CHALLENGES FACING
MAQUILADORA INDUSTRY GROWTH

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We have seen ...

- .... the Mexican Economy Outlook.
- .... the US Economy Outlook.
- .... the Maquiladora Industry Outlook.
Today we will focus on:

- Background and purpose of the maquiladora industry.
- Some statistics.
- How this industry has been an important developing factor in the Mexican economy.
- Short, medium and long term challenges that the maquiladora industry must undertake.
- Conclusions.
At the beginning, the establishment of the Maquiladora industry in Mexico had the following objectives:

- Job generation.
- Transference of Technology.
- Currency Generation.
- To incorporate the National industry into the International Market through the Maquiladoras.
Worldwide Business environment has changed, demanding more ....

- Security
- Surveillance
- Protection
- Regulations
- Global competition
- Quality requirements
- Product availability
- Efficient communication
The maquiladora business environment has also changed

- The labor cost in the maquiladora industry has increased from 2 to 4.5 $/hour, making it impossible to compete against other labor intensive processes in other regions.
- Many maquiladora intensive labor processes, have been relocated into the interior of Mexico, and others migrated to Asian & Central America countries.
Mexico has to take advantage of the following:

- Geographic situation
- Exploit the experience acquired with the U.S. for the last three centuries.
- Weakness and opportunities that other competing countries have in a global economy.
Challenges Maquiladoras are Facing Today:

- Continue with a steady growth.
  - Keep generating 80,000 to 100,000 jobs a year.
  - Reaching exports of 100 billion dollars a year.
In addition, this industry has been an important development factor in:

- **Economy**
  - Regional and local development
  - Generates Tax Income
  - Develop educational and training programs to superior and technical levels.
- **Education**
  - Community service.
  - Has contributed with a culture of responsibility and self-improvement.
  - Supports sports and cultural activities.
- **Social**
The Maquiladora in Mexico has to become more COMPETITIVE

- Job training, logistics, geographic situation, supplier development.
- Lobbing in Mexico and the US for better conditions for the industry.
- Setting specific programs and strategies with the Mexican government.
- Take advantage of new and recent treaties that Mexico has signed.
Proposals

We have been working in important programs such as:

- Certified companies (Express)
- MOCEIME (SECIIME.sys)
- Reduction of Duties
- Modification of Rules of Origen
Proposals

Permanent

- Commerce Department: Eliminate over regulation.
- Customs: Simplify customs bureau.
- Stable Politics.
  - Fiscal: VA and eliminate permanent establishment.
  - Commerce Department: competitive duties.
- Improve benefits and public services.

Short term

- Labor: flexibility and quick response to market conditions.
Proposals

- Bringing in High Tech processes, with strong R&D and high skill labor force.
- Create incentives for supplier development for strategic sectors, accordingly to regional strategies (CAP’s)
Long term company actions in order to be more....

- Productive
- Value added
- Efficient
- Electronic business integrated
- Educated human resources
- Local suppliers
Long term legislation actions to maintain competitiveness in the maquiladoras

- Incentives
- Education
- Certified suppliers
- Logistics & Infrastructure
- Public safety
- Provide competitive government services
Long Term Conditioning Economic Growth Determiners

In Mexico, it’s essential to encourage second generation reforms, which would allow us to construct and consolidate institutions aiming to a stable growth

- Fiscal Reform
- Energy
- Labor Reform
- Social Security
- Health and Education
- Federalism
- Government Modernization
- Transparency and access to information
Many countries are competing to penetrate in global markets where the Mexican Maquila has been present for a long time.

Global manufacturing is for real!!!

Principal countries/regions:
- China
- Mexico
- Eastern Europe
We have an extended commercial agreement net with duties advantages and access measures to international markets.

The 90% of Mexico commercial exchange is by the NAFTA. We need to explode the benefits of the other commercial agreements.
THE FUTURE OF THE MAQUILADORA INDUSTRY WILL DEPEND ON......

