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BANCOMEXT AND THE FUTURE OF MEXICAN FOREIGN TRADE

LIC. JOSÉ LUIS ROMERO HICKS*

The last time I presented at this conference, I was the State Finance Manager for Governor Vicente Fox, who was then governor of Guanajuato, and now that he has become Mexico’s President, he has invited me to head Mexico’s foreign trade bank. I would like to share with you some ideas of trade in Mexico, e-commerce, and tell you a little bit about what we’re doing now and what President Fox thinks we can do as a bank to promote foreign trade. I will discuss issues in three areas. First, I will describe some attributes of the current economy. Then, I will discuss Bancomext and finish with a discussion of e-commerce.

It is no secret that international trade has exploded over the past half century. In the early 1950s worldwide trade was approximately $375 billion. In 2000, foreign trade was over $6 trillion. This geometric growth of trade has come mainly because economies have opened up. Mexico’s economy has certainly opened up over the past ten to fifteen years.

While Mexico has increased its presence in the international trade arena, it’s economy even when compared to that of Texas or California is not large. Mexico does, however, rate as the twelfth largest economy,¹ and in that sense has become a world player. Mexico is third among emerging nations in foreign direct investment and has become a leading exporter as well.² If you consider the fifteen nations of the European Union as one statistical unit, Mexico is the world’s eight largest exporter.³ We are the United States’ second largest trading partner. In ten years, Mexican imports have increased from about six percent of total imports in to the U.S. to almost twelve percent.⁴ Mexico is Latin America’s number one exporter.⁵ Of all exports by Latin American countries, Brazil and the Caribbean included, fifty percent come from Mexico.⁶ In terms of trade, when you talk about Latin America, you talk about Mexico.

In 2000 Mexico exported $166 billion; ten years that number was $40 billion.⁷ This has made Mexico very closely linked to the world’s economy. The downside is that, by being closely tied to other economies, like the U.S., what happens in there

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². Id.
³. Id.
⁴. Id.
⁵. Id.
⁶. Id.
⁷. Id.

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has a very significant impact in Mexico. We are learning from this symbiotic relationship. A question frequently asked is, what is the elasticity ratio between the U.S. and Mexican economies. No one really knows for sure, earlier we thought that the ratio would be about 0.6. Currently, it looks closer to 0.8, which means that for every drop in a point of U.S. GNP, Mexico will be affected 80% in the same direction.  

Over the past few years, of course, regardless now of the economic downturn, Mexico as well as the U.S. is in a very heavy recessive mood. Nevertheless, many of the indicators still look quite good for Mexico. This is the first time we have had a downturn where unemployment is below 3 percent, 2.4 percent to be precise.  

This is the first time Mexico has had an economic crisis where inflation and the prime rates are in the single digits. Inflation, a traditional Mexican partner for the past 30 years, is expected to be a record low five-and-a-half percent in 2001.  

The markets’ attitudes toward Mexico have also changed. Last year Turkey went through a difficult time with its monetary policy. Just a few years ago, that would have triggered a collapse in Mexico as well. Argentina also had problems last year that would have spelled trouble for Mexico. But the day Argentina hit its lowest point, the Mexican peso revalued. Markets and market analysts are telling us that Mexico’s risk is more a NAFTA-related risk than that of an emerging nation, Latin American-type risk. If, five years ago, during the crisis, we had known that we would be here today discussing the “overvalued” peso and that unemployment and inflation rates were below those of the United States, we would have all had a good laugh. This speaks well for Mexico’s economy in the sense that both governments are trying to do their jobs and trying to slow down the economy in an orderly fashion. This requires a lot of fiscal discipline.  

All of these factors have made Mexico an international nation that has grown very rapidly in terms of trade within the world economy, mostly with the U.S. and Canada. Mexico’s exports have grown fourfold in our exports in the last ten years. We have duplicated our exports in the past five years. It was only ten years ago that our exports were $40 billion. It was only five years ago that our exports were $80 billion. And, of course, the openness of the economy and trade agreements have been beneficial to all nations involved. Since Mexico signed NAFTA, trade with North America has tripled, from levels of $88 billion to levels of $275 billion with the U.S. alone; and with the U.S. and Canada, from levels of $91 billion to $282 billion.  

