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2020

International Trade and Trends in Mexico
Survey Report

FEBRUARY 2020

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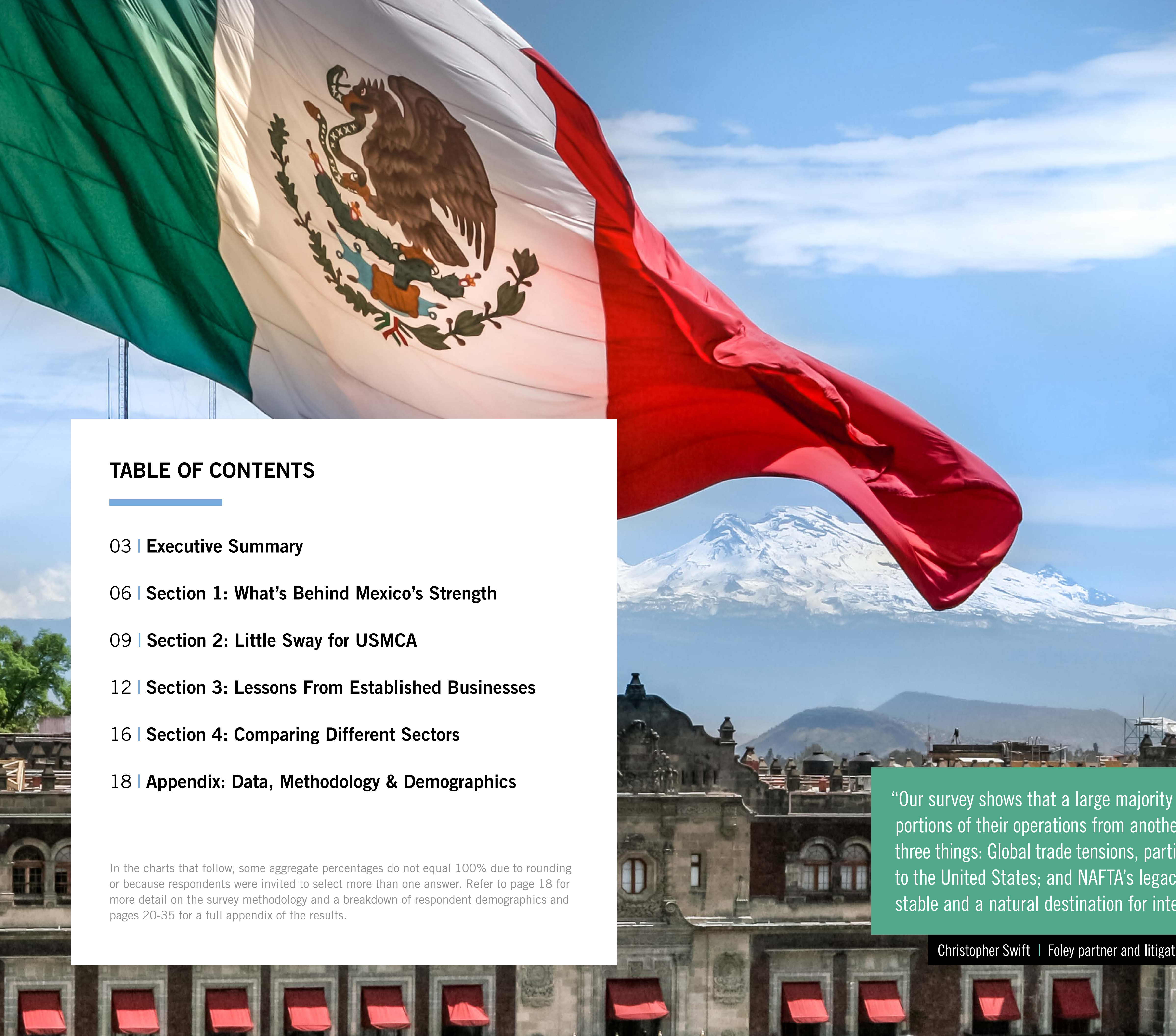

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In the charts that follow, some aggregate percentages do not equal 100% due to rounding or because respondents were invited to select more than one answer. Refer to page 18 for more detail on the survey methodology and a breakdown of respondent demographics and pages 20-35 for a full appendix of the results.

Executive Summary

President Donald Trump's 2016 campaign promise to move past the North American Free Trade Agreement (NAFTA) has come to near fruition in the early days of 2020 with congressional approval of the United States-Mexico-Canada Agreement (USMCA). Only Canadian approval remains for the USMCA to go live.

But did the recent uncertainty about what the future held for U.S. trade relations with Mexico cool U.S. executives' enthusiasm about doing business there?

The answer? A resounding "no." And with increased turmoil early in 2020 surrounding Trump's impeachment, Iranian tensions and volatility throughout the Middle East and Asia, Mexico's relative stability as a U.S. trading partner – and accordingly its attractiveness for international business expansion by U.S. companies – should only increase in the coming months and years.

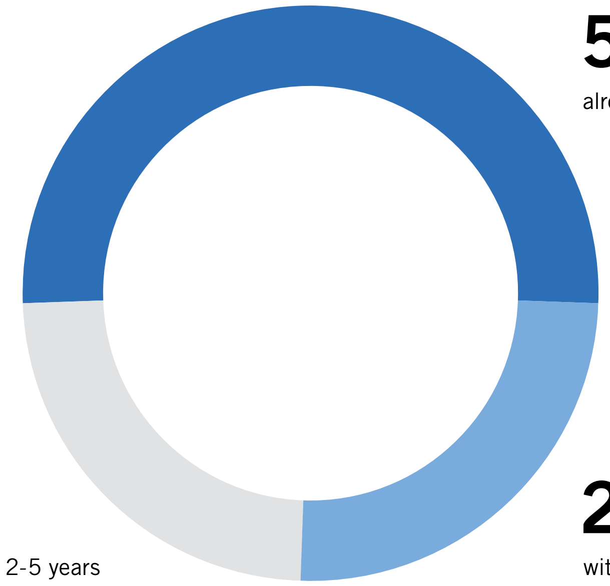
Business executives' bullishness about Mexico was the key finding of a survey conducted by **Foley & Lardner LLP**. Taken in the weeks leading up to USMCA's passage in the U.S. House of Representatives in December 2019, the survey clearly shows that executives see Mexico as ripe for international expansion, which can likely be traced in part to the very agreement USMCA is set to replace. A quarter-century after its controversial passage, NAFTA has made Mexico a secure location for business, resulting in steady trade relations with a result of Mexico being baked into most business leaders' long-term plans.

"Our survey shows that a large majority of executives are moving or have moved portions of their operations from another country to Mexico. That can be traced to three things: Global trade tensions, particularly in Asia; Mexico's geographic proximity to the United States; and NAFTA's legacy, which all combine to make the country stable and a natural destination for international expansion."

Christopher Swift | Foley partner and litigator | Government Enforcement Defense & Investigations Practice

Foley surveyed 160 U.S.-based executives representing the manufacturing, automotive, retail/e-commerce and technology sectors based on specified interest in doing business in Mexico. More than half of respondents' companies were already in Mexico and plan to expand there, in some cases rapidly. A quarter of respondents said that they would operate in Mexico in the next year and another quarter expected to in two to five years. In sum, no respondents are planning to exclude Mexico from their business scenario planning in the near future (see immediate chart below).

PLANNED BUSINESS ACTIVITY IN MEXICO



Respondents across all sectors reported their intent to, within a few years, move business to Mexico from other countries, expand internationally for the first time via Mexico or grow existing Mexican operations.

But as attractive as doing business in Mexico may be, challenges remain. For companies operating or seeking to do business in Mexico, there are questions regarding legal and regulatory compliance, especially with new rules coming under USMCA. These companies must be prepared to meet new standards and thresholds, comply with rules of origin and rethink their approach to compliance. As one manufacturing executive who operates abroad and is planning to move into Mexico within the next year said, "Any time regulations and legislation change, we have to adapt, modify and comply."

Simultaneously, businesses already established in Mexico offer lessons that new entrants to the country should take to heart — specifically when it comes to the importance of securing effective bilingual and bicultural counsel. With some respondents indicating that succeeding in their first Mexican forays could lead to shifting even larger portions of their operations, those lessons are crucial.

"Our business is growing, and we are planning on expanding," said one energy executive whose company's expected move to Mexico in the next 12 months will be its first international expansion. "How smoothly it goes with Mexico will determine how far we are willing to expand."

HIGHLIGHTS OF THE DECEMBER 2019 INTERNATIONAL TRADE AND TRENDS IN MEXICO SURVEY

In one of the survey's biggest findings, a majority of the 160 respondents have moved, plan to move or have considered moving some operations to Mexico as a result of global trade tensions (67%). This shift is happening fast; of those considering moving operations to Mexico, 80% said that they would do so in the next two years.

Enthusiasm toward expansion in Mexico is similarly high when looking only at those who are already doing business there. Indicating satisfaction with their ongoing efforts in Mexico, 62% of businesses that are already in Mexico have either shifted or may shift business there from other international locations.

67%

have moved, plan to move or have considered moving some operations to Mexico as a result of global trade tensions.

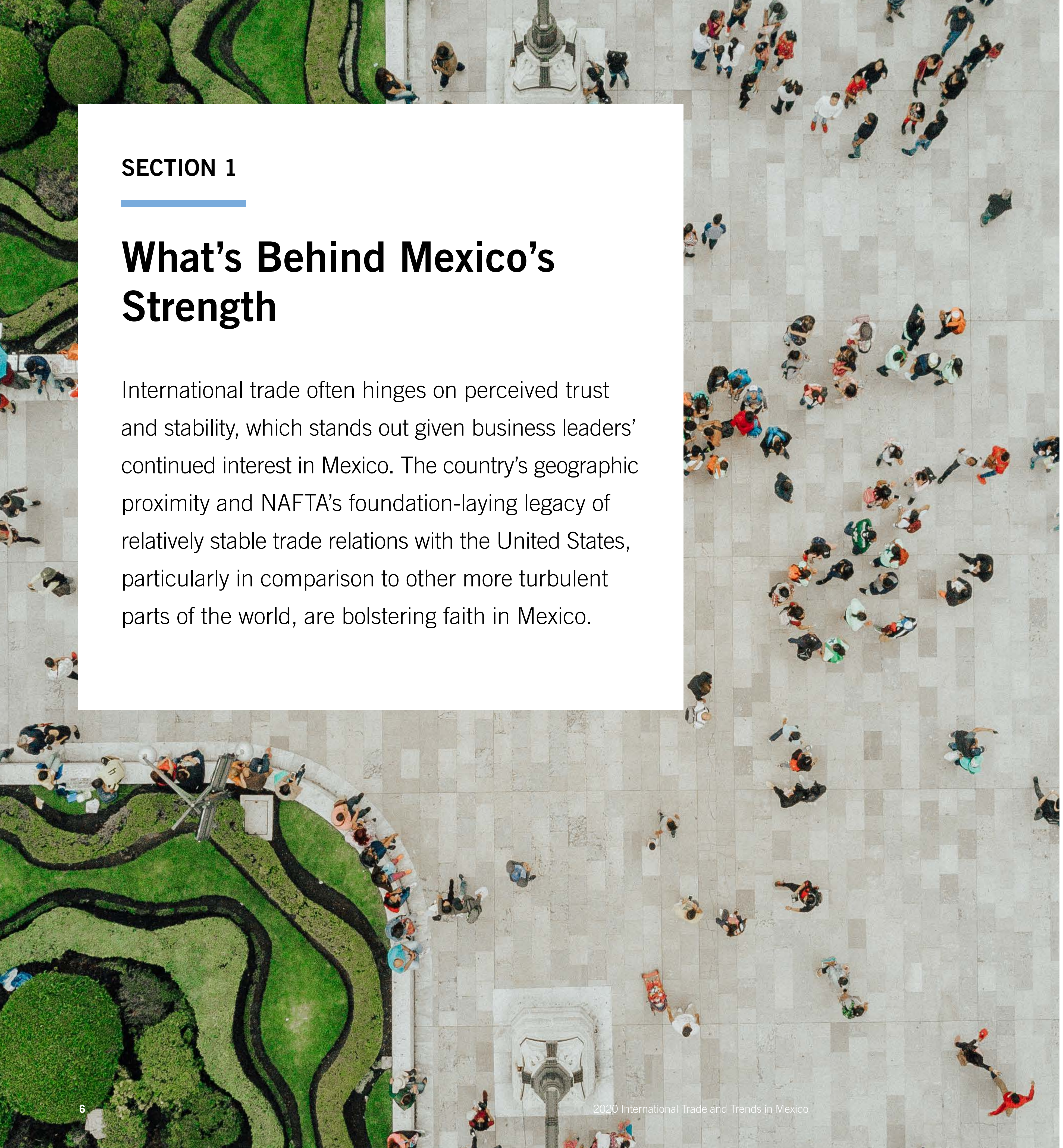
2/3

of respondents not currently in Mexico, who anticipate expanding there in the next five years, have no other international operations, a sign that Mexico is the first international expansion destination for many companies.

