México and the economic integration of the Asia- Pacific region. The TPP and the Pacific Alliance.

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“Commemoration of the 10th anniversary of the Japan-Mexico Economic Partnership Agreement”

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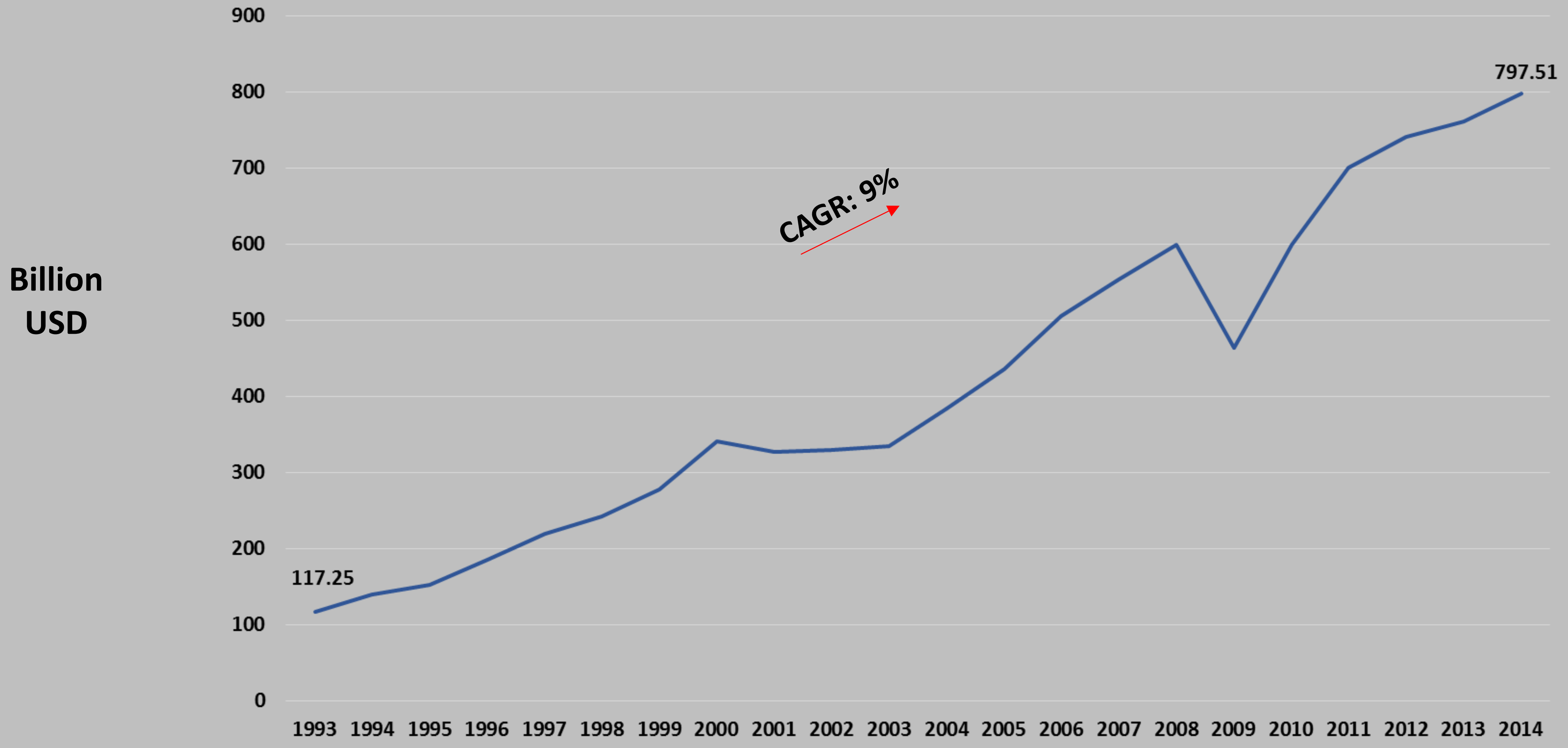
Content

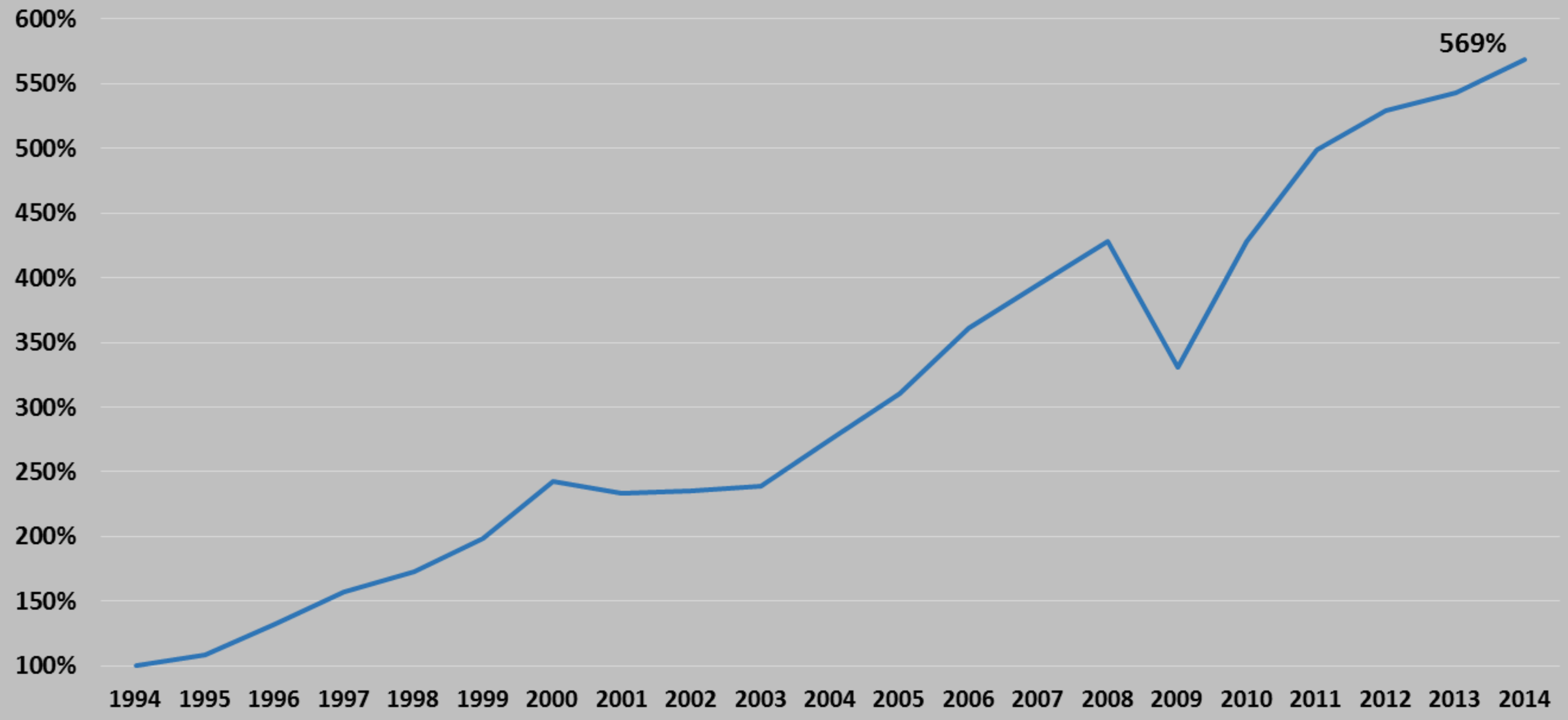
Mexico’s Foreign Trade

- Mexico’s trade with the rest of the world has grown at a Compound Annual Growth Rate (CAGR) of 9% between 1993 and 2014.
- Mexico’s trade with the world experienced a fivefold increase between 1993 2014.
- The distribution of Mexico’s exports and imports as percentage of its total trade has balanced out during the past 20 years.
    - In 1993, 44% of Mexico’s foreign trade corresponded to exports and 56% to imports.
    - In 2014, the distribution was practically identical, with both components contributing half of the total.
- Mexico’s foreign trade concentrates on North America, China and the European Union.

