MANUFACTURING IN MEXICO

SECTOR OVERVIEW

NEW ZEALAND
TRADE & ENTERPRISE
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Latam NZTE

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Contents

Key Takeaways

1 **Country Overview**

Manufacturing Sector

The manufacturing sector is an essential pillar of the Mexican economy. It represents 18.5% of GDP and is the sector that most attracts foreign direct investment (FDI), corresponding to 47.9% of investments in the last five years.

International Trade

Mexico has 14 Free Trade Agreements (FTA) with more than 46 countries, including the European Union, North America, Japan, Australia, and New Zealand. The trade relationship with the United States is of great importance to its economy. The North American market is the destination of approximately 80% of Mexico's exports, and since the ratification of the North America Free Trade Agreement (NAFTA) in 1994, the traded value has grown more than 17 times.

Intellectual Property

Mexico ranks better than many traditional Asian manufacturing countries in terms of the ecosystem of intellectual property protection. The recent ratification of the United States-Mexico-Canada Agreement (USMCA) required an improvement in intellectual property laws in the country. In addition to applying for patents, copyrights, and trademarks locally, it is recommended that foreign companies sign a Non-Disclosure Agreement (NDA) when engaging with potential local manufacturers.

Key Takeaways

2

Supply Chain Diversification

Factors Reshaping Global Supply Chains

Some factors are leading companies to rethink their supply chain. The main ones are:

- Operational Costs

Since the beginning of the escalation in the commercial tensions between the two countries and a sequence of retaliation, the average U.S. tariff on products originating in China is six times higher than in 2018. In addition, as living standards improve in China, labor costs also increase. As a result, it is estimated that it is currently 23 percent cheaper to manufacture goods in Mexico destined for the U.S. market.

- Supply Chain Disruption

The global shortage of shipping containers has led to drastic inflation in shipping prices and increased delay times for companies. In September 2021, the average shipping price of containers from China and Southeast Asian countries to the U.S. peaked four times higher than in January.

Is manufacturing moving away from China?

Since the beginning of the last decade, China's share in the mix of exporters of manufactured products to the U.S. has been decreasing. This trend was accentuated from 2018 onwards. In 2017, Chinese products represented 27% of manufactured goods imports in the U.S., while in 2020, the share decreased to 23%. On the other hand, Mexico and Asian low-cost countries are gaining ground.

Key Takeaways

3

Manufacturing in Mexico

Export Manufacturing Promotion Program

Since the 1960s, Mexico has attracted foreign companies seeking to optimize production costs. What was traditionally known as the maquiladora industry is now a much broader government program known as IMMEX and accounts for 65% of the sector's revenue. In essence, the IMMEX is a duty-deferral instrument allowing companies to temporarily import intermediate goods used in an industrial process to elaborate, transform, or repair merchandise destined for export.

Business Models

There are several alternatives for a foreign company to start operating in Mexico. Those who are not ready to make significant investments to install a wholly-owned manufacturing plant can opt for a contract or shelter business model. These models require detecting a local manufactured partner. The level of supplementary services offered may vary and must be negotiated according to the needs of each company and the capabilities of local partners.

Industrial Clusters

First, the Mexican industry has developed beyond the U.S. border region. States located in the center region of the country are essential suppliers of many items for export. Second, industries other than autos are on the rise. Mexico has been a significant supplier of vehicles and parts for the North American markets for many years. Still, other industries such as medical devices, electronics, aerospace, and the necessary supply chain, are also standing out.

Key Takeaways

4 **Reaching the U.S. Market**

Modes of Transportation and Transit Time

Given the proximity between the two countries, more than 75% of shipments reach the U.S. by land. In addition, shipments from Mexico can reach major cities in the U.S. within four days. These two factors alone are already capable of yielding significant reductions in transportation and inventories costs.

Free Trade Agreement

The North America Free Trade Agreement (NAFTA) ratified in 1994 gradually eliminated nearly all tariffs and most non-tariff barriers on goods and services produced and traded within North America and was an instrument of transformation in the region's trade relationships. The revision of the agreement in 2018 and the subsequent ratification of the new FTA between the countries called the United States-Mexico-Canada Agreement (USMCA) guarantees a long period of commercial stability between the signatory parties.

Rules of Origin

Products produced by the signatory parties have preferential treatment within the USMCA region. To do so, they must have a minimum of originating content and follow the guidelines for the certification of origin to claim preferential rates.

SECTION 1

Country Overview

Manufacturing is an essential pillar of the Mexican economy. The sector represents 18.5% of the economy and is the main attraction of FDI, corresponding to 47.9% of the investment in the last five years.

Mexico often tops the list of Latin American countries with the best environments for business and intellectual property protection. In addition, the country offers preferential access to several markets, having 14 free trade agreements with more than 46 countries.

The trade relationship with the U.S. is very significant for the country. Approximately 80% of the exports are destined for its neighbor to the north of the border.

Mexico at a glance

Political Structure, Population, and Economy

Political Structure

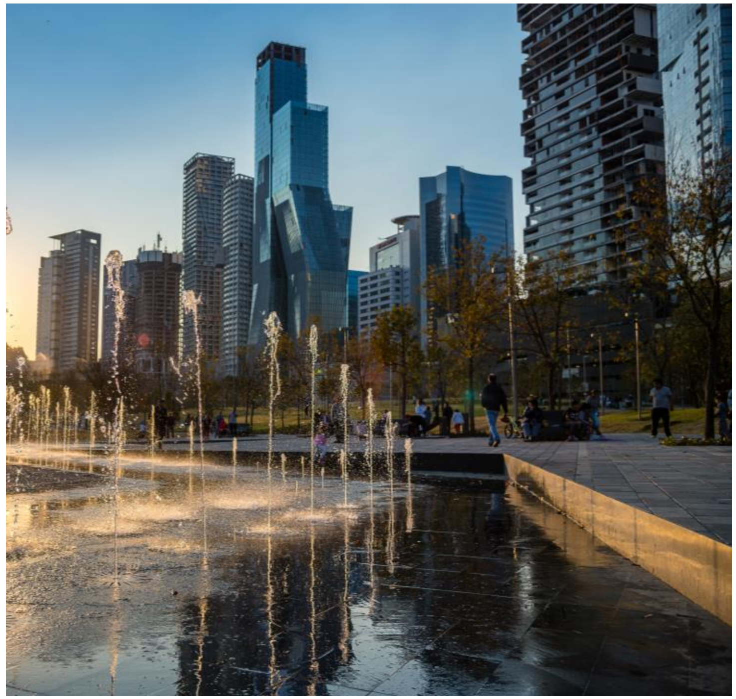
Mexico is a federal republic composed of 31 states and the Federal District. Government powers are divided constitutionally between executive, legislative, and judicial branches. The current federal president is Andrés Manuel Lopez Obrador (AMLO), elected in 2018 for a single six-year term.

Population

Mexico is home to 127 million people, the second largest population in Latin America, and the largest among Spanish-speaking countries. Approximately 7% of its population lives in the country's capital, Mexico City, making it the most populous city in North America.

Economy

The country has a dynamic economy, with industry representing 29.6% of GDP. Mexico is the 15th largest economy globally and the 10th largest exporter, benefiting from 14 Free Trade Agreements (FTAs) with over 46 countries.



Santa Fe, Mexico City

Mexico has the world's 15th largest economy and the 2nd in Latam

Economic Structure

-8.2%

GDP (2020)
US$ 1,076 billion

5.0%

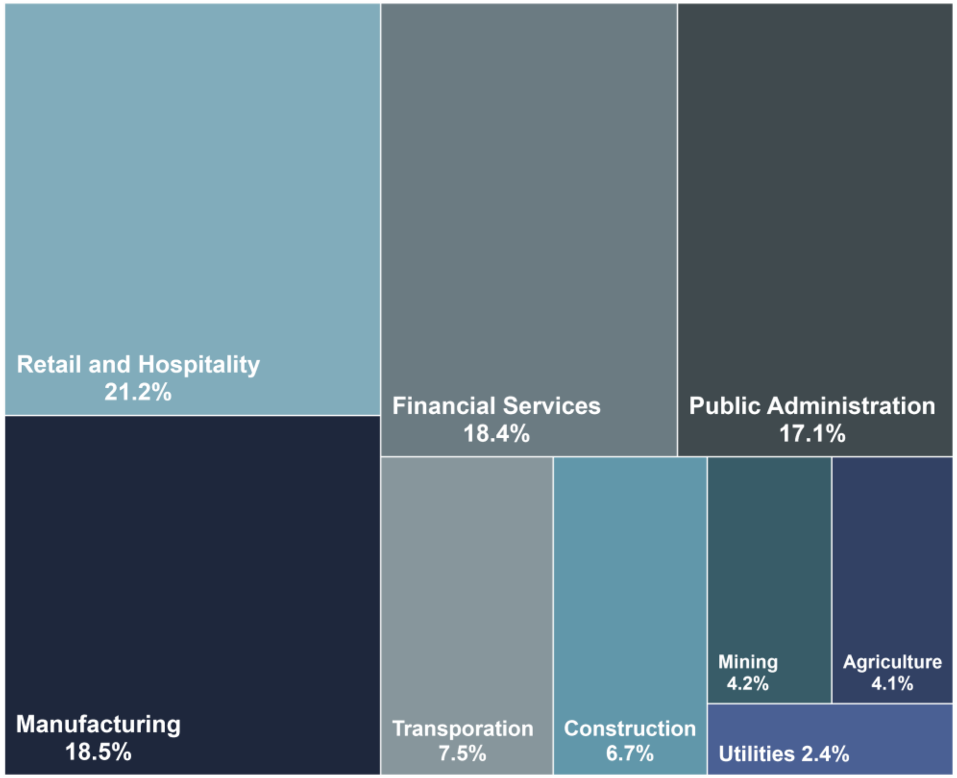
GDP (2021)
US$ 1,192 billion

With a GDP of approximately US$1,076 billion, Mexico has the 2nd largest economy in Latin America and the 15th globally.

Manufacturing accounts for 18.5% of the added value, above the region's average, highlighting the sector's importance for the Mexican economy.

The Mexican economy is projected to expand by 5.0% in 2021 and 3.2% in 2022.

