

Industry Agenda

# Enabling Trade

## Unlocking the Potential of Mexico and Vietnam

June 2016



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# Preface

*By Ildefonso Guajardo Villarreal, Secretary of Economy of Mexico*

Mexico's government has made a strong commitment to boosting the country's competitiveness in global trade, and the Ministry of Economy recognizes that trade facilitation is a key element in achieving this objective. The ministry also recognizes that implementing the Bali Trade Facilitation Agreement of 2013 offers a unique opportunity to make Mexico a more attractive place for doing business.

This report is the result of an initiative the ministry undertook towards the implementation of the Bali agreement. The end-to-end value chain analysis proposed by the World Economic Forum has proved to be useful methodology, not only to identify trade barriers, but also to highlight the importance of coordination among public-sector institutions. It is now evident that Mexico's success in stimulating trade largely depends on harmonized efforts to overcome obstacles in a number of critical areas.

In addition, this report makes clear that implementing the agreement requires committed participation by the private sector. Creating and carrying out public policies in collaboration with the private sector has always been at the core of the ministry's mission; this is particularly relevant for trade policies today, as only a holistic view will allow us to target key strategic barriers and make substantial improvements.

We thank the World Economic Forum for sharing its knowledge and expertise on trade facilitation. We anticipate that the findings of this report will help Mexico to successfully face its trade challenges, implement necessary reforms and increase economic growth.





# Foreword

*By Wolfgang Lehmacher, Head, Supply Chain and Transport Industry, World Economic Forum*

Trade and foreign direct investment are critical for world economies and the wealth of nations. Both are linked, and economic success depends more than ever on the attractiveness and competitiveness of markets, including the availability and ease of moving goods, talent and services across borders. The global repartition of work, which has fuelled globalization and international trade, appears to have plateaued. Sluggish global demand in the wake of the financial crisis has forced growth engines like China, which has driven global growth for decades, to refocus on domestic and regional markets. As these developments unfold, the Enabling Trade initiative of the World Economic Forum supports countries in overcoming obstacles to trade and thereby boosting economic growth.

In 2015, the government of Mexico and the World Economic Forum launched a deep-dive project to analyse three industries: aerospace, preserved fruits and medical devices. The project zeroed in on the medical devices industry, as representative of the overall Mexico market, to understand the concrete barriers to trade and investment, and the steps to overcome them.

Vietnam has been selected for a light-touch analysis to shed light on the current state of its trade ecosystem. A deeper study, similar to that conducted in Mexico, will be necessary to formulate firm policy and programme recommendations.

The outcome of the Mexico study underlines the need for highly focused measures that (a) are geared towards boosting key parts of the value chain and (b) target initiatives to improve the entire system and increase global competitiveness. Success depends on cross-ministerial collaboration throughout the journey.

It is hoped the recommendations outlined in *Enabling Trade: Unlocking the Potential of Mexico and Vietnam* will help the government of Mexico to accelerate its trade facilitation effort and launch initiatives that will benefit the global manufacturing environment and the nation and people of Mexico.



# Introduction

The primary objective of the World Economic Forum's Enabling Trade initiative is to ensure growth in trade and momentum for the global implementation of the 2013 Bali Trade Facilitation Agreement. With that as the goal, the government of Mexico and the Forum launched a joint study to help catalyse Mexico's progress; this report represents the majority of the work in 2015. In addition, the initiative investigated the progress made by Vietnam, the significant remaining trade obstacles it faces and the vast improvements it can make to become more globally competitive by addressing the hurdles – and potential gains – in border administration, infrastructure and market access.

The work in Mexico, which comprises the majority of this report, focuses on specific industries close to the “tipping point” of competitiveness in the global market. After analysing three industries – aerospace, preserved fruits and medical devices – the latter was chosen to exemplify the barriers and measures to remove them as the medical devices industry is considered to be representative of the entire market.

*Enabling Trade: Unlocking the Potential of Mexico and Vietnam* showcases Mexico's current trade facilitation approach, highlights existing trade barriers revealed during interviews with the public and private sectors, and offers further recommendations for actions. By looking at the end-to-end value chain of a medical device, the report also presents a rough estimate of the potential impact of trade barrier removal. Some of the recommendations provided are specific to medical devices; however, many could have benefits beyond the medical devices industry.



# Mexico's Economic Development and Trade Evolution



## Overview of Mexico's current production, exports and imports

Mexico is the second-largest economy in Latin America. It has a current gross domestic product (GDP) of \$1.3 trillion and has been growing at an annual average of 2.6% for the past 20 years.<sup>1</sup> Mexico's economy is shaped by three characteristics: the size of the informal economy, which represented 26% of GDP and 60% of the working population over the past decade; the relevance of manufacturing, accounting for 17% of total GDP; and the concentration of the economic engine, with more than 50% of GDP generated in six of 32 federal entities.<sup>2 3</sup>

In 2014, Mexico reached about \$380 billion in exports, representing 33% of GDP – a significant increase over the approximately 11% prior to the signing in 1994 of the North American Free Trade Agreement (NAFTA). Despite 13 free trade agreements with various countries, more than 80% of Mexico's exports are to the USA and are concentrated in a handful of industries, with automotive and electronics leading the way. Although the bulk of its exports still focus on a few industries and a few trade partners, certain dynamic pockets have been growing more than 10% on average in recent years.<sup>4</sup> These include:

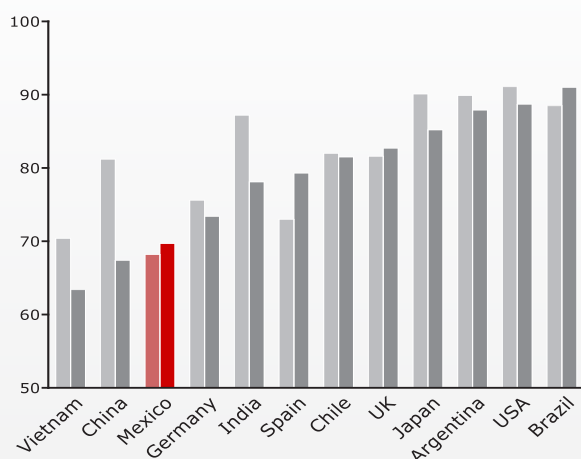
- Industries such as furniture and lighting, aircrafts and aerospace, railway and tram equipment, plastics and iron<sup>5</sup>
- Exports to China, Spain, South Korea, Peru, Italy, France and Switzerland<sup>6</sup>

Mexico's imports have also risen significantly since NAFTA, to approximately 32% of GDP from about 14% prior to the agreement. While the USA is also the main source of imports, this is more diversified in terms of countries of origin and industries.<sup>7</sup>

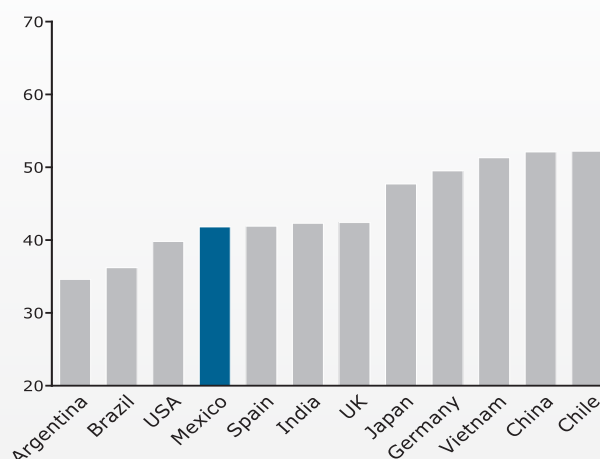
## Mexico's role in the global supply chain

