

INSIDER VIEW

Mexico

PART ONE

WEDNESDAY, SEPTEMBER 5, 2001

High hopes remain intact

AS THE FIRST HEAD OF STATE TO BE VISITED BY U.S. PRESIDENT GEORGE W. BUSH, AND A FORMER COCA-COLA EXECUTIVE TO BOOT, MEXICAN PRESIDENT VICENTE FOX HAS MADE NO SECRET OF HIS DESIRE TO COURT U.S. INVESTMENT WHILE COMBATING POVERTY AND FURTHER BRINGING DOWN THE COUNTRY'S ONCE RAMPANT INFLATION

A LITTLE OVER a year after voters gave him a mandate to set the country on a new political course that many felt was long overdue, the Mexican people continue to give President Vicente Fox Quesada plenty of credit for his good intentions, even though some might judge him more severely on his success at putting them into practice. But this has not altered his determination to set in motion a process that will bring about fundamental changes in the kind of nation Mexico is and wants to be.

"The biggest change we have seen to date is in the people's mindset," Mr. Fox said recently. "There is far more hope, enthusiasm and team spirit, in the sense that we are all working and building together. There is so much positive energy flowing through the system that we just have to make the most of it."

The nation's GDP grew by 6.9 percent in 2000, while inflation was held to 8.9%, its lowest rate in years. Foreign direct investment totaled US\$13 billion, up in the year by 14% for a seventh consecutive year of double-digit growth. In 2000, exports increased by a remarkable 22%, making Mexico the world's eighth-ranking exporter. Goods sold abroad brought in revenues totaling some US\$166 billion, or more than all of South America's exports put together.

But there is still room to improve Mexico's on-the-ground realities. Serious law and order issues, four in every ten citi-



It's all smiles as President Vicente Fox marks his first year in power with a program to tackle deep-seated problems.

zens living in poverty and a system of corruption and entrenched patronage a legacy of the seven decades during which a single party maintained a tight grasp on all the levers of power until it was turned out of office last year.

And as no party got a majority in congress, the legislature, along with the labor unions and other sectors, has not always been pulling in the same direction as the president. Lower prices for oil, Mexico's chief revenue earner,

Washington, Juan Bremer, sees the current situation more in terms of a challenge than a catastrophe.

"The remarkable thing is that in the midst of such a difficult international environment, Mexico still has growth expectations for this year of 2.5 to 3%." That, Mr. Bremer suggests, is due mainly to two factors. "Markets have shown their faith in the fundamentals underlying the economy and especially in the new political landscape. And the network of free trade agreements has allowed us to diversify our foreign markets."

A more cautiously optimistic note is struck by Humberto Bañuelos, president of the influential brokers association AMIB (Asociación Mexicana de Intermediarios Bursátiles). "If we can keep the economy stable for another year and gain enough time to push some changes through the legislature, by this time next year we will be seeing a whole new ball game."

That message is also, in essence, the one President Fox would like to convey to Mexico's friends abroad. "Our main problems are the unequal distribution of wealth and high levels of poverty. Our fundamental goal is to transform Mexico into a truly modern country, free of corruption, under the rule of law and with equal justice and equal opportunity for all. To become a successful country, one that can take its place among the nations of the world that are shaping the future of the humanity."

FACTS & FIGURES

POPULATION
100,349,766
(July 2000 est.)

AREA
1,972,550 sq. km.
Slightly less than three times the size of Texas

CURRENCY
Mexican peso (MXP)

EXCHANGE
1 U.S. dollar=9.107 Mexican pesos
(August 2001 est.)

CAPITAL
Mexico City

GDP
Mexico's GDP is US\$865.5 billion
(1999 est.)

RESOURCES
The country's top resources include petroleum, silver, copper, gold, lead, zinc, natural gas, timber

INDUSTRIES
Food and beverages, tobacco, chemicals, iron and steel, petroleum, mining, textiles, clothing, motor vehicles, consumer durables, tourism



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Ambassador of Mexico to the United States

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New golden age in U.S. relations

THE ONGOING MEETINGS BETWEEN THE U.S. AND MEXICAN PRESIDENTS POINT TO THE SHARED INTERESTS OF THE NEIGHBORING POWERS AND THEIR COMMITMENT TO RESOLVING COMMON PROBLEMS

Still in their first year of office, U.S. President George W. Bush and his Mexican counterpart, Vicente Fox, are set to meet for a fourth time in Washington this September. These encore summits give some indication of the priority the two leaders assign to U.S.-Mexican relations as well as the personal chemistry they appear to have found for communicating their aspirations and concerns—arising perhaps from a common background as ranchers, border state governors and business executives.

