

# Mexico: Outlook and Business Opportunities

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## Index

1. Mexico Offers Attractive Investment Environment  
... not withstanding the turbulent environment
2. Opportunities in Foreign Trade
3. Opportunities in foreign direct investment
4. BBVA Deeply Committed to Mexico

# 1. Attractive investment environment

- Mexico has a sound fiscal and monetary policy, flexible exchange rate, and sound financial system
- Mexico, while closely linked to the US economy, is expected to outperform the US during 2008
- Our positive outlook is based largely on macroeconomic stability and a strong domestic market

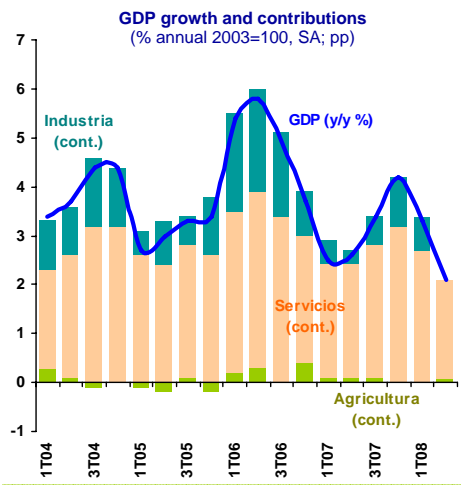
Mexico	2007	2008e	2009e
Growth(%)	3.2	2.3	2.0
Inflation(% fcp)	3.8	5.8	3.6
Foreign Exchange Rate (MXN/US, fcp)	10.9	10.3	10.5
Fiscal deficit (%GDP)	0.0	0.0	0.0
Public debt (%GDP)	18.4	17.5	17.0
Current account deficit (%GDP)	0.6	0.7	1.7
International reserves (US\$ Bn)	78.2	84.3	85.0

US	2007	2008e	2009e
Growth(%)	2.2	1.4	1.0

Source: BBVA Bancomer, Consensus Forecast, and Bloomberg

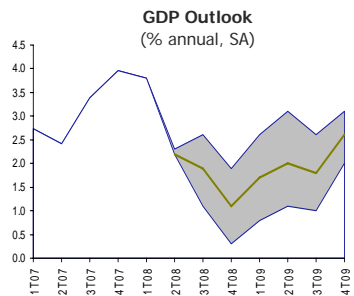
## The crisis is having an impact but the services sector is holding quite well



**Services Index**  
(% annual 2003=100, avg)

	2007	4T07	1T08	2T08
Total	6.5	7.2	5.6	3.9
Transport	4.9	6.2	4.7	3.8
Media	12.3	11.2	7.6	4.6
Mortgage	5.4	4.1	3.9	2.6
Professional Serv.	6.2	8.2	10.8	6.5
Business support	4.0	8.9	10.6	9.9
Education	4.8	6.2	1.8	5.9
Health	4.9	4.2	1.6	1.6
Recreation	9.9	10.4	27.2	-1.1
Hotels & Food	4.6	1.9	0.5	-2.9

Large investment plans will also help. Also high transportation costs



**Key factors for the economic recovery, :**

- Higher infrastructure expenditure in the first half of 2009
- Higher public disbursement due to federal elections (July 2009)
- Competitive position of Mexican products has stabilized in international markets (v.gr. China-Mexico “market share” in USA)

GDP (Var % annual real)	2008			2009		
	Lower	Upper	Central	Lower	Upper	Central
2007						
Current	3.2	[ 1.9, 2.7 ]	2.3	[ 1.2, 2.9 ]	2.0	
Previous	3.2	[ 1.9, 2.7 ]	2.3	[ 1.0, 3.0 ]	2.6	

## 2. Opportunities in Foreign Trade

- Foreign Trade between Mexico and its trading partners totaled US\$554 billion in 2007
- Compare to the rest of Latin America, Mexico's trade structure is very similar to Asia: manufacturing is key
- China is Mexico's 2nd most important trading partner for imports and growing ...

