



NAFTA Works



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Mexico is Still Latin America's Prime Destination for FDI

According to KPMG, a global consulting firm that operates in 148 countries, Mexico continues to be the main destination of Foreign Direct Investment (FDI) in Latin America. For third year in a row, KPMG's annual survey placed Mexico over Brazil, Argentina, Chile and Venezuela as the preferred country for new investments in the region.

From 1994 to 2004 Mexico received US\$147 billion in FDI, those levels are expected to be maintained in 2005, and even slightly increased from the US\$ 16.6 billion it attracted in 2004. According to The McKinsey Quarterly, Mexico has received more FDI than three times the amount India attracted.

On other report produced by the Economic Commission for Latin America (ECLA) -the Spanish acronym is CEPAL – Mexico also ranks number one in Latin America with the largest number of domestic companies becoming multinational with market penetration in both North and Latin America.

Companies such as Cemex, Telmex, Gruma, Femsa, Alfa, Vitro, Bimbo, Televisa and Elektra, among others, are increasingly relying on international markets, such as Brazil, Argentina, Central America and also in Europe.

The results of that and others surveys that place Mexico at the top of investor's preferences come as no surprise since the Mexican economy has posted 11 consecutive quarters of positive GDP growth.

That means that Mexico attracts investment mostly to satisfy a domestic market in which are many sectors, like services, retail, banking, transportation, real estate and construction are growing at an even faster pace than the economy as a whole.

Another factor in Mexico's positive performance on FDI flows has been the growth of the U.S. economy. More than two thirds of Mexico's exports go to the U.S. and its reliance on that market, as well as the increasing vertical integration of key manufacturing sectors (such as automotive) have also become important factors. In addition, new manufacturing and service sectors are on the rise in Mexico. Aerospace, IT, biotechnology and plastics are among the leading performers of recent years that also contribute to the technology transfer processes and job expansion. For example, during the last two years exports of aerospace Mexican-made products had doubled and today they reach over US\$600 million. Nearly one hundred aerospace plants operate in the country, a number that is expected to triple once Mexico signs a certification program agreement with the U.S. government that will certify the quality and safety of Mexican aerospace manufactured products (the Bilateral Aviation Safety Agreement).

Even so, the future success of the aerospace and other sectors in Mexico will depend on the advancement of key legislative initiatives. Congressional approval of reforms in the country's fiscal and labor code, as well as on the restructuring of the energy sector, is needed in order to enhance Mexico's competitiveness. Also, Mexican businesses have to focus more on higher value-added production and a greater use of domestic suppliers.

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Mexico Economic Update

	Jan 2005		Jan-Dec 2004			Jan 2004	Jan 2005		Jan 2004		Jan 2005	
	Value (US bd)	Annual Change %	Value (US bd)	Annual Change %					Jan 2004	Jan 2005	Jan 2004	Jan 2005
Foreign Trade												
Exports	14.11	10.8	188.63	14.5								
Manufacturing	11.51	10.0	158.81	12.6								
Oil	1.94	13.1	23.53	27.2								
Imports	15.27	18.6	197.16	15.6								
Balance	(1.16)	726.1	(8.53)	47.6								
Financial Indicators												
Inflation Rate (Annual)						4.2%	4.5%	↑				
Interest Rate (CETES 28)						5.0%	8.6%	↓				
Stock Market Index (IPC)						9,268	12,753	↑				
Exchange Rate (pesos/dollar)						10.92	11.26	↓				
International Reserves (US bd)						55.4	58.8	↑				
Employment												
Open Unemployment						3.81%	3.75%	↓				
Economic Growth												
Global Economic Activity Index (IGAE)									2.4%	4.0%	↑	
Industrial Activity												
Industrial Production									0.6%	3.1%	↑	
Manufacturing									-0.5%	2.9%	↑	
Mining									5.3%	2.9%	↓	
Construction									3.0%	5.2%	↓	

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

US bd= US billion dollar



The experience of developed countries suggests that expansion into higher value-added activities comes not from a shift into entirely new industries, such as high tech, biotech, or nanotech, but from the natural evolution of companies within existing industries. Fortunately, Mexico is experiencing such evolution in many of its corporations.

