MEXICO'S STRENGTHS

For over 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.

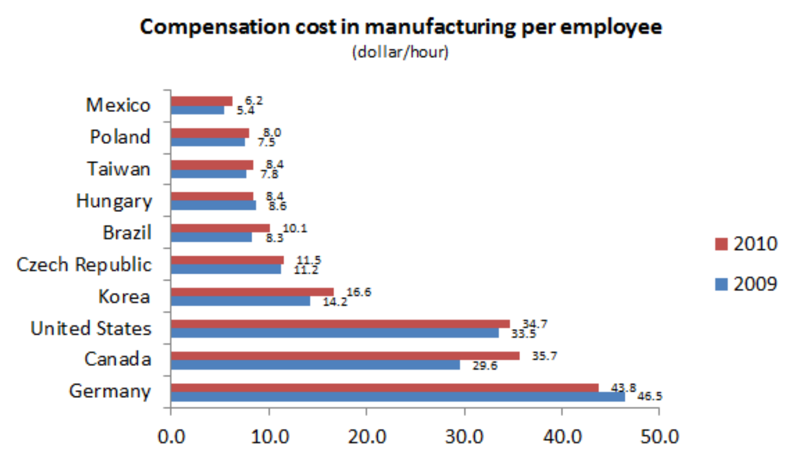
Today the country possesses an attractive business environment, legal certainty, one of the largest networks of free trade agreements in the world, extensively developed economic sectors and a highly competitive cost profile. In order to facilitate business operations even further, progress is also being made in terms of infrastructure, to make Mexico 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 Mexico an excellent choice for basing business operations.

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 a comparison of labor costs.

Figure 1. International Comparison of Manufacturing Labor Costs



Source: US Bureau of Labour Statistics, 2012.

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

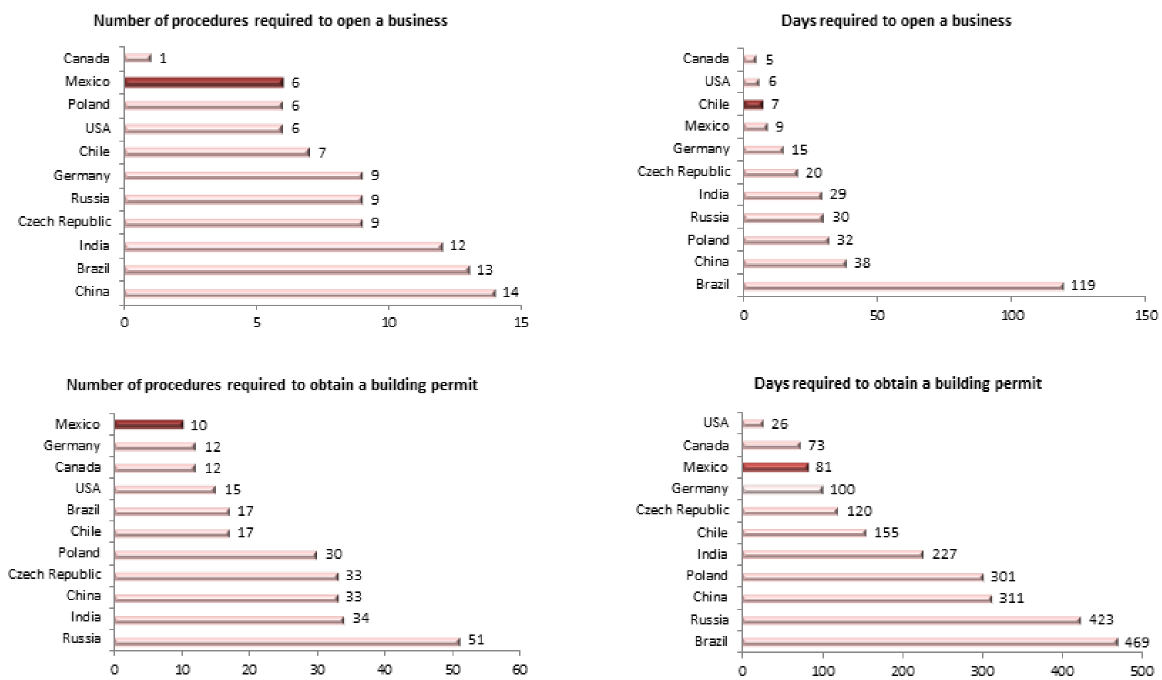
Consultancy firms such as Boston Consulting Group, AT Kearney and Alix Partners (which measure the competitiveness of the manufacturing sectors of emerging economies) have recognized the advantages offered by Mexico to productive investment. In particular, Alix Partners rates Mexico as the best place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

