



PERSPECTIVE
ON INTERNATIONAL
TRADE AND
NAFTA
NEGOTIATIONS



Asociación Mexicana de
Distribuidores de Automotores A.C.

SHOW **NADA** 2018

LAS VEGAS

EDUCATION & EVENTS March 22-25
EXPO March 23-25



Mexico Open Market

- Mexico is positioned as a gateway to a potential market of more than one billion consumers and 60% of world GDP.
 - 12 Free Trade Agreements with 46 countries, and has recently signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership or CPTPP with 11 countries from 3 different continents (TPP-11).
 - 32 Agreements for the Promotion and Reciprocal Protection of Investments with 33 countries.
 - 9 agreements within the framework of the Latin American Integration Association.
- In addition, Mexico participates actively in multilateral and regional bodies and forums such as the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation Mechanism (APEC), the Organization for Economic Cooperation and Development (OECD) and Latin American Integration Association (LAIA).

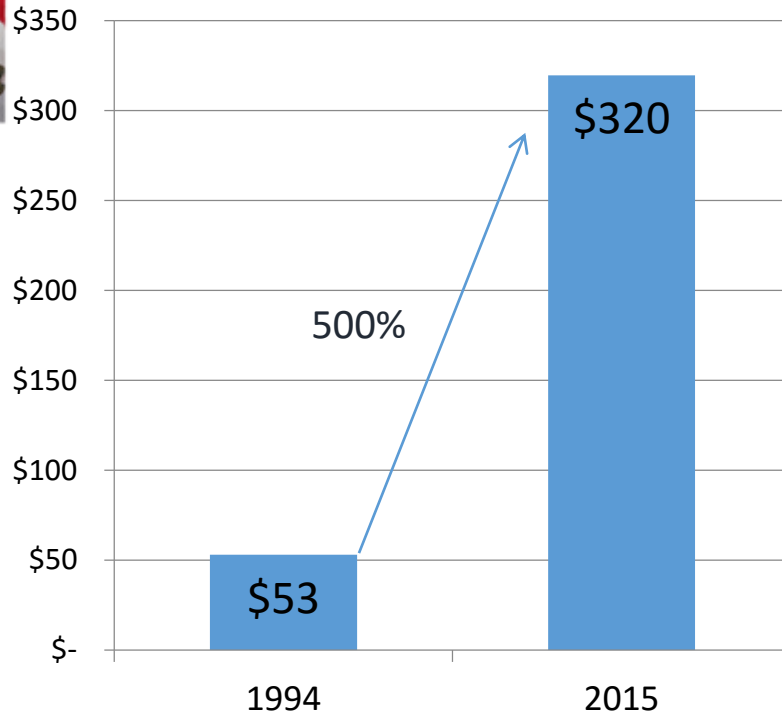


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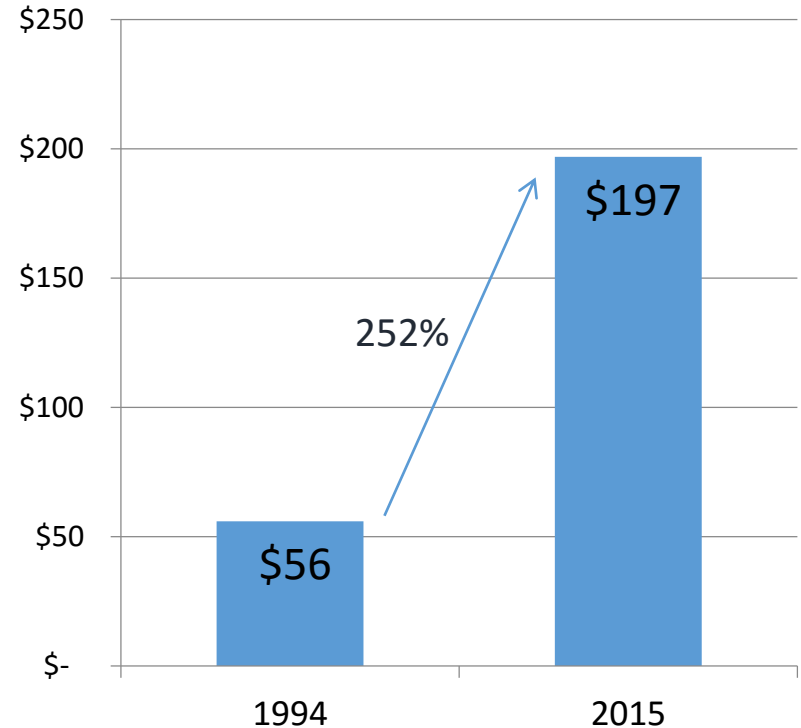


