



The Mexican Economy and Investment Opportunities

SE

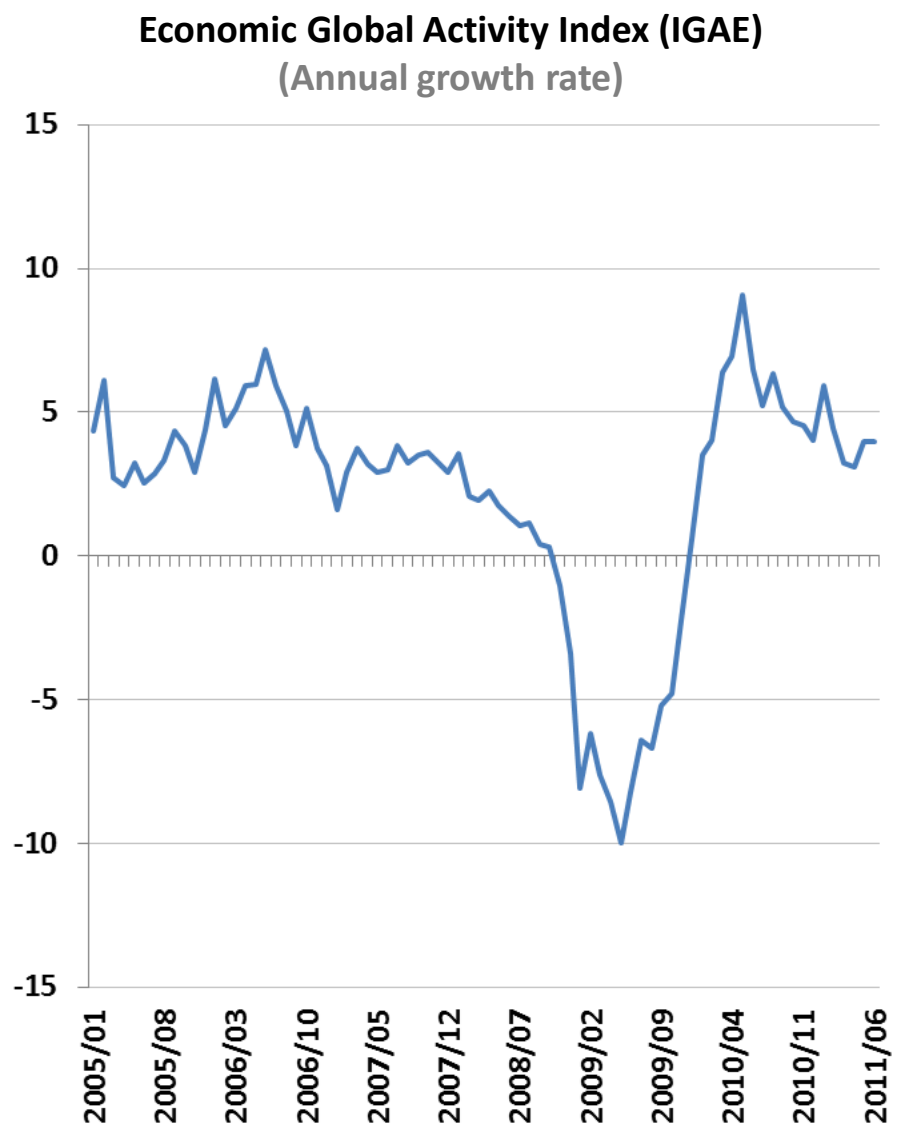
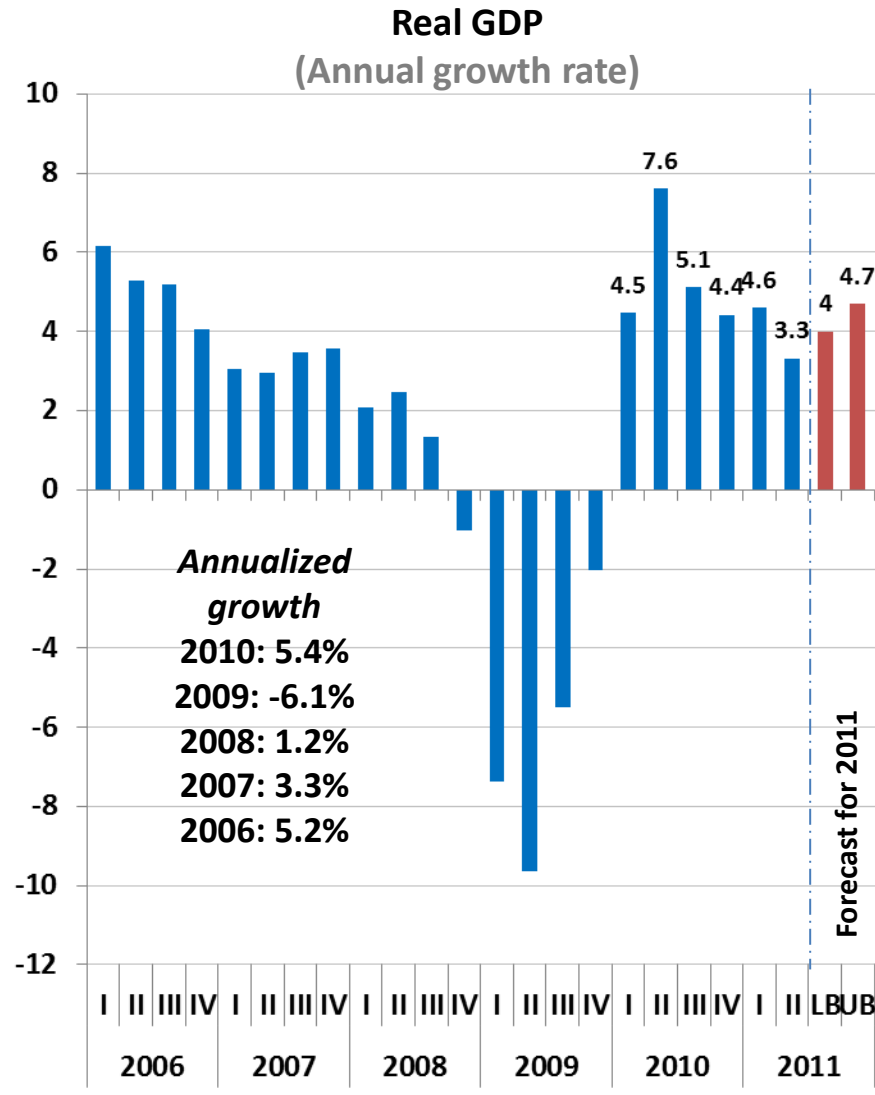
Lorenza Martínez Trigueros
August, 2011

Why Mexico? Why now?

1. Solid economic fundamentals
2. Attractive domestic market
3. Industrial development policy

Strong recovery and macroeconomic stability

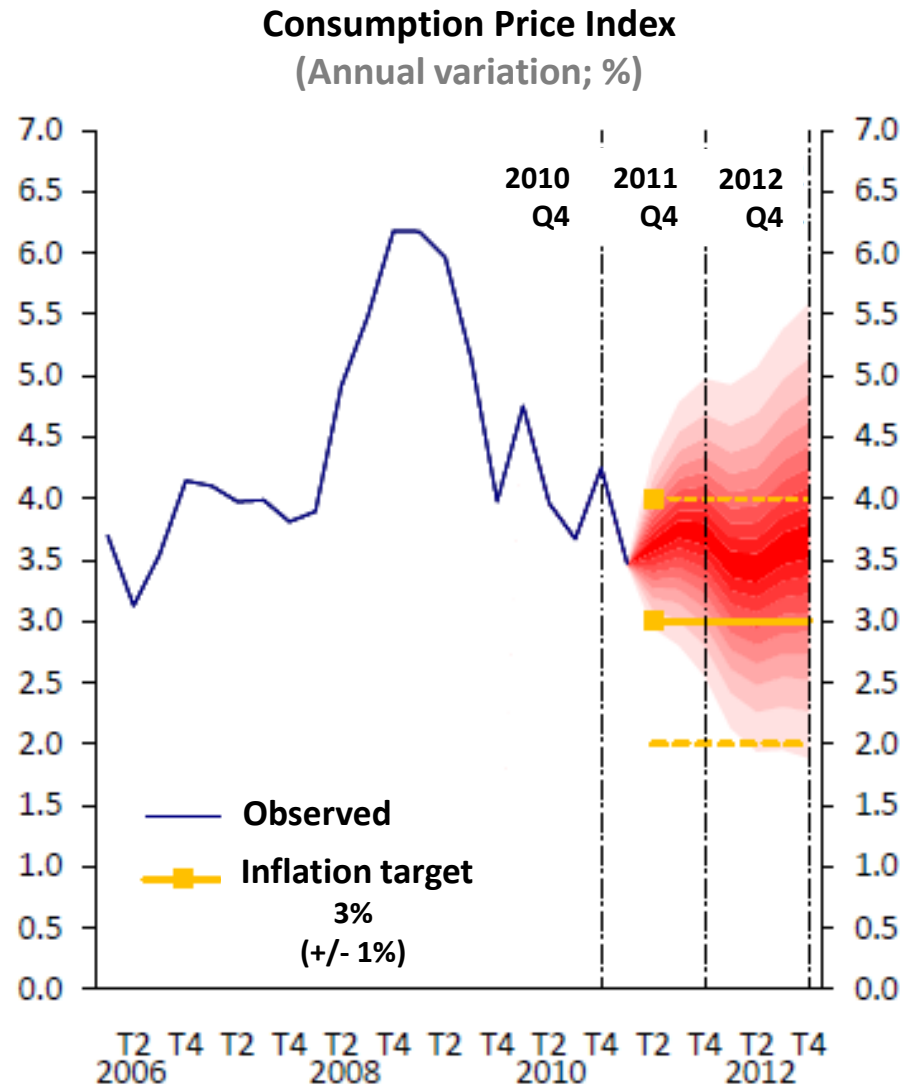
The Mexican economy has maintained higher annual growth rates than those observed in recent years.



