



# NAFTA Works



A MONTHLY NEWSLETTER ON NAFTA AND RELATED ISSUES

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## Inside this issue:

Mexico's Electric and Electronic Industries	1
Mexico Economic Update	1
Profile of Tabasco	3
Profile of Utah	4
Success Stories	4
Selected Readings	5
Diario Oficial Notices	6
Related Events	6

## Mexico's Electric And Electronic Industries

The electronics and electrical industries are two of Mexico's main sources of annual exports reaching US\$42.7 billion in 2005; they are also responsible for employing about 360,000 people. Mexico's electronics and electrical industries are widely diversified currently; audio, video, computers, telecommunications, e-commerce and office equipment electronics are the most demanded goods in world markets, all of them are manufactured in Mexico. Mexico's main electronic and electric clusters are located in Tijuana, Ciudad Juárez, Monterrey, the State of Mexico, Reynosa, and Guadalajara.

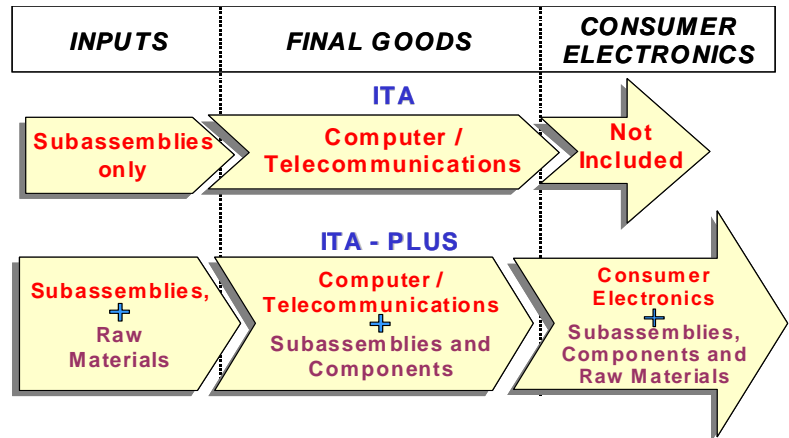
By 2010, Mexico's aims to become one of the world's 5 top exporters of electronics; to consolidate the migration of Mexico's manufacturing processes from the "Hecho en México" (Made in Mexico) into "Creado en México" (Created in Mexico) concept; and to promote the transition of analog technologies into digital ones. In addition, Mexico has the potential to develop hundreds of local suppliers in electric and electronic components, metal and plastic parts, and complementary and ancillary service materials.

## Sectoral Promotion Programs (PROSEC)

PROSECs are aimed at manufacturing processes of certain goods; by allowing importation of parts and components under preferential ad-valorem tariff. Imported items have to be employed when manufacturing specific products regardless the final destination of those goods, whether it is the domestic or foreign markets. Goods to be imported and goods to be manufactured are grouped in sectors including the Electric and Electronics Industries. Currently, the PROSECs cover 22 industries and more than 6,000 products.

Additionally, since 2001 the tariff treatment established by Mexico on imported products, from third countries outside of North America, was leveled to one used in the NAFTA. That means zero tariffs, or a very low tariff, on a wide spectrum of products, whose listings, particularly in the electric and electronics industries, are periodically changing due to the quick obsolescence of technologies and products.

*continues on page 2*



## Mexico Economic Update

	May 2006		Jan-May 2006		Financial Indicators	May 2005	May 2006	Economic Growth	Apr 2005	Apr 2006	
	Value (US bd)	Annual Change %	Value (US bd)	Annual Change %							
<b>Foreign Trade</b>											
Exports	22.71	24.2	315.61	16.7	Inflation Rate (Annual)	4.6	3.0	Global Economic Activity Index (IGAE)	4.8%	1.8%	
Manufacturing	18.35	22.2	255.36	13.3	Interest Rate (CETES 28)	9.8	7.0	Industrial Activity			
Oil	3.63	40.5	48.93	39.1	Stock Market Index (IPC)	12,718	20,367	Industrial Production	5.4%	-0.9%	
Imports	22.80	24.8	322.16	14.3	Exchange Rate (pesos/dollar)	10.97	11.09	Manufacturing	5.7%	-1.8%	
Balance	-0.10	-1000.1	-6.55	-42.1	International Reserves (US bd)	59.8	75.8	Mining	2.2%	-0.1%	
<b>Employment</b>											
					Open Unemployment	Apr 2005	Apr 2006	Construction	6.5%	1.1%	
						3.70	3.32				

