

November 21, 2003



MEXICO: A STRATEGIC MANUFACTURING PLATFORM FOR THE FUTURE OF MAQUILADORA INDUSTRY

South Padre Island, Texas



CONTENTS

1. INTRODUCTION

2. MAQUILADORA INDUSTRY: EVIDENCE OF DISMAL PERFORMANCE

3. CHANCES WE DO NOT OFFER

4. OPPORTUNITIES WE PROPOSE AT PRESENT

5. PROSPECTS WE PUT FORWARD FOR THE FUTURE

6. FINAL REMARKS



CONTENTS

1. INTRODUCTION

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EVIDENCE OF DISMAL PERFORMANCE

3. CHANCES WE DO NOT OFFER

4. OPPORTUNITIES WE PROPOSE AT PRESENT

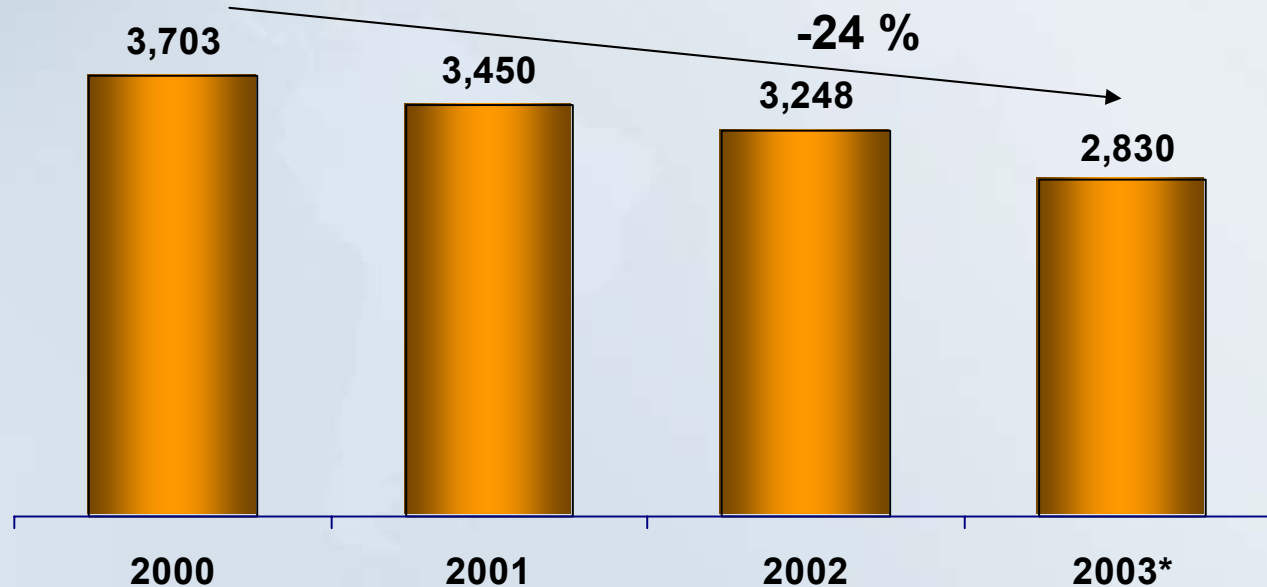
5. PROSPECTS WE PUT FORWARD FOR THE FUTURE

6. FINAL REMARKS



2. MAQUILADORA INDUSTRY

MEXICO: MAQUILADORA INDUSTRY NUMBER OF UNITS

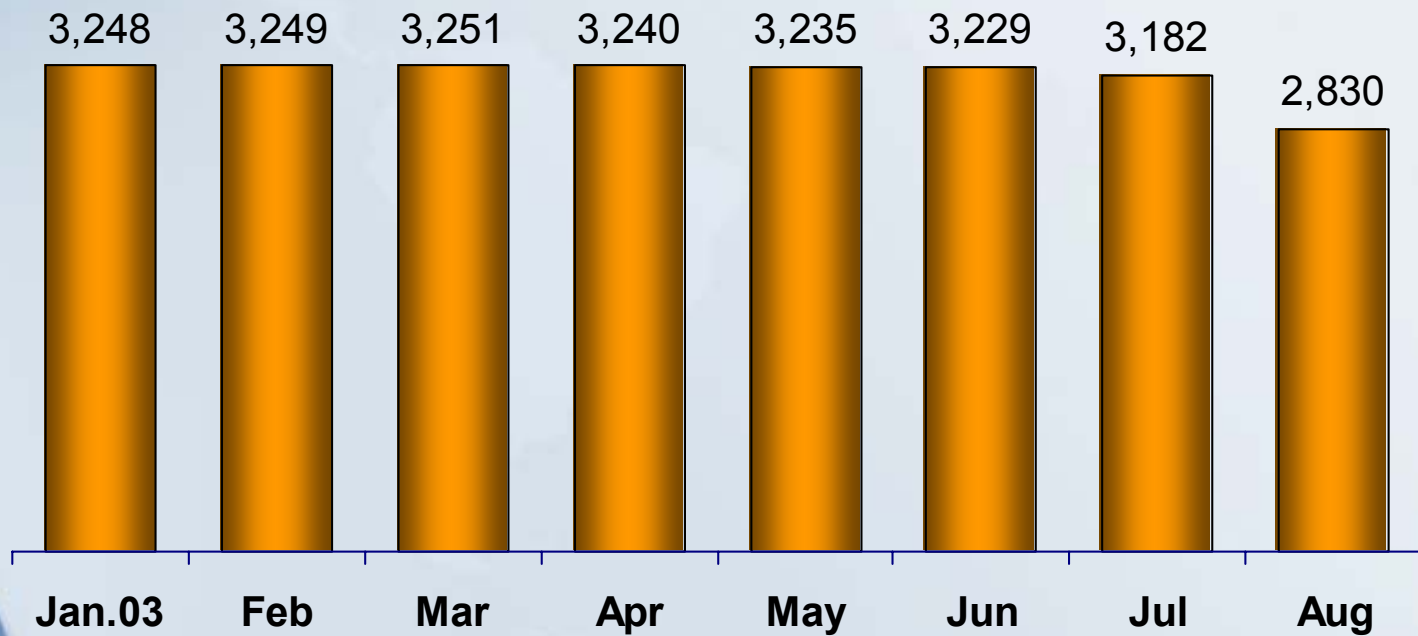


* Up to August
Source: INEGI



2. MAQUILADORA INDUSTRY

MEXICO: MAQUILADORA INDUSTRY NUMBER OF UNITS

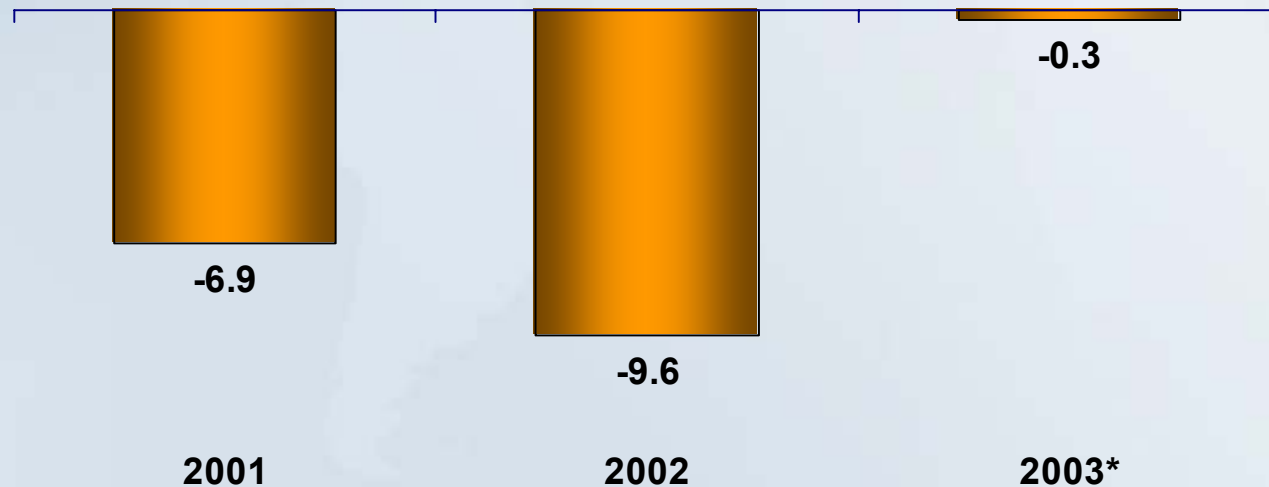


Source: INEGI



2. MAQUILADORA INDUSTRY

MEXICO: MAQUILADORA INDUSTRY EMPLOYMENT (ANNUAL GROWTH)

