



Submission No 3

Australia's trade with Mexico and the Region

Organisation: Embassy of Mexico

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Ambassador

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EMBAJADA DE MEXICO

EMBASSY OF MEXICO

*"2006, Año del bicentenario del natalicio del
Benemérito de las Américas, Don Benito Juárez García"*

Canberra Australia, 1 December 2006
AUS-02019

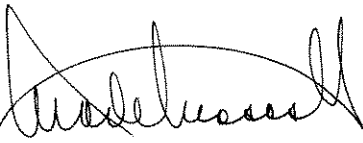
Hon Warren Snowdon MP
Deputy Chairman
Parliament House
Canberra, ACT 2600

Dear Mr. Snowdon,

I refer to your letter from 13 October 2006, regarding the inquiry into Australia's Trade with Mexico and the Region, being held by the Joint Standing Committee on Foreign Affairs, Defence and Trade of the Parliament of the Commonwealth of Australia.

I am pleased to send you the submission by the Embassy of Mexico for the above mentioned enquiry. An electronic version was already sent to the Secretary of the Trade Sub-Committee yesterday.

I take this opportunity to reiterate to you the assurances of my highest consideration



Martha Ortiz de Rosas
Ambassador



**INQUIRY INTO AUSTRALIA'S TRADING WITH
MEXICO AND THE REGION**

SUBMISSION BY THE EMBASSY OF MEXICO IN AUSTRALIA

30 NOVEMBER, 2006

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I. INTRODUCTION

Since the 1980s, the Mexican economy has gone through an important process of transformation. The main characteristics of this process have been the liberalization of trade and investment, the diversification of exports and the improvement of international competitiveness. As a result of sound macroeconomic policies and mature political institutions, Mexico has now a modern and diversified economy.

During recent years, the Mexican economy has shown a remarkable performance. In 2004, Mexico's economic activity grew at an annual real rate of 4.4% and the economic expansion increased through 2006, attaining a growth rate of 4.7% in the second quarter of this year. This performance reflects macroeconomic stability, a responsible handling of public debt and strong domestic markets.

The economic policy implemented by the Mexican Government has resulted in a reduction of the unemployment and the creation of 289,254 new jobs during the second quarter of 2006. This is the maximum amount of new jobs created in a single quarter ever recorded. Annual inflation rate stood at 3.47% in August of 2006. The current account balance showed a surplus of 1.14 billion US dollars in the second quarter of 2006.

The 2006 edition of the World in Figures, published by The Economist Intelligence Unit, ranked Mexico as the 10th largest economy in the world. In 2005, Mexico's GDP amounted to 626.1 billion US dollars. That year, the GDP of Mexico was only surpassed by the GDP of the United States of America, Japan, Germany, United Kingdom, France, Italy, China, Canada, and Spain.

Mexico's strategic geographical location, between the Atlantic and the Pacific Oceans, and connecting north and South America, makes an ideal hub for worldwide production and trade. Due to its excellent and competitive skilled labour, Mexico offers Australian companies a unique opportunity to manufacture products close to the markets of the USA and Canada.

II. BACKGROUND INFORMATION

1. Political System

Mexico is a representative, democratic and federal republic made up of 31 sovereign States and one Federal District. The states are divided into municipalities. At the same time, the Federal Government is divided into the Legislative, Executive and Judicial Branches.

The head of the Executive Power is elected by direct popular vote for a six-year period, without the possibility of re-election. On July 2006, Mr Felipe

Calderon was elected as President of Mexico. His administration takes office on 1st December 2006.

The Federal Legislative Power is vested in a General Congress, made up of two Chambers: the Senate and the House of Representatives. The Senate has 128 members, four for each State and the Federal District, and is renewed every six years. The House of Representatives has 500 members and is renewed every three years. The members of the Congress are elected by popular vote and cannot be re-elected for consecutive terms.

The Judicial Power is deposited in the Supreme Court of Justice, in the District Courts and in the Council of Federal Judicature.

2. Foreign Policy

Mexico's foreign policy is based on a series of principles enshrined in the Constitution: juridical equality of states, respect for the sovereignty and self-determination of nations, non-intervention in the domestic affairs of other countries, peaceful resolution of controversies, proscription of threaten or the use of force in international relations, promotion of collective security and international cooperation for development.

Similarly, Mexico incorporates in its international practice other values shared by most nations, which are essential for appropriate relations among members of the international community: promotion of human rights, democracy and the rule of law.

3. Geography and Population

Mexico has a surface area of 1,964,375 Km². The country is fourteenth in size in the world and fifth in the American continent. Mexico is one of the countries with the greatest topographical diversity in the world. There are also a great variety of climatic regions in the Mexican territory, as well as an enormous biodiversity.

The ecological conditions in the Mexican territory favour an extremely rich flora and animal life. This variety includes regions that are hot and relatively humid as well as deserts.

The current population of Mexico has reached 104.8 million inhabitants. Almost 30% of the population lives in main metropolitan areas. The median age of the population is 24 years.

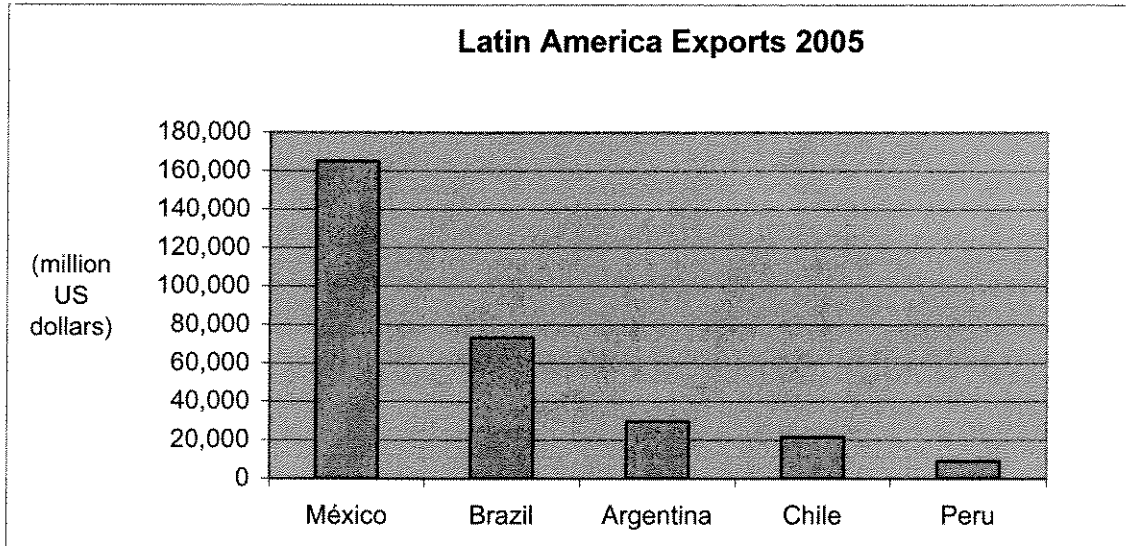
III. THE MEXICAN ECONOMY

1. International Trade

In 2005 the country was the eight largest exporter in the world, with a total foreign trade of 435,409 million US dollars. The main exports include

manufactured products, crude oil, motor vehicles, electronic components, parts for telecommunication systems and food and beverages.

