TABLE OF CONTENTS

September 2013
Year 13, no. 9

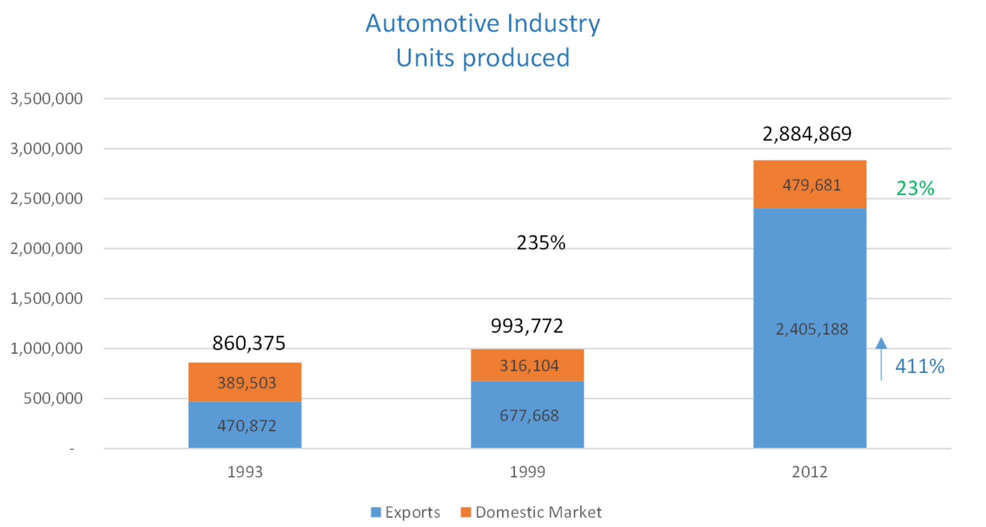
The Mexican Automotive Industry accelerates

After the great fall of 2009, the Mexican automotive sector is once again "revving up" its engines and "accelerating", thanks to both, the sales recovery of cars and SUVs in the U.S. market –its largest client– and the reactivation of the internal market. All this has brought good news for the Mexican automotive industry: more investments, higher demand for raw materials and increased sales of auto parts.

Indeed, this new period is reflected in the positive effect on the entire supply chain: from the production of raw materials such as steel, copper and aluminum, to the manufacture of auto parts such as cylinder heads, cable harnesses, instrument panels and body stamping.

Recovery in Gear

With a production of more than 2.8 million vehicles in 2012, Mexico reaffirmed its position as the world's eighth largest producer of vehicles, according to figures released by the International Organization of Motor Vehicle Manufacturers (OICA, by its French acronym).



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* with data from the Mexican Automotive Industry Association (Asociación Mexicana de la Industria Automotriz A.C.)

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(Continues from page 1)

Relevance in the Mexican economy

The automotive industry is the second most strategic sector of the Mexican economy after the oil industry, and the most important subsector of manufacturing industry (contributing 15% to domestic production). Its activity generates around 2.5% of the country's Gross Domestic Product (GDP).

The automotive industry is the largest net inflow in Mexico with 35.777 million dollars (mdd) and generates 23% of Mexico's manufacturing exports. The Automotive exports exceeds 29% the crude oil exports. The automotive balance account is 46% higher than remittance inflows (22,731 million dollars) in 2012. The automotive industry provides larger external flows than revenues produced by tourism (11,663 million dollars).

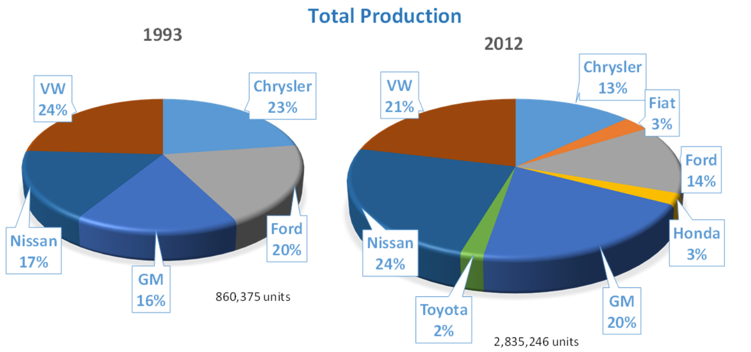
Birth of an industry and its Participants

The history of the automotive industry in Mexico begins with Buick company in 1921 , then in 1925 Ford started its assembly lines, and then in 1935 arrived General Motors and in 1938 Chrysler.