Before it passed the House of Representatives in December 2019, the fate of USMCA didn't weigh heavily on the minds of respondents already doing business in Mexico. Asked what they would do in Mexico if USMCA didn't pass or go into effect for some time, 38% said their activity would increase and 44% said that it would remain the same.

64%

of those who have already moved or are planning to move to Mexico say they plan to allocate 26–100% of their business there, a substantial vote of confidence for doing business in that country.

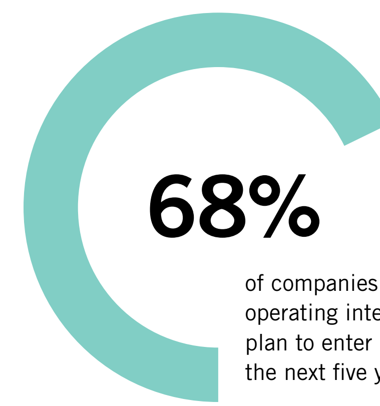


SECTION 1

What's Behind Mexico's Strength

International trade often hinges on perceived trust and stability, which stands out given business leaders' continued interest in Mexico. The country's geographic proximity and NAFTA's foundation-laying legacy of relatively stable trade relations with the United States, particularly in comparison to other more turbulent parts of the world, are bolstering faith in Mexico.

That's especially significant given U.S. trade tensions with China, which have investors and business leaders skittish. Problems with the world's second-largest economy can quickly spill over into other parts of Asia, and continued North Korean tensions can easily put the entire Pacific Rim (and beyond) on edge. That positions Mexico as a relative safe haven, both for companies already there and those looking to make their first forays outside of the United States.



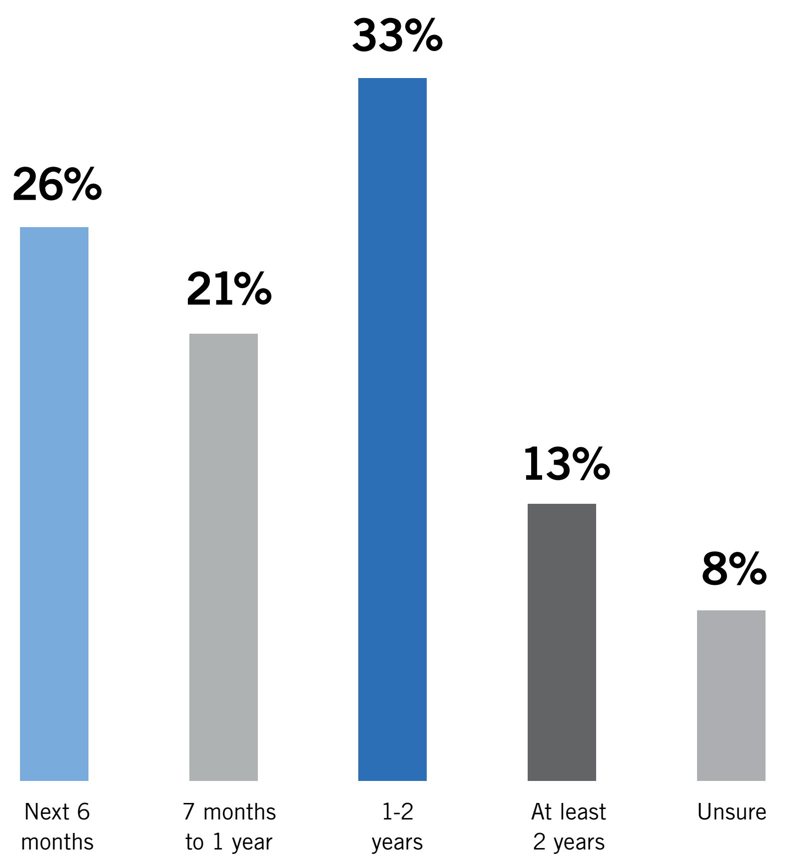
of companies who are not operating internationally plan to enter Mexico in the next five years.

More than half of the executives surveyed are already operating outside of the United States and 80% who do business in Mexico have additional international operations. Forty-one percent of the companies operating in Mexico and other international locations are also in China. But when we asked respondents operating outside of the United States about whether global trade tensions were causing them to move operations from another country to Mexico, two-thirds said they already had or were planning to do so within a few years.

A quarter of those surveyed had already moved operations from another country to Mexico on account of trade tensions elsewhere. And for those considering moving operations and those with definite plans to move, 80% said they will do so within the next two years. Not only are executives displaying confidence in Mexico by seeking to move quickly, they are doubling down on Mexico by locating significant portions of their business there. For those who have already moved or are planning to move, 64% said they plan to move from 26% to 100% of their business to Mexico.

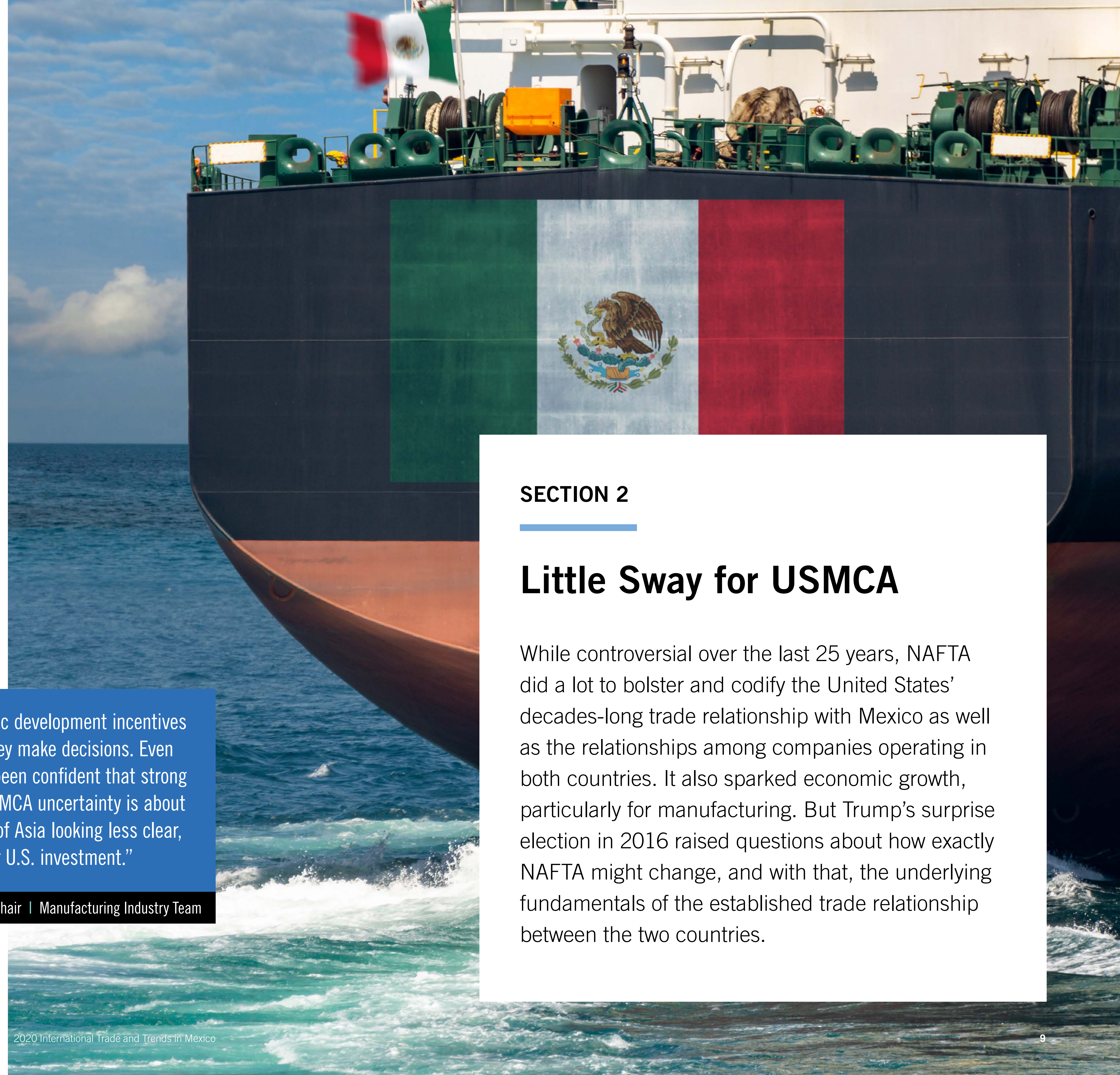
Additionally, two-thirds of respondents not currently doing business internationally are planning to begin operations in Mexico within the next year. That's an important takeaway, as moving abroad for the first time is a huge decision that can be difficult to pull off in a short period of time. The speed with which these executives intend to move, and the fact that Mexico will be the first foreign destination for many U.S.-based companies seeking to do business abroad, is another strong sign of perceived business stability south of the Rio Grande.

TIMING FOR SHIFTING ANY OPERATIONS TO MEXICO



> “A more stable business environment and attractive economic development incentives can be the tiebreaker for many business executives when they make decisions. Even with the uncertainty surrounding USMCA, businesses have been confident that strong trade relations with Mexico would continue. Now that the USMCA uncertainty is about to be lifted, and with the future with China and other parts of Asia looking less clear, Mexico is clearly positioned to continue as a stable home for U.S. investment.”

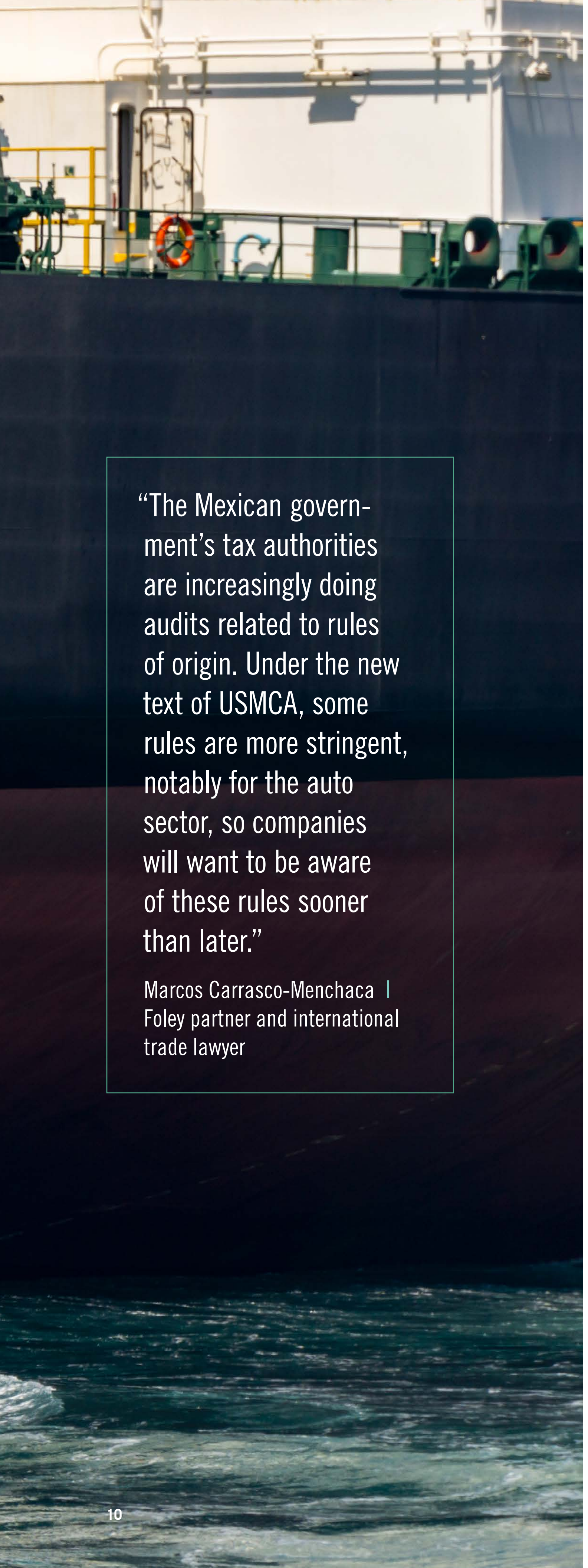
Steven H. Hilfinger | Foley partner and co-chair | Manufacturing Industry Team



SECTION 2

Little Sway for USMCA

While controversial over the last 25 years, NAFTA did a lot to bolster and codify the United States’ decades-long trade relationship with Mexico as well as the relationships among companies operating in both countries. It also sparked economic growth, particularly for manufacturing. But Trump’s surprise election in 2016 raised questions about how exactly NAFTA might change, and with that, the underlying fundamentals of the established trade relationship between the two countries.



"The Mexican government's tax authorities are increasingly doing audits related to rules of origin. Under the new text of USMCA, some rules are more stringent, notably for the auto sector, so companies will want to be aware of these rules sooner than later."

Marcos Carrasco-Menchaca | Foley partner and international trade lawyer

For companies currently doing business in Mexico, outside of the auto industry, USMCA's passage appears not to have affected planned expansions.

87% will increase business operations or remain at the same level if USMCA becomes law.

