



# NAFTA Works



A MONTHLY NEWSLETTER ON NAFTA AND RELATED ISSUES

December 2005  
Volume 10, Issue 12

## The *maquiladora* industry recovers its dynamic character.

During 2005, the export-oriented *maquiladora* industry (EMI) in Mexico has recovered its dynamic character. Although the recovery has not been completed since the levels of jobs generated and the number of firms from the year 2000 have not been reached, sales in the foreign market have increased more than 10 percent.

On the other hand, some experts assure that the EMI is experiencing a modernization process, reaching to a third generation, since the processes' added value is increasing, even though this increase has been slow. In 2004, the industry's added value increased 1 percent; while in 2000, the increase reached 12.5 percent. Other evidence of this modernization is that the emigration productivity is less labor-intensive. The *maquiladora* plants have a stronger tendency in the areas of electrical appliances, construction tools and transportation equipment and accessories.

Regarding employment, the *maquiladora* industry (EMI) generates more than 1 million jobs. In fact, in July 2005, the amount of jobs created totaled up to 1,173,193; in other words 5.5 percent greater than the annual average from 2004. Nevertheless, employment has not recovered completely because it has not reached the level of 1.3 millions jobs from 2000, according to Mexico's National Institute of Statistic, Geography and Informatics (INEGI).

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The role of Foreign Direct Investment in the last months has also been the determinant of the recovery process that the EMI is facing. The share of the Manufacturing Sector (which includes the export-oriented *maquiladora* industry (EMI) and the non-*maquiladora* manufacturing industry (NMI)) of the total FDI grew 17.3 percent in 2004. It is the sector that had the second largest growth in its share of total FDI besides the Financial Services Sector; that was the first sector and its share grew 72.94 percent. Between 1994 and 2004, non-*maquiladora* manufacturing industry's FDI grew 16 percent, while the *maquiladora* industry grew 176.5 percent. In the last eleven years, the *maquiladora* industry's share of total manufacturing sector's FDI percentage points was 27. During the first semester of 2005, 41.3 percent of the USD\$3.365 billion that received the total Manufacturing Sector corresponded to the *maquiladora* industry.

According to the Under-secretary of Industry and Commerce of Mexico's Ministry of the Economy, Rocía Ruiz, the increase of foreign direct investment in the EMI was bigger than in other sectors because foreign investors are more attracted to invest their capital in companies that export than those that are focused on the internal market, because the EMI is endorsed by a global strategy. In addition, the Under-secretary mentioned that many manufacturing companies also export thanks to PITEX (temporary import for future export program). PITEX was created for manufacturing firms that are focused on the internal market and wanted to export a part of their merchandise. PITEX and the *Maquila* Program have the same requirements; the difference is that the second program gives fiscal incentives.

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## Mexico Economic Update

	Oct 2005		Jan-Oct 2005			Nov 2004	Nov 2005		Economic Growth			
	Value (US bd)	Annual Change %	Value (US bd)	Annual Change %		Sep 2004	Sep 2005		Sep 2004	Sep 2005		
<b>Foreign Trade</b>												
Exports	19.20	13.5	173.93	11.9	Inflation Rate (Annual)	5.4	3.1	↓	Global Economic Activity Index (IGAE)	4.6%	3.9%	↓
Manufacturing	15.50	12.0	142.06	8.7	Interest Rate (CETES 28)	7.8	8.9	↑	<b>Industrial Activity</b>			
Oil	3.15	21.9	26.14	33.7	Stock Market Index (IPC)	11,137	15,362	↑	Industrial Production	1.8%	2.6%	↑
Imports	19.84	13.2	178.79	12.0	Exchange Rate (pesos/dollar)	11.40	10.83	↓	Manufacturing	1.0%	2.7%	↑
Balance	-0.64	4.3	-4.86	15.5	International Reserves (US bd)	58.1	62.3	↑	Mining	2.5%	-0.8%	↓
					<b>Employment</b>				Construction	5.3%	4.2%	↓
					Open Unemployment	Sep 2004	Sep 2005					
						4.01%	3.70%	↓				

Source: Ministry of the Economy with Banxico and INEGI data.