NAFTA Region Commerce

Exports from MEX to NAFTA*



Mex Imports from NAFTA*



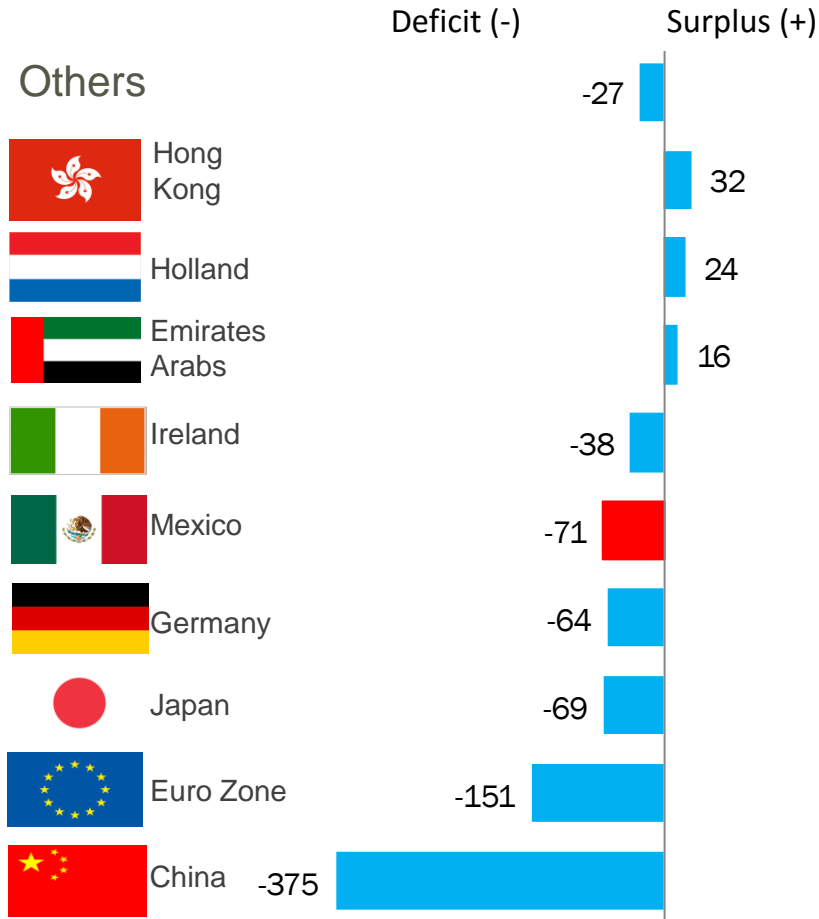
On average \$2.6 billion dollars are traded every day among the members of NAFTA

Source: American Chamber of Commerce of Mexico.

*Figures in billion dollars.

