



NAFTA Works



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Competitiveness growth in Mexican ports

Mexican ports have been boosting their competitiveness during the last four years. According to the General Administration of Ports and Merchant Marine (*Coordinación General de Puertos y Marina Mercante*), during this period, the main national ports have reduced to half the time for unload, checking and departure of a container; reducing this timing from 96 hrs in 2000 to 48 hrs in the first quarter of 2005. The objective for this year is to reach a maximum of 40hrs for this process. The average departure time of a container for the U.S. ports of Long Beach, Miami and Houston is between one to two weeks. In Asia and Europe, time averages between 48 and 72 hrs as well as in Thamesport in England and Hamburg and Bremerhavun in Germany. The Chinese ports of Hong Kong, Shanghai, and Xiamen also have reduced their departure times to a maximum of 72 hrs. Nevertheless, the Mexican Institute for Competitiveness (*Instituto Mexicano para la Competitividad*) found out in a study that the departure time of a container in a national port could last up to 10 days.

In particular, Tampico's harbor has moved more than 3 million tons of cargo in its public terminals, which represents an increase of 23.27% in contrast to last year's same period, due to the efficient loading and unloading of products, as well as the availability of storage. In addition, there are now nine vessels operating in the fiscally authorized compound, which represent 117 thousand tons in activity. The harbor is

operating under 100% of its capacity, which demonstrates that it is working better than ever to provide quality and efficient service to the navy agencies and all the users in general. Among some of the main products that the harbor manages are: *wood, steel, and minerals*. On the other hand, the increase in activity allows us to give a greater look for more drawing in the navigation channel that will bring more ships of greater capacity and, therefore, more benefits for the marine harboring community. The Tampico's Harbor is of great importance not only for its national and international confines, but also because it demonstrates importance in the development of the national economy.

But the reduction of loading and unloading times to the world's most competitive standards is not all. Mexico's Ministry of Communications and Transportation (*Secretaría de Comunicaciones y Transportes*) designed the National Agreement for the Development of Multi-modality Corridors (*Acuerdo Nacional para el Desarrollo de Corredores Multimodales*). This national agreement will increase the competitiveness of producer, importer and exporter firms in the country; and it would also increase the added value of their products by lowering the logistic costs needed to participate in World markets. The multimodal corridors that have been authorized to start operations include the ones from Port Lázaro Cardenas- Los Laredos (Nuevo Laredo, Mexico and Laredo, Texas); Port of Manzanillo-Los Laredos and Port of Manzanillo-Ciudad Juárez-El Paso, Texas.

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Mexico Economic Update

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	Jan 2006		Jan-Jan 2006		Financial Indicators	Jan 2005	Jan 2006	Economic Growth	Dec 2004	Dec 2005
	Value (US bd)	Annual Change %	Value (US bd)	Annual Change %						
Foreign Trade					Inflation Rate (Annual)	4.5	3.9	Global Economic Activity Index (IGAE)	4.5%	2.4%
Exports	19.21	36.0	233.44	15.5	Interest Rate (CETES 28)	8.6	7.9	Industrial Activity		
Manufacturing	14.79	28.8	189.96	12.2	Stock Market Index (IPC)	12,753	18,728	Industrial Production	4.7%	2.7%
Oil	3.49	75.6	35.38	37.9	Exchange Rate (pesos/dollar)	11.26	10.55	Manufacturing	5.0%	1.8%
Imports	18.51	21.2	240.33	13.3	International Reserves (US bd)	61.8	69.6	Mining	-2.6%	6.7%
Balance	0.69	-160.6	-6.89	-30.8	Employment	Dec 2004	Dec 2005	Construction	6.7%	7.2%
					Open Unemployment	3.52	2.84			

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

US bd= US billion dollar



Other corridors that are being analyzed are the land bridge Manzanillo-Lázaro Cardenas-Altamira and Ensenada-California (including the Mexican cities of Tecate, Tijuana and Mexicali.)

The Integral Port Administration of Ensenada (*Administración Portuaria Integral de Ensenada*) plans to invest more than US\$10.75 millions in infrastructure projects like the “multi-modal corridors”, which consist of a group of strategic infrastructure that would connect industrial areas using all the modalities or types of transportation. These corridors are estimated to ease the traffic of merchandise containers between Ensenada, Tijuana, Tecate and Mexicali to the rest of the Mexico; and to the U.S. The director of the port, Carlos Jáuregui, said that the majority of the projects are private and are part of a strategy to modernize the port. In addition, the port’s canal was expanded from 13 to 14 meters allowing the arrival of fourth generation vessels of as much as 5,500 TEU’s; each of these units is equivalent to 10,000 containers of 20 feet.

