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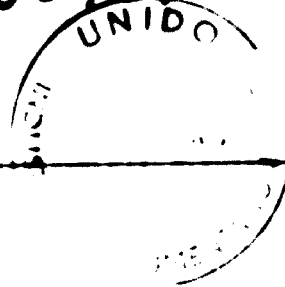
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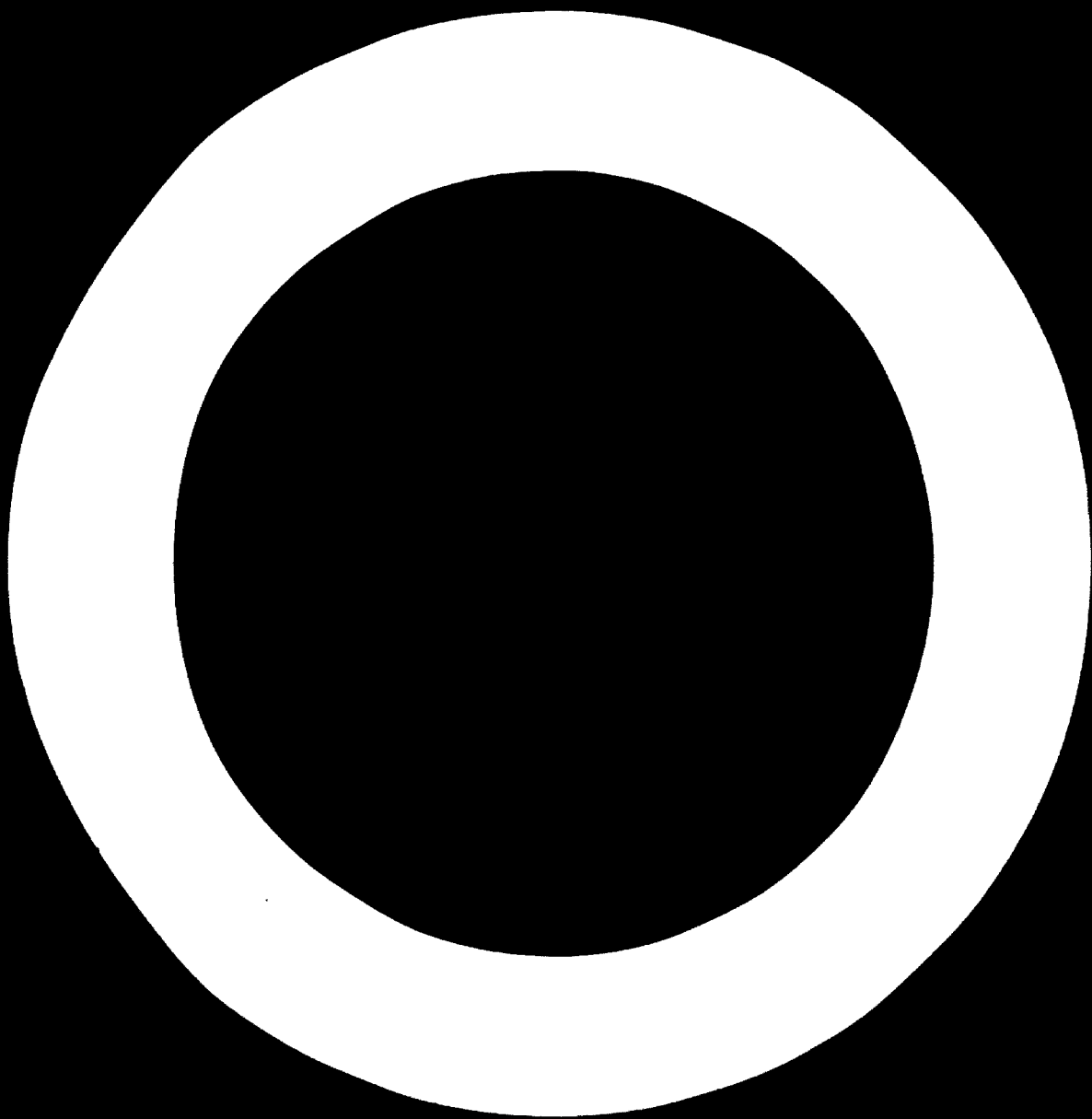
PROJECT OF THE GOVERNMENT OF MEXICO

