



MEXICO IS ONE OF LARGEST FDI DESTINATIONS:

Mexico has been an attractive location for foreign direct investment (FDI) for the last few years thanks to their openness to trade, one important effect of the NAFTA trade agreement.

According to PROMEXICO, in the early 1990s prior to NAFTA, FDI from Canada and the US into Mexico amounted to \$10.1 billion¹ and two decades later, that number for North America has almost quadrupled to \$38.8 billion². Mexico receives investment not only from the US and Canada but from countries all over the globe that see an opportunity in Mexico to reach the most important world markets.

A 2014 report by the UNCTAD (United Nations Conference on Trade and Development)³ ranked Mexico as the 13th best prospective host economy and, a recent study on the same subject in 2015 from AT Kearney⁴, ranks Mexico in 9th place globally.

WHAT MAKES MEXICO DIFFERENT?

There are a lot of attributes that make Mexico an interesting destination for investment including the following:

- the impact of the NAFTA agreement and proximity to the US market
- free trade agreements with countries that represent more than 60% of the world's GDP⁵
- competitive labor costs
- developing manufacturing skills to produce high value added goods, and
- competitive freight costs to access growing markets.

¹ Negocios Promexico Magazine Special Edition: "NAFTA at 20" (2014). 20 Facts about NAFTA, VI. (page 63)

² Ibid 1.

³ United Nations Conference on Trade and Development (UNCTAD) (2014), Transnational corporations top prospective host economies for 2014-2016 (page 28). World Investment Report 2014: Investing in the SDGs.

⁴ AT Kearney (2015), 2015 FDI Confidence Index ranking and scores, The AT Kearney Foreign Direct Investment Confidence Index (page 1)

⁵ Promexico, Tratados de Comercio, Retrieved on August 3, 2015 from: <https://www.promexico.gob.mx/es/mx/tratados-comerciales-inversion>

THE NUMBERS BEHIND FDI:

In 2014, Mexico received a total of \$22.5 billion in FDI⁶. Manufacturing was a key sector with 57% of investments. The rest were distributed to retail, construction, and other sectors. 29% of FDI originated in the US, with 18% coming from Spain, and 11% from Canada⁷.

From 1999 to 2014, manufacturing has been the key target of investment. Countries that have invested in Mexico include: US, Netherlands, Spain, Canada, Belgium, UK, Germany, Japan, Switzerland and Luxembourg⁸. In the same period of time (1999-2014), FDI in Mexico has totaled \$390.5 billion with some very important investments having occurred in the last couple of years⁹. (Figure 1)