"Yes, there are similarities in style and substance," Mr. Fox ac-

knowledges. "President Bush has an extremely lucid grasp of bilateral ties and obtained first-hand knowledge of the migration problem as Texas governor. The other thing is that we both try to see that ideas get transformed into deeds, instead of words. Mr. Bush is a person who likes things to get done and makes sure that they do. That also goes for me."

As in their previous meetings, the two presidents will be discussing migration, the drug trafficking problem and trade flows, which under the North American Free Trade Agreement (NAFTA) regime have tripled over the past six years.

"Mexico shipped US\$263 billion in goods north last year, but by the same token it was the second-largest purchaser of U.S. exports to the tune of US\$117 billion," says Mexico's ambassador to Washington, Juan Bremer.

To which President Fox adds, "Mexico may be the junior partner, but the advantages are not all that one-sided. Our cheaper labor costs contributed to the low inflation that helped sustain the latest U.S. boom. Secondly, some two million Mexican workers in the United States made a considerable contribution to that country's economic successes."

Mexicans account for 27% of foreign-born American citizens, by



FRANCISCO GIL DÍAZ
Treasury Secretary



CLAUDIO X. GONZÁLEZ
President of the Consejo Coordinador Empresarial

far the largest group out of all the various nationalities of origin. As Mr. Fox sees it, "cheaper" is not an absolute, but shorthand for "cheaper for the money" that is, in terms of productivity, which remains Mexico's great edge over other developing countries.

Treasury Secretary Francisco Gil Díaz notes that the international ratings agencies reflect this reality in their comparative risk assessments of other large Latin American economies such as Argentina and Brazil. He thinks it a shame that while the good times lasted, the former administration couldn't manage to build up domestic demand to cushion the current downturn.

NAFTA is far from the whole story, though it did establish guidelines for the 32 other free trade accords Mexico has signed to date and which, notes Claudio X. González, head of the Consejo Coordinador Empresarial, have linked Mexico up with 60% of the world's total GDP. "Over time," he says, "people are starting to get the message that "made in Mexico" means "well-made in Mexico" and as president and CEO of Kimberly Clark's Mexican affiliate, he's in a prime position to know.

Economy Secretary Luis Ernest Derbez concludes that, "as opposed to previous administrations, we now have no fear of globalization, but our problems won't be resolved in 15 minutes. The key is that we're committed to acting in the context of globalization."

Education

Universidad Autónoma de Guadalajara

BEING an "education president" is not something to be taken lightly in a country where 10% of the people have never set foot in even a one-room schoolhouse. But the Fox administration's war on poverty is a two-pronged offensive in which educational opportunity for all is the essential complement to its intensive job creation goals. To make that a reality, a hefty share of the government's budget has been earmarked for education.

"The government is committed to investing in education at all levels, from preschool to postgraduate, open and flexible education including home study to enable millions of men and women of all ages who interrupted their education to continue with their efforts," says the policy paper. "We intend to accelerate the training of our human resources because (...) education is the fundamental ingredient in every success story in the world".

Dr. Néstor Velasco, head of academic studies at the Universidad Autónoma de Guadalajara (UAG) in central Jalisco state, notes the innovative aspects of the Fox plan, such as providing for classes to be taught in any of the Indian languages as well as Spanish or English, although minority students will be encouraged to acquire Spanish language skills that will open workplace doors. Elementary education is to be updated with a values-oriented curriculum that centers on preparation and training. Another goal is to offer parents grants that will encourage them to keep their children in school. Training and ongoing evaluation of teachers are another targeted priority, along with the brass-tack essentials: building more and better schools and giving the teachers a better pay. Dr. Velasco's own university is by way of being a beacon of top quality educational standards both in Mexico and abroad especially in the United States, where, he says "you'd have a hard time finding a major hospital that does not have one of our medical school graduates on its staff—there are 12,000 of them practicing there."

But the UAG's internationally respected program for training public health specialists, nurses, dentists, physicians and surgeons is only the most prominent part of a story that dates back to 1935, when a group of tenacious teachers and students stood up to the government in power and insisted on the right to organize their own studies, unfettered by the then-

Cooperation key to ENERGY sector's future

FOREIGN OPERATORS ARE SOON TO BE GIVEN THE GO-AHEAD TO REJUVENATE MEXICO'S ENERGY SECTOR UNDER PLANS TO LIBERALIZE STATE OPERATOR, CFE

MEXICO GENERATES most of the power it requires—182.5 billion kW in 1999—and electricity reaches 95 out of every 100 households through the distribution network. But with the growth of the industrial sector, the demand is rising by 7% per year. Increasing capacity is the principal challenge facing the government's Federal Electrical Commission (CFE).