Global value chains (GVCs) present enormous opportunities for markets such as Mexico to participate in industries without developing capabilities along every step of the supply chain. Mexico has three key advantages that have shaped its role in GVCs: cost of labour, presence of free trade agreements and proximity to the USA. In GVCs, Mexico tends to participate downstream in the production process, importing unfinished goods and adding value domestically before exporting either a finished or nearly finished product.<sup>8</sup> This role has driven the surge of *maquiladoras* – companies that temporarily import materials or components for assembly, manufacturing, processing or reparation in Mexico for eventual re-exportation – which are typically concentrated in regional clusters by industry, leading to low added value in gross exports.<sup>9</sup> In terms of participation in the GVC, room for improvement exists compared with international best practices. For example, some Latin American countries like Chile have found a way to achieve higher participation in both dimensions.

Domestic value added as % of gross exports  
(2000 vs 2009)



Participation in GVC as % of gross exports  
(2014)



Source: OECD



# Mexico's Approach to Trade Facilitation



To overcome barriers and facilitate trade, Mexico has launched many initiatives driven by both the public and private sectors. Key programmes from the Secretary of Economy (SE), including IMMEX (Industria Manufacturera Maquildora y de Servicios de Exportación), PROSEC (Program of Sectoral Promotion) and the Regla Octava, have been designed to ease the import-export process and lower the transaction costs associated with importing intermediate goods that are input for export products.<sup>10</sup>

<sup>11</sup> <sup>12</sup> The ministry also is launching new trade facilitation initiatives, two of which focus on deploying technology as a tool for improved market access and border administration:<sup>13</sup>

- SNICE (Sistema Nacional de Información de Comercio Exterior) will be a single user-friendly information repository for all trade-related information and is expected to especially benefit small and mid-sized enterprises (SMEs).
- COMPEX (Comisión Mixta para la Promoción de las Exportaciones) will provide a centralized, interactive portal for user interaction with the Trade Department.

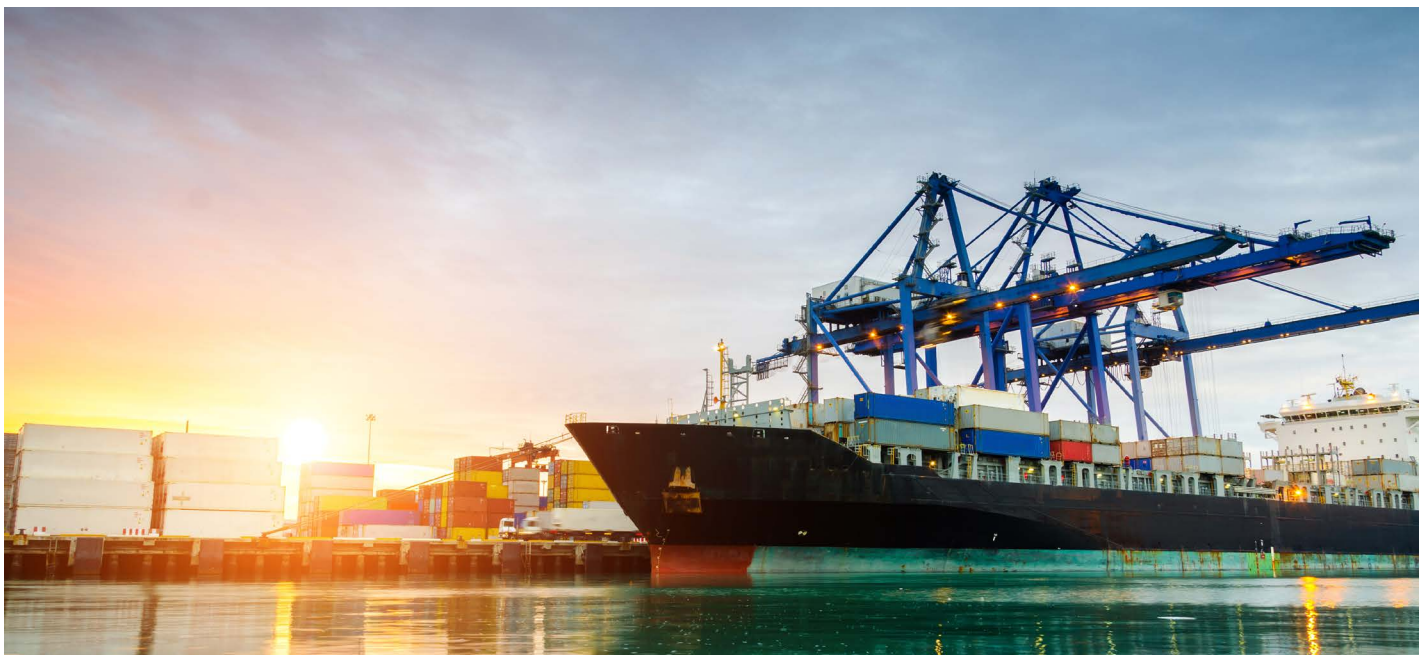
Other initiatives from the Mexican Tax Administration Service (SAT) related to border administration simplification and acceleration include reduced import-export permit issuance times, a simplified version of the tariff code identification system, and ambitious plans for increased efficiency and utilization of technology in customs

clearance processes as well as cooperation with foreign customs agencies.<sup>14</sup> Additionally, one vital element is the implementation of a National Single Window for border administration in 2012.<sup>15</sup>

ProMexico, an SE unit, has industry-specific programmes focused on the promotion of foreign direct investment and exports, including efforts to provide businesses with financing and market data, and to improve connections with international buyers and sellers.<sup>16</sup>

In terms of transportation, major investments are under way to expand the quality and coverage of Mexico's transport infrastructure. President Enrique Peña Nieto announced plans to put \$5 billion into a network of 117 ports, with significant investment in the port of Veracruz.<sup>17</sup> Mexico City has a new \$12.5 billion airport under construction; work began at the end of 2014.<sup>18</sup>

