



## MEXICO'S STRENGTHS

Close to 25 years ago, Mexico embarked on a journey towards a greater economic openness, emphasizing the liberation of international trade and the attraction of investment flows. This policy was complemented by an aggressive agenda to privatize government-owned companies.

Throughout this period, significant changes were made to the Foreign Investment Law and free trade agreements were signed with the world's leading economies. A consistent, solid and stable macroeconomic framework was also achieved, bringing certainty to companies' investment decisions.

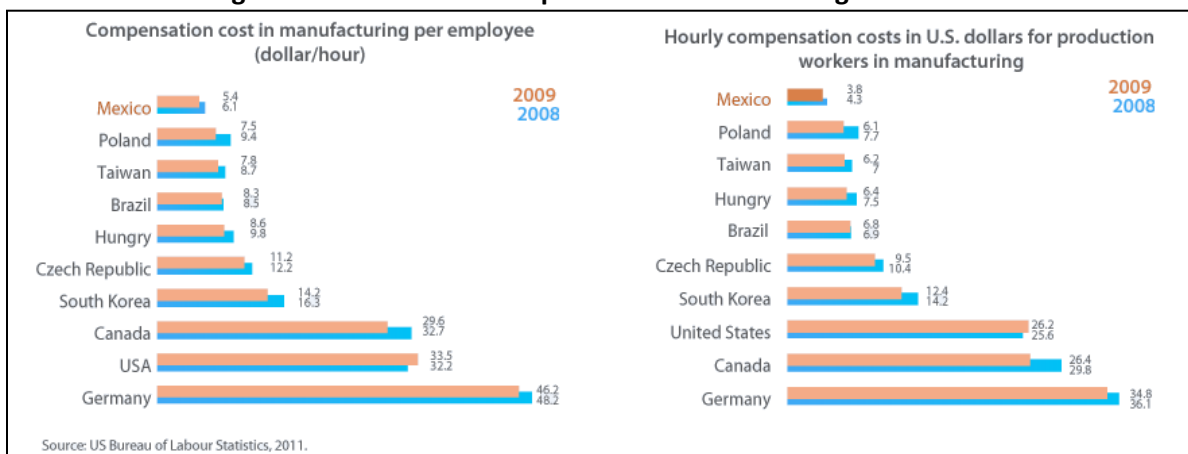
Today, Mexico has an attractive business environment, legal certainty, the world's largest network of free trade agreements, broadly developed economic industries and a highly competitive cost profile. In addition, the country has advanced in terms of infrastructure, to become a world-class logistics platform, and in terms of deregulation, to streamline business operations.

This document is an overview of Mexico's strengths and competitive advantages that make it an excellent choice to locate operations.

### **Competitive Labor Costs**

Mexico offers important savings in labor costs, compared to other investment options in America, Europe and Asia. Transferring operations from the United States to Mexico, for example, can lead to savings of close to 90% in labor costs. Figure 1 presents a comparison of labor costs.

**Figure 1. International comparison of manufacturing labor costs**



As the figure shows, Mexico offers significantly lower labor costs than Taiwan, Brazil, Poland and Hungary, among other countries.

Consulting firms, such as Boston Consulting Group, AT Kearney and Alix Partners (which measure competitiveness in the manufacturing industry of emerging economies) have acknowledged Mexico's advantages for productive investment. Alix Partners in particular, have ranked Mexico as the best destination for manufacturing investment, above China, India and Brazil.

