

Why Mexico?

Summary

Area (land plus water): 1,972,000 km² (761,610 mi²)

Population: 122 million (INEGI's last census 2015: 119.5 million)

Population growth rate (change): 1.0%

Population density (people per km²): 65.3

Urban population: 79.2%

Capital city: Mexico City

Official language: Spanish

Currency: Mexican Peso (MXN / MEX\$)

Nominal GDP: US \$1,046 billion

Real annual GDP growth: 2.3%

GDP per capita: US \$8,554.6

Annual inflation rate: 2.8%

Unemployment rate: 4.3%

General government gross debt: 58.1% of GDP

Fiscal balance: -2.9% of GDP

Current account balance: -2.7% of GDP / US \$-27.9 billion

Exports of goods to UK: £1,026 million

Imports of goods from UK: £1,344 million

Inward direct investment flow: US \$30.3 billion

Exports + imports as share of GDP: 79.5%

[Source: mostly FCO Economics Unit, Apr 2017]

Geography

Located in the southern part of the North American continent between latitudes 14° and 33°N, and longitudes 86° and 119°W, Mexico is a large country bordering the USA to the north, the Gulf of Mexico to the east, Guatemala, Belize and the Caribbean Sea to the southeast and the Pacific Ocean to the west.

The country is mountainous – a southern extension of the Rockies of North America – and the high altitude and fertile valleys give the country a wide range of temperatures, fauna and flora and one of the world's most diverse weather systems.

Mexico City, the capital and one of the largest cities in the world, lies in the centre of the country together with a number of other large cities in the Valley of Mexico, a temperate region between the hot, arid deserts in the northwest and wetter regions including rainforest in the southeast.

With a population of around 122 million, it is the largest Spanish-speaking country in the world and the second most-populous country in Latin America after Brazil.

General overview

Mexico has a stable democracy, and a very young population with a median age of 27.

Mexico is the largest economy in Latin America after Brazil, and the world's 15th largest economy according to the International Monetary Fund (IMF). World Bank analysts and Goldman Sachs predict that its economy will be the world's 5th largest by 2050.

The European Union (EU) and Mexico have a free trade agreement known as the Global Agreement, which helps EU goods gain preferential access to Mexico. The agreement focuses on three main areas:

- commercial liberalisation
- political dialogue
- co-operation

See: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/mexico/>.

Mexico is a member of the North American Free Trade Agreement (NAFTA), see: www.naftanow.org. NAFTA enables British companies to use Mexico as a low-cost manufacturing base with direct, duty-free access to the United States and Canada.

[Source: FCO Overseas Business Risk/gov.uk]

Political situation

Mexico is a federation with a presidential system of government covering the 31 states and the Federal District (Mexico City) with powers separated into three branches: executive, legislative and judicial. The President is elected for a six-year term and may not hold office a second time. Congress is constituted by Senate (six-year terms) and a Chamber of Deputies (three-year terms).

President Peña Nieto (PRI) took office in December 2012 and in his first two years launched an ambitious reform programme, including education and fiscal reforms, an infrastructure and transportation programme, and opening up the energy and telecoms sectors to competition. The Pact for Mexico, an agreement formed with opposition parties, in place until the end of 2013, was crucial to passing the legislation.

Despite major efforts, Mexico faces significant education issues related to the implementation of its education reform. President Peña Nieto's administration is struggling politically with the opposition of the second largest teacher's union in Mexico (the CNTE), and there is danger that the reform will stall significantly.

MORENA, an emergent party founded in 2015, is likely to become the third political force in 2018 and pose a serious challenge during the presidential elections. Since 2015 independent candidates have been able to run for office and could represent a threat to political parties in several states.

This year, local politics is heavily influenced by external factors, most importantly, the development of the bilateral relationship with the US. Management of the relationship with the Trump administration will be crucial for the federal government if they expect to improve their approval ratings. At the moment, President Peña Nieto's approval ratings are the lowest for any President in modern Mexican history at 12%. Nationalism is on the rise, as well as anti-American sentiment, fuelling the presidential hopes of the left wing MORENA and its leader Andrés Manuel López Obrador (AMLO) as the anti-establishment option for 2018.

[Source: FCO Overseas Business Risk/gov.uk (26th May 2017)]

Economic overview

Mexico is an upper-middle income country with a population of around 122 million. According to IMF forecasts GDP per capita for 2017 will be 19,893 PPP. However, wealth is distributed very unequally, with 46% of the population living in poverty and 38% of the national income held by the top 1%. Mexico's GDP is mainly driven by the services sector, which accounted for 62% of GDP in the third quarter of 2016. In terms

of competitiveness, the 2016 World Bank's "Doing Business" index ranked Mexico as the easiest country to do business with in the Latin American and Caribbean region.

Mexico is the biggest exporter in Latin America. Mexico's commercial structure is defined by large intra-industrial trade, as its main exports are in the same industries as its main imports: machinery, electrical equipment, automobiles, mechanical inputs, minerals, oil and gas. With 12 Free Trade Agreements covering 46 countries, including the US and the EU, Mexico is one of the most open economies in the world. Nevertheless, Mexico's main trading partner remains the US, where around 81% of Mexican goods and services are exported (2016). Despite only 2.7% of Mexican products being exported to Canada, it is Mexico's 2nd largest exporting destination, whilst the UK accounts for less than 1%.