PROMOTION OF EXPORT-ORIENTED INDUSTRY

(Phase I)

12

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UNITED NATIONS DEVELOPMENT PROGRAMME

PROJECT OF THE GOVERNMENT OF MEXICO

Title: Promotion of experts by the manufacturing sector

No.: DP/MEX/74

Duration: 24 months

Sector: Industry

Sub-sector: Promotion of export-oriented industry

Programme:

Government Co-operating Agency:

Secretariat of Industry and
Commerce, Directorate-General
of Industry

Executing Agency:

UNIDO

Date of submission: 1 January 1974

Starting date: 1 January 1975

Government contribution: _____

UNDP contribution _____

Approved

On behalf of the Government of
Mexico

Date: _____

On behalf of the Executing
Agency

Date: _____

On behalf of UNDP

Date: _____

I. BACKGROUND AND SUPPORTING INFORMATION

A. Justification for the project

Generally speaking, the trend in Mexican exports has been an uneven one, owing largely to the elements of rigidity and inflexibility in the pattern of the country's imports. The total value of exports, which in the first half of the decade was enough to cover nearly three-quarters (71 per cent) of the total cost of imports, only covered two-thirds (66.4 per cent) in the second half, and in 1970 the total value of exports amounted to barely more than half (55.7 per cent) of the imports in that year. In addition, whereas between the first and the second half of the 1960s the growth of exports slackened considerably, the average annual rate declining from 8.5 to 5.6 per cent, the average annual growth rate for imports rose appreciably, from 6 per cent in 1960-1964 to 7.5 per cent in 1965-1969. In 1970, the disparity was still more marked, owing in part to exceptional negative factors, exports declining by 1.2 per cent and imports increasing by 18.2 per cent. A significant period for the analysis of the import-export relationship is that between 1967 and 1972, in which exports of goods, including the net output of plants doing contract work, (maquila), rose at an annual rate of 12.4 per cent, which was higher than the rate for world trade, at that time about 8.3 per cent. During the same period, the value of imported goods grew at an average annual rate of 10.9 per cent. Against this background, the action taken by the Mexican Government to promote exports and rationalize imports looks ahead to the possibility of future rates of growth in the external sector which will be more stable than in the past.

The changes made in the nature and content of trade policy and in policy with regard to finance and foreign exchange, taxation and public expenditure, promotion and foreign affairs, have had a decisive influence on the performance of exports of Mexican goods.

The country has at present a relatively wide range of instruments for stimulating exports. They may be broken down as follows: firstly, those that provide fiscal incentives, which include certificates for the refunding of taxes

to CEDIS, the temporary import system and drawback of import duties, together with the system of industries working on contract; secondly, the programmes known as export programmes, the most important of which is the one for the motor industry; thirdly, financial institutions, which, apart from the National Foreign Trade Bank, include the Fund for the Promotion of Manufactured Exports (FOMEX), the National Industrial Plant Fund (FONEI) and the Guarantee and Promotion Fund for Crop Growing, Stock Raising and Poultry Farming (PIRA), among those concerned with promotion, especially through the Mexican Institute of Foreign Trade; and finally, integration agreements with the Latin American Free Trade Association, the Andean Pact and the Central American Common Market and other trade agreements.

These instruments, applied in an appropriate way, have encouraged a favourable climate for the expansion of exports. Over the period 1967-1972, the average annual growth rate of exports by the different sectors was as follows: crop growing, 2.6 per cent; stock raising and poultry farming, 23.0 per cent; fishing, 6.6 per cent; extractive industries, 0.6 per cent; and manufacturing industry as a whole, 21.0 per cent. This last has been one of the most dynamic branches in the external sector, its exports having grown at an average annual rate of 29.0 per cent over the period 1969-1972.

As regards the industries making up the manufacturing sector, the foodstuffs, beverages and tobacco industry had an average annual growth rate for the period 1967-1972 of 10.7 per cent; the textile, footwear and leather industry, 28.0 per cent; publishing, 24.0 per cent; chemicals, 40.0 per cent; non-metallic minerals, 18.5 per cent; iron, steel and other metal products, 18.4 per cent; the motor, electrical and electronic industries, 36.0 per cent; and miscellaneous manufactures, 19.4 per cent. These figures indicate the impact of these industries on the balance of payments on current account, the annual growth rate over the same period of 1967-1972 having been 12.3 per cent, a figure only just surpassed by tourism with 14.9 per cent.

