



# North America

Canada, USA and Mexico: Working Together for a Promising Future

September, 2016

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# Content



GEOGRAPHY

COMPETITIVENESS

AGRICULTURE

ENTREPRENEURSHIP

ECONOMY

LABOR MARKET

TOURISM

ENERGY

REGIONALISM

AUTOMOTIVE

DEMOGRAPHY

BORDER

INTEGRATION

MACHINERY  
AND ELECTRICAL

CONNECTED  
SOCIETY

TPP

INTRA-REGIONAL  
TRADE

AEROSPACE

EDUCATION

THE LEADERS'  
PERSPECTIVE



# OUR REGION IS GEOGRAPHICALLY AND RESOURCE PRIVILEGED



North America (NA) is **strategically positioned** in the Northern Hemisphere between the Pacific and Atlantic Oceans, Europe and Asia. It is home to 231,000 km of coastlines, representing 88% of the continent's perimeter.<sup>1</sup>

With 21.6 Million km<sup>2</sup> of territory (Canada: 9.9; USA: 9.8; Mexico: 1.9), North America is **2.4x times Europe's size**, and as large as China, India and Brazil combined.<sup>2</sup>

It is **rich in natural resources**, holding over 30% of the world's coal reserves (270 Billion tons); it ranks #3 in global petroleum reserves (230 Billion barrels).<sup>2</sup>

NA boasts **4x the average per capita fresh-water allowance worldwide** as well as 18% of the world's forests (7.2 Million km<sup>2</sup>), and **12% of the planet's arable land** is in NA.<sup>3</sup>



## Territory Size

**2.4x** Europe  
= China + India + Brazil<sup>1</sup>



## Fresh Water

**4x** times world's per capita average<sup>2</sup>



## Woods

**18%** of world's forests<sup>2</sup>



## Oil

**14%** of global reserves<sup>3</sup>



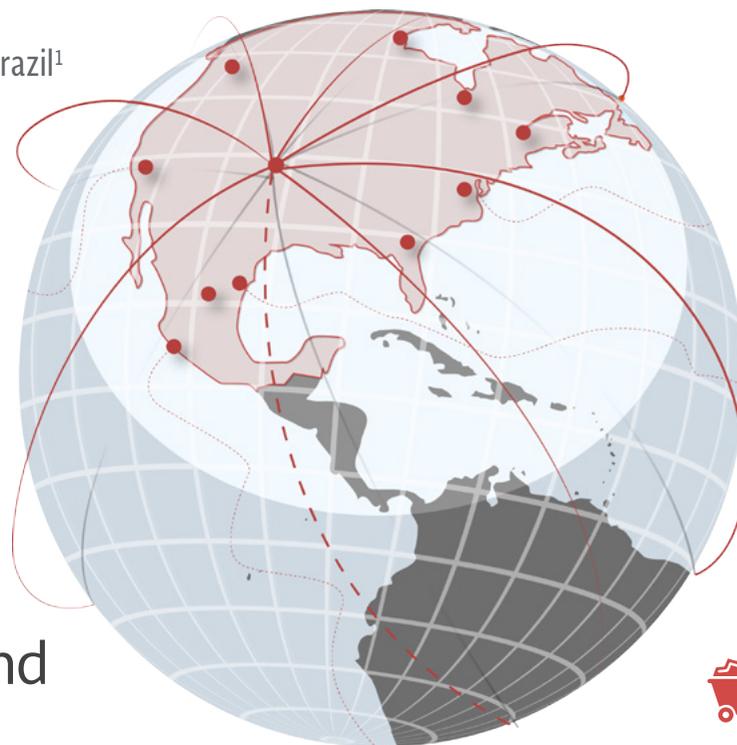
## Arable Land

**12%** of the world<sup>2</sup>



## Coal

**30%** of global reserves<sup>3</sup>





NA's combined contribution to the world's GDP is 28% and it represents 14% of global exports. Individually it has **top GDP and export rankings** as well.

**Mexico's GDP** alone is the equivalent to the aggregate GDPs of Argentina, Colombia, Chile, Ecuador and Honduras.

NA countries also serve as **magnets for direct foreign investment**. USA ranks 2nd; Canada 8th (globally). Mexico holds 5th place among emerging economies.

NA's **non-oil per capita exports are more than 3x greater than China's**. North American countries combined: US\$5,844. (Canada US\$10,722; USA US\$6,428; Mexico US\$2,990) vs. China US\$1,751.

## TRADE MAKES US ONE OF THE STRONGEST ECONOMIC REGIONS



World Rankings\*  
(2015)





With the mid-1990's rise of e-mail as a consequence of the Information Technology Revolution, companies fragmented their production processes to become more competitive.

Therefore, by the 21st Century, world trade is substantially transformed. Goods are not totally produced within a single country, but rather through global and regional value-chains.

In 2014, Europe (66%), Asia (60%) and North America (34%) enjoy the largest percentages of intra-regional trade.<sup>1</sup>

Today, competitiveness is a factor of how much value countries or regions add to chains.

## VALUE CHAINS HAVE BECOME MORE REGIONAL THAN GLOBAL



More than **50%** of World Trade:



is of intermediate goods (2015)<sup>2</sup>

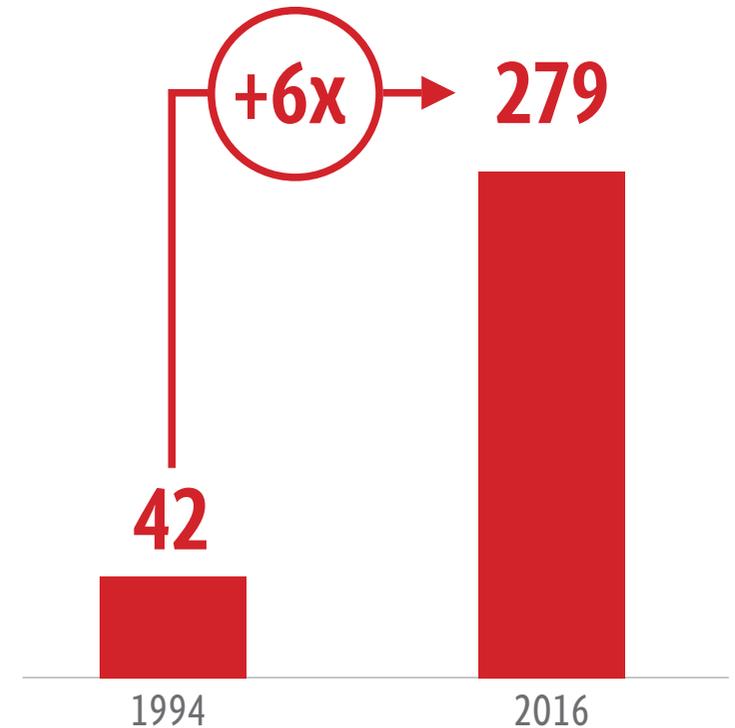


is intra-regional (2014)<sup>3</sup>



of merchandise happens under preferential trade agreements (2008)<sup>4</sup>

Regional Trade Agreements<sup>5</sup>





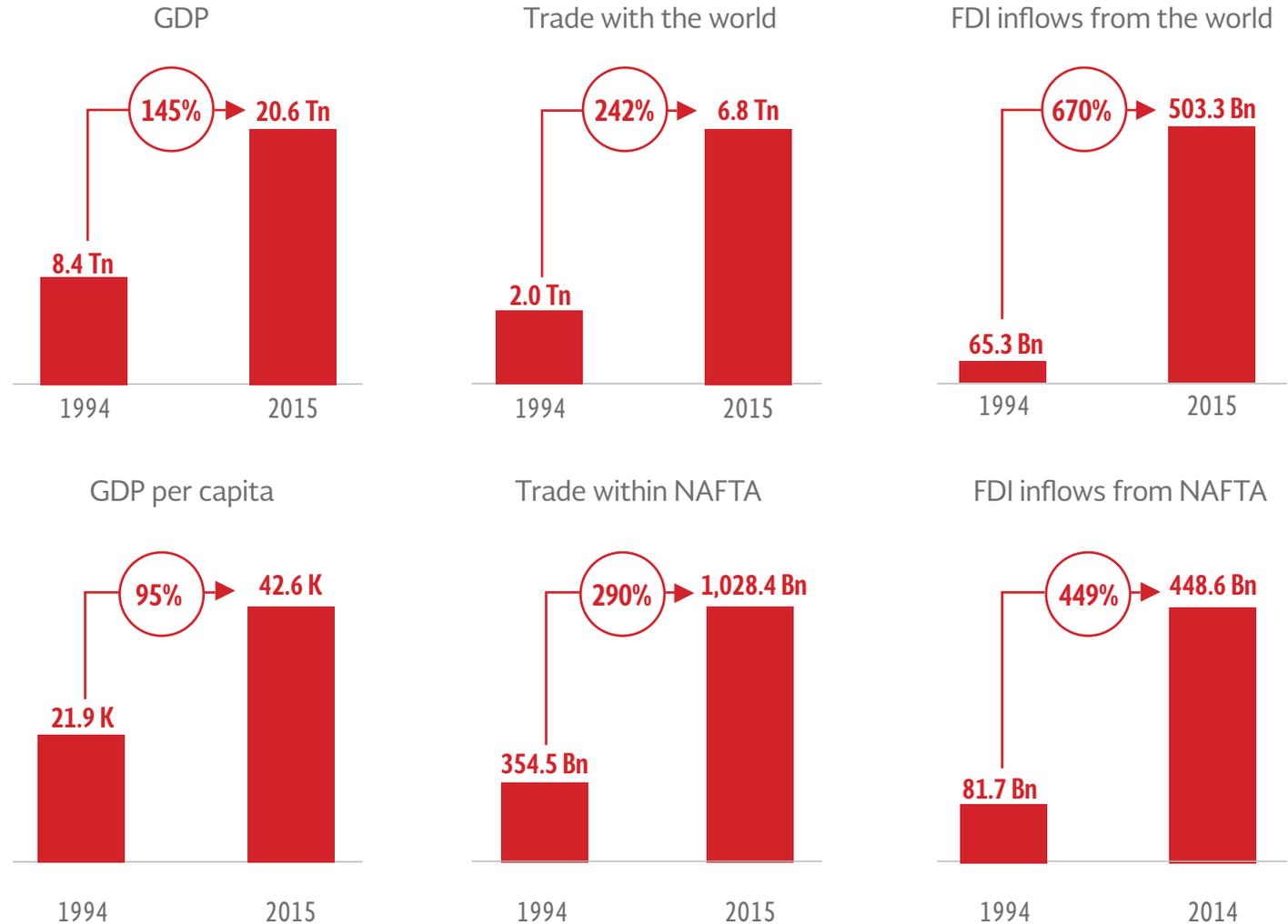
NAFTA's main objective —**increase trade and investment flows**— has been clearly realized over the course of the past two decades.

The agreed liberalization offered **certainty to economic actors from inside and outside the region**, contributing to accelerate growth.

North American intra-regional trade helped its **industries boost global competitiveness** by developing regional supply chains that leverage economies of scale.

## North America: last two decades

(Current USD)



Source: SAI Law and Economics with information from the World Bank, 2015.  
\* Tn = Trillion, Bn = Billion, K = Thousands.



USA-produced content ultimately present in its imports reaffirms the value of **regional integrated supply chain systems** (Mexico 40%; Canada 25% vs. China 4%). For every US\$100 USA buys from Mexico and Canada, US\$32 (weighted average) has USA content.<sup>1</sup>

Goods from Canada and Mexico represent 75% of all domestic content that returns to the USA as imports.<sup>2</sup>

Canada is the number-one crude oil and products supplier to the USA, representing an estimated 40% from total USA imports between 2015 and 2016. Mexico is ranked 4th (8%), after Canada, Saudi Arabia and Venezuela.<sup>2</sup>

Mexico's manufactured exports have increased 8x since NAFTA's 1994 enactment.<sup>3</sup>

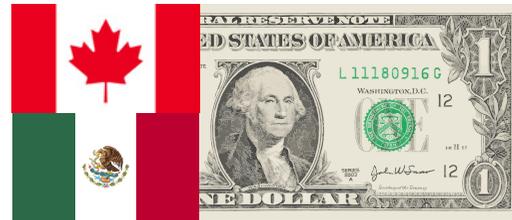
Imports from Canada and Mexico respectively represent 15.7% and 17.0% of USA's total imports. Exports from the USA to Canada represent 19.21%, and from USA to Mexico 15.5% of USA's total exports.<sup>4</sup>

Source: 1) Koopman et al., "Give Credit where Credit is Due: Tracing Value Added in Global Production Chains", National Bureau of Economic Research, 2010. 2) U.S. Energy Information (EIA), U.S. Imports by country of origin, Total crude oil and products, Historic data, 2015–2016. Data Analysis SENER with base info: U.S. Imports country origin. 3) INEGI, 2016. 4) SAI Law and Economics with data from World Integrated Trade Solutions (WITS), 2015. 5) SAI Law and Economics with information from the Secretariat of Economy of Mexico (TradeMap, 2015).

# "MADE IN NORTH AMERICA": JOINING FORCES TO PRODUCE



Respectively, Canada and Mexico are the USA's First and Second Largest Export Markets and Represent More Than 1/3 (34%) of USA Exports (2015)<sup>5</sup>



**26%**  
of USA **imports**  
are sourced from  
Canada and Mexico



**34%**  
of USA **exports**  
are bought by  
Canada and Mexico



# MEXICO/CANADA: USA'S MOST COMPETITIVE PRODUCTION CHOICE



## Business Costs Advantage Relative to the USA (within a group of developed economies)<sup>3</sup>

Among a total of forty countries, the 2016 Global Manufacturing Competitiveness Index conferred top rankings on the nations of North America, with the **USA coming in at number 2**, **Mexico at 8** and **Canada holding the 9th position**.<sup>1</sup>

Structural efficiencies, reforms and stable wages have enabled **Mexico's manufacturing sector to become more affordable and competitive in comparison to nations like China**.

Business integration is reflected in a surge of mergers being simultaneously analyzed by **Mexican, USA and Canadian competition agencies** (FTC, COFECE, Canadian Competition Bureau). In the past 12 months, of 147 transactions approved in Mexico, sixteen have been simultaneously analyzed in the US and thirteen in all three jurisdictions (e.g., Delta/Aeromexico, Dell/EMC, GE/Alstrom; Halliburton/Baker Hughes; Gondi/ WestRock; Dow Chemical/ Dupont).<sup>2</sup>



Source: 1) Deloitte Touche Tohmatsu Limited and US Council on Competitiveness, "Global Manufacturing Competitiveness Index". Deloitte, 2016. 2) COFECE, 2016. 3) KPMG, "Competitive Alternatives: KPMG's guide to international business locations costs", 2016 edition.