Mexico's trade with the world has increased substantially for the past 20 years.

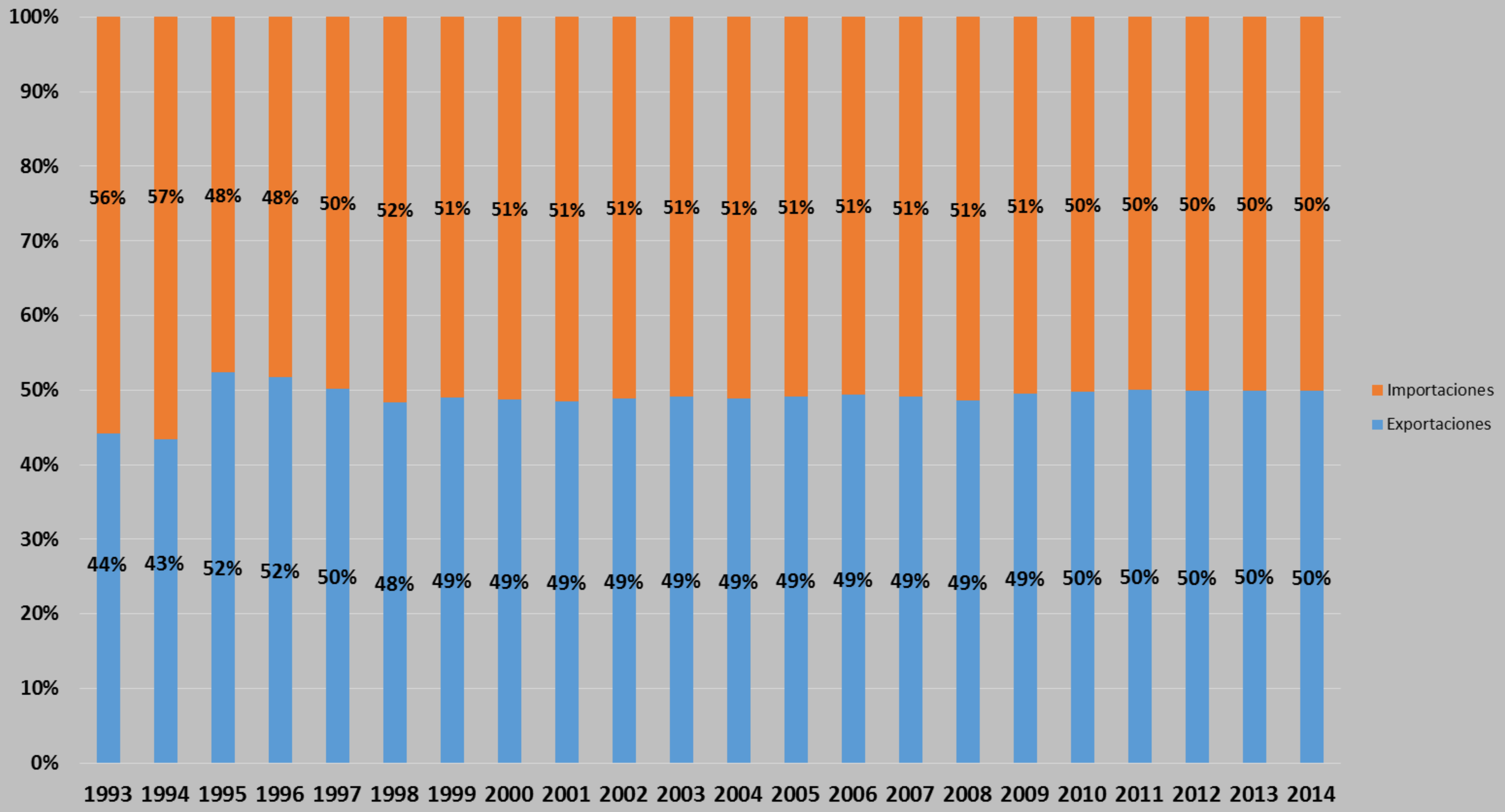


Since 1994, when Mexico signed its first FTA, its trade with the world has seen a fivefold increase.

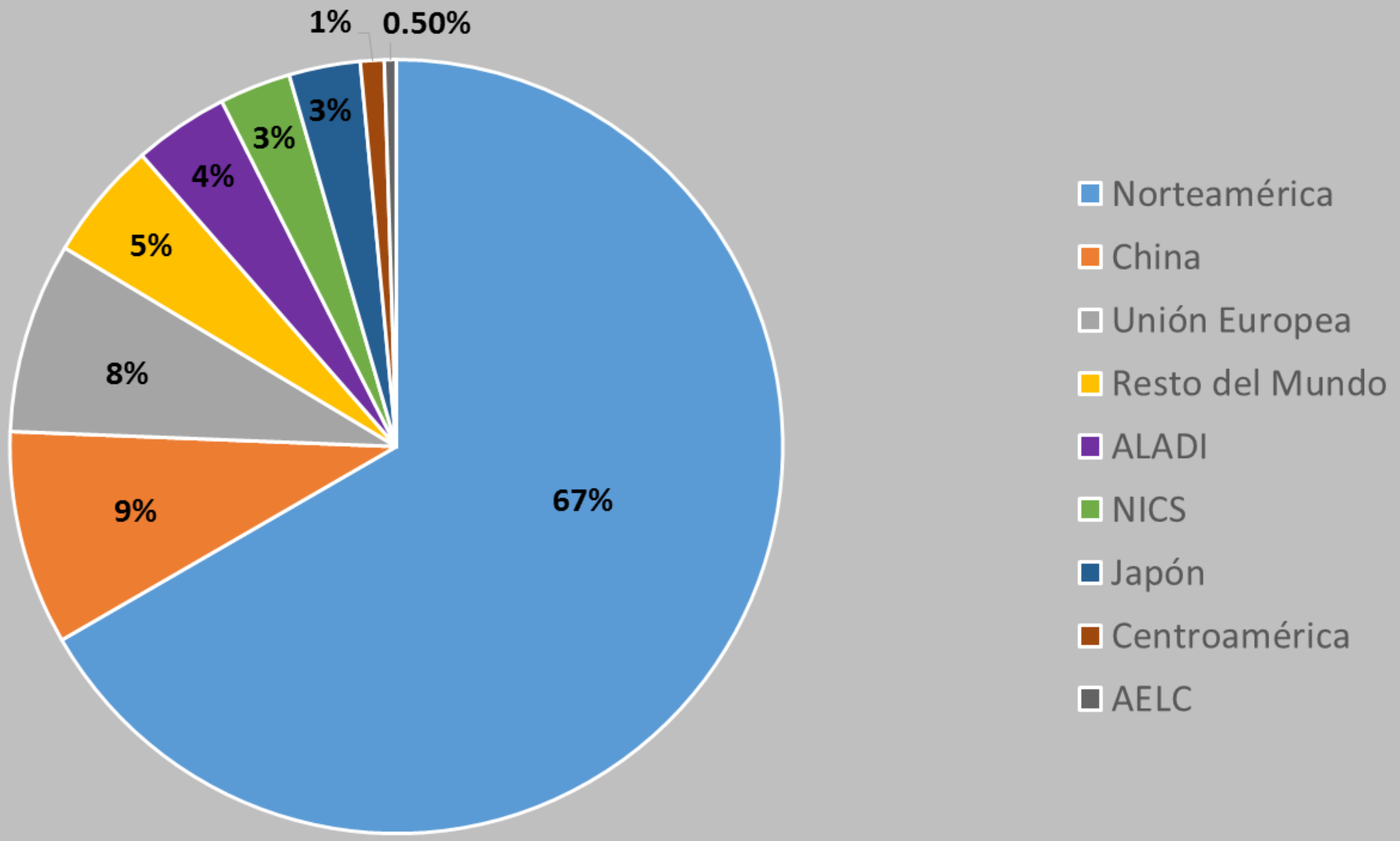


1994= base year

In the past 20 years, the proportion of exports on Mexico's total trade has gone from 44% to 50%, leveling its trade balance.



