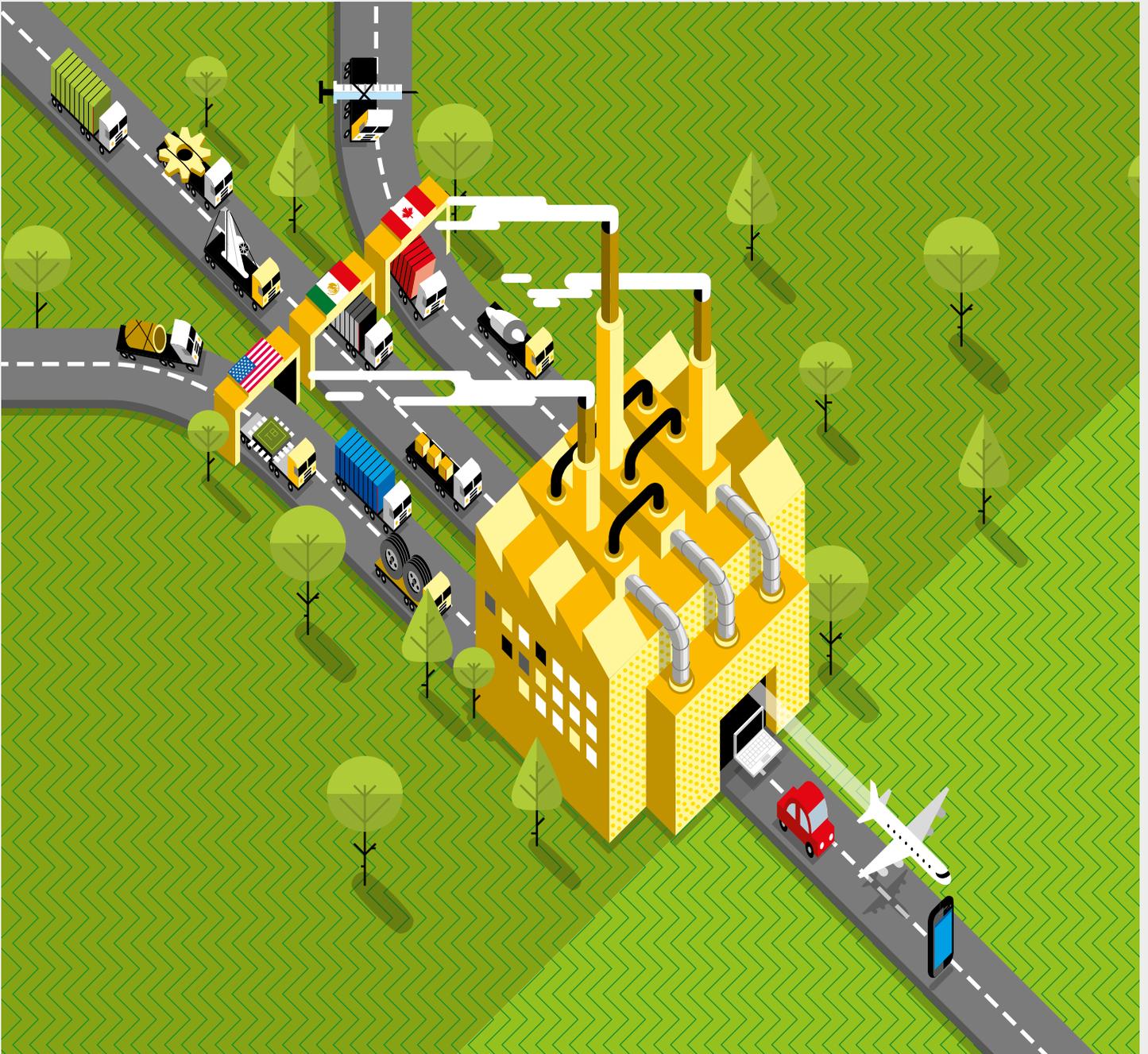


NAFTA

THE OTHER SIDE OF THE COIN

version 2.0



U.S. - MEXICO COMMERCIAL RELATIONS

U.S. relations with Mexico are strong and vital. The two countries share a 2,000-mile border, and bilateral relations have a direct impact on the lives and livelihoods of millions of Americans, whether the issue is trade and economic reform, education exchange, citizen security, drug control, migration, entrepreneurship and innovation, or the environment.

