 0.3% in 2001.

### *3.2.2. Small and medium-sized enterprises*

Approximately 98% of Mexican companies can be considered micro, small or medium in size. They play a major role in job creation, regional economic activity and training technicians and business leaders. Their potential contribution to the economic and social development of Mexico is enormous, not only in terms of satisfying the basic needs of the population, but also by supplying raw materials and components to large companies, and through direct and indirect exports.

Since the end of the 1980s, the SMEs have been the sector that was hardest hit by changes in economic policy, in particular by the opening up of trade, the financial crises and the elimination of tax and financing advantages for investment, employment and regional development. These companies have seen their operations shrink significantly. There is now a broad consensus that, particularly in the case of SMEs, the policies and instruments in force are not enough to ensure their survival and future development.

The economic policies followed by Mexico since 1988 have brought greater benefits to major companies, both national and foreign, while small companies have faced significant limitations due to the slow growth of the domestic market. The increasing polarisation of the Mexican economy, in which growth is now driven by the exports of approximately 300 companies connected with the maquiladora companies, means the economy as a whole is now faced with a number of serious challenges.

Large companies have been increasingly export-oriented, while their share of GDP and their productivity have both grown. But they have not been able to bring the rest of the Mexican economy along with them. They have had no significant impact on the apprenticeship process, job creation, or real wages. More specifically, it can be stated that they have not done enough to develop the supply chain, or to establish methods for subcontracting and technological development, which are essential for small and medium-sized national companies.

In this context, it is important to revive the active involvement of SMEs in the Mexican economy. These industries have become much less dynamic since the end of the 1980s, but they are still important for the national economy. As a result, increasing SME involvement in dynamic export-oriented industries is one of the principal challenges facing the Mexican economy over the coming decades.

### 3.2.3. *External Environment – Regional Co-operation and Trade Agreements*

During the last two decades the Mexican economy has undergone a profound evolution, shifting from the protectionist model of import substitution to one of openness towards the external world. Liberalisation and deregulation have been accompanied by an internationalisation strategy and by a policy of regional integration - with both individual countries and economic blocks.

Mexico's efforts to take part in the globalisation of the world's economy have resulted in its accession to the main international economic fora: in 1994 Mexico joined the Organisation for Economic Co-operation and Development (OECD) and in 1995 it became a founding member of the World Trade Organisation. Mexico was also one of the founding members of the European Bank for Reconstruction and Development (EBRD) and, since 1993, it is an active member of the Asia-Pacific Economic Co-operation Forum (APEC).

In parallel, Mexico has strengthened its regional position through the establishment of an extensive network of bilateral and regional agreements on trade liberalisation, granting Mexican exporters privileged access to a market of 860 million consumers. As a result, the quasi-totality of Mexico's trade is today conducted under preferential arrangements. Trade agreements have been signed with Chile (1992), the US and Canada (NAFTA, 1994), Colombia and Venezuela (1994), Costa Rica (1994), Bolivia (1995), Nicaragua (1997), Israel (2000). During 2000, Mexico also concluded negotiations with the EFTA countries and the so-called Northern Triangle (El Salvador, Guatemala and Honduras). Finally, it is also party to the process of the Free Trade Area of the Americas (FTAA).

As a result of these commitments, the degree of openness of the Mexican economy has increased substantially over the last decade: between 1993 and 1998 the share of exports and imports of goods and services in GDP has grown from about 35% to over 60%. Trade, therefore, has been the main engine of Mexican economic growth.

According to Mexican data, Mexico's global trade in 2000 amounted to USD 341 billion (exports USD 168 billion and imports USD 174 billion), representing growth of 22.5% compared with total trade in 1999. In 2000, the trade balance was USD - 8 billion (details in annex 2).

Mexico's export performance has been extremely favourable for a number of years, particularly as a result of the sharp increase in the sale of manufactured goods: Mexico's share of world exports grew from 1.1% to 3.1% between 1990 and 1999. Nonetheless, maquiladoras (in-bond assembly plants with little local added value) represent a significant share of exports. Unlike the Latin American countries as a whole, Mexico has succeeded in diversifying export earnings, with exports of manufactured goods today far exceeding sales of primary goods, oil included. In parallel to booming exports, and as a consequence of regional integration and the establishment of production-sharing agreements - particularly in the NAFTA area - imports of intermediate goods have also increased sharply. Intermediate inputs account for three-quarters of imports, half of them destined for the maquiladora sector. Capital goods imports are also significant, while consumer goods represent less than 10% of total Mexican imports.

In 2000, the current account deficit amounted to USD 17.2 billion, representing 3.3 % of GDP. During recent years, this deficit has been financed mainly by foreign direct investment, which in 2000 amounted to USD 10.3 billion (USD 8.9 billion coming from the USA and USD 155 million from the EU).

The total amount of FDI between 1994 and 2000 was USD 67.9 billion (USD 43 billion from the USA and USD 13 billion from the EU) (details in annex 3).

### 3.2.4. EU-Mexico Free Trade Area (For details see Annex 4)

In 1998, in the framework of the economic pillar of the Global Agreement, the EU opened commercial negotiations with Mexico, which concluded with the signing and subsequent entry into force of a Free Trade Agreement in July 2000 (goods) and March 2001 (services and investment). The EU-Mexico FTA is comprehensive in scope, providing for the liberalisation of trade in goods and services, a commitment to liberalise investment and related payments, the opening of respective public procurement markets, as well as disciplines in competition matters, the protection of intellectual property and a dispute settlement mechanism.

Despite the government's efforts to diversify Mexico's trade relations, commercial flows remain strongly dependent on the US market: in 2000 the US represented over 80% of total Mexican trade. While growing steadily in absolute terms, the EU share of Mexican trade has been declining since the establishment of the NAFTA: according to Mexican statistics, in 2000 it accounted for only 6% of the total (down from 9% in 1993). It is expected that the EU-Mexico FTA will reverse this negative trend. Bilateral trade is characterised by a persistent trade deficit for Mexico, with imports from the EU (most of them car parts and capital goods) almost double the exports (mainly manufactures, in particular cars, and fuel).

To ensure the smooth implementation of the FTA, a number of special trade committees were established. These committees have been discussing technical matters which have emerged as potential trade barriers, such as implementation and interpretation of rules of origin, standards, sanitary and phytosanitary measures.

#### EXPORTS FROM MEXICO TO THE EUROPEAN UNION (Million USD)

	EUR15	BELUX	DK	D	EL	SP	F	IRL	I	NED	AUT	P	SWE	FIN	UK
1999	5202.6	246.6	49.1	2093.1	7.5	822.4	288.8	6.7	170.3	487.7	10.8	180.4	23.7	8.2	747.0
2000	5620.9	235.1	44.9	1544.3	10.3	1528.5	375.2	112.1	222.2	436.6	17.1	193.7	23.5	4.3	870.1

Source: EC Delegation in Mexico with data from the Mexican Ministry of Economy

#### IMPORTS IN MEXICO FROM THE EUROPEAN UNION (Million USD)

	EUR15	BELU	DK	D	EL	SP	F	IRL	I	NED	AUT	P	SWE	FIN	UK
1999	12742.4	315.2	126.5	5032.1	15.9	1321.8	1393.7	329.7	1649.4	325.6	170.1	52.2	699.2	175.8	1135.2
2000	14745.0	482.9	142.0	5728.4	29.8	1430.0	1466.6	403.6	1849.4	363.1	176.8	51.4	1318.0	211.7	1091.3

Source: EC Delegation in Mexico with data from the Mexican Ministry of Economy

## 3.3. Social situation

### 3.3.1. Social policies: a government priority

Mexico is a country in transition and its social situation is characterised by an enormous duality. Some of the population lives at the level of the most advanced countries in the world. However, poverty and extreme poverty still affect large part of the population<sup>6</sup>. Following World Bank's data, in 1996 two of every three Mexicans were poor and one in three was extremely poor.

<sup>6</sup> GINI index for 2000 = 51.9 (0 perfect equality ; 100 perfect inequality)

To overcome this situation, Zedillo's administration relied on broad-based social policies and targeted programmes. Social expenditure, despite the fiscal discipline, increased in recent years and was devoted to social security and healthcare, education, job training and housing. The programmes focussed on investing in human capital, promoting income and employment opportunities and improving infrastructure in poor areas. In 2000, the targeted programmes reached \$5.3 billion (11% of social spending and 1% of GDP).

The National Development Plan 2001-2006 includes social policies as one of the highest priorities of the country. It underlines education as the top priority for the development of the country. Social development expenditure for 2001 amounts to 6.2% of GDP, which represents a real increase of 4.7% in absolute terms from 2000.

### 3.3.2. *Poverty*

Mexico's human development indicator (HDI), as defined by the UNDP, is 0.790, and the country currently occupies position 51 in the HDI classification. According to 1999 data, life expectancy at birth is 72 years, the adult literacy rate is 91% and the school enrolment rate is 71%.

However, poverty and extreme poverty affect more than 50% of the population, especially inhabitants of rural areas and in the suburbs of large cities. Among the most serious manifestations of poverty are: the high rate of infant mortality (31‰ 1995-2000), the significant degree of malnutrition, the adult illiteracy rate (9%) and the school drop-out rate (27.8% of Mexicans do not complete primary school). Almost three-quarters of the population live in urban areas and 47% live in overcrowded conditions. 17% of houses lack drinking water, 14% do not have concrete floors, 22% do not have proper sanitation systems and 5% have no electrical energy, in addition to inadequate transport and communications. One also must take account of the poor quality of public services provided.

Similarly, poverty, which is linked with illiteracy and low levels of school enrolment, is reflected in the difficulties which people experience in exercising their elementary rights and in being treated with respect by the authorities and the social institutions, as for example, when seeking justice.

Special at-risk groups include households living in remote areas and indigenous peoples in both urban and rural areas. **Indigenous people** continue to be overwhelmingly poor and they perceive discrimination from mainstream society. For example, in 1995, 38% of the indigenous population over 15 years old were illiterate, which is some 3.6 times the national average (10.6%). At the same date, indigenous infant mortality was 48.3 children per 1000, while the national average was 29 per 1000. During the 1999-2000 school year, the number of indigenous students who passed their final exams in bilingual primary schools was 68.4%, while the national average was 84.7%. Indigenous people also form a majority of those who do not have access to public services.

### 3.3.3. *Education and health*

Mexico's past progress in **health** was achieved through the use of centralised institutions and vertical programmes to control infectious diseases and increase prevention and education. Today the epidemiological profile is changing. Chronic diseases and injuries are becoming the main causes of death and disability, and the country is facing emerging problems such as AIDS and the health effects of pollution.

Part of the population enjoys services provided by high international standards hospitals, while the rest fall in a very inefficient social security system, which can not provide the minimal standards required. The main challenges of the current system are:

- to improve access and quality. The government is implemented several projects mainly in rural and deprived areas. Reproductive health is one of the top priorities.
- increase the number of population under the social security system.

In 1999, Mexico had 1.1 bed per 1000 inhabitants (4.1 in UK or 9.2 in Germany) and 1.7 per 1000 doctors. In 1998, expenditure on health reached 5.3% GDP.

Concerning **education**, except for selected rural areas, enrolment in primary education is nearly universal, and progress is being made in ensuring that the children pursue their education through lower secondary school. The main challenges of the current system are:

- to ensure equity on gender, geographic distribution and economic level of the population.
- good quality throughout the system. Currently, high level institutions (mainly private) have developed country standards, which is not the case for the public and lower level institutions.

During 2001, public expenditure on education reached 6.2% of GDP. Even though it may seem a high percentage, it is very limited if we consider the expenditure per student, as the bulk of the budget is used to pay personnel. The poor received only 1.0% of the education budget.

### **3.4. Science and Technology**

Mexico's future development will increasingly have to be based on the effective generation and utilisation of knowledge, in order to meet economic, social and environmental challenges. The role of the scientific & technological communities in knowledge supply and in its effective integration in innovation systems cannot be overemphasised. If it wants to invest coherently in its own S&T assets, and assert its own intellectual and scientific capacities in the global knowledge society, Mexico must strive to go beyond the level of being an "economic province" of the much larger and US-dominated NAFTA. This calls for the reinforcement of scientific & technological interfaces, primarily with Europe, but also with the Latin American & Caribbean countries.

The scientific quality of Mexico's output is beyond doubt, as is the excellence of a number of its contributions to world science. However, the contribution of Mexico's S&T system to societal development has been hampered by two main factors, namely:

- Lack of demand-driven technological support institutions, with associated centralised control by federal agencies and an over-emphasis on the supply of S&T services versus incentives for articulation of demand; and,
- Relatively narrow definition of individual research programme objectives, possibly reflecting short-term policy scenarios, sectoral research approaches and low levels of international S&T Co-operation.

The Government of Mexico is endeavouring to reduce these shortcomings by improving the performance of the knowledge & innovation system, promoting demand for technology by SMEs, increasing the effectiveness of investment in research and related human capital formation, providing stability to and consolidating research centres, and implementing reform in the higher education system. To this end, Mexico has decided to reinforce its S&T investment (US\$ 1 685 million for the period 1998-2000) by requesting a loan from the World Bank for a "Knowledge and Innovation Project". This 5-year project, with a total cost of USD 663 million, will receive a USD 300 million loan from the WB.

On 30 October 2001, President Fox presented the National Programme for Science and Technology 2001-2006 which underlines the importance of science and technology for the development of Mexico.