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

US bd= US billion dollar



## “ITA PLUS” Program

The “ITA-Plus” program is Mexico’s reaction to the entry in force of the ITA (“*Information Technology Agreement*”), signed under the WTO among 56 countries, including U.S., Canada, China, Malaysia, and the European Union, that considers tariff elimination on diverse computer and telecommunications equipments, including their subassemblies. Mexico’s “ITA-Plus” program eliminates import duties on raw materials, inputs, and components used by the electronics, computer, and telecommunications sectors in manufacturing operations. The “ITA-Plus” also liberalizes computer and telecommunications final goods, as well as some electronic office equipment. In total, the “ITA-Plus” considers the import duty elimination on hundreds of Harmonized Tariff System (HTS) items distributed as described:

- 1) Import duty elimination on HTS items from the General Import and Export Duty or *Tarifa del Impuesto General de Importación y de Exportación* (TIGIE), the Mexican Tariff Schedule in items that include parts and components from computing and telecommunication sectors, such as monitors, printed circuit assemblies, and power supplies. Preferences are also granted to final computer and telecommunications goods such as printers, modems, photocopiers, and cash registers, as well as final computing and office equipment goods such as faxes, videophones, video cameras, calculators, and transmission apparatus.
- 2) Since its inception in 2001, several hundred additional HTS items have been incorporated into the Sectoral Program for the Electronics Industry (PROSEC) which liberalizes inputs, only for use in manufacturing electronic products. Some of the liberalized inputs are machinery and equipment, electronic and electric components and parts, resins, plastic manufactures, steel, and other metals.

Mexico’s “ITA-Plus” program goes beyond the International ITA, since, it promotes the local integration in backward linkages along productive chains by including, besides subassemblies, the most important raw materials required by the IT industries, such as steel and other metals, plastics, and chemicals. Some of the benefits of the “ITA-Plus” are that it:

- a) Allows companies operating in Mexico in the electronics, computer, and telecommunications sectors to produce, under competitive conditions, goods that they export or sell in the Mexican market.
- b) Maintains import duty coherence along the productive chains in the same sectors.
- c) Supports companies’ marketing strategies by allowing them to expand their product lines through the importation of models of equipment and accessories produced in other countries with competitive prices.
- d) Facilitates the access of high technology equipment to all types of companies and users, from small grocery stores and restaurants to financial operations and manufacturing processes.
- e) Increases the productivity of the domestic economy taking into consideration experiences of other countries, resulting in substantial growth competitiveness.

## Other related programs are:

- PCIEAT (Competitiveness Program for the Electronics and High Technology Industries). It promotes a comprehensive trade tariff structure (import of components with minimal or zero tariff), efficiencies in foreign trade processes, development of a standardized regulatory framework, development of supply chains, technological innovation, development of human capital, and development of appropriate infrastructure.
- PITEX (program allowing temporary importation, duty free, of manufactured exportable goods); and the Draw Back program reimburses credit import taxes on imported goods that are to permanently stay in Mexico as they are incorporated into products to be exported later on.
- EXCEX is a program geared to foreign trade companies; and FEMEX promotes Mexico’s participation on trade fairs and exhibits.
- ALTEX is a program for highly exporting companies which saves administrative costs by simplifying export formalities; and PRONEX develops domestic suppliers for exporting companies, assisting them in the development of national supply chains. The program offers tax incentives and financial assistance under preferential conditions.

### ANNEX 1

#### Intellectual Property Rights Protection.

Observation of Intellectual Property Rights is a permanent endeavor in Mexico. In 1997, Mexico implemented a new Copyright Law and amended its penal code to strengthen penalties against copyright piracy. It also amended its 1991 Industrial Property Law, to create the Mexican Institute for Industrial Property (IMPI), giving this agency enhanced powers to implement Mexico’s IPR laws. The IMPI is responsible for patent, trademark and some copyright enforcement. Mexico is a member of the major international organizations regulating the protection of Intellectual Property Rights (IPR): the World Intellectual Property Organization (WIPO), the Geneva Convention for the Protection of Phonograms against Unauthorized Duplication of their Phonograms; the Berne Convention for the Protection of Literary and Artistic Works (1971); the Paris Convention for the Protection of Industrial Property (1967); the International Convention for the Protection of New Varieties of Plants; the Universal Copyright Convention, and the Brussels Satellite Convention.

