

MEXICO'S STRENGTHS

GLOBAL ECONOMIC INTELLIGENCE UNIT

ECONOMÍA

SECRETARÍA DE ECONOMÍA



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For 30 years, Mexico has pursued a path towards greater economic openness, focused on the liberalization of international trade and attracting investment flows. This policy has been matched by an aggressive agenda of privatization of government-owned companies.

Throughout this period important changes were made to the Law on Foreign Investment and free trade agreements were signed with the largest economies in the world. A consistent, solid and stable macroeconomic framework was also achieved, providing certainty for investment decisions by firms.

Today the country possesses an attractive business environment, legal certainty, one of the largest networks of free trade agreements in the world, extensively developed economic sectors and a highly competitive cost profile. In order to facilitate business operations even further, progress is also being made in terms of infrastructure, to make México a world-class logistics platform, as well as in terms of deregulation.

This document presents an overview of the strengths and competitive advantages that make México an excellent choice for basing business operations.



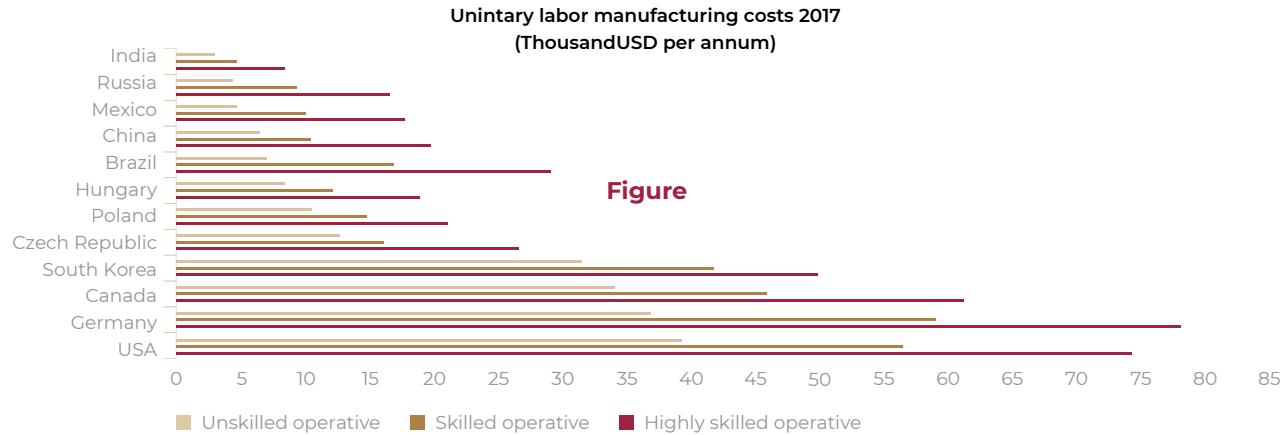
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COMPETITIVE LABOR COSTS

Our country offers significant savings in labor costs compared to other investment choices in the Americas, Europe or Asia. Figure 1 shows an international comparison with selected countries.

FIGURE 1



As may be seen, labor costs in Mexico are significantly lower than those in Brazil, Poland and Korea, among others.

Consultancy firms such as Boston Consulting Group, AT Kearney and Alix Partners (which measure the competitiveness of the manufacturing sectors of emerging economies) have recognized the advantages offered by Mexico to productive investment. In particular, Alix Partners rates Mexico as one of the best places for manufacturing investment.