It foresees the approval by the Congress of a new law to support science and technology research and the reform of CONACyT (National Commission for Science and Technology). It also includes as priority areas: health, nutrition, housing, communications, agriculture and education.

### 3.5. Environment

Economic and industrial development in Mexico have subjected the environment to intense pressures, such as high pollution levels and, often unsustainable use of the natural resources. Until recently, environmental considerations did not play a decisive role in the development of Mexico and the environmental degradation reached serious levels in certain regions.

A single ministry responsible for environment was created in 1994. This ministry has already taken a number of good initiatives, but most of them are very recent and therefore results are not yet apparent. While excellent first steps, they may not be sufficient to reverse Mexico's environmental degradation.

Of the country's 258 aquifers, more than 100 are overdrawn and major water crises are in the making in some states, especially the northern most productive states. Less than a tenth of the country's water is treated adequately. Only 35 % of solid waste is disposed of in a sanitary manner. Atmospheric contamination in many urban centres regularly exceeds safe standards. Some 300,000 hectares of Mexican forest disappear every year. Biodiversity is declining and the marine and insular ecosystems are under threat from agriculture and tourism. Notwithstanding the caveats of «green» national accounts, it is estimated that the cost of annual environmental degradation is equivalent to about 10% of GDP<sup>7</sup>.

In line with the National Development Plan 2001-2006, which promotes sustained and sustainable economic growth, the "National Programme on Environment and Natural Resources 2001-2006" has been developed. It provides the overall framework for Mexico's environmental policy and management.

The programme, while ensuring public participation and mainstreaming of the environment in other sectors, addresses issues such as limited water treatment and solid waste management, atmospheric contamination, reforestation and soil degradation, consolidation of protected natural areas and biodiversity, limited capacity for sustainable forest production, eco-tourism and other sustainable eco-activities, environmental education, natural disasters, forest fires, etc.

It is to be implemented by the "Secretaria de Medio Ambiente y Recursos Naturales" (Semarnat), including its decentralised bodies, such as the recently created "Comision Nacional Forestal" (CONAFOR), which is responsible for the implementation of the "National Forest Programme 2001-2006" (NFP).

The National Forest Programme is the cornerstone for implementing the "Forest Strategic Programme for Mexico 2025". It includes main objectives, actions, priority areas and a calendar. The basic lines of action included in plan are: decrease the pressure on forest resources; development of forest resources; wood production; environmental and conservation services; financing mechanisms and institutional capacity building. The total estimated budget for the period 2001-2006 is € 9,087 million.

In addition to a number of new environmental laws, various programmes are being implemented in this sector: PRODEPLAN (programme to develop the forest plantations), PROCYMAF

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<sup>7</sup> Source : World Bank.

(Conservation and sustainable management of the forest resources, PRODEFOR (Forest development) and PRONARE (National Programme for Reforestation)).

### **3.6. Sustainability of current policies**

At present, Mexico is going through a period of major changes, both at the political and the economic level. These changes are a cause of both optimism and concern with regard to the development of the country.

At the political level, there have been a number of noteworthy events, which augur well for the country. The electoral process has made significant progress; parties and the multi-party system have been consolidated; and awareness of civil society has been raised.

However, substantial uncertainties remain. These relate, in particular, to the drug trade, the continuing high level of insecurity (in the capital, other large cities, and in particular along the border with the United States), the failure to bring criminals to justice, which is largely due to the defective legal system, and finally to the Chiapas problem and the integration of the country's indigenous communities in general. These potential instability factors bring with them a cost (lack of security for companies, and a distorted image abroad, especially in Europe) and may represent important barriers to the general development of the country, and in particular to attracting European trade and investment.

It must also be noted that the disparities between regions and people have tended to increase (different development rates, above all between North and South), that the rural exodus is continuing (creating over-sized cities) and that a majority of Mexicans are still living in poverty.

On the whole, the diagnosis put forward by the new Cabinet is clear-sighted and represents a carefully-considered vision of the country's situation and the challenges it has to face. The potential problems lie more in the government's capacity to implement policies and measures that in line with the guidelines it has laid down.

The true test of the consistency of government policy will be its capacity to draw up a programme by which to govern. Much depends on the political capacity of a Cabinet team with limited experience of political management, who do not command a majority in the Congress, and who are largely dependent on the support of a party, the Partido Acción Nacional, which was often critical of Government action in the past.

### **3.7. Medium-term challenges**

Mexico has changed a great deal over the last fifteen years, with the opening up and substantial transformation of its economy, as well as progress made with the transition towards a stronger democracy.

The elections of 2 July 2000 marks the end of this political transition period on the electoral level (i.e., the hand-over of political power). In order to make the most of its great potential and its young population, the country now has to ensure that this change translates into concrete benefits for the people. A new societal project has still to be defined, which should begin with the reform of the state itself.



The main challenges are:

- (1) To consolidate the multi-party system and to strengthen the rule of law. Problems as crime, migration<sup>8</sup>, drug cartels, corruption, etc, must be tackled.
- (2) To improve social conditions (fairer distribution of wealth, better social and ethnic integration, etc.). This should allow the population living in poverty and/or extreme poverty to overcome the situation and joint the rest of Mexicans in taking advantage of the economic development of the country.
- (3) To improve economic competitiveness (by shifting from an economy dominated by the maquiladoras to an economy based on production and new technologies). The country's economic policy agenda is extensive. Pending structural reforms still need to be completed, such as the fiscal reform, as well as major reforms in the fields of income distribution and the quality of public expenditure, energy policy, deregulation, privatisation, legal guarantees and improvements in the banking sector. Another requirement for triggering economic growth is the availability of infrastructure in communications, transportation and energy; and the implementation of a structured and dynamic industrial policy.

The most important of such reforms is the fiscal reform, since a major increase in fiscal revenues is a precondition for tackling all the other major structural problems affecting Mexico.

Moreover, trade as a development factor for the Mexican economy is sustainable insofar as Mexico has succeeded in introducing almost all its exports into free trade areas. However it should be noted that the country remains dependent on the United States market and that it should diversify if it wants to avoid repetition of its current recession which is directly linked to that in the US.

- (4) In order to continue its economic development, Mexico should strengthen the links between scientific and technological progress and the productive sector of the country. Mexican companies are looking for practical solutions to concrete problems, which only research and technology can provide. Mexico should also work to increase science and technology's social impact. Knowledge should be progressively more focused on the needs of individuals and families.
- (5) The changes in the use of natural resources produced by the economic transition have led to the exhaustion and pollution of water, air, forests and soils. Chaotic processes of urbanisation and industrialisation and over-use of agricultural and forestry resources are creating serious risks for the sustainability of the resources concerned.

These challenges can only be solved in the medium term and are conditioned upon immediate action in the form of the implementation of ambitious policy measures and plans. That seems to be the government's position when it stresses the need for reform of the state and of the tax system to improve the impact of the social programmes.

Only such measures can enable Mexico to overcome its major problems (inequality and economic development to support the current transition). The authorities are already addressing these problems with determination, but in current circumstances, they are unable to provide a satisfactory and comprehensive solution to them.

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<sup>8</sup> There are around 8 million Mexicans in the United States, including roughly 3 million without identity documents. These people represent an annual income of more than USD 6 000 million (1999: USD 6 039 million and 2000: USD 6 340 million).

#### 4. OVERVIEW OF PAST AND CURRENT EC CO-OPERATION. INFORMATION ON THE PROGRAMMES OF EU MEMBER STATES AND OTHER DONORS

##### 4.1. EC Co-operation (details in annexes 5.1 and 5.2)

###### 4.1.1. *Economic co-operation*

EC/Mexico co-operation includes in particular a substantial degree of economic co-operation, concentrating on developing relations between SMEs. More specifically, one might cite:

- The ECIP Programme (European Community investment Programme): Preliminary figures show that from 1988 to 1998, 162 projects were approved with EC financing of approximately EUR 22 million.
- Bilateral programme of Business Meetings: “Mexico - European Union Business Meetings Programme. 1995-1998”. 11 “business forums” were held, leading to more than 9000 meetings between Mexican and European contractors.
- The AL-Invest Programme: A programme of business meetings between European and Latin American economic operators. 3 EUROCENTROS are operational. Currently, 8 AL-Invest sectoral “business meetings” are scheduled for Mexico.
- ARIEL (Active Research in Europe and Latin America): Mexico has 2 projects within the framework of two EUROCENTROS.
- Project of support for Mexican exports to the European Union: In 1999 the volume of business generated by this project was roughly USD 34 million.

Other measures being taken within the framework of economic co-operation are:

- Standards and Certification: two projects were carried out in this field, helping the Mexican government set up a standards system and providing technical assistance to Mexican certification centres.
- In the educational field, a European Study Centre was set up.
- ALURE programme (Latin America Optimal Use of Energy Resources): The objective of this programme is to encourage co-operation between the actors of the energy sector of both EU and Latin America. 2 projects were set up.
- UR-BAL programme: Its objective is to develop direct and durable links between European and Latin American local entities through the spreading, acquisition and implementation of « best practices » in the field of urban policies. 46 participating local authorities and 6 external members. 15 Joint projects including 2 as co-ordinating local authority.
- ALFA programme (Latin America – Academic training): Regional co-operation programme between the European and Latin American higher education’s institutions. 5 Mexican universities are actively involved in the programme. There are 16 networks co-ordinated by national institutions.
- @LIS Programme (Alliance for Information Society): programme of regional co-operation between the EU and LA in the information society field. Around 20 large ICT projects are being launched with the expected participation of Mexican organisations. The programme also deals with co-operation in the policy and regulatory fields, as well as on standardisation, stakeholders networks and interconnection of research networks.

#### *4.1.2. Scientific and technical co-operation*

- INCO programme: international co-operation through the EC research framework programmes. 30 projects with a total EC contribution of EUR 13.98 million. During the first two years of INCO-DEV (1999-2000), the EC financed 14 projects with a total contribution of EUR 13.13 million.
- IST Information Society Technologies: 4 projects with Mexican participation have been financed by this programme.

#### *4.1.3. Co-operation in the social and environmental fields and in the fight against poverty*

- In the social sector, a pilot aid programme for the reintegration of homeless children was implemented; actions were also launched concerning the fight against drugs and the fight against AIDS.
- In the field of aid for refugees, a programme was launched for the integration of Guatemalan ex-refugees in the States of the South (Chiapas, Campeche, Quintana Roo).
- In the environment sector, there are several ongoing projects for the conservation and management of tropical forests.
- Projects of the EC Humanitarian Office (ECHO). Emergency aid has been regularly supplied to victims of natural disasters (in particular, after Hurricane Pauline), or following the events in Chiapas (displaced persons).
- Co-operation with NGOS in fields as varied as rural development, strengthening civil society, health, and many others (more than 30 current projects).
- Human Rights and Democratisation have been targeted by several past projects and are the subject of more and more requests for financing.

#### *4.1.4. Lessons learned from previous experience*

In general, EC co-operation with Mexico has increased in recent years. From 1990 to the present, the cumulative amount devoted to such co-operation is approximately EUR 137 million. The framework agreement of 1991 indicated more than 25 different fields as potential areas of EC co-operation projects. When this agreement first entered into force, the tendency was therefore towards financing numerous "small" projects in a wide range of sectors. This situation has changed in the recent past, and now aid focuses on a more limited number of larger projects, with a view to privileging the continuity and impact of EC co-operation projects. This trend to concentrate co-operation in priority sectors must continue in the future.

Projects and programmes focusing on developing relations between SMEs have had very positive results and have met their aim of bringing companies from the two sides closer to each other. Nevertheless, in the course of building these bridges, it proved necessary to introduce a technical assistance component for both the European and Mexican companies, which are often unaware of their partner's market and encounter basic technical problems in trading and/or investing (for example: marketing, labelling, switchboards, etc.). This component was already part of the export promoting project and should be underlined as the major element in future projects.

In the social field, until now the EC has concentrated on aid for Guatemalan refugees, together with a number of isolated actions, implemented by NGOs, especially in the south of the country. The social development programme proposed as part of this strategy is designed to meet the need to focus this aid by adding the dimension of integrated development in the poorer regions.

#### 4.2. **Member States co-operation** (for details see annex 6)

In the light of Mexico's membership of the OECD (since 1994), as well as its relatively high degree of economic development compared to some of its Central American neighbours, it is not considered a priority country for bilateral development co-operation by the majority of EU Member States. Nevertheless, recognising the significant social inequalities among the country's population, some of the Member States (e.g. Italy, Finland, and Denmark) continue to finance NGO-managed micro, small and medium-sized projects in a variety of sectors, including social development, environment and health.

As regards bilateral co-operation, most EU Member State funding is allocated in the field of environmental protection, including environmental training, scientific co-operation and strengthening of environmental, mainly state-level institutions. Other important sectors are primary education and scientific/academic co-operation, followed by institutional strengthening and economic co-operation.

The main EU donors in terms of bilateral co-operation are Germany (mainly long-term environmental projects), Spain (primary education, environment), France (scientific/academic co-operation), and the UK (environment). The latter, however, intends to phase out development co-operation in Mexico by 2003.

#### 4.3. **Other donors' co-operation.**

Most **multilateral organisations** active in Mexico work by providing the government or private enterprises with loans (World Bank, IDB and EIB). The EIB focuses on productive infrastructure, the WB and the IDB mainly on education, infrastructure, environment and rural and urban development.

United Nations agencies, mainly the UNDP, sponsor projects in areas such as poverty alleviation, environment and the development of a democratic culture.

