

EMBAJADA DE MEXICO



EMBASSY OF MEXICO

***Expanding Australia's trade and
investment relations with Mexico***

Prepared by the Embassy of Mexico
For the Trade Sub-Committee of the
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1.- INTRODUCTION

The economy of Mexico has enjoyed strong macroeconomic fundamentals and positive rates of growth since 2001. This macroeconomic stability has reduced inflation and interest rates to record lows and has increased per capita income. Certain challenges in income equality and infrastructure modernization exist, which the current Government is tackling with positive success.

The Government of President Felipe Calderon (2006-2012), has implemented a ten step program to continue to incentivise Mexico's economy: tax reductions, fiscal incentives to small and medium size companies, simplified paperwork for companies wanting to trade internationally, Government support (5% of the amount companies pay) to the Mexican Social Security System, increasing the amount spent on the National Employment Program, the creation of an internet-based job fair, increase in the amount spent on Mexico's National Petroleum Company (PEMEX) in order to upgrade gas ducts, modernise and create more jobs in the energy sector, provide more resources to promote growth in marginalised parts of the country, increase funding to the development banking sector.

Mexico's strategic geographic location, between the Atlantic and the Pacific Oceans, and connecting North and South America, makes it an ideal hub for worldwide production and trade. Due to its competitive skilled labour, Mexico offers international companies a unique opportunity to manufacture products close to important markets such as the USA and Canada (with which Mexico has the North American Free Trade Agreement – NAFTA). Aside from NAFTA, Mexico has 11 other Free Trade Agreements with a total of 44 countries (*see annex 1*). This provides international companies in Mexico a strategic advantage over manufacturing in any other country.

In addition to these free trade agreements, Mexico has also pursued a unilateral reduction in tariffs. From 2002 to 2007, Mexico decreased more than half of its tariff schedule. This trend continues to this date, making the country one of the most open economies in the world.

Between Mexico and Australia, Trade relations are positive and have been growing steadily over the years. Mexico is one of Australia's main trading partners in Latin America and Australia is Mexico's 9th trading partner in the Asia-Pacific. However, there are plenty of opportunities for improvement in these trade relations: tariff and non-tariff barriers to certain commodities and other goods and services still exist. It would be in the interest of both Governments to work towards eliminating these barriers in order to positively increase trade relations which can in the end benefit both countries.

Foreign Direct Investment (FDI) is an area of priority in which Mexico and Australia stand to grow and improve in the coming years. Trends have been set, such as Mexican giant concrete supplier CEMEX having invested \$14.2 billion USD in Australia's Rinker Group, formally taking it over in 2007 (selling numerous quarry products under the "Ready-mix" brand).

Australian investments in Mexico amounted to only \$135 million USD in 2007. Although there has been growth in Australian FDI to Mexico (from 1999 to 2008 it amounted to 216.8 million USD, representing 0.89 of total FDI in Mexico), there are still ample opportunities for Australian companies to join in the prevailing tendency of both large multinationals and medium-sized companies to invest in Mexico and take advantage of the vast range of benefits that are involved.

In this document we aim to further analyse the benefits of setting-up business and investing in Mexico as well as the sectors that stand to grow the most in the coming years. The reader shall further become aware of the imperative need to create more awareness between our peoples, especially in the business community. This awareness can be enhanced through more high-level visits between government officials, business delegations and Parliamentary diplomacy.

2.- BACKGROUND ON THE MEXICAN ECONOMY AND INTERNATIONAL TRADE

Mexico's economy contains very modern as well as developing industry and agriculture, both of which are mainly dominated by the private sector. The current administration has expanded competition in ports, railroads, telecommunications, electricity generation, natural gas distribution and airports, with the aim of upgrading infrastructure.

Mexico has an export oriented economy and more than 90% of Mexican trade is under Free Trade Agreements with 44 countries, including the European Union, Japan, Israel and much of Central and South America. The most influential FTA is NAFTA and Mexico's two northern partners account for almost 84.5% of exports and 55% of imports.

