

HUXLEY MAQUILADORA

Jaechul Jung and Joyce Miller prepared this case under the supervision of Professor Paul Beamish solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On Monday, June 24, 2002, Steve Phillips, head of the Huxley Maquila project team, had to make a recommendation about moving production to Mexico. The final report of the team, outlining the results of six months of investigation, was on his desk. The task now was to recommend at Thursday's board of directors meeting whether to establish a manufacturing plant, and if so, where and how.

COMPANY BACKGROUND

Huxley Manufacturing Co. was part of the materials technology division of a holding company based in the eastern United States, which had interests in chemicals, aluminum, packaging and aerospace. Huxley employed 1,800 people in three defence-related businesses and recorded \$472 million in annual sales in 2001. Huxley headquarters were located in San Antonio, Texas, a city that had a strong Mexican influence; over 50 per cent of its population was Hispanic. A U.S. military base and hospital were also located in the area.

Huxley took pride in its cutting-edge engineering technologies in raw material processing and part assembling. It had demonstrated superiority in the use of aluminum hybrids, ceramics and composite metals to increase the survivability of military equipment. These materials met tough performance standards for weight, size and durability, all of which were critical characteristics for military applications. Only two or three of Huxley's competitors whose manufacturing

facilities were confined to the U.S. were capable of designing, processing and assembling to the same standards.

Huxley's three businesses had historically been managed separately, with little information sharing and communication among the units. This corporate need for separation had resulted from the secrecy that had been required in Huxley's work for the defence industry.

During the 1990s, Huxley faced several factors that converged to profoundly reshape the U.S. defence industry. The first factor was the increasing "knowledge intensity" of defence products, resulting in higher development costs. These rising costs could be attributed primarily to the increasing technological complexity of almost all types of military systems, and to the rapid pace of technological innovation. Higher costs of research and development (R&D) for each generation of weapons caused absolute costs to rise, and the increasingly knowledge-intensive nature of weapon production had the effect of rendering even the largest multi-divisional firms incapable of funding R&D independently.

Furthermore, the forecast was uncertain for the political environment in which defence firms in the United States were operating. With the end of Cold War, high funding levels for equipment in the American defence budget fell. There were declining numbers of military personnel and a debate on the most appropriate force structure and roles for the American armed forces in the new era. In such a political environment, the U.S. economic decline of recent years only exacerbated the situation facing U.S. firms in the defence industry. As well, the September 11, 2001 attacks had highlighted the need for greater intelligence gathering, not necessarily more hardware. These factors combined to reduce U.S. government spending on defence to 2.4 per cent of the gross domestic product (GDP) in 2000, compared with the 6.4 per cent under the Reagan administration.

In order to deal with this adverse environment, the U.S. government had moved away from the use of sole vendors to more competitive bidding for contracts to supply military equipment. As a result, price had become a more important selection criterion. U.S.-based firms were still the major suppliers, but some foreign-produced goods were also purchased by the U.S. armed forces.

THE GROUND TRANSPORTATION BUSINESS

Under such transforming environment pressure, Huxley began searching for feasible solutions to reduce its production costs in its ground transportation unit (GTU). Technological developments in composite materials, hybrid electric power systems, integrated vehicle survivability and other features positioned Huxley's GTU at the forefront among competitors.

The GTU had operations near San Diego, California and Dallas, Texas, and was negotiating to acquire a \$30 million sales company in Denver, Colorado, which would function similarly to the plant in San Diego. The GTU manufactured steering column components (SCCs) at its California site. The production of SCCs for combat vehicles generated annual revenues of about \$130 million. There had been continual demands for replacement SCCs, in addition to new purchases during the annual procurement wave.

Although the production of SCCs required heavy capital investment, labor-intensive processes made up the major portion of production costs. Examples included the processes of lamination and filing: by adhesively bonding thin, composite metal layers and filing them to fit specifications, the finished assembly combined strength and lightness, which were critical characteristics for successful maneuvering. Machines were currently available to complete these vital processes, but manual processing still turned out a superior product.

