

## **Relocation of Investment and Trade Diversification in APEC: Trends and Challenges for Mexico**

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### **Abstract**

To understand the genesis of trade is necessary to go back to the XIV and XV centuries to know that it is in Italy where accelerated development of merchant capital is observing. The fast trade between cities such as Milan, Genova and Florence results in economic conditions of trade that began to spread to other cities like Bremen, Hamburg and Lubeck in the Baltic region, which led to the rise of capitalism. So, we cannot think in capitalism without thinking in trade. Later, with the great discovers of the period, in the XVI century, Spain becomes a world power by its conquests in America (Mexico and Peru) and in Europe (Belgium, Netherlands, much of Italy, among other countries). However, by the XVIII century, Holland was the model of capitalist nation. It's in those centuries that the economic doctrine of mercantilism emerges based on historical and economic aspects that characterize the fall of feudalism, promoting foreign trade, (sell more and buy less). This doctrine (practice) comes together with a nationalist stance in a protectionist direction of its own interests based on wealth generation. This contradiction is still observing today with the domestic markets protectionism, relocating the investment and provoking the argue of diversification: The nowadays main challenge for APEC. At the same time APEC has to take into account that, far from encouraging a free global trade, free trade agreements promote protectionism. Therefore, negotiations as the Trans-Pacific Partnership Agreement (TPP) and a possible Free Trade Area of Asia-Pacific (FTAAP), aim at the protection of a regional space that is opposed to free trade that is supported economically by the classical theory. Trade agreements promotes trade liberalization among its members, but with restrictions for the externals, limiting this way free trade and current philosophy of capitalism and globalization itself.

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We find that current trading conditions are based on economic activities at four or five centuries ago, when trade comes to its final stage of feudalism to become the dominant category of capitalist mode of production, in what there is a sort of perverse association between protectionism and free trade. Nowadays Mexico is suffering some investment relocation and facing up the idea of trade diversification as component for its own economic development taking into account exports growing up to the APEC region, where are located the most important economies of XXI century.

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## **1 Introduction**

The processes of economic integration in the world, whether formal or informal, date back to the twentieth century, although pro-trade or protectionist policies have more seniority. From the point of view of informal processes, the most important are those carried out in the Pacific Basin region.

In 1994, leaders at the Asia Pacific Economic Cooperation (APEC) 2nd Summit Meeting, declared the so-called Bogor Goals, seeking to facilitate trade liberalization and investment facilitation in the Asia-Pacific region according to the level of development of member economies: the targets were 2010 for developed economies and 2020 for developing economies.

The feasibility of the goals has been discussed ever since the nineties. The first target was largely surpassed by the unflattering policies of trade facilitation that prevailed within the framework of the World Trade Organization (WTO), which eventually permeated the APEC goals. The 2020 target, judging by the stagnation in many of the negotiating processes in both APEC and the WTO, seems unlikely. The Transpacific Partnership Agreement was born from the need to meet the Bogor goals.

Today, with the neo-protectionist speeches and actions of some countries, such as the United Kingdom (UK), which is formally seeking its exit from the European Union (EU) after the BREXIT triumph, or the United States (US), under its new administration, the return of protectionist trade policies forces us to reflect on the actions and decisions that each country must take to avoid losing in globalization, despite the fact that the countries that are proposing it are turning back from their former free trade aspirations.

Because that new international context; even more, because the formal exit of US of the Transpacific Partnership (TPP) before it starts; plus, the formal announcement of the NAFTA's renegotiation process in 2017; it is important for

Mexico to place more emphasis on Asia-Pacific as a strategic and potentially high-yielding region.

In this paper, it is argued that there are options for greater integration and rapprochement with the Asia Pacific region, which, apart from the actions and neo-protectionist discourses of the UK and the US, makes it essential to analyze the feasibility of Mexico's inclusion in the ongoing formal integration processes of Asia-Pacific region, such as the Asia Pacific Free Trade Area (FTAAP); the Comprehensive Economic Cooperation Project (RCEAP); the Latin American Pacific Alliance (PA), and the TPP itself, individually or jointly, that can contribute to the relocation of investments and diversification of trade. To opt for these processes of new economic integration, some commonly neglected aspects must be considered.