**Copyright Law.** It offers protection to literary, scientific, technical, legal, musical and sculptural works and to all works of art. Since 1991, computer programs are explicitly protected as a separate category of works. The Mexican copyright law recognizes the concept of “work-for-hire.” This mean that the employer is considered the author of a work regardless of its status as individual or corporation.

**Industrial Property Law.** The Industrial Property Law is administered by the IMPI and it covers the areas of patents, trademarks and trade secrets. The patent protection extends to nearly all processes and products, including chemicals, alloys, pharmaceutical, biotechnology, and plant varieties; for a period from fourteen to twenty years from the date of filing. Trademarks are granted for ten-year renewable periods, and a wide range of criminal, administrative and civil remedies are also available for intellectual property rights violations.



Capital: Villahermosa  
 Main cities: Cardenas, Comalcalco, Huimanguillo, Macuspana, Cunduacan

Population: 1,989,969 (2005)  
 54% in the urban area  
 65% under 30 years old  
 77 persons per square kilometer

Education: 90% Literacy rate  
 153,551 with more than High School  
 5,978 Masters or Ph.D.

Households with:  
 13% Computers  
 88% TV  
 75% Refrigerators  
 59% Washing Machine

Infrastructure:  
 4,037 km of paved roads  
 139 km of highways (4 lanes)  
 1 International Airport  
 2 Seaports  
 50 Universities and technological institutes  
 63 Hospitals  
 201,180 Fixed telephone lines  
 25 Radio stations  
 13 TV stations

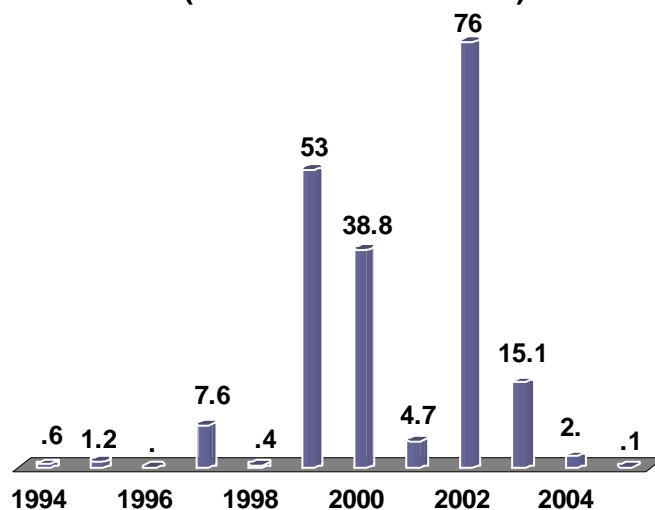
Major exports: orange juice, oyster, banana, persian lime

Exports: US \$62 Millions (2004)  
 Imports: US \$241 Millions (2004)