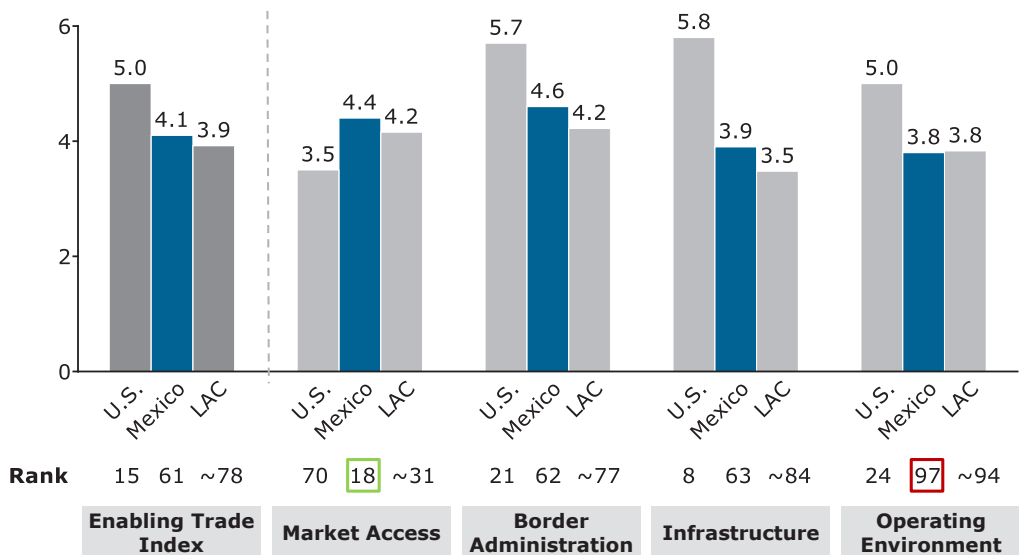
These initiatives, among others, represent significant progress in trade facilitation across a range of different areas. However, experience shows that governments achieve the most success, and reduce the risk of launching initiatives that fail to drive industries past the tipping point of competitiveness or increase their share in GVCs, by focusing on high-potential industries and analysing the quality of end-to-end value chains, rather than having entities take independent actions.<sup>19</sup>



# Trade Barriers Affecting Mexico



Enabling Trade Index and Subindexes  
Based on 138 countries — 2014 scores



Note: LAC = Latin America and Caribbean, approximate rank for LAC was taken considering a country with a similar score  
Source: The Global Enabling Trade Report 2014, World Economic Forum

Published every two years, the World Economic Forum's Enabling Trade Index benchmarks the performance of 138 economies in four areas: market access, border administration, transport and communications infrastructure, and regulatory and business environment. In the index, Mexico ranked 61st overall in 2014 and 65th in 2012.

### Market access

Mexico ranks in the top 15% in this index category, thanks in large part to its proximity to the USA and to the existence of 13 trade agreements that allow approximately 87% of USA imports to enter the country tariff-free.<sup>20 21</sup> However, opportunities still exist to ease the navigation of regulatory requirements and better connect buyers with sellers.

### Border administration

Mexico requires less documentation for import and export processes than many other countries, but the process itself is perceived as slow, complex and inconsistent.<sup>22</sup> Key factors include a lack of coordination among customs officers and an excessive number of checkpoints that rely on manual inspection. This complexity contributes to the hidden costs of middlemen and to the burden of corruption that businesses sometimes face.<sup>23</sup>

### Infrastructure: transportation and logistics

Mexico stands in the middle in this category, given the low quality and limitations of its infrastructure, as well as its below-average levels of mobile and internet connectivity.<sup>24</sup> The greatest improvement opportunities are related to customs clearance and inland transportation costs.<sup>25</sup>

### Operating environment

In this category, Mexico ranks in the bottom third of global economies.<sup>26</sup> Significant room for improvement exists in four main areas:

- Government regulations are difficult for compliance, inconsistently recognized, and perceived as confusing and slow.<sup>27</sup>
- The efficiency and accountability of public institutions are considered to be among the lowest in the world.<sup>28</sup>
- Access and affordability of financing and financial services is low by global standards.<sup>29</sup>
- Gaps in physical security are wide and lead to higher costs of doing business.<sup>30</sup>

These barriers disproportionately affect SMEs, which have fewer specialized resources and less access to public decision-makers than do larger businesses and often are unaware of existing support programmes.<sup>31</sup> Finally, more than half of the labour-cost advantage that Mexico has over the USA is estimated to be lost because of supply-chain barriers.<sup>32</sup>



# Increasing Mexico's Relevance in the Medical Devices GVC



Mexico has taken important steps to expand its participation in the medical devices GVC. Free trade agreements and the IMMEX programme that offer benefits to foreign firms looking to manufacture in Mexico, have helped the country to become the ninth-largest exporter of medical devices globally and the biggest exporter in Latin America, exporting \$7.7 billion worldwide in 2014.<sup>33</sup>

However, barriers remain along the value chain that must be addressed for the industry to go past the “tipping point”. This report identifies four trade barriers that lead to higher costs and lower participation in the GVC:

- **Regulatory processes** are complex, uncertain and time consuming.<sup>34</sup>
- Few **local certified suppliers** of biocompatible materials exist and **innovation development is limited**.<sup>35</sup>
- **Access to the national healthcare market** is challenging and costly, and **visibility of foreign opportunities is limited**.<sup>36</sup>
- **Logistics and border administration processes** could be more efficient.<sup>37</sup>

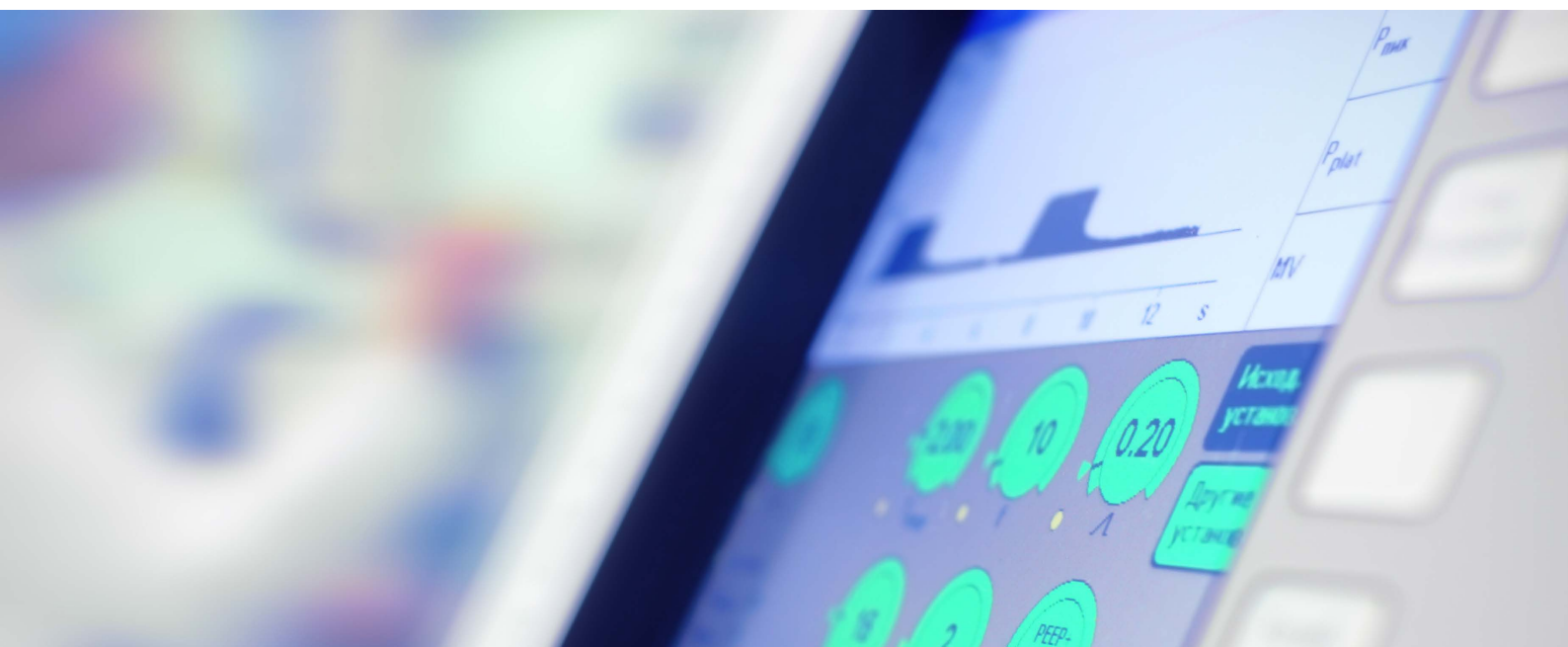
## Regulatory processes

COFEPRIS (Comisión Federal para la Protección contra Riesgos Sanitarios), the federal agency responsible for promoting and protecting public health, has taken steps to provide better services that have been recognized by private-sector companies.<sup>38</sup> However, room for improvement still exists, particularly in reducing process complexity, increasing visibility, optimizing response times

