



# NAFTA Works



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## Mexico is a Growing Export Market for the United States

Since the implementation of the North American Free Trade Agreement twelve years ago, most U.S. states have expanded their exports to Mexico. Today, 25 states have Mexico as either their first or second market for their exports. Four other states consider Mexico its third most important export destination, with export growth rates that in some cases have reached triple digits compared to pre-NAFTA years. That is the case of South Carolina which has increased its exports to Mexico 668% since 1993, when the Mexican market represented less than one percent of the state's market share. Today, Mexico ranks third as South Carolina export destination, totaling US\$1,113 million in goods sent in 2005.

Since NAFTA, Wisconsin and Kentucky increased their exports to Mexico 361% and 609% each and the Mexican market became the third most important destination for their exports, up from seventh and fifth place respectively in 1993.

Florida's exports to Mexico were \$2,025 million in 2005, making it one of the 10 states that exports more than \$1 billion to Mexico. Today, Mexico continues to increase its market share of Florida exports even though historically the state's businesses and industry traded and dealt more with South American and Caribbean economies than with Mexico. If current growth rates of Florida exports to Mexico continue, by the end of this decade the Mexican market will become the state's number one export destination.

Currently, Mexico is the U.S.' second largest trading partner and comprises its second largest export market only behind Canada).

For big economies such as Texas, California and Arizona, the Mexican market has become the most important destination of their exports. In 2005, Texas exports to Mexico reached \$50.1 billion and today almost forty percent of them go to Mexico. California exports to Mexico were \$17.7 billion in 2005, surpassing the state's sales to Canada or Japan, which, until a few years ago, were their number one and number two most important export markets.

States such as Michigan, Illinois, Indiana and Ohio along with sixteen other states are exporting more than 2 billion dollars per year to Mexico, and have that market as their second most important destination by value. Among those states, Michigan exported \$4.2 billion to Mexico in 2005. Trade between Michigan and Mexico reflects the growing complementarities in the automotive industry production and its vertical integration in North America. U.S. car companies have taken advantage of those complementarities to produce with rising competitiveness and efficiency. On a yearly basis, nearly 700 thousand new cars and trucks produced in the United States find a growing consumer market in Mexico, and two thirds of the new vehicles imported to Mexico are produced in Michigan.

*continues on page 2*

## Mexico Economic Update

	Mar 2006		Jan-Mar 2006		Financial Indicators	Mar 2005	Mar 2006	Economic Growth	Feb 2005	Feb 2006
	Value (US bd)	Annual Change %	Value (US bd)	Annual Change %						
<b>Foreign Trade</b>					Inflation Rate (Annual)	4.4	3.4	Global Economic Activity Index (IGAE)	3.2%	4.3%
Exports	20.96	20.8	273.11	16.3	Interest Rate (CETES 28)	9.4	7.4	<b>Industrial Activity</b>		
Manufacturing	16.58	17.2	221.51	12.9	Stock Market Index (IPC)	13,294	19,033	Industrial Production	1.7%	5.3%
Oil	3.50	41.5	41.79	38.6	Exchange Rate (pesos/dollar)	11.14	10.75	Manufacturing	2.4%	4.7%
Imports	21.11	20.5	279.94	14.0	International Reserves (US bd)	61.7	67.5	Mining	-4.7%	6.5%
Balance	-0.15	-6.8	-6.83	-36.1	<b>Employment</b>	<b>Feb 2005</b>	<b>Feb 2006</b>	Construction	0.9%	8.9%
					Open Unemployment	3.81	3.60			

Source: Ministry of the Economy with Banxico and INEGI data.

US bd= US billion dollar



U.S. export performance to Mexico is geographically diverse. Likewise, increasingly diverse sectors are finding a growing market in Mexico. For example, while exports to Mexico from border states such as Texas, California, and Arizona continue to experience rapid growth, some Midwestern, Southern, and Northeastern states have also increased their sales to Mexico. That is the case for Louisiana, which has had a 341% rate of growth since 1993. In 2005, Mexico became the most important destination of Louisiana's exports, and Louisiana is now part of the club of states that export over \$2 billion to Mexico.

In terms of export composition, U.S. exports to Mexico are as varied as ever. Today, U.S. exports to Mexico range from automobiles and auto parts to computers and computer equipment, precision machine tools and devices; and between scientific instruments and agricultural products to services, including financial and insurance services. As a result, many U.S. states are marketing themselves in Mexico through the opening of state trade offices of representation. Today, thirty one of the fifty states have representation in Mexico, and that number will increase as more states promote their business and investment activities in Mexico, a market that still is the United States' second most important trading partner.

