



NAFTA Works

VOL. 5 ISSUE 6 A monthly newsletter on NAFTA and related Mexico issues JUNE 2000

NAFTA Success High on Presidential Agenda

On June 7, Mexican President Ernesto Zedillo began his ninth and last official visit to the U.S. which served to evaluate the legacy of the Clinton and Zedillo administrations. Both presidents have been able to establish and consolidate institutions that have vastly improved the U.S.-Mexico bilateral relation and have set the stage for continuous cooperation in every area of the relation.

Mexico has undergone a set of economic and institutional reforms that have set the country in a path of long-term and stable growth. Since 1996, Mexico has grown on average 5.2% every year and is poised to grow more than 5% in 2000. Today, Mexico has become the U.S.' second largest trading partner and export market. While in 1993 Mexico bought 9% of all U.S. exports, in 1999 Mexico's share increased to 13%. By the end of this year, bilateral trade is expected to surpass US\$250 billion, a 200 percent growth since 1993.

Mexico's current economic performance shows not only that it is a reliable trade and investment partner, but also offers a stable economic and political environment conducive to doing business.

President Zedillo's administration has successfully developed an economic program based on lowering inflation, fiscal discipline, responsible debt management and a floating exchange rate regime. Today, current account deficits are largely being financed with increasing and stable Foreign Direct Investment (FDI) flows, fiscal deficits do not surpass 1.2% of GDP, and the financial system has become healthier supported by the warranty and bankruptcy laws recently approved by Congress.

During the Zedillo administration, Mexico has been able to consolidate an institutional framework that ensures the permanence of economic and social policies.

continues on page 2

Mexico Economic Update

- **Trade Balance:** Mexico registered a trade deficit of \$334 million for April 2000, down from a \$329 million deficit in April 1999. Total exports in April 2000 reached \$12.4 billion, an increase of 17% with respect to April 1999, while oil exports amounted to \$1.22 billion, up 80% from April 1999. Imports for April 2000 were \$12.7 billion, an increase of 16% over the same month in 1999.
- **Financial Indicators:** Mexico registered a price inflation of 0.6% for April 2000, compared to 0.9% in April 1999. The leading Mexican interest rate, CETES 28, remained at 12.9%, 7.7% points lower for the same month in 1999. The Mexican Stock Exchange Market Index (IPC) reached a maximum of 7,540 points, 1,984 points higher than the level of April 1999. The average Pesos/Dollar spot exchange rate (bid) for April 2000 was 9.39, compared to 9.30 Pesos/Dollar for the same month in 1999. In April 2000, open interest at the Mexican Derivatives Exchange (MexDer) amounted 52,461, an increase of 47,762 futures contracts traded over the same month in 1999.
- **Employment:** Open unemployment reached 2.45% in April 2000, down from 2.7% in April 1999.
- **Industrial Activity:** Mexico's industrial production grew 8.3% in March 2000 over the same month in 1999. Likewise, manufacturing output expanded 9.1%, mining activity increased 3.3% and construction activity grew 5.6%.
- **Public Finances:** During the first quarter of 2000, the public balance registered a surplus of \$618.2 million, an increase of 25.2% in real terms over the same period in 1999 and an indicator that the target of an annual public deficit of 1% of GDP is feasible. Likewise, public income during the first quarter of 2000 grew 16.3% in real terms as compared to the same period in 1999. In April 2000, public debt reached 23.9% of GDP.

Source: INEGI, SHCP, BANXICO, BMV, MEXDER and SECOFI-NAFTA

Modifications to the Maquiladora Regime

On May 9, 2000, the Ministry of Trade and Industrial Development (SECOFI) issued the Decree to establish diverse Sectoral Promotion Programs for the maquiladora industry. This decree, will enter into effect on January 1, 2001. In the case of firms with Maquila program or the Program for Temporary Imports of Goods Used for Exports (PITEX), the decree will apply starting November 1, 2000, and they will be able to enjoy the new preferential tariff treatment.

The decree is consistent with Mexico's commitments established under NAFTA's Article 303, and substitutes the November 14, 1998 decree on the same matter.

