



NAFTA Works



A MONTHLY NEWSLETTER ON NAFTA AND RELATED ISSUES
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June 2005
Volume 10, Issue 06

The Growth Potential of the Mexican Pharmaceutical Industry

Mexico has become a promising market for the pharmaceutical industry in terms of sales, as well as research and development. While the country has become a top priority for many major multinational pharmaceutical firms, domestic companies have also benefited from the expansion of the market. In fact, Mexico has grown to be the largest consumer of pharmaceuticals in Latin America and ranks as the ninth largest consumer world-wide with sales valued at \$9.6 billion in 2003. In this area, Mexico is considered an emerging market that still exhibits considerable potential for growth.

In addition to the sales factor, the pharmaceutical industry is also interested in Mexico because of its proximity to the U.S. market, the country's sound macroeconomic environment (including its currency exchange rate risk) and the overall savings in production cost that make Mexico, on average, 25% cheaper. Consequently, investors have made Mexico one of the most important locations for production facilities, and the pharmaceutical industry is not the exception.

According to the Mexican Association of Industries of Pharmaceutical Investigation, new investments in the top 26 pharmaceutical companies totaled \$400 million in 2003.

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A growing percentage of the Mexican production goes to the domestic market as well as exports to Europe and Latin America. Meanwhile, the largest share of imports still come from the United States.

The U.S. has increased its pharmaceutical exports to Mexico from 41 million in 1993 to 449 million in 2004. In that year, U.S. exports of pharmaceutical products to Mexico shared 24% of the total Mexican import market, and 29% more compared to that of 2003.

Furthermore, Mexico has also seen growth in its total exports of pharmaceuticals to the United States; from 3.7 million in 1993 to 405.6 million in 2004.

The North American Free Trade Agreement has contributed to the reduction or elimination of import duties for U.S. pharmaceutical products sold in Mexico. Moreover, compliance with intellectual property rights, advances in patent and trademark protections, and overall improvements in the business and

regulatory environment are contributing factors that fuel the interest of multinational pharmaceuticals in Mexico. Exports and imports to and from Mexico continue to reflect this growth.

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Mexico Economic Update

	May 2005		Jan-May 2005			May 2004		May 2005			Abr 2004		Abr 2005	
	Value (US bd)	Annual Change %	Value (US bd)	Annual Change %										
Foreign Trade														
Exports	18.31	13.3	82.52	11.4										
Manufacturing	15.03	11.6	67.59	8.8										
Oil	2.57	19.5	11.48	29.6										
Imports	18.36	14.3	85.15	13.2										
Balance	(0.05)	(156.0)	(2.63)	132.7										
Financial Indicators														
Inflation Rate (Annual)						4.3%	4.6%							
Interest Rate (CETES 28)						6.6%	9.8%							
Stock Market Index (IPC)						9,883	12,718							
Exchange Rate (pesos/dollar)						11.51	10.97							
International Reserves (US bd)						58.5	59.8							
Employment														
Open Unemployment						3.48%	4.29%							
Economic Growth														
Global Economic Activity Index (IGAE)						3.99%	3.07%							
Industrial Activity														
Industrial Production						3.6%	5.2%							
Manufacturing						3.2%	5.5%							
Mining						3.2%	2.5%							
Construction						6.3%	6.5%							