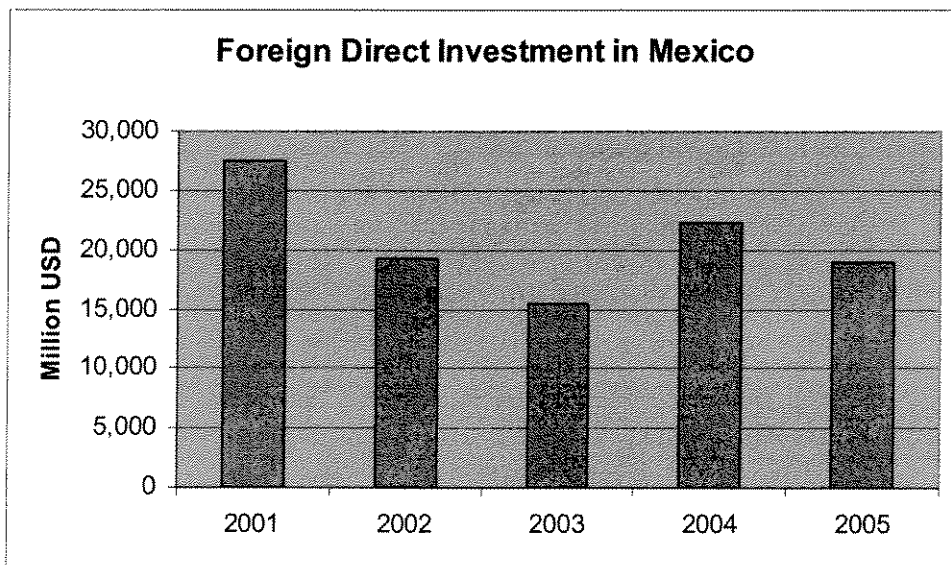
At the regional level, Mexico is the main Latin American exporter, with total exports bigger than those of Argentina, Brazil, Chile and Peru together. It has also the highest income per capita in the region.



Source: World Bank, 2006

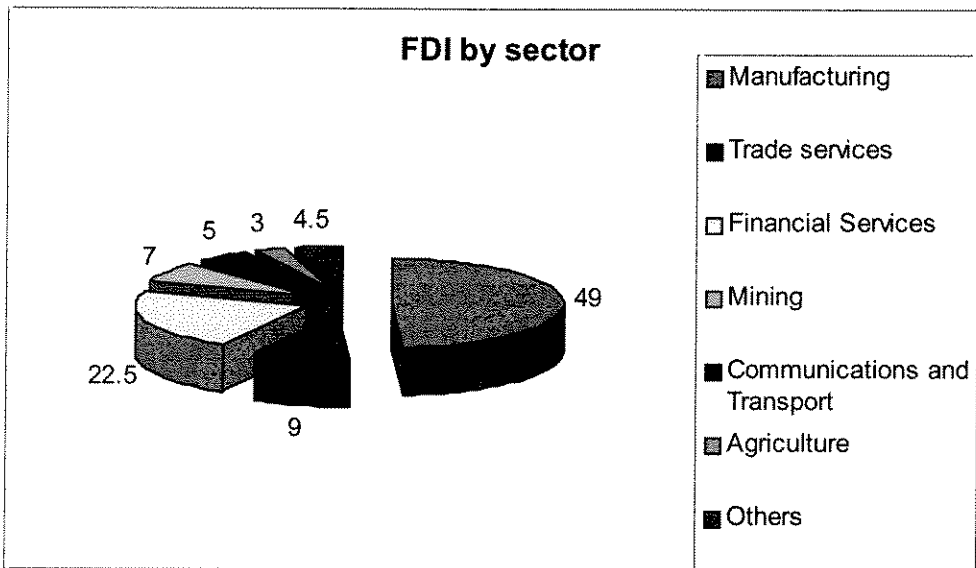
2. Foreign Direct Investment

Currently, the country is the fourth largest recipient of direct foreign investment among emerging economies, benefiting from an inflow of capital of more than 18.9 billion US dollars during 2005. Direct foreign investment increased by 10.8% during the first three quarters of 2006 compared to the same period of 2005.

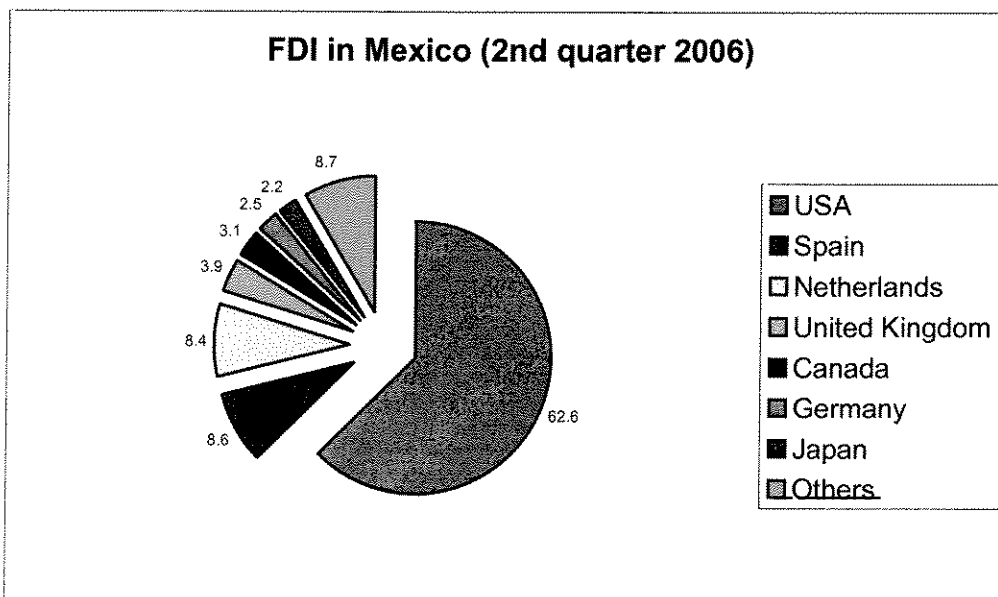


Source: Mexican Ministry of Economy, 2006

Foreign direct investment is of particular importance to Mexico. It serves as a catalyst for the growth of domestic enterprises and allows for the inflow of technology. The resulting increase in technological capacity has been essential in raising the skill level of the labour force and enhancing national productivity and competitiveness. The manufacturing sector has been the primary destination for foreign investment, accounting for almost half of the capital received during 2005.