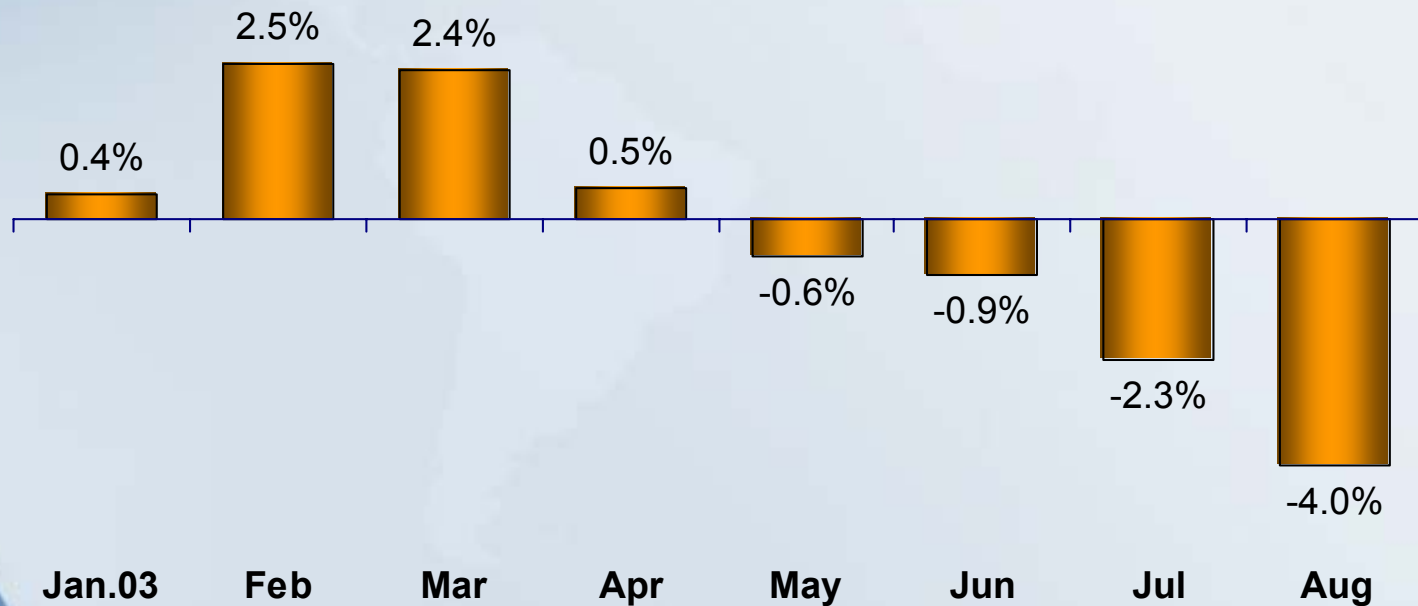


* Up to August
Source: INEGI



2. MAQUILADORA INDUSTRY

MEXICO: MAQUILADORA INDUSTRY EMPLOYMENT (ANNUAL GROWTH)



Source: INEGI

2. MAQUILADORA INDUSTRY

ACTIVITY	2001	2002	2003*	ANNUAL GROWTH	
				2002	2003*
OUTPERFORMING ACTIVITIES:					
■ Services	233	260	246	11.6	0.4
■ Machinery, electric and electronic assembly	166	175	166	5.4	-0.6
■ Transportation equipment assembly and remanufacturing	264	268	253	1.5	-2.3
UNDERPERFORMING ACTIVITIES					
■ Shoes and leather	60	40	32	-33.0	-22.0
■ Garment	958	812	639	-15.2	-23.3
■ Food preparation	78	68	51	-12.8	-23.9

* Up to August 2003

Source: INEGI

2. MAQUILADORA INDUSTRY

1

PESO APPRECIATION PROCESS (1999 - I.Q 2002)

2

CHANGE IN US TRADE STRUCTURE BIASED AGAINST MEXICAN EXPORTS

3

WORLDWIDE GROWTH SLOWDOWN

4

HOSTILE FISCAL POLICY: NAFTA ISCAS

5

ILL-SUITED MAQUILADORA DECREE (MAY VERSION)



2. MAQUILADORA INDUSTRY

1

MAQUILADORA DECREE (OCTOBER VERSION)