US bd= US billion dollar



## Supporting technology based business

Mexico's Ministry of the Economy proposed to fuse, in the middle or long term, the PITEX and *Maquila* programs together with the Program for Highly-exporting Companies (ALTEX), Program for Sensitive Products and the Sectoral Imports Program in one sole program that would be called Export-oriented Manufacturing Industry Program. With this fusion, Mexico would attain a more solid trade strategy. In the mean time, the scheme imposed on the EMI will be modified to simplify proceedings and incorporate the existing benefits. The Vice-president of the EMI's National Council (CNIME – *Consejo Nacional de la Industria Maquiladora de Exportación*), César Castro, mentioned that administrative simplification would consolidate the advantages of this sector. Nevertheless, Castro stated that more reforms should be encouraged to improve the sector's competitiveness. One of the measures that would create this effect is the decrease of import tariffs on more than six thousand products that the sector uses as raw materials. However, this procedure should be done gradually.

In general, the EMI needs reorganization of its trade strategy in order to be more competitive. Mexico should take advantage of its existing trade agreements and use them as an incentive for growth. Finally it is important to highlight that the Mexican exporting sector has mainly focused on the United States. Since it is expected that in the upcoming decades China is going to be the principal source for demand in the world, it is necessary to diversify Mexico's international trade and to achieve a more export-oriented growth.

Mexico's Ministry of the Economy (Secretaría de Economía) designed the Business Accelerator Program to support technology-based Mexican firms in the process of introduction of their technology, products and services to the American market. This program has the objective to stimulate technological development and the international diffusion of high tech products generated in Mexico in the areas of biotechnology, software, electronics, and wireless communications. This program is financed by the ministry's Fund for Small and Medium Enterprises (Fondo para las PyMe's).

As part of this program, a business accelerator called Technology Business Accelerator (TechBA) was opened in Austin, TX in November 2005. This center is the second one of its kind opened in the United States, since one was inaugurated in Silicon Valley, CA in February 2004. The TechBA offers the following to Mexican firms: offices, specialized training, ateliers, seminars and professional advisors in investment, and access to contracts in the United States. The main emphasis is business development to position rapidly successful Mexican companies into the US markets. The Ministry of the Economy summoned 151 companies of the technological sector at the national level to participate in this program. Thirty-one were selected of which 16 were designated to Austin and the rest to Silicon Valley. The call was made in Mexico's main technological clusters: Monterrey, Queretaro City, Guadalajara, Tijuana, and Mexico City

Silicon's TechBA is based on the TEN (The Enterprise Network) Model, which was established in 1993. The TEN model provides business development programs, incubation facilities, access to service providers and it functions as a catalyst for innovation and a way to commercialize technology ([www.ten-net-org](http://www.ten-net-org)). On the other hand, Austin's TechBA is being developed on top of the ATI (Austin Technology Incubator) Model. This incubator model started in 1989, and it combines the power of "local business, government and academic resources to provide strategic counsel, operational guidance, and infrastructure support to its member companies to help them transition from early stage ventures to successful technology businesses" (<http://ati.ic2.org>). This model has incubated 150 firms in the US, whose sales' value reach US\$1.5 billion, with an investment of US\$730 million; in addition to the creation of three thousand more jobs.

All the 16 companies at TechBA Austin are successful technology based small companies that have been in business for sometime in the Mexican market. More than 2/3 of them are information technology (IT) companies with products that cater to a variety of markets including enterprise resource systems (ERP) in niches like fast food networks, automotive, medicine manufacturing, and hospitals/clinics. Others have software systems for biometric identification, for newspaper content management, for financial systems, for wireless machine-to-machine communication, and for voice communication over the Internet. One company has wide ranging educational technology with a strong multimedia support. Two other companies have electronic hardware products, one for biometrics (fingerprint) and the



## Selected Readings

### **International Migration, Remittances, and Brain Drain**

**Edited by Çağlar Özden , Maurice Schiff (World Bank, October 2005)**

Using original research, this title examines the determinants of migration, the impact of remittances and migration on poverty, welfare, and investment decisions, and the consequences of brain drain, brain gain, and brain waste.