Exports and imports from the U.S. have moved quite uniformly. Trade with the U.S., until this year, has grown at an annual rate of 18 percent. For the twelve months ending in July 1999, trade with the U.S. and Mexico rose $276 billion.
Mexico and the U.S. have grown even closer in terms of foreign direct investment (FDI). Sixty-six percent of all FDI, over $61 billion in the past six years, has come from the U.S.\textsuperscript{18} Asia is our third partner in terms of FDI.\textsuperscript{19}

**BANCOMEXT**

Bancomext has been a public institution since 1937. Bancomext is unique in that it has is the only bank in Mexico, public or private, that has not needed any public funds from its inception. Bancomext has taken its profits to cover losses and has had tremendous success in terms of being useful to Mexico’s export sector.

Bancomext does a lot of things including non-banking activities such as export promotion and traditional banking activities including insurance. We have 35 offices in Mexico and 43 offices in 31 foreign countries. Bancomext’s mission is to support Mexican entrepreneurs through two types of services: financial services and promotional services. We also help the central government in attracting FDI to Mexico.

In the promotional service, we provide information services and advisory counseling through any of the offices in Mexico or abroad. We have a tremendous amount of publications, in both Spanish and English. We provide training services and technical assistance for customers. We provide upfront subsidies to Mexican companies to attending trade shows in Mexico and abroad. We arrange business agendas for entrepreneurs, so that when they travel they can have meetings with a greater likelihood of striking business.

On the financial services side, Bancomext is a typical bank. We provide credit. We also do private equity through working capital funds, both from the bank and also through third-party private equity funds. We provide credit, letters of credit, guarantees, risk capital as private equity, foreign exchange. Two months ago, we became Mexico’s leading foreign exchange bank, and we haven’t lost that position since.\textsuperscript{20} Bancomext’s money desk is the fourth largest in Mexico.\textsuperscript{21} We average about three to four billion dollars in daily transactions at our money desk.\textsuperscript{22}

Since 2000 we have owned an insurance company called Seguros Bancomext (Bancomext Insurance Company), where we provide domestic and foreign insurance. It was only last September (2001) that we opened our services for domestic credit insurance, and in five days we have done $34 million worth of business,\textsuperscript{23} so I think the market has received the product quite well.

For businesses, we provide information about Mexico and its export supply. We arrange buyer admissions all over the world—buyers’ credit. On the investment side, we do the same sort of matchmaking, information on economic sectors. We have a website, which I explain below. Bancomext also, provides assistance to potential investor in by way of legal framework. We do advisory counseling in locating investment sites within Mexico.

\textsuperscript{18} Id.
\textsuperscript{19} Id.
\textsuperscript{20} Id.
\textsuperscript{21} Id.
\textsuperscript{22} Id.
\textsuperscript{23} Id.
Mexico, as many other nations, is undergoing the impact of information and communication technology changes. We believe that it is important for the bank to move forward and enhance the opportunity of Mexican firms to access information and communications technology. For this reason we are promoting the use of information technologies among Mexican firms in order for them to be as competitive as the world requires.

E-COMMERCE

Websites are becoming more and more important for many businesses, including banks. Through Bancomext.com\textsuperscript{24} our clients access many services. Aside from information, we are now providing credit through the Internet. Last year our website had three million hits. In the first seven months of this year, we have had 4.4 million hits. We are expecting to close this year with over eight million hits. This means, of course, that our customers are becoming more sophisticated, and they're accessing information more through the net. And, of course, this also goes hand-in-hand with the President's policy in terms of having Mexico linked to the world economy through e-commerce. This is why Mexico has the right environment to quickly increase the amount of economic ties and economic business between the U.S. and Mexico. This is also why we believe that e-commerce is an important factor that must be promoted within Mexico, but also we believe that Mexico has been very responsible in terms of downsizing its government to the right size during these times where we are facing a potential recession, not only Mexico's economy but the U.S. economy as well as other parts of the world.

For this reason Mexico has done a great deal in the past year and half to revamp its legal framework dealing with ecommerce. In 2000 an electronic commerce law was legislated in Mexico making B2B\textsuperscript{25} and B2C\textsuperscript{26} businesses plausible in Mexico. There's a legal recognition of electronic contracts, and we're working on electronic signature law. Data transmission is now accepted as proof of acceptance of transactions in Mexico's litigation process. The use of electronic identification is obviously required. Electronic commerce law also establishes that e-commerce transactions are valid in case of judiciary disputes. Certainly, property rights are also guaranteed with this piece of legislation, and consumer protection and privacy provided through consumer protection law is also moving into place.

