



NAFTA Works

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The Impact of NAFTA and International Trade in Mexico's Labor Markets: a Success Story

Global markets, exports, industry diversification and production-sharing are some of the best ways to enhance job opportunities in the domestic labor markets. International trade is the link that makes this possible. It contributes to the creation of more and better-paying jobs, and promotes investment in human and social capital.

Trade and Growth

Trade contributes to economic growth, and economic growth benefits workers by creating jobs and enhancing the standard of living. Mexico's economy has been growing steadily over the last decade, and this trend is to a great extent due to the country's export performance. As a consequence, higher employment levels have been observed for each consecutive year.

Since NAFTA entered into force, Mexico has been growing at very stable real annual average rate of 3.1 percent. In 2000, real GDP growth reached seven percent, positioning Mexico as the fourth fastest growing economy among the 30 largest economies in the world and the fastest in Latin America.

Export activity today represents 33 percent of the Mexican GDP and contributes to more than half of its real growth. Higher employment levels have gone in hand with Mexico's export performance. Since 1995, unemployment has shown a constant downward trend. In 2000, Mexico's unemployment averaged 2.21 percent, its lowest level in more than ten years. According to Mexico's Social Security Institute (IMSS) an annual average of 510,000 workers have joined the labor force. More than half of those

continues on page 3

IN THIS ISSUE

NAFTA and Mexico's Labor Markets: a Success Story	1
Mexico Economic Update	1
Software farming in Mexico	2
Diario Oficial Notices.	2
Profile of Florida	4
Business News Digest	4
Select Readings	4
Profile of Durango	5

As of November 30, 2000, SECOFI (the Ministry of Commerce and Industrial Development) changed its name to Secretaría de Economía (SE, Ministry of the Economy) based on the reforms to articles 8, 26 and 34 of Mexico's Organic Law of the Federal Public Administration.

Mexico Economic Update

• **TRADE BALANCE:** Mexico registered a trade deficit of \$538 million for July 2001, up from a \$437 million deficit in July 2000. Total exports in June 2001 reached \$12.96 billion, a decrease of 4% with respect to July 2000, while oil exports amounted \$1.13 billion, down 20% from July 2000. Imports for July 2001 were \$13.50 billion, a decrease of 4% over the same month in 2000.

• **FINANCIAL INDICATORS:** Mexico registered deflation of 0.26% for July 2001, compared to an inflation of 0.39% in July 2000. The leading Mexican interest rate, CETES 28, averaged 9.2%, 4.6% points higher for the same month in 2000. The Mexican Stock Exchange Market Index (IPC) reached a maximum of 6,869 points, 651 points lower than the level of July 2000. The average Pesos/Dollar spot exchange rate (bid) for July 2001 was 9.17, compared to 9.35 Pesos/Dollar for the same month in 2000. International reserves reached a historic level of \$40.88 billion in July, up 19% from their level a year ago. In July 2001, open interest at the Mexican Derivatives Exchange (MexDer) amounted 834,371, a record increase of 790,815 futures contracts traded over the same month in 2000.

• **EMPLOYMENT AND ECONOMIC GROWTH:** Open unemployment reached 2.44% in July 2001, up from 2.03% in July 2000. Economic growth, as measured by the Global Economic Activity Index (IGAE), slowed down 3.3% in June over a year earlier. The monthly IGAE measures 96% of the economy covered in quarterly GDP data.

• **INDUSTRIAL ACTIVITY:** Mexico's industrial production decreased 3.9% in June 2001 over the same month in 2000. Likewise, manufacturing output contracted 3.9%, mining activity increased 1.7% and construction activity decreased 6.7%.

• **PUBLIC FINANCES:** On August 6, Mexico's Ministry of Finance issued an 8.3 interest rate, 30-year Global bond worth \$1.5 billion in international markets with an estimated yield of 9.02%, 10 basis points lower than the yield of the Mexican Global bond due in 2026 with a shorter maturity. The leading agents were Goldman Sachs and Salomon Smith Barney. The issuance was oversubscribed by a demand of \$3 billion, and Mexico's government received 70% of the transaction in cash and the remaining in Brady bonds worth \$440 million. By substituting Brady bonds with a new 30-year Global bond, Mexico gets net present value savings of \$10 million and frees Brady collateral worth \$200 million. The success of this operation highlights Mexico's differentiation with respect to other emerging markets in a context of volatility and access to financing in the international capital markets.