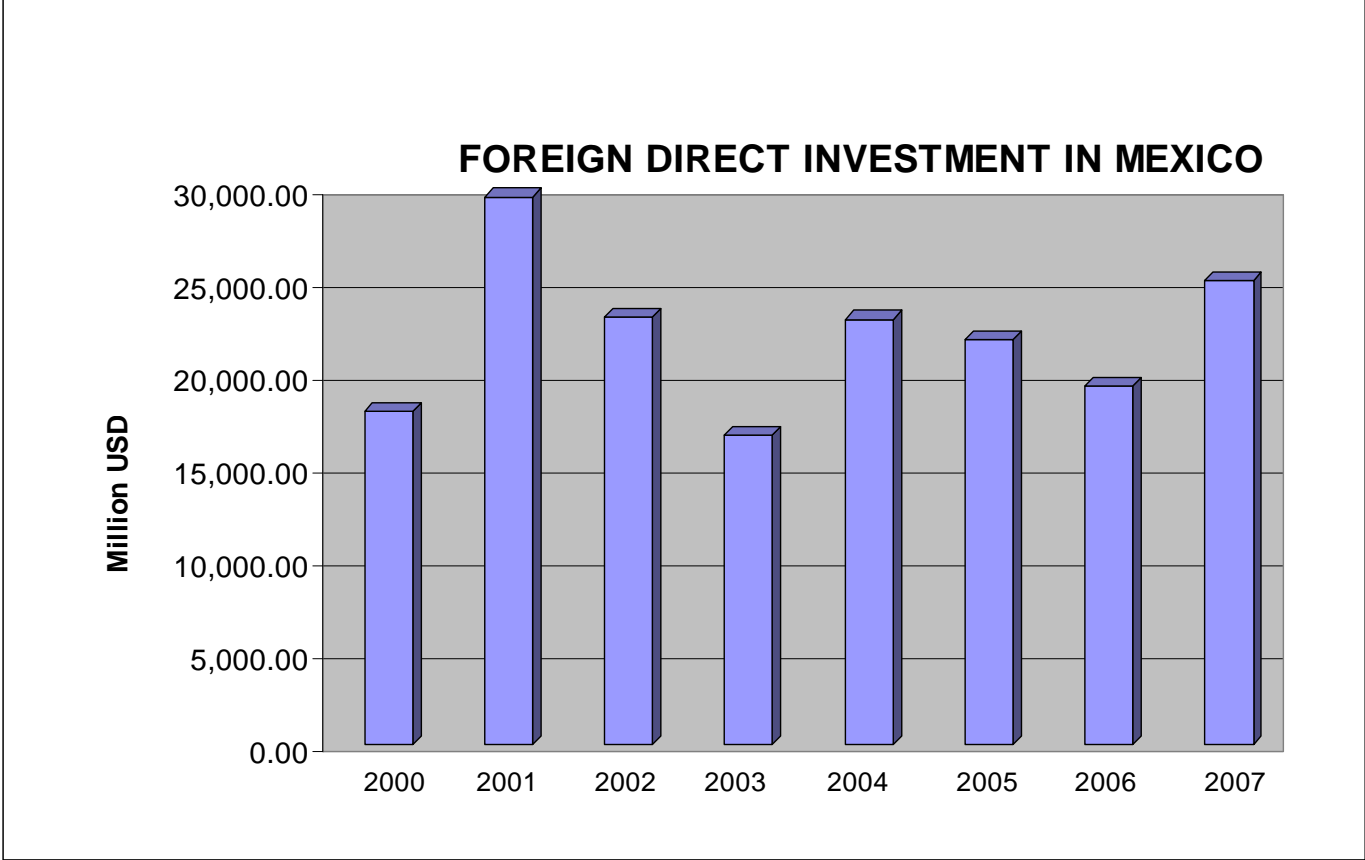
Important reforms have been approved by Mexico's Congress during the present administration, including taxes, pension and judicial reforms. An energy sector reform is currently being debated.

Mexico's Gross Domestic Product (GDP) in purchasing power parity (PPP) was estimated at US\$ 1.353 trillion in 2007, and \$886.4 billion in nominal exchange rates. As such, its standard of living, as measured in GDP-PPP per capita was US\$ 12,500. The World Bank reported in 2007 that

Mexico's Gross National Income in market exchange rates was the second highest in Latin America, which leads to the highest income per capita in the region at \$7,830 USD. As such, Mexico is now firmly established as an upper middle-income economy.

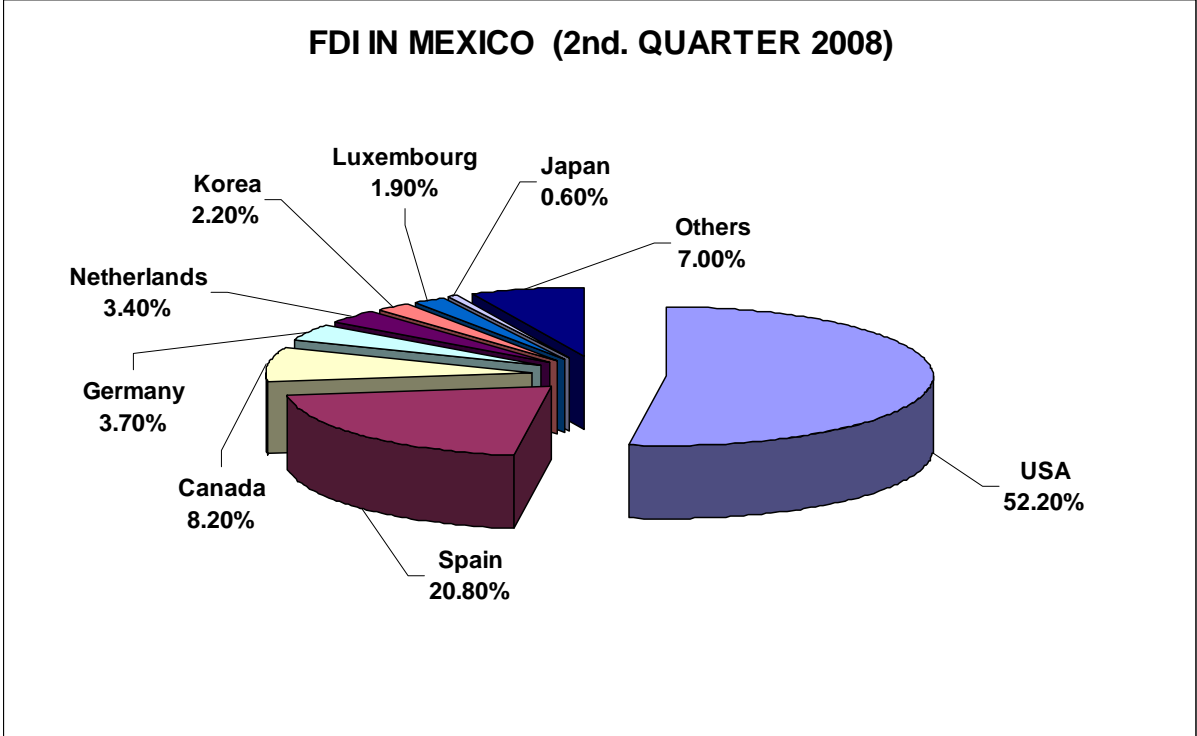
Currently, the country is the fourth largest recipient of Foreign Direct Investments (FDI) among emerging economies, benefiting from an inflow of capital of more than 26 billion US dollars during 2007. DFI increased by 22.7% during 2007 compared with 2006. (See charts 1, 2 and 3).