Ease of Operation

The procedures and time required to open and close 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 6 procedures and 9 days to open a business, and 10 procedures and 81 days to obtain a building permit. These numbers are notably lower than those seen in Russia, India, China or Brazil. 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

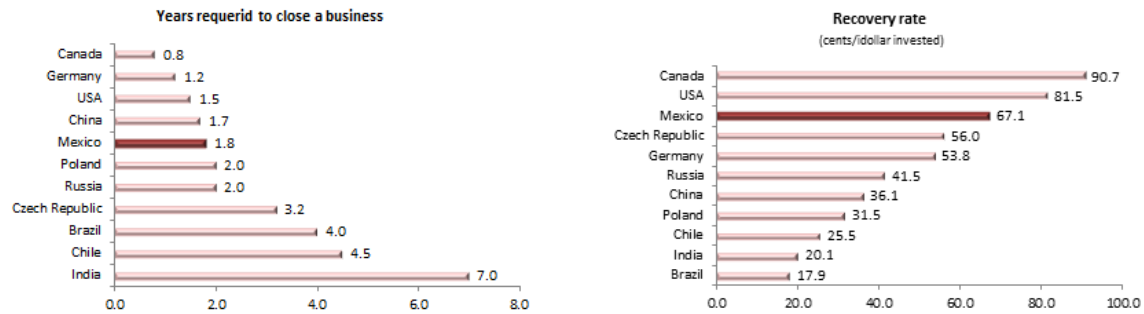


Source: The World Bank, Doing Business 2012.

In addition, in Mexico only 1.8 years are required in order to close a business, with a recovery rate of 67.1%.[1] These factors are significantly better than those seen in countries like India, Brazil, Chile and Russia, among others (Figure 3).

[1] The recovery rate represents the percentage 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.

Figure 3. International comparison of business closure



Source: The World Bank, Doing Business 2012.

Access to Major Markets

Internal Market and NAFTA Region

According to the Housing and Population Census 2010, Mexico has a population of 112.3 million inhabitants of which 47.8 million are Occupied Population. The internal labor market is of interest in its own right for the firms that establish themselves in the country, considering for example the GDP, which in 2011 added for 1,154 billion dollar; in fact, in 2011 Mexico occupied the14th 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 17,969 billion dollar, as shown in Table 1). Estimates for 2015 indicate the size of the regional market will reach 21,083 billion dollar, a figure that will represent 25.5% of future global GDP.

