

OUR INDUSTRY IN NUMBERS: 2021

UPDATES: More key data /

What are "payments in clarification process" and how can we avoid them? /

Halfway through: AMLO's first 3 years



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CONTENT

- 2 **Our industry in numbers: 2021**
- 5 Key statistics
- 7 Risks in 2022
- 8 **Updates**
- 9 More key data
- 10 What are “payments in clarification process”
and how can we avoid them?
- 12 Halfway through:
AMLO's first 3 years
- 14 **Our team**

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OUR INDUSTRY
IN NUMBERS: **2021**

In this edition we analyze the most current manufacturing industry statistics. We compare the performance of key variables between 2019 and 2021 and forecast the near future.

There are good signs. Our industry will continue to be an important ally in Mexico's economic recovery.

INTERDISCIPLINARY PUBLIC RESEARCH TEAM ¹

Seen through the numbers, the export manufacturing industry has weight in our country's economy. Its operations bring with it jobs, investment and a wide range of goods and services. It is a diverse sector: it includes the automotive and aerospace industries, electronics manufacturing, computer equipment welding, furniture and medical equipment assembly, and a long etcetera. In the same sector there are companies with less than 5 employees and companies with more than 5 thousand. Manufacturing enterprises are usually concentrated in the northern border, but they are scattered all throughout Mexico. Thus, the export maquiladoras are a source of economic dynamism. 2021 adds evidence to these observations: after a year of a well-navigated economic contraction, the industry is regaining its growth momentum and betting on the future.

Preliminary data from companies in the IMMEX program are positive. So far in 2021, there are close to 5,200 manufacturing establishments in Mexico enrolled in the program, employing almost 2.8 million people². By September of this year, these companies had earned \$2.7 trillion pesos in revenues because of exports³, which represents a growth of 29.5 percentage points compared to the same period in 2019. And so, we can go on.

In this issue we explore the industry through statistics. We also describe how Mexican manufacturing was resilient, even with the constraints of the pandemic, because of its appropriate position in global value chains. And finally, we explore the outlook for the near future.

¹ Meet its members on the **last page**.

² Tierplus MX with data from INEGI (2021). The exact number of establishments is 5,194. The exact number of employed personnel is 2,763,091 people. The exact number of manufacturing enterprises is 579,828 (2019, Data Mexico).

³ Tierplus MX with data from INEGI (2021). Exact number is 2,688,893 million pesos.

KEY STATISTICS

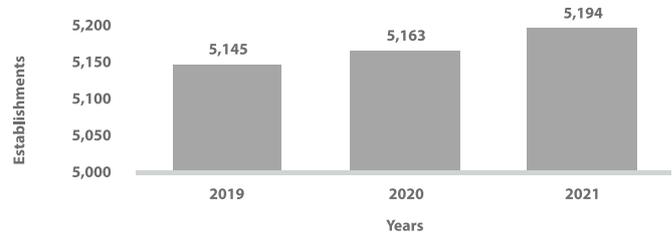
Let's begin by recognizing that statistics tell only part of the story. Behind each figure there are efforts, collaborations, and challenges that only those involved know in detail. It is not an accident to mention it. The numbers must be thought about together with the circumstances that generated them. It is easy to write the word "billions", but not what it represents in human effort. An imaginative leap can help us: behind the number there is also the daily traffic that employees go through, the hundreds of thousands of hours in Zoom, the assemblies made by hands trained for decades, the international orders, the friendly conversations in the office, the machinery running twenty-four hours a day, every day... Let's keep it in mind to better enter the technical side.

This study covers these variables of the performance of our sector: the number of manufacturing establishments, employed personnel, exports and imports, foreign direct investment, and economic spillover⁴. Together they offer us an optimistic scenario, but with nuances. Let's start.

Manufacturing establishments

Graph 1 shows the behavior of new IMMEX manufacturing establishments over the last three years. By percentage, these establishments are generated mainly in Chihuahua, Baja California, and Nuevo Leon, in that order, followed by Coahuila, Tamaulipas and Guanajuato. The pattern is clear: if the entity is a border state, it is more likely to attract new manufacturing establishments. This is due to the competitive advantage of location and the formation of clusters, which reduce operating costs.

Graph 1. Average number of new IMMEX manufacturing establishments per year in Mexico: 2019-2021.

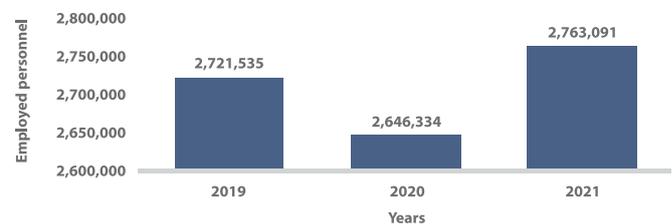


Despite the effects of the pandemic, manufacturing establishments have continued to grow.