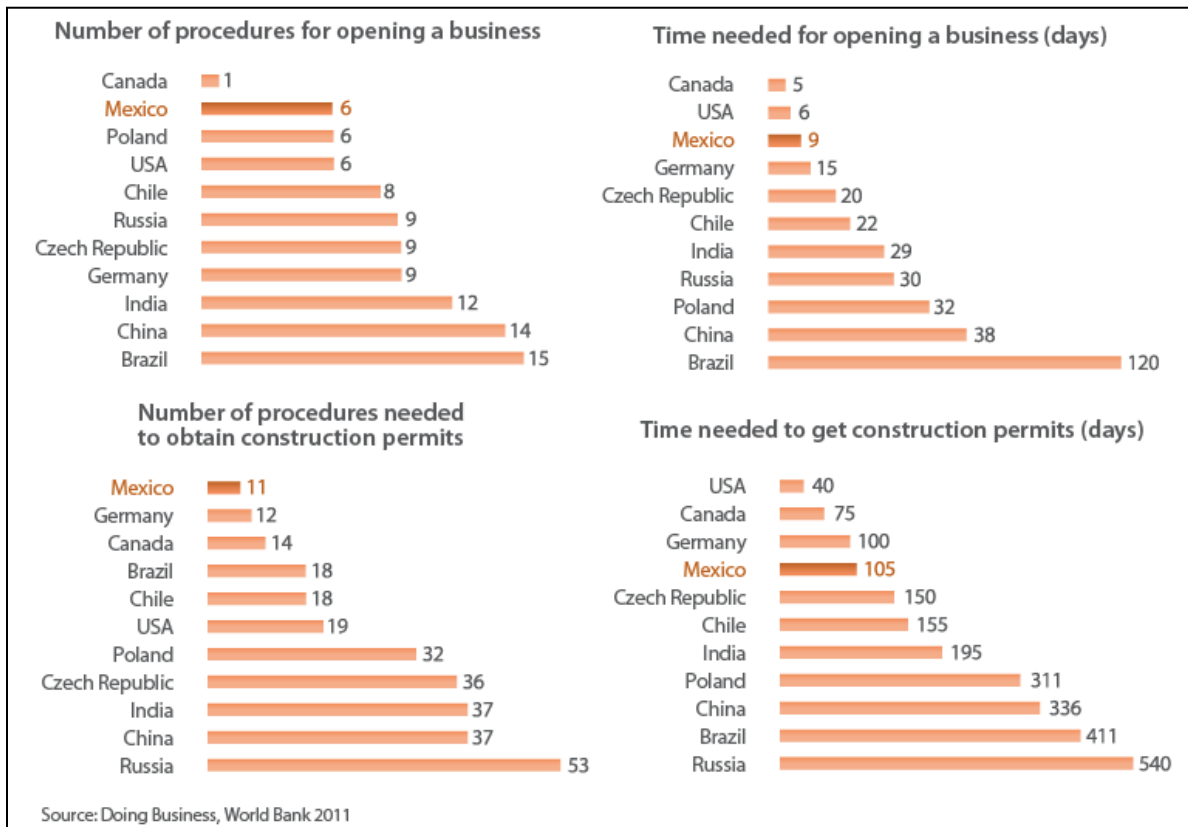


### Ease of Operating

The paperwork and time required to open and close a company, as well as to obtain construction permits, are critical to the success of international businesses.

In Mexico, an investor must go through 6 procedures and 9 days to open a company, and 11 procedures and 105 days to obtain a construction permit. These numbers are considerably lower than the ones in Russia, India, China or Brazil. Figure 2 presents an international comparison of the number of procedures required to open a business.

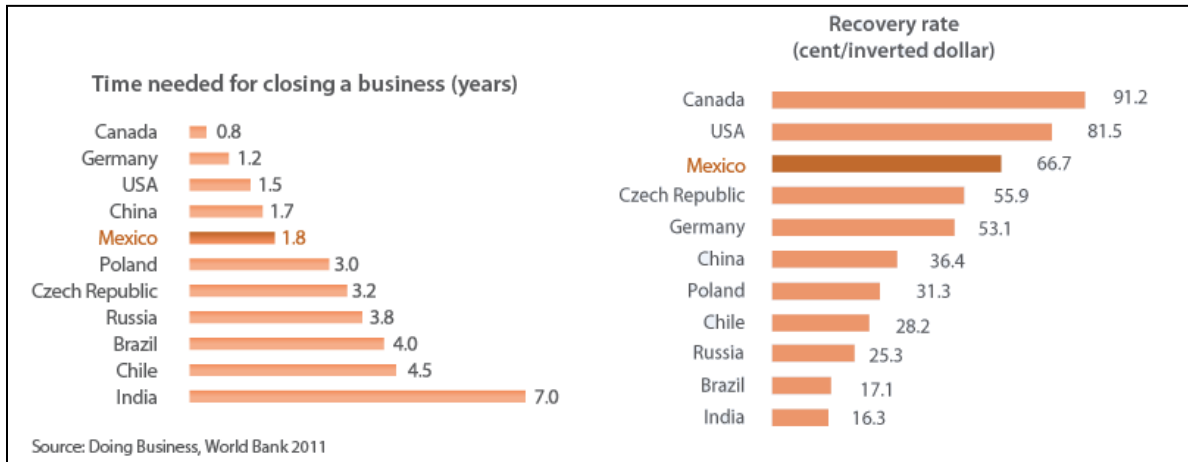
**Figure 2. International comparison of days and procedures required to open a business**



Furthermore, in Mexico it only takes 1.8 years to close a company and the recovery rate is 66.7%<sup>1</sup>. These numbers are significantly better than those in countries such as India, Brazil, Chile and Russia, among others (Figure 3).