... THE SPEED OF GOVERNMENT TO ADAPT TO THE NEW BUSINESS ENVIRONMENT

*How effectively we lobby with federal authorities & legislators?*

... THE SPEED OF A COMPANY TO ADAPT TO THE NEW BUSINESS ENVIRONMENT

*How efficiently the CEO will lead the company to make it more competitive?*
At national and international levels, CNIME represents the interests of its members through directed leadership efforts that allow the attainment of objectives, while positioning the National Council as the leading representative organization for México’s Maquiladora and Pitex sector.
MISSION

Represent efficiently and professionally the Industry of Export, by Actions and Services of high quality to obtain a competitive global environment.

VISION

Be the Organism of the Manufacturing Industry of Export.
CNIME MEMBERSHIP

More than 80% of the Maquiladora labor force is represented by CNIME

Represented in 22 principal cities

More than 1,500 Companies through regional associations.
The various committees are commended to analyze, inform and propose solutions on the different aspects that involve each sector.

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MAQUILADORAS & EMPLOYMENT

Mexico

MAQUILADORAS

2,817

EMPLOYMENT

1,230,000
40% into the country

60% at the border with USA.
MARKET FOR MAQUILADORA PRODUCTS

Export 94%
Domestic 2%
Other Maq. 4%

SOURCE: ECONOMIA
SOURCE OF PROCUREMENT

Import 95%

Domestic 2%

Other Maq. 3%

SOURCE: ECONOMIA
MAQUILADORA PLANTS BY STATE

- Baja California: 35%
- Others: 23%
- Chihuahua: 12%
- Tamaulipas: 10%
- Coahuila: 8%
- Sonora: 8%
- N.L.: 4%

SOURCE: INEGI
MAQUILADORA WORKERS BY STATE

- Chihuahua: 25%
- Baja California: 22%
- Tamaulipas: 14%
- Others: 17%
- Coahuila: 9%
- Sonora: 8%
- N.L.: 5%

SOURCE: INEGI
SOURCES OF CAPITAL

- MEXICO: 42.2%
- USA: 41.0%
- MEX/USA: 12.0%
- JAPAN: 1.6%
- OTHERS: 3.2%

SOURCE: CNIME, ECONOMIA
Maquiladora Value Added

Millions of Dollars

- 1996: 8,900
- 1997: 10,700
- 1998: 11,500
- 1999: 12,000
- 2000: 13,500
- 2001: 16,800
- 2002: 16,500
- 2003: 17,000
- 2004: 19,300
- 2005: 20,000
- 2006/p: 24,000

National Council of the Industry
Maquiladora of Export
MAQUILADORA vs TOTAL EXPORTS

Almost the 50% of the total exports

SOURCE: ECONOMIA / BANXICO

ALMOST THE 50% OF THE TOTAL EXPORTS
MAQUILADORA MAIN NEEDS

- Stampings: 27.6%
- Plastics: 25.0%
- Machining: 11.8%
- Assembly: 11.8%
- Die-Castings: 7.9%
- Fe-Castings: 5.3%
- Forging: 4.0%
- Non-Ferrous: 2.6%
- Rubber: 1.3%
- Plating: 1.3%
- Treating: 1.3%

SOURCE: ECONOMIA
CONCLUSIONS

- WE HAVE TO MAKE THE MEXICAN GOVERNMENT UNDERSTAND, THROUGH EFFECTIVE LOBBING (CONGRESS AND TOP OFFICIALS AT THE EXECUTIVE BRANCH), THAT THIS INDUSTRY HAS TO BECOME MORE COMPETITIVE TO STAY ALIVE.

- IF MEXICO DOES NOT KEEP THE ENVIRONMENT THAT ORIGINALLY ATTRACTED THIS INDUSTRY AND INVESTORS ALL OVER THE WORLD, THEN THE MAQUILADORA INDUSTRY IN MEXICO WILL BE HISTORY.
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- IF JAPAN AND MEXICO TAKE ADVANTAGE OF THE GOOD BUSINESS AND CULTURAL RELATIONSHIP DEVELOPED FOR MANY YEARS,
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