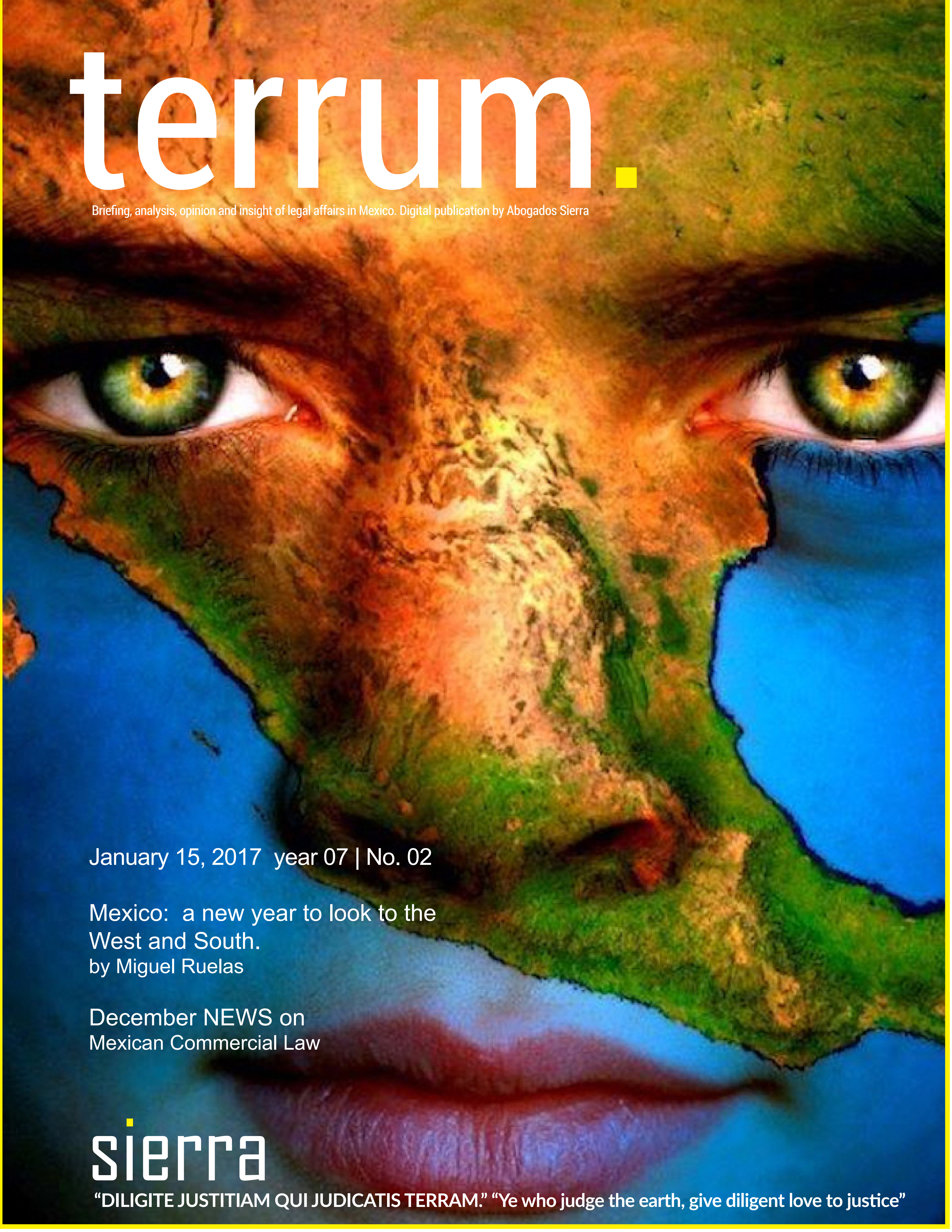

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Mexico: a new year to look to the West and South.
by Miguel Ruelas

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“DILIGITE JUSTITIAM QUI JUDICATIS TERRAM.” “Ye who judge the earth, give diligent love to justice”

Mexico: a new year to look to the West and South.

by Miguel Ruelas.

