



# **MEXICO: BUSINESS OPPORTUNITY FOR FUJITA**

**MAY 2023**

# COMPETITIVENESS, GEOPOLITICS AND MARKETS DRIVE INVESTMENTS TO MEXICO

For decades, global trade and products distribution were organized around **supply chains and transport logistics**.

The world counted on the reliability of such supply lines while competitiveness rose in industry sectors and technological advances and innovation accelerated.

The trade war between Washington and Beijing, the Russia-Ukraine conflict and the pandemic have disrupted supply chains prompting the **relocation or nearshoring** of companies closer to their markets.

# CHINA ATTRACTED MANUFACTURING INVESTMENT, IT STILL DOES, WITH CAVEATS

In keeping their competitiveness, companies from the US, Japan, Germany, South Korea, Taiwan and others, joined the outsourcing and high-labor intensive manufacturing trend to low-cost China.

Today, companies around the world felt the impact of supply chain disruptions and realized that relying on certain Chinese-made manufacturing products proved to be a risky and untrustworthy situation.

# A GAME CHANGER IN GLOBAL SUPPLY CHAINS

The cost-benefit formula has changed as now it might be more expensive to have production too far away from the United States and in the control of a potential economic and political adversary as is China.

In addition, the U.S. put restrictions on exports of American technologies and to certain company investments to China:

- The CHIPS and Sciences Act
- The Inflation Reduction Act

# NEARSHORING TO MEXICO IS HAPPENING FASTER "THAN EXPECTED"

- Real Estate development: industrial parks, housing, commercial, hotels and hospitals
- Electric vehicle production and auto part suppliers
- Clean energy
- Data centers
- Semiconductors
- Trade logistics and transport
- Medical devices



# JAPAN IS THE LARGEST ASIAN INVESTOR IN MEXICO

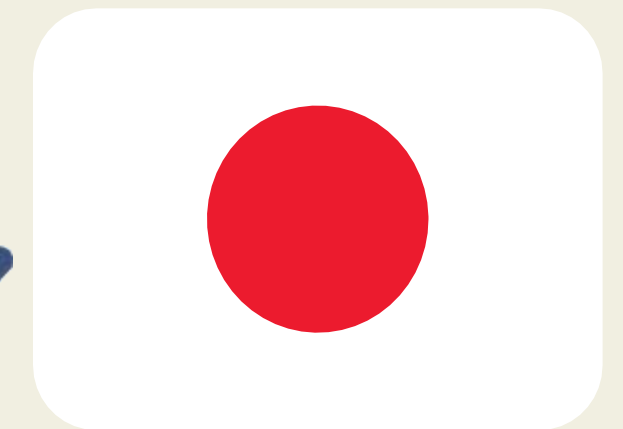
Fujita has played a key role in the investment flows of Japanese companies to Mexico

- Assembly
- Engine manufacturing
- Tiers 1 and tier 2 auto parts suppliers



**50% are in the automotive sector**

**+1,300 companies**



# US TARIFFS ON CHINESE IMPORTS ARE WORTH US\$370 BILLION

Though US companies are leading the nearshoring boom, Chinese and Asian suppliers are also making significant investments in Mexican manufacturing to better serve their American customers and to avoid the tariffs imposed on Chinese-made products.

USMCA regulations and standards are making possible the harmonization of plant technologies in several Mexican industries with the country's infrastructure and trade ecosystems expanding to support more complex supply chains.

In addition to lower shipping costs compared to China, Mexico's geography and business culture, are more in sync with U.S. manufacturing and business ecosystems. That, mitigates risk for companies and by having easy access to suppliers.

# COMPANIES CONSIDER MEXICO FOR THEIR MANUFACTURING

Mexico is more competitive and attractive to foreign investments in key sectors:

- Automotive and autoparts
- Electricity generation
- Data Centers
- Electronics
- Semiconductors
- Medical equipment devices.



# THE UNITED STATES-MEXICO-CANADA AGREEMENT (USMCA)

The USMCA replaced the NAFTA in 2020. It has stricter rules of origin, protection of intellectual property and harmonizing of regulations that are easier for companies to do business.

The USMCA has cemented decades-old manufacturing processes between the US and Mexico enhancing supply chains, transport efficiencies and time deliveries to costumers.

Supply chains have centered on automotive vehicle and parts manufacturing, consumer electronics and medical equipment.

Recently, more production of electrical components related to green technology, precision technology manufacturers, furniture parts, and electro mobility parts (batteries), and finished EV 's is already occurring.

