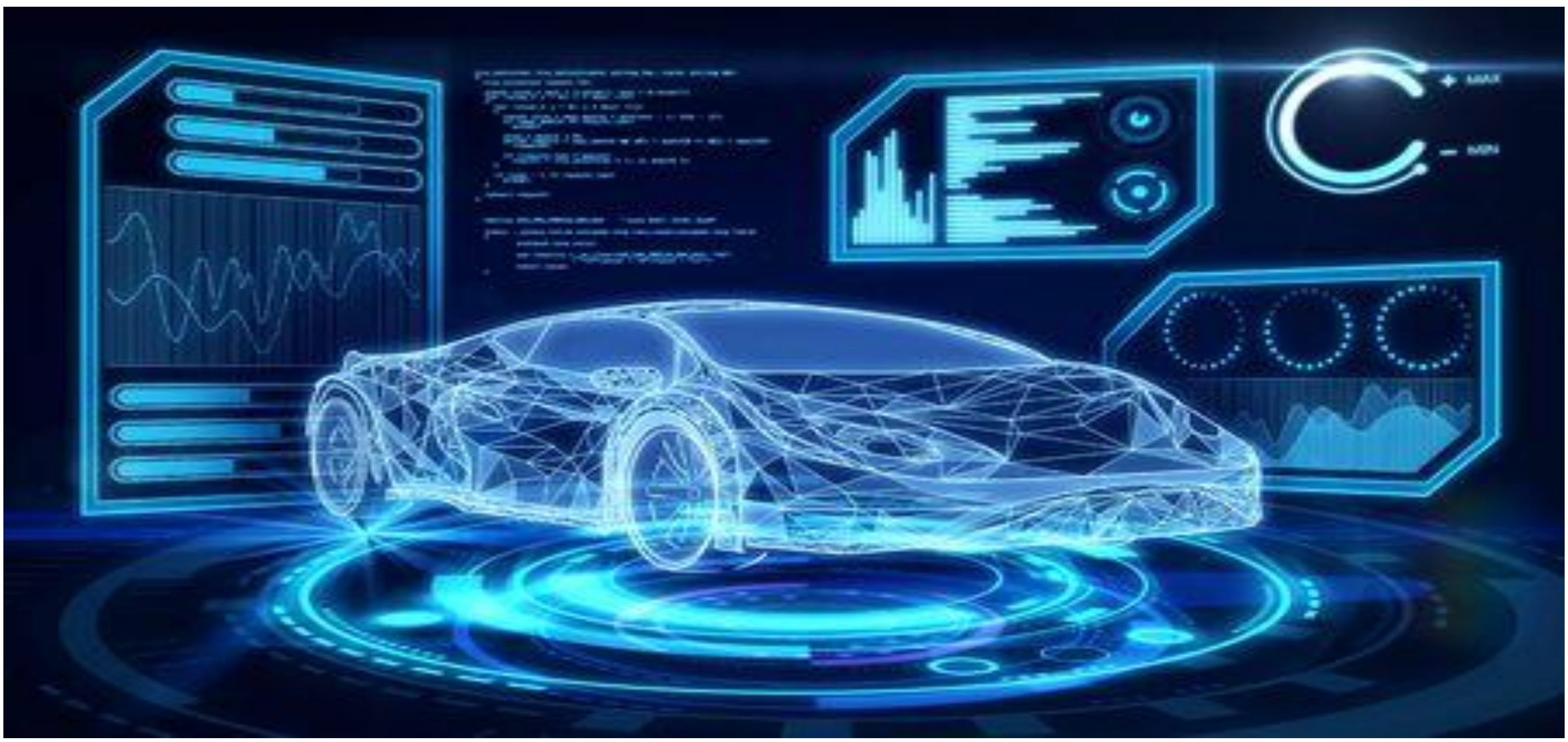
Administración de Comercio Exterior
MINISTERIO DE ECONOMÍA
ESTADO DE ISRAEL

Automotive Ecosystem in Mexico

EMBAJADA DE ISRAEL



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Executive Summary

The following report was written by the Commercial Office of Israel to Mexico to provide an overview of the automotive ecosystem in Mexico. With the information presented in this report, you will be able to obtain a vision prior to the establishment of business in Mexico, with examples of companies and public institutions that will be able to guide you regarding the best practices to be carried out for a successful establishment of business in the country. Likewise, to expand your business in Mexico, in case that you are already operating here. For further information beyond what is stated in this report, as well as questions or connections between the companies, organizations and conferences listed in this report, please contact Deborah Bar-nissim, which is in charge on the sectors of Life Science, Automotive, Advanced Manufacturing, Consumer good and Investments.

