

TRADE STRATEGY CONSULTATION PROCESS
MEXICO CITY, MEXICO
10 JUNE, 2010

On June, 10 2010, in Mexico City, Mexico, the Trade Strategy Consultations process took place. The meeting was opened by Gloria Grandolini, Country Director for Colombia & Mexico (WB), the Trade Strategy was presented by Ann E. Harrison, Director of the Development Economics and Chief Economist Office (WB). Professor Carlos Urzúa, from el Instituto Tecnológico de Monterrey, acted as facilitator.

The comments on the Trade Strategy were provided by Beatriz Leycegui Gardoqui, Undersecretary for International Trade (Ministry of Economy), Jaime Zabludovsky, Executive President (CONMEXICO), and Arnulfo Gomez, private consultant on foreign trade and investment.

The meeting was attended by around 45 people from the government, private sector, and academia (please see the list in a separate file).

Mrs. Ann E. Harrison's presentation defined the context in which international trade is taking place and its relevance for developing countries, the World Bank's role on trade matters, and described the pillars that support the proposed World Bank's Trade Strategy.

Main Comments

Although the comments were very much focused on Mexico's domestic trade agenda, they confirmed the importance of the pillars identified in the Trade Strategy document. Additional topics to be included in the Strategy were suggested.

Beatriz Leycegui Gardoqui, Undersecretary for International Trade (Ministry of Economy), described the performance of Mexico's exports in recent years by: a) loss of dynamism; b) loss in its share of world trade; c) loss in its share of North American trade; and d) high concentration of exports in large firms (500 firms represent 83%), high concentration in terms of products, and 8 States represent 75% of total exports.

She quoted Jaime Serra (former Minister of Economy) who presented an analysis in a seminar, where he defined Mexico's challenge in terms of the need to increase the export multiplier. According to this analysis, one difference between Mexico and other countries such as Brazil was that the multiplier was smaller in the former than in the latter case. The main questions are how to increase the impact of exports in the domestic economy; how to increase local content of exports; how to increase flexibility in rules of origin so that producers do not specialize in specific destination markets. More broadly, the challenge is how to exports multiplier without resorting to protectionism measures.

There are also external challenges that Mexico must address. In particular it is important to address the erosion of preference in key destination markets, to address the multiple rules that affect international trade and to tackle stronger regionalism in trade relations.

In terms of Mexico's external negotiation strategy several important aspects were mentioned:

- Increase integration with Latin American and Caribbean countries;
- Improve competitiveness;
- To continue work with countries of the Pacific Arc (in Latin America);
- Reach a single trade agreement with Central America;
- To continue pursuing the open negotiations with Europe and Japan;
- To achieve trade agreement with Brazil, Colombia, and Peru.

In this context, her view of the World Bank's role is to have a parallel strategy by working both at the regional and country level. Also the Bank must increase the range of activities to support these new challenges as, for example, trade finance. Also the Bank must complement its activities with regional organizations.

The Bank could also help in providing analysis on the benefits of international trade and trade in services, especially, in its cross-border modality. The need to increase liberalization in agriculture is another topic that remains very relevant for developing countries. The World Bank should also undertake analysis of trade barriers faced by Mexican producers in foreign markets. Essential is also the coordination with other institutions such as IADB and linking cooperation schemes to liberalization programs

Jaime Zabudovsky, Executive President (CONMEXICO), congratulated the World Bank initiative. In his view, after the financial crisis, trade must be high in the agenda of the world's leaders. The World Bank's role in the current juncture is particularly important and that is to influence the recovery strategy by stressing the need to address the macroeconomic imbalances and their impact on trade matters. The document must address this because it is part of the current context and macroeconomic imbalances have an impact on world trade flows.

Particularly important is to analyze the role of trade in the origin, during, and after the crisis, to move beyond the antiprotectionism and pro Doha rhetoric to invest political capital and to continue trade liberalization.

In addition, the Bank must discuss the current WTO architecture and the way it influences the decision making process of this organization. For instance, discuss the feasibility of plurilateral arrangements as an option to the current single undertaking approach followed by WTO members to move forward multilateral liberalization.

Moving to Mexico's domestic agenda, he suggested as research topics to analyze and understand firms' decisions to move to a Caribbean country instead of to the south of Mexico when there is an increase in wages in the Northern part of Mexico.

He also points out the importance of currency appreciation and depreciation as obvious determinants of changes in trade balances and therefore the need to be part of the World Bank Trade Strategy paper.

The Bank must also pay more attention to the provision of public goods such as sanitary protection (plague eradication) and harmonization of trade rules.

Arnulfo Gomez, private consultant on foreign trade and investment, stressed the importance of the high costs of trade related infrastructures for goods and services and the absence of long term governmental policies, where a national development project stands as one of the most significant aspects.

According to him, the loss of Mexico's relative position is explained by the absence of a strategic approach to the North American market together with the allocation of resources and efforts in the negotiations of more than 11 trade agreements that ended up increasing the bilateral trade deficit with all these countries. Among others, he mentioned the following issues:

- Lack of adequate infrastructure;
- High costs of the infrastructure;
- High volume of paper work (145 declarations);
- High taxation rates;
- Low energy infrastructure;
- High telecommunication costs;
- Monopolies;
- No innovation program;
- Corruption;
- High costs of financial services;
- Absence of public information regarding incentive programs;
- No trade and investment promotion programs.

Areas where the Bank could improve its involvement (or topics to be incorporate in the Trade Strategy)

Participants' comments:

- The importance of trade promotion, including access to and diffusion of information.
- To help countries to define their integration process.
- To link FDI and trade as an integration tool.
- To include trade in services as an important aspect for developing countries, including the development of a methodology on how they can participate in the trade of services and help countries to solve the lack of statistics.
- To link competitiveness and industry location, including the development of feasibility studies of industrial parks.
- To improve the linkages between trade and logistics infrastructure, including territorial organization.
- To incorporate the influence of illicit activities in trade performance (customs controls and security issues).
- To improve understanding of exchange rate policies and their influence in the value change. Exchange rate policy can increase the investment in value chain or can disincentive the creation of value chain.
- To improve understanding of educational policies, and human resources policies, in the creation of value chains and the localization of industries. Unbalanced regional development within a country is influenced by human capital endowment in regions.
- The importance of creating policies to develop entrepreneurship among young work force.
- To include an analysis of the quality of services.

- The challenge of the Trade Strategy is to implement very concrete and practical initiatives directly link to firms. Three main aspects: a) trade promotion, b) capacity building; and c) access to credit.
- The importance of trade facilitation. Bank can focus on how to reduce trade related costs, including trade costs at the border. There is delicate balance between border security and trade facilitation.
- Trading with developed countries and developing countries is different. In the latter case, the risks are different (affected by market diversification). Bank could play a role by helping to reduce risk associated to trading with developing countries (increase financial guarantees).