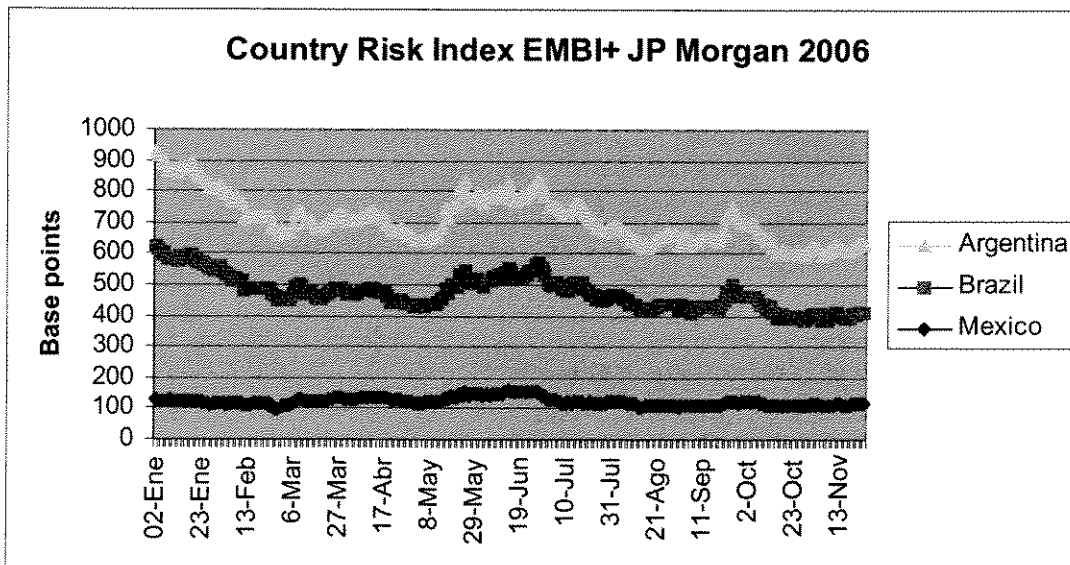


Source: Ministry of Economy of Mexico, Investment 2006



Source: Ministry of Economy of Mexico, Investment 2006

The country risk, measured by the Index EMBI+ of J. P. Morgan, diminished to 113 base points in November 2006 and Mexico's net international reserves attained levels of more than 68.5 billion US dollars. At the same time, Mexico's external debt has been reduced and the external vulnerability has declined.



Source: BANAMEX, Country Risk indicators 2006

3. Mexico's network of Free Trade Agreements

Mexico has made an incomparable transition from an inward-looking economy into one of the most open countries, and today has the largest network of Free Trade Agreements (FTA) in the world. Mexico's network of FTA with 43 countries, in three different continents, represents a unique opportunity to foreign investors. These agreements encompass 60% of the world's GDP and provide access to 920 million consumers.

Mexico's network of FTA include:

- *Free Trade Agreement between Mexico and Chile.* Signed in 1992, this was Mexico's first FTA. The original agreement was complemented in 1999 with the inclusion of trade in services, government procurement, dispute settlement procedures and intellectual property. As a result of the FTA, total trade between Mexico and Chile had increased twelve-fold, reaching over 2.2 billion US dollars in 2005.
- *North America Free Trade Agreement between Mexico, United States and Canada (NAFTA).* Signed in 1994, NAFTA has been a key instrument in increasing trilateral trade by 128% in over ten years, reaching 772 billion US dollars in 2005. Today, the North American region is one of the most dynamic and integrated economic areas in the world. In 2005, bilateral trade between Mexico and the United States amounted to 288 billion US dollars, while trade between Mexico and Canada amounted to 18 billion US dollars.
- *G3 Agreement between Mexico, Venezuela and Colombia.* This FTA was signed in 1995 and has helped to build stronger ties between Mexico and those South American countries. Trilateral trade has increased by 271% since 1994. Today total trade between the G3 countries amounts to 3.3 billion US dollars.

- *Free Trade Agreement between Mexico and Costa Rica*. Signed in 1995, this was Mexico's first FTA with a Central American country. The FTA has yielded significant results. Total trade multiplied by ten between 1994 and 2005, reaching 1.2 billion US dollars.

- *Free Trade Agreement between Mexico and Nicaragua*, signed in 1998. Immediately upon this agreement came into force, 45 % of Mexico's total exports to Nicaragua entered duty free. By 2005, total trade between both countries had reached 465 million US dollars.

- *Economic Cooperation Agreement between Mexico and the European Union*, signed in 2000. This agreement created the first free trade area between Europe and the American continent. This is a forward-looking and comprehensive treaty that offers increased opportunities for Mexican and European enterprises to create links, through the establishment of strategic alliances and the promotion of investments. In 2005, total trade between Mexico and the EU amounted to 34 billion US dollars. This agreement gives Mexico the opportunity to increase its trade with a potential market of 455 million people.

- *Free Trade Agreement between Mexico and Israel*, signed in 2000. This agreement has helped to increase Mexico's presence in the Israeli market. In 2005 total trade between Mexico and Israel reached 456 million US dollars.

- *Free Trade Agreement between Mexico and the European Free Trade Association*, signed in 2001. This agreement, signed with Norway, Iceland, Switzerland and Liechtenstein was negotiated on the basis of the FTA between Mexico and the EU. In 2005, total trade between Mexico and EFTA countries reached the 2.3 billion US dollars.

