



## 2016 Top Markets Report **Technical Textiles** Country Case Study

### Mexico

Mexico is the United States' largest market for textiles and apparel. Due to the size of Mexico's textile and apparel sector, its proximity to the United States, the flexibilities afforded to U.S. exporters through NAFTA and the recently signed TPP (once it enters into force), ITA expects continued investment in all four technical textile sectors and continued growth into the future. Mexico remains an important export market for U.S. technical textile products, accounting for 39 percent of total U.S. technical textile exports in 2015.

Non-wovens	1	Spec. & Ind.	1	Overall Rank	1
Medical	1	Protective	2		

Mexico's textile and apparel industry accounts for 6 percent of the country's gross domestic product and nearly 20 percent of all manufacturing employment in Mexico, employing almost 415,000 workers in 2013. Mexico's industry is based on competitive labor costs and geographic proximity to the United States. The pattern has been for U.S. companies to supply textiles and fibers to Mexico's in-bond processing factories (known as maquilas or maquiladoras) that receive favorable fiscal and trade treatment. The maquiladoras then re-export these inputs after processing in the form of finished garments.

After losing a portion of its U.S. market share to developing countries, Mexico has been clawing back some of its competitiveness in the United States through expanding its reach in other textile markets.

Textile firms in Mexico realized they needed to increase their competitiveness by investing in the expansion of production centers and manufacturing high-quality textile products in order to compete in international markets.<sup>1</sup>

Mexico is forecast to become the largest economy in Central and South America within 10 years. U.S. exports of textiles and apparel to Mexico accounted for approximately 27 percent of total U.S. textile and apparel exports to Mexico in 2015. Textile and apparel exports to Mexico increased from \$6.2 billion in 2014 to \$6.5 billion in 2015, an increase of 5 percent.

#### Overview of the Technical Textile Market

Mexico is the largest market for U.S. technical textiles and plays a special role in trade with the United States textile market. Mexico, therefore, is an ideal starting point for new exporters. ITA should highlight the well-established U.S.-Mexico trading relationship and draw particular attention to the relatively low market access barriers to foster and expand current and future trade with Mexico.

The Mexican textile industry, however, has faced growing competition from countries like China, a situation that was compounded when the latter joined the World Trade Organization (WTO). This competition has forced the Mexican textile industry

to take stock of the textile sector and make adjustments to its production activities.

To accomplish this, the Mexican textile industry has decided to articulate its different value chains; promote competitiveness through innovation, design and technology; and position Mexico as a textile leader internationally.<sup>2</sup>

The Mexican government has acknowledged the need to promote these technical industries, which have the ability of taking on other international manufacturers in terms of price and quality.

If Mexico's textile industries can continue to adapt quickly to the needs of the domestic and international markets and turn competition from abroad into an opportunity for innovation, they are likely to maintain their standing as the top destination for U.S. technical textiles.

U.S. Free Trade Agreement (FTA) partners, particularly Mexico, remain important to exporters. NAFTA is critical to improving U.S. competitiveness in these markets.

### **Challenges and Barriers to Technical Textile Exports**

Despite the country's close trading relationship with the United States and Canada through NAFTA, the textile and apparel sector in Mexico has been facing an increasingly strong competitive challenge from China and other Asian producers. Mexico needs to address this competition and increase its competitiveness in textiles to maintain its standing as the top destination for U.S. exports of technical textiles.

Another challenge facing U.S. exporters is numerous U.S. companies reported in 2012 that Mexico's tax authority, the Servicio de Administración Tributaria (SAT), was initiating audits to verify NAFTA origin for certain products imported from the United States. Although some audits questioning NAFTA origin are reportedly still being conducted, SAT adopted new procedures to address complaints, including a "selective sampling" procedure implemented on a case-by-case basis, and modified its notification system to ensure that all parties are aware of an audit and have adequate time to respond. The U.S. government continues to monitor the situation and urge SAT to resolve all pending audit cases in a timely and transparent manner. This is an issue that ITA

needs to pay close attention to and make sure U.S. exporters are aware of these procedures.

Additionally, in December 2014, the Mexican government introduced six new trade policy measures that the U.S. industry believes are devised to bolster Mexico's textile and apparel industry. These include four customs enforcement measures that are intended to increase government scrutiny of imports of textile and apparel products, especially those that are viewed to be undervalued by the Mexican government.<sup>3</sup> Another measure establishes a minimum reference price for textile and apparel products. Shipments entered below that price would be subject to an investigation and potential penalties.<sup>4</sup> Lastly, textile and apparel importers will be required to be listed on a sector specific registry, and companies not listed on the registry will not be permitted to import these products. It is important to note that these new measures do not apply to goods entering Mexico under a valid NAFTA certificate of origin.