<sup>1</sup> Recovery rate represents the percentage of payment to creditors and shareholders attained after a closure. The higher the rate, the stronger the economic system is, since there are more resources available for new businesses.

**Figure 3. International comparison related to closing a business**



### Accessibility to Large Markets

#### Domestic Market and NAFTA Region

With a population of 112.3 million inhabitants, of which 42.4 million account for the occupied population, the domestic labor market is interesting by itself for incoming companies (GDP of 1.039 billion dollars in 2010). In 2010, Mexico was ranked 14<sup>th</sup> largest economy.

Moreover, the NAFTA and the country's geographic location make an excellent platform for sales from Mexico to the world's largest market (regional GDP of 17.271 billion dollars, as shown in Table 1). According to forecasts for 2015, the regional market will reach 21.420 billion dollars, accounting for 25% of the global GDP.

**Table 1. Market size in the NAFTA region**

Market size in the NAFTA region, 2010 (billion dollars)		
Country / Region	Gross Domestic Product	Private Consumption
United States	14,658	9,314
Canada	1,574	857
Mexico	1,039	531
<b>NAFTA Region</b>	<b>17,271</b>	<b>10,704</b>

Source: IMF, Global Insight, 2011

#### Free Trade Agreement Network and Trade Procedures

Mexico's 11 free trade agreements with 43 countries make it one of the most open countries to international trade, with preferential access to more than one billion potential consumers and a representation of 64.9% of the global GDP. Figure 4 shows how Mexico far exceeds China, the United States, India and Korea, among other countries, in this area.

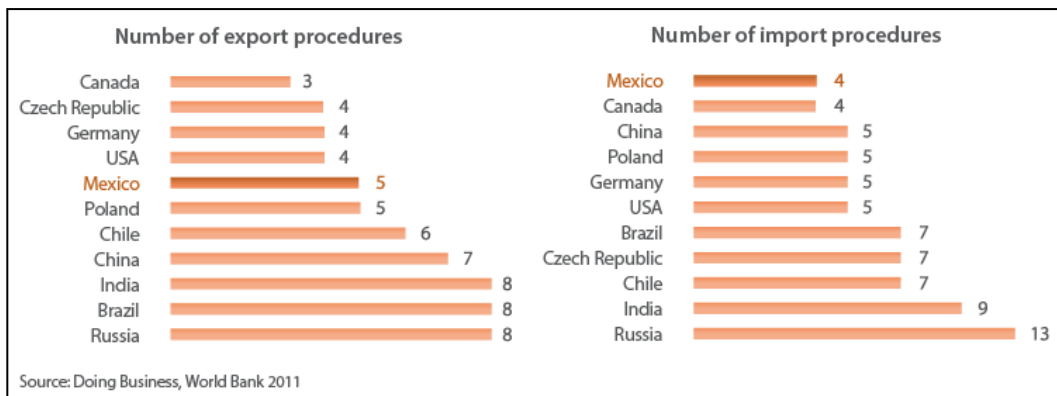
**Figure 4. International comparison of the number of countries with which free trade conditions are held**



In 2010, average simple tariffs in Mexico were 6.89%. This will increase the profitability of companies established in Mexico by giving them access to inputs and final products at competitive prices.

In addition, Mexico has few import and export procedures: only five documents are required to complete an export procedure and 4 to complete an import procedure. Figure 5 presents an international comparison of foreign trade procedures. Mexico is above countries such as Brazil, China, Russia and India.

**Figure 5. International comparison of procedures required to trade across borders**



### **Legal Certainty for Foreign Investment**

The subscription of Reciprocal Investment Promotion and Protection Agreements (RIPPA) is part of the Mexican government's strategy to create a legal framework which better protects the foreign investments in Mexico and Mexican investments abroad.

Generally speaking, RIPPAs cover the following areas: investment definition, area of application, promotion and admission, investment treatment, expropriation, transfers and solution of Investor-State and State-State conflicts.

As shown in Table 2, to date Mexico has signed 28 of such agreements.