The North American Free Trade Agreement (NAFTA) created a 20.7 trillion-dollar market with around 478 million consumers. But the scope of U.S.-Mexican relations is broad and goes beyond official and commercial relations. It entails extensive social, cultural, and educational ties. Each day, hundreds of thousands of legal border crossings take place. Additionally, one million American citizens live in Mexico. U.S. tourists to Mexico numbered over 28 million in 2015, making our country the top destination for U.S. travelers. Over 18 million Mexicans visited the U.S. the same year, spending an estimated \$19.7 billion.

10 GOALS OF THE MEXICAN GOVERNMENT

for negotiations with the United States established by President Enrique Peña Nieto

1

The government of the United States must be committed to **GUARANTEE A HUMAN TREATMENT** of Mexican immigrants and to respect their rights.

2

Any repatriation process of undocumented immigrants lead by the government of the United States must be done in an organized and coordinated fashion. **THE PROTOCOLS AND AGREEMENTS THAT HAVE BEEN REACHED MUST BE PRESERVED AND IMPROVED**, always following the premise of dignified and respectful treatment.

3

The development of the hemisphere should be a shared responsibility. The governments of Mexico and the United States must assume **CONCRETE COMMITMENTS TO WORK JOINTLY** to promote the development of Central American nations. This goal is increasingly important. While the number of Mexican immigrants to the United States diminishes every year, the flow of undocumented immigrants crossing Mexican territory to reach the United States has grown more than 100% over the past three years.

4

GUARANTEE THE FREE FLOW OF REMITTANCES, avoiding that sending money from the U.S. to Mexico becomes more expensive. Between January and November 2016, remittances sent to Mexico reached 24 billion dollars.

5

The government of the United States must commit itself to working with Mexico in **STOPPING THE FLOW OF ILLEGAL WEAPONS AND ILLEGAL RESOURCES**.

6

PRESERVE FREE TRADE BETWEEN CANADA, THE UNITED STATES AND MEXICO. Commercial exchanges between the three countries must be exempt of any tariffs or quotas, as has been the case since 2008. We will work towards strengthening the competitiveness of North America and its regional supply chains, increasing Mexican exports to the United States and Canada on the basis of healthy competition and the development of sectors with greater added value.

7

When modernizing the framework for commercial exchanges in North America, **THE GOVERNMENTS OF THE REGION MUST INCLUDE NEW SECTORS** such as telecom, energy and e-commerce.

8

Any new trade agreement with the United States must translate into **BETTER SALARIES FOR MEXICAN WORKERS**. Mexico does not compete with the world based on low-quality jobs or cheap workforce. Mexico must participate in international trade on the basis of greater productivity and complementarity. Mexico must use commerce, a powerful instrument to protect current jobs, as a tool to create new jobs and improve salaries.

9

PROTECT THE INVESTMENT FLOW TO MEXICO. The Mexican government will make sure that our country continues to be an attractive and reliable investment destination. We will pursue agreements that give certainty to investment and trade flows between Mexico, Canada and the United States. We will defend national investments as well as investments made by any other country that has believed in Mexico.

10

WORKING TOWARDS A BORDER THAT BRINGS COUNTRIES CLOSER TOGETHER, NOT ONE THAT DRIVES THEM APART. Mexico recognizes every sovereign nation's right to guarantee its security, but Mexico does not believe in walls. Our country believes in bridges, in road and railway crossings, in the use of technology to promote a good neighborhood. Our border should be our best space of coexistence; a space of security, prosperity and shared development.