The implementation of Article 303 of NAFTA means that by January 1, 2000, manufacturers using the Maquiladora and the PITEX programs face new rules for duty drawback when importing products from outside the region.

continues on page 2

IN THIS ISSUE

Mexico's President Zedillo visits the U.S.	1
Modifications to the Maquiladora Regime	1
Diario Oficial	2
Nafta-Related Events	2
NAFTA boosts the Textile & Apparel Industry	3
Profile of Vermont	4
Business News Digest	4
Select Readings	4
Profile of Aguascalientes	5
Trade & Environmental Protection	Supplement

Use E-mail

Get your NAFTA Works via e-mail
Send your name and e-mail address to
subscribe@naftaworks.org

President Zedillo

continued from page 1

Institutions such as the Federal Electoral Institute, the Federal Competition Commission and an independent Central Bank guarantee the consistency, transparency and continuity of economic and social policies and ensure a smooth change of administration.

Trade and investment liberalization has been institutionalized through a network of free trade agreements including 28 countries in North and Latin America, The Middle East, and Europe. All these agreements have transformed Mexico into a

gateway to 850 million consumers worldwide.

Since 1994, FDI flows have average \$11.5 billion per year, transforming Mexico into a world-class manufacturing center and a global trade hub.

The positive balance resulting from the close relationship between Presidents Clinton and Zedillo, supported by an institutional framework, reflect a strong U.S.-Mexico partnership ready to face the challenges of the years to come.

Maquiladora Industry

continued from page 1

The Mexican maquiladora industry is a production-sharing system between Mexico and foreign countries, mainly the United States, in which investors establish production facilities in Mexico, either as subsidiaries or as joint-ventures with Mexican enterprises, to produce at competitive prices.

Mexico's maquiladora industry sources inputs not only from North America but from different regions around the world. To guarantee maquiladoras' access to top quality and low cost inputs, SECOFI, in coordination with private sector groups, developed Sectoral Programs to reduce duties on imports of certain non-NAFTA inputs and machinery used in the production of manufactured products.

Sectoral Promotion Programs cover 10 industries (10,911 products) and establish *ad valorem* duties between 0 and 5 percent. The Programs include inputs for the following sectors:

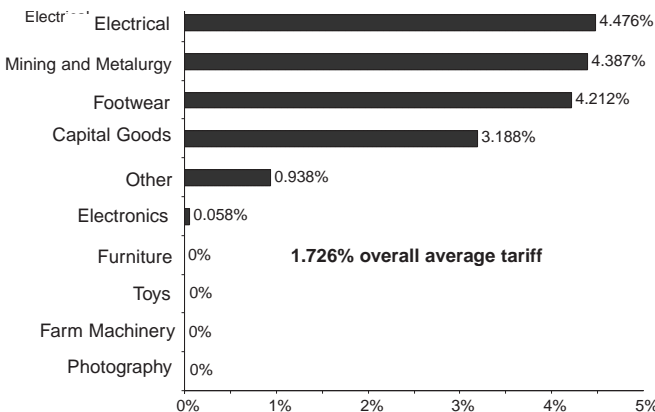
- electrical components
- electronics
- furniture
- toys and recreational equip.
- footwear
- mining and metallurgy
- capital goods
- photography
- farm machinery
- other industries

An additional list with inputs for sectors such as textiles and apparel, chemicals, automotive and steel will be published in the near future.

For further information visit : www.secofi-dgsc.gob.mx

Maquiladora Sectoral Promotion Programs

Average* tariff for listed goods (inputs) by industry



* Simple. Source: Diario Oficial de la Federación and SECOFI-NAFTA.