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

US bd= US billion dollar

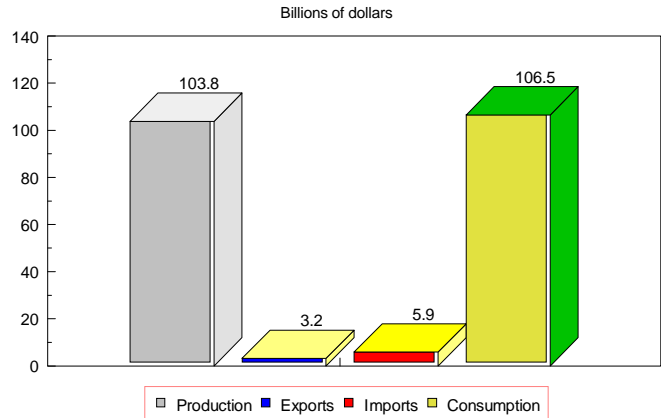


The private sector holds approximately 80% of the total value of the Mexican market, but in terms of distribution, the public health sector traditionally dispenses the largest amount of medicine to the Mexican population. Overall, Mexico is the largest pharmaceutical market in Latin America. Approximately 390 companies, Mexican and multinational, manufacture pharmaceutical products in Mexico. However, only nine percent of them (35) account for nearly 80% of the total sales. These leading companies are, as in most other countries, the large multinationals.

The market for generic pharmaceuticals has grown 50% over the last few years. The generic sector now accounts for 6% of the Mexican pharmaceutical market in terms of volume, and around 2% in terms of value. Thereby, Mexico offers a significant untapped growth potential for generic drugs.

It is important to note the difference between finished pharmaceutical product consumption and input production. For example, in 2003, the U.S. industry exported 3.2 billion dollars of finished pharmaceutical products. That is only 24% of the overall export production reaching 13.6 billion dollars. The same can be said for the 5.9 billion dollars in imports of pharmaceutical products that were consumed, which represents only 24% of the total pharmaceutical market. As this market also includes the inputs, overall pharmaceutical imports rose to 24.6 billion dollar. This distinction points out not only the growth of the finished products, but also highlights the growth of the sometimes over-looked inputs of pharmaceutical product markets.