According to the available information, total funds coming from multilateral institutions amount to approximately EUR 6 billion. The most important donor is the World Bank, which contributed USD 3.9 billion from 1997 to 2000 (for details see annex 7).

During the last three years, **United States** co-operation has amounted to approximately \$39 million, focussing in the following priority sectors: counternarcotics and crime (exchanges of judges), governance through NGOs, environment, clean energy and health. Specifically in 2001 it amounted to \$14.5 million and focussed on bio-diversity and tropical forests, reproductive health, micro-enterprises and decentralisation and state reform.

Between 1998-1999 **Canadian** co-operation amounted to \$ 3.85 million, out of which around \$100,000 were disbursed through the "Canada Fund for Local Initiatives" and implemented by local NGOs (main priority sectors: education, health, employment and rural development); \$2 million corresponded to "Partnership Co-operation" which provides funds to Canadian institutions involved in development programmes in Mexico (mainly on education and private-sector); and the rest is disbursed through multilateral co-operation (Canadian participation to multilateral organisations) or to regional projects.

In 2001, Canadian co-operation amounted to \$835,000 concentrated in industrial co-operation (manufactured products, environment, agriculture, water, gas and health) and local initiatives.

The **Japanese** technical assistance and financial co-operation during 1994-1999 amounted to 19,200 million JPY (109,23 JPY/€), an annual average of 3,200 million JPY. The activities involved were: technical co-operation for the implementation of projects, development studies, machinery donations, provision of experts, scholarships and provision of young volunteers to Mexico. The priority fields of

co-operation include south-south co-operation, environmental conservation, health care, industrial and regional development and education in occupational skills.

In 1999 (the latest date available), 22,142 million JPY were loans, 101 million JPY of grants (cultural donations and community assistance programmes) and 3,073 million JPY on technical co-operation (experts, donation of equipment and studies).

## **5. EC RESPONSE, CONSISTENCY WITH EU POLICIES, COMPLEMENTARITY WITHIN THE EU AND WITH OTHER DONORS**

### **5.1. Major principles and general objectives**

The Community's co-operation programme should be the logical result of the common interests of the two parties, as the EC has declared several times, and as Mexico stated in its last National Development Plan (Plan Nacional de Desarrollo 2001 - 2006).

Mexico is a country in transition. The government now talks in terms of 4 transitions (demographic, social, economic and political), and has defined its development plan as a response to the challenges presented by these 4 elements.

As we have mentioned above, Mexican society is mainly divided into two parts: a part which lives in conditions comparable to those of the developed Western economies, and another part which survives in the kind of poverty typical of the developing countries.

Mexico has both the resources and the will to change. Co-operation should therefore be defined as a pillar of our bilateral relations, focusing on co-financing and the pursuit of mutual objectives. It should be conceived as a way of accompanying this transition, with the long-term objective of limiting co-operation to concrete measures of mutual interest and of complementing our trade policy.

However, in the short-term, the EC strategy must include a development dimension, in order to support Mexican's efforts to fight against inequalities, in particular suffered by indigenous peoples, and a mutual economic co-operation dimension, in order to benefit from the Free Trade Area created by the Global Agreement.

The **main objective** of the co-operation relations between the European Commission and Mexico is to support the implementation of the Global Agreement in all of its dimensions.

The Global Agreement has set an institutional framework, which allows as to further developing policy dialogue with Mexico. Meetings at Ministerial, high civil servant and experts levels are convene when necessary to exchange views and evaluate bilateral co-operation and any other matter of interest for the implementation of the Agreement.

The **general objectives of the EC co-operation programme** are:

- (1) A vital role for the EU would be to support the Mexican government's efforts to bear the social cost of this transformation process, which seeks to increase the general standard of living, by contributing to the **fight against inequalities** and exclusion.
- (2) To foster the **economic development** of the country by strengthening bilateral economic ties. Mexico is turning to Europe to try to diversify its economic and trade relations. The present opportunity for the EU to strengthen its presence in Mexico, if taken, should logically lead to a strengthening of economic co-operation.

The economic development of the country will also require an increase of Mexican enterprises competitiveness and productivity. It is now widely recognised that we live in a knowledge-based economy and that knowledge is the driving factor behind productivity growth. This makes S&T research a critical provider for the knowledge & learning society and S&T Co-operation a critical element in international relations, structuring its research, training, innovation and information/communication components.

- (3) Support Mexican efforts to reforming the state and strengthening the rule of law. Strengthen citizens' confidence in public institutions, mainly the judicial system, in order to be able to guarantee the political stability of the country.

This strategy complements Mexico's participation in the EU-Latin America regional programmes.

## **5.2. Priority action sectors**

Given this context (Mexican challenges and objectives) and considering the funds available, it would be convenient for Community co-operation to focus on the following topics:

- Social development and reduction of inequalities.
- Economic growth/support for the economic reforms/competitiveness.
- Scientific and technical co-operation
- Consolidation of the Rule of Law / institutional support

### *5.2.1. Social development and the reduction of inequalities*

Mexico and the EU should pursue a close political dialogue on social topics of mutual interest, such as for example the equitable distribution of incomes, equality of opportunity, gender equality, the fight against all forms of poverty, the problems of migration and regional development.

Concerning co-operation, close attention will be paid to the most vulnerable groups, such as indigenous peoples, peasants, women with limited resources, minors and other people living in conditions of great poverty. These co-operation projects will aim, as far as possible, to encourage job creation, education and vocational training and increase the productive capacity of the groups targeted. Even if education does not eliminate poverty, it forms the basis for personal growth and it is a determining factor in improving one's standard of living.

Finally, the implementation of the trade component of the Global Agreement is at the same time compatible and complementary with the aims of poverty reduction and support for economic growth. To this end, the EC believes it is necessary to accompany the Mexican government in its efforts and programmes to support underprivileged groups, that is, those who benefit least from the country's economic growth, so that they too may benefit from the opportunities opened up by this Agreement.

### *5.2.2. Economic growth*

The trade component of the Agreement was negotiated taking into account the development asymmetry between the EU and Mexico, which is reflected in an asymmetry in the rhythm of trade liberalisation on both sides, under which, for example, certain sectors that are considered vulnerable continue to enjoy protection. The agreement is likely to encourage an intensification of bilateral trade which should stimulate the development possibilities to be found in various sectors of the Mexican economy.

The economic co-operation chapter is, without doubt, essential if the potential for the creation of a free trade area is to be realised as agreed between the two parties. Accompanying co-operation should enable us to achieve certain strategic objectives, such as:

- guaranteeing the best access conditions to the market for EC exporters. Mexico has a history of non-tariff barriers, consisting primarily of a combination of expensive customs controls with labelling and certification requirements, which lead to the blocking of goods on entry, principally in the so-called “sensitive sectors” (textiles/clothing, shoes, toys, etc). In the medium-to-long term, we should aim to establish a broad regulatory policy dialogue ensuring Mexico’s alignment with international standards, the adoption of technical regulations and procedures for conformity assessment based on international standards, and greater transparency in its regulatory system. This may also have positive repercussions at multilateral level, where joint positions might be adopted.
- ensuring correct implementation of the chapters on public services and contracts, keeping in mind, nevertheless, that the success of these aspects of the FTA will depend mainly on choices to be made by the private sector.
- ensuring correct implementation of the chapter on intellectual property, in particular by monitoring the application and ratification of international conventions and monitoring Mexico’s implementation of TRIPs.

Direct technical and commercial support for small and medium-sized enterprises is a fundamental condition for further trade liberalisation in the future. In this context, as well as cross-cutting programmes and existing instruments of economic co-operation, a major step would be to follow up this co-operation with a programme to support trade, alliances between Mexican and European companies and a process for the transfer of know-how and technology. These actions should be focused on sectors likely to attract European investments, such as energy, the environment, tourism, information and communication technologies, transport and cutting-edge technology.

### 5.2.3. *Scientific and technical co-operation*

The overarching objective as far as Mexico is concerned, is to support the internationalisation of the country’s knowledge & learning societies through S&T Co-operation with the Union.

Support to higher education will be envisaged mainly through the negotiation of a sectoral agreement in this field as stated in Article 30 of the Global Agreement. The sectoral education agreement should, in any case, complement existing activities in this field.

Research in support of productivity, sustainable development and poverty alleviation is a strategic priority, addressing human & institutional resources, as well as the sustainable use of renewable natural resources (terrestrial & aquatic).

Article 29 of the Global Agreement sets the possibility of negotiating a sectoral agreement concerning research and technological development. The initial step of having an S&T Agreement must be followed proactively with concrete actions aimed at promoting:

- Participation of Mexican scientists in the 7 thematic priorities foreseen for the 6<sup>th</sup> RTD Framework Programme - DG RTD must carry out a policy dialogue aimed at securing Mexican financial support for their own scientists;
- Reciprocal participation of European scientists in Mexico’s national research programme - this should be widely promoted in the Union by DG RTD; and,
- Active promotion of S&T Co-operation at sub-regional level (complementary to the bi-regional ALCUE activities), i.e. involving EU, Mexico and the 6 Central American countries

### 5.2.4. *Consolidation of the rule of law and institutional support*

Collaboration in the field of human rights and democratisation has been the subject of considerable interest in recent years on the part Mexican civil society.

Currently, President Fox has placed the aim of “reforming the state” at the top of the political agenda. In support of government policies and of the strengthening of democratic institutions, this reform process could benefit from more exchange of experiences with foreign countries, from an analysis of different systems, from study of similar reforms already implemented in third countries, and from technical assistance.

In this context, an EC action to support the declared measures and intentions of the Government and of civil society would seem to be appropriate, more especially as the new EU-Mexico Agreement envisages raising political dialogue to a very high level. This dialogue could thus facilitate the preparation and progressive implementation of bilateral co-operation to accompany the reform carried out by the state. The objective of consolidating the rule of law and providing institutional support stresses the two parties’ will to translate the central importance accorded to this theme in the Agreement into concrete co-operation projects.

All the existing EC instruments (economic and technical assistance, micro-projects, targeted projects, etc) should therefore be used to set up an integrated and coherent action plan.

#### *5.2.5. Response strategy in non-focal sectors*

The cultural values of people can often operate as positive factors for partnership. These values make communication easier at the political level, and are also essential for economic co-operation, providing the basis for improved mutual knowledge. In this context, co-operation projects which aim to create permanent links between public and private institutions in both regions could be developed, with a view to encouraging exchanges of information, of experience and of experts.

#### *5.2.6. Other budgetary lines:*

Other EC budget lines could be used to finance specific operations, in particular:

- Regional projects in the field of integration.
- Actions related to the follow up of the present strategy and the preparation of the next.
- Actions related to support to Guatemalan refugees.
- Actions related to emergency aid.
- Actions related to environment and tropical forests.
- Actions related to health/AIDS.
- Actions related to the fight against drugs.
- Actions related to the activity of local and European NGOs.

Financing from these instruments will be decided in accordance with the Commission’s procedures for the budget line concerned and will depend on the availability of funds.

### **5.3. Complementarity within the EU**

#### *5.3.1. Coherence with EC policies*

The most important EC policies which have an impact in our relations with Mexico, including relations at regional level, are: trade, common agriculture policy, sanitary and phytosanitary control policy – consumers protection, internal market, competition, research and development and information society.

In general terms, it can be concluded that the present strategy is coherent with these EC policies. However, it is important to underline some questions relative to certain implementation aspects:



- Concerning the CAP (common agriculture policy). The CAP is perceived by Mexico as a protectionist policy for European products. Even though some studies carried out in the context of the negotiations for the FTA showed that EU and Mexico agricultural products are in general complementary, it should be noted that products included in the CAP are the object of special treatment under the EU-Mexico FTA, being excluded from the bilateral liberalisation process.
- Concerning sanitary and phytosanitary measures. The implementation of the governing EC principle in this matter (ensuring a high level of protection of health, safety and economic interests for consumers) is perceived by Mexico as a non-tariff trade protection measure, that prevents certain products – mainly agricultural - from obtaining access to European markets. At the same time, Mexico has questioned the non-reciprocity of the EC regarding the implementation of certain Community principles, such as that of regionalisation.

A more detailed evaluation of the proposed strategy's consistency with the main EC policies can be found in annex 8.

### *5.3.2. Complementarity with Member States*

An overview of EU (i.e. joint Member State and EC) co-operation funding to Mexico during recent years shows that Member States on the one hand, and the EC on the other, have identified similar priority areas. These range from environmental protection and social development (including health) to scientific/academic co-operation, institutional strengthening (including Human Rights) and economic co-operation.

The identification of closely related priority areas can be seen as providing a valuable basis for fostering closer co-ordination of co-operation activities in the future - especially insofar as overlapping or duplication of efforts will have been avoided.

To sum up, we can say that EU co-operation activities in Mexico have proved to be largely complementary. Nevertheless, this complementarity seems to stem from the relatively limited (and, in part, declining) available funds, rather than on any jointly elaborated European strategy.

The process of project identification to implementation will be carried out in close co-ordination with Member States. The Commission, through its Delegation in Mexico City, exchanges information with Member States, through regular and ad hoc meetings, that ensure the complementarity of our co-operation programmes and which could lead to the development of joint co-operation projects.

### **5.4. Complementarity with other financial donors**

In the past, Community co-operation and that of the multilateral financial institutions did not, in general, focus on the same intervention sectors. Nevertheless, certain projects in the economic co-operation and environment component were implemented by all the donors. Given the importance of the fields and the amounts committed, these areas of common interest have permitted the carrying out of non-competitive projects without duplication of means.