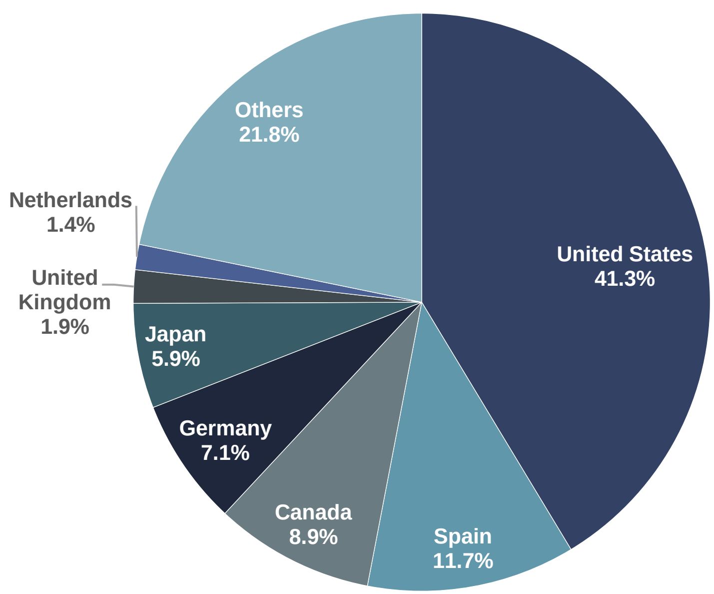
Mexico GDP by Sector (2020)



Most FDIs have U.S. capital and are directed to manufacturing

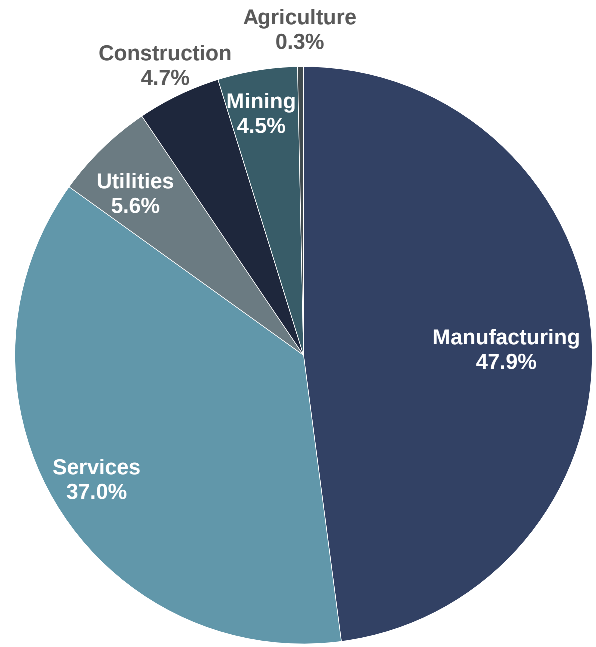
Foreign Direct Investment (FDI)

FDI by Country of Origin (cumulative, 2015 – 2020)



Total FDI (cumulative, 2015 – 2020): **US$197.6 billion**

FDI by Sector (cumulative, 2015 – 2020)

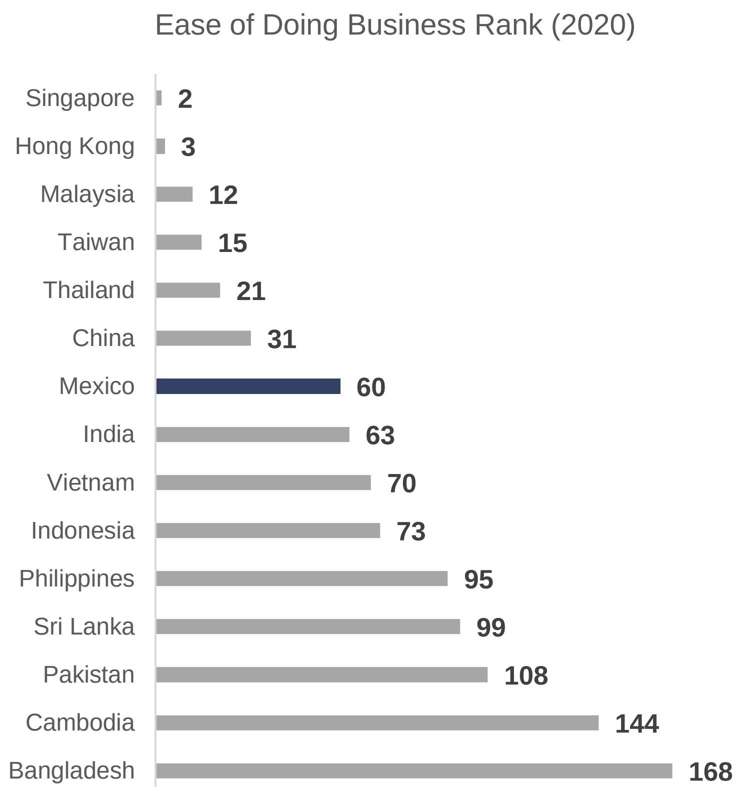


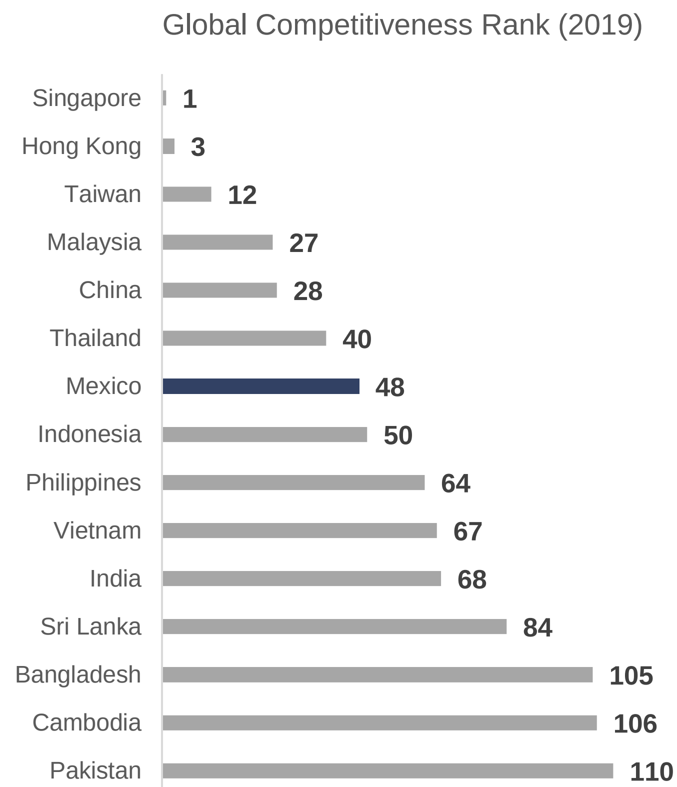
Manufacturing FDI (cumulative, 2015 – 2020): **US$94.7 billion**

Source: Comisión Nacional de Inversiones Extranjeras. (2020). *Informe Estadístico sobre el comportamiento de la inversión extranjera directa en México.*

Mexico has a better business environment than most Asian LCCs

Business Environment





Source: World Economic Forum. (2019). *The Global Competitiveness Report*; World Bank. (2020). *Doing Business*.

Mexico's trade policy is among the most open in the world

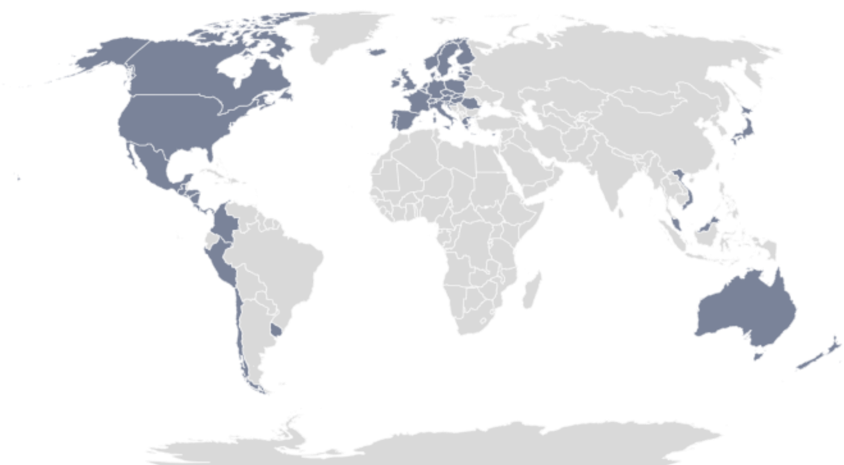
Free Trade Agreements

Mexico is a member of the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC), the G-20, and the Organization for Economic Cooperation and Development (OECD).

Mexico has 14 Free Trade Agreements (FTAs) with over 46 countries:

- Canada-Mexico-United States (USMCA)
- CPTPP
- Pnama
- Pacific Alliance
- Central America
- Peru (ACE 67)
- Bolivia (ACE 66)
- Japan
- Uruguay (ACE 60)
- European Free Trade Association (EFTA)
- Israel
- Chile (ACE 41)
- European Union
- Colombia

Mexico's Free Trade Agreements



Source: Foreign Trade Information System. (2020). *Trade Agreements in Force*.

Mexico has a more effective IP ecosystem than most Asian LCCs

Intellectual Property

Intellectual Property Protection

Foreign companies should consider obtaining IP protection locally in each of the markets it is present, including selling products online or manufacturing products overseas. In addition, when selecting a potential partner, it is essential to have them sign a Non-Disclosure Agreement (NDA). Even if patents are obtained in the local market, it is good to include an NDA with any vendor or contractor who may assist in various aspects of the product lifecycle. The goal is to create as much documentation as possible to stop a dishonest vendor from claiming or using an IP as their own.

- Provide your local partner with an NDA document in English and Spanish.
- Keep Mexico as the country of jurisdiction to handle any litigation locally.

Legal Framework

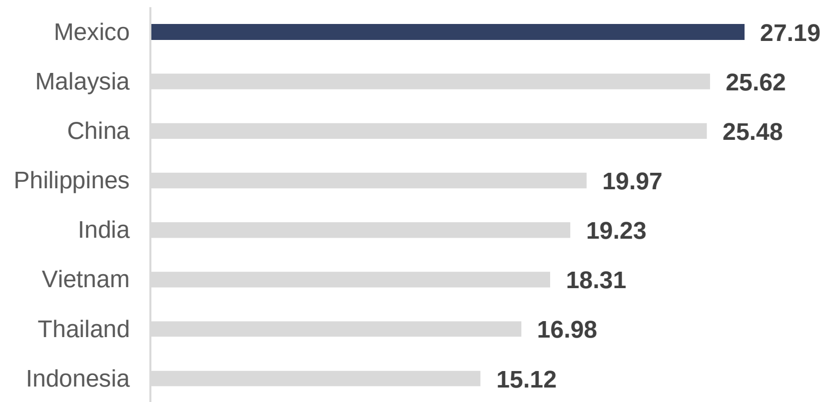
Mexican Institute of Industrial Property:

Administers patent, trademark, and industrial designs registrations and handles administrative enforcement cases involving allegations of IPR infringement.

National Institute of Copyright:

Administers copyright registrations and mediates certain types of copyright disputes.

U.S. Chamber of Commerce – International IP Index (2020)



Mexico ranks 23rd out of 53 countries in the ranking of the most effective intellectual property ecosystems. Countries receive a score between 0 and 50.

