1-28-1998

Government Reports Very Narrow Trade Surplus for 1997

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LADB Article Id: 54900
ISSN: 1054-8890

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by LADB Staff
Category/Department: Mexico
Published: 1998-01-28

In a preliminary report released in mid-January, the Secretaria de Hacienda y Credito Publico (SHCP) said Mexico's annual trade surplus reached only US$600 million during 1997, a sharp contrast with the positive trade balance of US$6.5 billion registered the previous year. The narrowing of the surplus followed a 23% increase in imports during the year, which far outstripped a 16% growth in exports. The SHCP said Mexico imported US$109.8 billion in goods and services, compared with US$110.4 billion in exports. Trade balance affected by six consecutive monthly deficits

The deterioration of Mexico's trade balance was particularly evident in the second half of last year, with six consecutive monthly trade deficits between July and December. For December, the SHCP reported the trade deficit at US$722 million, almost twice the US$378 deficit in November. In contrast, Mexico attained a trade surplus of almost US$502 million in December 1996. The six monthly deficits were attributed to a strengthening of the peso, a sharp decline in global oil prices, and the severe financial crisis in Asia. T

he sharp decline in oil prices was a principal cause of the December trade deficit, which was wider than many private analysts had anticipated. The report said crude-oil exports totaled US$787 million in December, a decline of more than 20% from November and about 30% from December 1996. Crude-oil sales account for 11% of Mexico's annual exports. Almost 90% is shipped to the US, with most of the rest shipped to Spain and Japan.

The SHCP said a sharp decline in crude exports in December overshadowed the increase in exports of manufactured goods and agricultural products. Manufactured products, including shipments from maquiladora plants, totaled US$8.6 billion in December, almost 24% more than in December 1996. Similarly, the report said exports of manufactured goods reached US$94.7 billion in 1997, an increase of 18% from 1996.

The wide trade deficit during December also resulted from a surge in imports, which increased by more than 32% from a year ago, to US$10.6 billion. But economists said increased imports is not necessarily negative, since it involved purchase of consumer items and capital goods, such as heavy equipment. Imports of intermediate goods during December increased by almost 19% from the year before, while imports of capital goods were about 38% higher than in December 1996. "These imports will be used to expand the productive capability of manufacturing plants," said economist Ignacio Trigueros of the Centro de Analisis e Investigaciones Economicas (CAIE). The CAIE is affiliated with the Instituto Tecnologico Autonomo de Mexico (ITAM).

Government, business concerned about Asian imports

The optimistic interpretation on imports was not enough to ease concern about the impact of the Asian financial crisis on the Mexican balance of trade for the coming year. The Asian crisis

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has weakened most of that region's currencies, which, in turn, has improved prospects for Asian exports to Mexico. "Asian products are becoming more competitive than our products," said Laura Morales, export director for Clevite de Mexico, a manufacturer of automobile parts. Morales said her company is concerned both about a possible flood of Asian imports onto the Mexican market and about losing competitiveness against Asian products in other markets, particularly Latin America.

Responding to these concerns, Trade Secretary Herminio Blanco announced an initiative to monitor all products originating in Asia to ensure they are not sold below market value. Blanco said this will allow the Secretaria de Comercio y Fomento Industrial (SECOFI) to act quickly in dumping cases. The Asian financial crisis will also make it difficult for Mexico to reverse its longstanding trade deficit with Asian countries. According to SECOFI, Mexico's trade deficit with Asia and the Pacific Rim during January-November was US$6.23 billion.

To control imports from Asia and other regions, some business leaders are urging the Banco de Mexico (central bank) to abandon its recent policy of a free-floating peso and reinstate some currency controls. But the Banco de Mexico seems unlikely to oblige. In one of his first public addresses since taking charge of the Banco de Mexico, chief governor Guillermo Ortiz Martinez said the bank would not intervene in the money market to fight any long-term appreciation of the peso or to set interest rates.

Independent economist Ignacio Catalan warned that even a weaker peso may not be enough to reduce imports. "A weakening of the peso late last year was not sufficient to halt imports," Catalan said. Catalan and other economists project a trade deficit during 1998, although forecasts differ regarding the size of the deficit. Earlier this month, the Asociacion Nacional de Importadores y Exportadores de la Republica Mexicana (ANIERM) projected a deficit of about US$2 billion, which is close to recent government projections.

However, economists like Catalan, Clemente Ruiz of Universidad Nacional Autonoma de Mexico (UNAM), and Jonathan Heath of Heath y Asociados project a negative trade balance of at least US$7.5 billion. (Sources: Novedades, 01/23/98; Reuter, 01/20/98, 01/26/98; Excelsior, 01/20-22/98, 01/26/98; El Financiero International, 01/26/98; Notimex, 01/19/98, 01/27/98; El Universal, 01/20/98, 01/21/98, 01/22/98, 01/27/98; La Jornada, 01/27/98; El Economista, 01/08/98, 01/20/98, 01/27/98, 01/28/98; The News, 01/21/98, 01/22/98, 01/27/98, 01/28/98)

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