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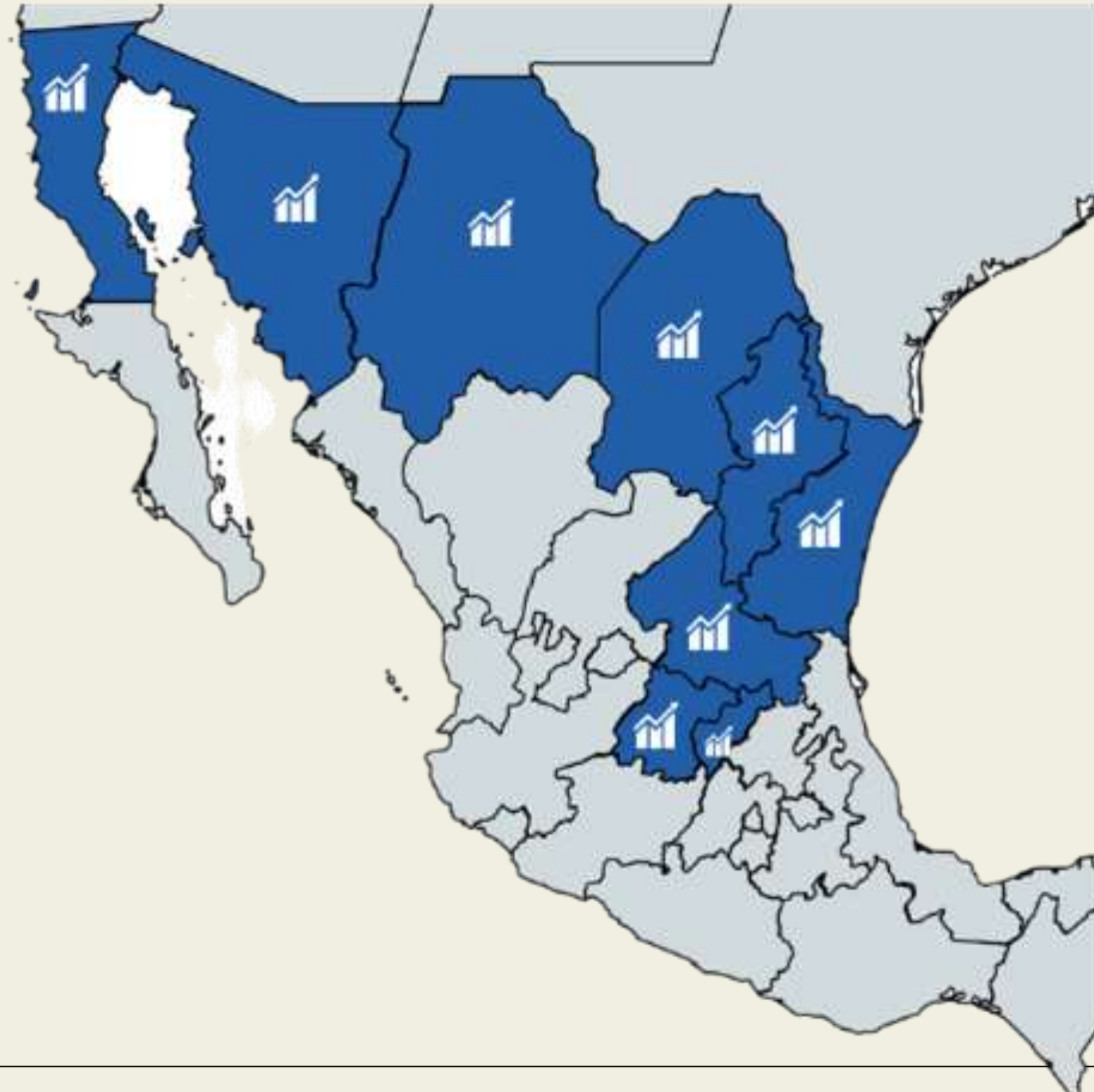
# INVESTMENTS CONCENTRATE IN MEXICO'S NORTHERN STATES, ALSO IN GTO, QRO AND SLP

## AMPIP: Nearshoring Impact Estimates

	2019	2022	2023/2024
Demand Nearshoring (Million square meters)	0.35	1.4	+2.5
Number Industrial Parks	273	432	+47
Tenants	2,500	3,800	+400
Employees (Million)	2.0	3.0	+2.0

Companies are competing to win sites for their manufacturing in industrial parks that must guarantee sufficient and reliable electricity supply and being certified as Class A.

