

NAFTA RELOADED: Strengthening Competitiveness in North America

June 2015

NAFTA

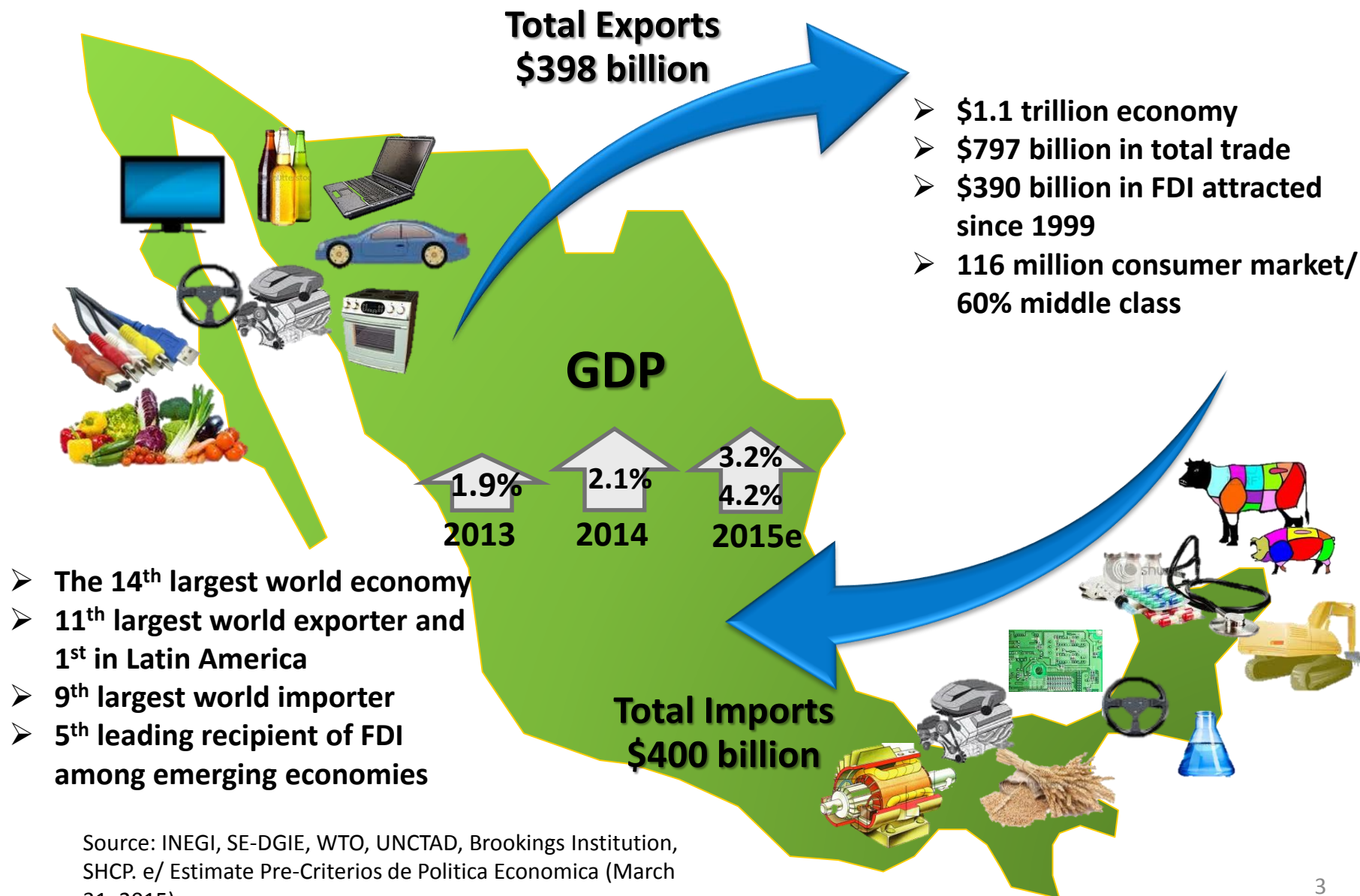
I. Strategic Regional Integration

II. Trilateral and Bilateral initiatives for further integration

III. Mexico's Competitiveness Perspective

IV. Business Opportunities

Mexico is a growing economy



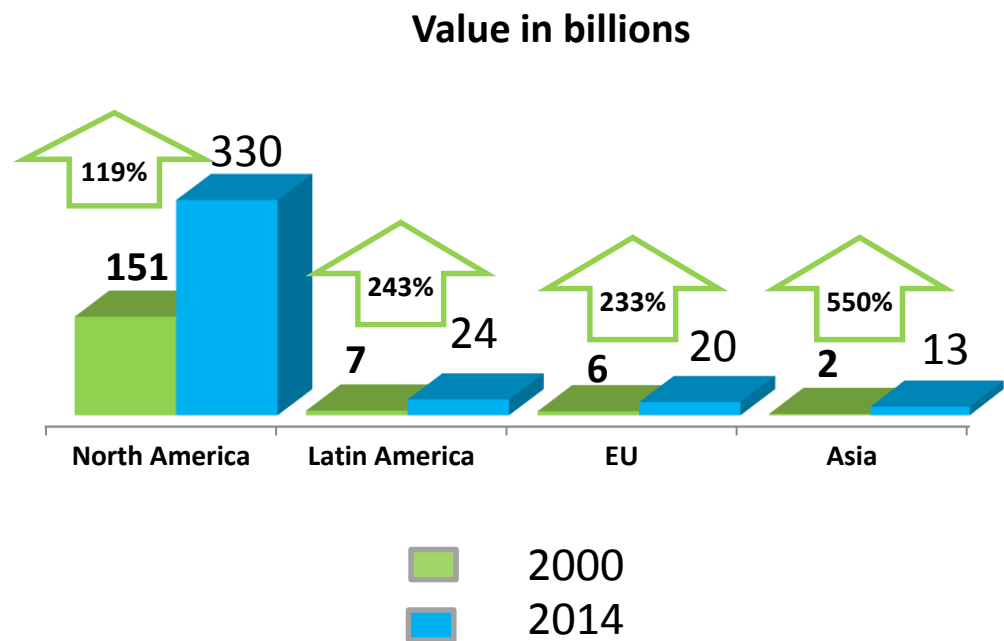
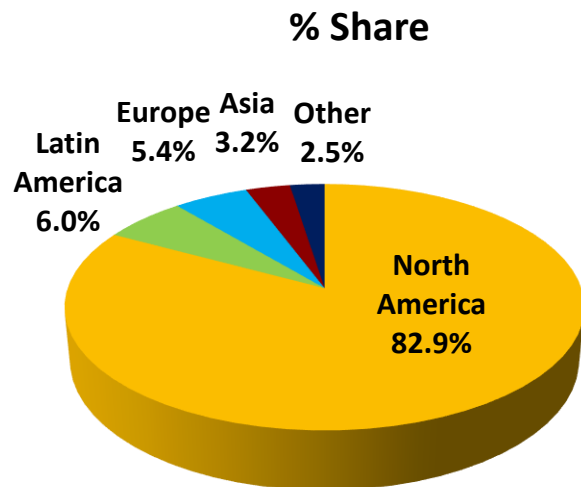
Source: INEGI, SE-DGIE, WTO, UNCTAD, Brookings Institution, SHCP. e/ Estimate Pre-Criterios de Política Económica (March 31, 2015)

Mexico is committed to open markets

Two decades of sound macroeconomic policies and free trade policies are paying off:

- The importance of trade as a percentage of GDP has increased from 29% in 1993 to nearly 70% in 2014.

Mexican Exports by Region in 2014

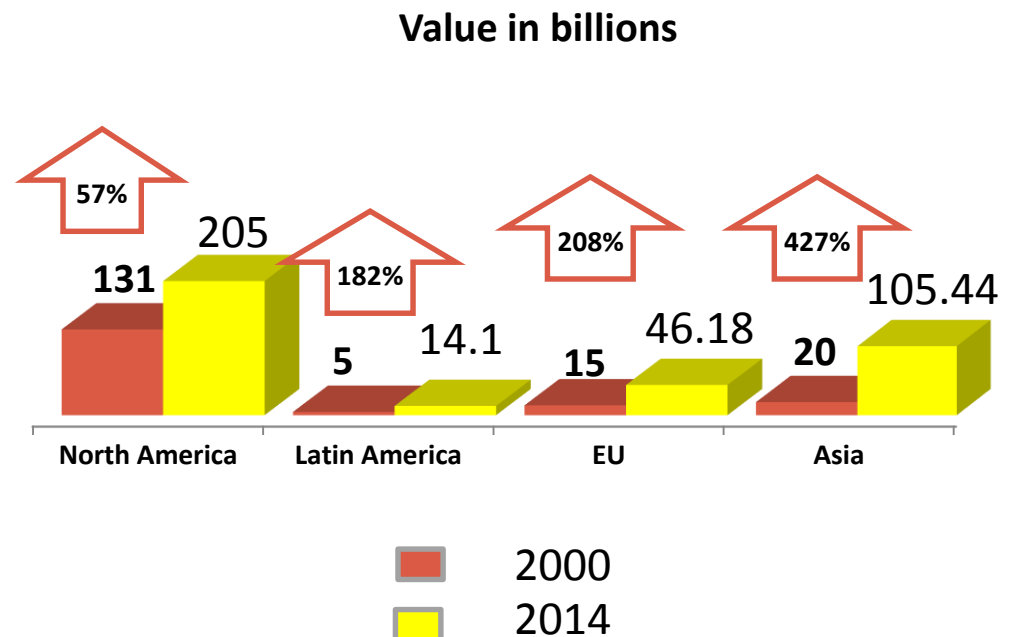
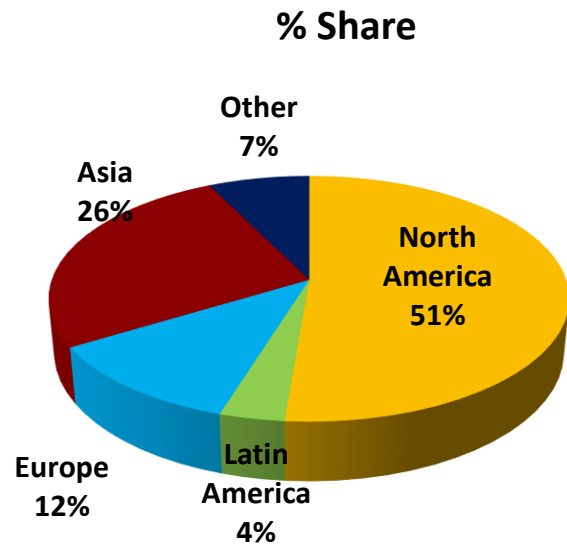


Mexico has privileged access to 2/3 of the world's GDP

Mexican producers and consumers have access to a wider selection of high-quality products and inputs at better prices:

