



Prospects for Export Growth in the MIST Countries: *Market Opportunities in Mexico*

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U.S. - Mexico Relationship

"It is difficult to overstate the depth of ties between our two nations or the extraordinary importance of our relationship. It's obviously a simple fact of geography that we share a border and we have always been bound together by that geography. But it's not just that shared border that links us together. It's also culture, it's also immigration patterns that have taken place that have become so important. Our economic ties mean that whatever steps that we're going to take moving forward have to be taken together."

President Barack Obama
Mexico City, April 16, 2009



Who is Jim O'Neill and why he is important in this discussion?



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- Jim O'Neill is the Chairman of Goldman Sachs Asset Management.
- O'Neill is the economist credited for coining the term BRICS and more recently, in 2011, coining the term MIST for Mexico, Indonesia, South Korea, and Turkey — all members of the G-20 group of the world's top economies.

Market Opportunities in Mexico

- **Since 1988, Mexico has progressively transformed itself and transitioned from a closed to an open economy.**
- **Government ownership of businesses, popular in the 1970's and 1980's, changed drastically in the 1990's with the sale of government-operated businesses to the private sector.**



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Market Opportunities in Mexico

- Privatization of the Mexican banking sector during 1991-96 and subsequent opening of the Mexican banking system to foreign investment during 1997-2003 gradually led to the establishment of a strong and stable, albeit risk averse, banking system in Mexico.
- In 2013, 4 of the top 5 banks in Mexico are foreign-owned—BBVA(1), Banamex(Citi-2), Santander(3), and HSBC(5).



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Market Opportunities in Mexico

- Privatization and deregulation of the Mexican rail system in 1997 led to greater efficiencies in transporting grains from the U.S. to Mexico.
- Since 1997, more than \$3 billion USD has been invested by the private sector (largely KCS and Ferromex) to upgrade track, purchase new locomotives, improve computer software systems, and enhance security.



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Market Opportunities in Mexico

KEY FACTS—MEXICO

- Mexico is a trillion dollar plus economy.
- Mexico currently has the 11th largest economy in the world.
- Mexico is a member of the G-20—Exclusive group of 20 biggest industrial and emerging economies that represents 90% of the world's GNP and 80% of world trade. Hosted 2012 G-20 global sessions in Mexico.

Market Opportunities in Mexico

KEY FACTS CONTINUED

- Mexico is currently ranked in the 2013 World Economic Forum study on Global Competitiveness as #53 in the world.
- Foreign Direct Investment (FDI) in Mexico over the past 5 years has surpassed 100 billion dollars in total with Mexico consistently ranking in the top 20 in FDI.

Market Opportunities in Mexico

KEY FACTS CONTINUED

- Over the past 20 years Mexico has emerged as a global leader in free trade and foreign investment.
- Mexico has signed 12 FTA's involving 44 countries globally with more than 90% of Mexico's trade being conducted within FTA's.
- Population growth and age demographics are two primary drivers for continued growth, especially as it relates to wheat consumption



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Market Opportunities in Mexico

KEY FACTS CONTINUED

- Increasing urbanization, driven by a search for better jobs and an improved quality of life, have underpinned wheat food demand and led to a greater consumption of wheat-based foods.



Market Opportunities in Mexico

CHALLENGES REMAIN

- Despite the success of an expanding economy, the new GOM administration led by President Enrique Peña Nieto has recognized that weaknesses still exist and his government has proposed a series of structural reforms

Market Opportunities in Mexico

- **Targeted areas for reform include:**
 - Educational reform
 - Energy reform
 - Fiscal reform
 - Innovation (Research & Development)
 - Labor reform
 - Water & drought
 - Security situation

The EPN government understands that without reforms in these areas, Mexico's stature in the world economy will not continue to be competitive.

Market Opportunities in Mexico

- **Among the key assets that Mexico holds are:**
 - Infrastructure
 - Climate
 - Labor
 - People
- **Mexico's proximity to the world's largest economy has made it possible to facilitate trade of commodities and manufactured goods through:**
 - 16 commercial ports
 - 9 principal border crossings for rail shipments
 - Vast and expanding highway system.