Mexico Foreign Trade		
	US\$ billion	
Total Imports	282	
Total Exports	272	
Maquiladora Exports	112	
Foreign Direct Investment	22	

Breakdown of Foreign Trade	Exports	Imports
Manufactured Goods	76%	84%
Fuels and mining products	18%	9%
Agricultural products	6%	7%

Imports	%
1. USA	51
2. China	11
3. Japan	5
4. S. Korea	4

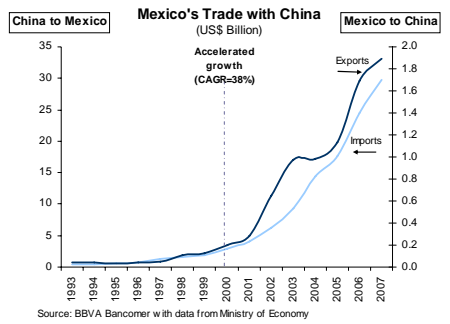
**Trade Partner Rankings**

Exports	%
1. USA	80
2. Canada	2
3. Spain	2
12. China	1

Source: BBVA Bancomer with data from WTO

## 2. Opportunities in Foreign Trade

- Strong steady growth of exports from China to Mexico (11% of total)
- China market virtually untapped by Mexican companies (less than US\$2 billion in 2007)



Imports from China	
Electronics & Computers	43%
Other high tech	5%
<b>All Other</b>	<b>52%</b>
<b>Total (US\$ Billion)</b>	<b>\$103</b>

Exports to China	
Commodities	53%
Machinery & Equipment	27%
Automobiles	12%
<b>All Other</b>	<b>8%</b>
<b>Total (US\$ Billion)</b>	<b>\$100</b>

Year: 2006

## 2. Opportunities in Foreign Trade

**Positive outlook: On June 1, 2008:** China and Mexico signed a new trade treaty (subject to approval from Congress)

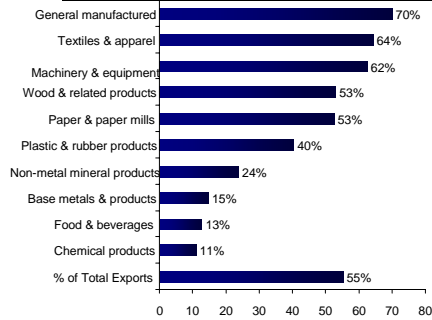
- Trade ties will increase as trade tariffs are reduced in the future
- Important decreases in tariffs on large number of goods imported from China
- Transition period: Through December 2011 for certain products

Products to which Mexico applies additional tariffs to imports from China	
Product Category	# Products
Apparel	415
Fabric & textiles	399
Shoes	57
Organic chemical products	27
Tools	24
Toys	23
Other products	37
Electric appliances	13
Bicycles	5

## 2. Opportunities in Foreign Trade

- “Maquiladora Industry” is a re-exporting device similar to those in Asia but with a great locational advantage
- Comprised of approximately 2,700 companies and accounting for over 50% of Mexican manufactured exports

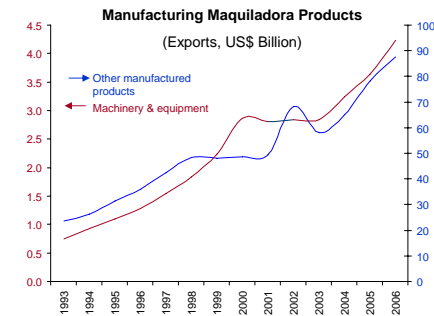
**Maquiladora as Share of Mexican Manufactured Exports**



Source: Year 2006; BBVA Bancomer with data from Bank of Mexico

## 2. Opportunities in Foreign Trade

- Maquiladora industry is shifting to higher value activity
- Mexico remains highly competitive in certain products
- Mexico comparatively less competitive in products such as textiles and apparel
- Increased emphasis on manufactured products



## 2. Opportunities in Foreign Trade

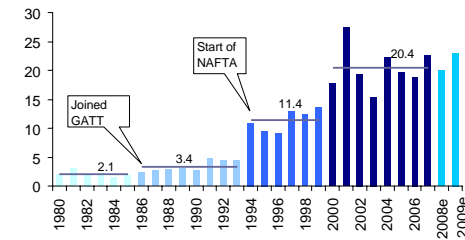
- **Main advantages of the maquiladora industry:**
  1. **Lower transportation and communication costs from Mexico to US:**
    - **Shorter delivery time** from Mexico to US (ocean shipping times between Mexico and US is 4 days vs 20+ days from Asia).
    - Mexico's competitive edge may be greatest on time-sensitive exports
  2. Offers **access** to Regional Preferential Trade Agreement, specially North American Free Trade Agreement (NAFTA)

## 3. Opportunities in Foreign Direct Investment (FDI)

Total FDI flows have nearly doubled in last 10 years compared to the late 1990s

China received US\$313 billion in FDI during 2000-2005 (2nd) while Mexico received US\$121 billion (9th)

**FDI Flows to Mexico**  
(US\$ Billion)



Source: BBVA with data from INEGI

### 3. Opportunities in FDI

Continued FDI opportunities in Mexico:

- **Manufacturing Sector:** Close proximity to US
- **Financial Services:** Somewhat limited due to consolidation of sector
- **Services, Restaurants & Hotels:** Increased investment due to Tourism and “US Baby Boomer Factor” (ageing US population)
- **Commercial Activities:** Continuing opportunity due to growing middle class in Mexico

FDI Flows to Mexico (2000-2007)

	US\$ Million	%
1 USA	97,344	56
2 Spain	27,449	16
3 Netherlands	19,406	11
4 UK	4,739	3
5 Canada	4,526	3
6 Switzerland	2,676	2
7 Germany	2,498	1
8 France	1,586	1
9 Denmark	1,146	1
10 Luxemborg	1,058	1
<b>34 China</b>	<b>61</b>	<b>1</b>

Source: BBVA with data from Ministry of Economy

Breakdown FDI (2000-2007)

Sectors	%
Manufacturing	45
Financial services	28
Services, Restaurants & Hotels	9
Commercial activities	8
Transport and Communications	6
Mining and Oil	1
Construction	1
Electricity, Gas and Water	1
Agriculture	0

Source: BBVA with data from Ministry of Economy

### 3. Opportunities in FDI: large companies dominate market

10 Most Important Multinationals in Mexico

1 Wal-Mart Mexico	Retail sales	18,176	5.2
2 General Motors Mexico	Automotive	11,737	5.7
3 DaimlerChrysler Mexico	Automotive	9,744	5.1
4 BBVA Bancomer FG	Financial Services	9,406	30.0
5 Citigroup FG	Financial Services	8,977	6.1
6 Ford Motor Co.	Automotive	8,609	5.4
7 Volkswagen Mexico	Automotive	7,878	6.0
8 Santander FG	Financial Services	6,154	10.7
9 Delphi Automotive	Automotive	6,060	23.0
10 Hewlett-Packard Mexico	Computers	4,438	4.8

\*Annual sales in Mexico 2006  
 \*\* Mexico/Worldwide  
 Source: Expansión Magazine

**Top 10 Multinationals = 14% of GDP**

10 Most Important Mexican Companies

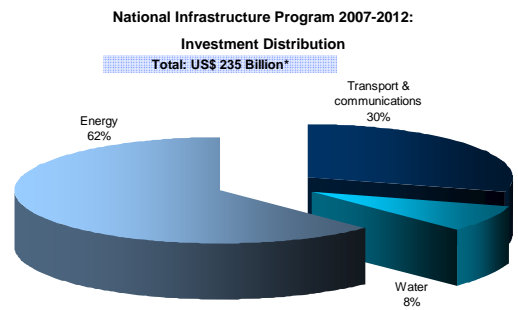
Company	Activity	Sales US\$MM
1 Pemex	Oil and gas (Government owned)	96,192
2 América Móvil	Telecom (cellular telephone)	21,293
3 CFE	Electricity (Government owned)	19,230
4 Cemex	Concrete	17,918
5 Telmex	Telecom (fixed telephone)	15,910
6 Femsá	Beverages	11,493
7 Grupo Carso	Auto industry, construction, mining, department	8,392
8 Grupo BAL	Financial, department stores, education, health, insurance, mining	7,031
9 Grupo Alfa	Steel, paper, food processing, auto industry, telecom, plastics	6,965
10 Grupo México	Mining and railroads	6,477

\*Annual Sales 2006  
 Source: Expansión Magazine

**Top 10 Mexican Companies = 30% of GDP**

### 3. Opportunities in FDI: Infrastructure

The Mexican Government is committed to multiyear program and seeks greater participation by private sector



### 3. Opportunities in FDI: Energy reform bill

- Proposed Energy Reform focuses on greater efficiency and channeling investment to Pemex
- Approval in Congress expected before year end

Current Situation	Reform Proposal
40% of gasoline consumed in Mexico is imported	Freedom for Pemex to hire private investors to build and operate refineries
Transportation, distribution and storage of refinery products is at or near full capacity	Allow private investment in storage and distribution of refinery products
Pemex currently decides when, where and how to produce	Pemex to be supported by technical body to provide advice and supervise technical decisions
Rigid contract procedures potentially leads to higher costs	Flexible contracts with incentives to increase productivity
Pemex debt is controlled by Government	Pemex debt autonomy



#### 4. BBVA deeply committed to Mexico

- Bancomer is the largest financial institution in Mexico
- Market leader in most financial products (31% market share in deposits and bank credit)
- Leader in Project Finance, Trade Finance, Debt Capital Markets among others

Thank you  
for your attention