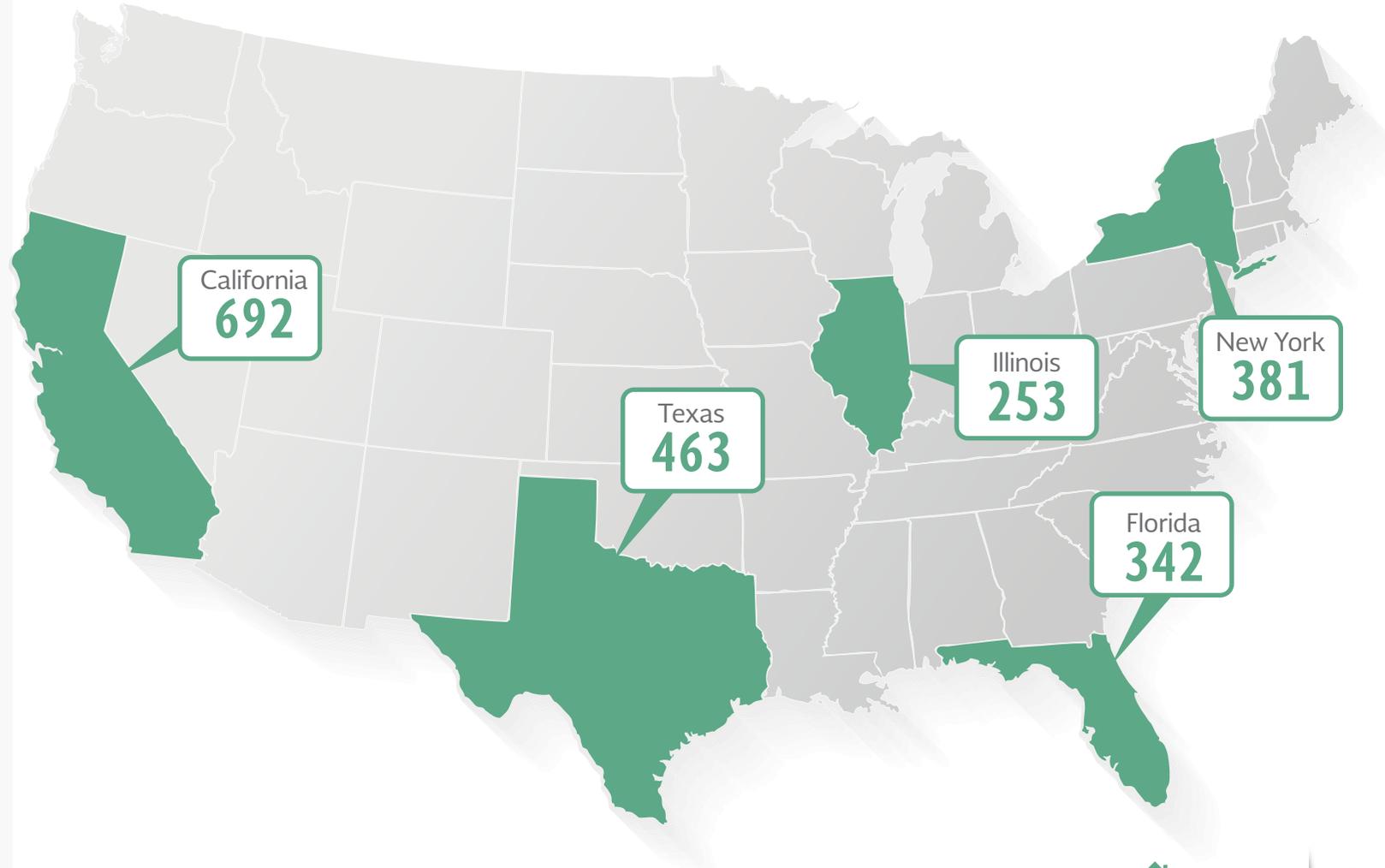




# Over 6 Million USA Jobs

depend on trade in goods and services with Mexico

(Top 5 States, Jobs in thousands)<sup>1</sup>



Over six million USA's jobs depend on trade in goods and services with Mexico. In more than twenty states over 100 thousand jobs have been created in each.<sup>1</sup>

Mexican-owned companies operate more than 6,500 business establishments in the USA, employing more than 122,000 workers; and are now industry leaders in at least four areas: cement, bread, tortilla and dairy products.<sup>2</sup>

Canadian-owned companies employ over 658,900 workers in the United States. American-owned companies employ over 1.4 Million workers in Mexico.<sup>3</sup>



# NORTH AMERICA: AUTOMOTIVE SUPPLY CHAIN LEADERS



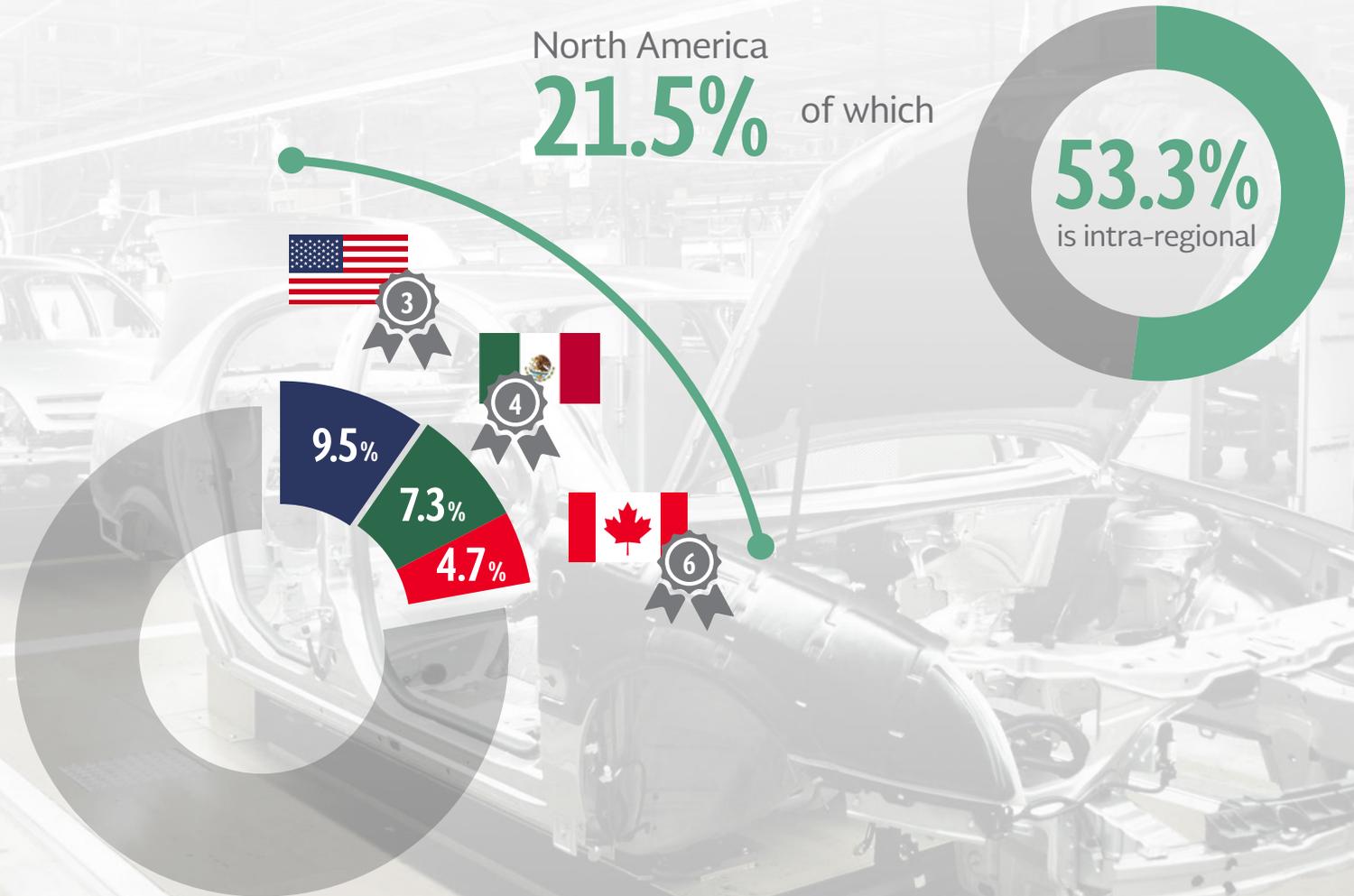
The countries of NA are global **automotive industry leaders**: USA is the second largest vehicle producer, Mexico is 7th, and Canada is 10th.<sup>1</sup>

The automotive industry is a **critical pillar of all three economies**. It represents 24% of total exports in Mexico, 16% in Canada and 10% in the USA.<sup>1</sup>

Cars built in the region enter the USA **eight times during production**<sup>2</sup>, incorporating materials produced in Mexico and Canada. USA motor vehicle and auto parts trade with Mexico increased 679% from 1993 to 2014.<sup>3</sup> USA motor vehicle and auto parts trade with Canada increased 59% from 1993 to 2014.<sup>3</sup>

In 2015, Mexico became the **USA's #1 vehicle and auto parts supplier**<sup>2</sup>. 91% of Mexican auto parts exports went to the USA; Canada was the number-two destination. Likewise, 53% of Mexico's auto parts imports come from the USA.<sup>3</sup>

## Automotive World Exports, 2015<sup>4</sup>



Share in World Exports

Source: 1) World Integrated Trade Solutions (WITS), 2015. 2) Secretariat of Economy of Mexico, 2016. 3) ProMexico with information from Global Trade Atlas, AMIA and INEGI, 2015. 4) Source: SAI Law and Economics with information from the Secretariat of Economy of Mexico (TradeMap, Bank of Mexico, USDOC and Statistic Canada, 2015).



**NORTH AMERICA: MACHINERY AND ELECTRICAL INDUSTRY LEADERS**

The countries of NA are also machinery and electrical industry leaders.

The machinery industry is highly significant in all three countries. It represents 16% of Mexican, 14% of USA and 7% of Canadian exports. More than half of all machinery-industry exports are intra-regional.

The importance of electrical industry intra-regional exports is even higher: nearly 60%. The industry's importance as a proportion of total exports in Mexico is critical: 22%. It reaches 9% in the USA and 3% in Canada.



**Machinery World Exports, 2014**



**Electrical World Exports, 2014**





With a double-digit trade growth and an increasing global market-share, the USA, Canada and Mexico have profited significantly from the aerospace supply chain's intra-regional integration.