Nine of the world's largest manufacturers have chosen Mexico as their center of production and export platform: some of them have been in Mexico for over eight decades. The "Big Three" Detroit car manufacturers (GM, Ford and Chrysler), the leading German company (Volkswagen) and the main Japanese companies (Nissan, Honda, Toyota and Mazda) all have assembly operations in Mexico, which all together produce more than 50 car models in Mexico. AUDI will start production in 2016.

Mexico has 18 assembly plants and more than 300 most important first-tier suppliers (Tier 1) in the world.

The structure of the Mexican automotive industry has changed significantly over the years. In 2012 the main car producer company was Nissan with a market share of 24%, when in 1993 occupied the fourth place, displacing Volkswagen that now has 21% of the market.



In addition to the expansion in production capacity of the carmakers with presence in 1993, new entrants have joined like: Fiat, Honda, Toyota and Mazda (January 2014) and Audi (2016).

Export Platform

Mexico is the fourth largest exporter of automobiles in the world and the third supplier in the U.S. market.

Considering the close geographical proximity and the economic and business ties between Mexico and U.S., 83.4% of Mexican automotive production (2.35 million vehicles in 2012) is destined to the export market, North America accounts for 70.7%, Latin America 15.5% and the EU 9%.

Foreign sales from 1993 to 2012 increased fivefold, from 471 thousand units to 2.4 million units.

The structure of the export sector has also changed. In 2012 the leading exporter was Volkswagen with a market share of 22 %, while in 1993 was the fourth place. The second place went to Nissan with a 20% and in 1993 ranked fifth place.

The sector in 2013

During the first nine months of 2013, production records were achieved not only in total production, but also for domestic and export markets. The total Mexican vehicle production increased 3.3% compared to the same period

(Continued on page 3)

Mexico's Total Trade in July (billion US$)

	2012	2013	%
Total	61.0	66.3	8.8
Exports	30.3	32.7	7.9
Exports (excluding oil)	26.5	27.9	5.3
Imports	30.7	33.7	9.6

Source: Banco de México

Mexico's Trade with EU and EFTA (million US$)

January - July	2012	2013	%
Exports to the EU	10,988.7	13,764.7	25.3
Imports from the EU	23,490.8	25,465.0	8.4
Exports to the EFTA	608.7	801.7	31.7
Imports from the EFTA	1,003.0	1,048.9	4.6

Source: Banco de México

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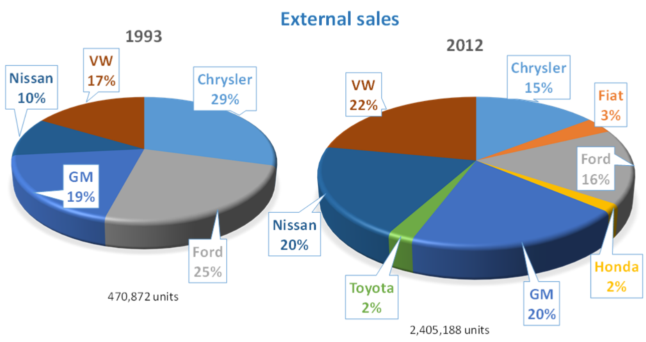

in 2012 (totaling 2.228 million vehicles). Production for the domestic market increased 17.2 % and vehicle exports rose 0.7%, according to figures from the Mexican Association of the Automotive Industry (AMIA).

Strategic Platform

Despite the crisis, Mexico reasserted its position as a strategic platform for the automotive industry. Its geographical position, wide network of free trade agreements, skilled workforce and an export tradition dating back several decades, all give the country significant competitive advantages.

The know-how had not only created efficiency but also had enabled manufacturers to start using Mexican engineers in the design stage of new models, due to companies in Mexico are doing integral engineering.

According to estimates of the National Council for Science and Technology (CONACyT), 111,400 engineering and technology students graduated in Mexico in 2012. Based on data published by UNESCO in 2010, there are 18% more graduates in engineering (manufacturing and construction) per capita in Mexico than in the United States.

All this combined has led to major manufacturers to strengthen their business presence in Mexico as a production center and to increase their investments, especially in the so-called “compact” and “sub-compact” vehicles as manufacturers discover that Mexico offers one of the best export platforms to meet global consumers’ increasing preference for smaller and cheaper cars.

Mexico ranked as the country with the lowest costs for the production of manufactured outside the United States, better than Vietnam, India, Russia and China, according to Alix Partners “2011 U.S. Manufacturing - Outsourcing Cost Index”.

The study “Competitive Alternatives KPMG 's Guide to International Business Location”, made by the consulting firm KPMG, places Mexico as the country's number 1 for the manufacture of auto parts in his editions of 2008 and 2010 . In the 2012 edition, Mexico was in the third position, behind China and India.