Nowadays the Port of Ensenada negotiates the development of new services with shipping companies like Maersk Sealand, NYK Lines, APL, CP Chips, Hamburg Sud, CCNI and CMA-CGM. Meanwhile, the multi-modality corridor project is planned to start working within the three months starting from the Port of Ensenada. Once the project is strengthened, it is expected that at least five shipping companies that operate cargo vessels in the US, will be interested in operating their cargo through this port. The port has also become more important because it is now competing with the ports of Los Angeles and Long Beach, which register high levels of saturation.

Another multi-modality corridor that is developing is in the Isthmus of Tehuantepec. This corridor portends to connect the ports of Lázaro Cárdenas and Salina Cruz in the Pacific Ocean with the Port of Coatzacoalcos in the Gulf of Mexico. In this way, this corridor would be able to compete with the Panama Canal. Port Lázaro Cárdenas has grown in importance in the last few years. From January to October 2005, this port managed 22 percent of all the cargo in the Mexican commercial ports. The growth of cargo traffic of Port Lázaro Cárdenas grew 34.8 percent from 2004 to 2005. The main national origins and destinations of this port are Michoacán, Oaxaca, Colima, Baja California Sur, Sinaloa, Coahuila, Querétaro, Jalisco, Mexico State and Mexico City. On the other hand, the international origins and destinations are Brazil, Chile, Canada, Taiwan, Morocco, Colombia, Peru, Costa Rica, United States, China, New Zealand, Argentina, Venezuela, Guatemala, Trinidad and Tobago, India and South Korea.

The Port of Salina Cruz is a strategic port for the commerce with Asia, America and Europe as well. It also functions as a supplier of petroleum and its derivatives to the states of the Pacific in Mexico. Salina Cruz is 300 kilometers away from Coatzacoalcos. They both connect the Gulf of Mexico and the Atlantic Ocean with the Pacific Ocean through railroads and highways. They form an industrial and

transportation corridor in privileged location with a high potential for development. This area represents an important distributor of the mining, farming and industrial activities of the region of the Isthmus. In addition, Salina Cruz has become the most dynamic port in Mexico since the tons of managed cargo grew 144 percent from January 2004 to October 2005, according to the Ministry of Communications and Transportation.

Competitiveness growth of Mexican naval ports has been the result of a national strategy guided by both the government and the private sector. This will open new opportunities for economic development and growth, and it will strengthen Mexico’s commitment to guarantee a competitive environment for international and national firms.

Modifications to Mexican Foreign Trade Law to Strengthen Transparency

On January 24th, 2006, some modifications were made to the Mexican Foreign Trade Law.

There are some updates modifications that include allowing the Ministry of the Economy to coordinate international trade negotiations with the productive sectors, to establish promotion programs, to issue rules and regulations for the enforcement of applicable trade legislation, and to accept the use electronic signatures for some notifications and procedures.

Some additional abilities now assigned to the Ministry of the Economy are arranging annual programs of export promotion for small and medium sized businesses (MPYMES), and serving as an advisory office to the exporters in the case of any barrier to trade.

There were also more substantive modifications, which require the publication for comments of any foreign trade disposition that the Ministries or entities for the Public Administration want to establish, to the effect that the private sector and any other interested person can make comments on the matter.

It has been determined that the fulfillment of the non-tariff regulations will be through security documents or through electronic means, unless the Free Trade Agreements say another thing.

It has also been obliged that, in one year, the Ministries that maintain non-tariff regulations establish a plan of work for effecting an electronic interconnection with the Ministry of the Economy and the Ministry of Finance, so that they can administrate and control aforementioned regulations.



Mexico-US Annual Trade Analysis

January 2006 marks the twelfth anniversary of the launching of the North American Free Trade Agreement (NAFTA). North America is not only one of the largest and most competitive free trade areas in the world with a market of 360 million consumers, it is also one of the most prosperous and integrated trading regions; in fact, almost one quarter of the region's total trade takes place among NAFTA partners (intra-NAFTA trade).