As a middle-income nation, Mexico must emphasize its comparative advantages in order to continue attracting foreign investment and technology transfers. Mexico's proximity to the world's largest consumer market is important for many reasons: some goods, such as automobiles, large screen TVs and other large consumer products, have high transportation costs that make them difficult or uncompetitive to produce in far away countries, like China. Time sensitivity is another consideration. Fresh food can decompose, and fashionable items or promotional materials can lose relevance if they are not shipped quickly and efficiently to the recipient markets. Mexico holds that advantage, and with improved transportation and logistics systems, the outlook certainly looks brighter.

Selected Readings

The United States and the World Economy: Foreign Economic Policy for the Next Decade (C. Fred Bergsten and the Institute for International Economics. Institute for International Economics, January 2005)

http://bookstore.iie.com/merchant.mvc?Screen=PROD&Product_Code=388

What are the key foreign economic policy issues facing the United States in the second half of this decade? How can the administration and Congress meet the economic challenges that lie ahead? This new book analyzes the dramatic importance of the world economy to both the domestic prosperity and overall foreign policy of the United States, describes the new global environment (e.g., the rise of China as a global economic superpower and the completion of European unification) in which US policy must operate, and proposes major US initiatives on a wide range of international economic issues, including correction of the huge current account deficit, new trade negotiations, and energy. Individual chapters by senior staff of the Institute on each of the key topics are included.

Addressing the Challenges of Globalization: An Independent Evaluation of the World Bank's Approach to Global Programs (Uma Lele. World Bank, January 2005)

http://bookstore.iie.com/merchant.mvc?Screen=PROD&Product_Code=380

The accelerated pace of globalization has stimulated dramatic changes in trade, finance, intellectual property, private investment, information and communications technology, health, environment, security and civil society. Addressing the challenges posed by globalization often requires collective action at the global level. Increasingly, global programs are used as a means to organize global collective action, particularly for providing global public goods.

The World Bank is an important participant in such programs and activities because its global reach, its ability to mobilize resources, and its multisectoral expertise position it well to deal with the challenges of globalization. *Addressing the Challenges of Globalization* derives crosscutting lessons for the Bank on program selectivity, design, implementation, governance, management, financing and evaluation. The book also identifies areas where further Bank action on its global-level strategy and programming is needed to improve the global program effectiveness.

Diario Oficial Notices

◆ Final determination of the first review made to the determination published on October 10, 2000 which resolved the administrative procedure of revocation against final determination of the antidumping investigation on imports of bovine beef and edible carcasses imports, classified under Tariff Item 0201.10.01, 0202.10.01, 0201.20.99, 0202.20.99, 0201.30.01, 0202.30.01, 0206.21.01, 0206.22.01 y 0206.29.99 of the then General Imports Law, originating from the United States of America, regardless of shipping country, related to the situation changes of the Congra, Inc. and Conagra Beef Company enterprises. (February 16).

◆ Decree modifying several duties in the General Import and Export Law. (March 3).

◆ Final determination of the administrative procedure for product coverage concerning the final determination that imposed a countervailing duty on machines, devices and electrical materials and its components, classified under tariff items 8501 to 8548 of the Mexican Tariff Schedule, original from The People's Republic of China, regardless of shipping country. (March 3).

◆ Decree to establish the consequences of countervailing duties suppression imposed on the Candles, tapers and the like classified under tariff item 3406.00.01 of the Mexican Tariff Schedule, originating from The People's Republic of China, regardless of shipping country. (March 3).

Laredo

• The city of Laredo registered an increase of \$30 billion in U.S.-Mexico cross border trade, jumping from \$235.5 in 2003 to \$266.6 billion in 2004. During that period, the Port of Laredo conducted twice the amount of trade as El Paso – Juarez, which placed it as one of the top four trade ports in the nation.

• Laredo is the primary crossing for North America automotive industry. In 2004, trade via Laredo was lead by six products categories: road vehicles, electrical machinery, power equipment, industrial machinery, telecom equipment and office machinery.

• Goods exported through the port of Laredo are sent over 60 countries.