Chart 1



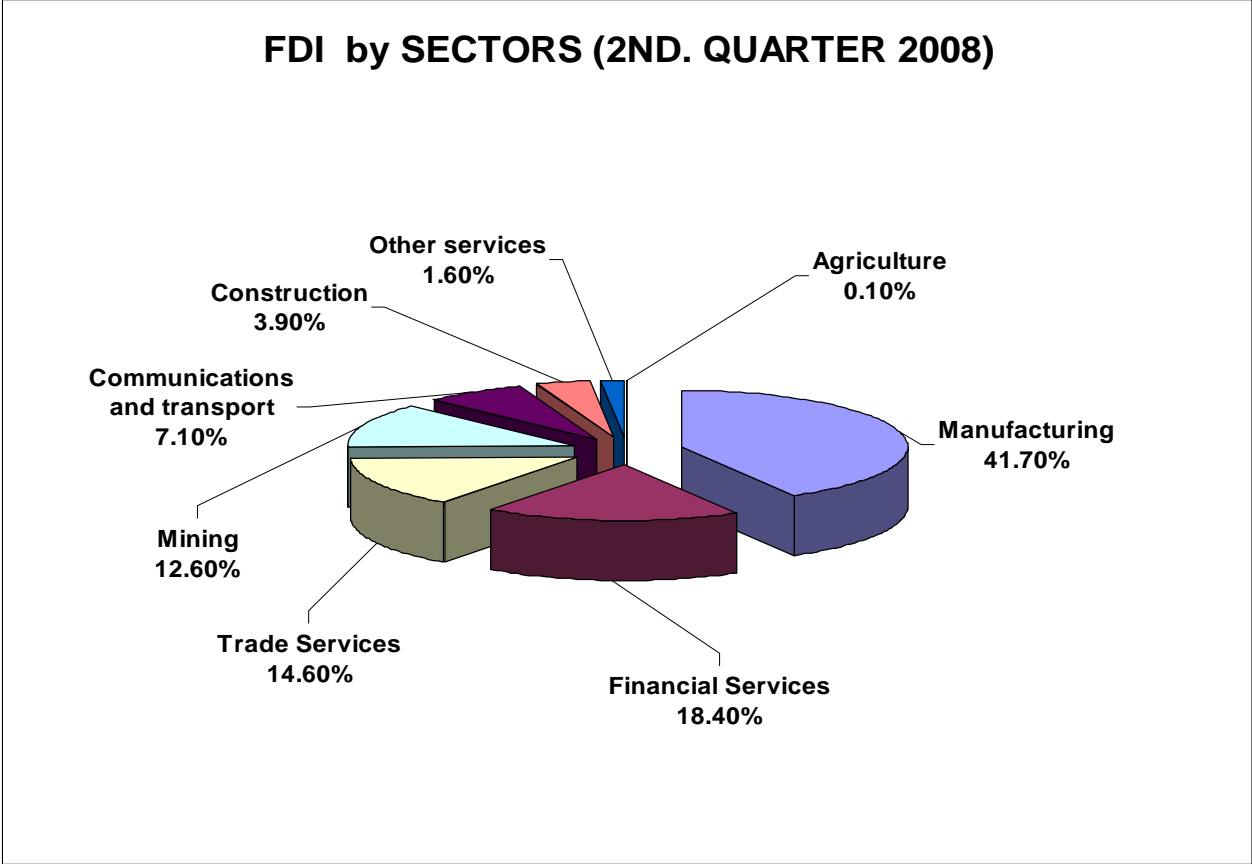
Source: Ministry of Economy of Mexico. Investment Report 2nd Quarter 2008.

Chart 2



Source: Ministry of Economy of Mexico. Investment Report 2nd Quarter 2008.

Chart 3



Source: Ministry of Economy of Mexico. Investment Report 2nd Quarter 2008.

Foreign Direct Investment is of particular importance to Mexico. It serves as a catalyst for the growth of domestic enterprises and allows for the inflow of technology. The resulting increase in technological capacity has been essential in raising the level of skill of the labour force and enhancing national productivity and competitiveness. The manufacturing sector has been the primary destination for foreign investment, accounting for almost half of the capital received during 2007. Recognising this, President Felipe Calderon's administration has launched a National Infrastructure Plan, which outlines specific projects in infrastructure that are open to FDI, and describes a simplified process of investing in Mexico and benefiting from the outcome. The National Infrastructure Plan is further described in numeral 5 of this paper, and the document itself is included as *Annex I*.

