



NAFTAworks



A MONTHLY NEWSLETTER ON NAFTA AND RELATED ISSUES

January 2007

Volume 12, Issue 01

MEXICAN GOODS TRADE AT A GLANCE

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The Mexican external sector demonstrated a strong performance last year. New data revealed an exports expansion of 6.8 percent (the best year since 2000), meanwhile imports increased 15.5 percent, and therefore, the trade deficit diminished 23 percent.

For 2006, exports of \$250.3 billion and imports of \$256.1 billion resulted in a trade deficit of \$5.8 billion, \$1.8 billion less than the 2005 deficit of \$7.6 billion. As a percentage of Mexico Gross Domestic Product (GDP), the goods deficit decreased from 1 percent in 2005 to 0.7 percent in 2006.

U.S. GDP growth amounted to 3.4 percent in 2006, which provided a solid basis for strong trade growth for Mexico. US accounted for 84.8 percent of all Mexican exports.

The most dynamic exporting sectors in 2006 were in Oil (22.7%); followed by non Maquila (17%) and Agricultural goods (16%). Trade growth in all components was in double digits.

The sharp rise in oil exports in 2006 was driven by markedly higher oil prices (24%), despite a low decline in the volume of oil exported (1.3%).

Furthermore, price movements and exchange rates exerted a significant influence on trade flows measured in current dollar terms.

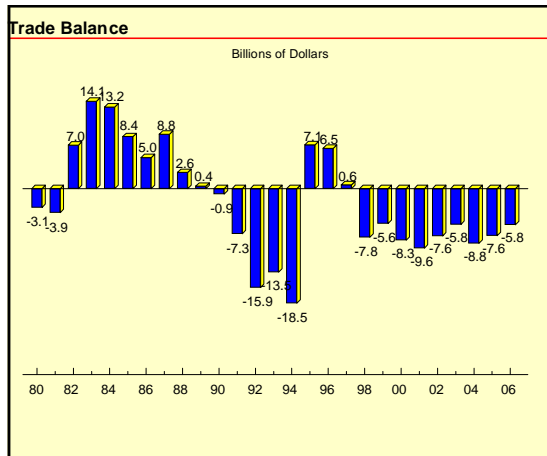
Mexican exports to the world grew by an outstanding 382 percent during the first thirteen years of NAFTA (12.9% annually), going from 52 billion in 1993 to 250 billion in 2006.

Exports account for about 30 percent of Mexico GDP. One in six manufacturing jobs in Mexico depends on manufacturing exports.

Only 24 years ago, more than two-thirds of Mexico exports consisted of oil goods. Today, the export share of oil goods has fallen to 16 percent, while manufacturing products rose to 81 percent.

and agricultural products decreased to 2.8 percent.

Among the 10 leading merchandise importers from Mexico, China advanced three places (from 10th to 7th) and Japan suffered a loss of two places (from 6th to 8th). The first five places remained unchanged. U.S. and Canada are the two main consumers of Mexican exports. Spain and Germany are the third and fourth most important market for Mexico.



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Mexico Economic Update

	Dec 2006		Jan-Dec 2006	
	Value (US bd)	Annual Change %	Value (US bd)	Annual Change %
Foreign Trade				
Exports	20.16	3.9	250.29	16.8
Manufacturing	16.73	6.6	202.87	15.8
Oil	2.62	-10.5	39.12	22.7
Imports	21.28	3.3	256.13	15.5
Balance	-1.13	-6.7	-5.84	-23.0

	Dec 2005	Dec 2006
Financial Indicators		
Inflation Rate (Jun/Jun)	3.3	4.1
Interest Rate (CETES 28)	8.2	7.0
Stock Market Index (IPC)	17,627	25,747
Exchange Rate (pesos/dollar)	10.63	10.85
International Reserves (US bd)	68.7	67.7
Employment		
Open Unemployment	Nov 2005: 2.99	Nov 2006: 3.58

	Nov 2005	Nov 2006
Economic Growth		
Global Economic Activity Index (IGAE)	2.5%	4.7%
Industrial Activity		
Industrial Production	3.0%	4.8%
Manufacturing	3.0%	4.6%
Mining	3.6%	2.0%
Construction	3.9%	6.3%

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

US bd= US billion dollar



Last year, imports of goods were up \$34.3 billion from 2005. Increases occurred in consumer goods (17.3%), capital goods (16.4%), and industrial supplies and materials (15%). Preliminary information of the Ministry of Finance shows that Mexico GDP grew 4.8 percent in 2006, the best performance since 2000.