2

FISCAL INCENTIVES:
ACCELERATED DEPRECIATION AND SAFE HARBOR

3

ISCAS ELIMINATION PROPOSAL



CONTENTS

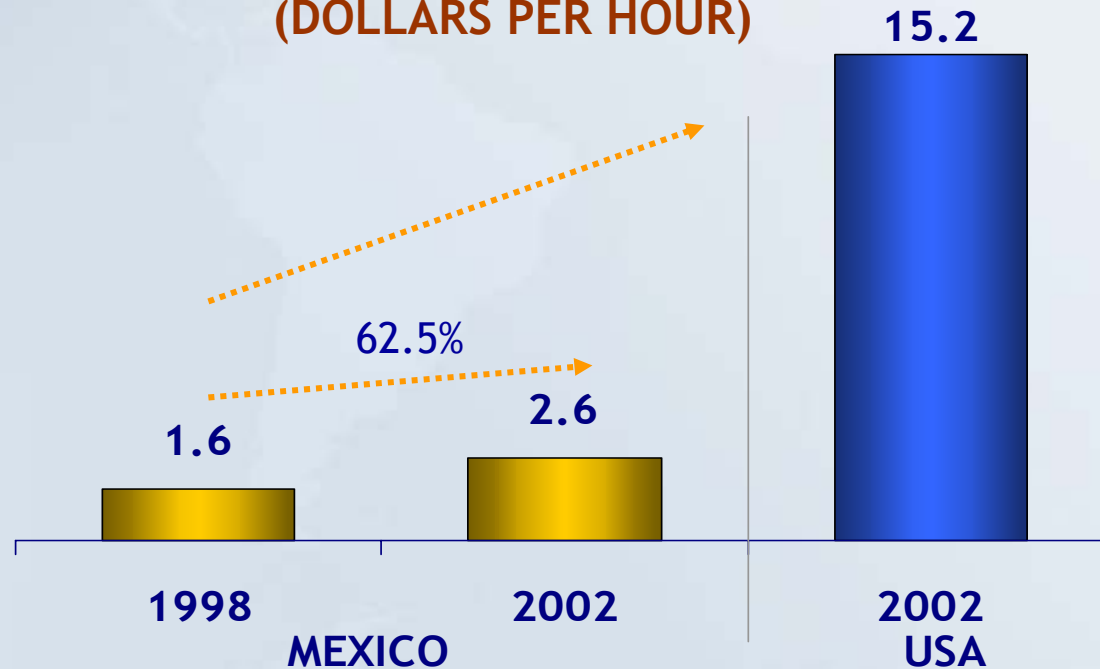
1. INTRODUCTION
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EVIDENCE OF DISMAL PERFORMANCE
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3. CHANCES WE DO NOT OFFER

LOWEST LABOR COST

WAGES PER HOUR IN THE
MANUFACTURING SECTOR
(DOLLARS PER HOUR)



3. CHANCES WE DO NOT OFFER

INCREDIBLE TAX INCENTIVES AND GRANT PACKAGES

1

INCONSISTENT WITH WTO AND OECD RULES

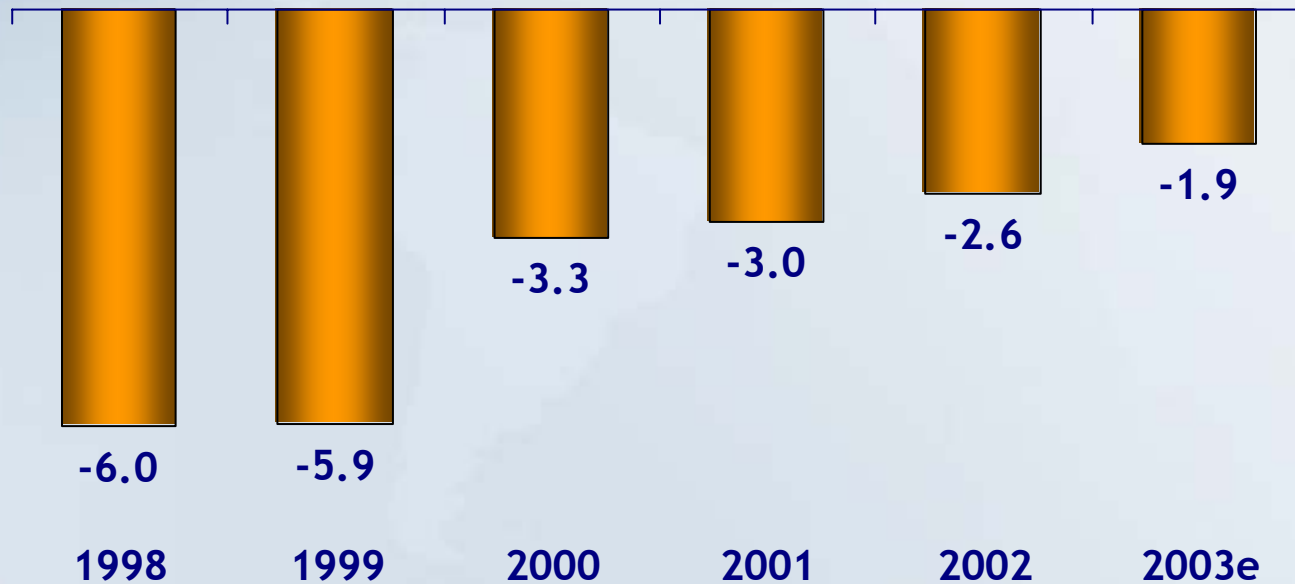
2

SOUND FISCAL POLICY CONTRADICTORY



3. CHANCES WE DO NOT OFFER

PUBLIC SECTOR BORROWING REQUIREMENTS (% of GDP)



e. Estimate
Source: SHCP



3. CHANCES WE DO NOT OFFER

DISCRIMINATORY TAX INCENTIVES AND GRANTS

1

THEY ARE NOT SUSTAINABLE

2

RISK OF COUNTERVAILING DUTIES
AND/OR TRADE SANCTIONS

3

IT WOULD BE UNFAIR



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4. OPPORTUNITIES WE PROPOSE AT PRESENT