With NAFTA, Mexico and the U.S. have strengthened their trade ties. As a result, bilateral trade has shown an outstanding performance depicted by its average growth rate indicator of 11.2% for each of the first twelve years of the agreement. Bilateral trade between Mexico and the U.S. reached almost \$303 billion in 2005; representing an increase of 259% compared to 1993, a year prior to NAFTA.

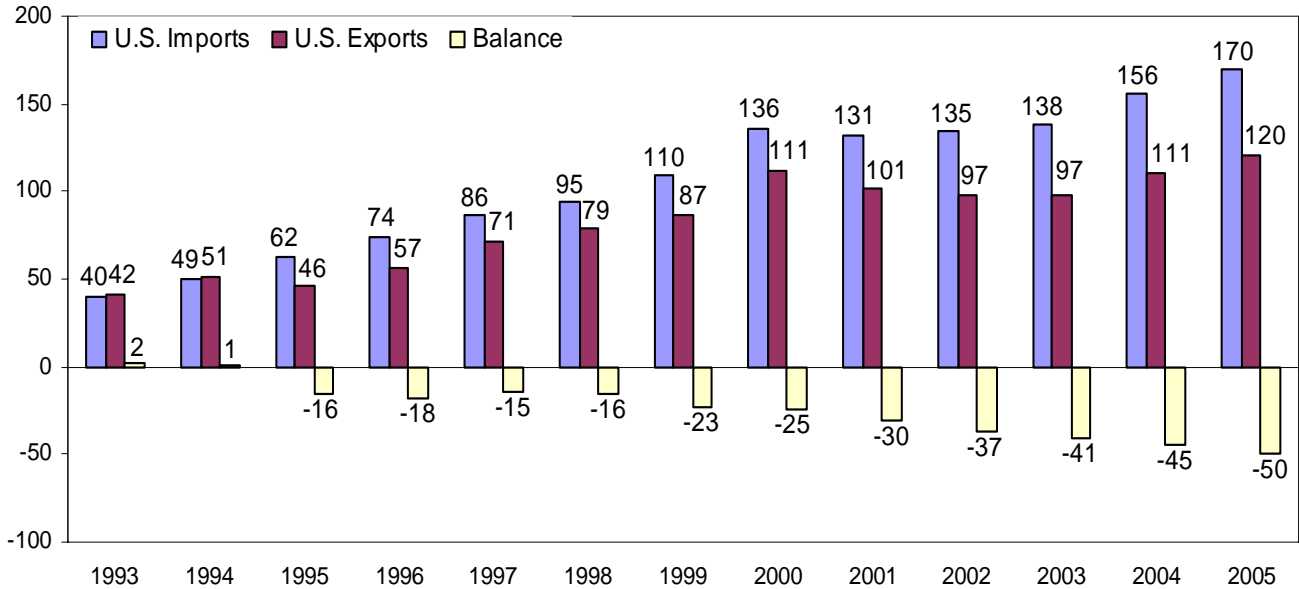
Currently, Mexico is the second largest market for U.S. products, representing 13.3% of its total exports. U.S. sales to Mexico registered \$120 billion, 8.3 percent higher than the previous year and 189% above the level registered in 1993.

Also during last year, imports from Mexico to the U.S. reached US\$170 billion, 9.2% more than the previous year and 326% higher than 1993. These imports account for 10.2 percent of total U.S. imports.

Despite the economic slowdown observed from 2001 to 2003, both countries are recovering their pace. Both are committed to trade liberalization and seek to create more and better paid jobs as well as advantages for businesses and consumers by providing inputs or products at competitive prices.