2018 comes as the most challenging year Mexico has seen in decades. This new year is one in which Mexico must cope with the internal and international political paradigm shifts, rethink its economic policy, strengthen its monetary policy deeply affected in the past year, stabilize, and determine its economic and commercial ties, and prove itself as the consolidated democratic state it claims to be by electing a new president. Mexico has no room for error.

> *"Mexico receives the new year with an enormous task: come to terms with the fact that the renegotiation discussions of NAFTA are not going well, and thus, rethink its commercial partnerships throughout the globe".*

2017 hit Mexico in every possible aspect. Two massive earthquakes struck Mexico's central and pacific southwest region, a region responsible for the production of over 25% of the country's GDP.[1] September's earthquakes affected Mexico's economic expansion forecast with estimates of a 0.2% reduction in the country's GDP, and obliged a readjustment of the economic growth forecast for the end of 2017 by 2.1%.[2] Despite the minimal reduction as a result of the natural disaster, the Mexican peso currency has continuously lost power and parity before the U.S. Dollar, which results in an interest forecast for the year end of 6.3%.[3] Despite these numbers, Mexico continues to be resilient to economic hardships, the Mexican economy has demonstrated to be strong enough to continue a sustained growth and assure massive infrastructure projects like the new airport of Mexico City and a boiling foreign investment throughout the country in oil, automobile and aviation manufacturing amongst others. However, Mexico cannot foresee or protect itself from Trump's tweets that to some degree continue to stab the Mexican economy, and severe ties of two nations that have historically supported each other economically. Mexico receives the new year with an enormous task: come to terms with the fact that the renegotiation discussions of NAFTA[4] are not going well, and thus, rethink its commercial partnerships throughout the globe.

NAFTA continues to be Mexico's strongest commercial deal, and whilst the agreement continued to be highly analyzed by its effects since its inception from protectionist nationals of the three nations, President Trump argued that the U.S. manufacturing production, and jobs had shifted to Mexico, and its renegotiation would be mandatory under his administration.[5] Therefore, in August 2017 the Trump administration reopened negotiations with Canada and Mexico with the aim of reforming it. The first set of negotiations were held in late August 2017 in Mexico City and early December 2017 in Washington, with aims to conclude them by early 2018, prior to the Mexican presidential election in July 2018. The substantial outcome is mostly uncertain, except for the certainty that concluding and readjusting the agreement by early 2018 is now an unmanageable task.

1.- http://expansion.mx/economia/2017/09/20/segundo-terremoto-dejara-impacto-economico-significativo
2.- https://www.forbes.com.mx/analistas-elevan-pronostico-de-inflacion-para-el-cierre-de-2017/
3.- https://www.forbes.com.mx/analistas-elevan-pronostico-de-inflacion-para-el-cierre-de-2017/
4.- NAFTA, The North Atlantic Free Trade Agreement, is a multilateral agreement between Canada, The United States of America and Mexico, signed in 1992 and that came into force in 1994, creating the world's third largest free trade zone in the world.
5.- Esposito, Anthony & Barrera, Adriana. NAFTA talks hit wall as Mexico, Canada push back on U.S. demands. Reuters. 21.11.17. https://www.reuters.com/article/us-trade-nafta/nafta-talks-hit-wall-as-mexico-canada-push-back-on-u-s-demands-idUSKBN1DL0FL

The three countries failed to make major breakthroughs on the most contentious issues, prompting the Trump administration to complain about the lack of progress. Mexico has major reservations about a number of U.S. proposals, and the main chapters on telecoms, manufacturing and Value Added Tax, continue to be deeply sensitive to all parties. As tensions rise high, President Trump has threatened to pull out of NAFTA, with devastating consequences to the Mexican economy by spooking investors and putting pressure on the Mexican peso currency.[6] As tensions rise, and the negotiations are already having a toll on the Mexican economic forecast for 2018, Mexico must now cope with the reality, whether NAFTA subsists or not, that the United States, may no longer be Mexico's only option as its strongest commercial partner.