Source: *Laredo Development Foundation.*

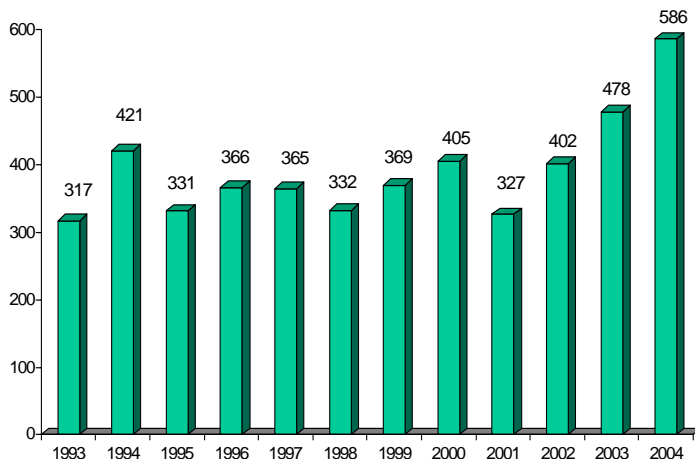


Connecticut

Between 1993 and 2004 Connecticut's exports to Mexico grew 85%. Mexico is the fourth largest consumer market of Connecticut's exports.

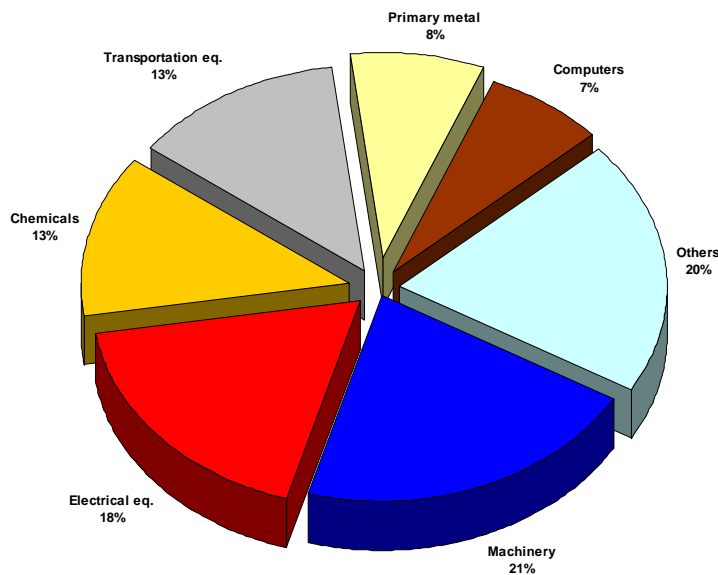
Exports to Mexico

1993-2004 (US Millions)



By Sector (NAICS)

2004



Source: US Census, MISER and SE-NAFTA. SIC Series 2000-2004, NAICS series.

Mexico's Trade and Investment News

- COMEX, the leading Mexican company in paint making, distribution and marketing, last August 2003 broke into the American market with the US\$400 million purchase of Professional Paint Inc – the biggest company of its kind in US and Canada.
- Other Mexican companies such as Grupo Gigante SA, which owns a chain of grocery stores; Grupo Bimbo SA, a baking company; and Gruma SA, a food manufacturer, have recently expanded into U.S. markets hoping to attract Hispanic customers eager to buy products popular in Mexico.
- Mexico's Grupo Financiero BBVA Bancomer SA, agreed last September to purchase Texas-based Laredo National Bancshares Inc., for US\$850 million.
- Trim Master Inc has invested US\$15 million in its new plant in the city of Francisco I. Madero, Coahuila (in northern Mexico). It employs 400 people and operates since last November.
- Siete Leguas, a leading Mexican denim producer is one of the many companies that benefit from the NAFTA's market opening and Mexico's forward looking trade policy. Siete Leguas supplies the North American, European and Asian market with an increasing volume of garment units counted in millions, including jeans. Siete Leguas has recently invested US\$10 million in a new plant expansion in Lerdo, in the northern state of Durango.

