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# Currency Devaluation Helps Mexico Attain Trade Surplus in February

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The devaluation of the peso has succeeded in turning Mexico's global trade deficit into a trade surplus. At the same time, however, it has increased tensions with some of the country's closest trade partners. On March 16, the Finance Secretariat (SHCP) announced that Mexico had attained a positive trade balance of US$452 million during February, the first surplus in more than four years. The total statistics for the trade balance were based on exports of US$5.60 billion, an increase of 24% from the same month in 1994. On the other hand, imports in February dropped by 14% from a year ago to about US$5.15 billion. Mexico's accumulated trade balance for the January- February period was registered at US$78 million, since in January the government had still reported a trade deficit of US$450 million. The total two-month trade balance, however, was still much smaller than the deficit of US$2.9 billion recorded in January-February 1994.

Speaking at a meeting of exporters and importers in Mexico City, Bancomext director Enrique Vilatela Riba predicted that Mexico's total trade for this year will nearly match last year's total of US$140 billion. The difference this year, however, is that the export-import relationship will invert, with exports increasing to US$80 billion and imports declining to US$60 billion. In 1993, exports were US$60 billion and imports were US$80 billion. Vilatela said the government's foreign trade bank (Banco Nacional de Comercio Exterior, Bancomext) will take whatever steps are necessary to promote Mexican exports during the current economic crisis. For example, he said the agency plans to make extensive use of the lines of credit available from the US government's Export-Import Bank (Eximbank) to provide financial support to any Mexican companies conducting business overseas.

According to Bancomext officials, the institution has US$11 billion available for export promotion loans this year. This amount could increase to US$20 billion with the loans available from the Eximbank. Vilatela said the devaluation of the peso has made Mexico attractive for direct investors to establish manufacturing or other operations in Mexico to produce products geared for the export market. The increase in exports, however, is having a fundamental impact on Mexico's trade relationship with key partners such as the US, Canada, Costa Rica, and Chile, all of which have free-trade agreements with Mexico. According to the Chilean Foreign Ministry's export promotion agency Pro-Chile, Chilean exports to Mexico during January amounted to only US$14.4 million, a drop of 21.7% from the US$18.4 million exported in the first month of 1994. Pro- Chile said total trade between Mexico and Chile was expected to drop drastically, after increasing since 1991, when the two countries signed a bilateral free trade accord.

The devaluation has also drastically reduced trade between Costa Rica and Mexico in the first two months of the year. According to Costa Rican government sources, Costa Rican exports to Mexico during January-February amounted to only US$1.08 million, a decline of 53% from the US$2.2 million exported in January-February of last year. During a scheduled consultation on the bilateral Costa Rican-Mexican free trade accord, the Costa Rican delegation led by Trade Minister Jose Rossi

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took the opportunity to express concerns about the developing trade situation to counterparts in the Mexican government. Rossi said that Costa Rica is mainly concerned about the increased cost of exporting to the Mexican market, which has become more expensive due to devaluation and the downturn in the Mexican economy. On the other hand, Costa Rican officials said the devaluation has not caused an avalanche of imports from Mexico, as many in the Costa Rican business community had feared. Rossi said he received assurances from Mexican Trade Secretary Herminio Blanco that Mexico would take whatever steps are possible to facilitate the import of products from Costa Rica, which are affected by the devaluation.

The Costa Rican delegation's visit to Mexico City was part of the scheduled consultations between officials of the two countries to implement the commissions related to their new bilateral agreement, which was enacted on Jan. 1, 1995. However, despite the implementation of the accord, which immediately eliminated duties on 12,000 products, by late February the two countries had still not created an administrative body to oversee the implementation of the accord, which is necessary to ensure that the mandates in the agreement are followed. Still, the two countries did succeed in formalizing a number of commissions that will oversee the implementation of the accord, including an agreement to create a mechanism to determine Costa Rican exports of sugar to Mexico. According to Rossi, the formula reached under the accord could mean that Mexican imports of sugar from Costa Rica could increase to about 50,000 metric tons per year.

The devaluation of the peso and uncertainty about the Mexican economy has had a varying impact on trade negotiations with other Central American countries as well. For example, on March 16, the Northern Triangle countries of Central America (Guatemala, Honduras, and El Salvador) announced they were suspending negotiations on separate but simultaneous trade agreements with Mexico until further notice. The three countries had hoped to complete their respective bilateral agreements with Mexico by year-end 1995 (see SourceMex, 11/30/94). Honduran Economy Minister Delmer Urbino told reporters that the Northern Triangle countries will resume talks with Mexico once that country emerges from its current economic crisis. For now, Urbino said that the three Central American countries are considering the possibility of proceeding with negotiations with Colombia.

Nicaragua's deputy economy minister Eduardo Belli told Agence France-Presse his country is proceeding with plans to complete a free trade agreement with Mexico this year. Nicaragua and Mexico made significant progress in several areas last year, but postponed negotiations in November to allow President Zedillo to name his cabinet. At that time, President Violeta Chamorro's administration said disagreements over agricultural issues between the two countries would be best resolved in discussions with the new trade minister rather than with the outgoing administration (see Sourcemex, 11/30/94). Belli said Nicaragua would like to negotiate increased access to Mexico for such products as meat, sugar, sorghum, black beans, peanuts, sesame seeds, and powdered milk. (Sources: La Jornada, 03/02/95, 03/08/95; Agencia Centroamericana de Noticias-Spanish news service EFE, 03/14/95 Agence France-Presse, 03/13-15/95; Voice of America, 03/15/95 Notimex, 03/13/95, 03/16/95; Associated Press, 03/14/95, 03/16/95)

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