



TRADE LINKS LAZOS COMERCIALES

Mexico in the Face of Protectionism

Excerpts from the magazine “Negocios” published by ProMéxico

According to Professor María Cristina Rosas, researcher in the National Autonomous University of Mexico (UNAM), Mexico is at the forefront of “new generation” trade agreements: wide-ranging agreements that include headings such as trade in services, investments and intellectual property. The country’s bet for free trade among nations versus protectionism offers a wide array of options and opportunities for investment and business in a particularly adverse international context.

Professor Rosas points out that when there is an economic crisis, some countries opt for protectionism. The reason? Restricting the entry of goods and services from abroad presumably helps to stimulate domestic consumption and protect employment. Nevertheless, in an international setting such as the current one, it is not so simple to opt for protectionism when a global recession takes place. Many inputs for production are obtained from different localities and they are manufactured in the place that offers the best conditions regarding productivity and competitiveness.

In the 1980s, Mexico modified its economic policy and adopted new measures in relation to foreign investment and trade, which led to a reduction in dependence on hydrocarbon exports, giving greater space to the manufacturing sector. Mexico opened up and integrated into the global economy.

Nowadays, Mexico maintains an open economy, due largely to the fact that it has economic and free trade agreements (FTAs) with 44 countries in three continents, by means of which Mexico provides its counterparts with privileged access to its domestic market and at the same time assures similar conditions for itself in its partners’ markets.

With the existence of this large amount of agreements –at world level, Mexico is one of the nations that has the greatest quantity of “new generation” trade agreements– the country has become dependable for business and investment, since it has strict standards of openness and certainty, as well as effective dispute-settlement mechanisms.

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In addition to the North American Free Trade Agreement (NAFTA) with the US and Canada, Mexico has a complex trade and political agreement with the European Union (EU). Likewise, it has a trade agreement with Japan, another with Israel, and also with many Latin American countries.

Such a wide network of FTAs endows Mexico with enormous experience in the field of trade negotiations. Having succeeded in signing agreements with powers such as the US, the EU and Japan, Mexico assures its access to the main international markets while boosting investment flows and cooperation programs.

A network such as Mexico's is expensive, due to the administrative costs implied by simultaneously operating trade agreements with so many countries. At present, the Mexican authorities are working on the standardization of its three free trade agreements with Central America: one with Costa Rica (1995), another with Nicaragua (1998) and another with El Salvador, Guatemala and Honduras (2001).

In the understanding that administrating the three agreements separately is onerous for both Mexico and its partners, on March 27, 2009 the Mexican authorities and their counterparts in Central America agreed to initiate a process of standardization of the three agreements, in such a way that they converge into a single legal instrument that will make it possible to reduce transaction costs and contribute to greater integration. This process should conclude in 2010, to make its entry into force possible in 2012.

Mexico's decision to take another step forward in favor of integration with Central America, tells of the importance of free trade agreements as an antidote against

protectionism. Unlike other nations that have not yet concluded "new generation" trade agreements, Mexico gives the world's investors and entrepreneurs the certainty that they can enter the domestic market in different spheres in preferential conditions, including some that it has not yet been possible to negotiate at multi-lateral level due to the stagnation of the Doha Round of the World Trade Organization (WTO).

In contrast to many WTO members, Mexico is in the vanguard by having norms at internal level in aspects such as trade in services, public-sector procurement, intellectual property measures and investments related to trade, without ignoring topics that go beyond commercial factors, such as cooperation in labor and environment matters and also with regard to democracy and human rights. These provides certainty to the international community, guaranteeing the institutional framework and the observance of norms that are respectful of citizens' rights, in light of economic activities. In fact, Mexico is at the forefront in this field.

In summary: the best antidote against the crisis is the promotion of trade among nations. The stagnation of the Doha Round of WTO, although bad news, should not be an obstacle to countries achieving better access to their partners' markets. Through its wideranging network of free trade agreements, Mexico offers options to the world's investors and entrepreneurs in a particularly adverse international context.

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Mexico's Total Trade in November (billion US\$)			
	2008	2009	%
Total	43.6	44.8	2.7
Exports	20.4	22.3	9.3
Exports (excluding oil)	18.1	19.1	5.7
Imports	23.2	22.5	-3.0

Source: Banco de México

Mexico's Trade with EU and EFTA (million US\$)			
January - November	2008	2009	%
Exports to the EU	16,368.2	10,465.6	-36.1
Imports from the EU	36,496.3	24,717.0	-32.3
Exports to the EFTA	581.3	434.2	-25.3
Imports from the EFTA	1,612.0	1,263.4	-21.6

Source: Banco de México

More investment coming to Mexico

Ford opens new facility in Mexico

The American firm *Ford Motors Company* opened a new diesel engine plant in Chihuahua, Mexico, which contemplates a total investment of 838 million dollars and the creation of 1,100 direct employments and 3,000 indirect jobs. This facility is part of the 3 billion dollar project that the company will invest in Mexico in the next three years.

The plant will produce 200,000 diesel engines, which will allow it to increase the company's production capacity in Mexico, reaching 428,000 engines per year. The new facility is equipped with flexible manufacturing processes, three machined components and two assemble lines.

The production of this plant will be oriented to exports, mainly to the US and Great Britain. The opening of this new facility strengthens the Mexican automotive industry. Mexico is one of the 10 main worldwide producers of vehicles, trucks, parts and components.