Commercial Balance 2017 USA

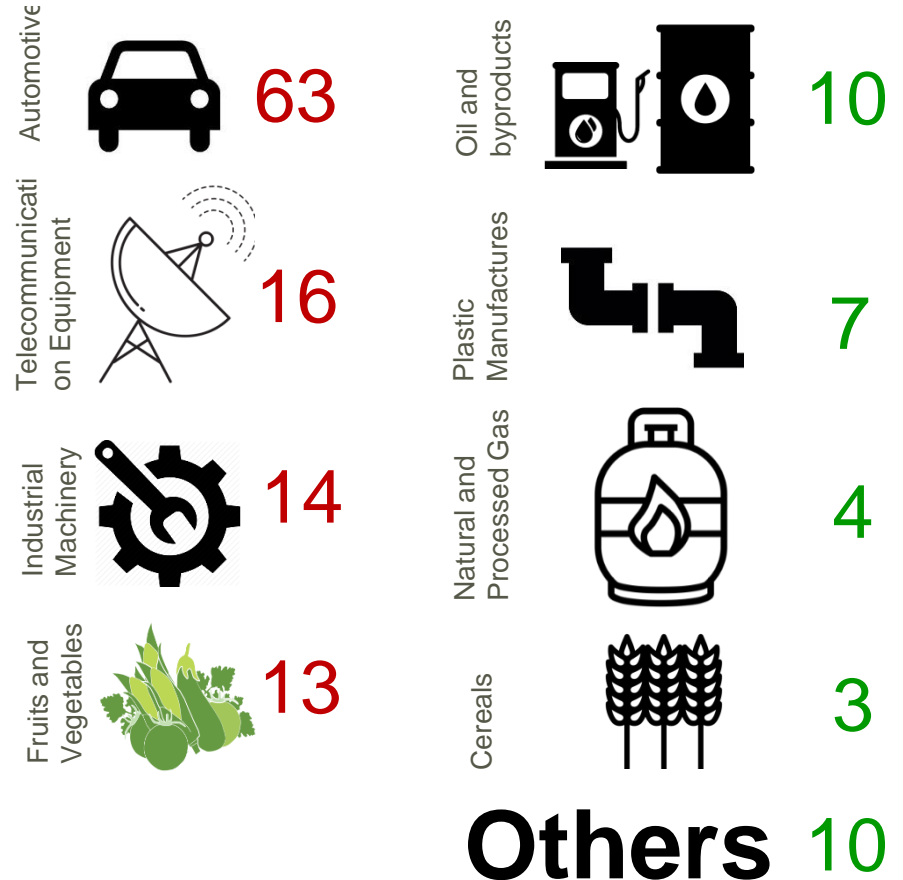
US Trade Balance (billions USD) 2017



US-Mexico Balance (billions USD) 2017

MX: Surplus
USA: Deficit

MX: Deficit
USA: Surplus





The Importance of the Automotive Industry in Mexico

- Main generator of foreign currency in the country, with a surplus trade balance for an amount of 70.8 billions dollars in 2017.
- Generates 3.3% of National GDP and 18.3% of manufacturing GDP.
- Over 1 out of every 3 dollars exported from the manufacturing sector corresponds to automotive products.

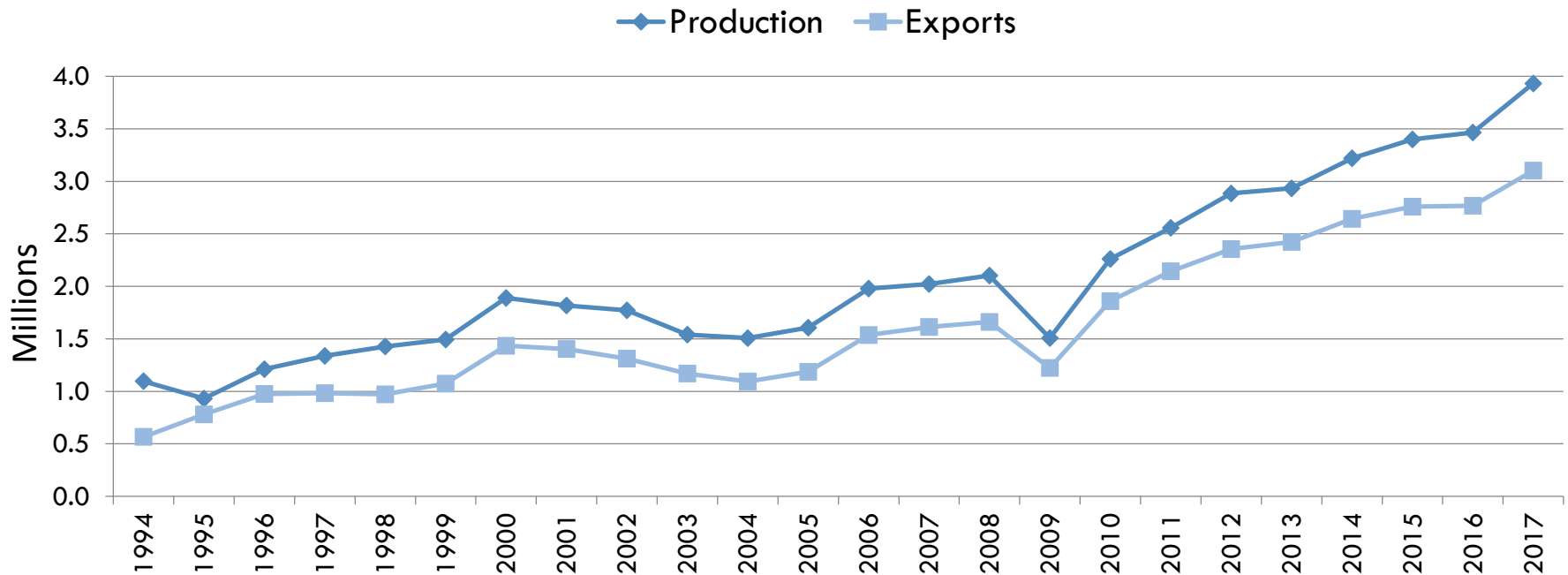


The Importance of the Automotive Industry in Mexico

- 7th vehicle manufacturer in the world and 1st in Latin America.
- 4th global exporter of light vehicles.
- 5th world auto parts exporter and 1st supplier to the United States market.
- The Automotive Industry is the second GDP generator, after the Food Industry.
- It generates 750 thousand direct jobs, representing 15% of manufacturing employment.



Auto Production and Exports



- Production growth from 1 million in 1994 to 3.8 millions in 2017 a 244% growth rate. We expect to reach 5 millions by 2020.
- Exports grew 474% since 1994 from 567 thousand to 3.25 millions in 2017, 75% exported to US and 9% to Canada.