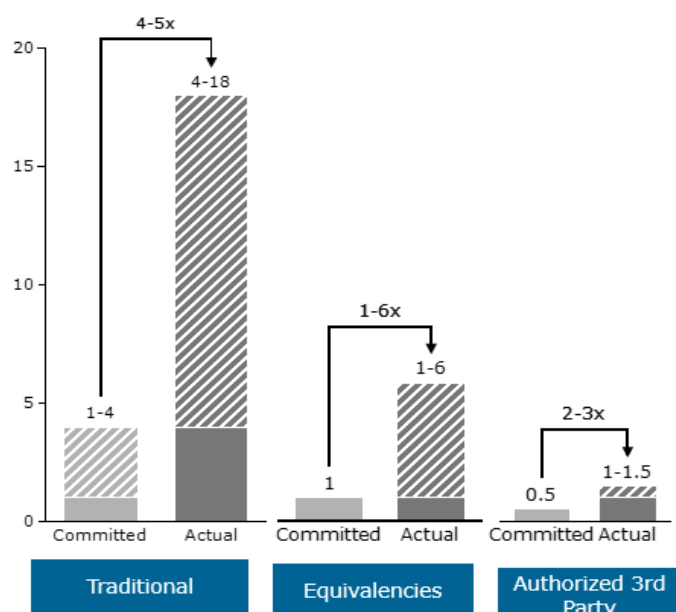
and improving communication with other public agencies.<sup>39</sup> These enhancements could have substantial impact beyond medical devices, as products regulated by COFEPRIS represent about 10% of GDP and roughly 11% of Mexico's foreign trade.<sup>40</sup>

Recent positive actions taken by the regulator were aimed at improving response times for health registries, which account for the most significant delays:

- After two deregulation campaigns in 2011 and 2015, **17.4% of medical devices no longer require a health registry**, given their low risk. COFEPRIS estimates that these changes created annual administrative savings of more than \$1.6 million and generated indirect economic benefits of approximately \$330 million, freeing up capacity to process riskier class II and class III products.<sup>41</sup>
- An **equivalency agreement** was put in place in 2011 for companies with health registries from Japan, the USA and Canada, which together accounted for about 40% of foreign applications.<sup>42</sup> These companies can now complete the registration process in 30 working days.<sup>43</sup> Unfortunately, this one-way agreement only benefits importers, and as more companies use this alternative, the system has become saturated, with response times again increasing to 4-6 months.<sup>44</sup>
- A **Single Window for import permit processing** implemented in 2013 has drawn praise from the private sector. It provides greater transparency on the permits process and gives companies more information and updates on their permits' status.<sup>45</sup> However, companies continue to experience long waits and little agency support on other types of applications that do not use the Single Window, like health registries.<sup>46</sup>



## COFEPRIS Response Times Health Registries — Months



Source: Bain Analysis

Other actions taken are considered good starting points to improve the regulatory environment, but are not enough to solve the core issues. For example, the publication of documentation checklists by device-risk level has provided some level of transparency, but companies consider this as just the baseline of the support expected. Additional regulatory actions simply cover underlying inefficiencies, like the sanction in 2012 to allow authorized third parties to pre-check documentation and facilitate the review process for COFEPRIS, which reduced response times to about one month – for a fee of up to \$5,000.<sup>47 48 49</sup> This fee places an added financial burden on entrepreneurs and SMEs.

Most companies interviewed mentioned the complex regulatory environment, validity-period differences between certifications, slow response times and lack of visibility as the most pressing barriers to trade. They emphasized that addressing other hurdles without tackling these issues will not be sufficient to provide incentives to foreign direct investment and increase trade.<sup>50</sup>

### Local certified suppliers and innovation development

The medical devices industry is highly dependent on imported raw materials and components, which can account for up to 70% of costs, depending on the manufacturer's level of vertical integration. The most frequent cause that companies cite is the lack of high-quality certified local suppliers.<sup>51</sup> These materials typically come at a premium from markets like the USA, Canada, Europe and Japan.<sup>52</sup> Further analysis is needed to identify the sub-industries in which Mexico has the scale and capabilities to compete, but improvements in this area could have a positive impact on costs, inventory levels and overall GVC participation.

Additionally, although innovation is one priority of the current administration and much is being done to promote technological advancement – including public programmes to stimulate and financially support entrepreneurs from idea generation to commercialization<sup>53</sup> – the medical devices industry is still seeing very little innovation. To meet Mexico's innovation ambitions, it will be necessary to have access to better information, a clear framework to evaluate longer-term innovative developments, and a shift in the purchasing approach of Mexico's public healthcare institutions.

### Access to the national market and visibility of international opportunities

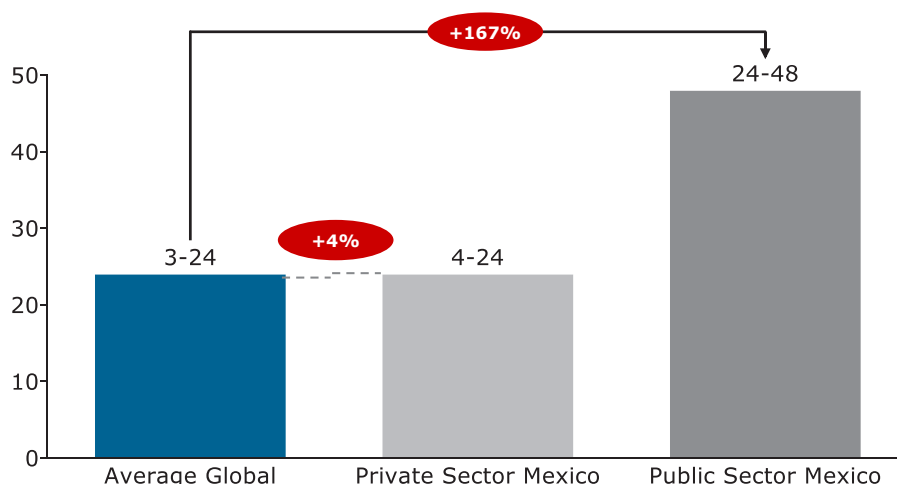
The complexities of the public healthcare market, which accounts for about 78% of national consumption, have a significant impact on the industry.<sup>54</sup> Mexico's public approach to healthcare procurement has resulted in widespread use of older technologies, leaving limited space for innovation and creating a mismatch with the products in demand from international markets that place more value on innovation.<sup>55</sup> This phenomenon has led to the creation by multinational players of manufacturing clusters in northern Mexico that are aimed mainly at the export market, while national suppliers focus on older technologies that dominate national purchases.<sup>56</sup>

