



# **The Exporting Maquila and Manufacturing Industry**

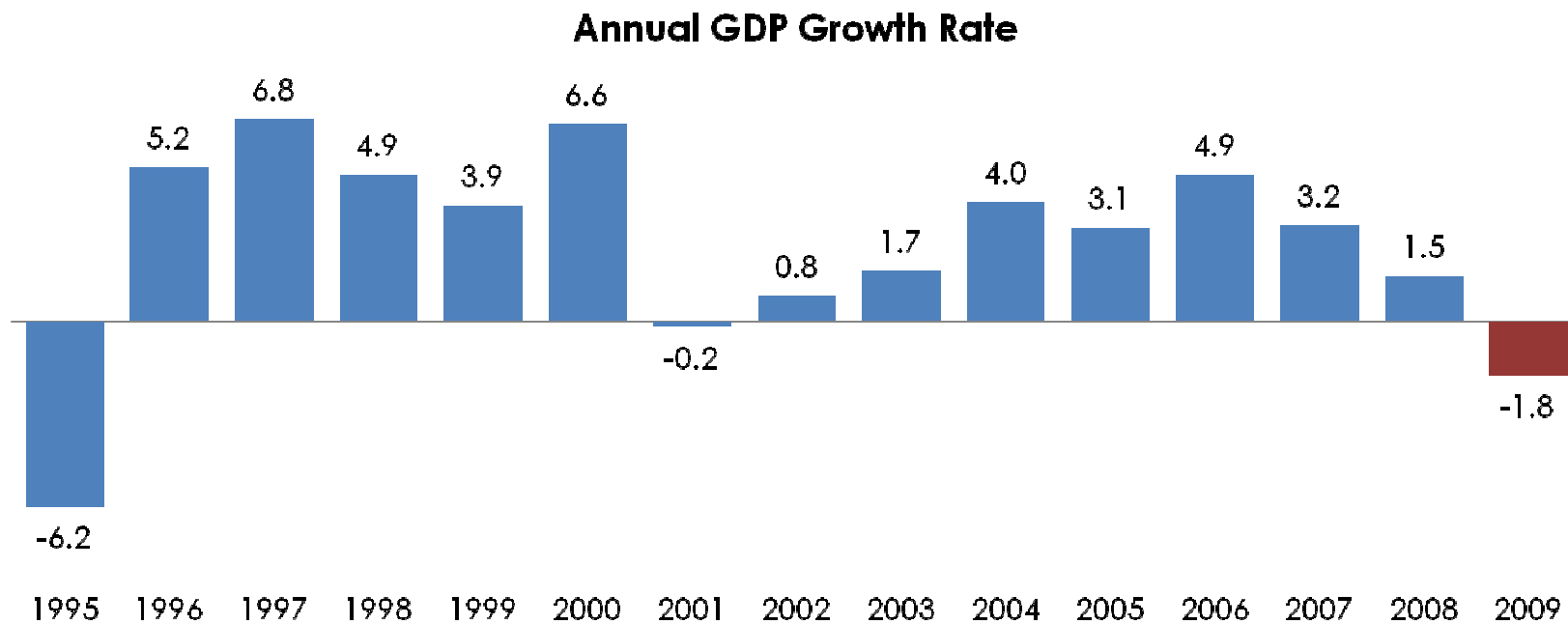
*Perspectives- Achievements - Agenda*

*March 2009*

# Perspectives for 2009



The world crisis will impact the Mexican economy in 2009. Economic analysts expect a fall between 0.5 and 1.8 %.

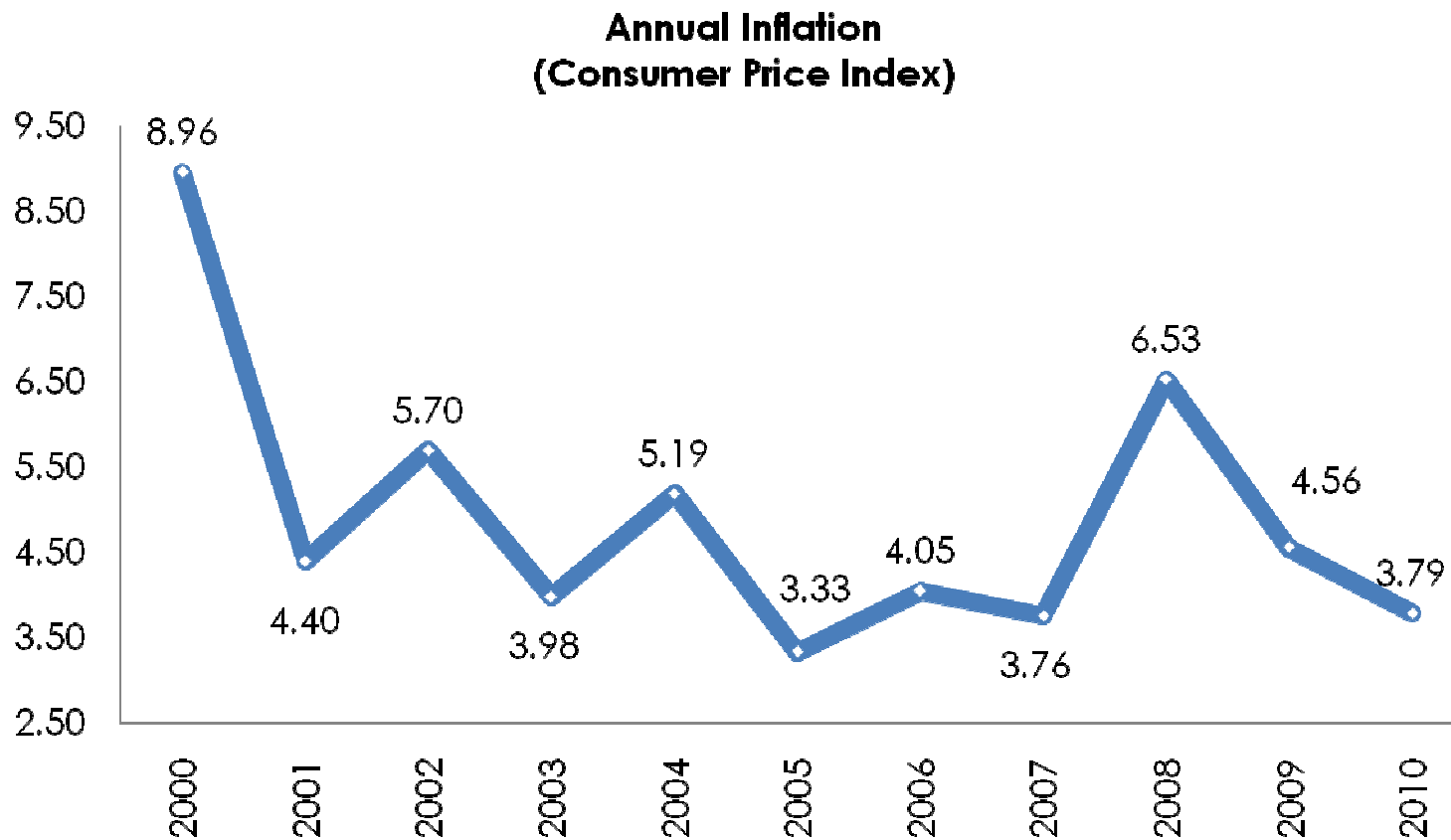


Source: CNIMME with INEGI and Banco de México data

# Inflation Perspectives



In 2008 general inflation generally posted a significant recovery. Economic recession, however, will drive decreased pricing given a lower consumption over the next few years.

