



Sonora: At the Horizon of Supply Chain Opportunities

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1. Introduction

Mexico's international trade plays a pivotal role in its economy, serving as a key driver of growth and development. With its strategic location between North and South America, Mexico boasts a thriving trade network that encompasses both regional and global markets. The country's trade profile is characterized by diverse exports, including automobiles, electronics, petroleum products, agricultural goods, and manufactured goods. Mexico's trade relationships are primarily governed by free trade agreements, most notably the United States-Mexico-Canada Agreement (USMCA), which replaced the North American Free Trade Agreement (NAFTA). This agreement has significantly facilitated trade flows between Mexico, the United States, and Canada, fostering increased market access and promoting cross-border investment.

2. Mexico's International Trade

2.1 Role in International Trade

Mexico has a significant role in international trade. Due to its strategic location, diversified economy, and extensive network of free trade agreements, Mexico has become a major exporter of goods and services. It is also a preferred destination for foreign direct investment, boosting its international trade and economic growth.

Mexico has had extensive commercial participation in free trade agreements since 1986. It currently has 14 free trade agreements with more than 50 countries and has increased its commercial ties considerably. In addition, it has 31 agreements for the promotion and reciprocal protection of investment with 33 countries.

2.2 Strategic Importance

Mexico enjoys a strategic geographic location that gives it access to the main commercial destinations in a shorter average time and also is a great attribute for countries to find it attractive in allocating foreign investments. The expansion is a direct result of the strategic focus on attracting foreign investment and adapting to global economic shifts.

Mexico's competitive advantages to position itself as the natural candidate to benefit to a greater extent from nearshoring are the solid production and logistics chains developed with the US as a result of United States-Mexico-Canada Agreement (USMCA). shorter production and shipping processes than from other regions of the world; similar time zones with the United States, which facilitates communication between production and supply.

High inflation, supply chain bottlenecks caused by the COVID-19 pandemic, and the US-China trade war have helped catapult Mexico as a preferred landing spot for international companies seeking to relocate their investments closer to the United States. Resultantly, Mexico is in prime position to take advantage of an integral growth strategy that strengthens its internal market, with quality investments that incentivize the development and growth of its human capital.

2.3 Foreign Investment.

Foreign investment in Mexico plays a crucial role in driving economic growth, fostering innovation, creating jobs, and enhancing competitiveness, also the expansion is a direct result of the strategic focus on attracting foreign investment and adapting to global economic shifts.

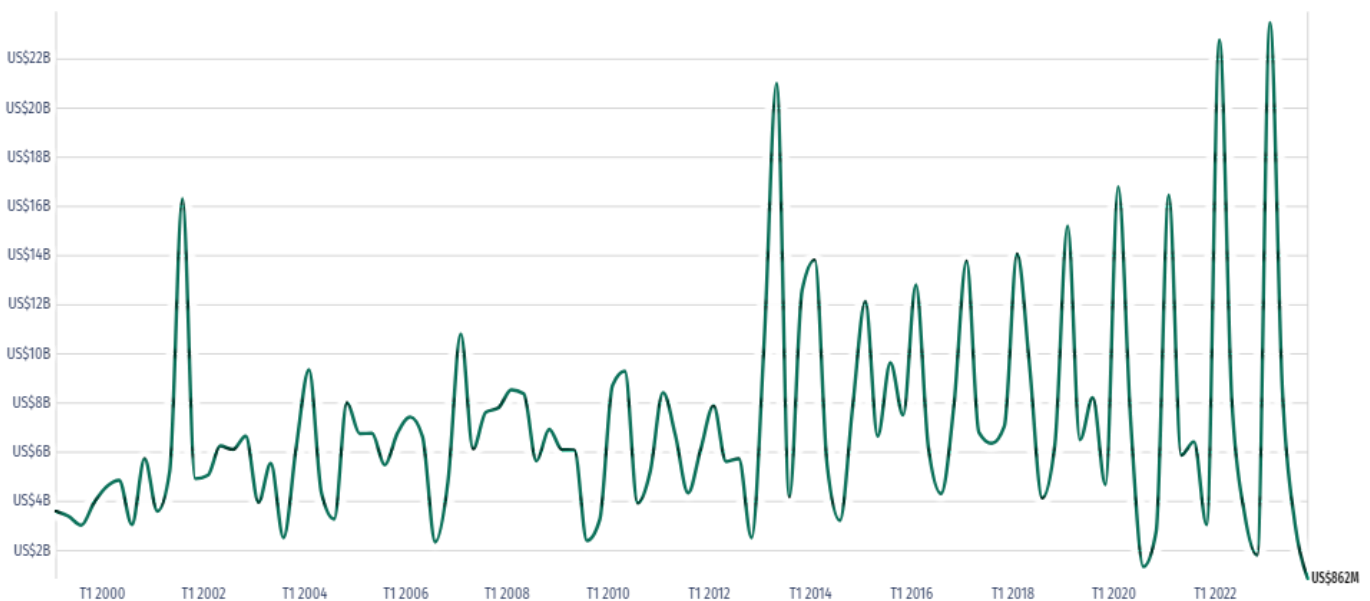
Mexico has emerged as a major manufacturing hub, particularly for industries such as automotive, electronics, and aerospace. Foreign companies are drawn to Mexico's skilled labor force, competitive production costs, and favorable trade agreements, which enable them to manufacture products for both domestic consumption and export to international markets. Also, Mexico's strategic location, bordering the United States and with access to Latin American markets, makes it an attractive destination for foreign investment. The country's proximity to major consumer markets facilitates trade and enables companies to establish efficient supply chains for goods and services.