OPENNESS OF THE ECONOMY

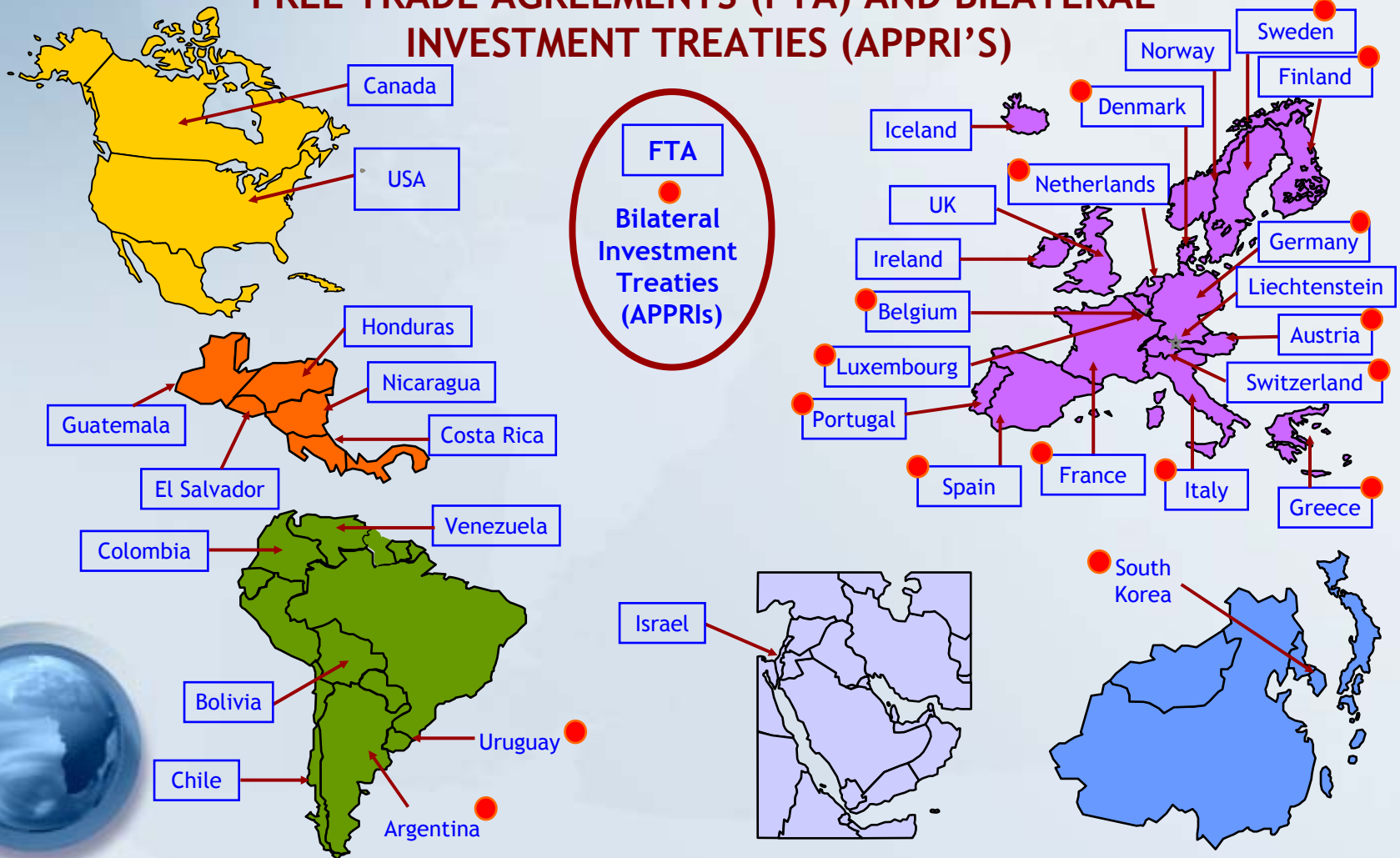
- Mexico has preferential access to 850 millions of consumers in 32 countries, which represents almost half of world GDP.



4. OPPORTUNITIES WE PROPOSE AT PRESENT

OPENNESS OF THE ECONOMY

FREE TRADE AGREEMENTS (FTA) AND BILATERAL INVESTMENT TREATIES (APPRI'S)



4. OPPORTUNITIES WE PROPOSE AT PRESENT

OPENNESS OF THE ECONOMY

FREE TRADE AGREEMENTS	CURRENT NEGOTIATIONS
<ul style="list-style-type: none">▪ USA and Canada▪ Chile▪ Colombia and Venezuela▪ Costa Rica▪ Bolivia▪ Nicaragua▪ Israel▪ El Salvador, Guatemala and Honduras▪ European Free Trade Association FTA (Island, Norway, Switzerland, Liechtensein)▪ European Union*▪ Uruguay	<ul style="list-style-type: none">▪ Japan▪ Free Trade Area of the Americas (FTAA)

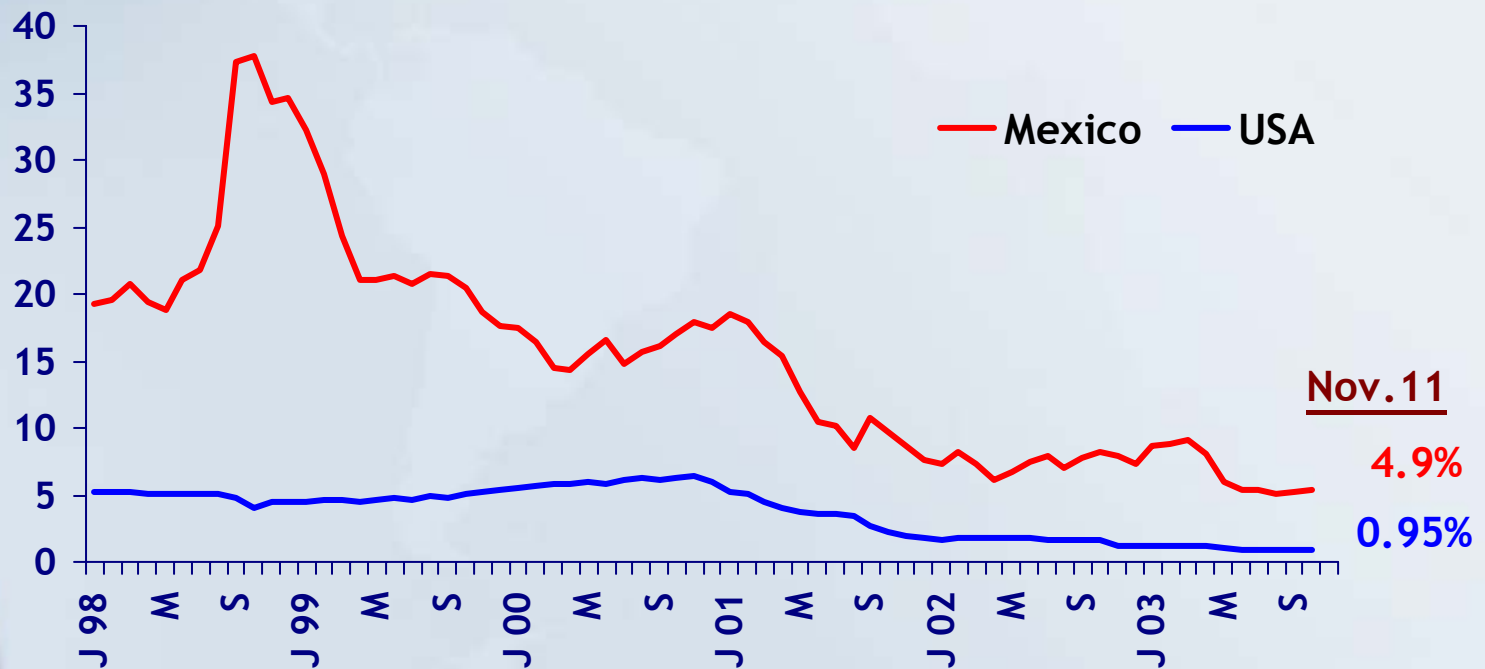
* Ten new member countries will be incorporated in may 2004: Czech Republic, Estonia, Hungary, Latvia, Luitania, Malta, Poland, Slovakia, Slovenia and Cyprus.