Except for an autonomous distribution network serving the greater Mexico City area, the CFE is a monopoly, and will remain so until the constitution is amended according to the objectives of President Fox. Foreign producers will then be able to enter a fully liberalized sector. At

present, utilities can come from abroad but they have to sell the electricity on a tender basis to the CFE, the only body allowed to retail it to consumers. This system has its advantages, according to CFE Director-General Alfredo Elias Ayub. "We are excellent business partners with two and half billion dollars in the bank, and our contracts last for 20 years. Also, it gives these companies a chance to get a foothold in the market before the sector is fully opened up." Firms such as Mitsubishi, Electricité de France, Intergen and AES are willing enough to operate under these terms, their facilities supplementing the CFE's

own efforts to construct 18 new generating plants that are currently in the works and another 10 set to get underway in 2002.

Although three in every four of the existing plants are oil-fired, nearly all the new ones will burn environmentally-friendlier natural gas. Diversification of sources remains a high priority, says Mr. Ayub. Hydro energy produces 18% of Mexico's electricity, nuclear plants 5% and wind and other renewable resources contribute 2% to gross outputs. According to a recent study, aeolic generators could supply 30% of the country's estimated power needs by the year 2030, and at extremely low production costs, once initial outlays are recouped.

One ideal place to locate these windmills is the sparsely populated Baja California, where some of their output could be routed directly into California to avoid the brownouts that plagued the state this past year. Mr. Ayub notes that a state-of-the-art DC transmission system will also be required and he would like to see private capital install it and rent the lines to the CFE. Direct linkage between the two Californias is more practical because at the present time the state of California is relatively "underwired" to the southwestern United States where the CFE currently has 13 interconnection points with the U.S. power grid. "We sell them surplus electricity and they sell its to us on a daily basis. The good thing is that their peak demand times are different from ours,



so the arrangement works out fine for both."

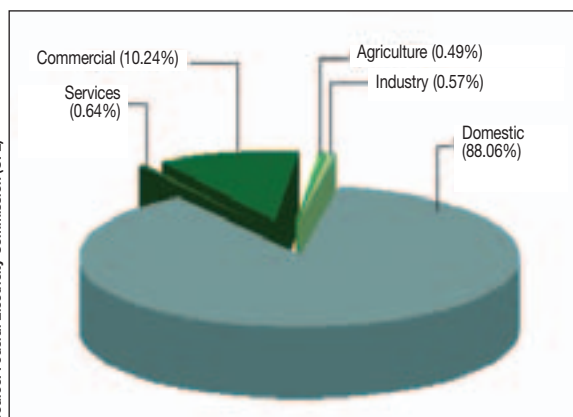
Major investment will be called for, as the system as it stands is not robust enough to handle what California is going to want to slurp from it. Burgeoning demand makes the border region the place where most of this new generating capacity is going to be sited but by no means does all of the demand come from the U.S. side—it is rising by 15% per year in Tijuana, for example. Even so, Baja California currently can sell between 50 and 100 megawatts per day of its surplus energy to its giant neighbor with-

Generating profits. Proximity to the U.S. will allow Mexico's CFE to resolve California's energy shortfalls.

out affecting the domestic supply.

Those sales, which bring US\$100 to US\$200 million on a daily basis, will multiply greatly if, as part of the Bush administration's broad energy plan, U.S. Energy Secretary Spencer Abraham's recent prophecy comes true and "part of the answer to the problem (of U.S. energy shortfalls) lies in forging strategic partnerships with our hemispheric neighbors."

DISTRIBUTION PER SECTOR (%)



dominant left-wing ideology or government control.

From the 1960s onwards, students from the United States and elsewhere in Latin America began showing up at the UAG's Jalisco state campuses in bilingual pursuit of the 52 bachelor's, 12 master's and two doctoral degrees being offered by its 20 different schools. Support facilities—hospitals and clinics, and Mexico's first community college—have helped the university remain financially self-sufficient. Now, half or more of the 3,500 foreign students who enroll each year in the UAG come from north of the border. Many of them making contact through the liaison centers the school has set up in San Juan, Puerto Rico, and San Antonio, Texas.

San Antonio is also the site of the UAG's first U.S. campus—the recently-inaugurated International Language and Continuing Education Center, offering a bilingual path to degrees in Business Administration and languages with the most up-to-date methodology and equipment. Closer to home, and working with experts from Harvard, the UAG is playing a critical role in the rehabilitation of Lake Chalapa, one of Mexico's worst cases of environmental degradation. The UAG maintains working relations with a good many U.S. institutions of higher learning, including the Universi-



Multilingual success. Over half of the Universidad Autónoma de Guadalajara's annual intake of foreign students comes from the U.S.

ty of Tucson, Colorado State, Stanford and the Thunderbird School of Public Administration (the latter a relationship that stretches back 28 years).

"Every year we send 200 of our students abroad and welcome 600 foreign learners under various exchange programs or special short-term courses in various disciplines including Spanish language and culture," says the UAG's

Director of International Programs, José Luis Arreguín, who adds that "we just recently trained and sent 200 young Mexican teachers to work in elementary schools in the state of Texas" under a program introduced, during his term as Texas governor, by George W. Bush, who invited a delegation of UAG officials led by rector Antonio Leaña Álvarez del Castillo to his inauguration.