WHAT GLOBAL LEADERS ARE SAYING

Xi Jinping, President of the People's Republic of China
World Economic Forum meeting, Davos 2017

- Globalization has been blamed for many of the problems currently troubling the world. Blaming economic globalization is inconsistent with reality and it will not help solve the problem.
- It is true that globalization has created some new problems, but we can solve them by making globalization more inclusive and more sustainable.
- Mankind has become a close-knit community of shared future. Countries have extensive converging interests and are mutually dependent. Countries should view their own interests in a broader sense and refrain from pursuing them at the expense of others.
- We should commit ourselves to growing an open economy to share opportunities and interests through opening-up and achieving win-win outcomes. We must remain committed to developing global free trade and investment liberalization and facilitation through opening-up and say no to protectionism. Pursuing protectionism is locking oneself in a dark room. While wind and rain may be kept outside, that dark room will also block light and air. No one will emerge as a winner in a trade war.
- China has pursued a path of common development through opening up. We are committed to a fundamental policy of opening-up and pursuing a win-win strategy.
- We are not jealous of others' success; and we will not complain about others who have benefited so much from the great opportunities presented by China's development. We will open our arms to the people of other countries and welcome them aboard the express train of China's development.
- China will keep its door wide open. An open door allows both other countries to access the Chinese market and China itself to integrate with the world. And we hope that other countries will also keep their door open to Chinese investors and keep the playing field level for us.
- China stands for concluding open, transparent and win-win regional free trade arrangements and opposes forming exclusive groups that are fragmented in nature.

Jack Ma, Founder and Executive Chairman, Alibaba Group
World Economic Forum meeting, Davos 2017

- The U.S. has benefited immensely from globalization.
- It's not globalization – and everything that comes along with it, like free trade and outsourcing – that's to blame for America's woes. It's the way the country's elite managed the process.
- It's not that other countries steal American jobs; it is your strategy – that you did not distribute the money in a proper way.
- I believe globalization is good, but it needs to be improved. It should be inclusive globalization.

16 FACTS ABOUT MEXICO

1

Is the 15th largest economy in the world.



World Bank

2

Mexico's network of free trade agreements gives it preferential access to 46 countries.



Ministry of Economy

3

Mexican exports reach around 200 countries and territories



Bank of Mexico

4

Is one of the most open economies in the world: its international trade is equivalent to 68% of GDP.



Global Trade Atlas, IMF

5

Was the 15th investment destination in 2015 and the 2nd largest recipient of FDI in Latin America.



UNCTAD World Investment Report

6

In a document presented recently at the World Economic Forum in Davos, PWC ranked Mexico the 8th most attractive investment destination for 2017.



PWC CEO Survey

7

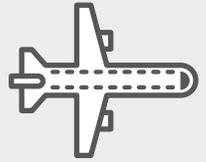
Offers the 3rd lowest tax burden to work among OECD countries.



OECD

8

Has the 3rd largest number of airports in the world.



CIA World Factbook

9

Is the leading tourism destination in Latin America and the 9th most important worldwide.



UNWTO

10

Grants more patents than any other Latin American country.



World Intellectual Property Organization

11

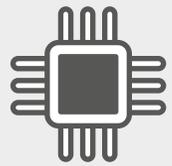
Is the main investment destination for the software and IT industries in Latin America.



FDI Markets

12

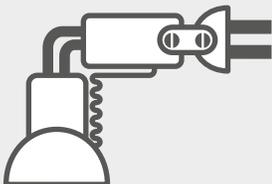
Top high tech exporter in Latin America



IHS Connect

13

Mid- and high-tech products account for 60% of Mexican exports.



Global Insight

14

Has a larger number of graduates in engineering than Germany, Brazil, Spain, the US and the UK.



Unesco

15

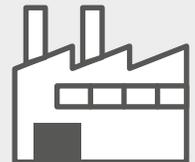
Is the 7th largest producer and 4th largest exporter of light vehicles.



OICA, Global Trade Atlas, AMIA

16

28 out of the 34 automotive companies in the Fortune Global 500 list have manufacturing or distribution presence in Mexico.



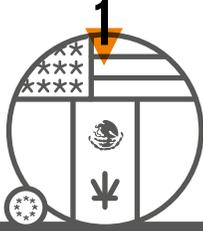
Fortune

20 FACTS ABOUT NAFTA

NAFTA was, in its day, a new paradigm of regional integration; innovative and without precedent for the time. Today, it is a reference of multilateral trade and a cornerstone of the globalization and growth of our countries.