Market Opportunities in Mexico

Major Ports of Entry



Market Opportunities in Mexico

- With its growth as an aviation manufacturing center, and its new airports, Mexico now offers direct nonstop flights to more than 30 cities in the U.S. making it possible to conduct international trade often within the same time zone.
- U.S.—Mexico two way trade, which has now grown to more than one billion dollars per day, has transformed Mexico into the 2nd largest trading partner of the U.S. (after Canada).

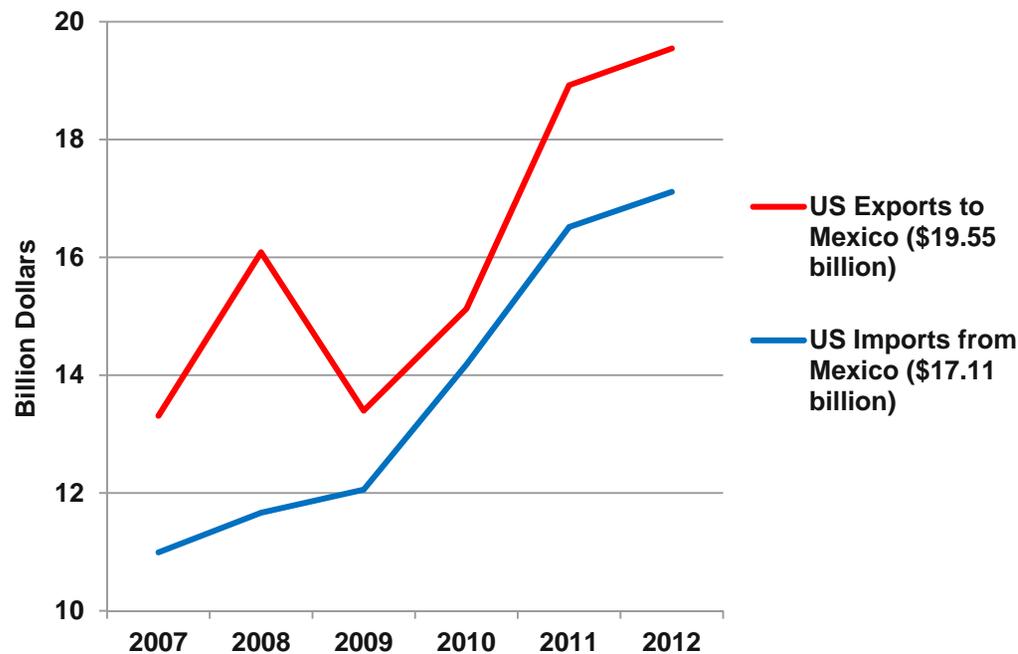


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Market Opportunities in Mexico

• U.S.-Mexico Agricultural Trade - 2012



Top U.S. Exports

- Corn (\$2.4)
- Red Meats (\$1.9)
- Soybeans (\$1.9)
- Wheat (\$1.1)
- Poultry Meat (\$1.0)