On the other hand, this new strategy lays down a certain number of priorities, in particular in the fields of the fight against poverty, the strengthening of the rule of law, and scientific and technical assistance, in which most of the other donors are also active. The Commission, through its Delegation in Mexico, will attempt to reinforce synergies and avoid duplicating the work of these organisations, by setting up a mechanism for the exchange of information and informal consultation with the financial institutions concerned. The possibility of the adoption of joint projects will be evaluated on a case-by-case basis.

## 6. PRESENTATION OF THE INDICATIVE PROGRAMME

The indicative programme and the strategy are subject to an adaptation process. The revision of the strategy and the indicative programme will be made after consultations with Member States and the Mexican authorities. Special attention will also be paid to indicators and the expected outputs of the strategy.

### 6.1. Financial instruments

The national indicative programme covers the budgetary period 2002-2006. An indicative financial envelope, amounting to € 56.2 million, is provided by the Memorandum of Understanding and concerns only budget lines B7-310 (financial and technical co-operation) and B7-311 (economic co-operation).

### 6.2. The sectors of co-operation

#### 6.2.1. *Focal sector: Social development and reduction of inequalities*

The global objective is: Boost economic and social development at grass roots level through local communities and municipalities in the poorest parts of the country.

Areas of intervention: The Mexican government has already identified 39 micro-regions considered as needing urgent attention. The major areas where governmental interventions are planned are located in the south/south east of the country, and are mainly micro-regions within the following states: Puebla, Veracruz, Hidalgo, Guerrero, Oaxaca, Chiapas, Tabasco, Campeche, Quintana Roo and Yucatán.

EC activities in this sector will be based on the pilot plan implemented by the Mexican Government in the micro-regions and will complement future government actions. They will be concentrated in regions with high indigenous population and will focus on:

- Support the development of productive projects to create sustainable development areas which discourage regional migration and assure the environmental sustainability of economic development
- Increase population's access to health and education services and improve their quality.

Other activities related to this sector may be implemented with additional funds, in particular those available under the NGOs and environment budget lines.

The main policy measures to be taken by the Government as a contribution to the implementation of the strategy in this sector are:

- The effective implementation of the National Development Plan in the area.
- The creation of infrastructure and quality public services.
- Approving the fiscal reform, which will increase public resources.

The indicators related to these activities are those related to poverty reduction and to the integration of indigenous people into the public system. For instance: levels of access to health and education; to housing; and, to water and energy.

Although the principal partner for EC support is the Secretary for External Relations (IMEXCI – Mexican Institute for International Co-operation), it is intended that this line of action will, as far as possible, be implemented through direct co-operation with other Ministries and agencies, and in particular, the Ministry of Social Development. The participation of non-governmental bodies in both planning and implementing EC co-operation in this focal sector will be considered.

EC financing: 30% of the total amount allocated for Mexico over 5 years

### 6.2.2. *Focal sector: economic growth*

The global objective is:

- To facilitate the implementation of the Free Trade Area included in the trade chapter of the global agreement.
- To foster trade and investment and promote the establishment of alliances between European and Mexican economic actors.

The EC areas of intervention under this chapter should therefore be divided into:

1.- Support for the implementation of the FTA, the principal components of which are:

- Updating existing co-operation in the field of standards and technical regulations. In particular, attention should be given to technical assistance intended to improve Mexico's labelling laws and their enforcement.
- Assistance in the field of sanitary and phytosanitary measures.
- Technical co-operation between customs authorities. This should involve Mexican customs agents, who have an institutional role and are sometimes held responsible by Community exporters for hindering bilateral trade. Another field of interest (also supported by the Protocol of Mutual Customs Assistance) is the fight against trade in counterfeit products.
- Assistance in the field of intellectual property rights, in particular regarding enforcement of TRIPs implementing legislation.
- Public procurement: improving the exchange of information and training of officials and of potential suppliers. Facilitating Mexican access should in principle create a more favourable environment for our operators.

2.- Support to SMEs:

Co-operation aimed at improving Mexican SMEs' awareness of export opportunities into the EU. The difficulties faced by their SMEs in accessing the EU market are a long-standing cause of Mexican complaints, and co-operation aimed at reducing these difficulties would make trade relations less strained.

This project should include technical assistance and transfer of technology to increase European and Mexican SMEs competitiveness and efficiency. It should also strengthen entrepreneurial co-operation so as to increase trade and investment between both parties and forge strategic alliances. These actions should be focused on sectors likely to attract European investments, such as energy, the environment, tourism, information and communication technologies, transport and cutting-edge technology. It should take into consideration past experience and should complement the existing economic co-operation instruments such as AL-INVEST, currently, the main EC-LA economic co-operation mechanism.

The indicators will relate to the bilateral trade and investment performance of the parties and the reduction of barriers to trade. For instance: imports/exports; European investment in Mexico; number of trade related conflicts between the two regions.

Although the principal partner for EC support is the Ministry for External Relations through IMEXCI, it is intended that the Ministry of Economy will be directly involved in the implementation of this chapter. The project concerning SMEs will involve the Eurocentros which are already functioning in Mexico.

The Mexican government has committed itself to finance 50% of both programmes included under the economic co-operation focal sector.

EC financing: 35% of the total amount allocated for Mexico over 5 years

### 6.2.3. *Focal sector: consolidation of the Rule of Law*

The global objective is:

- To foster Mexican action to consolidate democracy and protect human rights.
- Increase population's trust in public authorities.

In particular, two areas of intervention are foreseen:

- A main programme of reform for the judicial system.
- Actions in the Human Rights domain through specialised EC budgetary lines.

Reform of the State, consolidation of democracy and the protection of human rights have been stated as the main priorities of the new government. A change in culture is taking place in Mexico, and it is of crucial importance to support the government and other institutions concerned, such as the National Commission of Human Rights and NGOs, in this endeavour.

EC activities in this sector will be based, on the one hand, on the reforms undertaken by the concerned institutions and, on the other, on specific requests from Mexican society.

Some of the activities relating to this sector should be implemented by accessing extra funds, in particular those available under the democratisation and human rights budget line.

The indicators will relate to the population's perception of justice and the judicial system, and in particular to perceived access to justice and its credibility.

Although the principal partner for EC support is the Ministry for External Relations (IMEXCI), it is intended that this line of action should be implemented through direct co-operation with other Ministries or public bodies and non-governmental organisations.

EC financing: 10% of the total amount allocated for Mexico over 5 years

### 6.2.4. *Focal sector: Scientific and Technical co-operation*

The objective is to support the internationalisation of Mexico's knowledge and learning through science and technology co-operation with the Union and to foster the transfer of know-how between the regions to build up a technological partnership.

Areas of intervention: Co-operation in this sector will support the implementation of the Mexican science and technology action plan 2001-2006 and will concentrate, on the one hand, on activities focussed on solving problems related to the well-being of the population, such as nutrition, health, education, environment and poverty alleviation; and on the other, on linking innovation and production to help local and EC enterprises to keep pace with the constant challenges of the new global economy.

Even though Mexico has been an active partner in the INCO programmes, this is the first time that this sector has been stated as a priority for bilateral co-operation. Therefore, while the main areas of action are those mentioned above, it is very difficult at present to define any concrete measures to achieve this end.

In the current work programme, it has been decided to postpone the identification of a science and technology programme until 2005. This will allow time to develop a clearer view of needs and possibilities.

Although the principal partner for EC support is the Ministry for External Relations (IMEXCI), it is intended that this line of action will, as far as possible, be implemented through direct co-operation with other Ministries or public bodies and non-governmental organisations (i.e., mainly universities and research institutes).

EC financing: 20% of the total amount allocated for Mexico over 5 years

#### *6.2.5. Other programmes*

A maximum indicative percentage of 5% may be held in reserve for a limited number of interventions to be chosen through close collaboration between the Mexican authorities and the relevant departments of the Commission, which are in charge of programming and implementation.

For this purpose, the non-focal sectors will be taken into account. Specific indicators and assessments will be drawn up as and when each different programme/project is discussed.

### **6.3. Cross-cutting issues**

The actions included in this strategy should mainstream certain topics which need to be taken into consideration throughout the programme cycle, from identification through to evaluation: Gender environment, respect for cultural diversity and traditional values, decentralisation and civil society participation, the fight against corruption and use of information and communication technologies.

Special attention should be given to:

Gender issues are a particular concern in Mexico, due to the strong relationship with poverty. Moreover, during the last years, women's participation in the Mexican labour market has doubled. This represents a challenge for the public institutions, which should ensure equal opportunities for access to education, jobs, salaries and services. Socially it also represents a threat since men see their position questioned and in some areas this may jeopardise women's position (i.e. increase of domestic violence). This reality is even more evident in the rural areas.

Environment, though not a priority of Community co-operation in Mexico, should be a permanent concern, especially with a view to promote the use of new technologies and cleaner energy. The exploitation of the country's natural resources (forests, soil, water, etc.) has played a major role in the development of Mexico. Even though, during recent years, Mexican authorities have implemented an active policy and different programmes to overcome the environmental challenges, there is still much to be done.

#### 6.4. Work programme

Following this strategy, and taking into consideration the EU and Mexico's joint co-operation priorities, the work programme (including indicative amounts) is as follows:

<b>YEAR</b>	<b>SECTOR OF ACTIVITY</b>	<b>AMOUNT (indicative)</b>
2002	Consolidation of the rule of law: justice system reform	4 M€
2002	Social development and reduction of inequalities	15 M€
2003	economic growth / support for economic reforms – competition :	20 M€:
	- Micro and small and medium size enterprises' support	12 M€
	- Facilitation of the EU-Mexico FTA	8 M€
2005	Scientific and technical research	10 M€
<b>TOTAL</b>		<b>49 M€</b>

Since the MoU allocates an indicative amount of € 56.2 million, € 7.2 million remains that will be allocated when the strategy is revised and will include the non-focal sectors.

Final project selection and amount will be subject to a detailed identification and appraisal to be undertaken by the Commission. The scheduled work programme will be subject to the availability of respective funds in the overall EC budget.

## **7. ANNEXES**

- 1.- Mexico at a Glance**
- 2.- Mexico's external trade**
- 3.- Foreign direct investment in Mexico**
- 4.- EC – Mexico trade**
- 5. EC–Mexico co-operation**
- 6.- Member States' co-operation in Mexico**
- 7.- Multilateral organisations co-operation in Mexico**
- 8.- Consistency with EC policies**

**MEXICO AT A GLANCE**

<b>Official name:</b>	United Mexican States
<b>Capital:</b>	Mexico
<b>Surface area:</b>	1,967,183 square km
<b>Population :</b>	97.3 m (average annual growth 1,9%)
<b>Official language:</b>	Spanish 56 indigenous languages
<b>Currency:</b>	New Peso
<b>Nature of the State:</b>	Federal Republic <ul style="list-style-type: none"> <li>• Chamber of Deputies: 500 seats</li> <li>• Senate: 128 seats</li> </ul>
<b>Administrative divisions:</b>	31 states and 1 federal district
<b>Head of Government (President):</b>	Vicente Fox (PAN)
<b>Next presidential and legislative elections:</b>	2003 Legislative-2006 Presidential
<b>Principal political parties</b>	
- Partido Revolucionario Institucional (PRI)	59 seats in the Senate and 211 Deputies
- Partido de Acción Nacional (PAN)	45 seats in the Senate and 207 Deputies
- Partido de la Revolución Democrática (PRD)	17 seats in the Senate and 52 Deputies
- Partido Verde Ecológico de México (PVEM)	5 seats in the Senate and 15 Deputies

	1998	1999	2000
<b>Real GDP (% growth)</b>	4,8	3,7	6,9
<b>GDP (billion €)</b>		479,9	574,5
<b>GDP per capita (\$) <sup>9</sup></b>	3848	4440	5008
<b>Inflation rate (%)</b>	15,9	16,6	9,5
<b>Unemployment (%)</b>	3,2	2,5	3,0
<b>Current Account Balance (%GDP)</b>	-3,6	-2,9	-3,3
<b>Overall Trade Balance (million \$)</b>	-7913,5	-5583,7	-8048,9
<b>Foreign reserves (billion \$)</b>	30,2	30,6	33,6
<b>External debt (billion \$)</b>	160	164	166(e)

Sources : BID and INEGI (Instituto Nacional de Estadística, Geografía e Informática).

<sup>9</sup> Data concerning the GDP per capita fluctuates in function of the source to almost +50%.