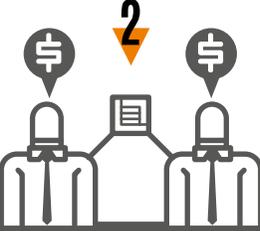
We have come a long way since then: cooperation between Canada, the United States and Mexico is broader and deeper than ever. There are still many challenges we must face, such as increasing trade facilitation and strengthening our global value chains, among others. The economic partnership we have achieved positions us as the biggest, most competitive and relevant region in the world, as demonstrated by the 20 facts we share below:

1



The NAFTA region is the most extensive free trade zone in the world: it is close to 5 times the size of the European Union.¹

2



It allows free trade between more than 478 million residents²

3



The NAFTA region produces goods and services valued at more than 20 trillion dollars every year.³

4



NAFTA represents more than 28% of the global GDP.

5



Since it came into force, the GDP of NAFTA countries has increased steadily at an average annual rate around 2.5%.⁴

6



In 2015, Mexico was the 3rd largest supplier to the US and its 2nd largest customer, the 3rd largest supplier to Canada and its 5th largest customer.

7



Trade between NAFTA members is estimated at more than 100 million dollars per hour.

8



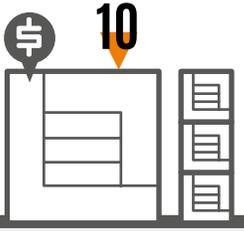
From 1994 to 2015, Mexican exports to the US have grown more than 600%, and to Canada 575%.

9



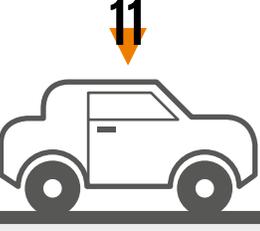
Canada and the US buy more from Mexico than from Japan, Germany and Spain combined.

10



Mexico buys more from its two NAFTA partners than from China, Japan and Germany combined.

11



The most exported manufactured product from Mexico to Canada and the US is cars.

12



12 of every 100 dollars spent by Canada and the US abroad are to buy Mexican-made products. In 1993, this figure was 6 of every 100 dollars.⁵

13



Intraregional trade accounts for almost half of the exports from NAFTA countries.

14



The NASCO corridor –connecting Canada, Mexico and the US– is more than 4,000 kilometers long.⁶

15



40% of the content of Mexican exports to the US was originally manufactured in the US.⁷

16



Close to 5 million jobs in the US depend on trade with Mexico.⁸

17



NAFTA provides legal certainty to investment. From 1999 to 2016, FDI from the US in Mexico totaled 210 billion dollars: 46% of FDI flows to the country.⁹

18



Mexico has more FDI in the US than any other emerging or Latin American country.

19



Half a million people and over 200,000 and cross the Mexico-US border every day.¹⁰

20



NAFTA creates nearly 200,000 export-related jobs in the US annually. These jobs pay 15% to 20% more than lost jobs.¹¹

¹ United States Trade Representative | ² International Monetary Fund | ³ World Trade Organization and International Monetary Fund |

⁴ International Monetary Fund | ⁵ Trade Map (2015 statistics) | ⁶ Inbound Logistics | ⁷ & ⁸ Christopher E. Wilson (2011),

Working Together. Economic Ties Between the United States and Mexico, Woodrow Wilson International Center for Scholars | ⁹ SelectUSA | ¹⁰ US Department of Transportation |

¹¹ Peterson Institute for International Economics

MEXICO'S RESPONSE TO THE CURRENT CONTEXT

- The campaigns are over and now we have to focus on building an institutional dialogue with the elected government. International relations must be built, they don't strengthen spontaneously.
- As in every new administration, and particularly in a solid democracy such as the United States, there are institutional checks and balances, private interests and multiple voices of a diverse society that tend to nuance extreme positions.
- No single country has control over the decisions that the new American government will take internally, but Mexico can decide how to react. We will build a strategic response, with the interests of the country and the Mexican people as our priority and guiding principle.

"Every car and every part manufactured [abroad] that comes across the border, we're going to charge ... a 35% tax."

Campaign Rally in Dallas, September 2015

"Make in U.S.A. or pay big border tax!"