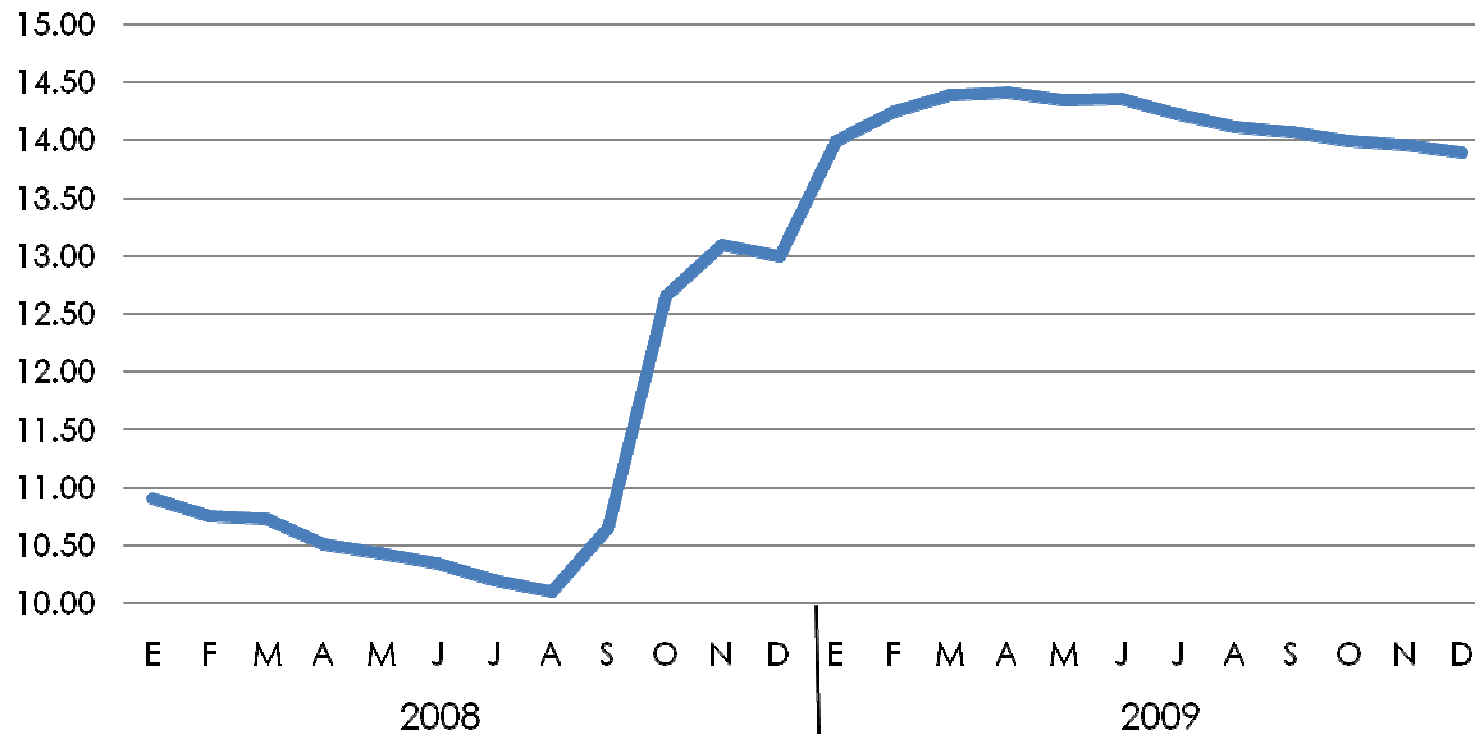


Source: CNIMME with information of Banco de México

# The exchange rate will not go back to the levels it held before the crisis



Exchange rate Pesos for Dollar

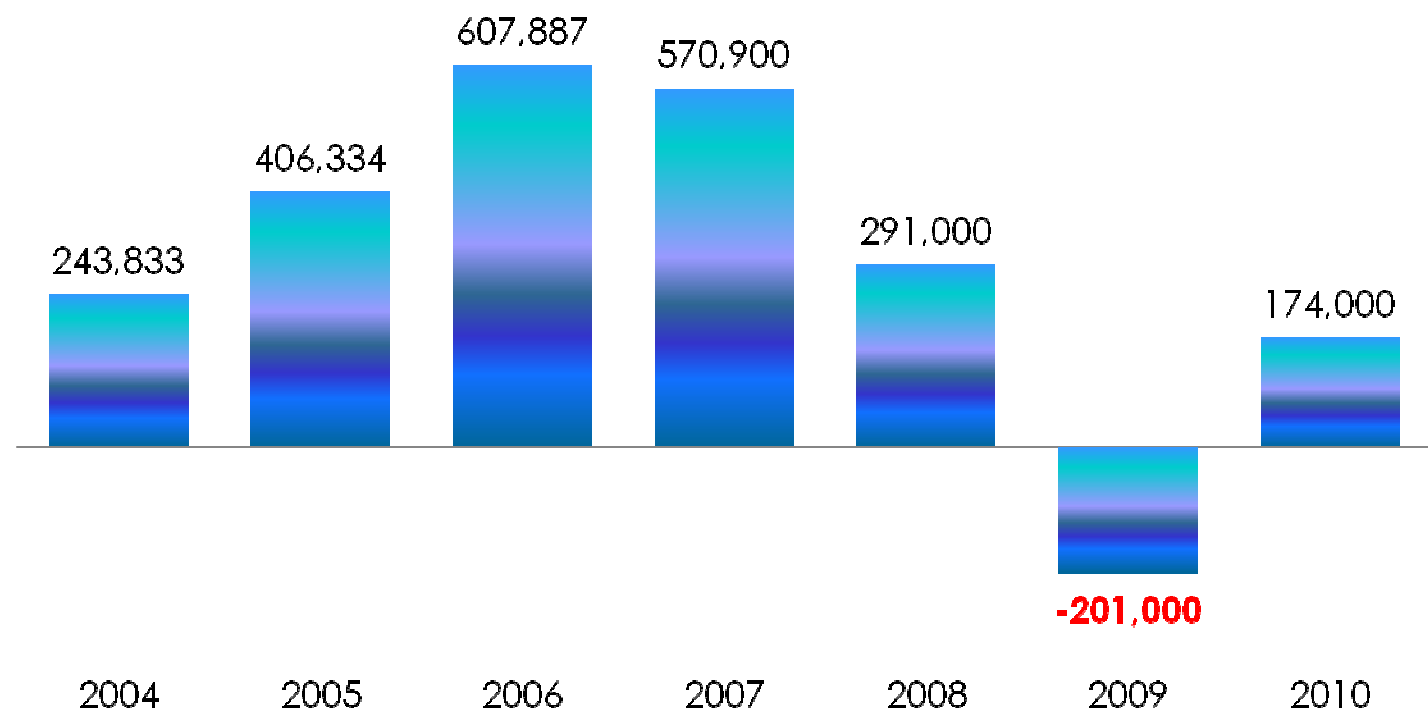


Source: CNIMME with information of ScotiaBank

# Fewer jobs will be created in 2009

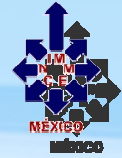


### Formal jobs created annually

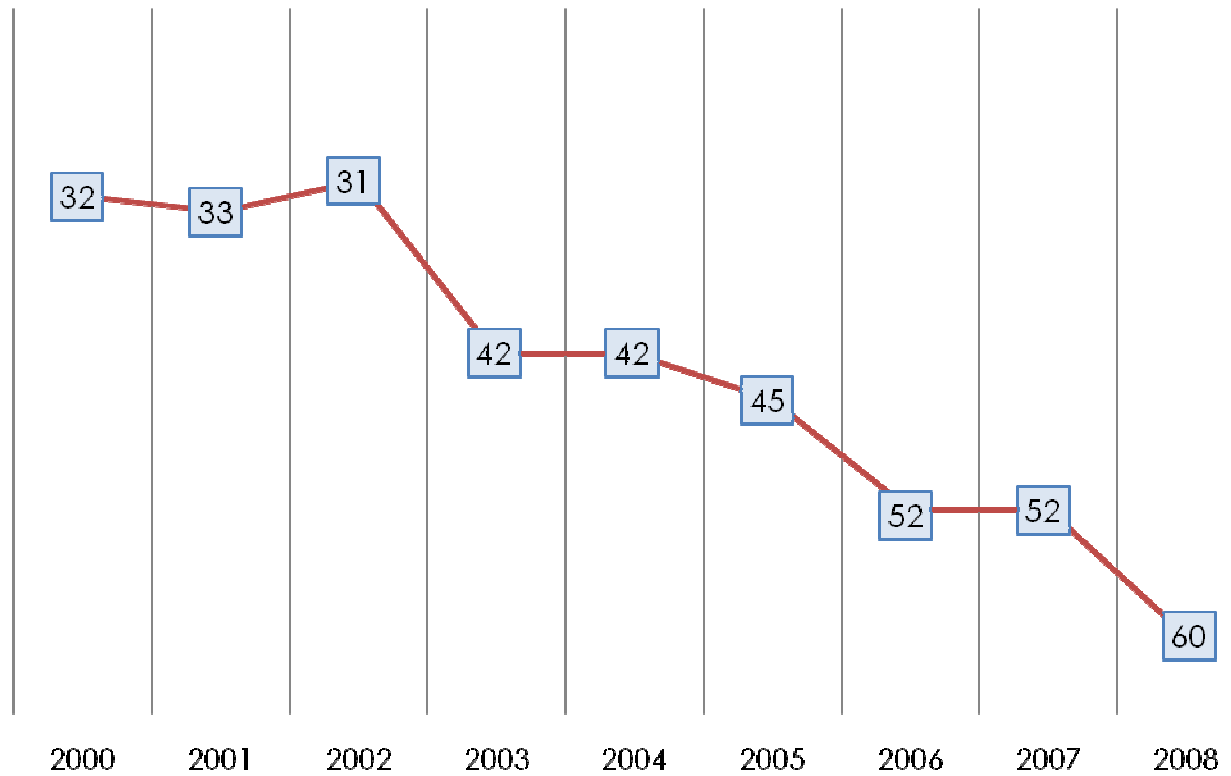


Source: CNIMME with information from STPS and Bank of Mexico for 2009 and 2010 analyst expectations (Jan. 2008)

# Mexico loses competitiveness



Evolution of Mexico in the Global Competitiveness Report  
(among 131 countries)



Source: CNIMME with information from World Economic Forum

# Mexico in the Global Competitiveness Index



## MEXICO IN THE 2008-2009 GLOBAL COMPETITIVENESS REPORT

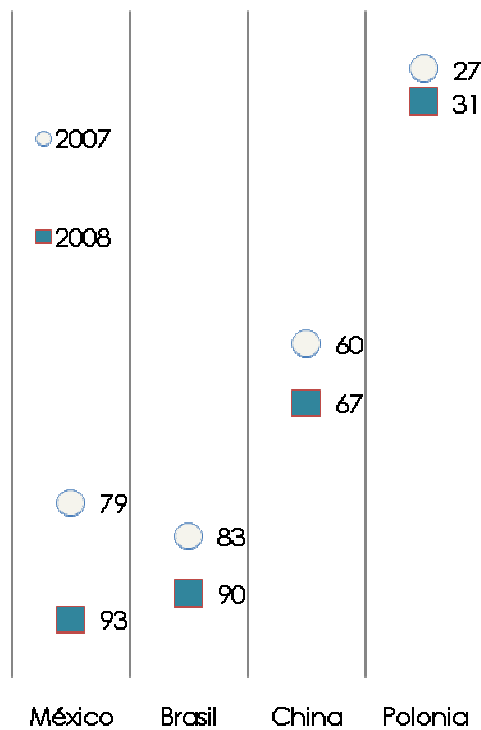
	Ranking among 134 economies	Rating (Above 7)