But, of course, there are some challenges even in the legal framework. Mexican authorities are currently working with members of Congress in order to create an infrastructure for electronic signature. The law authorizing the issuance of electronic invoices is expected for next year. While there is a great need of promoting Internet services throughout the country, there is also a great problem that must be solved in terms of infrastructure in order to have stronger hardware technology, better internet service providers and wideband connectivity throughout Mexico.

In 2001 the President issued a program that will specify many areas of how to help Mexico move into the 21st Century with in terms of its commercial transac-

\textsuperscript{25} "business to business"
\textsuperscript{26} "business to consumer"
tions. Mexico will have online educational services, online health services. Bancomext will be the e-Mexico web portal. There will obviously be a lot of public investment in terms of wideband interconnectivity throughout the country. We will be creating, as you already have in many cities in the U.S., an e-Mexico kiosk. Many public services will now be able to be purchased through the Internet. Of course, this requires a great deal of training, in addition to the money that goes into the hardware.

Bancomext publishes many materials that we believe are important for businesses, including a basic guide for the foreign investor. Our 800 number in Mexico is 01-800-exporta, which is the Spanish word for “export”. We also have a study that’s a benchmark of industrial costs in Mexico, which is a useful publication, obviously also in English, in order to compare the advantages and disadvantages of different places within the country.

Bancomext’s website took first place at the recent iBest awards, so it is not just me who thinks this is a great website. Through this portal we are now conducting business transactions, including lending up to $250,000 for small businesses. We are also working to assist in the purchase of capital, with an additional $250,000 available for the purchase of machinery. We have a Z-score service called ZBancomext, which is a risk algorithm. The customer provides the information and finds out immediately if he or she qualifies for the products. If they do qualify, there’s a due diligence, 15-day checking on information provided in order make sure that it corresponds with reality. We are now granting credits in two weeks’ time.

Bancomext has eleven offices in the U.S. and three offices in Canada. We believe that we can make a difference and have made a difference in order to be pertinent to our customers in the North American region, in terms of helping our customers go abroad and establish a full-scale support program for Mexican entrepreneurs when they go into new markets.

Question and Answer Session

Q: My name is Richard Krumbein. In the area of financing, does Bancomext provide direct financing or is it in the form of second level, like guarantees and insurance?

A: We do both. Bancomext is an interesting institution because in times of crisis, we do a lot of business. For instance, in 2001 we only had a $5 billion program. But in a severe crisis year, say, ‘95 or ‘87 or ‘82, our business has been almost $15 billion each one of those years. What happens in times of crisis is that the bank becomes a stable institution with access to hard currencies. This status has been earned with sixty-three years of exemplary behavior. So in times of crisis, Bancomext has become some sort of a natural monopoly for dollars. Nobody can access lines of credit or markets except Bancomext. During periods of crisis we become very strong in second-tier operations. That is, we lend to Mexican banks.

Q: My name is Marco Hernandez, and I would like to know how active Bancomext will be, now that Mexico is a very important platform for export to South America, Latin America. What percentage of funding do you think will be dedicated to Latin America in the next five to ten years?

A: I would estimate that exports, total exports—of the $166 billion that we exported last year, 90 percent were to Canada and the U.S. Our second-largest partner is Europe, and that was three-and-a-half percent. There is no other region of the world with whom we have more than one percent trade. Central America is very small and South America is currently less than one percent of our total trade. Now, of course, these areas are growing much faster. We have a lot of trade agreements with the G3, Venezuela and Colombia, and we have agreements with Central America. We are currently negotiating with Argentina, Chile and Brazil. We have trade agreements with Bolivia that have been very successful. The lowest rate of growth for the first year after we signed an agreement was around 26 percent. In some cases it was over 200 percent from one year to the next, after removing barriers to trade. This is all happening now in Europe. In the first eleven months of our treaty with Europe, where we have had our first anniversary last July 1, 2000, our total trade was growing at 0.6 percent. That is, the 12-month period ending in July 2000, exports were $167 billion, compared to $166.4 for the whole fiscal year of last year. Our trade with Europe is growing at 13 percent a year, even considering the slow down, the heavy peso, and a lot of similar factors. So I would say that if Latin America is about two percent of the $166 billion, that would be about three or four billion dollars total. I think that our trade with Latin America will grow faster than with any other region of the world, and I think the major reason is the initiative of the Free Trade of the Americas. Discussions began in 1994 and are scheduled to finish the first round of negotiations in 2005. I think that in the next ten years, our trade with Latin America will grow probably at twice the speed of other areas of the world.