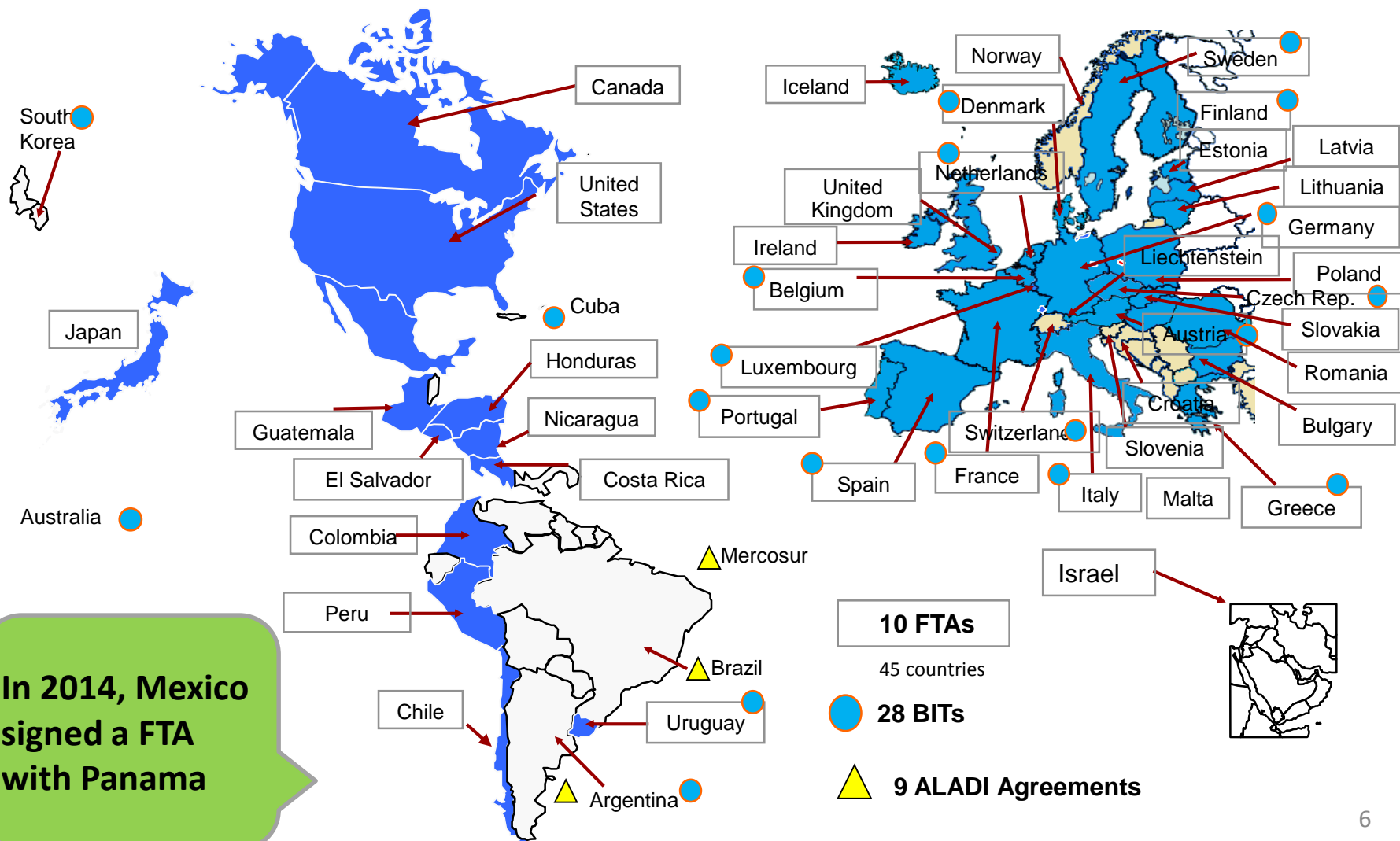
- 75% of Mexican imports are intermediate goods for further processing, and 10% represent acquisitions of capital goods.

Mexican Imports by Region in 2014



Mexico's network of trade agreements

- FTAs with 45 countries which account for 70% of world GDP, two-thirds of global imports and a billion consumers.



Mexico's ongoing trade negotiations

- **TPP is currently the most important plurilateral trade negotiation**
 - ✓ The 12 current member's economies will create a combined market of over 780 million inhabitants, total exports of \$4.3 trillion, and a trans-pacific \$27.5 trillion output.
 - ✓ High-standard agreement.
- **EU – Mexico trade agenda: deepening FTA**
 - ✓ Investment: Negotiate a single agreement for the promotion and protection of investments.
 - ✓ Agricultural sector: Inclusion of sensitive agricultural and fishery products, recognition of geographical denominations of agricultural products.
 - ✓ Services: Further liberalization to the foreign investment in financial services, telecommunications, environmental services and energy.
- **FTA's**
 - ✓ Mexico is negotiating with Turkey and Jordan.
- **Trade in Services Agreement (TISA)**
 - ✓ 50 countries participate in the negotiations, representing 70% of the world's trade in services.

Since NAFTA, U.S.-Mexico trade has multiplied by six

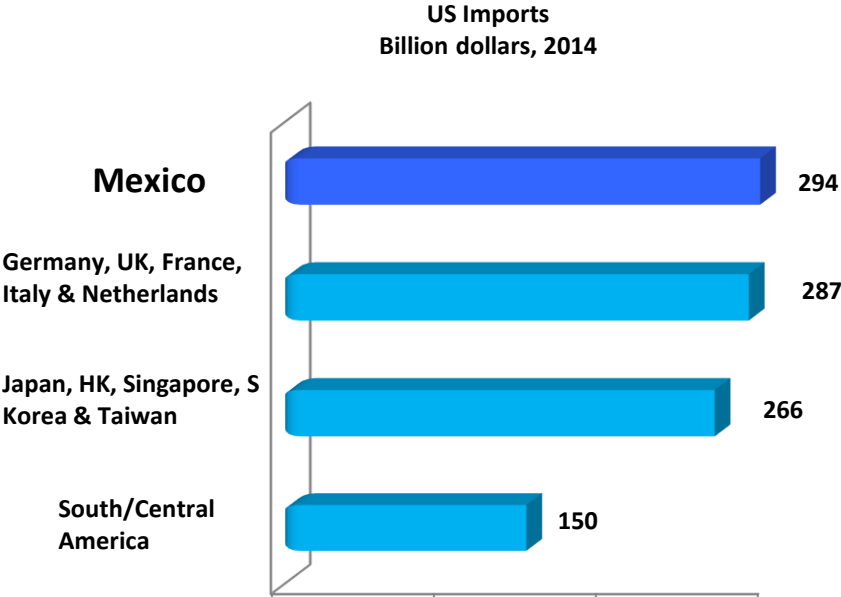
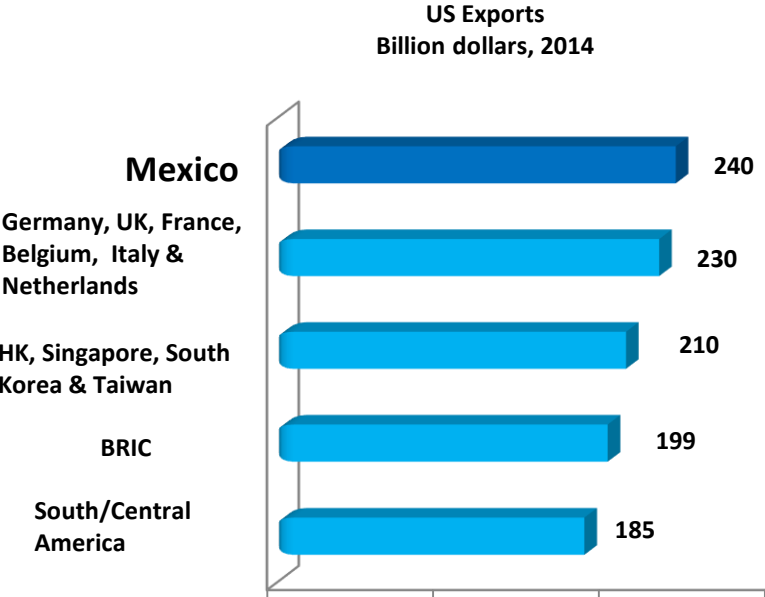
Mexico is the U.S.' third-largest trading partner



Source: USDOC. Job figure is from 2008, according to Trade Partnership Worldwide, LLC and the U.S. Chamber of Commerce, 2010 as reported by the Mexico Institute, Woodrow Wilson International Center for Scholars in "Working Together: Economic Ties between the United States and Mexico."

Mexico is the U.S.’s second-largest export market and third-largest supplier of goods

- U.S. exports to Mexico reached **\$240 billion** last year, which represents more than 14.8% of its sales worldwide.
- U.S. imports from Mexico reached **\$294 billion**. Mexico has a market share of 12.5% on US total imports.

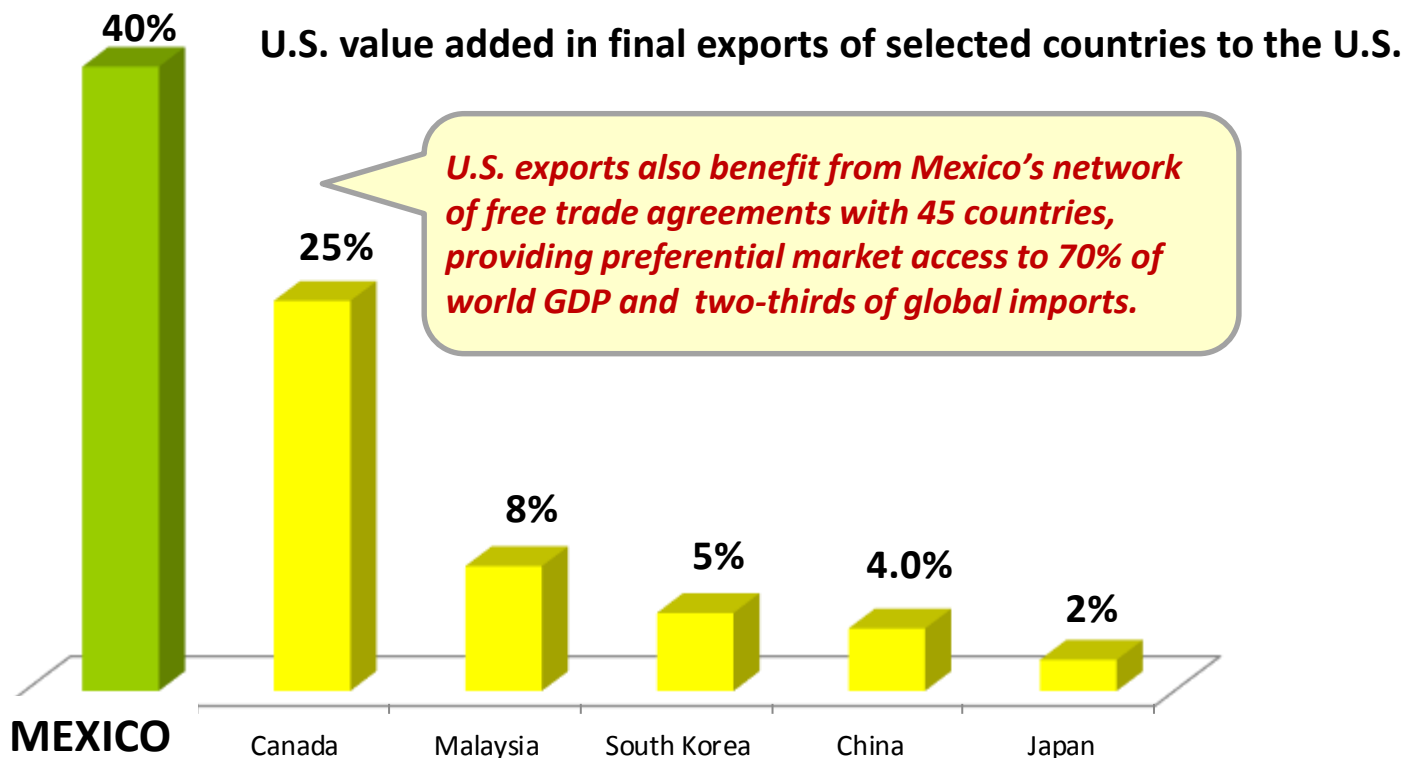


Source: USDOC

Mexico is a strategic production partner for U.S. goods and exports worldwide

When Mexico exports, the United States exports.