# INDUSTRIAL SITES IN NORTHERN MEXICO CANNOT KEEP WITH THE DEMAND



Monterrey, Juarez, Tijuana and Saltillo, all located in states bordering the US are unable to satisfy the large demand for industrial space

Monterrey and Saltillo area are concentrating 40% of new industrial parks and warehouses being built this year

# TESLA CHOSE MEXICO FOR ITS NEW PLANT INVESTMENT

TESLA'S announcement of a US\$5 billion investment in a new EV plant near Monterrey is proof of the growing importance of Mexico and its strategic role as U.S. diversifies from China.

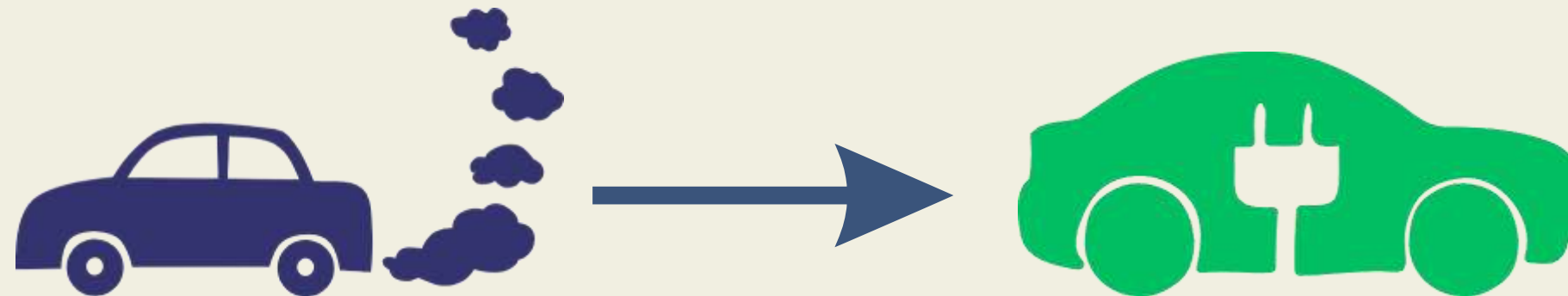
Current wave of investments to Mexico is led by manufacturing ecosystems:

- Auto and capital goods industries, including electric batteries for cars;
- Medical devices and electronics;
- Semiconductor testing and packaging;
- Aerospace manufacturing and data centers.



# AUTOMOTIVE TRANSFORMATION AND JAPANESE AUTOMAKERS

- Today the automotive industry generates nearly US\$3 trillion in annual global revenues
- Carmakers are experiencing their most radical challenge moving from internal combustion to electricity powered vehicles.
- Chinese automakers are leading in EV production and are rapidly improving their technology and prepare for autonomous driving

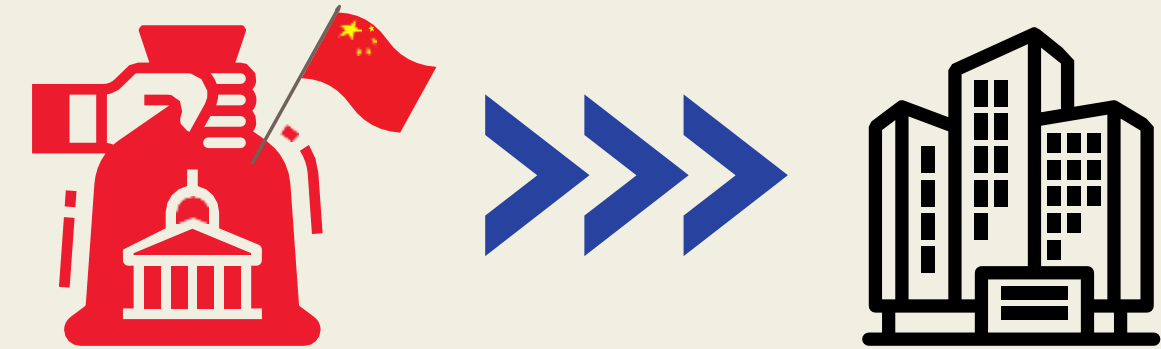


# THE CHALLENGE OF CHINESE CAR MANUFACTURERS

Tesla's success as a maker of EV's and greater competition from China are reshaping the industry.

China supports its firms with state subsidies and massive volume. That is a challenge to the US, Japanese and European domination of the car global market.