Outstanding compound annual growth rate has been observed during the last decade: 13% and 15% for imports and exports, respectively. Growth is expected to surpass 15% per annum through 2020.

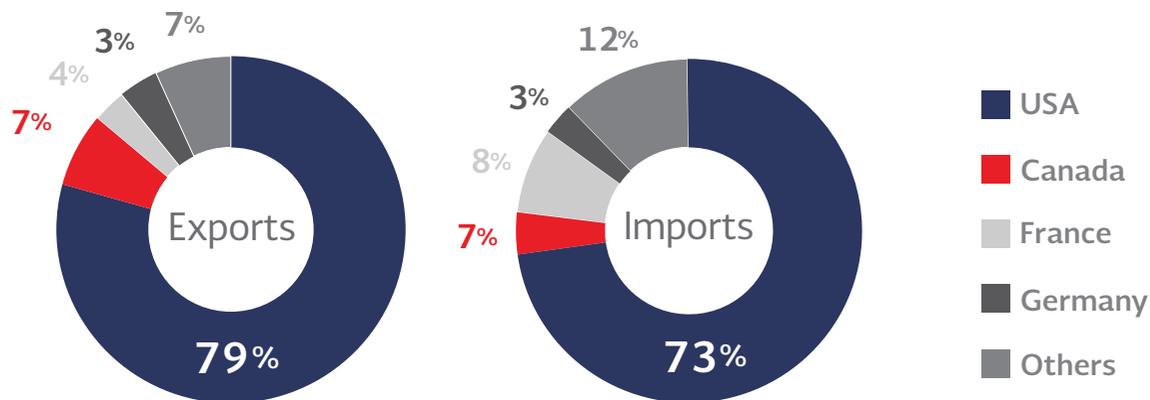
As a result of superior quality and cost standards (Nadcap, AS9100, BASA —Bilateral Aviation Safety Agreement), Mexico elevated its position to the USA's 6th-largest supplier, up from number-ten in 2006.<sup>2</sup>

Mexico ranks among the top 3 on the industry's global cost competitiveness index. 312 industrial facilities in 19 Mexican states (border and interior) employ 45,000 highly qualified professionals.<sup>3</sup>

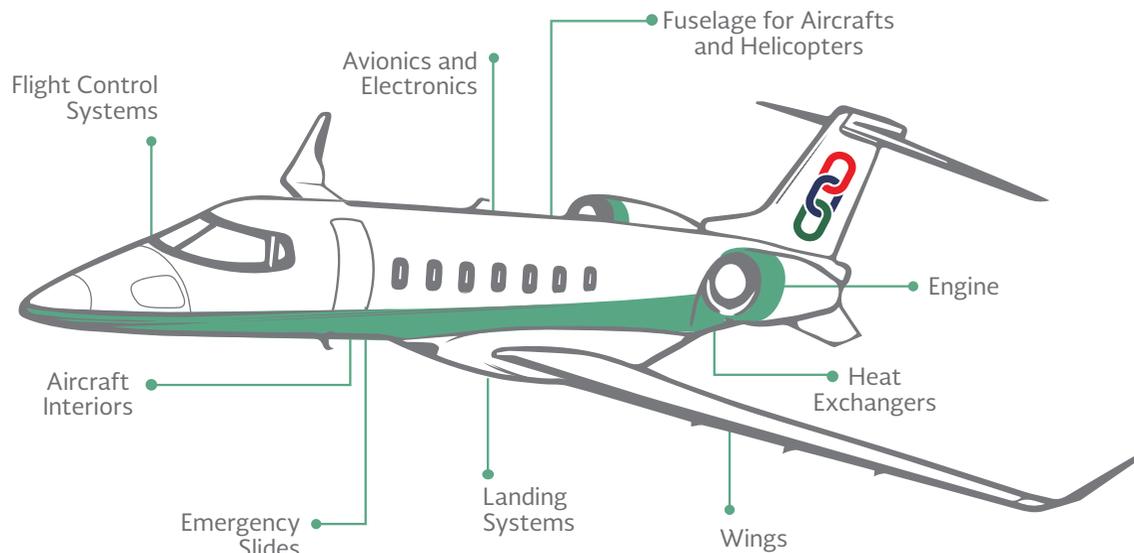
In 2015, NA concentrated 14.2% of aeronautic world exports (US: 7.5%, Mexico: 1.0%, Canada: 5.7%), 33% is intraregional.<sup>4</sup>



## USA is both the largest source and destination of goods from Mexican Aerospace Industry



## Aircraft Manufacturing in Mexico<sup>5</sup>





North American countries rank either #1 or #2 in key global agro exports:

**Mexico:** avocado, tomato, melon, lime, watermelon, papaya, agave, beer and tequila.<sup>1</sup>

**USA:** corn, soybean, almond, blueberry, cranberry, apples, cherry, strawberry, spinach, beef, chicken and milk.<sup>1</sup>

**Canada:** canary seed, oats, wood and paper.<sup>1</sup>

In 2015, the USA, Mexico and Canada exported US\$96 Billion dollars' worth of agricultural products, that is 23% worth of world exports: 54% represented intra-regional trade.<sup>2</sup>

Canada and Mexico developed the Seasonal Agricultural Worker Program (SAWP) that involves 260 thousand Mexican workers during harvest seasons in Canada.<sup>3</sup>

Agricultural production values<sup>4</sup>  
(Millions of USD)

	1993	2013	change
<b>USA</b>	121,489	311,084	156%
<b>Canada</b>	10,016	41,112	310%
<b>Mexico</b>	26,554	51,386	94%

## AGRICULTURE: A REGIONAL ECONOMIC PILLAR

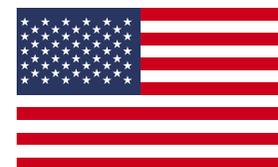


### Regional production value increased

# ↑ 155%<sup>5</sup>

### since NAFTA ratification

### Agricultural Exports World Ranking<sup>6</sup>



# TOURISM IS KEY IN NORTH AMERICA - NUMBERS REFLECT IT



North America attracts 66% of the continent's international tourists and 11% of overall global tourism. 2015 foreign tourism numbers reflect 40% growth over the past ten years. Of 126 Million total visitors, 76 visited the USA, 32 went to Mexico and 18 million came to Canada.<sup>1</sup>

The region's global tourism rankings are especially impressive when it comes to its numerous UN World Heritage Sites as well as other natural and cultural heritage sites.

Medical tourism is also on the rise. Mexico received over 1 Million foreign patients in 2014, ranking the country #2 worldwide with 14% of the global market share.<sup>4</sup>

## International Tourists



**Global Rank\***



**Regional Tourists<sup>1</sup>**



**2**

**53%** Canada #1  
Mexico #2



**9**

**69%** US #1  
Canada #2



**17**

**71%** US #1  
Mexico #2

## Global Tourism Ranking



**World Heritage Sites<sup>2</sup>**



**Nature<sup>3</sup>**



**Culture<sup>3</sup>**



Source: 1) Secretariat of Tourism of Mexico, 2016. World Bank, 2015. 2) ProMéxico, 2015. 3) Secretariat of Tourism of Mexico, 2016. World Tourism Organization, 2014. 4) UNESCO, 2015. World Bank, 2014. 5) National Travel and Tourism Office, 2015.  
\*Ranking for USA and Canada is from 2015, Ranking from Mexico is from 2016.