Source: INEGI, Banxico, SHCP, BMV, MexDer and SE-NAFTA.

New E-mail Version

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and next month you will receive

an electronic copy of our newsletter.

Thank you for helping us become more efficient.

Trade and NAFTA Office, Embassy of Mexico.

Software Farming in Mexico

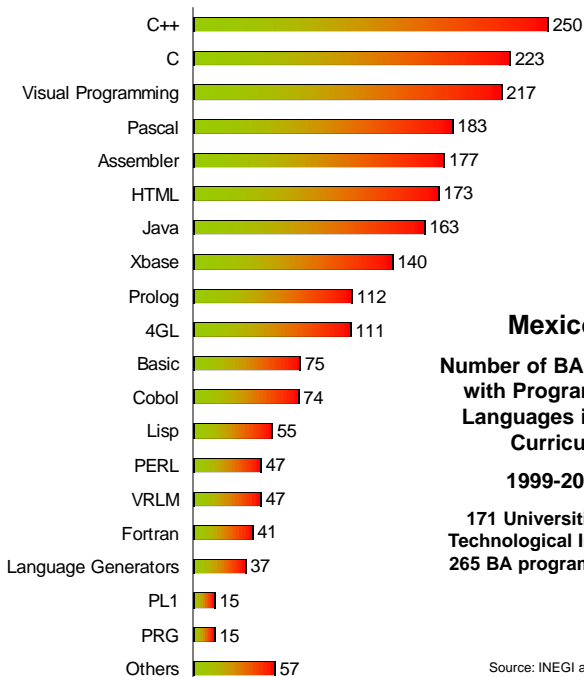
Mexico has become a world-class manufacturing center for almost any product or industry. U.S. high-tech companies in the information technology (IT) and telecommunications industries that have established production partnerships with Mexican companies are beginning to reap the benefits of a little known secret... manufacturing software in Mexico. Though it is widely known that Mexico has an abundant labor force that is young and energetic, companies are just beginning to realize that it is increasingly highly skilled and ready to participate in the new economy of high-tech and global commerce. This, coupled with NAFTA, is turning Mexico into a strategic location for software production.

Recent studies have found that there is a worldwide shortage in the IT sector's workforce. According to the Information Technology Association of America (ITAA), in the U.S., an estimated 425,000 IT positions will go unfilled in 2001, despite the U.S. economic slowdown and massive layoffs. In Europe, as predicted by the International Labor Organization (ILO), the number of unfilled IT vacancies in 2002 will be 1.6 million, up from half million in 1998. To solve the increasing demand for high-tech workers, some industry leaders worldwide have begun to out-source their production as a means to remedy their labor shortage and increase their competitiveness.

Today, Mexico offers both the appropriate infrastructure for high-tech companies and an abundant and increasing labor pool of highly skilled workers. During the academic year 1999-2000, university enrollment in IT programs accounted for 10.34 percent of total enrollment. Over the past three years, IT enrollment in university has grown more than 10 percent per year. In fact, in 1999 alone more than 153,000 students enrolled in university IT programs, 14.5 percent more than in 1998.

The trend towards receiving an IT education is also evident in Mexico's community colleges, where nearly 309,000 students registered in such programs in 1999. These students receive an education in the latest programming languages and applications demanded by today's industries. Their training includes programming in almost all platforms, databases, and computer languages.

Several companies across North America are beginning to take advantage of this skilled labor pool and are employing engineering graduates from Mexican universities. By manufacturing software in Mexico, they addressed the IT labor shortage, reorganize production processes and increase their competitiveness worldwide. This, in turn, is creating new and better employment opportunities for Mexico's young, energetic and skilled labor force.



Mexico:
Number of BA Degrees with Programming Languages in their Curricula

1999-2000

171 Universities and Technological Institutes, 265 BA programs in IT

Source: INEGI and SE-NAFTA.