Source: U.S. Census Bureau, with adjustments by the World Institute for Strategic Economic Research (WISER), and SE-NAFTA. 1993-1999 SIC, and 2000-2005 NAICS.

## Selected Readings

### **Macroeconomic Effects and Policy Challenges of Population Aging (Tamirisa, Natalia T. and Farquee, Hamid. International Monetary Fund, Working Papers, April 2006)**

<http://www.imf.org/external/pubs/ft/wp/2006/wp0695.pdf>

This paper simulates the macroeconomic effects of population aging in a dynamic overlapping generations model of a small open economy. The model is calibrated to data for the Czech Republic, where population aging is proceeding at a pace comparable to that in other advanced countries in Europe. Simulations show that population aging is likely to slow economic growth and improvements in living standards. Although reforms to raise labor force participation and productivity growth can mitigate these adverse effects, they are unlikely to eliminate the need for fiscal reforms. The budget will come under pressure from rising age-related expenditures, and consolidation will be needed to preserve debt sustainability.

### **Global Financial Stability Report : Market Developments and Issues (International Monetary Fund, April 2006)**

<http://www.imf.org/External/Pubs/FT/GFSR/2006/01/index.htm>

The Global Financial Stability Report provides semiannual assessments of global financial markets and addresses the emerging market financing in a global context. This particular issue draws, in part, on a series of informal discussions with commercial and investment banks, securities firms, asset management companies, hedge funds, insurance companies, pension funds, stock and futures exchanges, and credit rating agencies, as well as regulatory authorities and academic researchers in many major financial centers and countries. The report reflects information available up to February 10, 2006.



# Querétaro



Capital: Querétaro  
 Main cities: Ezequiel Montes, Corregidora, Cadereyta, El Marqués, Pedro Escobedo

Major exports: Metallic products and auto parts, electrical products and electronics, paper, prints and editorial, chemicals, rubber and plastics, food, beverages, and tobacco products.

Exports: US \$1463 Millions (2004)  
 Imports: US \$1999 Millions (2004)

Maquiladoras: 9 employing 3,036 workers

FDI Companies: 520

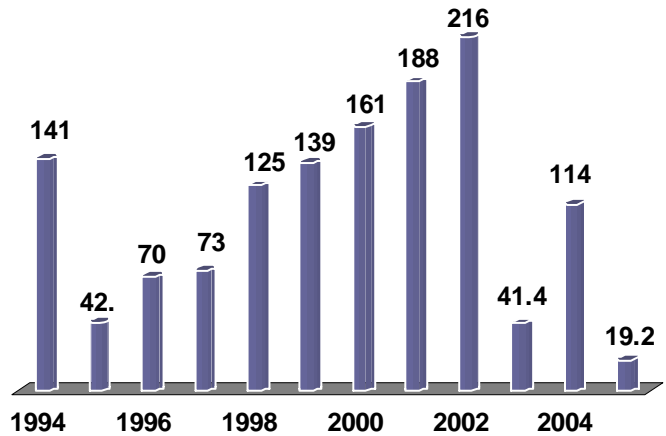
Population: 1,598,139 (2005)  
 68% in the urban area  
 65% under 30 years old  
 116 persons per square kilometer

Education: 90% Literacy rate  
 141,169 with more than High School  
 10,398 Masters or Ph.D.

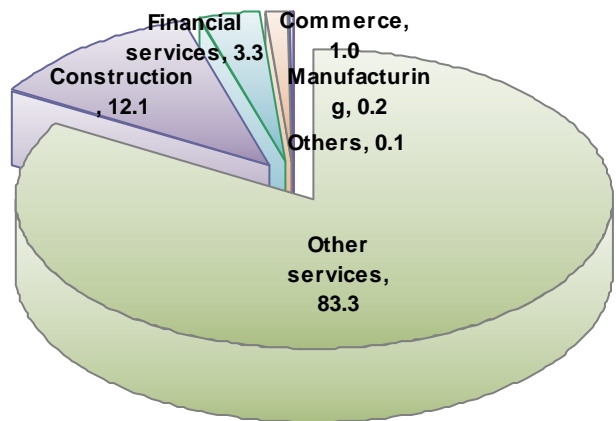
Households with:  
 25% Computers  
 93% TV  
 81% Refrigerators  
 63% Washing Machine

