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Spaghetti regionalism or strategic foreign trade: some evidence for Mexico☆

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Abstract

After signing 10 free trade agreements (FTAs) between 1993 and 2001, Mexico as a world leader in foreign trade policy continues to negotiate with countries such as Japan, Panama, Uruguay or Argentina. Criticism of multiple regional trade agreements (RTAs) arises from a consistency test, but also from the ability of a country to administer them. Mexico's multiple agreements have generally used the principle of NAFTA consistency, after the acceptance that NAFTA became a broader and deeper accord than results of the Uruguay multilateral achievements. An analysis of multiple RTAs is presented, including a game model of equilibrium, along with a political economy approach of why Mexico seeks multiple RTAs as its foreign trade policy.

JEL classification: F1; L1
Keywords: Mexico; RTAs; Political economy; Nash equilibrium

1. Introduction

The World Trade Organization has accounted for 90 regional trade agreements (RTAs) that have been created among its 136 member countries (formerly GATT contracting parties) since 1995. The figure seems impressive for the dynamism of countries in the world to opt for bilaterals during the past 5 years (WTO, 2001a,b). Besides Europe's activism, Mexico has become a world leader in signing 10 RTAs from 1993 to date mainly because it has sought a network of bilateral accords across the world, both with developing countries and also with countries in the developed world.

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What are argued reasons for this economy to generate a network of RTAs? A first hypothesis is trade diversification away from increased specialization and dependency from the US market during the past 7 years of NAFTA operation. However, trade with its natural partner and the importance of Mexico's market access in North America seems to continue and even deepen in the foreseeable future.

Moreover, trade of intra-industrial nature as has been experienced by NAFTA has deepened integration among trading and investment partners in key sectors of the North American panorama, to increase the competitive position of the entire North American region that faces apparent open regionalism.

A second line of reasoning is that Mexico's experience with NAFTA has generated a learning curve effect in signing multiple RTAs, mainly free trade agreements (FTAs) with other countries, where most of them contain all the issues and clauses of NAFTA, or what could be called NAFTA-consistency. Aspects such as market access, tariffication, customs procedures, scheduling of liberalization, as well as national treatment/MFN, norms, special treatment of sectors and dispute resolution mechanisms, are integral part of Mexico's negotiation and signing of RTAs. Moreover, in some agreements, side accords on labor and mainly the environment have also been signed. In such argument, NAFTA becomes a sellable vehicle for trade and investment liberalization, taken strategically or appropriated by Mexico. However, in line with this argument, a limit would exist set by the ability of authorities to administer multiple RTAs.

A third hypothesis is that Mexico's objectives are the political economy ones, where additional to trade and investment liberalization, a rationale of political representation of partners, mainly in Latin America and the Caribbean, is sought in other multilateral negotiations. According to the World Bank (1999), other political objectives are an increased bargaining position of members of a RTA, a strategy of 'being noticed' in multilateral rules of the game, cooperation in areas of government policy making and among incipient multinational companies of developing countries, and commitment to lock-in free market policies inside economies.

A fourth hypothesis is that additional to the learning curve effect, the political economy of generating a network of RTAs is that by seeking bilaterals instead of expanding original RTAs mainly NAFTA, Mexican authorities and economic agents, face economies of scale in negotiating increasing number of RTAs, or to put it in a different context, the cost of NAFTA expansion in political arenas among Mexico, the United States and Canada, and possibly Chile, is too high both in each country's political market, and also in coordinating a regional effort. For such a reason, it seems easier for one of the regional partners to seek individual RTAs. The case that Mexico, the less developed of the NAFTA partners, has been the most active in signing multiple trade agreements could only be circumstantial, but could also imply that a race for strategic trade policy would stay as part of the foreign trade and investment environment in the foreseeable future, with all its implications and worries for trade-dependent and liberalizing economies.

The present essay addresses these issues of the recent strategy by Mexico. It also tries to explain whether the growing number of RTAs has negative or positive effects in members' welfare functions and overall welfare, using a simple Cournot model of market access following Freund (2000). The paper is organized as follows: After briefly presenting