2.3.1 Foreign Direct Investment

In the period January to December 2023, FDI in México reached the US\$36.1B, distributed in Inter-company debts (US\$4.61B), Equity Capital (US\$4.82B), and Reinvestment of earnings (US\$26.6B).

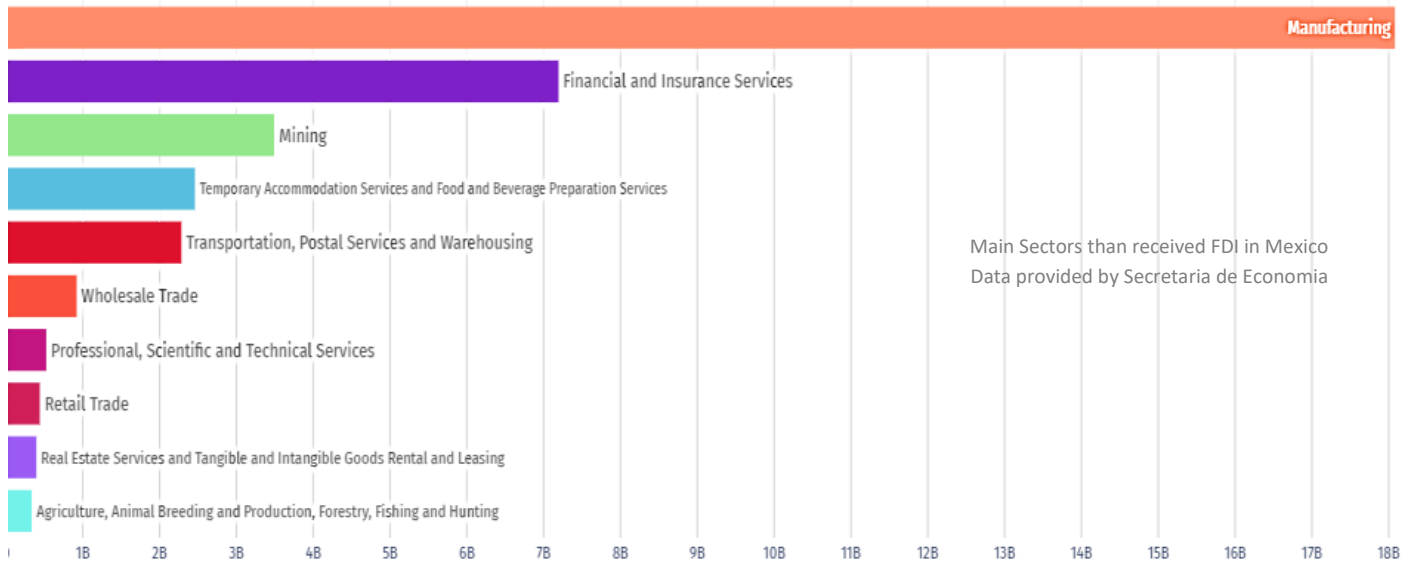
From January 1999 and December 2023, México accumulates a total of US\$712B in FDI, distributed in Inter-company debts (US\$154B), Equity Capital (US\$303B), and Reinvestment of earnings (US\$255B). (*Secretaria de Economía, 2024, Data Mexico, Banxico and INEGI*)