Nowadays, imports of industrial supplies and materials account for almost two-thirds of Mexico total imports. This might be attributed partly to use in the transformation process. Consumer goods constitute about 14 percent of the total imports.

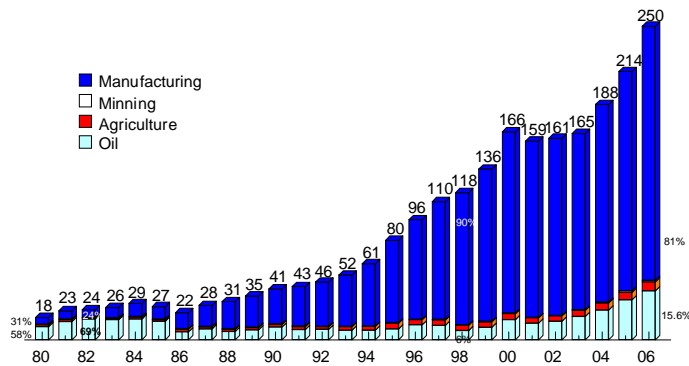
Among the 10 leading merchandise exporters to Mexico, Korea replaced Germany as the fourth largest exporter. Five out of the 10 top exporters were from Asia. U.S. accounted for half of the Mexico's imports a decreased of 2.4 points of market share.

The current investment activity underscores the importance of Mexico as a key manufacturer site. It is also helping the country improve its competitive stance by attracting the most sophisticated technology and the world's leading manufacturers. Furthermore, Mexico is helping itself to become more attractive to investors by devising incentives, particularly customized local and federal fiscal incentives. Mexico also offers an expanding road and rail infrastructure, as well as a pool of talented people and workers that create the ideal environment to establish new businesses and consolidate the growth of Mexico's industry.

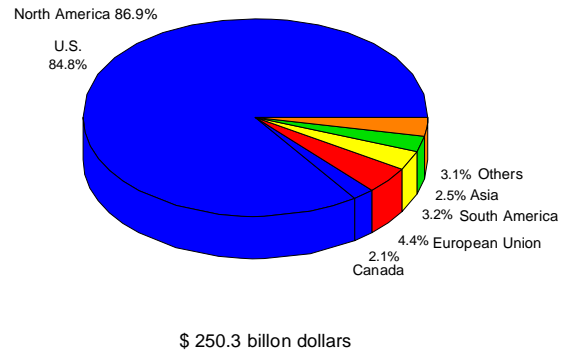
Mexico's gains in the world market are the result of its longstanding manufacturing efficiencies, qualified labor, and renowned production quality. The latter is prompting a new wave of investors to choose Mexico as the premier manufacturing location.

Exports

Billions of Dollars

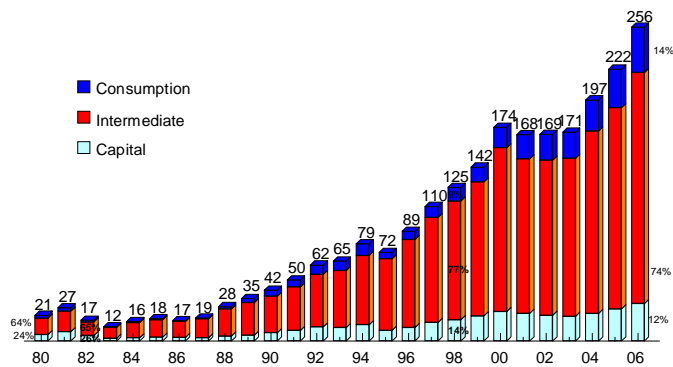


Mexico's Exports - 2006

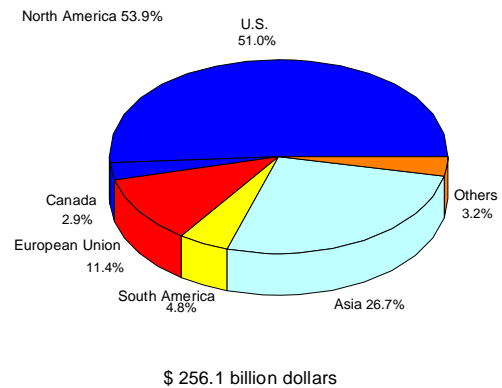


Imports

Billions of Dollars



Mexico's Imports - 2006





Success Stories

Essex Weld to invest in Chihuahua

Essex Weld Solutions will start a new operation in Ciudad Cuauhtemoc, Chihuahua, where they will produce steel containers for the automotive sector.