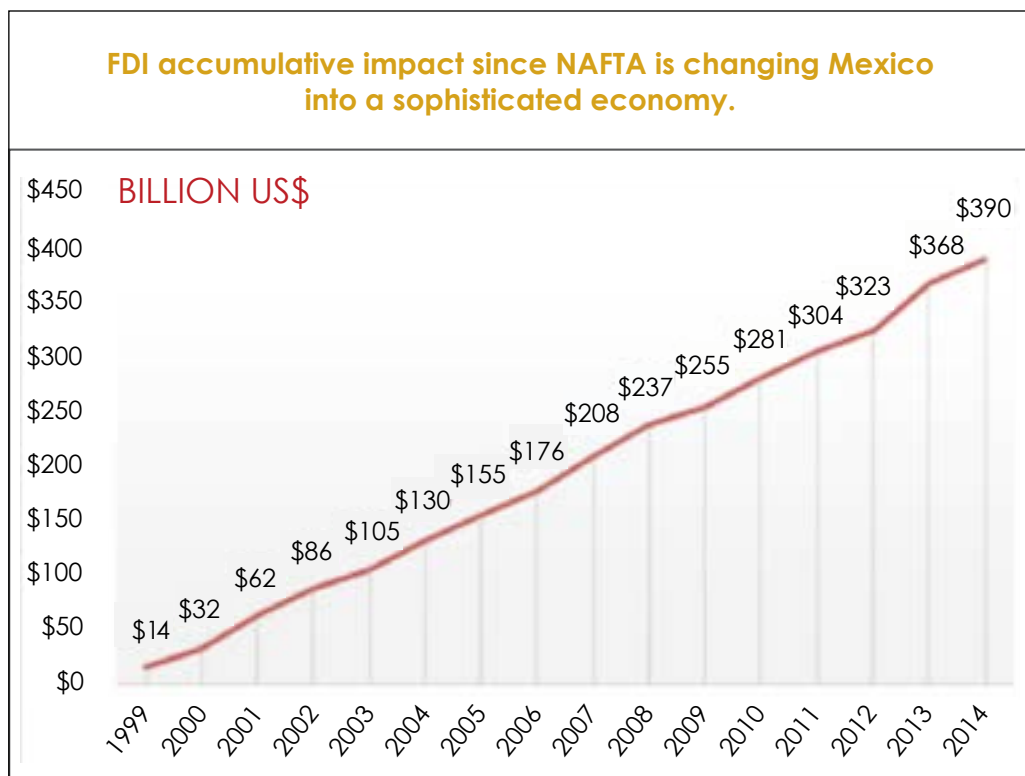


FIGURE 1



⁶ Comisión Nacional de Inversiones Extranjeras (2015), Informe estadístico sobre el comportamiento de la inversión extranjera directa en México, (page 3)

⁷ Ibid 6. (page 6)

⁸ Own Market Research elaboration based on: Secretaría de Economía, (2015), FDI by source country http://www.economia.gob.mx/files/comunidad_negocios/ied/fdi_flows_by_source_country_1999_2015.xls

⁹ Own Market Research calculations

Foreign investments have helped to expand advanced manufacturing in Mexico resulting in the following rankings¹⁰:

- #6 supplier to the US aerospace industry (USD value)
- #1 exporter of flat screen televisions (USD value)
- #7 auto manufacturer (units) and 4th exporter of light vehicles (units)
- #6 auto parts exporter (USD value)
- #3 exporter of IT services (USD value)
- #5 exporter of computers (USD Value)
- Top exporter of refrigerators (USD value)
- Top exporter of medical devices in Latin America (USD Value)