Producers also claim that the complexity entailed in participation in public tenders, which represent about 75% of purchases, not only leads to higher costs but also limits their resources available to participate in foreign trade.<sup>57</sup> Tendered products have to be part of the basic health formulary (Cuadro Básico), and the process to include products is complex, time consuming (1-2 years) and often discretionary.<sup>59 60</sup>



## Time-to-Market of New Products

Average time in months, 2014



Source: AMID, PWC and Strategy&

- Guidelines are typically based on pharmaceuticals, leading to costly **clinical and bio-compatibility studies**.<sup>61</sup>
- The **process lacks standardization** as institutions such as the IMSS (Instituto Mexicano del Seguro Social or Mexican Social Security Institute), SEDENA (Secretaría de la Defensa Nacional or Secretariat of National Defence) and ISSSTE (Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado or Institute for Social Security and Services for State Workers) apply different criteria to accept products. Once the Inter-institutional Commission for the Basic Formulary approves a product, companies still need to convince the different public buyers to activate the product in their own systems.<sup>62</sup>
- Cost-benefit studies (at a cost of between \$10,000 and \$20,000 each) specific to the Mexican population are requested.<sup>63</sup> However, the lack of a **framework to evaluate innovation** is shown in that only two new products were included in 2014 in the basic formulary.<sup>64</sup>
- **Tender conditions and decisions are communicated very close to the required delivery dates**, which leads companies to accumulate inventories in case they win the tender or risk fines of up to 10% of an order for a delay of just four days.<sup>65</sup>
- **No guidelines exist on minimum order sizes and delivery dates**, leading suppliers to incur significant logistics costs or rely on distributors, as deliveries are not centralized by states and each institution has different delivery dates.<sup>66</sup>
- **Order volumes are uncertain** (ranging from 40% to 100% of tendered volume) and suppliers have limited access to usage and inventory statistics, sometimes leading to inventory levels two to three times above what companies hold for a product they sell to the private sector.<sup>67</sup>
- **Late payments are a significant issue** as companies are forced to continue supplying states like Veracruz and Sonora, which have a history of not paying, if they want to participate in the new centralized purchasing scheme.<sup>68</sup>

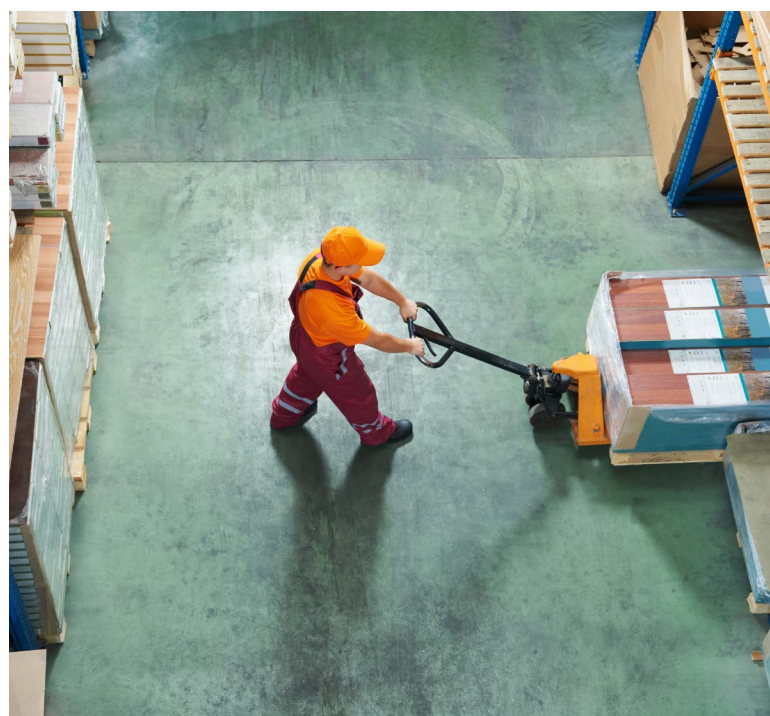
Given these constraints and the long response times from COFEPRIS, it takes **1.7 times longer for products to reach the majority of Mexico's population than the global average**.<sup>69</sup>

### Logistics and border administration processes

In the Enabling Trade Index, Mexico ranks 62nd out of 138 countries in border administration, the lowest among countries in the Organisation for Economic Co-operation and Development (OECD). The most critical issues are related to import-export costs and customs services; in those categories, Mexico ranks in the 90s.<sup>70</sup>

Complexity on processes and requirements, inefficient communication among authorities and the predominance of manual customs processing lead to clearance costs of between \$200 and \$300 per container, whereas best-practice countries have costs of under \$100 per container.

<sup>71 72</sup>

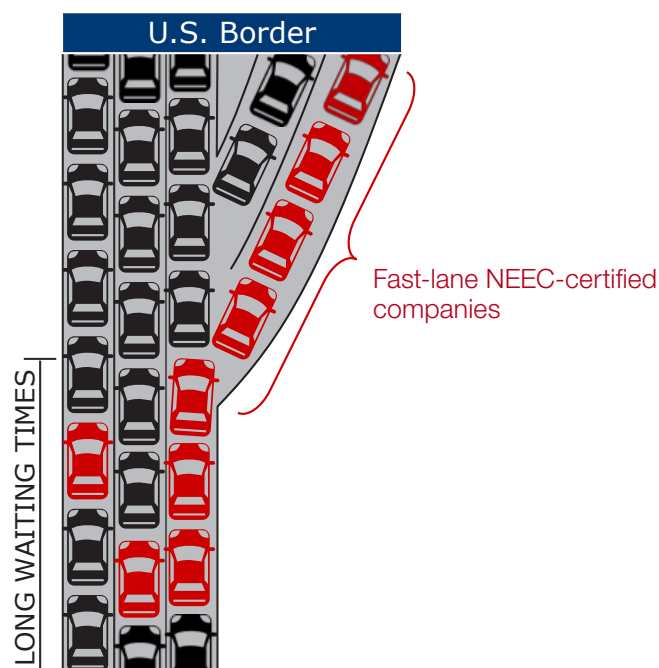




Grey areas in classification guidelines and rules often result in shipments delayed or retained at the border – accounting for 10-20% of total shipments, according to interviews, that can be subject to incremental storage fees (about \$75 per day), fines (up to 70% of value) or impounding of merchandise, which sometimes leads to manufacturing delays and/or contract infringement penalties.<sup>73 74</sup> Other key reasons for costs and delays are related to road infrastructure and to the additional security checkpoints required in Mexico's war on drugs. These lead to inbound transportation costs of between \$900 and \$1,000 per container – about three times the level required for top quartile performance.<sup>75</sup>

The implementation of a Single Window in 2011 has already simplified the process and made it more transparent.<sup>76</sup> The customs authority has ambitious plans to migrate to a more automated, paperless process, provide facilities for customs processing for exports at the point of origin, institute joint checks between origin and destination authorities to increase process efficiency, and continue pushing towards a single national certification for foreign trade.<sup>77</sup> However, the benefits of certification need to be palpable to encourage companies to make the necessary investments, especially when certification costs are high. For example, the “fast lane” for NEEC (Nuevo Esquema de Empresas Certificadas)-certified companies loses some of its appeal since their trucks share lanes with other trucks almost until the border.