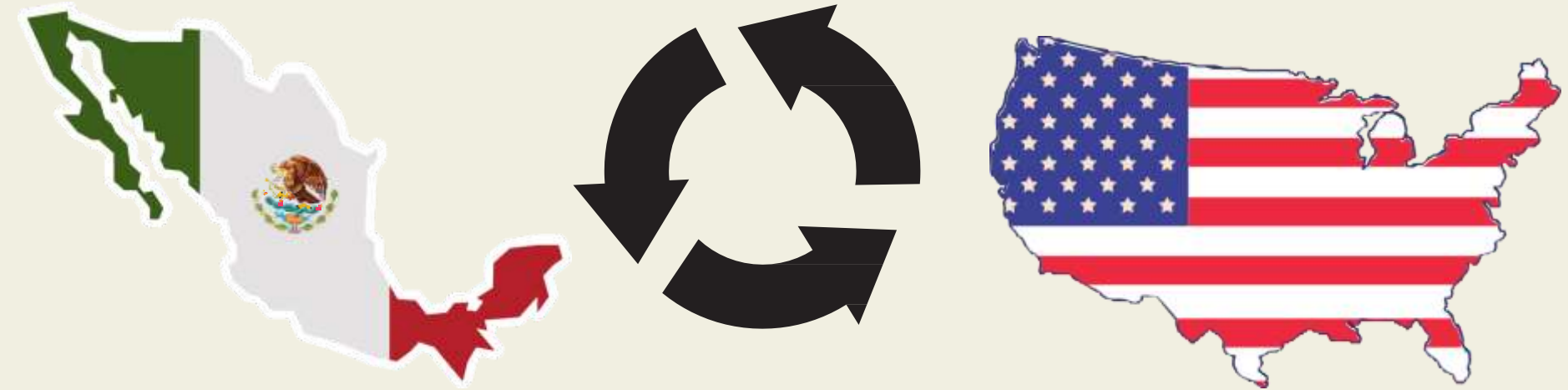
BYD and Changan now have a domestic market share of 18% in China, and sell around 4m4 million cars a year.



# US INCENTIVIZES NEARSHORING OPERATIONS

The CHIPS Act and the Inflation Reduction Act provide \$52.7 billion in incentives to American companies to relocate in the US.

Companies deciding to locate in Mexico also qualify for some incentives and tax subsidies



US and Mexico have agreed to coordinate investments in semiconductor manufacturing, EV research and medical devices design and manufacturing.

# GEOPOLITICS AND NEARSHORING PROMPT MORE JAPANESE INVESTMENTS

The Japanese Ambassador to Mexico identifies the current bilateral relationship with a third wave of investments in Mexico:

- First wave: NAFTA implementation in 1994.
- Second wave: JP-MX Economic Partnership Agreement of 2005.
- Third wave is associated with the USMCA of 2020 and current nearshoring trend.

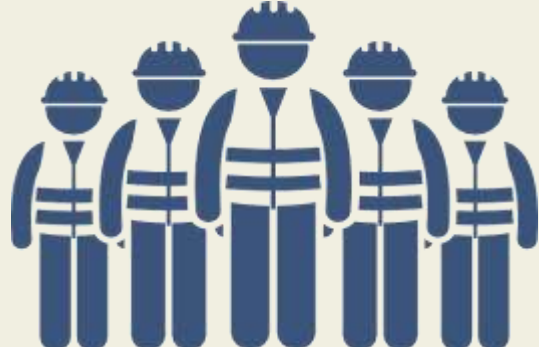
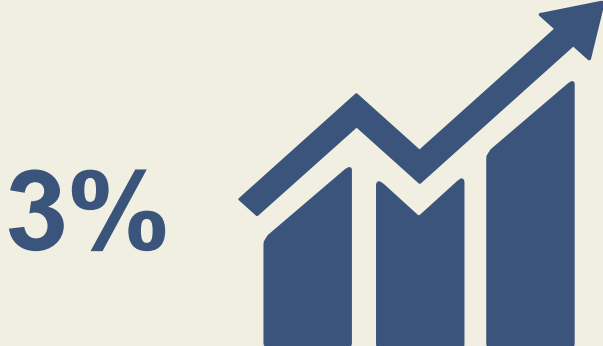


# FUJITA BUSINESS PLANS IN MEXICO

Last year Mexico's economy grew 3%. This year the economy will expand 1.8%.