The key areas of strength are:

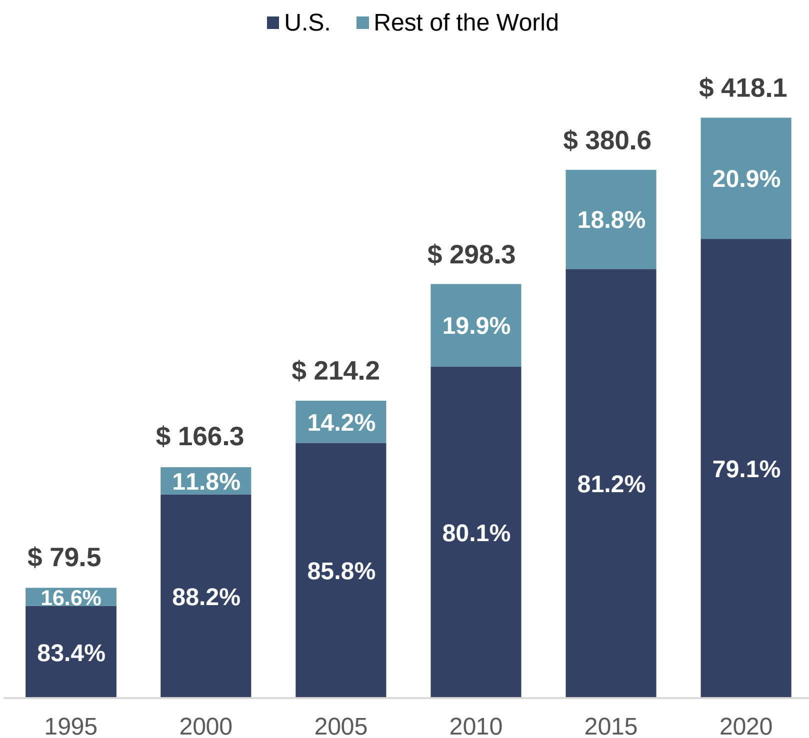
- Term of protection for industrial design rights extended to 25 years.
- Dedicated endeavor to streamline IP review process and criminal justice system and harmonize to international standards.
- Efforts to increase awareness of importance of IP rights.

Source: U.S. Chamber of Commerce's Global Innovation Policy Center. (2020). *International IP Index*; Canadian Intellectual Property Office. (2020). *Protecting your IP in Mexico*.

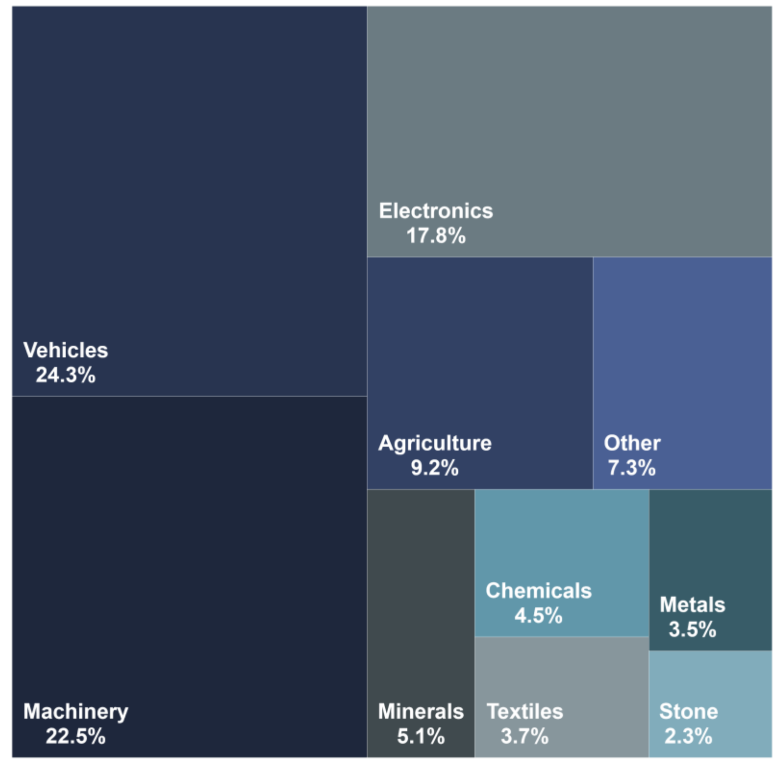
Mexico is the world's 10th largest exporter, mainly supplying the U.S.

Mexico Trade Statistics

Total Exports (USD billion, 1995 – 2020)



Exports by Product Label (USD, 2020)



Source: International Trade Center. (2020). *Trade Map.*

SECTION 2

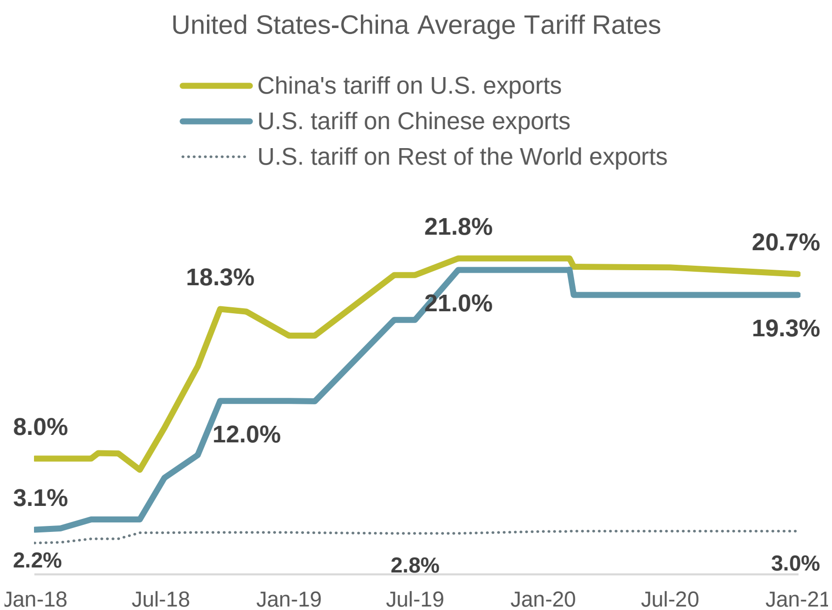
Supply Chain Diversification

Since the start of the trade dispute in 2018, U.S. tariffs on products coming from China have averaged six times higher. In addition, the COVID-19 pandemic further exposed the risks of high reliance on a single supplier of end products or materials. Disruption in supply chains led to drastic inflation in shipping prices and increased delay times for companies.

Some trends have been driving foreign companies to rethink their supply chain. For example, China plus one strategy typically targets countries in Southeast Asia to develop a second supplier. Many companies are also considering nearshoring. Those targeting the U.S. market are increasingly considering Mexico as their manufacturing hub.

Why are manufacturers looking to diversify their supply chain?

Trade War and Supply Chain Disruptions



Current U.S. tariffs on imports from China are more than six times higher than before the trade war began in 2018. These tariffs cover approximately 66.4% of Chinese exports to the United States.

The global shortage of shipping containers has led to drastic inflation in shipping prices and increased delay times for companies. In August 2021, approximately 6% of the world's bulk carrier fleet was at anchor off Chinese ports amid rising congestion.

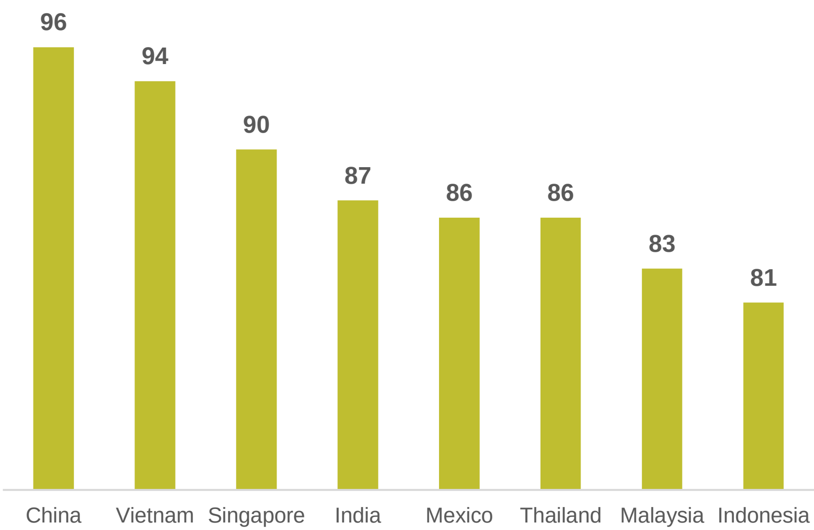
Source: Peterson Institute for International Economics. (2021). *US-China Trade War Tariffs*; Freightos Baltic Index. (2021). *Container Freight Rate Index*.

Why are manufacturers looking to diversify their supply chain?

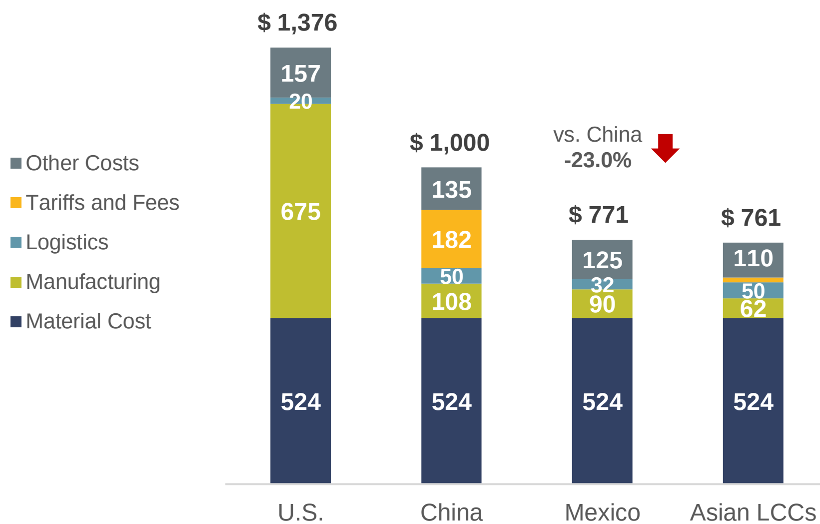
Rising Operational Costs in China

Manufacturers have historically yielded savings from shifting sourcing and producing to China, which is estimated to be 27% less costly than in the U.S. However, labor costs in China have risen as living standards improve. This new scenario challenges the strategies that have fueled sourcing and production decisions for more than two decades. Pivoting production to Mexico, for example, could yield further 23% cuts in operating costs.

Manufacturing Cost Index (2019, US= 100)



Cost Buid-Up of a Hypothetical Product (2020)



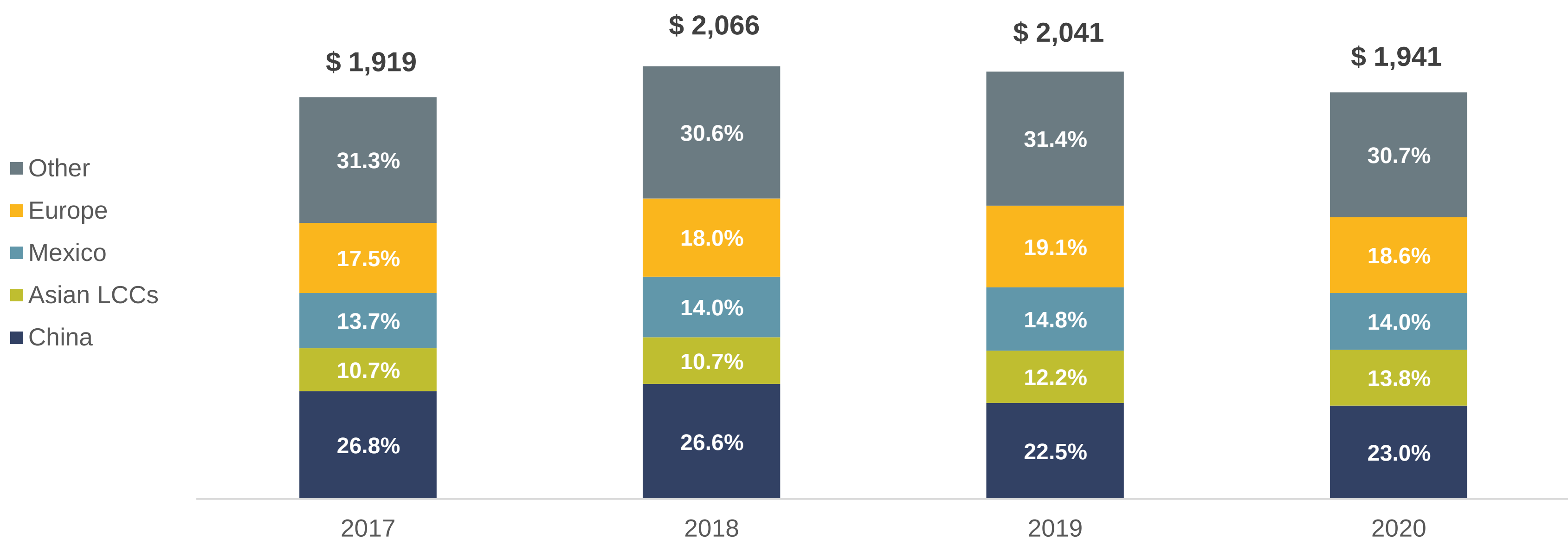
Source: BCG. (2020). *A Manufacturing Strategy Built for Trade Instability*; PwC. (2020). *Beyond China: US Manufacturers are Sizing Up New Global Footprints*.
Note: Asian low-cost countries (LCC) is a group comprising Taiwan, Malaysia, India, Vietnam, Thailand, Indonesia, Singapore, Philippines, Bangladesh, Pakistan, Hong Kong, Sri Lanka, and Cambodia.