- *Free Trade Agreement between Mexico and the North Triangle (El Salvador, Guatemala and Honduras)* signed in 2001. In 2005, total trade between Mexico and the North Triangle amounted to 1.8 billion US dollars.

- *Free Trade Agreement between Mexico and Uruguay*, signed in 2004: This FTA has helped to increase Mexico's presence in the Mercosur market. In 2005 total trade between Mexico and Uruguay reached 899 million US dollars.

- *Economic Partnership Agreement (EPA) between Mexico and Japan*, signed in 2005. As complementary partners, Mexico and Japan have succeeded in concluding a mutually satisfactory, balanced and high standard agreement. Since the EPA came into force, the bilateral trade has increased by 21.5%.

In spite of an apparent fatigue in negotiating free trade agreements, the Government of Mexico is considering the possibility of signing new agreements with countries of Asia-Pacific, taking into account the importance of this region in the world economy and in Mexico's economic relations.

At the beginning of this year Mexico and South Korea started negotiations to sign a comprehensive bilateral EPA. Mexican exporters of food and beverages, minerals, manufactured products and telecommunication equipment have identified a number of opportunities to increase the bilateral trade through the signature of an EPA. On the other hand, South Korea has expressed interest in exploring means to increase investment in Mexico, in recognition of the advantages that the country offers for international investors.

Bilateral trade between Mexico and South Korea has almost doubled from 2001 to 2005, particularly the exports from South Korea to Mexico. The current bilateral trade amounts to 6.5 billion US dollars.

Mexico is part of several economic multilateral forums like the World Trade Organization (WTO), the Asia Pacific Economic Cooperation (APEC) and the Latin American Integration Association (ALADI). It is the only Latin American country member of the Organization for Economic Co-operation and Development (OECD). This membership is a testimony to its rapid progress in establishing a sound, mature and open economy.

IV. RELATIONS BETWEEN AUSTRALIA AND MEXICO

1. Bilateral relations framework

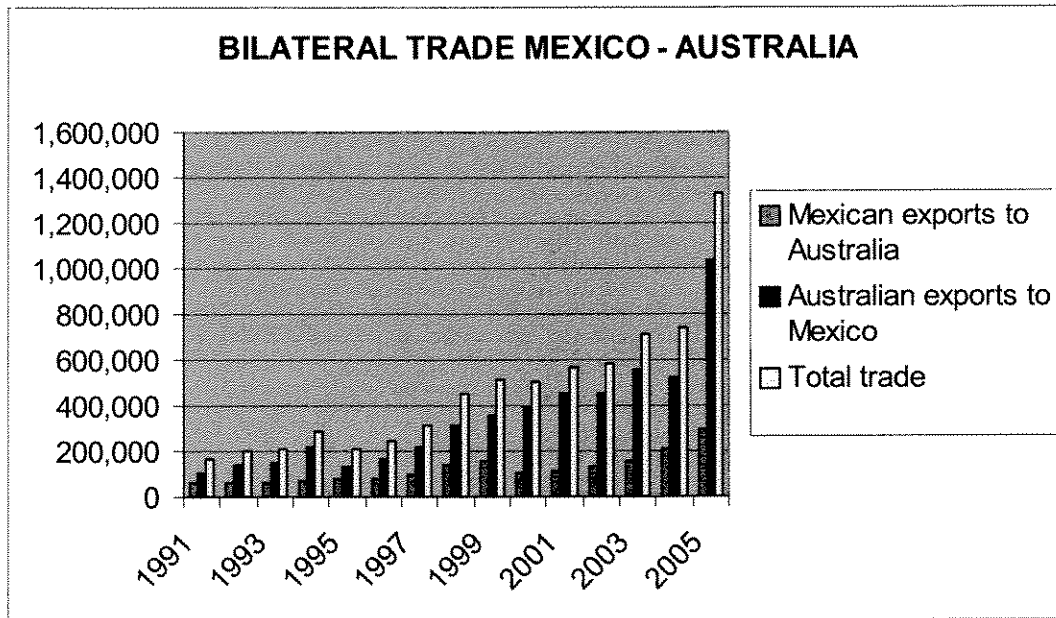
Forty years ago Australia and Mexico established diplomatic relations and started a strong multilateral cooperation. During the first four decades, more than 100 high-level visits have nurtured the political exchanges, including the visits of three Australian Prime Ministers and one Mexican President. The two countries have signed more than 15 Agreements and Memoranda of Understanding in many different areas.

Both countries share common values and interests, based in the promotion of democracy, the respect of human rights and the advancement of an open system of international trade.

2. Trade

The economic relation between Australia and Mexico is growing constantly. From 2000 to 2005, bilateral trade increased almost threefold (164%). According to the data provided by the Mexican Ministry of Economy, last year, total trade between Mexico and Australia amounted to 1,385 million Australian dollars. Australian exports to Mexico almost doubled from 2004 to 2005 (81% increase).

Mexico is Australia's largest trading partner in Latin America. Coal, meat, leather, live animals, dairy and services dominate Australian exports to Mexico. Mexican exports to Australia are mainly manufactures, particularly automotive components, telecommunication equipment and computer parts.



Source: Ministry of Economy of Mexico, 2006

Due to the difficulties in registering accurately the bilateral trade that goes through a third country, there is a difference in the data from the Ministry of Economy in Mexico and the data from the Ministry for Foreign Affairs and Trade of Australia.

3. Bilateral Agreements

Trade and investment has been encouraged by the signature of several bilateral agreements, that have underpinned the economic relationship:

- Memorandum of Understanding on Mining Cooperation, signed in July 1992

The mining sector is one key area in the bilateral relationship. The MoU on mining encourages scientific and technical cooperation across the mining industry and provides a framework for Australian experts to collaborate with Mexican experts in technical issues related to the industry. Exchange programs between Australia and Mexico are also possible under the MOU. Many important companies in Australia have invested capital in the Mexican mining sector.

Australia and Mexico share many similar features in mining, including the location of mines in remote and arid locations and the need to properly manage the use of water.

Like Australia, Mexico has a strong resource base. It is the world's largest producer of silver, the ninth largest exporter of oil, and the third largest supplier of oil to the US.

- Agreement on Trade and Investment, signed in November 1994

As part of this agreement, a Joint Commission on Trade and Investment was created. In March 2006, the Commission agreed to create a Joint Experts Group (JEG) in order to explore ways and means of strengthening bilateral relations on trade and investment.

