



NAFTA Works



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Thanks to NAFTA, 16 U.S. States have Exports to Mexico that Exceeded US\$ 1 billion in 2004

In 2004, 16 states, including Ohio, Florida, Tennessee, North Carolina and Indiana, registered sales to Mexico that exceeded US\$1 billion; in comparison, in 1993 only five states surpassed this figure. New Jersey and Wisconsin were the latest to join this group last year. From 2003 to 2004 Wisconsin's exports to the Mexican market increased 35.1%, while New Jersey's exports expanded 37% and reached US\$1.14 billion. Currently Mexico is Wisconsin's second largest trade partner and Governor Jim Doyle's trade mission to Mexico on March 6-11 was a clear indication of that nation's growing importance as a market for Wisconsin companies.

Last year, the eleventh year since the North American Free Trade Agreement (NAFTA) has been in effect, Mexico – U.S. trade surpassed US\$266 billion, up US\$185 billion from its level in 1993. This means that on average the United States and Mexico traded US\$730 million a day in 2004. Over the last decade (1994 - 2004), bilateral trade grew at an annual average rate of 11.3%; far outpacing the annual average growth rate of the U.S. trade with the rest of the world (7.3%). As a result, Mexico has consolidated its position as the second-largest trading partner of the U.S. only behind Canada.

U.S. export performance to Mexico is geographically diverse, and is increasingly becoming sector diverse as well.

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For instance, since 1993 Maryland has increased its exports to Mexico by 396 % and the country is now its fourth largest export market. In terms of sector diversity, The state's exports to Mexico include precision machine apparatus, information technology products (including software services), and aerospace equipment. And that is not an isolated case, NAFTA has also expanded export opportunities across other states of the the U.S. In addition to Maryland, South Dakota, Indiana, South Carolina, Iowa, Oregon and Mississippi have significantly increased their exports to Mexico in percentage numbers.

In terms of value, the economies of California with over US\$17.2 billion in sales to the Mexican market, Texas with US\$45.7 billion and Arizona with US\$3.8 billion, have Mexico as their main destination market. Important manufacturing and agricultural states such as Ohio, Illinois, Pennsylvania, Indiana, New York, Missouri and Colorado in conjunction export more than US\$20 billion to Mexico every year.

Mexico also became the largest export market for New Mexico in 2004 and has gradually become more important for states such as Wyoming, West Virginia, and even Alaska.

Last year Colorado's exports to Mexico grew more than 20% and reached US\$689.4 million. Computer and electronic products, agricultural goods and chemicals accounted by more than half of the state's exports to Mexico.

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Mexico Economic Update

	Dec 2004		Jan-Dec 2004							Dec 2003		Dec 2004	
	Value (US bd)	Annual Change %	Value (US bd)	Annual Change %						Value (US bd)	Annual Change %	Value (US bd)	Annual Change %
Foreign Trade													
Exports	15.96	6.1	188.63	14.5									
Manufacturing	13.27	5.5	158.81	12.6									
Oil	1.95	3.9	23.53	27.2									
Imports	18.31	14.0	197.16	15.6									
Balance	(2.36)	129.6	(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					2.96%	3.04%							
Economic Growth													
Global Economic Activity Index (IGAE)					4.2%	4.4%							
Industrial Activity													
Industrial Production					3.2%	3.9%							
Manufacturing					3.2%	4.2%							
Mining					4.0%	-4.1%							
Construction					3.7%	6.0%							

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

US bd= US billion dollar



The mineral and ores sector is also enjoying positive growth in Mexico.

