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New Maquila Decree

Continuing with the strategy of reducing the transaction costs and promoting external trade, on November 1st, 2006, the Ministry of Economy published in the Federal Official Gazette Decree for the Promotion and Operation of the Manufacturing, Maquiladora and Exportation Services Industry (IMMEX), and is effective since November 13, 2006.

Mexico is a prime location for Foreign Direct Investment (FDI) due to lower costs, qualified labor force and the proximity to the U.S. **Transportation costs from practically any location in continental U.S. to the Mexico are lower than to almost any point overseas.** The maquila industry, Mexico's second largest industry, is today an integral part of Mexico's economic structure.

Maquila exports represent the largest component of the Mexico exports, totaling \$108 billion annually on September 2006, Maquila employs more than 1.2 million workers and over 1 billion dollars in monthly wages and salaries, **maquilas have transformed Mexican economy and have greatly contributed to U.S competitiveness** in the manufacturing industry by providing a nearby source of competitively priced international labor.

The goal of the Decree is to revitalize Mexico's maquiladora industry.

More sophistication, greater productivity, more flexible management systems characterize this upgraded production system.

The decree tells the outside world that **Mexico is a simpler, less costly place to do business**, will make Mexico more attractive to foreign investment.

This decree is a modification to the maquiladora decree, and incorporates the Temporary Import Program for Exporters (PITEX).

The only difference between both programs is the fiscal treatment (income tax).

Now, with the convergence of both programs, the "artificial" differences among them are eliminated, and they are consolidated in a single instrument. This measure decreased the paperwork from 29 to 16 procedures. The Federal Government expects savings and better administrative procedures.

As of August 2006, 6474 companies with Maquila or Pitex programs, accounts for 54% of the Manufacturing employment, 66% of the total exports and 83% of the manufacturing exports.

The new decree In brief:

- Lower operating cost
- More benefits
- Easier to apply and operate
- More certainty
- Outsourcing
- SME's as a strategy partner
- Less procedures & paperwork
- Equal treatment in fiscal terms

Retain & Attract more FDI

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Mexico Economic Update

	Nov 2006		Jan-Nov 2006		Nov 2005		Nov 2006		Oct 2005		Oct 2006	
	Value (US bd)	Annual Change %	Value (US bd)	Annual Change %								
Foreign Trade												
Exports	21.50	6.3	230.14	18.1								
Manufacturing	17.83	7.1	186.13	16.7								
Oil	2.92	1.9	36.50	26.0								
Imports	23.07	6.4	234.85	16.7								
Balance	-1.57	7.9	-4.71	-26.1								
Financial Indicators												
Inflation Rate (Jun/Jun)					2.9	4.1						
Interest Rate (CETES 28)					8.7	7.0						
Stock Market Index (IPC)					16,355	24,196						
Exchange Rate (pesos/dollar)					10.67	10.92						
International Reserves (US bd)					66.9	69.5						
Employment												
Open Unemployment					3.57	4.02						
Economic Growth												
Global Economic Activity Index (IGAE)					3.1%	5.2%						
Industrial Activity												
Industrial Production					2.5%	4.5%						
Manufacturing					2.4%	3.9%						
Mining					-0.9%	3.9%						
Construction					4.1%	7.3%						

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

US bd= US billion dollar



Companies with Program will be able to import goods temporarily from any country to use them in their manufacturing processes; goods could remain in the national territory until the following time:

I. - Up to eighteen months, for:

- a) Fuels, lubricant and other materials that will be used in the productive process of the export merchandise.
- b) Raw materials, parts and components that will be part of the export goods.
- c) Packaging materials.
- d) Labels and other printing materials.

The goods included in the Annexes II and III of the decree could stay in Mexico up to twelve months.