### **Global Economic Prospects 2006: International Remittances and Migration (World Bank, November 2005)**

International migration, the movement of people across international boundaries to improve economic opportunity, has enormous implications for growth and welfare in both origin and destination countries. An important benefit to developing countries is the receipt of remittances or transfers from income earned by overseas emigrants. Official data show that development countries' remittance receipts totaled \$126 billion in 2004, exceeding development aid from all sources by 50 percent. This year's edition of Global Economic Prospects focuses on the flow of international migrant remittances and improving their development impact. It presents available data on migration flows and examines current thinking on issues pertaining to migration and its development impact. The bulk of the book covers remittances, including their size, determinants, development impact, and steps to strengthen financial infrastructure and reduce transaction costs.

## Diario Oficial Notices

- ◆ Agreement by which it is notified the annexes I and II , and adding annex III of the diverse for which are known the General Rules for the management of documents through the electronic communication media presented before the Secretary of Economy, decentralized organisms and other organisms of the same kind. Explanation of the agreement published on April 19th, 2005. (November 17).
- ◆ Preliminary determination of the revision of the antidumping duties for imports of agarius genre mushrooms, merchandise that at the moment is classified in the tariff schedule 2003.10.01 of the Law Tariffs of the General Taxes of Import and Export, originally from the Republic of Chile and the People's Republic of China, regardless of shipping country. (November 18).
- ◆ Final determination by which it is notified the beginning of the administrative review on a countervailing duty imposed to flexible tubular cans made of aluminum, merchandise at the moment classified under Tariff item 7612.10.01 of the Tariff Law of the General Taxes of Import and Export, originally from the Republic of Bolivarian of Venezuela and coming from the company: Saviram, C.A. (November 25).



# Zacatecas

18 Radio stations  
16 TV stations

**Capital:** Zacatecas

**Main cities:** Guadalupe, Zacatecas, Jerez, and Fresnillo

**Population:** 1,353,610 (2000)

53 % in the urban area

63 % under 30 years old

18 people per square kilometer

92 % Literacy rate

**Major exports:** Machinery and Electronic Manufacturing Industry, Mining Industry, and Textiles Industry.

**Exports:** US \$ 233,386 Million (2003)

**Imports:** US \$ 197,086 Million (2003)

Source: Ministry of the Economy

**Foreign Direct Investment:**

Between 1999 and June 2005, Zacatecas received US\$40.9 million in foreign investment.

**Main sector:** Manufacturing (machinery, electronics)

**Countries with major investments in Zacatecas include:** USA, Caiman Islands, Spain, and Korea.

**Maquiladora:** There are 404 maquiladoras.

Maquiladoras Companies employs 287,201 workers.

Source: Ministry of the Economy, Government of State and INEGI.

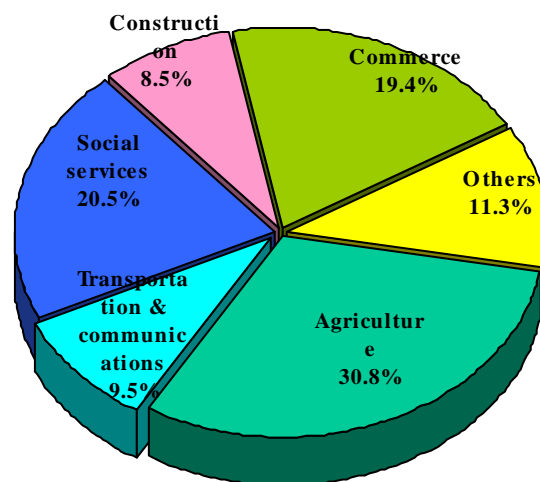
**Infrastructure:**

10,253	km of paved roads
110	km of highways (4 lanes)
1	International airport
46	Universities and tech institutes
32	Hospitals
8,100	Fixed telephone lines

## Investment Highlights

Aid in setting up operations and training workers.

## Major Economic Activity in 2003



Source: Ministry of Economy with INEGI data.