4. OPPORTUNITIES WE PROPOSE AT PRESENT

CONVERGENCE INDICATORS PATH

INTEREST RATES, MEXICO AND UNITED STATES
(Three Month Treasury Bills)

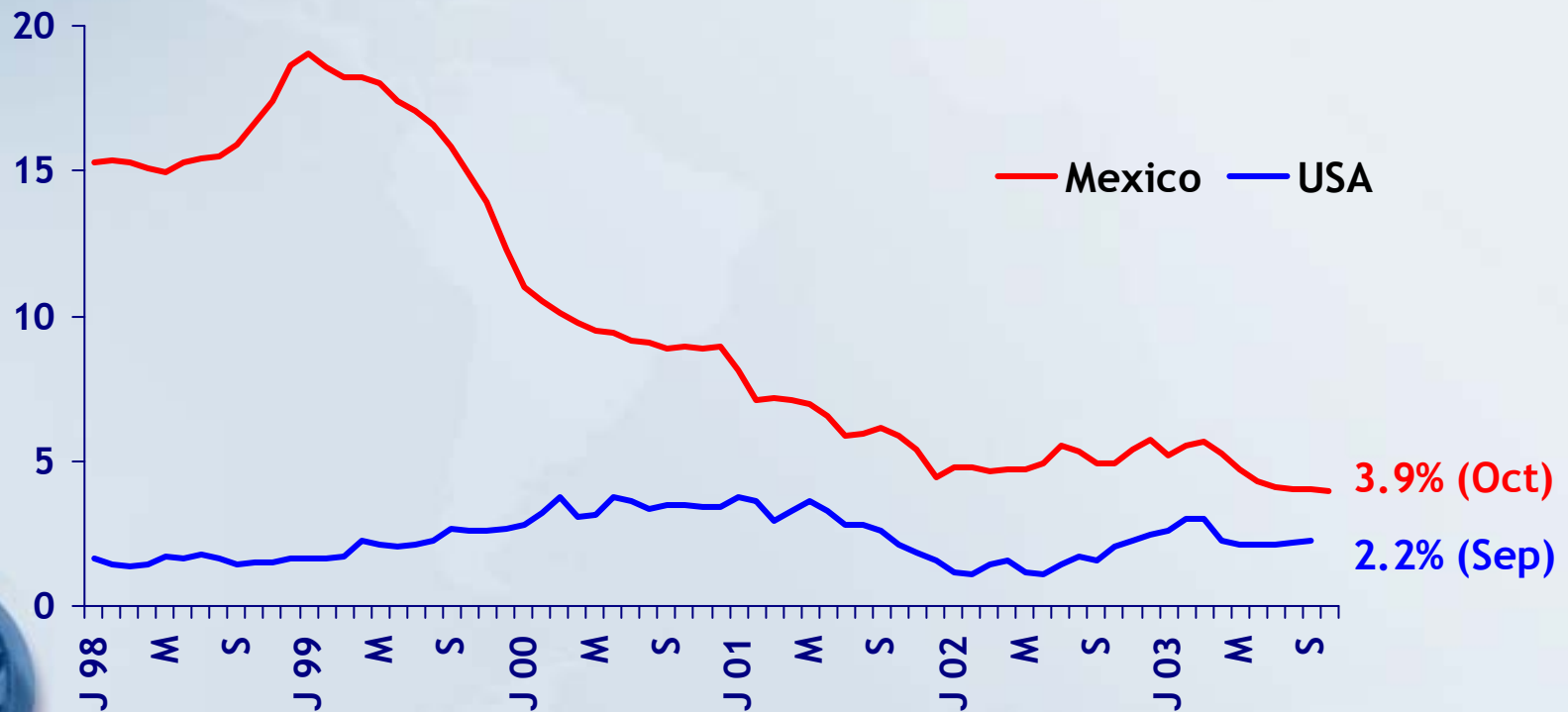


Source: INEGI

4. OPPORTUNITIES WE PROPOSE AT PRESENT

CONVERGENCE INDICATORS PATH

ANNUAL INFLATION RATES, MEXICO AND UNITED STATES



Source: INEGI

4. OPPORTUNITIES WE PROPOSE AT PRESENT

CONVERGENCE INDICATORS PATH

MEXICO: COUNTRY RISK IN 2002



Source: JP Morgan

4. OPPORTUNITIES WE PROPOSE AT PRESENT

CONVERGENCE INDICATORS PATH

COUNTRY RISK IN 2002 and 2003

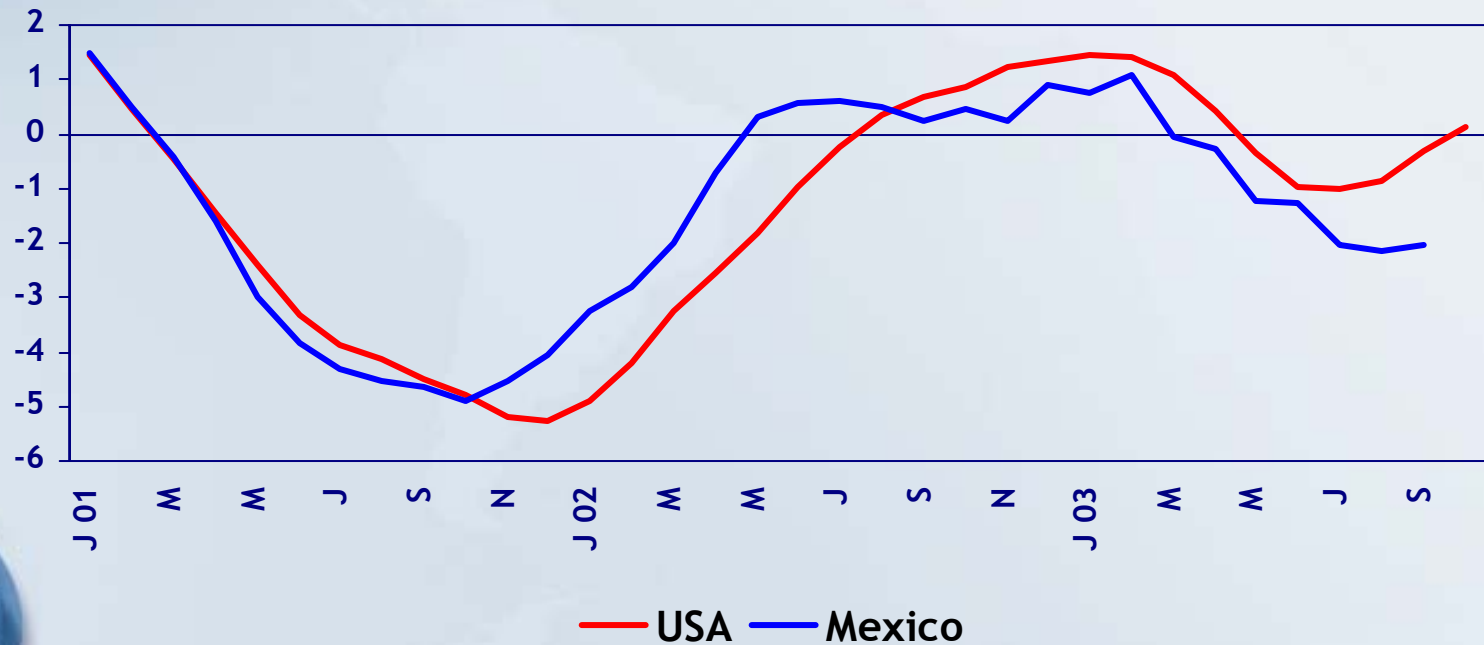


Source: JP Morgan

4. OPPORTUNITIES WE PROPOSE AT PRESENT

CONVERGENCE INDICATORS PATH

INDUSTRIAL PRODUCTION
(Annual Growth, Three Month Moving Average)