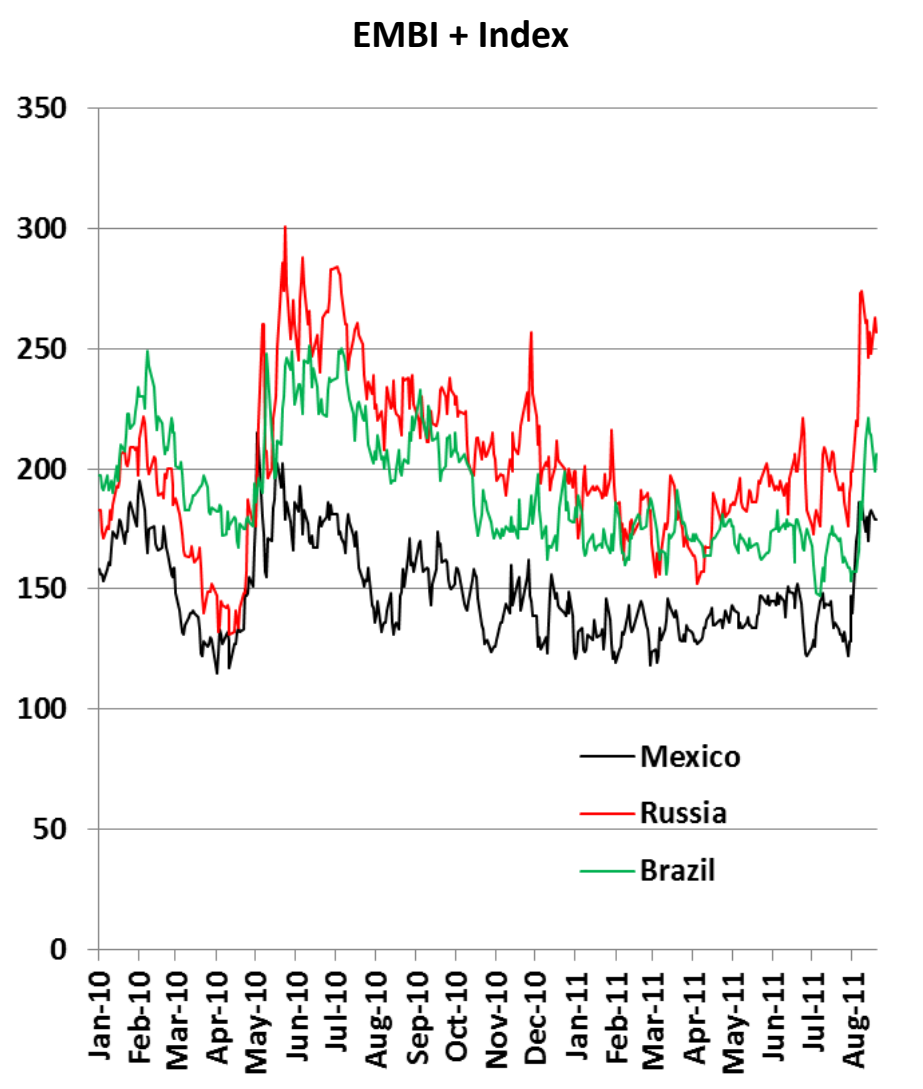
Source: INEGI Note: LB and UB are the lower and upper bounds for the 2011 forecasted value by Banxico

Strong recovery and macroeconomic stability

Inflation remains in line with the inflation target. The country risk compares favorably with other economies.



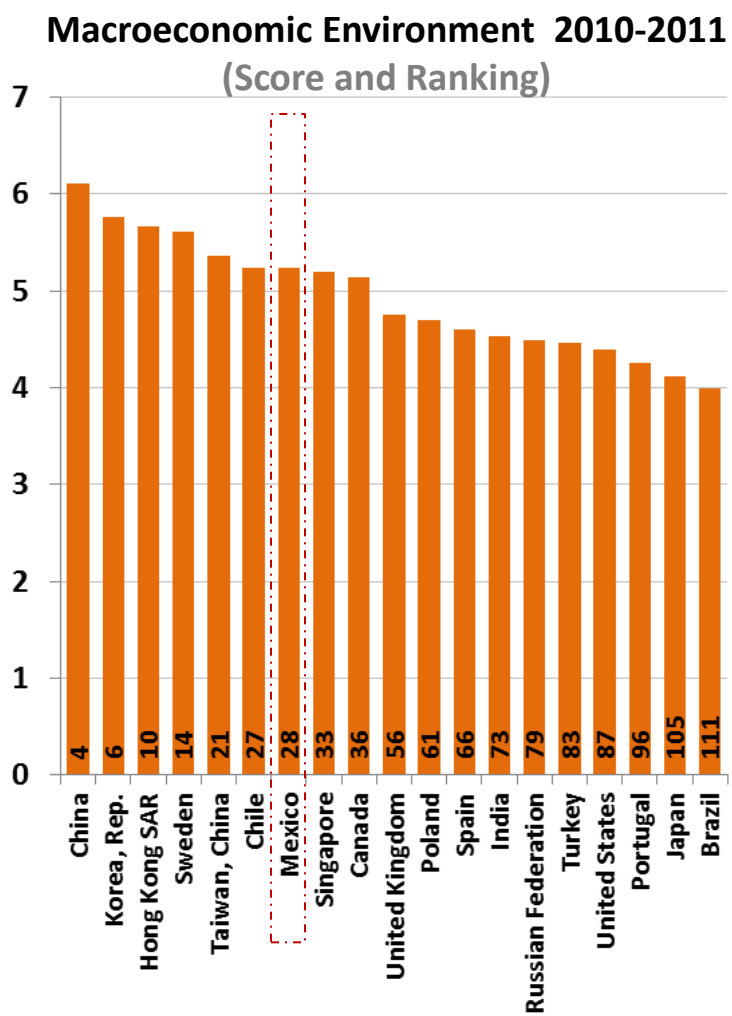
Source: Banxico



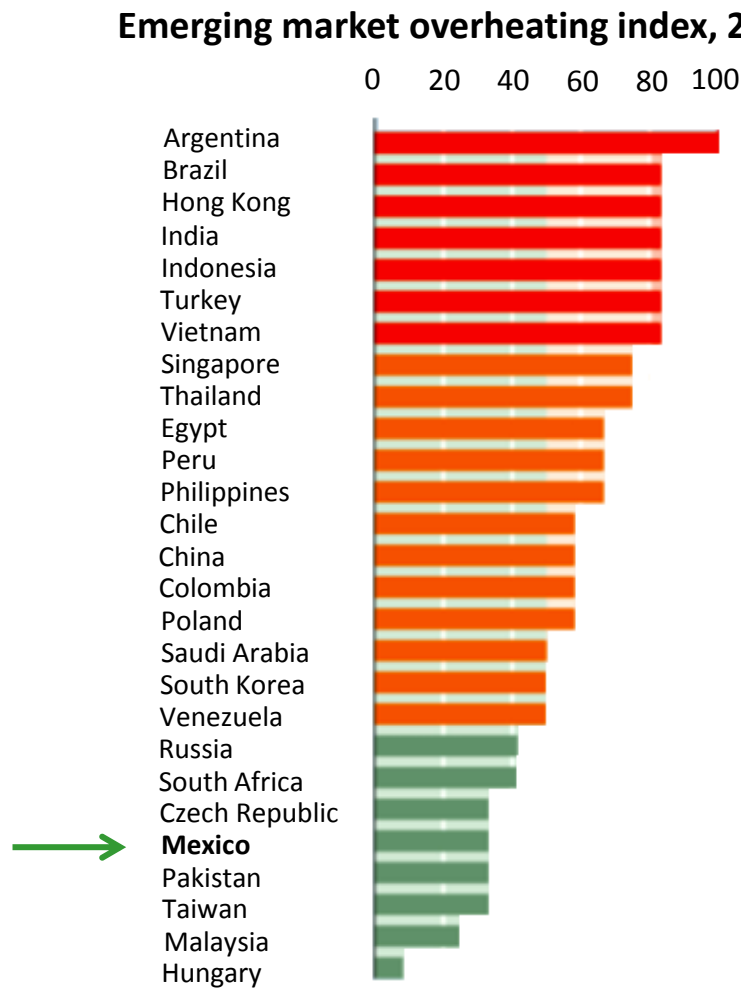
Source: Bloomberg

Strong recovery and macroeconomic stability

Despite the perceived slowdown in the U.S. and the World, Mexico is in a situation less vulnerable than other countries.



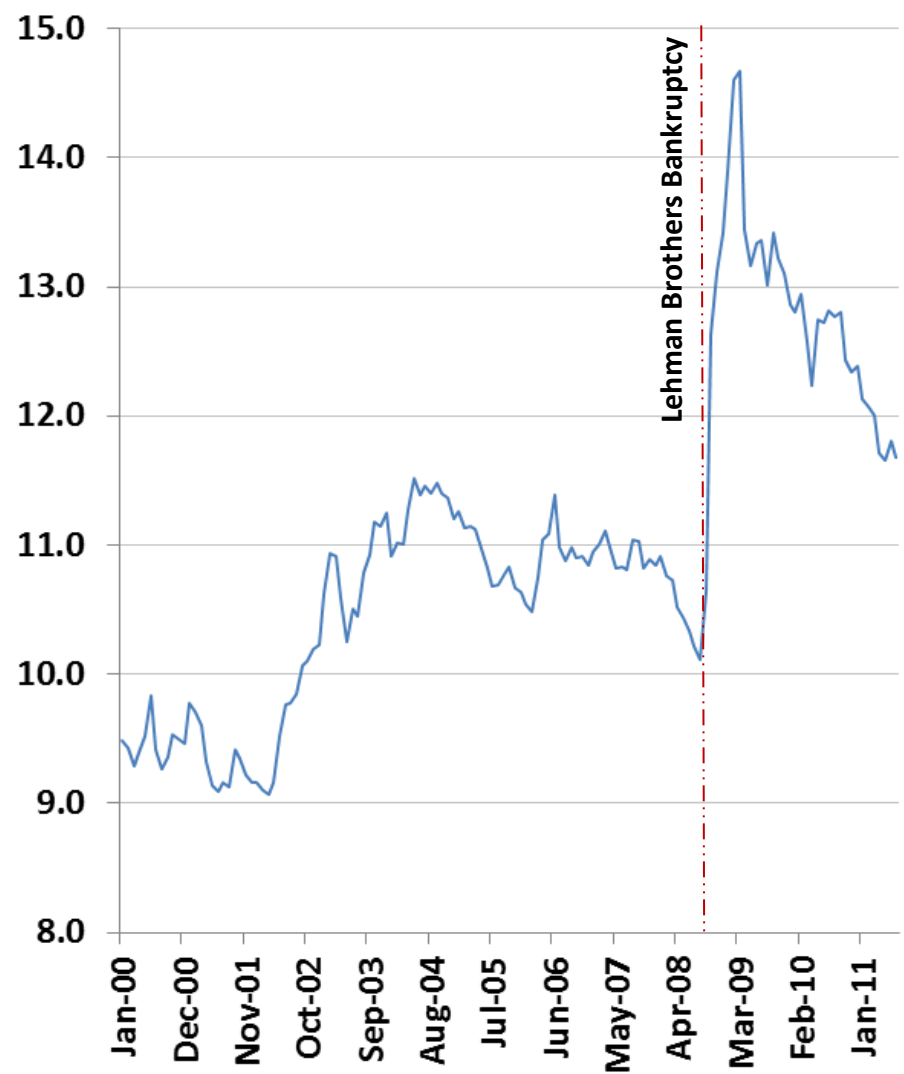
Source: World Economic Forum. The Global Competitiveness Index: Basic Requirements. 139 economies are considered.