As part of this continuous improvement work, authorities should find ways to make regulations and requirements easier to understand for non-expert users; improve cooperation between public entities and the private sector on preshipment rulings, particularly for new products; look to optimize processing capacity; and avoid bottlenecks at key airports and border locations. For example, Mexico



Source: Interviews with logistics companies and customs agents

City's airport is often saturated with goods for export, due to insufficient operating hours and demand that exceeds capacity at the Gamma Ray facilities – issues that have not yet been addressed in the planning for a new larger airport currently under construction.<sup>78</sup>

Given Mexico's high dependence on land transportation and the related challenges, operators believe an opportunity exists to cut costs by 15-20%. However, they underscore that this mode of transportation is particularly vulnerable to theft, and drug trafficking poses challenges unlikely to be resolved in the short term.<sup>79</sup>



# Potential Impact of Trade Barrier Reduction

To understand the impact that removing trade barriers could have on innovative medical devices, this report looked at peripherally inserted central catheters (PICCs) – a type that is inserted into a vein in the arm rather than in the chest or neck.<sup>80</sup> The USA leads the way in terms of usage, accounting for about two-thirds of the global market.<sup>81</sup> According to experts, adoption in other markets with lower healthcare spending has been slower than desired. In the USA, despite the PICC’s price of between \$77 and \$125, significantly above that of a substitute like an acute central venous catheter (CVC) that costs roughly \$48, the market value of PICCs is 1.7 times that of CVCs.<sup>82</sup>

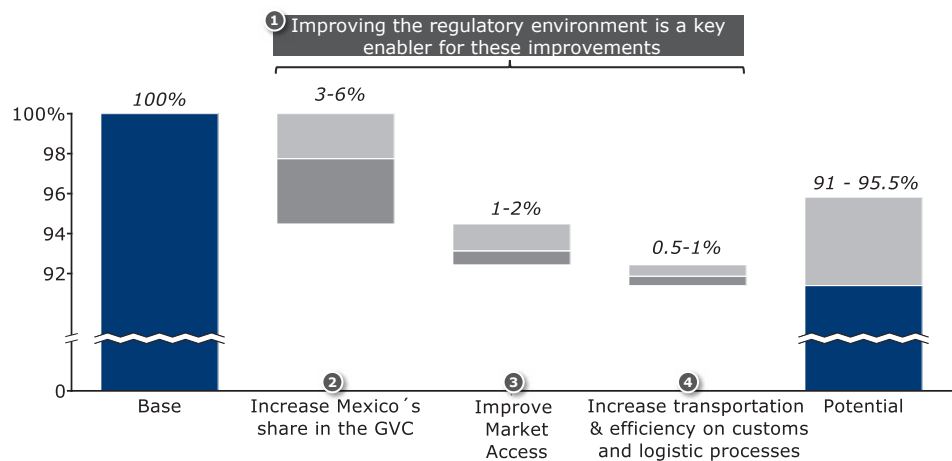
Mexico could increase its presence in the global value chain of PICCs and further stimulate demand by:

1. Reducing the complexity and increasing the efficiency of regulatory processes that currently have a negative impact on the attractiveness of Mexico as a production destination and slow market access to innovation.
2. Increasing Mexico’s share of value-added GVCs by developing a certified local supplier base of raw materials or processes with sufficient scale, and where Mexico has the right capabilities to continue promoting innovation development, using a framework for evaluating technologies with a longer development life cycle.

3. Improving **market access** by easing accessibility to national healthcare institutions (through consistent access criteria and improved tender processes), as well as leveraging local champions and e-commerce tools to increase visibility of foreign opportunities and Mexican suppliers overseas.
4. Enhancing **clarity on customs requirements** via an easy-to-use online guide for import-export processes, and targeting **higher efficiency goals via process and technological improvements** to reduce delays, improve communication and increase consistency.

Increased competitiveness should drive up Mexico’s share of global production and accelerate product adoption in underpenetrated markets; an early estimate of potential volume increase is between 10% and 20%.<sup>83</sup>

Rough estimate of Mexico’s potential competitiveness improvements in PICCs  
(cost and expense, %)



Source: Primary Interviews and Bain Analysis  
 Note: Dark grey denotes the low end of the estimate of potential competitiveness improvement; light grey denotes the difference between the low and high ends of the estimate

# Conclusions and Recommendations



Mexico's government has made vital improvements to lower trade barriers, as this report notes, but these are insufficient to push many industries and products to their full potential. The medical devices industry, for example, could be an engine for Mexico's economic growth. Yet, although the actions already taken in the industry are important and necessary, further efforts are required.

The government is on the right track in working to increase the efficiency of regulatory and customs processes, and decrease other trade barriers. However, the problem with approaching trade barriers generically is that it leaves unclear whether envisaged measures are sufficient to help industries and products past the tipping point. Opportunities to achieve this goal multiply if specific industries are prioritized, and the true cost structure and entire value chain of a particular industry is understood in order to enhance competitiveness. Actions taken for pilot industries are likely to have a broad application to other industries.

Working towards a specific target that will take selected products or industries to global competitiveness will allow the most effective use of government resources and the most overall benefit for the economy. A holistic approach, looking not only at foreign trade policy but also at the implications of national policies – such as the structure of public tenders or COFEPRIS regulations for medical devices – is essential, as both worlds co-exist in the eyes of producers and consumers.

Ideas and strategies that could help Mexico to take some industries beyond the tipping point include the following (it is important to note that each industry faces unique barriers that should be addressed separately):



# Trade Barriers and Potential Improvement Levers

Market Access	<ul style="list-style-type: none"> <li>– <b>Limited knowledge of foreign opportunities and requirements from small and mid-sized enterprises:</b> Create a portal that integrates all the support programmes (financing, intellectual property protection, market data, etc.) from the different government institutions. Identify and showcase export champions.</li> <li>– <b>Difficulty accessing public markets:</b> Drive consistency on criteria for access to the basic formulary across public health institutions and, where possible, look for a demand-driven (rather than a budget-cycle-driven) timeline on public tenders. Assign a working group of experts to create the framework for evaluating innovative medical devices and promote better and faster patient access to attractive innovations.</li> </ul>
	<ul style="list-style-type: none"> <li>– <b>Requirements are complex and hard to understand:</b> Incorporate an import-export requirements guide for non-expert users in the SAT or Mexican Tax Administration Service portal.</li> <li>– <b>Decisions and interpretation of rules are inconsistent across customs offices:</b> Continue to move towards more automated processes to avoid inconsistency.</li> <li>– <b>Limited collaboration across public entities and with private sector:</b> Particularly for new products, look for ways to optimize collaboration between the public and private sectors to expand the use of advance rulings on Harmonized Systems codes classification and valuation.</li> </ul>
Infrastructure (Transport & Logistics)	<ul style="list-style-type: none"> <li>– <b>High number of checkpoints:</b> Inspections by different government entities should be done simultaneously rather than in separate steps (e.g., customs, SEDENA, federal police, etc.).</li> <li>– <b>Infrastructure bottlenecks driving down efficiency:</b> Conduct a study to identify the main users and root causes of bottlenecks, and develop a plan to balance capacity and prioritize performance and/or new investment. (e.g. Gamma Ray arches and operating times at the new airport)</li> <li>– <b>Damages and delays at highway checkpoints:</b> Increase use of non-intrusive inspection technologies and ensure strong coordination among enforcement agencies to limit the number of stops and frequency of inspections.</li> </ul>
	<ul style="list-style-type: none"> <li>– <b>Complex and slow regulatory processes:</b> Conduct analysis to understand the root causes of process inefficiency by class of device and develop an action plan to optimize end-to-end process. Complement with an interface such as the Single Window to facilitate simultaneous processing, reduce delays, minimize errors and increase visibility.</li> <li>– <b>National regulations not in line with international standards:</b> Gradually harmonize requirements, registrations and certifications with international standards, and accelerate the process of regulatory updates to stay on track.</li> <li>– <b>Limited local availability of high-quality certified suppliers:</b> Conduct a market study to identify the supply gaps that Mexico could be positioned to cover in terms of scale and capabilities, and approve a plan to develop and promote those supplier bases.</li> </ul>
Operating Environment	