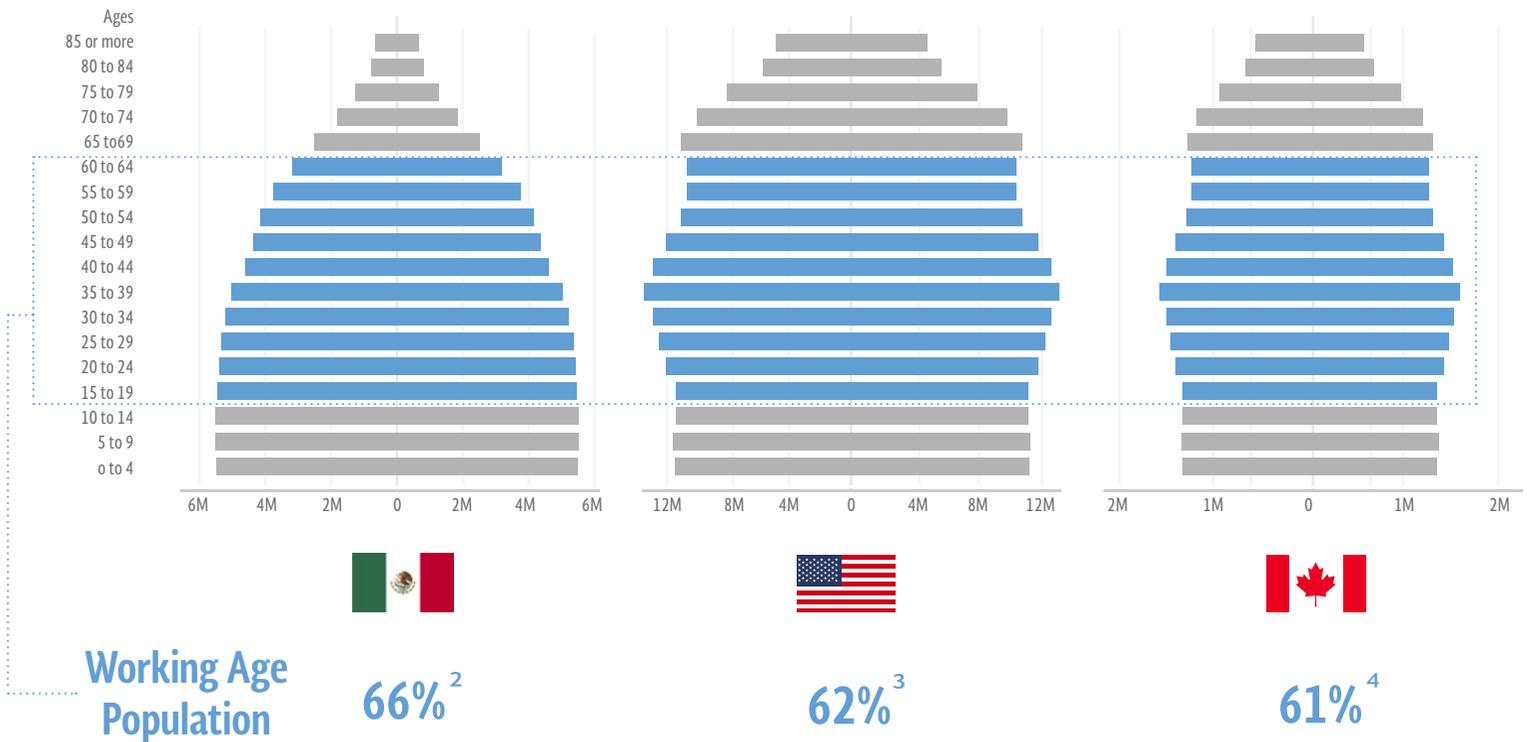


The North American working-age population (ages 15-64) will increase through 2030. The regional total will reach 63%, a 7% increase over 2016.<sup>1</sup>

The percentage of Canada (61%), Mexico (66%) and USA's (62%) working age population will contribute to the region's long-term production sustainability.<sup>2</sup>

Looking forward, complementary aging is clearly a competitive advantage because the young and educated will produce for the elderly. In 2016, Canada's average age is 39, Mexico's 26 and USA's 37.

## Mexico, USA and Canada Population by Age, 2030



Source: 1) United Nations Data, "Population Pyramid", 2030. 2) INEGI, 2016. United States Census Bureau, "Interim Population Projections", 2014-2060. Statistics Canada, "Census of Population", 2011. CONAPO, "Datos de proyecciones", 2010-2050. 3) CONAPO, "Population Projections", 2010-2050. 4) United States Census Bureau, "Interim Population Projections", 2014-2060. 5) United Nations Data, "Population Pyramid", 2030. \* M = Million.

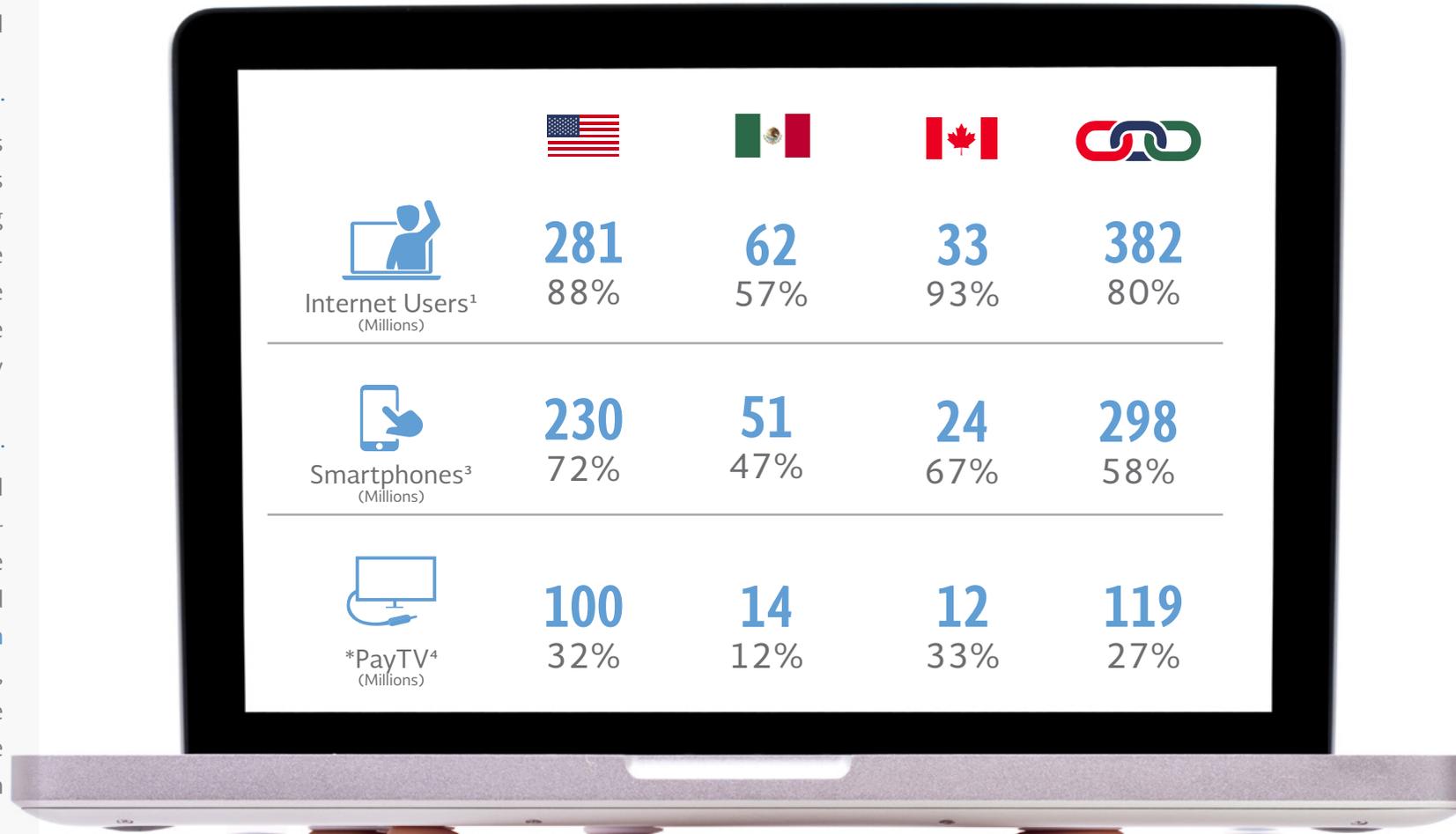




NA is clearly **one of the world's most connected regions**, supporting 376 Million Internet users and 282 Million smartphones —with 51 Million in Mexico alone (47% of the population) and 62 Million Internet users.<sup>1</sup>

With 126 Million PayTV connected households —14 Million in Mexico<sup>2</sup>— the region enjoys **enormous potential for building** and enhancing the digital information, education, commerce and service environments. Industries like FinTech, eCommerce, eGovernment, online learning and SaaS ecosystems will assuredly continue to flourish in coming years.

Most recently —the result of a solid telecommunications regulatory environment— regional telecom providers have reduced consumer prices and developed **notably aggressive cross-border telecom packages** featuring unlimited voice service, zero roaming charges and competitive data plans. Voice and data prices have plummeted in all three countries telecom industries.



Source: 1) ITU, "Internet World Stats", 2016. 2) Dataxis, 2015, TMT Consulting, 2015. National Commission for the Protection and Defense of Users of Financial Services (CONDUSEF), 2015. 3) eMarketer, April 2016. 4) Dataxis, 2015. TMT Consulting, 2015. CONDUSEF, 2015. Secretariat of Communication and Transport of Mexico with data from INEGI, "Encuesta Nacional sobre Disponibilidad y Uso de Tecnologías de Información en los Hogares", 2015.  
\* Note: Total household penetration.