3.- OVERVIEW OF BILATERAL RELATIONS BETWEEN MEXICO AND AUSTRALIA

Mexico and Australia enjoy a solid relationship spanning more than forty years. Their leaders and other high-ranking Government officials meet with some regularity, both during bilateral visits as well as within the framework of international fora. Political exchanges have been nurtured and more than 15 Agreements and MOU's have been signed between both countries.

The strength of this relationship lies in shared values and interests including the promotion of democracy, respect for human rights and the advancement of an open system of international trade. The promotion of international cooperation based on the premise of non-interference in internal matters and mutual respect are added ingredients to a strong and healthy relationship.

Contemporary relations between Mexico and Australia are based on shared political and economic interests, growing bilateral trade and investment, and people-to-people links. At the political level, the relationship is stronger than it has ever been with recent high-level – including ministerial – visits on both sides. President Calderon visited Australia for the APEC Leaders Meeting in 2007. In May 2007 a delegation of the Joint Standing Committee on Foreign Affairs, Defense and Trade of the Australian Parliament visited Mexico as part of a Parliamentary Inquiry into Australia's Trade Relations with Mexico and the Region, while in June a delegation from the Mexican Congress visited Australia as guests of the Australian Parliament. The Australian Joint Standing Committee commented after its visit to Mexico: "...despite the challenges of distance, poor transport links, language and cultural differences and unfamiliar business environments, there is significant and unbridled potential within the Australia-Mexico relationship."¹

¹ Australia – Mexico Joint Experts Group on Strengthening Bilateral Economic Relations, Joint Report (2008), pp. 4

Mexico and Australia signed a Trade and Investment Agreement in 1994, which provided for the establishment of the Mexico – Australia Commission on Trade and Investment (also known as the Joint Trade and Investment Commission – JTIC), the JTIC has met on six occasions, most recently in Mexico City in March 2006.

Both countries can do more to take advantage of each other's strategic and trade positions – proximity to, and integration with, the US and Latin American markets in the case of Mexico, and to the East and South-East Asian markets in the case of Australia. Increased cooperation between the two nations could help to create certainty for traders and investors. Along with the strong financial frameworks and investment rules already shared by Mexico and Australia, further integration could allow businesses to take advantage of improved economies of scale to target third country markets where in-country links are strongest. Given the size of both economies and their complementary trade profiles, the signs for further significant growth in bilateral trade are very promising indeed. ²

This progressive relationship should be nurtured through continued cooperation in common areas of interest within international organisations such as APEC, the UN, the WTO and the OECD (of which Mexico is the only Latin American member). It is of great importance that better knowledge and understanding be encouraged through increased high-level meetings, inter-parliamentary exchanges and visits by business delegations. Only when government and business leaders fully understand the great potential that exists in enhanced trade and investment between both countries, will a higher level of exchange and cooperation be achieved.

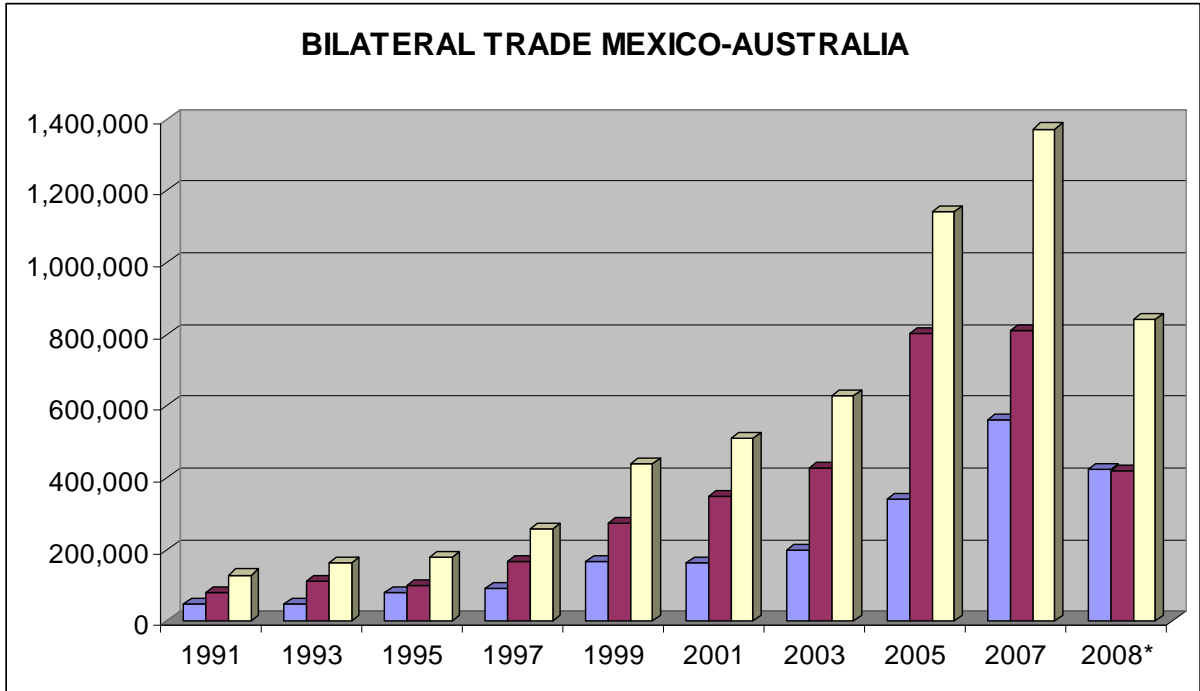
4.- TRADE BETWEEN MEXICO AND AUSTRALIA: WHAT WORKS AND WHAT NEEDS MORE WORK

As has been mentioned before, trade between Mexico and Australia has seen positive growth during the last decade. From 2000 to 2005, bilateral trade increased almost threefold (164%). In 2007 there was a slight decrease in Australian exports to Mexico, though Mexican exports to Australia continued to grow. According to the data provided by the Mexican Ministry of Economy, last year, total trade between Mexico and Australia amounted to 1.372 billion US dollars: Mexico sells to Australia 560 million USD, and Mexico buys from Australia 811 million USD³ (see *charts 4, 5 and 6*).