In this context, Mexico is all but adrift, rather empowered by its 12 Free Trade Agreements and 32 Agreements for Investment promotion and reciprocal protection;[7] one of these agreements stands out as a potential beacon of opportunity in light of recent events: The Pacific Alliance.[8] The Pacific Alliance is a mechanism of regional integration conformed by Chile, Colombia, Mexico and Peru, formally constituted in 2012 with a model agreement that seeks to create an integrated community that will progressively lead to the free mobility of goods, services, capital and people by promoting the fostering of the economies of the members thereto through economic and political ties.[9]

"...Mexico must now cope with the reality, whether NAFTA subsists or not, that the United States, may no longer be Mexico's only option as its strongest commercial partner."

Whilst the Pacific Alliance is not formally a free trade agreement, it is destined to become one- or at least a unique international agreement that bolsters cooperation and reduces tax and other trade implications- that aims the regional and economic incorporation of the pacific region, both on the American and Asian side. The legal particularities of this model agreement, can be summarized as follows:

1. The Pacific Alliance agreement is not a commercial agreement amongst the ratifying parties, but rather an agreement that bolsters alliance and economic cooperation amongst its parties, to subsequently celebrate ulterior agreements on free trade.
2. The Pacific Alliance, denominates itself as a regional integration initiative that promotes the free circulation of goods, services, capital and people. In order to achieve such, the Pacific Alliance agreement foresees a Commercial Agreement that reduces the import and export tax amongst members, efficiently reduces commercial obstacles, foresees to expedite the export and importation processes and aims to achieve the elimination of visa requirements amongst members.
3. The Pacific Alliance foresees and seeks to establish the basis for subsequent free trade agreement zones amongst member parties, which must celebrate, under the rules of the

6.- TIbidem.
7.- The full list of all commercial agreements ratified by Mexico can be found on: https://www.gob.mx/se/acciones-y-programas/comercio-exterior-paises-con-tratados-y-acuerdos-firmados-con-mexico?state=published
8.- The ratification of the Pacific Alliance was published in the Official Gazzette of the Federation "Diario Oficial de la Federación" on July 17, 2015, and entered into force one year after.
9.- The Pacific Alliance Memorandum. 2016. Memorndum solely published in Spanish language. The full memorandum can be found ar: https://alianzapacifico.net/en/?wpdmdl=4441

international instrument, succeeding protocols and declarations that establish such zones. The incorporation of new members to the Pacific Alliance, would not automatically incorporate them into these protocols or declarations, but would rather require the new parties to further ratify these declarations.

"Whilst the Pacific Alliance is not formally a free trade agreement, it is destined to become one- or at least a unique international agreement that bolsters cooperation and reduces tax and other trade implications- that aims the regional and economic incorporation of the pacific region, both on the American and Asian side."

The Pacific Alliance seemed to be a "soft alternative" to a free trade agreement, a simple promise of good faith amongst Hispanic America's strongest economies. However, in July 2017, the Cali Declaration,[10] as a subsequent declaration foreseen by the Pacific alliance agreement, demonstrated the true power of this novel and ambitious binding international agreement. The Cali declaration established:

1. The obligation to continue the process that promotes the integration of the Pacific region, with the free circulation of people, goods, services and capital.
2. The establishment of a free trade zone, between Peru, Colombia, Chile and Mexico.
3. The establishment of negotiation talks with Australia, Canada, New Zealand and Singapore in order for them to become member states to the agreement.

Negotiations with these potential new member states will be held in early 2018, and whilst not automatically establishing free trade zones, it does automatically establish a fair reduction of import and export tariffs and establishes the foundations for ulterior agreements with quantifiable benefits, now in effect between the four founding states. The incorporation of Australia, Canada, New Zealand and Singapore, would provide a new market that despite not having the economic implications and size of NAFTA, would definitely provide an additional life vest to Mexico's commercial balance. In addition to the Pacific Alliance, Mexico has begun further commercial trade agreement discussions with specific countries in the region and further empowering ongoing agreements of this sort with the European Union, MERCOSUR and China.[11]

As 2018 challenges Mexico to its very core, the Pacific Alliance represents one of many beacons of opportunity that obliges for a friendly negotiation with its Pacific partners, a possibility to affront the uncertainty of NAFTA and the commercial well-being of the country. Perhaps, 2018 will oblige Mexico, to shift its strongest economic partnerships to the south and west for the first time in its history.