Filing by hand required enormous patience and precision and had been done by females who worked 42 hours a week and received an average wage of \$12.30 per hour. The GTU provided a 30-hour job training program before a newcomer began in SCC production. Even after training, some of the new workers found they could not master the required job skills and quit during the three-month probationary period. The rejection rate had been around 10 per cent monthly. Aside from being required to meet specified performance standards in precision, working with metals, requiring physical strength and patience, made this job unattractive. As a result, in spite of the comparatively high wages for women, the turnover rate in this position had always been relatively high — up to 11 per cent monthly. Robert Chan, the chief executive officer (CEO) of Huxley, once stated, “Such labor-intensive tasks are excellent candidates for us to attempt offshore production.” Many U.S. companies had gained their competitive advantages by running their labor-intensive operations in developing countries, which provided well-educated labor forces at low wage costs.

Along with the worsening external environment, Chan’s participation in a business conference in Mexico in 2001 triggered him to seriously consider Mexico as a strong candidate to transplant Huxley’s SCC manufacturing plants. After evaluating the manufacturing processes in the GTU, Huxley’s management then identified several labor-intensive activities in the large San Diego plant related to SCC manufacturing, and agreed provisionally to move the plant. As a subsequent step, Chan launched the Huxley Maquila project team, composed of five members chosen from various backgrounds and led by Phillips. During the six months prior to the June 2002 report, Phillips sent three team members to Mexico to gather local information.

THE MAQUILADORA PROGRAM

The term *maquiladora* came from the Spanish term *maquila* (to perform a task for another; to assemble). During the Mexican colonial period, the miller kept a certain amount of a farmer's corn after he ground it for him. The payment was known as the *maquila*. The current use of the term *maquiladora* referred to any Mexican company that assembled imported, duty-free components and then re-exported them as finished products.

In May 1965, the *maquiladora* industry began, with a border industrialization program. The new policy allowed machinery, equipment, material and component parts to be imported duty free on an "in-bond" basis. The posting of a bond with the Mexican Customs Bureau guaranteed that assembled or manufactured products were exported to the country from which they had first been exported or to a third country. *Maquiladoras* had grown during the years to become the industrial backbone of the country's northern border, with more than 3,500 plants now employing 1.2 million people. Most of the plants were concentrated in Ciudad Juarez, Chihuahua, across from El Paso, Texas, and Tijuana, Baja California, across from San Diego, California (see Exhibit 1).

Maquiladoras handled a variety of tasks from textile, automobile, and electronics production to the assembly of toys and sporting goods. In the 1960s and '70s, many U.S. firms transferred the labor-intensive and assembly portions of their manufacturing activity to these companies. The most prominent advantage to setting up a *maquiladora* was access to cheap Mexican labor. From the 1960s to the '70s, Mexican manufacturing wages were about 15 per cent to 25 per cent of those in the United States. Yet Mexican wages were higher than those in many Asian countries like Singapore and South Korea. However, in the 1980s, subsequent currency devaluations decreased Mexican hourly wages to well below those of Hong Kong, South Korea, Singapore and other low-wage competitor countries. Mexican wages dropped to about 10 per cent of U.S. wages at that time.

Currently, there were still countries like China providing lower wage labor forces than Mexico. Wages for Mexican garment workers were approximately double those in China, but the benefits of faster delivery and lower shipping costs often outweighed this difference. Mexican products could reach the U.S. market within two or three days, compared with the three to four weeks required for shipment from China. Combined with access to the U.S. market, the wage levels of the 1980s established *maquiladora* manufacturing as one of the most competitive manufacturing platforms in the world. Finally, the regions became a portal for Asian and European firms to enter the North American market (see Exhibit 2).

NAFTA (THE NORTH AMERICA FREE TRADE AGREEMENT)

The North America Free Trade Agreement (NAFTA) was launched in 1994 by Mexico, Canada and the United States. NAFTA participants planned to phase out all tariffs among the three countries over a 15-year period. Since its implementation, tariffs had been eliminated on 84.5 per cent of all non-oil and non-agricultural Mexican exports to the United States and on 79 per cent of exports to Canada. In order to receive preferential NAFTA tariffs, a minimum of 50 per cent of product content had to come from one of the three countries for most products. For autos and light trucks, the requirement level was stricter, at 62 per cent.