2003 U.S. Pharmaceutical - Apparent Consumption

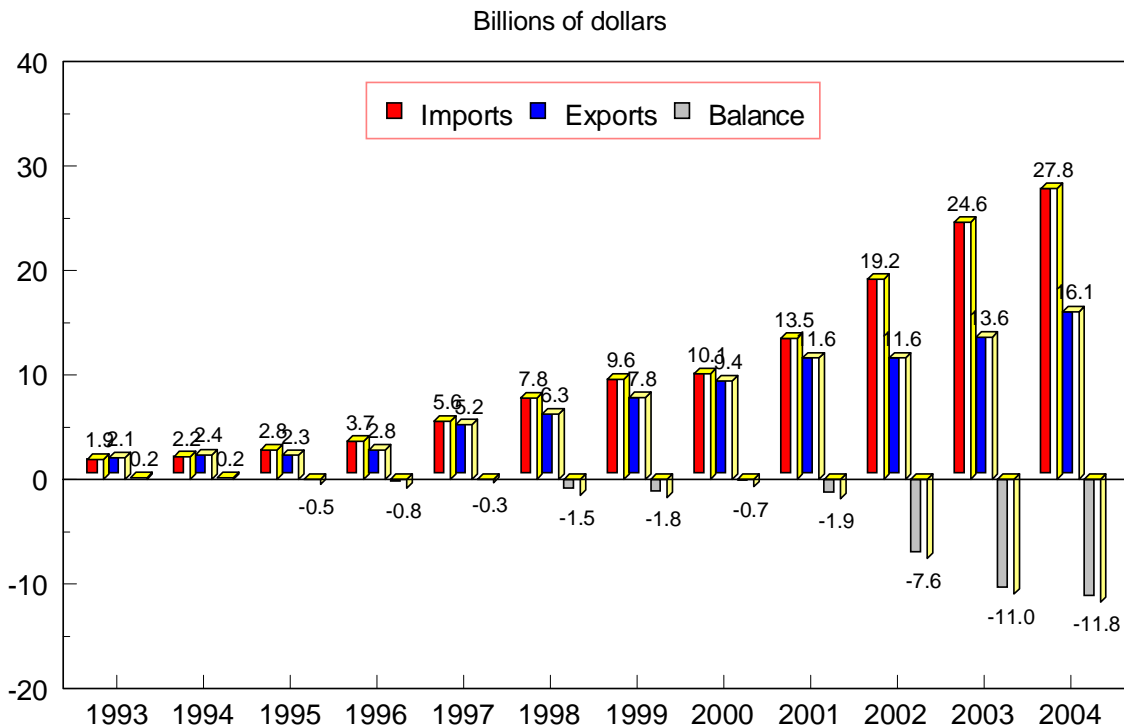


Source : US Census Bureau

Increased trade in the sector is a contributing factor in the creation of jobs in both countries. In 2002, the states of New Jersey and California employed over 26,000 workers each one in the pharmaceutical industry. Nationwide more than 182,000 jobs were reported in this sector that year. Of the 901 pharmaceutical establishments in the United States, California led the market capturing 15.1% of all pharmaceutical industry establishments in its territory alone.

In short, Mexico's position as the leading Latin American pharmaceutical market and the 9th largest consumer in the sector underscores the strategic position of the country both in terms of manufacturing opportunities, as well as a growing market.

U.S. Pharmaceutical Products



Source : US Department of Commerce



Diario Oficial Notices

- Agreement noticing the quotas for importing new automobile vehicles during the 2005-April 2006 period, originating from the Republic of Argentina in accordance to the #55 Economic Complementation Agreement signed among the United Mexican States, the Republic of Argentina, the Federative Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay, being the last four countries parties of the MERCOSUR. (May 30)
- Agreement complementing the List of Excluded Services by Mexico in the Chapter X of the North American Free Trade Agreement, published on December 20 1993. (June 1)
- Agreement noticing the quota for importing bean (except for sowing) originating from the Republic of Nicaragua into the United Mexican States from July 1 to August 31 of each year, and from April 1 to June 30 of the following year. (June 1)
- Decree concluding the safeguard investigation on plywood sheets imports, classified under item 4412.13.01, 4412.13.99, 4412.14.99, 4412.19.99, 4412.22.01, 4412.23.99, 4412.29.99, 4412.92.01, 4412.93.99 y 4412.99.99 of the Mexican Imports and Export Tariff Law. (June 2)
- Decree accepting the request from the interested party and declares the initiation of the administrative procedure of product coverage related to the final decree of the anti dumping investigation process on tools imports, classified under tariff items 8201 to 8206 of the last Mexican Imports and Exports Tariff Law, and actually classified under tariff items 8204.20.99, 8204.11.99, 8204.12.99, 8204.20.01, 8201.40.01, 8201.60.01, 8203.20.01, 8205.10.02, 8203.10.99, 8204.40.99, 8205.20.01, 8205.30.99, 8201.50.01, 8203.40.02, 8205.59.03, 8205.59.04, 8425.42.02, 8205.10.03, 8206.00.01, 8204.20.99, 8205.59.99 y 8204.11.01, of the current Mexican Imports and Exports Tariff Law, and originating from The People's Republic of China, regardless of shipping country. (June 7)
- Final Decree of the examination of the countervailing duty imposed over padlocks, base metal, not of cylinder or pin tumbler construction, not ov 3.8cm wide imports, classified under tariff item 8301.10.01 of The Mexican Imports and Exports Tariff Law and originating from The People's Republic of China, regardless of shipping country. (June 14)
- Final decree of the product coverage administrative procedure related to the final decree which imposed countervailing duty on the organic chemical products classified under tariff item 2941.90.99 of The Mexican Imports and Exports Tariff Law, originating from the People's Republic of China, regardless of shipping country. (June 23)
- Agreement modifying its similar that notices the maximum quota for linseed or flaxseed oil imports, originating and coming from the Republic of Argentina. (June 24)
- Agreement noticing the additional quota for importing yellow corn (except for sowing) originating from The United States of America during 2005. (June 24)

Selected Readings

The Benefits of Liberalising Product Markets and Reducing Barriers to International Trade And Investment: The Case of The United States and the European Union (Organisation for Economic Co-operation and Development, June 2005)