Q: My name is Titus Peterson. What are your thoughts about where the Mexican economy is heading and just generally how is the economic the health of Mexico?

A: Well, let me tell you some of Bancomext’s forecasts. Remember that the bank’s forecasts are not the forecasts of the federal government. We expect this year total exports to be about $170 billion. Recent annual exports to the U.S. have grown slightly from $275 billion to $276 billion. Petroleum is 20-percent cheaper today than it was a year ago. This means that the export sector in general is doing something very important in its trade with the U.S. We have been able to keep growth very marginal, less than one percent, but growth nevertheless. Asian exports to the U.S. are decreasing. This means that our future, and this is why I think that markets are looking at Mexico more as a NAFTA risk. Now, in terms of growth, growth in Mexico in the first six months for the 2001 annualized period was 0.9 points for GNP. Our forecast at the bank is that GNP growth will be less than 1 percent for fiscal 2001. GNP growth was almost 7 percent, 6.9, so this is a tremendous blow in terms of the rhythm of growth of wealth creation in Mexico, but interestingly enough, although figures that came out last September show that consumer confidence in Mexico is dropping, it is still growing above five percent. The consensus forecast is that the fundamentals of Mexico’s economy are very strong. For 2002, I believe that inflation will be well below five percent, between four and five percent, from what we can see today. When my mom came to Mexico back in the early 1950s, it was 8.50 pesos to the dollar, then in 1956, it was 12.50, all the way to 1975, when it went all the way up to 30 then to 70, and then we had to take three zeros off the currency because it just became thousands of pesos per dollar. And today it is below ten. Currency is the most difficult part for Mexico to deal with.
manage. Any country of the world that has such a strong relationship with an economic power, such as with either Germany or with Japan, or in our case, with the U.S., it is difficult to have an independent monetary policy that can be successful in the short term.

Currently our policy is that there are four basic methods in terms of currency exchange policy. One is to have a peg, like we did in 1956 to 1975. That didn’t work. Second is to have some sort of an alley moving between banks. However Turkey’s currency collapsed in 2001 and we discovered in 1994 in December that that system didn’t work either. A third system is to let it float as much as possible, and to have the central bank, with very few instruments in terms of market interference, just with enough power to make a difference, but a very small difference, so any speculator knows that it is speculating not against the bureaucrat but it’s speculating against the market. That’s our current system. And, of course, the other system is to have a currency board, which uses a quasi-dollarization policy or a just import currency from another country. We haven’t tried this last method, as Argentina did or Panama or Ecuador are trying. I believe that there is no perfect system. There is an inherent problem in trying to establish a monetary policy when you have such a small country like Mexico with such a large neighbor such as the U.S. This is why there’s a Mexican joke that when you sneeze in the U.S., somebody in Mexico catches pneumonia. This is I think one of the issues that President Fox is discussing. I firmly believe that if we are for economic integration, if the future of the world is one of the principles of organization, we should strive to grow in order to have the highest ratios of productivity and in order to have the highest frontiers of production.

In order to exploit competitive and comparative advantages of nation-states, you must have free trade. The movement of the factors of production, and the point of Mexico is that we will not be able to have any sort of quasi or dollarization if labor, being a factor of production, is not really movable within the limits of an economy. And I think that back in 1958, with the Treaty of Rome in Europe. This was the biggest issue. What would happen if somebody from Spain working in Germany did not go back home? And what Europe has discovered is that nobody likes to live away from home. What’s happening in Europe, with the free mobility of labor, is the realization that it is important not only to have a common currency, such as the Euro, but to have, freedom of movement for labor. Many of the illegal workers, or undocumented workers, from Spain, from Italy and from Greece and Portugal, that have gone into Germany, into France and to Holland, after the brief mobility issue was established, the first thing that people did was to go home and try to establish a cultural base. This is a very difficult issue, but the only way that you can consider a common currency is when all the factors of production can move freely, and, of course, you can’t adjust your economy without taking labor into account.