The content requirements and tariff reductions, coupled with the already existing *maquiladora* laws in Mexico, made *maquiladora* manufacturing much more competitive under NAFTA. By 2001, Mexico had received \$108.7 billion in foreign direct investment (FDI). Among the FDI, U.S. and Canadian firms made up 71 per cent, with most from the United States (see Exhibit 2). NAFTA, as well, had nurtured a rapid increase in Mexican exports. The export total of \$60 billion in 1993 had soared to \$182 billion by 2000 (see Exhibit 3). Between 1993 and 2000, Mexico's annual average exports to the United States increased 19 per cent, while those of the rest of the world grew only eight per cent. In 2000, trade between Mexico and the United States totalled \$263 billion, three times that of 1993.

Currently, Mexico had free trade agreements (FTAs) with 32 countries. In particular, trade with Latin American partners was rapidly growing. In fact, Mexican exports to Costa Rica and Venezuela in 2000 had grown by 259 per cent and 303 per cent, respectively, since 1994.

Mexico

Mexico was a country of approximately 100 million people and 1,958,000 square kilometres, sharing a 3,200-km border with the United States. Prior to the Mexican-American War in the mid-19th century, Mexico governed what was now the southwestern United States. Even after annexation of half Mexico's territory by the United States, Mexicans continued to live in the area and their number had substantially increased through emigration. Mexico's current relationship with the United States was largely economic, stimulated by NAFTA. Although the Mexican economy was currently experiencing recession triggered by U.S. economic decline, it had grown steadily since its economic crisis in 1994.

On the political side, the Mexican Revolution in the early 20th century had shaped Mexico's economic, political and social life since that time. The Institutional Revolutionary Party (PRI) continued its dominance as a governing party up to recent years, providing political stability. Based on its stable political leadership,

Mexico showed rapid economic growth and became one of the most industrialized countries in Latin America. However, as in other Latin American countries, Mexico was now undergoing rapid transformations in economic and political spheres. The changes in the economic environment and the economic crisis of the 1980s resulted in a rejection of old economic models and an acceptance of new economic policies. The new model was based on opening Mexico's economy to foreign trade and investment reducing government intervention in the economy. Participation in NAFTA was one manifestation of this change. Economic changes had, in turn, brought about a process of democratization that finally reached a major milestone in July 2000 as Vicente Fox of the National Action Party (PAN) was elected the country's president, ending the 71-year hegemony of the PRI.

On the other hand, the temporarily duty-free import programs of NAFTA were eliminated as of January 1, 2001, on trade between Mexico, the United States and Canada (Article 303 of the NAFTA). Hence, *maquiladoras* could not continue to benefit from access to duty-free import materials and they had to change their sourcing strategies. Responding to this change, the Mexican government introduced the Sectorial Promotion Program (PROSEC), which allowed low import taxes (zero per cent to five per cent) on parts or materials intended for assembly and export to the United States or Canada.

THE HUXLEY MAQUILA PROJECT REPORT

The Huxley Maquila project team focused on the tasks of creating feasibility studies for operating in Mexico, location and site selection, and appraisal of various entry modes. The three team members stationed in Mexico played major roles in sourcing necessary data. The project report was submitted to Phillips, director of the project team, on June 19, 2002. Regarding transferring the SCC manufacturing process of the GTU, the report predicted that the 57 workers directly affected would be absorbed in other Huxley operations or terminated with a severance package. The report suggested that a 25,000-square-foot plant would be adequate and could still accommodate a possible worker increase of at least 50 per cent in the future. Much equipment would be required, including benches, steel tables, holding fixtures and so on.

The report noted:

The SCCs assembly processes are labor intensive and had documented description of the method, sequence and dimensions for initial training, and would qualify for favorable PROSEC treatment. The San Diego plant had a significant problem with high turnover rate because working with metals was a dirty job. With appropriate training, young Mexican women would probably perform these tasks better than their counterparts in the U.S. since

they are more patient. Even by taking a conservative figure like \$2.10 as the fully fringed hourly pay, the direct labor savings would be considerable.