Is the exodus from China really happening?

U.S. Manufactured Imports

Companies seeking to diversify their supply chains already see Mexico as a viable option, particularly for industries such as automotive, aerospace, and electrical components. Despite the disruption seen on the supply and demand sides for much of 2020, Mexico and Asian LCCs are gaining ground among suppliers of manufactured goods for the U.S.

U.S. Manufactured Imports by Country of Origin (USD billion, 2017 – 2020)



Source: United Nations. (2020). *UN Comtrade*.
Note: Asian low-cost countries (LCC) is a group comprising Taiwan, Malaysia, India, Vietnam, Thailand, Indonesia, Singapore, Philippines, Bangladesh, Pakistan, Hong Kong, Sri Lanka, and Cambodia.

China plus one strategy popular, but near-shoring gaining ground

Supply Chain Diversification Options

Type	Description	Impact
China Plus One	Companies keep a large portion of their manufacturing in China but develop a second supplier outside of the country, often in the same region.	Improves supply chain security by removing the risk of a single point of failure while maintaining access to the Chinese manufacturing capacity and consumer market.
Near-Shoring	Companies move business operations to the same region as the primary consumer base	Reduces transit time and often helps to avoid geopolitical risks. In some sectors this option allows companies to take advantage of better agglomeration effects.
Reshoring	Companies move manufacturing back to their home market.	Usually too costly unless there is a significant investment in automation or government support, but it usually cuts logistics, if the domestic market is the primary market for the company, and geopolitical risks.

Source: Fitch Solutions. (2021). *World of Worries: Political Risks in 2022*.

SECTION 3

Manufacturing in Mexico

Since the 1960s, Mexico has attracted foreign companies seeking to optimize production costs. What was traditionally known as the maquiladora industry is now a much broader government program known as IMMEX and accounts for 65% of the sector's revenue.

Mexico offers alternatives for companies that are not ready to make significant investments in the country to install a wholly-owned manufacturing plant. To start operations in the country, foreign companies can opt for a contract or shelter business model.

The sector is evolving beyond the production of vehicles and parts. Currently, there are significant industrial clusters of medical devices, aerospace, and electronics.

IMMEX program is a key driver of Mexico's manufacturing exports

Manufacturing, Maquiladora and Export Services Program (IMMEX)

The IMMEX Program

The Mexican maquiladora or IMMEX program was introduced over 30 years ago by the Mexican government to promote employment in Mexico. The Ministry of Economy (or "SECON" for its acronym in Spanish) is the authority in charge of authorizing the IMMEX program. To qualify and obtain such authorization, the company must submit certain documentation and provide detailed information about the manufacturing process or service operation to be carried out.

In essence, the IMMEX is a duty-deferral instrument allowing companies to temporarily import intermediate goods used in an industrial process to elaborate, transform, or repair merchandise destined for export exempt from the payment of the general import tax (IGI), the value-added tax (IVA) and, where appropriate, the countervailing duties.

General Regulation

To qualify for the IMMEX program, companies must export at least US$500,000 or 10% of their production.

The period which temporarily imported goods may remain in Mexico under the temporary importation customs regime varies as follows:

1. 18 to 36 months for raw materials, parts, components, packaging, fuel and lubricants, as well as labels and bulletins.
2. Up to 24 months for containers.
3. For the validity of the IMMEX program for machinery and equipment.

Source: Baker Mckenzie. (2017). *Doing business in Mexico.*

Operating models

Standalone

The Standalone Model

Through this model, the foreign company incorporates a new legal entity in Mexico. Getting started requires selecting and either leasing or buying a site, securing permits and leases, and adhering to Mexican tax obligations and other regulations. In addition, a new entity incorporated in Mexico will have to apply for a permit to operate under the IMMEX regime.

The standalone model allows complete control of all aspects of production and intellectual property. But, on the other hand, it demands a considerable investment of resources and time.

Usually, foreign companies that opt for this model are large corporations that already benefit from scale, financial and operational capacity, and experience of entering and developing new markets.

Advantages:

Complete control of all stages of the production process.

Disadvantages:

The foreign company bears all responsibility and risk exposure associated with operating in a foreign country, in addition to a considerable amount of time to start operating.

Best suited for:

Large multinational manufacturers with sufficient operational and financial capacity for such a project and whose business model demands complete control over production and intellectual property.

Source: Entrada Group. (2018). *Different Routes to Mexico Manufacturing*.

Operating models

Contract

The Contract Model

Under the contract model, the foreign company would contract with an existing Mexico-based manufacturer. The contract manufacturer is the legal entity in Mexico holding the IMMEX permit. It owns production assets, controls all aspects of production, and charges a fee for manufacturing the goods.

Typically, the party seeking to have products manufactured in Mexico by a contract producer will provide the drawings, raw materials and will give the directions as to how the item, or items, will be built to spec.

The capital and legal risks involved with this option are lower than in a standalone model. However, the foreign company will not have complete oversight over production consistency or quality assurance.

This model allows companies to start manufacturing in Mexico relatively quickly and cheaply. The most significant time commitment occurs upfront in seeking and evaluating proposals from Mexican manufacturers, negotiating prices, drafting contracts and non-disclosure agreements.

Advantages:

It is a quick way to expand production to Mexico and minimizes exposure to legal and capital risks.

Disadvantages:

The foreign company will have less control over production and quality assurance and will be exposed to intellectual property risks.

Best suited for:

Small and medium-sized companies that do not have the financial and operational capacity to install their own facilities in Mexico but are looking to benefit from the strengths of manufacturing in the country in the short term.

Source: Entrada Group. (2018). *Different Routes to Mexico Manufacturing*.

Operating models

Shelter

The Shelter Model

By operating in Mexico through a shelter company, the foreign company owns and controls its production assets, engineering, production processes, quality control, and supply chain. In contrast, the shelter company is the Mexican legal entity of record and the IMMEX permit party.

The service offered may vary between shelter manufacturing providers. Still, usually, general and administrative services will be provided, such as legal, regulatory, import and export, infrastructure, human resources, finance, security, and others.

This model allows the company to maintain control over production, quality verification, and intellectual property.

Advantages:

The model allows the foreign company to maintain control over production and quality assurance and reduces the exposure to liabilities in Mexico.

Disadvantages:

The foreign company will be exposed to the shelter provider's performance in these functions. Therefore, due diligence is required before selecting a potential partner.

Best suited for:

Small and medium-sized companies with the operational and financial capacity to manage their production in Mexico, have long-term plans and seek a soft landing in the country.

Source: Entrada Group. (2018). *Different Routes to Mexico Manufacturing*.

IMMEX companies account for over 65% of the sector's output

Overview of Manufacturing Sector

Total Sector Employment (April 2021): **3.7 million**

IMMEX 75.7% | Non IMMEX 24.3%

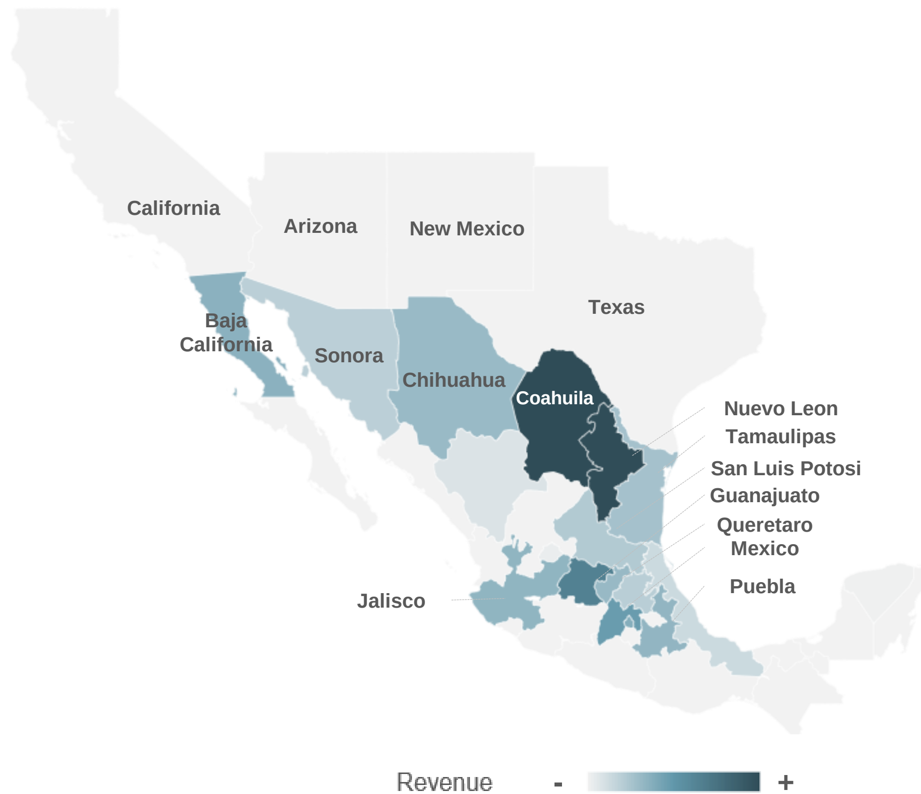
Total Sector Revenue (USD, 2020): **$ 352.9 billion**

IMMEX 65.5% | Non IMMEX 34.5%

IMMEX Companies Revenue Source (USD, 2020): **$ 231.2 billion**

International 63.0% | Domestic 37.0%

Manufacturing Sector Revenue by State (USD, 2020)



Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica.*

Mexican manufacturing is developing beyond automobiles

Manufacturing Subsectors

Motor Vehicle

Mexico is traditionally a major producer and exporter of automobiles. The country is the main vehicle supplier to the United States. The main hubs of the automobile industry in the country are in Coahuila, San Luis Potosí, Nuevo León, Jalisco, and Guanajuato. Manufacturing companies in Mexico include major global players such as BMW, Chrysler, Ford, GM, Honda, Kia, Mazda, Nissan, Toyota, and Volkswagen.