**Table 2. RIPPAs signed by Mexico**

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

Source: Ministry of Economy

In addition, some Free Trade Agreements signed by Mexico include an investment chapter that is similar to a RIPPA. Such is the case of the Free Trade Agreements signed with the United States, Canada, Chile, Colombia and Japan, among others.

This structure brings legal certainty for companies that decide to establish operations in Mexican territory.

### **Low Transportation Costs**

Another advantage offered by Mexico is its closeness to the world's leading consumer centers. This is relevant because it enables companies to respond more quickly to changes in demand and reduces inventory costs. Table 3 shows the number of days required to transport a container by sea from Mexico and from other competitor countries, to important distribution and consumer centers.

**Table 3. International comparison of the sea days to the main consumer centers**

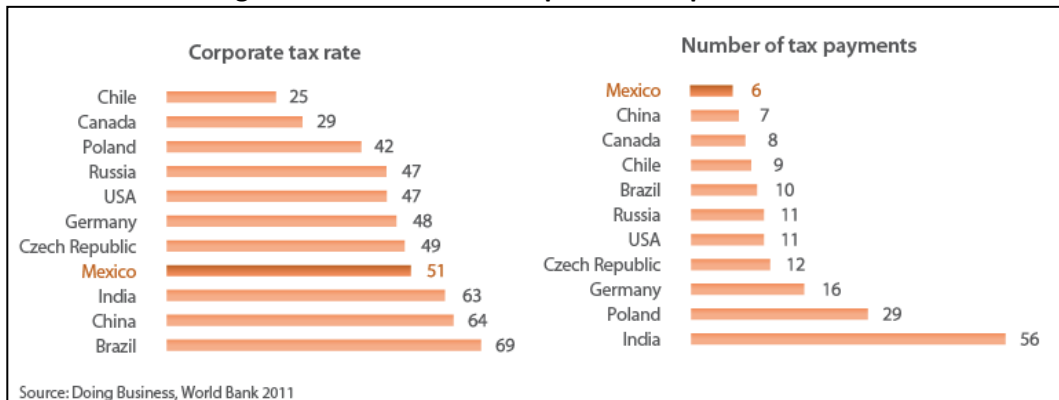
Destination Cities	Days of maritime transportation to the main consumer and distribution centers									
	Countries of origin									
	Germany	Brazil	China	Colombia	Korea	USA	India	Mexico	Poland	Turkey
New York	11	15	32	6	21	-	25	5	12	16
Los Angeles	25	23	18	10	17	-	31	4	26	28
Rotterdam	-	17	32	15	33	11	20	16	1	10
Yokohama	35	35	4	24	3	15	17	19	36	27

Source: Boston Consulting Group

### **Operation Costs**

A number of factors affect operation costs and, therefore, company profitability, such as tax rates and the number of tax payments (which affect administrative costs). Figure 6 shows Mexico's advantages in these areas, compared to other countries.

**Figure 6. International comparison of operation costs**



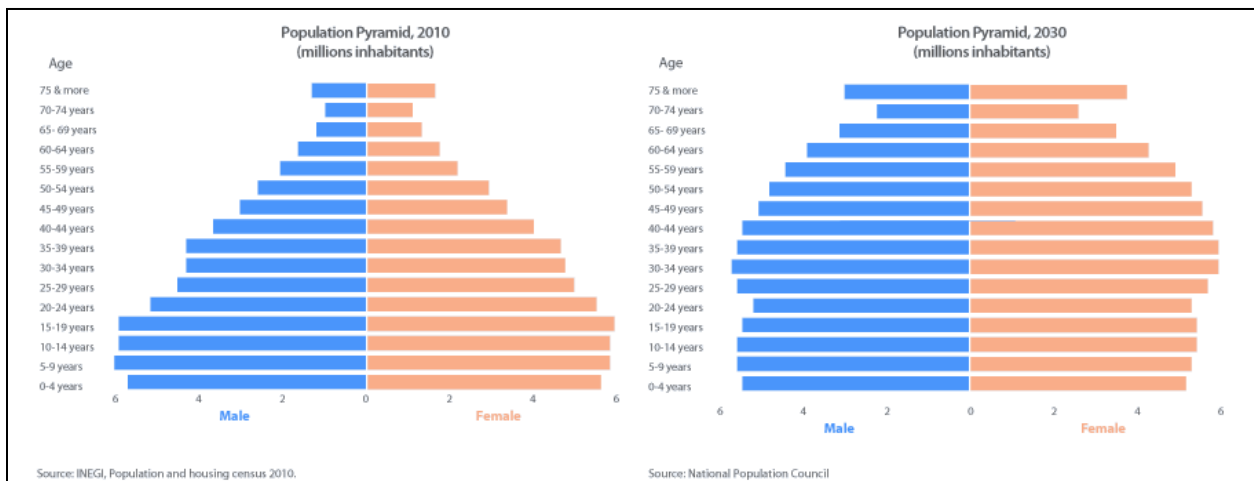
Corporate tax rates in Mexico are lower than in China, India and Brazil. Tax payments are required only six times per year, fewer than the times required in countries such as Brazil, Russia, China, Poland and India.