82% will increase business operations or remain at the same level if USMCA does not become law.

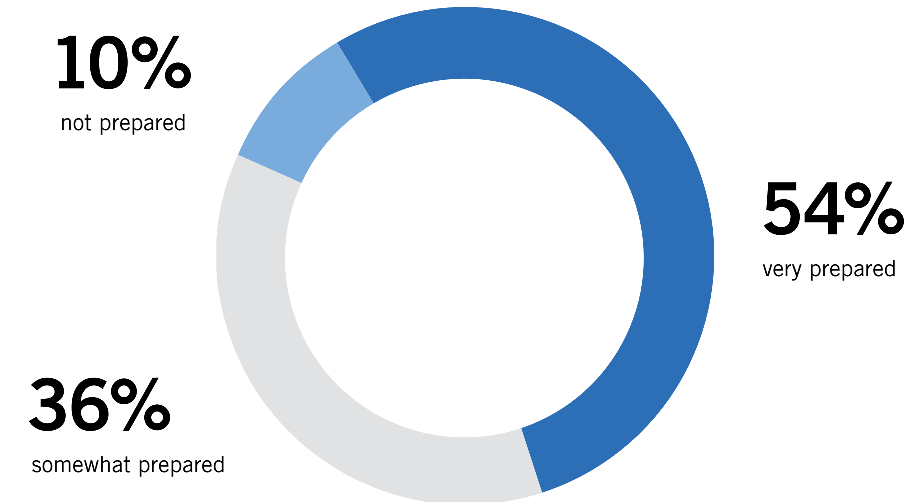
We surveyed respondents before USMCA cleared a major hurdle and passed the House of Representatives in December 2019 — but even then, they weren't too concerned about the fate of NAFTA. Among those already doing business in Mexico, 82% said their activity there would increase or remain the same regardless of USMCA's passage. Those not yet doing business in Mexico showed similar enthusiasm, with only 10% indicating that the non-passage of USMCA would likely hamper their business activity in Mexico.

At the same time, the survey found a certain ambivalence about USMCA and its role in encouraging or dampening business interest. This attitude extended not only to planned expansions but also to the extent to which businesses were planning for the new trade deal's passage and implementation. Only 28% of executives planning to do business in Mexico said they were also preparing for USMCA's passage to a significant extent. For businesses already in Mexico, that percentage was higher, at 44%. Both findings show that despite their optimism, many companies still need to get their legal and regulatory houses in order, likely by the early second half of 2020.

On the one hand, the degree of confidence these executives feel stems from trusting that, despite changes from NAFTA to USMCA, stable trade relations will continue. One automotive executive currently operating in Mexico said, "USMCA is effectively

ORGANIZATION'S LEVEL OF PREPAREDNESS TO FACE A RULES OF ORIGIN REVIEW FROM MEXICAN OR U.S. AUTHORITIES

This question was only asked to respondents whose companies are already operating in Mexico



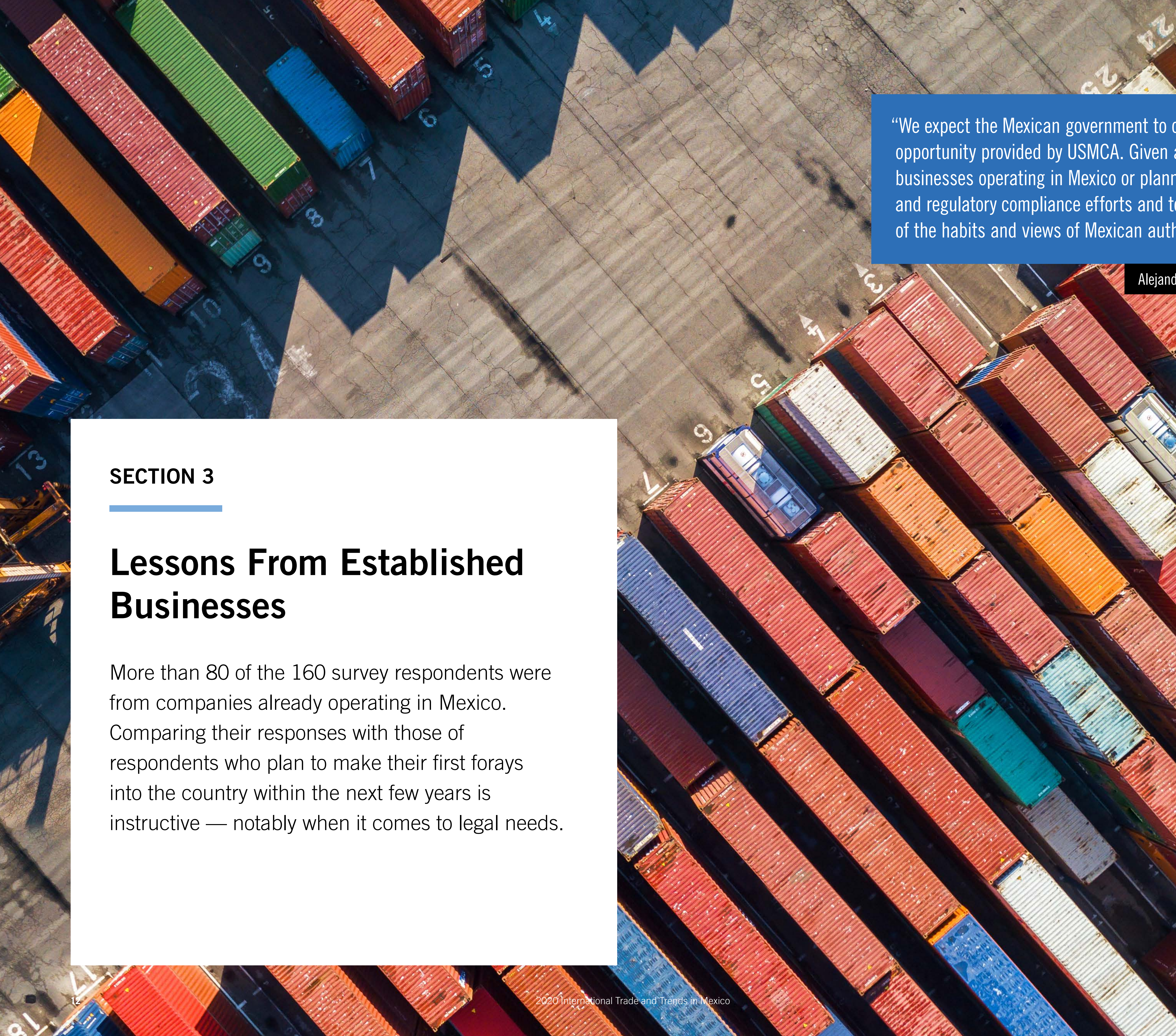
window dressing and political spin on NAFTA." But behind this perhaps cavalier attitude lies a missed opportunity for these businesses to prepare for the coming changes and set themselves up with the greatest chance for success. While Mexico's reputation as a stable and attractive business environment remains strong — and should get stronger once USMCA is ratified by all parties — companies must be wary of operating with too much hubris.

About 90% of respondents already operating in Mexico and from within the auto sector said they were at least *somewhat* prepared for USMCA's new rules of origin. Sixty-seven percent of auto sector respondents said they are very prepared, compared with 54% overall — perhaps a sign of how the new rules are especially significant for automotive companies. While NAFTA required automakers to use 62.5% of North American-made parts in their cars to be imported duty free, the new agreement raises the bar to 75% by 2023, though with a number of exceptions. This major change from NAFTA is one reason why the automotive industry is expected to be among the most impacted by the new trade agreement.

Because USMCA increases the requirement of North American-made parts to qualify for duty-free imports, automakers are more incentivized to locate operations and parts procurement in Mexico than in Asia or elsewhere. That's a big part of the reason why when asked about the new trade rule's potential passage, 50% of auto respondents said they would increase activity if USMCA passed as compared to 8% of manufacturing respondents. Further, 67% in automotive indicated they were planning for passage to a significant extent compared with 20% of manufacturing respondents.

"Automotive is one of the sectors where folks are expecting a departure from 'business as usual' with USMCA's new standards. With ratification, suppliers will need to assess the opportunities the Agreement may provide to them and incorporate in to their strategic planning the implementation of action to capitalize on those opportunities."

Mark Aiello | Foley partner and co-chair | Automotive Industry Team



SECTION 3

Lessons From Established Businesses

More than 80 of the 160 survey respondents were from companies already operating in Mexico. Comparing their responses with those of respondents who plan to make their first forays into the country within the next few years is instructive — notably when it comes to legal needs.

"We expect the Mexican government to conduct more audits, especially given the reset opportunity provided by USMCA. Given all the change, now is an important time for all businesses operating in Mexico or planning to do so to take a hard look at their legal and regulatory compliance efforts and to incorporate and have a strong understanding of the habits and views of Mexican authorities."

Alejandro Gómez-Strozzi | Foley partner and international trade lawyer

Eighty-two percent of executives whose companies are already in Mexico cited audits as important legal priorities, and just a little more than half said they are very prepared for a rules of origin review. Both rules of origin and audits ensure compliance will become even more complicated, and therefore more important to prioritize, given the changes coming when USMCA is ratified.

The survey found several other schisms between those operating in Mexico and those who plan to move there. Two-thirds of respondents from companies with Mexican operations said that corporate tax and structuring are very important when it comes to receiving legal counsel, compared with just 50% of

For businesses in Mexico today, audits are a front-and-center concern with

52% indicating audits are very important when it comes to receiving legal counsel.

That's an important lesson for companies new to the country, among which only **40%** indicated that audits represented a very important consideration.

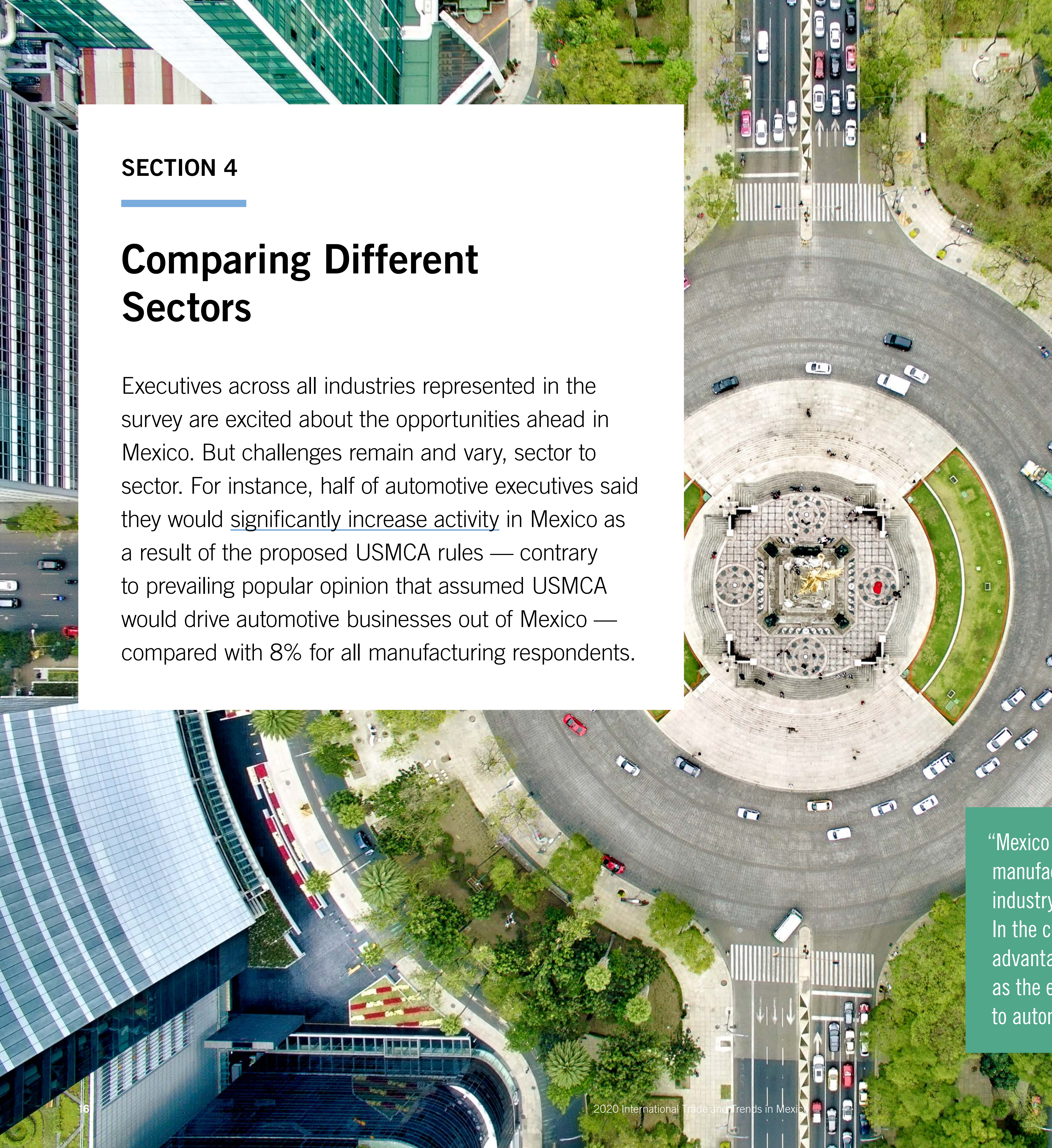
businesses not in Mexico. Further, 55% of businesses with Mexican operations cited compliance with trade facilitation programs (e.g., IMMEX) as very important, compared with 43% of those yet to enter the Mexican market.