To sum up, recent trends in exports of goods show the growing need to promote further expansion of these exports if the domestic objectives set in the country's development strategy are to be achieved.

The increase in total exports over the period 1974-1980 has been fixed at an annual average of 14-14.5 per cent. If this target is to be achieved, it is essential to identify the opportunities for exports of Mexican manufactures in relation to the state of international demand, and specifically for those produced by the textile, chemical, petro-chemical, pharmaceutical, metal-working, foodstuff, electrical, electronic and footwear industries.

The basic targets set for the growth of exports of manufactures will speed up the country's industrialization. The manufacturing sector's share of the total will continue to increase, rising from 44.3 per cent to 55.5 per cent by 1976, if the output of industries working on contract is included; if their output is excluded, the increase will be from 36 to 45 per cent. The reasons for promoting exports of manufactures in particular have to do with their greater unit value, their relatively elastic supply and the high income elasticity of international demand for them.

Simultaneously, the Government of Mexico has drawn up a strategy to improve the possibilities of import substitution. Recently a national exhibition was opened showing 7,000 articles which are imported and which could be manufactured domestically. In co-ordination with various agencies the characteristics of each article were analysed with a view to determining whether it could be viably produced in Mexico in the near future.

The external sector is thus acquiring strategic importance in relation to the country's urgent need to get enough currency to buy the capital goods and technology it requires for its development. The need to increase the supply of goods from the manufacturing sector to foreign markets means drawing up specific action programmes which will lead within a short period to co-ordinated and integrated productive processes such as will encourage greater use of installed capacity, more efficient scales of production, selection of the best technology, higher productivity, better quality and lower prices for the goods with regard to which Mexico has advantages over other countries because of its relative abundance of labour and other resources.

An important point to note is that the development of export-oriented industrial production is an important and integral part of the general effort to promote exports. Market analysis, export marketing and sales cannot achieve satisfactory results unless due attention is paid to the technical aspects of the problem. A balance between production and export sales is necessary to ensure a successful export promotion policy. For this reason it is considered essential to co-ordinate efforts through the export marketing project at present under the supervision of the Mexican Institute of Foreign Trade with the economic aid and co-operation of UNCTAD and the International Trade Centre.

Given the nature of the work involved in drawing up plans of operation for each of the branches of industry selected, the Government of Mexico, through the Secretariat of Industry and Commerce, submits this request to the United Nations with a view to obtaining the technical advice necessary for the preparation of these plans.

B. Institutional framework

The Directorate-General of Industry, which comes under the Secretariat of Industry and Commerce, is the body which is institutionally responsible for regulating, co-ordinating and promoting the country's industrialization.

Its organization includes five industrial sub-directorates, and specifically the Department of Industrial Promotion and Programming, whose activities form part of the general process of planning the reorganization of production in the branches of manufacturing industry selected.

Within the Department of Industrial Promotion and Programming, a team of technicians will be assigned as counterparts to the international experts provided by UNIDO, co-ordinating with the Project Co-Manager, who will be qualified to assume the task of servicing the development of industrial exports. This service could eventually form the nucleus of a permanent organ after the

termination of the present project. To this end, the second phase of the project which, it is hoped, will be implemented in continuation of the present phase during 1977, will be directed towards working out institutional arrangements.

The work being carried out by the Secretariat of Industry and Commerce in conjunction with UNIDO in the projects entitled "Productivity in Industrial Branches of the Manufacturing Sector" and "Industrial Programming" will also be regarded as forming part of these operations.

C. Provision for government follow-up

As part of its institutional functions, the Directorate-General of Industry will ensure the continuity of work on the project until the final objectives are achieved.

D. Future technical assistance

After the completion of the first phase of the project during 1975 to 1976, it is anticipated that the second phase will be implemented during 1977 continuing the activities of the project and at the same time assisting the Government to establish and consolidate the Industrial Development Service for Exports as a permanent body.

The precise nature and duration of the assistance will be considered during the present project and decided at the annual review meetings in 1976. At the moment it is anticipated that UNDP/UNIDO assistance will be requested.

Given the nature of the work involved in drawing up plans of operation for each of the branches of industry selected, the Government of Mexico, through the Secretariat of Industry and Commerce, submits this request to the United Nations with a view to obtaining the technical advice necessary for the preparation of these plans.