Golden Dragon to set up in Mexico

The Chinese company *Golden Dragon* inaugurated its first manufacturing facility in Mexico with an initial investment of 100 million dollars. In this plant, located in the Northern city of Monclova, high technology copper tubes for air conditioning will be produced. The annual production will be 60,000 tons in order to supply the north of the American Continent.

This operation constitutes the biggest investment made by a Chinese firm in Mexico, which confirms the decision of the Asian country to explore real business opportunities in Mexico. Additionally, it reflects the trust that many big multinational companies have in the country and in its competitive advantages.

Golden Dragon Group is the world leader producer of copper tubes for air conditioning and energy saving devices, as well as in the operation of the ultimate technology for research and development of these products. This Group, founded in 1987 in Xinxiang, China, has operations in the US, Japan, Hong Kong and Europe.

Nilfisk Advance starts a plant in Mexico

On December 25, 2009, the Danish company *Nilfisk Advance* inaugurated a manufacturing plant to produce machinery for industrial cleaning in the Mexican state of Queretaro. This facility represents 10 million dollars of investment and a contribution of 200 direct employments and approximately 600 indirect jobs.

Nilfisk Advance is a leader company in the production of professional cleaning equipment, and has established manufacturing plants in Asia, Europe and North America providing 4,500 jobs worldwide.

Nilfisk Advance started its activities in Mexico in 2006 oriented to the sale of equipment, but due to Mexico's macroeconomic conditions, the company decided to establish a production unit which will contribute to strengthen its business positioning in the American Continent.

Mastretta MXT: a 100% Mexican vehicle

As a result of the Mexican experience in the automotive sector, a sport vehicle will be fully manufactured in Mexico by the Mexican company *Tecnoidea*. This car, named *Mastretta MXT*, was exhibited in Europe for the first time at the 2008 British international Motor Show, where visitors were attracted by its design and compliance with the highest quality standards.

With over 20 years of experience in the automotive technology, *Tecnoidea* entered in the sport car market niche with its own model. The biggest challenge was to develop the technology needed to produce a vehicle that meets the demands of a high performance automobile that generates investment returns in small volume production.

The *Mastretta MXT* will be manufactured at a Mexican plant that will begin operations by the end of 2010 with approximately 45 workers. The objective is to produce 100 units during its first year, and subsequently assemble 400 vehicles per year.

Mexico's Economic Indicators

Inflation rate: 0.41% (December, 2009); 3.57 % (2009, annual)
Industrial Gross Domestic Product: -1.0% (Nov. 2009 / Nov. 2008)
Manufacturing: -0.1%; **Construction:** -5.5%, **Mining:** 0.6%
General Index of Economic Activity: -5.3% (Oct. 2009 / Oct. 2008)
Consumer Confidence Index: 80.1 pts. (December 2009)
 -4.7 percentage points (December 2009 / December 2008)
Open unemployment rate: 5.30 % (Nov. 2009) Source: INEGI

Mexico's Financial Indicators

Foreign exchange rate: 12.73 peso/dollar (Jan. 20, 2010)
International reserves: \$91,347 million dollars (Jan. 15, 2010)
Mexican stock market index (IPC): 32,025 (Jan. 20, 2010)
Interest rate treasury bonds CETES 28 days:
 4.49 % (January 21, 2010)

Source: Banco de Mexico

Mexico's Official Gazette Notices

- **16/12/2009** Seventeenth Modification of the Agreement through which the Ministry of Economy issues the rules and general criteria concerning foreign trade.
- **16/12/2009** Decree modifying the Mexican Tariff Schedule Law (Ley de los Impuestos Generales de Importación y de Exportación), the decree establishing several programs to promote sectors, as well as the diverse ones that establish import duties for the northern border region and the applicable Mexican Import Tariff rate for goods from countries that has celebrated trade agreements with Mexico.
- **17/12/2009** Second Resolution of the Modifications of the General Rules on Foreign Trade for 2009 and its annexes 1, 4, 10, 13, 19 and 22.
- **24/12/2009** Decree establishing the duty rate for definitive imports of used vehicles
- **30/12/2009** Third Resolution of the Modifications of the General Rules on Foreign Trade for 2009 and its annexes 1, 4, 22 and 25.

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- **1/12/2009 L314** Commission Decision 2009/866/EC of 30 November 2009 authorising the placing on the market of products containing, consisting of, or produced from genetically modified maize MIR604 (SYN-IR6Ø4-5) pursuant to Regulation (EC) No 1829/2003 of the European Parliament and of the Council (notified under document C (2009) 9399).
- **2/12/2009 L315** European Council Decision 2009/881/EU of 1 December 2009 on the exercise of the Presidency of the Council.
- **9/12/2009 L322** Council Decision 2009/908/EU of 1 December 2009 laying down measures for the implementation of the European Council Decision on the exercise of the Presidency of the Council, and on the chairmanship of preparatory bodies of the Council.
- **10/12/2009 L324** Council Regulation (EC) No 1186/2009 of 16 November 2009 setting up a Community system of reliefs from customs duty.
- **11/12/2009 L325** Council Decision 2009/937/EU of 1 December 2009 adopting the Council's Rules of Procedure.
- **17/12/2009 L332** Commission Regulation (EU) No 1236/2009 of 10 December 2009 amending Annex I to Council Regulation (EC) No 732/2008 applying a scheme of generalised tariff preferences for the period from 1 January 2009 to 31 December 2011.
- **19/12/2009 L338** Council Regulation (EC) No 1250/2009 of 30 November 2009 amending Regulation (EC) No 73/2009 establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers.

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