Table 1. Size of the NAFTA regional market

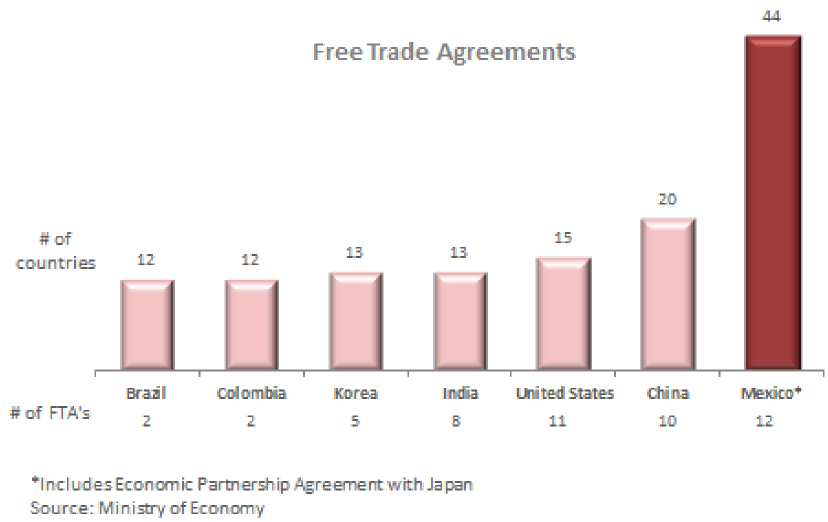
Market size in the NAFTA region (billion dollars)		
Country/Region	Gross Domestic Product	Private Consumption
United States	15,076	10,726
Canada	1,739	995
Mexico	1,154	752
NAFTA Region	**17,969**	**12,473**

Source: IMF, Global Insight 2012.

Network of Free Trade Agreements and Trade Procedures

Twelve free trade agreements signed with 44 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 62.6% of global GDP. Figure 4 shows how Mexico far exceeds China, the United States and Brazil, among other countries, in this regard.

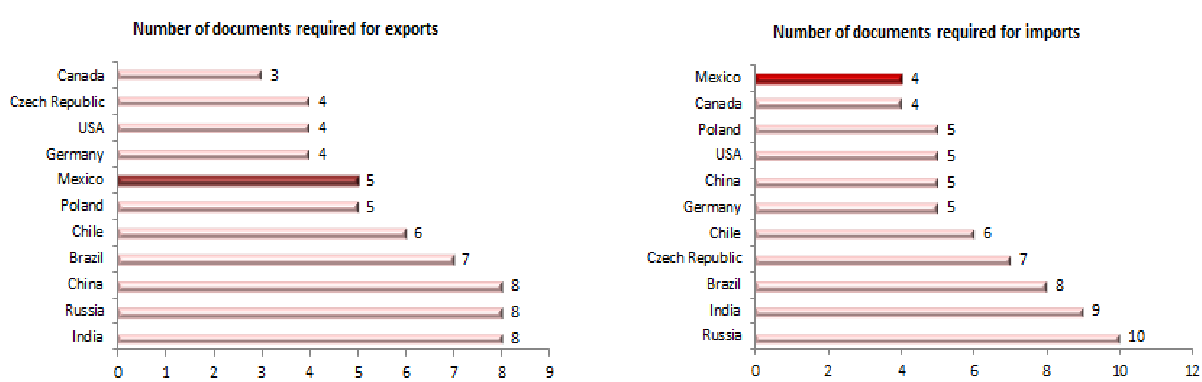
Figure 4. International comparison of the number of countries with which free trade conditions are in force, 2012



In 2011, the average tariff in Mexico was 4.7%. This increases the profitability of firms established in Mexico, since they can purchase input materials and finished products at competitive prices.

Meanwhile, the amount of paperwork involved in import and export operations is low, with only 5 documents required to complete an export procedure and 4 documents for an import one. Figure 5 shows an international comparison on foreign trade procedures. Mexico surpasses countries such as Brazil, China, Russia and India.

Figure 5. International comparison of procedures required to carry out foreign trade operations



Source: The World Bank, Doing Business 2012.

Legal Certainty for Foreign Investment

The signing of Investment Promotion and Reciprocal Protection Agreements (IPPAs) forms part of the strategy of the Mexican government 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, IPPAs 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 28 agreements of this kind.