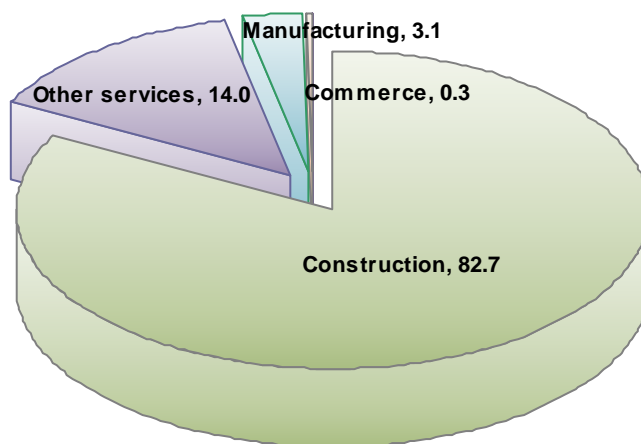
Maquiladoras: 1 employing 174 workers

FDI Companies: 64

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

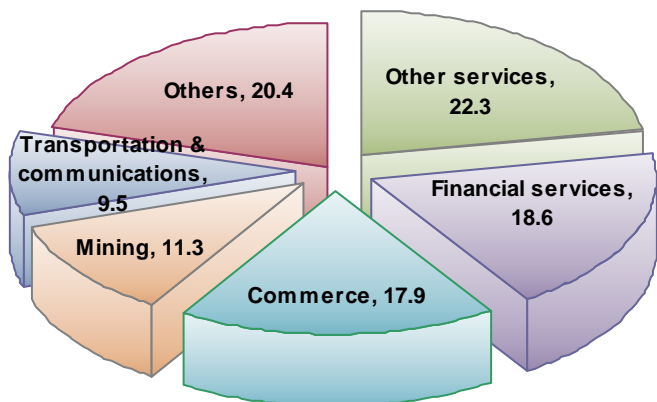


### Foreign Direct Investment by Sector 94-05 (Percentage)



199.1 Millions of US Dollars

### Gross Domestic Product 2004



Web-site: <http://www.sedet.gob.mx>  
 E-mail: [sedet@sedet.gob.mx](mailto:sedet@sedet.gob.mx) ([cmadrado@sedet.gob.mx](mailto:cmadrado@sedet.gob.mx))  
 Tel/Fax: 011 52 (993) 310 9770



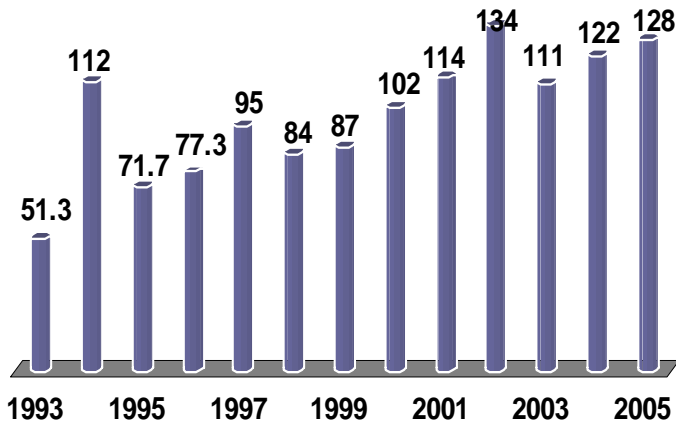
# Utah

## Success Stories

Between 1993 and 2005 Utah's exports to Mexico grew 150%  
Mexico is the tenth largest consumer market for Utah's exports.

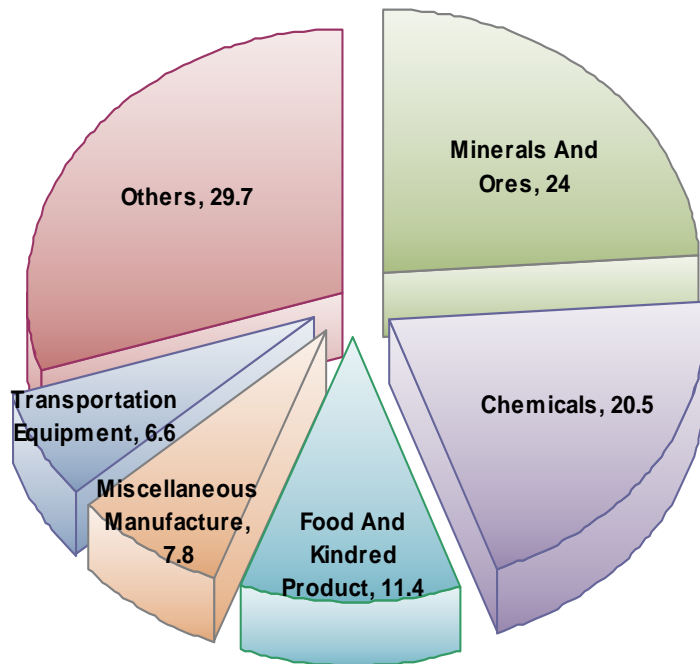
### Exports to Mexico

1993-2005 (Millions of US Dollars)



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

### Exports to Mexico By Sector, 2005 (NAICS)



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

#### **Saint-Gobain's Flat Glass Sector expands in Mexico**

Saint-Gobain Vitrage, the glass factory that is located in 39 countries, wants to expand its presence in Mexico with a new flat glass production line. This facility is to be built in Cuautla, Morelos where the company already operates a flat line that is specialized in flat glass for the automotive industry.