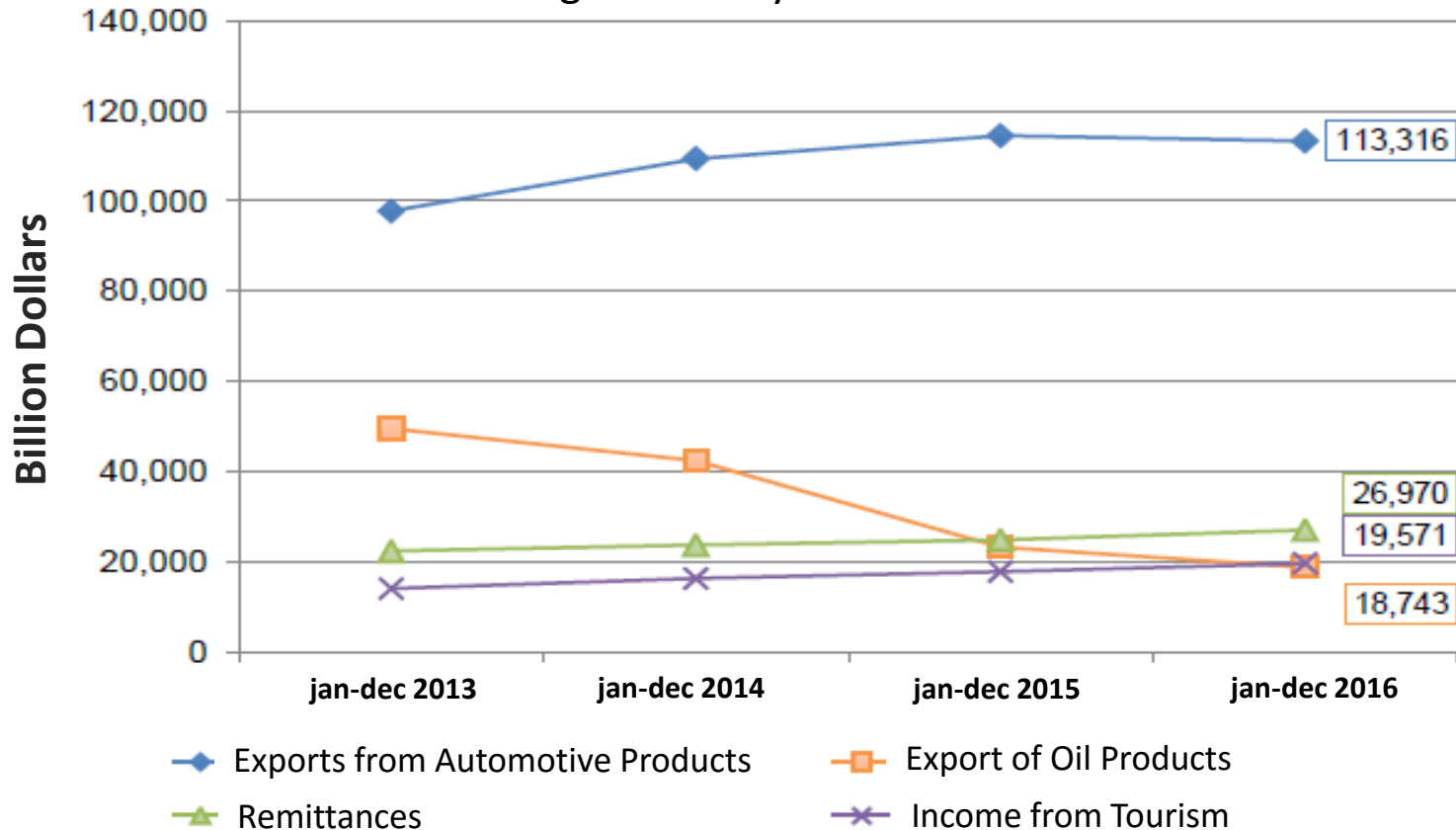


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Currency Generator

Foreign Currency Income to Mexico



- In 2016, the exports of the automotive industry were 6 times exports of oil products.
- Without Automotive products the National Trade Balance would be negative for \$81 billion dollars.