Table 2. RIPPAs signed by Mexico

RIPPAs signed by México					
Country	**Year**	**Country**	**Year**	**Country**	**Year**
Switzerland	1996	Sweden	2001	Australia	2007
Argentina	1998	Korea	2002	Trinidad and Tobago	2007
Holland	1999	Italy	2002	Spain	2008
France	2000	Uruguay	2002	India	2008
United Kingdom	2000	Greece	2002	Slovakia	2009
Portugal	2000	Cuba	2002	China	2009
Denmark	2000	Belgium	2003	Belarus	2009
Finland	2000	Czech Rep.	2004	Singapore	2011
Germany	2001	Panama	2006		
Austria	2001	Iceland	2006		

Source: Ministry of Economy

Furthermore, certain Free Trade Agreements signed by Mexico include chapters on investments that resemble IPPAs. 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.

Low Transport Costs

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. International comparison of days by sea the principal centers of consumption

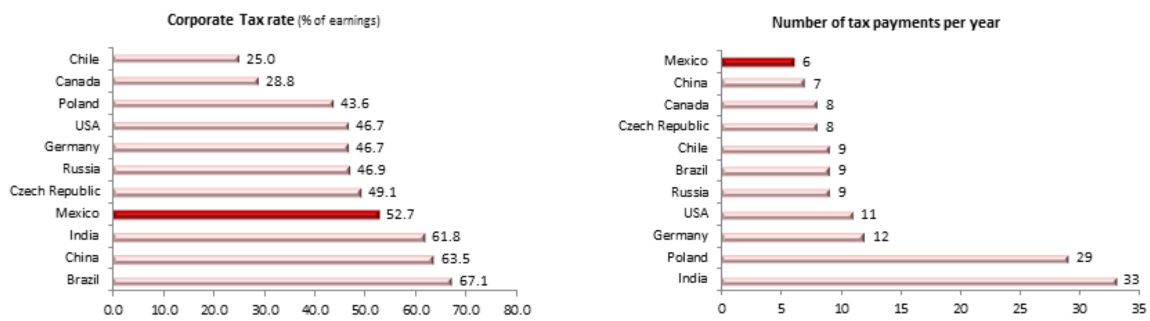
Number of days by sea to major centers of distribution and consumption										
Destination City	Country of origin									
	Germany	Brazil	China	Colombia	Korea	USA	India	Mexico	Poland	Turkey
New York	9.8	13.1	28.7	6.5	14.6	-	26.4	5.4	10.5	13.7
Los Angeles	22.2	19.9	15.9	8.4	27.7	-	25.8	3.7	23.1	25.2
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

Source: Sea Rates

Operating Costs

There is a series of factors that impacts 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: The World Bank, Doing Business 2012.

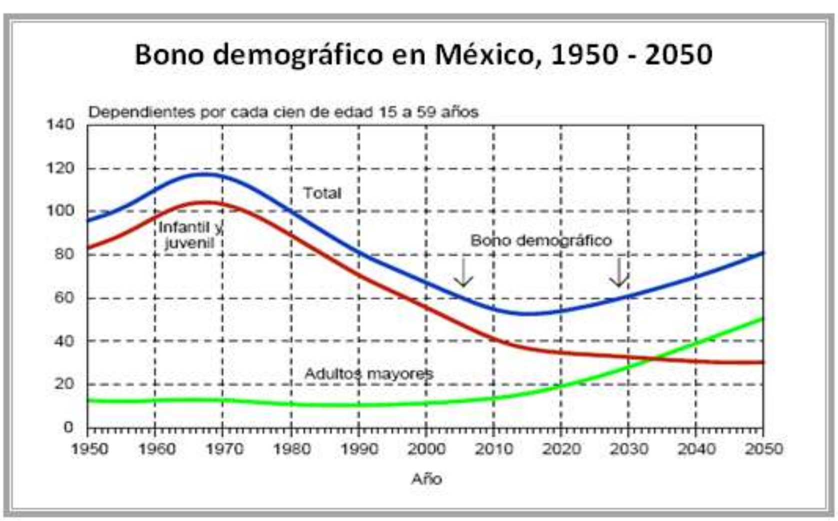
The corporate tax rate in Mexico is lower than that in China, India or Brazil. With regard to the frequency of tax payments, Mexico only requires 6 payments per year, placing it in a better position than countries like Brazil, Russia, China, Poland or India.