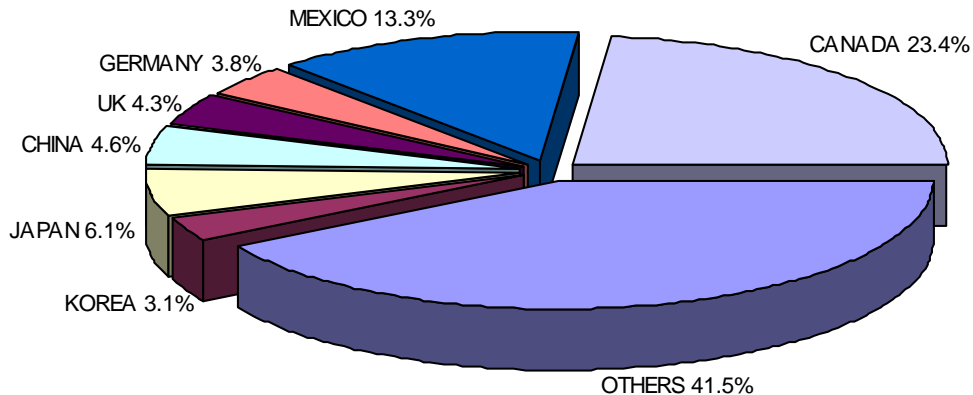
U.S.-Mexico Trade

Billions of dollars



Source: US Department of Commerce

U.S. Exports in 2005



US\$904 Billion

Source: US Department of Commerce



Mexican Exports of Orange Juice

Mexican exports of orange juice hit a record high in 2005. The U.S. market, the Netherlands and Germany of the European Union were its main markets. Total exports reached \$72.3 million; out of which 66.9% were to the U.S., (\$48.4 million).

Shipments to the European Union accounted for 20.0% of total exports or \$14.5 million. Japan is also in the pipe line. The Cooperation Agreement between Mexico and Japan opened the door to the expansion of exports and increased market share for this product. In 2005 exports to this country amounted to \$2.6 million (3.5% of total exports).

NAFTA plays an important role in the development and consolidation of the Mexican orange juice industry. Under the agreement, imports of this product to the U.S. market are currently subject to quantitative limitations and tariffs, which will be eliminated on January 1st, 2008.

According to U.S. data, in 2005, the U.S. imported \$44.8 million of orange juice from Mexico, (17.6% of total imports). Brazil ranked first as supplier, reaching \$143.4 million (60% of total imports). For Mexico, there is still a long way to go in order to be well positioned in this market. 2008 is the year for the full liberalization of the U.S. market for this product, and the Mexican industry is eager to get into it.

Selected Readings

Trade and Environment Review, 2006 (United Nations, February 2006)

<http://www.unctad.org/Templates/WebFlyer.asp?intltemID=3725&lang=1>

The TER 2006 focuses on environmental and related health requirements and their impact on developing countries' market access. It examines both the opportunities and challenges presented by these requirements, which are increasingly stringent, complex and multi-dimensional. The Review includes both general and sectoral analyses of the issue, and looks at two sectors where environmental requirements are critical to market access: electrical and electronic equipment and organic agricultural products.

Trade, Inequality, and the Political Economy of Institutions (Do, Quy-Toan and Levchenko, Andrei A. International Monetary Fund, Working Papers, February 2006)

<http://www.imf.org/external/np/res/seminars/2005/arc/pdf/do.pdf>

We analyze the relationship between international trade and the quality of economic institutions, such as contract enforcement, rule of law, and property rights. In our model, firms differ in their preferences for institutional quality, which is determined endogenously in a political economy framework. We show that trade opening can worsen institutions when it increases the political power of a small elite of large exporters who prefer to maintain bad institutions. The detrimental effect of trade on institutions is most likely to occur when a small country captures a sufficiently large share of world exports in sectors characterized by economic profits.

Success Stories

Toto constructs new factory in Nuevo Leon

Toto, a Japanese manufacturer of high technology toilets has announced the construction of a new factory in the State of Nuevo Leon. The new Mexican factory will cost USD\$37 million and will employ 260 people when it is opened in January 2008. Thanks to this plant, Toto is expecting to sell 3,000 toilets (1,000 more than current sales) every month to the United States.

Arrow opens a third plant in Chihuahua

Arrow International is a leading manufacturer of medical products such as catheters and other items related to intensive care treatment in cardiology and radiology. The company has just inaugurated its third plant now in Chihuahua City and operations will take place in Las Americas Industrial Park, beginning with 24 associates. Arrow International is expected to close the year with 300 employees in its new plant and increase to 450 by 2007.

Cessna opens factory in Chihuahua

Cessna Air Craft, the world leader in business jet manufacturing and ITT Industries, specialist in engineering and manufacturing, will establish around 850 direct jobs in the State of Chihuahua. Cessna will start in March, 2006 whereas ITT already began, with an investment of USD\$ 12 million in machinery, with its first production stage some days ago. This stage provided 750 employees with direct jobs.