Food giants boost local agriculture

FOREIGN INVESTMENT IS NEEDED IN TECHNOLOGY AND INFRASTRUCTURE DEVELOPMENT AS MEXICO'S AGRICULTURAL SECTOR SEEKS TO FURTHER TAP BOTH DOMESTIC AND INTERNATIONAL MARKETS

THE GOVERNMENT'S strong pro-market agenda has had a remarkable effect on the nation's agriculture and food sectors; with longstanding Mexican household brands finding their way on supermarket shelves and produce stands around the world.

By far the largest food company in Mexico is Grupo Bimbo—one of the stars of the Mexican Stock Exchange—with more than 61,000 employees working at 79 plants and distribution centers in 16 countries throughout the Americas and Europe. Sales last year for Bimbo's more than 750 products (mostly baked goods and snacks) totaled some US\$3 billion, with revenues from the United States, under brand names such

as Tia Rosa and Mrs Baird's, accounting for nearly 17% of that total and growing.

According to Daniel Servitje, CEO of Grupo Bimbo, the company's recent acquisitions in Brazil were in line with the group's constant search for business opportunities aimed at creating added

value for shareholders and consumers.

"The Mexican baked goods market is the largest in the region," Mr. Servitje points out. "But the huge Brazilian market has the most potential for growth in Latin America. In essence what we're trying to do in Latin America is repeat the success we have had in Mexico by molding our strategies to appeal to the tastes of each target country. We've found that trying to establish a carbon copy of our operations in Mexico doesn't always work abroad, so we have to be flexible."

Three other leaders in the Mexican food industry that have had growing success at home and abroad are the world famous breweries of Grupo Modelo, the industrial holding DESC and the dairy company Alpura.



DANIEL SERVITJE
CEO, Grupo Bimbo

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The State of Veracruz has an extension of 27,963 square miles and a population of 6,908,975, distributed with a proportion of 60% in urban areas and the rest in rural communities. The male/female ratio of the population is 48.6/51.4. Veracruz is Mexico's third most populous state. It represents 7.1% of the total population of the country. The population density of the state is 247.1 inhabitants per square mile.

The Port of Veracruz manages 12 million tons per year. The port is linked by highway and railroad to the country's capital, Mexico City. The Gulf Basin, which includes six Mexican states and five U.S. states, represents a potential market of more than 30 million people. The Commercial Balance of Veracruz has held a surplus since 1993.

Veracruz is the main producer in Mexico of Persian Lime with 70% of total production; pineapple, 64.6%; oranges, 48.3%; sugar cane, 37.8%; rice, 30.2% and also holds first place in the production of vanilla and rubber. Veracruz holds the second position in the production of coffee beans, 25.2% and bovine cattle, 14.4%. In fisheries the state participates with 44.7% of total trout production, 32.9% of Mojarra, 27.8% of crab and 22.3% of Sierra fish, and is also involved in the important production of sea bass and crawfish.

There are four industrial parks in Veracruz: Industrial city Bruno Pagliai, in Veracruz, Industrial Park Ixtac, located in the Cordoba-Orizaba area, the Cordoba-Amatlan park, located in Amatlan township, and the Morelos Petrochemical Park, which is located in Coatzacoalcos. Veracruz is the most important producer of electrical power in Mexico, with 12.8% of total national production, thanks to the nuclear plant of Laguna Verde. Besides, Veracruz is the main national producer of petrochemicals with a share of 93.6%.

Veracruz has received investments mainly from India, Spain, USA, Germany and the United Kingdom for a total amount of USD\$ 760 million since 1999—ten times more than the total investments received in the period from 1994 to 1998.

Veracruz holds the fifth position nationwide in manufacturing industry production. There are close to 15,000 industries established in Veracruz. Regarding tourism, the state has been identified as an extraordinary destination for adventure and eco-tourism activities that represent an alternative for economic and social development.

Governor Miguel Aleman conceived a six-year program with the objective of developing individual and collective capacities of the people of Veracruz. As either a tourist or an investor, you will find a proper environment for development and people who are always looking for more and better ways to improve their lifestyle.

[Http://www.veracruz.gob.mx](http://www.veracruz.gob.mx)



Continued from page 4

Although it falls a close second behind Lala, Mexico's largest dairy company, Alpura takes great pride in its reputation as the country's top producer of quality dairy products, for which health-minded consumers have no qualms about paying a few centavos more.

"We're an association of milk producers that dates back to 1970. Dairies that don't meet our high standards of quality cannot be a member of Alpura," the company's director general, Victor Gavito Marco, says. Those standards, he explains, include 100% Holstein cows and modern milking and refrigeration facilities.