This paper provides an assessment of the impact of a package of structural reforms in the European Union and the United States on long-run trade and output gains accruing to OECD countries. The package includes reforms that reduce competition-restraining regulations, cut tariff barriers and ease restrictions on foreign direct investment to "best practice" levels in the OECD area. The analysis, which is based on earlier OECD studies, indicates that such reforms could lead to gains in GDP per capita in both transatlantic areas of up to 3 to 3 ½%. Moreover, due to trade linkages, the benefits of reforms in the United States and the European Union would spread to other OECD countries, with an estimated increase in GDP per capita of up to 1½%. As the analysis is confined to a relatively narrow set of policies and abstracts from potential dynamic effects from reform-induced increase in innovation, the overall gains from broad reforms could be significantly higher than reported in the paper.

[http://www.oelis.oecd.org/olis/2005doc.nsf/linkto/ECO-WKP\(2005\)19](http://www.oelis.oecd.org/olis/2005doc.nsf/linkto/ECO-WKP(2005)19)

World Development Indicators 2005 (World Bank, April 2005)

The World Bank's respected statistical publication presents the most current and accurate information on global development on both a national level and aggregated globally. This information allows readers to monitor the progress made toward meeting the goals endorsed by the United Nations and its member countries, the World Bank, and a host of partner organizations in September 2001 in their Millennium Development Goals. The print edition of World Development Indicators 2005 allows you to consult over 80 tables and over 800 indicators for 152 economies and 14 country groups, as well as basic indicators for a further 55 economies. There are key indicators for the latest year available, important regional data, and income group analysis. The report contains six thematic presentations of analytical commentary covering: World View, People, Environment, Economy, States and Markets, and Global Links.

<http://www.worldbank.org/data/wdi2005>



Distrito Federal

Main buroughs: M. Hidalgo, Cuauhtemoc, B. Juarez, A. Obregon

Investment Highlights

Aid in setting up operations and training workers.

Population: 8,605,239 (2000)
100% in the urban area
55% under 30 years old
5,643 people per square kilometer
97% Literacy rate

Major exports: Pharmaceutical products, cosmetics, chemicals

Exports: US \$4 Billions (2003)

Imports: US \$9.9 Billions (2003)

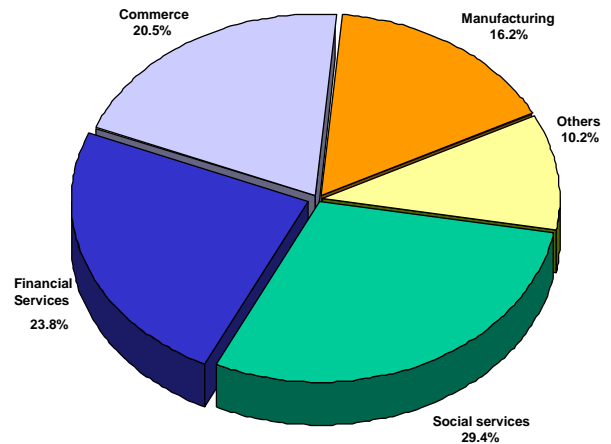
Source: Ministry of the Economy

Foreign Direct Investment:

Between 1999 and 2004, Distrito Federal received US\$ 62 billions of dollars in foreign investment.

Main sector: Financial Services, Automotive, Communications, Commerce

Major Economic Activity in 2003



Source: Ministry of Economy with INEGI data.

Countries with major investments in Distrito Federal

include: USA, Spain, Netherland, United Kigndom, Switzerland, Canada

Maquiladora: 18 companies employ 650 workers

Source: Ministry of the Economy, Distrito Federal and INEGI.