Mexico's trade is mainly focused on North America, China and the European Union.



Total: 797 billion USD

Year: 2014

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III. The Commercial Relation between Mexico and Japan
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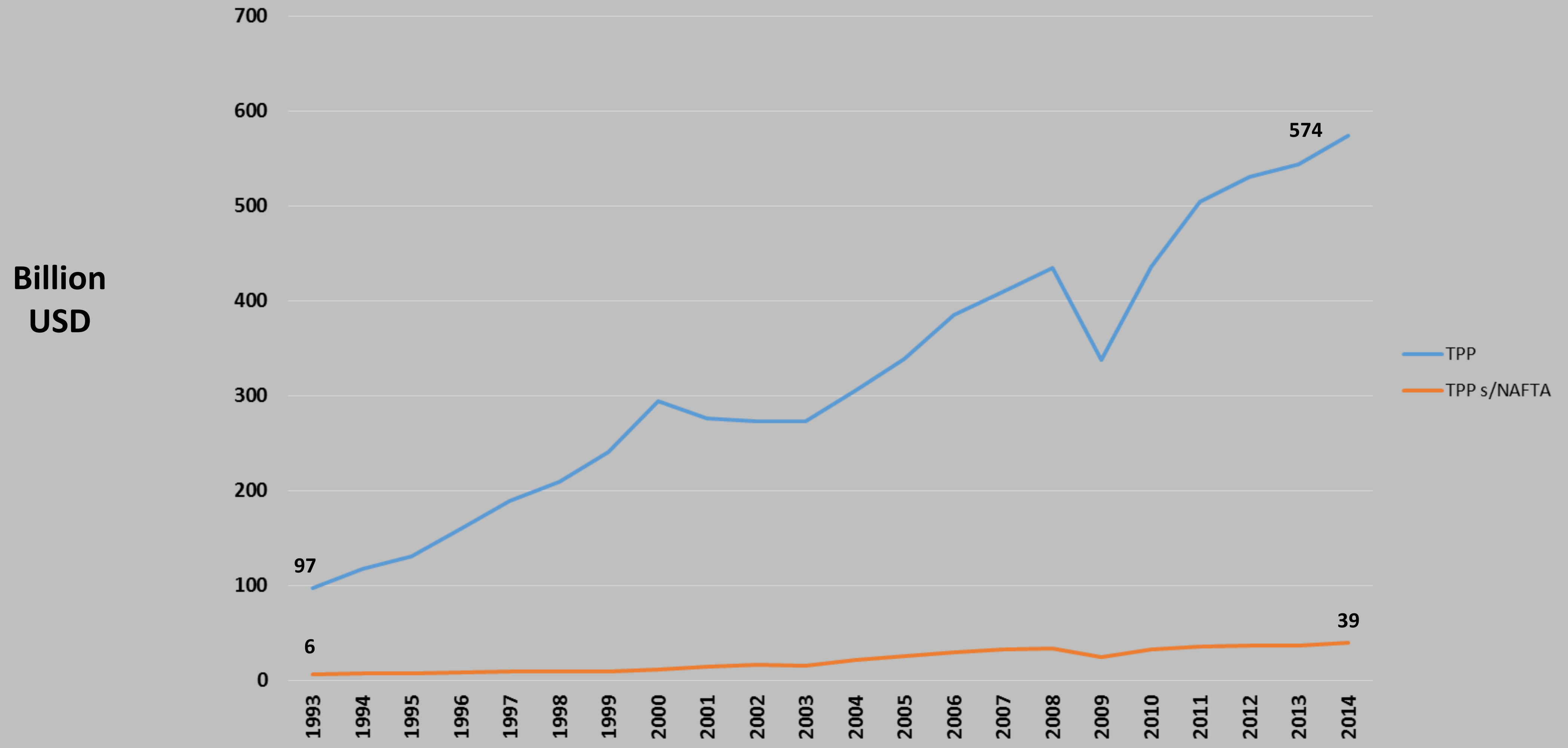
The Pacific Rim countries are essential for Mexico’s commercial relations.

- Mexico’s trade with the strategic commercial subsets of the Pacific Rim, TPP and the Pacific Alliance, accounts for 74% of its total trade.
    - Mexico’s trade with the TPP countries equals 72% of its total trade.
    - Mexico’s trade with the countries in the Pacific Alliance equals 2% of its total trade.
- Mexico’s trade with the countries that are not part of the TPP or the Pacific Alliance equals 26% of the country’s total trade.

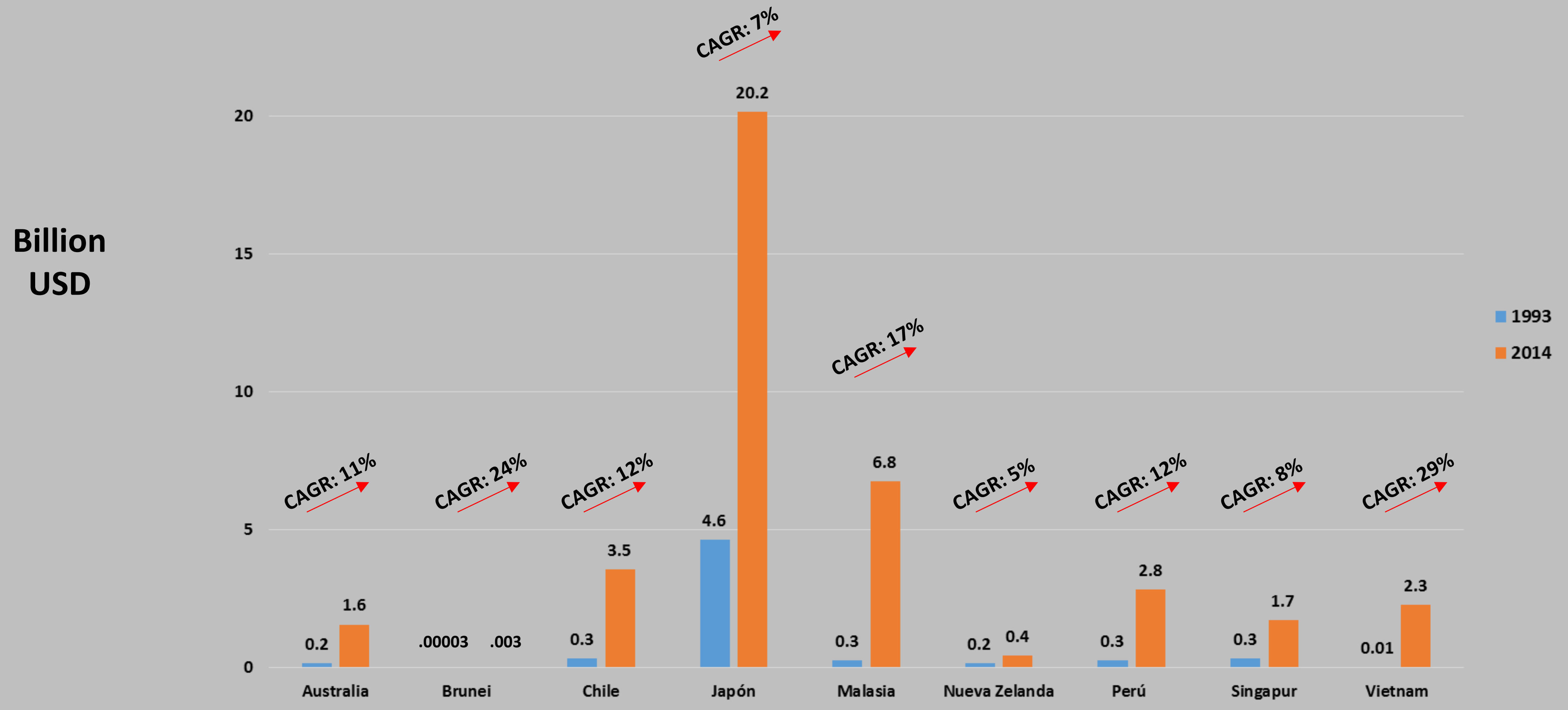
The trade between Mexico and the TPP countries has increased throughout the past 2 decades.