II. OBJECTIVES OF THE PROJECT

The project is not included in Mexico's country programme.

A. Long-range objectives

The country's industry is faced with the need to bring more rational methods into general use at different scales of production and to adopt techniques which will ensure a greater supply of manufactured goods in the future, in order to meet the growing demand on international markets for goods which are competitive in price and quality.

The long-range objectives of an export promotion policy are linked with aspects of industrial programming, such as the size of the plants, price ratios between Mexican and foreign goods and the degree to which costs are offset by the export promotion machinery, better utilization of raw materials, phasing out of small-scale production, reorganization of obsolete processes and equipment and reduction in the high cost of the transfer of technology.

When phases I and II are completed, it is anticipated that after the essential work carried out in co-operation with UNIDO, the national counterparts will be capable of carrying through the setting up of an Industrial Development Service for Exports on a permanent basis under the Department of Industrial Promotion and Programming which comes under the Directorate-General of Industry in the Secretariat of Industry and Commerce.

B. Immediate objectives

The operative part of this project envisages the following short-term objectives:

1. To raise levels of productivity in the manufacturing sector;
2. To make the prices of potential exports more competitive;
3. To adapt the production of manufactured goods to the requirements of international markets;
4. To diversify the output of export-oriented industries by developing and introducing new products;

5. To promote international co-operation in the area of technological innovation and in the application of techniques suited to the structure of the export industries;
6. To promote and encourage progressive revision and improvement of the system of export incentives;
7. To promote the adoption of such incentives by industry, in the light of the advantages to be derived from the export of manufactured goods;
8. To organize a suitable information system for export promotion;
9. To analyse the productive and organizational structure of each branch of manufacturing industry in which the relative advantages as regards labour and other resources are such that special lines of products can be developed for export.

III. WORK PLAN

A. Description of project activities

The overall project will last three years, divided into two phases. The present project will cover the implementation of the first phase from January 1975 to December 1976. The second phase which, it is hoped, will follow on the first phase from January 1977, will be included in the indicative planning figure of the country programme for Mexico for 1977 to 1981.

The various activities will be co-ordinated and inter-connected with the aim of solving the problem of developing the exports of specific branches of industry in a practical manner.

An attempt will be made to study the nature of the obstacles impeding the expansion of exports and to provide solutions through a wide variety of forms of technical assistance and promotion. This work will be carried out in an integrated manner, in order to provide the most detailed possible analysis as a basis for achieving the objectives.

The sectors that are particularly important for industrial exports as a whole will be studied by experts specialising in industrial promotion and co-operation, inter-industrial structure and similar matters. A general summary of the results achieved and experience gained in each branch of industry will lead to the formulation of a long-term development plan for exports.

The details of the project work plan will be based on the findings and final report of the UNIDO mission of eight experts referred to in previous paragraphs. Nevertheless, in implementing the project, a flexible attitude will be adopted as regards the various problems and the need for assistance from international experts. To this end the Project Manager, in collaboration with the Co-Manager and the group of experts, will evaluate the needs of the various industrial branches, having regard to those with the greatest potential for expansion of output, the orientation of their exports, and the type and duration of the technical assistance required. The group of experts will devote an appropriate amount of time to activities connected with the need for technical assistance. The programme will include inter alia the following activities:

1. A thorough analysis will be made of the final report of the eight experts, including the details of the work programme recommended for specific areas of the industrial sectors investigated;
2. Promotional activities will include investigation of the possibility and necessity of establishing a body to arrange contract work, both nationally and internationally, for the manufacture of products in different branches of industry;
3. During the first phase of the project, each of the experts studying the five sectors selected will concentrate on the aspects of technology, productivity, quality control, adaptation of products to the requirements of the international market and, finally, diversification of exports through the identification of potential new exports and their introduction on to the corresponding markets. An analysis will also be made of problems of cost and competitiveness, including research into the availability, cost and quality of national imports. Recommendations will be drawn up on these matters. Finally, advice will be given on the adaptation of new technology and know-how.