Diario Oficial Notices

- Final Resolution of the investigation to suppress the duties imposed on imports of hot-rolled iron or non-alloy steel bar and rods from the United States of America and Venezuela. (May 3, 2000).
 - Agreement regarding the agricultural safeguard for hams and cuts thereof with bone in, apples and potatoes, under the North American Free Trade Agreement. (May 4, 2000).
 - Agreement regarding the agricultural safeguard for live swine, under the North American Free Trade Agreement. (May 4, 2000).
 - Resolution to initiate the new shipper review, in regard to the final resolution on imports of hydrogen peroxide from the United States of America. (May 4, 2000).
 - Regulation of the General Law of Health in regard to advertising. (May 4, 2000).
 - Notice regarding the list of accredited and approved verification units to verify commercial information on milk labels. (May 8, 2000).
 - Decree that amends the Mexican Tariff Schedule (motor vehicles for the transport of goods). (May 9, 2000).
 - Decree that establishes several Sector Promotion Programs for various industries. (May 9, 2000).
 - Clarification to the final resolution of the antidumping investigation on imports of bovine animals from the United States of America, published on April 28, 2000. (May 9, 2000).
 - Resolution to remand, based on the conclusion and recommendation of the World Trade Organization's special group for dispute settlement, the final resolution of the antidumping investigation on imports of high fructose corn syrup from the United States of America. (May 15, 2000).
 - Official Mexican Standard NOM-138-SCFI-2000, Commercial practices-Regulatory elements for the marketing of consulting services in regard to quality. (May 17).
 - Official Mexican Standard NOM-028-SCFI-2000, Commercial practices-Informational elements of collectable promotions and/or raffles and contests. (May 19, 2000).
 - Official Mexican Standard NOM-064-SCFI-2000, Electric products-interior and exterior use lamps-Safety specifications and test methods. (May 22, 2000).
 - Amendment to simplify the NOM certification process at the United States-Mexico border. (May 24, 2000).
- General list of approved, accredited and other testing laboratories, updated to March 31, 2000. (May 26, 2000).
- Notice regarding the first request for panel review of the final resolution of the antidumping investigation on imports of urea from the United States of America and the Russian Federation, published on April 17, 2000. (May 26, 2000).
 - Agreement regarding the agricultural safeguard for meat of swine (carcasses or half carcasses), under the North American Free Trade Agreement. (May 29, 2000).

Full text of Diario Oficial notices can be downloaded from: www.naftaworks.org in the download section

NAFTA RELATED EVENTS

- *The Mexico-EU Trade Agreement and its Impact on North America.* U.S. Mexico Chamber of Commerce. Washington, D.C. Contact 202 371-8680 ext. 14. **June 21**
- *Site Selection for Establishing a Business in Mexico.* Institute for International Research. Houston, Texas. **June 21-23**
- *Mexico-EU Free Trade Agreement: Boon or Bust for U.S. Manufactures in Mexico.* U.S.-Mexico Chamber of Commerce. Dallas, Texas. Contact 214 747-1996 **June 22**
- *Expo Abasto/Conacca 2000.* Mexico's largest annual fresh produce show. Expo Guadalajara. México. Contact: Mexican National Confederation of Trade Groups for Wholesale Markets. Tel: (525) 657-3388. Fax: (525) 650-0138 **July 15**

For more information please visit: <http://www.naftaworks.org/naftaworks/events>

NAFTA boosts the Textile and Apparel Industry

The Mexican textile and apparel industry has experienced impressive growth under NAFTA. The Agreement's textile provisions established clear rules and disciplines that have helped to forge new business opportunities and boost the industry's competitiveness.

In 1993, the average tariff on textile exports from the U.S. to Mexico was 15.9 percent, while the tariff on exports from Mexico to the U.S. was 9.1 percent. In 1999, these tariffs were reduced to 2.7 percent and 1.9 percent, respectively, while non-NAFTA trading partners faced tariffs of 21.3 percent and 11.6 percent, respectively. On January 1, 1999, the elimination of another round of tariffs under NAFTA made the Mexico-U.S. textile trade duty-free, and boosted two-way shipments.

Mexico-U.S. trade in this sector reached US\$16.7 billion in 1999, an increase of more than 300 percent since 1993. Mexico-Canada trade in textiles similarly

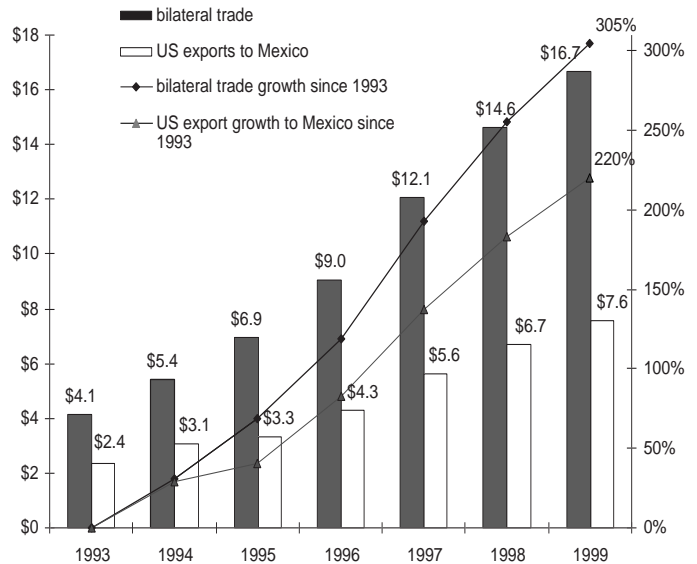
increased from US\$44.3 million in 1993 to US\$340 million in 1999. Since 1998, Mexico has been the largest supplier of textiles and apparel to the U.S. surpassing China, Hong Kong and South Korea.