Employed personnel

The number of people employed in IMMEX manufacturing establishments is 30.8% of the national employment in the manufacturing sector. With less than 1% of the companies in the industry, IMMEX companies employ almost one third of the workers in the national manufacturing sector. In contrast to manufacturing establishments that had sustained growth, the number of employed personnel decreased in 2020. In 2021 there are clear signs of recovery (see Graph 2).

Graph 2. Average number of employed personnel in manufacturing companies (IMMEX) in Mexico: 2019-2021.



The pandemic led to a decrease in contracted personnel. The trend has reversed so far in 2021.

⁴ All graphs and calculations were prepared by Tierplus MX with data from INEGI (2021) for the manufacturing sector in the IMMEX program, except where indicated.

Exports and imports

Exports from the manufacturing IMMEX establishments decreased by -5.9% in 2020, when in 2019 they had grown 6.9%. The annual growth recorded from January to September 2021 is 19.7% compared to the same period in 2020 and 6.6% compared to the same period in 2019. All northern border states decreased their exports in 2020 compared to 2019 and expect to surpass them in 2021. The states that have exported the most during the 2019 to 2021 period are Coahuila, Nuevo Leon, Guanajuato, and Baja California, in descending order.

On the other hand, imported goods and services in 2019 at the national level were 216.204 billion dollars (USD), in 2020 they dropped to 188.37 billion and by September 2021 they totaled 166.86 billion. Percentagewise, in 2020 the drop was -12.9%, but the recovery rate in 2021 has been higher, compared month to month.

Foreign direct investment

Foreign direct investment (FDI) in manufacturing in 2019 was 15.884 billion dollars, 46.3% of the total captured in the country. For 2020, FDI fell to 10.693 billion, which implied a 38.7% reduction compared to the total of the previous year. So far in 2021, the investments accumulated in 2020 has already been surpassed, since 11.17 billion have already registered (*see Table 1*).

Table 1. FDI behavior in Mexican manufacturing (2019-2021)

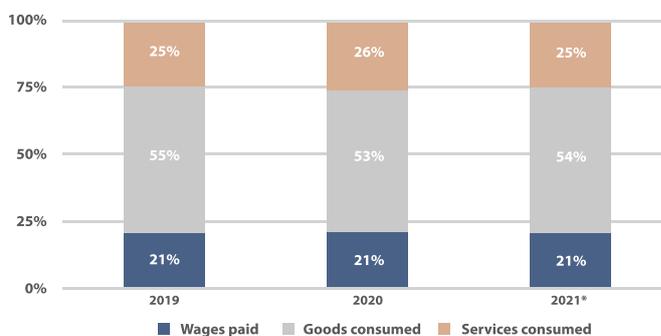
Years	FDI in the Mexican manufacturing sector	National FDI	Percentage share of total FDI
2019	15,884	34,269	46.3
2020	10,693	27,635	38.7
2021*	11,170	24,832	45.0

*From January to September. Data from the Ministry of Economy. The share of the IMMEX manufacturing sector in FDI is preponderant.

Economic spillover

We finish with an indicator of special relevance, the sector's economic output. We measure economic spillover as the sum of wages paid and the consumption of goods and services. It is an approximate measure of total spending by IMMEX companies in Mexico. Graph 3 shows that the sector has maintained high levels of spending, even during the pandemic, which reflects the resilience of its operations, on the one hand, and its economic support to millions of families, on the other.

Graph 3. Economic Output of Manufacturing Companies (IMMEX): 2019-2021



Seen in totals, in 2019 the industry spent 145.318, 124.473 billion in 2020 and, by September 2021, 105.993 billion.

Therefore, there are good expectations for the sector. Now let's look at the risks ahead.

RISKS IN 2022

The pandemic is not over, nor is there any certainty that it will end soon. But this is not the only element to consider; there are risks in different arenas: economic, supply and commercial. Considering these in advance can help the industry to take appropriate action.

- **New SARS-CoV-2 variants.** Scientists monitor all the variants that the virus develops and classify them according to their impact. There are variants classified as low monitoring, of interest, of concern and with serious consequences. Some spread faster than others, neutralize the vaccine more and have different impacts on health. Now there are only two variables of concern: Delta and Omicron. None of the current variants are classified as having serious consequences.
- **Inflation and restrictive monetary policy.** In the last few months there has been a significant increase in price levels in Mexico. If inflation continues to grow at an accelerated rate, the central bank will keep raising the benchmark rate. Rising rates make borrowing and lending more expensive, which could limit liquidity in operations. This may be especially problematic if there are further pandemic-induced shutdowns.
- **Supply chain disruptions, trade war and slowdown in China's economy.** Container congestion rates continue at major ports due to increased consumption and slow container throughput. At the same time, tariff restrictions between China and the United States continue, making supply chains more susceptible to

paralysis. And there is something else: a crisis could begin in the real estate market in China, which would impact the rest of the world economy.