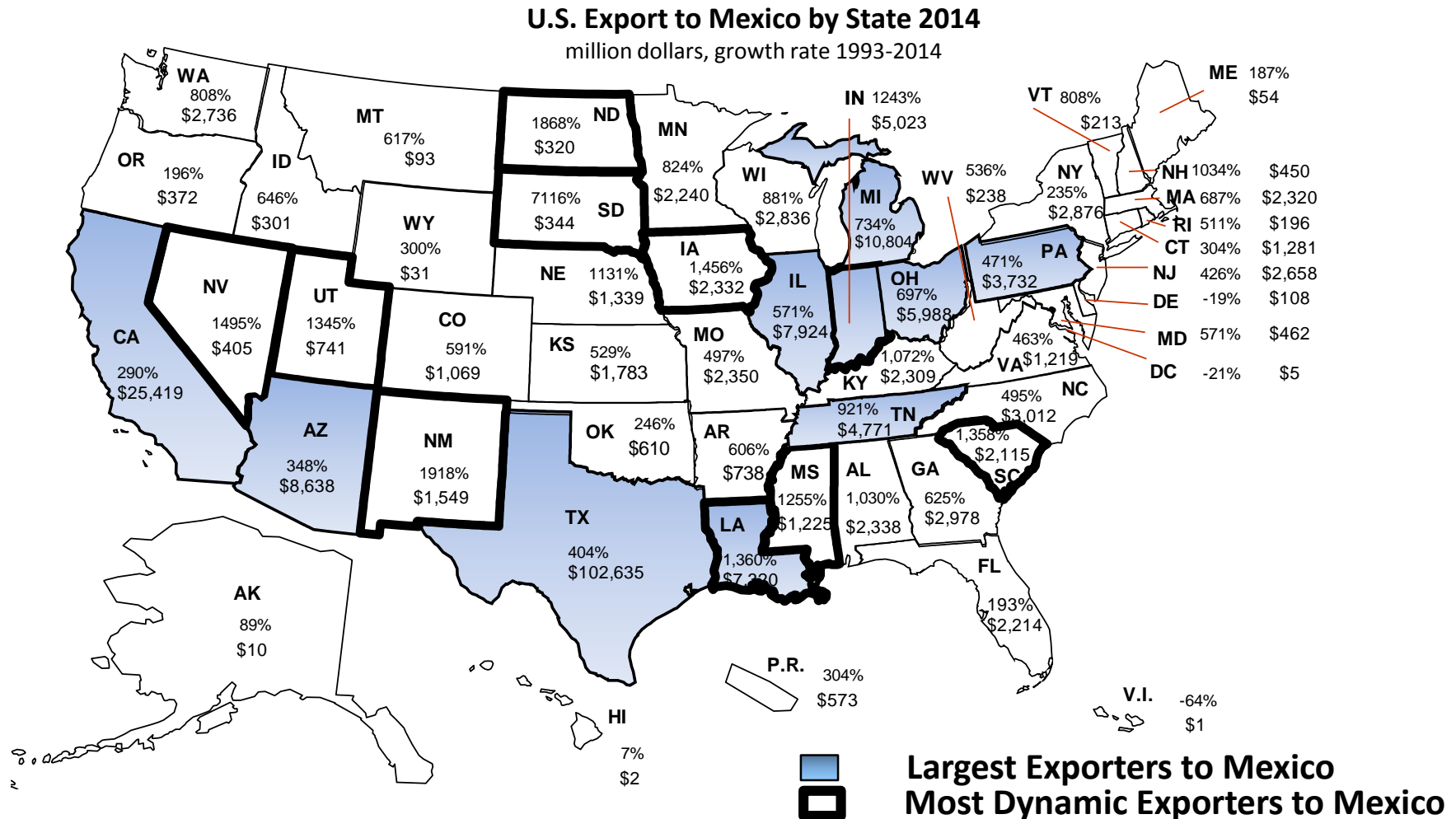
- There is a 40% U.S. value-added in Mexico's exports to the U.S.



**Mexico and the United States do not simply trade goods;
we work together to manufacture them**

U.S. exports to Mexico are geographically diverse

49 U.S. states have significantly increased exports to Mexico: 47 states have at least doubled their sales since NAFTA was enacted.