Diario Oficial Notices

- Amendment to the decree that establishes several sector promotion programs. (August 7, 2001).
- Resolution that discards the petition to review the final resolution that imposed antidumping duties on imports of high fructose corn syrup from the United States of America. (July 27, 2001).
- Notice regarding the form to request import or export permits and adjustments. (July 19, 2001).
- Preliminary resolution of the antidumping investigation on imports of long grain white rice from the United States of America. (July 18, 2001).
- Final resolution of the administrative proceeding revocation on the final resolution of new shipper on imports of hydrogen peroxide from the United States of America, produced by Eka Chemicals, Inc., requested by Electro Química Mexicana, S.A. de C.V. (July 11, 2001)
- Agreement that establishes the 2001 import quota increase, under the North American Free Trade Agreement, for turkey and chicken pastes from the United States of America, published on November 28, 2000. (July 6, 2001).
- Agreement that establishes the 2001 import quota increase, under the North American Free Trade Agreement, for meat of turkey cut in pieces from the United States of America, as published on November 30, 2000. (July 6, 2001).
- Amendment to the agreement that establishes the used automobiles import quota for used automobile dealers. (July 6, 2001).
- Preliminary resolution of the first review of the antidumping duty order on imports of live swine from the United States of America. (July 6, 2001).
- Amendment to the agreement that establishes the 2001 import quota, under the North American Free Trade Agreement, for eggs from the United States of America, publishes on November 30, 2000. (July 2, 2001).
- Agreement that establishes the import quota for brandy, during the period July 2001-June 30, 2002. (June 29, 2001).
- Amendment to the decree that establishes the regulations for country of origin certificates on imports subject to antidumping duties. (June 29, 2001).
- Amendment to the resolution that establishes the general rules for the application of customs regulations under the North American Free Trade Agreement. (June 27, 2001)

Diario Oficial notices can be obtained from: <http://www.nafta-works.org/downof/dof2000.htm>

NAFTA RELATED EVENTS

- **"Internet World"** World Trade Center, Mexico-City. For further details see <http://www.wtcmexico.com/> **September 19-21**
- **"Expo Beauty Show"** World Trade Center, Mexico-City. For further details see <http://www.wtcmexico.com/> **October 28-30**
- **"Sports Show"** World Trade Center, Mexico-City. For further details see <http://www.wtcmexico.com/> **October 31-November 4**
- **"Universitarea"** World Trade Center, Mexico-City. For further details see <http://www.wtcmexico.com/> **November 15-18**
- **"Auto-Expo 2001"** World Trade Center, Mexico-City. For further details see <http://www.wtcmexico.com/> **December 1-19**

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

continues from page 1

new jobs are related to export activities. Mexico's industrial transformation has created new jobs in the production of textiles and apparel (SIC 22 & 23), electronic and electrical equipment (SIC 36), transportation equipment (SIC 37) and chemical and allied products (SIC 28), to name a few. These sectors have led Mexico's export performance in the last decade.

Export-oriented firms pay higher wages

Firms that export most of their production tend to pay salaries that are higher than firms that do not export. For example, firms in sectors that export 60 percent of their sales pay wages that are on average 37 percent higher than the rest of the economy. Likewise, salaries in maquiladora firms are five times higher than the national minimum wage.

Higher wages are also a function of a legal framework that protects labor rights. Through the North American Agreement on Labor Cooperation (NAALC), NAFTA partners promote the effective

enforcement of their labor laws to ensure adequate working conditions and living standards. In addition, NAFTA has established a cooperative framework for technical exchanges among partners in industrial relations, health and safety, child labor, gender and migrant worker issues.

The role of Foreign Direct Investment (FDI)

By lowering barriers and developing clear rules for trade, NAFTA has expanded investment opportunities in Mexico. Since 1994, FDI in the country has more than tripled, reaching US\$85 billion. The impact of investor's confidence in Mexico's future has been noticeable in the labor markets. For example, employment in firms with FDI increased 104 percent since 1993 and accounts for 22 percent of total employment in Mexico. The Mexican Social Security Institute reported that firms with FDI have created 1.5 million new jobs since NAFTA entered into force.

Mexico: Labor Productivity vs. Costs in the Manufacturing Industry and the Real Wage