In addition to these risks, there are geopolitical conflicts in the Middle East, which could limit the availability of crude oil, tensions between Russia and Ukraine, and political conflicts in China. The industry and its suppliers will have to prepare to address these scenarios.

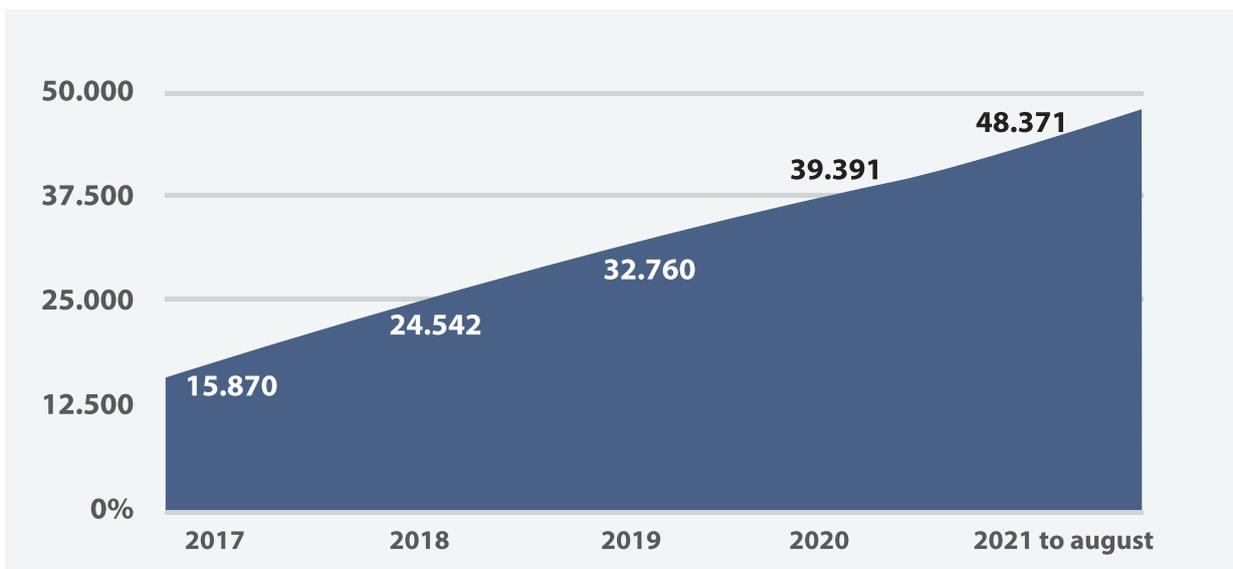
UPDATES

MORE KEY DATA

By Carlos E. Palencia Escalante, partner of *CEO Consultoría Estratégica & Outsourcing*

- IMMEX revenues from manufacturing activities totaled 93.688 billion dollars in the first eight months of the year. If production and export performance continue to be strong, the revenue could exceed 130 billion dollars by the end of 2021, surpassing the records of 2020. Making an estimate per day, from January to August, IMMEX manufacturing companies disbursed a little more than 136 million dollars per day.
- From 2016 to August 2021, IMMEX manufacturing companies have made fixed asset imports of just over 48 billion dollars. The acquisition of fixed assets in the first eight months of this year is higher than the annual record for 2019 and even higher than any year-end since 2008, when it reached 9.755 billion dollars (see Graph 4).
- In August, IMMEX manufacturing companies employed 3 million 121,552 people, of which 2 million 801,293 are in manufacturing activities. On the other hand, there has been a change in the type of contracting of manufacturing personnel, attributable to the labor reform: subcontracted employment has decreased. In August 2021, 159,643 people were registered in the subcontracting scheme. Twelve months earlier, there were 513,658 employees in this modality.

Graph 4. IMMEX, Imported Fixed Assets: 2017-2021 (billion USD)



WHAT ARE "PAYMENTS IN CLARIFICATION PROCESS" AND HOW CAN WE AVOID THEM?

By **Luis Enrique Marín Bañales**, General Coordinator of Tax Collection, **INFONAVIT**

Caring about and taking care of our workers should be one of our highest priorities as employers. Complying in a timely manner with the social security obligations set forth by law is important, but we must also make sure that this is done correctly.

Payments in clarification process (pagos en proceso aclaratorio) is a security mechanism in the processes of the Retirement Savings System (SAR) that seeks to protect the assets of workers when the payments of contributions or amortizations made by their employers cannot be correctly identified. This situation may be because the worker's account is going through some operational process or because the worker's identification data is not correct. If the latter happens, both employers and workers can take action to stop it. Thus, workers can always dispose of their assets and employers can reflect a genuine interest in it. Acting on this issue, besides being simple, offers benefits in the future. Failure to resolve the payment process in a timely manner may cause inconveniences despite having made the payments on time.