Aerospace

Queretaro is the leading aerospace hub in the country and is home to many companies in Mexico, including Bombardier, GE, Safran, Airbus, Delta, Eurocopter, Cormer, Regent, and Liberty Spring.

Medical Devices

Baja California is the medical device's hub. Most of the production is destined for the United States due to the proximity of the two countries. Companies in Mexico include Medtronic, GE, Siemens, Fisher & Paykel, Cardinal Health, 3M, Stryker, Boston Scientific, and J&J.

Electronics

The eastern part of the country specializes in parts for computers, home appliances, and consumer goods. The western part of the country focuses on manufacturing aerospace, hi-tech, IT and sub assembly. Companies in Mexico include LG, Toshiba, IBM, HP, Johnson Controls, and Emerson Electric.

IMMEX International Revenue by Subsector
(USD billion, 2020)

Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica*; Tetakawi. (2019). *Overview of the Top Industries Manufacturing in Mexico*.

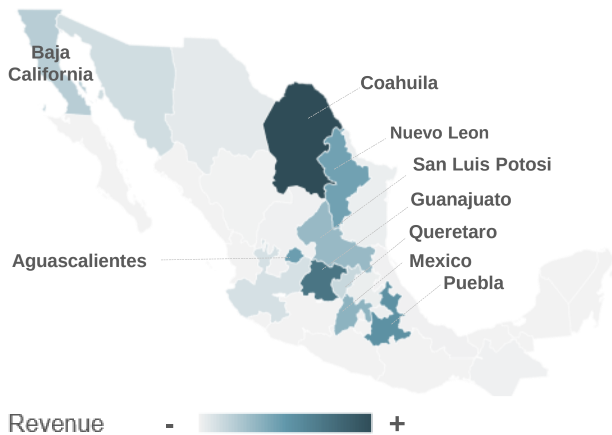
Subsector key indicators

Transportation Equipment Manufacturing

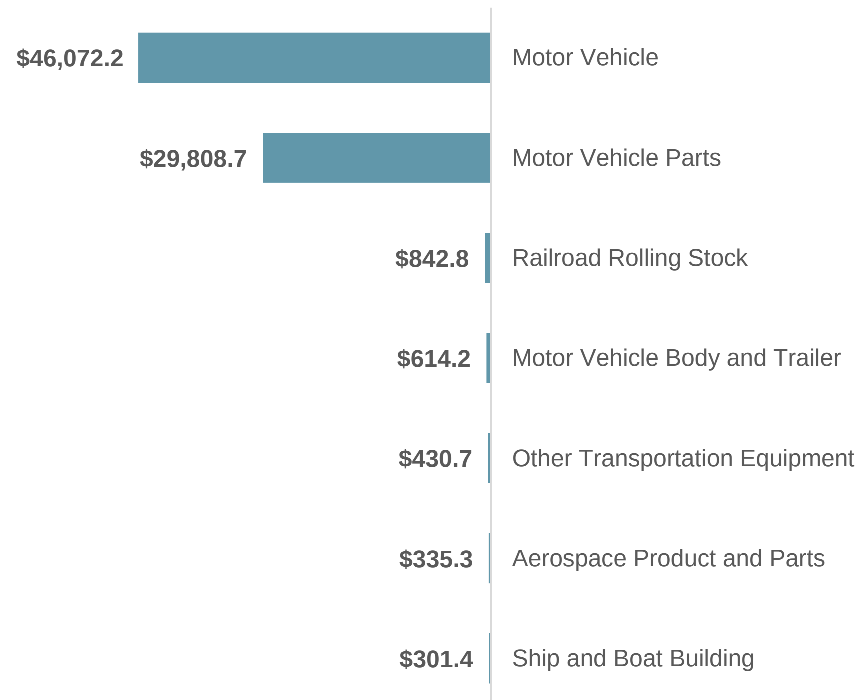
IMMEX Industries Subgroup

- International Revenue (USD, 2020): **$ 78.4 billion**
- Number of Plants (April 2021): **1,035**
- Employment (April 2021): **952,864**

IMMEX Companies International Revenue by State (2020)



IMMEX International Revenue by Industry (USD million, 2020)



Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica.*

Subsector key indicators

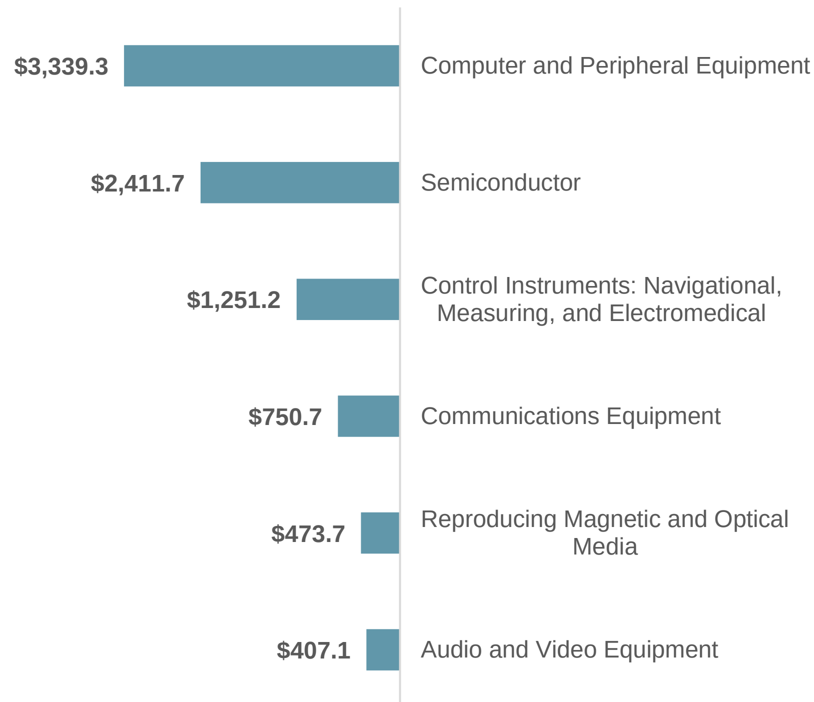
Computer and Electronic Product Manufacturing

IMMEX Industries Subgroup

- International Revenue (USD, 2020): **$ 8.6 billion**
- Number of Plants (April 2021): **385**
- Employment (April 2021): **364,358**

IMMEX Companies International Revenue by State (2020)

IMMEX International Revenue by Industry (USD million, 2020)



Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica.*

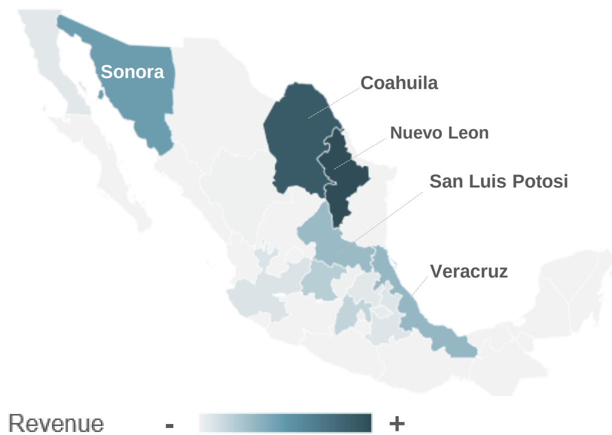
Subsector key indicators

Primary Metal Manufacturing

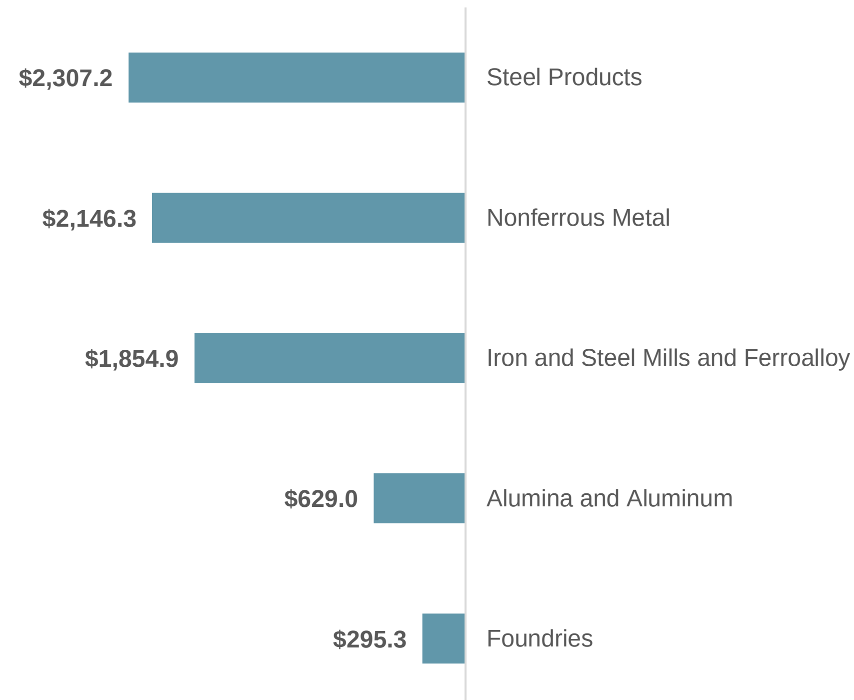
IMMEX Industries Subgroup

- International Revenue (USD, 2020): **$ 7.2 billion**
- Number of Plants (April 2021): **198**
- Employment (April 2021): **86,447**

IMMEX Companies International Revenue by State (2020)



IMMEX International Revenue by Industry
(USD million, 2020)



Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica.*

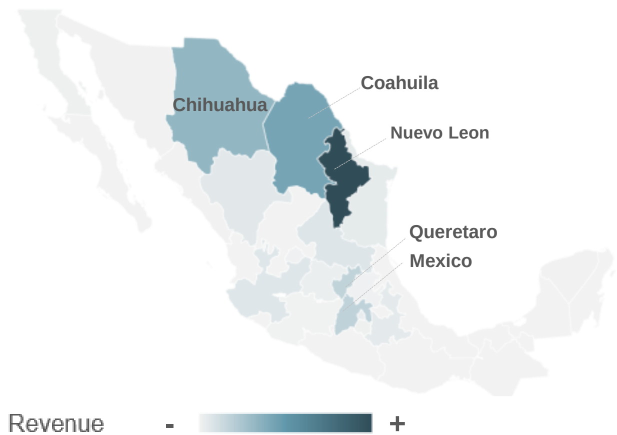
Subsector key indicators

Machinery Manufacturing

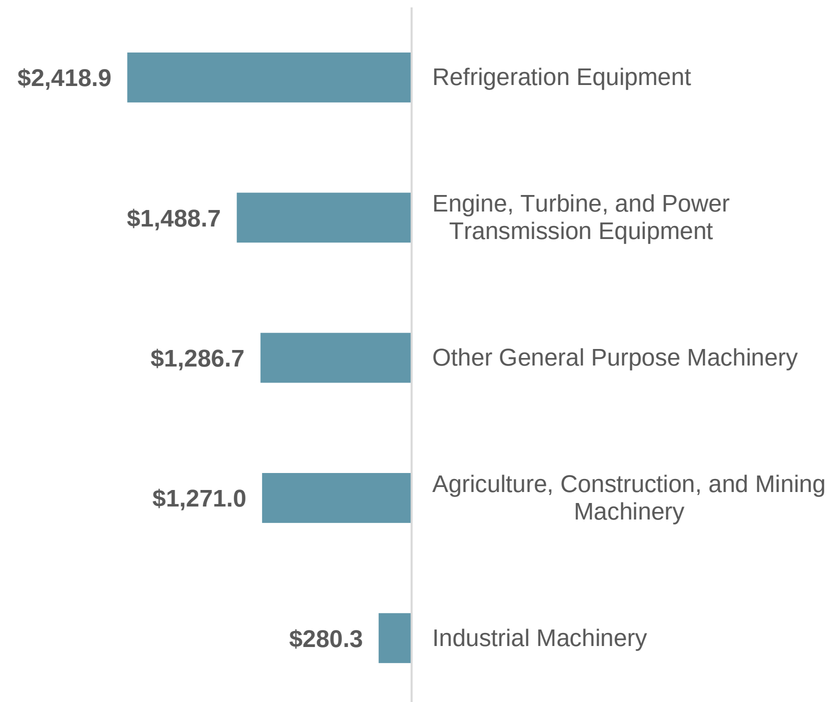
IMMEX Industries Subgroup

- International Revenue (USD, 2020): **$ 7.0 billion**
- Number of Plants (April 2021): **244**
- Employment (April 2021): **107,116**

