FTAA: the Road to Pan American Free Trade and Prosperity

During the Third Summit of the Americas, held in Quebec city on April 20-22, leaders of 34 countries from North, Central and South America and the Caribbean addressed common hemispheric challenges ranging from economic integration to improved access to education, poverty alleviation, enhanced respect for human rights and democratic development. The summit also confirmed the commitment to create the Free Trade Area of the Americas (FTAA) by 2005, encompassing 800 million consumers with a combined economy worth US$13 trillion. The FTAA will create the largest free trade zone in the world from Alaska to Cape Horn.

This year’s FTAA Ministerial Meeting was held in Buenos Aires on April 7, where the Agreement’s text drafts were concluded. These drafts were discussed by all nine negotiating groups, which include: market access, investment, services, government procurement, dispute settlement, agriculture, intellectual property, subsidies, antidumping and countervailing duties, and competition policy. The 1,200-page draft includes proposed tariff reductions on at least 7,000 products, from orange juice to rolled steel. It also addresses cutting-edge issues such as telecommunications and electronic commerce, along with assistance for smaller economies to help them cope with the impact of integration.

The meetings of the negotiating groups will be held in a single venue which will rotate between Panama City and Mexico city. Brazil, along with the US, will co-chair the FTAA process from November 1, 2002 to December 31, 2004 or until the negotiations are concluded. Likewise, since the FTAA negotiation seat is rotary, Mexico is to host the

continues on page 3

Mexico Economic Update

TRADE BALANCE: Mexico registered a trade deficit of $493 million for February 2001, up from a $201 million deficit in February 2000. Total exports in January 2001 reached $12.64 billion, a decrease of 5% with respect to February 2000, while oil exports amounted $1.12 billion, down 12% from February 2000. Imports for February 2001 were $13.13 billion, a decrease of 2% over the same month in 2000.

FINANCIAL INDICATORS: For the first time in more than 20 years, Mexico registered a deflation of 0.07% for February 2001. The leading Mexican interest rate, CETES 28, averaged 17.4%, 1.5% points higher for the same month in 2000. The Mexican Stock Exchange Market Index (IPC) reached a maximum of 6,541 points, 1,183 points lower than the level of February 2000. The average pesos/dollar spot exchange rate (bid) for February 2001 was 9.69, compared to 9.37 pesos/dollar for the same month in 2000, and international reserves at the Central Bank reached $37.30 billion in February, up 17% from their level a year ago. In February 2001, open interest at the Mexican Derivatives Exchange (MexDer) amounted 253,811, an increase of 253,264 futures contracts traded over the same month in 2000.

EMPLOYMENT AND ECONOMIC GROWTH: Open unemployment reached 2.83% in February 2001, up from 2.43% in February 2000. Economic growth, as measured by the Global Economic Activity Index (IGAE), grew 3.1% in January over a year earlier. The monthly IGAE measures 96% of the economy covered in quarterly GDP data. Exports increased 5.1% to the 6.9% real GDP growth in 2000.

INDUSTRIAL ACTIVITY: Mexico’s industrial production increased 1.7% in January 2001 over the same month in 2000. Likewise, manufacturing output expanded 2.1%, mining activity increased 0.6% and construction activity decreased 1%.

PUBLIC FINANCES: The public sector registered a deficit of 1.1% of GDP in 2000, slightly lower than the 1999 figure. During 2000 the net public sector debt-to-GDP ratio decreased 1.9% points and reached 22.9% of GDP, its lowest level since 1971. On March 6, Mexico issued a Global Bond worth 750 million Euros (US$695). The instrument has a 7-year tenor and a yield of 2.78 basis points above comparable German government bonds.

Source: INEGI, Banxico, SHCP, BMV, MexDer and SE-NAFTA.
Mexico Attracts Record Levels of Investment

Higher trust by foreign investors in the economic and political prospects of Mexico in the coming years has been reflected in the US$13 billion flow of Foreign Direct Investment (FDI) that entered the country in 2000.

Between 1994 and 2000, Mexico received US$85 billion in FDI, including equity investment, earnings reinvestment and investments or loans to foreign subsidiaries. This record of investment ranks third among emerging markets worldwide after China and Brazil. Much of the FDI activity in Mexico is due to cross-border mergers and acquisitions and privatization investment in infrastructure.

The latest Global Development Finance Report published by the World Bank states that “opening up economies to foreign capital is good for growth.” In Mexico, investment and exports are currently the driving force behind economic growth and job creation: 20% of formal employment is in firms with FDI, and in the last six years, one out of every four new jobs created has been in those firms, which pay 48% more than the average national wage.