Increased Mexico-U.S. trade in the sector has not only been dynamic but balanced, reflecting a "win-win" situation. In 1999, Mexican textile and apparel exports to the U.S. reached US\$9.1 billion, while U.S. exports to Mexico were US\$7.6 billion.

NAFTA's trade benefits have complemented Mexico's other competitive advantages - its proximity to the U.S., skilled labor force, vertically integrated industry, and close supplier - customer ties - to make the country an attractive investment location for textile companies from North America and outside the region. FDI in Mexico's textile and apparel sector between 1994 and 1998 amounted to US\$2 billion; the U.S. and Canada accounting

**Textiles and Apparel*
United States-Mexico Trade
1993-1999**

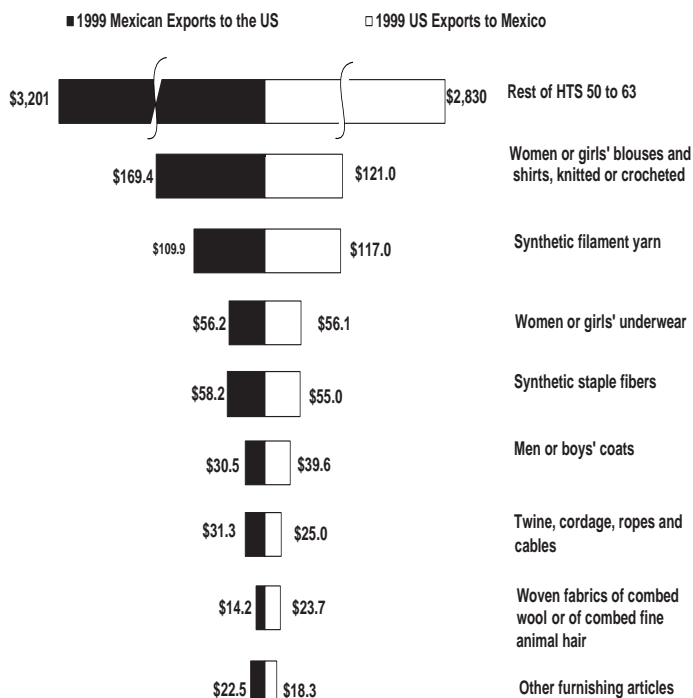
(Billions of US Dollars)



* HTS 50-63.

Source: US Department of Commerce, Banco de México and SECOFI-NAFTA (import-import data).

**Textile and Apparel Exports
(HTS 50 to 63)
(Millions of US dollars)**



Source: US Department of Commerce, Banco de México and SECOFI-NAFTA (import-import data)

for most of this investment. Firms such as Burlington, Cone Mills, Dan River, Dupont, Guilford Mills and Tarrant have invested in Mexican operations, providing a boost to textile production in states such as Morelos, Tamaulipas and Yucatan.

More and more U.S. apparel companies are turning to Mexico as a source for garments. Joint ventures have encouraged the use

of Mexican, U.S., and Canadian inputs. For example, nearly two-thirds of the apparel the U.S. imports from Mexico contain U.S. yarn and fabric.

NAFTA has contributed to the modernization of Mexico's textile and apparel industry by making it strong, efficient and competitive. As a result Mexico has become a strategic textile manufacturing center in North America.

**US Textile & Apparel Exports* by State
1993 and 1999
(Millions of US Dollars)**

State	1993	1999	% 99/93
Alabama	31.5	167.6	431%
Arkansas	1.5	12.1	699%
California	273.4	854.4	213%
Georgia	38.2	168.6	359%
Louisiana	2.3	24.6	988%
Mississippi	5.8	46.7	702%
New Hampshire	1.6	10.5	557%
North Carolina	176.0	654.4	274%
Pennsylvania	18.2	39.6	118%
South Carolina	16.2	251.8	1,458%
Virginia	4.6	128.8	2,685%