The Memorandum of Understanding for the establishment of the JEG, signed on the 6 November 2006, gives the group a mandate to identify and discuss all areas of the bilateral commercial relationship and possible instruments to improve economic cooperation. The JEG will produce a joint report with recommendations to be considered by ministers from Australia and Mexico.

- Agreement Between Australia and Mexico on Double Taxation and Prevention of Fiscal Evasion, signed in September 2002.

This agreement provides investors greater clarity and confidence in the investment environment.

- Memorandum of Understanding on Energy, signed in January 2005.

The MoU on Energy establishes a general framework for exchanging information on energy policies and market developments, collaboration on developing energy-related technologies, and facilitating trade and investment. The Australia-Mexico Joint Working Group on Cooperation in the Field of Energy has been established under the MoU. Its first meeting will be held next year.

- Memorandum of Understanding on Air Services, signed in March 2005.

This memorandum included a project of Agreement on Air Services. This agreement will lead to stronger business and tourism linkages. The airlines Mexicana and Qantas have now agreed to code-sharing flights.

- Investment Promotion and Protection Agreement, signed in August 2005.

The entry into force of this agreement is pending until the Australian government notifies of the completion of the legal procedures for ratification. This agreement will complement the existing agreement to prevent double taxation.

4. Natural Resources

Australia is an important supplier of minerals and energy worldwide and Mexico's demand for energy is growing in a greater proportion than its GDP. Therefore, bilateral cooperation in energy and minerals trade is one key sector in the Australia - Mexico bilateral relationship. Australian energy companies had built strong relations supplying energy and some energy-related services to Mexico's state run oil company, PEMEX and to the Mexican Federal Commission for Electricity (CFE).

Australian companies that have invested in the mining sector have discovered new opportunities for joint ventures. There are currently twelve mining projects in Mexico in which Australian companies have investments. These projects are mainly for the exploration of gold, silver and copper. The Australian companies that have engaged in these projects are BHP Billiton, Bolnisi Gold NL, Kings Minerals NL, Nickel Australia, Resource Trend and WMC Exploration.

MEXICO'S SHARE IN WORLD MINING PRODUCTION, 2004

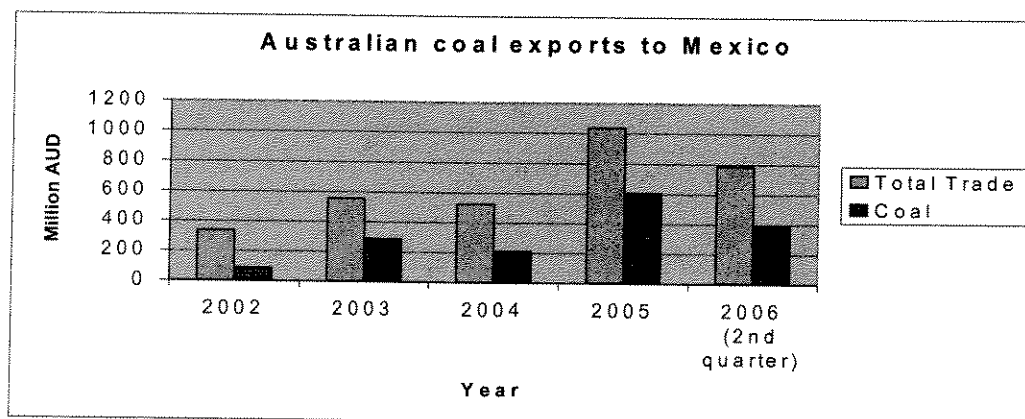
Rank	Mineral	% world production
1	Silver	15.7
2	Bismuth	26.6
2	Fluorite	16.8
2	Celestite	18.7
4	Wollastonite	4.9
4	Arsenic	5.0
4	Cadmium	9.3
11	Copper	2.8

Source: Mexican Mining Industry Report 2005

Coal

The main product that Australia exports to Mexico is coal. In 2005, this product amounted to 58.3% of total exports.

On 2005, the Australian companies Xstrata and Rio Tinto signed an agreement for further coal supplies to the Mexican Federal Commission for Electricity. This contract represents the most substantial negotiation between Mexico and Australia, with an amount of 668 million Australian dollars.



Source: Ministry of Economy of Mexico, 2006

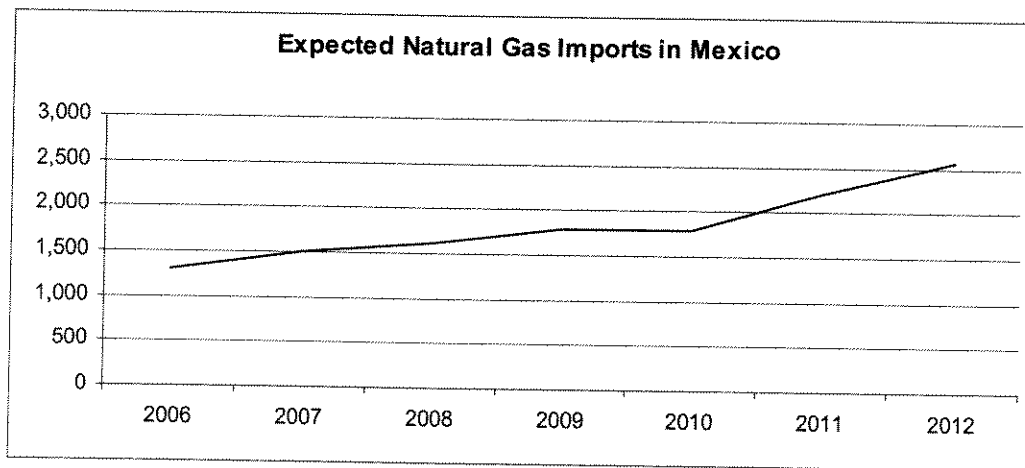
Natural gas

The Gorgon Project, constituted by the companies Chevron Texaco, Shell, and Exxon Mobil, will supply natural gas to the terminal located in Ensenada Baja California, beginning in 2010. An important part of the natural gas

exported to Mexico will come from the west coast of Australia. Once exported to Mexico, some part of this product will be re-exported to the United States and the rest will supply the northern part of Mexico.

Mexico ranks 7th in world crude oil proven production and 21st in natural gas proven reserves. Nevertheless, internal energy demand is growing very fast.

During the next six years, the highest increase in the demands of energy in Mexico will be in natural gas, which is a more efficient and clean alternative for the generation of electricity. According to official data, the demand of natural gas will increase at a rate of 7.6% per annum. Also, for the year 2012, 63% of electricity in Mexico will be generated using natural gas.