The report also mentions that competition due to trade liberalization attracts FDI and, as capital flows grow, technology and management expertise are transferred. This stimulates both domestic investment and financial sector development. This is true for Mexico, which is already becoming the industrial powerhouse of Latin America, and its superb BB+ rating by Standard&Poor’s is only one notch behind investment grade. Mexico is expected to increase to full investment grade in 2001.

Diario Oficial Notices

- Agreement that modifies Annex V, which establishes the regulations for country of origin certificates on imports subject to countervailing duties (March 1, 2001).
- Agreement that establishes the classification numbers of the Mexican Tariff Schedule, for imports subject to countervailing quotas (March 2, 2001).
- Agreement regarding the agricultural safeguard under the North American Free Trade Agreement (potatoes) (March 5, 2001).
- Agreement regarding the agricultural safeguard under the North American Free Trade Agreement (apples and potatoes) (March 5, 2001).
- Decree that publishes the Agreement that Prohibits Certain Child Labor Practices and the Immediate Measures to Eliminate them, adopted by the General Conference of the International Labor Organization, held in Geneva, Switzerland on June 17, 1999 (March 7, 2001).
- Decree that modifies the Law to Register Foreign Made Vehicles (March 12, 2001).
- 2001 National Standardization Program (March 12, 2001).
- Agreement that establishes the rules of operation and the guidelines for the evaluation and administration of the United States Distribution Centers Program (March 15, 2001).
- Agreement that establishes the 2001 import quota for motor cars and other motor vehicles for the transportation of persons (March 16, 2001).
- Decree that establishes the Agreement between Mexico and the United States to create a Mexico-U.S. Border Health Commission, done in Washington, D.C., on July 14, 2000 and in Mexico City on July 24, 2000 (March 20, 2001).
- Decree that establishes the United States-Mexico Agreement on the Continental Platform limits in the Western Region of the Gulf of Mexico, beyond the 200 nautical miles, held at Washington, D.C. on June 9, 2000 (March 22, 2001).
- Agreement that modifies Annex 5 which establishes the regulations for country of origin certificates on imports subject to countervailing duties (March 23, 2001).
- Final resolution of the sunset review on imports of polystyrene crystal from the United States of America (March 23, 2001).
- Resolution that discards the antidumping review petition of the final resolution that imposed antidumping duties on imports of high fructose corn syrup from the United States of America (March 26, 2001).
- Preliminary resolution that concludes the review of the antidumping duty order on imports of cut bond paper from the United States, produced by International Paper Company (March 28, 2001).
- Agreement that establishes the guidelines to issue import permits for special vehicles. (March 30, 2001).

Diario Oficial notices can be obtained from: http://www.naftaworks.org/downdoc/dof2000.htm
Further negotiations with Panama and Peru are well under way. Due to its strategic geographical position and the preferential access to markets in North, Central and South America, Europe and the Middle East, Mexico has become the ideal platform to export across continents and has been able to maintain a double-digit growth in manufacturing exports, keep production up and employment growing. Thanks to its FTA negotiation experience, its economic performance and trust built among its trading partners, Mexico is fit to host FTAA’s final round of negotiations and be an excellent bridge to connect the Americas.

Paraphrasing John Stuart Mill, free trade and open markets not only increase the flow of goods and capital, but also the flow of ideas. In both the European Union and NAFTA cases, trade among partners has boomed, and so have their cultural and political relationships. In 2000, Mexico witnessed the election of the first opposition candidate in 70 years, a fact that strengthens our system of checks and balances and our democracy.

Probably one of the most compelling arguments for the FTAA is that economic integration is already a reality. Not only have trade and growth flourished among NAFTA and Mercosur partners, but also between regions. Take the example of US merchandise exports to the Americas, other than to Canada and Mexico, which increased from 1991 through 1999 from US$30 billion to US$55 billion. The annual rate of growth over this period was 7.8%, compared to 6.3% for merchandise exports to the rest of the world.

More than a century ago, Bolivar pictured a Latin America with closer ties. Thanks to free trade, this idea may now reach all the Americas. Knocking down barriers to trade in the Western Hemisphere will create a strong engine for economic progress, technological innovation and, ultimately, improve the quality of life.

5.1%. Moreover, during the seven years of NAFTA more than 2 million new jobs have been created. The fact that Mexico is the US’ second-largest trading partner shows that Mexico competes successfully in the world’s most dynamic and competitive market.