The Growth of Mexico's Consumer Market: Opportunities for U.S. Business

- Toyota Motor Manufacturing first plant in Mexico was formally opened on February 1, st it is located in Tijuana, Baja California, represents an investment of US\$150 million and employs 770 people and will be producing 180,000 Tacoma truck beds and 30,000 Tacoma vehicles annually.
- DaimlerChrysler will invest US\$70 Million in its Ramos Arizpe plant, in the northern State of Coahuila, to increase its production of engines. This investment is meant to satisfy the growing demand of Hemi engines used in several models that DaimlerChrysler sells all over the world. For DaimlerChrysler, the Coahuila Southeast Region is the home of the legendary Hemi, an engine that has been produced at Ramos Arizpe since June 2002. To start producing that type of engine more than two years ago, the company invested of US\$520 Million and expanded its Ramos Arizpe plant from 600,000 square feet to 1467,000 square feet.
- The Japanese company Bridgestone Corporation, the largest tire manufacturer in the world, will invest this year more than US\$220 Million to install a manufacturing plant of high and ultra high performance radial tires for automobiles and vans in Cienega de Flores, Nuevo Leon. This plant will operate as a subsidiary of Bridgestone Americas Holding, Inc. and is expected to employ more than 200 highly qualified workers. It will be the number 49 in the world and third in Mexico - the other two plants are located in Mexico City and Cuernavaca. Bridgeston operates in Mexico since 1958.

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Guerrero



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Capital: Chilpancingo

Main cities: Acapulco, Chilpancingo, Iguala, Chilapa, Taxco

Population: 3,079,649 (2000)
 55% in the urban area
 65% under 30 years old
 48 people per square kilometer
 78% Literacy rate

Major exports: Agricultural

Exports: US \$ 267 Millions (2003)

Imports: US \$ 97 Millions (2003)

Source: Ministry of the Economy

Foreign Direct Investment:
 Between 1999 and 2004, Guerrero received US\$ 172 millions of dollars in foreign investment.

Main sector: Hotels, Commerce and Services.

Countries with major investments in Guerrero
 include: USA, Canada, Germany, Spain UK and France.

Maquiladora: There are 6 maquiladoras.
 Maquiladoras Companies employs 1900 workers.

Source: Ministry of the Economy, Government of State and INEGI.

Infrastructure:

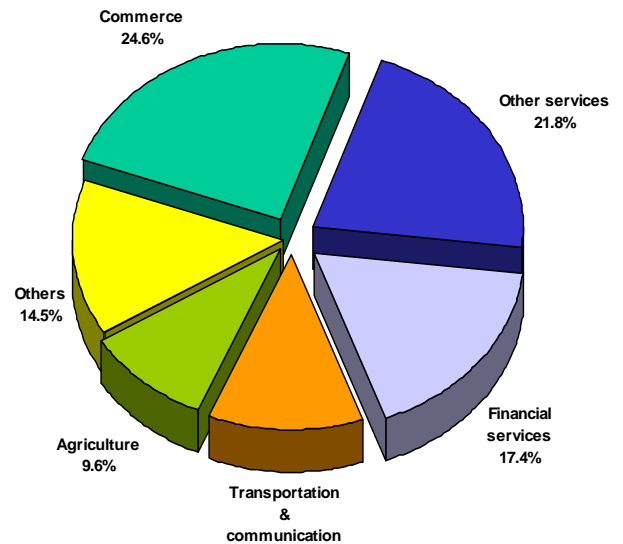
- 5,695 km of paved roads
- 299 km of highways (4 lanes)
- 2 International airport
- 74 Universities and tech institutes
- 102 Hospitals
- 260,000 Fixed telephone lines

44 Radio stations
 22 TV stations

Investment Highlights

Aid in setting up operations and training workers.

Major Economic Activity in 2002



Source: Ministry of Economy with INEGI data.

Source: Ministry of Economy with INEGI data.

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Mexico-US Annual Trade Analysis

January 2005 marks the eleventh 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).

