



MEXICO - USMCA - NEARSHORING

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March 2023



NEARSHORING TO MEXICO HAPPENING "FASTER THAN EXPECTED"

Good afternoon. It is a pleasure to be part of this gathering with GEBESA'S suppliers, clients, vendors and business associates.

GEBESA is celebrating 50 years of operations and I want to congratulate the Salmon family, the company's Members of the Board, but especially to its dedicated workers and associates who are the backbone of the company's successes.

This presentation will explore the current influx of investments to Mexico. This is known as **NEARSHORING, RESHORING OR FRIENDLYSHORING**, and it is happening with increasing speed. One proof of that, is precisely your presence here today.

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WHAT DRIVES COMPANIES TO INVEST?

ANSWER: TO ATTAIN AND MAINTAIN COMPETITIVENESS

For decades, global trade and products distribution, these being industrial, tech, mining, medical devices, agri-food and more, 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.

Since the 1990 's, transport efficiencies, trade deregulation (lower trade tariffs through MFN status granted to countries, especially to China), along with industry production convergences made overseas production easier and cost-competitive.

MANUFACTURING INVESTMENT TO CHINA WAS A TREND, IT IS STILL TODAY, WITH CAVEATS

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

Investments brought economic development and made the Chinese economy to grow rapidly with growth rates averaging 9% of its GDP from 1989 to 2022.

Hundreds of billions of dollars were poured in, particularly in car manufacturing and auto parts, medical and electronic components (most notably semiconductors or chips), computers, smart phones, and furniture.

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TRADE DISPUTES, THE PANDEMIC AND WAR CONFLICTS



Since 2017, trade disputes between the U.S. and China prompted Washington to impose import duties on thousands of Chinese-made products, including semiconductors and a myriad of parts, material supplies and finished products.

The result aggravated the ongoing disruption of manufacturing supply chains which was worsened by Pandemic restrictions, the rise in transportation costs, and by the Russia-Ukraine war.

Companies around the world felt the impact of such disruption and realized that relying –for the most part- on Chinese-made manufacturing products proved to be a risky and untrustworthy situation.

A GAME CHANGER IN GLOBAL SUPPLY CHAINS

Disruptions have resulted in a game changer that has prompted many companies to look for viable manufacturing alternatives.

In addition, the U.S. Administration reassessed its policies by pushing legislation in the U.S. Congress that in fact puts restrictions on exports of American technologies and to certain company investments to China.

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

U.S. POLICIES AND MARKET DEMAND FUEL INVESTMENTS' RELOCATION

The US Congress implemented a series of legislative bills that incentivize companies to invest in the United States and in "friendly" and trusted trade partners like México.

- The Infrastructure, Investment and Jobs Act;
- The CHIPS and Sciences Act; and,
- The Inflation Reduction Act.



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

These bills allocate hundreds of billions of dollars to spur investment in infrastructure, green technologies, workers training, science 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.

MEXICO PLAYS A KEY ROLE IN NORTH AMERICA'S COMPETITIVENESS

A Large pool of workers, trained and relatively young –compared to the work force in the United States-, makes Mexico attractive for manufacturing investments. Look at GEBESA'S workforce. You saw that today in the tour of the company's facilities.

In comparison, labor shortages, unions, older and untrained workers, high wages and overall costs are challenges U.S. companies must resolve when relocating their facilities.

Mexico competes well in manufacturing efficiencies and product quality, logistics and transportation costs. Again, GEBESA is an example of this fact in Mexico. A GEBESA truck load shipment from Torreon to the U.S. port of entry at Laredo takes seven hours or less.

Delivery lead time is a factor that companies must perfect if they are to maintain competitiveness.

THE UNITED STATES-MEXICO-CANADA AGREEMENT (USMCA)

The USMCA which replaced the NAFTA in 2020 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 on both sides of the border.

Supply chains have centered on automotive vehicle and parts manufacturing, consumer electronics and medical equipment. Recently though, increasingly more production of electrical components related to green technology, precision technology manufacturers, furniture parts, and even electro mobility parts (batteries), and finished EV's is already occurring.

USMCA DRIVES NEARSHORING INVESTMENTS

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 high U.S. trade 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, they can foster strong relationships with familiar Mexican counterparts and react quickly to changes.

TESLA CHOSE MEXICO FOR ITS NEW PLANT INVESTMENT

This month's announcement by TESLA that is investing US\$5 billion or more in a new EV plant near Monterrey in Northern Mexico is proof of the growing importance of Mexico and its strategic role as U.S. diversifies from China.

The current wave of investments to Mexico is led by manufacturing ecosystems in the auto and capital goods industries, including electric batteries for cars. This wave will accelerate with investments in medical devices and electronics, including primary processes of semiconductor, aerospace manufacturing and data centers.



MEXICO'S NEARSHORING CHECKLIST (PARTIAL)

- Ample and skilled labor force;
- Production with high quality standards;
- Competitive costs in wages, local parts supplies, transportation;
- Mexico's free trade agreements, including the USMCA, allow Mexican-made production to enter duty free to more than 50 countries;
- Likewise, Mexico imports part supplies (components) from China and other Asian countries without charging high tariffs as the U.S. does with Chinese-made products;



THE UNITED STATES-MEXICO RELATIONSHIP: MORE THAN STRATEGIC PARTNERS

The trend toward the repatriation of manufacturing to the US will continue this year and for the foreseeable future with Mexico being a viable location alternative.

Companies that operate in Mexico benefit from the country's rising competitiveness, also from USMCA's investment protections and strengthened rules of origin in manufacturing. These factors diminish the threat for American firms mindful of losing competitiveness on the global stage.

Today, Mexico is more than a strategic U.S. trade partner. History, geography, peoples exchanges, trade and investment complementarities; all of that, positively align to advance the quest for a more integrated North America. Mexico, the United States and Canada as a regional block are better prepared to face the challenges but also the opportunities of our changing world.

THANK YOU



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