Mexico has in place FTAs with Chile, Colombia, Venezuela, Bolivia, Costa Rica, Nicaragua, Guatemala, Honduras and El Salvador. partners, Mexico is fit to host the FTAA’s final round of negotiations and be an excellent bridge to connect the Americas.
IEC Doubles Capacity in Mexico; 62,000 Sq. Feet of Manufacturing Space Added in Reynosa

IEC Electronics Corp. announced it has signed a lease to expand its manufacturing capacity in Reynosa, Mexico. An additional 62,000 square feet will now be available for box-build, SMT, and Thru-hole assembly of printed circuit boards.

Business Wire 06 April 2001

Avaya signs Deal with Nissan Mexicana for Data Network

Avaya, world leader for business communication networks, has signed a strategic alliance with Nissan Mexicana, one of Latin America’s leading car manufacturers, whereby it will supply high-performance data convergence network solutions to the Asian subsidiary in Mexico. Avaya de Mexico centers its data network solutions at its platform in Cajun. They are suitable for access to multimedia telephony and video-conferencing IP applications.

Newswire 5 April 2001

PPG Provides Technology and Training for Mexico’s CITSA Auto Glass Expansion

PPG industries is the technical and training advisor for a US$10 million expansion at the Cristal Laminado o Templado S.A. de C.V. (CITSA) automobile glass manufacturing plant in Tepeji del Rio, Mexico. The expansion will allow CITSA to supply full-car sets of windows and continue to meet demand for laminates and tempered automobile glass in the Mexican automobile industry.

PR Newswire 5 December 2000

Mexico Banorte in Internet Service with AOL

Mexican financial group GF Banorte and the Mexican unit of Internet service provider AOL announced an alliance to offer interactive services.

Reuters 15 March 2001

Select Readings

Money, Capital Mobility, and Trade, Essays in honor of Robert A. Mundell, Guillermo A. Calvo, Rudiger Dornbush, and Maurice Obstfeld (MIT Press, April 2001)

The essays in this volume reflect Robert Mundell’s broad influence on modern open-economy macroeconomics. The essays cover a wide range of topics, such as the effects of monetary and fiscal policy, banking crisis in emerging markets, speculative attacks on fixed exchange rates, interactions between economies and policy makers over macrostabilization and structural microeconomic issues, the connection between international factor mobility and trade, and the employment effects of import tariffs.

Comparative Political Economy. Charles P. Kindleberger (MIT Press, February 2001)

The essays collected here reflect Charles P. Kindleberger’s shift in interest from foreign exchange to international trade, economic growth, and economic history, especially financial history. They also contain dollops of sociology and political science. The collection contains many of the jewels of Kindleberger’s work. Most of the papers are strong on comparison on economic or financial history, and social science beyond the confines of economics.
COAHUILA

Capital: Saltillo

Main Cities: Saltillo, Torreón, Monclova, Piedras Negras, Acuña

Population: 2.3 million
- 40 people per square mile
- 88% urban
- 24% over 40 years old
- 95.5% literacy rate
- 18% demographic growth

Source: INEGI. XII Censo General de Población y Vivienda 2000

Exports (2000): US$ 11.8 billion
Imports (2000): US$ 15.7 billion

Source: Administración General de Aduanas

Major exports: Automotive, metal-mechanic, textile and apparel, construction, mining industry and chemical.

Source: SEPLADE

Foreign Direct Investment

- Foreign investment in Coahuila comes from the United States, Canada and Germany among others.
- By 2000, 340 companies with foreign investment were established in the State

Source: SEPLADE

Some foreign companies operating in the State

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors de México</td>
<td>United States</td>
</tr>
<tr>
<td>DaimlerChrysler de México</td>
<td>Germany and United States</td>
</tr>
<tr>
<td>Arneses y Accesorios de México</td>
<td>United States</td>
</tr>
<tr>
<td>Trinity Industries de México</td>
<td>United States</td>
</tr>
<tr>
<td>General Electric</td>
<td>United States</td>
</tr>
<tr>
<td>Madero International</td>
<td>United States</td>
</tr>
<tr>
<td>Gildan Active Wear</td>
<td>United States</td>
</tr>
<tr>
<td>Parrascone</td>
<td>Canada</td>
</tr>
</tbody>
</table>

Source: SEPLADE

Infrastructure

- 9,800 Miles of highways and roads
- 1,200 Miles of railroads
- 4 International airports (Saltillo, Piedras Negras, Ramos Arizpe and Monclova)
- 42 Universities and technical schools
- 34 Industrial parks
- 87 Medical units

Source: SEPLADE

Maquiladoras

Prior to NAFTA’s implementation, 156 maquiladoras were operating in the State of Coahuila, by November 2000, there were 420 new maquiladoras, employing 94,076 workers.