(billion cubic feet per day)

Source: Ministry for Energy of Mexico, 2005.

5. Agricultural Sector

The agricultural sector offers promising opportunities for strengthening trade.

Mexican agriculture produces a wide range of crops as a result of great variety of soil and climate conditions. Productivity varies substantially. In the irrigated and intensively farmed northwest, yields are twice and labour productivity three times the national average.

Australia is an attractive market for Mexican agricultural products. Mexico already exports a vast range of agricultural products to the United States, the European Union and Japan and can offer Australian consumers high quality products like mango, avocado and limes, in which Mexican producers may have seasonal and weather advantages.

At the same time, there is interest on the part of several Mexican states to increase imports of Australian sheep meat and live animals, which already make up an important part of exports to the country.

In order to move forward in this regard, it is important to resolve some outstanding issues regarding sanitary controls in agricultural products and livestock and non-tariff barriers that need to be addressed in order to facilitate and promote greater bilateral trade flows in these products.

During the fifth meeting of the Joint Trade and Investment Commission, Australia and Mexico agreed to create a technical group to follow up the negotiations on sanitary certifications that would allow a greater amount of exports of agricultural products to Australia. This group would be integrated by officials from the Australian Department of Agriculture, Fisheries and Forestry and by officials from the Mexican Ministry for Agriculture, Livestock, Rural Development, Fisheries and Food.

Nevertheless, the first meeting of the technical group is still pending. The work of this joint group is expected to achieve results in the certification of Mexico as a zone free of fruit-fly, the classification of Mexico in the "Category A" as free of Bovine Spongiform Encephalopathy, and the certification of Mexico as a zone free of classic pig fever.

The northern states of Mexico are interested in exploring the Australian market for exporting high quality fresh fruits, such as plums, melon, watermelon, grapes and citric products. As competitive suppliers of these goods worldwide, Mexican exporters are eager to diversify their exportations and to found further opportunities for trade in different markets.

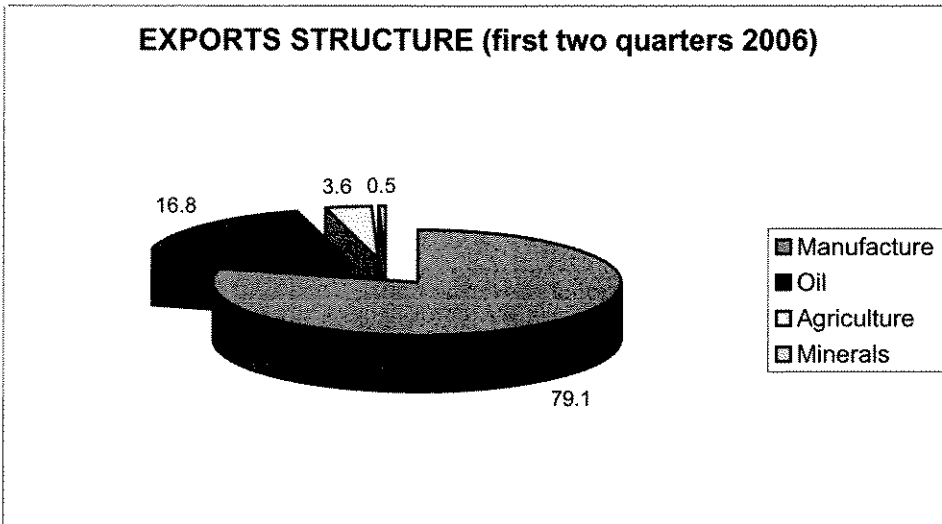
The Mexican Ministry for Agriculture has sent the latest technical report on the Mexican Hass Avocado, requesting a risk analysis to be conducted by the relevant authorities in Australia. This is an example of an opportunity to increase bilateral trade that has yet to be addressed by the authorities and supported by governmental cooperation.

6. Manufacturing Sector

Mexican industry is amongst the most developed in Latin America. Multinational corporations have invested heavily in modern facilities producing motor vehicles, electrical and electronic equipment, and aeronautical manufactures. Major industrial plants in Mexico also include petroleum, refineries, foundries, meat-packing plants, paper mills, cotton mills, tobacco-processing plants, and sugar refineries. Other important plants in Mexico produce clothing, fertilizers, chemicals, cement, glass, pottery and leather goods. Mexico's overall manufacturing output increased at an average rate of 4.2% annually from 1990 to 2004.

Manufacturing accounts for nearly one-fifth of Mexico's GDP and for about three quarters of exports. It can be say that the manufacturing sector is the mainstay of the Mexican economy.

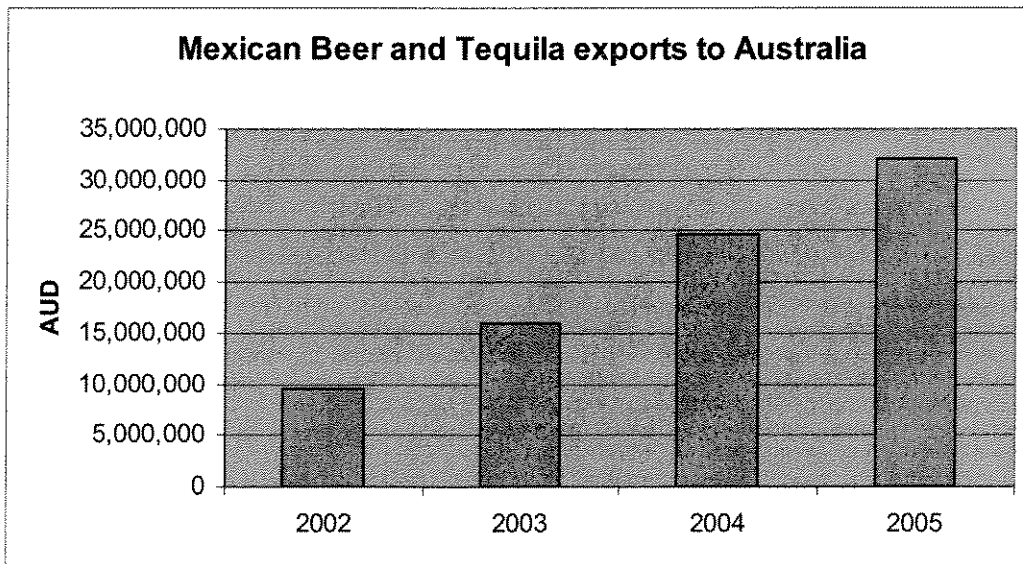
Mexico has already proven to be a world-class automotive manufacturer (the ninth largest in the world) with manufacturers like Japanese Toyota, Chevrolet, General Motors, Saab and Fiat established in the country. Plenty of small and medium enterprises (SME) have successfully developed alongside the larger vehicle-manufacturing base. Australia has a massive vehicle parts industry that could be tapped into by SME automotive manufacturers in Mexico.