Quarterly Flow of FDI in México
Data provided by Secretaria de Economía



2.4 Destination of Foreign Direct Investment

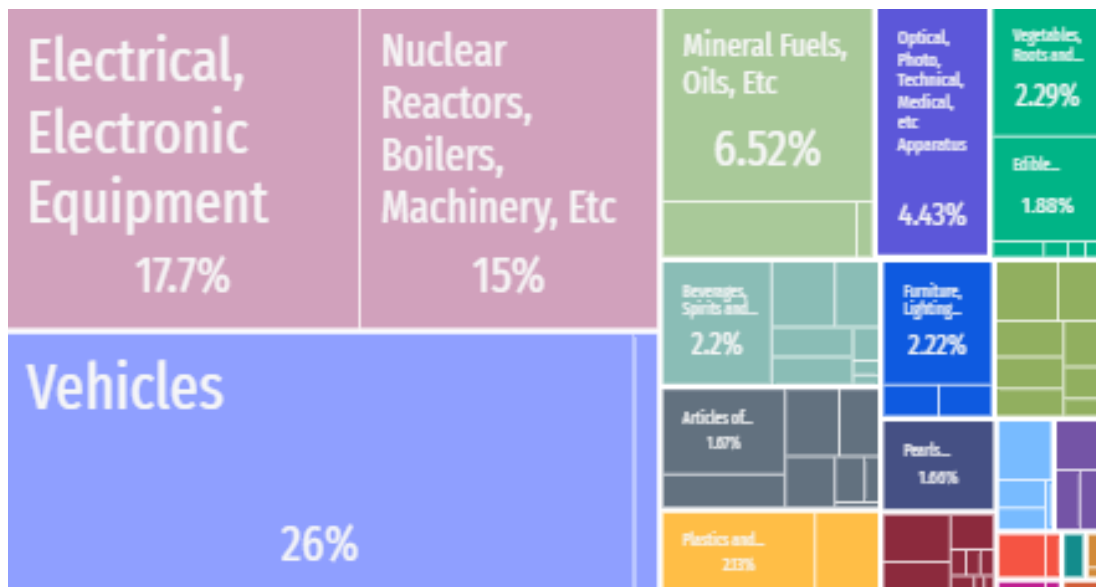
The following graphic from 2023 shows the main Sectors that received Foreign Direct Investment in México. These 3 main sectors are Manufacturing (US\$18,081M), Financial and Insurance services (US\$7,193M), Mining (US\$3,491M). (Secretaría de Economía, 2024, Data Mexico, Banxico and INEGI)