International Rectifier's plant in Tijuana wins award

International Rectifier is a world leader in power management technology. IR's power systems enable high performance computing and reduce energy waste from motors, the world's single largest consumer of electricity

The Tijuana facility, Rectificadores Internacionales S.A. de C.V, is one of six of the company's HiRel manufacturing sites facility in Tijuana and was recently awarded Joint Army Navy (JAN) JANTX and JANTXV certification by the Defense Supply Center Columbus (DSCC). JANTX and JANTXV are stringent quality and reliability levels designated by the US Department of Defense for discrete power semiconductor devices. This award will allow IR to offer their products on the US Department of Defense's Qualified Products List (QPL).



Quintana Roo



Exports: US \$22 Millions (2004)
 Imports: US \$147 Millions (2004)
 Maquiladoras: 3 employing 377 workers
 FDI Companies: 1,947

Capital: Chetumal
 Main cities: Benito Juárez (Cancun), Cozumel, Felipe Carrillo Puerto, Isla Mujeres

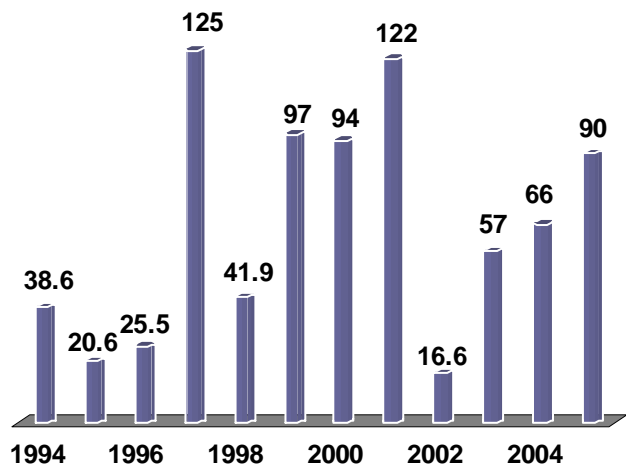
Population: 1,135,309 (2005)
 82% in the urban area
 66% under 30 years old
 22 persons per square kilometer

Education: 92% Literacy rate
 75,850 with more than High School
 3,957 Masters or Ph.D.

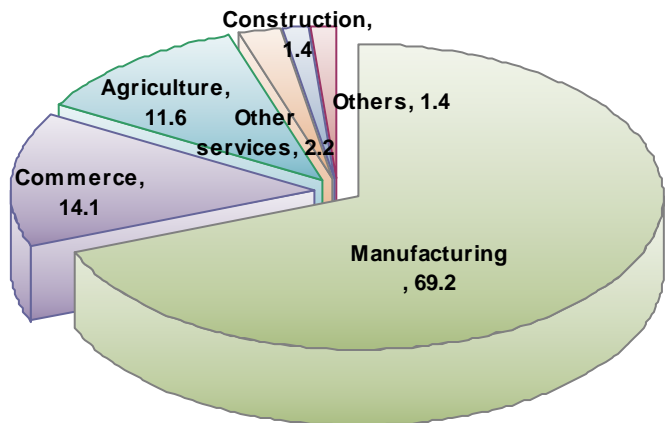
Households with:
 19% Computers
 90% TV
 79% Refrigerators
 69% Washing Machine

Infrastructure:
 2,859 km of paved roads
 214 km of highways (4 lanes)
 3 International Airports
 3 Industrial parks
 29 Universities and technological institutes
 47 Hospitals
 226,001 Fixed telephone lines
 21 Radio stations
 16 TV stations

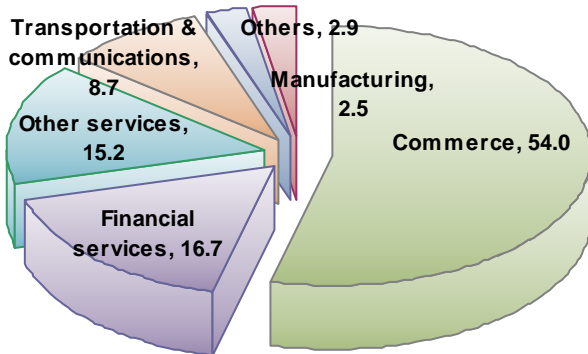
Foreign Direct Investment (Millions of US Dollars)



Foreign Direct Investment by Sector 94-05 (Percentage)