## MEXICO TRADE BALANCE

ANNEX 2

January-December 2000 - Million USD

	1992	1993	1994	1995	1996	1997	1998	1999	2000
United States	-8.327,8	-2.443,8	-3.145,4	12.444,2	13.037,9	12.182,6	9.665,5	15.125,6	20.074,3
Canada	-37,5	393,4	-191,8	613,1	428,4	188,0	-771,3	-557,6	-662,9
South America	-647,1	-564,2	-988,4	1.372,4	1.725,2	1.464,7	432,1	-662,2	-1.308,3
Central America	430,0	469,6	509,0	613,0	990,9	926,1	1.099,6	980,3	1.073,9
<b>European Union</b>	<b>-4.263,6</b>	<b>-5.006,5</b>	<b>-6.242,3</b>	<b>-3.378,7</b>	<b>-4.230,8</b>	<b>-5.929,7</b>	<b>-7.810,1</b>	<b>-7.540,1</b>	<b>-9.124,3</b>
EFTA	n.d.	-379,0	-360,7	210,6	-85,0	-258,0	-372,7	-321,0	-264,6
Japan	-2.547,9	-3.242,3	-3.783,0	-2.972,8	-2.738,7	-3.177,3	-3.685,7	-4.307,0	-5.548,1
NIC's	-1.541,2	-1.924,4	-2.509,8	-1.125,5	-1.672,8	-2.801,2	-3.397,1	-4.411,3	-6.195,1
China	-409,6	-341,7	-457,5	-483,5	-721,4	-1.201,5	-1.510,5	-1.794,8	-2.676,1
Rest of the world	-519,7	-495,6	-1.358,8	-205,3	-198,7	-964,7	-1.563,3	-2.095,6	-3.417,7
<b>TOTAL</b>	<b>-17.864,4</b>	<b>-13.534,5</b>	<b>-18.528,7</b>	<b>6.263,9</b>	<b>6.535,0</b>	<b>429,0</b>	<b>-7.913,5</b>	<b>-5.583,7</b>	<b>-8.048,9</b>

Source: Produced by the EC Delegation in Mexico, with data of the Secretary of Economy-BANXICO

Million USD

**MEXICO EXTERNAL TRADE****ANNEX 2**

	1992	1993	1994	1995	1996	1997	1998	1999	2000
United States	82.686,2	88.145,6	106.435,6	120.101,2	148.110,1	176.187,0	196.182,3	225.660,2	275.205,5
Canada	2.067,3	2.744,0	3.049,4	3.361,5	3.915,6	4.124,2	3.809,1	5.340,2	7.370,3
South America	3.397,7	3.767,4	4.186,0	4.053,0	5.189,6	6.009,7	5.553,1	5.007,6	6.670,7
Central America	809,0	829,2	858,8	785,6	1.348,5	1.367,9	1.542,6	1.613,5	1.740,1
European Union	11.145,2	10.583,5	11.853,5	10.085,5	11.250,4	13.904,9	15.588,5	17.945,5	20.365,9
EFTA	n.d.	682,4	700,1	1.039,2	883,4	975,3	923,9	1.223,0	1.437,6
Japan	4.170,9	4.615,1	5.777,0	4.931,4	5.525,5	5.489,9	5.388,3	5.859,2	7.411,1
NIC's	2.134,8	2.479,0	3.120,0	2.745,5	3.488,6	4.364,0	4.976,9	6.216,3	7.627,5
China	450,8	431,3	541,9	557,5	798,0	1.293,3	1.722,5	2.047,4	3.083,1
Rest of the world	3.211,7	2.921,0	3.640,4	4.333,1	4.962,9	6.328,9	7.145,5	7.443,0	9.985,1
<b>TOTAL</b>	<b>110.073,6</b>	<b>117.198,5</b>	<b>140.162,7</b>	<b>151.993,5</b>	<b>185.472,6</b>	<b>220.045,1</b>	<b>242.832,7</b>	<b>278.355,9</b>	<b>340.896,9</b>

Source: Produced by the EC Delegation in Mexico, with data of the Secretary of Economy-BANXICO

Participation per region – Percents

**MEXICO EXTERNAL TRADE**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
United States	76,9	75,7	75,1	75,3	75,9	79	79,9	80,1	80,8	80,1	80,7
European Union			10,1	7,6	8,5	6,6	6,1	6,3	6,4	6,4	6,0
Canada	0,8	1,5	1,9	2,3	2,2	2,2	2,1	1,9	1,6	1,9	2,2
Japan	3,6	3,8	3,8	3,9	4,1	3,2	3	2,5	2,2	2,1	2,2
Others	7,8	8,4	9,1	9,6	9,3	8,9	9	9,2	9	8,5	9
<b>TOTAL</b>	<b>89</b>	<b>89</b>	<b>100</b>	<b>99</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

## FOREIGN DIRECT INVESTMENT IN MEXICO

ANNEX 3

January 1994-December 2000

Million USD

Country	1994	1995	1996	1997	1998	1999	2000	Accum. 1994-2000	Part. %
<b>Total</b>	10,549.0	8,201.8	7,662.3	11,807.2	7,573.5	11,714.6	10,358.3	<b>67,866.7</b>	100.0%
<b>United States</b>	4,873.0	5,373.3	5,163.1	7,236.8	4,997.2	6,453.6	8,938.5	<b>43,035.5</b>	63.4%
<b>European Union</b>	1,932.4	1,824.6	1,120.7	3,089.4	1,939.5	2,991.5	155.7	<b>13,053.8</b>	19.2%
<b>Japan</b>	631.0	155.7	139.3	350.4	98.9	1,226.8	387.8	<b>2,989.9</b>	4.4%
<b>Canada</b>	740.5	170.1	515.5	224.1	181.0	601.9	497.2	<b>2,930.3</b>	4.3%

## FOREIGN INVESTMENT OF EU COUNTRIES IN MEXICO

Million USD

Country	1994	1995	1996	1997	1998	1999	2000	Accum. 1994-2000	Part. %
<b>Germany</b>	307.5	548.5	196.2	480.2	136.6	779.2	181.4	<b>2,629.6</b>	20.1%
<b>Austria</b>	2.3	(-)0.2	0.4	0.6	5.9	1.8	0.1	<b>10.9</b>	0.1%
<b>Belgium</b>	(-)7.2	54.2	1.5	46.2	30.7	7.4	5.2	<b>138.0</b>	1.1%
<b>Denmark</b>	14.5	19.0	17.6	18.5	47.4	173.6	40.1	<b>330.7</b>	2.5%
<b>Spain</b>	144.2	47.1	70.7	312.1	263.7	404.8	1,570.0	<b>2,812.6</b>	21.5%
<b>Finland</b>	4.6	0.0	(-)0.1	1.0	1.6	28.2	216.0	<b>251.3</b>	1.9%
<b>France</b>	90.5	120.5	119.3	59.6	127.9	158.2	(-)2,682.3	<b>(-)2,006.3</b>	--
<b>Greece</b>	0.0	0.0	0.0	0.0	0.0	0.2	0.0	<b>0.2</b>	0.0%
<b>The Netherlands</b>	755.7	742.6	487.0	307.4	1,056.7	897.5	979.6	<b>5,226.5</b>	40.0%
<b>Ireland</b>	4.4	0.3	19.6	3.7	(-)2.3	0.8	2.7	<b>29.2</b>	0.2%
<b>Italy</b>	2.7	10.5	18.3	29.0	16.4	48.0	6.7	<b>131.61</b>	1.0%
<b>Luxembourg</b>	10.4	7.2	14.8	(-)6.5	7.8	10.2	28.7	<b>72.8</b>	0.6%
<b>Portugal</b>	0.1	0.0	0.1	0.6	3.4	4.2	1.7	<b>10.1</b>	0.1%
<b>United Kingdom</b>	593.4	213.8	78.7	1,829.8	184.0	(-)210.8	153.6	<b>2,842.5</b>	21.8%
<b>Sweden</b>	9.3	61.1	96.6	7.2	59.7	688.2	(-)348.0	<b>574.1</b>	4.4%
<b>Total UE</b>	<b>1,923.4</b>	<b>1,824.6</b>	<b>1,120.7</b>	<b>3,089.4</b>	<b>1,939.5</b>	<b>2,991.5</b>	<b>155.7</b>	<b>13,053.8</b>	<b>100.0%</b>

Source: Directorate-General for Foreign Investment, Secretary of Economy of Mexico

EXPORTS FROM MEXICO TO THE EUROPEAN UNION (Million USD)

ANNEX 4

	Exports							%2000	Growth rates					
	1994	1995	1996	1997	1998	1999	2000		1995	1996	1997	1998	1999	2000
<b>BELUX</b>	271,2	489,4	411,2	375,4	236,6	246,6	235,1	4,2	80,5	-16,0	-8,7	-37	4,2	-4,7
<b>Denmark</b>	21,6	7,6	18,6	30,6	35,5	49,1	44,9	0,8	-64,8	144,7	64,5	16,0	38,3	-8,6
<b>Germany</b>	394,7	515,4	640,9	718,8	1151,6	2093,1	1544,3	27,5	30,6	24,4	22,2	60,2	81,8	-26,2
<b>Greece</b>	5,0	8,4	8,9	10,7	9,4	7,5	10,3	0,2	68,0	6	20,2	-12,1	-20,2	37,3
<b>Spain</b>	857,9	796,9	906,9	939,0	713,5	822,4	1528,5	27,2	-7,1	13,8	3,5	-24	15,3	85,9
<b>France</b>	517,8	483,5	425,9	429,9	401,4	288,8	375,2	6,7	-6,6	-11,9	0,9	-6,6	-28,1	29,9
<b>Ireland</b>	111,6	70,5	146,1	113,0	37,1	67	112,1	2,0	-36,8	107,2	-22,7	-67,2	80,6	67,3
<b>Italy</b>	86,1	197,3	139,9	273,4	181,4	170,3	222,2	4,0	129,2	-29,1	95,4	-33,7	-6,1	30,5
<b>Holland</b>	174,4	177,1	191,8	261,7	338,7	487,7	439,6	7,8	1,5	8,3	36,4	29,4	44,0	-9,9
<b>Austria</b>	10,1	12,8	10,0	15,8	10,5	10,8	17,1	0,3	26,7	-21,9	58	-33,5	2,9	58,3
<b>Portugal</b>	60	81,4	56,8	97,3	87,2	180,4	193,7	3,4	35,7	-30,2	71,3	-10,4	106,9	7,4
<b>Sweden</b>	23,9	30,4	19,6	52,8	45,5	23,7	23,5	0,4	27,2	-35,5	169,4	-13,8	-47,9	-0,8
<b>Finland</b>	4,6	1,9	1,5	5,1	1,7	8,2	4,3	0,1	-58,7	-21,1	240,0	-66,7	382,4	-47,6
<b>United Kingdom</b>	267,3	481,0	531,9	664,2	639	747,0	870,1	15,5	79,9	10,6	24,9	-3,8	16,9	16,5
<b>EUR 15</b>	<b>2806,2</b>	<b>3353,6</b>	<b>3510,0</b>	<b>3987,7</b>	<b>3889,1</b>	<b>5202,6</b>	<b>5620,9</b>	<b>100,1</b>	<b>19,5</b>	<b>4,7</b>	<b>13,6</b>	<b>-2,5</b>	<b>33,8</b>	<b>8,0</b>

Source: EC Delegation in Mexico with data from the Mexican Ministry of Economy

**IMPORTS IN MEXICO FROM THE EUROPEAN UNION (Million USD)**

**ANNEX 4**

	Imports							%2000	Growth rates					
	1994	1995	1996	1997	1998	1999	2000		1995	1996	1997	1998	1999	2000
<b>BELUX</b>	346,2	218,0	247,3	343,7	372	315,2	482,9	3,3	-37,0	13,4	39,0	8,2	-15,3	53,2
<b>Denmark</b>	130,9	70,9	70,7	96,4	119,6	126,5	142,0	1,0	-45,8	-0,3	36,4	24,1	5,8	12,3
<b>Germany</b>	3100,9	2687,1	3173,7	3902,3	4543,4	5032,1	5728,4	38,8	-13,3	18,1	23,0	16,4	10,8	13,8
<b>Greece</b>	23,7	10,4	9,7	17,2	6,5	15,9	29,8	0,2	-56,1	-6,7	77,3	-62,2	144,6	87,4
<b>Spain</b>	1338,3	694,1	629,5	977,7	1257,0	1321,8	1430,0	9,7	-48,1	-9,3	55,3	28,6	5,2	8,2
<b>France</b>	1526,9	979,2	1019,1	1182,4	1429,9	1393,7	1466,6	9,9	-35,9	4,1	16,0	20,9	-2,5	5,2
<b>Ireland</b>	137,7	181,1	239,1	256,9	308,5	329,7	403,6	2,7	31,5	32,0	11,2	16,0	6,9	22,4
<b>Italy</b>	1021,4	771,5	999,1	1326,0	1581,1	1649,4	1849,4	12,5	-24,5	29,5	32,7	19,2	4,3	12,1
<b>Holland</b>	240,1	217,9	225,1	261,9	328,4	325,6	363,1	2,5	-9,2	3,3	16,3	25,4	-0,9	11,5
<b>Austria</b>	121,1	87,5	113,1	139,4	191,8	170,1	176,8	1,2	-27,7	29,3	23,3	37,6	-11,3	3,9
<b>Portugal</b>	20,7	18,8	21,6	34,1	43,8	52,2	51,4	0,3	-9,2	14,9	57,9	28,4	19,2	-1,5
<b>Sweden</b>	227,1	200,7	228,8	354,3	339,2	699,2	1318,0	8,9	-27,6	14,0	54,9	-4,3	106,1	88,5
<b>Finland</b>	66,1	63,5	84,7	100,6	122	175,8	211,7	1,4	-3,9	33,4	18,8	21,3	44,1	20,4
<b>United Kingdom</b>	706,6	531,8	679,4	915,3	1056,2	1135,2	1091,3	7,4	-24,7	27,8	34,7	15,4	7,5	-3,9
<b>EUR 15</b>	<b>9007,7</b>	<b>6732,5</b>	<b>7740,9</b>	<b>9908,2</b>	<b>11699,4</b>	<b>12742,4</b>	<b>14745,0</b>	<b>99,8</b>	<b>-25,7</b>	<b>15,0</b>	<b>28,1</b>	<b>18,0</b>	<b>8,9</b>	<b>15,7</b>