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# Nebraska

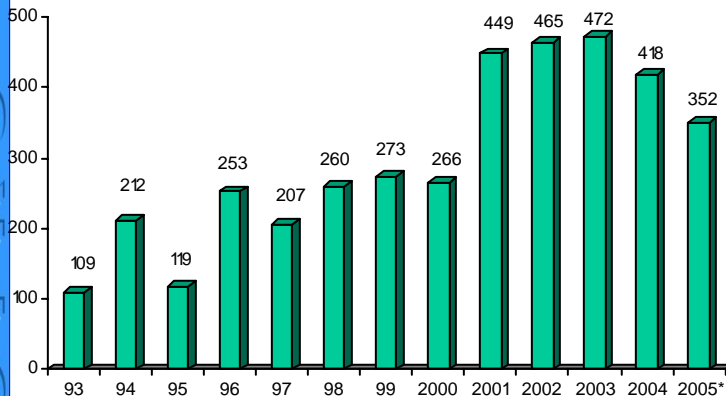
## NAFTA Related Events

Between 1993 and 2004 Nebraska's exports to Mexico grew 284%.

Mexico is the 2nd largest consumer market for Nebraska's exports

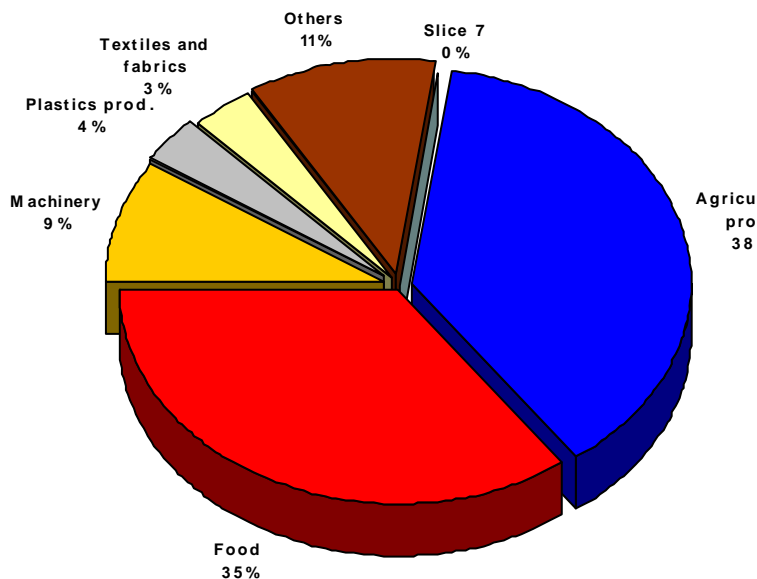
### Exports to Mexico

1993-2005\* (Millions of US Dollars)



Source: US Census, WISER and SE-NAFTA Series. 2000-2005, NAICS series.  
\* 2005 Third quarter

### Exports to Mexico By Sector 2005 3Q (NAICS)



Source: US Census, WISER and SE-NAFTA. SIC Series 1993-2000  
NAICS series 2001-2005.

#### December 01

"Mexico & China Conference"

México, D.F. – Camino Real México

Sets of conferences on offshore manufacturing that give participants the opportunity to listen to lectures about Mexico's and China's industrial policies, China's economic environment, the state of the maquiladora industry and comparison with China, China and Mexico manufacturing cases, and legal structures and taxes for foreign direct investors in Mexico and China, etc.

<http://www.mexico-now.com/2005/conf-mtyxm05.htm>

<http://www.maquilaportal.com/public/navegar/nav9.htm>

#### December 02

"TPM Road Map Implementation"

México, D.F. – World Trade Center

The TPM Seminar is focused on people working in the areas of maintenance, production, manufacture and planning. It offers integral knowledge of TPM, route of implementation, practical approach and plan for implementation.

<http://www.streamtech.com.mx>

[http://www.exposwtc.com/Vers\\_en/eventos/detalles\\_expo.php?id=520](http://www.exposwtc.com/Vers_en/eventos/detalles_expo.php?id=520)

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