Infrastructure:  
 1,873 km of paved roads  
 143 km of highways (4 lanes)  
 1 International Airport  
 46 Universities and technological institutes  
 31 Hospitals  
 308,816 Fixed telephone lines  
 19 Radio stations  
 5 TV stations

## Foreign Direct Investment (Millions of US Dollars)

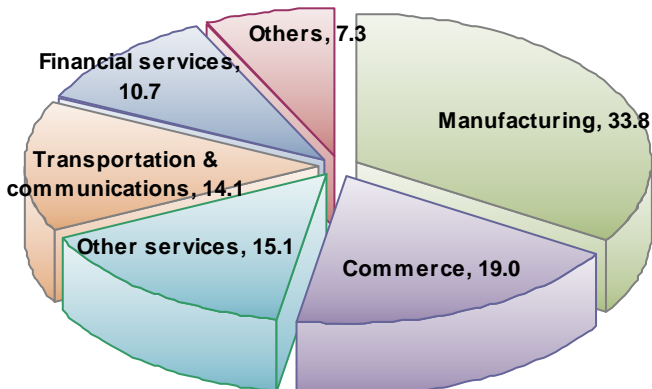


## Foreign Direct Investment by Sector 94-05 (Percentage)



1329.5 Millions of US Dollars

## Gross Domestic Product 2004



Web-site: <http://www.queretaro.gob.mx/sedesu>  
 E-mail: [sedesu@queretaro.gob.mx](mailto:sedesu@queretaro.gob.mx)  
 Tel/Fax: 011 52 (442) 211 6800 Ext.1401



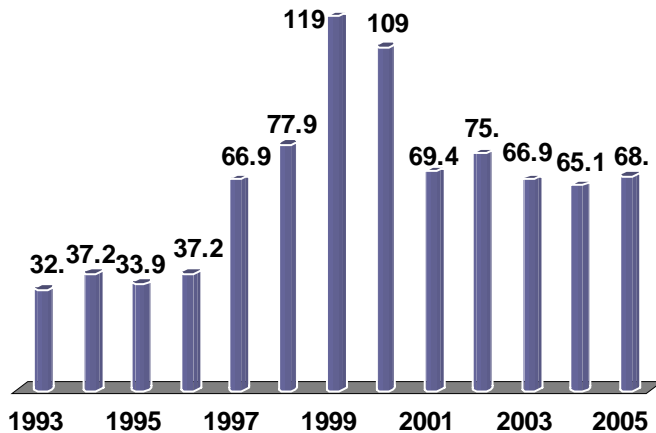
# Rhode Island

Since Nafta, Rhode Island's sales to Mexico have grown at an annual average of 6%

Mexico is the second largest market for Rhode Island's goods.

## Exports to Mexico

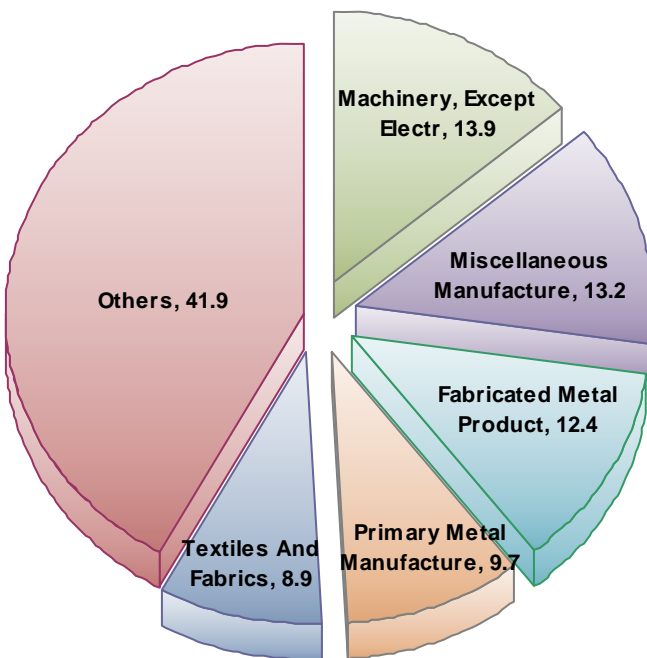
1993-2005 (Millions of US Dollars)



Source: US Census, WISER and SE-NAFTA Series. 2000-2005, NAICS

## By Sector (NAICS)

2005



Source: US Census, WISER and SE-NAFTA. SIC Series 1993-2000 NAICS series 2001-2005.