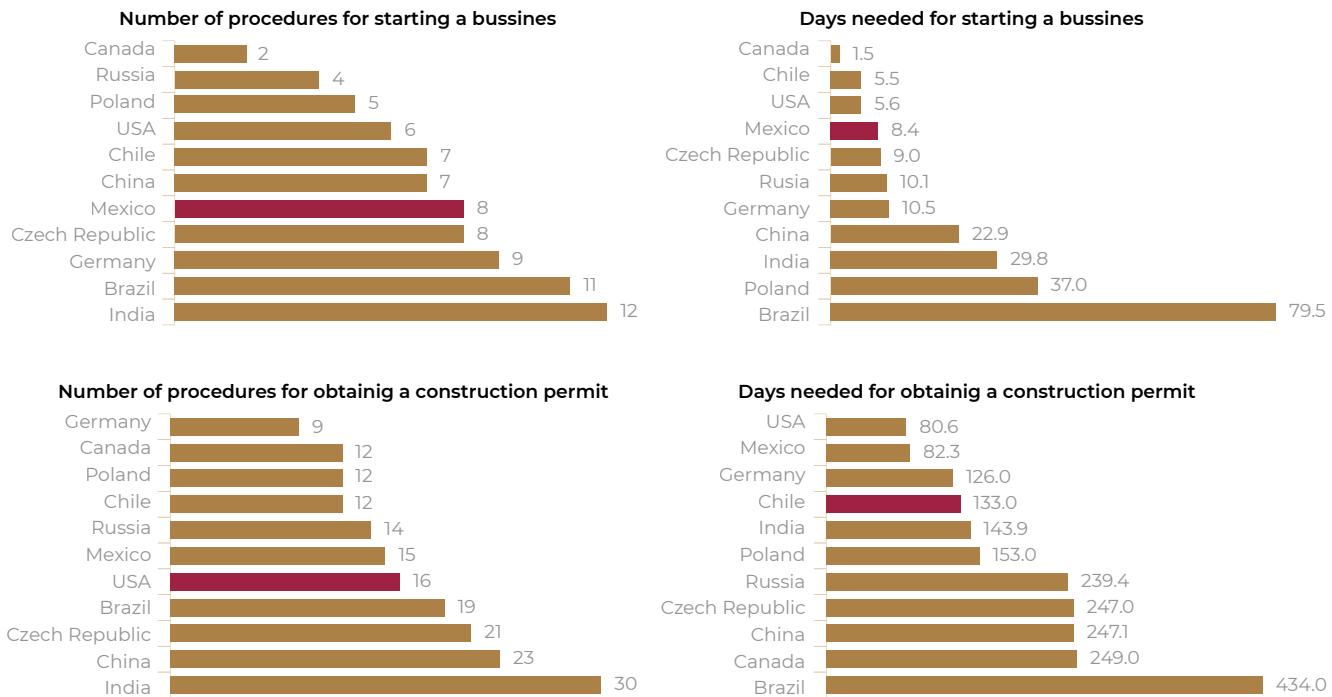
EASE OF OPERATION

The procedures and time required opening and closing a business, together with the paperwork and time needed to obtain building permits, are critical factors in the success of international business.

In Mexico, an investor only requires 8 procedures and 8.4 days to open a business, and 15 procedures and 86.4 days to obtain a building permit. These numbers are notably lower than those seen in Brazil, India, or China. Figure 2 gives an international comparison about the number of days and procedures required to open a business.



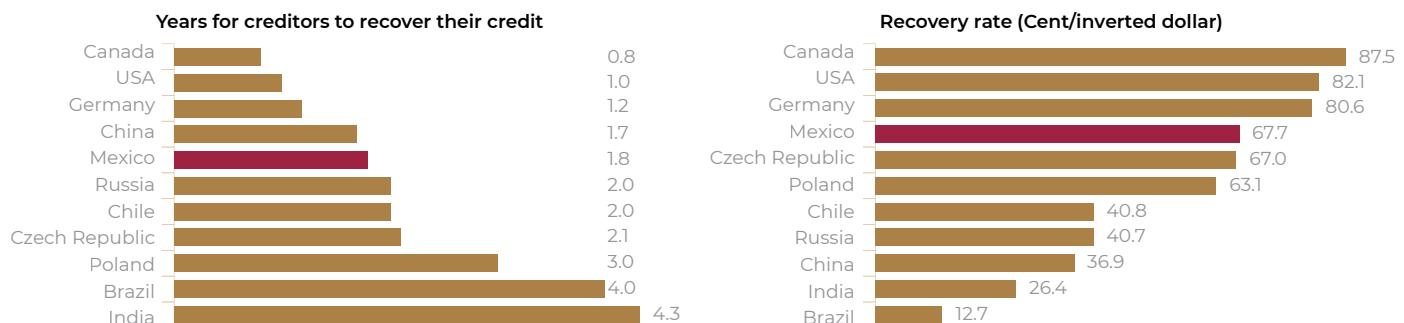
FIGURE 2. INTERNATIONAL COMPARISON OF DAYS AND PROCEDURES REQUIRED TO OPEN A BUSINESS