- Most of this growth is a result of the dynamic exchanges between Mexico and its partners from NAFTA.
- In 1993, Mexico traded 190 billion USD with the countries that are part of the TPP negotiations.
- In 2014, Mexico traded 574 billion USD withe those same countries.
- Out of the total 574 billion USD, 338 billion USD were exports and 236 imports.

Most of the trade between Mexico and the TPP countries is concentrated on its NAFTA partners.



Evolution of Mexico's Trade with the TPP Countries*



*Excludes the US and Canada

Mexico perceives the TPP as an opportunity to reinvigorate NAFTA while opening up some of the preeminent markets in Asia.

- Mexico has already signed FTAs with its main commercial partners on the TPP –the U.S., Canada and Japan; however, the TPP offers an opportunity to modernize these agreements.
- Mexico cannot risk being left out of the TPP because its main commercial partners, Canada and the U.S., with which the country is fully integrated, are part of it.
- The TPP also offers Mexico the opportunity to potentiate its economic and investment relations with Asia.

Mexico perceives the TPP as an opportunity to reinvigorate NAFTA while opening up some of the preeminent markets in Asia.

- In the merchandise trade realm, the TPP might liberalize rules of origin by allowing for accumulation between member countries for the purpose of satisfying value added percentages and change of tariff heading requirements;
- TPP may establish new disciplines for state-owned enterprises (SOEs) and state-supported enterprises (SSEs);
- it may cover sub-federal procurement in states, prefectures and large cities

The TPP does not only present the opportunity to ‘modernize’ Mexico’s FTAs but also adds new regulations that will become increasingly relevant for global trade.

- the TPP may broadly expand the areas covered by recognized intellectual property rights (IPR).
- The new regulations will most likely influence future trade regimes in the world. The TPP will lead the way to a new generation of FTAs.
- It is key for Mexico to be part of these negotiations, pushing for its own interests while also adopting incentives to adjust rapidly to novel commercial regimes.

The TPP has the potential to increasingly integrate the productive chains created by NAFTA with the most relevant and fast-growing markets in the world.

- Mexico, Canada and the U.S. do not only trade as part of NAFTA; instead, after 20 years of increasing economic integration, these countries are into shared production.
- The NAFTA block will see an increasing opportunity to target its products to the fast-growing and developing markets of the most dynamic economic region in the world.
- The TPP will be a path for North America, as a region, to become more competitive and increase its market share in Asia.

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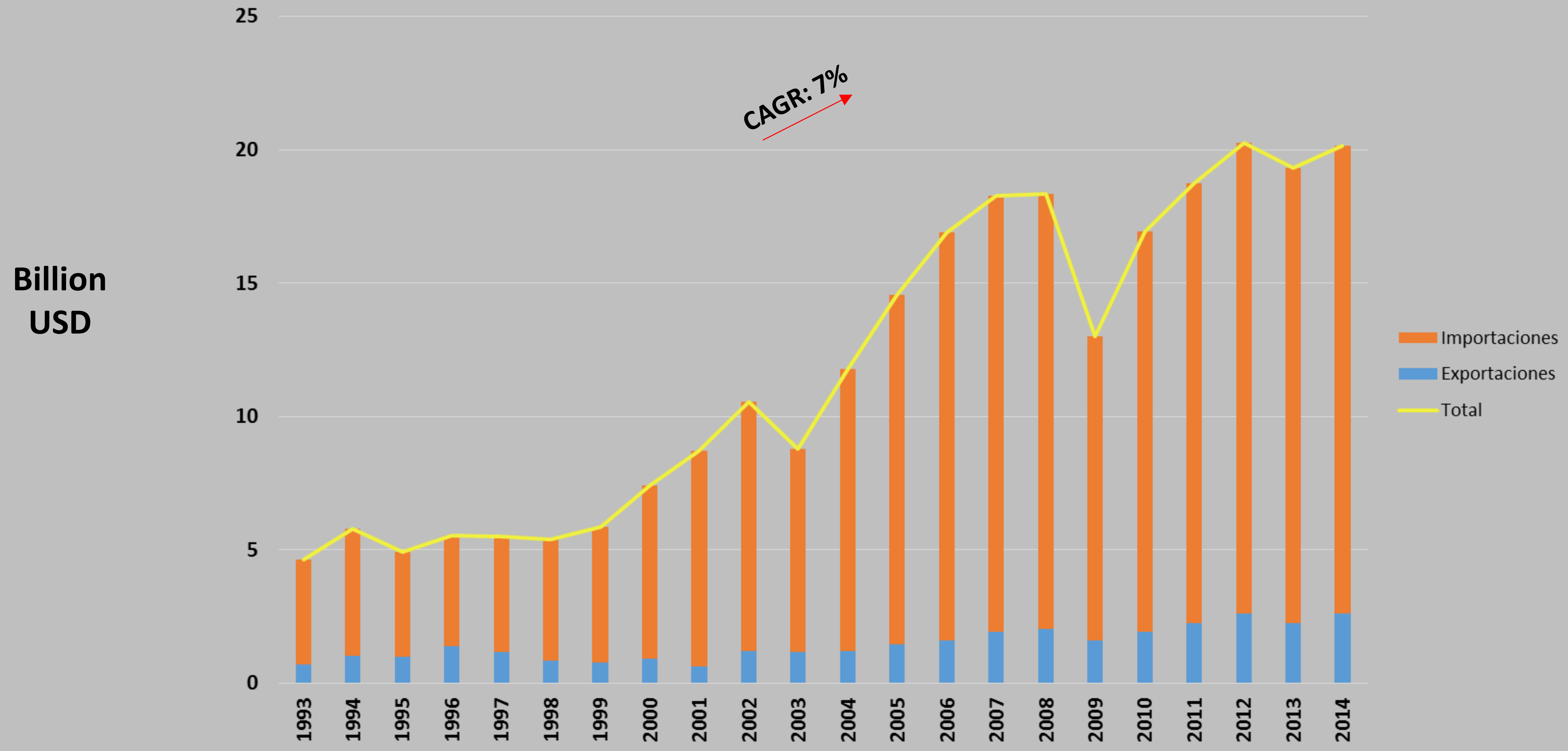
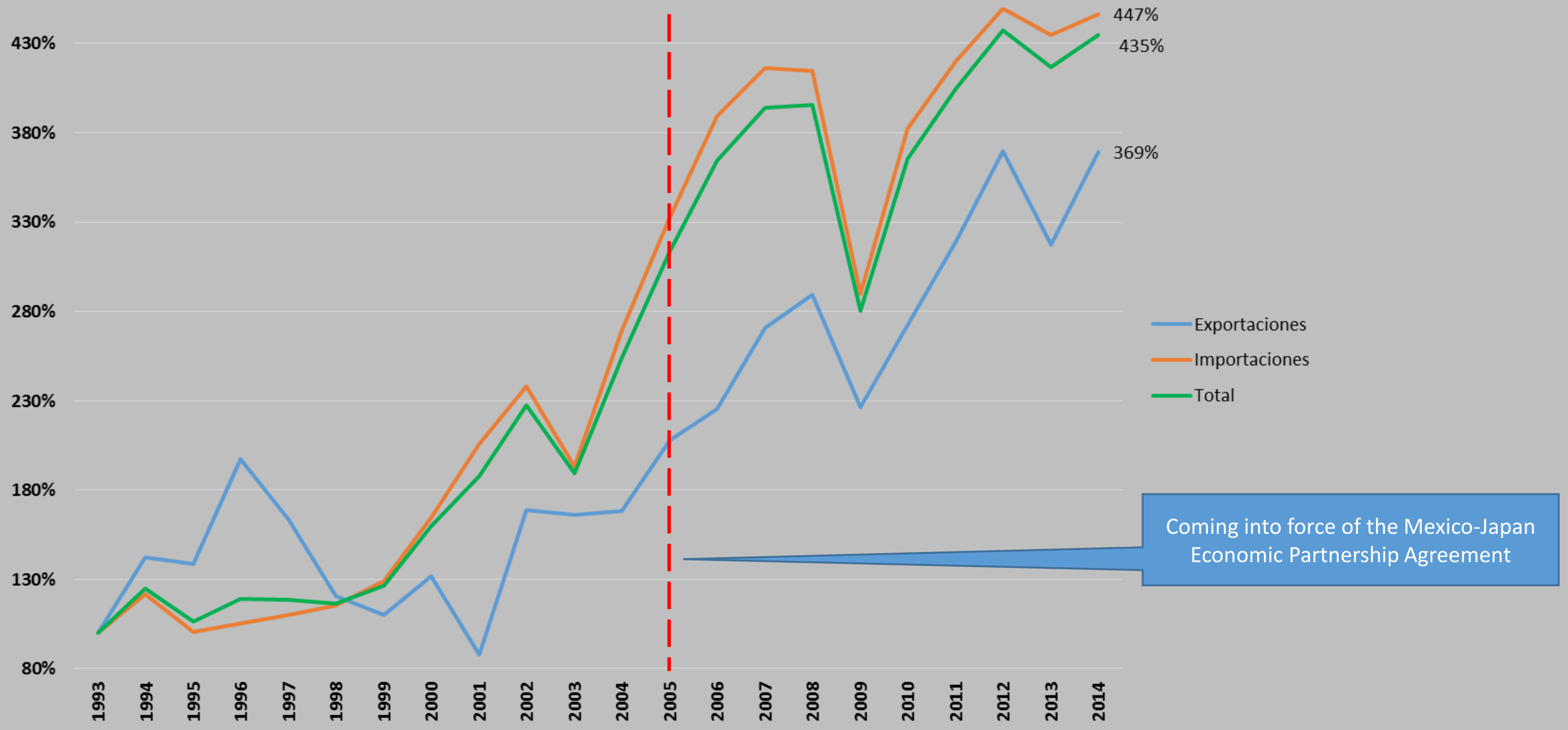
For the past two decades, most of Mexico's trade with Japan has been made up of imports from Japan to Mexico.