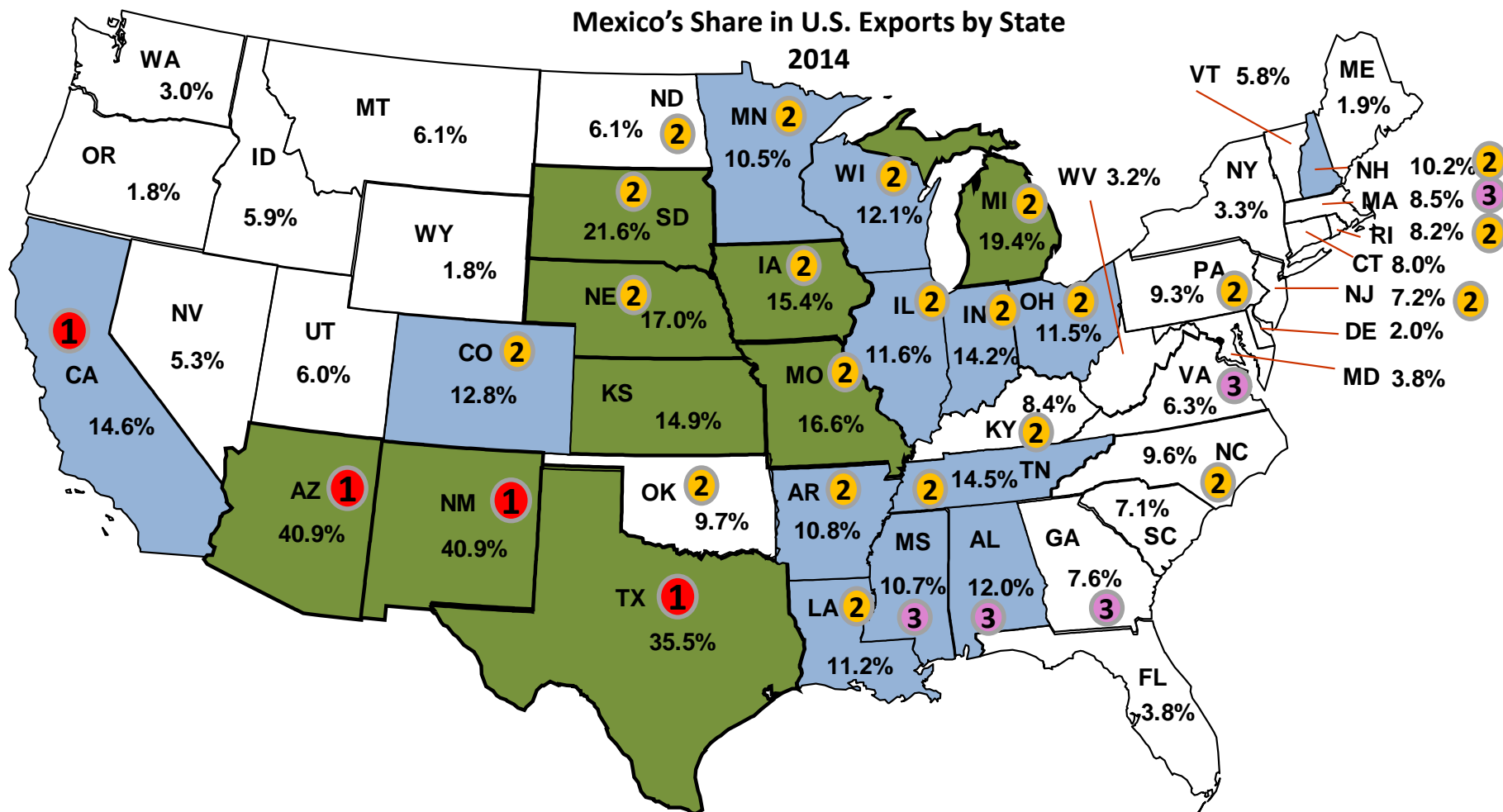


Mexico is an important export destination for each U.S. state

Mexico ranks among the top 3 export markets for 31 states

Mexico's Share in U.S. Exports by State

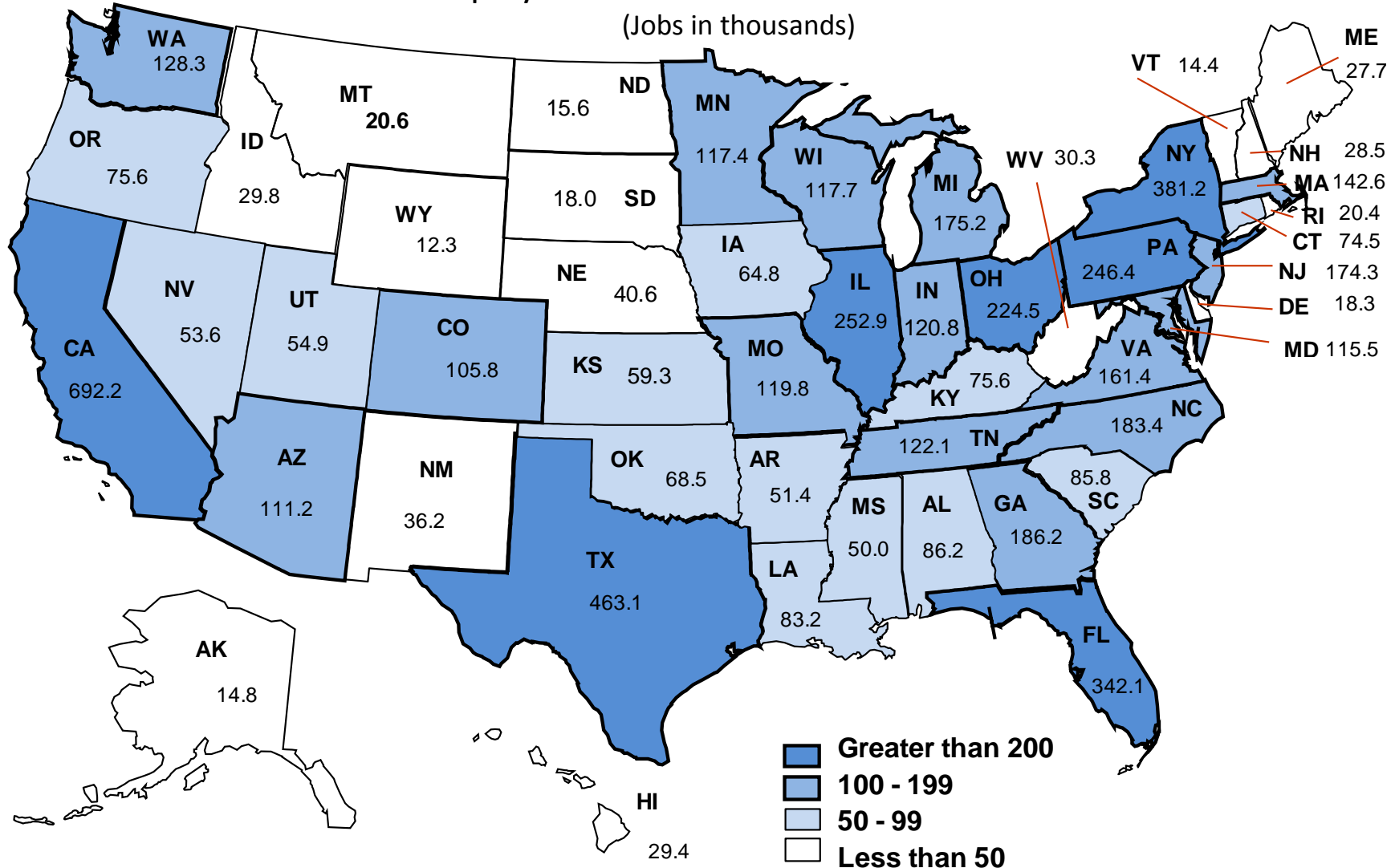
2014



1 2 3 Mexico's rank as an export market for the state

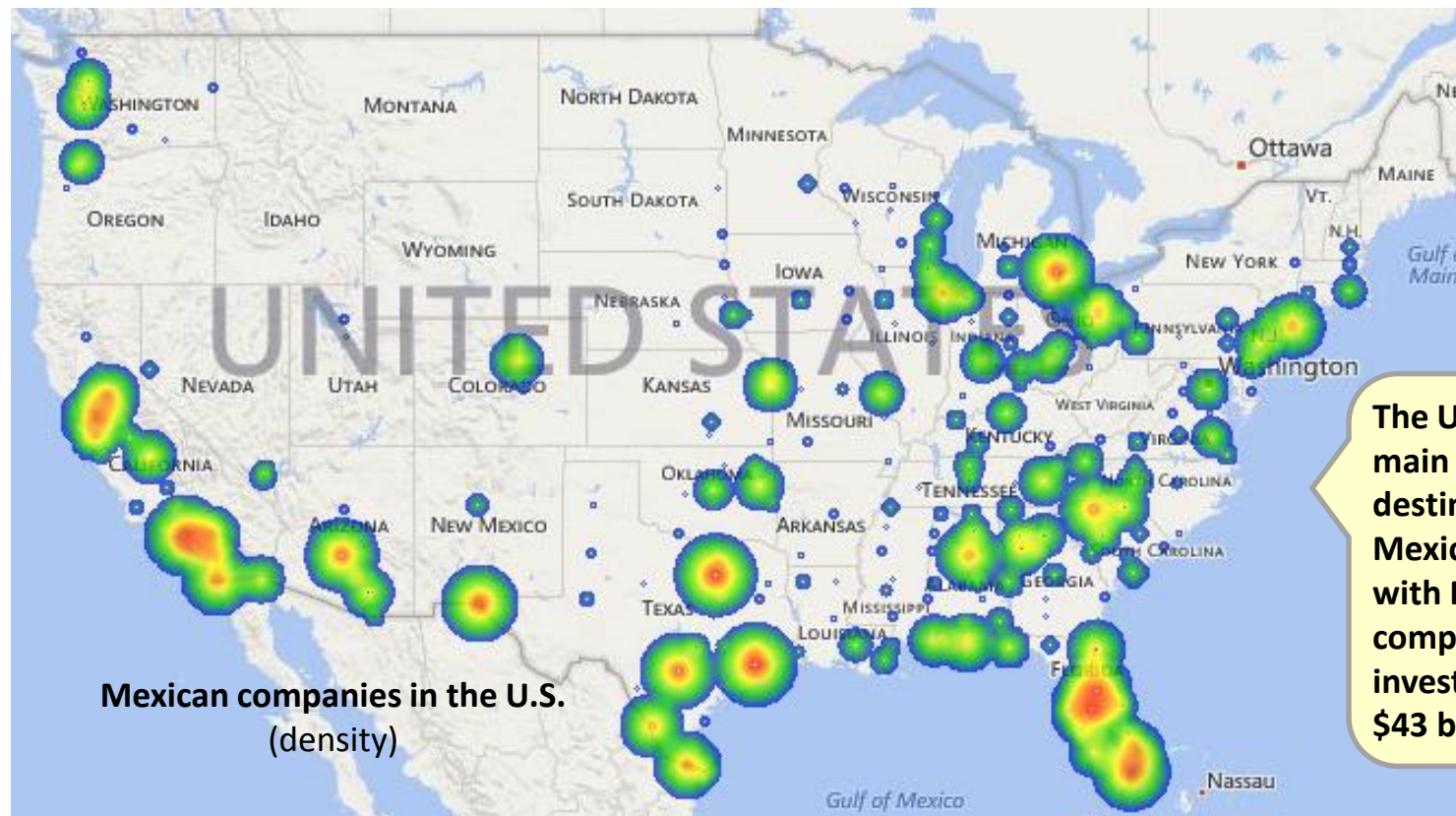
6 millions U.S. jobs depend on trade with Mexico

U.S. Employment Related to Trade with Mexico
(Jobs in thousands)



Mexican companies are investing and creating jobs across the U.S.

Mexican-owned companies operate more than 6,500 business establishments in the U.S.



The U.S. is the main destination for Mexican FDI, with Mexican companies investing over \$43 billion

- | | | | | |
|---------------|-----------------|----------|------------|---------|
| Bimbo | Grupo Mexico | Metalsa | Lala | IUSA |
| GCC | Mexichem | Softtek | Kuo | Gruma |
| Cemex | La Costeña | Katcon | Bachoco | Banorte |
| Industrias CH | Sanluis Rassini | Chedraui | Bio-Pappel | Minsa |
| Grupo Alfa | Cinepolis | Kaltex | Grupo Bal | Lamosa |

NAFTA

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Challenges for the NAFTA Partners



- Expand NAFTA benefits to all sectors and regions of the three countries.
- Streamline the integration of the three economies.
- Develop new elements of competitiveness.
- Strengthen regional value chains.
- Efficient border management.

- Economic environment of increased competition and moderate growth.



Cross-border trade facilitation

Set a concrete goal for reducing the maximum time for crossing the border – some have even gone as far as suggesting a maximum crossing time of 30 minutes.

1 million people and 300 thousand vehicles crossing the border daily.

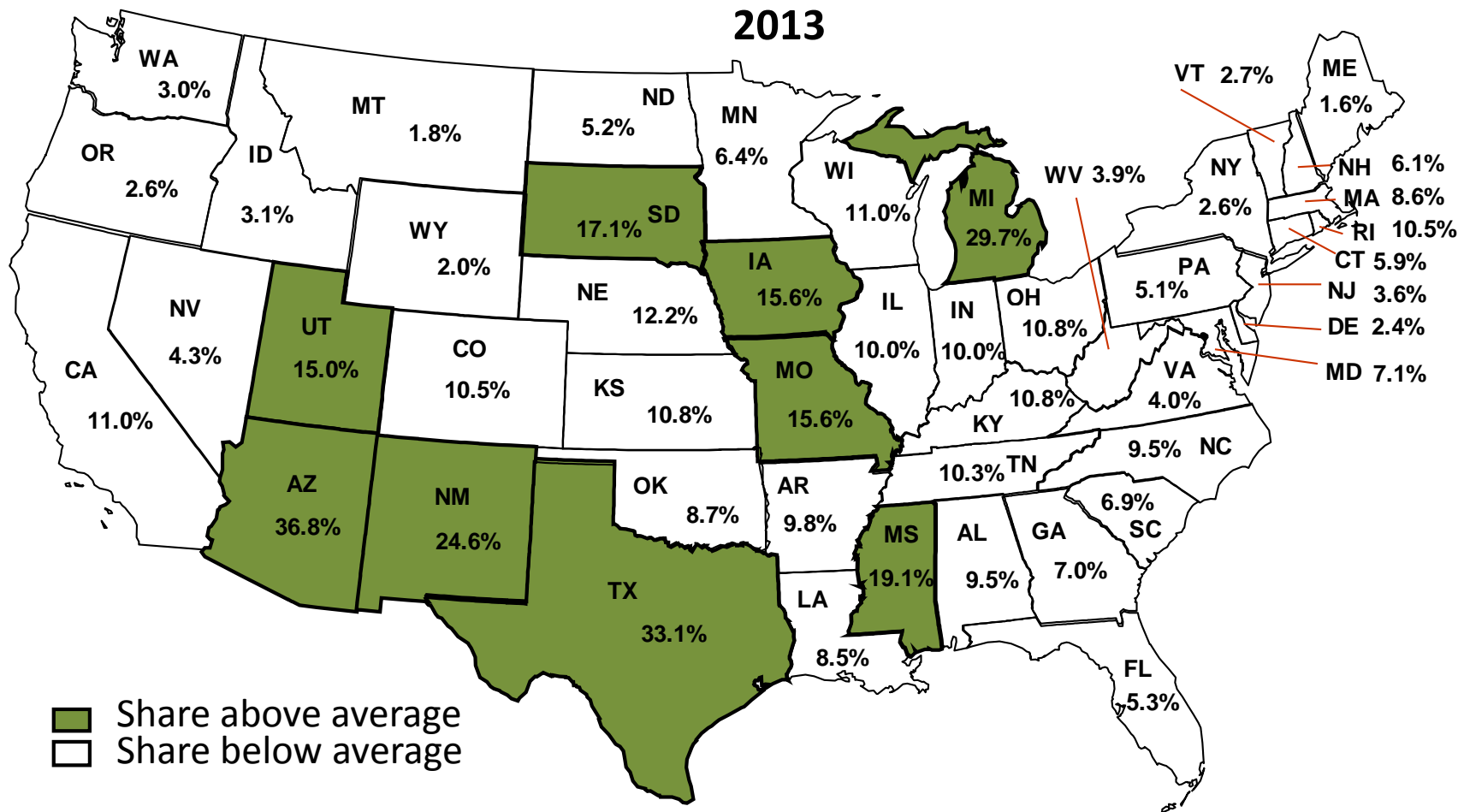
1 million dollars in products are traded every minute along the border.

- **Border infrastructure:** To develop strategic corridors to link major industrial clusters on both sides of the border.
- **Border regulation:** the single-window initiative in the US will contribute to harmonizing customs procedures and requirements. In Mexico, the single window has been in operation for the past three years.



Increasing bilateral trade requires the expansion of trade opportunities to more states

Mexico's share in total trade by state 2013



Mexico's share in total U.S. trade = 13.2%

Source: SE- NAFTA with data from Wisertrade.

Building a competitive North American Partnership: Trilateral Initiatives

NAFTA partners keep working on initiatives to promote integration and competitiveness in the region:

Trilateral level initiatives:

- ✓ North American Competitiveness Work Plan (NACWP)
- ✓ North America Leader's Summit (NALS)

Bilateral level initiatives:

- ✓ High Level Economic Dialogue (HLED).
- ✓ US-Mexico CEO Dialogue

Building a competitive North American Partnership: Trilateral Initiatives

North America Leader's Summit (NALS) and North American Competitiveness Work Plan (NACWP).