After investigating numerous sites, the Huxley Maquila project team gave its attention to Coahuila, Mexico's third largest state, lying to the south of Texas. Coahuila shared 512 kilometres of border with the state of Texas. Its geographical proximity made Coahuila the crossing point between the United States and the central and southern regions of Mexico. Prior to NAFTA's implementation, 156 *maquiladoras* were operating in the Coahuila state. As of November 2001, 267 *maquiladoras* were up and running (see Exhibit 1). The project report noted that Coahuila's geographical closeness to Huxley's headquarters in San Antonio, Texas, and the SCC plant in Dallas, Texas, was one of the merits of the location.

Among several attractive spots for a new plant, the project team members considered Ciudad Acuna, the best border site and Saltillo, the capital of Coahuila, as the best site in the interior. A border location minimized transportation costs, facilitated trouble-shooting by managers and engineers based in U.S. headquarters, and permitted factory managers to live in the United States and commute across the border. However, the influx of *maquiladora* operations had strained the infrastructure of many border cities. Public services could not cope with the population growth in Ciudad Acuna. The city's annual budget was insufficient to keep up the pace, resulting in a city with quite a large portion of its streets unpaved and water and sewage systems lacking in many of its makeshift neighborhoods. The most significant problem was the housing shortage, which stemmed from the flood of migrants from the interior of Mexico seeking *maquiladora* jobs. A team member of the project commented:

People are lured from the interior by the promise of a job. They move in with relatives or friends, then quit when they can't find permanent accommodation. The Mexico government doesn't have enough resources to fund construction of sufficient low-cost housing. The current housing situation will not be improved soon.

The shortage of housing created a significant labor problem for *maquiladora* operators. Turnover rates ranged from seven to 13.5 per cent per month along the border. While interior regions offered a more stable labor force and cheaper Mexican material, these advantages came with higher transportation costs and a lower quality of life for foreign managers. Infrastructure, including roads, housing, utilities and especially communications in the interior, would have to be carefully evaluated. Exhibit 4 details various factors that needed to be considered for location selection of the SCC plant.

The project report included three options for operating in Mexico as a *maquiladora*. These were subcontracting, shelter operation and wholly owned subsidiary.

Subcontracting

The easiest way to operate as a *maquiladora* was to subcontract the manufacturing services of a Mexican company. Under this arrangement, a Mexican service firm manufactured items according to the specifications of the foreign-based client. The client provided the raw materials, components and specialized equipment, and the subcontractor was responsible for all the manufacturing and assembly work as well as the import-export process. The foreign client rarely supplied a plant manager.

The Mexican subcontractor was generally paid for each product based upon a per-piece price agreement. This subcontracting arrangement made sense for well-documented operations requiring a small number of employees. The client could enjoy a reduction or elimination of capital expenditures for facilities, equipment and management. The Huxley Maquila project team report estimated that a Mexican firm could be subcontracted at a rate of about \$5 per direct labor hour. To start contracting product assembly in Mexico took 30 to 45 days.

Shelter Operation

A “shelter” was an intermediary option. Under such a program, the non-Mexican manufacturer was “sheltered” from most of the legal and financial exposure of operating in Mexico. Among the non-Mexican manufacturers operating in the *maquiladora* industry, about 10 per cent were shelter operations. Under this arrangement, the Mexican service firm provided foreign manufacturers with customized administration. This allowed the client to maintain complete control over the Mexico production management while ensuring that all administrative requirements were being met by the offshore operation. The shelter service provider supported 1) administration: accounting and tax service, licences and permits, and performance monitoring; 2) human resource management: Mexican personnel administration and payroll services; and 3) import and export service: customs services related to Mexican and U.S. government requirements. The foreign company controlled the production process and provided equipment, raw materials, components and plant managers.

Billing of operation was directly related to the number of hours provided by the service firm. The fully burdened hourly rate for a shelter operation was around \$3.50. Depending upon the complexity of the setup, it generally took 45 to 120 days from receipt of authorization to production startup. The shelter operation was attractive for several reasons. First, it allowed fast, easy startup with little capital

investment. At the same time, it provided complete control over the quality of the work. In addition, if the client wished, the shelter operation could be converted to a “full-blown presence” in Mexico as the company grew, or control could be turned over to the shelter partner to form a contract operation.