Source: MISER and SECOFI-NAFTA

*SIC 22-23

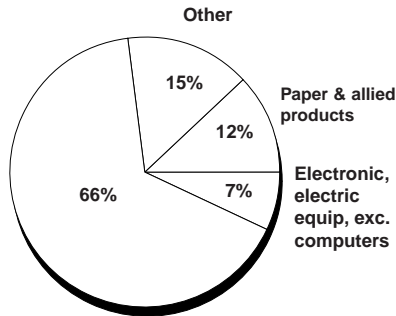
NAFTA Works for

V E R M O N T

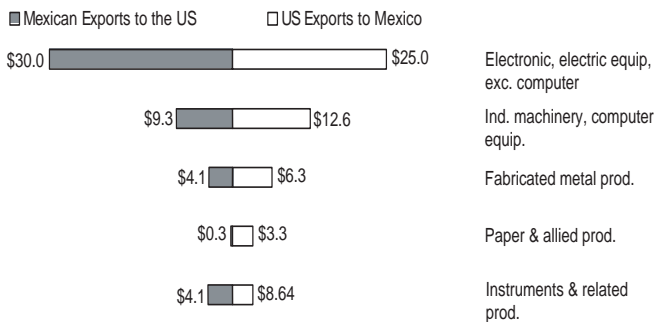
Vermont's exports to Mexico grew 48% in 1999, with respect to 1998.

Mexico ranked as the 11th largest purchaser of goods from Vermont in 1999.

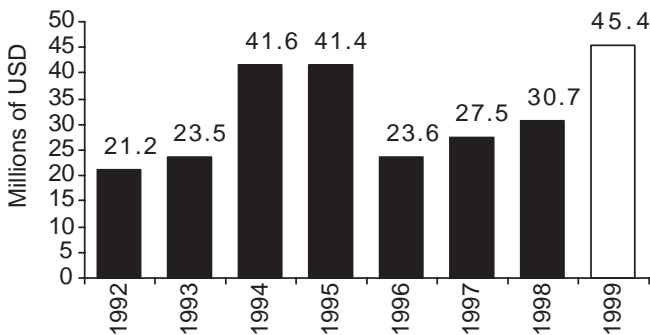
VERMONT'S EXPORTS TO MEXICO 1999



TOTAL U.S.-MEXICO TRADE IN VERMONT'S MAIN EXPORTING SECTORS 1999 (Billions of US Dollars)



VERMONT'S EXPORTS TO MEXICO, 1999 (Millions of US Dollars)



S u c c e s s S t o r y

Ben & Jerry's purchasing coffee from Mexico

Known for its socially-conscious corporate brand, Ben and Jerry's Ice Cream has been purchasing coffee beans from Oaxaca, Mexico-based Aztec Harvests Co-op for its coffee-flavored ice cream. In 1996, Ben & Jerry's Ice Cream purchased 4 containers of coffee beans equalling 150,000 lbs. and has been extending this relationship through 2000.

Ben & Jerry's Ice Cream Co. [http:// www.benjerry.com](http://www.benjerry.com)

Source: U.S. Census Bureau, adjustments made by the Massachusetts Institute for Social and Economic Research (MISER), unless noted otherwise.

Business News Digest

Scientific-Atlanta will increase Manufacturing

Scientific-Atlanta, Inc. has announced its plans for a major increase in manufacturing capacity of its flagship Explorer set-top in its facility in Juarez, Mexico. The company believes that rapid expansion is necessary to keep up with accelerating demand for Scientific-Atlanta's Explorer and is expected to allow the company to improve the manufacturing flow in the Juarez facility with a focus on reducing costs, improving quality and reducing cycle times.

PR Newswire, 05/30/00

TRW Opens New Manufacturing Plant in Santa Rosa, Mexico

TRW officially opened its new world class 200,000 square foot brake manufacturing plant on May 17, 2000 in Santa Rosa Jauregui, Queretaro, Mexico. The plant serves as TRW's single Center of Excellence for brake actuation manufacturing in North America and will supply seven auto makers serving Mexico and other markets. "Our new plant is already having a favorable impact on our business, customers and employees," said Ernesto Espinosa, Santa Rosa plant manager.

Reuters Newswire, 05/17/00

Tandycrafts plans to double production capacity at Mexico plant

Tandycrafts has announced that it will be doubling manufacturing operations at its facility in Durango, Mexico. Tandycrafts is a Fort Worth-based maker and marketer of decorating products for the home and office and is positioning its Pinnacle unit as the world-class manufacturer of frames and wall décor. "Shifting production to the new Durango facility gives Pinnacle the capacity and capabilities it needs to become the leader in the frames and wall décor market," says Jim Allen, president of Pinnacle and chief operating officer of Tandycrafts.