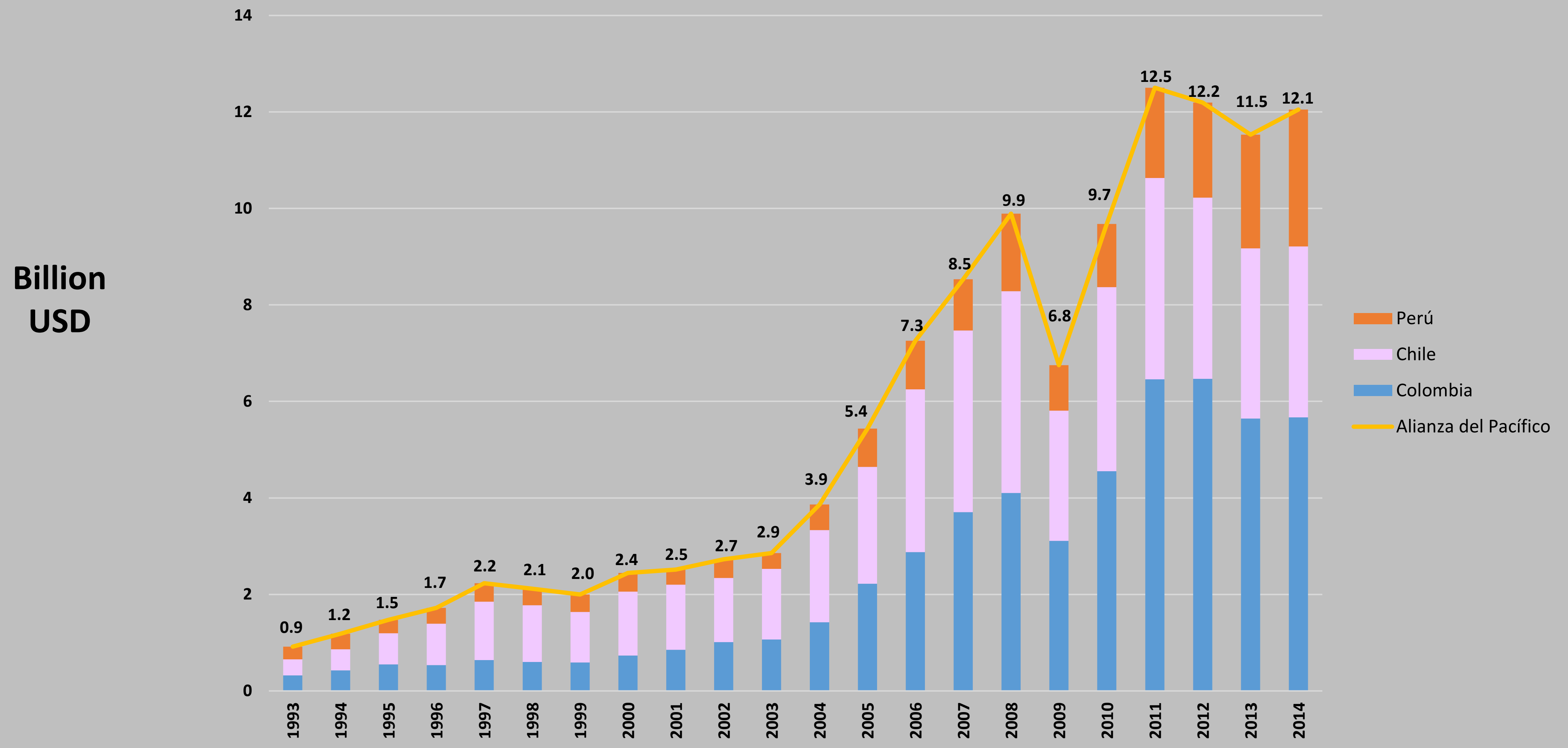
For the past 20 years, Mexico's imports from Japan have grown more than the exports from Mexico to Japan and the total trade between both countries.



