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**UNITED NATIONS
(ECONOMIC COMMISSION
FOR LATIN AMERICA AND THE CARRIBBEAN)
and
MEXICO**

**Memorandum of Understanding on the project “Mexico:
A competitiveness strategy compatible with its effective
integration in the world market”. Signed at Mexico City
on 7 and 8 June 1993**

Authentic text: Spanish.

Registered ex officio on 8 June 1993.

**ORGANISATION DES NATIONS UNIES
(COMMISSION ÉCONOMIQUE
POUR L'AMÉRIQUE LATINE ET LES CARAÏBES)
et
MEXIQUE**

**Mémorandum d'accord relatif au projet « Mexique : Une
stratégie de concurrence compatible avec une insertion
efficace du pays dans le marché mondial ». Signé à
Mexico les 7 et 8 juin 1993**

Texte authentique : espagnol.

Enregistré d'office le 8 juin 1993.

[TRANSLATION — TRADUCTION]

MEMORANDUM OF UNDERSTANDING¹ BETWEEN THE GOVERNMENT OF THE UNITED MEXICAN STATES AND THE ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN (ECLAC)1. *Background*

The economic stabilization policy carried out in Mexico in recent years has markedly reduced inflation, reactivated national productive activity and attracted large flows of capital from abroad. This favourable macroeconomic performance has been accompanied by a radical change in the environment in which Mexican firms operate, generated by more openness to external competition and less direct State intervention in the production system.

The efforts of firms to adjust to these new market conditions have produced substantial results in the manufacturing sector, whose productivity has risen significantly and whose rate of export growth has outstripped that of world trade. However, the expansion of its output has gradually been losing momentum and its labour absorption capacity has proved to be inadequate. Moreover, the unevenness of these effects seems to be widening inter- and intra-sectoral disparities and reinforcing the tendency of industry to become concentrated in certain areas.

(a) *Objective of the umbrella project “Mexico: a competitiveness strategy compatible with its effective integration in the world market”*

It is therefore worthwhile to investigate what courses of action and support measures the State could take, in concert with the private sector, to speed up the process of modernizing and enhancing the competitiveness of the industrial apparatus and to reduce the costs of adjusting to the new economic conditions, thereby ensuring the transition to a more advanced stage of development.

Against this backdrop, the Office of the President and the Ministry of Commerce and Industrial Development are preparing the project “Mexico: an industrial policy strategy compatible with its effective integration in the world market”, whose aim is to work with the business sector in defining an industrial policy strategy. To that end, four conglomerates — the food, textile and clothing, petrochemical and automotive industries — will be analysed to identify the factors that help to enhance their domestic and international competitiveness and to reduce the trade gap to levels compatible with faster economic expansion and sustained national development.

(b) *Description of umbrella project*

The umbrella project has three components. The first focuses on three issues: (i) industrial development policy in Mexico, (ii) industrial policies in the United States, Canada and the other member countries of the Organization for Economic Cooperation and Development (OECD) countries, and (iii) Comparative analysis of these policies.

¹ Came into force on 6 June 1993 by signature, in accordance with section 7.

The second component is a diagnostic study of the competitiveness of the Mexican production system in terms of: (i) the issue of external macroeconomic imbalance, (ii) identifying the branches of production (at the four-digit level) that account for the trade deficit, and (iii) determining the obstacles and possibilities inherent in each of the sectors in which Mexico could, in principle, specialize: the food, textile and clothing, petrochemical and automotive industries.

The third component is the design of a strategy to strengthen industrial competitiveness in Mexico, using the North American Free trade Agreement (NAFTA) and OECD industrial policy practices as a frame of reference.

(c) *Contribution of ECLAC*

The contribution of ECLAC will form part of the project "Mexico: an industrial policy strategy compatible with its effective integration in the world market". The Office of the President has asked ECLAC to participate in the project conducting studies on the competitiveness of the petrochemical and automotive industries. The agreed duration of ECLAC participation would be from 1 August to 31 December 1993.

2. *Objectives, outputs and activities of the ECLAC contribution*

(a) *Objectives*

The objective of the ECLAC contribution is to prepare two studies on the competitive position of the petrochemical and automotive industries in Mexico, identifying the characteristics and relative weight of various determinants of that competitiveness. The determinants to be analysed are: factors of production, conditions of demand, associated industries and support activities, conditions of competition in the product market and the amount of feedback among these determinants.

By identifying the problems that effect the competitiveness of the industries, it should be possible to pinpoint the areas in which horizontal State intervention could be most effective in enhancing that competitiveness. In addition, identifying the specific obstacles and advantages that exist with regard to the attainment of a favourable position in the international market should help to clarify which activities should be targeted by local (regional or sectoral) measures.