These initiatives include activities designed to strengthen competitiveness and enhance integration in North America:

- ✓ Investment Cooperation
- ✓ Tourism Promotion
- ✓ Border Facilitation Cooperation
- ✓ Regulatory Cooperation
- ✓ Entrepreneurship, Innovation, and Joint Research
- ✓ Alignment of International Trade Policies
- ✓ North American Stakeholder Outreach
- ✓ North American Workforce Development

Building a competitive North American Partnership: Bilateral initiatives

US-Mexico High Level Economic Dialogue (HLED)

In May 2013, President Obama and President Peña Nieto announced the formation of the HLED to promote economic growth in the US and Mexico, create jobs for citizens on both sides of the border, and ensure our nations can compete globally.

- ✓ It will advance strategic economic and commercial priorities central to promote mutual economic growth, job creation and global competitiveness.
- ✓ It will build on a range of existing successful bilateral dialogues and working groups, and is envisioned as a mechanism to advance shared strategic priorities in the following areas:
 - Promoting Competitiveness and Connectivity
 - Fostering Economic Growth, Productivity and Innovation
 - Partnering for Regional and Global Leadership

Building a competitive North American Partnership: Bilateral initiatives

High Level Economic Dialogue 2015 plan:

Vice President Biden hosted the January 6, 2015 meeting in Washington – the second cabinet-level meeting of the dialogue –. It was an opportunity to take stock of the accomplishments between Mexico and US to date and establish new priorities for 2015.

- ✓ **Energy and climate change cooperation.**
- ✓ **Deepen regulatory cooperation.**
- ✓ **Strengthen and modernize our border.**
- ✓ **Increase educational exchanges and boost workforce development.**
- ✓ **Support transparency and anti-corruption efforts**
- ✓ **Promote entrepreneurship and innovation.**
- ✓ **Promote investment.**
- ✓ **Promote women's economic empowerment.**

Building a competitive North American Partnership: Bilateral Initiatives

US-Mexico CEO Dialogue. Bilateral private sector forum that seeks to engage on key economic and trade issues that impact the relationship between the U.S. and Mexico. The overarching priorities of this initiatives are:

- ✓ Regulatory Cooperation
- ✓ Trade Facilitation
- ✓ Border Infrastructure
- ✓ Transportation Infrastructure
- ✓ Communications Infrastructure
- ✓ Human Capital Development
- ✓ Energy

Building a competitive North American Partnership: Regional Initiative

MOU Government of California – Mexico's Ministry of the Economy.

The MOU establishes a flexible framework that reinforces areas of cooperation and integration aimed at contributing to foster economic growth, job creation and strengthening North American competitiveness in the global economy. Such areas include:

- ✓ Establishing a bilateral working group
- ✓ Expanding and facilitating trade and investment cooperation in specific sectors such as:
 - Advance manufacture
 - Alternative and renewable energy
 - Biotech
 - Information technology
 - Agriculture and agriculture technology
- ✓ Fostering scientific and technological collaboration between companies and academia
- ✓ Supporting trade missions

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Ambitious domestic policies to strengthen economic competitiveness

✓ Economic reforms

- Labor
- Telecommunications
- Energy
- Education
- Fiscal
- Financial sector

✓ Unilateral tariff reduction

- Since 2009, Mexico committed to unilaterally lowering its average applied tariff.
- 64% of industrial goods from our non-FTA partners are duty-free since 2013.

✓ Regulatory improvement

- Eliminate red tape – over 16,000 administrative regulations and 2,800 needless procedures have been eliminated.
- Strengthen competition legal framework, enhance transparency, recognize equivalence of some U.S. standards and expedite process to start a business (www.tuempresa.gob.mx).

✓ Trade facilitation

- Foreign trade regime simplification, including a single window for trade (www.ventanillaunica.gob.mx)
- Customs modernization.

Structural reforms that will enhance Mexico's productivity

Mexico continues its economic transformation that started over 20 years ago with the enactment of NAFTA through the implementation of structural reforms in such areas as:



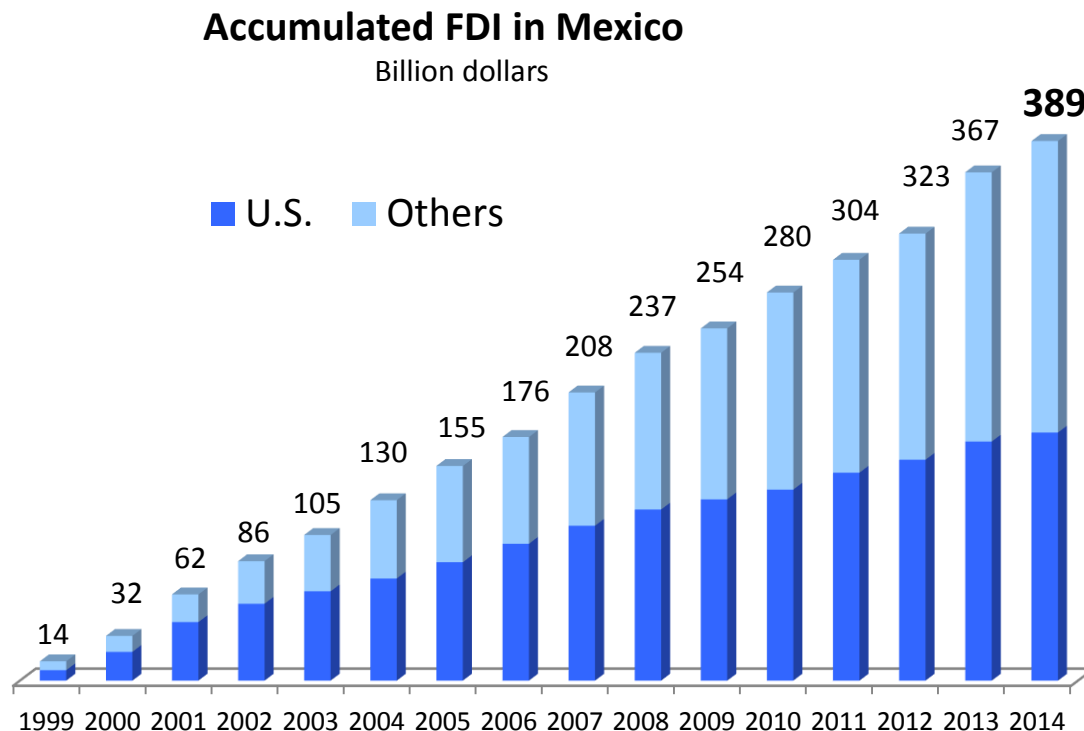
Mexico's competitive advantage

Coupled with these structural reforms, Mexico is working to fully exploit our competitive advantages:

- ✓ Mexico ranks as the second largest economy in Latin America and the fourteenth worldwide.
- ✓ Mexico has competitive manufacturing costs and has been consolidating itself as a leader in advanced manufacturing and high-technology.
- ✓ Privileged location connecting the Atlantic and Pacific oceans, as well as major consumer markets, making the country a natural platform for exports and increasingly sophisticated manufacturing.
- ✓ Mexico has a demographic bonus similar to that experienced in Asia over the last two decades. The Mexican population is the real driving force for development, and in Mexico half its population is 26 years or less.

Mexico has become a magnet for investment

- The U.S. is Mexico's #1 source of foreign direct investment, accounting for nearly 50% total FDI.
- More than 61,000 companies in Mexico have FDI, among them 26,756 companies have U.S. capital.

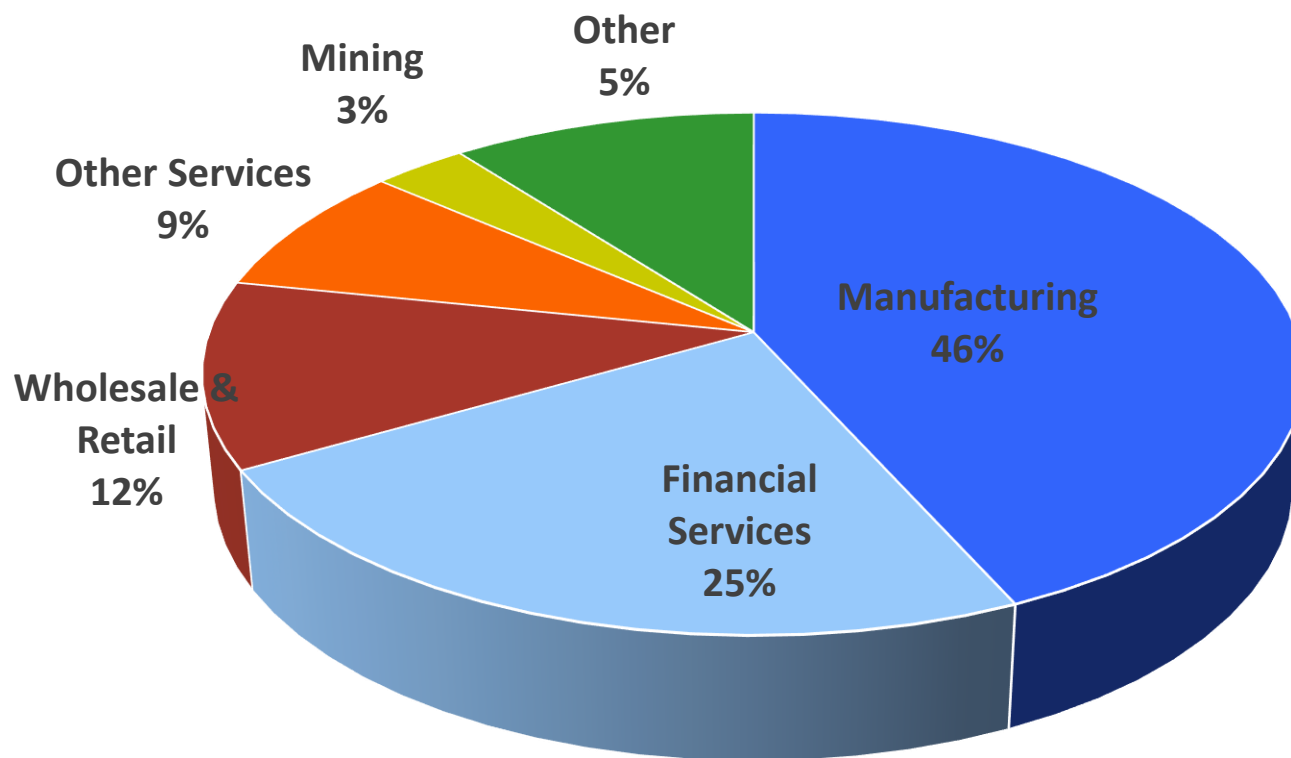


Expanding market access to the world will also increase U.S. FDI's rate of return