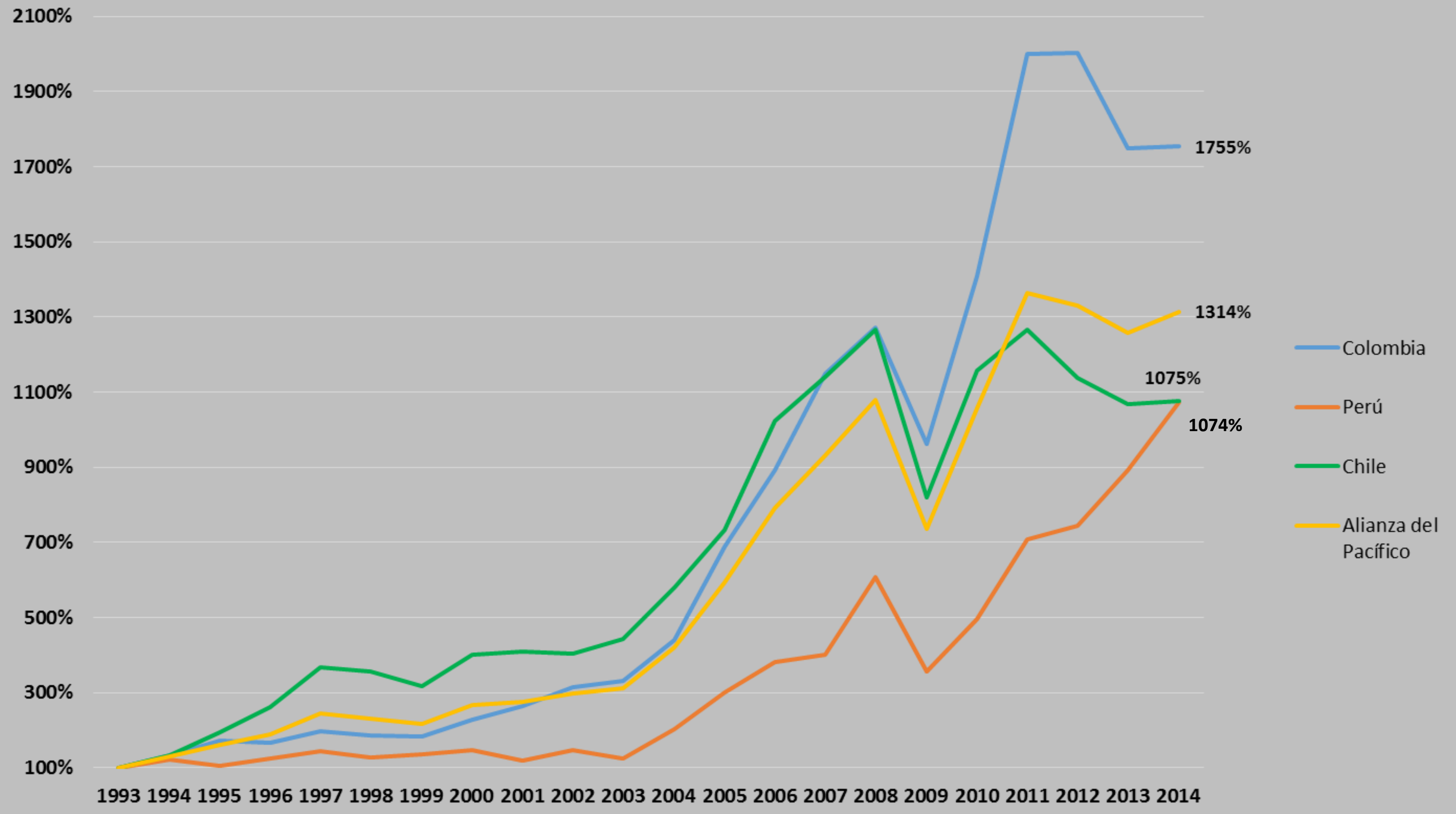
1993= base year

Content

Trade between the countries of the Pacific Alliance and Mexico has grown from 0.9 to 12.1 billion USD in the past eleven years.

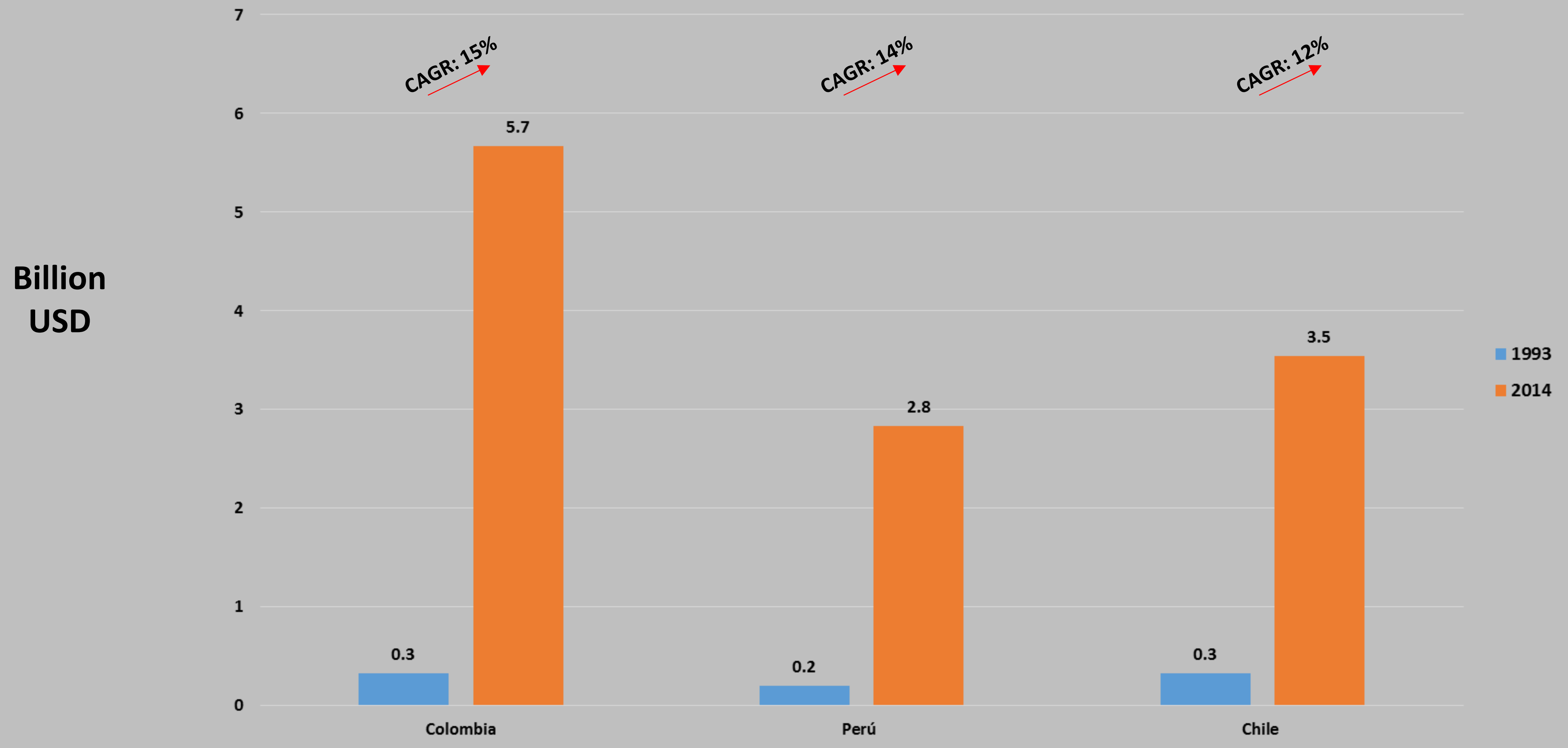


Trade between Mexico and the rest of the countries of the Pacific Alliance in 2014 was 13 times that of 1993.



1993= base year

Out of the countries of the Pacific Alliance, Mexico's trade with Colombia had the greatest CAGR between 1993 and 2014, followed by Peru and Chile.



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Main Investor Countries in Mexico

Country	Total*	%
United States	6.4	28%
Spain	4.3	19%
Canada	2.4	11%
Netherlands	1.5	7%
Germany	1.5	7%
Japan	1.4	6%
Belgium	1.3	6%
Luxembourg	0.8	3%
France	0.7	3%
Brazil	0.5	2%
Switzerland	0.3	1%
Republic of Korea	0.3	1%
United Kingdom	0.3	1%
Other	1	5%