<b>Basic Requirements</b>	<b>60</b>	4.5
1st. Pillar: Institutions	97	3.5
2nd. pillar: Infrastructure	68	3.5
3rd. pillar: Macroeconomic Stability	48	5.3
4th. pillar: Health and basic education	65	5.6
<b>Efficiency Improvers</b>	<b>55</b>	4.2
5th. pillar: Higher Education and training	74	3.8
6th. pillar: Efficiency in the Product Market	73	4.1
7th. pillar: Efficiency in the Labor Market	110	4.0
8th. pillar: Sophistication of the financial market	66	4.3
9th. pillar: Technology training	71	3.2
10th. pillar: Market Size	11	5.5
<b>Innovation Factors</b>	<b>70</b>	3.6
11th. pillar: Sophistication in business	58	4.2
12th. Innovation	90	2.9
Source: 2008-2009 Global Competitiveness Report, World Economic Forum.		

# World Peace Index



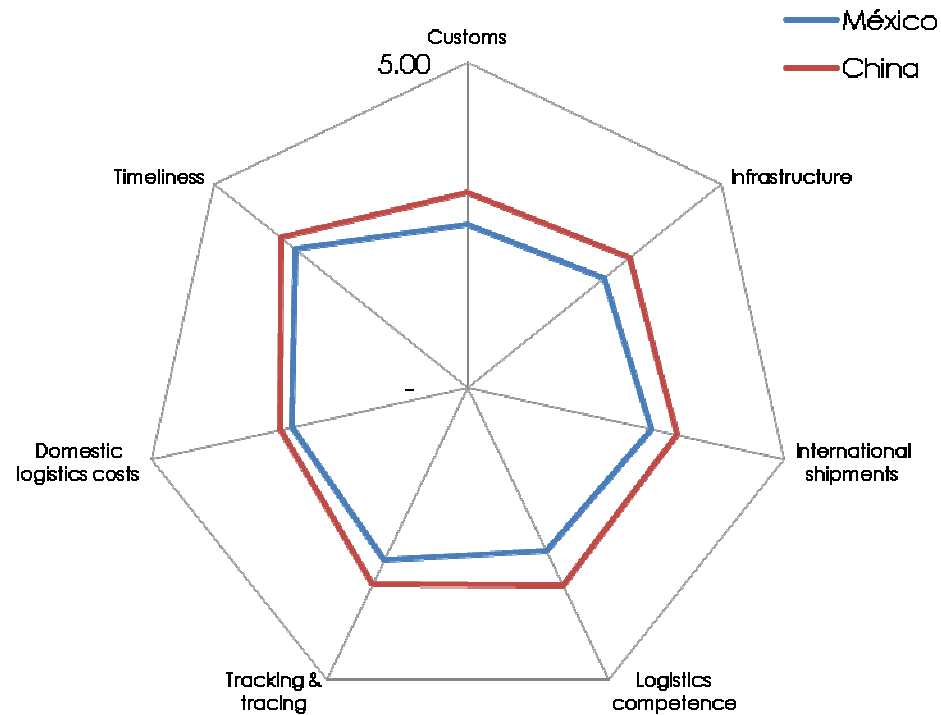
In the Global Peace Index prepared by the *Vision of Humanity* group, Mexico slid down 7 places. Mexico ranks 14th regionally and is considered among the middle level countries.