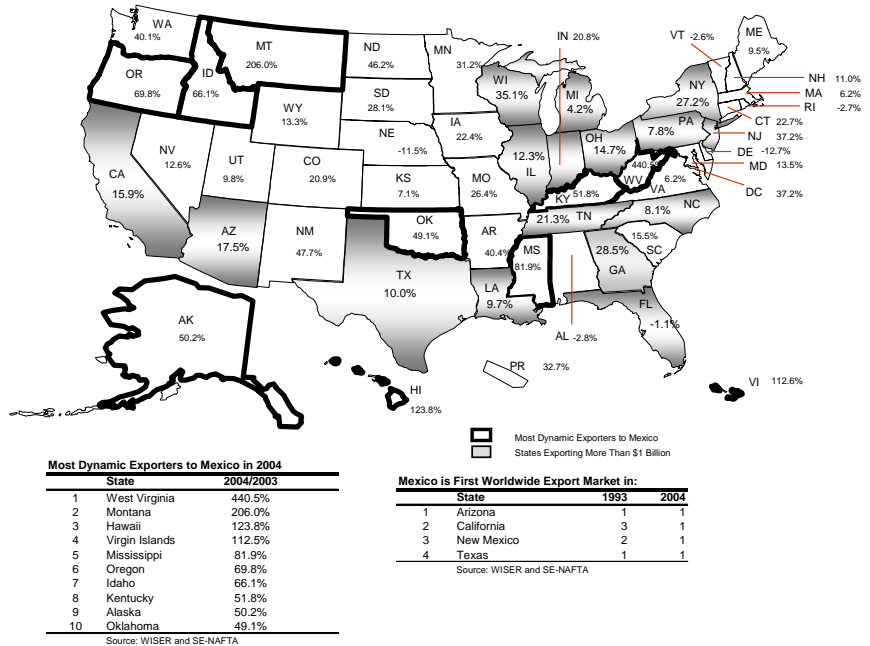
The global price increases of mineral commodities has placed Colorado mining and machinery-related companies at an advantageous position allowing them to satisfy a growing Mexican mining sector that in 2004 had a banner year in terms of mineral output and exports.

Another example of growing sector complementarities is the automotive industry, where U.S. companies produce all over the North American region with increasing efficiency and competitiveness. Michigan exports of automobiles and car parts to Mexico have been growing since the implementation of NAFTA more than a decade ago. In 2004 Michigan exports to Mexico reached US\$4.2 billion and four-fifths of those were automotive related sales. Also that year, nearly 700 hundred thousand new cars and trucks produced in Michigan and other U.S. states were sold in Mexico. That amount of imported vehicles, in addition to the domestic production, resulted in 1.1 million new vehicles sold in Mexico in 2004, a record.

The following statistical information shows the performance of U.S. exports to Mexico by state.

U.S. Exports to Mexico by State

(Percentage Growth Rates 04/03 YTD)



States Exporting More than US\$1 Billion to Mexico (value in millions)

State	1993	2004	% Growth
1 Texas	\$20,379.6	\$45,707.39	124.3%
2 California	\$6,521.6	\$17,239.38	164.3%
3 Michigan	\$1,295.2	\$4,173.12	222.2%
4 Arizona	\$1,927.9	\$3,794.14	96.8%
5 Indiana	\$374.0	\$2,543.05	580.0%
6 Illinois	\$1,181.6	\$2,417.22	104.6%
7 Ohio	\$751.1	\$2,410.23	220.9%
8 New York	\$858.8	\$2,167.98	152.5%
9 Louisiana	\$501.3	\$1,948.56	288.7%
10 Florida	\$755.0	\$1,795.02	137.7%
11 Tennessee	\$467.3	\$1,790.53	283.2%
12 North Carolina	\$506.3	\$1,582.14	212.5%
13 Georgia	\$410.9	\$1,495.07	263.9%
15 Pennsylvania	\$653.7	\$1,198.61	83.4%
15 New Jersey	\$505.5	\$1,138.69	125.5%
16 Wisconsin	\$289.3	\$1,064.41	268.0%

Source: WISER and SE-NAFTA

Mexico's Rank as a Worldwide Export Market (largest jump)

State	1993	2004	# of steps up
1 Maryland	20	4	16
2 Wyoming	14	2	12
3 West Virginia	12	2	10
4 Alaska	14	6	8
5 South Carolina	11	3	8
6 Virginia	15	7	8
7 Washington	20	12	8
8 New York	12	5	7
9 South Dakota	9	2	7
10 Colorado	7	2	5