Gross Domestic Product 2004



794.1 Millions of US Dollars

Web-site: <http://sede.qroo.gob.mx/>
 E-mail: sedejdc@qroo.gob.mx
 Tel/Fax: 011 52 (983) 832 4482 ext. 203



North Carolina

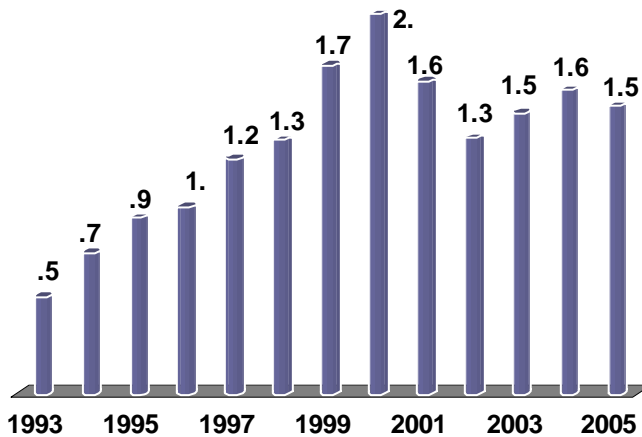
Diario Oficial Notices

Between 1993 and 2005 North Carolina's exports to Mexico grew from \$.5 billion to \$1.5 billion.

Mexico is the third largest consumer market of North Carolina's exports

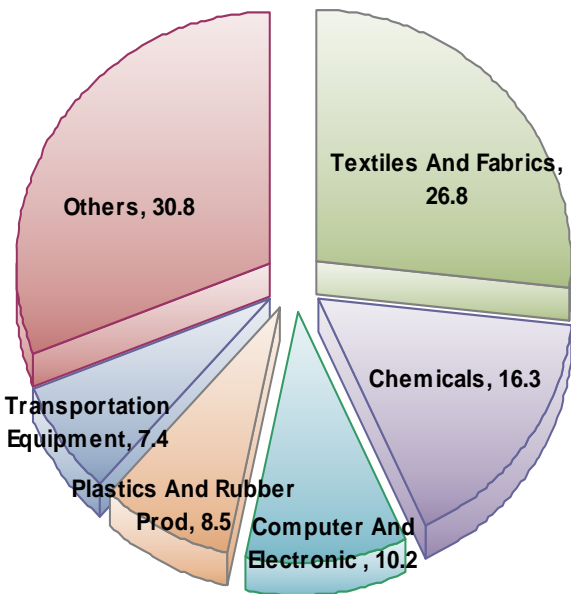
Exports to Mexico

1993-2005 (Billions of US Dollars)



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

Exports to Mexico By Sector (NAICS) 2005



Source: US Census, WISER and SE-NAFTA.

- ◆ Decree reforming and adding several dispositions of the Law of Foreign Trade . (January 24).

- ◆ Decree reforming and adding several dispositions of the Industrial Property Law . (January 25).

- ◆ Agreement modifying its similar that establishes the encoding and classification of merchandises to import under chapter 95 of the Law of Tariffs of the General Taxes of Import and Export . (January 31).

- ◆ Agreement modifying the previous one which establishes the classification and codification of products whose imports-exports, interning and exiting, is subject to the Mexican Official Standards . (February 2).

- ◆ Final determination of the administrative procedure for product coverage concerning the final determination that imposed a countervailing duty over chemical organic product 2-, merchandise at the moment is classified in the tariff schedule 2933.99.99 of the Law of Tariffs of the General Taxes of Import and Export, originally from the Republic of China, independently of the country of origin. (February 7).

- ◆ Final determination of the administrative procedure for product coverage concerning the final determination that imposed a countervailing duty over chemical organic product 2-, merchandise at the moment is classified in the tariff schedule 2933.21.01 of the Law of Tariffs of the General Taxes of Import and Export, originally from the Republic of China, independently of the country of origin. (February 7).

- ◆ Final determination of the administrative procedure for product coverage concerning the final determination that imposed a countervailing duty over chemical organic product 2-, merchandise at the moment is classified in the tariff schedule 2934.99.99 of the Law of Tariffs of the General Taxes of Import and Export, originally from the Republic of China, independently of the country of origin. (February 7).

- ◆ Final determination of the administrative procedure for product coverage concerning the final determination that imposed a countervailing duty over chemical organic product 2-, merchandise at the moment is classified in the tariff schedule 2934.99.99 of the Law of Tariffs of the General Taxes of Import and Export, originally from the Republic of China, independently of the country of origin. (February 8).