**Positions in the 2007-2008  
World Peace Index**



Source: CNIMME with information from Vision of Humanity

# Poor logistic performance compared to China



	Mexico	China	Singapore
<b>General Logistic Performance Index (LPI)</b>	56	30	1
<b>Customs</b>	63	35	3
<b>Infrastructure</b>	53	30	2
<b>International shipments</b>	54	28	2
<b>Logistic Competence</b>	57	27	2
<b>Tracking and tracing</b>	48	31	1
<b>Domestic logistic Costs</b>	101	72	113
<b>Timeliness</b>	51	36	1

Source: CNIMME with information from the World Bank

# Mexico and Education

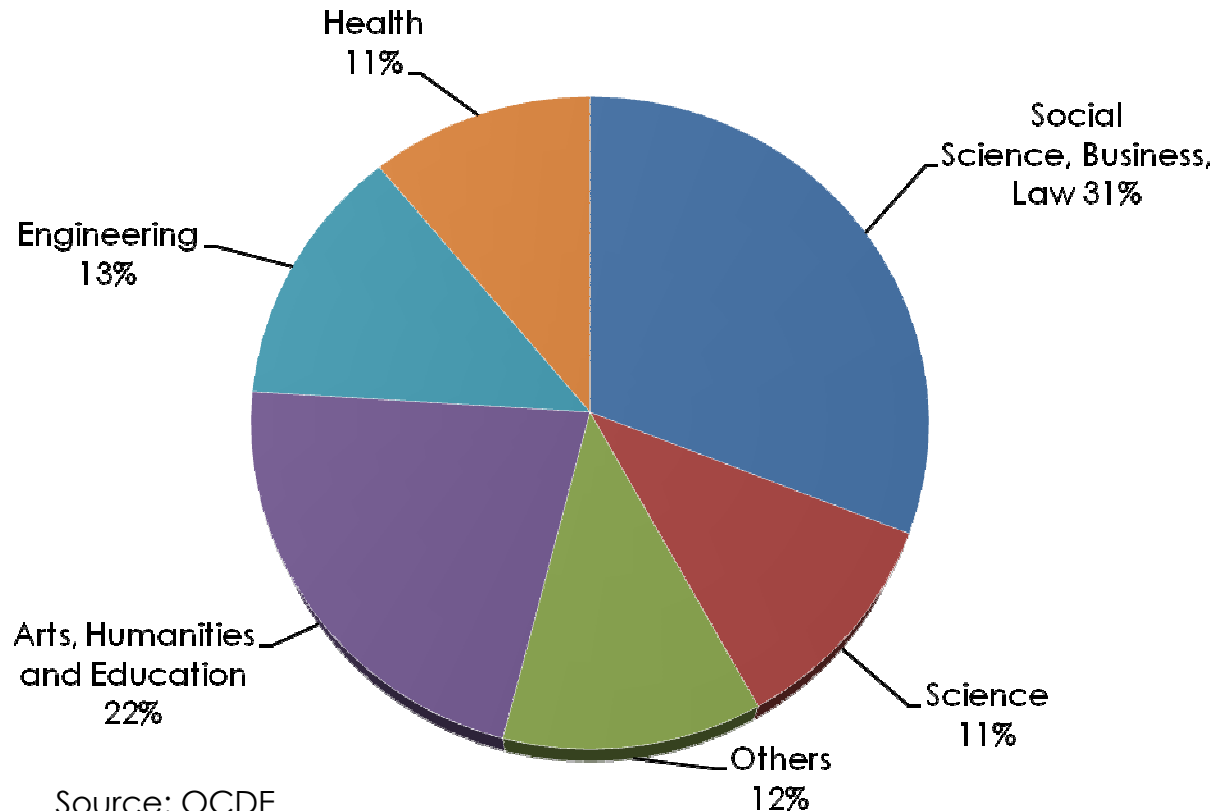


Scarce talent results in company reduced productivity: Mexico is far from associating the production sector to education



Solution: Identify production areas with the greatest progress and encourage youngsters to get the skills to perform in those areas.

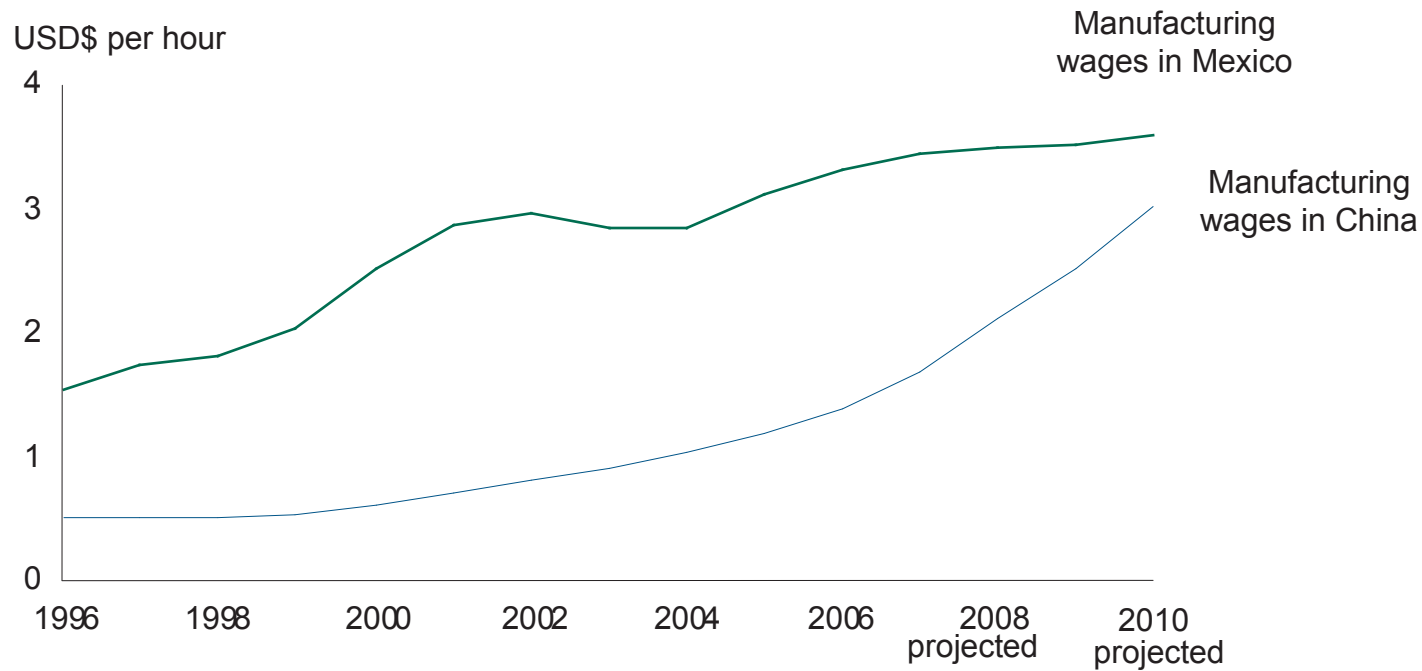
**Matrícula por Área**



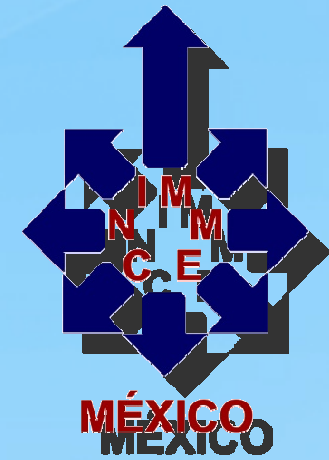
# China is losing vis-a-vis Mexico



Due to effects of peso devaluation vs. dollar, labor costs become more attractive in Mexico. It might be time to redirect projects to Mexico.