The experts analysing the five sectors in each phase will be assisted by other experts who will come to work on short missions. That is to say, when the solution of problems identified in any particular sector requires highly specialized knowledge, an expert will be engaged for a month or two to help analyse those problems and make recommendations for solving them;

4. Promotional activities will include study tours undertaken by Mexican industrialists in order to establish contacts with industrial and manufacturing circles in other countries, co-ordinate co-operation, take part in industrial seminars and learn about the principles to be applied in the adaptation of products.

Another feature of these activities will be the organization of round tables in Mexico at which representatives of the industrial community can meet and discuss the progress made in promoting the development of the country's external sector.

The project includes the provision of fellowships for selected Mexican industrialists in each industrial branch studied, for a period of approximately two months, so that they can study ways of adapting new technology and know-how which it is planned to introduce in the future, in accordance with the project recommendations. Similarly, contacts will be established with commercial bodies with a view to studying the operation of the channels for marketing and distribution abroad;

5. Attention will be given to the possibility of establishing pilot plants at which demonstrations can be given to Mexican industrialists on the adaptation of technology, quality, etc.;
6. The results achieved with the project will be submitted annually to the Mexican authorities and to UNIDO. At the end of the first phase, a report will be submitted on the results of the investigations, putting forward recommendations for each of the sectors studied, and at the end of the second phase there will be a general report on the project as a whole.

B. Description of UNDP inputs

I. Assignment of international staff

In addition to the Project Manager, there is the possibility of having the co-operation of up to 3 experts on a short-term basis for a total of 36 man/months. They will be appointed for periods of between one and six months to work on specific problems in areas already identified during the implementation of the project. The type of experts and the length of their short-term missions will be decided by the Project Manager, the Co-Manager, and representatives of the Secretariat of Industry and Commerce and UNIDO.

PROJECT BUDGET COVERING UNDP CONTRIBUTION (IN US DOLLARS)

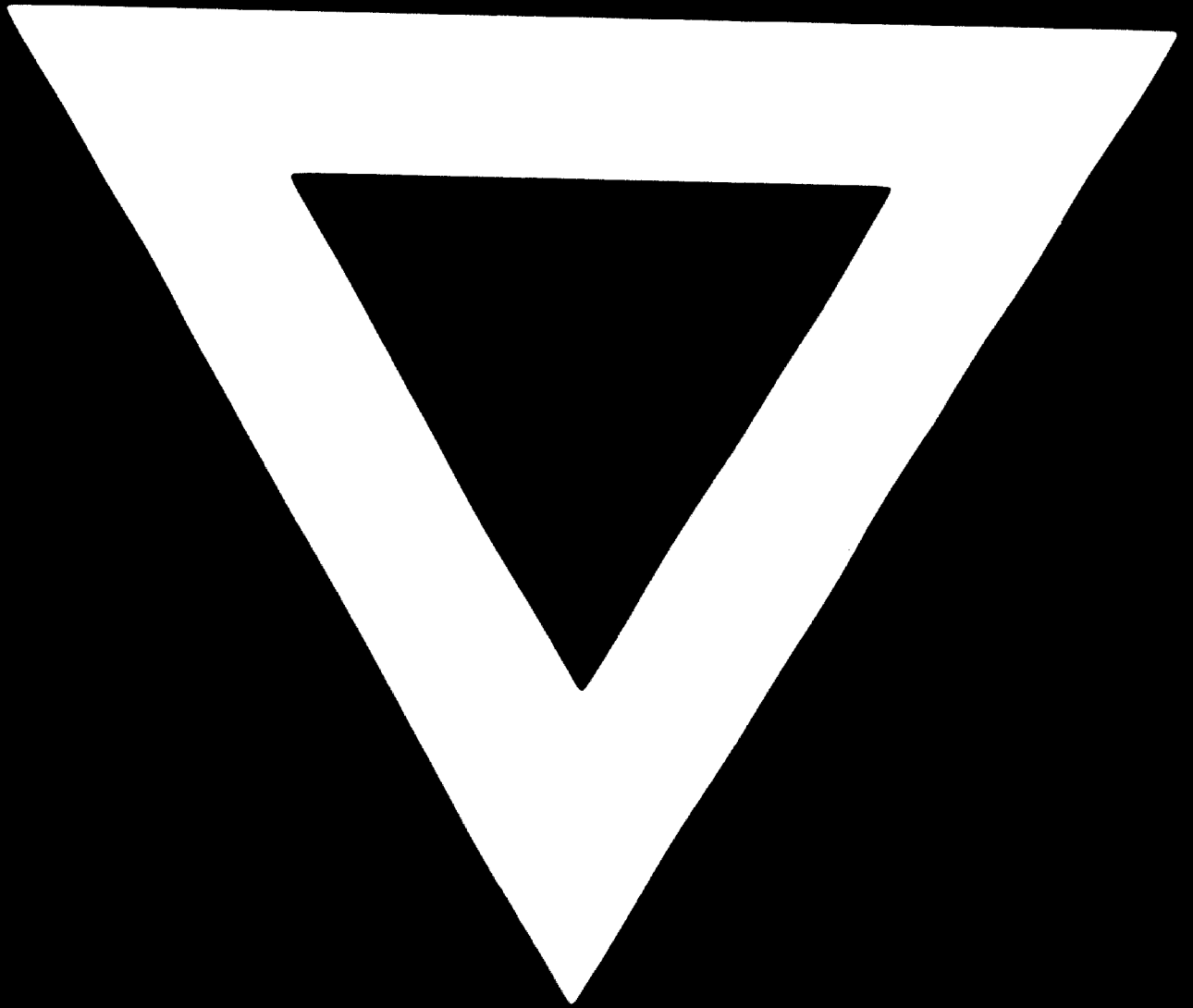
Country: Mexico
 Project No.: IP/MEX/74
 Title: Promotion of exports by the manufacturing sector