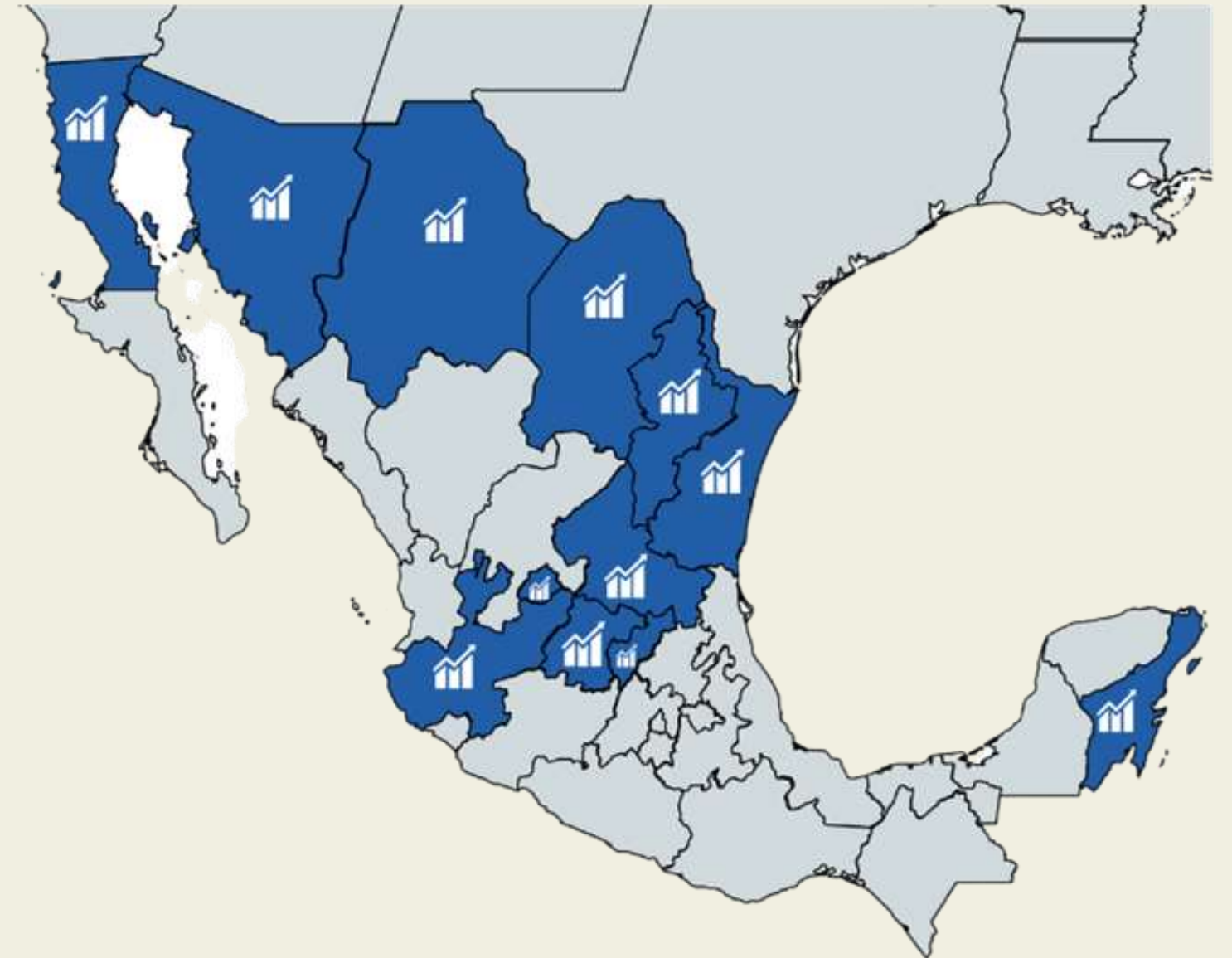
Mexico with its young population is attractive for companies looking to expand in its growing consumer market.

USMCA means certainty of rules and predictability of preferential market access to North America.



# SECTOR OPPORTUNITIES FOR FUJITA

1. Expand its business investments in new industrial sites, particularly in northern Mexico where demand is high.
2. Start construction of the San Miguel de Allende industrial park this year.
3. Expand its communication links with Japanese companies looking to relocate investments in North America.



# MORE SECTOR OPPORTUNITIES

1. An electric vehicle battery production should be located in Mexico as part of the EV North America supply chain.
2. EV battery maker Panasonic should be contacted and invited to analyze Mexico for such an investment.
3. Opportunities are also in Data Centers.
4. Office, Housing and Hotel development in Queretaro, Mexico City, Guanajuato and San Luis Potosi.
5. Clean energy and own production of electricity for Japanese manufacturing sites.



# EV'S, CLEAN ENERGY AND ELECTRONICS ARE THE BULK OF NEARSHORING INVESTMENTS

The US allocates hundreds of billions of dollars to spur investment in infrastructure, green technologies, research & development, subsidies to consumers, and tax breaks. These incentives required manufacturing of subsidized products to occur in the US, or with trading partners, of which Mexico is included.

In addition, new regulations prohibiting the manufacturing in China of certain items deemed critical to national security are driving additional high-tech and manufacturing toward the United States, Mexico and other U.S. allies.

# THANK YOU

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**FUJITA**

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