Mexico offers an array of business opportunities for U.S. companies

US FDI in Mexico by Sector

Accumulated 1999-2014



NAFTA

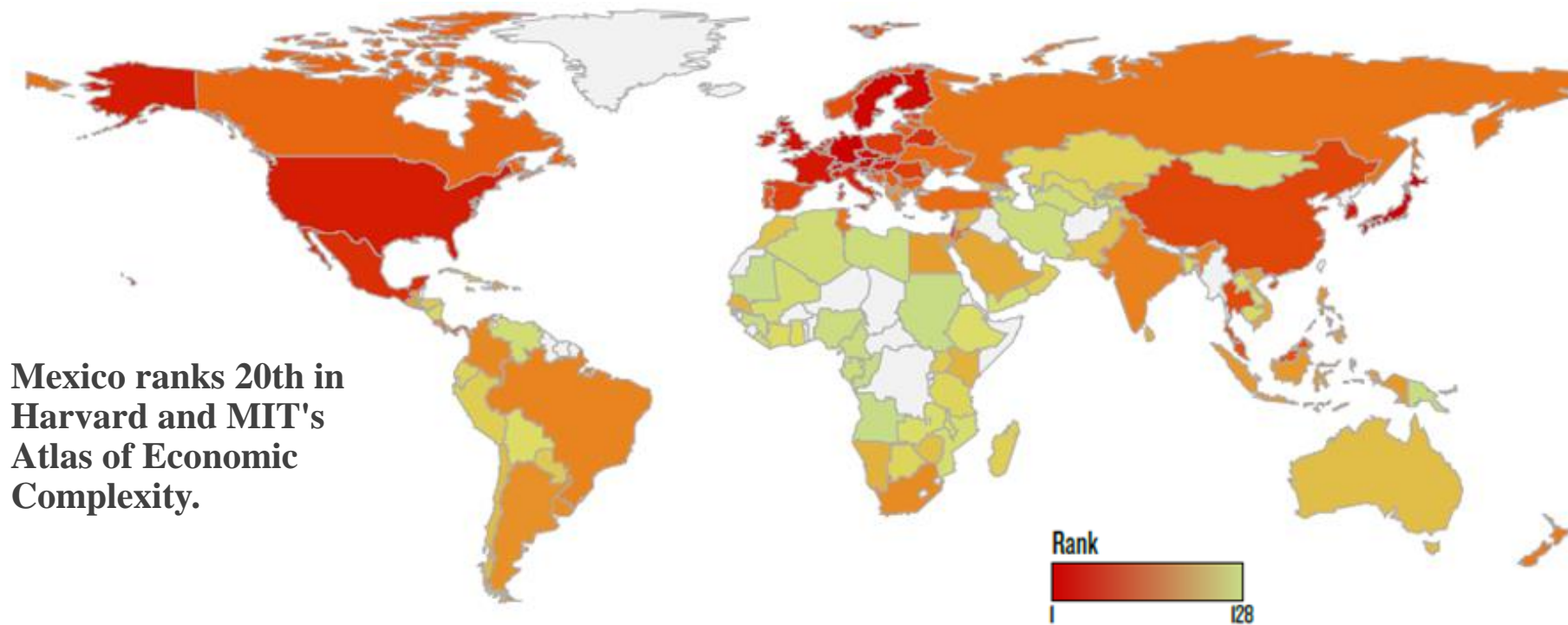
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Mexico is also a growing exporter of high-tech products



- Mexico manufactures and exports a large number of sophisticated products.
- In 2014, Mexico exported over \$191 billion of medium and high tech products to the U.S. alone which accounted for 17% of its GDP.

Medium and high tech products exports as a percentage of GDP

No.	Country	% GDP
1	South Korea	30.4%
2	Germany	28.1%
3	Mexico	17.2%
4	China	15.0%
5	France	13.2%
6	Italy	12.9%
7	United Kingdom	11.1%
8	Japan	9.9%
9	Canada	7.3%
10	Turkey	7.0%
11	South Africa	5.8%
12	United States	5.1%
13	India	4.5%
14	Indonesia	4.1%
15	Argentina	3.7%

Medium Technology (MT):

- Specialty Chemicals
- Machinery, Equipment, Appliance
- Electrical Industrial Machinery
- Motor Vehicles & Parts Total
- Motorcycles & Transport. Equipment
- Railroads & Equipment

High Technology (HT):

- Aircraft & Spacecraft
- Advanced materials
- Computers & Office Machinery
- Communication Equipment
- Medical, Precision & Optical

Key Sectors

AEROSPACE

- Mexico is the 6th supplier to the American aerospace industry.



MEDICAL DEVICES

- We are the largest exporter in Latin America and main supplier to the US.



AUTOMOTIVE AND AUTOPARTS

- 7th producer and 4th exporter globally of new light vehicles in the world.



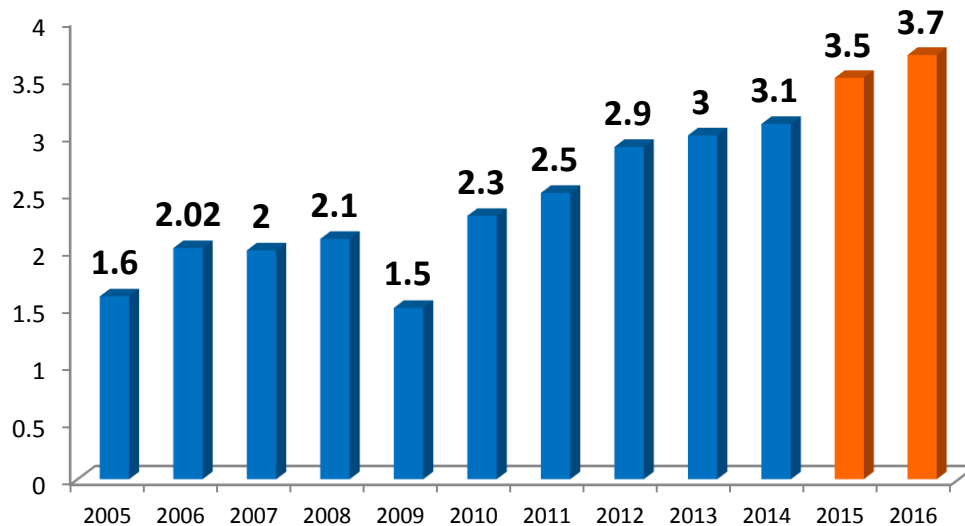
ELECTRIC-ELECTRONIC

- Leading flat television screen exporter in the world.

398 billions in exports
50% medium and high tech
manufactures

Automotive

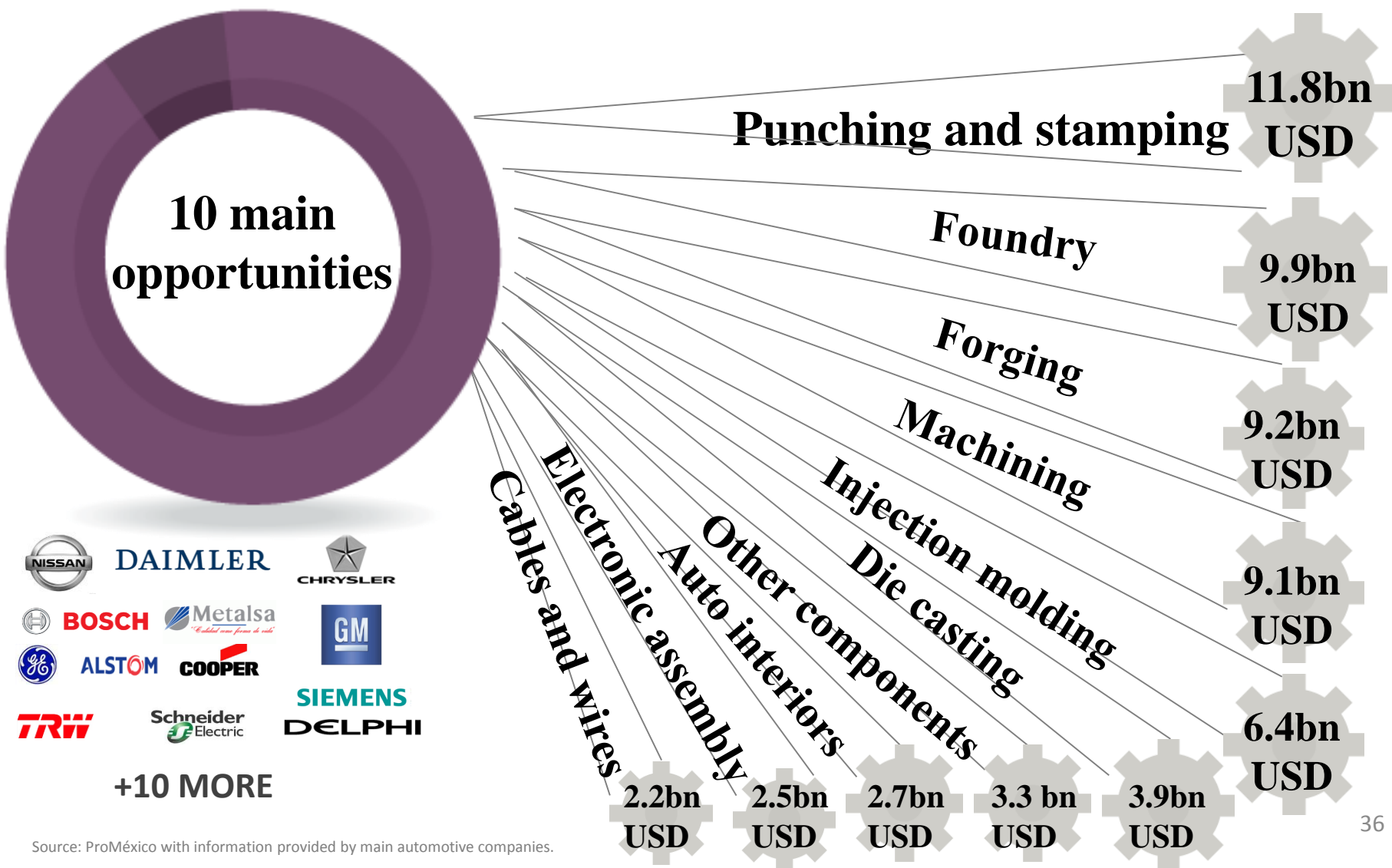
Light Vehicle Production in Mexico
(millions)



Mexico is making over 3 million vehicles a year, with output expected to increase 38% by 2016

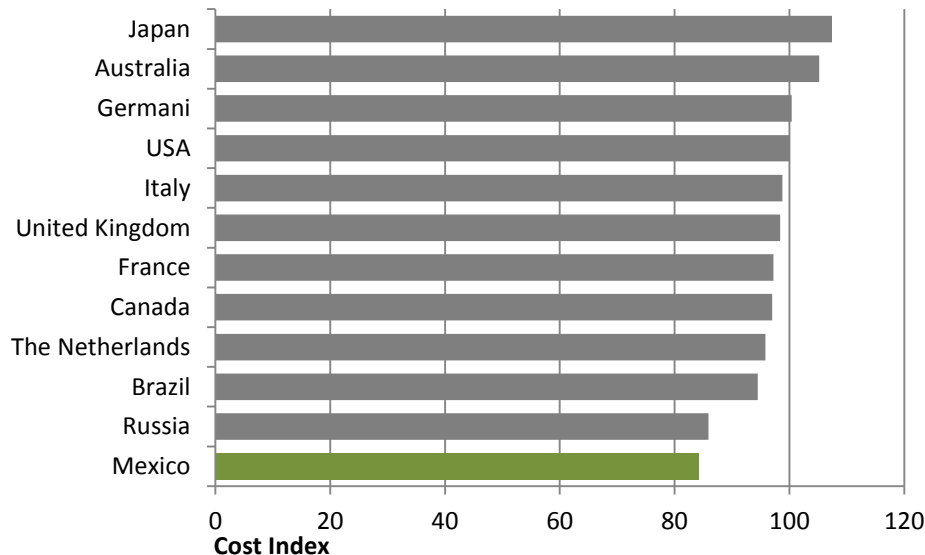
- Mexico is the **8th largest auto parts producer** in the world and the **4th largest car exporter**
- **19** of the most important **OEM's** in the world **have plants in Mexico** and over **300 TIER1 suppliers** with facilities in the country.
- **83%** of the Mexican automotive industry production is **exported to over 100 countries.**