Infrastructure:

- 71 km of highways (4 lanes)
- 1 International airport
- 422 Universities and tech institutes
- 358 Hospitals
- 3,600,000 Fixed telephone lines
- 60 Radio stations
- 11 TV stations

Contact

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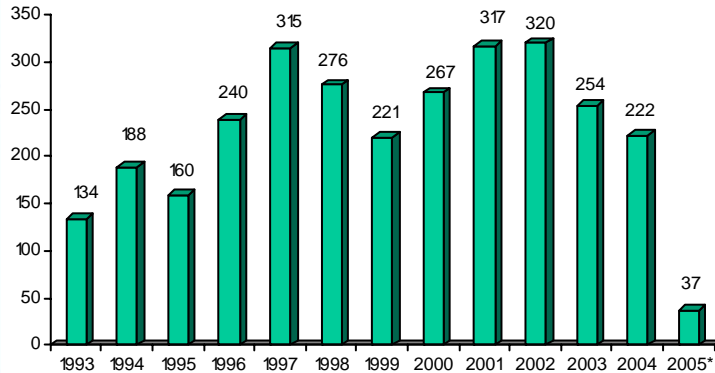
Delaware

Between 1993 and 2004 Delaware's exports to Mexico grew 66%

Mexico is the fifth largest consumer market for Delaware's exports

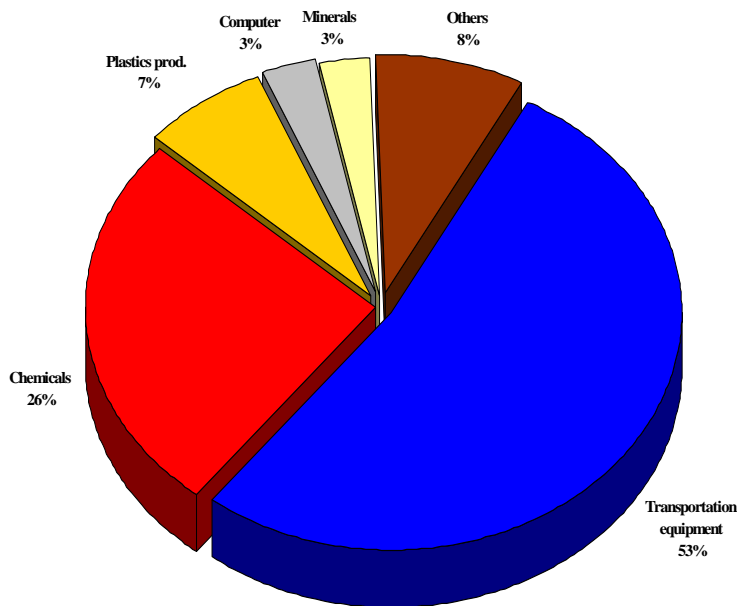
Exports to Mexico

1993-2005* (Millions of US Dollars)



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

Exports to Mexico By Sector (NAICS)



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

Success Stories

Recently renovated Mexican pharmaceutical factory looks for the United States market

Merck, the German-based pharmaceutical company best known for its pain medication Vioxx, wants to sell medicine produced in its Mexico City factory in the United States. Merck has taken advantage of commercial treaties signed by the Mexican government selling its products globally. Moreover, Merck has undertaken a pricey renovation of its Mexican factory resulting in, among other things, a higher-quality product and a 15% increase in production, equivalent to 55 million additional units of medicine.

Over the next two years, Merck plans to invest 4 million dollars annually in the Mexico City factory. Not only does Merck hope to increase their presence in the United States, it is also looking at the Mexican market, with which it started operations 75 years ago.

Kenworth Expands its Baja California Trucking Plant

Kenworth of Mexico will expand its plant in Mexicali Baja California, investing 70 million dollars and creating 600 positions that will add up to the 1,763 employees the U.S.-based truck manufacturer already has there. The plant expansion will be completed by early 2006 and will increase the plant production capacity from 40 to 60 units a day.

Mexico's Secretary of Economy, Fernando Canales Clariond, praised Kenworth and the State of Baja California for their commitment to foster investment, the creation of jobs, and for contributing to Mexico's competitiveness. Secretary Canales stressed the importance of Kenworth's investment expansion as a sign of investors' confidence in Mexico's economy and the future of North America's manufacturing complementarities in the automotive sector.