Source: The Economist

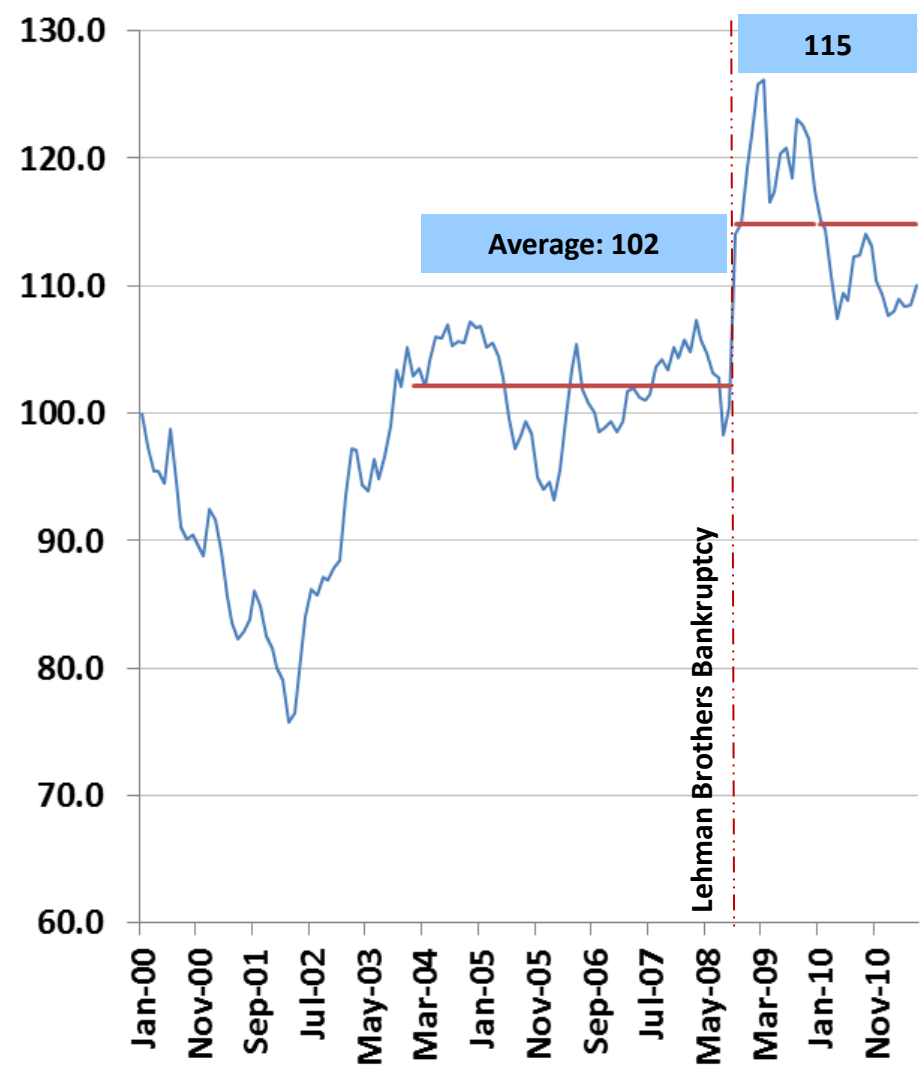
Strong recovery and macroeconomic stability: the exchange rate

Nominal Exchange Rate
(Pesos/USD)



Source: Banxico

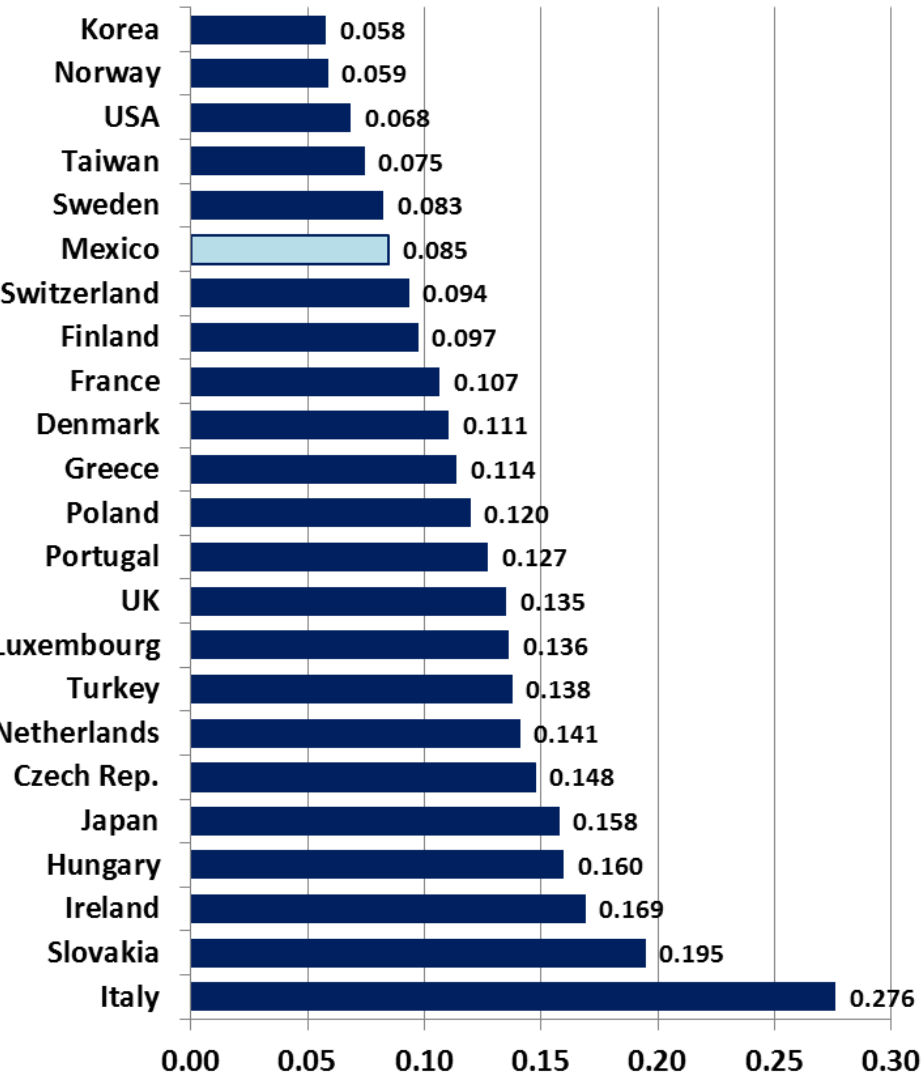
Real Exchange Rate Index
(Jan 2000= 100; compared to 111 economies)



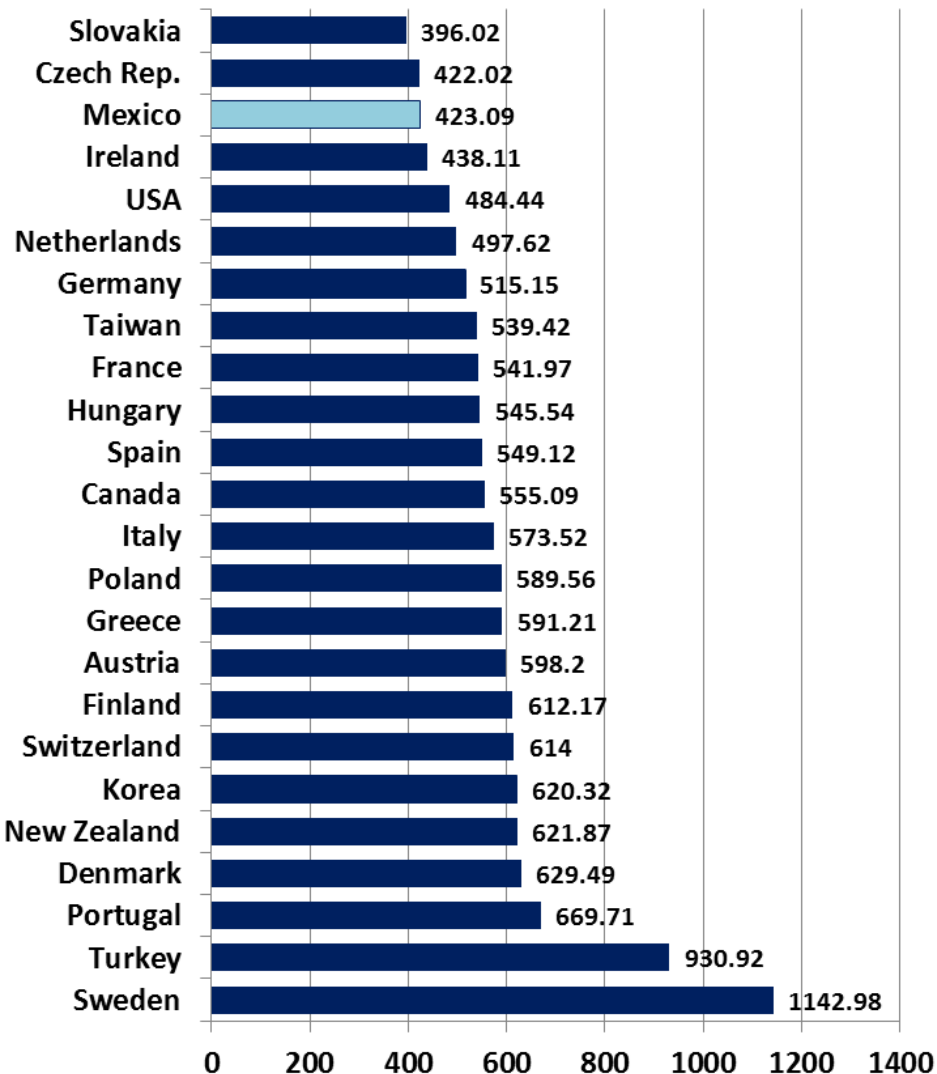
Source: Banxico

And competitive prices for key inputs

Electricity prices for industry, 2010
(USD / kWh)



Heavy fuel oil for industry, 2010
(USD / tonne)

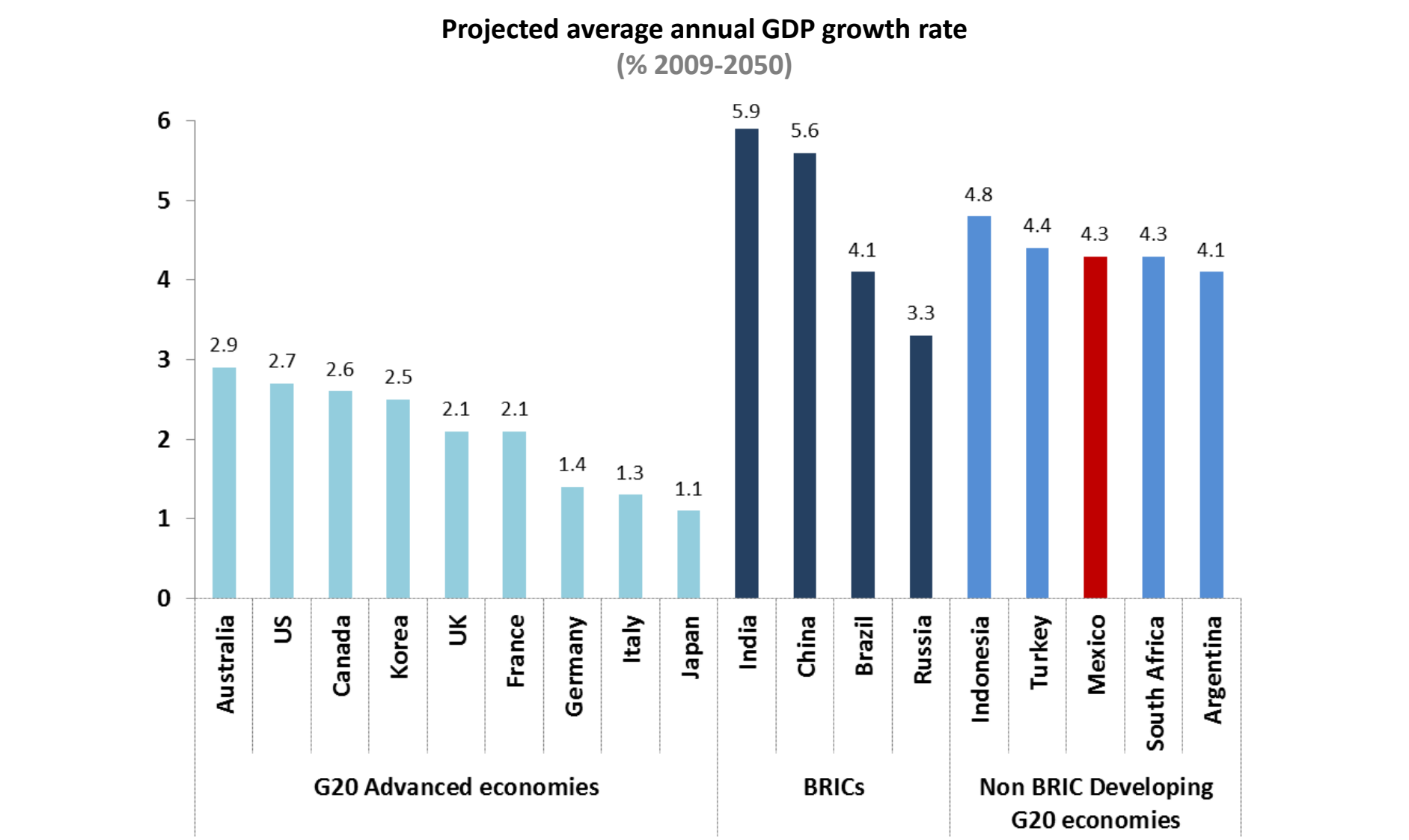


Source: Key World Energy Statistics, EIA

Why Mexico? Why now?