PR Newswire, 05/31/00

Select Readings

Trading Punches: Trade Remedy Law and Disputes Under NAFTA, Beatriz Leycegui, William P. Robson and S. Dahlia Stein, eds. (National Policy Association 1999). The study provides background on the legal framework of unfair trade laws in each of the three NAFTA countries as well as on the dispute-settlement mechanisms available under NAFTA and the World Trade Organization. It also provides some empirical analysis of the effects of these laws and puts forward ideas for reform.

North American Economic Integration: Theory and Practice, Norris C. Clement, eds (Edward Elgar Publishers 2000). This book analyzes NAFTA in the global context and examines Mexico's economic development since 1994.



A g u a s c a l i e n t e s



Capital: Aguascalientes

Main Cities: Calvillo, Jesús María, Asientos, San Francisco de los Romo, Rincón de Romos

Population: 1 million
 80% urban
 75% young
 458 per square mile
 97% literacy

Source: INEGI

Exports (1999): US\$ 1.8 billion
Imports (1999): US\$ 1.7 billion

Source: INEGI

Major exports: autoparts, electric and electronic precision instruments, textiles, apparel, agro-industry products, guava, grapes and vegetables.

Foreign Direct Investment (FDI):

- Between 1994 and 1999, cumulative FDI in Aguascalientes reached US\$200 million.
- The main sources of foreign investment in Aguascalientes are the United States, Japan, Germany, the UK, Argentina, Brazil and the Netherlands.
- By 1999, 19 companies with foreign investment were established in the state.

Main foreign companies operating in the State:

Company	Country
Texas Instruments	USA
Xerox Mexicana	USA
Ideal Standard	USA
Kappler de México	USA
Lucky Star de México	USA
Burlnax Apparel	USA
Nissan Mexicana	Japan
Nabco Mexicana	Japan
Kantus Mexicana	Japan
Siemens Sistemas Automotrices	Germany

Source: SECOFI

Infrastructure:

1,273	miles of roads
143	miles of railroads
1	international airport
	"Jesús Terán Peredo"
120	medical units, general and specialty, public and private
129	universities and technical schools
3	industrial parks

Source: Bancomext, SEDEC-Aguascalientes and SIEM

Maquiladoras:

Prior to NAFTA's implementation, 33 maquiladoras were operating in Aguascalientes. By the end of 1999, 105 maquiladoras set up operations, mainly in the apparel sector.

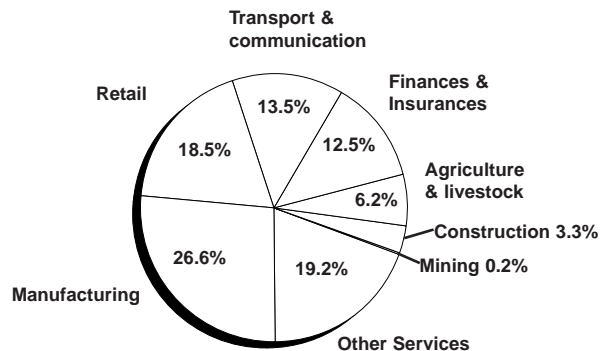
Highlights:

- Located in the central part of Mexico, a well-developed highway network communicates the state with the rest of the country.
- Aguascalientes is called "Mexico's little giant" because, although its one of the smallest states, it has a well-developed infrastructure, and is one of the five states with the highest standard of living in Mexico.
- Aguascalientes hosts the Nissan plant that produces Sentras for export. In 1999, Nissan exported almost 56,000 vehicles to Central America and Chile.

Trade Fairs & Exhibitions in 2000:

- Feria Estatal de Rincón de Romos	January	Commercial, Industrial, Agricultural and Handicraft
- Feria Nacional de San Marcos	April	Commercial, Industrial, Agricultural and Handicraft
- Feria Regional de San Francisco de los Romo	May	Commercial, Industrial and Technology and Handicraft
- Feria Regional del Maíz	June	Commercial, Industrial, Agricultural and Handicraft
- Feria de los Chichuales	July	Commercial, Industrial, Agricultural and Handicraft
- Feria Regional de la Guayaba	December	Commercial, Industrial, Agricultural and Handicraft

MAJOR ECONOMIC ACTIVITY IN 1999



Source: Bancomext

Web-pages: www.aguascalientes.gob.mx

E-mail:

sedec@ags.ciateq.mx
hzapata@secofi.gob.mx



NAFTA Works

For the Environment

Mexico's economic growth and international trade expansion have gone hand in hand with increased environmental protection. Since its passage in 1994, the North American Free Trade Agreement (NAFTA) has supported environmental protection.