Source: World Bank, Doing Business 2018

Moreover, in Mexico creditors can recover their credit in 1.8 years with a recovery rate of 67.6 cents per invested dollar.¹ These indicators are significantly better than those seen in countries like Russia, Chile, Brazil and India (Figure 3).

FIGURE 3. INTERNATIONAL COMPARISON OF BUSINESS CLOSURE



Source: World Bank, Doing Business 2018

The recovery rate represents the payment to creditors and shareholders following closure of a business. The higher it is, the stronger the economic system, since more resources are available to open new businesses.

ACCESS TO MAJOR MARKETS

INTERNAL MARKET AND NAFTA REGION

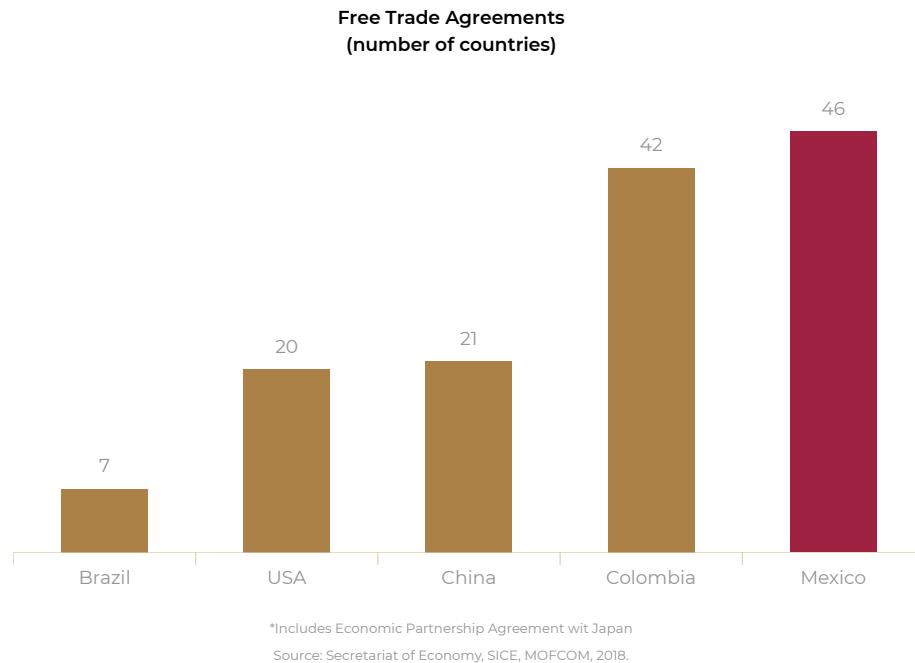
By the fourth quarter of 2017, Mexico summed a total population of 124 million of inhabitants, as INEGI reported. The internal market is of interest in its own right for the firms that establish themselves in the country, considering for example the GDP, which in 2017 added for 1,149 billion dollars; in fact, in fact Mexico occupied the 15th place worldwide in terms of the size of its economy. Meanwhile, the geographical location of the country and the implementation of NAFTA provide an excellent platform for selling from Mexico to the largest market in the world (regional GDP of 22,192 billion dollar, as shown in Table 1). Estimates for 2023 indicate the size of the regional market will reach 28,557 billion dollars a figure that will represent 25% of future global GDP.