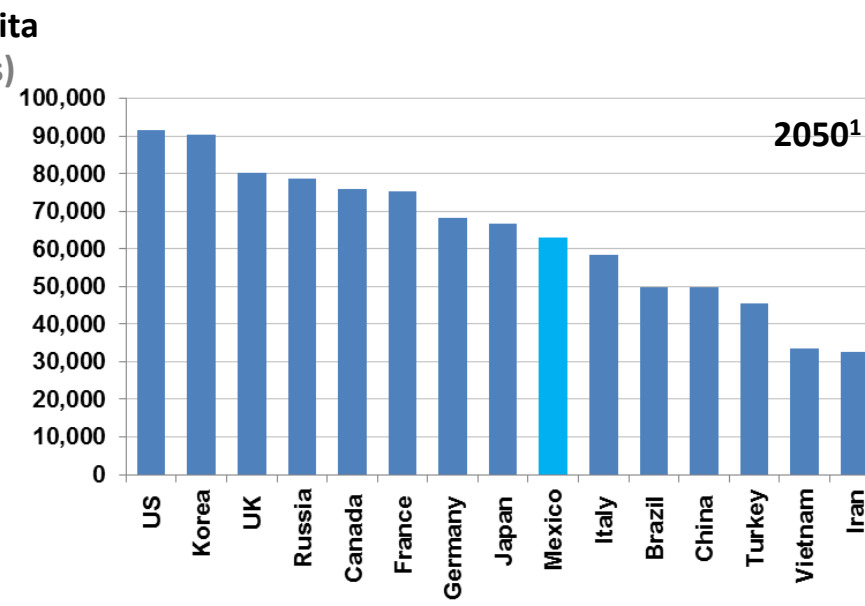
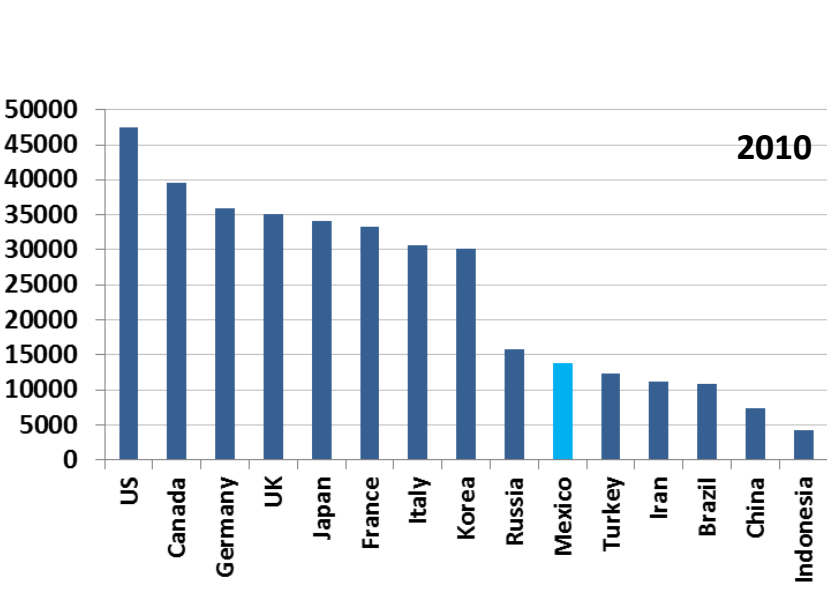
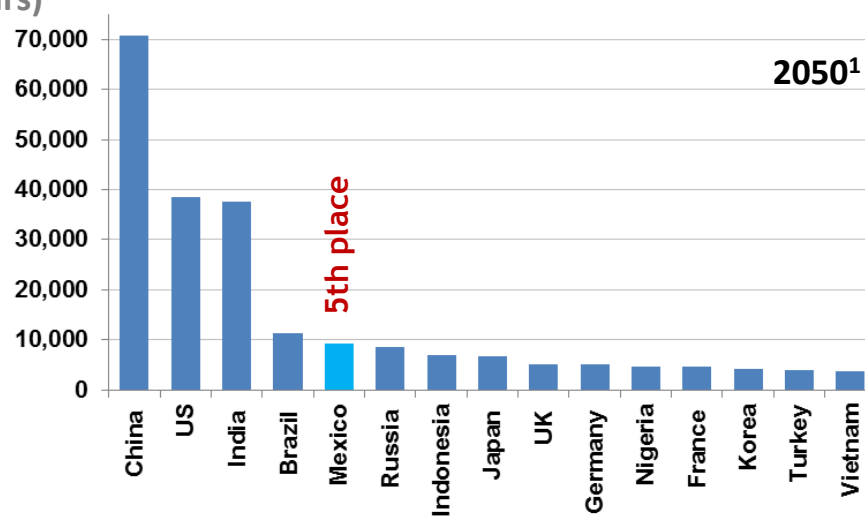
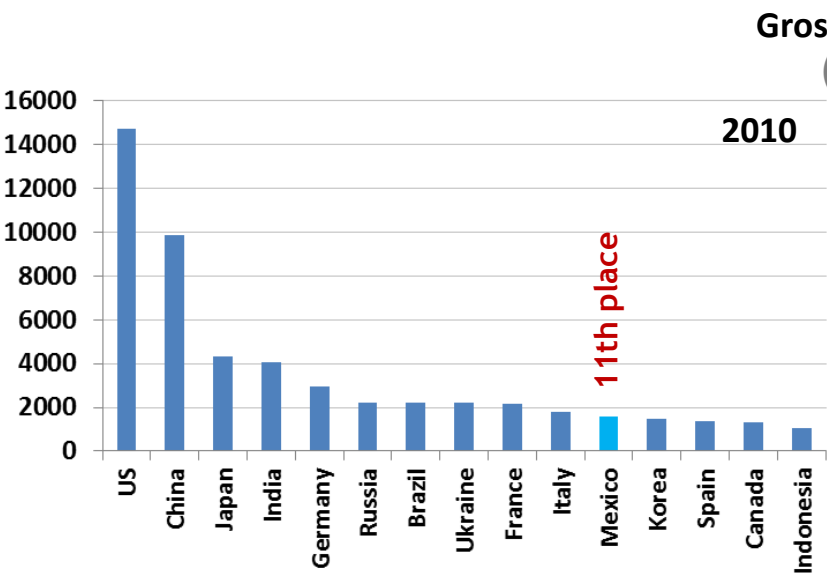
1. Solid economic fundamentals
2. Attractive domestic market
3. Industrial policy agenda
4. Concluding remarks

In the long run, developing countries will outpace G20 advanced economies



Source: AT Kearney, 2010

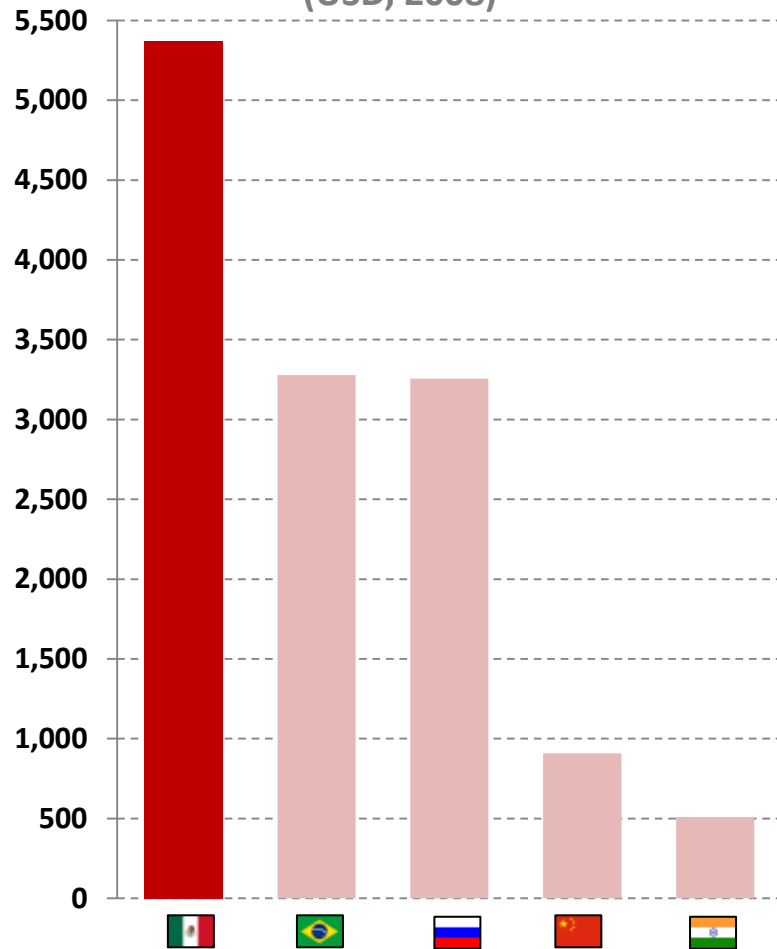
It is estimated that by 2050, Mexico will become the fifth largest economy and its GDP per capita will be comparable with those of developed countries.