Car Brands in the Mexican Market

1994



2018



From 12 brands in 1994 to more than 40















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Automotive O.E.M. in Mexico

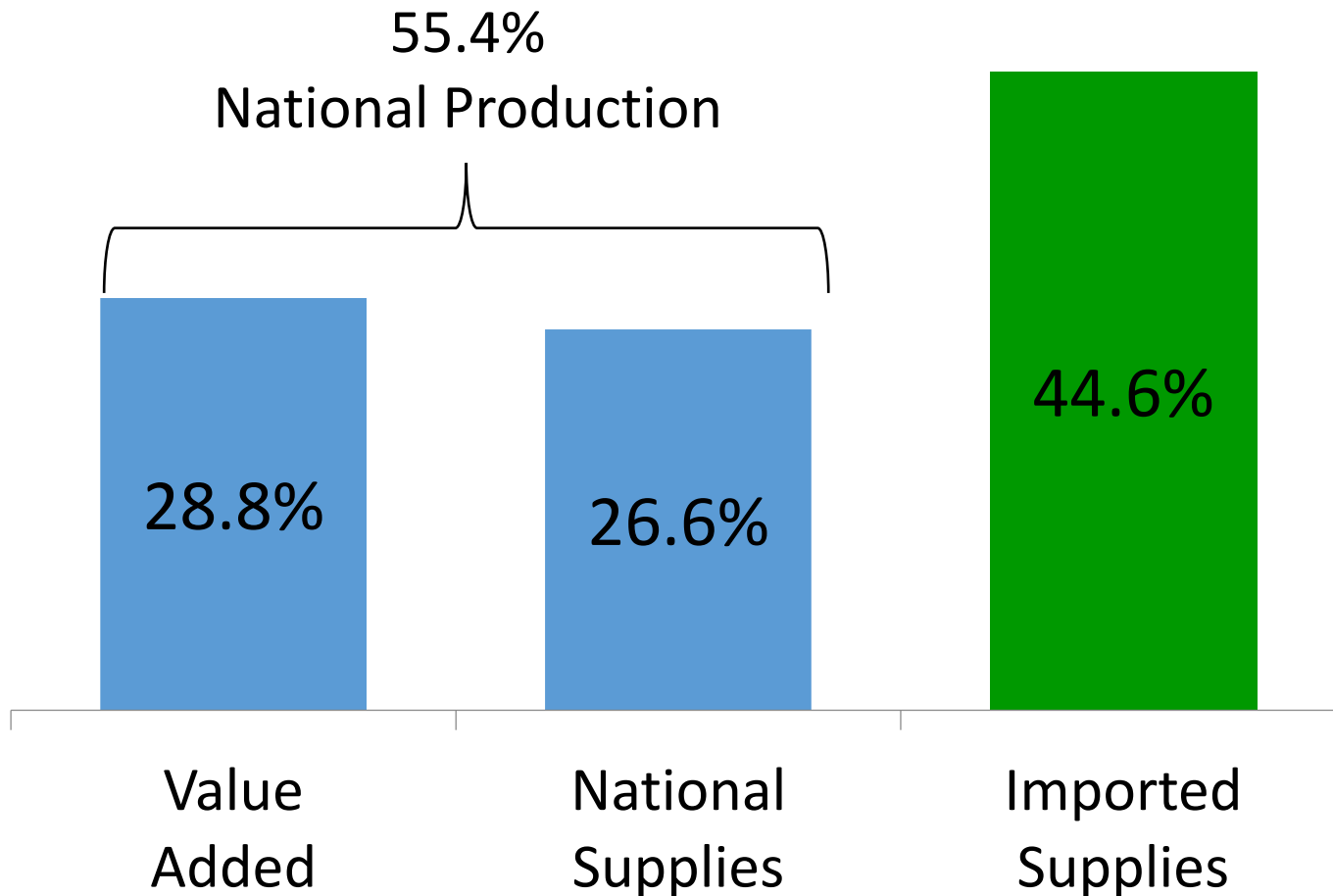
Manufacturing Facilities

	1994	2018
 Audi	0	1
	0	1
	2	2
	3	3
	2	3
 HONDA	0	2
 INFINITI.	0	1
	0	1
 MAZDA	0	1
 NISSAN	2	3
 TOYOTA	0	1
	1	2

- Before NAFTA there were only 11 OEM for light vehicles production in Mexico.
- In 23 years we have doubled this number.
- Only in 2017, \$6.9 billion dollars were captured in Foreign Direct Investment for the Automotive Industry.
- During the current Mexican Federal Administration (Enrique Peña Nieto) the Foreign Direct Investment for the industry is above \$26 billion dollars.



Value of Vehicle Production





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“For every dollar that Mexico exports to the United States, we incorporate 40 cents of American resources, for every dollar that China exports to the US, it includes 4 cents of American resources.”