The Alpura association is made up of about 225 dairy farmers or shareholders with the largest stake being 3.3%, giving the company a structure similar to an agricultural cooperative where quality control is in everyone's interest. Sales last year surpassed US\$500 million, and according to Mr. Gavito, that mark will increase by 14% this year with volume growing by 4%.

DESC's subsidiaries have a strong foothold in the four principal sectors of the Mexican economy: petrochemicals and diversified products, foodstuffs, real estate and automotive parts. Along with Bimbo, Alpura and Modelo, DESC has helped spearhead remarkable growth in Mexico's processed food industry, which has seen exports to the United States more than double since the 1994 North American Free Trade Agreement. These holdings all want to see their stake in the U.S. market grow, and thus are open to the idea of possible strategic alliances with American companies.

The National Agriculture and Cattle Council (CNA, Consejo Nacional Agropecuario), which represents both large and small players in the private sector agro-industry, is working closely with the Fox administration to come up with a clear legislative framework for rural development and greater access to loans for small and medium-sized agribusinesses, among other issues.



Mexican food giant Grupo Bimbo is targeting not only the domestic market of 100 million inhabitants, but also lucrative foreign markets such as Brazil and the U.S.

"Our main priority at CNA is to secure a strong agriculture policy... one that streamlines support mechanisms, helps foster the diversification of crops and pays heed to regional market demands," CNA president Jesus Vizcarra Calderón explains.

Mexican Secretary of Agriculture Javier Usabiaga agrees, noting that the rural population accounts for nearly 25% of Mexico's total, but only contributes about 6% to the GDP. "The government's

main aim is to bring profitability back to the countryside. Foreign investment, a very important factor in that goal, is needed in areas such as technological development, infrastructure, and in adding value to primary production," Mr. Usabiaga explains. "Mexico is a country with a market of 100 million inhabitants whose purchasing power is growing stronger by the day," the agriculture secretary is keen to point out to both domestic and foreign investors.

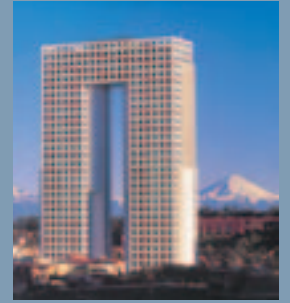
Real estate leader builds on success

In sprawling Mexico City the DESC subsidiary DINE stands out as the undisputed leader in real estate development. Long before it became part of the DESC family of companies in 1985, DINE defined modern urban life in Mexico City with its high-end residential development Bosques de Las Lomas, the most prestigious residential complex of the city for the past 30 years.

DINE's commitment to residential development design in harmony with nature is one of its most attractive selling points, says DINE vice president Andres Baños Sambalacat. "Bosques de las Lomas is located on 500 hectares of beautiful wooded land within the city," he points out.

Following its success in the residential sector, DINE began diversifying into office buildings,

shopping centers and tourist complexes when it became the real estate division of the giant firm Grupo DESC, whose other divisions include auto parts, chemicals and food products. Today, DINE accounts for about 7% of DESC sales, but its land holdings make up some 30% of the parent company's investment portfolio. The development of Centro Santa Fe, the largest and most modern fashion mall in Latin America, forms the base of the company's long-term business plan. "Our future investments will come from the huge corporate complex we're planning to build alongside the shopping mall," explains Mr. Baños. But DINE's largest project at the moment is the Punta Mita tourist complex outside Puerto Vallarta, which offers ocean views along the entire 700-hectare property. So far the complex boasts a



DINE's Arcos Bosques development is the biggest and most modern business center in Mexico.

Four Seasons hotel and two championship golf courses designed by Jack Nicklaus. "The area is only about 5% developed and we're in negotiations with several U.S. hotel groups for further development," Mr. Baños says.

CAMPECHE state diversifies to expand

BUSINESS-FRIENDLY CAMPECHE IS BETTING ON THE TOURISM INDUSTRY BEING ONE OF ITS PRIME MONEY EARNERS IN THE FUTURE BY ATTRACTING U.S. TOURISTS TO ITS MAYAN RUINS AND VIRGIN BEACHES

APART FROM knowledgeable globetrotters or people who work in the oil industry, few Americans know about the wonders of Mexico's best-kept secret, the 460-year-old state of Campeche, whose namesake colonial capital

city Campeche, has been declared a UNESCO World Heritage Site. Campeche is located in the southwestern part of the Yucatan Peninsula, bordering three Mexican states and the countries of Guatemala and Belize. Some 230 miles of pristine Gulf of Mexico coastline and the island of El Carmen complete the state's boundaries.

According to the state's governor, Antonio González Curi, Campeche has also become one of the country's biggest economic success stories. "So far we have been able to resolve the majority of the state's basic problems. The economic activity has increased substantially and all the main in-

dicators show that the Campechanos' quality of life has greatly improved. We have also created an attractive investment environment and have diversified the economy," Mr. González explains.