Source: WISER and SE-NAFTA

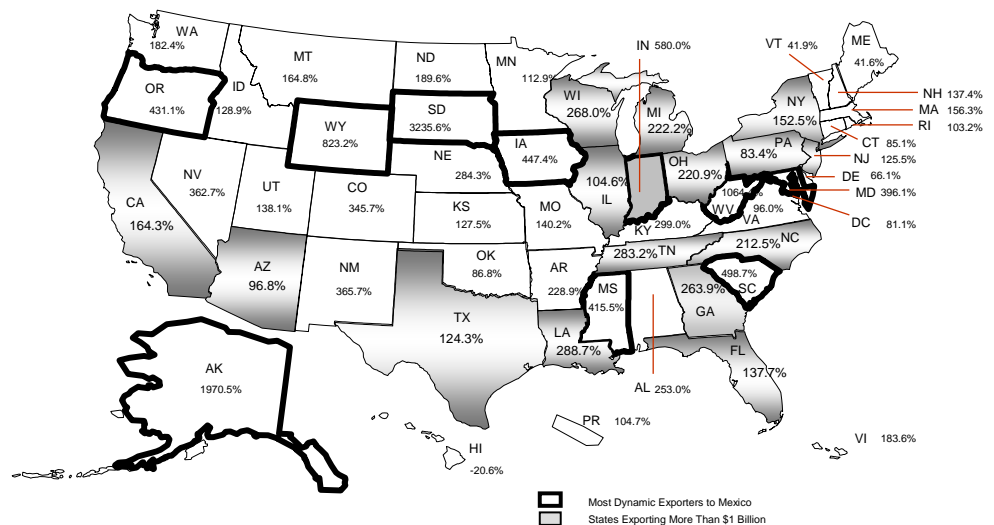
Most Dynamic Exporters to Mexico since NAFTA

State	2004/1993	Annual Average
1 South Dakota	3235.6%	37.6%
2 Alaska	1970.5%	31.7%
3 West Virginia	1064.4%	25.0%
4 Wyoming	823.2%	22.4%
5 Indiana	580.0%	19.0%
6 South Carolina	498.7%	17.7%
7 Iowa	447.4%	16.7%
8 Oregon	431.1%	16.4%
9 Mississippi	415.5%	16.1%
10 Maryland	396.1%	15.7%

Source: WISER and SE-NAFTA

U.S. Exports to Mexico by State

(Percentage Growth Rates 04/93 YTD)





PROSEC

On May 9, 2000 the Ministry of the Economy issued a decree to establish diverse Sectorial Promotion Programs (PROSEC) in order to maintain a competitive manufacturing industry. The PROSEC were developed in conjunction with the private sector to guarantee and enhance the efficiency and competitiveness of manufacturing operations in Mexico, whether they export or not. They allow producers to import raw materials from third countries with a low import duty to use them in the production process of manufactured goods.

The programs are sector specific and imports can only be used to produce goods contained in a specific program. The programs are flexible since import duty levels and products included can be modified, and they guarantee preferential tariffs on imports. Firms should register in one or more programs that include inputs used in their production of final goods and participants registered in each program will only be able to import inputs listed in that specific program.

Modifications to PROSEC

On December 2, 2004 and January 3, 2005, new inputs were added to the PROSEC; the list of new inputs was published by the Ministry of the Economy in the Mexican Official Gazette. This list includes inputs used in the production process of goods covered in industries such as electronics, furniture, toys, footwear, capital goods, photography, chemical, rubber and plastic, steel and iron, hides and leathers, automotive, textile and sewing material and diverse industries.

The Ministry of the Economy, in coordination with the private sector, has upgraded the PROSEC in accordance to each industry needs. When the PROSEC first entered into effect it only covered 10 industries; now that more companies became aware of the benefits of these programs, more industries have been included. Currently, the PROSEC cover 22 industries and more than 6,000 products. The following shows the industries covered by PROSEC:

1. Electrical industry	4. Toy industry, recreational toys, and sporting goods;	7. Capital goods industry	10. Miscellaneous industries	13. Steel and iron industry	16. Paper and cardboard	19. Automotive and auto parts industry	22. Coffee industry
2. Electronics industry	5. Footwear industry	8. Photographic industry	11. Chemical industry	14. Pharmaceutical chemical products, medicines, and medical equipment	17. Lumber industry	20. Textile and Sewing industry	
3. Furniture industry	6. Mining and metal industry	9. Agricultural machinery industry	12. Manufacturers of rubber and plastic	15. Transport industry (except automotive)	18. Hides and leather industry	21. Chocolates, sweets, and similar items	

Reduction on Most Favored Nation Import Duties

Back in 1998, Mexico increased its imports tariffs under the Most Favored Nation status allowed in the WTO for products originated in countries with whom it did not have free trade agreements. This was an attempt to compensate for the losses in revenues that resulted from the decrease in oil prices. The raise in tariffs affected sectors and almost 9,200 products used in the manufacturing of goods destined to export markets. In turn, Mexican manufacturing exports were less competitive.

On December 30, 2004, the Ministry of the Economy published a decree to modify import duties in the General Imports and Exports Tariffs Law. The objective of this decree is to reestablish the Most Favored Nation import duties to the levels prior to 1998, because most of the products affected by the reduction in tariffs are inputs.

The adjustment will benefit around 130,000 Mexican exporting companies which will enjoy a reduction of import duties of at least 3 percent, which, in terms of value, represent 446.4 million dollars.

These changes are part of a program presented by the Ministry of the Economy to increase and reinforce competitiveness and economic development in Mexico through the review of non-tariffs measures and the revision of the tariff structure.

The following chart shows the new import duties:

Import Duties (ad valorem)	
Actual	New
3	0
13	10
18	15
23	20
25	15
30	20



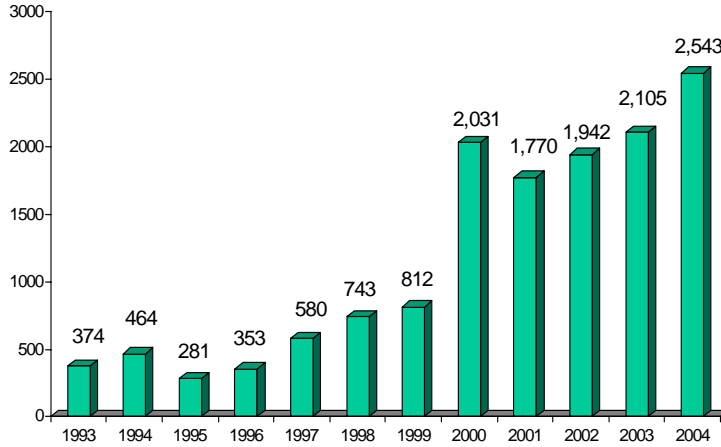
NAFTA Related Events

Indiana

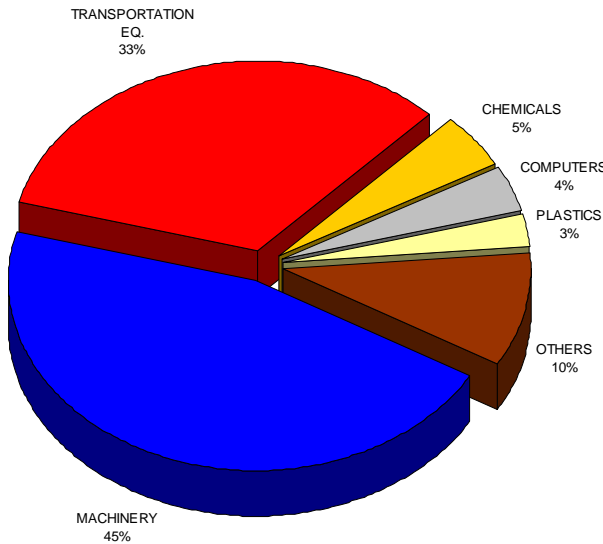
Between 1993 and 2004 Indiana's exports to Mexico grew 580%
Mexico is the second largest consumer market of Indiana's exports

Exports to Mexico

1993-2004 (Millions of US Dollars)