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1.The Israel Economic Mission in Mexico

The Israel Economic Mission is based in Mexico City and represents the Foreign Trade Administration of the Ministry of Economy and Industry of Israel. Our objective is to promote, improve, and facilitate trade and investment in a wide variety of sectors between Mexico and Israel. We work to develop strategic bilateral partnerships, identifying new attractive opportunities in business and G2G bilateral trade between Mexico and Israel. We are doing so via B2B meetings, business seminars, delegations, exhibitions, and other services.

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2. General information about Mexico and Mexico´s business culture

Official Name:	Estados Unidos Mexicanos (México)
Capital:	Mexico City
Currency:	Mexican Peso (1 USD = 20.00 MXN)
Population:	128,649,565 (July 2020 est.)
Administrative divisions:	32 states (estados, singular - estado); Aguascalientes, Baja California, Baja California Sur, Campeche, Chiapas, Chihuahua, Coahuila, Colima, Cuidad de Mexico, Durango, Guanajuato, Guerrero, Hidalgo, Jalisco, Mexico, Michoacan, Morelos, Nayarit, Nuevo Leon, Oaxaca, Puebla, Queretaro, Quintana Roo, San Luis Potosi, Sinaloa, Sonora, Tabasco, Tamaulipas, Tlaxcala, Veracruz, Yucatan, Zacatecas.
Government	Federal Presidential Constitutional Republic
President	Andrés Manuel López Obrador
Official Language:	Spanish

2.1 Major Cities in Mexico:

Mexico City

- Tijuana, Baja California
- Leon, Guanajuato
- Puebla, Puebla
- Juarez, Chihuahua
- Guadalajara, Jalisco
- Monterrey, Nuevo León

Mexico is the largest importer and exporter in Latin America and is the second-largest economy in LATAM after Brazil.

2.2 Business Communication:

Mexican business-culture prefer face-to-face methods of communication, as they find it critical in determining potential partners' character, level of trust, and compatibility.

Business Etiquette: do’s and don’ts:

- **Presentation:** Although before scheduling the call the Commercial Trade Officer sent your information (presentation, one pager, etc.) that you provided on your ERM request, it is important to have a short and precise power point presentation about your product or service. For Mexican companies, a previous experience in other markets is very important. Especially in the United States, European Union and Latin America. In case you do have such an experience, please emphasize it.

- **Read about the local company before:** Make some research, look for the person profile in LinkedIn and such.
- **Know your goals in the local market:** It´s important that you provide clear information about what you are expecting from your local partners, sales, strategic plan, if you already have some distributors in the market, approximately how much they are selling, etc.
- **Importation issues:** it is considerable to know the HS code of your product, packaging for the importation and if there is any Mexican-local regulation relevant.
- **Additional information:** it is always attractive for the local company to know if you are willing to give training, marketing percentage, free samples, or pilots, before closing a deal.
- **Be friendly:** In Mexican business culture, a direct, unmediated, pleasant and respectful relationship is very important, long before doing business. It is important not to go straight to business, before conducting a small talk. It can be viewed as a rude behavior. DON´T make them feel rushed or undervalued.
- **Accurate information:** If you don´t know an answer about a question been asked during the call, it´s better to apologize and send the information later via email, instead of providing misinformation, that can mislead or affect the meeting adversely.
- Mexican business-people do not like to say “No”. It´s important to be hyper-aware of body language and other non-verbal cues to avoid miscommunications. If you push the Mexican business-people, they could stop answering you. Be careful in how you are doing business.
- Business in Mexico takes time to close and longer when everything is by mail and calls.