## NORTH AMERICA: MAJOR GLOBAL EDUCATION HUB



USA universities are a powerful magnet for the world's **best students and researchers**. Rankings indicate the USA is home to fourteen of the world's top twenty universities.<sup>1</sup>

In recent years, Mexico has become a **leading producer of engineering and computer science graduates** (ranked #8 and #10, respectively).<sup>2</sup>

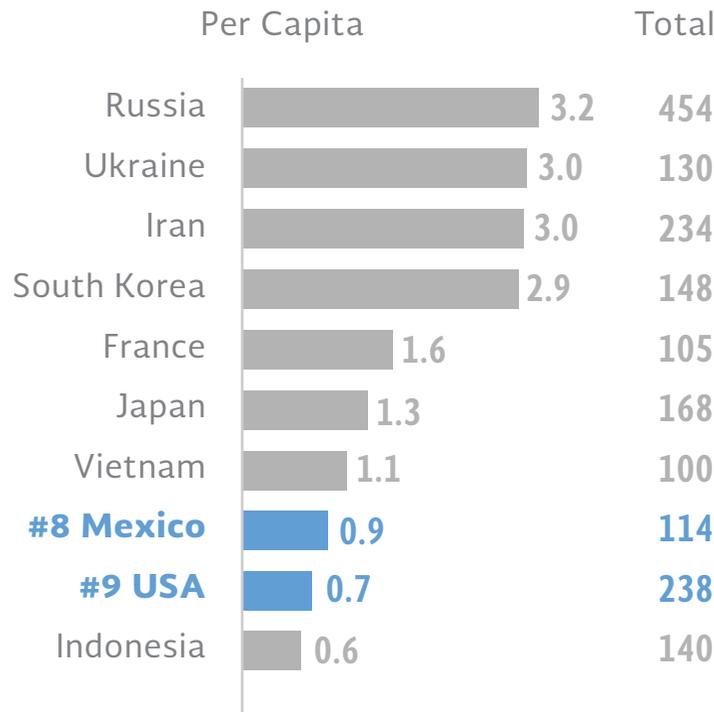
The **"Proyecta 100,000"** initiative will send 100,000 Mexican students to USA universities and enroll 50,000 USA students at Mexican institutions by 2018.<sup>3</sup>

The **"100,000 Strong in the Americas"** program intends to double the number of USA exchange students in the entire continent by 2020.<sup>4</sup>

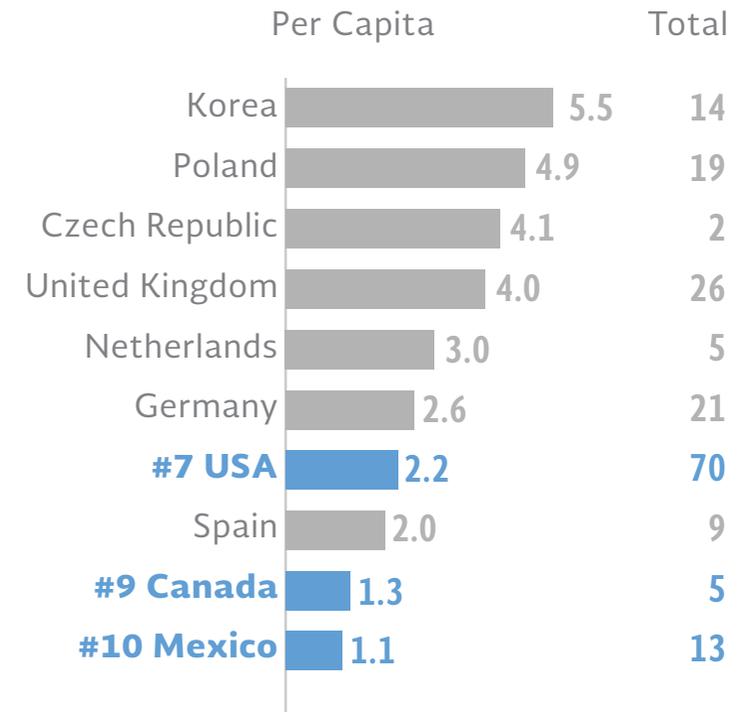
Canada and Mexico are the **5th and 10th largest source** for international students in the United States, respectively.<sup>5</sup>



### Engineering Graduates<sup>6</sup> (thousands)



### Computer Science Graduates<sup>7</sup> (thousands)



Total **early-stage entrepreneurial activity** (TEA) rates in Mexico went from 9.6% (2011) to 19% in 2015, the highest percentage of any country in the innovation-driven stage of development.<sup>1</sup>

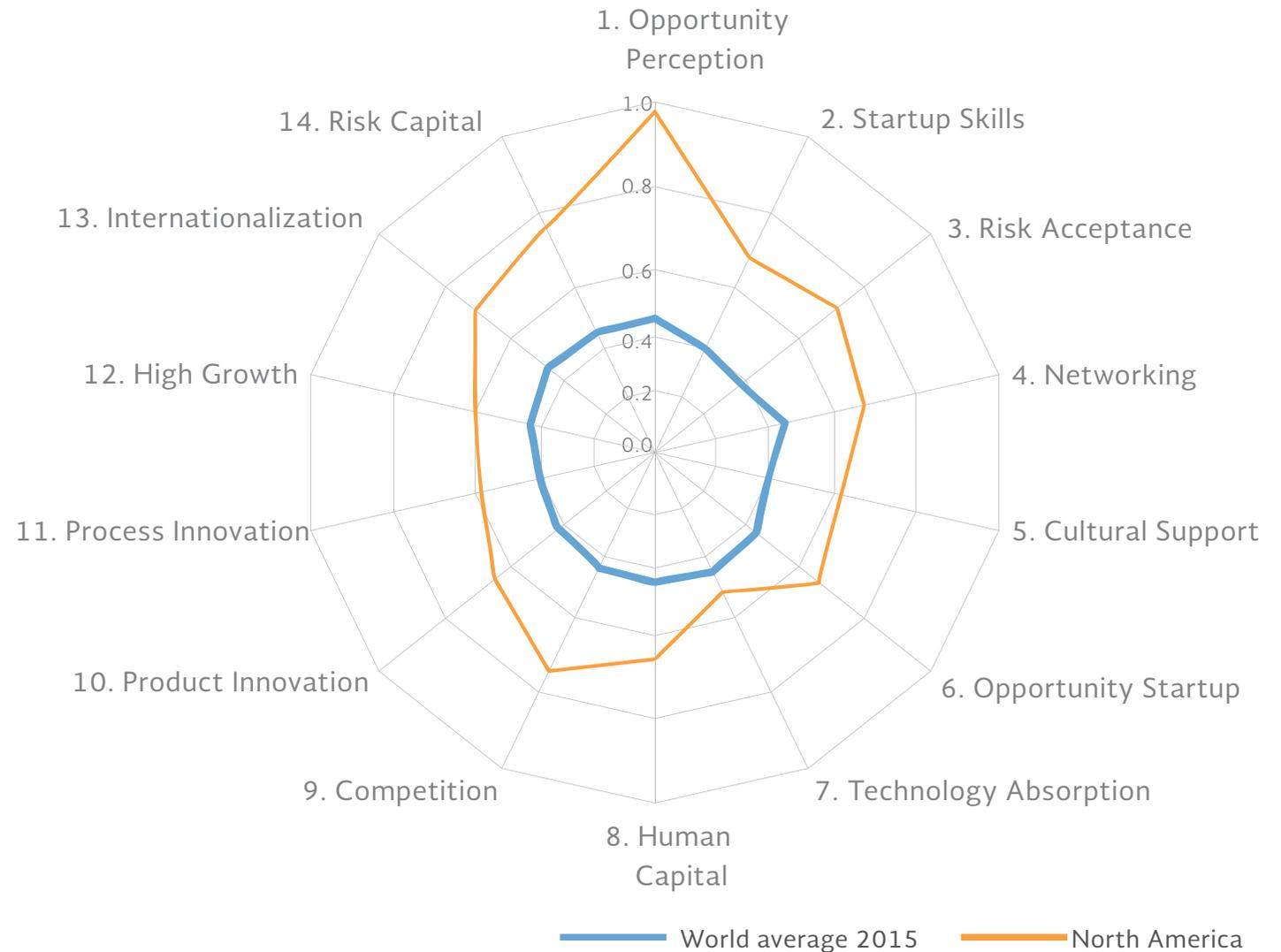
The countries of NA boast a **vibrant, complementary and dynamic climate when it comes to creating entrepreneurs**. The USA and Canada enjoy a proven track-record of impressive innovations and venture capital investors; Mexico is highly regarded as an efficient developer and market extension.<sup>1</sup>

Since year 2000, the **private equity and venture capital ecosystem** has shown 8x growth in terms of General Partner firm numbers (85) as well as 40x growth (US \$22 Billion) in annualized allocated resources.<sup>2</sup>

## FROM PRODUCING TO CREATING TOGETHER



### North America Entrepreneurship Ecosystem<sup>3</sup>



Source: 1) Global Entrepreneurship Monitor (GEM), 2016. 2) Mexican Private Capital Association (AMEXCAP), 2015. 3) GEDI, "Global Entrepreneurship Index", 2016.