Population and Human Capital

Demographic Bonus

According to the Housing and Population Census 2010, 112.3 million people live in Mexico and the Economically Active Population (EAP) numbers 50.2 million. Figure 7 shows the behavior of the economic dependency ratio up until 2050.

Figure 7. Demographic Dividend in Mexico

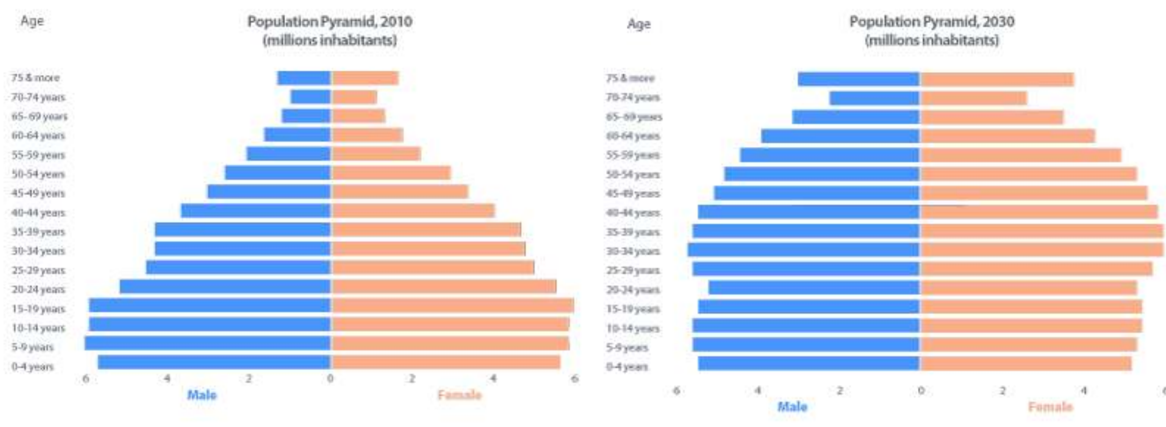


Source: CONAPO

As may be observed, by 2030 Mexico will have a lower level of economically-dependent children and older adults. This will generate significant business opportunities, given the size of the internal market (resulting from the large number of economically active people) and the availability of trained human capital.

Over the next two decades, the working population will reach 62 million. Figure 8 shows the development of the country's population structure on 2010 and 2030.

Figure 8. Population structure of Mexico, 2010 and 2030



Source: INEGI, Population and housing census 2010.

Source: National Population Council

Trained Personnel

Today over 130,000 engineering and technology students graduate in Mexico each year, which represents a supply of skills that is highly attractive to firms in a range of sectors.

The Mexican Higher Education System comprises 2,539 institutions that offer education services and facilities for international exchange.

With the aim of continuing to develop our human capital the Federal Government has implemented an Employment Preservation Program, which prevented the loss of half a million sources of work in the country's export sector.

Infrastructure and Access to the United States

Mexico is well connected, with 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 sea ports, which enables cost reductions and facilitates the entry and exit of goods.

In brief, Mexico has:

- 76 airports (12 domestic and 64 international).
- 117 sea ports (49 coastal shipping ports and 68 international maritime ports).

- 27,000 kilometers of railroads.
- 133,000 kilometers of paved highways (120,000 kilometers with two lanes and 13,000 kilometers with four or more lanes).

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:

- Largest silver producer worldwide.
- Seventh-largest oil producer worldwide.
- One of the largest copper producers worldwide.