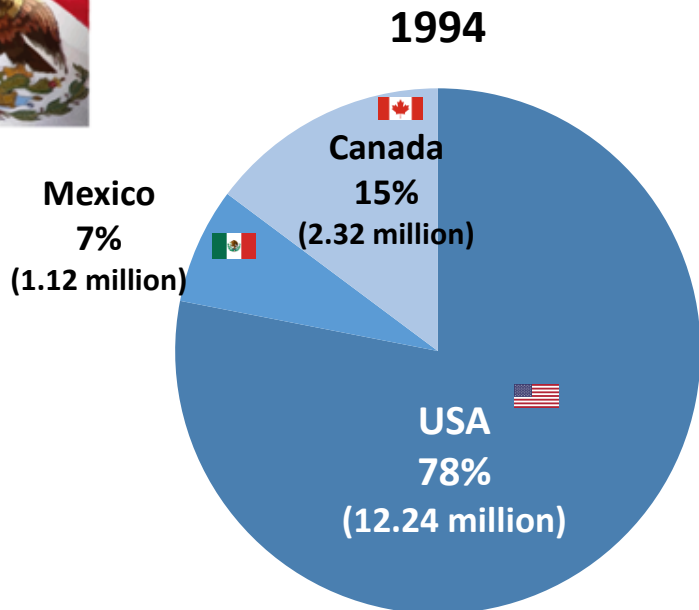
Jaime Serra Puche

To the International Relations
Committee of the US Senate
on March 14, 2018

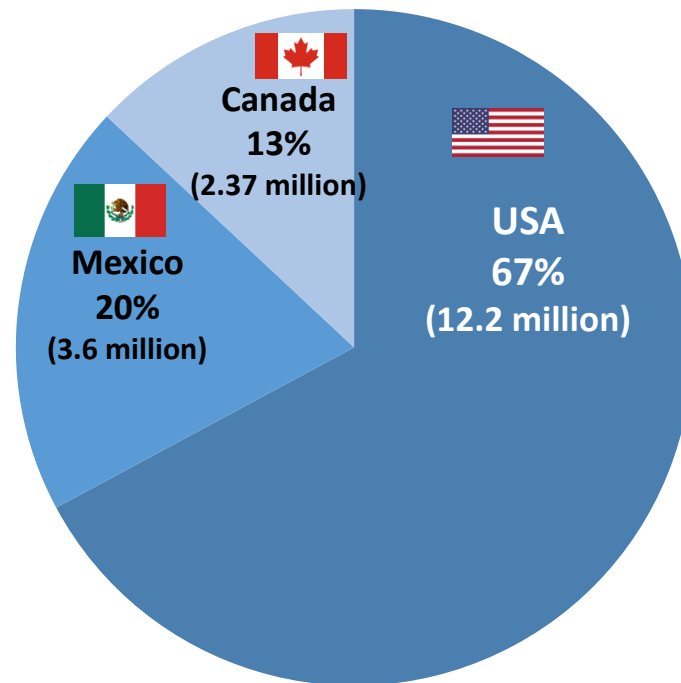


NAFTA Vehicle Production

2016



NAFTA: 15.68 million vehicles



NAFTA: 18.17 million vehicles

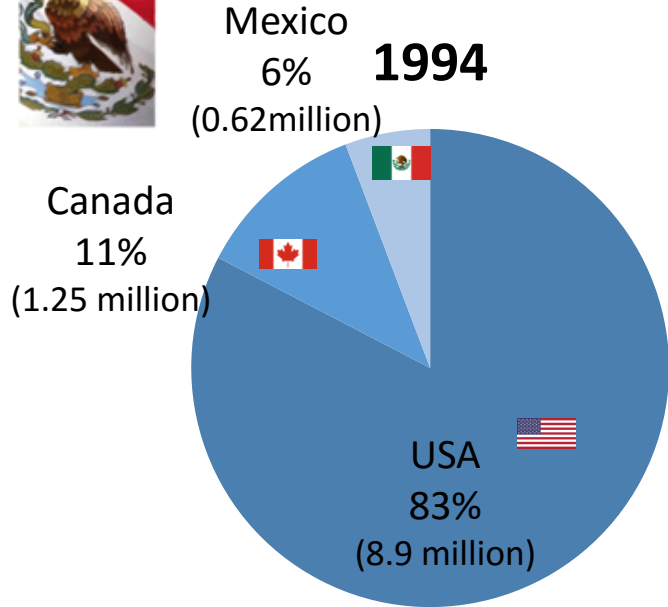
Since NAFTA, vehicle production has grown 16%
Generating 19% of world production