2.5 Product Exports and Imports

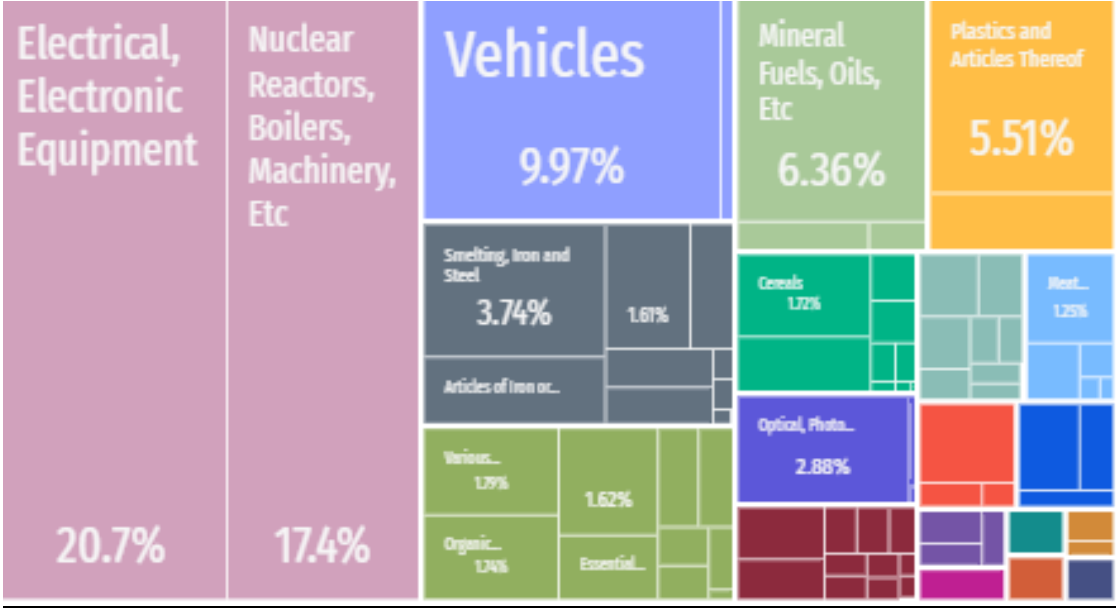
According to INEGI data, the main products exported from Mexico in January 2024 were Vehicles (US\$10.6B), Electrical, Electronic Equipment (US\$7.2B), and Nuclear Reactors, Boilers, Machinery, Etc (US\$6.11B). (Secretaría de Economía, 2024, Data Mexico, Banxico and INEGI)

Mexico exports by product (January 2024)
Data provided by Secretaría de Economía



According to data from INEGI, the main products imported to Mexico were Electrical, Electronic Equipment (US\$9.07B), Nuclear Reactors, Boilers, Machinery, Etc (US\$7.63B), and Vehicles (US\$4.36B). (Secretaria de Economía, 2024, Data Mexico, Banxico and INEGI)

Mexico imports by product (January 2024)
Data provided by Secretaria de Economía



3. USMCA

3.1 Overview of USMCA

The U.S. – Mexico – Canada Agreement (USMCA) is a trade agreement between the named parties that entered into force on July 1, 2020. The objectives of the USMCA are to eliminate barriers to trade, promote conditions of fair competition, increase investment opportunities, provide adequate protection of intellectual property rights, establish effective procedures for implementing and applying the agreements and resolving disputes, and to further trilateral, regional and multilateral cooperation.

Mexico's competitive advantages include: a solid production and logistics chains developed with the United States and Canada, shorter production and shipping times and processes, similar time zones within North America, legal certainty with a clear legal framework.



Additionally, the USMCA is the first free trade deal in the world to contemplate comprehensive chapters related to digital trade, social inclusion, labor standards, small and medium enterprises, the environment, competitiveness, among other topics. As a result, Mexico became the United States's main trading partner in 2023, displacing China for the first time in 21 years.

3.2 Mexico Trade Barriers

In recent years, various sectors of the national industry, including textiles, clothing and footwear, have been affected by the slowdown in economic growth derived from the pandemic caused by the Covid-19; the federal government has the obligation to implement mechanisms that generate stability in the national industry sectors and that allow the elimination of distortions in trade, to safeguard the balance of the global market in accordance with international law and international commitments; the principal objective is the recovery of the national industry, promote its development and support the internal market;

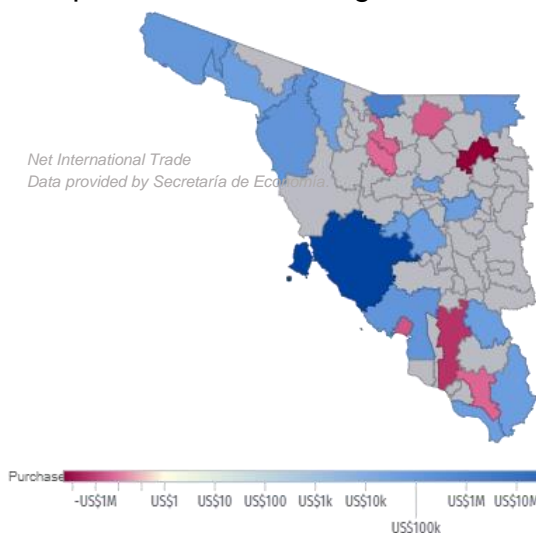
On April 22th of 2024, Mexico's Official Federation Dairy establish temporary import tariffs, of between 5% to 25%, of goods classified in 392 different HTS codes related to steel, aluminum, bamboo, rubber, chemical products, oils, paper, ceramic products, glass, electrical material, musical instruments and furniture, among others, that companies import into Mexico, in order to provide certainty and fair market conditions to all sectors that face situations of vulnerability, allow the recovery of the national industry, promote its development and support the internal market. *(Diario Oficial de la Federación, 22, Abril, 2024)*