# NORTH AMERICA HAS COMPLEMENTARY ENERGY RESOURCES

Given North America's energy-sector complementarity, the region enjoys energy security and the world's **lowest costs**.

Nearly **16% of the region's total trade** is in petroleum products. In 2015, 43.1% of USA crude oil imports came from Canada (the country's leading supplier) and Mexico (ranked fourth).<sup>1</sup>

In 2015, the region produced an aggregate of **21% of global production** (19,676 Million barrels daily) and 28% of the global gas production (984 Billion cubic metres). NA holds the fifth-place in proven oil reserves with a total of 450 Trillion cubic feet (USA 368.7, Canada 70.6, and Mexico 11.4).<sup>2</sup>

**Mexico's energy-sector reforms**, proven reserves and overall energy-related projects will give rise to major future opportunities:

Mexico is currently building an additional **6,209.3 miles of new pipelines** in order to reach a total extension of **13,300 miles by 2019**. Since 2012, Mexico has concluded 1,491 miles in pipeline projects, while some others are still under construction and through public procurement process that will add another 3,360 miles.<sup>3</sup>

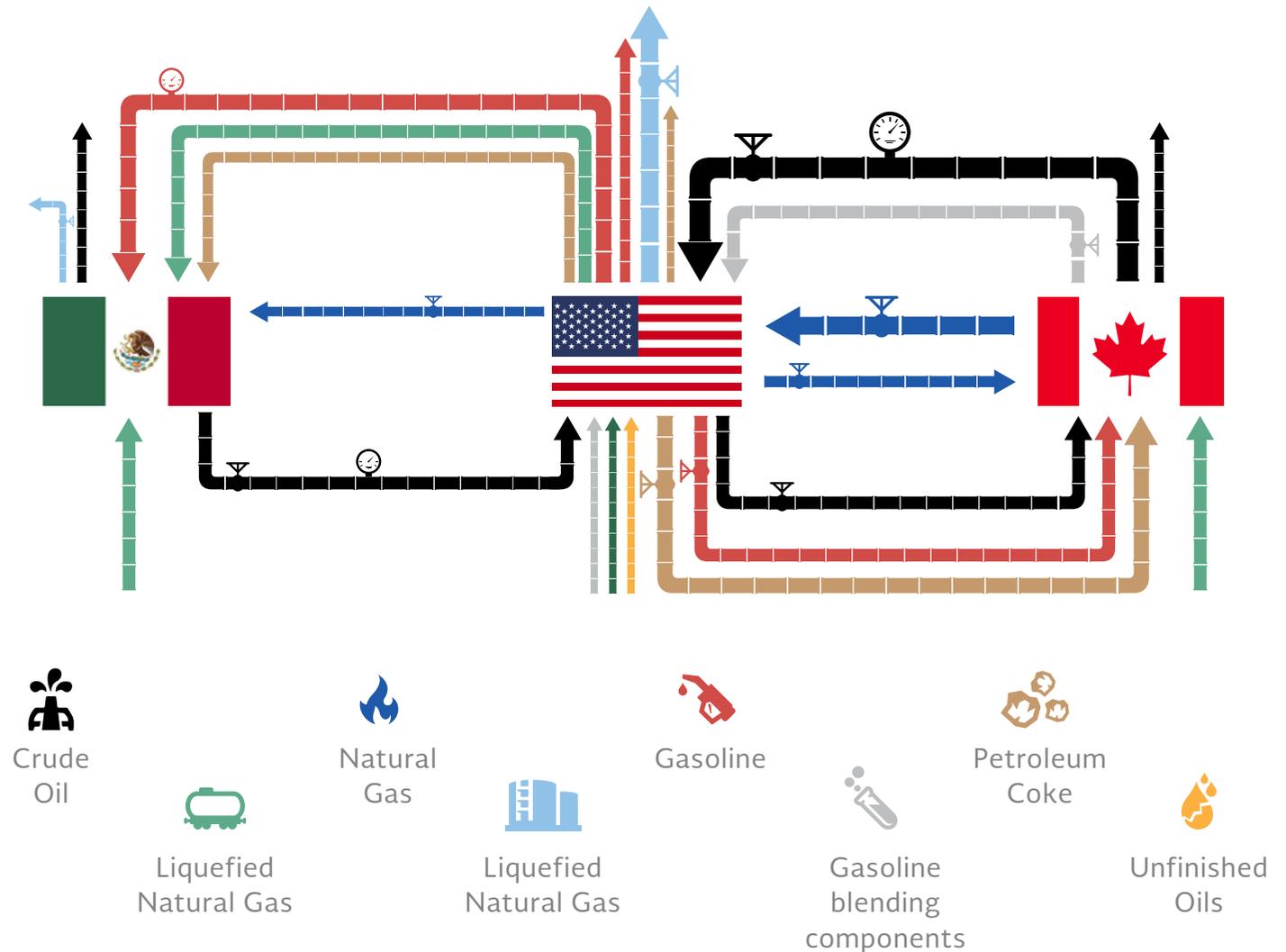
The USA alone has **305,000 miles of interstate and intrastate transmission pipelines** that is around 23 times that of the Mexican system when concluded in 2020.<sup>4</sup>

In 2014, Mexico had 9,558 production wells. That year 538 wells were drilled.<sup>5</sup>

Source: 1) Department of Energy- U.S. Energy Information Administration, 2016. 2) British Petroleum, "Statistical Review of World Energy", 2016. 3) Secretariat of Energy of Mexico, 2016. 4) U.S. Energy Information Administration, About U.S Natural Gas Pipelines, 2008. 5) Secretariat of Energy of Mexico, "Prospectiva de petr leo y petroliferos 2015-2019", 2015. 6) Roberto Cardareli and Cuisine Lusinyan, "Power Play: Energy and Manufacturing in North America", 2015.