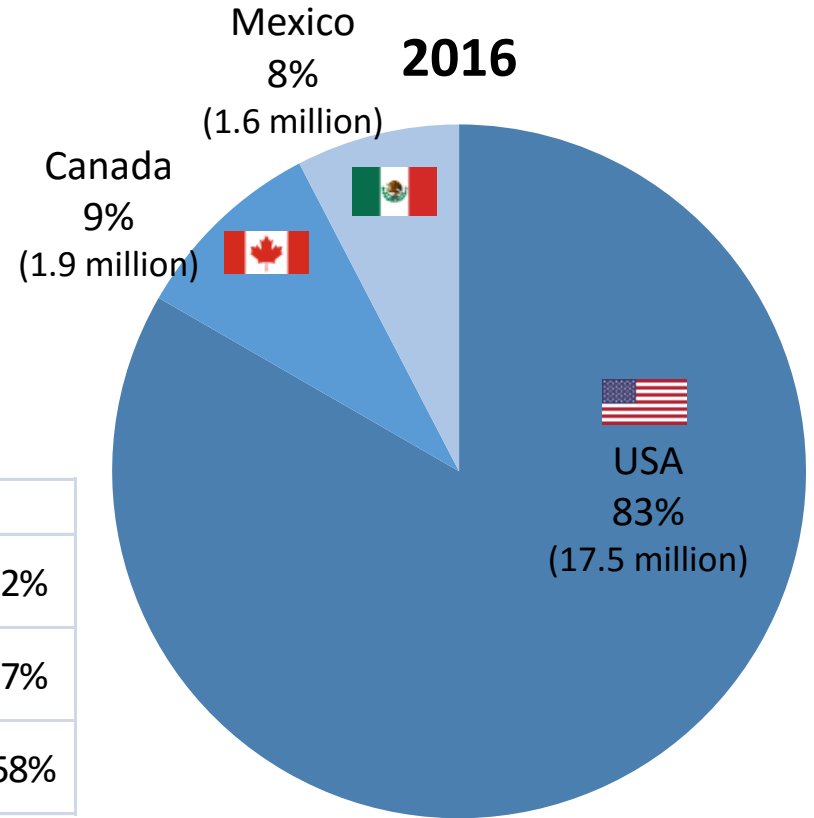
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NAFTA Light Vehicles Sales



NAFTA: 10.87 million vehicles



NAFTA: 21.02 million vehicles

Growth	
	52%
	97%
	158%

Since NAFTA, vehicle sales has grown 93.4%
 22.6% of world sales are in NAFTA region

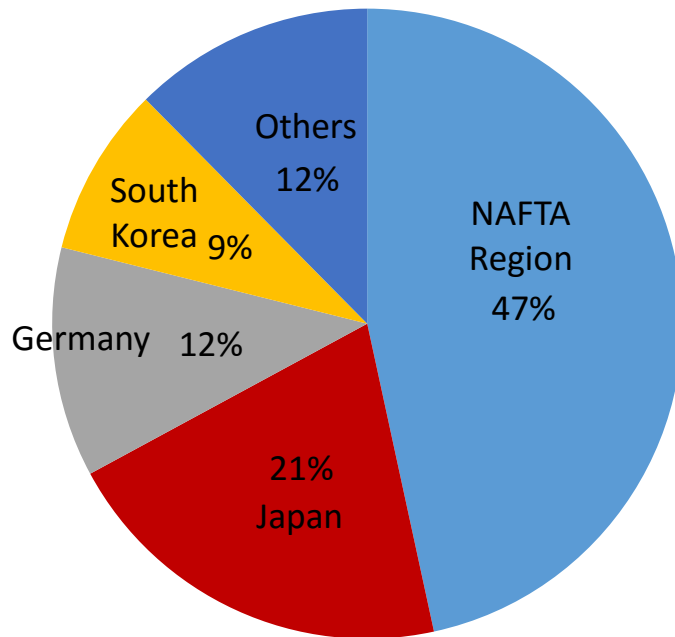


U.S. Automotive Trade

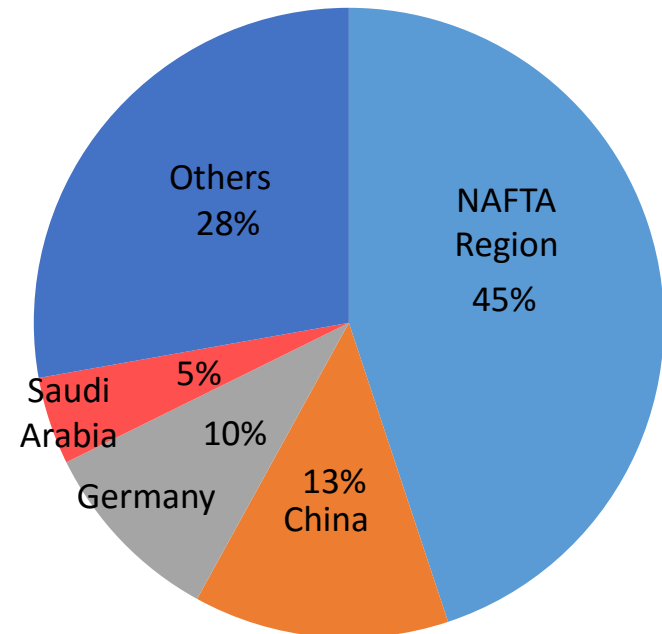
The United States imports more cars from the NAFTA region than from Japan, Germany, Korea, China and the United Kingdom combined.

And exports more than China, Germany, Saudi Arabia and United Kingdom combined.