Exports to Mexico by Sector 2004



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

February 08 – 11

"EXPO COMM MEXICO 2005", México, D.F. – Centro Banamex

Expo Comm Mexico 2005 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 14th year, EXPO COMM MEXICO 2005 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.expohipodromo.com.mx/>

<http://www.expocomm.com/mexico/att-index.html>

February 09 – 11

"Expo Empaque 2005", Monterrey, Nuevo León – Cintermex

The 5th International Packaging and Processing Show will showcase industries such as processed foods, automotive, beverages, confectionary, electronics and pharmaceutical, among others. Attendees will find the latest on packaging technology solutions, top manufacturers, suppliers and distributors for: packaging machinery, software and systems, controls and components, labeling solutions, containers, converting machinery, wrapping films, services and more. <http://www.cintermex.com.mx/> <http://www.expoempaque.net/>

February 10 – 12

"XXI Meat Industry International Exhibition & Convention", Monterrey, Nuevo León – Cintermex

Expo Carnes is the meat industry international exhibition and convention that attracts suppliers, distributors and meat packers of the different segments of the meat and poultry industries.

<http://www.cintermex.com.mx/> <http://www.expocarnes.com/>

February 22 – 24

"Expo Manufactura 2005", Monterrey, Nuevo León – Cintermex

Trade show and conferences targeted to electronic assembly and automated machinery, equipment, controls, components, systems, etc. This is one of the most important manufacturing events in Mexico where more than 120 companies representing 160 domestic and international brands meet more than 6,000 professionals searching for industry solutions in the areas of manufacturing, metal-cutting, assembly, automotive, electronics, iron and steel, and more. <http://www.cintermex.com.mx/>

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

February 25 – 26

"Seminario Outsourcing", Boca del Río, Veracruz – World Trade Center Veracruz

This is a seminar about subcontracting methodologies.

http://www.wtcveracruz.com.mx/Page_English.htm

February 26 – March 1

"La Feria de las Américas", León, Guanajuato – Poliforum

This event is the 30th 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://www.twin-plant-news.com/issues/nov04/calendar.htm>

<http://fair.anpic.com/>

NAFTA WORKS FOR



Baja California Sur



Capital: La Paz

Main cities: La Paz, Los Cabos, Loreto, Comondu, Mulege

Population: 424,041 (2000)
 81% in the urban area
 61% under 30 years old
 6 people per square kilometer
 96% Literacy rate

Major exports: Electronic equipment, computers and textile

Exports: US \$ 194 Millions (2003)

Imports: US \$ 69 Millions (2003)

Source: Ministry of the Economy

Foreign Direct Investment:

Between 1999 and 2004, Baja California Sur received US\$ 957.8 millions of dollars in foreign investment.

Main sector: Hotels, Commerce and Services.

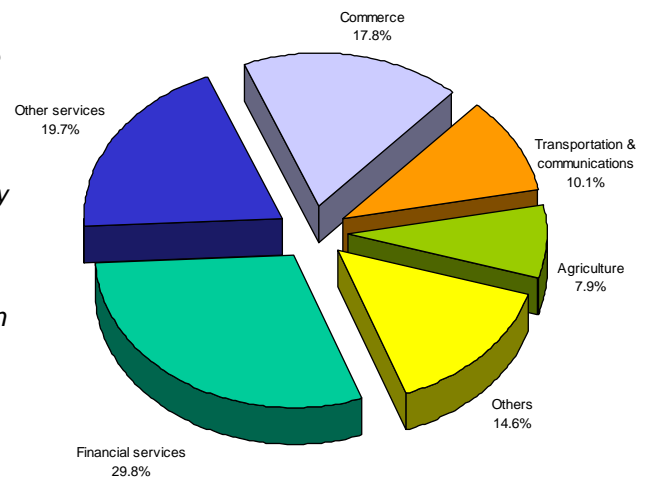
Countries with major investments in Baja California Sur include: USA, Canada, Italy, Germany, France and UK.

Infrastructure: 1,865 km of paved roads
 117 km of highways (4 lanes)
 2 International airport
 23 Universities and tech institutes
 26 Hospitals
 86,000 Fixed telephone lines
 19 Radio stations
 19 TV stations

Investment Highlights

Aid in setting up operations and training workers.