During the governor's term, some 22,000 jobs have been created and the unemployment rate has plummeted to 1.3%, well below the national average. State legislation has made opening a business easier and quicker. Campeche's pro-business environment has fostered 44 production projects worth US\$656 million and the state government's ongoing incentive program to attract investors has been rewarded with the establishment of 16 manufacturing industries with a total investment of US\$55 million. Investment opportunities in Campeche include the tourist industry, which has grown by a whopping 20% compared to about 8% nationally, agro-industry and fishing.

"Diversification has been the key," Mr. González says. "Never again will the state depend upon one industry as it did when it concentrated on fine woods, and then chicle for chewing gum and shrimp. Now we're involved in all three and we are also working more in the agriculture and cattle sectors, fishing and tourism, increasing the state's revenues in order to improve our infrastructures and health and education services."

Although some 80% percent of Mexico's oil and 40% percent of its natural gas is extracted off Campeche's gulf shores, most of the export revenues go into the Federal government's coffers and



San Miguel fort was built to protect the city of Campeche.

very little finds its way into the state's budget. "That's a sore point we and the federal government are trying to resolve, and I'm optimistic we'll be able to do so," governor González notes, adding that federal oil installations in the state's second largest city, Ciudad del Carmen, have sparked a boom in population for which the state is struggling to provide social services and infrastructure.

The blossoming tourism industry in Campeche, which is rich in Mayan ruins, lush green jungles, virgin beaches and colonial cities, is expected to more than make up for the shortfall, however. The state boasts two international airports and has been negotiating to secure flights from two key Latin American hubs in the United States, Houston and Miami.

Connecting Campeche to those two U.S. cities "would be a big boost to the state's tourism industry, especially now that U.S. citizens in the south and east coast are becoming more aware of the beauty of Campeche," Mr. González concludes.

FACTS & FIGURES

- 460-YEAR old state located on Mexico's Yucatán Peninsula and covering 50,950 km².
- CAMPECHE, the capital city, is a World Heritage Site.
- THE STATE has one of Mexico's best investment frameworks and offers a very quick turn around to start a business.
- UNEMPLOYMENT rate of 1.3% is below the national average.
- OVER 22,000 jobs to be generated in less than 3 years.
- EXCELLENT business climate, which has allowed the development of 44 successful projects at a cost of 6 million pesos.
- PROGRAM to attract investment has led to the installation of 16 'maquiladora' industries through an investment of around 500 million pesos.
- BUSINESS opportunities in the tourism, agro-industrial, fishing and aquaculture sectors.
- TOURISM growth rate of 20%, superior to the national average of 8%.



ANTONIO GONZÁLEZ CURI
Governor, State of Campeche



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Mexico

5

VERACRUZ at the forefront of Mexican trade

A PRIME LOCATION ON THE CENTRAL COAST OF THE GULF OF MEXICO AND A BUSINESS-ORIENTED ADMINISTRATION HAVE BOTH CONTRIBUTED TO THE CONTINUING ECONOMIC SUCCESS OF THE MEXICAN STATE OF VERACRUZ

THE STATE of Veracruz is positioned to become the driving force of the country's economic rebound, especially in exports and direct foreign investment. Located on the central coast of the Gulf of Mexico, Veracruz shares the gulf with five Mexican and five U.S. states. Its Tuxpan port, one of three in the state, is just a short trip to two of the United States' most important seaports, Houston and New Orleans.

The North American Free Trade Agreement and Mexico's free-trade pact with Europe are two key factors in Veracruz's future as a major exporting and transshipment point, says the state's governor, Miguel Alemán Velasco. "The Port of Veracruz complies with all the laws relating to the rules of origin," Mr. Alemán points out. "A Spanish company, for example, can set up here in Veracruz and export its production to the United States. Three years ago when I took office, exports from the Veracruz port were around 7 or 8 million

tons a year, and now they total 12 million." Mr. Alemán also notes that the Veracruz economy is one of the healthiest in the nation, so healthy in fact that the state's assembly has just approved a US\$1.6 billion loan,

payable by the end of the governor's six-year term, that will most likely be invested in infrastructure improvements.

"Veracruz has grown considerably," Mr. Alemán says. "With

its population now topping 7 million, infrastructure improvements are what the state needs most. We also need to finish the highway from Mexico City to the Port of Tuxpan." Other major projects include further development of the textile industry in the northern part of the state and improvements aimed at increasing

production in the oyster, shrimp and fish industries.