Main opportunities in the automotive global supply chain



Aerospace

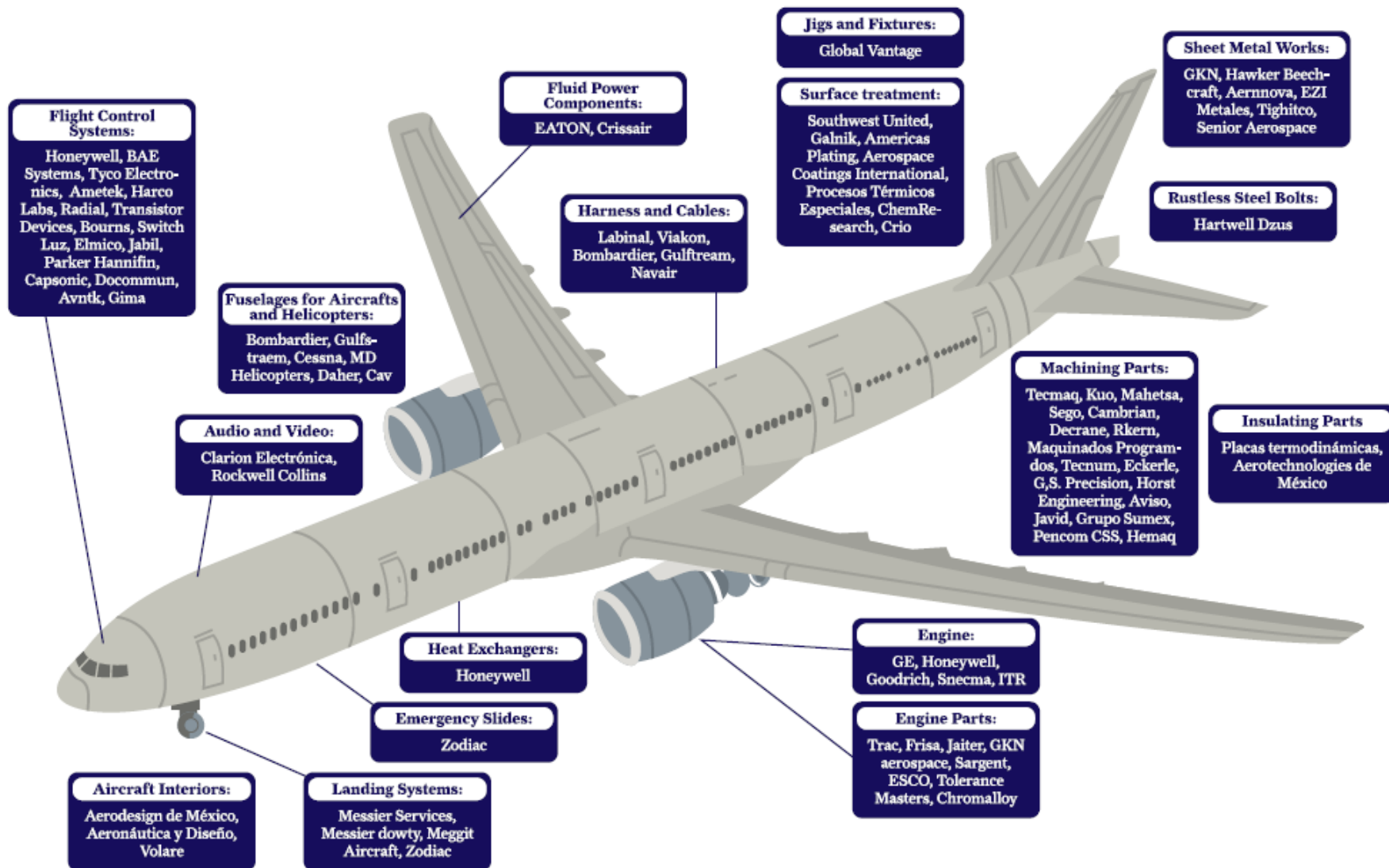
Aerospace parts manufacture
(US=100)



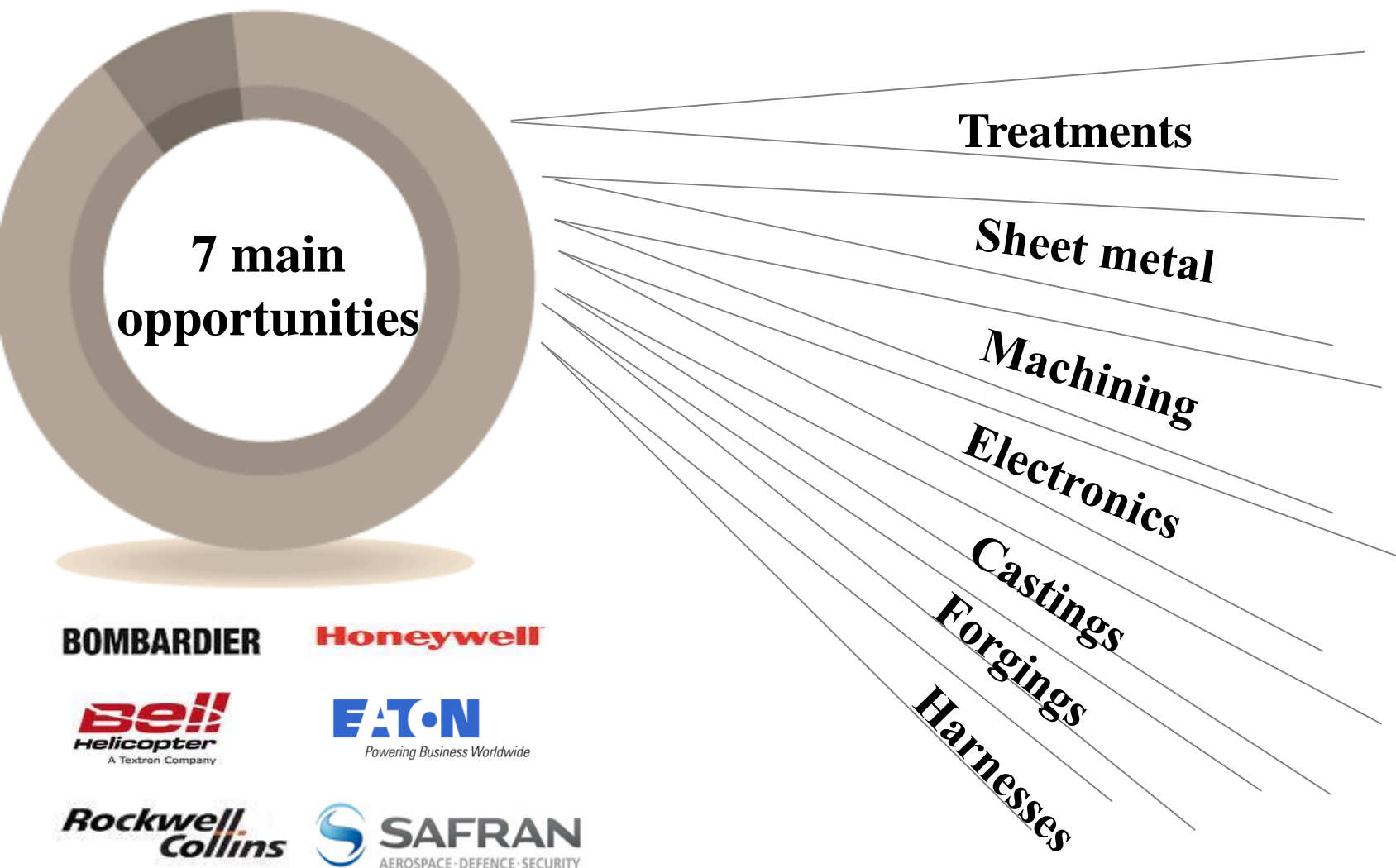
According to KPMG, aerospace parts manufacturing costs in Mexico are approximately 16% lower than in the United States.

- **There are 270 aerospace companies in Mexico.**
- In 2012, exports from this sector exceeded 5 billion dollars.
- Mexico has the second largest fleet of business jets in the world (after the US).
- Every two minutes an airplane with Mexican technology takes-off.
- Mexico is the 6th supplier to the American aerospace industry.