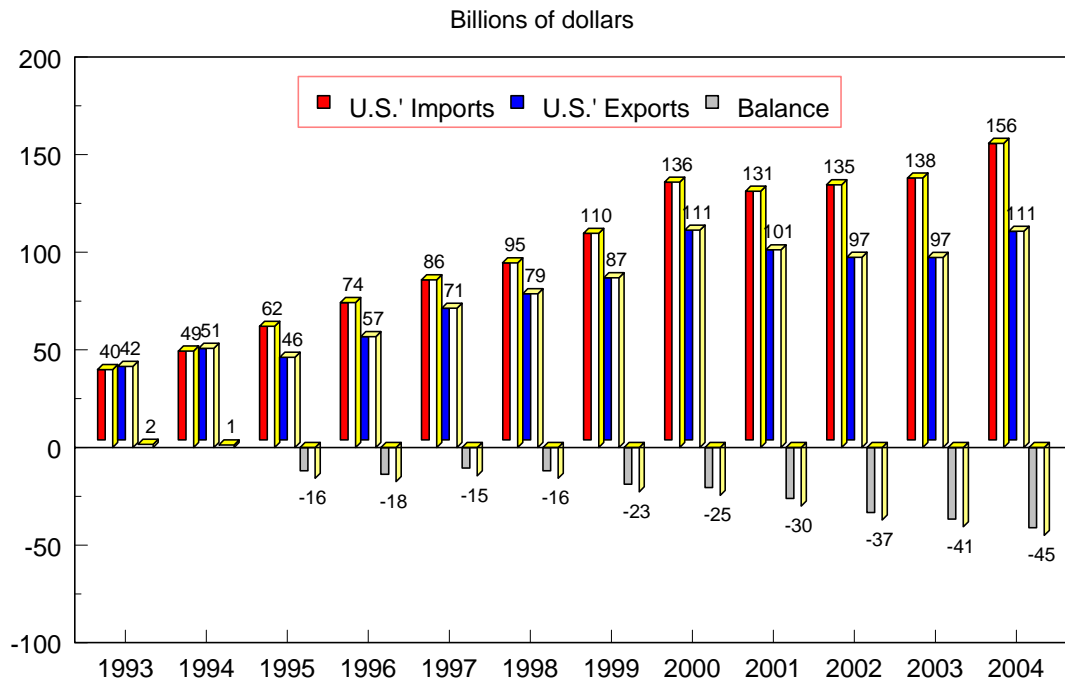
With NAFTA, Mexico and the U.S. have strengthened their trade ties. As a result, bilateral trade has shown an outstanding performance depicted by its average growth rate indicator of 11.4% for each of the first eleven years of the agreement. Bilateral trade between Mexico and the U.S. reached almost \$267 billion in 2004; representing an increase of 227% compared to 1993 a year prior to NAFTA.

Currently, Mexico is the second largest market for U.S. products representing 13.5% of its total exports. U.S. sales to Mexico registered \$110.8 billion; 13.7 percent higher than the previous year and 166.4% above the level registered in 1993.

Also during last year, imports from Mexico to the U.S. reached US\$155.8 billion, 12.9% more than the previous year and 290% higher than 1993. These imports account for 10.6 percent of U.S.' total imports.

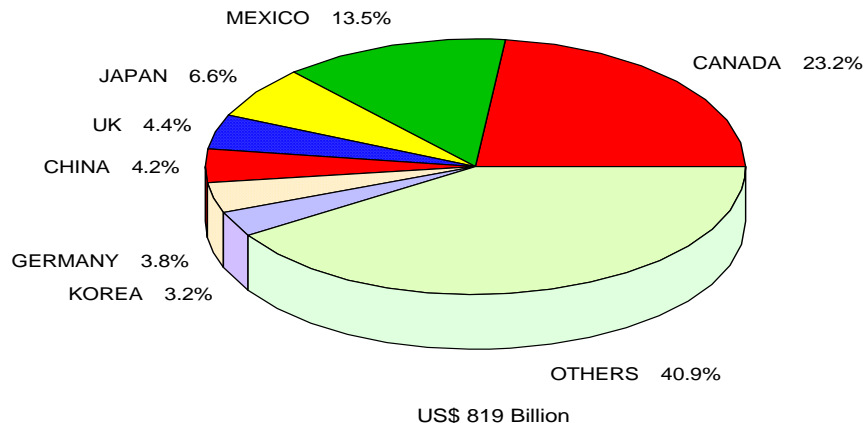
Despite the economic slowdown observed from 2001 to 2003, both countries are recovering their pace. Both are committed to trade liberalization and seek to create more and better paid jobs as well as advantages for businesses and consumers by providing inputs or products at competitive prices.

US Mexico Trade



Source : US Department of Commerce

US Exports in 2004





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/>

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