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

Macroeconomic Stability

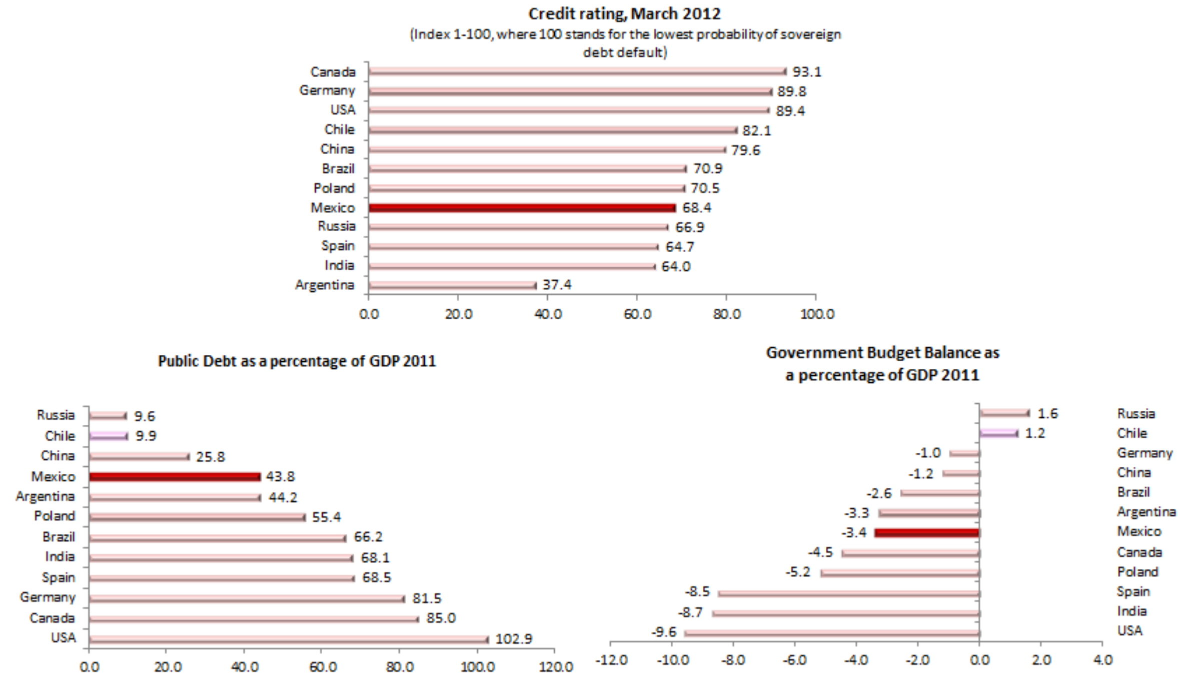
According to the most recent report on Global Competitiveness by the World Economic Forum, in terms of the sub-index on macroeconomic stability (which in turn measures five variables: government budget balance, gross national savings, inflation, government debt, and country credit rating), Mexico is in 40th position among 144 countries.

In terms of public debt, Mexico has no solvency problems: its public debt as a percentage of GDP stands at 43.8%, below that of countries like Poland, Brazil, India, 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.

Figure 9 gives details about the country's strengths in important macroeconomic variables in comparison with other economies.