Source: Instituto Nacional de Estadística Geografía e Informática (INEGI)

7. Food and Beverages

The sector of beverages has been an important component of bilateral trade in the last years. Exports of beer and tequila to Australia have been increasing constantly, and nowadays this sector represents 11% of the Mexican exports to Australia.



Source: Mexican Ministry of Economy, 2006

The Mexican Government is committed to promoting the good quality of products that have Mexican certificates of origin, as is the case of tequila. Therefore, it would be convenient to explore further means of collaborating in the recognition by Australia of this appellation of origin. The Embassy of Mexico in Australia has received manifestations of concern from distributors and consumers of tequila regarding beverages of dubious quality being sold in Australia under the name of "Tequila".

There is a great potential to increase bilateral trade in the beverages sector. Mexican consumers are diversifying their preferences for wine. The Australian wine industry is steadily gaining a share of the Mexican market and this sector offers good opportunities for further cooperation.

There is great interest in Mexico for exploring new ways to approach the markets of Asia-Pacific region in order to increase exports of the so-called "traditional goods", such as meat, fruit and fresh vegetables. Nevertheless, Mexican producers are also interested in the marketing of processed foods with high added value. In this regard, they are re-focusing production processes in order to increase the life of the products, their freshness and their ability to access more consumers.

In recent years, Mexican exports of food and beverage to the Asia-Pacific region have grown at an average annual rate of 17%. The Mexican Bank for Foreign Trade has considered that the Asia-Pacific region will be the most important market destination for these products in the next years. Australia is one of the highest income-per capita countries in the region.

In this area, there is potential for strategic alliances between small firms and leading businesses in the domestic and international markets. There are currently negotiations for joint ventures between Australian and Mexican agricultural producers, particularly in mangoes. Complementarity between Australia and Mexico exists not only in seasonal terms, but also in terms of trade markets and climatic conditions.

Almost all the Mexican territory offers interesting products for investment in food and beverages. The Mexican Bank for Foreign Trade has identified opportunities for foreign investors in the establishment of new processing plants, in the improvement of production processes through new technology, and in the marketing and commercialisation of new products such as Mexican frozen canned or dried food, sauces, organic dairy products, organic spices, goat's cheese, processed and frozen nopal and Aloe Vera, processed and frozen avocado, frozen and dried chillies and honey.

Mexican State Governments are also committed to promoting foreign direct investment in order to increase the competitiveness of the Mexican products in the international market.

8. Education, Science and Technology

Economic issues only represent one aspect of the overall relationship between Mexico and Australia. In the educational field, the number of Mexican students enrolled in Australian universities is growing strongly. There are currently about thirty cooperation agreements between Mexican and Australian institutions of higher education as a result of which more than 1,200 Mexican nationals are studying in this country. Mexican students are one of the fastest growing groups in New South Wales, Victoria and Queensland.

In 2003 Mexico and Australia signed a Memorandum of Understanding on Cooperation in the Field of Education and Training. Additionally, Mexico has played a very important role in the Peace Scholarship Program, which provides opportunities for Mexican nationals to study in Australia for one or two semesters. Additionally, the program of scholarships *SEP Vanguardia* allows Mexican students to improve their language skills, receive training in leadership and conduct internships in Australian institutions. These programs have promoted the interaction of diverse cultures through international education opportunities and improve cross-cultural understanding.

In 1981 Australia and Mexico signed the Basic Agreement on Scientific and Technological Cooperation in order to strengthen the bilateral relation in this field. According to the agreement, a Joint Commission shall meet every two years alternatively in each country to discuss the program for bilateral cooperation in science and technology. However, the last meeting of the Joint Commission was held in Mexico City in 2000.

Both countries have expressed their interest in reactivating the scientific and technological cooperation through the exchange of scientific and technical information, the reciprocal visits of scientist, the participation in seminars and the implementation of joint projects of research.

Some of the fields identified for possible cooperation include: innovative systems for agriculture; biodiversity, ecosystems and sustainable development; animal biosecurity; and exploration and mining.

The area of innovative systems for agriculture includes investigation and development in new pesticides and new phytosanitary standards for international trade. It also includes production processes for agricultural products such as the sugar cane and coconut, as well as the use of its related products.

The Mexican territory comprises several kinds of ecosystems. Currently the Mexican Ministry for Natural Resources is carrying on many programs on biodiversity conservation. More than 160 areas are now protected and are kept as maritime, animal of forestry reserves. CSIRO has an entomology research centre in Veracruz, Mexico, which has contributed to the conservation of Australian ecosystems.

The livestock sector is also an important part of Mexico's current policies on investigation and technology development. In this regard, the Mexican Ministry for Agriculture and the Mexican Confederation on Breeding and Livestock are constantly searching for more innovative production systems and investigations concerning animal health.

Exploration and mining are considered areas where bilateral cooperation can be enhanced. In 2003, Mexico held the first Seminar on Technical Mining in Acapulco, organised within the Memorandum of Understanding in Mining

signed in 2001 between the Mexican Ministry for Economy and the Australian Ministry for Industry, Resources and Tourism.

Australia is increasing its participation in the Mexican mining sector. On the other hand, Mexico is interested in technology development and research related to this industry.

One example of successful bilateral technological cooperation refers to the production of polymer banking notes. In March 2002 Mexico became the first nation in the American continent to acquire the Australian technology to produce polymer currency, and in 2006 it has started printing 50 pesos notes in addition to the initial production of 20 pesos notes.

9. Tourism

Tourism is an important sector in Mexico's economy. In 2005 Mexico became the 7th most visited country in the world, receiving 22 million international tourists. The tourist sector contributes to 7.7% of Mexico's GDP and to 5.3% of total employment.

Mexico offers a fantastic variety of things to discover. The excitement of sports and adventure, the beauty of its beaches, the mystery of archaeological sites and national parks, the enchantment of colonial cities, the joy of festivals and traditions and a world-class cuisine and arts.