Twitter, January 2017

- According to the World Trade Organization (WTO), the U.S. has an average applied tariff of 3.51% for products imported from other WTO members. Tariffs are typically lower for countries which have a free trade agreement with the U.S.
Dany Bahar, Brookings Institution
- Only a small group of developing nations impose high tariffs on imported products. The Bahamas is the only country with an average tariff for non-agricultural goods above 35%. Chad, Brazil, Argentina, Pakistan, India, Thailand and Zimbabwe also impose very high tariffs on manufacturing products, but these tariffs average 20%.
Dany Bahar, Brookings Institution
- The imposition of high tariffs would mostly harm the American consumer, who would have to pay more for the same products.
- If other countries retaliate and impose their own tariffs on U.S. exports, American export-related jobs would be in jeopardy.
- Free markets promote competition and specialization. Protectionism, on the other hand, would hurt productivity, which is the largest driver of economic growth.

On the Border Adjustment Tax proposal presented by House Republicans.

- A group of Republican representatives think that imposing tariffs on imported goods might result counterproductive and trigger a trade war. They prepared a proposal for a Border Adjustment Tax (BAT), which is intended to strengthen manufacturing activity in the U.S. without triggering commercial conflicts.
- The border adjustment tax proposes that businesses no longer need to pay taxes on profits they earn overseas. Corporate income taxes would be border adjustable, meaning that taxes would be imposed on what is imported to the U.S. and taxes would be removed from what is exported from the U.S.
- The U.S. is a member of the World Trade Organization (WTO) and a signatory of its treaties, which prohibit WTO members from enacting protectionist tax policies.
- The proposed border adjustment tax is a tax on corporate income, not on products themselves, what makes it a direct tax. Direct taxes are not eligible for border adjustment treatment under WTO treaties.
- The BAT would create an export subsidy by allowing businesses to deduct material and labor costs from exported goods from their taxable income. Moreover, this subsidy would favor the use of domestic over imported goods, and would therefore classify as a prohibited export subsidy under WTO rules.
- The proposed border adjustment tax is likely to violate WTO's treaties.

“On trade, I am going to issue a notification of intent to withdraw from the TPP, a potential disaster for our country. Instead, we will negotiate fair, bilateral trade deals that bring jobs and industry back into American shores.”

Donald J. Trump, Video message on priorities for first 100 days in office, November 2016

“The TPP would be the death blow for American manufacturing. It would give up all of our economic leverage to an international commission that would put the interests of foreign countries above our own.”

Donald J. Trump, Campaign speech in Monessen, Pennsylvania, June 2016

- The TPP was negotiated to make it easier for entrepreneurs, farmers, and small business owners of the participating countries, including the United States, to sell locally-made products abroad. For the United States, the TPP eliminates more than 18 thousand taxes and other trade barriers on American products across 11 countries — barriers that put American products at an unfair disadvantage today.
- The TPP is about Global Leadership. The rules of the game with Asia are not clear. If we don't pass this agreement and write those rules, others will fill that vacuum and establish an alternative set of guidelines that might not take North American interests into account.
- If the TPP is not approved, Mexico will continue looking for new markets in the region either through bilateral agreements or through a new platform.

“Mexico is not our friend. [...] They are killing us on jobs and trade.” (June 2015)

Donald J. Trump, Twitter, June 2015

- Mexico is the United States’ second-largest export market (after Canada) and third-largest trading partner (after Canada and China). In 2015, two-way trade in goods and services was almost \$500 billion.
- Exports from the United States to Mexico are two times larger than those of the United States to China.
- The troubles that the manufacturing sector is facing in the United States have little to do with NAFTA; manufacturing in the country was under stress decades before the treaty.
- Among open economies, investment is a two-way street. Stock foreign direct investment by U.S. companies in Mexico stands at \$203 billion, while Mexican investment is \$24.6 billion, and has grown by over 50% during the past five years.
- By contributing to the development of cross-border supply chains, NAFTA lowered costs, increased productivity, and improved U.S. competitiveness. This meant shedding some jobs in the United States as positions moved to Mexico, but without the pact even more would have been lost.

Gordon Hanson, University of California San Diego

- The manufacturing industry in the NAFTA countries is very integrated; we don’t just exchange products; we produce them together. 40% of the content of Mexican exports is originally made in the U.S. As an example of the relevance and consolidation of regional value chains, autoparts cross the borders of the region eight times on average before a vehicle is completed. These sort of linkages, which have given U.S. automakers a competitive advantage, would be much more difficult without NAFTA’s tariff reductions and protections for intellectual property.
- In 2011, the most recent year for which data is available, Mexican industries consumed \$140 billion dollars in U.S. intermediate goods, and U.S. industries consumed \$111 billion dollars’ worth of Mexican inputs.