Source: Boston Consulting Group(2008) with information from The Economist Intelligence Unit



# IMMEX Challenges and Oppotunities

# IMMEX Challenges & opportunities



## External Threats

- World depression restricting loan markets and consumption
- Protectionism - countries are tempted to restrict consumption of domestic products
- Economic recession in USA, Japan and Europe together represent 70% of world economy, and will have negative growth in 2009.
- 65% of maquila companies are American
- \* Projected inflation in Mexico in jeopardy due to pressure on the exchange rate
- Growing world competition for markets: Poland, Hungary, Brazil, El Salvador, Costa Rica, and Honduras.
  
- Less attractive to Direct Foreign Investments given low competitiveness.

## Areas of Opportunity

- China has increasing labor costs, with pressing for environmental care and quality standards.
  
- The "Buy American" could mean "buy NAFTA's product."
  
- Asian maquila model in problems
  - Low world demand
  - Distance to final market reduces utility margins if combined with low demand
  
- This will allow for new investment projects and/or expanding already existing processes.

# IMMEX Challenges & opportunities



## Internal Threats

- A 6.53% inflation rate accumulated in 2008: dilutes wage adjustments.
- Costs of Electric Power: Increases ranging from 18.3% to 33.10%.
- October 2003 Tax Decree: authorities view about accumulated income and partial payments
- Tax burden IETU 2009... Tax rules every year... every six years.
- Insecurity at the border of people and goods in addition to seeded smuggling
- Tariff tax reliefs for final products assembled in Mexico.
- Bigger cost-country in logistics
- Deficit in technical personnel - bilingual.

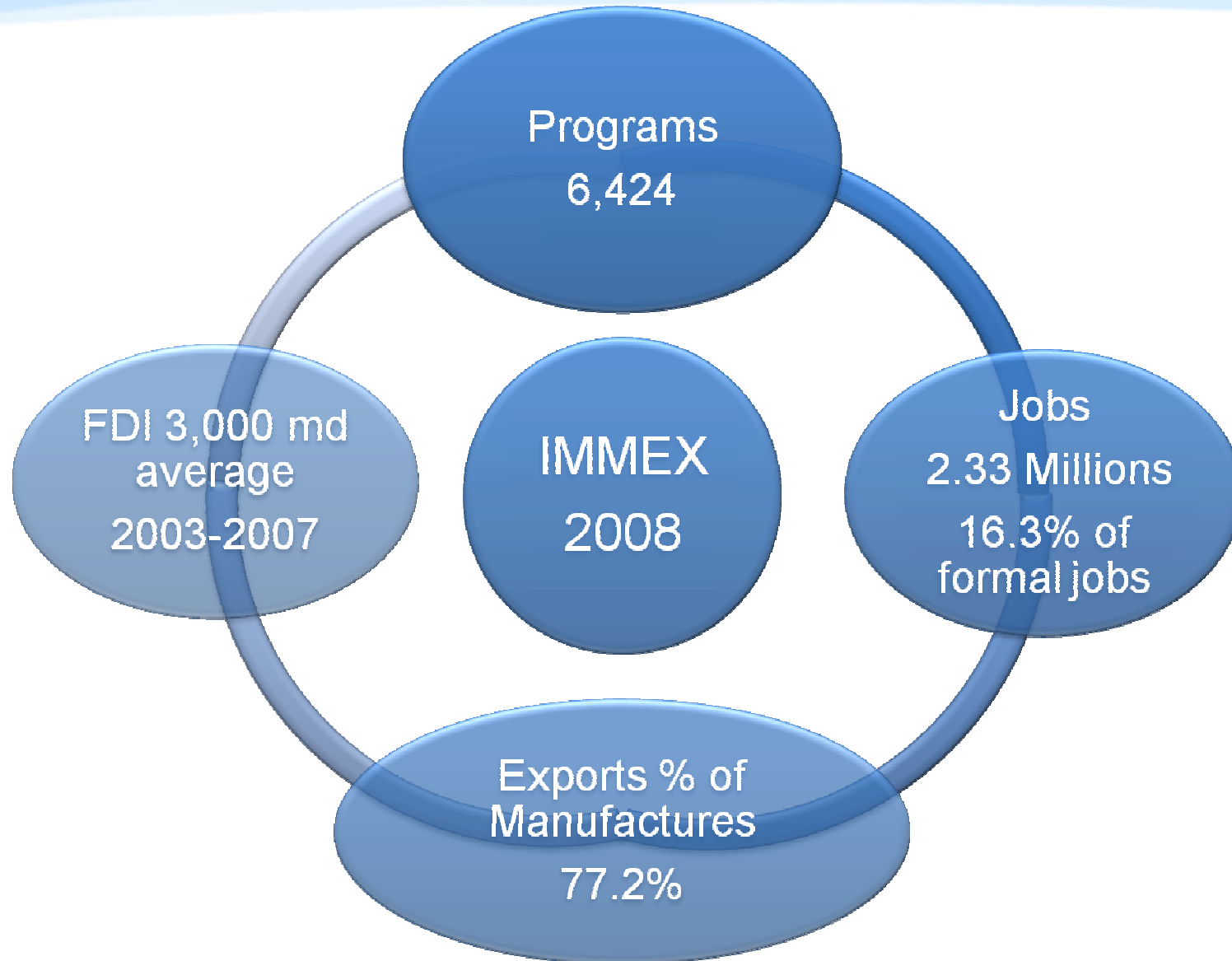
## Areas of Opportunity

- Peso depreciation: February 2009 about 47%
- Mexican exports may become more attractive for Europe given the euro-peso exchange rate
- China could lead world economic recovery (investment opportunity for Mexico).
- About the IETU tax, extending the term beyond 2011 as a response to investments announced by different companies and sectors
- To take advantage of opportunities for 3R process.
- Matching the certified company /MOCEIMME program to US programs.
- Create NAFTA Customs Alliances by sectors / products