When it comes to hiring legal counsel in Mexico, 70% of the executives currently operating there said bilingual legal representation is important, compared with 53% of those planning to move there soon. Clearly, experienced Mexican operators value counsel that can navigate language barriers. Most respondents currently in Mexico (54%) also said counsel with a history or successful track record is important, and 43% value local or Mexico-born attorneys.

Even with the learning curve these results suggest, 62% of companies in Mexico said they are expanding operations in the country by having moved or considering moving operations from elsewhere. That's another sign that businesses are hitting their goals in Mexico, where they expect continued growth.

"The current players in Mexico say tax structure and trade facilitation programs are key to their Mexican operations, while those considering moving to Mexico are placing less of an emphasis on these issues. This suggests that the newcomers will face a learning curve as they begin operations in Mexico. For those considering such a move, engaging attorneys with experience in counseling clients with both U.S. and Mexican operations will be important to ensure that they are prepared for the different landscape of doing business in Mexico."

Kathleen E. Wegrzyn | Foley partner | Manufacturing Industry Team



SECTION 4

Comparing Different Sectors

Executives across all industries represented in the survey are excited about the opportunities ahead in Mexico. But challenges remain and vary, sector to sector. For instance, half of automotive executives said they would significantly increase activity in Mexico as a result of the proposed USMCA rules — contrary to prevailing popular opinion that assumed USMCA would drive automotive businesses out of Mexico — compared with 8% for all manufacturing respondents.

Technology was also well represented in the survey. Those executives flagged different legal priorities, and a larger share reported that investing, rather than manufacturing or distribution, is their primary business activity. These are important findings given Mexico's growth in that sector, which could be driven in part by the country's historic strength in automotive.

Here's how the industries compare:

TECHNOLOGY

Differing legal priorities: 52% of technology respondents said that procurement of government contracts is a top legal priority (versus 44% of total respondents), and facility investments was selected as very important by 50% (versus 42% of total).

Over indexing on investing: 56% of technology respondents report that investing is a primary business activity (versus 27% of total).

MANUFACTURING

If they move, they plan to move big: 40% said they are considering moving at least 50% of their operations to Mexico.

USMCA, *meh*: Just 8% said that if USMCA passes, they would significantly increase activity in Mexico; 20% were actively planning for its passage.

Lack of confidence in rules of origin: Only 8% said that they strongly agreed their organization was equipped to meet rules of origin challenges.

AUTOMOTIVE

Clear consensus on legal priorities: 93% said complying with and enforcing rules of origin is a top legal priority, and 94% said audits are a top legal priority.

On the move: 75% said they have already moved or are moving operations from another country to Mexico.

USMCA passage is a green light: 50% said that if USMCA passes, they expect to significantly increase their activity in Mexico, and 92% were actively planning for passage.

> "Mexico is becoming one of the fastest-growing hubs for technology and electronics manufacturing in North America, owing in part to Mexico's deep roots in the automotive industry and the race to incorporate new innovative technology in automobiles.
> In the competitive global market, Mexico manufacturing offers a number of cost advantages. These cost advantages are critical to planning and particularly attractive as the entire automotive industry is facing more uncertainty than ever with respect to autonomous and electric vehicles."

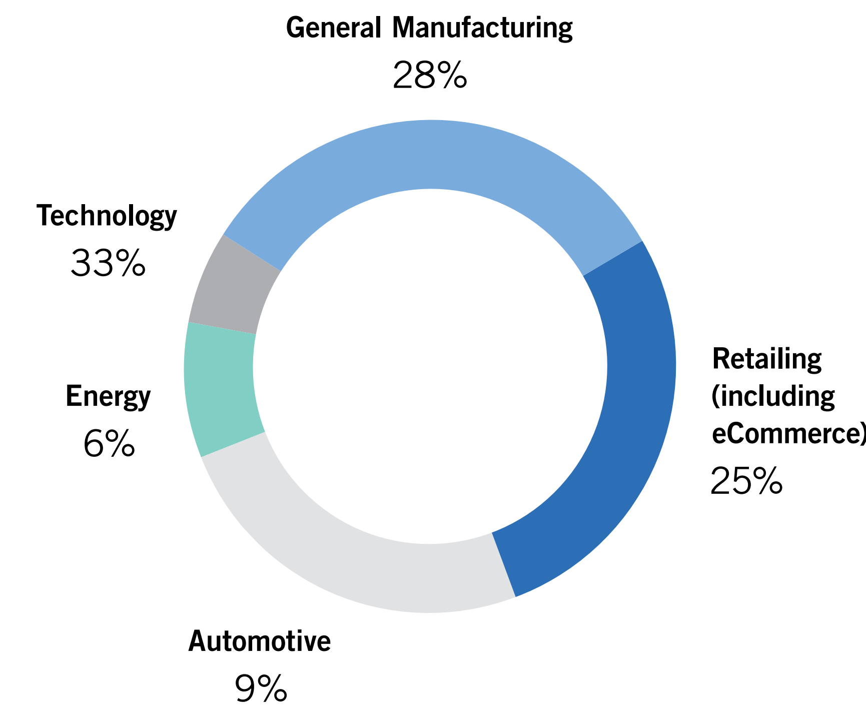
Vanessa Miller | Foley partner | Manufacturing & Automotive Industry Teams

APPENDIX

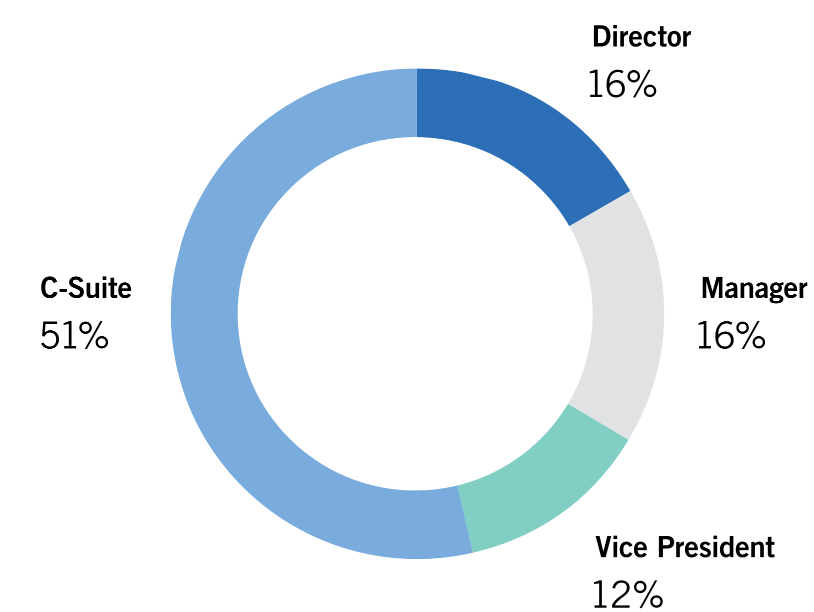
Data, Methodology & Demographics

In November 2019, 160 professionals completed the 2019 International Trade in Mexico Survey conducted by Foley & Lardner LLP. These professionals were screened for those that were either doing business in Mexico (51%), planning to do business in Mexico in the next year (25%) or planning to do so in the next 2 to 5 years (24%).

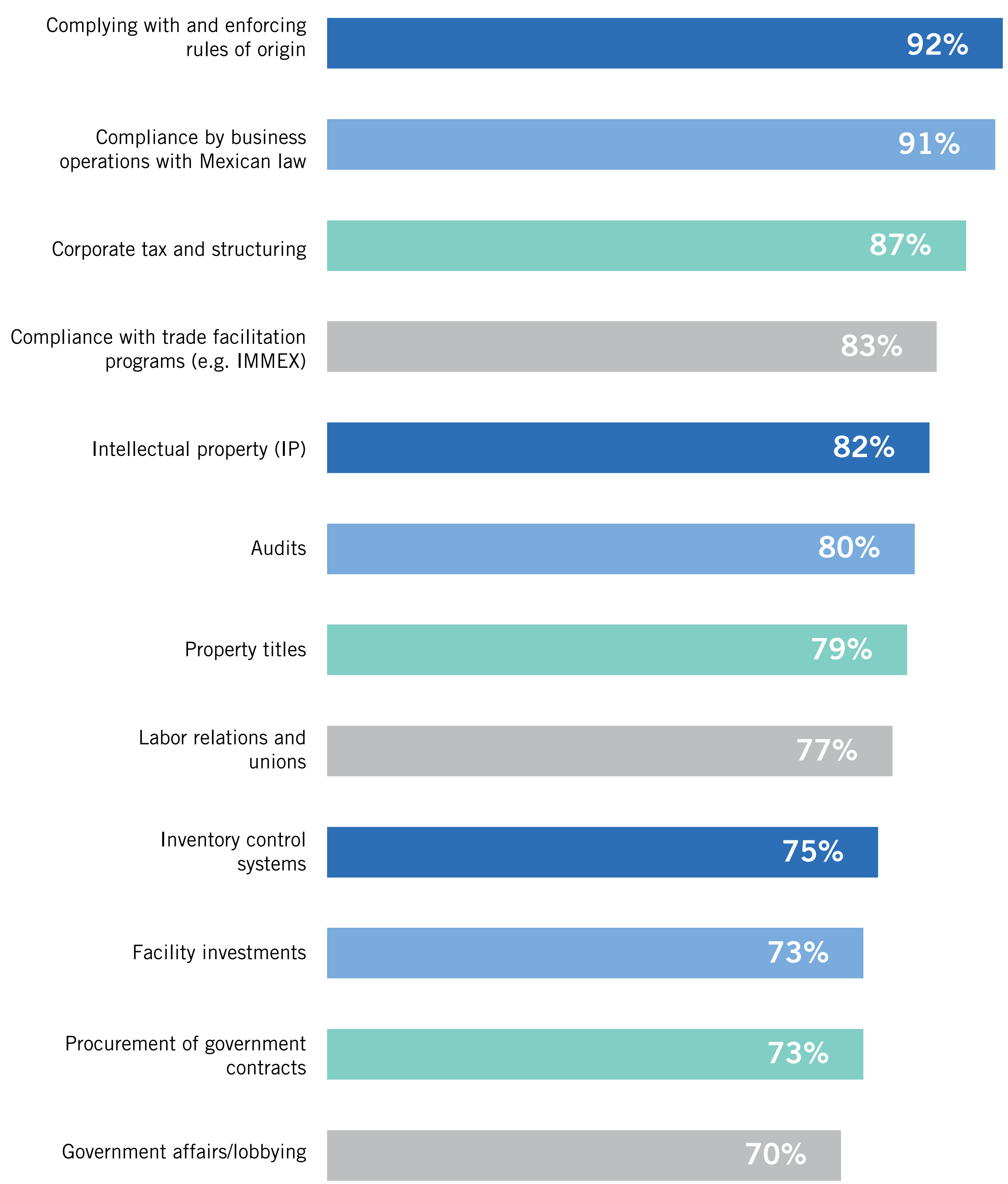
RESPONDENTS IDENTIFIED THEIR INDUSTRY AS:



RESPONDENTS IDENTIFIED THEIR AFFILIATION AS:



Q1. How important are each of the following in terms of receiving legal counsel? (Very important + somewhat important selections below)



82%

of executives whose companies are already in Mexico cited audits as important legal priorities, and slightly more than half said they are very prepared for a rules of origin review.

2/3

of respondents from companies with Mexican operations said that corporate tax and structuring are very important when it comes to receiving legal counsel, compared with just 50% of businesses not in Mexico.

52%

of respondents, for businesses currently in Mexico, said audits are very important when it comes to receiving legal counsel.

40%

of respondents from companies new to Mexico indicated that audits represent a very important consideration.

55%

of businesses with Mexican operations cited compliance with trade facilitation programs (e.g., IMMEX) as very important, compared with 43% of those yet to enter the Mexican market.