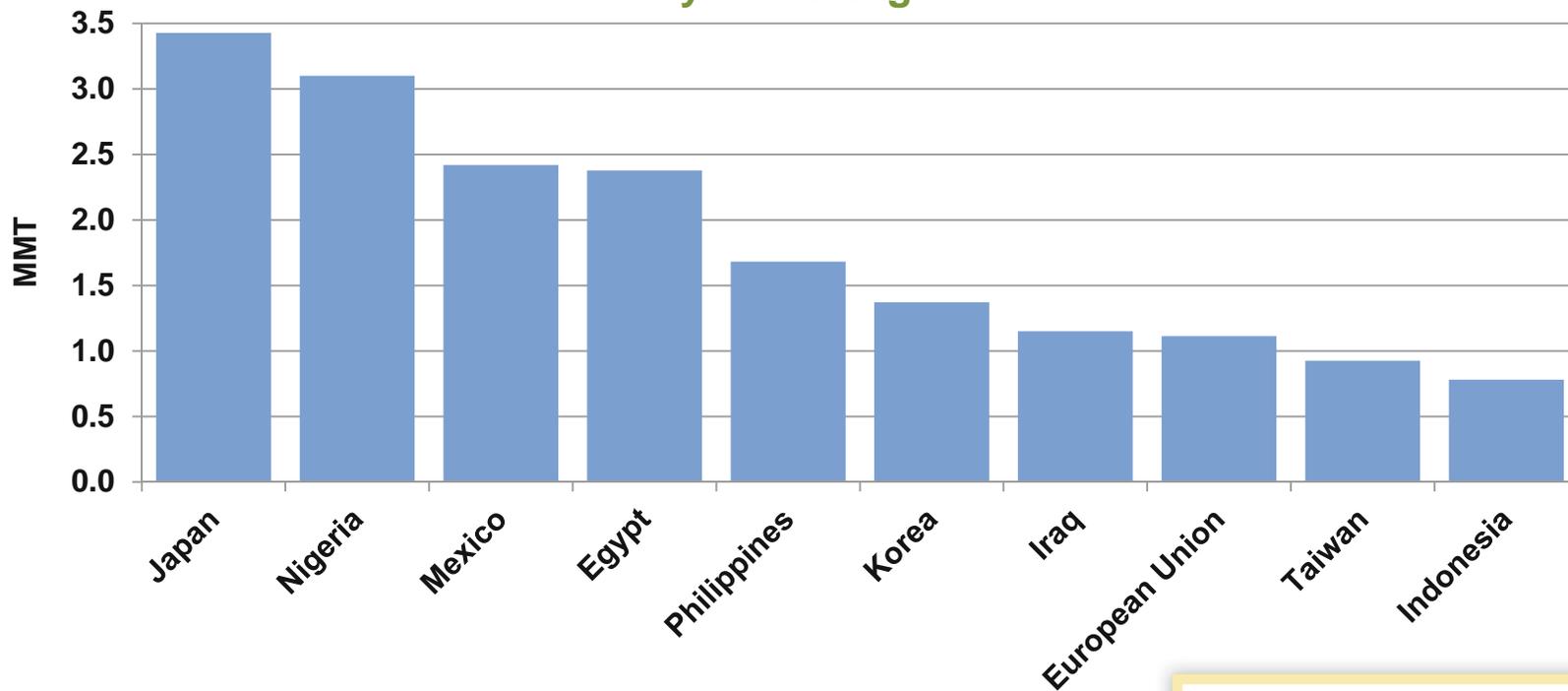
Top U.S. Imports

- Beer (\$1.8)
- Tomatoes (\$1.6)
- Sugar (\$0.8)
- Peppers (\$0.8)
- Avocados (\$0.8)

Market Opportunities in Mexico

- Mexico is the largest importer of U.S. wheat in Latin America and the Caribbean and consistently ranks as the second or third largest buyer of U.S. wheat in the world.

Top 10 Customers for U.S. Wheat
5-year average



Market Opportunities in Mexico

- **Investment bankers, who typically are among the first to recognize new trends, have shifted sizable personnel to Mexico over the past couple of years.**
 - Morgan Stanley has tripled its employees in Mexico since 2010.
 - Since 2010, Goldman Sachs has expanded its office space by 50% in Mexico.
 - Credit Suisse Group has expanded its Mexico business by 50% since end of 2010.
 - J.P. Morgan Chase, Citigroup, and HSBC are also expanding their personnel in Mexico

Market Opportunities in Mexico

- Mexico, which is Latin America's second largest economy after Brazil, outgrew Brazil in each of the past two years.
- Mexico's strong macroeconomic performance led by a 4 year expansion, slowing inflation, and very solid debt ratios are drawing investors to Mexico.

Market Opportunities in Mexico

- A shift to “near-shoring” instead of offshoring has made its economy rebound with Mexico being a big winner. Since 2010, Mexico has been referred to as the “Aztec Tiger”, outpacing China in increasing exports to the U.S.
- Mexican exports to the U.S. have been transported via truck, rail, and ship with the proximity to the U.S. being a major advantage in terms of logistics for delivery.



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Market Opportunities in Mexico

WHAT DOES THE FUTURE HOLD?

Nomura Equity, one of Asia's largest investment banks, forecasts that Mexico will likely overtake Brazil and become the largest economy in Latin America in the next decade.

With a growing middle class, the possibilities of expanded two way trade seem to be very favorable.