## IMMEX Economic Significance

# The muscle of the IMMEX sector in Mexico



# Foreign Trade



## IMMEX FOREIGN TRADE

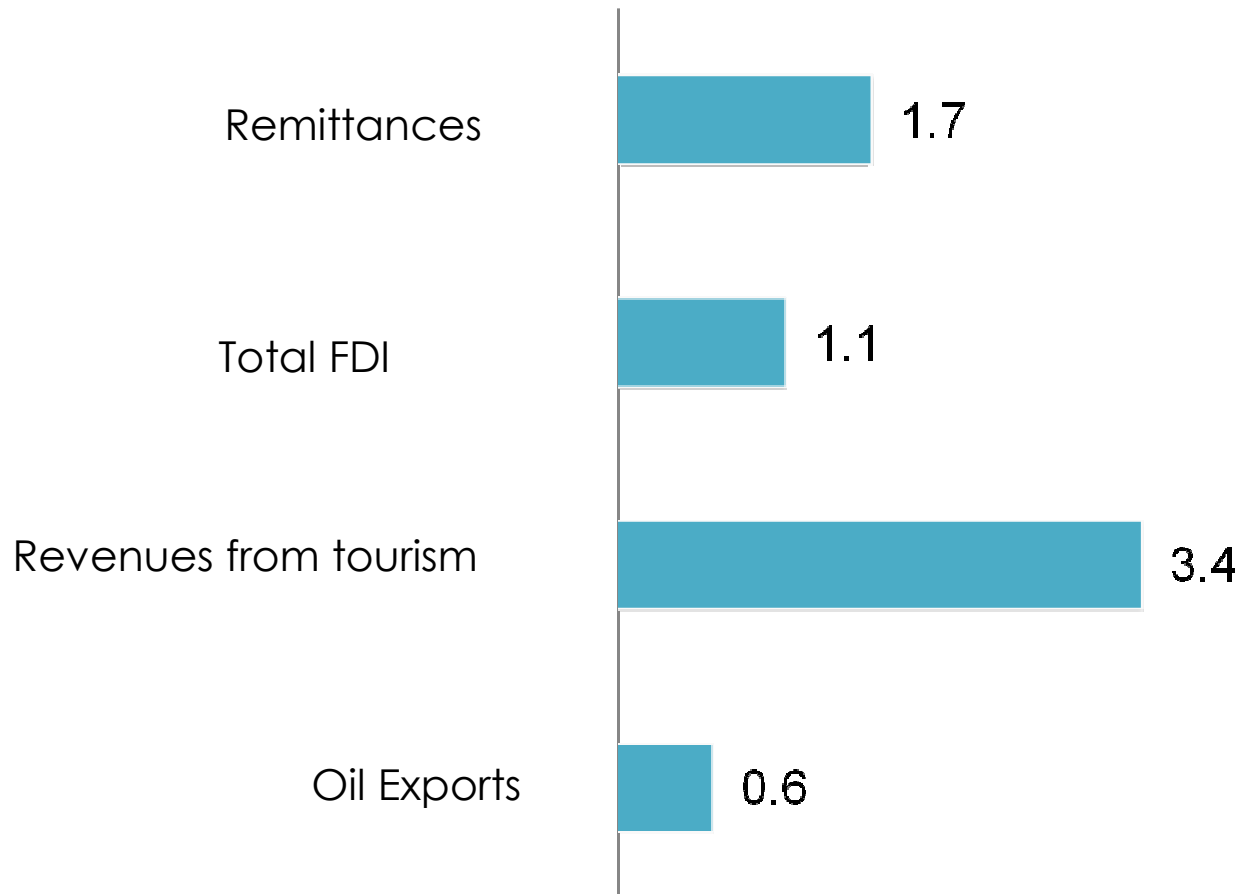


January-December  
Source: CNIMME with information from SHCP-AGA

# IMMEX Trade

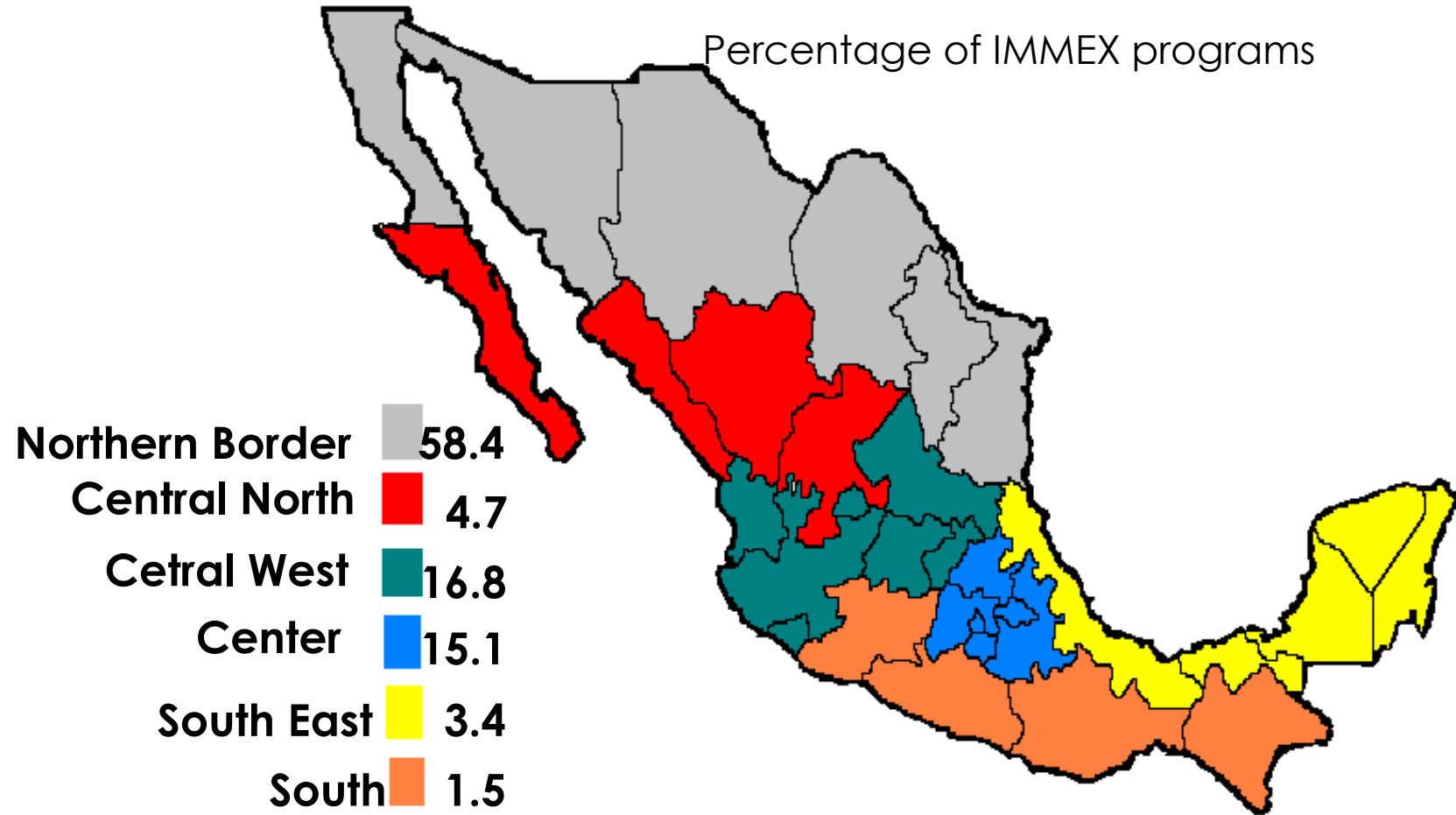


**In 2008 the IMMEX Balance is ... times**

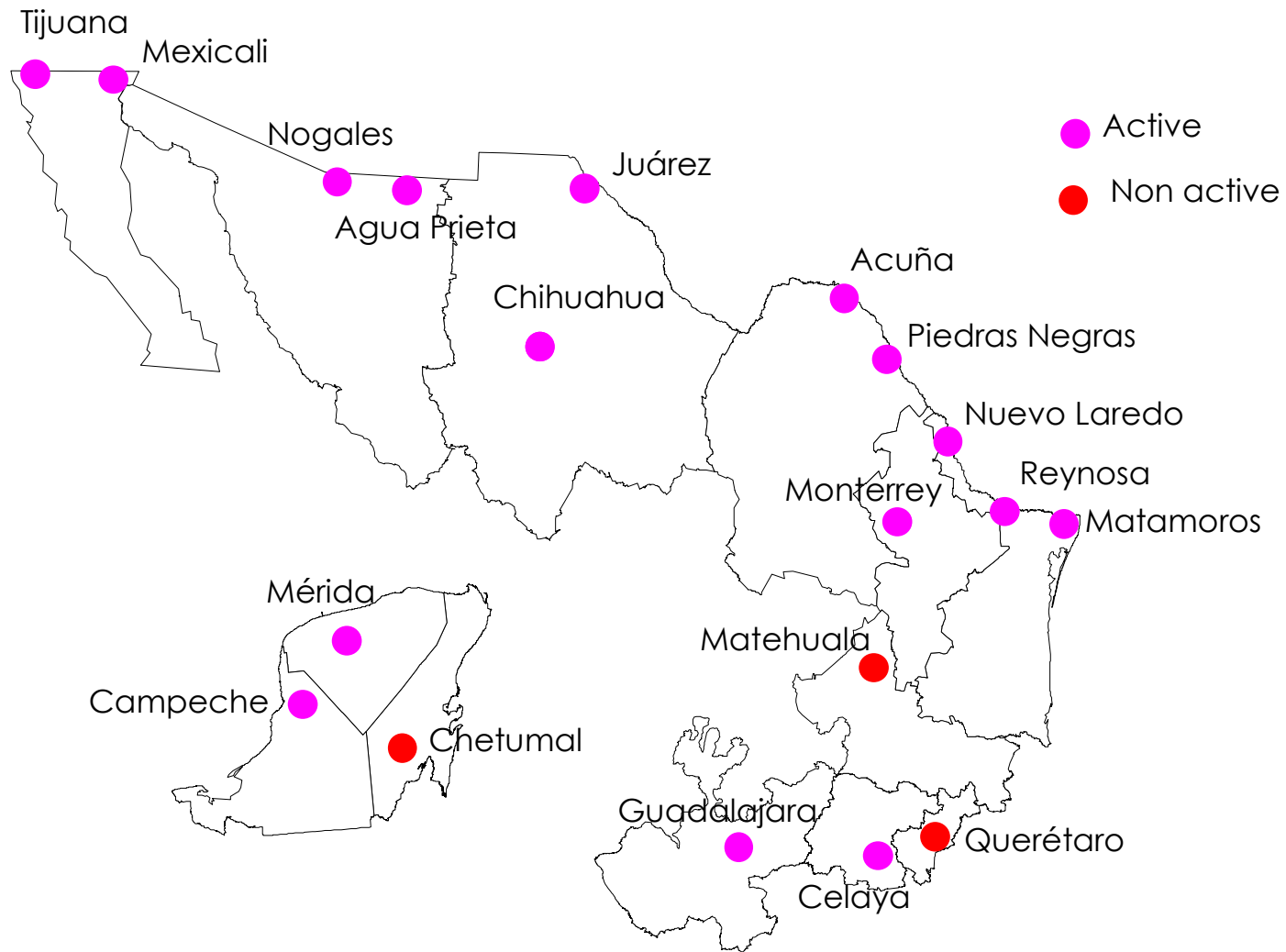


Source: CNIMME with information from INEGI y SHCP

# Regional IMMEX Display



# Associations making CNIMME





# Achievements and benefits made by CNIMME

# Lobbying Achievements

## Taxes

- Non permanent establishment by modifying Article 2nd in 2003
- Non compulsory requirement of Particular Resolution (APA) and lower profit margins in 2003, through reductions
- Income tax benefit Decree (2003)
- Exemption of tax assets until 2007 payable on property of residents abroad thus preventing dual taxation
- Deductible labor expense vs IETU (flat tax)
- IETU flat tax Decree with specific benefits for the maquiladora

### Benefits

- An average savings of no less than 40% of the tax being paid
- Preserving at least the income tax net rates achieved in 2003 which had been decreased by 50% the income Tax
- Net savings counted in millions of dollars

## Foreign Trade

- Consolidated application for an import permit
- DTA for temporary imports
- Certified Company
- MOCEIMME ... eliminate operating costs not adding value