3. Overview of the Mexican Automotive sector

The automotive sector is a key sector for the Mexican economy. This sector represents 3% of Mexico's 2019 GDP and 18% of manufacturing production (second most important industry after food). In addition, it is responsible for around 1.9 million jobs in the country and accounts for 32% of Mexico's total exports.

As of 2021, Mexico is the sixth largest automobile producer in the world and the fourth largest exporter after Germany, Japan and the United States, and is the fifth largest auto parts producer in the world (behind China, the United States, Japan and Germany).

Over the past 25 years, the Mexican automotive sector has been a success story. Its growth has increased significantly since the entry into force of Agreement between the United States of America, the United Mexican States, and Canada (USMCA). While in 1993 the sector's exports were US$10 billion, last year they were US$148 billion.

All the major automakers (Volkswagen, Nissan, General Motors, Honda, Audi, Toyota, BMW, etc.) have plants in Mexico, which results in an important auxiliary industry.

The total auto parts production in Mexico is around US$100 billion in 2019.

3.1 The most produced and exported products in Mexico

- Harnesses
- Seats and their parts
- Seat structure
- Engines
- Gearboxes
- Die-cut parts
- Axles
- Brake mechanisms
- Lighting fixtures
- Airbags
- Seat belt

3.2 Major sub-sectors in Mexico's automotive industry

- Original equipment (OE) parts
- Aftermarket parts
- Electric and hybrid vehicles
- Specialty equipment
- Remanufactured products

4. Main advantages of Mexico's automotive sector

- Due to its openness to trade and the size of its market, Mexico welcomes all types of products.
- Ten Mexican states are home to auto parts suppliers.
    - Coahuila
    - Chihuahua
    - Guanajuato
    - Nuevo León
    - Querétaro
    - Puebla
    - Tamaulipas
    - Estado de México
    - San Luis Potosí
    - Aguascalientes
- Mexico's geographical location: It is perfectly situated and equipped to distribute its automobiles and their parts not only to the United States, but also to South America and other regions of the world.
- Production costs in Mexico are significantly lower than in North America or Europe, making it an attractive location for large companies.
- Mexico's extensive trade agreements mean that it has access to 46 different markets through 12 Free Trade Agreements.
- Under the Mexico-European Union Free Trade Agreement (Mexico-EU FTA), since 2000 most industrial products imported from the EU are duty-free.
- The new USMCA Agreement (Mexico, United States and Canada) in the automotive sector presents opportunities. The most important change is that the rule of origin has been modified so that now, for a car to meet the label of being a product of the region and therefore be exported duty-free, 75% of its content must come from one of the three signatory countries. This percentage is **more restrictive** than NAFTA, which established a requirement of 62.5%. This means that a greater number of components must be produced in Mexico. The Mexican auto parts industry has a good opportunity for growth.

- Large manufacturing clusters have developed in the northern and central regions, mainly, and important distribution networks throughout the country.
  - Cluster del Estado de México
  - Cluster de Nuevo Leon
  - Cluster La Laguna
  - Cluster de Queretaro
  - Cluster de Guanajuato
- More than twenty production complexes for light vehicles and engines distributed in 12 states. In addition, new plants are under construction.
  - Toyota- 2 plants
  - Ford- 4 plants
  - General Motors- 6 plants
  - VolksWagen- 1 plant
  - Nissan- 3 plants
  - Mazda- 1 plant
  - Audi- 1 plant
  - BMW- 1 plant
  - Kia Motors- 1 plant
  - Honda- 2 plants
  - Giant Motors- 1 plant
- 11 assembly plants for heavy vehicles and diesel engines in 8 Mexican states.
  - Navistar- 1 plant
  - Daimler trucks- 2 plants
  - Freightliner- 2 plants
  - Scania- 1 plant
  - Dina- 1 plant
  - Volvo- 1 plant
  - HINO- 1 plant
  - Kenworth- 1 plant
  - Cummins- 1 plant

- 2,361 agencies distributing new vehicles and after-sales service, located throughout the country.

There are around 600 Tier 1 companies (90 of the 100 most important Tier 1 companies in the world have a presence in Mexico). Tier 1 are the companies that supply components directly to OEM (Original Equipment Manufacturer).