- ◆ Preliminary resolution of the antidumping investigation on pork, classified under Tariff item 0203.12.01 y 0203.22.01 of the Mexican Tariff Schedule on imports and exports from the United States of America regardless of the country of origin. (February 8).

- ◆ Resolution that declares the initiation on the procedure of examination on the countervailing duty imposed on-, classified under Tariff items 8481.20.01, 8481.20.04, 8481.20.99, 8481.30.1, 8481.30.99, 8481.80.18, 8481.80.20, 8481.80.04 y 8481.80.24 7214.20.01 of the Mexican Tariff Schedule, original from China, regardless of the country of origin . (February 8).



N AFTA Related Events

March 08 – 11

“EXPO MANEJO 2005 - VIII exposition of material handling equipment “

México, D.F. – Expo Santa Fe México

EXPO MANEJO 2005 is an exhibition of warehousing, logistics and material handling equipment. The event presents containers, wrapping equipment, automatic retrieving systems, stackers, elevators, labeling devices, data collection equipment, automated vehicles (robots), forklift trucks, belt conveyors, cranes, hoists, and monorails, among others.

http://www.expomanejo.org.mx/Expomanejo_english.html

<http://www.exposantafe.com>

March 08 – 11

“TECMA 2005 – XI International Machine Tools Exhibition“

México, D.F. – Expo Santa Fe México

Organized by the Mexican association of machinery distributors (machine tools chapter) since 1991, TECMA is a major show that specializes in machine tool technology, related equipment and peripherals. This year TECMA joins EXPO MANEJO in an effort to create an additional benefit for its attendees since it gives them the opportunity to visit two exhibitions and obtain the best of the technologies that both have to offer.

<http://www.tecma.org.mx/index.html>

<http://www.exposantafe.com>

March 08 – 11

“EXINTEX Textiles 2005“

Puebla, Puebla – Recinto Ferial

The International Textile Exhibition, EXINTEX, is an event that gathers buyers and suppliers interested in exhibiting their products, updated technology and necessary services to carry out the production process and commercializing of goods. EXINTEX Textiles 2005 will present for its XIV edition a wide range of products like threads & weaves, home use textiles, fashion / textile / confection, chemical products & services, from where textile businessmen can choose all they need to strengthen production in their companies with excellent prices, quality and recognized Mexican workmanship. All this reflected in the “just in time” delivery of required goods.

<http://www.exintex.com.mx>

<http://www.maquilaportal.com>

March 09 – 12

“EXPO ANTAD 2005“

Guadalajara, Jalisco – Recinto Ferial

The XXII EXPO ANTAD convention is a show of food, consumer products and retail technology. This four-day event is intended to promote interaction between the main actors in the retail sector with a view to expanding, consolidating or initiating commercial relations. Participants will have the opportunity to

share their commercial strategies with retail and wholesale chains, as well as with companies that currently supply or wish to begin supplying the commercial sector; particularly in the categories of Edible and Non-edible Groceries, Fresh Produce, Furnishings and Store Supplies, Commercial Technology, etc.

<http://www.convencionantad.org.mx/nuevo/english.htm>

March 10 – 11

“NAFTASHO – Manufacturing industry suppliers & service providers trade show“

Mexicali, Baja California – Cambridge Realty Partners

The 6th annual NAFTASHO is an event to acquaint businesses in the United States and Canada with the production opportunities that are currently available in the Tri-Valley Region, which is comprised by the Mexicali Industrial Development Commission, the Imperial Valley Economic Development Committee and the Coachella Valley Enterprise Zone. With two of the busiest border crossings spearheading the growth and revitalization efforts on both sides of this international border, NAFTASHO will provide the perfect venue for the exchange of information and business opportunities. The primary focus of the trade show is to highlight the manufacturing industry, suppliers and service providers that cater to the companies involved in the area of cross-border trade.

<http://www.naftasho.com/>

<http://www.maquilaportal.com>

March 17 – 20

“CONSTRUEXPO Oaxaca 2005“

Oaxaca, Oaxaca – Centro de Convenciones

This event gathers companies related to the construction sector in a wide range of conferences and an exhibition of the technologies and products they offer.

<http://www.expromex.com/oaxaca/>

A monthly newsletter on NAFTA and related issues

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