IMMEX Companies International Revenue by State (2020)



IMMEX International Revenue by Industry
(USD million, 2020)



Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica.*

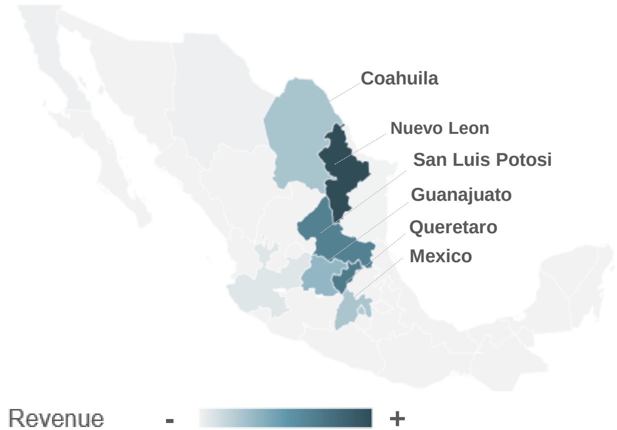
Subsector key indicators

Electrical Equipment, Appliance, and Component Manufacturing

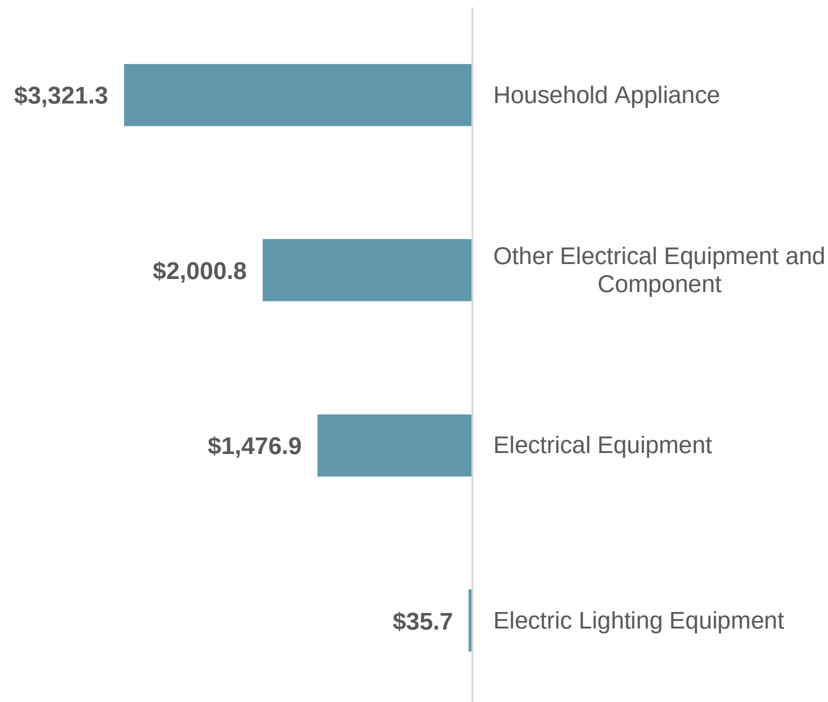
IMMEX Industries Subgroup

- International Revenue (USD, 2020): **$ 6.8 billion**
- Number of Plants (April 2021): **275**
- Employment (April 2021): **190,485**

IMMEX Companies International Revenue by State (2020)



IMMEX International Revenue by Industry
(USD million, 2020)



Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica.*

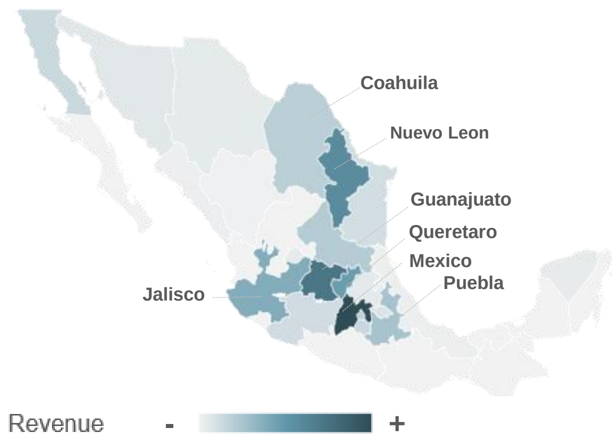
Subsector key indicators

Plastics and Rubber Products Manufacturing

IMMEX Industries Subgroup

- International Revenue (USD, 2020): **$ 6.0 billion**
- Number of Plants (April 2021): **598**
- Employment (April 2021): **194,615**

IMMEX Companies International Revenue by State (2020)



IMMEX International Revenue by Industry (USD million, 2020)

Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica.*

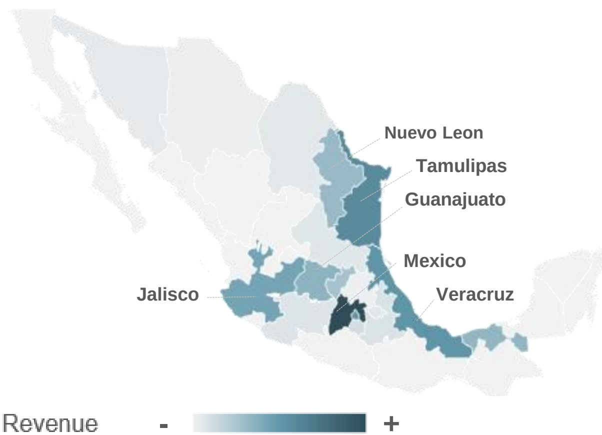
Subsector key indicators

Chemical Manufacturing

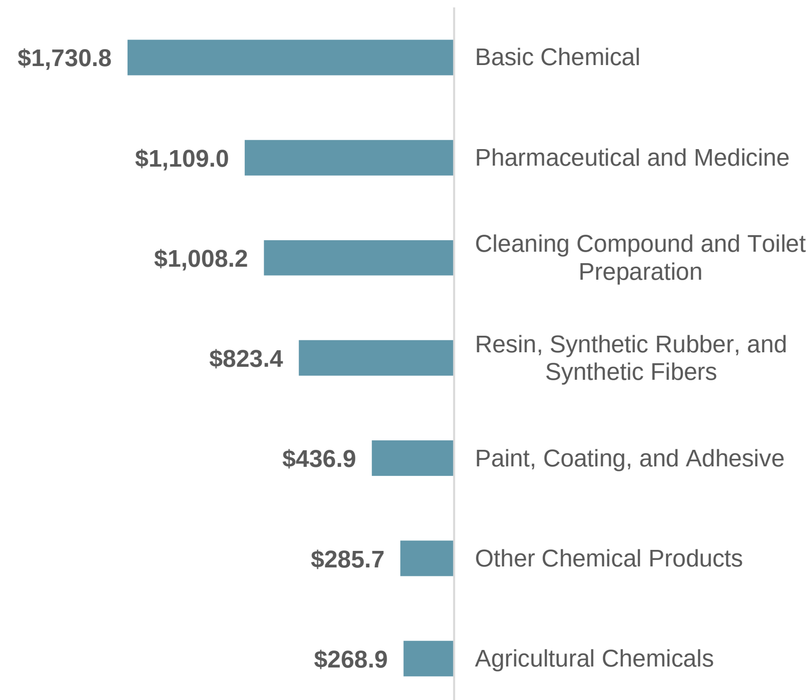
IMMEX Industries Subgroup

- International Revenue (USD, 2020): **$ 5.7 billion**
- Number of Plants (April 2021): **225**
- Employment (April 2021): **65,232**

IMMEX Companies International Revenue by State (2020)



IMMEX International Revenue by Industry
(USD million, 2020)



Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica.*

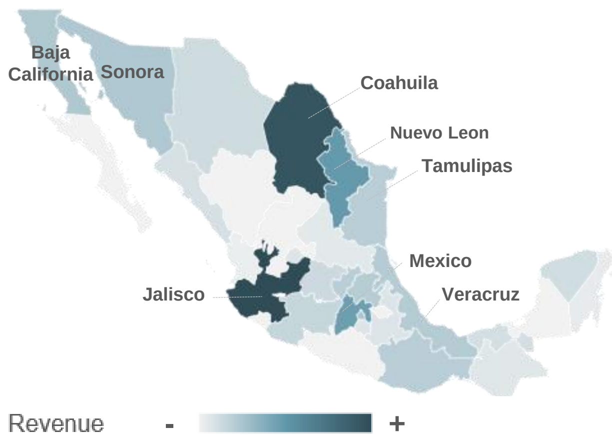
Subsector key indicators

Beverage and Tobacco Product Manufacturing

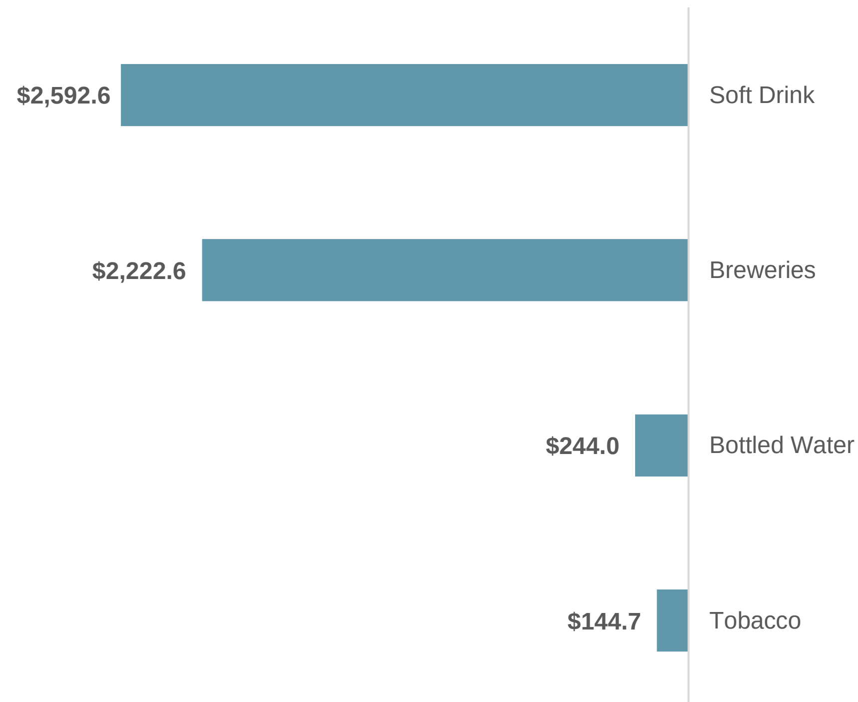
IMMEX Industries Subgroup

- International Revenue (USD, 2020): **$ 5.2 billion**
- Number of Plants (April 2021): **89**
- Employment (April 2021): **38,202**