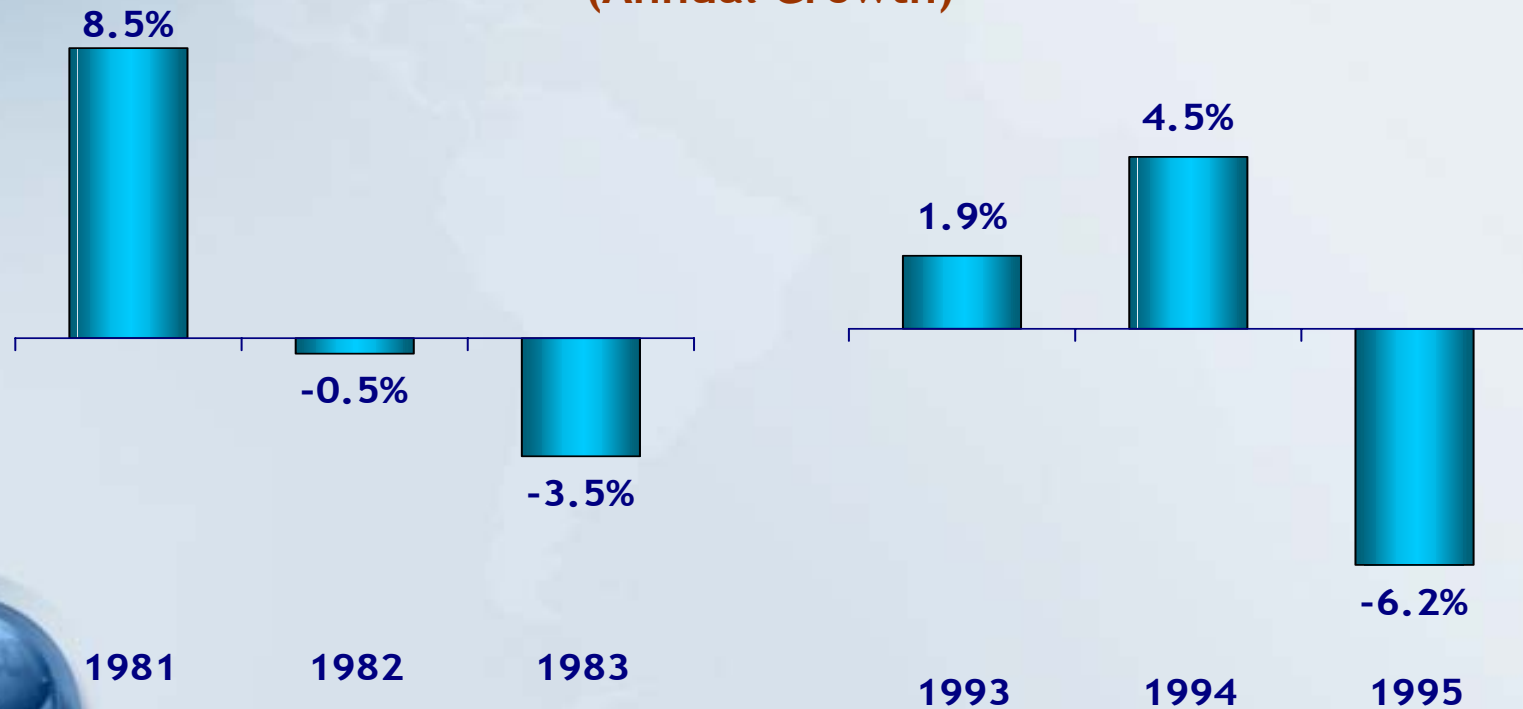


Source: INEGI

4. OPPORTUNITIES WE PROPOSE AT PRESENT

MACROECONOMIC STABILITY

REAL GROSS DOMESTIC PRODUCT (Annual Growth)