WHOLLY-OWNED SUBSIDIARY

Known as a “stand-alone,” a wholly-owned subsidiary offered potentially the lowest operating costs, as long as overheads were strictly controlled. Such an operation was often the best alternative when significant engineering and/or product development support was required. This approach was the most complex of the three options. To set up a wholly owned *maquiladora*, foreign firms had to 1) search, select and negotiate to get a plant site; 2) staff and recruit employees; 3) implement systems, controls and procedures; and 4) get government permits and licences. The foreign firm needed to establish relationships at local, state and federal government levels and had to understand and manage the details of doing business in Mexico, which could be particularly burdensome in the areas of hiring, compensating and terminating labor. Before starting operations as a *maquiladora*, the company had to ensure that it had in place all the required licences and permits. The Secretary of Commerce agency in Mexico (SECO) permitted firms to operate under the *maquiladora* program. It generally took anywhere from six months to one year to set up a wholly owned *maquiladora*. Some typical costs for operating a wholly owned subsidiary in Mexico were:

| | |
|---|----------------------------------|
| Feasibility consulting fee | \$18,000 |
| Mexican legal fee | \$7,000 to \$10,000 |
| Construction for shell building including land with improvement | \$14 to 25 per square foot |
| Annual leasing of factory space | \$3.68 to \$5.47 per square foot |
| Developed land price, in case of purchasing land | \$1.05 to \$2.30 per square foot |
| Average hourly wage for unskilled labor (including fringes) | \$1.80 to \$2.20 per hour |
| Average plant manager wage (including fringes) | \$84,000 per year |

In addition to these costs, the report included transportation and a few more cost factors, which were applied commonly to the three operation options. Most *maquiladora* machinery, raw materials and semi-finished products entered and left Mexico by truck. The average round trip rate from Ciudad Acuna to the U.S. border was around \$150. In the case of Saltillo, the cost rose to \$1,000. American and Mexico broker fees accounted for an additional \$625 per round trip shipment. Each day a round-trip truckload shipment was expected from Monday to Friday, except on the eight national holidays throughout the year. The report estimated that miscellaneous costs and Mexican corporate tax would be annually \$43,050 and \$12,500 in the case of shelter operation and wholly owned subsidiary. The one-

time operation startup in Mexico would cost approximately \$97,000, which contained training a manager, visits from California staff and a facility upgrade.

REMAINING ISSUES

In its final section, the project report added several concerns regarding operating in Mexico as a *maquiladora*. The report pointed out that fulfilling the financial, legal and logistic requirements would merely enable a *maquiladora* to operate. Managing the human relations aspects would determine its success or failure. The report stated:

Managing a *maquiladora* is not at all the same as managing a plant in the United States. The *maquiladora* management has to become acquainted with the cultural values and customs of its workers, and this understanding has to be carried over to home office.

Despite benefits enjoyed by government and industry, the situation for the low-wage *maquiladora* workers themselves was not bright. Since the late 1990s, labor groups had protested the low wages, unsafe working conditions, and sexual and other forms of harassment that took place. For instance, in 1997 the Han Young de Mexico plant in Tijuana was enveloped in a strike that attracted international attention. Protesters claimed that there were many companies along the borders that treat their employees “like trash.” These conflicts appeared to originate from an excessive exploitation of Mexican employees and a misunderstanding of Mexican cultural values.

These mistreatments by foreign-owned *maquiladora* put those firms at risk and added to the housing shortage, employee recruitment and training problems. To attract new employees and lessen the expressed anger of existing workers, some of the *maquiladoras* had come up with their own solutions, like supporting the local government in housing initiatives, running commuter buses and introducing high-cost training programs.

PHILLIPS' RECOMMENDATION

Based on the report's comments, Phillips concluded that entry-into-Mexico decision should be implemented carefully if Huxley wanted to take full advantage of low-cost production. A successful launch and management of the plant would require special attention. The plant would need to be run not only to the standards of its own headquarters, but also considering Mexican cultural values and practices. Launching and managing a plant in a foreign country would be a different experience for Huxley's managers, who were accustomed to U.S. management practices.