Source: EC Delegation in Mexico with data from the Mexican Ministry of Economy

**EXPORTS FROM MEXICO TO THE EUROPEAN UNION  
(20 products)**

Product	Total(1000 USD)	Share (%)
Oil	1.439.684	25,6
Vehicles 1500-300 cm <sup>3</sup>	608.185	10,8
Parts and components of computers	411.717	7,3
Iron and steel - Intermediate products	104.369	1,8
Engines > 1000 cm <sup>3</sup>	99.324	1,7
Engines' parts	80.410	1,4
Silver	79.417	1,4
Car parts	78.399	1,4
Tereftalatic acid	66.923	1,2
Coffee	65.030	1,2
Automatic control equipment	59.915	1,1
Engines for propulsion	58.839	1,1
Emission devises	54.241	1,0
Toys	54.070	1,0
Sugar	45.736	0,8
Chickpeas	41.388	0,7
Hydrolyzed proteins	40.846	0,7
Hormones	39.083	0,7
Malt beer	38.997	0,7
Cigarettes	38.825	0,7
<b>TOTAL</b>	<b>3.505.398</b>	<b>62,3</b>

Source: EC Delegation in Mexico with data from the Mexican Ministry of Economy

**IMPORTS TO MEXICO FROM THE EUROPEAN UNION  
(20 products)**

**ANNEX 4**

Product	Total (1000 USD)	Share (%)
Car spare parts	521.792	4,1
TV and radio parts	203.384	1,6
Machines and mechanical equipment	155.535	1,2
Gas liquification equipment	146.650	1,1
Vehicles 1500-300 cm <sup>3</sup>	145.269	1,1
Transmission machinery for radios	133.703	1,0
Drugs	124.931	1,0
Car parts	115.054	0,9
Centrifugal machines	83.387	0,6
Piston engines	79.239	0,6
Rolled steel	78.212	0,6
Plastic devises	75.590	0,6
Machines for linear or rotary transfer	73.046	0,6
Petrol	67.236	0,5
Parts for electric machines	67.226	0,5
Printed books	66.536	0,5
Preparations of dairy products	65.734	0,5
Electric devises	60.416	0,5
Machines for blow moulding	58.936	0,5
Digital telecommunication devises	58.349	0,5
<b>TOTAL</b>	<b>2.380.225</b>	<b>18,5</b>

Source: EC Delegation in Mexico with data from the Mexican Ministry of Economy

**SUMMARY OF EC-MEXICO CO-OPERATION 1997-2000 (\*)**

<b>Year</b>	<b>Budget line</b>	<b>Amount €</b>
<b>2000</b>	B7-6000 – NGOs	962.249
	B7- 3120 – Refugees	5.500.000
	ECHO	850.000
	Science and Technology (1999-2000) (**)	13.130.000
	<b>Total</b>	<b>20.442.249</b>
<b>1999</b>	B7- 3110 – Economic co-operation	1.200.000
	B7- 703 Human rights	200.000
	B7-6200 – Environment	786.940
	B7- 872 – ECIP	152.624
	B7-210 – ECHO	2.300.000
	B7-6211 – AIDS	930.000
	B7-6000 – NGOs	1.590.688
<b>Total</b>	<b>7.160.252</b>	
<b>1998</b>	B7- 2120 – Refugees	800.000
	B7- 3110 – Economic co-operation	721.250
	B7- 872 – ECIP	1.714.624
	B7- 6310 – Reproductive health	1.800.000
	B7- 6000 – NGOs	2.999.633
	B7- 6210 – Environment	5.114.530
	B7- 210 – ECHO	1.450.000
	Science and Technology (DG XII)	766.108
<b>Total</b>	<b>15.366.145</b>	
<b>1997</b>	B7- 3110 – Economic co-operation	2.150.000
	B7- 2120 – Refugees	1.040.000
	B7- 872 - ECIP	2.163.088
	B7- 6200 – Environment	736.000
	B7- 6000 - NGOs	1.216.164
	B7- 210 - ECHO	1.200.000
	Science and Technology (DG XII)	860.831
<b>Total</b>	<b>9.366.083</b>	
<b>Total</b>	<b>Co-operation EU-Mexico (97- 2000)</b>	<b>52.334.729</b>

(\*) Sources: Cooperation with Mexico - Report from the EC Delegation in Mexico  
Data from AIDCO

(\*\*) Added data for 1999-2000 in the framework of INCO-DEV

**ANNUAL SUMMARY EC - MEXICO CO-OPERATION**

<b>Year</b>	<b>Number Projects</b>	<b>Amount €</b>
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	10.773.107
1996	53	11.640.316
1997	45	9.366.083
1998	44	15.366.145
1999	19	7.160.252
2000	7	7.312.249
<b>TOTAL</b>	<b>635</b>	<b>132.395.656</b>
TOTAL ALFA		15.800.000
TOTAL AL-INVEST		1.433.650
<b>TOTAL</b>		<b>149.629.306</b>



## ECONOMIC COOPERATION

### ECIP

Mexico is one of the countries who benefited more from the ECIP.  
From 1988 to 1998, 162 projects were approved with an EC financing of around € 22 Million.

### AL-INVEST

Amount financed already paid	1.433.650 €
Number of Mexican enterprises which have traveled abroad	109
Number of trade agreements	33
Number of European direct investments	4
Value of trade agreements	11.367.301 €
Value of European direct investments	3.142.000 €

Mexico has 3 EUROCENTROS: Banamex, Nafin, Canacintra  
and 2 Ariel projects 1.200.000 €

During 2003, an AL-PARTENARIAT is foreseen to take place in Mexico.

### ALFA

Projects approved with Mexican participation	336
Projects coordinated by Mexican institutions	28 (8,3%)

**Mexican institutions** taking part in the programme:

Universidad Nacional Autónoma de México	(coordinator 5/ participant 77)
Universidad Autónoma Metropolitana	(coordinator 10/ participant 52)
Instituto Politécnico Nacional	(coordinator 0/ participant 44)
Universidad de Guanajuato	(coordinator 0/ participant 17)
Instituto Tecnológico de Monterrey	(coordinator 1/ participant 15)

Specific areas:

- Sciences and technology
- Social Sciences
- Environment

**Mobility grants:** 170 Mexican students in Europe and 30 In Latin America

<b>Amounts</b>	12,8 Meuro	38%	(ALFA I 94-99)
	3,0 Meuro	6,3%	(ALFA II 00-05)

### URB-AL

Mexican participation on 30/06/01

46 Local authorities take part and 6 external members  
2 community coordinates a common project:  
Ayuntamiento de Guadalajara (Historic centers, culture heritage)  
Municipio de Victoria (Urbanism)

### ALURE

2 projects with a total amount of € 3,132,100

Themes: environmental management and electric distribution.

**Economic co-operation :**

- **ECIP Programme** : Mexico is one of the countries which most benefited from the ECIP. Preliminary figures show that from 1988 to 1998, 162 projects were approved with a total amount of EC financing for the ECIP projects in Mexico of approximately € 22 million.
- **Business Meetings programme** : The "Mexico-European Union Business Meetings Programme" (signed in April 1994) was carried out during the period 1995-1998. 11 "business forums" aimed at sectors of specific interest for both parties took place and allowed more than 9000 meetings between Mexican and European contractors. This programme involved and gave consistency to a series of meetings between companies which had taken place before in specific sectors.
- **AL-INVEST Programme** : There are currently 3 EUROCENTROS working in Mexico. 8 Al-Invest « sectoral business meetings » were organised in Mexico. The financial data concerning Mexico under Al-INVEST are as follows:
 

– Subsidies paid (in €) :	1,433,650
– Number of Mexican companies which travelled across the Atlantic:	109
– Number of trade agreements:	33
– Number of European direct investments:	4
– Value of the trade agreements:	11,367,301
– Value (in €) of European SMEs' direct investments	3,142,000

During 2003, 1 AL-PARTNERSHIP is envisaged in Mexico.

- **ARIEL System** : (Active Research in Europe and Latin America). Its main objective is to give an individualised service to every company (included in a group of 25 or 50 companies selected beforehand by operators) seeking a partner in the other continent. Mexico has 2 projects under two EUROCENTROS. EC financing : € 1,200,000.
- **Support for Mexican exports to the European Union (1995-1999)** : This project was designed in order to support and promote Mexican exports to the EU. The results were very encouraging. In 1999 the business generated by this project was approximately USD 34 Million. The total amount of the project was € 1,350,200 (EC financing : 982.600€).

Other actions within the framework of the economic co-operation are:

- **Standards and Certification** : Co-operation in this sector started in 1991 with a project whose objective was to help the Mexican Government to set up a standard system. Its success enabled us to finance a second technical assistance phase for the Mexican certification centres. Overall amount of EC financing : € 1,640,000.
- In the **educational field**, a Centre of European Studies was open recently; it includes: a diploma of European Studies, research on Community subjects as well as the celebration of European days in universities of the whole country. If successful, this plan could be extended to other universities in the country. Total amount of the project : € 1,434,000; EC participation : € 975,000.

- Co-operation in the field of scientific research (INCO programme) strongly meets the interests of the Mexican partners, who would like to see it even more developed. 30 projects were set up in the 4<sup>th</sup> program and 14 in the 5<sup>th</sup> research and development framework programme. Moreover, 4 projects under the IST Programme have Mexican participation.
- ALURE Programme: The objective of this programme is to encourage co-operation between the actors of the energy sector of both EU and Latin America. Less than 10% of the candidatures presented for AL concerned Mexico, whereas the country is fully restructuring its energy sector (gas, electricity, etc.). Until now 2 projects were approved (EC contribution :€ 3,132,100) and one is foreseen for an amount of € 3,000,000 (50% co-financed).
- URB-AL Programme: Its objective is developing direct and durable links between European and Latin American local entities through the spreading, acquisition and implementation of « best practices » in the field of urban policies. Up to 30/06/01 the participation of Mexico was as follows: 46 participating local authorities and 6 external members, including 2 co-ordinating local authority for a two joint projects.
- ALFA Programme: Programme of regional co-operation between European and Latin-American institutions of higher education. Until now 336 projects were approved with Mexican participation of which 28 were co-ordinated by universities of this country. A group of Mexican universities outstands by its participation ; individual interest of the institutional speakers, capacity of internationalisation and existence of consequent financial resources, are the reasons which led these institutions to be present. According to ALFA I data, the Universidad Nacional Autónoma de México co-ordinates 5 networks and takes part in 77; The Universidad Autónoma Metropolitana co-ordinates 10 networks and takes part in 52; the Instituto Politécnico Nacional co-ordinates 0 networks and takes part in 44; the Universidad de Guanajuato co-ordinates 0 networks and takes part in 17; the Instituto Tecnológico of High Education of Monterrey co-ordinates 1 network and takes part in 15.

The specific fields where the Mexican institutions are more present are: science and technologies of engineering, social sciences and environment.

170 Mexican students travelled to Europe and 30 to other Latin America countries.

The total amount concerning Mexico is € 12.8 Million for ALFA I and € 6.3 Million for ALFA II.

- Since 1975 Mexico and the EU have implemented joint research projects. Mexico has developed a number of actions under the 3<sup>rd</sup> framework programme, and afterwards under the 4<sup>th</sup> particularly through the INCO programme (30 projects with a total EC contribution of 13.98M€) and, currently in the 5<sup>th</sup> programme through INCO-DEV (the two first years 1999-2000, 14 projects with a total EC contribution of € 13.13 Million). Mexico also maintains an active role at the meetings of the scientific working group for EU-Latin America co-operation created in 1995.

### **Co-operation in the social and environmental sectors and fight against poverty :**

- In the social sector, a pilot programme for the reintegration of the « street children » was implemented; similar actions were launched as regards fight against drugs and fight against AIDS.

- In the field of aid for the refugees, an important programme was launched (signed in December 2000) in favour of the insertion of the ex-Guatemalan refugees, in co-ordination with the Mexican authorities, in the Southern States (Chiapas, Campeche, Quintana Roo). Total amount of EC participation : € 5,500,000. This project has allowed to extend to Chiapas the activities which were in place in the other States.
- In the environment sector, several current projects whose objectives are the conservation and management of tropical forests have been implemented.
- Projects of the Humanitarian Office of the EC (ECHO). Emergency aid was regularly brought to the victims of natural disasters (in particular after Hurricane Pauline), or following the events in Chiapas (displaced population).
- Co-operation with NGOs in various fields such as rural development, reinforcement of civil society, health, etc. (more than 30 current projects).

Human rights and Democratisation were the object of several actions in the past and are nowadays experimenting an increasing financing request.