4. Sonora

4.1 International Trade

In 2023, Sonora's international sales were \$20.4 billion, which is 5.28% more than the previous year. The top three products for international sales in 2023 were: Copper ores and concentrates (\$2.9 billion), Electrical wires and cables (\$1.74 billion), and Molibdeno minerals and concentrates (\$851 million). In Q4 2023, the state's economically active population was 1.47M people. The workforce reached 1.43M people (41.4% women and 58.6% men), resulting in an unemployment rate of 2.82% and an average monthly salary of \$7.41k MXP.

International purchases of Sonora in 2023 were US\$11.5B, -3.22% less than the previous year. The products with the highest level of international purchases in 2023 were Copper Ores and



Concentrates (US\$1.14B), Parts of Apparatus for Protecting Electrical Circuits, with a Voltage Exceeding 1000 V and Boards, Panels, for Electricity Control and Distribution (US\$745M), and Electrical Apparatus for Switching or Protecting Electrical Circuits (US\$542M).

In Sonora, the municipalities with the highest level of international sales in 2023 were Hermosillo (US\$5.16B), Nogales (US\$4.98B), Cajeme (US\$899M), and San Luis Río Colorado

(US\$746M). *(Secretaría de Economía, 2024, Data Sonora, Banxico and INEGI)*

4.2 Investment Projects

The Arizona-Sonora relationship continues to expand as Arizona becomes a hotbed for innovation and investment in the semiconductor, energy, electric vehicles, and logistics industries.

Hermosillo and Sonora, respectively, need to seek the synergy with its northern neighbor to further strengthen Arizona's sales pitch as an investment destination that can leverage its international border and diversify its value chains with cheaper, competitive labor, outsourced processes, and specialization in distribution and R&D efforts. In 2023, Arizona's exports to Sonora accounted for 30% of all of the state's international exports.

Mexico's federal government introduced the PLAN SONORA with the aim of increasing its renewable energy footprint, attracting FDI related to the semiconductor industry, and expand exploration and extraction of lithium and other strategic minerals. The plan has three pillars: large-scale clean energy generation, the development of strategic green infrastructure, strengthened value chains for strategic minerals linked to electromobility and semiconductors, and the development of human capital.

Some of the offers business opportunities are:

- Sonora Sustentable Energy Plan – Puerto Peñasco

Based on three pillars: large-scale clean energy generation; the development of strategic green infrastructure; the value added to all strategic minerals linked to electromobility and semiconductors, and the training of human talent. This project seeks to increase the generation of electric energy by the construction of a solar farm operated by Comisión Federal de Electricidad CFE and lithium mining exploitation.

- Port of Guaymas

The modernization of the Port of Guaymas in Sonora, Mexico, is a strategic initiative aimed at enhancing the port's infrastructure, efficiency, and capacity to accommodate growing trade demands and promote economic development in the region. Here are key aspects of the modernization efforts:

- Infrastructure Upgrades: The modernization plan involves significant upgrades to the port's infrastructure, including dredging and deepening of navigation channels and berths to accommodate larger vessels, expansion of cargo handling facilities, and installation of modern equipment and technology for more efficient operations.
- Expansion of Facilities: This expansion will enable the port to handle a wider range of cargo types, construction of new terminals, warehouses, and logistics facilities within the port area, and increase its competitiveness in the global market,
- Intermodal Connectivity: This will facilitate seamless movement of goods to and from the port, improving supply chain efficiency and reducing transportation costs.