ANNEX II	
I.	
0207.13.03	* Legs or Leg Quarters of Chickens
0207.14.04	* Legs or Leg Quarters of Chickens
II.	
0402.10.01	* Milk/Cream, Powder/Solid
0402.21.01	* Milk/Cream, Powder/Solid
0901.11.01	* Robusta Coffee
0901.11.99	* Coffee, Not Roasted, Not Decaffeinated, Nesoi
1005.90.03	* Yellow Corn (Maize)
1005.90.04	* White Corn Flour
1005.90.99	* Corn (Maize), Nesoi
1901.90.03	* Milk Based Preparations, Contain Gt 10% & Lt 50% Milk Solids
III.	
4012.20.01	Used Pneumatic Tires for Commercial Transportation Vehicles
	* To be eliminate from this Annex on January 1st, 2008

For those goods included in the Annex III (Textile goods) and those ones used in the services activities, the permanency term will be up to six months.

II. - Up to two years, for containers and trailers

III. - For the life of the Program, in the following cases:

- a) Machinery, equipment, tools, instruments, molds and parts used in the productive process.
- b) Equipments for: control pollution; research or training, industrial safety, telecommunication and computers, laboratory, measures, product test and quality control; as well as those involve in the handling of materials related with the export goods and others linked with the productive process.
- c) Equipment for administrative development.

Those goods included in Annex I could not be part of the Program.

ANNEX I	
0713.33.02	* White Beans Except 0713.33.01
0713.33.03	* Black Beans Except 0713.33.01
0713.33.99	* Kidney Beans, Dried, Shelled, Nesoi
2207.10.01	Ethyl Alcohol Non Denatured >= 80%
2207.20.01	Ethyl Alcohol & Oth Spirits Denatured any Strength
2208.90.01	Ethyl Alcohol
2208.90.02	Alcoholic Beverages Gt 14 & Lt 23 Grades
6309.00.01	Worn Clothing and other Worn Articles
	* To be eliminate from this Annex on January 1st, 2008

The companies with Program registered as a certified company, will get the following benefits among others:

- To use any custom port, nevertheless that SAT had designed specific custom ports for the entrance of certain type of goods;
- Customs clearance in their office according with the SAT rules;
- To be exempt of the inscription in the importers registry for specific sectors;
- To consider as waste the materials that already manufactured in the country and were reject by quality control, as well as those that are considered obsolete for technological advances;
- To be entitled to Value Added Tax refunds in no more than five business days, according with the SAT rules;

The Maquila and submaquila activities are permitted under current legislation and are regulated by it. However, prior authorization must be applied for and obtained from the Ministry of Economy before starting such activities.

In order to be able to register a company in this Program there are a number of requirements that the company must comply with, such as the company must have exported at least \$500 million in the prior year or export at least 10% of the total sales.

SAT Requirements to be a Certified Company:

- To be constituted according to the Mexican legislation
- Demonstrate the Fulfill of fiscal obligations
- Have its financial statements audited by a certified public accountant for tax purposes during the last five years, or when the date of its constitution is not previous to five years, they had certified its financial states for fiscal effects for the exercises lapsed from its constitution.
- Demonstrate the Fulfill of customs obligations and had imports for a value in customs value at least \$200 million pesos in the immediate previous semester in which they request their inscription.
- Notify the custom brokers authorized to promote their operations of external trade, according with the article 59 of the Ley Aduanera (Customs Law).
- Notify the carrier companies authorized to transport the goods for external trade.

To download the decree in Spanish

<http://www.naftamx.org/Decreto IMMEX.doc>



Success Stories

GM Invest in Mexico

General Motors will expand its facilities in Silao, in order to increase the capacity assemble vehicles and engines and also launch new products into the market.

The investment will be US\$ 662 million and will generate 1,100 direct jobs. GM will increase its installed capacity from 237,000 to 245,000 units per year and from 209,000 to 309,000 engines per year.

Hyundai will open plant in Mexico

Hyundai Motor Company, will install a truck and bus assembly plant in the State of Veracruz.

The initial investment to build the plant will be US\$ 750 million. It is expected to create 1,500 direct jobs and 9,000 indirect jobs during the first stage, One of the main attractions in Veracruz is the port, from which products by Volkswagen, Mercedes, BMW and Volvo enter and exit the country.

DHL bought new airplanes in Mexico

DHL presented its new airplane fleet that will operate in Mexico with an investment over US\$ 12.8 million. With six new last generation airplanes, the company will increase its cargo capacity by more than 40% and will be able to reach new destinations in Mexico. With its new airplane fleet DHL will fly around 2 million miles every year and will transport more than 10.5 million pounds of packages; this is 4.4 million pounds more than the previous year. DHL is expecting a total investment in the new air network to reach US\$21.1 million in 2007.