The Company will invest US\$3.5 million and will offer 100 direct jobs in the region.

This company provides service to large corporations in the automotive sector, including General Motors, Chrysler, Ford and Toyota.

Some decisive factors to make the investment in Ciudad Cuauhtemoc were the experience of the labor force in the Region, as well as being close to other metal-mechanics operations, the City's safety and the dynamics of trade and industry.

Purchases and logistics for the operation were also taken into consideration, including being close to the border and access by highways and railroads to receive raw materials and ship finished product.

Altos Hornos de México and Siemens sign agreements for US\$275 million

The German Company Siemens Vai entered two agreements for a total of US\$275 million, to sell equipment and machinery to Altos Hornos de Mexico (AHMSA) for the iron and steel plant to be located in "Proyecto Fénix".

Subsidiaries of Siemens Vai will manufacture for AHMSA an electric oven and a pot oven with the capacity to generate 1.12 million tons of liquid steel per year; a continuous tapping machine with the same capacity, and a new mill to manufacture steel plates.

In a press release, AHMSA said that these agreements are required for "Proyecto Fenix", which purpose is increasing by 40% the capacity to produce liquid steel, to reach 4.6 million tons per year.

It will also help increase the capacity to process finished products, mainly steel plates, which will be increased from 500 thousand to one million tons per year.

AHMSA said that "Proyecto Fénix" considers a total investment of US\$512 million in iron and steel plants and US\$315 million in coal and iron mines, to supply additional volumes to support the increase in production.

Diario Oficial Notices

- ◆ Decree reforming, adding and abolishing certain provisions of the Income Tax Law. (December 4).
- ◆ Regulations of the Value Added Tax Law and the IEPS tax Law. (December 4).
- ◆ Annexes of the Ninth Resolution of Modifications to the Fiscal Resolution for 2006. (December 7).
- ◆ Tenth Resolution of Modifications to the Fiscal Resolution for 2006. (December 21).
- ◆ Internal by-laws of the National Commission for Retirement Funds. (December 21).
- ◆ Decree reforming, adding and abolishing certain provisions of the Foreign Trade Law. (December 21).
- ◆ Annexes 11, 14 and 26 of the Tenth Resolution of Modifications to the Fiscal Resolution for 2006. (December 26).
- ◆ Agreement modifying the existing one establishing the classification of goods requiring a previous permit from the Ministry of the Economy when imported or exported. (December 26).
- ◆ Eleventh Resolution of Modifications to the Fiscal Resolution for 2006 and its annexes. (December 27).
- ◆ Federal Income Law for the fiscal year 2007. (December 27).



Tlaxcala



Capital: Tlaxcala
 Main cities: Tlaxcala, Huamantla, Apizaco, San Pablo del Monte & Chiautempan

Population: 1,068,207 (2005)
 78% in the urban area
 64% under 41 years old
 238 persons per square kilometer

Exports: US \$407 Millions (2004)
 Imports: US \$543 Millions (2004)

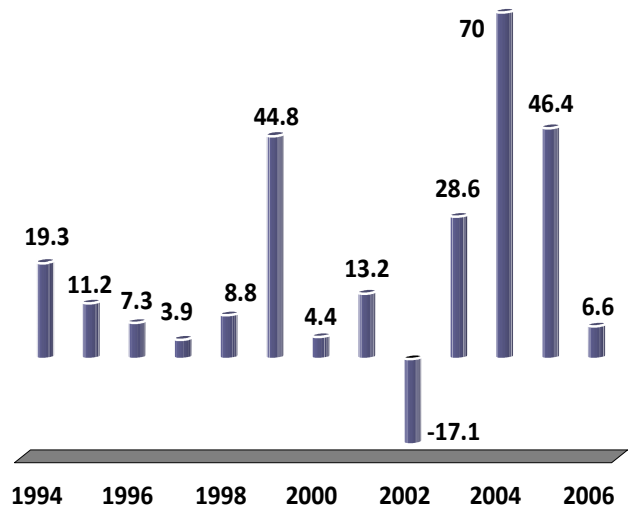
FDI Companies: 76

Education: 92% Literacy rate
 82,267 with more than High School
 3,479 Master or Ph.D