All of this represents a great opportunity for interesting alliances to be generated between assemblers and local and foreign suppliers (Tier 1 and 2). Tier 2 companies are those that supply parts to Tier 1 companies.

5. Lead Mexican Companies

5.1 Rassini

Tier 1-Rassini is the largest producer of suspension components for light commercial vehicles in the world and the only producer in America of vertically integrated brake discs. After many visits to Israel the company recently opened an R&D center in Israel in collaboration with JCT.

5.2 Metalsa

Tier 1-provider of the automotive industry with metallic structures for heavy/light trucks and passenger cars. They have more than 18 factories all over the world with clients such as Honda, Ford, Mini Cooper, Lamborghini, Paccar, Jaguar and more.

5.3 VUHL

OEM-Developed in the UK for a Mexican startup with a racing pedigree, the track car VŪHL (pronounced 'vool') was first announced almost six years ago. The name VUHL stands for vehicles of Ultra-Lightweight and High performance.

5.4 ADO

Mobility -One of the largest Mexican bus companies with presence in Latin America and Europe. In Mobility ADO they have over 8,000 buses, 130 BRT vehicles in Mexico Control of the operation of 7 BRT lines in Mexico City.

6. Relevant Associations

6.1 AMAI – Asociación Mexicana de la Industria Automotriz: AMIA es una **asociación** civil constituida por voluntad propia de las empresas fabricantes de vehículos establecidos en México, con el propósito de tener una representación exclusiva para este **sector industrial**.

6.2 Confederación Nacional de Talleres de Servicio Automotriz y Similares - Es la organización internacional que representa legalmente al sector automotriz de prestadores de servicios de reparación y mantenimiento automotriz en la república mexicana y países afiliados en Latinoamérica.

6.3 IHS - Proveedores de Normas y Especificaciones de Corporaciones Internacionales para la industria automotriz.

6.4 AMDA- Asociación Mexicana de Distribuidores de Automotores, founded in 1945, they have more than 2,500 new vehicle dealers established in the 210 most important cities of Mexico, offering them different services and products.

6.5 INA- Industria Nacional de Autopartes Support the growth and sustainable development of auto parts manufactures through the promotion of the global market and the manufacturing of the automotive and auto parts sector in Mexico.

7. Digital transformation of the automotive industry in Mexico

As the technology becomes more sophisticated, Mexico will search for solutions including big data, wireless technologies, innovation for high production volumes, smart packaging, and track and trace systems in logistics. The main competition for original equipment parts is from domestic manufacturers, as well as from China, Japan, South Korea, Germany, Canada, and Brazil, among other countries.

According to The Global Automotive Consumer Study 2021, interest in internal combustion engine (ICE) vehicles is increasing, in part, due to consumer financial concerns caused by the COVID-19 pandemic. The people intending to purchase an electric vehicle would make the purchase primarily to reduce fuel costs, lower emissions, and improve the driving experience.

8. Trends and challenges in the recovery of the Mexican automotive sector

- As a competitive advantage compering to other countries, the Mexican automotive sector needs to improve in the manufacturing of more technological and advanced auto parts inputs.
- Improve the sales process and customer experience in all channels.
- Exports, the driving force of the Mexican automotive sector: Mexico remained in the fourth place in the world in car export during 2020. Mexico's auto exports were mainly to the United States, for about $ 28.990 billion, according to the Ministry of Economy.
- Electric and hybrid vehicles in Mexico

9. 2021 outlook for the Mexican automotive industry in the post-pandemic period

In mid-March, automakers in North America announced their plans to pause production due to the pandemic, Mexico reduced its production by approximately 750,000 units by the end of 2020. Of the vehicles produced in Mexican territory, an important part is destined for the export market, approximately 80%; due to the COVID-19 crisis the export of vehicles has been considerably affected. In July 2020 Mexico exported 256,098 light vehicles, which represents a decrease 5.5% with respect to vehicles exported in July 2019. During the period from January to July 2020 the total vehicles exported was 1,274,517 units, which means a 36.8% retracement.

With the Covid-19 crisis behind us, the Mexican automotive sector foresees an optimistic outlook for light vehicle manufacturing for the 2021-2029 period. This optimism is mainly driven by the expected large number of light-vehicle assemblers' investments.