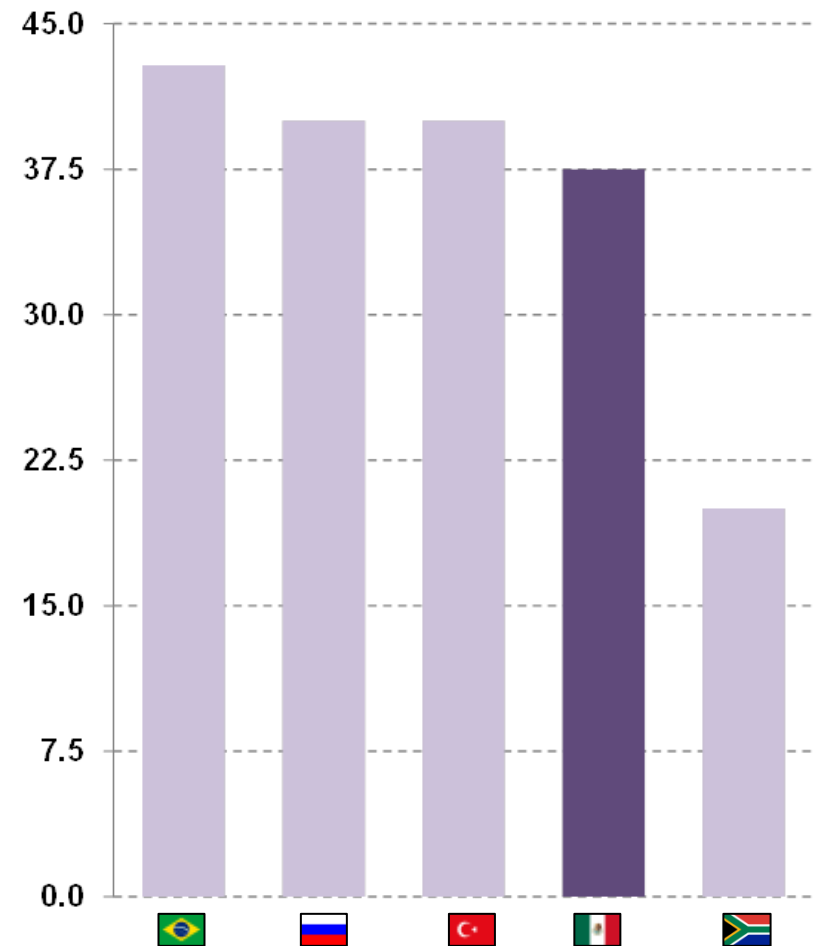
Source: Goldman Sachs. The N-11: More Than an Acronym. Global Economics Paper No: 153. March, 2007.
1/ Estimaciones de Goldman Sachs

Although income levels in Mexico are similar to those in emerging economies, the level of household consumption is higher.

Expenditure of households on goods and services for individual consumption
(USD, 2008)



Forecasted growth of middle income households¹
(%, 2010-2015)



Source: Own estimations based on data from Global Purchasing Power Parities and Real Expenditures, 2005 International Comparison Program - World Bank (2008)
1/ The original data are for 2005 and the estimations for 2008 were made using the observed growth rates from those countries.

Source: Own estimations based on data from Winning in Emerging-Market Cities, Boston Consulting Group (2010).
1/ Middle income households are those with annual income over \$10,000 dls.

Why Mexico? Why now?

1. Solid economic fundamentals
2. Attractive domestic market
3. Industrial policy agenda
 - i. Trade facilitation
 - ii. Some sectors
4. Concluding remarks

Trade facilitation based on 3 strategies:

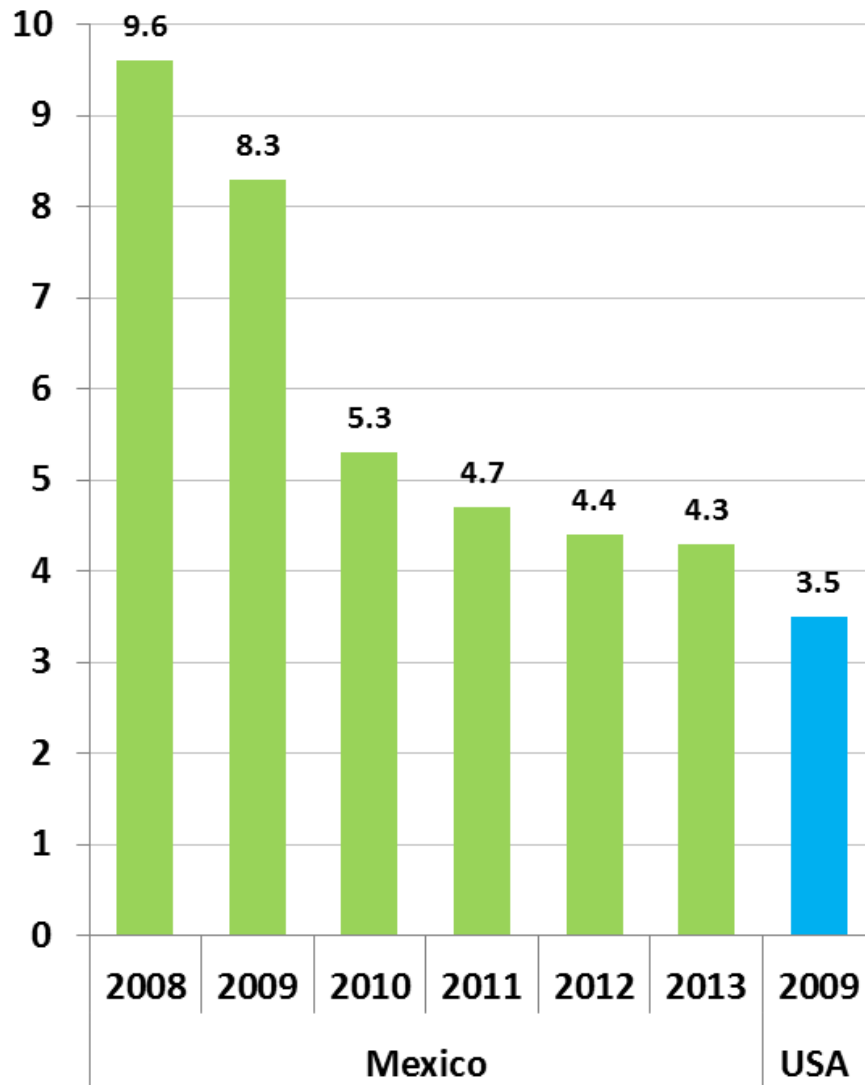
Tariff
simplification

Customs
facilitation

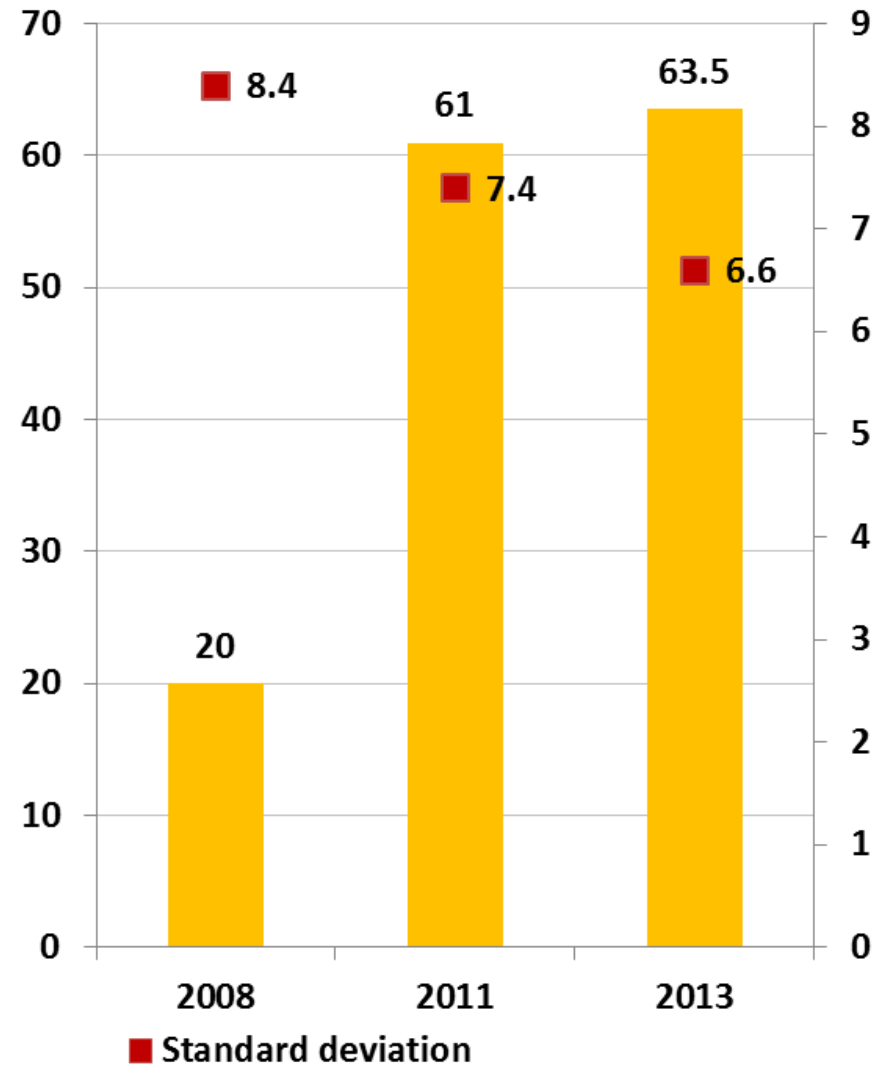
Institutional
strengthening
of COCEX

Tariff simplification

Simple average tariff
Industry; %



Tariffs with rate zero
Industry; %



Customs Facilitation: Single window system

Advantages of Implementing:

1. Reduces transaction costs

- One single delivery information window
- Every procedure is electronic
- The information will be delivered only once

2. Increases transparency

- The information and requirements of each procedure will be defined clearly and explicitly.

3. Increases security

- Has the Electronic Advanced Signature
- Low risk of permits falsification

4. Facilitates information flow through countries

- Easy implementation of single petition

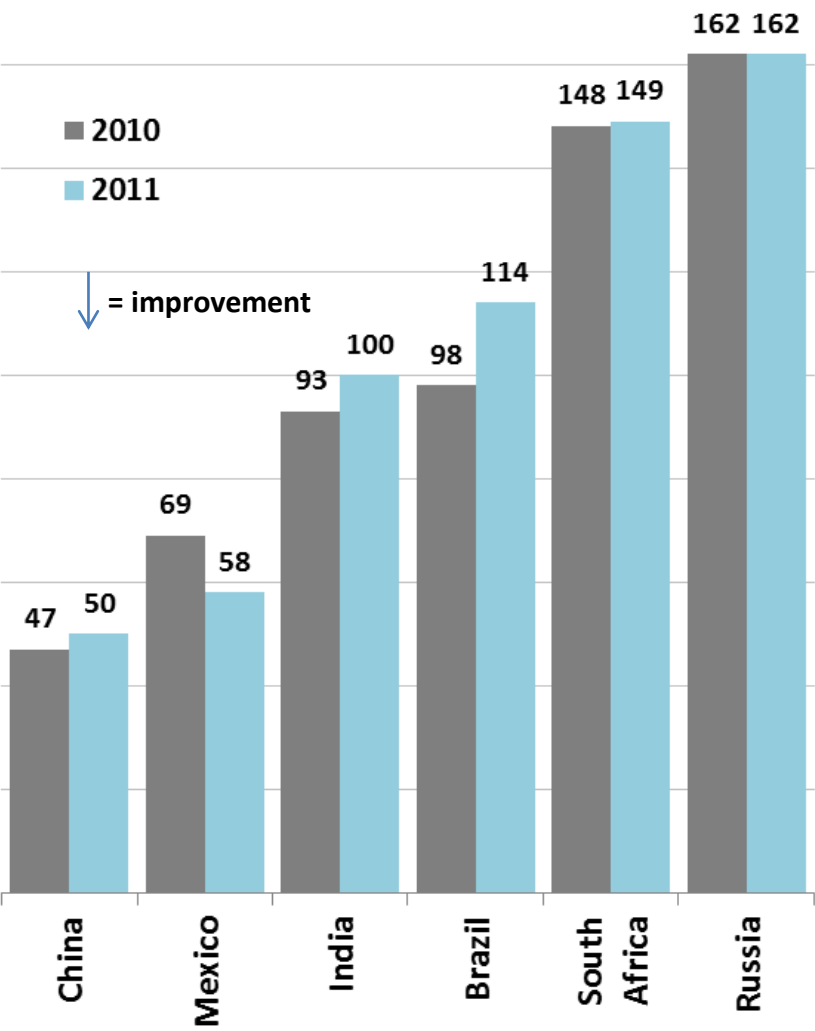
5. Reduces Risk Corruption

- The personal contract will be eliminated.