In what follows, we will put on the table, from a historical perspective, some bases and foundations of free trade, in addition to some relevant policies and free trade actions, extrapolating them to the current context, to try to answer the question that will guide this paper: Will Mexico take advantage of the current trends of US nationalist protectionism affecting “free trade” Asia Pacific region?

## **2 Historical aspects of protectionism-free market**

We consider it relevant to incorporate aspects of historical order to explain the distant aspects of a process of relocation of investment and ongoing trade diversification, in the face of current trends of nationalist protectionism in the Asia Pacific region.

According to economic history, to understand the genesis of international trade, it is necessary to go back to the XII and XIII centuries, when free regional trade arose in the cities of the Mediterranean and the Baltic Sea. In Italy, towards the XIV-XV centuries, there was a rapid development of commercial capital. The accelerated trade between cities like Milan, Genoa, and Florence gave place to economic conditions of commerce that began to spread to other cities, such as Bremen, Hamburg, and Lubeck, propitiating the emergence of capitalism. Thus, we cannot think of this economic system without the presence of trade. Later, with the great discoveries of the time, in the XVI century Spain was positioned as a world power that, despite its conquests in America (Mexico and Peru), "... continued to be a feudal country, with borders and customs between its different regions, where there was no common internal market and the exchange between cities was very limited." (Karataev et al., 1964).

Under Spanish rule, Holland was one of that countries that achieved greater development. In 1609, the Bank of Amsterdam was founded; it played an important role in shaping capitalism. Consequently, by the XVIII century, Holland was the model capitalist nation. However, as its domestic industry was insufficiently developed to meet the demands of its colonies, particularly in Asia, the global capitalism led by England took place (Karataev, et al., 1964).

The economic doctrine of mercantilism arose during these centuries; the appearance of this doctrine was based on concrete historical–economic factors that characterize the decline of feudalism, arising the foreign trade (sell more and buy less). This doctrine was accompanied by a nationalist position, in a sense protectionist of its own interests, based on the accumulation of gold and precious metals, a position that favors state protectionism on the one hand and, on the other hand, emergence of Adam Smith's "invisible hand", enhancing the free market (Torres, 1980).

This is confirmed by the economic integration theory (Balassa, 1980), resulting in an enlarged production with economies of scale, where the movement of the capital factor is manifested in the foreign direct investment and its limits to the labor economic factor, as well as the concentration of commerce in a concrete economic region.

According to Balassa (1980), economic integration can occur in different stages: free trade area, customs union, common market, economic union, and total integration. It is characterized by the union of countries to facilitate the transactions of goods between them. In the economic literature, integration manifests itself under different forms of optimization of resource use, and its argument has been so developed that the mere existence of trade relations between independent national economies has been taken as integration, even if a contradiction arises from limiting free trade with non-member economies.

Thus, the original premise of exporting surplus production is surpassed by another premise that focuses on the objective of producing for export, putting the external market ahead of the internal market, and, therefore, a tendency towards the creation of agreements and economic integration to guarantee profit margins. Strategic alliances are formed as a reaction to a possible loss of markets, marked by the speed with which trade is carried out, ending up in the imposition of restrictions.

Hence, we note the conglomeration of economies to confront potential competitors, subsisting bordered free trade, all of which is supported even more by the protectionism applied in specific economic sectors, according to the interest of dominant economies, as has been the case with sensitive areas, such as agriculture or labor mobility. The opening of trade is observed among the members, imposing

restrictions on outsiders, so that the philosophy of "free trade" in the era of globalization is very limited.

This explains, in the era of globalization, not only why commercial agreements appear but also the tendency of economic integration as an exclusive form of production that seeks to be solved with a "regional multilateralism" (Sandi, 2013), which, in essence, does not solve the economic asymmetries (inequality, unemployment, among others) in integration schemes, as has already been demonstrated by NAFTA assessments (Guillen, 2014). From our view, this should take into account the eventual formation of formal economic integration of next generation as FTAAP, RCEAP, or Pacific Alliance.