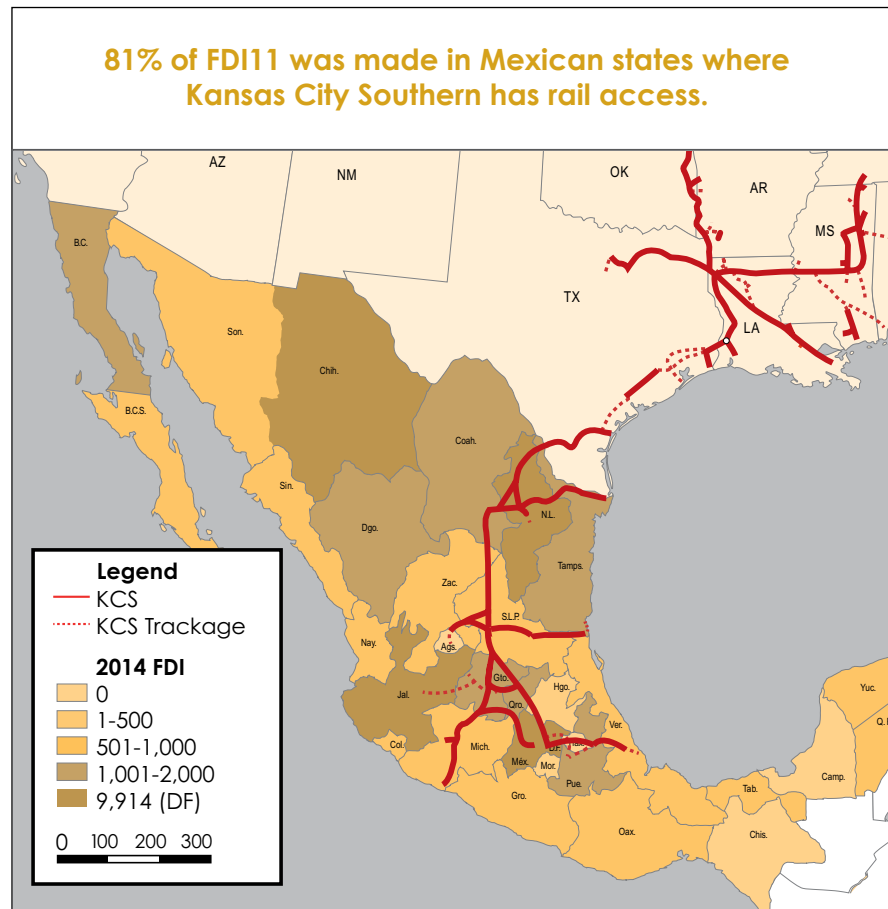


FIGURE 2

AUTO INDUSTRY: A SUCCESS STORY AND ITS DOMINO EFFECT:

Automakers from all over the world have seen the benefits of establishing automotive production plants in Mexico.

Top world brands such as Mazda, Honda, AUDI, BMW, KIA, etc. are making significant investments to develop state of the art plants that will produce vehicles for markets in the Americas as well other countries around the globe.

Current and new plants are creating a domino effect in investments with auto parts and raw materials suppliers making simultaneous investments in their footprints in Mexico to supply auto manufacturers with needed materials. Automotive manufacturing clusters are beginning to take off in the country.

¹⁰ Different Sources: 1) Negocios Promexico June 2015 (p 16); 2)

http://mim.promexico.gob.mx/work/sites/mim/resources/LocalContent/292/2/2014_FC_Electronico_EN.pdf

3) <http://www.promexico.gob.mx/documentos/revista-negocios/pdf/abr-2015.pdf> (p 18)

4) Ibid 3 (p 44) 5) <http://www.promexico.gob.mx/en/mx/tecnologias-informacion-exportacion>

6) http://www.promexico.gob.mx/documentos/pdf/Mexico_PMX_2015_WEB.pdf (p 44) 7) Ibid 6 (p 49) 8) Ibid 6) (p 144)

¹¹ Own Market Research elaboration based on: Secretaria de Economía, (2015), Historical by Federal Entity of Destination,

http://www.economia.gob.mx/files/comunidad_negocios/ied/fdi_flows_into_mexico_by_federal_entity_of_destination_1989_1998.xls

WHAT IS NEXT?

Eleven structural reforms have been approved in the first 20 months of Mexican president Enrique Peña Nieto's term. (Peña Nieto began in December 2012)¹². Reforms implemented are expected to benefit the economy and stability in the long term. Some of them will have a direct impact on economic growth in the mid-term such as Energy, Tax, Labor and Telecommunications reforms.

Mexico is expecting to see an increase of FDI as a result of Energy Reform where there will be opportunities for private companies to participate in oil and gas exploration and production.

At same time, a growing and well educated labor force will be available in the coming years meaning the availability of high skilled workers who will help create and produce higher value added products for the world.

KEY TAKEAWAYS (INSIGHTS)

Several factors contributed to the FDI into Mexico and the resulting increased competitiveness.

They include, but are not limited to:

- ✓ Geographical location
- ✓ Economic development
- ✓ Openness to free trade
- ✓ Openness to foreign investors
- ✓ Structural reforms
- ✓ Competitive logistics and labor costs
- ✓ Skilled people
- ✓ Business climate

Since 1999, nearly half (46%) of annual FDI *has been focused to* manufacturing sector¹³, which *continues to fuel* the growth and the development of this important sector for **Mexico.**

- ✓ Recent studies ranked Mexico as the most attractive country in the world to receive FDI and Mexico is perceived as one of best places to move operations.
- ✓ In recent years, México has become an attractive place with high expected growth for foreign investors.

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¹² Gobierno de la República de México, Reforms in Action, <http://reformas.gob.mx/en/reforms>

¹³ Own Market Research elaboration based on: Secretaría de Economía, (2015), Historical by Industry,

http://www.economia.gob.mx/files/comunidad_negocios/ied/fdi_flows_into_mexico_by_economic_destination_sector_1980_1998.xls