Competitiveness: market access

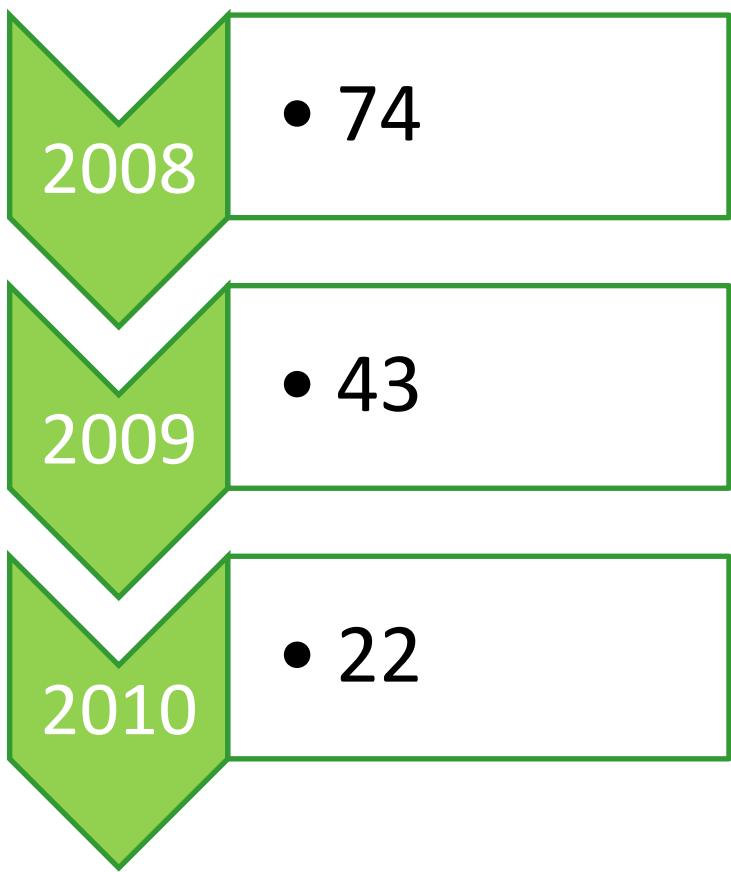
Trade facilitation indicators:

Trading across borders rank



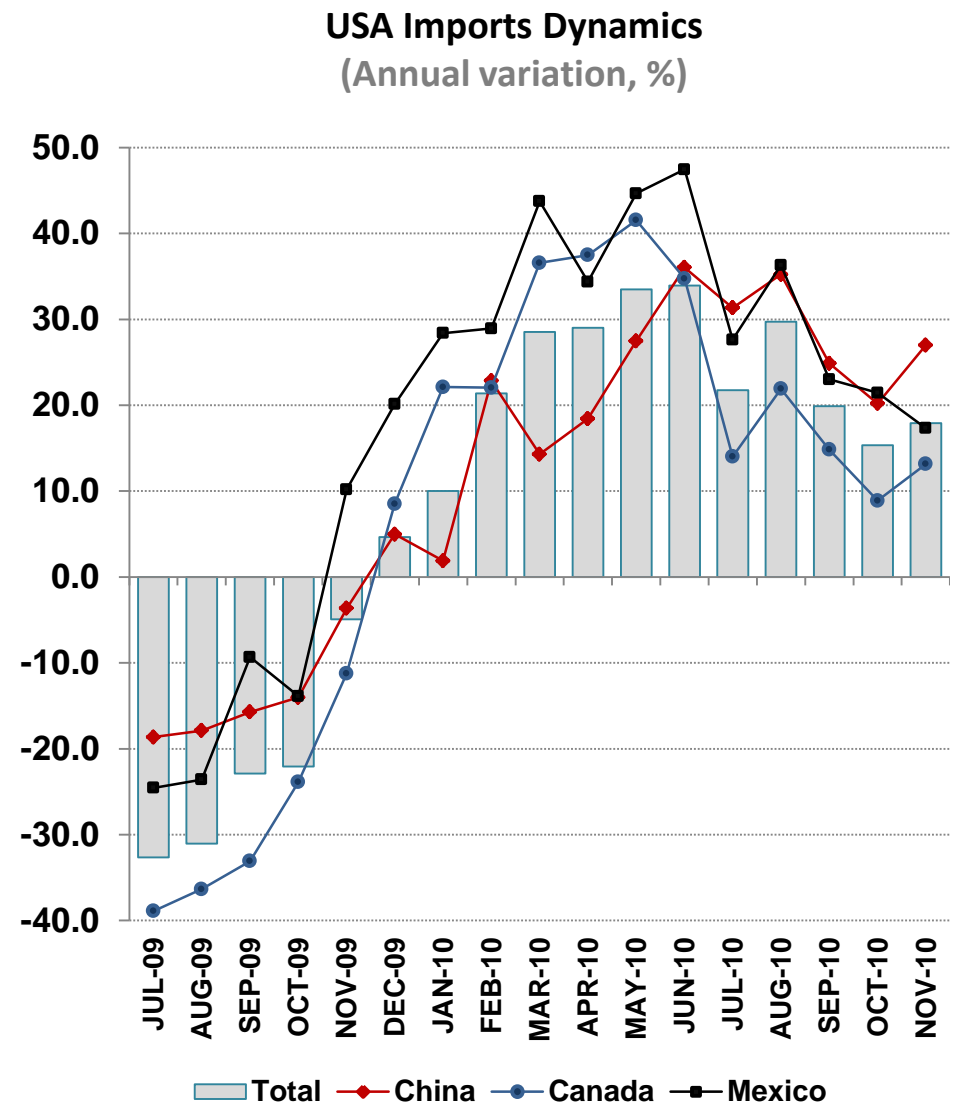
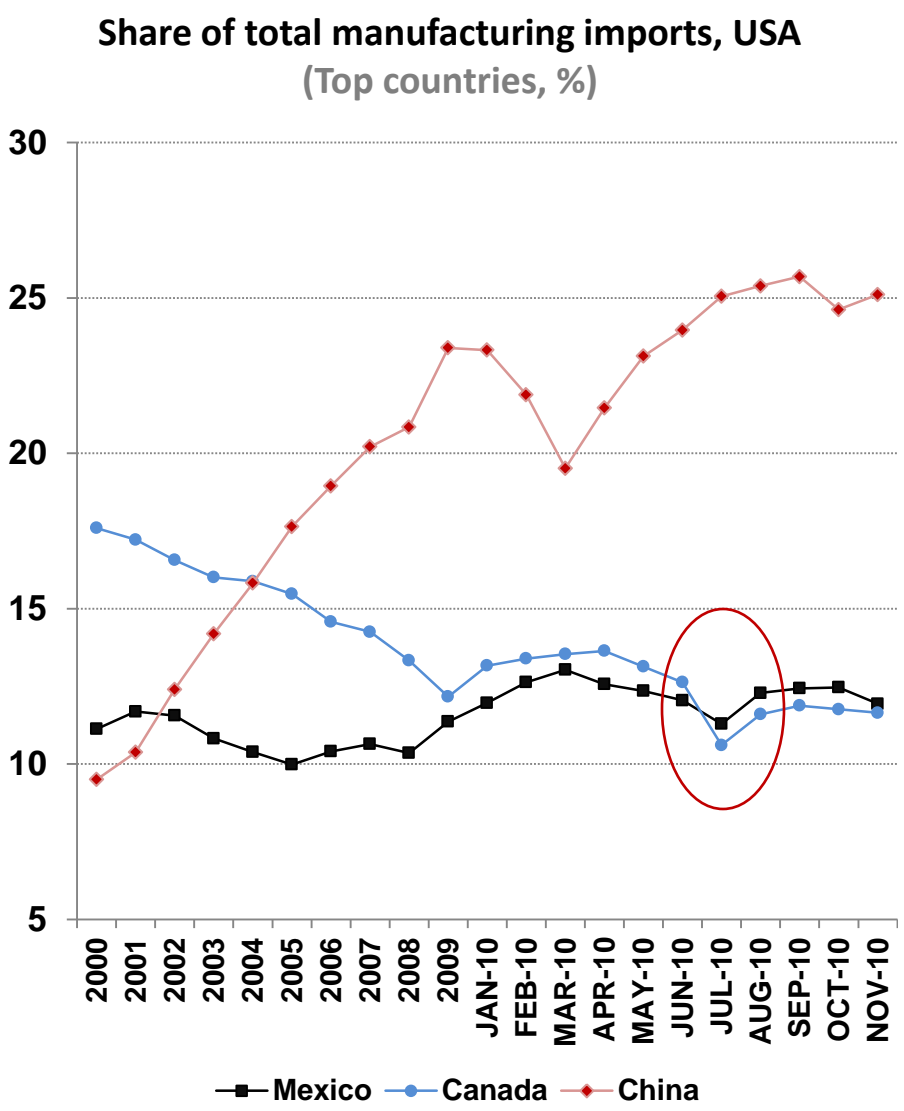
Source: Doing bussiness

Mexico's position in the sub index for market access
WEF



Source: World Economic Forum 2010

Mexico has improved its position as a top trade partner to USA despite China's entry to WTO.



Source: U.S. International Trade Commission (2011)

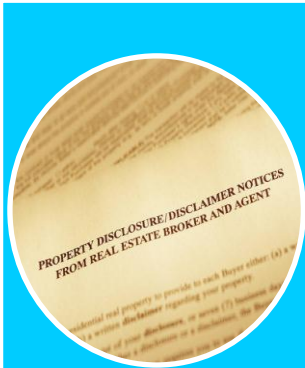
Why Mexico? Why now?

1. Solid economic fundamentals
2. Strong manufacturing platform for exports
3. Attractive domestic market
4. Industrial policy agenda
 - i. Trade facilitation
 - ii. Some sectors
5. Concluding remarks

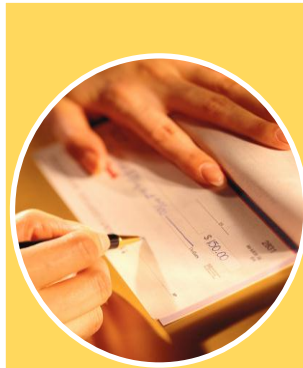
In general, the industrial policy is based on specific instruments...



**Human
capital**



Regulation



**Access to
financing**



**Market
growth**



**Government
procurement**



**Promotion
of
Innovation**

... for several sectors. In particular, some of them exhibit good results: Information technologies, Aerospace, Automotive and Mining.

Information Technologies (IT)

What has been done to promote the IT sector in Mexico?