### Nextel invests 25 million dollars in Juarez

Nextel is the largest business network in Mexico and in America, enabled by International Direct Connection services (CDIN). Today it connects more than 18 million users in the continent by pressing one button and without any additional roaming and long distance charges. Established in 1998, Nextel Mexico sought to satisfy the communication needs of companies that have moving work teams. With an investment surpassing 2.5 billion dollars, Nextel now covers more than 30 cities in the states of Mexico, Jalisco, Nuevo León, Puebla, and Baja California among others.

In July 2005, the company announced its arrival to Juarez and has created more than 650 direct jobs last year. Nextel Mexico now offers users in Mexico four services: Direct Connection, Telephone Network Access, Written Messages, and Nextel Online. As of March 2005, there were more than 882,600 users taking advantage of the digital services offered by Nextel. They hope to expand to the city of Chihuahua next.

### Nokia expands production to Reynosa

Nokia currently has nine mobile phone factories globally. In June of 2005, they announced the expansion to Reynosa that will be located near Nokia's existing facility in Mexico City. Mobile production expansion in Latin America is expected to be a major contributor to the global mobile subscriber base and extending to Reynosa will help put Nokia in a competitive position.

Now in May 2006, the expansion has invested more than \$50 million and provides a greater capacity and flexibility to meet the requirements of Nokia's customers in North and South America. "The expansion of our plant reflects our commitment to Mexico. We employ approximately 1,800 people at the factory," said Jeff Marquis, general manager of Nokia's Reynosa plant. Nokia is a world leader in the mobile communications sector and foresees growth and sustainability for the extensive mobile industry.

### United Plastics Group, Inc. (UPG) inaugurates its second Monterrey facility

United Plastics Group, Inc. (UPG) recently inaugurated its second Monterrey facility in response to a dramatic rise in demand by Fortune 100, tier one automotive and consumer product customers for full-service custom manufacturing. The company has just ended a record year for earnings, the second consecutive year of positive growth and with that created the new 53,000 square foot plant.

UPG attributes the success of its growth in Mexico to the rigorous recruitment, effective programs for employee retention, and extensive training in team problem-solving, and individual work skills. The company works closely with the Tecnológico y de Estudios Superiores de Monterrey to develop talent in the plant as well as to attract and retain workers whose skills and dedication correspond with UPG's quality standards.

NAFTA WORKS FOR



## Diario Oficial Notices

- Agreement which modifies the similar one, establishing the classification and the list of goods requiring previous export/import permit by the Ministry of the Economy. (March 29)
- Twelfth Resolution containing modification to various Fiscal Regulations for 2005. (March 31)
- Agreement establishing the criteria for granting previous importation permits under tariff heading 98.02 of the General Import/Export Tariff Law. (March 31)
- Decree modifying, adding and revoking certain provisions of the Marketing Information, Regulation (under the Health Law) and of the Regulation on Sanitary Control of Products and Services. (April 6)
- Agreement amending the existing one, establishing the administrative procedures for the implementation of the safeguard mechanism provided in the accession protocol of China to the WTO. (April 7)

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### A monthly newsletter on NAFTA and related issues

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## NAFTA Related Events

**April 26 – 28**

“EXPO SEGURIDAD“

México, D.F.

<http://www.giprex.com>

**May 17 – 18**

“Logística2006“

Juárez, Chihuahua

The largest tradeshow and conference dedicated 100% to promote Logistics Services in Cd. Juárez, Chih. Two days packed with educational and innovative solution sessions focused specifically on logistics and distribution operations. This conference provides the tools and techniques the maquiladora industry needs to improve logistics and distribution knowledge, solution development, and operating performance. Maquiladora’s representatives will hear from expert speakers, exchange ideas with suppliers in an open panel, and network with vendors.

<http://www.logistica2006.com>

**May 30**

“PXI TAC“

Juárez, Chihuahua

The PXI TAC is a series of free, full-day events in 15 cities across the United States, Canada, and Mexico featuring in-depth informational sessions on the latest PXI platform technologies and roadmaps, case study presentations, hands-on technical training, and networking with industry executives.

<http://www.pixtac.com>

**May 31**

“WELDMEX“

Monterrey, Nuevo Leon

<http://www.giprex.com>