

MEXICO, THE PLACE TO BE FOR AN INVESTOR

SUMMARY

Mexico finds itself in a period of positive change. This is shown in all aspects of Mexican culture, from national sports (Mexican National Soccer Team won its first Olympic Gold in this discipline) to proposing and approval of a new labor reform that will substantially impact and modernize present hiring procedures; thus allowing companies to work with greater flexibility, protect women labor rights and improve union-labor relationships through democracy and transparency.

Is it sound to say, that Mexicans are finally collaborating for a greater good?

Mexico has grown year after year, and maintains strong economic fundamentals for more than a decade, while other regions are suffering from either minimal growth or a period of continuous recession. In comparison to other developing countries, Mexico has clearly benefited from trade openness policies and great macro-economic conditions such as: low inflation, prudent fiscal policies and balanced foreign accounts on top Mexico distinctively accounts for positive foreign remittances and oil based production. These factors have contributed greatly in creating a more competitive manufacturing industry in an export driven economy.

Throughout this presentation strong quantitative and qualitative reasons will be presented to portray Mexico as the place to be for smart investors.

INTRODUCTION

A large economy; larger than Spain or Korea and in 3 years Mexico will be the size of Italy and after 3 more the size of Great Britain or France.

When being compared to the BRIC countries, Mexico does fall at the short end of the stick, due to its smaller population and total GDP (60% of Brazil's population and 47% of Brazil's GDP). Nonetheless, Mexico has great potential for growth. For starters, Mexico shares a border with the biggest consumption market in the world, the United States of America.

Mexico is one of the few countries that has achieved a yearly growth of over 4% in the past three years; whereas most of Europe fights for survival. Greece finds itself in its 4th year of recession and Spain in its 3rd. North America and Japan have recovered, but with small economic growth.. So meanwhile Mexico is jumpstarting a positive 2013, the world economy is either falling apart or not reaching its future long term expectations and as a consequence we are experiencing volatility in the financial markets.

Mexico shines as a bright star. A high growth developing country, with democratic powers and strong independent institutions, with strong macroeconomic fundamentals, very little debt and null government deficit, a balanced current account, large monetary reserves, a freely floating exchange rate and if needed the possibility to modify both fiscal and monetary policies to thrive expansion, meaning growth economic rates above 4% p.a.

ECONOMIC REASONS

Although many, I would like to identify 5 main economic reasons for investing in Mexico. These motives will shed light on why Mexico enjoys the best economic growth period in recent years; furthermore the country has even greater growth potential; therefore represents a great opportunity to generate investment returns.

First and most important, Mexico has a great growth perspective both because of internal reasons as well as because of being an export driven country.

Higher Expected Consumption in Mexico

Mexico accounts for a total population of 115 million people. More than half are economic active, technically savvy and well-educated individuals. Mexicans have the reputation of being hard workers, and in recent years have shown both ambition and motivation to increase their quality of life. Proof of such aspirational products could be seen in late 2002. As soon as housing credits were available, demand soared.

After the last recession in 2009 Mexicans have been eager to consume and did so cautiously with low debt financing. Despite having a strong banking system, individuals and companies have grown with little debt financing. To even improve our banking system conditions, Mexico is pursuing Basel III capitalization standards. In regards to our debt to GDP ratio in consumer credit, Mexico (43%) reports lower percentages than Brazil (98%), France (133%) and the United States (233%). As previously stated, Mexico can even more contribute to its high rate growth expansion by the use of monetary policy tools. It is one of the few countries with a clear space to do so as a consequence of a strong banking system together with internal or private low debt ratios.

Mexico an export driven country

With the signature of NAFTA between, Canada, United States and Mexico in 1994, trade has soared and without a doubt it has brought employment, growth increase and productivity in manufacturing, and has helped foster competitiveness among organizations. NAFTA, the world's largest trading block links a total of 450 million people producing more than \$17 trillion in goods and services. NAFTA, has aided Canada and Mexico to become the second and third largest suppliers of goods imported to the United States (\$276.5 billion and \$229.7 respectfully) U.S. exports in 2009 of private commercial services to NAFTA, increased a total of 125% since 1994.

As scheduled, by January 2008, all remaining tax duties and quantitative restrictions were eliminated. A total of 80% of all Mexican exports are shipped to NAFTA partners. In regards to the ratio of manufacturing products total exports, Mexico stands out among manufacturing countries as Brazil, Japan and the US. (Mexico 33%, Brazil 27%, Japan 25% and the US 22%).

Mexico has found strength and competitiveness worldwide in manufacturing products such as vehicles, household appliances and electronics (including phones). Whereas in the future the country will enter and grow in aerospace and the software industry, after benefiting the past years from foreign private investment participants of such industries.

A clear downfall in Mexican exports occurred in 2001, when China entered the WTO organization. During this period, Chinese salaries were 20% of those being paid in Mexico. It took a total of 10 years for Mexico to recover ground lost from the export relationship between China and the United States. Today export relationships between Mexico and United States have strengthened. China and Mexico report growing exports as percentages of GDP both have attained an increase from 27% to 32%. Both countries compete equally, but it should be stated that although salaries continue to remain cheaper in China than in Mexico (20% off), the latter remains more competitive because of China's transport and insurance cost together with a quicker demand response. Mexico remains a leader in big ticket items which are fortunately larger in scale and in add up value.