## Population and Human Capital

### Demographic Bonus

According to the 2010 Population and Housing Census, Mexico has 112.3 million inhabitants and an Economically Active Population (EAP) of 44.4 million. Figure 7 shows the evolution of the country's population structure.

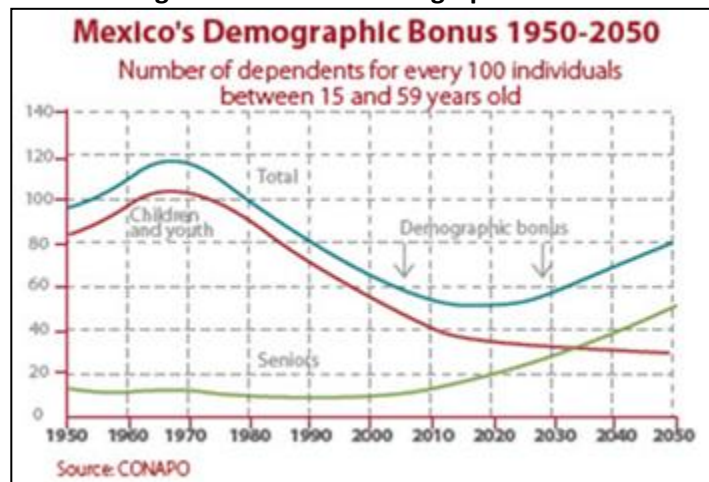
**Figure 7. Population structure in Mexico, 2010 and 2030.**



As it can be seen, by 2030 Mexico is expected to have the lowest rate of infant and senior economic dependency. This will create important business opportunities because of the size of the domestic market (resulting from a large number of economically active people) and available skilled human resources.

In the next three decades, the working age population will reach 62 million people. Figure 8 presents the behavior of the economic dependency rate towards 2050.

**Figure 8. Mexico's demographic bonus**



### **Trained Personnel**

Currently, more than 90 thousand engineering and technology students graduate every year, representing a very attractive talent contribution for companies in various industries.

Mexico's Higher Education System comprises 2,539 institutions that offer education services and international exchange opportunities.

In order to maintain the development of our human capital, the Federal Government created a Job Preservation Program which avoided the loss of half a million job sources in the country's export sector.

### **Infrastructure and Access to the United States**

Mexico is well communicated through 27 thousand kilometers of railroads that connect it northward to the United States, southward to Guatemala, westward to the Pacific Ocean and eastward to the Gulf of Mexico and the Atlantic Ocean.

The country has various domestic distribution terminals that communicate with the main sea ports, reducing costs and streamlining the arrival and departure of goods.

In summary, Mexico has:

- 74 open airports (11 domestic and 63 international).
- 114 sea ports (53 cabotage ports and 61 grand cargo and cabotage ports).
- 27 thousand kilometers of railroads.
- 133 thousand kilometers of paved roads (120 thousand kilometers of two-lane roads and 13 thousand kilometers of four-lane or larger highways).

In addition, Mexico shares 3 thousand kilometers of border with the United States, providing low transportation costs to this market. There are 52 access points between the United States and Mexico, which record an annual traffic of 4.5 million cargo vehicles and more than 70 million cars. Annex 1 contains graphs showing Mexico's logistics platform.



In order to contribute to increase competitiveness in Mexico, in 2010 the Federal Government invested 80 billion pesos in infrastructure: a growth of more than 100% since 2006. In addition, it continues working to create the best conditions for the private sector to participate in projects of interest for companies.

### ***Natural Resources***

Mexico has a wide variety of natural resources, which favor the development of a large number of productive activities, including those related to biotechnology and renewable energy generation. Some of the country's strengths are:

- Fourth oil producer in the world.
- First silver producer in the world.
- One of the leading copper producers in the world.
- Fourth leading country in biodiversity.