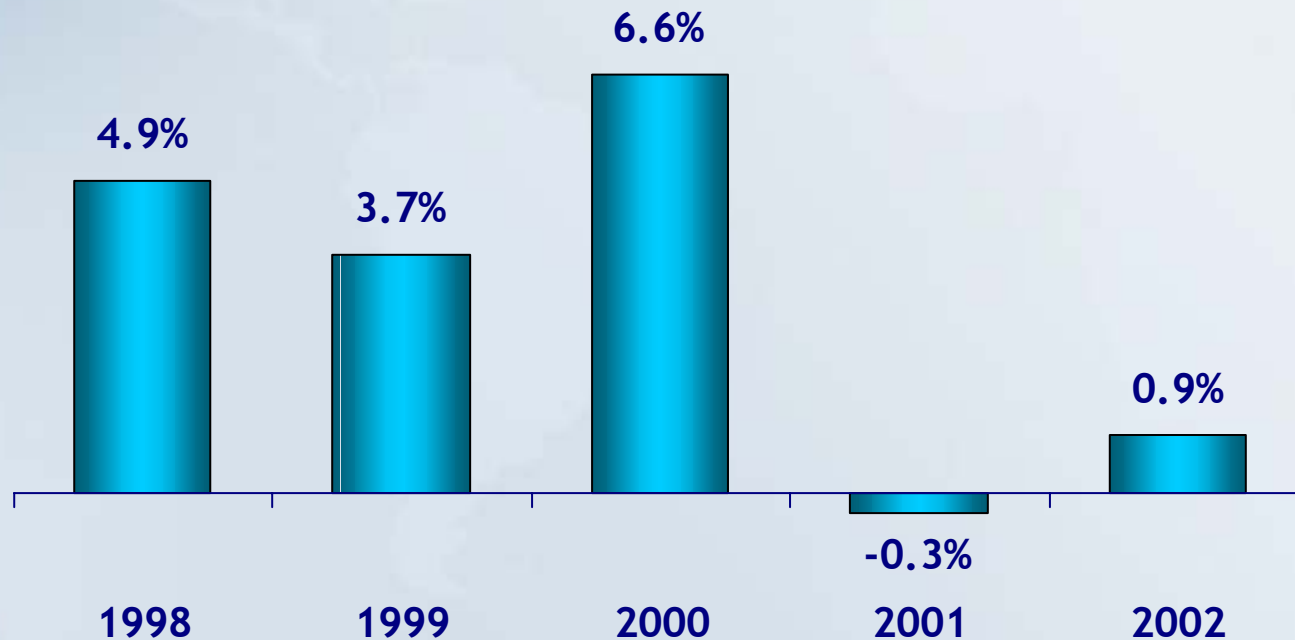


Source: INEGI

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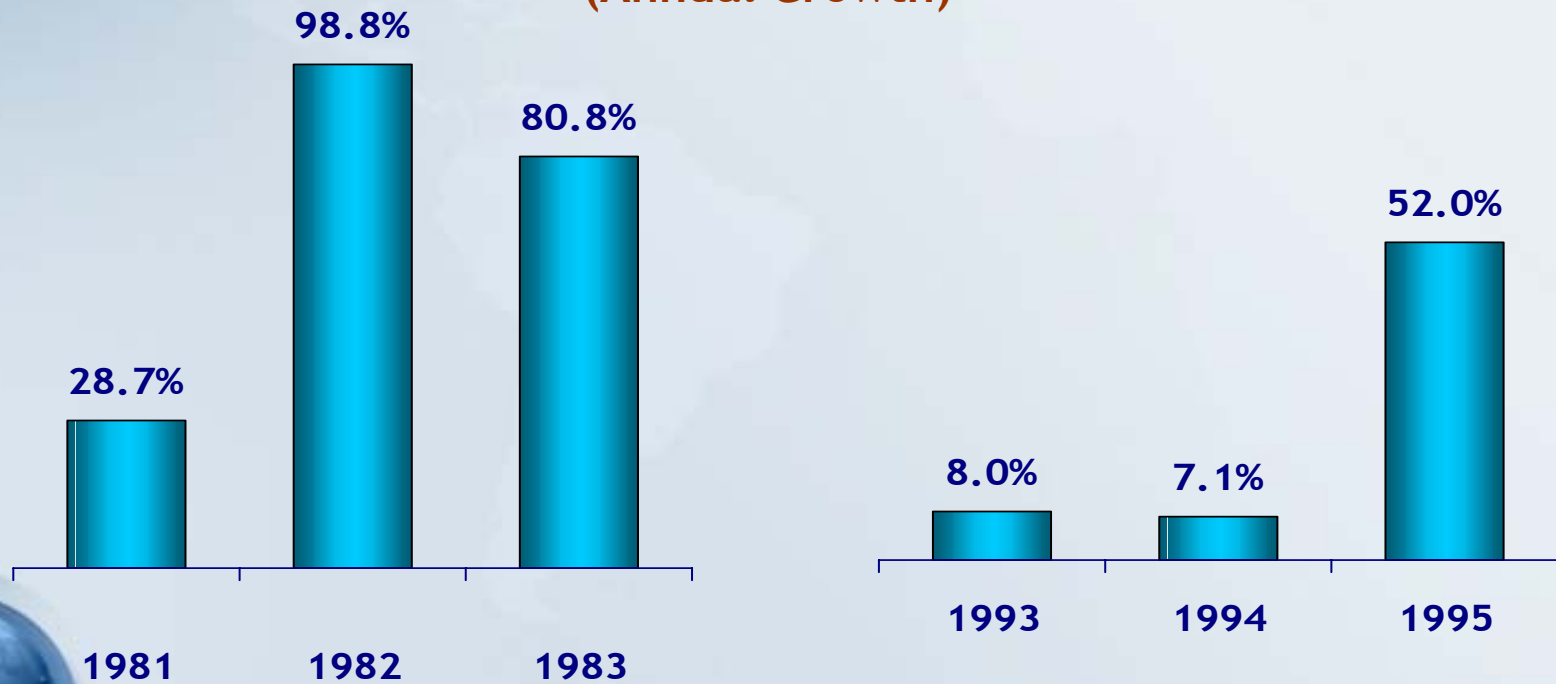


Source: INEGI

4. OPPORTUNITIES WE PROPOSE AT PRESENT

MACROECONOMIC STABILITY

INFLATION (Annual Growth)



Source: INEGI

4. OPPORTUNITIES WE PROPOSE AT PRESENT

MACROECONOMIC STABILITY

INFLATION (Annual Growth)



e: Estimate

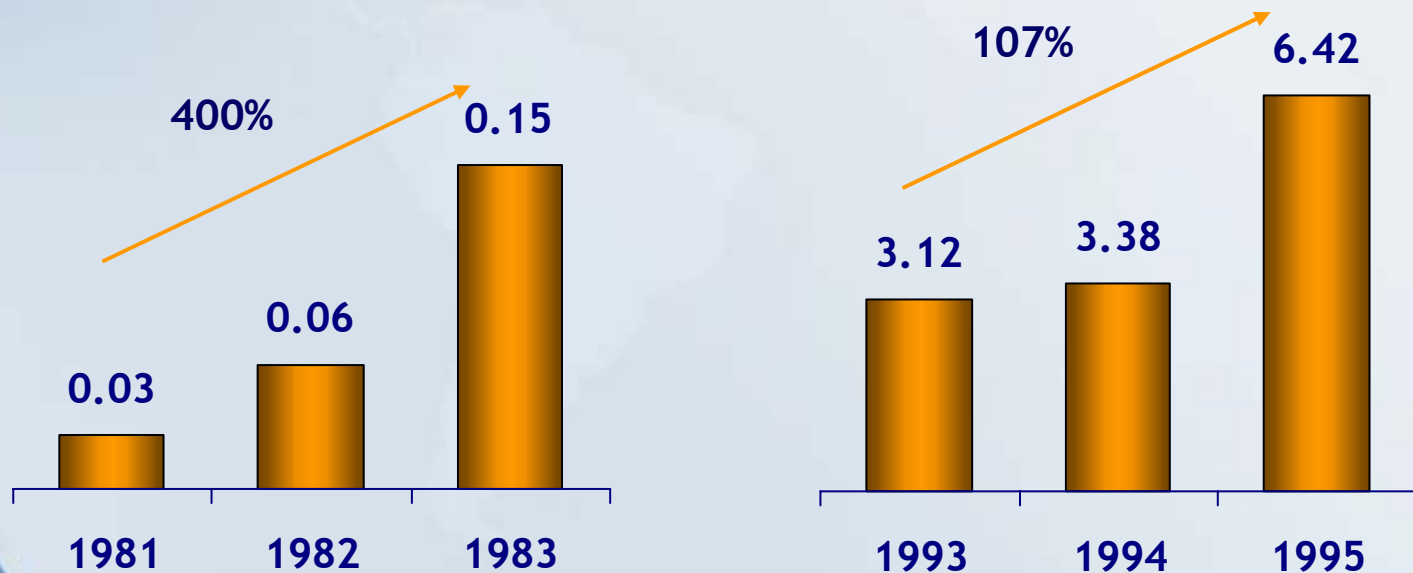
Source: INEGI



4. OPPORTUNITIES WE PROPOSE AT PRESENT

MACROECONOMIC STABILITY

EXCHANGE RATE
(Pesos per Dollar)