Figure 9. Comparison of selected indicators of macroeconomic stability



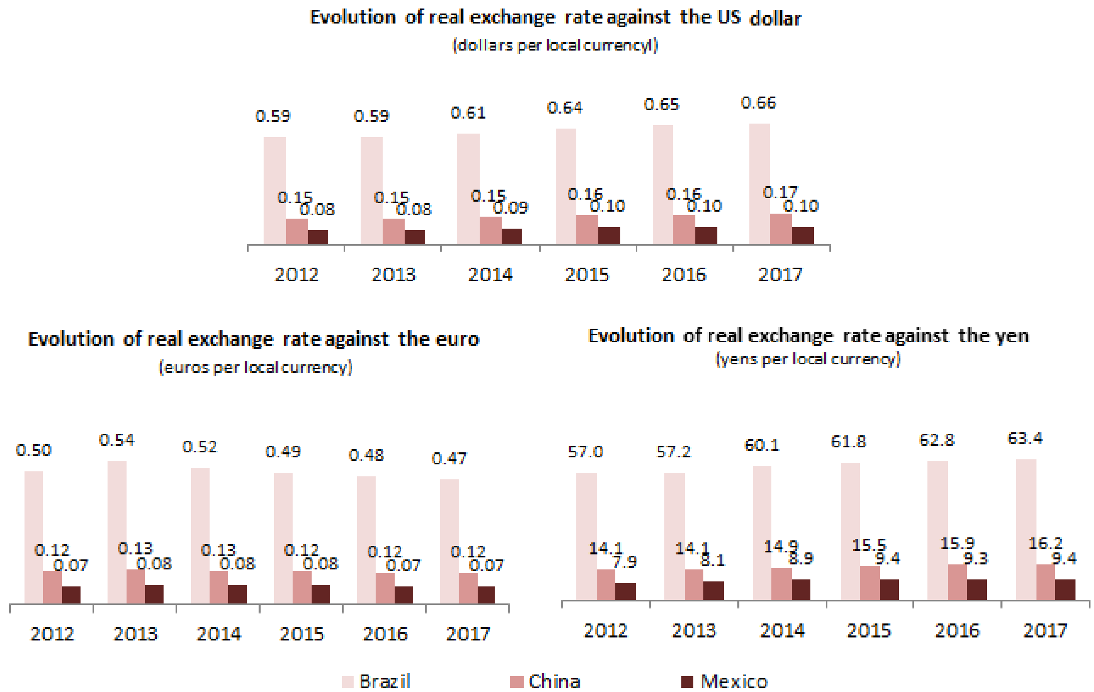
Source: World Economic Forum
The Global Competitiveness Report 2012-2013

Furthermore, the World Economic Forum report presents the indicator "Country credit rating". As far as Mexico is concerned, the country is rated at 68.4 points (where 100 stands for minimum risk and 0 stands for the highest risk), meaning it has a lower credit risk than countries like Russia, Spain, India and Argentina.

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. By way of an example, Figure 10 presents the future behavior of the exchange rate of Mexico, Brazil and China against the US dollar, euro, and the Japanese yen.

Figure 10. Expected behavior of the real exchange rate against the dollar, euro and yen, in Mexico, Brazil and China (2012-2017)



Source: Own calculation with data from Global Insight. The producer price index has been used for the calculation; the index of Germany is considered for the euro zone case.

As may be observed, Mexico is expected to have a favourable exchange rate, comparing to Brazil and China. This will make products exported from Mexico to markets in the U.S., Europe and Japan relatively cheaper when compared to those exported by its competitors.

When considering Mexico as an option for setting up an operational and export base, 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.

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 has the greatest number of UNESCO World Heritage Sites on the American Continent, and has the sixth highest number worldwide.
- Mexico takes fourth place in the world in number of World Heritage Cities, with 10 (after Italy, Spain and Germany).
- Over 45,000 archeological sites are registered and enjoy legal protection. Of these, 183 have the infrastructure to receive visitors and are representative of the cultural and regional diversity of the country.
- Visitors may enjoy some 115,000 historical monuments built between the 16th and 19th centuries.

As such, 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 government and Mexican society mean the country can expect to emerge as a key economic power by 2040.

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

APPENDIX 1. MEXICO'S LOGISTICS PLATFORM

Mexico has:

- 74 airports (12 domestic and 64 international).

- 117 sea ports (49 coastal shipping ports and 68 international maritime ports).

- 27,000 kilometers of railroads

- 133,000 kilometers of paved highways (120,000 kilometers with two lanes and 13,000 kilometers with four or more lanes).

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