"The programs being carried out in Veracruz coincide with President Fox's 'Puebla Panama' project," governor Alemán notes. "Along this isthmus all the industrial parks are going to be linked by 122 miles of four-lane highways running from the Gulf of Mexico to the Pacific Ocean, or the shortest length across the continent. There will also be high-speed rail service to transport cargo containers and to connect the oil and gas wells to the ports of Coatzacoalcos and Salina Cruz. It's also worth mentioning that the first highway from Panama to the United States will cross through the area."

For years Veracruz has been a top tourist destination for vacationing Mexicans, and Mr. Alemán says one of his administration's priorities is to expand the market to include more foreign visitors. "We have several attractive selling points: beaches, pre-Hispanic and colonial architecture and eco-tourism. The people



MIGUEL ALEMÁN
Governor, State of Veracruz

here are very open and fun-loving, and the atmosphere here is very similar to Cuba's. We haven't, however, put enough effort into promoting Veracruz in the United States and Europe," Mr. Alemán explains.

Besides its beautiful beaches and 1,000-plus hotels, Veracruz has a rich heritage dating back to the Olmeca, Totonaca and Huasteca cultures as well as two of the country's top archeological sites, El Tajin and Cempoala. The state is also rated number one in adventure and eco-tourism, especially in rafting, mountain biking, scuba diving, fishing, rappelling, hiking, canoeing and camping. Veracruz is also home to the nearly 400,000-acre San Andres Tuxtla Biosphere, the second largest ecological reserve in the country.



Situated at the heart of the Mexican Gulf, the port of Veracruz has become a major shipping hub.

The Mexico City to Port of Tuxpan highway is one of the state's key projects

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QUALITY HAS LONG BEEN THE WATCHWORD OF MONTERREY-BASED GRUPO VITRO, ONE OF MEXICO'S LARGEST MANUFACTURING COMPANIES AND AN INTERNATIONAL STANDARD BEARER FOR THE COUNTRY'S KEY INDUSTRIAL SECTOR, SET FOR TAKE OFF AFTER FIVE LEAN YEARS

THOSE WHO scoff at Mexico's political efforts for a more influential role among the world's powerful decision-making nations would be well advised to keep in mind that Mexico is the planet's



Grupo Vitro's crystal clear vision and quality control has enabled the company to win Mexico's top quality award four out of the past six years.

8th largest exporting economy, and through years of perseverance has negotiated very favorable free-trade agreements with some 30 countries and is at the bargaining table hammering out similar trade pacts with several more.

As powerful as they may be, most of Mexico's larger industri-

al groups and exporting companies taken individually lack the clout and manpower that is needed to thrive in a globalized economy. But when joined together along with small and medium-sized firms, as they are under the Mexican Council for Foreign Trade (COMCE), they are indeed a force to be reckoned with.

COMCE, a specialized business institution representing private Mexican exporting companies—large and small—in international trade negotiations, was founded in 1999 through the merger of the Mexican Business Council for International Affairs (CEMAI) and the National Council for Foreign Trade (CONACEX), both with more than half a century of experience in Mexico and abroad.

"We have bilateral committees with just about every country in the world," boasts COMCE president Federico Sada, who is also president and CEO of the Monterrey-based Grupo Vitro, one of the largest companies in Mexico.

"Those [committees] serve as contacts between business people from other countries and those in Mexico," Mr. Sada explains. COMCE is also an instrument past and present presidents have used to access the private sector abroad. In the case of President Fox, we have organized meetings in Chile, Argentina, Brazil, Uruguay, Canada, Mexico, Spain, Britain, France, China and Korea."

But that's only half of COMCE's work, he adds. The other half centers on a national level through representatives in individual states, providing information and helping small and medium-sized companies gain access to foreign markets.

"One of the things we keep pushing for is a stable exchange rate," Mr. Sada notes. "With the current exchange rate the small and medium-sized enterprises are dead unless they clean house and become more competitive. Secondly, you have to have the quality to export. You cannot export once and then let quality slip, so COMCE organizes seminars to train people on the importance of quality. The third thing is you have to have access to the markets, so we provide con-

tacts and help them get together and help them through customs."

Product quality is something Mr. Sada knows a lot about. His Vitro company has won Mexico's top quality award four out of the past six years. Vitro has also won the prestigious Ibero-American award for export product quality, no small feat considering companies from all of Latin America, the Caribbean, Spain and Portugal were vying for the honor.

"But it's not about collecting awards," Mr. Sada stresses, "it is about having that guarantee that you are producing a good product, and sometimes it's better to pay a bit more for labor to get the quality right. That is something we try to push at COMCE and Vitro, quality is number one."



FEDERICO SADA
President and CEO,
Grupo Vitro

From its headquarters in Monterrey, where it has been a major player in that city's economic development since 1909, Vitro and its subsidiaries produce flat glass, Acros Whirlpool home appliances, glassware and glass containers. Vitro's subsidiaries serve multiple product markets, including construction and automotive glass, refrigerators, and glassware for commercial, industrial and consumer use.