Kenworth of Mexico has been in the country for more than 45 years, selling in the domestic market as well as exporting to the U.S. and other Kenworth markets.

The automotive sector, including truck manufacturing, is Mexico's most important manufacturing employer, and one of the key industries in the country. It is increasingly producing high value-added products, contributing to technology transfer, and promoting Mexican engineering skills and talent.

NAFTA WORKS FOR

NAFTA Related Events

June 22 – 24

“ISA Expo Control“

México, D.F. – Centro Banamex

ISA ExpoControl is the largest tradeshow in Latin America that unites suppliers and users of the control, measurement, and automation equipment applied to industrial processes. ExpoControl 2005 is endorsed by ISA Central Mexico Section and will display the latest and most innovative products and instruments that are available in the global market.

<http://www.isaexpocontrol.com>

<http://www.centrobanamex.com>

June 25 – 27

“Expo Proveedores del Transporte Monterrey“

Monterrey, Nuevo León – CINTERMEX

International show for transport cargo and passenger industry, parts, accessories, equipment and services suppliers.

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

[http://www.cintermex.com.mx/cgi-bin/eventos.asp?
i=i&a=5](http://www.cintermex.com.mx/cgi-bin/eventos.asp?i=i&a=5)

June 30 – July 2

“V Foro Nacional del Transporte de Mercancías“

Acapulco, Guerrero – Hotel Fairmont Acapulco Princess

This is the 5th national forum on merchandise transportation. The event promotes the competitiveness of companies through solid bases in logistic and transport.

<http://www.antp.org.mx/5toforo/index.htm>

antp01@prodigy.net.mx

July 05 – 07

“Expologística 2005“

México, D.F. – Centro Banamex

Expo logistics is the best event of its type in Latin America. In it, more than 400 Mexican and multinational companies will showcase products and services in the area of technological innovations that are essential to improve the efficiency of all kinds of companies. The event offers a wide range of presentations and distributional services for warehousing products and services.

<http://www.expologistica.com>

<http://www.centrobanamex.com>

July 13 – 15

“PAACE Automechanika Mexico“

México, D.F. – Centro Banamex

PAACE Automechanika is the largest trade show for the automotive aftermarket, OE Manufacturing and service industry in Mexico. Now in its 12th year, more of the “power brands” committed to exhibit at PAACE Automechanika Mexico 2005 are top 100 automotive aftermarket suppliers Cardone Industries, Inc., Holley Performance Group, Lund International, Technical Chemical Co., and Universal Automotive Industries' Autospecialty Division. Mexican subsidiaries of more of North America's top 100 aftermarket and/or top 150 OE suppliers round out the current list of exhibitors. These companies include: Bosch de México, Bujías NGK, Clevite de México, DESC Automotriz Comercializadora, Disogren Mexicana (Corteco México), Gates de México, Hellamex, Honeywell Bendix, KEM de México, PTX de México (Permatex), SKF de México, Tenneco Automotive, Tomco de México, ZF Sachs Powertrain México and ZF Sachs Suspensión México.

[http://www.usa.messefrankfurt.com/shows/northamerica/paace/
index.htm](http://www.usa.messefrankfurt.com/shows/northamerica/paace/index.htm)

<http://www.automechanika.com>

<http://www.centrobanamex.com>

July 20 – 22

“Expo Eléctrica Internacional ACOMEE-CONACOMEE 2005“

México, D.F. – Centro Banamex

This is one of the best business platforms in Latin America in the area of illumination, electrical material and electrical equipment. Here, manufacturers and importers will meet professional buyers from Mexico and other several countries. Visitors will also find the newest and state-of-the-art technologies to improve the efficiency in the electrical performance and consumption of industrial, commercial, and tourism facilities.

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

<http://www.centrobanamex.com>

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