In addition, economic growth, particularly for the developing economies, has not been sufficient to extend to the homogeneous well-being of its members. Thus protectionism, nationalism, free mobility of factors and restrictions on trade prevail, as in the Middle Ages. This is perhaps the biggest challenge for APEC.

### **3 The relocation of investment and the diversification of trade in APEC: Challenges for Mexico**

It is precisely in the aforementioned context that protectionist stances accompanied by a great nationalism are explained. This context invites the Asia-Pacific region and, in particular, Mexico to explain the new trends of "free trade" versus "specific economic interests" that mark trade boundaries and a "facilitation of investments" vs their "relocation".

The II postwar period, giving rise a protectionist development centered essentially on a model of import substitution, with a high state intervention. This led to the growth of the economy by up to 7% along two decades (the 1960s and the 1970s), during which time the country industrialized and diversified its productive structure, giving rise to the so-called Mexican miracle (Salas-Porras, 2014).

However, this economic model depended on imports of capital goods that demanded increasing amounts of foreign exchange, as Jaime Ross (1993) extensively documents. Until the 1960s, these currencies came from agricultural and mineral exports. From the 1970s, the process was sustained by oil exports; however, oil production required huge amounts of investment, raising debt by making the model vulnerable. When oil prices fell in the 1980s and interest rates rose simultaneously, rather than correcting failures in the application of the model, that economic model became non-viable (Salas-Porras, 2014).

In that context, the IMF acquired great power by becoming a guarantor of the international private banking with which Mexico had contracted the vast majority

of the public external debt. The agency demanded that Mexico adopt structural adjustment programs that required budgetary cuts to contain the deficit and public expenditure. Thus, there was a process of privatization of state-owned enterprises, which implies transforming state interventionism into private entrepreneurial leadership and, therefore, opens space for a market-centered model. Exports and foreign direct investment, once again, added to free market trends coming from abroad, thereby dismantling productive chains built over fifty years.

Since then, exports and the search for new investments from abroad have occupied a leading role in the economic restructuring of the country, giving rise to a greater concentration of Mexico's foreign market with US, which formally materialized with the signing of NAFTA, which entered into force from 1994.

When the market began to gain importance in the face of policies of state economic intervention, there has been talk of the necessary diversification of Mexico's external market. The fact that Mexico is one of the most open economies is demonstrated by the existence of 12 free trade agreements that link it with more than forty countries. Thus, since the start of the nineties, Mexico has been reiterating the danger of "putting all the eggs in one basket", which implies risks in the concentration of foreign trade in a single country (close to 90%): the US.

Paradoxically, the weakening of the national economy was halted, and the economy became stronger, in the face of the ups and downs of the administration of President Trump preceding the national interest, even if necessary to the "free market" economic policy.

Even more, considering the above, Mexico should not miss the warning of more taxes being levied by the automobile industry, which seeks to incorporate a 35% tariff on any vehicle, American or foreign, sold in the US (O'Farrill, 2017). In this way, Mexico is being affected by the relocation of industry investments. Given this scenario, Mexico is preparing to look for other foreign direct investment options, using its commercial network agreements. One example related to this could be the Japan's decision to maintain its direct foreign investment against the reverse of Ford Company to open new plant in the Mexican State of San Luis Potosi (Financiero, 2017).

Likewise, the idea of a better relationship with South Korea has been strengthened; progress in this direction has already been made with the opening of KIA motors in Monterrey city and with the possibility of a Hyundai assembler in the Mexican State of Tamaulipas. Or trade relationship expansion to Vladivostok, Russia from the Mexican State of Sinaloa, through Japan; or that better trade relations with China, promoted by the State of Veracruz and Mexico City, among other regions of the Mexican Republic. Further, as a result of this conjuncture, several commercial delegations from the States of Jalisco, Colima, Nuevo Leon, and the State of Mexico, have made trips to the Asia-Pacific region.