Natural Gas plant starts operating

Operations in the Altamira gas plant, owned by Shell, Total and Mitsui, have started with an agreement for 300 million cubic feet per day to be supplied to the Altamira V AND Tuxpan V combined cycle plants. The agreement to supply fuel during the next 15 years to these new plants, which are the property of CFE, officially started on Sunday, October 1st. The remainder will be injected into the Pemex Pipeline System, until the Temazunchale plant starts operating in the summer of 2007.

Selected Readings

Effects of Globalization on Labor's Share in National Income (Guscina, Anastasia. International Monetary Fund, December 2006)

<http://www.imf.org/external/pubs/cat/longres.cfm?sk=19244.0>

The past two decades have seen a decline in labor's share of national income in several industrial countries. This paper analyzes the role of three factors in explaining movements in labor's share--factor-biased technological progress, openness to trade, and changes in employment protection--using a panel of 18 industrial countries over 1960-2000. Since most studies suggest that globalization and rapid technological progress (associated with accelerated information technology development) began in the mid-1980s, the sample is split in 1985 into preglobalization/pre-IT revolution and postglobalization/post-IT revolution eras. The results suggest that the decline in labor's share during the past few decades in the OECD member countries may have been largely an equilibrium, rather than a cyclical, phenomenon, as the distribution of national income between labor and capital adjusted to capital-augmenting technological progress and a more globalized world economy.

Global Economic Prospects 2007: Managing the Next Wave of Globalization (Worldbank, December 2006)

<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/GEPEXT/EXTGEP2007/0..contentMDK:21139275~menuPK:3016160~pagePK:64167689~piPK:64167673~theSitePK:3016125.00.html>

Globalization could spur faster growth in average incomes in the next 25 years than during 1980-2005, with developing countries playing a central role. However, unless managed carefully, it could be accompanied by growing income inequality and potentially severe environmental pressures, predicts the World Bank.

According to Global Economic Prospects 2007: Managing the Next Wave of Globalization, growth in developing countries will reach a near record 7 percent this year. In 2007 and 2008, growth will probably slow, but still likely exceed 6 percent, more than twice the rate in high-income countries, which is expected to be 2.6 percent.



Tabasco



Capital: Villahermosa
 Main cities: Cardenas, Comalcalco, Huimanguillo, Macuspana, Cunduacan

Population: 1,989,969 (2005)
 54% in the urban area
 65% under 39 years old
 77 persons per square kilometer

Education: 90% Literacy rate
 153,551 with more than High School
 5,978 Master or Ph.D

Household with : 13% Computers
 88% TV
 75% Refrigerators
 59% Washing Machine

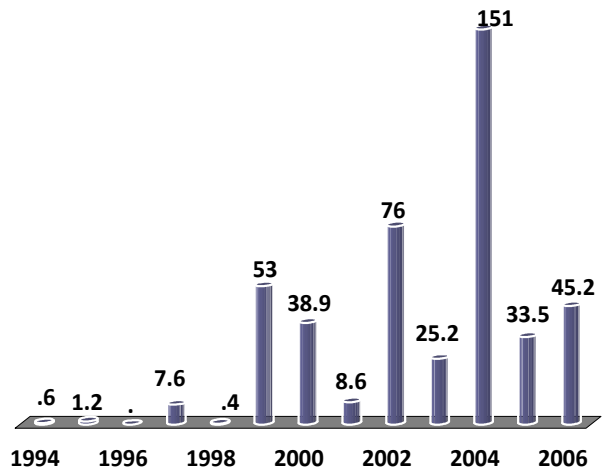
Infraestructure: 4,037 km of paved roads
 139 km of highways (4 lanes)
 1 International Airports
 2 Seaports
 50 Universities and technological institutes
 63 Hospitals
 201,180 Fixed telephone lines
 25 Radio stations
 13 TV stations

Major exports: Cocoa, construction materials, cement, sugar, orange juice, oyster, banana, persian lime