TABLE 1.

Market size in the NAFTA region, 2017 (billion dollars)		
Country Region	Gross Domestic Product	Private consumption
USA	19,301	13,394
Canada	1,652	956
Mexico	1,149	758
NAFTA Region	22,192	15,107

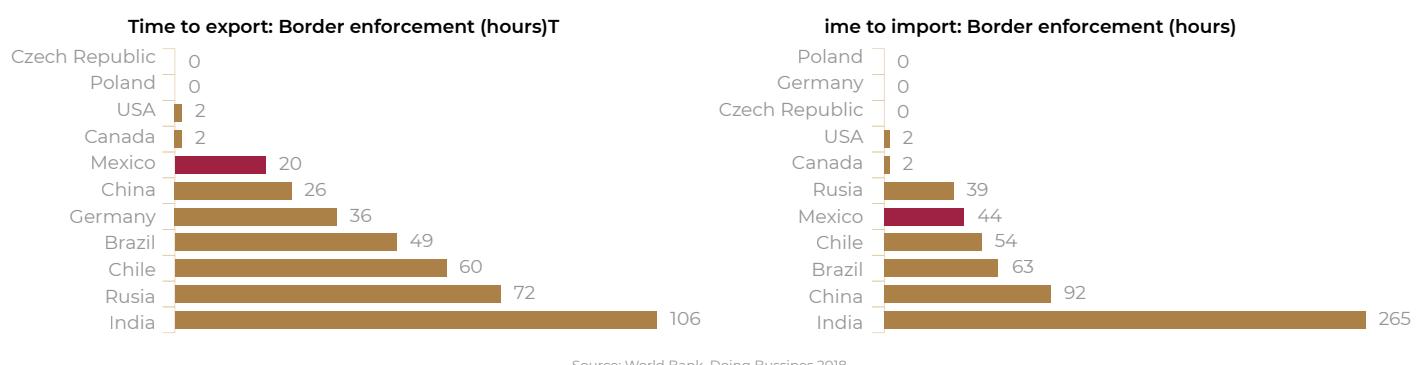
NETWORK OF FREE TRADE AGREEMENTS AND TRADE PROCEDURES

The free trade agreements signed with 46 nations make Mexico one of the most open countries to international trade in the world, with preferential access to over one billion potential consumers representing over 60% of global GDP. Figure 4 shows how Mexico far exceeds the United States, China and Brazil, among other countries, in this regard.

FIGURE 4.


In 2016, the average tariff in Mexico was 7.0%. This increases the profitability of firms established in Mexico, since they can purchase input materials and finished products at competitive prices.

To export and import from and to Mexico, only require 20 and 44 hours respectively to comply with the procedures at borders. This includes the time for obtaining, preparing and submitting documents during port or border handling, customs clearance and inspection procedures. Figure 5 presents an international comparison regarding border enforcement. Mexico beats countries such as Brazil, Russia, India and China.

FIGURE 5. INTERNATIONAL COMPARISON OF TIME REQUIRED TO CARRY OUT FOREIGN TRADE OPERATIONS


LEGAL CERTAINTY FOR FOREIGN INVESTMENT

The signing of Reciprocal Investment Promotion and Protection Agreements (RIPPPAs) forms part of the strategy to grant Mexican and foreign investors a legal framework that strengthens protections for foreign investment in Mexico, as well as for Mexican investment abroad.

In general, RIPPPAs cover the following areas: definition of an investment, scope, promotion and admission, treatment of investment, expropriation, transfers and Investor-State and State-State dispute resolution.

As Table 2 shows, to date Mexico has signed 31 agreements of this kind.

TABLE 2.