Supply on the Rise

The reactivation of automotive production and exports has caused a knock-on effect on the whole supply chain. In fact, several manufacturers are increasing their supplies purchases in Mexico, such as raw materials and auto parts, as a measure to improve their levels of competitiveness and efficiency.

With some 1,500 companies, auto parts has been one of the manufacturing areas to have benefitted most from the recovery of the automotive sector.

With a production valued at a record level of 74.8 billion dollars in 2012, Mexico's auto industry overtook South Korea to stand as the fifth largest producer worldwide.

United States is the main export market for Mexican auto parts with a 90%, followed by other major markets such as Brazil, Canada and Germany. Mexico exports reached a record of 51.9 billion dollars in 2012.

According to the U.S. Department of Commerce, Mexico is the largest supplier of auto parts in the U.S. market.

Foreign Direct Investment (FDI)

The Mexican automotive industry accumulated 28.3 billion dollars (bd) of FDI between 1999 and June 2013, accounting for 18% of FDI in Manufacturing.

In 2012 it received 2.4 bd, second highest for a year, behind the 3 bd registered in 2004.

It is likely that in 2013 will exceed the historical amount, since in the first six months of the year the FDI inflows were 2.3 bd.

Mexico’s Economic Indicators

Inflation rate: 0.28% (August, 2013);
3.46 % (2013, annual)
Industrial Production: -2.4% (July 2013 / July 2012)
Manufacturing: -1.2%; **Construction:** -6.0%, **Mining:** -2.4%
General Index of Economic Activity: 1.87% (July 2013 /July 2012)
Consumer Confidence Index: 97.4 pts. (August 2013)
-0.1 percentage points (August 2013 / August 2012)
Open unemployment rate: 5.17 % (July 2013)

Source: INEGI

Mexico’s Financial Indicators

Foreign exchange rate: 13.01 peso/dollar (September 26, 2013)

International reserves:$170,927 million dollars (Sep. 26, 2013)

Mexican stock market index (IPC): 41,327 (September 26, 2013)

Interest rate treasury bonds CETES 28 days:
3.5% (September 26, 2013)

Source: Banco de Mexico

Mexico's Official Gazette Notices

- **05/08/2013** Sixth Resolution modifying the General Rules on Foreign Trade for 2012 and its annexes 1, 10, 21 y 22.
- **08/08/2013** Agreement that amends the Agreement establishing the tariff-rate quota on imports of poultry meat.
- **27/08/2013** Agreement that publicizes the entry into force between Mexico and Guatemala of the Free Trade Agreement between Mexico and the Republics of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.
- **27/08/2013** Agreement that publicizes the quota on imports of fresh cheese from Guatemala.
- **27/08/2013** Agreement that publicizes the quota on imports of products containing tuna, canned, weighing not more than 1 kilogram from Guatemala.

EU Official Journal

- **03/08/2013 L209** Commission Regulation (EU) No 748/2013 of 2 August 2013 amending Regulation (EU) No 513/2013 imposing a provisional anti-dumping duty on imports of crystalline silicon photovoltaic modules and key components (i.e. cells and wafers) originating in or consigned from the People's Republic of China.
- **03/08/2013 L209** Commission Decision of 2 August 2013 accepting an undertaking offered in connection with the anti-dumping proceeding concerning imports of crystalline silicon photovoltaic modules and key components (i.e. cells and wafers) originating in or consigned from the People's Republic of China.
- **20/08/2013 L222** Commission Implementing Regulation (EU) No 789/2013 of 16 August 2013 amending Council Regulation (EC) No 2368/2002 implementing the Kimberley Process certification scheme for the international trade in rough diamonds.
- **27/08/2013 L228** Commission Regulation (EU) No 806/2013 of 26 August 2013 initiating a review of Council Implementing Regulation (EU) No 102/2012 imposing a definitive anti-dumping duty on imports of steel ropes and cables originating, inter alia, in the People's Republic of China, as extended to imports of steel ropes and cables consigned from, inter alia, the Republic of Korea, whether declared as originating in the Republic of Korea or not, for the purposes of determining the possibility of granting an exemption from those measures to one Korean exporter and repealing the existing anti-dumping duty with regard to imports from that exporter and making those imports subject to registration.
- **28/08/2013 L229** Commission Regulation (EU) No 809/2013 of 27 August 2013 initiating a 'new exporter' review of Council Implementing Regulation (EU) No 1389/2011 imposing a definitive anti-dumping duty on imports of trichloroisocyanuric acid originating in the People's Republic of China, repealing the duty with regard to imports from one exporter in this country and making these imports subject to registration.

Mexico-EU Trade Links is a monthly informational newsletter published by the Mexican Mission to the EU, Representative office of the Ministry of the Economy. Av. Franklin Roosevelt 94, 1050, Brussels, Belgium.

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