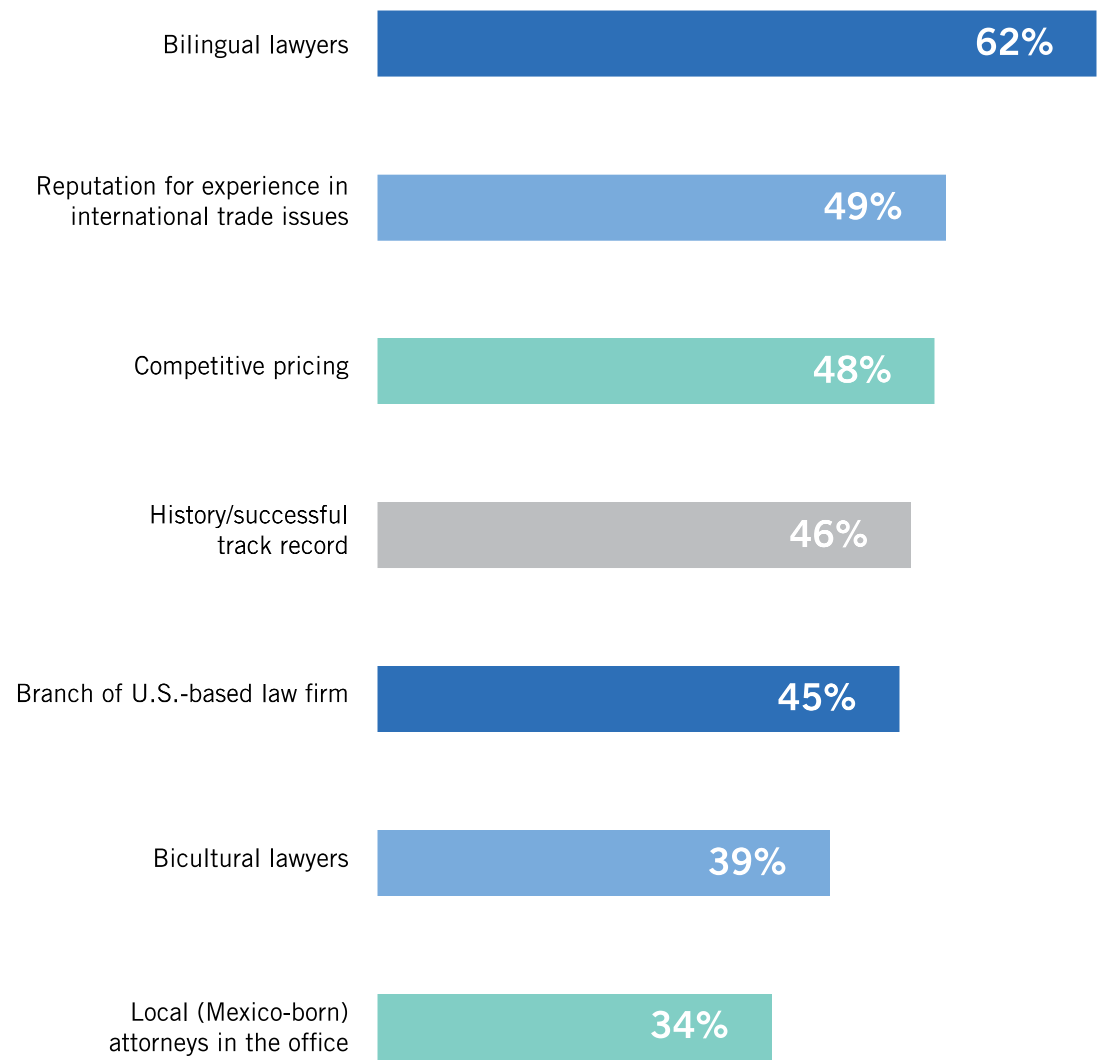
52%

of technology respondents said that procurement of government contracts is a top legal priority (compared with 44% of total respondents), and facility investments was selected as very important by 50% (versus 42% of total).

93%

of automotive respondents said complying with and enforcing rules of origin is a top legal priority, and 94% said audits are a top legal priority.

Q2. Which qualities matter most to you when it comes to hiring legal counsel in Mexico?

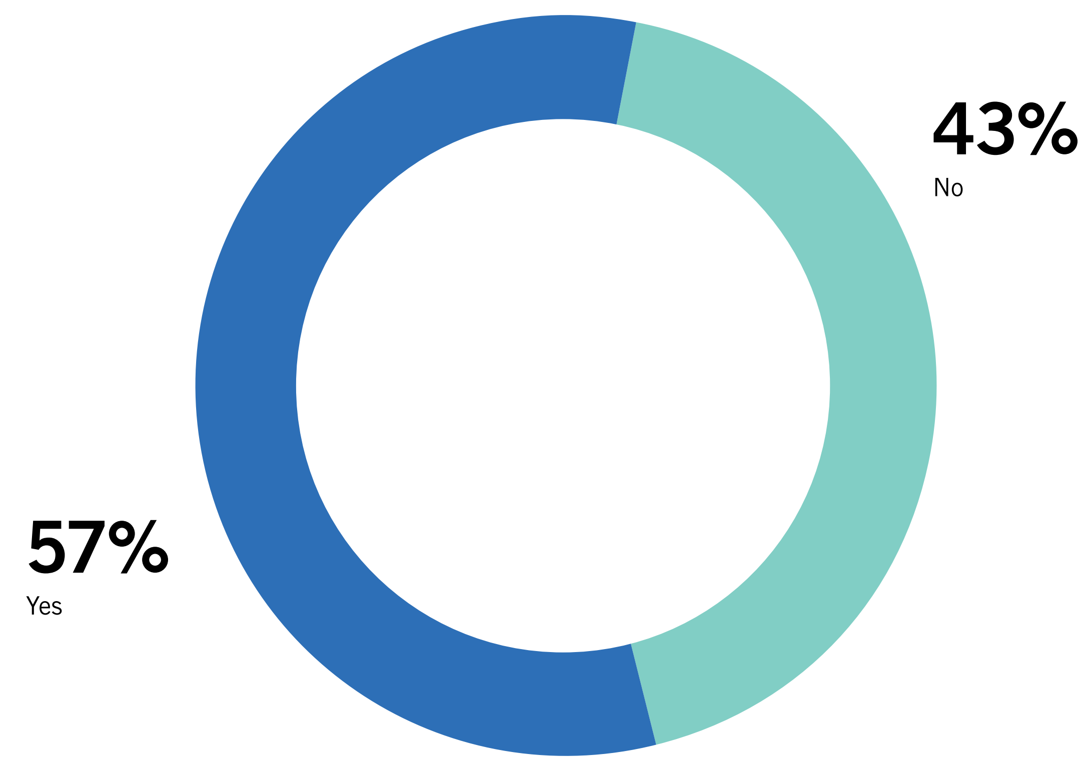


70%
When it comes to hiring legal counsel in Mexico, 70% of the executives currently operating there said bilingual legal representation is important, compared with 53% of those planning to move there in the near future.

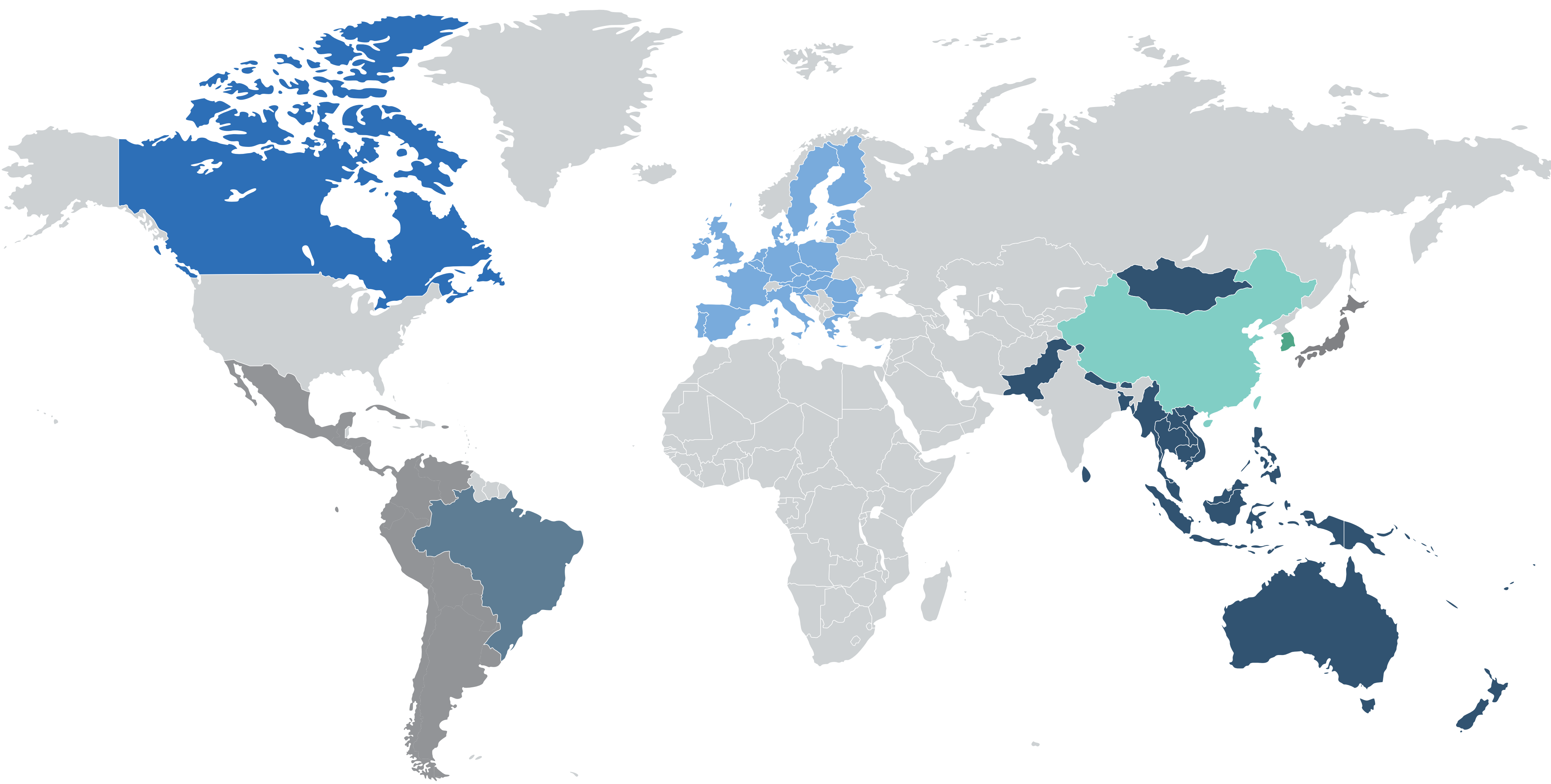
54%
of respondents operating in Mexico said counsel with a history or successful track record is important, and 43% value local or Mexico-born attorneys.

Q3. Does your business currently have operations outside the United States, other than Mexico?

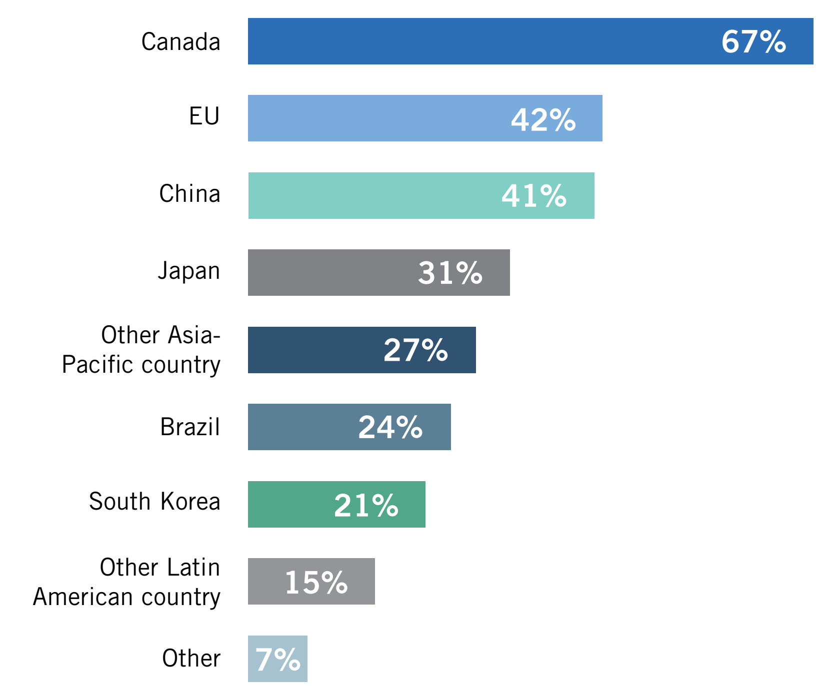
More than half
of the survey respondents already operating outside of the United States and 80% who do business in Mexico have additional international operations.