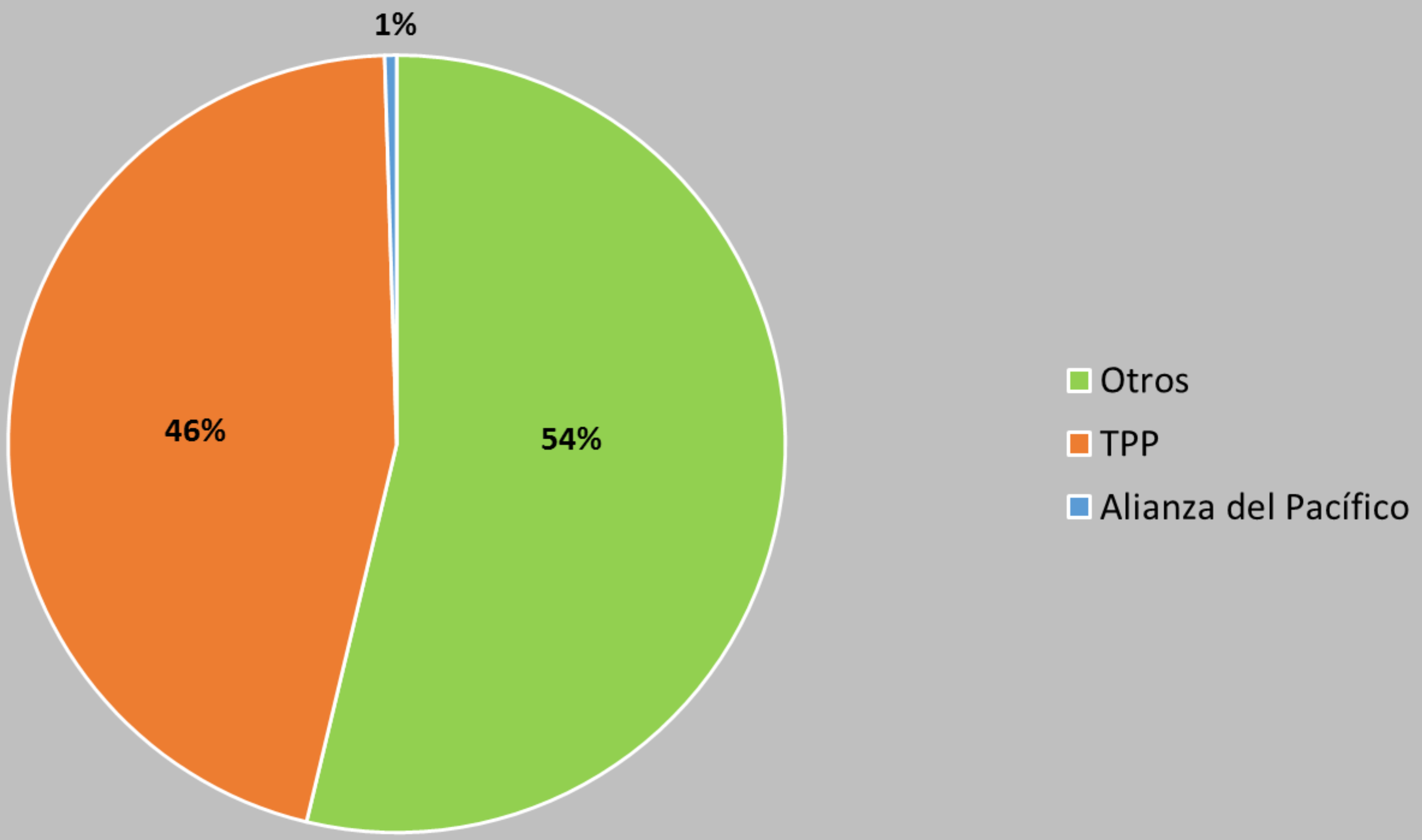
*billion USD
Year: 2014

Japan’s FDI in Mexico by Sector

Sector	2014*	Accumulated 1999 -2014*
Total	1,372.0	7,408.7
Agriculture, livestock husbandry and breeding, forestry, fishing and hunting	0.0	91.2
Mining	-3.6	12.9
Power generation, transmission and distribution, water and gas supply by pipeline for final consumption	-43.4	40.8
Construction	-6.5	105.7
Manufacturing Industries	1,318.4	6,433.2
Commerce	97.6	589.6
Transport, postal and warehousing	12.5	15.4
Massive media information	0.0	-4.4
Financial and insurance services	26.0	90.0
Real estate and rental of houses and other intangible assets	0.3	34.3
Professional, scientific and technical services	-65.2	-34.3
Business Support Services, waste handling services and remediation services	25.9	-4.2
Educational services	0.0	-0.9
Health and social security services	0.0	0.0
Cultural, sports and other recreational activities	0.0	0.2
Temporary accommodation services and food and beverages	-1.7	23.3
Others except government-related activities	11.8	15.9

*million USD
Year: 2014

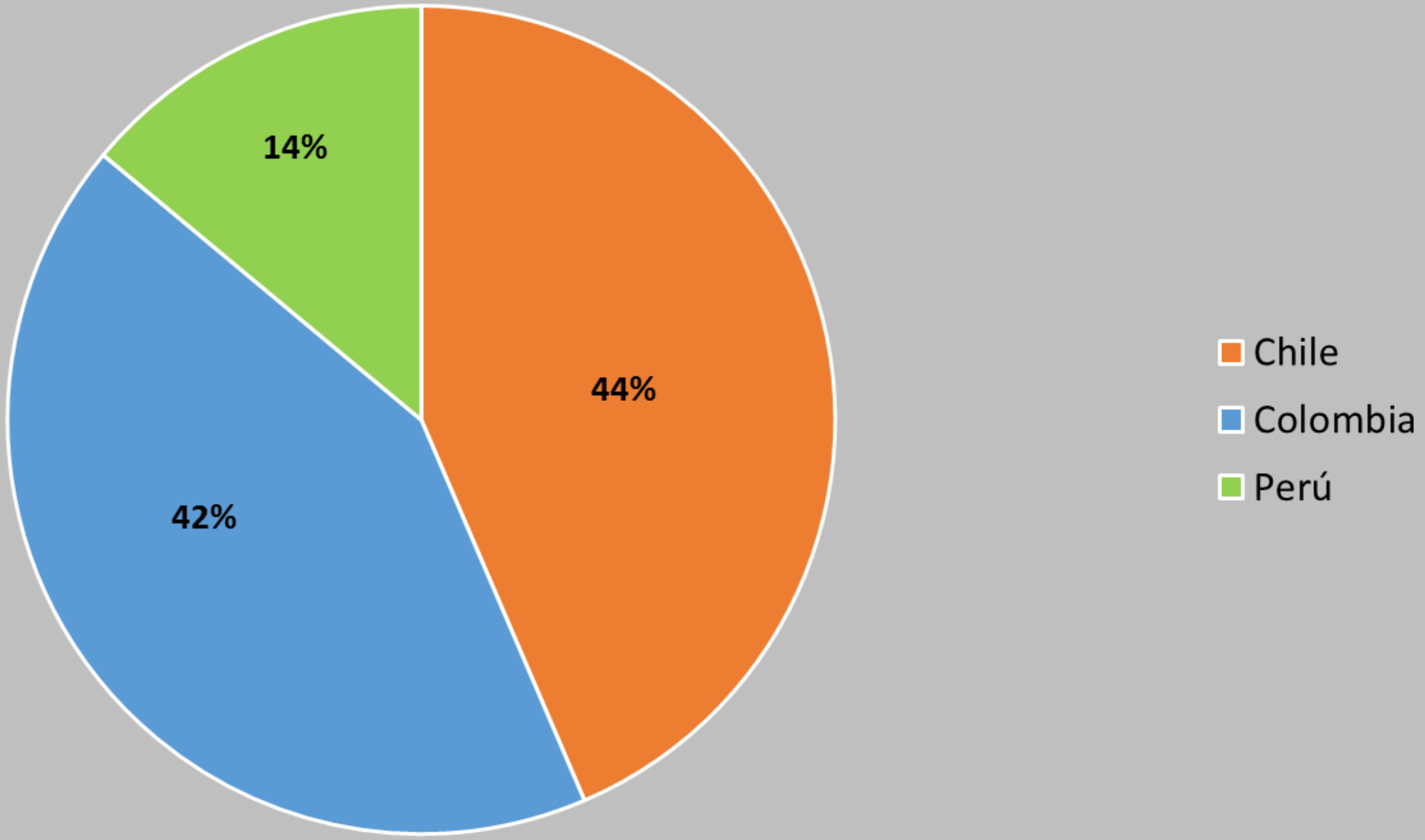
Mexico's FDI Distribution, Pacific vs. Other