Employer: invite your workers in Mexico to register in "My Infonavit Account" (Mi cuenta Infonavit), the Institute's portal where they can carry out different procedures and services without leaving home. Once they are registered, they should review, at least every two months, their summary of movements available in the "My Savings" section. There they can keep track of everything that is happening with their Housing subaccount. This portal can show all the movements or a particular one; likewise, information can be consulted from 1972 to date or for a specific period.

The summary of movements allows you to select "Payments in Clarification", where you can identify if you have payments of contributions and/or amortization of your loan within the clarification process. If they identified movements in this section, they should contact the Retirement Fund Administrator (Afore) with which they are registered to request that these resources be recognized. The Afore will indicate the documents to be submitted. If the worker is not correctly registered in an Afore, invite him to choose the one that best suits him and to register to make the most of his Housing Sub-account.

If any of your workers identifies that they have accounts with payments in the process of clarification that you have made, you must correct their data in your payroll systems so that they match exactly with those that appear in the Mexican Social Security Institute (IMSS), Infonavit and their Afore. For the same reason, it is important that the worker has correctly registered in these three government agencies his full name, date of birth, Federal Taxpayers Registry (RFC), Unique Population Registry Code (CURP) and Social Security Number (NSS). To update these data in Infonavit, the worker can do it from the My Infonavit Account without having to make an appointment or leave home.

With the intention of having a closer relationship with the workers and that they are aware of what is happening with their savings in the Housing Subaccount, Infonavit offers them the Summary of Movements through our Infonavit Mobile Application, available in the three main application stores in the market. To have access, you must be regis-

tered in My Infonavit Account, through Infonavit's official webpage. Employer: it is important to remind you and your workers that all our procedures are free of charge.

HALFWAY THROUGH: AMLO'S FIRST 3 YEARS

Information by **Grupo Estrategia Política**

The first half of President Andrés Manuel López Obrador's administration has been characterized by three central elements:

- republican austerity in the exercise of public resources and the performance of public officials;
- the "fight against corruption", which is understood as the cause that impedes the country's development and well-being; and
- the concentration of power and decision-making in the head of the Federal Executive.

Of the 100 commitments made by the Federal Executive in 2018, the government has reported that 98 have been fulfilled. Among them: granting pensions and scholarships; creating the National Guard, the Health Institute for Welfare (INSABI), the Welfare Bank; carrying out the public consultation to prosecute former presidents; and the construction of the Dos Bocas Refinery, the Mayan Train, and the Felipe Ángeles Airport, among others. Among the missing commitments, the following stand out: the decentralization of the federal secretariats and the clarification of the disappearance of the 43 students of Ayotzinapa. On the other hand, the Presidency of the Republic has promoted conflict with public bodies of the State, mainly with the constitutional autonomous bodies, and budgetary pressure to influence the functions of the bodies. This will jeopardize the functioning of these bodies in the coming years.

Currently, the President of the Republic has the highest approval rating of the last four six years.

According to Consulta Mitofsky, Andres Manuel Lopez Obrador's administration has 65% approval.

What's next for 2022? The four key issues

Open Parliament on energy matters. The initiative sent by the President of the Republic on energy matters will be the main topic of the second period of the first year of sessions of the LXV legislature. Recently, the Political Coordination Board of the Chamber of Deputies approved the celebration of the open parliament. This will consist of 17 forums and will be held from January 15 to February 17. It is expected that both the President of the Republic and the Morena legislators will intensify their regional campaigns to inform the population about the benefits of the energy reform. By doing so, they will exert media pressure against opposition legislators and will seek to obtain the necessary votes.

Elections 2022. On June 5, 2022 elections will be held in Aguascalientes, Durango, Hidalgo, Oaxacan Quintana Roo and Tamaulipas. Various pollsters project that Morena is ahead in five of the six states, while the "Va por México" alliance leads the polls in Aguascalientes.

Appointments 2021-2022. Congress will have to ratify or elect during 2022:

- (i) a member of the Board of Governors of the Instituto para la Protección al Ahorro Bancario;
- (ii) one member of the Board of Governors of the National Institute of Statistics and Geography;

(iii) three commissioners of the Federal Telecommunications Institute; and

(iv) three commissioners of the Federal Economic Competition Commission.

In sum, 2022 will be a year of intense political activity.



OUR TEAM

This publication is produced by a committed, multidisciplinary team. Our goal is to take the economic, political, and social knowledge of the manufacturing industry to the next level⁵. By disseminating our findings, we seek to raise the level of public debate. Share and comment freely, let's start the dialogue.



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