² IBID, pp. 5

³ Mexican Ministry of the Economy, 2007 statistics.

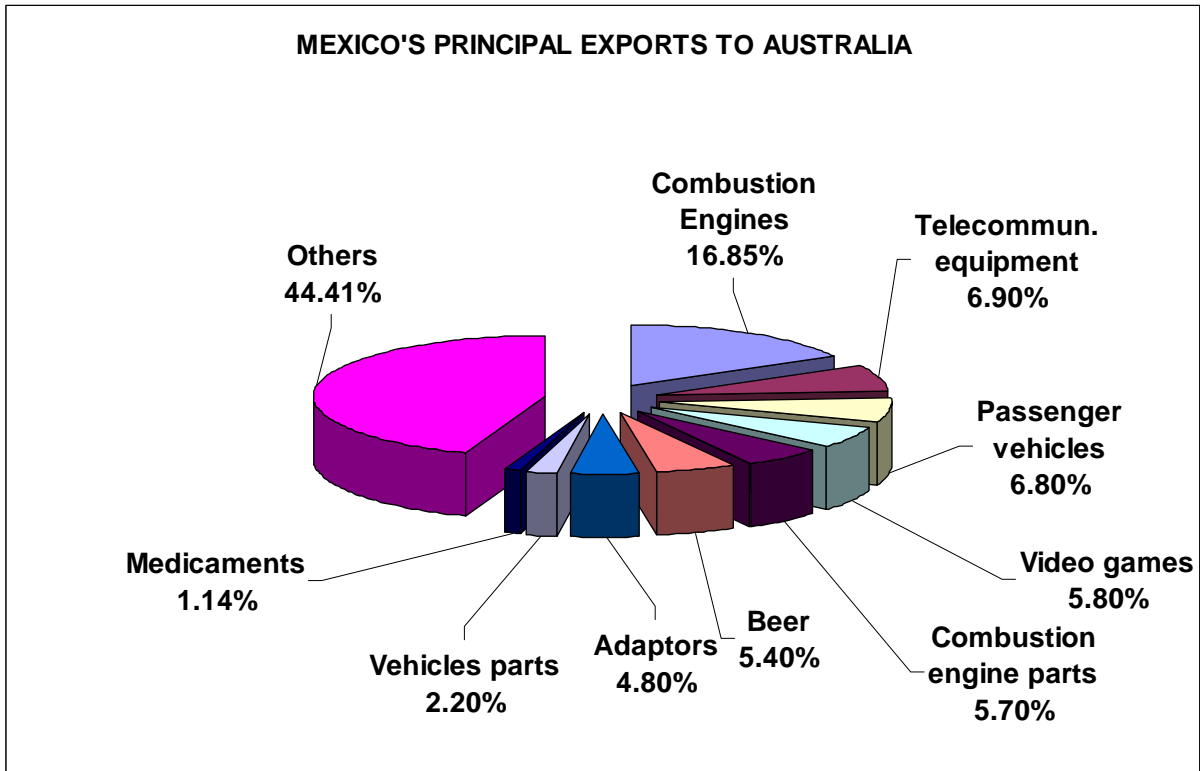
Chart 4



*Jan-July 2008

Source: Ministry of Economy of Mexico, 2008.