In addition, several communication channels for skill training have already been established, as shown by the recent visit to China by a delegation of university presidents who are members of the Association of Universities and Higher Education Institutions of Mexico (March 2017). This is further strengthened by APEC Study Centers located at the University of Colima, the University of Guadalajara, the Autonomous University of Baja California Sur, the Technological Institute of Higher Studies of Monterrey-Guadalajara, the Michoacan University of San Nicolas de Hidalgo, the University of Veracruz and the National Autonomous University of Mexico.

The option of strengthening other trade association alternatives, such as the Asia Pacific region, the Pacific Alliance, the TPP-11, even the renegotiation of NAFTA, represent areas of opportunity.

The automotive sector is obviously among the most sensitive, given the aggressive fiscal policy on the US side, because "Mexico is the largest exporter of transport goods to the United States, motor vehicles, bodies and auto parts Represent 26 percent of US imports "(Excelsior, 2017). According to JP Morgan, the companies that would lose most include "... chemical manufacturer Alpek, Nematik, which manufactures cylinder heads and engine heads for Ford Motors, but also tortilla maker Gruma, because they receive a relatively high percentage of their income from exports to the United States" (Excelsior, 2017).

The position of the Mexican government, thus far, is that the inevitable renegotiation of NAFTA must consider aspects related to labor and environmental issues, as indicated by President Peña Nieto. However, at the negotiating table, the Mexican government will also push the undisputed evidence that NAFTA has been beneficial and that Mexico will not renegotiate NAFTA if the US proposes tariffs. According to the Mexican Secretary of Economy, Ildefonso Guajardo, any renegotiation will have to focus on a win-win logic, eliminating protectionist measures, otherwise Mexico will set tariffs for the US. What will transpire remains to be seen.

On the other hand, Mexico's foreign economic policy toward the Asia-Pacific region is directed toward the Pacific Alliance with special interest. Visa exemption with PA countries has been achieved, and, consequently, greater mobility of business people and academicians is expected. However, in particular, it has resulted in a political awareness on the part of these economies to take complementary advantage of the Asia-Pacific region.

In addition, Mexico closely follows the TPP-11 proposal, recently adopted by Japan, which does not include the US. Mexico supports this proposal, given its closeness to Japan through the Economic Partnership Agreement signed in 2005, which has benefited both economies. In addition, Mexico's support is bolstered by

the confidence that Japan has expressed in Mexico before the recent fiscal threats by the US government.

For the administration of President Peña Nieto, APEC continues to be a priority. The administration considers the trade diversification options, based on an Asia Pacific Free Trade Agreement (FTAAP), which coincide with China's proposal, but also with APEC's. As much as the importance of strengthening investments to Mexico.

In addition to APEC, it has largely served as a platform for the launch of the TPP and several bilateral agreements among member economies. Even in the multilateral sense of the mechanism, but in bilateral meetings as well, are promoted as cooperation agreements. Options related to ASEAN, PECC, and even RCEAP's. Cooperation agreements between China, South Korea and Japan, or even talks between China and Russia.

In any case, in the context of APEC's own philosophy of multilateralism, there is a flexible position in favor of liberalizing trade and facilitating investment in the Asia-Pacific region.

## **4 Conclusion**

To explain the relocation of investment and diversification of trade in the context of APEC, particularly in the case of Mexico, we have made use of economic history, first, to understand the degree of similarity existing between the historical emergence of international trade and the current economic climate.

Faced with this situation, Mexico warns that, although the concentration of the market in a free trade agreement leads to regional protectionism in the face of eventual global competition, it is necessary to take advantage of its commercial network achieved. But also, to strengthen the Mexican relations with Japan and other economies like South Korea and China.

Mexico will also strengthen the scaffolding of international organizations in the Asia-Pacific region: APEC, TPP and the Pacific Alliance. The need to do so is becoming increasingly important in the view of the imminent renegotiation of NAFTA and the relocation of investment and trade diversification.

Thus, the importance of understanding the current moment of capitalist development, in which both Mexico and the APEC economies find themselves, as being a new era in which the free market, as history tells us, is once again qualified with protectionist strategies. This should be seen as an area of opportunity for making fair-economic policy decisions.



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