

Why is Mexico an Attractive Investment Destination?

By Gonzalo Gutierrez, SIOR

An open economy, stable, competitive and full of opportunities.

There's not the slightest doubt that Mexico is a country of great opportunity. The proximity of Mexico to the United States, the special relations between the two countries under the North American Free Trade Agreement (NAFTA), and

its strategic geographical location make Mexico a highly-attractive destination for many sectors, among them, manufacturing and services. The significant investments the country has received in recent years, despite its intense fight against organized crime, demonstrates that Mexico continues to be very attractive.

HIGHLIGHTS

- Mexico is the 11th largest economy in the world.
- On logistics, the proximity to the U.S. border on the north and with central and South America on the south is an unavoidable advantage for Mexico.
- Exceptionally talented, bilingual, and highly skilled labor force with high stability.
- More than 44 Free Trade Agreements and counting.
- Outstanding investment from OEM's on the last 10 years with a huge growth from Automobile, Aerospace, Electronics, Home Appliances, Steel and Food industries.
- Mexico is a young population and this is a demographic boom for all of Latin America.

OVERALL ECONOMIC OUTLOOK

Mexico, with a population of approximately 119 million, is the second largest country in Latin America, and the third largest in population in the entire continent, just smaller than Brazil and the U.S. Of the trade partners within the United States, Mexico is on the top-four with Canada, China, and Japan.

Mexico's standing as a leader in the global manufacturing market has been long established, even amidst increased global competition. A big number of Fortune 500 companies and other multi-national companies have turned to Mexico in an attempt to cut



NAFTA Highway

manufacturing costs, while maintaining U.S. standards of quality and efficiency.

In 2014 the foreign direct investment reached \$22.6 billion, including the relevant sale transaction of Comex, the largest Mexican paint company, on \$2.6 Bill to the US Company PPG Industries. In 2013 Mexico drew a record reaching \$35.2 billion in foreign direct investment (FDI), nearly double the level seen in 2012. The record high seen in 2013 was mainly due to Belgian brewer Anheuser-Busch InBev's acquisition of Mexican beer giant Grupo Modelo, the "Corona" producers, which brought in about \$13 billion.

PROXIMITY

Mexico and the United States share nearly 2,000 miles of borderland. The country itself is laced with over 80,000 miles of highway and dotted with 76 airports, along with a good number of ports at the Gulf of Mexico and the Pacific. Here's something impressive: A truck bearing manufactured goods can drive from Mexico and deliver its cargo to any point in the continental U.S. within 24 hours, aided by proximity to the U.S.'s infrastructure system. This can help lower costs as oil prices continue to climb. It also makes for easier monitoring of the manufacturing process from across the border.

WELL NETWORKED

Nearly 81 percent of Mexico's exports—30 percent of its GDP—is comprised of manufactured goods. This type of exporting has risen significantly since Mexico entered into the North American Free Trade Agreement of 1994. The economic performance during the past 18 years has been remarkable with the free trade agreements with 44 countries, including the U.S., Canada, the European Union, and several Latin American countries to compete with the current global. Today, we compete around the world with high-class products through our free trade agreements — more than any country in the world — which, according to The Financial Times, is more than twice as many as China and four times more than Brazil.

Major Industrial Markets and Sea Ports



Source: Cushman & Wakefield

COMPETITIVE LABOR FORCE

Manufacturing in Mexico has never been more ideal for foreign companies. The country boasts an expanding skilled labor force owning the technical proficiency to assemble a wide range of products. Currently, 60 percent of the population is under 35, while only 6.5 percent is over 65. The country is also reaping the benefits of a demographic bonus, in which working-age people comprise the greatest chunk of the total population. But it's not just cheap labor. Mexican universities graduate some 111,000 engineering and tech students every year, and the population overall is fairly healthy, with life expectancies close to those in the United States.

In terms of costs, Mexico is highly competitive in comparison to investment alternatives in the Americas, Europe and Asia. Recently it became fashionable to talk about the potential of Mexico over China to attract foreign investment, given the unusual increase in labor costs in China. On an economic report Bank of America Merrill Lynch (BofA) states that labor cost in Mexico are now 19.6 percent lower than China's labor cost, which has increased the competitiveness in our country. In 2003 the salaries in Mexico were 189 percent higher than China salaries, this gap is now reversing.

LOCATION, LOCATION, LOCATION... STRATEGIC LOCATION

Mexico shares a border of more than 3,000 km with the biggest economy in the world: the United States. In 1993, Mexico signed the North American Free Trade Agreement (NAFTA) with the U.S. and Canada. Since then, Mexico has increased its exports by fivefold and its imports have risen by more than 300 percent. The flows of foreign investment have also increased significantly.

- Mexico is the second to top destination for all U.S. exports.
- Mexico buys 1/8 of the goods and services exported by the U.S.
- Twenty-six U.S. states depend on Mexico as a main destination for their exports.
- Eighty percent of Mexican exports are destined for the U.S.
- Fifty percent of Mexican imports come from the U.S.
- Trade volume between both countries surpasses a billion U.S. dollars every day.

The transportation times from Mexico (Puerto Manzanillo) to Los Angeles are, by a large scale, less (four days of maritime transport) than from Brazil

(23), India (31) or China (18) to the U.S., which makes for lower costs. Mexico has easier access to the U.S. market via trucking, due to the extensive border that the two countries share and agreements about trade flow over land. Close to 13,500 commercial trucks cross the U.S.-Mexican border every day.