RIPPPAs signed by Mexico					
Country	Year	Country	Year	Country	Year
Switzerland	1996	Cuba	2002	Spain	2008
Argentina	1998	Greece	2002	India	2008
Netherlands	1999	Italy	2002	Slovak Republic	2009
Denmark	2000	Uruguay	2002	China	2009
Finland	2000	Belgium-Luxembourg	2003	Belarus	2009
France	2000	Czech Republic	2004	Singapore	2011
Portugal	2000	Iceland	2006	Bahrain	2014
Germany	2001	Panama	2006	Kuwait	2016
Austria	2001	Australia	2007	Turkey	2017
Sweden	2001	United Kingdom	2007		
Korea	2002	Trinidad y Tobago	2007		

Furthermore, some Free Trade Agreements signed by Mexico include chapters on investments that resemble a RIPPPA. This is the case with the FTAs signed with the United States, Canada, Chile, Colombia and Japan, among other countries.

This structure provides legal certainty to firms that decide to locate their operations in Mexican territory.

STRATEGIC LOCATION

Another advantage offered by the country is the proximity of the main centers of world consumption. This is significant as it allows firms to respond more quickly to changes in demand and thereby reduce inventory costs. Table 3 shows the number of days required to transport a container by sea from Mexico and other competitor countries to major centers of distribution and consumption.

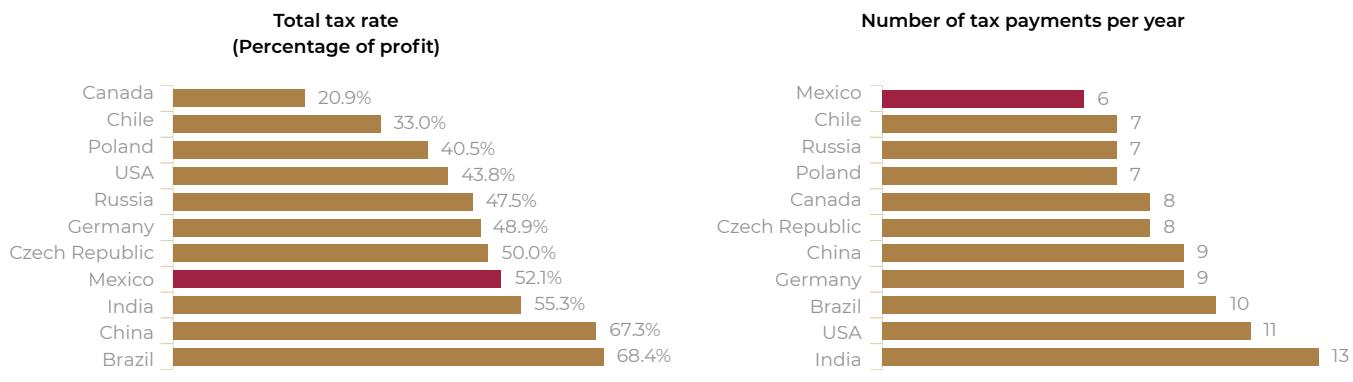
TABLE 3.

Destination Cities	Countries of origin									
	Germany	Brazil	China	Colombia	Korea	USA	India	Mexico	Poland	Turkey
New York	9.8	13.1	28.7	6.5	14.6	-	26.4	5.4	10.5	13.7
Los Ángles	22.2	19.9	15.9	8.4	27.7	-	25.8	3.7	23.1	25.2
Rotterdam	0.8	14.5	28.9	14.4	29.9	9.8	21.9	14.0	1.7	8.7
Yokohama	31.7	31.9	2.8	21.5	2.3	13.4	12.6	16.9	32.6	24.1
Shanghai	29.6	30.1	-	23.5	1.3	15.9	10.5	19.4	30.5	22.1

OPERATING COSTS

There is a series of factors that impact on operating costs and, as a result, on firms' profitability. These include tax levels and the frequency of payments (which have an effect on administration costs). Figure 6 shows the advantages of Mexico in these areas when compared with other countries.