PROSOFT 2.0: A long run public policy (2002 – 2013)

7 strategies



Start, progress and goals

2002	2010	2013
Employment		
124,245	600,000	625,000
Billing (MUSD)		
2,296	10,870	15,000
Investment in IT as GDP %		
0.7	1.7	2.3
Positioning		
Latin American leader developer of IT solutions and services with high processing capability.		

The perception of Mexico in the international market for this sector is positive

Mexico is ranked as the fourth global player in the exports of IT services and BPO after India, the Philippines and China.

Gartner analysis

Mexico is the only Latin American country that scored "Very Good" in the assessment of cost, while other countries have had only a grade of "Good."

Gartner study

Mexico is set at position 6 in the Global Services Location Index 2011, becoming the first North American country due to the availability of human capital and the financial attractiveness (costs).

AT Kearney

Mexico is ranked as the most competitive location allowing a cost savings of 53.4% in activities of Back Office / Call centers, 31.7% in Software Design and 34.1% in Web and Multimedia, compared to the location of U.S. operations.

KPMG

Automotive

Strategies for sector development

Human Capital

Auto Decree
(Benefits from investments in training)

Management Committee Labor Skills

PRODIAT* (job preservation)

Investment Attraction

Auto Decree (Gains on investments in productive infrastructure)

ProMéxico fund
(cash payments to foreign investment)

Competitiveness

PRODIAT
(support for market failure solutions)

Auto Decree
(Bonded warehouse, public procurement)

PROSEC
(preferential tariffs on inputs)

Technical Standards
(Safety and environmental)

*/ In 2009, 518.2 million pesos were allocated for the preservation of human capital in the auto industry through the support of projects type “B”

Supplier development

Auto Decree
(Benefits for purchases from domestic suppliers to overseas plants)

SMEs fund
(Transfer of resources for the creation, development and consolidation of SMEs)

Innovation

Innovatec and Proinnova
(Resources for investment in technological innovation in production processes)

AERI's
(Resources for the creation of strategic alliances for innovation)

Technical Standards
(Safety and environmental)

The automotive sector as a strategic sector

The automotive industry in Mexico is a strong export oriented sector.

In 2010, Ward's Auto placed Mexico in the sixth position as vehicle exporter.

The same analysis reveals that it is the ninth largest producer of motor vehicles globally.

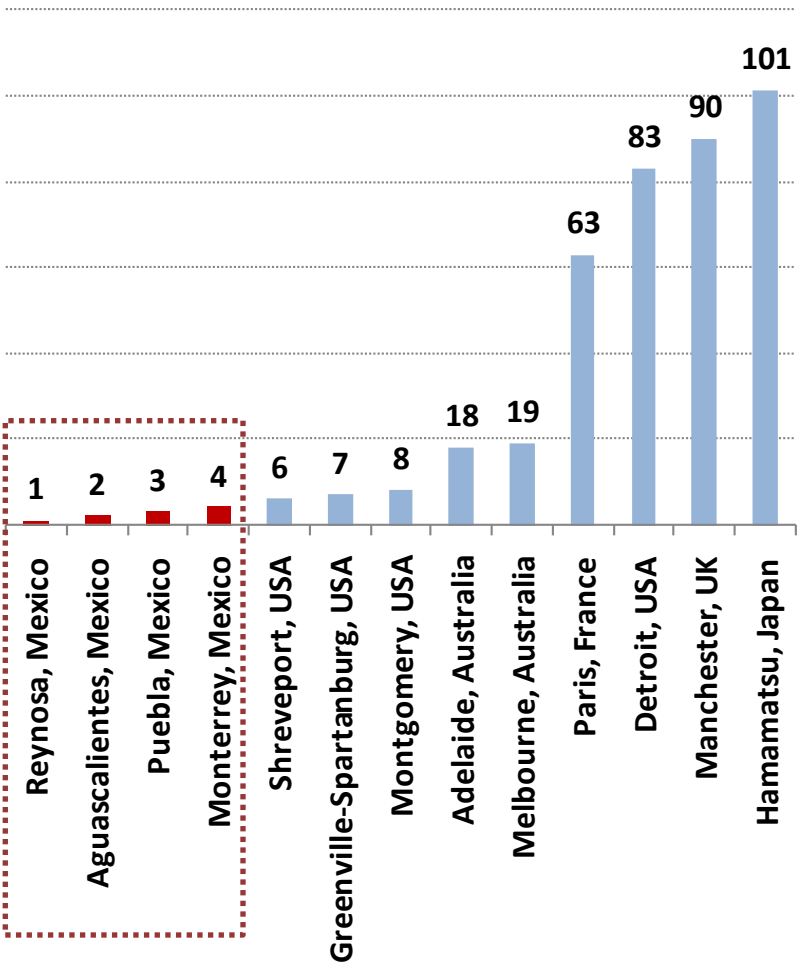
In 2010, KPMG ranked Mexico as the country with lower parts production costs in a 10 countries selection

According to the US Census Bureau, in 2010 Mexico was the leading exporter of automotive products to the United States with a 26% share of total country imports.

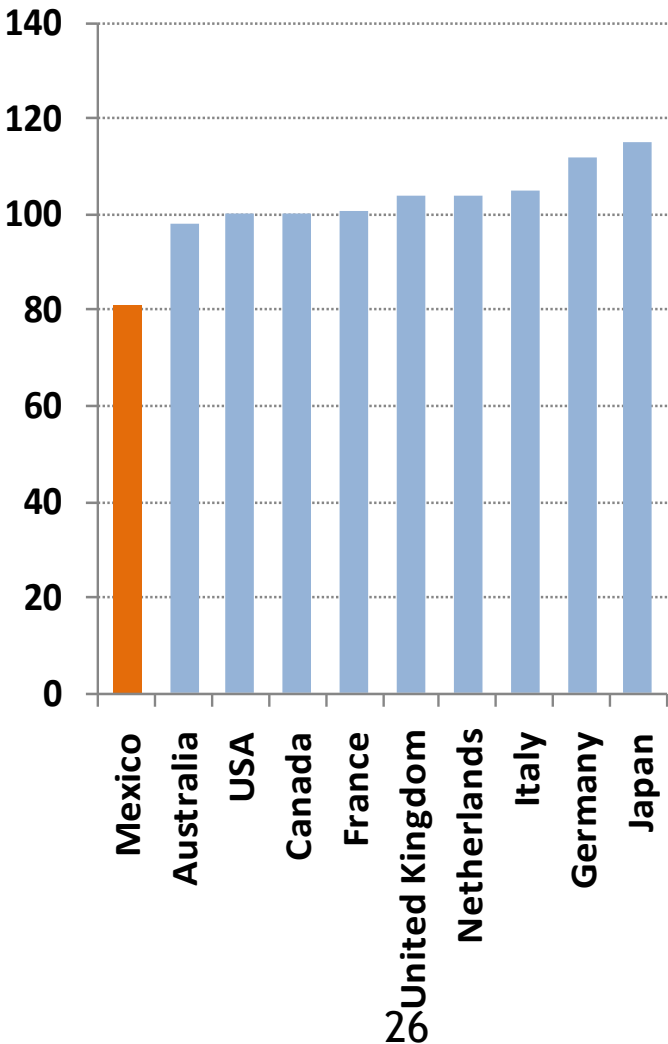
***/ In addition to Mexico, the selected countries were: France, Germany, Italy, Netherlands, United Kingdom, Canada, USA, Australia and Japan**

Mexico has significant competitive advantages in the automotive industry

Position in automotive parts assembly by city
(Position of 102 considered cities)



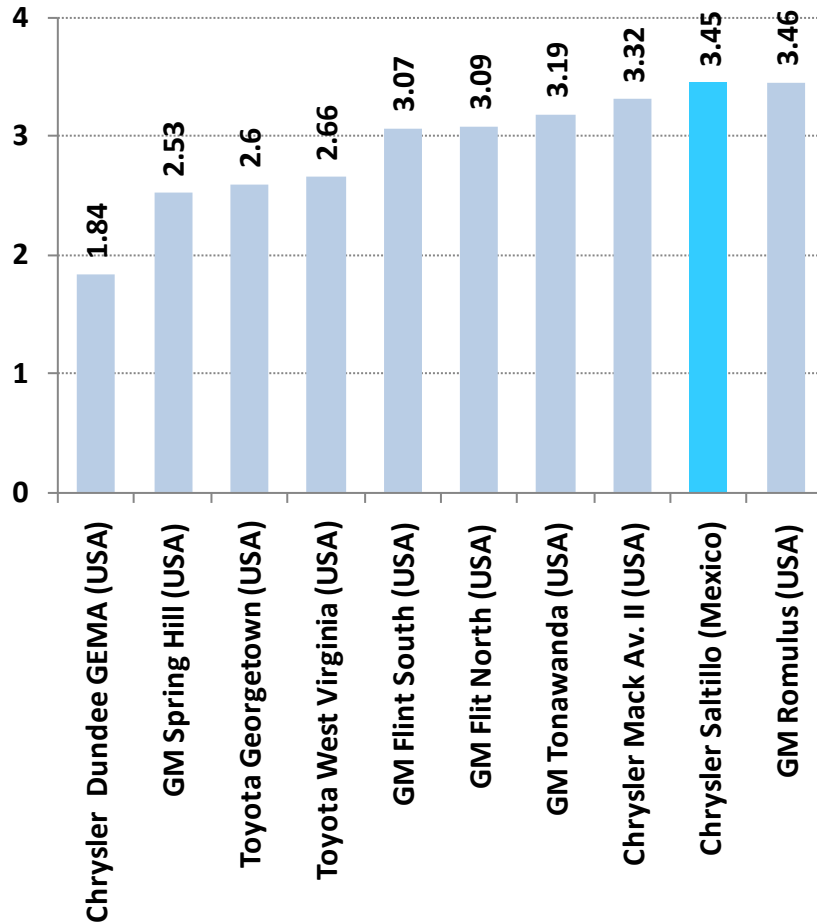
Advantage in automotive assembly costs
(Index 100 = USA)



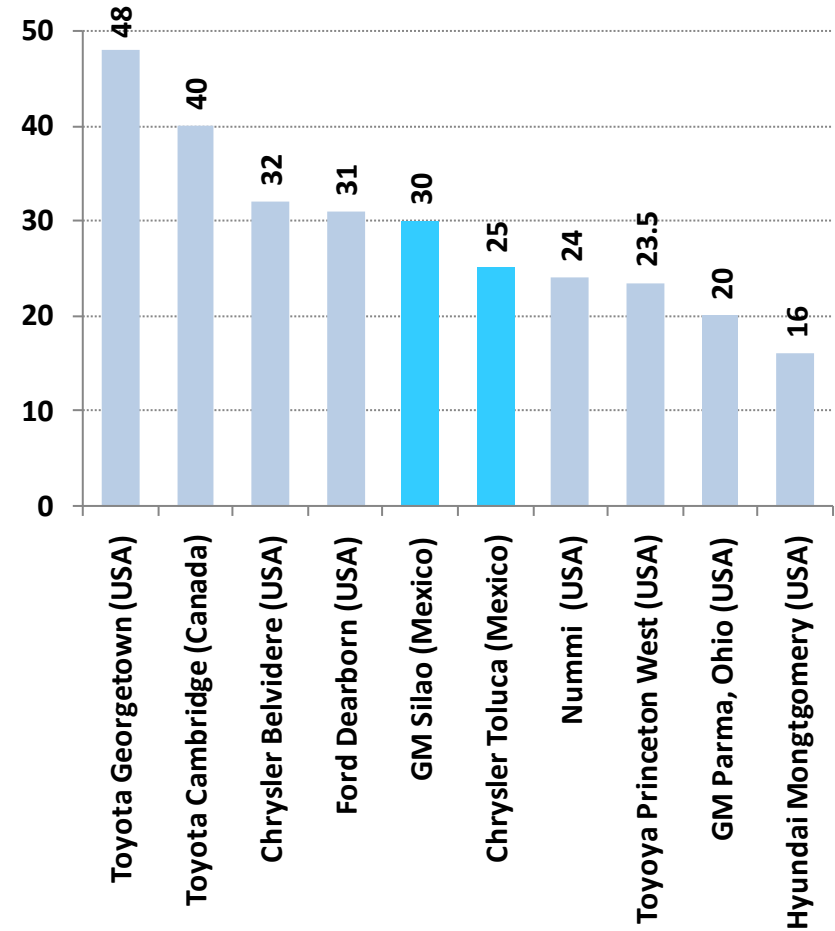
Source: KPMG. Guide to international business location, 2008.