In this period, the growth rate is projected at 2.1% through 2025 and 3.2% by 2029 in vehicle production (PV), light commercial vehicle production (including SUV's) is projected through 2029 at a rate of 3.6%.

10. Projected automotive manufacturing investments in Mexico

OEM Manufacturing	City/State/Region	Investment project type
Volkswagen	Puebla	A new SUV model will be produced, all future models at the plant will be based on the MQB (Modular Transverse Platform) platform.
Fiat Chrysler	Saltillo	Will manufacture a new car
Ford Motor	Cuautla	Production of an electric crossover will be added to the plant.
BMW	San Luis Potosí	Construction of a new plant with the capacity to generate 150,000 units per year, 1500 new jobs will be created.
Toyota Motor	Guanajuato	Construction of a new Tacoma pickup manufacturing plant. Capacity for 200,000 units

Source: EMIS Industry Forecast (Autos Report Mexico Autos Forecast Scenario -Mexico – Q1 2021).

11. Business Opportunities for Israeli Companies

The automotive industry has a special place in the Mexican economy due to its demand for inputs. In the last 25 years, the Mexican automotive sector has been a completely a success story. Its growth has been significantly enhanced since the country signed the North American Free Trade Agreement. While in 1993 the sector's exports were 10 billion dollars, during 2019 they were 148 billion dollars. All the major automobile manufacturers have presence in Mexico (Volkswagen, Nissan, General Motors, Honda, Audi, Toyota, BMW) therefore there is a major need for Tier 1 and Tier 2 suppliers that Israel can offer.

Furthermore, due to the lack of automotive suppliers around the globe automotive companies based in Mexico are starting to look for new companies outside the US and China.

12. Mexico Passenger Vehicle Sales in Mexico (Figures in thousands of vehicles)

	2017	2018	2019	2020	2021 (Estimated)
Total Local Production	3,932	3,908	3,811	3,040	3,383
Total Exports	3,102	3,449	3,388	2,681	2,998
Total Imports	906.3	929.8	906.8	587.3	650
Imports from the U.S.	161.6	140.6	126.0	75.8	95.0
Imports Used Vehicles	123.6	141.7	159.4	124.2	115.0
Total Market Size*	1,736	1,388	1,329	946.3	1035
Exchange Rates	18.91	19.23	19.26	20.00	21.00

Source: Mexican Automotive Industry Association (AMIA) & United States Department of Commerce, Bureau of the Census, Foreign Trade Division.

*Total market size = (total local production + imports) – exports

13. Important Trade Shows

Name	Date	Location
INA PAACE Automechanika Mexico	December	Mexico City
Automotive meetings	February	Queretaro
Expo Internacional RUJAC	August	Guadalajara
Logistic Summit	August	Mexico City
Expo Transporte Anpact	March	Puebla
Expo Carga	June	Mexico City

14. Mexico automotive industry trends

The trends of the Mexican automotive market are not different from the global one. Consumer preference in terms of purchase and usage is one of the "engines" driving this revolution. Technology trends in connected cars, e-mobility and autonomous driving complete the transformation equation.

- Connectivity: 'From Car to Computer'. The model considers the degree of car connectivity ("connected car"), as well as customer/driver connectivity ("connected customer"), which is expected to be very heterogeneous across markets.
- Alternative powertrain: "From internal combustion engine (ICE) to battery electric vehicle (BEV)". The forecast shows a shift in powertrains, if several powertrains will coexist, with battery electric vehicles leading the way.
- Shared mobility: "From owner to user". Two effects have been identified: a growing and increasing utilization per vehicle, and a shift from private car ownership to mobility offerings.
- Autonomous driving: "From driving to being driven". The biggest technological hurdle lies between conditional automation and high automation.

Although the automotive sector evolved very slowly in the last five years with e-commerce, social distancing amid the COVID-19 pandemic, accelerated the process for dealers to begin providing online experiences to continue selling to through this channel.

Augmented reality played an important role as many of the dealerships began to display augmented reality of the points of sale on their websites with a 100% focus on making the sales experience unique to continue promoting the purchase of vehicles. This activity generates investments never seen before in this new online sales model in the automotive industry.

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