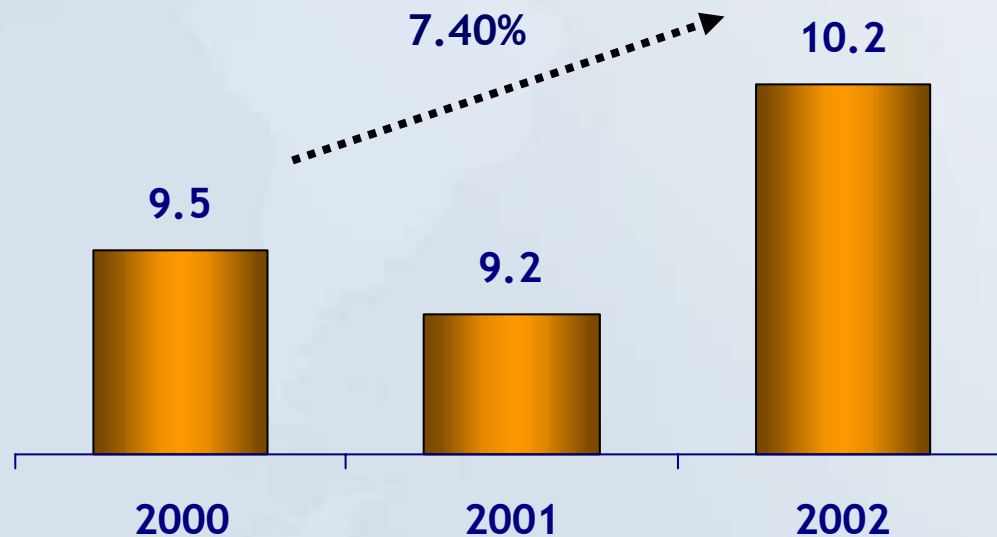


Source: INEGI

4. OPPORTUNITIES WE PROPOSE AT PRESENT

MACROECONOMIC STABILITY

EXCHANGE RATE
(Pesos per Dollar)



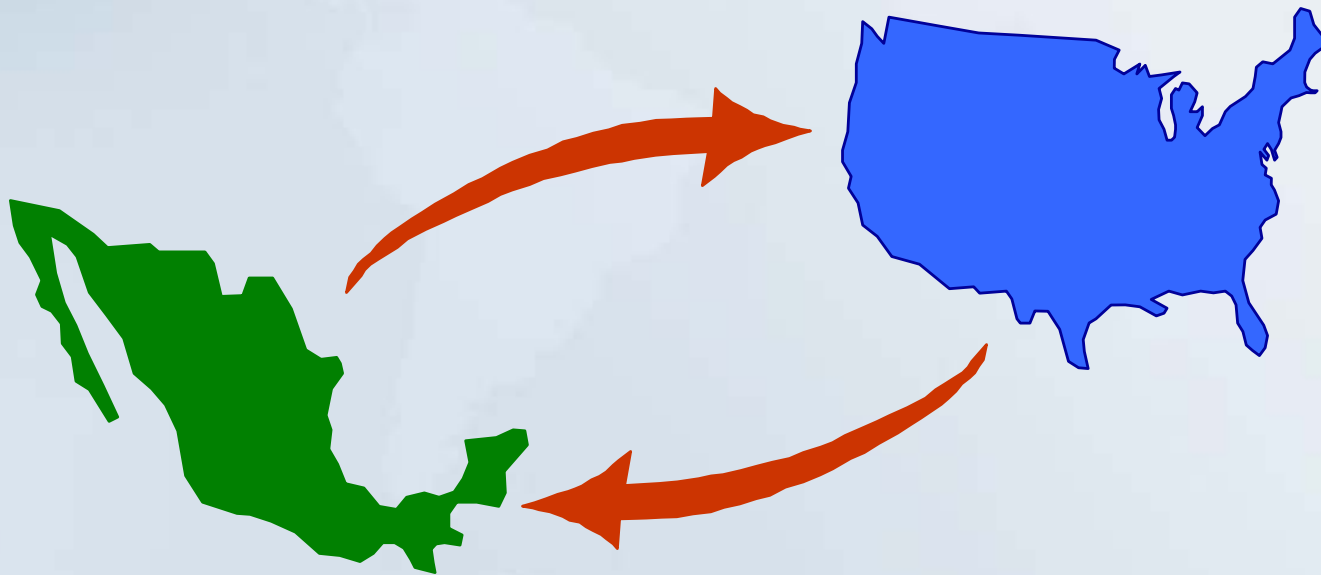
Source: BANXICO



4. OPPORTUNITIES WE PROPOSE AT PRESENT

PRIVILEGED GEOGRAPHIC POSITION

- Better outlook for logistics: Currently Mexico trades with the U.S. more than 680 million dollars a day.



Source: Ministry of Economy

4. OPPORTUNITIES WE PROPOSE AT PRESENT

COMPLIANCE WITH WESTERN STANDARDS ON CRITICAL ISSUES

- 1 Rule of Law
- 2 Intellectual Property
- 3 Anti-Trust Agencies
- 4 Human Rights
- 5 Labor Rights
- 6 Environmental Issues
- 7 Consumer Protection



4. OPPORTUNITIES WE PROPOSE AT PRESENT

THE TRANSITION TOWARD A MODERN DEMOCRACY

THE 5 AUTONOMIES

1

The Central Bank

2

The Congress

3

The Judicial Power

4

The Political Party in Power

5

The Electoral Institutions



4. OPPORTUNITIES WE PROPOSE AT PRESENT

1

**GENERAL TYPE OF TAX INCENTIVES
AND TAX CREDITS FOR R&D INVESTMENTS**



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5. PROSPECTS WE PUT FORWARD FOR THE FUTURE

SUSTAINABILITY OF ECONOMIC AND FINANCIAL CONDITIONS

1

**SOUND FISCAL
POLICY**

2

**SOUND
MONETARY
POLICY**



5. PROSPECTS WE PUT FORWARD FOR THE FUTURE

A MORE DYNAMIC ECONOMY DUE OF STRUCTURAL REFORMS APPROVAL

1

FISCAL

- Sound Policy
- Growth Oriented

2

LABOR

- More Flexible Labor Market

3

ENERGY

- A World Class Competitive Energy Sector

4

TELECOMMUNICATIONS

- Improved Level of Competition in the Sector



5. PROSPECTS WE PUT FORWARD FOR THE FUTURE

TREND TOWARDS A MORE INTEGRATED ECONOMY WITH NAFTA COUNTRIES

1

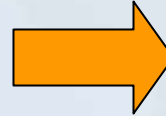
NAFTA - PLUS



5. PROSPECTS WE PUT FORWARD FOR THE FUTURE

TRADE POLICY ORIENTATION

MOST OPEN



WISEST OPEN

- FULLY EXPLOIT FTA'S OPPORTUNITIES
- RECIPROCAL TRADE CONCESSIONS



5. PROSPECTS WE PUT FORWARD FOR THE FUTURE

IMPROVEMENT BUSINESS CONDITIONS FOR SUSTAINABLE ECONOMIC GROWTH

- 1 Investment Grade
- 2 Labor Force Growth
- 3 FDI
- 4 Labor Productivity
- 5 Industrial Policy Implementation
- 6 Policy Making to Improve Domestic Economy



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6. FINAL REMARKS

COMPETITIVENESS IMPROVEMENT: CHALLENGES AHEAD

- 1 Financing
- 2 Illegal activities: smuggling
- 3 SBU
- 4 Infrastructure availability
- 5 Energy sector
- 6 Second generation of deregulation process
- 7 Agricultural sector competitiveness and transformation





November 2003

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