2016 USA Imports



2016 USA Exports

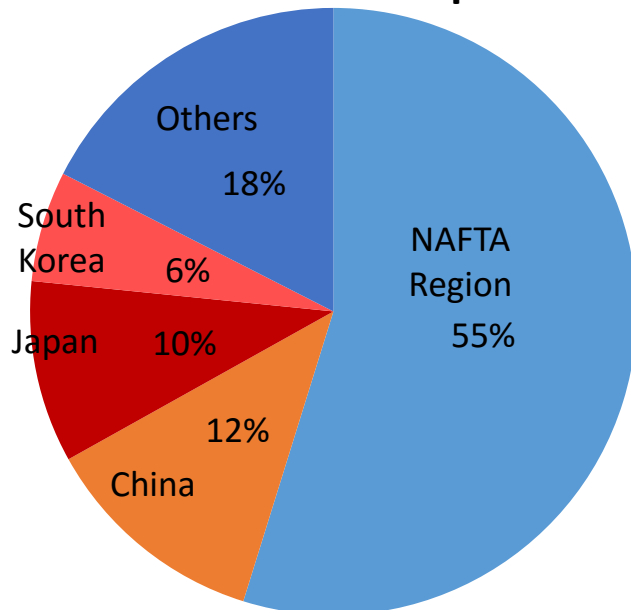




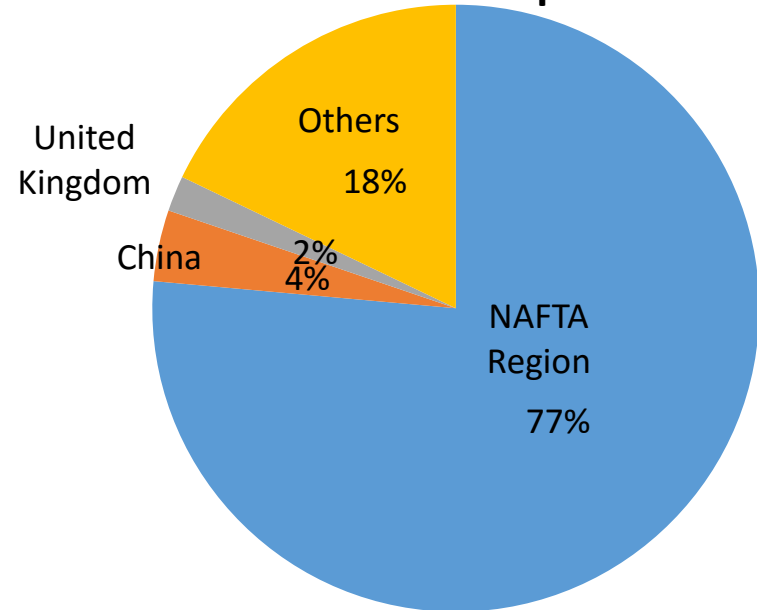
Auto Parts Trade

- 76.5% of auto parts exports from the United States are sent to the NAFTA region.
- Mexico produces \$87 Billion dollars in Auto Parts, exports \$65 billion to the US and \$3 billion to Canada that is 80%, and imports \$25 billion from the US and half a billion from Canada.

2016 USA Imports



2016 USA Exports





Rules of Origin

- The Trump administration has proposed that the percentage of North American content in vehicles made within the NAFTA zone be boosted from 62.5 % to 85 %, and that 50 % U.S. content be required for autos made in Canada or Mexico that are destined for export to the United States.



Rules of Origin

Regional content per OEM: Mexico

	Regional Content	Mexico Content	US / Canada Content
Light Truck	78%	43%	35%
American OEM'S	89%	51%	38%
Asian / European OEM's	68%	33%	34%
Light Vehicle	62%	50%	13%
American OEM'S	68%	46%	22%
Asian / European OEM's	79%	63%	16%
General	67%	48%	19%

Source: Actinver Research "NAFTA Automotive: Can a Middle Ground Be Reached?" November 30th, 2017. With information from National Highway Traffic Safety Administration NHTSA (Part 583 American Automobile Labeling Act Reports).



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Rules of Origin

- The proposal for an 85% is difficult to achieve considering the 67% average for Mexico auto exports, which already reflects a high level of integration. However, a middle ground is within reach, considering a period for adaptation in order to avoid short term price increase.
- Considering the current U.S. parts content for Mexico-assembled vehicles (19% on average, and 13% for sedans), it is our view that the U.S. negotiation team would most likely have to reconsider their intention for 50% local content.



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No Agreement

- In the case that no agreement is reached, WTO regulated tariffs would enter into effect, 2.5% for light vehicles and 25% for light trucks.
- However the resulting uncertainty for the auto industry would restrict the investment, at least for Mexico in the short and mid term.
- Boston Consulting group has estimated a rise in vehicle prices in the U.S. in this scenario ranging from \$650 to \$1200 per vehicle.



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Conclusion

- This is a negotiation process that will take time, above all this process should end with a win-win situation for the three countries.
- As you can see the Automotive Industry in North America has a very high level of integration.
- We look forward for free trade rather than protectionism, and this industry can be a deal breaker. We need to be proactive and innovative to reach a better agreement for the region.