Prudent use of past fiscal policies in Mexico

A second reason why Mexico will thrive is its strong present economic fundamentals, which include past prudent fiscal policies. México is one of the few countries with almost null government budget deficit as well as very little debt. Its foreign debt as a proportion of GDP is 27.5% compared to 62.5% average of 34 member countries of the OECD or 61% of the US, while most of European countries nowadays report more than 100% debt as of GDP. It is clear that Mexico would benefit greatly from the use of fiscal policies and expand further. Again it is one of the few countries worldwide with fiscal policy space, and if chosen to increase growth rates, from the actual 4% growth rate.

Mexico reports strong foreign accounts

Thirdly, Mexico counts with balanced foreign accounts and large reserves and on top uses free exchange policies since 18 years ago.. As a consequence it is far away of any cost or exchange disruption. The country reports a balanced Balance of Payments; which provides for both a healthy trade and service accounts. On top the country enjoys the largest international reserves ever with more than 187 billion dollars.

Mexico enjoys positive foreign receipt from nationals

The fourth economic reason to invest in México, involves net capital recipients, not only because of the foreign investment received over the past years, but also the importance of having foreign receipts from nationals. México is without a doubt one of the largest countries receiving dollar denominated receipts from nationals in the world. Mexico receives around \$22 billion USD annually versus a total of \$15 billion USD from France and \$4 billion from Brazil. Mexican nationals that live mostly in the US keep strong ties with their family members and fellow countrymen. Mexico not only receives free fund contributions destined to increase quality of life of family members of foreign nationals but also benefits from tourism of nationals and consumption growth of Mexican companies that are now targeting foreign nationals which are culturally attracted to Mexican brands. At the end, all these actions represent greater support for the country's growth.

Mexico, always benefited from oil

Our final economic reason for choosing México as an investment alternative against other countries is its oil. Yes and old story that still holds and will continue giving the country dollar denominated currency, funds for social needs and helps in balancing its government budget. México has been one of the ten largest oil producers over the last 40 years; the country keeps oil production in a band between 2.5m and 3.4m barrels a day. It takes close to 10 years to exploit a new field; the country allows other into decline before exploiting a new one, so that the production platform is maintained. Over the last 5 years Pemex, the national oil company has drilled just 18 wells in deep waters, an investment always delayed because land new wells, easily to exploit are found. The Gulf of Mexico counts with more than 30 billion barrels; more than half of the country's reserves, in addition shale oil and gas both, practically not yet exploited. Pemex has offered recently incentive based contracts to foreign firms experiencing in deep waters as an alternative to increase production and now authorized by law. Pemex has just informed about the largest land field ever found in México. The country will always benefit from oil until internal combustion engines exist.

OTHER CONSIDERATIONS

I am sure that our economic reasoning is sufficient and well supports an investment decision favoring México against developed as well as other developing countries in the coming years. On top there are at least 3 more existing conditions in favor of an investment in México. First culturally, Mexico is an easier country to understand. The country is a Spanish speaking country and because of its ties to the US it is very common to find fluent English every place. It is also a country open for tourism, thus attracts foreigners and easily adjusts and accepts other cultures. The country as well uses Roman code and it has modernized its judiciary power. A Supreme Court judge earns more than a president and on top it is a well-known privilege to belong to it, federal court and judges' rules are fair, consistent and with impartial justice. Mexico is also modernizing its courts allowing oral voiced cases so that will accelerate the old slow rulings. Laws, norms and institutions in away resemble the ones found in the US; procedures are as well similar to the ones in the US, and the country openness makes relevant the compliance to foreign accords and treaties.

Secondly, the country is experiencing finally full democracy. The last 12 years have been ruled by the PAN, the opposition party, whereas the PRI that ruled over 50 years is returning to power. The congress is fully divided by a left, center and a right party, all balanced out a well-accepted democracy.

Last and probably the most relevant factor is unity recently found in México within inhabitants. It is well said that sports and bets show momentum and ways of behavior among participants. México, a country never considered nor rewarded as a team player in sports has won the Olympic gold medal in soccer. The country has always performed well in individual sports such as boxing, marathon, diving and race walk, etc., and never in team sports like soccer, basketball or volleyball all very common in México. On top for the first time in modern times a divided congress has passed a modern labor law. The law is upgrading women rights, has brought hiring flexibility allowing hourly hiring, recognizing outsourcing and social responsibilities, limiting layoff payouts and bringing some democratic actions and transparency in unions among other issues.

The importance is not only the meaning of a modern law that will support growth expansion in México, but most importantly it has broken the political inertia. This agreement passed both, the house of representatives and senate in a moment when other needed reforms may arrive such as an energy reform; allowing selling and transmission of electricity to private consumers by private producers, a fiscal reform; needed to increase the small 16% of GDP based government tax income in Mexico against the doubled average found in the OECD countries, and lastly a political reform; allowing modern democratic actions such as re-election of congressmen, a second election turn in closed elections and electronic voting among other issues..

FINAL ARGUMENTS

Earlier we analyzed 5 major economic reasons that support Mexico as a place for investment and on top we brought to your attention 3 other appealing considerations in favor of México. Unfortunately as well México has a job to do in 3 areas that currently affect the country; security, corruption and monopolies. Government officials and countrymen recognize the importance of these issues and currently the Mexican government is investing in law enforcement actions, anti-corruption measures as well as fight against monopolistic activities.

As a conclusion México is heading to a high growth period and holds strong economic fundamentals as well as a great momentum that may bring the best 10 years of prosperity for inhabitants, thus it may represent a great opportunity for investors considering the expected value creation and returns. The Mexican Mayan culture identified the end of 2012 as the end of a cycle, a change of era therefore a moment for introspection and renewal such as when falling leaves of a tree open space for new blossom. México has the opportunity for renewal, following culturally the Mayan's believes.

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