Further complicating the situation for U.S. exporters of textiles and apparel to Mexico, Mexico has recently undertaken a project to update its labeling requirements in accordance with international standards. In late 2014, Mexico's previous standard on fiber content and identity labeling was split into two new standards that cover natural fibers and manmade fibers, respectively. After much confusion and several delays, the standard on natural fibers went into effect in September 2015. The standard on manmade fibers will become effective on June 3, 2016. Additional standards revisions are planned for 2016 and beyond.

### **Opportunities for U.S. Companies**

Mexico offers a highly accessible market for U.S. exporters and is a significant textile market for the United States. The technical textile industries in Mexico are experiencing remarkable growth brought about by increasing domestic demand and the shifting of production back to the region.<sup>5</sup> This increase in demand has resulted in the need for greater investments in the technical textile market and is a great opportunity for U.S. exporters to increase their presence in Mexico.

This has encouraged manufacturers in Mexico to use U.S.-made yarns and fabrics in the production of all forms of technical textiles. Furthermore, U.S. exports

far exceed Mexican imports, reflecting the Mexican industry's heavy reliance on imported raw materials, particularly from the United States.

As demand for technical textiles continues to grow, meeting that demand will depend on the Mexican textile industry's commitment to operating in these industries. So far, from examining the trade data, Mexico has proven flexible enough to adapt to this change. Mexico now needs to go one step further and tap into other areas of specialization.

#### Non-wovens

Mexico is one of a select group of countries that has been identified as an emerging market for non-woven textiles. In the Western Hemisphere, it is the top market for this sector.

Mexico is the number one market for U.S. non-woven exports and has been the top export market for U.S. non-wovens since 2008. Since 2008, exports of U.S. produced non-wovens have grown 10.7 percent annually.

#### Specialty and Industrial Fabrics

There is a great deal of interest in Mexico and Central America for the types of specialty fabrics and related products produced in the United States. Recently, many car manufacturers have invested in Mexico, thus this will have spillover effects in the demand for industrial fabrics used in the automotive sector. Toyota Motor Corp announced in April 2015 that it would construct a manufacturing plant in Mexico, and soon after, Ford said it would be building and expanding its factories as well.

Since 2008, Mexico has been the top export market for U.S. specialty and industrial fabrics. Specialty and

industrial fabric exports were \$1.5 billion in 2012, an increase of 20.7 percent from the 2011 level, and accounted for nearly 30 percent of total U.S. textile and apparel exports to Mexico. U.S. exporters will find the competitive advantages of doing business with an FTA partner country like Mexico extremely rewarding.

For 2015, U.S. specialty and industrial fabric exports to Mexico accounted for approximately 50 percent of total specialty and industrial textile exports, representing a 6 percent increase over the previous year.

#### Medical Textiles

Mexico is the largest market for medical textiles exported from the United States, and the medical textiles sector is the fastest growing of the four sectors in Mexico. For 2015, Mexico market share was 29 percent. Additionally, trade in this sector with Mexico is projected to increase 36 percent from 2013 to 2016.

#### Protective Apparel

Mexico has been producing and developing protective textile products for many years. The United States has noticed these products, which are appealing from both a technical and a commercial perspective, and because they meet all the required U.S. standards. For U.S. manufacturers, it's more complicated to go to Asia, whereas Mexico offers a value chain that is closer and more controlled, which is something that greatly interests final users in the U.S. This could be another export opportunity for U.S. protective textile producers. Through developing relationships with Mexican counterparts, the United States could increase its exports of protective textile products. Exports to Mexico have grown 8 percent annually between 2008 and 2015 and are projected to grow to \$150 million by 2017.

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<sup>1</sup> Fibre2fashion News Desk –India, March 12, 2014

<sup>2</sup> Fibre2fashion News Desk –India, March 12, 2014

<sup>3</sup> "Mexico Unveils Trade Policy Steps to Boost Textile, Apparel Sector." Inside U.S. Trade. December 2014.

<sup>4</sup> "Mexico Unveils Trade Policy Steps to Boost Textile, Apparel Sector." Inside U.S. Trade. December 2014.

<sup>5</sup> Textile World. November/December 2012