On Thursday, June 27, a board of directors meeting would be held regarding the transfer of the San Diego plant. Phillips was scheduled to present a briefing on the *maquiladora* project report and to provide his recommendations on this plant transfer decision. He fully understood Chan's eagerness for "testing offshore waters" and, at the same time, the complexity of launching and managing a plant in a neighboring foreign country. He had only three more days to reach his final conclusion and prepare for the coming briefing.

Exhibit 1

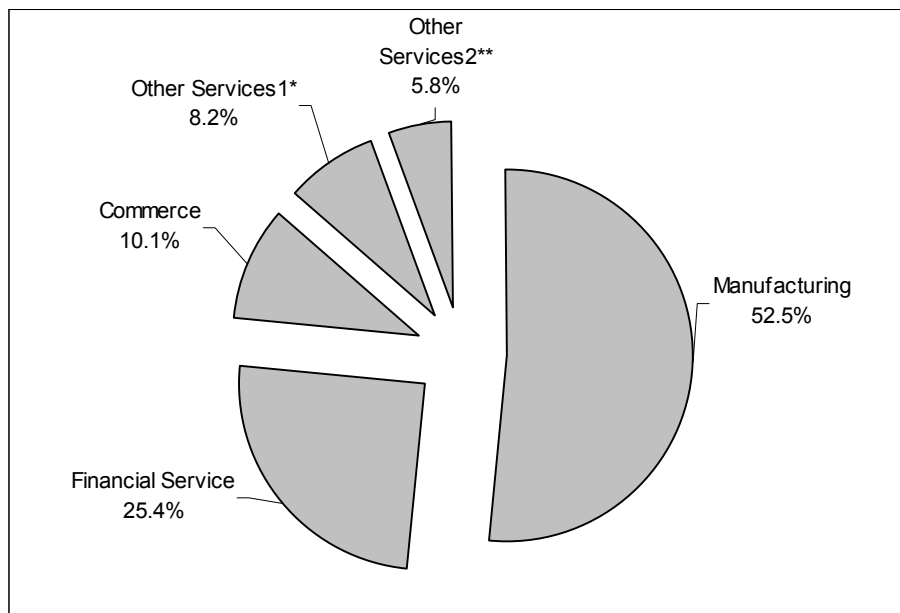
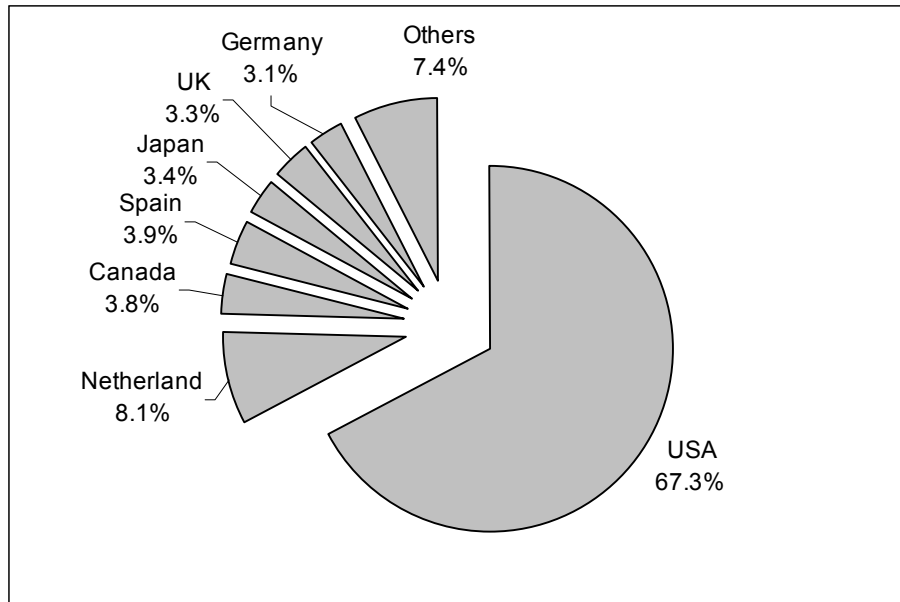
MEXICO'S NETWORK OF MAQUILADORAS IN NOVEMBER 2001