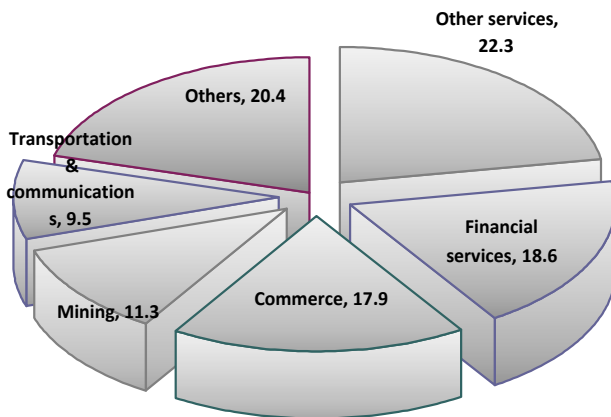
Exports: US \$62 Millions (2004)
 Imports: US \$241 Millions (2004)

FDI Companies: 65

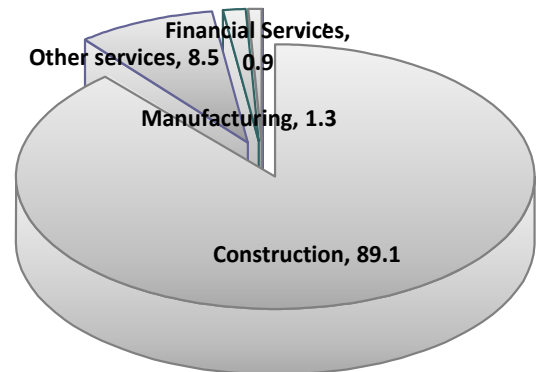
Foreign Direct Investment (Millions of US Dollars)



Gross Domestic Product 2004



Foreign Direct Investment by Sector 99-06 (Percentage)



440.7 Millions of US Dollars

Web-site: <http://www.sedet.gob.mx>
 E-mail: sedet@sedet.gob.mx (cmadrado@sedet.gob.mx)
 Tel/Fax: 011 52 (993) 310 9770

Countries with major investments are: USA, Netherlands, Canada, China and Spain



Missouri

In the first nine months of 2006, Missouri's exports to Mexico reached \$900 million, an increase of 5.7% in comparison with the same period last year.

In 2005, Mexico's imports from Missouri reached \$1.2 billion, up \$0.8 billion from their level in 1993.

Since Nafta, Missouri's sales to Mexico have grown at an annual average rate of 9%. In 2005 the exports to Mexico grew 22%.

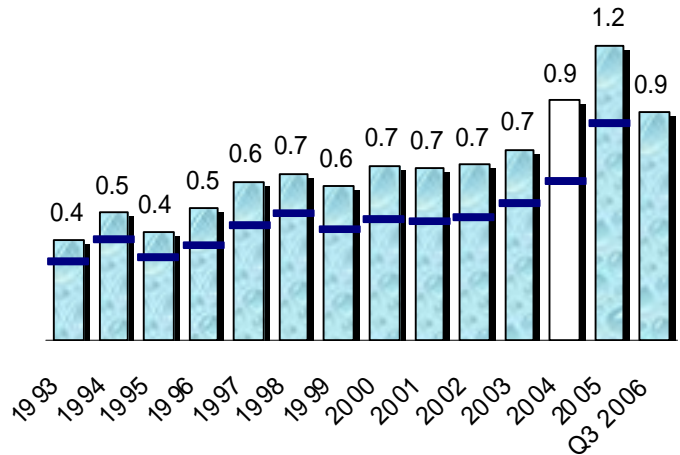
In twelve years of NAFTA, Missouri's exports to Mexico have increased 193%, while those to the Rest of the World rose 158%.

Among all US states, Missouri ranks 17th as an exporter of goods to Mexico in the first nine months of 2006.

Mexico is an important customer of Missouri. Among all countries, Mexico ranked as the 3rd largest market for goods from Missouri, in 2006, down from 2nd in 1993, illustrating the impact of NAFTA for Missouri's growing business. Mexico accounts for 9.9% of Missouri total exports.

Exports to Mexico

1993-2006* (Billions of US Dollars)



Source: US Census, WISER and SE-NAFTA Series.
2000-2006, NAICS series.