Mexico has developed high performance plants that can be compared with the best plants worldwide.

Top 10: Engine production
(Hours per produced engine)



Top 10: Stamping process
(Parts per hour)



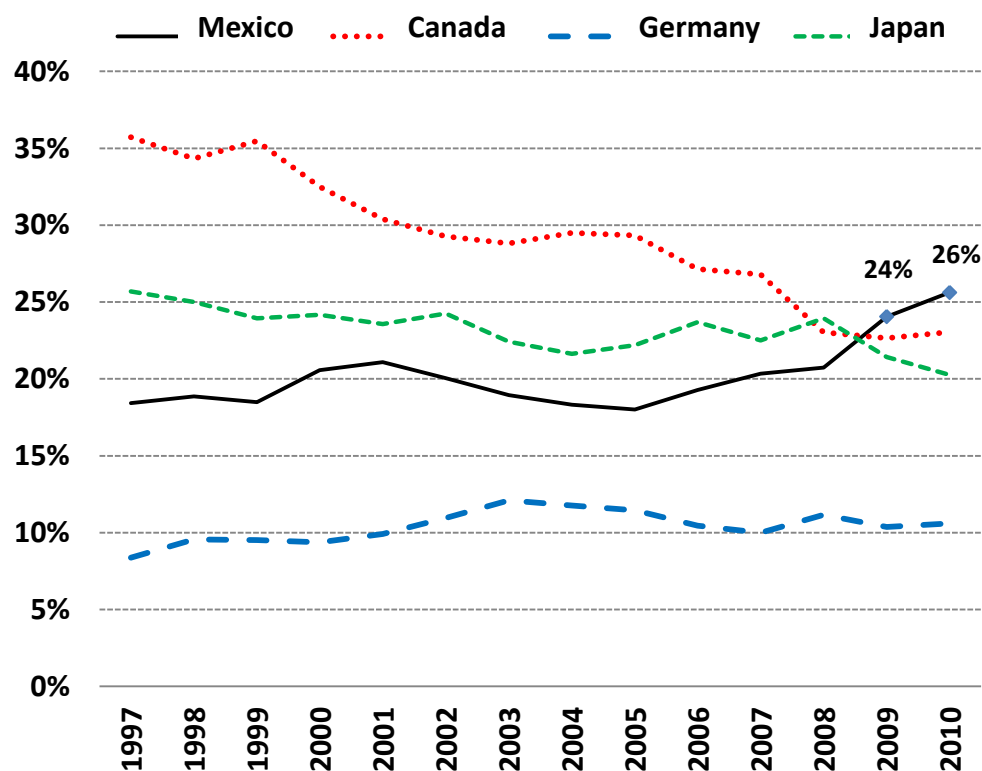
The results in the automotive sector are evident

- In 2010 the Mexican automotive industry was the largest exporter to the United States, achieving a share of imports of automotive products in the country of 26%

Major exporters of automotive
(Participation in the total six first)

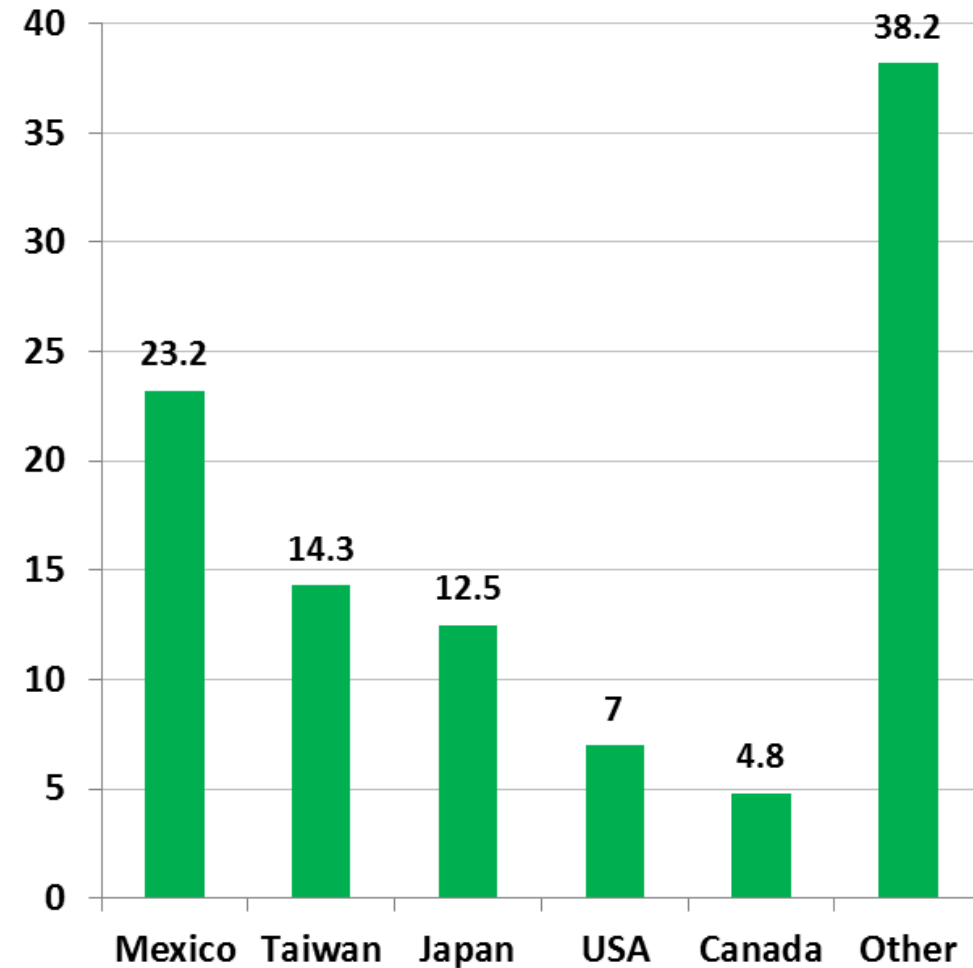
	2008 %	2009 %	Change	
European Union	53.1	53.8	↑	0.7
Japan	13.9	12.2	↓	-1.7
United States	9.0	8.6	→	-0.4
Korea	4.0	4.4	↑	0.4
Mexico	3.8	4.3	↑	0.5
Canada	4.2	4.0	→	-0.2
Other	12.0	12.7	↑	0.7

Share of the US imports
(Percentage)

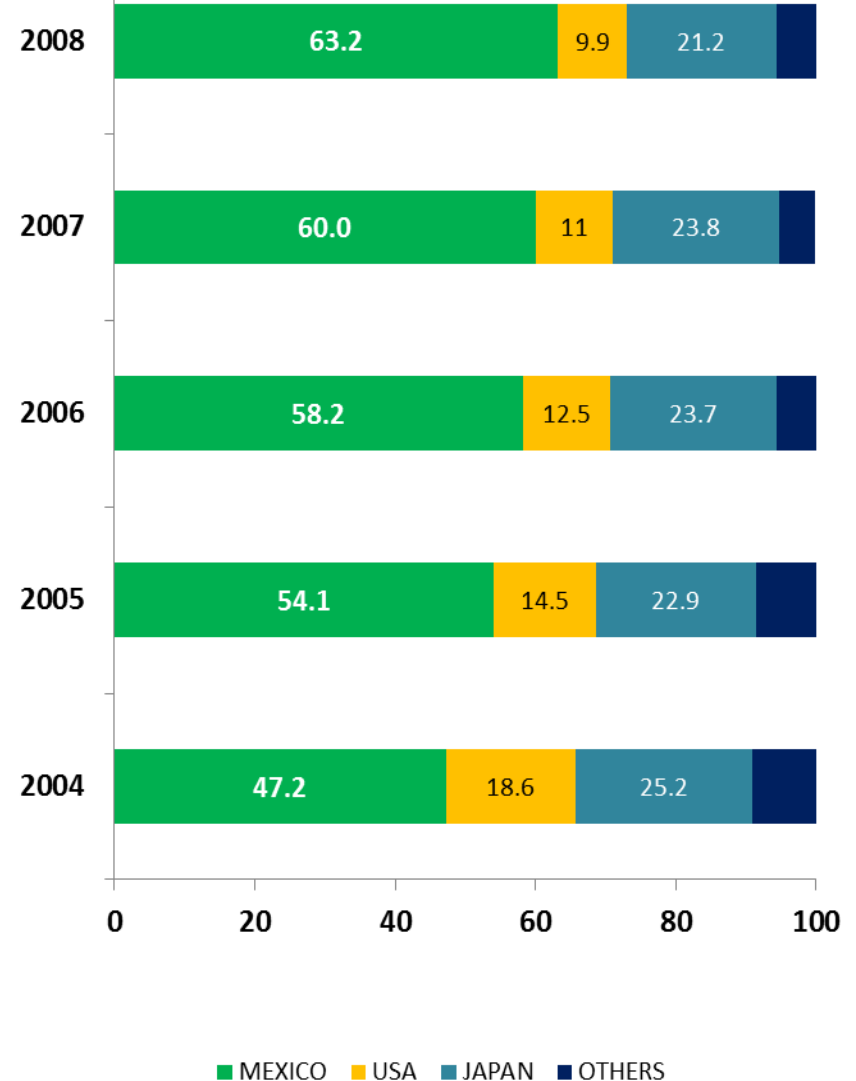


A good example in the automotive sector is Nissan, a successful firm in Mexico

Nissan's main markets in 2010
(%)



Nissan Mexico
Suppliers' share, 2004-2008
(%)



Why Mexico? Why now?

1. Solid economic fundamentals
2. Strong manufacturing platform for exports
3. Attractive domestic market
4. Industrial policy agenda
5. Concluding remarks

Concluding remarks

1. The Mexican economy has been recovering fast from the 2009 crisis and is expected to perform favorably during 2011.
2. Mexico has shown responsible macroeconomic policy and has strengthen the domestic market and its growth potential.
3. The rapid growth of exports, their diversification and the increase in our market share of the US market reveal the competitiveness of the Mexican industry.
4. Mexican government is implementing actions to consolidate our industry and to further increase its productivity.



SE

The Mexican Economy and Investment Opportunities

Lorenza Martínez Trigueros
August, 2011