Given that not all potential improvements identified can be addressed at the same time, the recommendation is to focus first on “non-regret” moves before approaching those considered “bold plays”. However, in order to ensure maximum impact over the long run, some work might need to start simultaneously, as “bold plays” tend to be longer-term actions.

	Non-regrets	Bold Plays
Market Access	– Create portal that integrates all support programmes	– Drive simplification and consistency for inclusion process of new medical devices into the basic formulary
	– Identify and showcase export champions	– Increase quality and innovation focus of public buyers
	– Modify timeline of public tenders	
Border Admin.	– Incorporate import-export requirements guide for non-expert users in SAT or Mexican Tax Administration Service portal	– Move towards more automated customs process to increase efficiency and avoid inconsistent judgment
	– Improve public- and private-sector collaboration to drive the use of advance rulings on Harmonized Systems classification and valuation	
Infrastructure	– Conduct study and develop action plan on main root causes of bottlenecks	– Increase use of non-intrusive inspection technologies
		– Consolidate government inspections
Operating Environment	– Optimize end-to-end regulatory process and develop digital portal	– Harmonize requirements and certifications with international standards
		– Conduct a market study to identify supply gaps and create plan to develop and promote specific supplier bases

### Recent actions by the Mexican government to enable trade

- Public consultation to understand in more detail the trade barriers businesses face in Mexico
- Public consultation on implementation of the 6th amendment to the Mexican Harmonized Systems tariff
- Development of a portal to gather all relevant import-export information for the private sector (e.g. SNICE or Sistema Nacional de Información de Comercio Exterior)
- Design of an interactive portal for collaboration between the public and private sectors to create solutions to international trade barriers (COMPEX or Comisión Mixta para la Promoción de las Exportaciones)
- Mapping of current foreign trade processes across public entities to be redesigned in collaboration with the private sector as part of the World Trade Organization’s Trade Facilitation Agreement

# Definitions

- **COMPEX (Comisión Mixta para la Promoción de las Exportaciones):** Composed of representatives of the public and private sectors, its main objective is to promote exports by simplifying administrative procedures and reducing technical trade barriers, and encouraging an export culture.
- **CVCs (central venous catheters):** Long, thin, flexible tubes used to give medicines, fluids, nutrients, or blood products to a patient over a long period of time, usually several weeks or more. A catheter is often inserted in a large vein in the arm or chest. The catheter is threaded through this vein until it reaches a large vein near the heart.
- **Equivalency Agreement:** COFEPRIS programme allowing foreign manufacturers to use the approval from foreign health regulators (e.g., the USA's Food and Drug Administration) to meet some of the requirements for obtaining a health registry from COFEPRIS in Mexico.
- **IMMEX (Industria Manufacturera Maquiladora y de Servicios de Exportación):** The IMMEX programme allows the temporary importation of goods without paying import duty, taxes and anti-dumping quotas to be processed and exported.
- **Maquiladora:** Company that temporarily imports materials or components for assembly, manufacturing, processing or reparation in Mexico for eventual re-exportation.
- **PROSEC (Programas de Promoción Sectorial):** Instrument that allows certain producers to import, with a preferential ad valorem tariff (General Imports Tax), various goods to use in the production of specific products, regardless of whether the goods are intended for export or the domestic market.
- **PICC (peripherally inserted central catheter):** Type of venous access device frequently used to obtain central venous access for patients in acute care, home care and skilled nursing care. PICCs are inserted in the peripheral vasculature, with a vein in the arm being the most common.
- **Regla Octava:** Licence or permit issued by Mexico's Ministry of Economy that allows companies to import machinery and equipment, materials, supplies, parts and components with preferential tariffs and administrative facilities.
- **SAT:** Mexican Tax Administration Service, which implements fiscal and customs legislation. It ensures that individuals and corporations contribute proportionately and equitably to public spending.
- **SNICE (Sistema Nacional de Información de Comercio Exterior):** Single-point, user-friendly information repository of trade information expected to be of particular benefit to small and mid-sized enterprises.



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## In Collaboration With

- Agility
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- SAT
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- Teleflex
- United Parcel Service (UPS)

# Vietnam's Road Ahead to Global Competitiveness



When Vietnam set out to develop its economy in 1986, it embarked on a journey that, so far, has delivered seemingly impossible results. At that time, the country ranked as one of the world's poorest, with a per-capita income that was under \$100. The government devised an aggressive programme of socio-economic reforms and plans, identifying specific measures and investments to boost economic growth. By 2014, incomes had grown 20-fold, establishing Vietnam as a lower-middle-income country and sustaining a growth rate that has averaged 6.4% over the past decade. Exports rose in value by 13.6% in 2014, with steadily increasing shipments of garments, footwear, furniture and even high-tech products.

In many ways, however, the nation's journey has just begun. Despite its many advances, Vietnam still faces numerous trade obstacles – from inefficient border administration to outmoded transportation infrastructure. If the government takes a methodical approach to reducing these hurdles, Vietnam stands to become a trade success on par with its more developed peers in the Association of Southeast Asian Nations (ASEAN).

Vietnam is a prime example of the benefits that can be achieved when countries systematically eliminate the supply chain barriers inhibiting economic growth. As detailed in previous World Economic Forum reports, improving even a restricted set of supply chain barriers halfway to global best practice could increase trade by 15%, and yield a nearly 5% growth in global GDP. For a developing country like Vietnam, the benefits could be even higher. Based on the Forum's research and experience, enabling trade requires being competitive across four main dimensions: border administration, infrastructure, market access and business environment.

Some least-developed countries have relied solely on measures spelled out in the World Trade Organization's Trade Facilitation Agreement and other trade pacts aimed at streamlining border administration. While important, such measures are not enough. For example, these countries grapple with fundamental challenges like poor infrastructure or an inadequate operating environment for companies to grow and find external markets for their goods.

Based on this report's analysis, hurdles in infrastructure and operating environment undermine competitiveness and must be addressed before a country can improve border administration. In fact, such obstacles are a major reason why some least-developed countries have not reaped much success from border administration projects. Morocco, for instance, invested in improvements to border administration but raised its status on the World Bank's Logistics Performance Index only after it prioritized investment in upgrading the infrastructure of its major ports and established an agency for logistics development.

Besides relying too heavily on border administration initiatives at the expense of other supply chain challenges, another common misstep by governments is taking a vertical approach to removing trade impediments – they address issues in a single dimension (e.g. market access) for all industries.