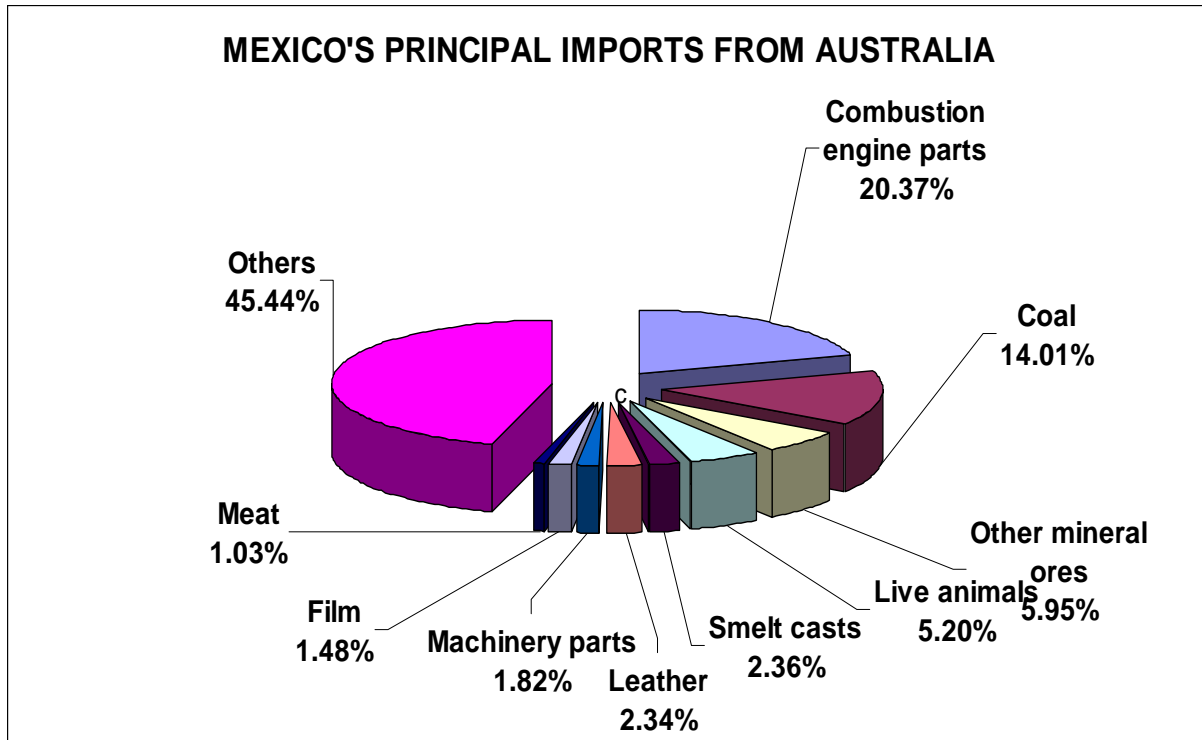
Chart 5



*Jan-July 2008

Source: Ministry of Economy of Mexico, 2008.

Chart 6



*Jan-July 2008

Source: Ministry of Economy of Mexico, 2008.

Mexico is one of Australia's largest trading partners in Latin America. Coal, meat, leather, live animals, dairy and services dominate Australian exports to Mexico. Mexican exports to Australia are mainly manufactured goods, particularly automotive components, telecom equipment and computer parts. There is, however, a potential for Mexico to expand its exports to Australia and opportunities have been found for the following products: coffee, natural oilcloth, animal feed, rice, soy bean, flowers, tomatoes, cheese, bread, pasta, ice creams, sugar products, orange juice, palm oil, pharmaceuticals, fertilizers, computers, automotive products, telecommunications equipment, photographic supplies, beer and tequila, other manufactured goods, and processed food and beverages. However, for many of these products, Australia's strict quarantine and inspection regimes affect trade. It would be interesting to study which of Mexico's agricultural and food and beverage products comply with Australia's standards. Many of them are currently exported to the United States, the European Union and Japan, which means that stringent sanitary standards are indeed in place.

Regarding statistics, there exists a difficulty in accurately registering bilateral trade due to third country purchases: Australia considers all products marked "made in Mexico" as imports from that country, however many of those goods are purchased in third countries such as the USA and others. The same problem occurs in Mexico with Australian goods. If one

wanted to have a true picture of bilateral trade NOT including third country purchases, then only Mexican statistics of exports to Australia would be counted as Australian imports, and only Australian statistics of exports to Mexico would be counted as Mexican imports. The best way to combat this, of course, is to convince both Mexican and Australian business people to try to purchase goods and services directly from the source, avoiding third country stopovers and obtaining better price.

Trade and investment has been encouraged by the signing of several bilateral agreements that have underpinned the economic relationship:

- Agreement on Trade and Investment, November 1994

This agreement provided for the establishment (as mentioned above) of the Mexico – Australia Commission on Trade and Investment (also known as the Joint Trade and Investment Commission – JTIC) which has met on six occasions, the latest being in Mexico City in 2006.

- Memorandum of Understanding on Mining Cooperation, July 2002.

This agreement expired in 2007 and has yet to be renewed. As the mining industry is of paramount importance to both Mexico and Australia, it would certainly benefit both nations to renew this MOU. Mexico has already expressed this formally to Australia.

The mining sector is a key area in the bilateral relationship. The MOU on mining encourages scientific and technical cooperation across the mining industry and provides a framework for Australian experts to collaborate with Mexican experts in technical issues related to the industry. Exchange programs between Australia and Mexico are also possible under the MOU. Many small and medium size companies in Australia have invested capital in the Mexican mining sector and Mexican companies have bought technology and services from Australian mining companies. The renewal of this agreement will allow for further exchanges in this sector.

Australia and Mexico share many similar features in mining, including the location of mines in remote and arid locations and the need to properly manage the use of water.

Like Australia, Mexico has a strong resource base. It is the world's second largest producer of silver, the ninth largest exporter of oil, and the third largest supplier of oil to the US.

- Agreement between Mexico and Australia on Double Taxation and Prevention of Fiscal Evasion, September 2002 (entered into force July 2006).

This agreement provides investors greater clarity and confidence in the investment environment.

- Memorandum of Understanding on Cooperation in the Field of Education and Training, 2003

This MOU provides a framework for cooperation in education and training, where both countries can complement each other by offering programs and training to students. With more than one thousand Mexican nationals studying in Australian institutions in 2007, Mexico is now Australia's third largest education and training market in Latin America. Australia's Vocational and Training Education sector (VTE) are of increased interest to Mexico. Mexico also offers diverse language and culture programs for Australian citizens.

- Memorandum of Understanding on Energy, January 2005.