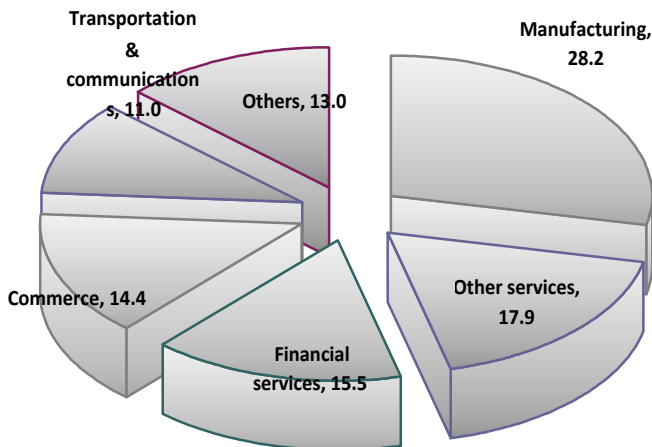
Household with : 12% Computers
 94% TV
 61% Refrigerators
 43% Washing Machine

Infraestructure: 1,228 km of paved roads
 76 km of highways (4 lanes)
 36 Universities and technological institutes
 43 Hospitals
 125,674 Fixed telephone lines
 6 Radio stations
 5 TV stations

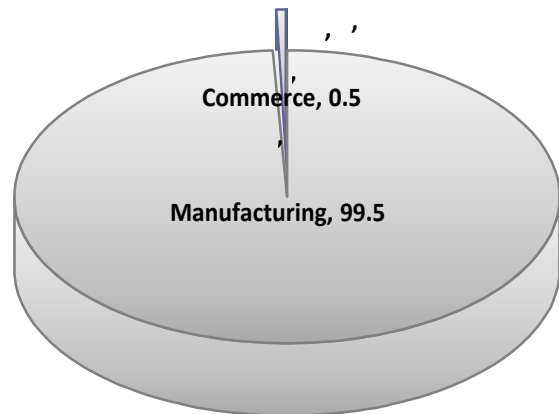
**Foreign Direct Investment
 (Millions of US Dollars)**



Gross Domestic Product 2004



**Foreign Direct Investment by Sector 94-06
 (Percentage)**



246.9 Millions of US Dollars

Web-site: <http://www.tlaxcala.gob.mx>
 E-mail: sedeco@tlaxcala.gob.mx
 Tel/Fax: 011 52 (247) 462 1130



Maryland

In the first nine months of 2006, Maryland's exports to Mexico reached \$179 million, a decrease of 29.7% in comparison with the same period last year.

In 2005, Mexico's imports from Maryland reached \$309 million, up \$240 million from their level in 1993.

Since Nafta, Maryland's sales to Mexico have grown at an annual average rate of 13%. In 2005 the exports to Mexico retroceded 10%.

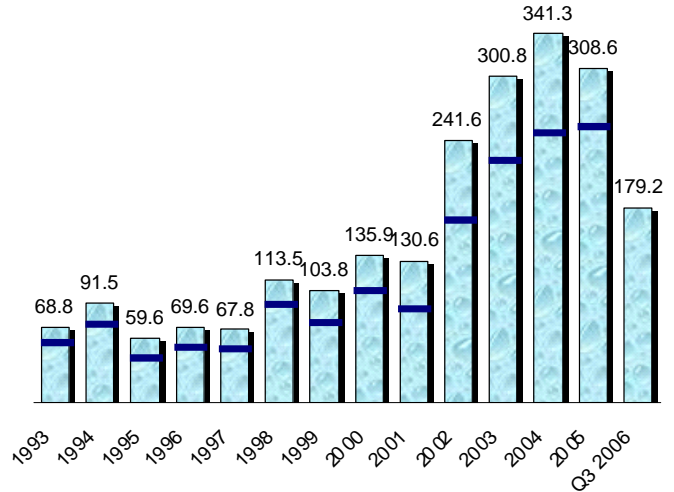
Maryland's exports to Mexico outpace more than 13 times those to the Rest of the World (Mexico 349% & RoW 26%).

Among all US states, Maryland ranks 34th as an exporter of goods to Mexico in the first nine months of 2006.

Mexico is an important customer of Maryland. Among all countries, Mexico ranked as the 9th largest market for goods from Maryland, in 2006, up from 20th in 1993, illustrating the impact of NAFTA for Maryland's growing business. Mexico accounts for 3.2% of Maryland total exports.

Exports to Mexico

1993-2006* (Millions of US Dollars)



Source: US Census, WISER and SE-NAFTA Series.
2000-2006, NAICS series.