(b) *Outputs (O) and activities (A)*

O1. *Profile of the petrochemical and automotive industries*

A1.1. Analysis of relevant information: industry censuses, Annual Industrial Survey conducted by the National Institute of Statistics, Geography and Informatics (INEGI)

A1.2. Interviews with official of the petrochemical and automotive industries and chambers of industry

A1.3. Identification of the chief activities of each industry and their forward and backward production linkages

A1.4. Identification of support activities for the industries

O2. *Identification of a subset of industrial activities within each industry that are considered internationally competitive*

A2.1. Compilation of relevant statistical information and conduct of interviews

- A2.2. Application of the revealed-comparative-advantage methodology to the information
- A2.3. Determination of criteria for classifying an activity as competitive
- A2.4. Selection of a set of competitive activities according to the aforementioned assessments and criteria
- O3. *Evaluation of the characteristics of the factors that determine the competitiveness of the activities selected in each industry*¹
- A3.1. Assessment of labour productivity in Mexico and the United States
- A3.2. Determination of the technology gap between Mexico and other countries
- A3.3. Assessment of domestic costs versus international costs
- A3.4. Analysis of relevant information and interviews with industry officials, associations and experts

3. *Institutional agreement*

In a spirit of joint effort and shared responsibilities, the activities shall be directed and coordinated according to the following basic operational structure:

The Office of the President and the Director of the ECLAC subregional headquarters in Mexico shall direct the activities jointly.

The expert designated by ECLAC, who will prepare the work plan and see to its full and timely implementation, shall be in charge of technical coordination.

4. *Inputs*

(a) *Contribution of the Mexican Government*

	<i>Man-months</i>	<i>Dollars</i>
11.51 Study coordinator	5	32,500
13. Computer support	3	3,000
16. Missions within the country		2,000
53. Miscellaneous		<u>1,000</u>
SUBTOTAL		38,500
13 per cent overhead		<u>5,005</u>
TOTAL	<u>8</u>	<u>43,505</u>

(b) *Contribution of ECLAC (in kind)*

Substantive support	3	25,000
Secretarial services.....	2	4,000
Missions within the country		3,000
Equipment		4,000
Office space	<u>—</u>	<u>2,500</u>
TOTAL	<u>5</u>	<u>38,500</u>

⁽¹⁾ The determinants of competitiveness to be analysed are: factors of production, conditions of demand, associated and support activities, conditions of competition in the product market and amount of feedback among these determinants.

The contribution of the Mexican Government shall be deposited, in its equivalent in Mexican pesos, in the “United Nations Mexico Office Peso Account”, No. 2411666, of Banca SERFIN, branch No. 27, according to the following schedule: 40 per cent no later than 15 days after the signing of this memorandum of understanding, and the remainder in two equal instalments of 30 per cent in the second and third month after this agreement comes into force (September and October 1993).

5. *Trust fund*

ECLAC shall use the sums referred to in the preceding paragraph to set up a technical cooperation trust fund, which it shall administer according to the administrative, financial and staff rules and regulations of the United Nations.

This trust fund shall be subject to the internal and external auditing procedures laid down in the rules, regulations and financial guidelines of the United Nations.

In no case shall ECLAC assume any liability in excess of the amount specified in this memorandum of understanding to cover the activities described herein. Upon the expiration of this agreement, the funds shall remain in the possession of ECLAC until they have been used to discharge all obligations incurred by ECLAC in compliance with this agreement. Any surplus shall be put to the use determined by mutual agreement between the parties.

All accounts and financial statements shall be expressed in United States dollars.

6. *Reports*

Two progress reports shall be prepared on the studies of the competitiveness of the petrochemical and automotive industries. The first shall be submitted at the end of the first three months of the period in which the activities listed in this memorandum of understanding are to be carried out, and the second at the end of ECLAC participation in the umbrella project, when the aforesaid studies will have been concluded. In addition, at the end of the project ECLAC shall submit a financial report on the expenses incurred.

7. *Amendments*

Any amendment to this memorandum shall be effected by mutual agreement, expressed in writing, between the signatories or their authorized representatives.

Any issue not covered in this memorandum shall be decided by mutual agreement between the parties.

This agreement shall enter into force as of the date of its signature by both parties.

For the Government
of Mexico:

Name/Fonction: FERNANDO CLAVIJO
Economic Advisory Services Coordinator
Office of the President of the Republic

Signature: [Signed]

Date: 7 June 1993

For ECLAC:

Name/Fonction: HORACIO SANTAMARÍA
Director
ECLAC — Mexico

Signature: [Signed]

Date: 8 June 1993