IMMEX Companies International Revenue by State (2020)



IMMEX International Revenue by Industry (USD million, 2020)



Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica.*

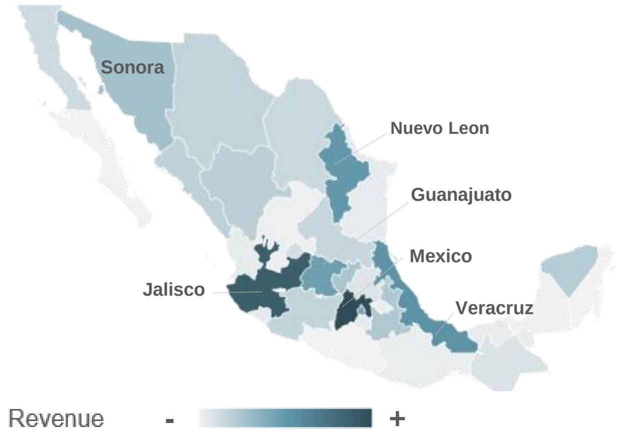
Subsector key indicators

Food Manufacturing

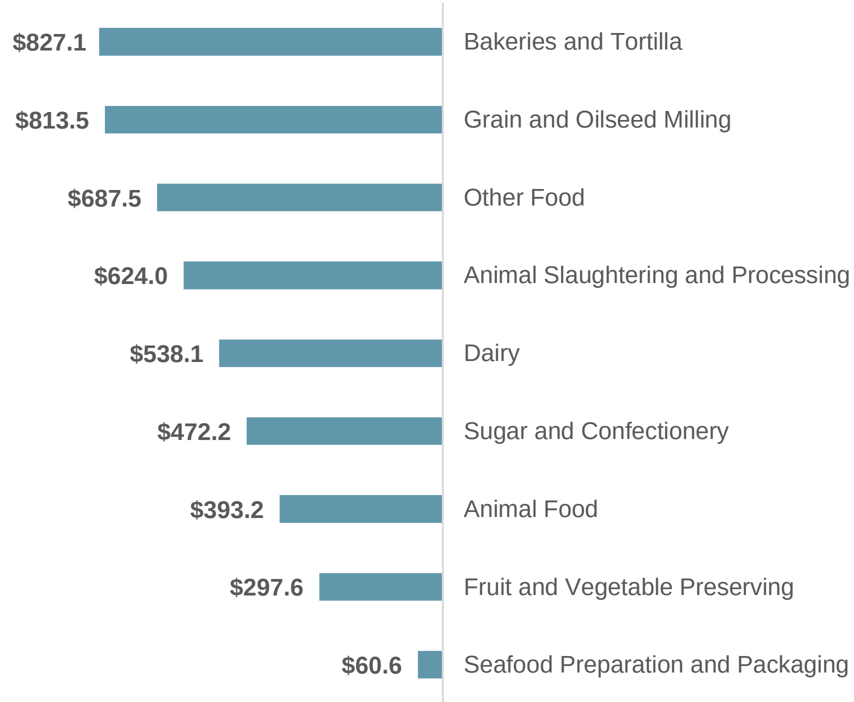
IMMEX Industries Subgroup

- International Revenue (USD, 2020): **$ 4.7 billion**
- Number of Plants (April 2021): **248**
- Employment (April 2021): **124,367**

IMMEX Companies International Revenue by State (2020)



IMMEX International Revenue by Industry
(USD million, 2020)



Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica.*

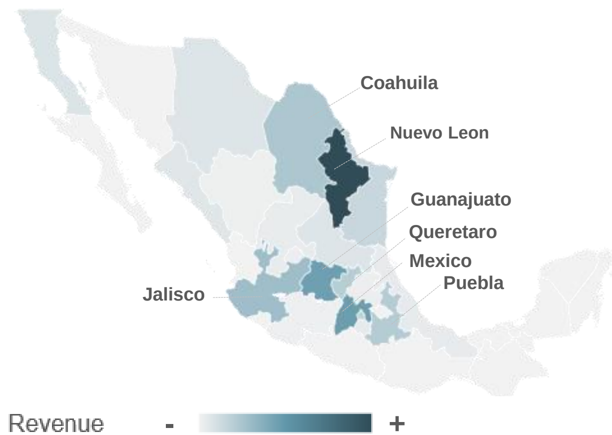
Subsector key indicators

Fabricated Metal Product Manufacturing

IMMEX Industries Subgroup

- International Revenue (USD, 2020): **$ 4.4 billion**
- Number of Plants (April 2021): **525**
- Employment (April 2021): **148,916**

IMMEX Companies International Revenue by State (2020)



IMMEX International Revenue by Industry
(USD million, 2020)

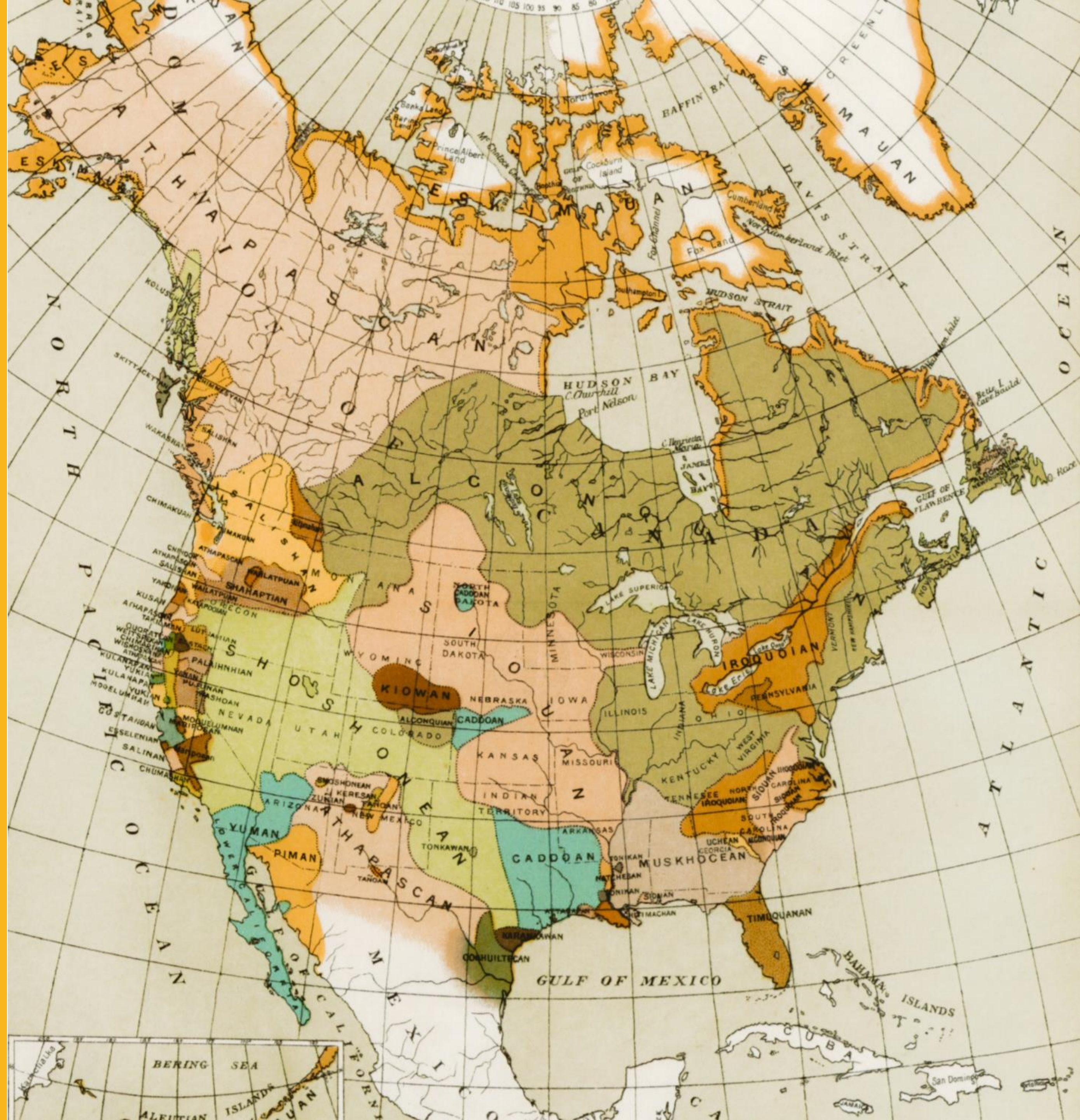
Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica.*

SECTION 4

Reaching the U.S. Market

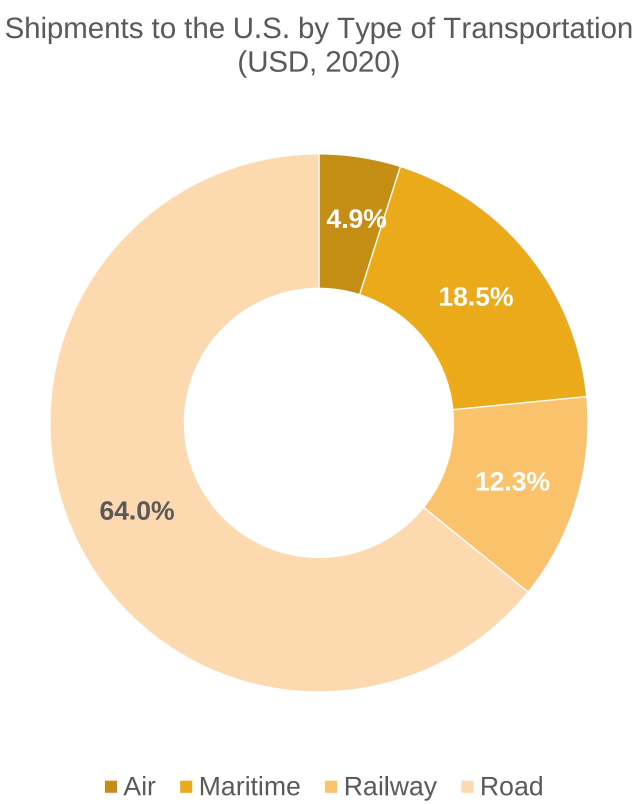
Geographical proximity alone brings a significant competitive advantage for companies using Mexico as a manufacturing hub to serve North American markets. Amid an escalation in global freight rates and ports congestion, more than 75% of goods manufactured in Mexico arrive in the United States by land and can reach major cities within four days.

