

Relocating or Expanding Operations & Supply Chain from China to Mexico

**EWA Manufacturing & Supply Chain Roundtable
with Senior Executives**

November 30, 2022

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a s s o c i a t e s

DRIVING COMPANY GROWTH IN CHINA, ASIA, MEXICO & CEE

Webinar Agenda

Questions for Speakers

- Registrants encouraged to ask questions
- Click on **Questions** on Control Panel
- Control Panel in Expanded View (Orange arrow pointing to the Right)
- Taking Questions throughout EWA Webinar

1. Introduction of East West Associates

2. Introduction of Corporate Speakers
3. Economic Challenges in China
4. Q&A Session
5. Conclusion

- A leading provider of Corporate Strategy, Commercial, Operational & Risk Management solutions
- Founded in 2005, EWA executives have held senior management positions with P&L responsibilities for western MNCs, including
 - Briggs & Stratton Asia (NYSE: BGG)
 - CIATEQ Mexico
 - Littelfuse, Inc. China
 - American Standard Thailand
 - General Motors Automotive Poland (NYSE: GM)
 - Eastman Kodak Asia (NYSE: KODK)
 - Bechtel Corporation China
 - Conceptos Para el Hogar, Mexico
 - General Electric Appliances Poland
 - Ashland, Inc. China (NYSE: ASH)

EWA Executives in 5 Regions



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Stefan Lachner, Senior Mexican Specialist for East West Associates - Mexico

- Former VP of Production & Logistics Planning for Robert Bosch in Mexico
- Former Manager of Operations and Engineering for Leoni AG in Mexico
- Former Business Unit Manager and Key Account Manager for Continental Teves Automotive in Mexico

Dan McLeod, Managing Director of East West Associates – US

- Former Director Asia Pacific Operations for Ashland Specialty Ingredients (previously AQUALON)
- Former Director of Asia Pacific Manufacturing & Supply Chain for Hercules Incorporated

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During the last 13 years, the economic challenges facing western companies operating in China have been continuously evolving and growing for years:



Why executives are migrating from China to Mexico to improve the supply chain reliability

U.S. manufacturers are motivated to take action due to economic and geopolitical challenges in China:

- COVID lockdowns
- China/Taiwan/U.S. tensions
- Constantly rising Chinese labor costs
- Higher logistics costs
- Unreliable transport to customers
- Volatile U.S./China tariffs
- Increasingly bureaucratic and regulatory environment in China
- Future China Scenarios = Do these challenges in China change in 2023?

Why are companies moving operations to Mexico?

- Stable flow of products & components close geographically to North American customers and assemblers
- Access to competitive & qualified labor
- Access to local Mexican raw material & components
- To operate under the USMCA, avoiding the expense, volatility and hassle of China/U.S. tariffs
- To establish manufacturing & supply sources where it's easy for U.S.-based management to visit and oversee them to control costs and maintain quality
- Future Mexico Scenarios = Does the Mexican business environmental change in 2023?

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Top Manufacturing Industries in Mexico

1. Aerospace

Aerospace manufacturing makes up nearly half of foreign direct investment in Mexico. There are approx. 300 aerospace manufacturing companies, including OEMs, Tier 1, 2, and 3 suppliers operating Mexico.

2. Automotive

The Mexican automotive industry is the fourth largest exporter of auto parts in the world and first in auto exports to the United States. Ten automotive OEMs have established a presence in Mexico and consistently work with tiered supplier networks to enhance productivity and export functions.

3. Medical Devices

Mexico's medical device industry manufactures a range of products from nearly 650 companies that export about USD 8 billion altogether. The vast majority of those products (92 %) head to the United States.

4. Electronics

Mexico specializes in manufacturing aerospace, hi-tech, IT, electronic sub-assembly parts, computer parts, home appliances and consumer goods.

5. Appliance Manufacturing and Furniture Manufacturing

Mexico is the fifth-largest exporter of appliances in the world, and a significant exporter within the furniture and household manufacturing industry.

Top Manufacturing Locations in Mexico



- Mexico's manufacturing industry is concentrated within the "green zone"
- Availability of investment incentives managed at the state level, with competition between states
- Clustering of manufacturing is driven by the individual needs and specializations of the varying manufacturing industries
- Clustering also ensures the needed labor skills & labor supply in each industry cluster region

Manufacturing Industry Clusters in Mexico

Aerospace

Operate out of industrial clusters concentrated in Queretaro, Sonora, Chihuahua, Nuevo Leon, and Baja California. Queretaro, home to the largest aerospace cluster, draws support from local university partnerships with Bombardier.

Automotive

Automotive manufacturing companies in Mexico have established a presence in every corner of the country, but are primarily clustered around Coahuila, San Luis Potosí, Baja California, Sonora, Nuevo León, Queretaro, Jalisco, and Guanajuato.

Medical Devices

The largest cluster can be found in Baja California, with 67 medical device companies, followed by Chihuahua, Coahuila, Nuevo León, Jalisco, Sonora, and Tamaulipas.

Electronics

The industry's activity concentrated in Coahuila, Mexico City, Nuevo León, Querétaro, and Tamaulipas. The regions also specialize in automotive and telecommunications components.

Appliance Manufacturing and Furniture Manufacturing

Queretaro, Tecate, Guadalajara, Monterrey, and Saltillo are particularly attractive for both furniture and appliance manufacturing in Mexico.

Registrants are encouraged to enter questions for the speakers

Topics include the pros & cons, challenges & opportunities of establishing manufacturing operations and supply chain in Mexico:

What are important *in-country* factors?

1. Labor cost and availability for engineering skill sets, mid-level managers, blue collar? Labor availability of the industrialized Northern Mexico vs. Central Mexico?
2. What government incentives exist? Taxes? Tariffs? Training? Partnerships with Universities?
3. How does operating costs in Mexico compare to China? To Southeast Asia? To Eastern Europe? Costs of skilled employees? Lease rates? Land costs?
4. Local Mexican suppliers of components & finished goods? Are there commodity sectors which are still more competitive outside of Mexico?
5. Global shipping complications & freight costs?

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Topics include the pros & cons, challenges & opportunities of establishing manufacturing operations and supply chain in Mexico:

6. Ease of establishing business entities & permitting
7. What is the availability of industrial parks, lease facilities & greenfield sites? Manufacturing infrastructure
8. Regional safety concerns? Employee & management safety? Explain the trends of security in some of the major regions (Torreón, Monterrey, SLP, Silao, etc)? Improving or getting worse?
9. What's the business & regulatory environment in Mexico now with a more pro-union government?
10. What legal union obligations are required?

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