10.- The Cali Declaration. Official document. 30. 06. 17. The official copy o the Cali Declaration was written solely in Spanish. The full document may be found at: https://alianzapacifico.net/en/?wpdmdl=9850
11.- Negotiations and particularities of these current and future agreements, including the current 12 Free Trade Agreements and 32 Agreements for Investment promotion and reciprocal protection, are not detailed in this publication. They are rather mentioned to provide a spectrum of the international commercial partnerships Mexico has and pretends to have in a near future, that would act as a counterbalance should NAFTA renegotiations fail; assuring a "healthy standing" of Mexico in the world commercial market.

Mexico banks on e-commerce to spur economic ties with China.

Mexico views its economic relationship with China with optimism, with e-commerce to help spur those ties, according to Paulo Carreno, general director of Mexican trade promotion agency ProMexico. E-commerce will undoubtedly be an effective tool for expanding business, particularly as a consequence of the agreement being signed between ProMexico and Chinese e-commerce giant Alibaba. *http://news.xinhuanet.com/english/2017-12/20/c_136838463.htm 12/12/2017.*

Mexico Finance Chief Doubles Down on 'Prudent' Policy Approach.

Mexico's government wants the economy to grow faster, but won't sacrifice its budget goals for next year to help make it happen. The nation has been cutting spending to stabilize its debt burden and plans for to achive surplus for this year and next after almost a decade of deficits. *https://www.bloomberg.com/news/articles/2017-12-13/mexico-finance-chief-doubles-down-on-prudent-policy-approach 13/12/2017.*

Mexico looks to Europe and beyond for free-trade allies as NAFTA falters.

Mexico's quest for new trading partners represents an insurance policy against economic harm if the Trump administration decides to end NAFTA. Mexicans want to export national goods to Europe, it already exists free-trade agreement that went into effect in 2000, new talks seek to expand and modernize the agreement. The strategy is to have alternative suppliers if the U.S. leaves NAFTA, which is the plan B for Mexican Administration. *https://www.washingtonpost.com/world/the_americas/mexico-looks-to-europe-and-beyond-for-free-trade-allies-as-nafta-falters/2017/12/19/b121a0bc-e443-11e7-927a-e72eac1e73b6_story.html?utm_term=.74ee686c0cff 19/12/2017.*

Banxico's New Governor Defends His Strict Stance on Interest Rates.

Mexico's central bank Governor Alejandro Diaz de Leon reinforced the bank's tight monetary policy stance. He led the board for the first time last week, when it voted for a quarter-point rate increase. While acknowledging the impact high interest rates have on already sluggish economic growth, the central bank sees an even larger cost if it doesn't anchor inflation expectations, Diaz de Leon told Bloomberg TV. *https://www.bloomberg.com/news/articles/2017-12-20/tight-monetary-stance-necessary-for-banxico-diaz-de-leon-says 20/12/2017.*

US fiscal reform will impact Mexico: Cepal.

The lower house of the United States Congress approved a tax reform bill which includes tax cuts of almost US $1.5 trillion over 10 years. Corporate tax will be cut from the current rate of 35% to just 21%. According to Cepal Barcena, this Fiscal reform will have an impact on the Mexican economy, above all because Mexico has little room to adjust its own tax rates. *https://mexiconewsdaily.com/news/us-fiscal-reform-to-impact-mexico-cepal/ 21/12/2017.*

In this month extract was prepared by J. Estrada, C. Espinosa, L. Salas, L. Caballero, C. Mondragón, R. Figueroa and J. Dorantes.

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