In addition, Mexico has a wealth of natural beauty spots that make it an attractive destination for the development of tourism projects in a wide range of locations.

### ***Macroeconomic Stability***

According to the World Economic Forum latest report on Global Competitiveness, in terms of the Macroeconomic Stability Subindex (which measures six variables: public finances, domestic savings rate, inflation, interest rate differentials, public debt and credit score), Mexico held 28<sup>th</sup> position (from a total of 139 countries) in the 2009-2010 and 2010-2011 reports.

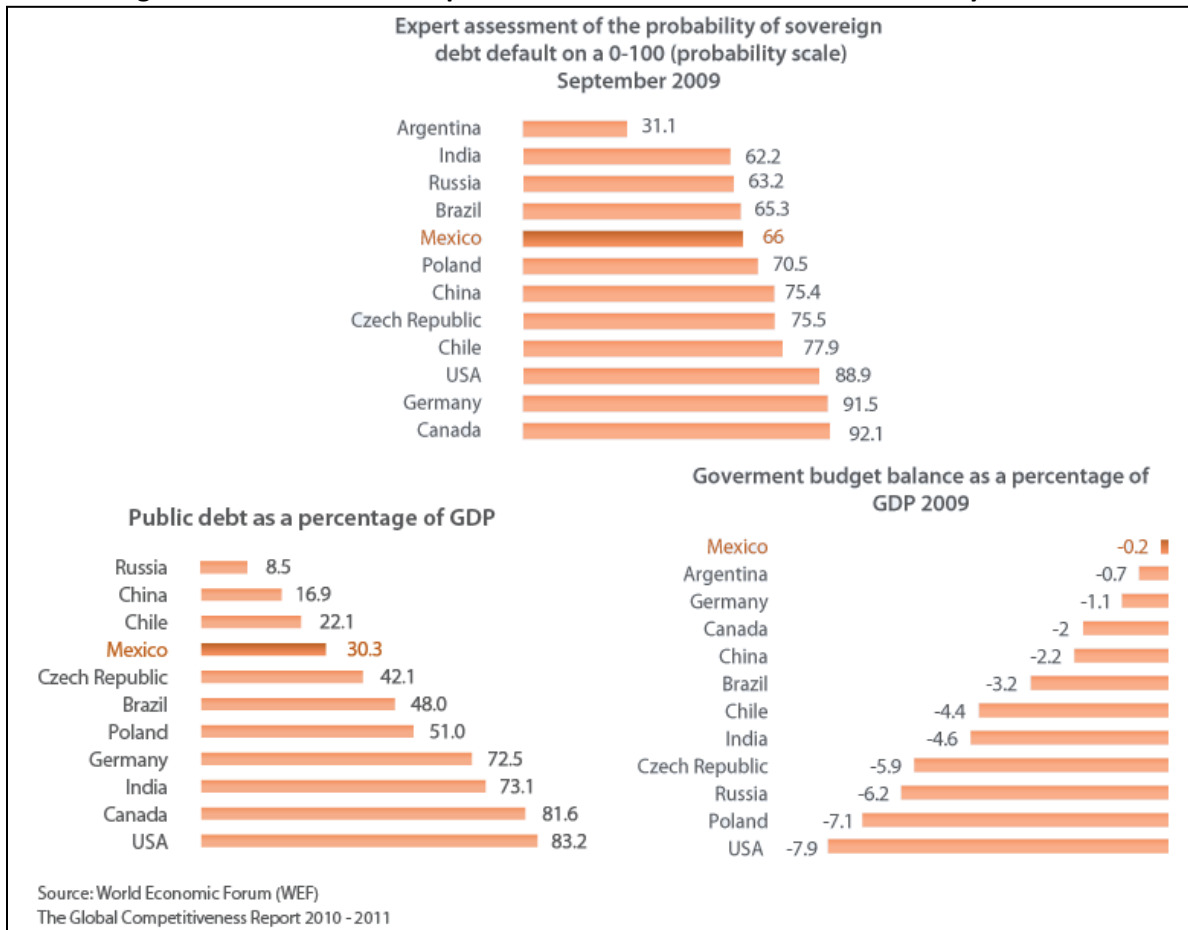
In terms of public debt, Mexico has no solvency issues: its Public Debt as percentage of the GDP is of 30.3%, significantly lower than the one for countries such as Brazil, Argentina, India, Poland and the United States.