The MOU on Energy establishes a general framework for exchanging information on energy policies and market developments, collaboration on developing energy-related technologies, and facilitating trade and investment. The Australia-Mexico Joint Working Group on Cooperation in the field of Energy has been established under the MOU. Its first meeting has not yet been held and should be a priority for the near future.

- Memorandum of Understanding on Air Services, March 2005.

This memorandum included a project of Agreement on Air Services. This agreement will lead to stronger business and tourism linkages. The airlines Mexicana and Qantas agreed to code-sharing flights in August 2006.

- Investment Promotion and Protection Agreement, August 2005 (entered into force July 2007).

This agreement offers a higher degree of protection and better treatment for bilateral investments. It complements the existing agreement that prevents double taxation. Both documents will provide investors with more confidence in doing business in each other's country.

This will benefit all trade sectors and is particularly timely given the growing range of services that are exported to Mexico.

- Memorandum of Understanding for the establishment of the JEG, November 2006

This MOU created the Mexico – Australia Joint Experts Group on Strengthening Bilateral Economic Relations (JEG). It gives the group a mandate to identify and discuss all areas of the bilateral commercial relationship and possible instruments to improve economic cooperation. The JEG has produced a joint report with recommendations to be considered by ministers from Australia and Mexico (pending final approval and publication).

It is our belief that, in the globalized world of today, it is no longer an excuse for business to say that their knowledge of each country is limited by distance, inadequate transport links, differences in language and culture and unfamiliar business environments. However, there is still a lack of awareness by people from Mexico and Australia of the many opportunities that exist on both sides. There are important complementarities that deserve closer analysis. Nonetheless, trade barriers still present limitations to engagement.

In this era of direct and immediate communication and information, it is truly no longer an excuse to state distance as a reason for not enhancing trade. Countries such as China have understood this and their products are sold in every corner of the world. Transport links are also much faster and much more frequent than they were even a decade ago, though work can be done to enhance this area when two countries become closer through trade.

Language and cultural barriers are truly more in the mind than in reality. Not in vain is Mexico's NAFTA with the United States and Canada such a success story. Mexico is also a multicultural country, thus the understanding of and ability to work with different cultures and languages has never been a barrier. Most Mexican business people speak perfect English, aside from a handful of other languages. Mexico's commitment to the Asia-Pacific region means that many of its business and Government leaders travel very frequently to all countries in the region.

Other trade barriers, however, are still limitations to further enhancing trade between Mexico and Australia. It is paramount for both countries to analyse and get to know each one's sanitary and phytosanitary practices in order to build confidence and allow more trade within the agricultural and animal-farming sectors. Business people from both countries are demanding this. They are indeed interested in buying and selling from each other. Quality control bodies in both countries should realise this and

take measures towards facilitating the will of their business communities, without of course taking any action that might endanger the health of local habitats. Another important factor to take into consideration is the comparative advantage, in agricultural terms, of Mexico and Australia being on opposite hemispheres: the ability to purchase and sell seasonal produce is something farmers and distributors ought to be interested in.

5.- ADMINISTRATION OF PRESIDENT FELIPE CALDERON: FRAMEWORK OF TRADE POLICIES AND PRIORITIES

The Government of President Felipe Calderon is intent on bringing about further growth in Mexico through the passage of important economic reforms, strong support for businesses engaged in international trade and, very importantly, a very active promotion of Foreign Direct Investments into Mexico.

It has already been mentioned that reforms in taxing, pension and judicial systems in Mexico have already been passed. These reforms aim at cutting red tape, modernising the systems and bringing in private-sector knowledge and participation.

President Calderon's priority in terms of foreign policy lies in a very active promotion of trade and investment opportunities. It is through these activities that nations can cooperate and contribute to each other's growth and development. To this end, we enlist two action plans that have been set forth (ProMexico and the National Infrastructure Plan) and seven sectors which are being given priority:

- **ProMexico**

A new Government support body has been created (from the former *Bancomext*, Bank of Foreign Trade) for companies trading internationally, called ProMexico. This agency is in charge of assisting Mexican companies in finding trading partners, seeking out markets, analysing local regulations and providing the company with an integral package with which it can feel safe operating in the international scenario. It is also responsible of partnering with similar organisations and chambers abroad, in order to promote mutual understanding and to offer information on doing business in Mexico. ProMexico has plans to open an office in Sydney before the end of this year.

- **National Infrastructure Plan**

As for FDI, particularly in infrastructure, President Calderon has made this one of the pillars of his current economic program. Recognising that infrastructure must constantly be upgraded and modernised in order for the country to remain competitive and become an international trading

hub, President Calderon launched the National Infrastructure Plan (*see annex II*).

The Plan outlines Mexico's policy toward foreign investments and the way in which the Government has made it easier to participate and invest in a wide range of projects in Mexico. There is a regulatory framework regarding foreign investments and the rights and obligations of foreign investors. Mexico has made it much easier for investors to come to the country, confident that they will find a safe and orderly environment. High yields, comparable with the highest ranking countries in this field, make for added incentives to foreign investors.

The Plan further examines numerous infrastructure creation and/or modernisation projects that are either under way or will be in the coming 2-3 years. Investors can thus make projections, talk to local authorities and make intelligent decisions with enough time and regional knowledge.

- **Investment**

Mexico's strategic location (with certified "just in time" deliveries within North America), its wide network of free trade agreements, its highly qualified and trained work force and its investment-friendly environment are but a few reasons to consider investing there.