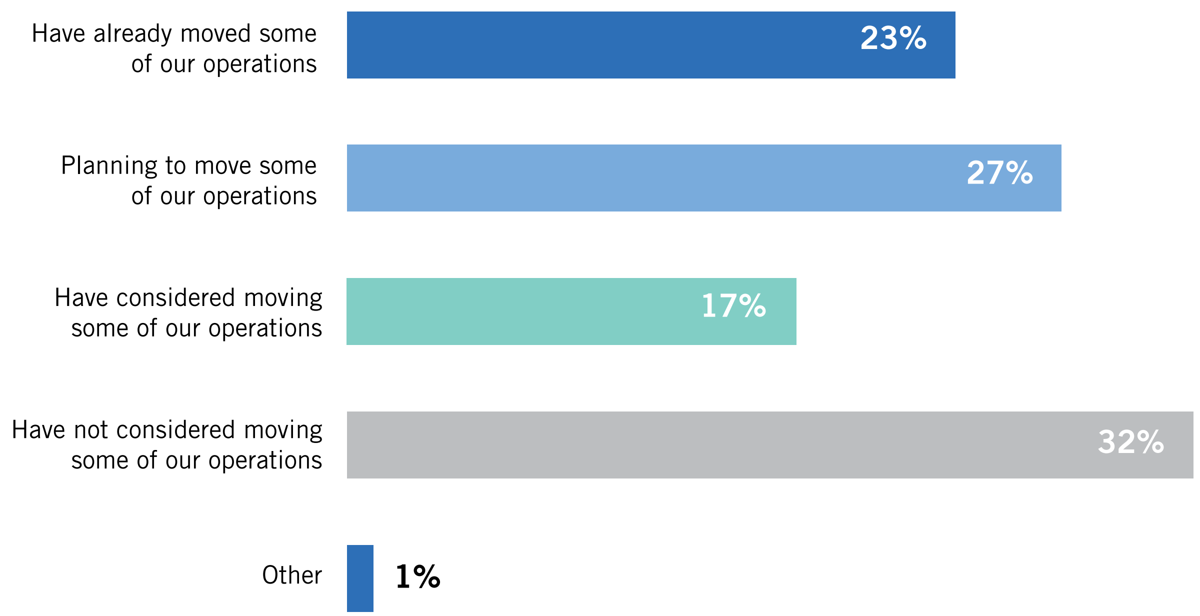
Q4. Excluding Mexico, please indicate the countries or regions in which these operations outside of the United States are taking place. (Asked only to those selecting “yes” in Q3.)



41% of responders whose companies operate in Mexico and other international locations are also in China.



Q5. To what extent have trade tensions prompted you to consider moving some of your international operations to Mexico? (Asked only to those selecting “yes” in Q3.)



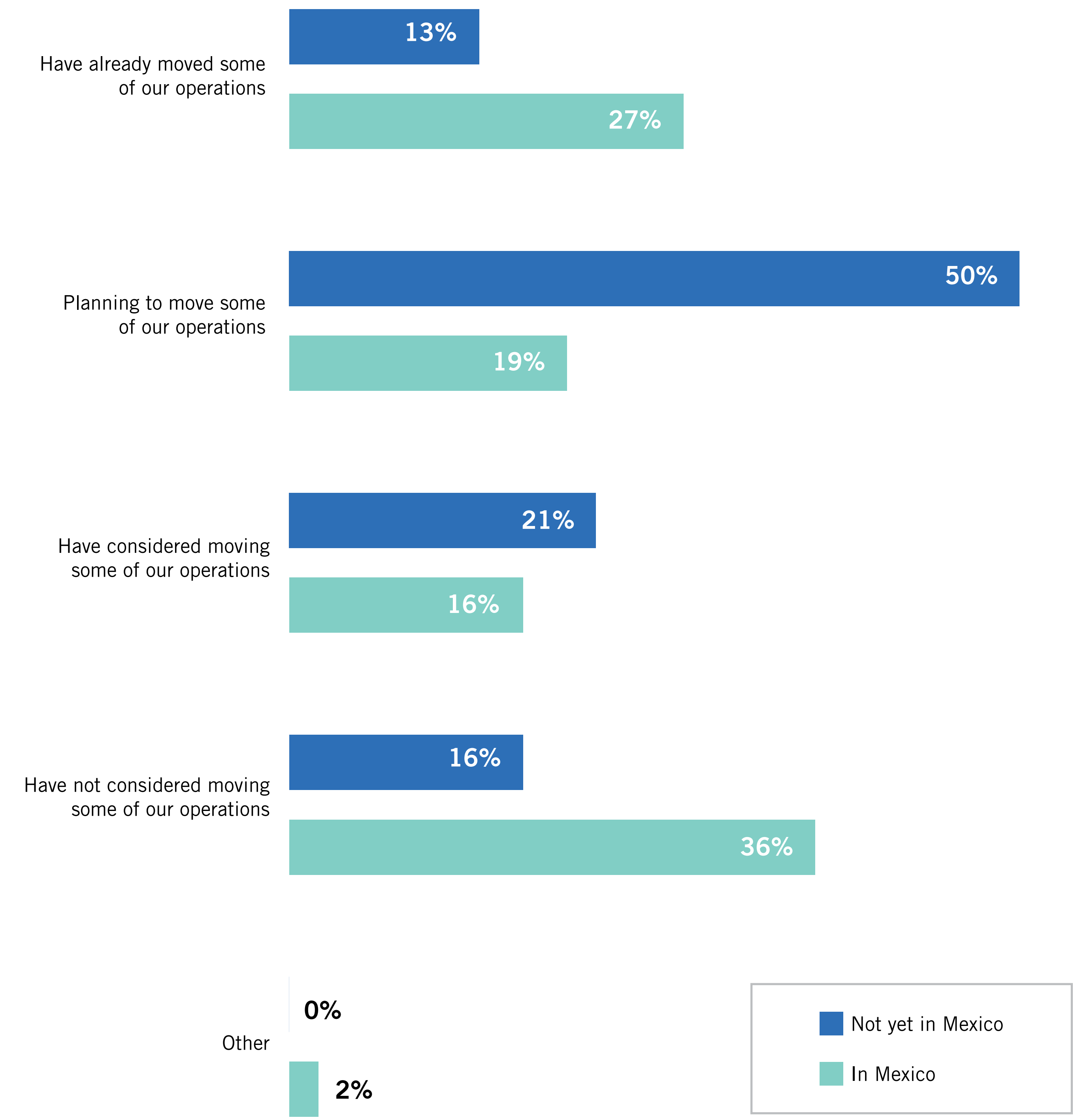
67%
of respondents have moved or have considered moving some operations to Mexico as a result of global trade tensions.

62%
of businesses in Mexico are planning on or considering growing operations by continuing to shift business there from elsewhere.

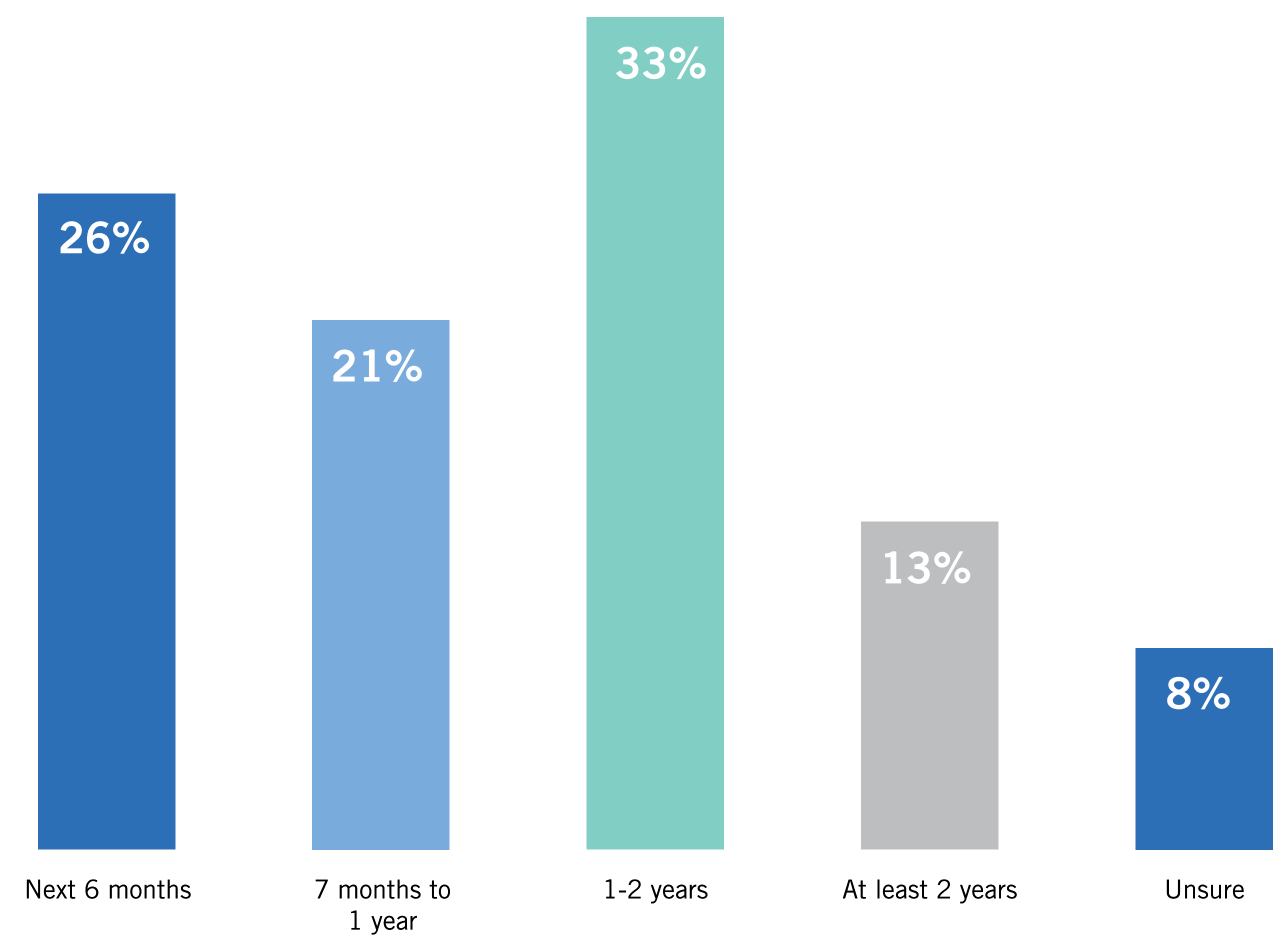
75%
of automotive respondents said they have already moved or are moving operations from another country to Mexico.

2/3
of respondents not currently doing business internationally are planning to begin operations in Mexico within the next year.

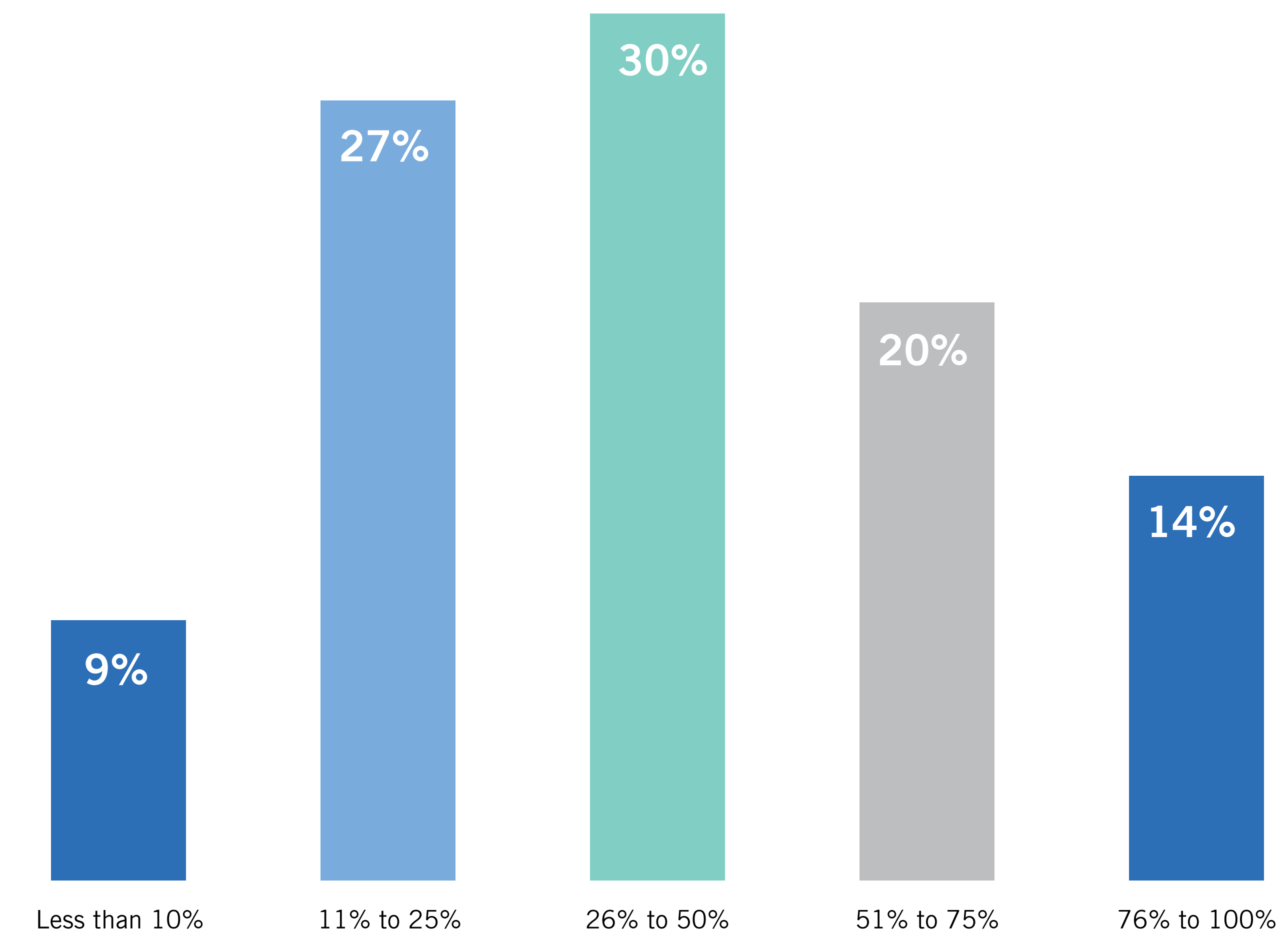
Q5. To what extent have trade tensions prompted you to consider moving some of your international operations to Mexico? (Asked only to those selecting “yes” in Q3.)