FIGURE 6. INTERNATIONAL COMPARISON OF OPERATING COSTS



Source: World Bank, Doing Business 2018

The corporate tax rate in Mexico is lower than the one in India, China or Brazil. With regard to the frequency of tax payments, Mexico only requires six payments per year, placing it in a better position than countries like Russia, Brazil, USA or India.

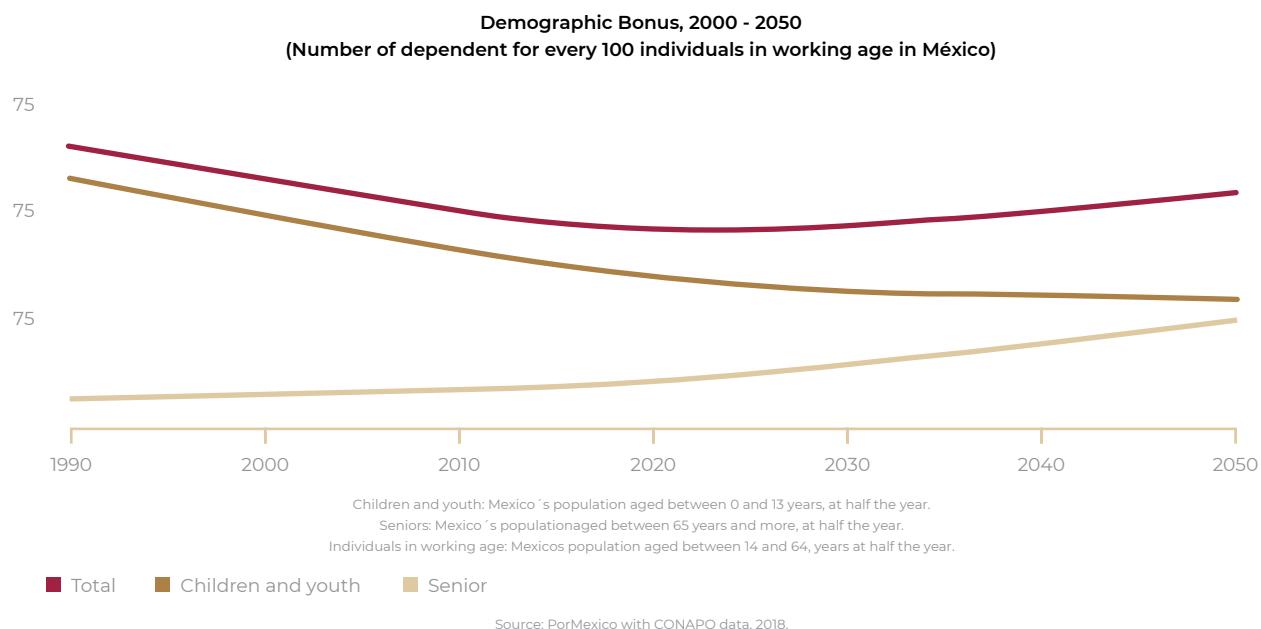
POPULATION AND HUMAN CAPITAL

DEMOGRAPHIC BONUS

INEGI reported that, by the fourth quarter of 2017, Mexico summed a total population of 124 million of inhabitants and an Economically Active Population of 54.7 million people.