Grupo Vitro has joint ventures with 11 major, world-class industry leaders that provide its subsidiaries with access to international markets, distribution channels and state-of-the-art

technology. The subsidiaries have manufacturing facilities and distribution centers in at least a dozen countries and export to some 70 nations. The group's sales last year totaled some US\$2.9 billion, US\$776 million of which came from exports. The company is listed on both the New York and Mexico stock exchanges.

Still, Mr. Sada says the company has plenty of room to improve. "We faced some difficult times from 1995 to 2000. Perhaps it was misjudgment, bad investments or the economy. But this year we're taking off in a good way."

"We realized we cannot invest in everything, so we are focusing on two or three areas where we think we can go global and become one of the two or three key players in those areas. We are going to crop the smaller companies, pay down debt and restructure. We have new people within the company with international experience. So we are getting ready maybe in the next three to six months to make some very interesting announcements on how we are going to face the future...the future not only in Mexico, but the future in other profitable markets," Mr. Sada says.

Although Vitro sells in 90 countries, 80% of its exports go to the United States. "If you live in the United States, chances are that the Whirlpool appliance in your house is one of ours," Mr. Sada points out. "Other products exported to the U.S. include all types of tableware and some lead crystal. We export fiberglass and flat glass mostly to the automotive industry. We have an office in Detroit and close ties with Ford, Chrysler, General Motors and all the major players. We ship construction glass also, and have about 300 offices throughout the states and about 4,000 employees there."

Does being General Motors' "Supplier of the Year" in automotive glass for three consecutive years mean something?

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Foreign presence revitalizes banking

THE SUBSTANTIAL FISCAL REFORMS PUT FORWARD BY THE FOX GOVERNMENT FORM THE BASIS OF THE MEXICAN FINANCIAL SECTOR'S EFFORTS TO OVERCOME THE AFTERMATH OF THE 1995 BANKING CRISIS

TO COUNTER Mexico's chronic shortfalls in tax revenues, the Fox administration has committed to an extensive package of fiscal reforms while at the same time giving the financial sector a new agility and more transparency.

Critics charge that the structural and regulatory framework as it stands benefits the rich and fosters any number of anomalies. Also, the opposition is criticizing the wave of takeovers of Mexican banks by foreign operators and are asking for a full debate on the implications of having 80% of the national banks and the portfolio of the companies they control in foreign hands.

"The banking system has built up a portfolio that consists of 90%



MARIO LABORÍN GÓMEZ
Director General,
Nacional Financiera

government paper," says Treasury Secretary Francisco Gil Diaz. "This was unexpected, but it has not resulted in the supply of commercial credit drying up, as you might think. A whole new class of alternative financing mechanisms

has emerged. The bank-to-business artery clogged up, but the bypass is working just fine."

The government considers itself obliged to ensure that adequate financing reaches the private sector and to that end has set up four development banks targeting key areas such as foreign trade, agriculture and infrastructure. The largest of these is Nacional Financiera, which not only provides and guarantees credit, but also offers assessment and backup services to any of the 700,000 small and midsize, mostly family-run businesses that form the backbone of the economy.

The odd thing here, says Director-General Mario Laborín Gomez, is that Nafin's success can be measured by the number of clients it has lost since the peso devaluation crisis. That figure is down by 91%, from 150,000 to just under 15,000. But the goal is



Nacional Financiera offers services to Mexico's 700,000 small and midsize businesses.

to get it back up to 400,000 over the next four years by offering not only direct financial support but assessment and business development services through an Internet-enabled platform that will provide access to critical databases, credit reports, and directories of suppliers. An on-line clearing house will likewise slash transaction costs.

"With interest rates down and the crisis behind us, this is the first chance we've had to develop a long-term strategy to help our clients grow and compete against imports," says Mr. Laborín. "It's

clear that wherever you go in the world, small businesses are what drives development and provides an inexhaustible source of jobs and wealth."

In most countries the equity markets would be a logical alternative for the capital that banks are unwilling or unable to supply, but here again, Mexico goes against the grain. According to

Humberto Bañuelos Caamaño, president of the Brokers Association and head of Mexico's leading brokerage firm, BBVA-Bancomer, the share exchange is still awaiting the deregulatory shot in the arm that will revive it and allow it to fulfill its natural functions. Right now, however, only 100 firms are listed, as compared with over 300 during the boom of the mid-80s, and few remember the last time there was an IPO.

"Interest rates were at 40% and only recently have started to come down," Mr. Bañuelos says. "Who could expect an equity market to grow under those conditions?" But what Mexico's exchange lacks in liquidity it makes up for in profits, a fact not lost on the foreign investors who account for nearly three-quarters of the transactions. "There are mid-cap companies under extremely competent management whose only drawback is that their share price does not reflect their true value," notes Mr. Bañuelos.

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