

Executive Summary

Update from the Manufacturing Market in Mexico

The Mexican economy fluctuates between the 12th and 15th largest in the world, comparable to Australia, and yet, considering its population and resources, is under-tapped and under-capitalized. This is due to bottlenecks in education and security that the country is working hard, and will likely succeed, to alleviate within this generation. Its long-term trajectory, and indeed its current status as an upper-middle income country, make it an attractive place to expand business.

Though companies like Siemens have been in Mexico since the industrial revolution, starting in the 1950s transnational manufacturing has been leveraged as one of Mexico's most powerful growth engines. Originally through the *maquila* program along the US border, Mexico used tax breaks to attract US manufacturers, at the time still dependent on manual assembly, to invest in the region and take advantage of its lower wages. In the late 1980s, Mexico planted the seeds with US leadership for NAFTA, which sought to combine and optimize the complementary market strengths of Mexico, the US, and Canada. The integrated North American supply chain that resulted paved the way for manufacturing investors from around the world to set up operations in Mexico that catered to the larger regional market, thus igniting Mexico's industrial boom. This integration has been reaffirmed in multiple ways in 2020, through USMCA's implementation and intensified efforts within Mexico and the US to harmonize and fortify supply chain cooperation in the face of US decoupling from Asian value chains.

Mexico is now the 8th largest producer of manufactured goods the world, and manufacturing is nearly one-fifth of its national productivity. Many parts of Mexico have been transformed completely. One crucial evolution is that the country has no desire to be a source of cheap labor. The reality is that Mexico could not keep competing on labor costs even if it wanted to, because manufacturing has changed. The local manufacturing sector, with its ongoing modernization and international integration, is now thirsty for human skills and tools that add real value to production. These can be in research and development, HR management, quality control, data optimization, logistics support and the capabilities to implement and manage automation. It has a strong demand for innovative products and services in security, finance and risk management. Of course, it also still requires input components and services to feed the supply chains operations it hosts in automotive, appliance, electronics and aerospace manufacturing.

The demand study we have prepared presents a set of needs, challenges and requirements that matches well with a range of capabilities offered by Virginia exporters. Virginia's service experience with IT, data and process management, and training and education are particular strengths that can complement Mexican manufacturing, as are certain specialized manufacturing processes and materials. Many more Virginia companies offer expertise in logistics and security.

While it is important to be realistic about the amount of work, time, and investment required to adapt and sell products and services for export, with the right Mexican partners or through Spanish-speaking personnel at home, Virginia companies have real opportunity to contribute value to the Mexican manufacturing sector. What it ultimately takes is customer engagement and the preparation to meet customer needs effectively. VEDP's program in Mexico is designed to get Virginia exporters talking to their customers and partners while helping exporters evaluate and create a return on investment: what is required to sell and deliver successfully, and how best to meet or surpass those requirements.

Recommended for Service and Product Exporters in:

Physical Security	IT & Telecommunications	Training Tools & Services	Aerospace Manufacturing
Human Resources Tools	Data Management	Quality Control & Testing	Automotive Manufacturing
Information Security	Financial Tools and Services	Risk Management Tools	Energy Design & Control
Tooling & Die Maintenance	Composites & Alloys	Automation Support	Industrial Process Management
Logistics Optimization	Inventory & Packaging	R&D / Innovation Support	M2M / IoT Hardware & Software

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