## MEMBER STATES CO-OPERATION IN MEXICO

ANNEX 6

Donor	operation	N.projects in execution	Localities	Regional co-operation	Annual Amounts	Perspectives
Spain	Foreign Ministry (via IMEXCI = Mexican Institute for International Cooperation) as Mexican counterpart. Focus on cooperation activities of mutual interest plus technical cooperation via Spanish NGOs, both financed by Fondo Mixto México-España. Priority areas: institutional cooperation, education and academic cooperation, environment, natural resources, health, agriculture and fisheries, natural disaster prevention, cultural heritage, decentralised cooperation, humanitarian aid	<b>approx. 14</b> (+ humanitarian aid) for further information concerning specific projects please see annexed project list	All States	No	approx. Pesetas 1,028 Billion (Euro 6,18 Million)	
Italy	Mexico is not a priority country for Italian development cooperation policy	<b>1</b>	State of Campeche	No	approx. Italian Lire 700.000,000 (Euro 361.500)	
Finland	Mexico is not a priority country for Finish bilateral development cooperation policy. Finish contribution to IDB administered forestry fund (2000-2025). Small NGO managed projects.	<b>10 + 1 Regional</b> (years 2000, 2001) for further information concerning specific projects please see annexed project list	All States	Trilateral cooperation with Mexico and Guatemala to improve situation of indigenous communities of San Pablo, Checambá and Toaj Laj in Guatemala, close to the Mexican border	approx. Mex Pesos 528.000 (Euro 68.358)	
United Kingdom	In May 2000, the UK Secretary of State for International Development took the decision to cut development assistance to Mexico. All existing projects have continued to their natural end date, one remaining project is scheduled to continue until March 2003.	<b>1</b> for further information concerning specific projects please see annexed project list	Not specified	No	Approx. Pounds 1,047.750 (Euro 1,65 Million)	No new development activities are planned.
Sweden	Mexico is not a priority country for Swedish development cooperation policy	<b>0</b>				
Austria	Mexico is not a priority country for Austrian development cooperation policy. Last project financed in 1999.	<b>0</b>				

Germany	German development activities in Mexico focus on three key areas: environment, scientific cooperation and education (mainly exchange and scholarship programmes). Additionally, small, mainly environmental projects are directly funded by the German Embassy in Mexico.	<b>8 + 7 micro-projects</b> (years 2000, 2001) for further information concerning specific projects please see annexed project list.	All States	No	approx. Euro 30,4 Million (long term environmental projects; duration up to 12 years)	A credit scheme project with the Instituto de Crédito para la Reconstrucción and three long term environmental projects are in preparation.
Denmark	Mexico is not a priority country for Danish development cooperation policy. Only small NGO managed projects.	<b>2</b> for further information concerning specific projects please see annexed project list.	All States	No	approx. Mex Pesos 1,83 Million (Euro 237.450)	
France	France's development activities focus on scientific and technical cooperation in the field of energy, environment, education, public administration and health. Co-financed projects with local NGOs are supported in the social sector. Furthermore, France is financing activities in the good governance sector.	<b>19</b> for further information concerning specific projects please see annexed project list.	All States	No	approx. French Francs 9,57 Million (Euro 1,5 Million)	

Official Euro Rate July 2001

1 Euro = 0,8511 USD; 1 Euro = .936,27 Italian Lire; 1 Euro = 0,6035 Pound sterling; 1 Euro = 7,724 Mex Pesos; 1 Euro = 166,386 Pesetas; 1 Euro = 6,5595 FF

## MAIN COOPERATION PROGRAMMES/PROJECTS MEXICO

Member State	Programme/Project	Period	Funds	Counterpart	Activities	Location
FINLAND	Construction of a Health Care Centre	2001	Mex Pesos 64.000	Instituto de Vivienda de Asamblea de Barrios A.C.	Construction	State of Chiapas
FINLAND	Credit scheme for alimentation programme	2000	Mex Pesos 45.000	Fondo para la Paz		State of Campeche
FINLAND	Nutrition Project for Indigenous Children, Hidalgo	2001	Mex Pesos 64.000	Fundación Porvenir	Milk powder distribution	State of Hidalgo
FINLAND	Installation of a cooling system for soya milk at schools	2000	Mex Pesos 35.000	Caritas de Tampico	installation of cooling system	Tampico
FINLAND	Treatment of Trachoma cases in Chiapas	2000	Mex Pesos 80.000	Medicos sin Fronteras	medical supply, treatment	Los Altos de Chiapas
FINLAND	Dental surgery equipment for disabled persons	2000	Mex Pesos 50.000	APAC		n.a.
FINLAND	Legal assistance project	2000	Mex Pesos 70.000	REINTEGRA	legal assistance	n.a.
FINLAND	Equipment for temporary youth homes in Tijuana	2000	Mex Pesos 20.000	Albergue Temporal DIF Tijuana	purchase of equipment	Tijuana
FINLAND	Teachers' training on AIDS/HIV	2001	n.a.	MEXFAM	training	n.a.
FINLAND	Support to indigenous communities	2001	n.a.	AJAGI	n.a.	Sierra Madre, Jalisco
ITALY	Youth Centre Campeche	2001	Ital. Lire 700,000,000	AVSI with Centro de Solidaridad Juvenil de Campeche	creation of a youth centre including training activities, social integration, guidance	Campeche

<b>UNITED KINGDOM</b>	PRODERS	until 2003	Pounds 1,007.000	SEMARNAT (=Ministry of Environment)	support to monitoring and evaluation programmes as part of a review and reform of rural development and conservation programmes	n.a.
<b>GERMANY</b>	Minimisation of Industrial Waste	1995-2002	Euro 3,6 Million	UNAM - University	Capacity building for industrial environment protection	Mexico City
<b>GERMANY</b>	Toxic Waste Treatment in the Mexico City Valley	1993-2001	Euro 6,5 Million	Comisión Ambiental Metropolitana	Support to the realisation of an integrated strategy to avoid, recycle and treat toxic waste	Mexico City
<b>GERMANY</b>	Emmission Control in the Mexico City Region	1990-2002	Euro 8,7 Million	Comisión Ambiental Metropolitana	Strengthening of analytical abilities to formulate emission control strategies	Mexico City
<b>GERMANY</b>	Environmental Protection and Industrial Competitiveness	1997-2001	Euro 1,9 Million	Canacindra	Development of joint public and private sector policies in the area of environmental protection, including the introduction of ecological efficiency and clean production technologies in SMEs	Mexico City
<b>GERMANY</b>	Decentralisation of waste management in the State of Mexico	1997-2001	Euro 2,0 Million	Secretaría de Ecología del Estado de México	Improvement of waste management on municipality level	State of Mexico
<b>GERMANY</b>	Institutional Strengthening in the environmental field , State of Guanajuato	1999-2004	Euro 2,6 Million	SEMARNAT (=Ministry of Environment) + Instituto de Ecología del Estado de Guanajuato	Decentralisation of environmental policy making and administration	State of Guanajuato



<b>GERMANY</b>	Vocational Training in Environmental Protection	1999-2002	Euro 1,5 Million	Canacintra	Development of modular, environment orientated training programmes and facilities	Mexico City
<b>GERMANY</b>	Institutional Strengthening in the field of long term waste management	2001-2004	Euro 1,3 Million	SEMARNAT	Normative framework, institutional strengthening and systematisation of long term waste management	Mexico City
<b>DENMARK</b>	Indigenous Communities' Access to Justice	2000-2002	Mex Pesos 1,537.000	PRODH: Centro de Derechos Humanos "Miguel Agustín Pro Juárez"	Creation of a network of defense and Human Rights' lawyers for indigenous communities	Guerrero, Oaxaca, Chiapas, Mexico City
<b>DENMARK</b>	Work for Peace and Community Reconciliation	2000-2001	Mex Pesos 544.100	CORECO: Comisión de Apoyo a la Unidad y Reconciliación Comunitaria	Creation of local reconciliation commissions, training and capacity building, conflict settlement	Chiapas
<b>FRANCE</b>	Electricité de France	2001	FF 212.000	Electricité de France, Gaz de France, Comisión Reguladora de Energía francesa y mexicana, Comisión Federal de Electricidad, Ministerios de Energía francés y mexicano	consultancy and training in the field of electricity and natural gas	n.a.
<b>FRANCE</b>	Institut Francais du Pétrole	2001	FF 125.000	ENSP-IFP, Pemex, IPN, UNAM, ITESM	Technical training for engineers in production, exploration and economics of petrol	n.a.

FRANCE	Normalización y Acreditación	2001	FF 516.136	DGN/AFNOR, EMA/COFRAC	Creation of a European-styled normalisation and accreditation system to improve the competitiveness of Mexican enterprises	n.a.
FRANCE	Programa SFERE - CONACYT	2001	FF 3,4 Million	Société Française d'Exportation des Ressources Educatives, Consejo Nacional para la Ciencia y la Tecnología, universities	Training programme for PhD candidates	n.a.
FRANCE	Municipalidad	2001	FF 575.000	FMCU, CNFPT, CEDEMUN, CONOCER, INDESOL, States of Hidalgo, Tlaxcala, Querétaro, Zacatecas	Creation of a legal basis for a professional civil service career	Mexico City, States of Hidalgo, Tlaxcala, Querétaro, Zacatecas
FRANCE	HEC	2001	FF 300.000	Ecole des Hautes Etudes Commerciales, ITESM, IPADE, ITAM	University scholarships	n.a.
FRANCE	Medicina - Salud	2001	FF 463.000	CONATRA, State of Jalisco, Secretaría de Salud (Mexico City), Instituto Nacional de Neurología, Establecimiento Francés de Transplante, AP-HP	organ transplantations, cancerologies, radiotherapy, neuro-sciences, medical emergency treatment	Mexico City, State of Jalisco
FRANCE	Office International de l'Eau	2001	FF 200.000	Office International de l'Eau, Comisión Nacional del Agua	Support to the creation of training centres in water management	n.a.

FRANCE	Administración Pública	2001	FF 448.800	IIAP, SER, INAP, AFMAP	Training of high level public administration employees	n.a.
FRANCE	Institut Aéronautique et Spatial	2001	FF 142.000	IAS, GIFAS, IPN, Alas de América	Training of young engineers	n.a.
FRANCE	Agua - Medioambiente	2001	FF 220.000	BRGM, INE, BURGEAP, Schlumberger, State of Tamaulipas	water technology transfer	State of Tamaulipas, other States
FRANCE	Centro Histórico de Mexico	2001	FF 134.000	Pact-Arim, Fideicomiso Centro Histórico	assistance to the development of alternative management and integral rehabilitation of Mexico City's historical centre	Mexico City
FRANCE	Becas de Excelencia en Ciencias Sociales y Humanas	2001	FF 692.000	SER, universities	scholarship programme	n.a.
FRANCE	Apoyo a los jóvenes de zonas desfavorecidas	2000-2001	FF 159.000	Boy Scouts France and Mexico	youth activities	all States
FRANCE	Creación de un centro de formación e integración para poblaciones indígenas en zonas urbanas	2000-2001	FF 465.000	Auteuil International, European Commission	shelter and training activities for indigenous people looking for employment	State of Tamaulipas
FRANCE	Apoyo a las poblaciones de Chiapas a través de un proyecto de salud comunitaria	2000-2002	FF 441.000	Médecins du Monde (France), European Commission	medical assistance and supply, training	Chiapas
FRANCE	Proyecto de desarrollo a favor de poblaciones mixtecas del Estado de Oaxaca	1998-2001	FF 242.000	Solidarité Laïque, Enlace Rural Regional	n.a.	Oaxaca
FRANCE	Proyecto de micro-finanzas en Tapachula, Chiapas	2001-2003	FF 544.000	GRET, Funachiapas	micro credit scheme	Chiapas

<b>FRANCE</b>	Recuperación de la tradición oral y de la literatura maya	2000-2002	FF 200.000	Ethnic A	n.a.	Yucatán
<b>ESPAGNE</b>	Educación básica - Gestión escolar en la escuela primaria e integración educativa	Indefinida	PT 404.300.000	Secretaría de Educación Pública (SEP)		28 Estados de la República Mexicana
<b>ESPAGNE</b>	Proyecto integral "Vizcaíno-Araucana"	4 años	PT 240.000.000	Secretaría de Medio Ambiente y Recursos Naturales (SEMARNAT)		Reserva de la Biosfera "El vizcaíno, Baja California Sur
<b>ESPAGNE</b>	Programa de incorporación de doctores españoles a universidades mexicanas	Anual	PT 30.000.000 (anuales)	Asociación Nacional de Universidades e Instituciones de Educación Superior (ANUIES)		Universidades de diversos Estados de la República Mexicana
<b>ESPAGNE</b>	Centro Nacional de transferencia de tecnología de riego y drenaje	3 años	PT 52.500.000	Instituto Mexicano de tecnología del agua (IMTA)		Sinaloa
<b>ESPAGNE</b>	Automatización de canales de riego	1 año	PT 20.000.000	Instituto Mexicano de tecnología del agua (IMTA)		Zacatecas
<b>ESPAGNE</b>	Fortalecimiento curricular y desarrollo de la docencia	2 años	PT 15.000.000	Colegio Nacional de Educación Técnica Profesional (CONALEP)		Planteles educativos de toda la República Mexicana
<b>ESPAGNE</b>	Curso de vinculación Universidad-Empresa	1 año	PT 7.000.000	Benemérita Universidad Autónoma de Puebla		Puebla
<b>ESPAGNE</b>	Asistencia técnica y capacitación para el personal de las sociedades de ahorro y préstamo de México	1 año	PT 5.000.000	Asociación Mexicana de Sociedades de Ahorro y Préstamo, A.C.		Instituciones de ahorro y préstamo de la República Mexicana

<b>ESPAGNE</b>	Acopio y comercialización de café para el desarrollo integral de los pueblos indígenas de Oaxaca	1 año	PT 5.000.000	Organización de Pueblos Indígenas de la Chinantla, A.C.		Oaxaca
<b>ESPAGNE</b>	Centro Cultural Nueva España	1 año	PT 4.000.000	Municipio de Españita, Tlaxcala		Tlaxcala
<b>ESPAGNE</b>	Desarrollo acuícola como una alternativa para mejorar la calidad socioeconómica de la comunidad pesquera de Bahía Magdalena	1 año	PT 5.000.000	Centro Regional de Investigación Pesquera La Paz, BCS		Baja California Sur
<b>ESPAGNE</b>	Escuela-Taller de Restauración de Puebla	2 años	PT 80.000.000	Gobierno del Estado de Puebla		Puebla
<b>ESPAGNE</b>	Ayuda de emergencia para apoyar a la población afectada por inundaciones	2 años	PT 160.550.000	Cruz Roja Mexicana		Estados del Sureste de México

*Official Euro Rate July 2001*

*1 Euro = 0,6035 Pound sterlin*

*1 Euro = 1.936,27 Italian Lire*

*1 Euro = 7,724 Mex Pesos*

*1 Euro = 6,5595 French Francs*

## **MULTILATERAL ORGANISATIONS CO-OPERATION** (for details see table).

### **World Bank:**

With a total budget of 3,9 bn € for the period July 1997-2000, the World Bank is providing loans as well as executing specific projects to improve social conditions for the poor, reinforce macroeconomic stability and strengthen reforms of public governance in Mexico. Its key areas of operation are: Rural development; health/ education/ environment; finance/ infrastructure and decentralisation.