The products of this facility will be sold on the Mexican market and also exported to the United States, Central America, and the Caribbean. With an investment of about USD\$100 million, the production will start at the end of 2006. The factory will be in addition to two other Mexican plants in Cuautla and Querétaro.

#### **Grupo IMSA to invest in Nuevo Leon**

Industrias Monterrey (IMSA) will invest US \$120 million in the plant located in Monterrey to expand its capacity to produce galvanized, painted, and cold-rolled flat steel. The new production line will have an annual capacity of 300,000 tons and is expected to start operating in the summer of 2007. The company made the investment in order to "offer more comprehensive services to industrial markets, such as automotives, home appliances and refrigeration."

#### **Behr Saltillo to build new production facility in State of Coahuila**

Saltillo, the state capital of Coahuila has been selected by Behr America as the site for a new \$13 million automotive manufacturing plant. A global supplier of automotive air-conditioning and engine cooling systems, Behr's group sales reached approximately \$3.8 billion in the 2005 business year. Behr plans to begin construction on the 130,000 square foot manufacturing plant within the next two months and begin operations by early 2007. The plant will initially provide approximately 250 hourly and salaried employees; it will not impact other Behr America plant operations in the NAFTA region. It will supply engine-cooling units to nearby auto assembly plants in Mexico, export some components to the United States, and generate annual sales of about \$110 million.

NAFTA WORKS FOR



## Selected Readings

**The Euro's Challenge to the Dollar: Different Views from Economists and Evidence from the COFER (Currency Composition of Foreign Exchange Reserves) and Other Data (Lim, Ewe-Ghee. International Monetary Fund, Working Papers, June 2006)**

<http://www.imf.org/external/pubs/ft/wp/2006/wp06153.pdf>

This paper examines opposing views on the Euro's challenge to the dollar as an international currency. One view emphasizes Europe's large economy and diversification effects as undergirding a vigorous challenge. The other emphasizes "network externalities," particularly undergirding continued dollar dominance. The data to date support the second view but also show the euro has significantly overtaken the legacy currencies as a reserve currency. Generally, large economic size alone is insufficient to challenge the network externalities supporting vehicle currencies, but scope exists for the euro to advance as an international store of value. The paper discusses the Euro's medium-term prospects.

**The Impact of Trade on Wages: What If Countries Are Not Small? (Saito, Mika and Tokutsu, Ichiro. International Monetary Fund, Working Papers, June 2006)**

<http://www.imf.org/external/pubs/ft/wp/2006/wp06155.pdf>

This paper explores the effect of trade on the relative wage of less-skilled labor through its effect on world prices, which are typically exogenously given under the small open economy assumption. Using the 1995 international input-output data for APEC member countries, we numerically simulate a general equilibrium model to study the effects of abolishing existing tariffs under the assumption that each member country is large enough to affect the prices of goods and services produced in the region. We find that the responsiveness of prices plays an important role in easing a possible adverse effect of trade on relative wages.

**Poverty and Social Impact Analysis of Reforms: Lessons and Examples from Implementation (Coudouel, Aline; Parenostro, Stefano; and Dani, Anis A. World Bank Press, June 2006)**

[http://siteresources.worldbank.org/INTPSIA/Resources/490023-1120845825946/PSIACASESTUDIES\\_BOOK.pdf](http://siteresources.worldbank.org/INTPSIA/Resources/490023-1120845825946/PSIACASESTUDIES_BOOK.pdf)

Poverty and Social Impact Analysis (PSIA) is an approach used increasingly by governments, civil society organizations, the World Bank, and other development partners to examine the distributional impacts of policy reforms on the well-being of different stakeholder groups. PSIA has an important role in poverty reduction strategies in developing countries because it promotes evidence-based policy choices. This book presents a collection of case studies that illustrate the spectrum of sectors and policy reforms to which PSIA can be applied; it also elaborates on the broad range of analytical tools and techniques that can be used for PSIA.