| State | Number of Maquiladoras |
|-----------------------------|------------------------|
| 1. Baja California | 1,226 |
| 2. Baja California Sur | 7 |
| 3. Sonora | 246 |
| 4. Chihuahua | 432 |
| 5. Sinaloa | 10 |
| 6. Durango | 73 |
| 7. Coahuila | 267 |
| 8. Nuevo Leon | 169 |
| 9. Tamaulipas | 401 |
| 10. Zacatecas | 20 |
| 11. San Luis Potosi | 15 |
| 12. Aguascalientes | 72 |
| 13. Jalisco | 131 |
| 14. Puebla | 116 |
| 15. Distrito Federal | 29 |
| 16. Edo. Mexico | 47 |
| 17. Yucatan | 121 |
| 18. Guanajuato | 68 |
| 19. The rest of the country | 77 |
| Total | 3,527 |

Source: INEGI

Exhibit 2

FOREIGN DIRECT INVESTMENT IN MEXICO BY COUNTRY AND SECTOR
BETWEEN 1994 AND SEPTEMBER 2001
(%)

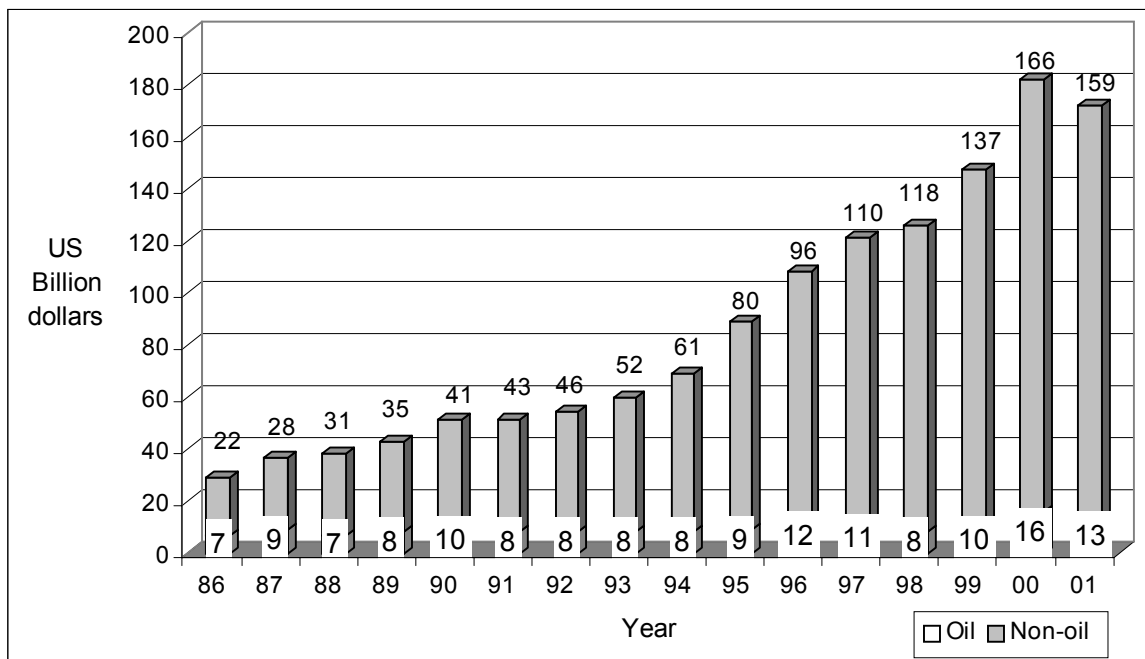


- * Other Service1 Agricultural, mining, constructing, electricity, transportation and communication, and water
 ** Other Service2 Social and communal service: hotels and restaurants, professional, technical and personal.

Source: Ministry of Economy, Mexico.