Mexico's thriving trade with the U.S. (US\$215 billion in 1999) has supported the 5.2% average annual growth since 1996, which in turn has allowed Mexico to pour more resources into environmental protection. Today, Mexico environmental protection and conservation spending is close to 1% of its GDP, which in 1999 was above US\$460 billion.

Trade liberalization facilitates environmental protection ...

Mexico's trade liberalization has increased access to clean and state-of-the-art environmental technologies.

- In 1997, Mexico eliminated tariffs to all imports of environmental and antipollution equipment.

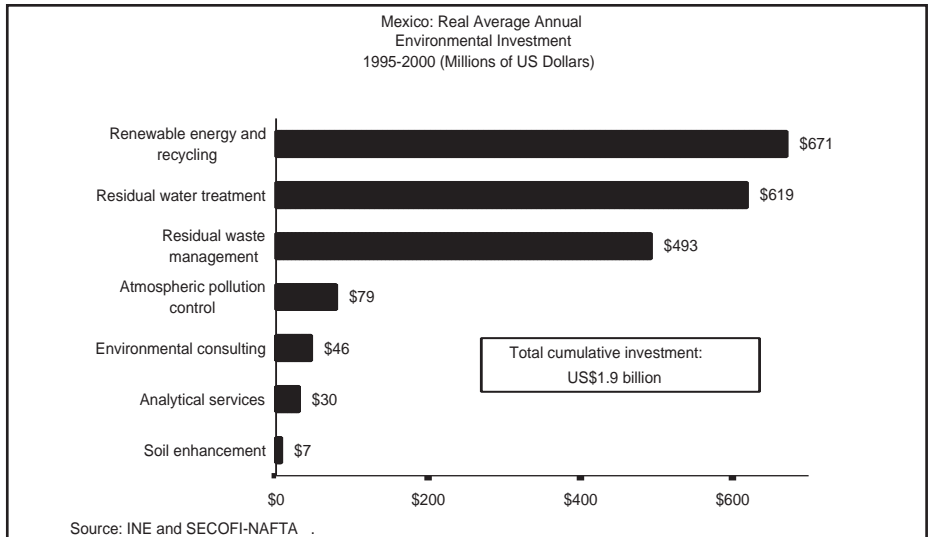
- Trade in the environmental sector grew 200 percent between 1997 and 1999.

- Mexico is now a major export market for environmental technology from the U.S., Canada and the EU.

... and promotes better environmental institutions

During the 1990s, Mexico established new institutions to address demands for increased environmental protection and conservation, and updated its environmental legislation:

1994 - the Ministry of Environmental Protection, Natural Resources and Fisheries (*SEMARNAP*), the National Institute of Ecology (*INE*) and the Federal Attorney General for Environmental Protection (*PROFEPA*) were created.



1996 - Amendments to the *General Law of Ecological Equilibrium* promoted major changes in the use of regulatory and economic instruments, facilitated partnerships between the public and private sectors, and made available information to citizens.

New investment supports a clean environment

Mexico's success in international markets has provided the necessary resources to invest in environmental protection. Between 1994 and 1999 Mexico received US\$70.7 billion in foreign direct investment.

New manufacturing investment incorporates state-of-the-art environmental technology addressing issues such as:

- residual water treatment,
- residual waste management,
- renewable energy, and
- recycling efforts

Mexico's environmental sector is growing and environmental consulting is taking off.

Keeping the U.S.-Mexico Border Clean

NAFTA has provided mechanisms and institutions to increase cooperation on the environment along the border. The Border Environmental Cooperation Commission (BECC) and the North American Development Bank (NADBank):

- monitor environmental conditions along the border,
- provide financing for environmental infrastructure, and
- promote sustainable development and public participation in environmental decision making.

As of March 2000, through the NADBank over \$200 million in loans and grants have been activated for 27 projects to reduce water pollution and improve health conditions for the ten U.S. and Mexican border states.

NAFTA has had a positive impact on the economy and environment in North America.

The open economy has improved the wealth of the NAFTA partners and has provided the financial resources to build a modern environmental infrastructure.