Source: INEGI

MAJOR ECONOMIC ACTIVITY IN 2000

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>18%</td>
</tr>
<tr>
<td>Transportation and communications</td>
<td>9%</td>
</tr>
<tr>
<td>Financial services and insurance</td>
<td>15%</td>
</tr>
<tr>
<td>Agriculture and livestock</td>
<td>19%</td>
</tr>
<tr>
<td>Other services</td>
<td>19%</td>
</tr>
<tr>
<td>Mining</td>
<td>2%</td>
</tr>
<tr>
<td>Construction</td>
<td>3%</td>
</tr>
<tr>
<td>Retail</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Bancomext, with INEGI data.

Highlights

- Coahuila is the biggest and most important automotive export center in Mexico, with companies such as General Motors and DaimlerChrysler.
- Coahuila is also Mexico’s main exporter of denim and a leading producer of denim apparel.
- The carboniferous region in Central Coahuila is Mexico’s number-one producer of celestite and produces 75% of the country’s coal.

Source: Secretaría de Fomento Económico.

Trade Fairs and Exhibitions in 2001

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>5th Industrial and Commercial Meeting</td>
<td>May 23</td>
<td>Trade and industry</td>
</tr>
<tr>
<td>National Cattle Raisers and Dairy Meeting</td>
<td>July</td>
<td>Dairy and livestock</td>
</tr>
<tr>
<td>Feria-Acerו Monclova</td>
<td>August</td>
<td>Steel and trade</td>
</tr>
<tr>
<td>Astro-Feria Rosita</td>
<td>August</td>
<td>Trade and industry</td>
</tr>
<tr>
<td>Feria del Sol</td>
<td>August</td>
<td>Cultural and handcrafts</td>
</tr>
<tr>
<td>Industrial Cotton and Cattle Fair</td>
<td>August</td>
<td>Agriculture and industry</td>
</tr>
<tr>
<td>Expo-Feria Industrial Amistad</td>
<td>August</td>
<td>Trade and industry</td>
</tr>
<tr>
<td>Grape Fair</td>
<td>September</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Feri-Expo Muzquiz</td>
<td>September</td>
<td>Trade and industry</td>
</tr>
<tr>
<td>Feri-Expo Sabinas</td>
<td>September</td>
<td>Trade and industry</td>
</tr>
<tr>
<td>Nogaltec</td>
<td>September</td>
<td>Agriculture</td>
</tr>
</tbody>
</table>

Websites: www.seplade-coahuila.gob.mx
E-mail: Seplade@seplade-coahuila.gob.mx
Comercio@seplade-coahuila.gob.mx
Agnarro@economia.gob.mx
Mexican Exports to its Trading Partners in the Americas in 2000

(US Dollars and percentage growth since the entry into force of the correspondent FTA)

Total Mexican Exports to the Americas in 2000:
US$155.6bn

Mexico's Trade with FTA Partners in the Americas 2000, Millions of US Dollars

<table>
<thead>
<tr>
<th>Country</th>
<th>Mexican Exports to FTA Partners (US$)</th>
<th>FTA Partners Exports to Mexico (US$)</th>
<th>Percentage Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA (NAFTA, 1994)</td>
<td>$147,640</td>
<td>$127,566</td>
<td>245%</td>
</tr>
<tr>
<td>Canada (NAFTA, 1994)</td>
<td>$4,017</td>
<td>$4,017</td>
<td>114%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>$534.78</td>
<td>$90.8</td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td>$519.55</td>
<td>$422.4</td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>$461.80</td>
<td>$273.4</td>
<td>248%</td>
</tr>
<tr>
<td>Chile</td>
<td>$431.33</td>
<td>$893.7</td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td>$266.23</td>
<td>$180.1</td>
<td></td>
</tr>
<tr>
<td>El Salvador</td>
<td>$245.10</td>
<td>$19.8</td>
<td></td>
</tr>
<tr>
<td>Honduras</td>
<td>$203.69</td>
<td>$13.3</td>
<td></td>
</tr>
<tr>
<td>Nicaragua</td>
<td>$93.42</td>
<td>$26.9</td>
<td></td>
</tr>
<tr>
<td>Bolivia</td>
<td>$26.58</td>
<td>$13.4</td>
<td></td>
</tr>
</tbody>
</table>

N.B.: m = million, bn = billion
Source: Banxico and SE-NAFTA.