Major Economic Activity in 2002



Source: Ministry of Economy with INEGI data.

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Selected Readings

Mexico: Selected Issues (G. Meredith, E. Faal, V. Moissinac, M. Vera-Martin and A. Bulir. International Monetary Fund, December 2004)

<http://www.imf.org/external/pubs/ft/scr/2004/cr04418.pdf>

This paper analyzes the sources of Mexico's economic growth since the 1960s, and compares various decompositions of historical growth into trend and cyclical components. The role of the implied output gaps in the inflationary process is then assessed. Looking ahead, it presents medium-term paths for GDP based on alternative productivity growth rates. The results indicate that the most important factor underlying the slowdown in output growth from an average rate of 6½ percent during 1960–79 to only 2½ percent during 1980–2003 was a sharp decline in trend total factor productivity growth. While economic policy reforms and the introduction of NAFTA may have raised trend productivity growth in recent years, further increases in productivity growth would appear necessary to meet the government's medium-term growth objectives.

Dollar Adjustment: How Far? Against What? (edited by C. Fred Bergsten and John Williamson. Institute for International Economics, November 2004)

This book assesses the progress that has been made to date in correcting the sizable misalignments of key national currencies that developed in the late 1990s and early 2000s. The book examines whether a dollar decline is needed for the United States and the rest of the world to achieve sustainable current account positions and what the impact of a major dollar realignment would be on economies around the world. It also features new ideas on the effectiveness of intervention in moving exchange rates in a desired direction. The book brings together perspectives from government, industry, and academia.

Diario Oficial Notices

- Agreement modifying the Sectorial Promotion Programs (PROSEC). (January 3).
- Agreement modifying its similar that establishes the encoding and classification of merchandises whose import-export operation is regulated by the Department of the Environment and Natural Resources. (January 26).
- Agreement announcing the minimum quota for importing orange juice into the United States of America under the duty-quota accord established in the North American Free Trade Agreement. (January 27).
- Agreement modifying its similar that establishes the encoding and classification of merchandises whose imports-exports, entering and exiting, are subject to sanitary regulation by the Department of Health. (January 27).

- Notice of suspension of the review by the panel to the final determination on the effects of the final countervailing duty suppression imposed to the sodium hydroxide (Caustic soda) imports, classified under Tariff Item 2815.12.01 of the General Imports and Exports Tariff Law, originating from the United States of America, regardless of shipping country. (January 28).
- Agreement reforming and adding its similar that identifies the General Imports and Exports Tariff Law items, in which are classified the merchandises subject to accomplishment of Mexican Official Standards in the point of entry to Mexico and its exit. (February 3).

Success Stories

Home Depot Expands in Mexico

Home Depot has acquired 20 home improvement stores in Mexico that were operated by Home Mart, a Mexican home improvement retailer, and converted to Home Depot stores. With this acquisition, in addition to five new stores that will be opened this year, Home Depot consolidates its position as a leading home improvement company in Mexico.

Since 2003, Mexico's housing and construction market has been booming fueled by low interest mortgage loans. Moreover, a growing purchasing power by average Mexicans that are venturing in the home ownership market is also benefiting home improvement companies such as Home Depot. In turn, Home Depot has also expanded its supply base in Mexico, prompting many domestic suppliers of construction materials and home improvement manufacturers, to take notice and compete to supply Home Depot stores in the country as well as in the United States. One example is certified Mexican wood and lumber harvested in the state of Durango which will start selling this year in the 1,890 stores operated by Home Depot in the U.S., Canada, Mexico and Puerto Rico.

More than 85% of materials, appliances and home improvement goods sold by Home Depot are produced or harvested in the United States. In order to become more competitive and to pass savings to consumers, Home Depot will expand its North American supply base to include Mexican and Canadian suppliers. So far, more than two dozen Mexican companies, including IMSA, Lamosa, Vitromex, Orion, and other suppliers ranging from construction materials (including lumber) to ladder manufacturers and patio furniture makers, are Home Depot suppliers.

A monthly newsletter on NAFTA

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