“The NAFTA deal [...] is one of the worst deals ever made of any kind signed by anybody. It is a disaster.”

Donald J. Trump, Third Presidential Debate, October 2016

- NAFTA fundamentally reshaped North American economic relations, driving an unprecedented integration between two developed economies, Canada and the United States, and a developing country, Mexico. NAFTA enjoyed bipartisan backing—it was negotiated by Republican President George H.W. Bush and passed through Congress and implemented under Democratic President Bill Clinton.
- Economists largely agree that NAFTA has provided benefits to all North American economies. Regional trade increased sharply over the treaty’s first two decades, from roughly \$290 billion in 1993 to more than \$1.1 trillion in 2016. In the years since NAFTA, U.S. trade with its North American neighbors has more than tripled, growing more rapidly than U.S. trade with the rest of the world. Canada and Mexico are the two largest destinations for U.S. exports, accounting for more than a third of the total.
- Mexico is the second largest buyer of products from the United States. We buy more than Germany, Spain, France, Italy, Japan, and the United Kingdom together. It is likely that after Brexit we will be buying more from the United States than from the entire European Union.
- On an average day, commercial flows between Mexico and the United States surpass 1.4 billion dollars. That is more than one million dollars per minute.
- Analyzing U.S.-Mexico trade and investment data from 1990 to 2009, we find that, on average, a 10% increase in employment at U.S. companies’ operations in Mexico leads to a 1.3% increase in the size of their workforce in the United States, a 1.7% increase in exports from the United States, and a 4.1% increase in U.S. research and design spending.

Theodore Moran and Lindsay Oldenski

“I’m going to renegotiate NAFTA. And if I can’t make a great deal, then we’re going to terminate NAFTA and we’re going to create new deals. We’re going to have trade but we’re going to terminate it. We’re going to make a great trade deal. If we can’t, we’re going to go separate ways because it has been a disaster.”

Donald J. Trump, Third Presidential Debate, October 2016

- The TPP, by including Canada and Mexico, and improving substantially on NAFTA’s shortcomings, upgrading existing standards and setting new high standards that reflect today’s economic realities, is a great way to modernize North American trade.
- TPP introduces improvements in environmental and labor standards, adopts measures to protect digital freedom while preserving the free flow of information across borders.

“Our jobs have fled to Mexico and other places.”

Donald J. Trump, Third Presidential Debate, October 2016

- Five million U.S. jobs depend on trade with Mexico. If trade between the United States and Mexico were halted, five million Americans would be out of work.

Wilson Center

- The availability of cost-efficient inputs allows U.S. companies to stay competitive.
- Mexican immigrants own more than one in 25 existing businesses in the U.S., generating income in excess of 17 billion dollars.

Instituto de los Mexicanos en el Exterior

- Technological change has been a much larger source of job loss in the manufacturing sector than trade deals. 87% of job loss in the United States between 2000 and 2010 is attributable to productivity increases, while only 13% results from commerce.

Ball State University

- NAFTA is responsible for creating nearly 200 thousand export-related jobs annually. These jobs pay 15 to 20% more on average than the jobs that were lost.

Peterson Institute for International Economics

- On average, for every 100 jobs US manufacturing multinational corporations created in Mexican plants, nearly 250 jobs were added in their US operations.

Peterson Institute for International Economics

“We lose a fortune on trade. The United States loses with everybody [...] With Mexico we have a \$50 billion a year imbalance.”

Donald J. Trump, Republican Debate, August 2015

- The United States has been running consistent trade deficits since 1976.

Congressional Research Service

- The United States has larger trade deficits with China, Japan and Germany than with Mexico. The United States records trade surpluses with many other countries.

Actual	Previous	Highest	Lowest	Dates	Unit
-36,440	-40,462	1,946	-67,823	1950 - 2016	USD Million

“The TPP would lower tariffs on foreign cars, while leaving in place the foreign practices that keep American cars from being sold overseas.”