México has a slight fiscal deficit (the lowest among reviewed countries) and holds a policy to sustain public finances in the medium term, to regain fiscal balance.

Figure 9 shows the details of the country's main strengths in important macroeconomic variables compared to other economies.



**Figure 9. International comparison of selected macroeconomic stability indexes**

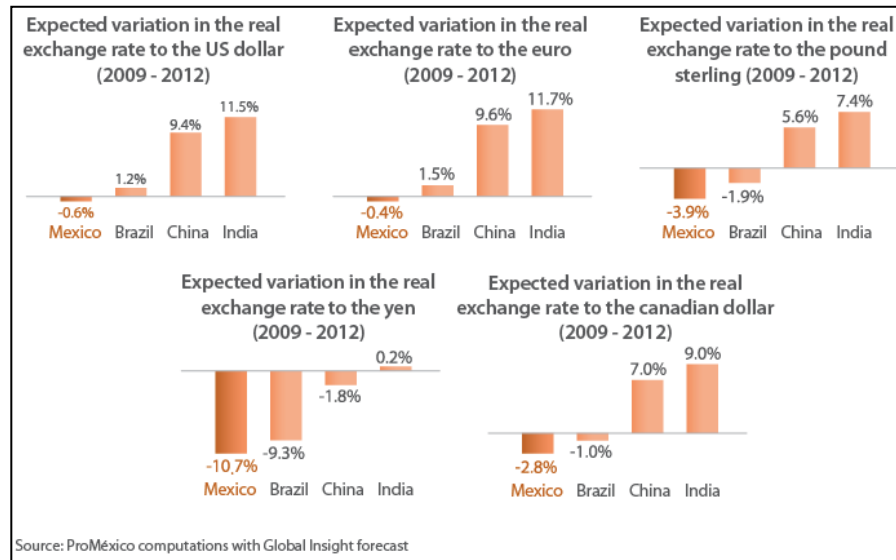


In addition, the Economic Forum's report shows a new index: credit score. Mexico reached 66 points (100 = minimum risk, 0 = high risk), resulting in a lower credit risk than countries such as China, Chile and Germany.

### ***Favorable Exchange Performance***

In the coming years, Mexico will have a better exchange performance in real terms, compared to competing countries in international markets. For example, Figure 10 shows the behavior of current exchange rates in various countries compared to the US dollar, the euro, the pound sterling, the yen and the Canadian dollar.

**Figure 10. Expected behavior in the real exchange rates to the US dollar, the euro, the pound sterling, the yen and the Canadian dollar, for selected counties**



As can be noted, Mexico will virtually maintain the balance of its exchange rate against the US dollar and the euro, between 2009 and 2012.

In contrast, Asian countries such as China and India will record strong exchange rate appreciations in real terms. This will involve a relative price reduction in goods exported from Mexico to markets in North America and Europe, compared to goods exported by its Asian competitors.

By considering Mexico as an alternative operation and export base, exchange rate performance opens new short- and medium-term business opportunities for companies seeking to increase profitability and to better position their products in international markets.

### **Cultural Power**

Mexico is a global cultural power. The country's offer in this area enriches the business experience of foreign companies, on a human and professional level.

There are many reasons why Mexico is considered an international cultural figure, including:

- It is ranked first in Latin America for the number of sites declared "Cultural Heritage" by UNESCO.
- It has the second largest International Book Fair in the world (in Guadalajara).
- The Festival Cervantino in Guanajuato, Mexico, which focuses on theater, dance and music, is considered one of the top five festivals in the world.
- The Guadalajara and Morelia film festivals are ranked among the top ten internationally.

Consequently, businesses in Mexico not only generate high profitability, but they develop an environment of great cultural and heritage wealth. Undoubtedly, this favorably affects the human development of those who decide to do business with Mexicans.



### ***Final Considerations***

There are many factors that make Mexico one of the best choices to locate operations. In the coming years, the country will continue to advance on several fronts such as infrastructure, legal certainty, deregulation and security, among others, in order to further improve its business environment.

The path already forged and the goals established by Mexico's government and society will shape the country into an economic power by 2040.

Businesses that choose Mexico as their operations center will undoubtedly exceed their medium- and long-term goals.

### ANNEX 1. MEXICO'S LOGISTICS PLATFORM

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