4.3 Hermosillo

Hermosillo, Sonora, plays a significant role in Mexico's international trade due to its strategic location and economic activities. As the capital city of the state of Sonora, Hermosillo serves as a vital hub for trade and commerce in the region.

One of the key sectors driving Hermosillo's international trade is manufacturing, particularly in industries such as automotive, aerospace, and electronics. The city is home to several manufacturing plants and industrial parks, attracting investment from both domestic and international companies. Automotive manufacturing, in particular, is a major contributor to Hermosillo's trade, with the presence of assembly plants for leading automobile manufacturers.

4.3.1 Key investment opportunities in Hermosillo

- **Manufacturing:** Hermosillo's manufacturing sector offers significant investment potential, particularly in industries such as automotive, aerospace, electronics, and medical devices.
- **Automotive Industry:** With the presence of major automotive manufacturers and assembly plants, Hermosillo is a key player in Mexico's automotive industry.
- **Aerospace and Defense:** Hermosillo's aerospace industry is experiencing rapid expansion, fueled by increasing demand for aerospace components and services. Investment prospects exist in aerospace manufacturing, maintenance, repair, and overhaul (MRO) services, as well as in the development of aerospace technology and innovation hubs.
- **Renewable Energy:** Sonora, including Hermosillo, has abundant renewable energy resources, particularly solar and wind power. Investment opportunities exist in renewable energy projects, including solar farms, wind farms, and related infrastructure development, supported by government incentives and initiatives to promote clean energy.
- **Agribusiness:** Sonora is known for its agricultural production, including fruits, vegetables, and livestock.

Hermosillo offers a conducive environment for investment across diverse sectors, supported by its strategic location, skilled workforce, business-friendly policies, and access to domestic and international markets. Prospective investors can leverage these opportunities to capitalize on the city's economic potential and contribute to its sustainable development.

5. Conclusion

There are also challenges to overcome in the country for nearshoring in Mexico to become a reality. Some of them are legal certainty for foreign investments; social problems, security, organized crime, corruption and impunity; development and modernization of more transportation logistics infrastructure, ports, airports, customs capacity, clean energy, as well as more qualified labor. Mexico boasts several competitive advantages across various sectors; strategic location positioned between North and South America (also serves as a gateway for trade between these regions, as well as with Europe and Asia), several trade agreements enhancing its access to global markets, cost effective labor particularly in manufacturing, Mexico is an attractive destination for companies seeking cost effective production, rich in natural resources, including oil, minerals and agriculture products, providing opportunities for industries such as energy, mining and agriculture, among others. Mexico's attractiveness as a destination for investment, trade and economic development.

About Gamas Group



Gamas Group is a fourth-generation family company founded in 1942 in Nogales, Sonora as a customs brokerage firm providing import services for local merchants. Since then, the company has grown to offer integral customs brokerage, logistics, transportation, warehousing, distribution, and trade consultancies services across

50 offices mainly located in 35 of Mexico's port of entries, the US southern border, Asia, and Europe.

Gamas Group enhances North American logistics and customs brokerage standards that help drive our clients' growth and accelerate economic growth across the region by driving continual technological innovation, developing the best talent, and always going the extra mile. The company is led by its CEO and licensed Mexican Customs Broker, Victor Hugo Gamas. He also serves as the Chairman of Grupo Xinerxia, a holding company for 20 firms that employs 1,000+ professionals dedicated to building an ecosystem of smart logistics for international companies seeking to do business in North America.

The company is characterized by the efficiency, defined times, added value, integral services, human capacity, oriented to exceed the expectations of the clients. Some of these areas are:

1. Custom Brokers in Mexico. Extensive experience in imports and exports.
2. Custom Brokers in US. Extensive experience in imports and exports.
3. Freight Forwarding. Personalized solutions, attending every need.
4. Foreign Trade Consulting. The identification of areas of opportunity and reduce risks, legal and operational advice.
5. Logistics and Global Transportation. global supply chain management, maritime, air and land transport.
6. Storage and Distribution. trained personnel, adequate infrastructure, and cutting-edge technology for efficient management and control of inventories.
7. Technology for Foreign Trade. Technology applied to foreign trade in charge of offering solutions.
8. Cargo Inspection at Origin. Release shipments from Mexican customs in 24 to 48 hours