



USMCA opportunities for Mexico



New foreign investment for 5.7 bn dollars following ratification of USMCA

- Since the USMCA entered into force on July 1, 2020 new foreign investments for USD \$5.7 bn were announced.
- This amount represents 69% of foreign investment in the third quarter of 2019.
- With this trend, in the first year, the treaty would bring investments of USD \$14 bn.
- Most investments are concentrated in the automotive sector:
 - Bombardier Recreational Products (BRP) announced an investment of USD \$136 mn for a manufacturing plant in Ciudad Juárez, Chihuahua.
 - Ford, Volkswagen, Nissan and Toyota announced investments in existing plants for USD \$2 bn.
 - Givaudan will expand its operation in Querétaro for manufacturing of fragrances and cosmetic ingredients with an investment of USD \$160 mn in five years.



General aspects of the USMCA

Advantages

- Provides confidence and incentivizes investment.
- Sets an institutional framework that brings certainty to investors, businesses and consumers in North America.
- Deepens the relationship of Mexico with the U.S. and Canada.
- Maintains a free-trade network with North America which will strengthen regional value chains.

Mexican government position

- This administration will consolidate the USMCA as a lever of development to accelerate economic recovery in face of the effects of COVID-19.
- The wide congressional approval of the USMCA in Mexico is a signal that the country is a trustworthy trade partner in favor of an open economy.
- In the 2021 budget there are MXN \$220.9 mn allocated for the compliance of commitments in the USMCA.



Dispute settlement

- The USMCA maintains dispute settlement mechanisms and updates some provisions which will improve the efficiency of the arbitration process and grant certainty to the Parties and investments.

1. Investor–State dispute settlement:

- NAFTA’s rules are maintained for key industries in Mexico such as oil, gas, infrastructure, and telecom.
- The mechanism was updated by incorporating new provisions, such as: inclusion of arbitration rules of the United Nations Commission on International Trade Law and increased transparency through public access and third-party revision of disputes.

2. State–State dispute settlement:

- It guarantees the fulfillment of the USMCA commitments, and consequently, provides certainty to trade exchanges and investments in North America.
- The mechanism was improved through public hearings and participation of third parties.

3. Commercial remedies on anti-dumping and subsidies:

- The USMCA maintains NAFTA’s system of binational panels to resolve anti-dumping and countervailing measures disputes.
- This has been a highly used mechanism in NAFTA, hence the importance of maintaining it in the USMCA.



USMCA opportunities for Mexico



Nearshoring of value chains

- The USMCA is an advantage for the costly reallocation or nearshoring of production that some North American companies have considered.
- According to PwC, Mexico's operative costs for the manufacturing of an industrial product are 23% less than those of China.
- A poll by Foley & Lardner done to U.S. executives in Nov. 2019 indicates that 67% plan or have reallocated to Mexico and 80% of them will reallocate within two years.

Mexico's strategy for relocalization of global value chains:

1. Retain existing companies and promote their expansion of production.
2. Develop the capacity for vendors of foreign firms in Mexico.
3. Target key sectors like chemical, pharmaceutical, automotive and electronics.
4. Attract new firms to Mexico.
5. Promote joint ventures for the creation of new businesses.



Trade facilitation changes

- The measures of trade facilitation in chapters 5 and 7 lower the costs for the flow of merchandise and reduce trade deficiencies in the region specially for firms of lower scale.
- IMF researchers estimate that these measures will bring a medium-term welfare increase in the region of USD \$1.3 bn.

Notable changes

- Simpler requirements for certification of origins through use of invoices.
- Electronic channels for customs procedures.
- Fewer custom requests in trade below USD \$2,500.
- No duties or taxes for goods below a *de minimis* threshold.

Sector specific opportunities

Pharmaceutical

- Chapter 20 of the USMCA sets guidelines for protection of intellectual property that align the laws of Canada, Mexico and the U.S.
- USMCA increases protection for industrial designs in Mexico from 10 to 15 years.
- According to Oxford Business Group, the USMCA and COVID-19 could boost the existing Mexican pharma industry to global leadership.

Digital economy

- The USMCA sets cooperation guidelines for the development of the digital economy.
- Parties agree to follow APEC Privacy Frameworks and OECD recommendations for data protection.
- No duties or other non-tax charges on digital products.
- Includes provisions for the protection of source code and algorithms of firms.

Automotive

- IMF researchers find that higher wages set by Labor Value Content (LVC) rules will not have negative effects in Mexico's production.
- The higher LVC and Regional Value Content (RVC) give incentives to investment with flexibility in enforcement.
- A poll by Foley & Lardner in Nov. 2019 indicates that the stricter RVC rules are an incentive to reallocation to Mexico. 50% of U.S. executives interviewed in the vehicle sector answered that they would increase activities in Mexico if the USMCA was approved compared to 8% in manufacturing.