Q6. What is your estimated timeline for a potential shift of operations from another country to Mexico?



Q7. Please estimate the portion of your organization's investments in another country that could potentially be reallocated to Mexico:



80%

of respondents considering moving operations to Mexico said they would do so in the next two years.

2/3

of respondents operating outside of the United States, when asked about whether global trade tensions were causing them to move operations from another country to Mexico, two-thirds said they already had moved or were planning to do so within a few years.

64%

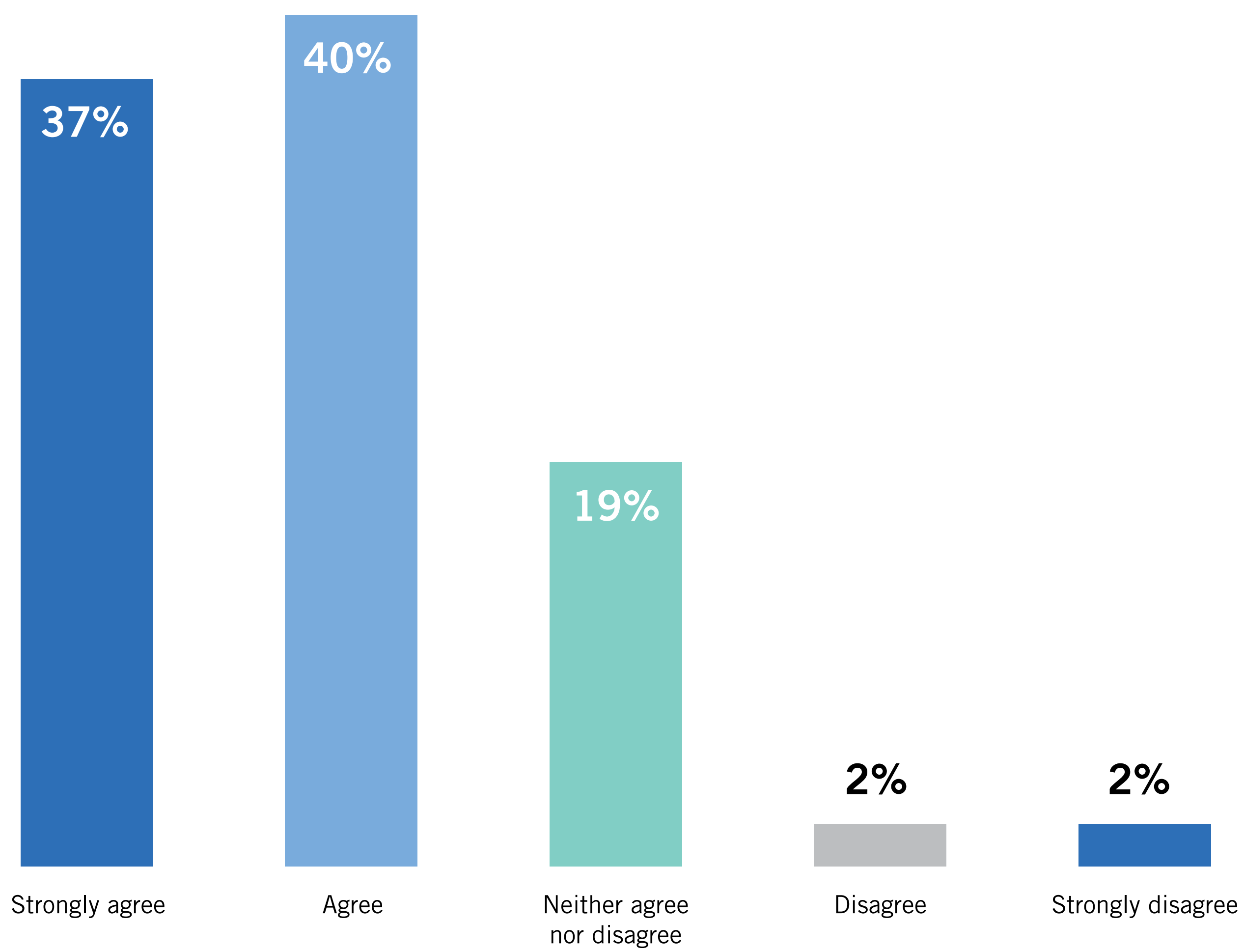
of those who have already moved or are planning to move to Mexico said they plan to allocate 26% to 100% of their business there.

40%

of manufacturing respondents said they are considering moving at least 50% of their operations to Mexico.

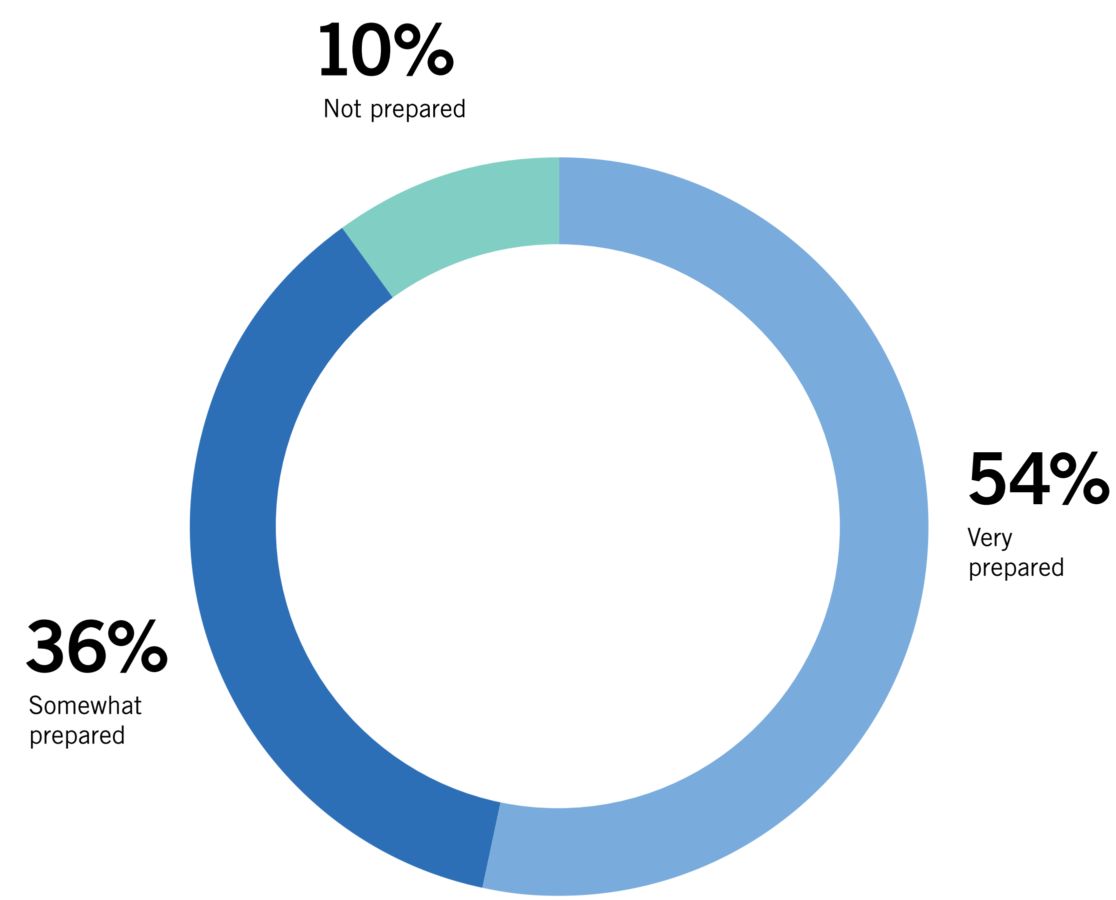
Q8. Mexico has 12 free trade agreements with 46 countries, which pose several challenges related to rules of origin. To what extent do you agree that your organization is equipped to meet these challenges?

8%
of manufacturing respondents said that they strongly agree their organization is equipped to meet rules of origin challenges.



Q9. How prepared is your organization to face a rules of origin review from Mexican or U.S. authorities?

This question was only asked to respondents whose companies are already operating in Mexico



90%
About 90% of respondents overall and 92% from within the auto sector said they were at least somewhat prepared for USMCA's new rules of origin.

54%
of all respondents operating in Mexico are very prepared for USMCA's new rules of origin, compared with 67% of auto industry respondents.

Q10. To what extent is your organization currently planning for passage of USMCA?

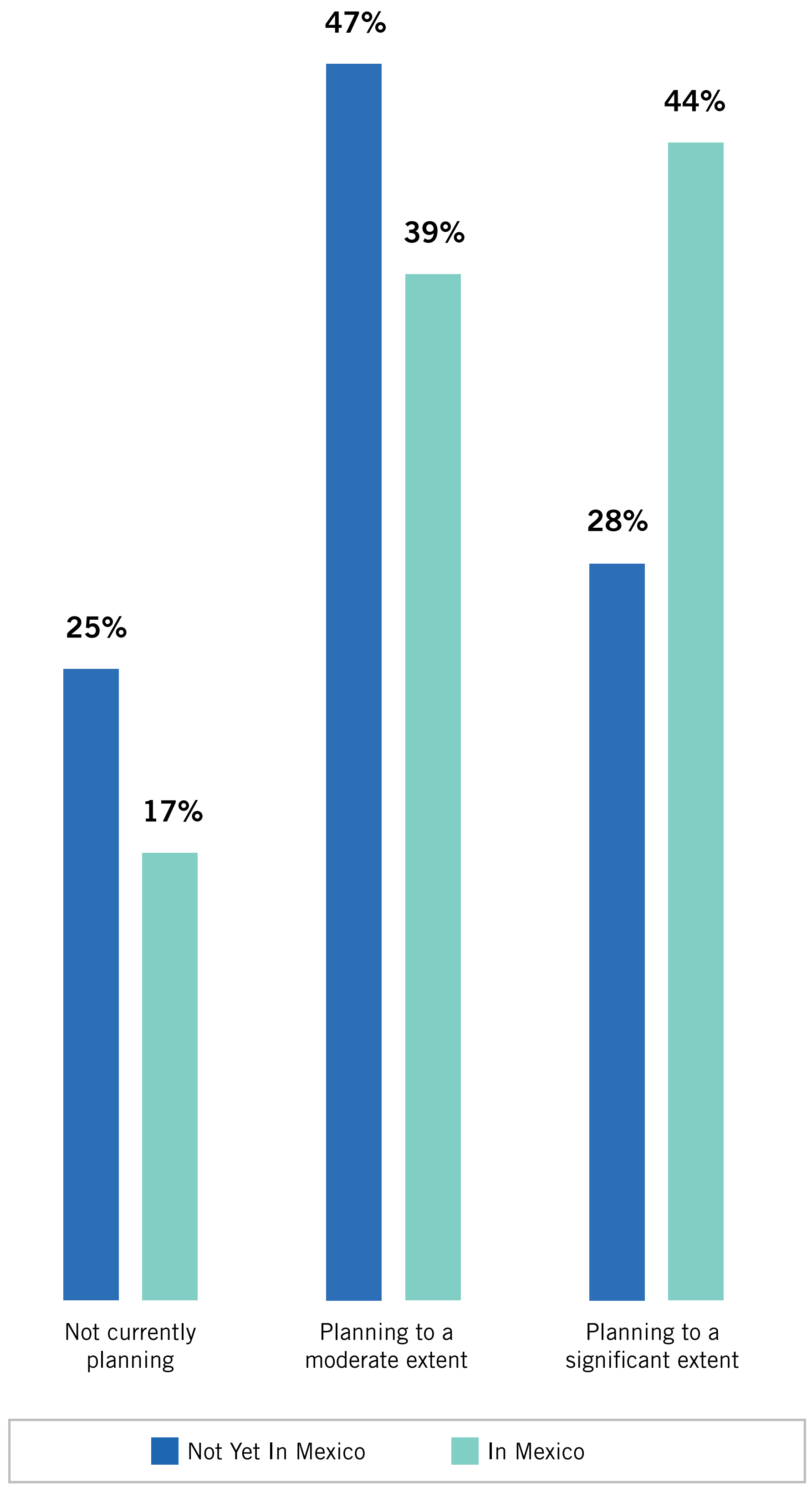
28%
of executives planning to do business in Mexico said they were preparing for USMCA's passage to a significant extent.