**U.S. Inflation Dynamics: What Drives Them Over Different Frequencies? (Balakrishnan, Ravi and Ouliaris, Sam. International Monetary Fund, Working Papers, June 2006)**

<http://www.imf.org/external/pubs/ft/wp/2006/wp06159.pdf>

This paper aims to improve the understanding of U.S. inflation dynamics by separating out structural from cyclical effects using frequency domain techniques. Most empirical studies of inflation dynamics do not distinguish between secular and cyclical movements, and we show that such a distinction is critical. In particular, we study traditional Phillips curve (TPC) and new Keynesian Phillips curve (NKPC) models of inflation, and conclude that the long-run secular decline in inflation cannot be explained in terms of changes in external trade and global factor markets. These variables tend to impact inflation primarily over the business cycle. We infer that the secular decline in inflation may well reflect improved monetary policy credibility and, thus, maintaining low inflation in the long run is closely linked to anchored inflation expectations.

**Global Development Finance 2006: The Development Potential of Surging Capital Flows (World Bank Press, June 2006)**

<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/EXTGDF/EXTGDF2006/0,,contentMDK:20925051~menuPK:2344934~pagePK:64167689~piPK:64167673~theSitePK:2344908.00.html>

International private capital flows to developing countries reached a record net level of \$491 billion in 2005. This surge in private capital flows offers national and international policy makers a major opportunity to bolster development efforts if they can successfully meet three challenges. The first is to ensure that more countries, especially poorer ones, enhance their access to developmentally beneficial international capital through improvements in their macroeconomic performance, investment climate, and use of aid. The second is to avoid sudden capital flow reversals by redressing global imbalances through policies that recognize the growing interdependence between developed and developing countries' financial and exchange rate relation in the determination of global financial liquidity and asset price movements. And the third is to ensure that development finance, both official and private, is managed judiciously to meet the development goals of recipient countries while promoting greater engagement with global financial markets. These are the themes and concerns of this year's edition of Global Development Finance.



## Diario Oficial Notices

- Notice informing the entering into force of articles 3, 4 and 5 of the Decree establishing the import tariff duty on imports from the European Community, the FTA countries, El Salvador, Guatemala, Honduras and Nicaragua, as well as the import tariff duty applicable from 1 April, 2006 through 31 March, 2007, on imports from Japan. (May 17)
- Decree approving the Agreement on Protection and Promotion of Investments between Mexico and Panama, signed in Mexico on 11/10/05. (May 19)
- Regulation regarding the Law on Development and Competitiveness of the Micro, Small and Medium size enterprises. (May 24)
- Decree which modifies and additions certain aspects of the General Law on Health and the Federal Code on Criminal Procedures. (May 25)
- Announcement to make publicly available to the interested applicants, the resolutions concerning the import quotas on dairy products. (May 26)
- Agreement establishing the criteria to grant "previous permits" to several goods. (May 31)
- Tender to appoint and authorize several verification units to evaluate the conformity of the Mexican Official Standard NOM-154-SCFI-2005 on fire extinguishers. (May 31)
- Decree issuing the maritime trade and navigation law. (June 1)
- Decree approving the Constitutive and Management Agreement of the II Multilateral Investment Fund. (June 2)
- Modifications to Annex 401 of the North American Free Trade Agreement (NAFTA). (June 2)
- Decree approving the Statute and subsequent modifications, of the Hague Conference on Private International Law. (June 6)
- Amendments to the Montreal Protocol related to the substances that affect the ozone layer. (June 6)
- Decree reforming the Law for the Development of the Competitiveness of Small- and Medium-sized enterprises. (June 6)
- Decree approving the Mexico-Chile Strategic Association Agreement. (June 13)
- Decree approving the Mexico-US Agreement amending the existing Air Transportation Agreement. (June 13)

## N AFTA Related Events

### June 14 – 18

"EXPO AMPIMM"

México, D.F.

The bi-annual tradeshow for international suppliers to the furniture and wood industries.

Phone: (52) 52 55 5578-7820

### June 27 – 30

"INTERPHEX MEXICO"

México, D.F.

Bringing together the top buyers from the leading Mexican pharmaceutical manufacturers and more than 125 technology vendors and pertinent and timely education sessions.

Phone: (203) 840-5567

### July 12 – 14

"PAACE Automechanika Mexico"

México, D.F. – Centro Banamex

International pavilions from Argentina, Brazil, China, Germany, Japan, Italy, and Taiwan underline the importance of the Mexican market in the overall globalization of the automotive aftermarket and OEM industry.

<http://www.usa.messefrankfurt.com/shows/northamerica/paace/index.htm>

<http://www.automechanika.com>

<http://www.centrobanamex.com>

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#### **A monthly newsletter on NAFTA and related issues**

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