According to the Forum's analysis, countries that take a horizontal approach will have greater success in improving trade. This involves identifying a few industries that hold the highest potential for competitiveness, and taking an end-to-end view of the value chain in each of those industries. That way, governments can pinpoint the specific trade barriers to address so that a selected industry can reach the tipping point at which companies would find it worthwhile to trade. Once conditions are improved for one industry, tackling the barriers in other industries is much easier.

In Vietnam, for example, targeting the impediments to trade in the industries of high technology and apparel and footwear, could potentially develop a thriving export trade not only in those industries, but also in others such as pharmaceuticals and food exports. However, achieving global competitiveness requires first an understanding of the obstacles facing those critical industries across all four dimensions – and devising a game plan for improvement.

This report details the advances made by Vietnam, the ongoing challenges, and the potential gains that can be made by addressing three of the four areas where trade can be inhibited: border administration, infrastructure and market access.



## Border administration

Although Vietnam has implemented an electronic system, the potential is plentiful to improve the efficiency and effectiveness of border administration. According to the OECD's trade indicators, the country ranks below its Asian neighbours and other lower-middle-income countries in automation, border administration transparency, and streamlining of procedures and internal border agency cooperation. Compared with some Asian nations, Vietnam requires more documents from importing and exporting companies, and its clearance processes are much slower. For example, exporting goods from Vietnam takes an average of 16-21 days, compared with the global best practice of six days. Importing involves a similarly lengthy period. The lost time translates into added costs for importers and exporters, making Vietnam a less attractive location for trade.

The country's e-border administration system has not effectively cut shipping costs. The reasons are several: little coordination among different agencies, varying interpretation of regulations, and a lack of standardized processes. (For example, despite the e-customs system, ports in the north sometimes still request manual documents.)

Vietnam could boost its competitiveness by synchronizing procedures with global standards. The country asks for significantly more details in an e-manifest than other countries require. Vietnam also could build on the early success of its Tao Thuan Export Promotion Zone and establish more free trade zones around the country, which ultimately can serve as regional and global hubs.

Moreover, Vietnam could continue to invest, develop and implement its national electronic clearance system, meeting the deadlines for integrating with the ASEAN system. It could encourage all government agencies to participate in a Single Window platform, and ensure consistency and reliability of the new system at all locations. (A Single Window platform is an electronic process in which trade and transport companies can provide standardized information and documents to fulfil import, export and transit-related regulatory requirements.)

The Forum's analysis has found that by addressing these numerous challenges in procedures, documentation and automation, Vietnam could deliver trade savings of 2-3%, making the country significantly more competitive.

## Infrastructure

To maintain trade momentum, Vietnam must continue to invest in its infrastructure throughout the country – at its deep seaports, major international airports, railways and highways.

The government's efforts over the past decade helped to boost Vietnam's transport infrastructure status on the 2014 World Economic Forum ranking to 72nd (from 89th). However, the country still lags more developed ASEAN members. Vietnam's logistics expenditure as a percentage of GDP is higher than that of the Asia average, according to an estimate by Maersk, a global shipping company, says *Navigating Vietnam*, a report by the CIMB Group. Infrastructure improvements that reduce logistics costs will benefit exporters and importers and, as a result, could exponentially expand domestic trade.

Vietnam has many infrastructure challenges. Overcrowding of ports in and around Ho Chi Minh City results in a lack of available berths and an average two-day delay in shipments. The government used most of its transport and logistics funds to develop the Cai Mep-Thi Vai deep-sea port, yet it remains underutilized, currently operating at less than 30% capacity. Shipping companies are reluctant to use Cai Mep-Thi Vai, partly because of its inaccessibility to industrial parks and factories.

Meanwhile, a large global consortium of companies is likely to require 14 metres of water-depth for vessels making direct calls to Vietnam, creating the need to adapt the entrance to the Cai Mep River in accordance with the Port Master Plan. Vietnam could benefit by dredging the channel to the required depth and implementing changes to port dues in order to increase the overall income.

Airport capacity is another burden. In 2014, Tan Son Nhat International Airport, which services Ho Chi Minh City and surrounding areas, handled 22 million passengers and 408 kilotons of cargo, and has little capacity for additional traffic.

<sup>84</sup> Moreover, the airport's location amid urban congestion





makes cargo handling difficult. In June 2015, Vietnam's parliament approved plans to build the new Long Thanh International Airport in Dong Nai province, 40 kilometres from Ho Chi Minh City. The project has been delayed for years because a few local stakeholders were unconvinced that it would yield a solid return on investment. Construction is expected to take decades to complete.

Vietnam needs to continue to improve infrastructure near the border with China to streamline trade. A big advance was made in 2014 when the country's longest (245 kilometres) and most modern expressway was opened, connecting Noi Bai in Hanoi to north-western Lao Cai province, which abuts China. The highway has halved travel time between Hanoi and Lao Cai to three-and-a-half hours. More highway developments, such as the proposed Dau Giay-Phan Thiet Expressway Project, could bring further benefit.

### Market access

Vietnam stands to improve its competitiveness by tackling the significant obstacles facing importers. For example, burdensome licensing and regulatory compliance requirements constrain healthcare-related industries, leading to costly delays. For their part, logistics companies often face delays in getting approvals for brokerage licence applications, which are transferred among various agencies in different cities. A host of other rules restrict market access. For example, goods sent overseas due to warranty issues are treated as "refurbished" upon their return, a designation with unclear regulations. Moreover, pharmaceuticals companies are required to conduct local trials even if they have approvals from the European Medicines Agency or the USA's FDA, making it uncompetitive for international companies. Vietnam could advance towards global competitiveness by complying these and other import/export licensing regulations and policies with international norms.

### An integrated approach

Since the three supply chain challenges are interrelated, they must be addressed in an integrated way. Improving ports or highways alone will not make Vietnam a global competitor. Border clearance procedures also need to be streamlined, and the regulatory burden on companies eased in order to make it profitable for them to use the upgraded ports and highways.

Governments that are most successful in developing an integrated plan start by conducting a serious study of the end-to-end value chain. They use a four-step process: prepare, diagnose, plan and mobilize.

*Preparing* includes establishing a governance structure consisting of the government and private companies.

*Diagnosing* requires understanding and identifying the industries with the most potential to benefit from removing trade barriers across the value chain. The assessments include benchmarking the country's processes to global best practice and learning from global counterparts.

*Planning* is based on the deep diagnostic, with participants agreeing on the key actions to attain established objectives and co-creating a list of initiatives. *Mobilizing* requires establishment of proper governance and responsibilities for each initiative, with milestones defined according to key performance indicators, and a focus on staying on track.

Given the complex trade barriers and the high stakes, the government must involve the private sector at the very start of a project as a way to shape the solution for final users and enhance potential impact. In the most successful efforts, governments work in tandem with the private sector throughout the process. The first step is to collaborate on identifying the most important supply chain barriers, and tackling those first. That could mean conducting workshops and creating a dialogue among government and private sector to define the most relevant competitive issues and the projects that would allow them to collectively facilitate trade. If the answer is a Single Window, the government and private sector can work together to map current business processes, identify bottlenecks and discuss solutions. Such government-private sector collaboration is the best way to overcome trade barriers and create a win-win scenario.



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