	Phase 1				Total Thousands \$ / m of dollars
	1975		1976		
	Thousands \$ / m of dollars	m / m of dollars	Thousands \$ / m of dollars	m / m of dollars	
1. International experts					
(a) Project manager	12	30	12	24	60
(b) Advisor to project manager	8	20	10	18	45
(c) Experts on short-term missions	18	45	18	36	90
Sub-total	<u>38</u>	<u>95</u>	<u>40</u>	<u>78</u>	<u>195</u>
2. Training					
(a) Fellowships	10	8	20	30	24
(b) Study tours, participation in international seminars and conferences on product adaptation	-	20	-	-	40
Sub-total	<u>10</u>	<u>28</u>	<u>20</u>	<u>30</u>	<u>64</u>
3. Equipment					
(a) Car	-	5	-	-	5
(b) Office equipment (photocopier, calculator etc.)	-	5	-	-	5
Sub-total	<u>-</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>
4. Miscellaneous expenditure					
(a) Promotional activities (seminars, round tables, etc.)	-	15	-	15	30
(b) Transport costs, testing of samples for products to be adapted	-	5	-	-	10
(c) Annual review of products and reports	-	5	-	-	10
(d) Other	-	-	5	5	10
Sub-total	<u>-</u>	<u>-</u>	<u>30</u>	<u>30</u>	<u>60</u>
GRAND TOTAL	<u>48</u>	<u>163</u>	<u>60</u>	<u>108</u>	<u>329</u>

PROJECT BUDGET COVERING GOVERNMENT COUNTERPART CONTRIBUTION (IN LOCAL CURRENCY)

Country: Mexico
 Project No.: DP/MEX/74
 Title: Promotion of exports by the manufacturing sector

	Phase 1		Phase 2	
	1975	1976	1975	1976
	M/M	Pesos	M/M	Pesos
1. Project personnel				
1. Project co-manager	12	180,000	12	180,000
2. Five experts	60	600,000	60	600,000
3. Three secretaries	36	108,000	36	108,000
Sub-total	<u>108</u>	<u>888,000</u>	<u>108</u>	<u>888,000</u>
2. Equipment				
1. Expendable equipment	-	60,000	-	60,000
2. Non-expendable equipment	-	1,000,000	-	1,000,000
3. Premises	-	120,000	-	120,000
Sub-total	-	<u>1,180,000</u>	-	<u>1,180,000</u>
3. Training				
1. Training courses	-	-	30	169,000
Sub-total	-	-	<u>30</u>	<u>169,000</u>
4. Promotional activities				
1. Travel costs	-	38,000	-	62,500
2. Organization of round tables, seminars, etc.	-	-	-	250,000
3. Establishment of pilot plant	-	-	-	200,000
Sub-total	-	<u>38,000</u>	-	<u>312,500</u>
TOTAL	<u>108</u>	<u>2,106,000</u>	<u>138</u>	<u>2,449,500</u>



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