Donald J. Trump, Campaign speech in Monessen, Pennsylvania, June 2016

- United States automotive exports currently face barriers in TPP markets of up to 75%.

U.S. Department of Commerce

- 64% of total U.S. automotive products exports to the world in 2015 went to the TPP region.

U.S. Department of Commerce

- The TPP will offer substantial market access benefits to the U.S. automotive industry. For example, Malaysia and Vietnam will eliminate tariffs on more than 70% of U.S. automotive exports within 4 years and Japan will remove non-tariff barriers that impede automotive exports.

U.S. Department of Commerce

“When Mexico sends its people, they’re not sending their best.”

Donald J. Trump, Presidential announcement speech, June 2015

- The number of unauthorized immigrants from Mexico has steadily declined since 2007. Net migration from Mexico to the United States may have even reversed.

Hispanic Trends, Pew Research Center

- The number of college-educated Mexicans living in the United States rose from some 300 thousand in 2000 to 530 thousand in 2010. From the 30 thousand Mexicans holding a PhD, 11 thousand live and work in the United States.

Alma Maldonado, Mexican education researcher

- Mexico is the main supplier of foreign-born talent to Silicon Valley, ahead of India, Japan and Germany.

Bloomberg

17 DIVERSIFICATION STRATEGIES FOR 2017

The current situation with the US — Mexico's main trading partner and largest source of FDI— opens up the opportunity to diversify our markets. In order to help Mexican companies to leverage international business opportunities, ProMéxico is leading 17 diversification strategies for 2017.

1 PROMÉXICO FOREIGN OFFICES



36 out of our 48 representation offices are located in countries other than the US.

2 BUSINESS FAIRS



More than 50% of the business fairs where we participate take place in new markets.

3 NEW MARKETS



ProMéxico is approaching new markets in the Middle East, Africa, Asia, Europe and Latin America.

4 PACIFIC REGION



ProMéxico is strengthening its efforts to maintain close contact with countries in the Pacific Basin, in order to encourage the entry into force of TPP or the negotiation of parallel agreements.

5 PACIFIC ALLIANCE



Mexico is working closely with the Pacific Alliance to increase commercial and investment flows, and foster the creation of value chains with Chile, Colombia and Peru.

6 CANADIAN STRATEGY



ProMéxico works to strengthen ties with Canada, organizing business promotion events aimed to connecting Mexican companies with business opportunities in Canada.

7 DUAL YEARS



These programs allow us to further strengthen ties with selected strategic partners, like Germany (2016) and the UK (2015).

8 FOREIGN DIRECT INVESTMENT



ProMéxico attracted 29 investment projects in 2016; 19 (66%) of them — representing 64% of the close to 20 billion dollar investment attracted— involved companies from outside the US.

9 INTERNATIONALIZATION TO NEW MARKETS



116 (72%) out of 162 internationalization projects promoted by ProMéxico in 2016 had a country other than the US as destination.

10 ITE MODEL



Through the Technical Intelligence for Exporters model (ITE), ProMéxico identifies export opportunities for Mexican products.

11 MEXICO EXPORTS MAP (MEM)



An interactive map of the world that showcases the industries and products with the best business opportunities for Mexican companies in specific foreign markets.

12 RED EXPORTA



A program that allows small and medium enterprises to integrate under a single umbrella-brand to sell their products to large clients outside Mexico.

13 PROMOTING NEW INDUSTRIES



ProMéxico introduced *Mexico Fashion Design*, a platform for the development and promotion of the ever-growing Mexican fashion industry at an international level.

14 E-COMMERCE



ProMéxico is developing an integral e-commerce and marketing strategy to facilitate the sale of Mexican products and services in international markets through this channel.

15 HALAL



In 2016, ProMéxico, along with other instances of the Mexican government, presented a strategy to promote the certification and commercialization of Halal products by Mexican companies. This gives companies access to a potential market of 1.8 billion people worldwide.

16 TRAINING PROGRAMS



32 (63%) out of 59 training programs led by ProMéxico in 2016 were specifically aimed at promoting market diversification.

17 MEXICAN COMPANIES AS SUPPLIERS TO THE UN



ProMéxico leads training programs to inform Mexican companies about business opportunities with the UN Procurement Division, which purchases goods and services in excess of 17 billion dollars annually.