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## **Mexico's Economic Prospects with Asian Countries Mixed**

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Mexico's economic relations with countries in Asia and the Pacific Rim are facing mixed prospects in coming years, largely because of the economic crisis that now grips that region. Recently, Mexico has moved to cement economic and political relations with China through the completion of four new bilateral agreements. Nevertheless, these efforts are offset by the economic crisis in Singapore, Thailand, South Korea, and Japan, which is expected to result in a reduction of their investments in Mexico. That, in turn, could jeopardize recent economic advances by Mexican companies such as Cemex.

### *Mexico, China sign economic and political cooperation accords*

The four bilateral accords signed by Presidents Jiang Zemin of China and Ernesto Zedillo of Mexico basically commit them to increase contact at the presidential level, intensify economic relations, improve bilateral cooperation, and generally strengthen communication between the governments. Specifically, the two countries pledged to work together in agriculture, trade, tourism, and education. Mexico particularly hopes to increase its trade with China to help reduce its huge deficit with that country.

According to the Secretaria de Comercio y Fomento Industrial (SECOFI), Mexico incurred a trade deficit of US\$721 million with China in 1996, and the deficit remained at a relatively wide US\$144 million in the first quarter of 1997. More significantly, Mexico views the increased cooperation as an opportunity to attract more Chinese investment to Mexico, particularly in agriculture. As part of the new bilateral agreements, China pledged to invest US\$43 million in agricultural and industrial projects in three Mexican states.

Much of the Chinese investment in Mexico will be channeled through former state enterprises, which have now been turned into huge semi-private corporations. One of those companies, XTTEC, recently announced plans to invest in rice and cotton production in Campeche state (see SourceMex, 11/26/97). Planned Chinese investments in Mexico include textile- manufacturing facilities in Guanajuato and Coahuila states. According to trade specialists at China's embassy in Mexico City, 22 Chinese companies have initiated operations in Mexico since 1994, which has resulted in investments of US\$9 million.

The embassy said Chinese companies have partial investments in at least 90 companies in Mexico, including 50 in Mexico City. The agreements also committed the Chinese government to promote Mexican investment in China. To date, 12 Mexican companies have already invested about US\$5 million in China. Asian crisis affects economic relations with Pacific Rim

In contrast to the boost in economic relations with China, Mexico may be facing bleaker prospects in relations with Pacific Rim countries affected by the financial crisis in that region. The impact of

the crisis was much more severe on neighboring countries because, in contrast to China, the other nations relied extensively on indirect investments in the money markets to boost their economies.

According to Asian economic experts, the region's economic crisis can be tied in part to a selloff of short-term Treasury notes, similar to the crisis that sent the Mexican financial markets into a tailspin in late 1994 and early 1995. However, economist Rudinger Dornbush of the Massachusetts Institute of Technology (MIT) says the crisis in Asia is greater in magnitude than the recession that followed the devaluation of the Mexican peso in 1995.

In a recent interview with the Christian Science Monitor, Dornbush said the purchasing power of many Asian countries has declined by as much as 50% in just four months. According to Jose Valenzuela Garcia, a representative of Mexico's foreign trade bank (Banco Nacional de Comercio Exterior, BANCOMEXT) in Seoul, investments by South Korean and other Asian companies in Mexico and other parts of Latin America are expected to decline significantly. South Korean companies have moved aggressively in recent years to expand their presence in the Mexican market through investments in the telecommunications, petrochemical, electronics, and automobile sectors. Many of South Korea's electronics operations have been concentrated in maquiladora plants near the US-Mexican border.

Valenzuela said the Asian financial crisis, which has hit South Korea particularly hard, may substantially slow new South Korean investments. However, South Korean companies are not expected to pull out of the investments they already have in Mexico and other parts of Latin America.

### *Mexican cement companies expect reduced sales in Asia*

Mexican companies will also suffer from the Asian crisis because of reduced demand for Mexican consumer and industrial goods. In particular, cement companies such as Cementos de Mexico (CEMEX) and Grupo Apasco are expecting a sharp reduction in sales to Asia. Ironically, the economic crisis in Mexico in 1995 was the main catalyst for CEMEX and Apasco to aggressively market their products in that region. According to the daily business newspaper *El Economista*, exports by CEMEX and Apasco to Asia were already on the decline before the Asian crisis emerged. The paper said CEMEX exports to Asia totaled only about 1 million metric tons in January-September of this year, a far slower export pace than the 2.6 million MT shipped to the region during 1996. CEMEX had recently moved to expand its presence in the Asia-Pacific market through the acquisition of a 30% share of Rizal Cement Inc. of the Philippines (see SourceMex, 10/22/97).

Similarly, Apasco reported slow cement sales to Asian countries this year after exporting 1.2 million MT in 1996. "We are anticipating a sharp reduction in 1998," an Apasco spokesperson told *El Economista*. Mexico expected to maintain trade deficit with Asian countries. The economic crisis in Asia bodes poorly for Mexico's trade balance with the region. According to economists cited by the daily newspaper *Excelsior*, the crisis will prevent Mexico from narrowing its trade deficit with the Asian region, although the trade picture will not necessarily worsen.

According to Mexico's Instituto Nacional de Geografia, Estadisticas e Informatica (INEGI), 13 economies in Asia and the Pacific Rim absorbed slightly less than 2.5% of Mexico's total exports

in 1995 and 1996. During January-August of this year, Mexican exports to that region have totaled about US\$1.4 billion, about 2.3% of Mexico's total exports during the period. The INEGI statistics show Mexican imports from the 13 Asian and Pacific Rim countries totaled US\$7.3 billion in 1995 and US\$8.6 billion in 1996. In both years, the region accounted for about 10% of Mexico's total annual imports. Through August of this year, imports from the region stood at about US\$6.8 billion.

Economists say Mexico's trade balance with the region will depend heavily on how deeply the economic recession affects Japan. Since 1990, Japan has accounted for roughly 65% of Mexican exports to the Asia-Pacific region and for about 50% of Mexico's imports from the region. According to the INEGI statistics, Hong Kong and Singapore are the second and third most important destinations in the region for Mexican exports. South Korea and Taiwan, meanwhile, have each accounted for close to 12% of Mexican imports since 1990. (Sources: *El Economista*, 11/25/97; *Christian Science Monitor*, 12/01/97; *El Universal*, 11/25/97, 12/02/97; *Novedades*, 11/19/97, 12/02/97; *Excelsior*, 12/01/97, 12/02/97; *Associated Press*, *Houston Chronicle*, 12/02/97; *Notimex*, 12/01/97, 12/02/97, 12/04/97; *The News*, 12/02/97, 12/08/97; *New York Times*, 12/10/97)

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