In 2005 almost 22,000 Australians visited Mexico; an increase of 91% compared to 2004. The tourist flow is expected to expand with the signature of the bilateral agreement on air services.

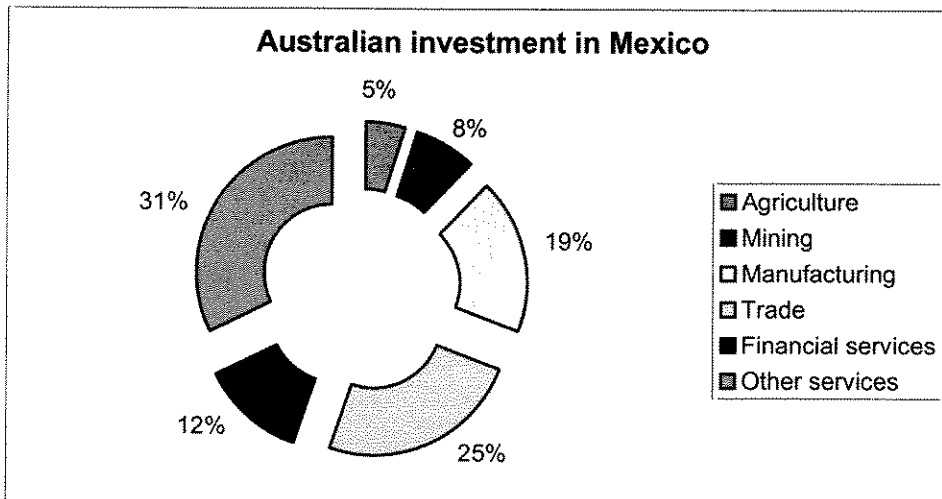
The tourist industry in Mexico offers an attractive opportunity for foreign direct investment and joint ventures.

10. Australian Investment In Mexico

The flow of capital between Australia and Mexico is still negligible and could be substantially increased.

Mexico offers an attractive combination of low risk and high return on investment, with legal certainty, clear rules of operation, macroeconomic and political stability and democratic governance. These elements are combined with a growing internal demand, access to competitively priced products and low-cost services.

Australian investment in Mexico from 1994 to 2005 amounted to merely 97 million Australian dollars. Australia is only Mexico's seventh investment partner from the Asian Pacific countries. The Ministry of Economy has identified 69 Australian companies that have current investments in Mexico. These companies are established mostly in the services sector (32 companies), trade sector (17 companies) manufacturing industry (12), mining and agriculture sector (8).



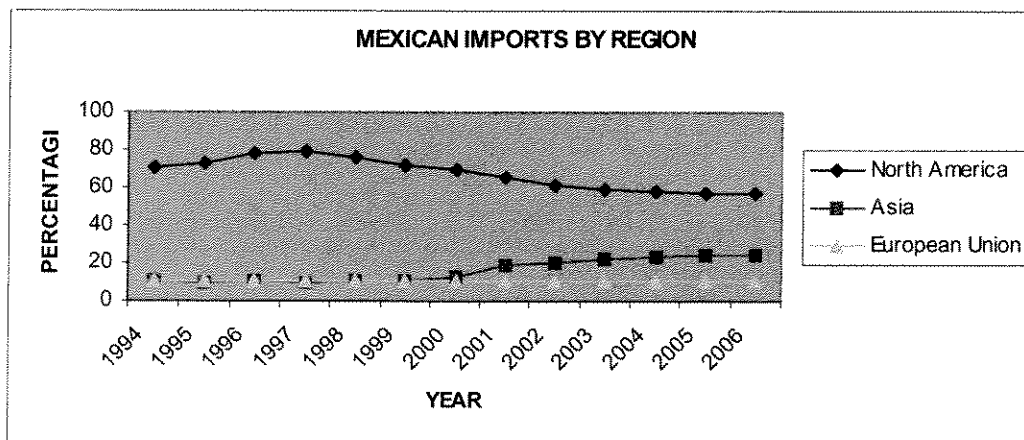
Source: Mexican Ministry of Economy, 2006

Mexican investment in Australia is located mainly in real state. The most important transaction registered is an investment of approximately 20 million Australian dollars for the acquisition of a food processing plant in Victoria by a Mexican company, concluded in January of 2006.

The entry into force of the Investment Promotion and Protection Agreement will provide a solid legal framework to facilitate and increase bilateral investment flows.

V. FINAL REMARKS

Mexico is working to diversify its relations with other countries and regions. The Asia-Pacific region is the world's most dynamic region in economic terms and requires special attention. Imports from the Asia-Pacific region are becoming a demanded supply for manufactures that are exported to the free trade regions. The percentage of imports into Mexico from Asian countries has been substantially increasing in recent years.



Source: Ministry of Economy, 2006

At the same time, China has become Mexico's main competitor in its primary export market, the United States, replacing Mexico as its second largest trading partner in 2004. China is also its main competitor for foreign investment, as the competitive advantages gained through NAFTA have gradually been overtaken by China's own competitiveness, dramatically affecting traditional Mexican industries. The country is currently immersed in a dynamic and innovative engagement process with China that seeks to develop the relationship from a strategic and long-term perspective.

Japan has long been an important trading and investment partner for Mexico. The development of a deeper relationship with the world's second largest economy is also a necessity. Mexico rose to the challenge and negotiated a comprehensive Economic Partnership Agreement that entered into force in April 2004. The agreement goes beyond the traditional components of a Free Trade Agreement to include capacity-building cooperation in various fields. It is Japan's second FTA, after the one that it negotiated with Singapore.

In South Asia, Mexico has strengthened links with India, both because of its geopolitical importance and the increasing dynamism of its economy, especially in the field of information technologies. In South East Asia, it has also strengthened exchanges with the ASEAN nations, in terms of political dialogue and economic relations.

APEC continues to be a key point of contact for Mexico's interaction with the region, including Australia, especially as it assumes a greater role on political and security issues.

Mexico and Australia specialize in different sectors of production and exports; therefore increasing trade will benefit both countries. Australia's growing domestic economy and high income make it a potentially important market for Mexican manufactures and high value added export products.

The spectacular increase in bilateral trade in recent years demonstrates the considerable economic complementarities between both countries. It is important to realize its full potential and benefit from the size and relevance of both domestic markets and the additional strategic benefit of Australia's position as a gateway to Asia and Mexico's trading links with North American and Latin American markets.