Maryland's Opportunities in Mexico

Millions of US Dollars	Maryland	Maryland	Mexico	Mexico
Sector	Total Exports	Exports to Mexico	Imports from U.S.	Total Imports
		Share	Share	
Total	5,554.9	179.2 3%	120,049 54%	221,249
Chemicals	1,064.9	81.3 8%	12,899 59%	21,924
Transportation Equipment	971.3	1.5 0%	14,455 90%	16,073
Computer And Electronic Prod.	920.2	26.8 3%	23,298 47%	50,065
Machinery	475.5	10.6 2%	11,494 35%	33,082
Fabricated Metal Prod.	298.6	3.2 1%	5,059 50%	10,073
Primary Metal Manufacturing	186.5	4.8 3%	4,810 45%	10,715
Minerals & Ores	176.3	1.0 1%	279 15%	1,803
Electrical Eq. & Appliances	175.1	2.1 1%	8,071 86%	9,360
Printing & Publishing	163.0	0.7 0%	569 51%	1,114
Food & Kindred Prod.	125.6	11.9 9%	5,641 64%	8,873
Plastics And Rubber Prod.	100.9	6.3 6%	5,817 78%	7,477
Textiles & Fabrics	89.6	1.1 1%	3,067 60%	5,141

Source: Ministry of Economy with data from WISER and USDOC



Selected Readings

Does Trade and Technology Transmission Facilitate Inequality Convergence? An Inquiry into the Role of Technology in Reducing the Poverty of Nations (Das, Gouranga Gopal. International Monetary Fund, Working Papers, January 2007)

<http://www.imf.org/external/pubs/cat/longres.cfm?sk=19860.0>

Based on stylized evidence showing variation of the Gini coefficient of income inequality across skill cohorts and on the rapid rise in trade in technology-intensive goods, the ripple effects of technology transmission and income inequality are explored in a global Computable General Equilibrium (CGE) framework. An exogenous technology shock transmitted via trade from the United States induces productivity growth in developing regions. This spillover capture-aided by absorptive capability, better governance and institutions, technological symmetry and social acceptance causes income to increase and income inequality to decline. The conjoined parameters retard growth's inequality-enhancing effect and thus facilitate long-run convergence of inequality between nations.

Collateral Damage: Exchange Controls and International Trade (Wei, Shang-Jin and Zhang, Zhiwei International Monetary Fund, Working Papers, January 2007)

<http://www.imf.org/external/pubs/cat/longres.cfm?sk=20191.0>

While new conventional wisdom warns that developing countries should be aware of the risks of premature capital account liberalization, the costs of not removing exchange controls have received much less attention. This paper investigates the negative effects of exchange controls on trade. To minimize evasion of controls, countries often intensify inspections at the border and increase documentation requirements. Thus, the cost of conducting trade rises. The paper finds that a one standard-deviation increase in the controls on trade payment has the same negative effect on trade as an increase in tariff by about 14 percentage points. A one standard-deviation increase in the controls on FX transactions reduces trade by the same amount as a rise in tariff by 11 percentage points. Therefore, the collateral damage in terms of foregone trade is sizable.

NAFTA Related Events

January 24 – 27

“XIII MAGNA EXPOMUEBLERA”

México, D.F. – Expo Bancomer Santa Fe

Furniture, Machinery, and Tools for the Furniture Industry

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

February 17 – 20

“FERIA DE LAS AMÉRICAS”

León, Guanajuato – Poliforum

This event is the 32st annual tradeshow for suppliers, machinery and fashion for leather and footwear industries. Sponsored by the Asociación Nacional de Proveedores para la Industria del Calzado.

<http://feria.anpic.com>

February 27 – March 2

“EXPO COMM MEXICO 2007”

México, D.F. – Centro Banamex

Expo Comm Mexico 2007 is Mexico and Central America's only telecommunications, IT, wireless, networking, and internet technologies exhibition and conference covering all aspects of the telecom sector. In its 15th presentation, EXPO COMM MEXICO 2007 is the place for the leading telecom and technology companies to showcase their latest and most successful innovations and solutions, including satellite technologies, IP-based tools, WiFi solutions, and 3G applications for mobile telephony and mobile portals.

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

March 7 – 9

“EXINTEX TEXTIL 2007 ”

Puebla. Mexico - Centro de Convenciones

International trade fair for home and apparel textile, fashion and machinery.

http://www.messefrankfurt.com.mx/exintex_english/index.html

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