44%
of businesses already in Mexico, 44% said they were preparing for USMCA's passage to a significant extent.

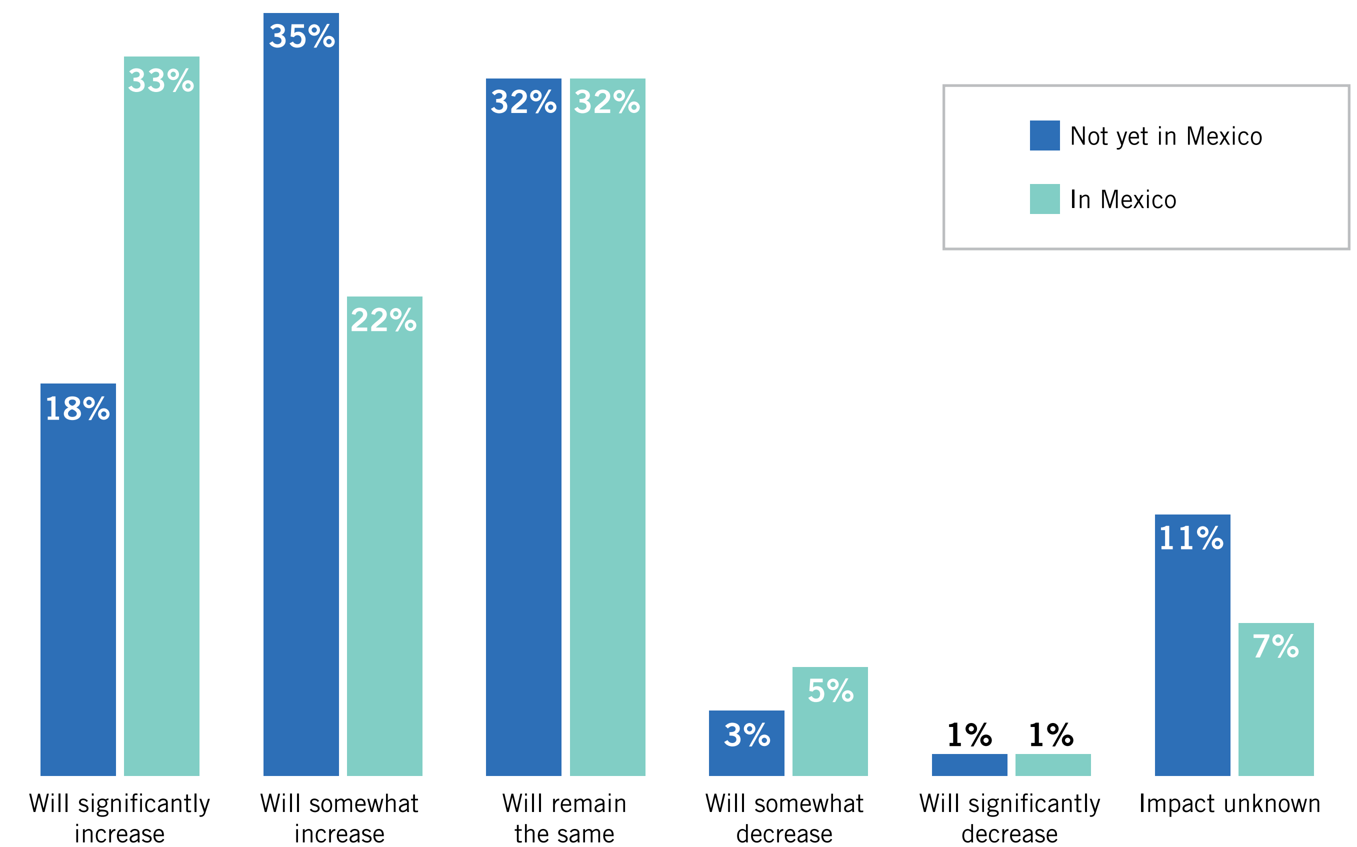
67%
of auto respondents indicated they were planning for passage of USMCA to a significant extent, compared with 20% of manufacturing.

20%
of manufacturing respondents were actively planning for USMCA's passage.

92%
of automotive respondents were actively planning for USMCA's passage.



Q11. What impact will the potential passage of USMCA have on your organization's business activity in Mexico?

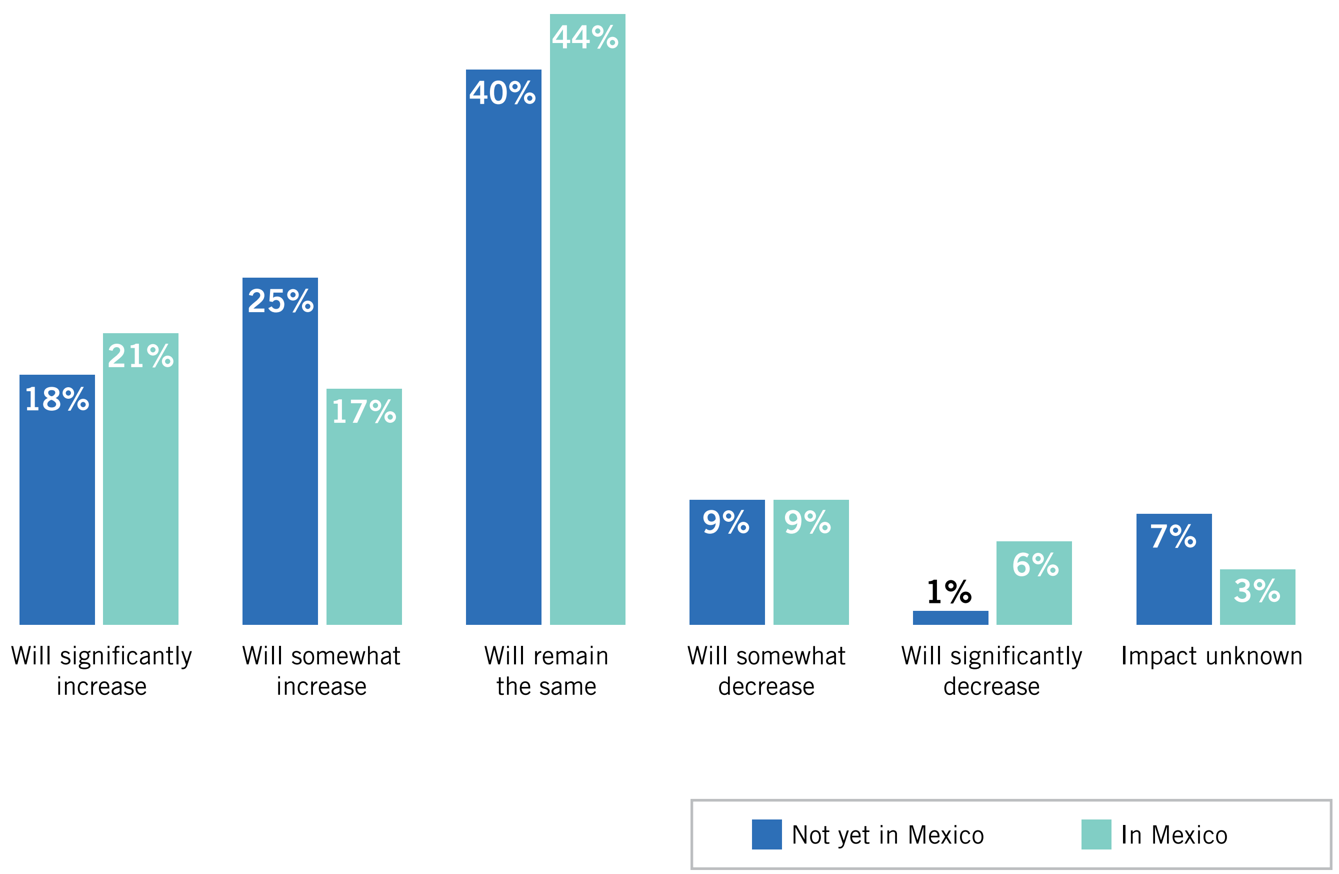


87% | 85%
For 87% of those already doing business in Mexico and 85% of those not yet doing business in Mexico, passage of USMCA would result in either an increase or consistency in planned business activities in Mexico.

86%
For companies currently doing business in Mexico, outside of the auto industry, 86% of respondents will increase business operations or remain at the same level if USMCA becomes law.

50% | 8%
50% of automotive respondents said they would increase activity if USMCA passed as compared to 8% of manufacturing respondents.

Q12. Conversely, should USMCA not pass, how will that impact your organization's business activity in Mexico?

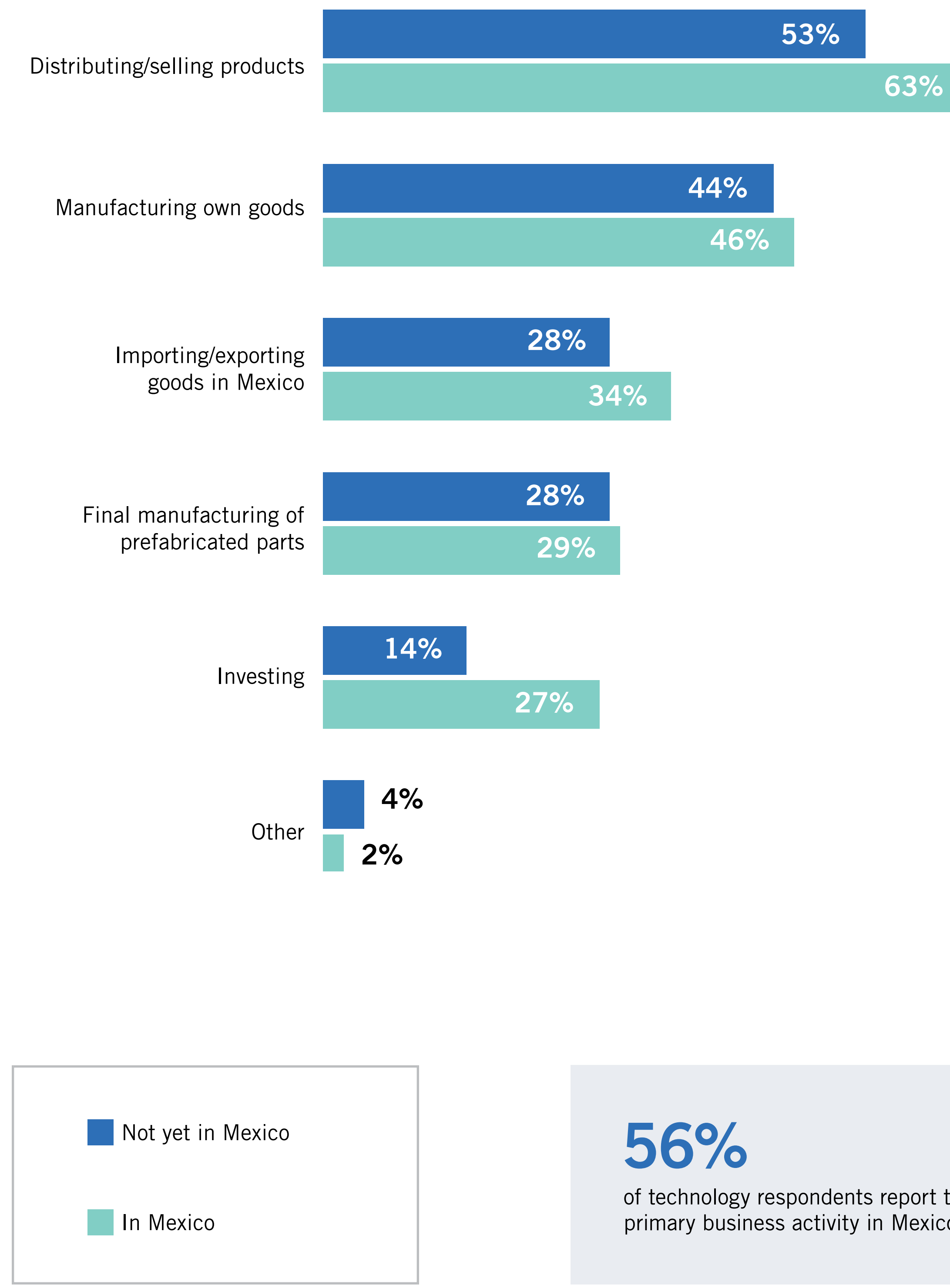


38%
When asked what they would do in Mexico if USMCA didn't pass or go into effect for some time, 38% said their activity would increase and 44% said that it would remain the same, with the total of 82% barely lagging the 87% who made these same selections when asked how USMCA passage would impact their activity.

10%
For companies not currently doing business in Mexico, only 10% indicated that the non-passage of USMCA would likely hamper their business activity in Mexico.

83%
For companies currently doing business in Mexico, outside of the auto industry, 83% of respondents would have increased business operations or remained at the same level if the USMCA did not become a law.

Q13. Which best summarizes the types of business activities in which your organization will be involved when it comes to Mexico?



56%
of technology respondents report that investing is a primary business activity in Mexico (versus 27% of total).

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