MAIN INVESTMENT INDUSTRIES:

AUTOMOTIVE

For the last 10 years, the automotive sector in Mexico has been the most important destiny of the foreign investment in Mexico. In the last decade, the number of automotive manufacturers to join the Mexican market has risen significantly. In 1994 the NAFTA's establishment raised up Mexico's economy and accelerated the growth of the country's already solid automotive industry that really saw the sector explode. The Mexican Association of Automobiles (AMIA) data shows that Mexico has gone from producing 505,202 cars in 1988 to 2,933,455 in 2013.

The recent investment announcements by luxury OEMs like Audi, Mercedes-Benz, Nissan Infiniti, and BMW change the face of Mexico as a vehicle manufacturer and give the country tremendous credentials to continue its growth.

- Fifth world exporter of light vehicles and now the world's sixth largest vehicle producer in the world.
- More than 300 Tier 1 suppliers located in 17 states of Mexico.
- Out of the Top 100 auto parts companies in the world, 84 have set up manufacturing operations in Mexico: 26 percent from the U.S., 31 percent from Japan, and 23 percent from Germany.
- General Motors has been the company in its field to have invested the most in the country from 2006 to the present.
- Ford Motor Company has invested more than US\$3 billion in Mexico



with the objective of expanding its manufacturing operations in plants in Hermosillo, Cuautitlán, and Chihuahua.

- Nissan Motor Company will invest US\$2 billion to expand its plants in Aguascalientes and Morelos in order to increase its operating capacity.
- Honda has finalized a new auto plant in Mexico of a value of US\$800 million for sub-compacts manufacturing in Celaya.
- Mazda Motors Corporation has invested US\$500 million to build a vehicle and engines manufacturing plant in Guanajuato.
- Chrysler / FIAT Group US \$500 million expansion of its Saltillo, Coahuila.
- Audi is now investing \$1.3 billion in Puebla.
- VW selected Guanajuato to invest over \$800 million for their new plant.
- BMW will begin the construction of its new manufacturing plant in San Luis Potosi with an investment of \$1 billion.

AEROSPACE

Mexico has consolidated its aerospace sector as a global leader. It has recorded almost 20 percent annual growth in the last 10 years. Currently there are 271 companies and support entities in the country.

This industry has important clusters mainly in six different states in our country: Chihuahua, Nuevo Leon, Baja California, Sonora, and Queretaro, and other states employ more than 40,000 high skill level professional workers.

In 2013 exports from this industry reached a value of \$5.7 billion. According with the strategic program of the aerospace sector, the industry is expected to export \$12.3 billion in 2020 with a 14 percent average annual growth rate.

Bombardier is probably one of the most successful business stories. Since its arrival in 2006 in Queretaro the company has invested more than \$500 million in their plants.

NEAR-SHORE

While Asia is still a highly attractive offshoring destination, these dynamics have made near shoring in the North

American Free Trade Agreement (NAFTA) zone—especially in Mexico—a more desirable option.

Over the past decade, Mexico has made significant strides toward becoming a diversified economy with a deep skill base that offers more than just low-cost labor. Infrastructure costs—such as electricity, water and sewer, and transportation—are generally within 10 percent of U.S. costs. And the country has invested in its manufacturing infrastructure and labor pool to evolve into a more versatile producer of high-value goods, as well as commodity products.

Mexico's proximity also offers U.S. companies substantially more control over manufacturing quality, delivery schedules, and intellectual property management than they have with overseas manufacturing facilities. Beyond the transportation cost reductions of manufacturing closer to sales, additional cost savings can come from working with NAFTA countries thanks to tariff waivers specific to cross-border manufacturing.

IS MEXICO SAFE?

Notwithstanding the current drug-related violence, the foreign direct investments for huge OEM's and other big manufacturing companies still arriving every year, the country's macroeconomics are in good shape; foreign visitors keep coming back to visit despite the unsavory news headlines; foreign governments are actively courting trade and commerce with Mexico; and expats living here are going about their lives normally; and according with "Mexico Insight," statistics continue to show that Mexico's levels of general crime and violence continue to be lower than those of most large U.S. cities.

The Bank of Mexico is responsible for collating and publishing foreign visitor statistics. Earlier this year, the figures showed that over 22 million foreign visitors arrived in Mexico last year. Despite the swine-flu of 2009, the global economic crisis, and the drug-violence, people keep coming to Mexico. Statistics from foreign consulate records show that the overwhelming majority of visits to Mexico are trouble-free.

In decades past, when Mexico's economy was less certain and less stable, foreign expats would often flee home in the event of a peso crisis. Today, even with the drug-related violence playing out, no such exodus is taking place and, furthermore, interest in relocations to Mexico is rising (Mexico Insight).

KEY TRENDS AND MARKET OPPORTUNITIES

- The industrial markets will be dominated by investments funds and through a new real estate investment trust called FIBRA.
- The initial steps of the new Federal government are heading in the right direction and we see clearly outstanding perspectives for the future of Mexico. Starting with the approval of the fiscal, energy and labor reforms.

- The U.S. economy is showing a new face of acceleration and this will activate the expansion plans for some companies with plans for Mexico.
- With almost 30 percent of Mexico's manufacturing product and more than one and a half million direct jobs, Mexico's auto industry and aerospace will continue being the leading growing sectors of this economy.
- On a very competitive environment in the world, the decision to acquire or build a plant in China, or Mexico, or Brazil, or any other market, is going to be part of a long-term strategy.
- Rising Consumer Confidence = increased production = increased demand for buildings.
- Most of the developers in Mexico are institutional and "broker-friendly." They pay commissions on new real estate transactions, renewals, and future expansions.
- Mexico's proximity to U.S. won't soon change! ■

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