Main process in aircraft manufacturing in Mexico

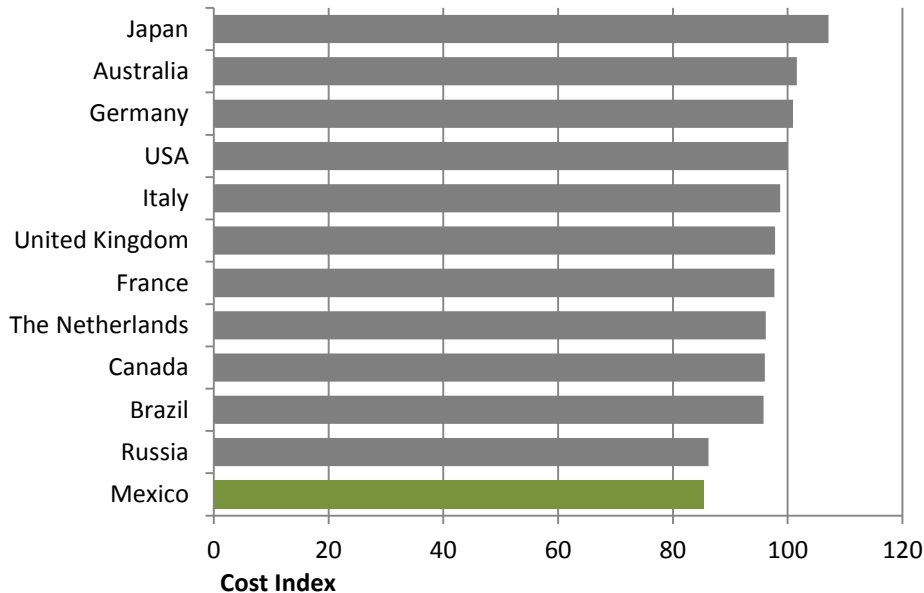


Main opportunities in the aerospace global supply chain



Electric-electronic

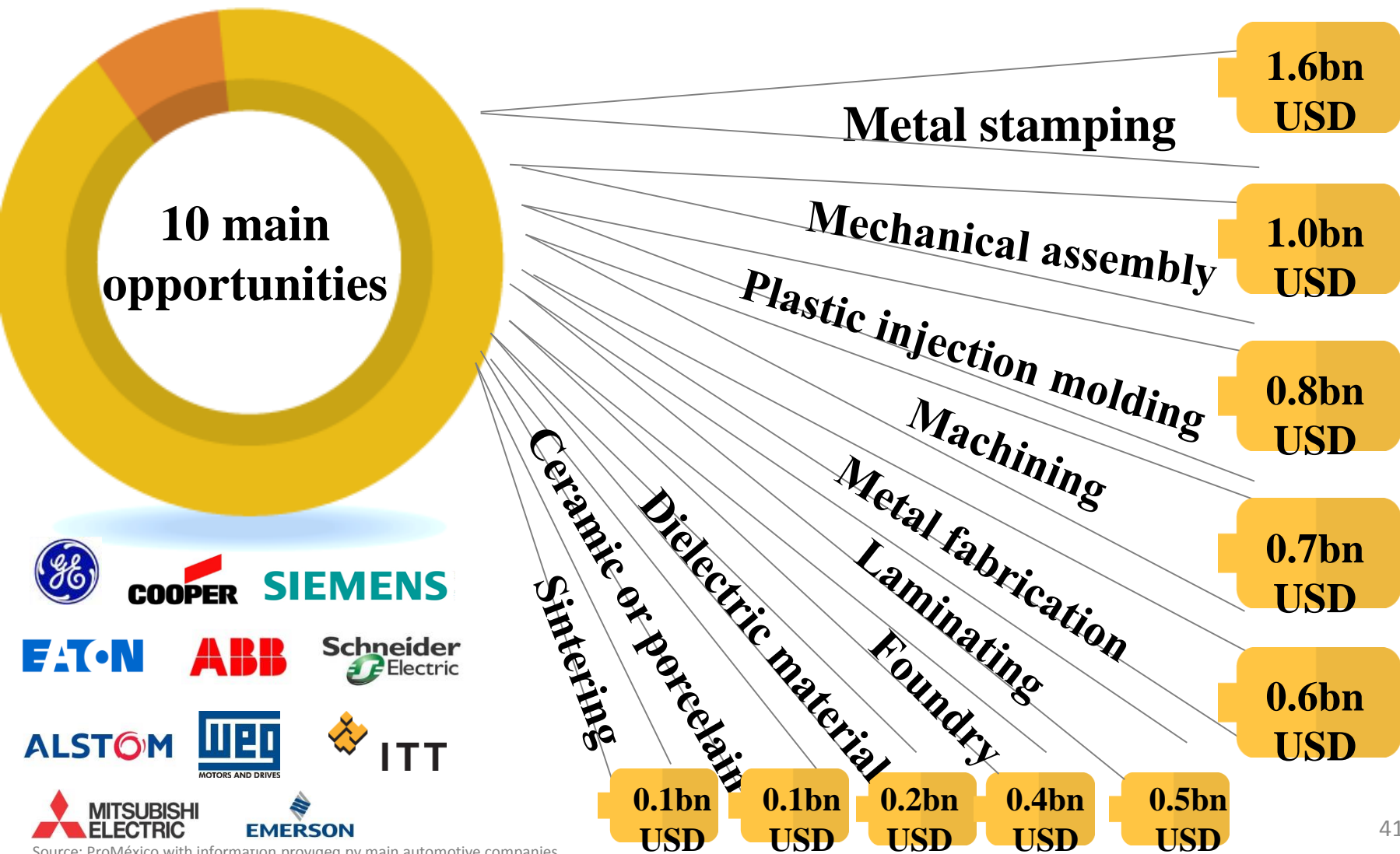
Electronics assembling
(US=100)



According to KPMG, electronics assembling costs in Mexico are 15% lower than in the United States.

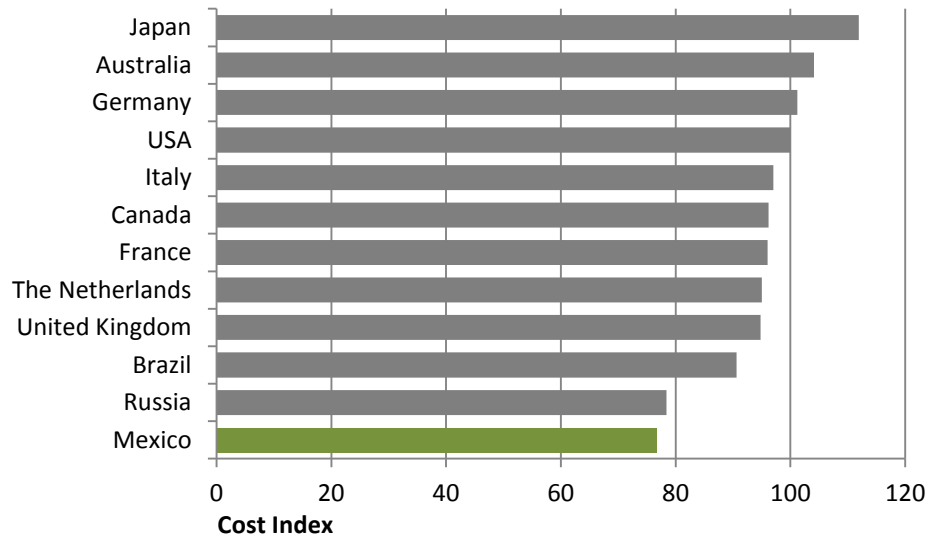
- **Mexico is the leading home appliance exporter in Latin America.**
- **And the 6th globally.**
- It is the leading flat television screen exporter in the world.
- The second refrigerator exporter.
- The 4th global exporter of computers.
- 8 of the top 10 transnational electronics manufacturing services have operations in Mexico.

Main opportunities in the electric global supply chain



Medical devices

Medical devices manufacturing
(US=100)

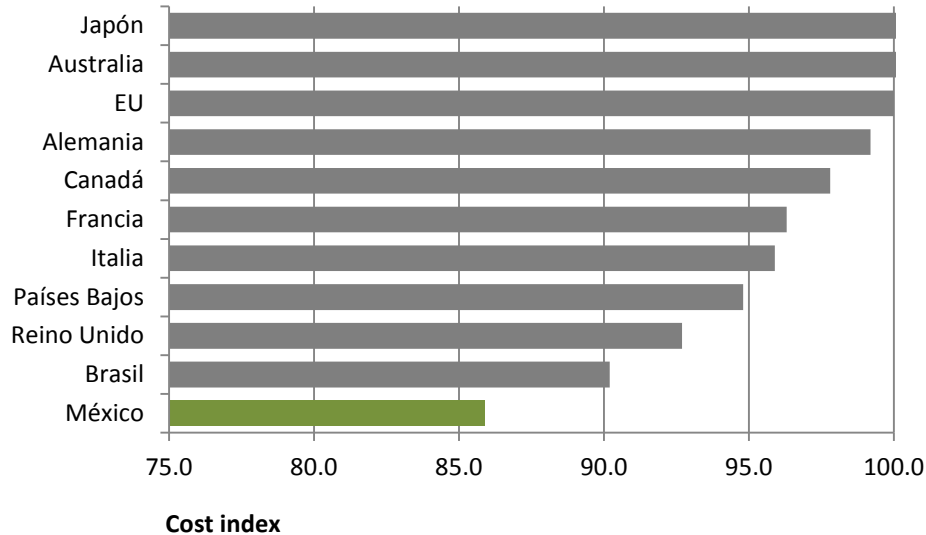


According to KPMG, medical device manufacturing costs in Mexico are 23% lower than in the United States.

- **Mexico is the 5th global exporter of medical instruments and devices.**
- We are the largest exporter in the medical device industry in Latin America.
- The 3rd global exporter of suture needles in the world.
- And the 6th exporter of respiratory and mechanic therapy equipment in the world.
- Our country is the leading exporter of orthopedic items and gauzes and bandages in Latin America.

Agrifood

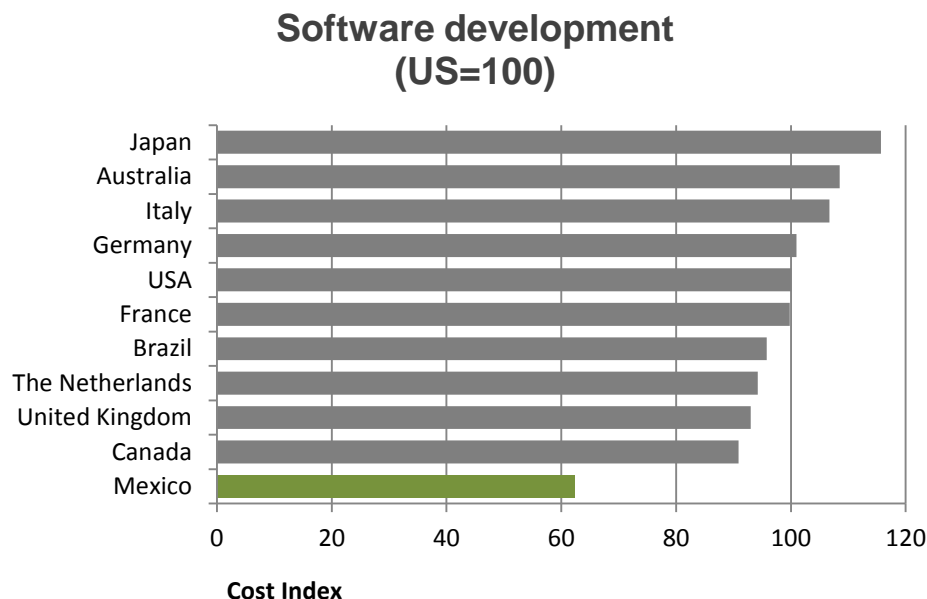
Food processing
(US=100)



According to KPMG, processed food costs in Mexico are 15% lower than in the United States.

- **Mexico is the leading exporter of**
 - Avocado.
 - Mango.
 - Guava.
 - Papaya.
 - Processed peppers.
 - Sweetened, powdered cocoa.
 - Fresh tomato.
 - Beer.
- **And the second exporter of**
 - Watermelon.
 - Limes.
 - Raspberry, blackberry and mulberry.

Information technology



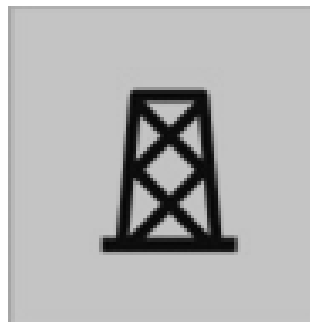
According to KPMG, software development costs in Mexico are 40% lower than in the United States.

- Mexico is the natural IT services supplier to the Latin and North American markets
- Mexico is ranked as the best destination in America for providing IT services, according to A.T. Kearney.
- Gartner Consulting ranks Mexico 3rd global IT services supplier.
- Mexico is ranked 2nd investment destination in Latin America with a 23% share in software projects in the region.

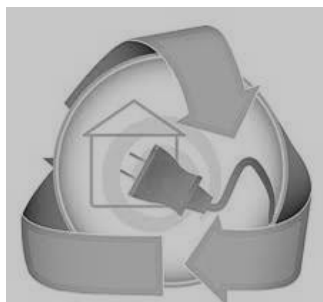
Opportunities in the Energy Sector



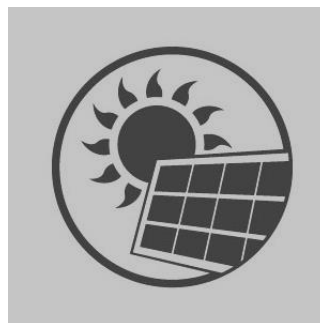
The energy Reform allows foreign investors to participate in profit sharing contracts on oil and natural gas exploration and production.



5th oil producer in the world and 13th in refining capacity.



Enables collaboration with the private sector to engage in transmission and distribution of electricity.



Mexico is the 3rd most attractive country in the world to invest in solar projects.



Creates a wholesale market for power generation.



The regions with the greater potential for wind energy in Mexico are the Isthmus of Tehauntepec (Oaxaca), the Gulf of Mexico, Baja California, and the Yucatan Peninsula.

Salvador Behar
Trade and NAFTA Office
SECRETARIA DE ECONOMIA
sbehar@naftamexico.net

 **MX-US Trade**
www.naftamexico.net
(202) 728-1707
Washington, DC