### **IDB:**

Beside investment projects, financial mechanisms (loans) and multilateral investment fund, the IDB also provides technical assistance projects to Mexico. It furthermore is the only international body carrying out regional co-operation programmes including Mexico. Overall funding amounts to approximately 1.76 bn €.

IDB's main working areas are science and technology, industry, infrastructure, education, sanitation, environment, urban development, micro-enterprises, structural reform, good governance and export financing.

Moreover, in early 2001, the new Mexican Government, Mexico and all seven Central American countries presented the Puebla-Panama Plan (PPP) in order to promote integration and sustainable development in their region. The IDB was appointed to co-ordinate the PPP financing committee.

### **UNDP:**

The Ministry of Foreign Affairs is the UNDP's official counterpart in the programming and identification process. Currently, there are 28 on-going, UNDP sponsored projects in Mexico, amounting to a total budget of more than 7 M€. The three main areas of co-operation are: Poverty alleviation, environment and democratic culture development

### **UNIDO:**

Aiming at assisting the economy to reach sustainable industrial development, the UNIDO is currently executing 5 projects of technical-financial co-operation in Mexico, targeted on the following objectives: Balanced ecological development, productive employment and competitive economy

### **EUROPEAN INVESTMENT BANK :**

Mexico is to become the second largest borrower in Latin America. Total amounts of loans to date is 123 M€. In 1997 lent 50 M€ for the construction of a new flat glass factory near Cuernavaca. In 2000 the Bank approved a loan of 73 M€ to Mexi-Gas Consortium to construct and exploit the gas distribution network in Mexico City. In 2001 a new loan to finance big combined cycle plants will be presented to the board for an amount of 200 million US\$.

## MULTILATERAL ORGANISATIONS COOPERATION IN MEXICO

Donor	Operation	No. Projects	Localities	Regional	Annual Amounts	Perspectives
<b>UNDP</b>	The Ministry of Foreign Affairs is the official counterpart of UNDP in Mexico. All the projects carried out (technical-financial cooperation) are negotiated with different organizations (government, private sector and NGO's). UNDP mainly works in three cooperation areas: <b>POVERTY ALLEVIATION, ENVIRONMENT, DEMOCRATIC CULTURE DEVELOPMENT.</b>	<b>28</b> For further information concerning specific projects, consult: <a href="http://www.pnud.org.mx/pnud/proyectos.cfm">www.pnud.org.mx/pnud/proyectos.cfm</a>	All States of the Mexican Republic	NO	Aprox. US\$6 million (~Euro7,05 million)	
<b>UNIDO</b>	UNIDO's objective is to help the economy to reach a sustainable industrial development. This means harmonizing several interests in order to meet the following objectives: <b>BALANCED ECOLOGY, PRODUCTIVE EMPLOYMENT, COMPETITIVE ECONOMY</b> (technical-financial cooperation).	<b>5</b> For further information concerning specific projects, consult: <a href="http://www.onudi.org.mx/proyectos/html">www.onudi.org.mx/proyectos/html</a>	All States of the Mexican Republic	NO	n.d.	
<b>INTER-AMERICAN DEVELOPMENT BANK</b>	Investment projects, financial mechanisms (loans) Multilateral Investment Fund, and technical assistance. Working areas: <b>SCIENCE AND TECHNOLOGY, INDUSTRY INFRASTRUCTURE, EDUCATION, SANITATION, ENVIRONMENT, URBAN DEVELOPMENT, MICRO-ENTERPRISE, STRUCTURAL REFORM, STATE MODERNIZATION, AND EXPORT FINANCING.</b>	<b>48</b> For further information concerning specific projects, consult: <a href="http://www.iadb.org/exr/doc98/apr/lcmexi.htm">www.iadb.org/exr/doc98/apr/lcmexi.htm</a>	All States of the Mexican Republic	-Red de Centros Regionales de Investigación -Formación y entrenamiento de Directivos Sociales en A.L. -Formación y especialización profesional -Mercados sostenibles para el entendimiento energético -Consorcio de capacitación en microfinanzas -Digital mapping and geographic information pilot project -Agricultura y manejo de recursos naturales -Capacitación en supervisión bancaria y bursátil -Apoyo al liderazgo y representación de la mujer -Armonización e integración de hidrocarburos en el Istmo -Capacitación de las administraciones tributarias -Impacto socioeconómico de "El Niño" -Desarrollo sostenible del Mundo Maya	Aprox. US \$1.5 billion (~Euro1,76 billion)	Financing and coordination of Puebla-Panama Plan

<b>WORLD BANK</b>	The World Bank' s assistance strategy for Mexico is designed in consultation with the government. It provides loans to improve social conditions for the poor reinforce macroeconomic stability and strengthen reforms to public governance. Key areas are: <b>RURAL DEVELOPMENT, HEALTH-EDUCATION ENVIRONMENT, FINANCE-INFRASTRUCTURE, DESCENTRALIZATION.</b>	<b>27</b> For further information concerning specific projects, consult: <a href="http://www.worldbank.org/sprojects">www.worldbank.org/sprojects</a>	All States of the Mexican Republic.	NO	US\$3.9 billions (July 1997-2000)	
<b>EUROPEAN INVESTMENT BANK</b>	The EIB provides loans to investment projects mainly in infrastructures, energy, industry and environment.	<b>2</b>	Cuernavaca Mexico City	NO	123M€ does not include 2001 pipeline project	200 M\$ for 2001 Combined cycle plants



## **COHERENCE WITH EC POLICIES**

### **1. Trade:**

Article 133 of the treaty states that the objectives of the Union's commercial policy is «to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers». Its purpose is to promote the economic and political interests of the European Community. It covers all the main aspects of trade in goods and services (tariff and non-tariff barriers, trade defence, particularly in cases of dumping and subsidies, export loans) as well as key aspects of intellectual property, investment and competition.

The main objective of the Union's trade policy towards Mexico is to correctly implement the Free Trade Area established between both parties and into force since 1 July 2000 concerning goods and 1 March 2001 in relation to services. Notwithstanding the promotion of trade liberalisation in a multilateral bases.

The strategy set in this document contributes fully to the achievement of such objectives mainly in what concerns the economic co-operation section.

### **2. Common Agriculture Policy (CAP) and Common Fisheries Policy (CFP)**

The Treaty of Rome in 1957 contained provision for a "common agricultural policy" (the CAP) and for a "common fisheries policy" (CFP). This policy sought to increase the productivity of European agriculture and fisheries, ensure reasonable living standards for farmers, stabilise farm produce markets and guarantee a stable food supply at fair prices for consumers. Many changes were made to the CAP and the CFP, modifying price policy, restricting market intervention, regulating output and introducing a system to control spending on agriculture.

Measures were added to stimulate development in rural areas. By 1992, a more radical overhaul of the CAP was called for: reduction of support prices, market management was adjusted to restore market balance, and more assistance was provided for social and environmental measures. Concerning its external dimension, those changes focussed on the next enlargement of the Union, the global economy and new multilateral trade negotiations rounds.

It has to be noticed that products include in the CAP have been the object of special treatment under the EU-Mexico FTA, being mainly excluded of the bilateral liberalisation process.

Essentially all fisheries products are covered by the EU-Mexico FTA. A few products have received special treatment and are subject to tariff quotas.

### **3. Sanitary and phytosanitary control Policy – consumers protection**

In its external dimension, the Community policy in this sector is addressed to assure a high level of protection of health, safety and economic interests of the consumers, as well as the protection of public health in the EU. The implementation of this principle is perceived, by some third countries, or economic sectors, as a measure of non tariff trade protection, that prevents the access of some products – mainly agricultural - to the European markets.

At the same time, Mexico has raised concerns about non-reciprocal treatment by the EC in the implementation of certain Community principles of health inspection, such as that of regionalisation.

#### **4. Internal market and competition policies**

Internal market: the principal aim of this policy is to strengthen the process of economic integration for a liberalisation of the markets, as well as the development of a legislative framework compatible with that of the EC, which assures a suitable level of protection of industrial and intellectual property, prevents the laundering of money, protects the personal data and guarantees minimum standards for public calls for tender, avoiding any kinds of restrictive measure of the markets. Regulatory convergence leads to mutual benefits, supporting trade and investment and favouring investment abroad of EU companies.

Competition policy: The interest in applying competition policy in the EU's relations with third countries, mainly in the negotiation of trade agreements, is based on the establishment of a stable and clear legal framework for relations among economic operators that may prevent commercial conflicts.

At the same time, the discriminatory treatment between companies of both parties is avoided with respect to direct investments or access to the services market. Likewise, the EU takes part in multilateral co-operation in this sector in the framework of the World Trade Organisation (WTO). The WTO working group on "trade and competition" examines the possibility of strengthening the convergence of policies for which a multilateral horizontal action might be explored by the EC.

These two policies are compatible with the present strategy since interventions promoting the aims of the above-mentioned policies are included, so much in the bilateral as regional context.

#### **5. Research and development policy**

In the EC, international co-operation in this area is covered by the Fifth Framework Programme (FP5) through two principal axes:

- An international co-operation dimension for each thematic research programme included in the FP5; and,
- an specific international S&T Co-operation programme that contributes to the solution of common or sustainable development problems in third countries and regions, including Mexico.

The training and mobility programme for researchers included in the EC Framework Programme is also compatible with the aims of the present strategy.

The aim to bring about a greater international co-operation will be shaped in the signing of a bilateral agreement of research and development that will allow the Mexican institutions to take part in the European projects included in the Framework Programme.

#### **6. Environmental policy**

The priorities of the environmental policy for Mexico are defined in two levels:

- Objectives and principles included in the 6<sup>th</sup> Community Environment Action Programme (6EAP, 2002-2011): climate change, depletion of natural resources and the loss of bio-diversity, participation in the discussions and negotiations on forest related issues<sup>10</sup>.

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<sup>10</sup> In line with the EC communication on "Forests and Development: the EC approach" (COM1999 (554)).

- To encourage Mexico to implement its international commitments under the different multilateral environmental agreements, notably: the Biodiversity Convention, Cartagena Protocol of Biosafety, Climate Change Convention, the Kyoto Protocol, Stockholm Convention of Persistent Organic Pollutants and the Rotterdam Convention on the Prior Informed Consent Procedure for certain hazardous chemicals and pesticides in international trade.

These objectives are compatible with the present strategy in particular in view of the fact that environment as one of the main crosscutting issues for sustainable development has been mainstreamed into the co-operation strategy.

## **7. Conflict prevention**

In its communication on conflict prevention (April 2001), the Commission announced its intention to focus its co-operation programmes more clearly on addressing root causes of conflict in an integrated manner. In this context, the Commission will seek to incorporate specific conflict prevention (or resolution) measures into its various sectoral programmes.

A first analysis of potential sources of conflict in Mexico has put in evidence the need to strengthen the judiciary system, to increase citizen's security and respect for human rights, to decrease the social and economic inequalities, to foster the integration of indigenous people in the Mexican system while respecting their cultural differences and to develop the most deprived rural areas in the south –south east of the country.

## **8. Justice and Home Affairs:**

The instruments put into place by the EC in its relations with Mexico in the fight against drugs (UE Plan, Agreement on co-operation regarding the control of precursors and chemical substances frequently used in the illicit manufacture of narcotic drugs or psychotropic substances, political dialogue under the Global Agreement and co-operation projects) are coherent with the objectives of the present strategy.

The current policy concerning immigration could have an impact on the development of Mexico due the importance of remittances from immigrants in hosting countries in the macro-economic equilibrium. For the moment, given the fact that the emigration flow from Mexico is directed to the USA, the impact above mentioned is very limited.

It is also important to take into account that immigration will have an impact during the future negotiations on services foreseen in the Global Agreement. A FTA in services will include the four modes mentioned in the GATS, one of them is the provision of services by means of physical presence in the partners territory.

## **9. Information Society**

The main objectives pursued by co-operation with Latin America in the Information Society field are the following:

1. Promoting the development of an inclusive Information Society in those countries and fighting the digital divide within and between countries and regions and, as such, contributing to the economic and social development of Latin American countries;
2. Fostering the integration of Latin American countries in the global Information Society;
3. Promoting European industrial interests in Latin America by creating a favourable environment for the EU Information Society stakeholders in the region, notably by promoting efficient regulatory and policy frameworks, as well as open and global standards;

4. Reinforcing technological co-operation in the field of Information Society, in particular through the European Union Framework Programme for RTD;

Those objectives are compatible with both the national and regional strategies.