The Mexican economy is highly dependent on US demand for imports (mainly manufactured goods) and economic activity has decreased since 2010 mainly as a result of falling international demand for Mexican goods – in 2010 growth reached 5.5%, by 2016 it was 2.3%. The IMF predicts annual growth of 1.7% in 2017 and of 2% in 2018, against 1.2% growth in the Latin American region as a whole in 2017. The low growth expectations are the result of a fall in consumer and investment confidence, a decrease in government revenue due mainly to low oil prices, the depreciation of the Peso against the Dollar, and overall uncertainty regarding the US-Mexico relation.

Monetary policy is responsible and efficient. Inflation was low and within the limits of the Central Bank target (+/- 3%) in 2016 (with an average monthly general inflation of 2.86%), however, it reached a peak of 4.7% in the first month of 2017. The main factor driving this increase was the adjustment of energy prices, mainly of petrol and LP gas. Underlying inflation is very low, with an average monthly rate of 3.06% in 2016.

With respect to the overnight rate target, the Central Bank of Mexico (Banxico) raised it five times during the last year to try to counteract inflationary pressures caused by the Mexican peso weakening (due to capital flight, currency speculation, and reduced investor confidence), which was accentuated by Donald Trump's victory in the US election. At the beginning of 2017, Banxico raised the reference interest rate again from 5.75% to 6.25%, to avoid further depreciation of the currency and control inflation.

In addition, the depreciation of the Mexican Peso was mainly driven by recent volatility in emerging markets caused by the decision of US FED to continue a QE monetary policy, and Donald Trump's victory in the US election. However, as it has been mentioned, the pass through to domestic prices has been limited for most 2016.

There has been an increase in debt-to-GDP since 2014, especially due to the mentioned collapse in oil prices. However, with the tax reform of 2014, non-oil revenue has increased and non-mandatory expenditures have decreased, so net public debt as a proportion of GDP in 2016 (46.2%) continues to be low compared to international figures – for example UK (85%), US (81%), Spain (65%). Additionally, the tightening of

public expenditure is expected to continue during 2017, making it possible to achieve a surplus for the first time in the last ten years.

International reserves are currently around US \$174 billion and represent an important shield against exchange rate volatility. Current account deficits are more than compensated for by large capital account surpluses. This, added to huge reserves, prevents Mexico from suffering a balance of payments crises or a sudden stop.

Mexico has considerable growth potential; World Bank analysts and Goldman Sachs predict that its economy could be the world's 5th largest by 2050. Mexico has many advantages, including a large, young workforce, a privileged geographical position for trade, and stable macroeconomic indicators.

[Source: FCO Economic Overview/gov.uk (May 2017)]

Financial inclusion

According to the 8th report on financial inclusion published by the CNBV (Comisión Nacional Bancaria y de Valores) the National Policy of Financial Inclusion is having important results one year away from the evaluation goal set by the authorities. According to the poll, from 2012 to 2015, 12.7 million adults were financially included which sets the total at 52 million Mexicans (68% of the population) who possess some kind of financial product.

Likewise, the percentage of municipalities that now have to at least one access point increased from 68.9% in 2015 to 72.5% in 2016. This change in the available infrastructure is the result of the banks belonging to the G7 (BBVA Bancomer, Santander, Citibanamex, Banorte, HSBC, Scotiabank and Inbursa) increasing their participation in rural municipalities by 15.2% from 2015 to 2016.

It is important to note that the main source of this growth comes from the number of people having to own a bank account or do some kind of transaction in a specific branch or via digital banking (2.22% increase), while the overall amount of Mexicans owning some kind of credit product decreased in 3.33% as a result of people trying to avoid indebtedness.

[Source: British Embassy Mexico City Economic Report (June 2017)]

Benefits to UK businesses

Benefits for UK companies exporting to Mexico include:

- market about the same size as the whole of western Europe with a population of 122 million
- Mexico and the EU have a free trade and a double taxation agreement

- largest economy in Latin America after Brazil

Trade between the UK and Mexico

In 2014-15 trade between the UK and Mexico was worth US \$3.2 billion. Many large UK companies now operate in Mexico, including HSBC, GlaxoSmithKline, AstraZeneca, BAT and the InterContinental Hotels Group.

British products have a significant presence in Mexico, although the UK's market share in goods imports into Mexico has decreased overall in recent years.

The top UK exports to Mexico include:

- power generating machinery and equipment
- road vehicles
- medicinal and pharmaceutical products
- beverages
- essential oils and perfume materials
- organic chemicals
- industrial and scientific machinery
- insurance and pension services

[Source: DIT/gov.uk]

In addition:

- In 2016 Mexico was ranked 123rd out of 176 countries in Transparency International's latest Corruption Perceptions Index (the UK ranked 10th): www.transparency.org/news/feature/corruption_perceptions_index_2016.
- Mexico is ranked 47th out of 190 in the World Bank's 2016 Ease of Doing Business index (the UK ranks 7th): www.doingbusiness.org/rankings
- The World Economic Forum's Global Competitiveness Report 2016-17 ranks Mexico 51st out of 138 (the UK is ranked 7th): <http://reports.weforum.org/global-competitiveness-index/country-profiles/#economy=MEX>

Contact a DIT export adviser at: www.contactus.trade.gov.uk/enquiry/topic for a free consultation if you are interested in exporting to Mexico.

Contact UK Export Finance (UKEF) about trade finance and insurance cover for UK companies. You can also check the current UKEF cover position for Mexico. See: www.gov.uk/guidance/country-cover-policy-and-indicators#mexico.

[Source: DIT/gov.uk]

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Case Study



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