Exhibit 3

MEXICO'S EXPORT INCREASE



Source: Ministry of Economy, Mexico; BANXICO

Exhibit 4

LOCATION PROFILES
BORDER SITE (CIUDAD ACUNA) VERSUS INTERIOR SITE (SALTILLO)

| | | Border site: Ciudad Acuna | Interior site: Saltillo |
|---------------------|------------------|---|--|
| Demographic Aspects | Total Population | 78,232 | 577,352 |
| | Males | 39,564 | 285,507 |
| | Females | 39,668 | 291,845 |
| Aviation Service | Nearest Airport | Piedras Negras International Airport - 83 km away | Plan de Guadalupe International Airport - 13.5 km away |
| | Flights | • Monterrey | • Mexico, D.F. • Houston, TX. • Dallas, TX. |
| | Frequency | Monday-Sunday | Monday-Sunday |
| | Capacity | 19 to 33 passengers | 51 to 101 passengers |
| | Cargo Service | None | Daily, 100 tons and up |
| Highways | Federal Highway | • Hw. 2 reaches Nuevo Laredo, Tamps through Piedras Negras | • Hw. 57 connects with Piedras Negras, Queretaro, Qro. and Mexico City. • Hw. 40 connects Torreon, Coah. with Reynosa, Tamps. and Mazatlan, Sin. through Saltillo |
| Railroads | | The Northern railroad connects Ciudad Acuna, and Zaragoza. | The railroad connects Parras, General Cepeda, Saltillo and Ramos Arizpe. |
| Industrial Park | | Three industrial parks | Five industrial parks |
| Primary Industry | | Automobile, aluminum blinds, material lamination and electrical harnesses | Automobile harnesses, plastic lids, aircraft harnesses, electronic cards, agro-chemical and appliances |

Exhibit 4 (continued)

| | | Border site: Ciudad Acuna | Interior site: Saltillo |
|---|---|---|------------------------------------|
| Labor cost (Hourly wage for general laborer) | Manufacturing | \$0.94 | \$1.38 |
| | Assembly | \$0.65 | \$1.06 |
| Water | Water (\$/m ³) | \$0.97 | \$1.30 |
| | Drainage | \$0.24 | \$0.32 |
| Electricity | Less than 25KW | \$2.54 | Same |
| | More than 25KW | \$11.52 | Same |
| Telephone | Local | Base rate: \$0.16 Day rate: \$0.16 Evening rate: \$0.16 | Same |
| | National Long Distance | Base rate: \$0.27 Day rate: \$0.24 Evening rate: \$0.12 | Same |
| | Long Distance to U.S.A. | Base rate: \$1.00 Day rate: \$0.88 Evening rate: \$0.59 | Same |
| Education | Professional Technical School in the near region | 13 | 36 |
| | Universities in the near region | 10 | 19 |
| Commerce and Services | Hotels | 10 | 20 |
| | Shopping Centres | 3 | 10 |
| | Banks | 8 | 63 |
| | Hospitals | 11 | 12 |

Source: Secretariat of Planning and Development Government of the State of Coahuila.

Exhibit 5

MEXICAN MINIMUM WAGE FOR UNSKILLED WORKERS IN 2000
(in U.S. dollars)

| | Minimum Wage |
|---|---------------------|
| 1. Regional minimum hourly wage ¹ | \$0.51 |
| 2. Annual salary (365 days) ² | \$1,117.92 |
| 3. Christmas bonus (Aguinaldo-15 days) and vacations (5 days) | \$64.21 |
| 4. Employer's payroll taxes and state taxes | \$44.71 |
| 5. Average fringe benefits | \$254.69 |
| 6. Total Annual Cost (=2+3+4+5) | \$1,481.53 |
| 7. Fully Fringed Hourly Cost³ | \$0.68 |

Note: The minimum wage (salario minimo) is the income level determined by the federal government to be adequate to meet the basic needs of a typical family.

Source: International Labor Organization; BANCOMEXT.

¹Including social security contributions, the INFONAVIT worker's housing fund and the retirement savings plan.

²Considering weekly working hours (44) and annual working days.

(300 = 365 – Sundays (52) – legal holidays (8) – vacations (5)).

³Fully Fringed Hourly Cost = Total Annual Cost/Annual Working Hours (2,192).