- Pre-validation
- PROSEC Decree % Rule 8th
- Hand carry interior airports
- Fast customs dispatch
- Improve the IMMEX Decree

### Benefits

- Less restrictions applying Prosec on more operations
- Paying less DTA & Import taxes
- Spend lower operating costs
- Over 1,000 companies have requested the Certified Company Registry.
- Customs clearance with electronic notices instead of invoices or applications using a bar code.
- Prosec reduces the tariff impact of Art 303 of NAFTA

# Lobbying Achievements

## Customs

- Applying the 0% Rate and/or VAT exemption in transfers between exporting maquila and manufacturing companies.
- Extensions were granted to implement Validations through SAAI over SICEX programs.
- Statement of Temporary Value of goods without the need for providing the statement on values (Rule 2.11.5),
- Exceptions to Annex 21 (Restricted Customhouses, Rule 2.12.1),
- Amending the terms to submit virtual applications for import permits (individual and consolidated Rules 5.2.6 y 5.2.8).

## Supplier Development

- CNIMME became a Productive Articulation Center (CAP) to participate with the Secretariat of the Economy in the interest of maquila companies to develop and/or migrate suppliers to Mexican territory through their individual growth or with strategic alliances.
- The CAP program was implemented involving local maquila Associations and corporate offices of companies abroad.