In addition, since ratifying NAFTA in 1994, Mexican exports to the United States and Canada have grown more than 17 times. The implementation of the USMCA in 2020 guarantees a long period of trade stability in the region.



Due to the proximity, most shipments arrive by land

Shipping to the U.S.: Modes of Trasportation



Source: Instituto Nacional de Estadística, Geografía e Informática. (2021). *Banco de Información Económica.*

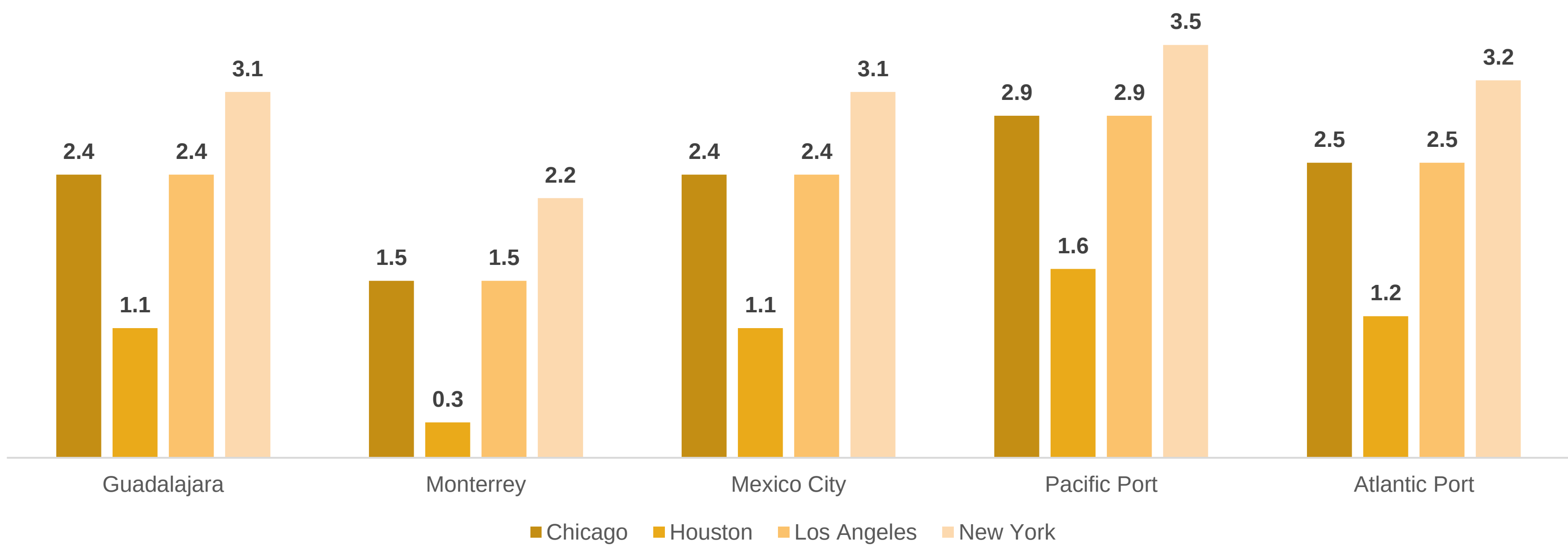
Bubble size indicates the share of shipments to the U.S.

Shipments from Mexico can reach major U.S. cities within 4 days

Shipping to the U.S.: Transit Time

Given Mexico's geographic location adjacent to the United States and the existence of good transportation links and relative cross-border efficiency, shipments from Mexico can reach major U.S. cities within four days. The proximity between the two countries shortens the supply chain, reducing risks and allowing companies to keep smaller inventories, reducing the overall transportation and storage costs.

Average Transit Time (Days) from Mexico to U.S. Cities



Source: AlixPartners. (2021). *Revisiting Mexico: A Critical Link in the Supply Chain.*

USMCA offers a long period of stability for North American trade

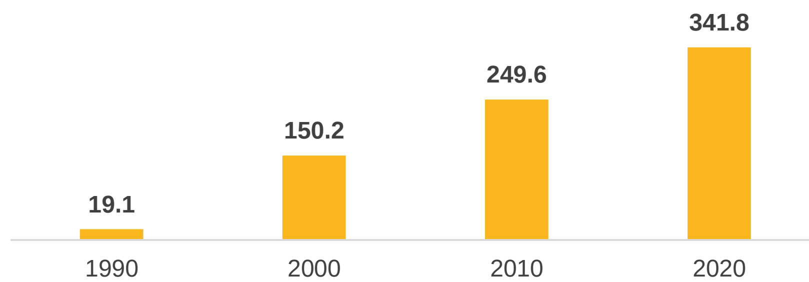
The United States-Mexico-Canada Agreement (USMCA)

The North America Free Trade Agreement (NAFTA) entered into force in January 1994. NAFTA's market-opening provisions gradually eliminated nearly all tariff and most nontariff barriers on goods and services produced and traded within North America.

As one of the campaign promises of the Trump administration, between 2017 and 2018, a revision of NAFTA was carried out. After ratification by the three parties, in July 2020, a new version of the agreement, entitled the United States-Mexico-Canada Agreement, entered into force.

USMA retains most of NATFA's market-opening commitments, while notable changes to market access provisions for autos and agriculture products and rules and disciplines, such as investment, government procurement, and intellectual property rights. New issues, such as digital trade, state-owned enterprises, anti-corruption, and currency misalignment, are also addressed.

Mexico Exports – USMCA Partners (USD billion, 1990 – 2020)



Foreign Direct Investment in Mexico (cumulative, 2015 – 2020)

United States	Canada
US$ 81.7 billion	**US$ 17.6 billion**
41.3% of total FDI	8.9% of total FDI

Source: International Trade Center. (2020). *Trade Map;* Congressional Research Service. (2020). *The United States-Mexico-Canada Agreement (USMCA).*

Certifying the origin of goods is essential to access preferential tariffs

USMCA General Rules of Origin

The USMCA grants preferential treatment to "originating" goods traded between the signatories of the agreement. When goods meet the criteria laid out by the agreement, it is not subject to the import tariffs and duties that would typically apply. To claim the benefits of the USMCA, the importer, exporter, or producer of goods being shipped between the parties must certify that the good is originating. Under the USMCA, there are four main criteria under which goods can be deemed originating.

A. The good is wholly obtained or produced in the territory of one or more of the parties.

This means goods have been extracted from or grown/raised either in the U.S., Mexico, and Canada. This criterion mainly applies to minerals, agricultural goods, and seafood. A full list of what is covered under this criterion is available under USMCA's Article 4.3.

B. The good is produced entirely in the territory of one or more of the parties using non-originating materials.

This criterion allows goods manufactured in the U.S., Canada, or Mexico but containing components or materials made elsewhere to qualify for duty-free treatment between the three countries. Non-originating materials must be sufficiently transformed in the USMCA region to undergo a tariff classification change, a process called tariff shift. USMCA's Annex 4-B defines the changes in tariff classification or value for each good to be considered originating.

C. Produced entirely in the territory of one or more of the parties exclusively from originating materials.

This means that the goods are manufactured using materials originating from the U.S., Canada, or Mexico.

D. Exception for goods using non-originating materials but do not meet the tariff shift criteria of Annex 4-B.

a) The final good has been produced entirely in a USMCA signatory Country.
b) The final good and materials are not classified under chapters 61-63 of the Harmonized System.
c) One or more of the non-originating materials sourced as parts in the production cannot satisfy the requirements set out in Annex 4-B because both the good and its materials are classified in the same Harmonized System subheading.
d) The regional value content of the good, determined by Article 4.5, is not less than 60 percent if the transaction value method is used or not less than 50 percent if the net cost method is used.

Source: American Coating Association. (2020). *ACA Guidance on USMCA Rules of Origin.*

The document certifies compliance with USMCA rules of origin

Certifying Origin of Goods

To receive duty-free treatment, goods must be accompanied by documentation that certifies originating status. In addition, this certification must be signed by either the importer, exporter, or producer in the capacity of the certifier; this is the party endorsing that the good meets the USMCA rules of origin. There is no official certificate of origin – however, all certifications must contain specific data related to the transaction. Companies are subject to audits to verify that they comply with the rules of origin.

Certifications and information used to support the certificate must be retained for five years. This includes records and supporting documentation related to the importation, all records and supporting documents related to the origin of the good, and records and supporting documentation necessary to demonstrate compliance with USMCA's requirement.

Certification of Origin Requirements

1. Indication of whether the certifier is the Exporter, Producer, or Importer.
2. Certifier's name, title, address, e-mail address, and contact information.
3. Exporter, importer, and producer's name, address, and contact information.
4. Description and HS Tariff Classification – the HS number should be at the 6-digit level.
5. The applicable origin criterion (i.e., Criteria A, B, C, or D, as previously described).
6. If the certificate will cover multiple shipments, indicate the relevant period of validity (up to 12 months).
7. Certifier's signature.

Sample Certification of Origin

<table>
<tr><th colspan="4">UNITED STATES – MEXICO – CANADA AGREEMENT (USMCA) CERTIFICATION</th></tr>
<tr><td colspan="2">Exporter Name, Address, Country,
Telephone Number and Email Address:</td><td colspan="2">Blanket Period:
From: __________ (mm/dd/yyyy)
To: ___________ (mm/dd/yyyy)</td></tr>
<tr><td colspan="2">Producer Name, Address, Country,
Telephone Number and Email Address:</td><td colspan="2">Importer Name, Address, Country,
Telephone Number and Email Address:</td></tr>
<tr><td>Description of Goods:</td><td>HTSUS Classification (6-Digit Level):</td><td>Preference Criterion:</td><td>Country of Origin:</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Certified By:
_____ Exporter
_____ Producer
_____ Importer</td><td colspan="3">I certify that the goods described in this document qualify as originating and the information contained in this document is true and accurate. I assume responsibility for proving such representations and agree to maintain and present upon request or to make available during a verification visit, documentation necessary to support this certification.

Authorized Signature:
____
Name and Title:
____
Company:______________________________
Date: ______________________________
Telephone Number:______________________________
Email Address:
______________________________</td></tr>
</table>

Source: American Coating Association. (2020). *ACA Guidance on USMCA Rules of Origin;* Miller Proctor Law. (2020). *USMCA Certification Requirements and Sample Template*.

New Zealand Trade and Enterprise (NZTE) is the Government agency charged with a single purpose: growing companies internationally, bigger, better and faster, for the good of New Zealand.

We employ 600 people, have over 200 private sector partners and draw on a global network of thousands more.

We have people based in 50 offices, working across 24 time zones and 40 languages to support New Zealand businesses in over 100 countries.

Our global presence lets us deliver value to the businesses we support, through our unique know-how (knowledge and experience) and know-who (networks and connections).

Our know-how and know-who is expressed in our Māori name: Te Taurapa Tūhono.

Te Taurapa is the stern post of a traditional Māori waka, which records valuable knowledge, and stabilises and guides the craft forward. Tūhono represents connections to people and an ability to build relationships.

We provide customised services and support to ambitious businesses looking to go global. We help them build their capability, boost their global reach, connect to other businesses and invest in their growth. We also connect international investors with opportunities in New Zealand through a global network of investment advisors.

We call on our Government network and work closely with our NZ Inc partners and the business community, to grow our national brand and help businesses to open doors in global markets.

nzte.govt.nz

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TRADE & ENTERPRISE
Te Taurapa Tūhono