Total: 22.7 billion USD

Year: 2014

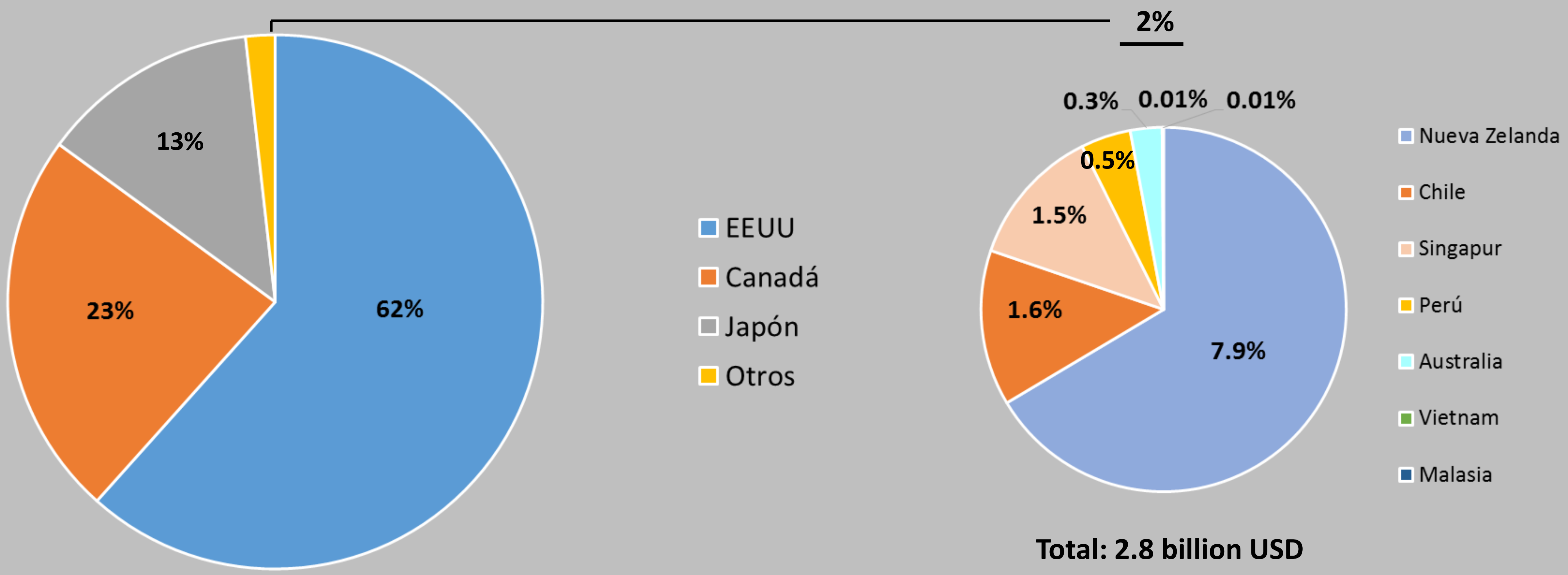
Mexico’s FDI Distribution from Pacific Alliance Countries



Total: 1.2 billion USD

Año: 2014

Mexico's FDI Distribution from TPP Countries

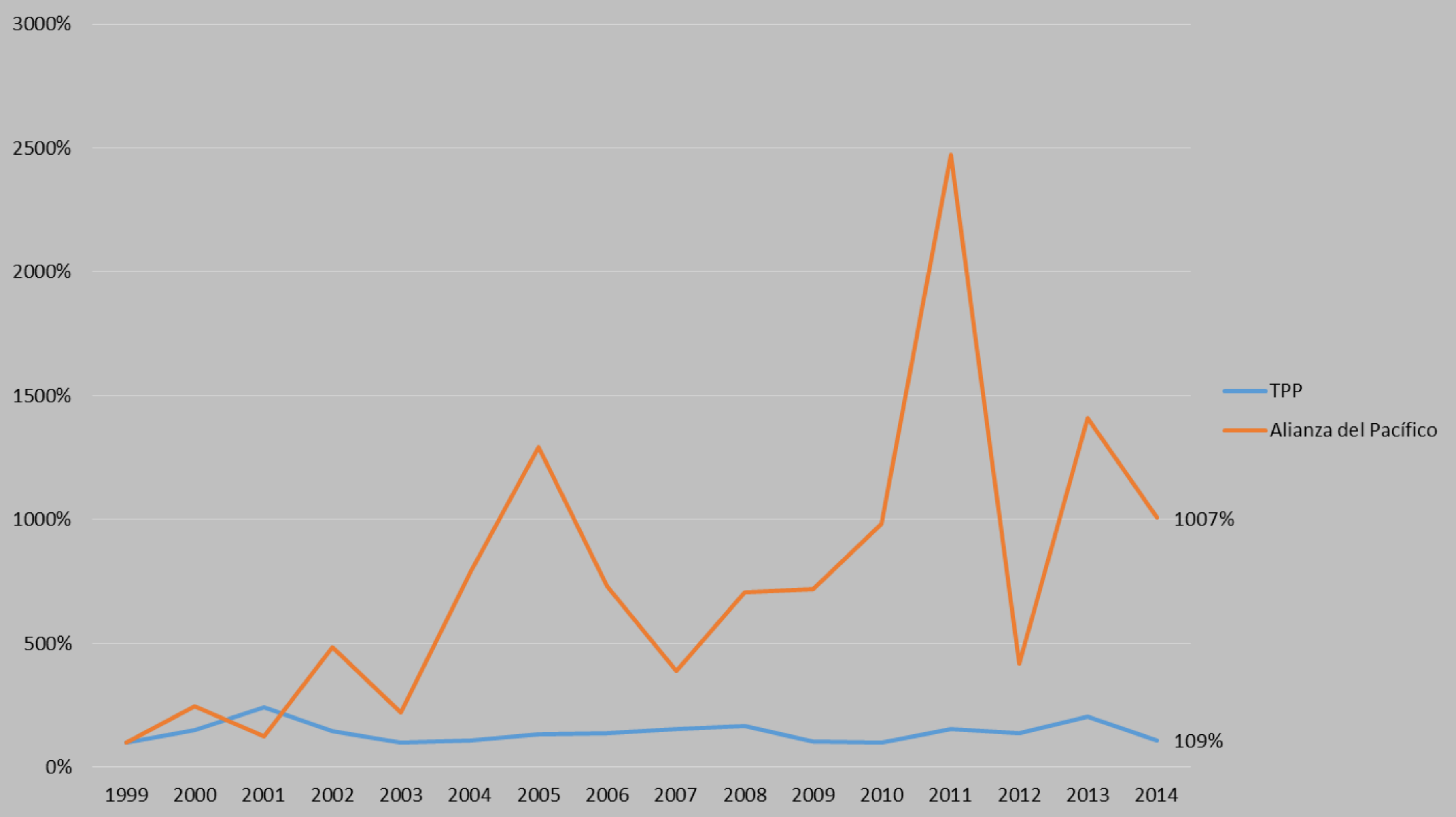


Total: 10.4 billion USD

Total: 2.8 billion USD

Año: 2014

Growth of FDI in Mexico, TPP vs. Pacific Alliance



1999= base year

Factors affecting Mexico´s attractiveness to FDI from the Pacific region

- Mexico has become increasingly attractive to FDI on account of its proximity to the US and the development of a number of factors.
- One of them is the quest of global enterprises to reduce their costs by relocating their production closer to their final markets (reshoring) as a result, among others, of rising oil prices (up 231% that took place from 2002 to 2012).
- This phenomenon has contributed to the growth of manufacturing employment in the U.S. since 2010 and it is expected that the country will attract between $70 and $115 billion dollars in new manufacturing investments between 2015 and 2020.

Factors affecting Mexico´s attractiveness to FDI from the Pacific region

- Similarly, this situation has contributed to the growth of the manufacturing industry in Mexico and the U.S., which increased 13% between 2010 and 2013.
- It has been envisaged that the impact of the reshoring of production from Asia to North America will impact Mexico. This country could absorb the operations of foreign companies looking to relocate –moving from Asia to North America– because:
- Mexico’s border with the U.S., which contributes to reduce transportation costs for companies looking to sell in that market;
- The increase of salaries in China has made Mexico a more competitive location for production (1% annual average increase in Mexico versus 20% in China from 2001 to 2011

Factors affecting Mexico´s attractiveness to FDI from the Pacific region

- The existent infrastructure, mostly in the northern states of Mexico, is in condition to absorb big companies looking to produce either for export or the local market;
- Mexico has competitive and specialized workers in assembling and manufacturing.
- Additionally, the energy reform in Mexico is a fundamental factor that could affect the manufacturing industries of North America.
- The energy reform could attract over I billion dollars a year to Mexico's manufacturing sector.
- the decrease in energy costs has created an important incentive for firms considering to relocate to look to Mexico.

Note

All the information offered in this document have been prepared by the author based on statistical data acquired from Mexico's Ministry of the Economy, and is available at: http://www.economía.gob.mx