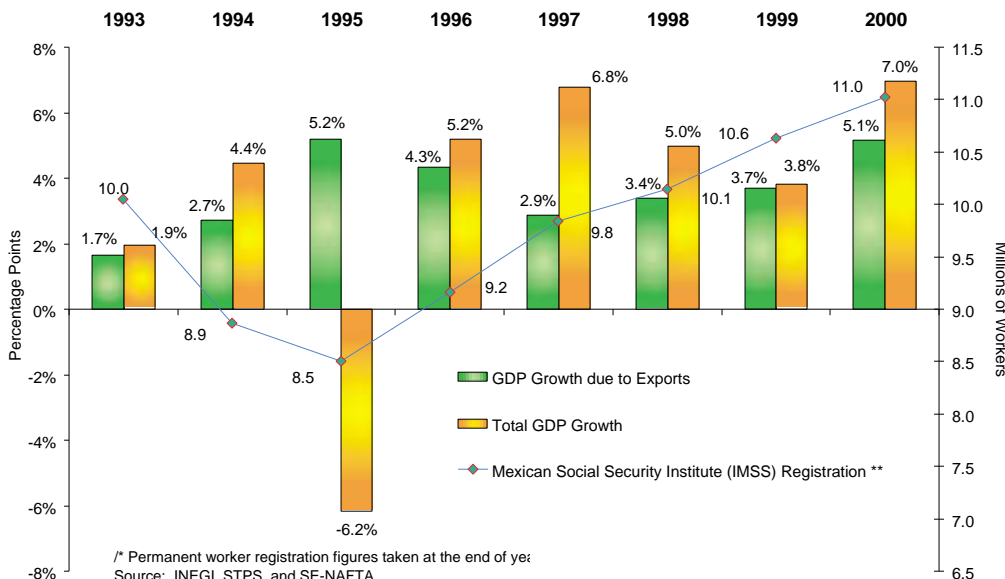
The competitiveness of the Mexican labor force yields high returns for businesses and has made the country a very attractive place to invest in. Labor productivity in Mexico has been rising steadily since 1993 with a constant decline in unit labor costs, as the above graph shows. The decreasing inflation rate in Mexico --which in 2000 closed at 8.96 percent-- translates into higher real wages for Mexican workers.

For example, in the manufacturing sector --as the graph shows-- real wages have been increasing constantly since 1995, according to the latest figures released by Mexico's Institute of Statistics (INEGI).

Companies view the large number of young Mexican workers with the ability to learn and master new production processes as an invaluable asset. Businesses have also been attracted by the increasing number of engineers and scientists graduating from Mexican universities and technological institutes. Moreover, a rising number of Mexican managers holding post-graduate degrees and MBAs are also joining production processes and contributing to firms operating in Mexico to meet international standards such as total quality and just-in-time production.

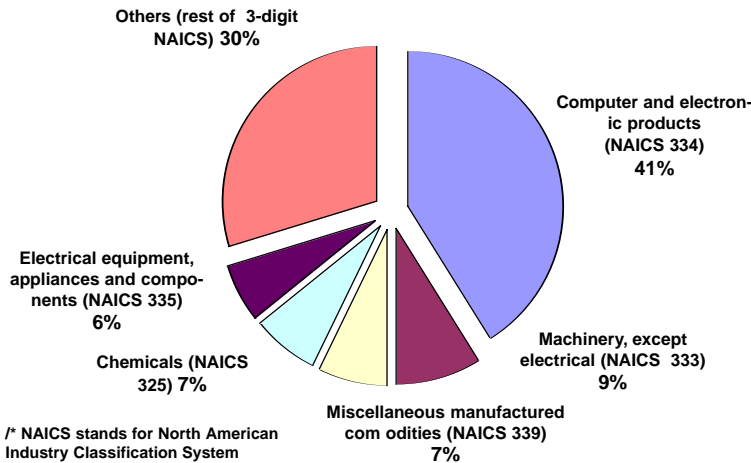
Open trade and investment policies are necessary but not sufficient to achieve sustained development. There is still a lot to do, but NAFTA's impact on Mexico's labor force proves that trade is a key instrument for workers to look forward to better job opportunities and wages as well as higher standards of living.

Mexico: Contribution of Exports to GDP Growth and Permanent Worker Registration in the Mexican Social Security Institute 1993-2000

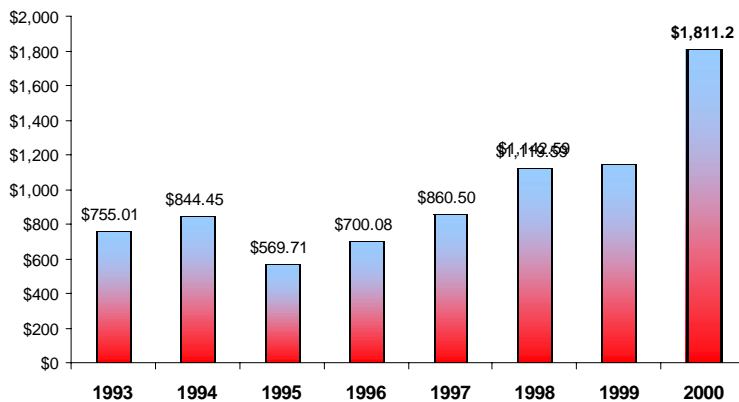


Florida

FLORIDA'S EXPORTS TO MEXICO BY SECTOR (NAICS),*
JANUARY-DECEMBER 2000 = US \$1.81 BILLION



FLORIDA'S EXPORTS TO MEXICO, 1993 - 2000
(Billions of US Dollars)