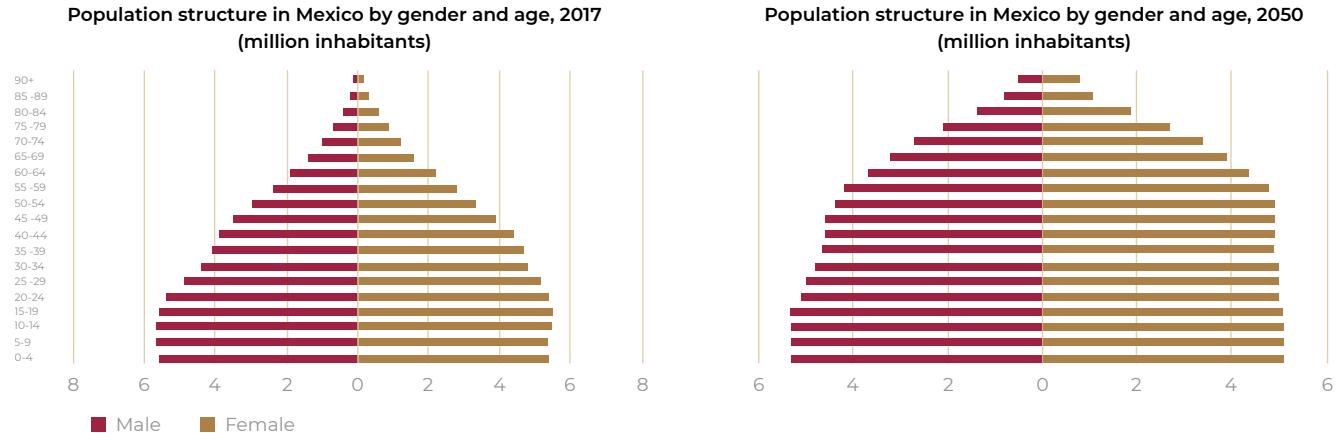
According to CONAPO's forecasts, Mexico currently presents a demographic bonus that will last the next two decades.

FIGURE 7



Currently the population in working age represents 66% of the total population. It is estimated that during the next two decades Mexico's population in working age will be of more than 80 million people and will continue to represent more than 60% of the population.

FIGURE 8. POPULATION STRUCTURE OF MEXICO, 2017 AND 2050



TRAINED PERSONNEL

According to the National Association of Universities and Higher Education Institutions information, annually 125 thousand students of engineering, manufacturing and construction graduated from Mexican institutions. From UNESCO's 2015 data, in Mexico there are 40% more graduates in manufacturing and construction engineering than in the United States, 61% more than in India and twice as many as in Brazil.

The Mexican Higher Education System comprises 3,201 institutions that offer education services and facilities spaces for international exchange.

INFRASTRUCTURE AND ACCESS TO THE UNITED STATES

Mexico is well connected through 27,000 kilometers of railroads that link the country with the United States to the north, Guatemala to the south, the Pacific Ocean to the west and the Atlantic Ocean to the east.

The country possesses numerous internal distribution terminals connected with the main seaports, which enables cost reductions and facilitates the entry and exit of goods.

In brief, Mexico has:

- 76 operational airports (12 domestic and 64 international).
- 117 seaports (49 coastal shipping ports and 68 international maritime ports).
- 27,000 kilometers of railroads.
- More than 393 thousand kilometers of roads.

In addition, Mexico has a 3,000-kilometer border with the United States, which makes for low transport costs to this market. There are 54 crossing points along the border with the United States. Appendix 1 includes figures to illustrate the country's logistics platform.



NATURAL RESOURCES

Mexico possesses a great variety of natural resources that favor the development of a wide range of productive activities, including biotechnology and renewable energy generation. The country's strengths include the following:

- Potential to generate wind power estimated at 87,600 GWh per year.
- Potential to generate hydroelectric power estimated at 44,180 GWh per year.
- Potential to generate geothermal energy estimated at GWh per year.

Mexico has a long tradition of mining production that plays an important role in the country's economic activity, mainly in the industrial sector.

Mexico is globally known for its mineral production, particularly silver, copper, bismuth, lead and zinc.

Some of Mexico's strengths in this area are:

- It is the world's largest silver producer.
- It is the world's seventh copper producer.
- It is the world's twelfth petroleum producer.

Moreover, Mexico possesses natural beauty that makes it an attractive destination for tourist projects in a great variety of settings.