# Lobbying Achievements

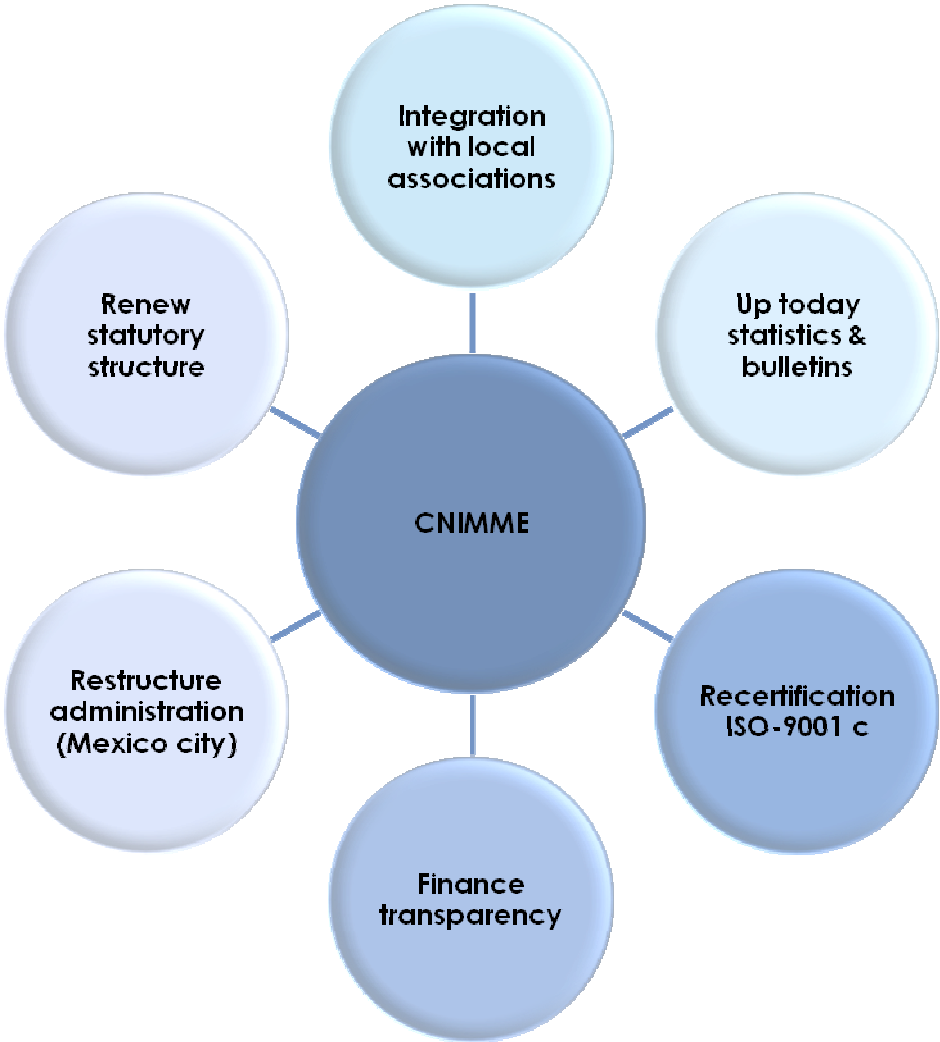
## Labor & Social Security

- CNIMME was able to enter an agreement with IMSS whereby workers living and being paid abroad are not required to register on a mandatory basis
- An agreement with INFONAVIT was entered to correct deductions on housing loans when wage decreases occur or jobs are lost on a temporary basis as this directly affects over 3,500 workers. In other words, payments by workers are set proportionately to their wages and not on a fixed rate basis.
- Tertiary level clinics with IMSS specialties in various cities where the demand was identified were negotiated and approved.
- Agreement to Improve Labor Conditions of women in the Maquila industry resulting in the first of its kind entered by a business organization in Mexico.

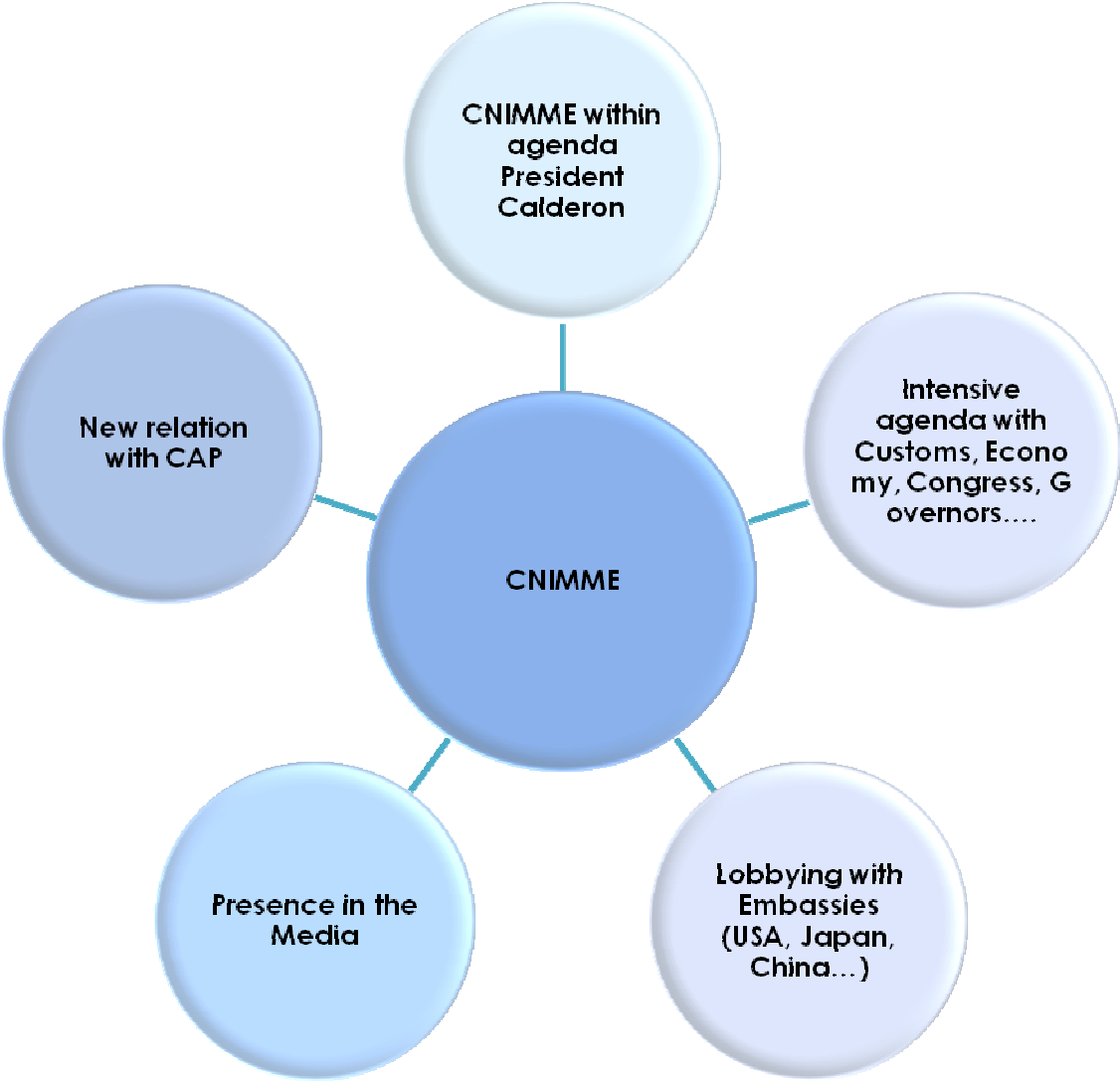
## IMMEX Decree

- We were able to keep the term “maquila” to prevent identity loss
- Legal certainty about having tax benefit rights is maintained. These tax benefits achieved until the PITEX Decree was merged into the Maquila Decree resulting in the IMMEX Decree.
- Operations with Third Parties involved
  - ***TO STOP THE PROJECT OF THE SECRETARY OF ECONOMY REGARDING THE CHANGE THE OPERATIONS FROM TEMPORARY IMPORTS TO DEFINITIVE IMPORTS OF THE IMMEX COMPANIES.***

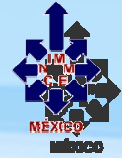
# CNIMME MANAGMENTS AT THE INTERIOR: 2008



# CNIMME ACHIEVEMENTS OUTSIDE: 2008



# CNIMME AGENDA 2009



- October 2003 Benefit Decree; define the criteria application
- ITEU Decree for maquila companies (2011)
- Expand the MOCEIMME-SECIIT project
- Amendments to the IMMEX Decree
- Guidelines for 3Rs process
- Government support in technical shut-downs PRODIAT
- Reviewing of origin rule of NAFTA
- Investments and employment in marginal zones
- Progress input tariff relief (R-VIII / Prosec / HTS = 0 % imp)  
& extend time period of inputs tariff of final products

# CNIMME AGENDA 2009



- SECURITY: To establish communication channel by safety line associations, CNIMME, SEDECOs, State Government & Secretary of Economy.
- Secure supply chain: customs will not suspend import licenses until investigation has concluded (when customs finds prohibited goods on cargo)
- Supplier Development: 3<sup>rd</sup> phase
- New IMMEX Decree:
  - \* *Value Added Tax; fast refund issued, 5 days.*
  - \* *For raw material 18 to 36 months & for certified companies during all the program*
  - \* *3 R's rules refurbish, repair, & recycling process*
  - \* *Transfers*
  - \* *Flexibility in custom agent examination ( cancel issues )*