Missouri's Opportunities in Mexico

Sector	Missouri Total Exports	Missouri Exports to Mexico		Mexico Imports		Mexico Total Imports
		Share	from U.S.	Share	from U.S.	
Total	10,462	1,155	11%	120,049	54%	221,249
Transportation Equipment	3,549	317	9%	14,455	90%	16,073
Chemicals	1,969	143	7%	12,899	59%	21,924
Machinery, Except Electrical	1,004	56	6%	11,494	35%	33,082
Food & Kindred Products	560	77	14%	5,641	64%	8,873
Computer & Electronic Products	529	63	12%	23,298	47%	50,065
Electrical Eq, Appliances	521	122	23%	8,071	86%	9,360
Fabricated Metal Products	315	36	11%	5,059	50%	10,073
Agricultural Products	298	204	69%	3,590	74%	4,869
Minerals & Ores	255	2	1%	279	15%	1,803
Primary Metal Manufacturing	222	53	24%	4,810	45%	10,715
Plastics And Rubber Products	200	18	9%	5,817	78%	7,477
Printing, Publishing & Similar	191	3	2%	569	51%	1,114

Source: Ministry of Economy with data from WISER and USDOC

NAFTA WORKS FOR

- ◆ Decree modifying the existing one, regarding the promotion and operation of the maquiladoras. (November 1).
- ◆ Eighth Resolution to the Fiscal Resolution for 2006. (November 6).
- ◆ Resolution with the modifications to the General Rules of International Trade for 2006. (November 6).
- ◆ Mexican Official Standard NOM-030-SCFI-2006- Commercial Information– Labeling. (November 6).
- ◆ Agreement modifying the existing one announcing the explicative notes of the tariff code. (November 8).
- ◆ Annexes of the Eighth Resolution of Modifications to the Fiscal Resolution for 2006. (November 8).
- ◆ Decree establishing that the Free Trade Agreement between Mexico, Colombia and Venezuela dated June13,1994 will be terminated between Mexico and Venezuela as of November 19,2006. (November 17).
- ◆ Agreement determining the additional quota for powder milk imports in 2006, imported from State members of the WTO. (November 24).
- ◆ Decree modifying certain tariffs of the Import-Export Tariff Code, the Decree establishing the Sector Promotion Programs, and several decrees establishing the preferential schemes in the bordering region. Decree reforming the decree establishing the tariff rate applicable for 2006 on goods imported from countries with which Mexico has negotiated Free Trade Agreements. (November 27).
- ◆ Decree reforming certain dispositions of the Internal Regulation of the Federal Competition Commission. (November 27).
- ◆ Decree establishing the applicable tariff rate for 2007 of the Import General Tax, for goods imported from El Salvador, Guatemala and Honduras, as well as the applicable tariff rate of the Import General Tax for goods imported from Japan, from April 1, 2007 until March 31, 2008. (November 27).
- ◆ Regulation of the Intersecretarial Commission on Bio-security and Genetically Modified Organisms. (November 28).
- ◆ Decree modifying the existing one regarding several sector promotion programs. (November 28).
- ◆ Decree establishing the applicable tariff rate for 2007 of the Import General Tax for goods imported from members comprising the European Free Trade Area. (November 28).
- ◆ Emergency Mexican Official Standard NOM-EM-012-SCFI-2006, Spirits- Distillates from Agave- Specifications- marketing information, labeling and conformity tests. (November 30).

January 16 – 19

“Espacio Sede del Regalo ”

México, D.F.

Gifts and decoration.

<http://www.espaciosalpro.com>

January 24 – 17

XIII Feria Internacional Del Mueble, Mexico 2007

México, D.F. – Centro Banamex

Furniture, machinery, and tools for the furniture industry.

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

February 13 – 17

National Handcrafts Trade Fair

Tlaquepaque, Jalisco, Mexico

http://www.enart.com.mx/default_en.asp

February 27 – March 2

ExpoComm Mexico 2007

México, D.F. – Centro Banamex

<http://www.expocomm.com./mexico/>

February 28 – March 2

XXX Feria Internacional De Franquicias

México, D.F. – World Trade Center

Franchise Expo

<http://www.grupomfv.com/>

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