MACROECONOMIC STABILITY

According to the World Economic Forum (WEF) Global Competitiveness Report 2017 -2018, in terms of the Macroeconomic Environment Pillar (which is computed considering five variables: government budget balance, national savings rate, inflation, government debt and credit rating), Mexico is ranked in place 43 out of 137 countries. Singularly, Mexico has a transparent credit system; the country is in the global position 34 respect to obtaining credit, surpassing countries such as Russia and India .

In terms of government indebtedness, Mexico' s government debt as percentage of GDP is 58.2%, indicating a significant better solvency than countries such as Brazil, Spain and the United States.

Mexico presents a moderate fiscal deficit and maintains a policy of sustainability in public finances in the medium term, in order to regain fiscal balance.

FAVORABLE EXCHANGE RATE PERFORMANCE

In the years to come, Mexico will enjoy a better exchange rate performance in real terms compared to its competitor countries on the world markets, particularly Brazil and China.

Mexico's expected exchange rate will make products exported from Mexico to markets in the U.S., Europe and Japan relatively cheaper, when compared to those exported from the Brazilian and Chinese economies.

Exchange rate performance opens up new business opportunities in the short and medium terms for firms that seek to increase their profitability and better position their products on the world markets, by considering Mexico as an option for setting up an operational and export base.



CULTURAL POWER

Mexico is a world-class cultural power. The country's cultural wealth enriches the business experience for foreign firms in a human and professional sense.

A few of the reasons why Mexico is considered a leading player in cultural matters are:

- Mexico is ranked third in the world with 10 World Heritage cities, behind Italy (16 cities) and Spain (14 cities).
- Mexico is the leader in the Americas in the number of UNESCO World Heritage sites. Of Mexico's 34 World Heritage Sites, 6 are natural, 27 are cultural and 1 is mixed.
- There are an estimated 125,000 historical monuments throughout Mexico.
- The National Institute of Anthropology and History (INAH) has 189 archeological landmarks open to public, 51,000 archaeological sites registered, 48 landmarks with archeological declared monuments, 121 open museums open to public, 668,000 items cataloged in custody, 117,000 catalog cards of historical properties, 11,000 registered historical monuments , 59 historic declared landmarks, 3 schools, 51 libraries and 37 photo libraries.
- In addition to the proverbial hospitality of the Mexican people, the country's beaches and wide biodiversity of natural sceneries, Mexico has 116 tourism destinations named "Magical Towns" because of their cultural wealth.
- Mexico's Auditorio Nacional is the main stage in Latin America for live shows. Since its renovation and reopening in 1991 by architects Abraham Zabludovsky and Teodoro González de León, it has received more than 33 million attendees to shows by important artists from diverse music genres, as well as prestigious opera and ballet companies. It has been granted Best International Venue of the World Award by Billboard in 2007. Currently is recognized Year End Worldwide Ticket Sales Top 200 in the Theatre Venues category by Polistar magazine, as the theater that sold the most tickets in the world during 2017.
- Mexico has the largest film exhibition infra structure in Latin America and the second ranked in the Americas. The country has 6,633 cinematographic screens. It is also the Latin American country with higher number of attendees to movie theaters and the fourth globally (338 million people in 2017).

Therefore, to make business in Mexico is not only highly profitable but also takes place amid a great wealth of cultural heritage. This cannot fail to have an impact on the human development of those who choose to do business with Mexicans.

FINAL REMARKS

As may be seen, there are many factors that make Mexico one of the best choices for locating business operations. In the years to come, the country will continue to make progress on a range of fronts including infrastructure, legal certainty, deregulation and security, among others, in order to further improve the business environment.

The path taken thus far and the goals set by the Mexican government and society make expectations for the country to emerge as a key economic power by 2040.

There is no doubt that firms that choose Mexico for their center of operations will surpass their objectives in the medium and long term.



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