• Between 1993 and 2000, Florida's exports to Mexico grew 140%

• In 2000 Mexico was the THIRD largest purchaser of goods from Florida

Success Story

Onyx Telcom Brings Lucía Méndez to the World of Prepaid

Onyx Telcom, leading provider of prepaid products and services, announced today its plans to launch its first line of image cards, featuring Mexican superstar **Lucía Méndez**. This prepaid program, *Si Se Puede* (tm), specifically targets the Hispanic community with great rates to many Spanish-speaking destinations. "Due to our exceptional per minute rates, and high quality of service, Mexico has rapidly become one of our strongest countries," says Onyx President Eddie Peña. Onyx Telcom is a leading provider of prepaid telecommunications products and services. Onyx offers the industry's widest assortment of prepaid phone card programs, enabling retailers to effectively tap into their target markets. Offerings include domestic, international, connection, no-connection, private label, and more.

Business Wire 6 June 2001

Source: U.S. Census Bureau, with adjustments made by the Massachusetts Institute for Social and Economic Research and SE-NAFTA.

Business News Digest

i-Next, First IP Multi-Service Network in Latin America, Expands Its Reach With Cisco VoIP Networking Equipment

In another strong declaration of voice-over-IP (VoIP) momentum around the world, Cisco Systems, Inc., the worldwide leader in networking for the Internet, announced today that i-Next, the new data division of Operadora Protel, has expanded its packet voice IP services to six cities in Mexico and is carrying about five million minutes of voice traffic monthly. i-Next plans to expand to three additional cities shortly and grow its service base to 35 cities in the next six to twelve months.

Business Wire 27 August 2001

Hilton Garden Inn(R) Opens Third Mexican Property in Nuevo Laredo

Hilton Hotels Corporation today announced the opening of the 120-room Hilton Garden Inn(R) Nuevo Laredo, in Nuevo Laredo, Mexico, representing another addition to the brand's growing collection of more than 110 Hilton Garden Inn hotels across Mexico, the U.S., and Canada.

Business Wire 26 August 2001

Produced with InDesign: Danilo Black Switches to Adobe InDesign, Adobe InCopy, and an Adobe PDF Workflow to Produce Cambio Magazine

Adobe Systems Incorporated, the leader in network publishing, today announced that leading multinational design firm Danilo Black, Inc. has switched to Adobe(R) InDesign(R) and Adobe InCopy(TM) software from QuarkXPress(R) to achieve a unique, bold look and streamline production of Cambio, Mexico's innovative new weekly news magazine. Reporting on business, technology and politics, Cambio hit newsstands this past June, cutting through the noise on Mexican newsstands with a mix of sharp visuals, stylish graphics and sophisticated content presentation.

Business Wire 21 August 2001

Select Readings

Mexico's Appraisal of NAFTA Unpacking NAFTA: Progress, Problems and Potential. Luz María de la Mora, in Mexican Law: A Treatise for Legal Practitioners and International Investors, Vol 4. (Wart Law-West Group, August 2001)

NAFTA has been a catalyst for increased economic activity in the region. Although not all NAFTA provisions have been fully implemented yet, since there is a 10-year transition period for its full implementation, its results have thus far been extremely positive in terms of increased trade and investment. The author offers an evaluation of the benefits that NAFTA has brought to Mexico after six years of implementation and addresses those areas in which progress lags.

Mexico: A Comprehensive Development Agenda for the New Era. Marcelo Giugale, Olivier LaFourcade and Vinh H. Nguyen (eds). (The World Bank, April 2001)

Development is a long, arduous and complex process. Mexico, a country of contrasts, has had remarkable achievements in recent times: after a major economic crisis, the country is now the fastest growing economy in Latin America, an investment grade borrower, and a model of financial and commercial integration. In spite of its many achievements, Mexico still faces major economic challenges, which this book addresses along five overarching themes: fiscal sustainability, growth and competitiveness, poverty and inequality, sustainable future and good government. It is a very good compendium of Mexico's multi-faceted development process.