### Energy flows between Canada, Mexico and USA<sup>6</sup>





# BORDERS: A NEXUS OF INTEGRATION, CULTURE AND POTENTIAL



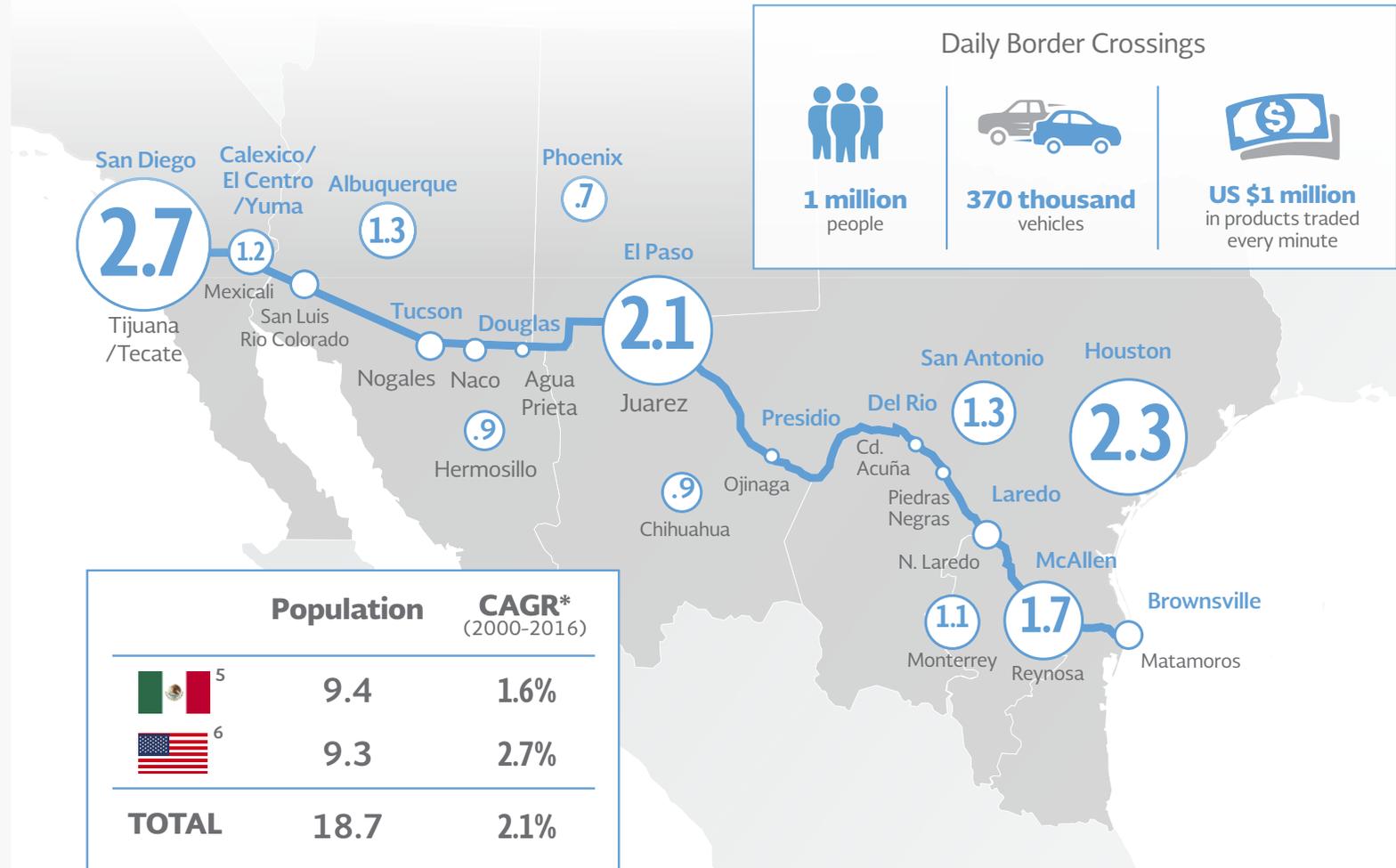
The countries of NA share **7,476 miles of borders** and 179 legal crossing points (121 USA-Canada, 58 USA-Mexico).<sup>1</sup>

With **daily crossings that reach a million individuals**, Mexico and the USA maintain one of the world's most integrated border regions.<sup>2</sup>

Surface transportation —**370,000 vehicles a day**— is supported by shared strategic corridors that link major industrial clusters on both sides of the border.<sup>3</sup>

North American partners must continue to build **world class infrastructure** at their borders —such as Tijuana's first bi-national passenger air terminal, that allows passengers that land at Tijuana's International Airport, or have a valid ticket (up to 24 hours prior to boarding) to cross the Mexico-US border quickly through an elevated pedestrian bridge.<sup>4</sup>

## USA-Mexico Border Latino Population (millions, 2016)



Source: 1) Based on figures by Mexico's National Statistics and Geography Institute (INEGI) and the US' Customs and Border Protection (CBP), 2015. 2) Based on figures by the Bureau of Transportation Statistics of the US Department of Transportation, 2015. 3) SE-Washington with data from USDOT, BTS. 4) Cross Border Xpress, 2016. 5) CONAPO, "Population Projections", 2010-2050. 6) Nielsen, "US Hispanic Population Estimates by DMA", 2016.

\* CAGR = Compound Annual Growth Rate.



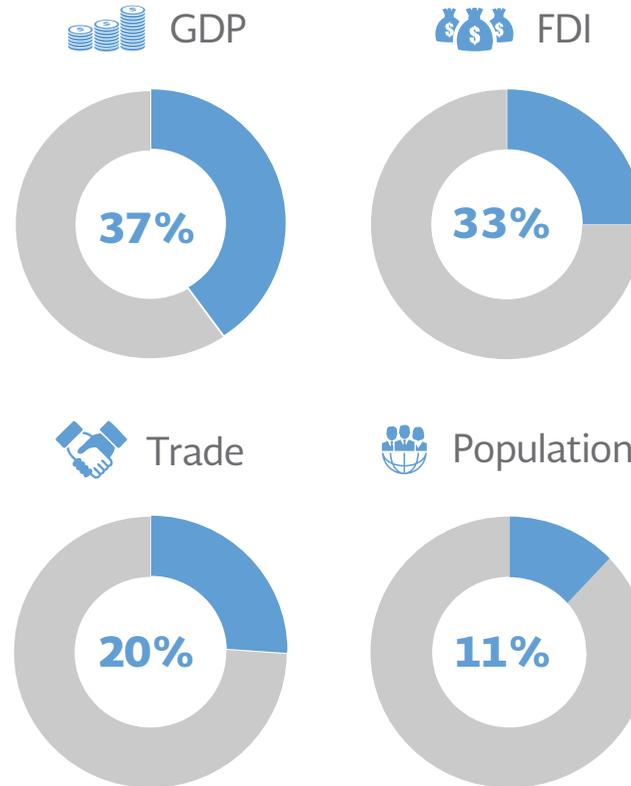
# TPP: RAISING THE BAR ON ECONOMIC INTEGRATION



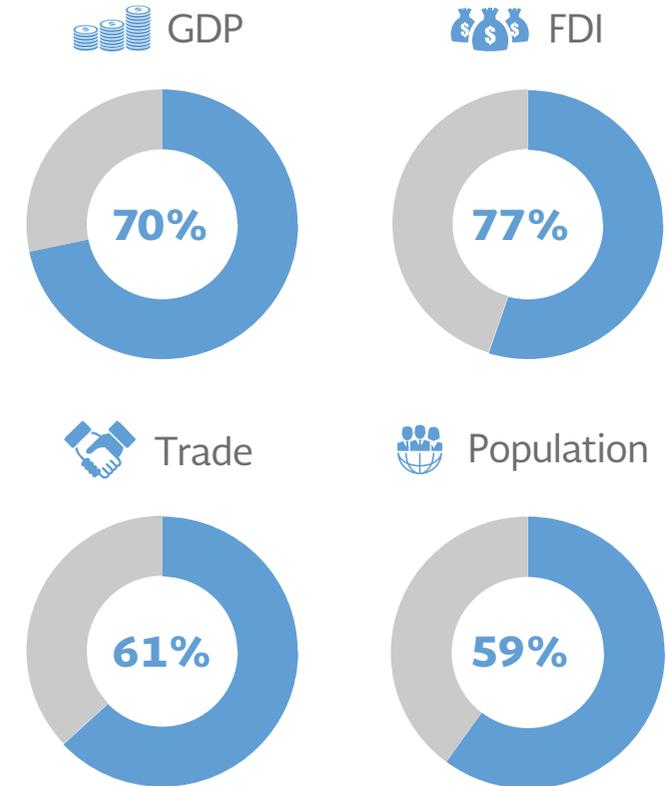
The Trans-Pacific Partnership (TPP) is a highly relevant agreement for North America since it enriches its members as it expands the market from 480 to 810 Million people and the combined GDP from US \$20.5 Trillion to US \$28 Trillion (36% of the world's GDP).<sup>1</sup>

Asia-Pacific trade expansion is an opportunity to strengthen North America's integration and links to common trading partners and new Asian markets.

TPP partners represent, worldwide:<sup>2</sup>



North America represents, of TPP:<sup>2</sup>



Source: 1) SAI Law and Economics with information from the World Bank, 2014. 2) SAI Law and Economics with information from the Secretariat of Economy of Mexico (World Bank, IMF, WTO and UNCTAD, 2015).





*“The North American Leaders Summit bears witness that isolated national efforts are insufficient. If we want favorable results for the benefit of our societies, it is better to work together as a region. We all know these global challenges -- isolationism is not the solution. In contrast, with what happens in other corners of the world, the countries in North America, we have decided to be closer, to work as a team, and to complement each other and to make progress together as the most competitive region in the world.”*

**Enrique Peña Nieto**  
NALS, 2016



*“We're going to continue to deepen our trilateral cooperation in this hemisphere and around the world. And, in short, we're going to do more to speak with one, united North American voice on the world stage [...] I'm confident that we're going to continue to advance regional cooperation and integration, and that's not just going to be good for our own people, that will be good for the world, as well.”*

**Barack Obama**  
NALS, 2016



*“It's gratifying that once again we are able to come together as leaders of three truly great nations to honor that enduring friendship and to once again deliver real results for the people of Canada, Mexico, the United States and, indeed, the entire global community.”*

**Justin Trudeau**  
NALS, 2016





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Source: Secretariat of Economy of Mexico