The Mexican government has promoted transparency, democratic governance and the enforcement of the rule of law, which has resulted in a stable pro-business environment. Foreign investors benefit from a clear and certain legal framework.

Foreign direct investment (FDI) is of particular importance to Mexico because it serves as a catalyst for economic growth and development. It has enhanced the competitiveness of national enterprises by allowing the transfer of knowledge and technology on a large scale. The resulting increase in technological capacity has been essential in modernizing production and raising the skill level of the labour force.

In addition to enjoying preferential access to the most important world markets, Mexico has implemented a secure legal framework to attract foreign investors. Furthermore, Mexico has negotiated several bilateral investment treaties (BITs) with countries from Latin America, Europe and Asia to attract FDI.

- Average annual inflows of FDI to Mexico tripled from \$3 billion in the 1980s to \$12 billion during the 1990s. As a result, between 1994 and 2005 Mexico was the fourth largest recipient of FDI among emerging economies.

Mexico received over \$172 billion in FDI between 1994 and March 2006. The manufacturing sector was the primary destination for investment, capturing nearly half (49.6%) of the FDI inflows during this period, followed by financial services (20.9%) and the retail and wholesale sector (10.7%).

- **Mining**

Mexico and Australia both share a strong tradition in domestic mining and both are resource rich nations. Australian businesses have recently discovered new opportunities for joint ventures in Mexico and currently companies such as Ausenco (Queensland), Azure Minerals, Bolnisi Gold, Kings Minerals (Queensland) and OZ Minerals have engaged in exploration and mining in Mexico. Other businesses such as PHB Billiton, Kings Minerals NL, Nickel Australia, Resource Trend and WMC Exploration are engaged in a variety of mining projects with Mexico.

However there is tremendous potential for increasing the ties between the two nations in the mining sector. *New figures released by the Fraser Institute placed Mexico in first position in mining potential for the year 2007⁴.* Mexico has 23 large mineral deposit areas, making it one of the 12 largest producers world wide, in at least 18 different minerals.

The similarities that come with having a strong mining sector mean that both Mexico and Australia could benefit from each others specific strengths in the industry. Therefore priority must be given to the renewal of the Memorandum of Understanding of 2002. This would provide a platform through which Mexican companies benefit from technological transfers from Australia's advanced technological sector and Australia companies benefit from expanded access and investment opportunities in Mexico's high yield mineral resources sector.

MEXICO'S SHARE IN WORLD MINING PRODUCTION

Rank	Mineral	% of world production
2	Bismuth	20.7
2	Fluorite	17.4
2	Silver	11.3
3	Celestite	17.0
4	Wollastonite	7.0
5	Barite	3.1
5	Lead	2.7
5	Diatomite	3.8
6	Cadmium	8.0
6	Molybdenum	3.5
6	Zinc	4.0
12	Copper	2.1

⁴ <http://www.presidencia.gob.mx/en/press/?contenido=34826>

- **Agriculture and Agri-Business**

The agricultural sector offers promising opportunities for the strengthening of trade. Mexico has a great variety of soil and climate conditions and as a result produces a wide range of crops. In the irrigated and intensively farmed northwest, yields are twice and labour productivity three times the national average.

Products like mango, avocado and limes, are attractive to the Australian market due to Mexican producer's seasonal advantage. Mexico already exports a vast range of agricultural products to the United States, the European Union and Japan and can offer consumers high quality products. The seasonal differences between the two countries mean that each country could have all year round access to specific types of fruits.

Australian sheep meat and live animals already make up an important part of exports to Mexico and several Mexican states have expressed their interest in increasing imports of these products. However to move forward on this, it will be important to resolve some outstanding issues regarding sanitary controls in agricultural products and livestock. Also non-tariff barriers need to be addressed in order to facilitate and promote greater bilateral trade flows in these products.

During the fifth meeting of the Joint Trade and Investment Commission, Australia and Mexico agreed to create a technical group to follow up the negotiations of sanitary certifications that would allow a greater amount of exports of agricultural products to Australia from Mexico. This group was to be integrated by officials from the Australian Department of Agriculture, Fisheries and Forestry and by officials from the Mexican Ministry for Agriculture, Livestock, Rural Development, Fisheries and Food. However, the first meeting of the technical group is still pending. The work of this joint group is expected to achieve results in the certification of Mexico as free of fruit-fly, the classification of Mexico in the "Category A" as free of Bovine Spongiform Encephalopathy, and the certification of Mexico as a zone free of classic pig fever.

The Northern states of Mexico are interested in exporting high quality fresh fruits, such as plums, melon, watermelon, grapes and citric products to the Australian market. As competitive suppliers of these goods worldwide, Mexican exporters are eager to diversify their exportations and to found further opportunities for trade in new markets.

The Mexican Ministry of Agriculture has sent the latest technical report on the Mexican Hass Avocado, requesting a risk analysis to be conducted by the relevant authorities in Australia. Although it has yet to be addressed

by the authorities, or supported by governmental cooperation, it is an example of an opportunity in which bilateral trade can be increased.

The Joint Experts Group Report states that “in the agricultural and industrial sectors, the study noted the potential for Mexican exporters to establish joint-ventures and to take advantage of the expertise of Australian small and medium enterprises.⁵” The report further notes that Australia has strict quarantine and inspection regimes which affect trade. In this regard, an MOU on joint sanitary and phytosanitary measures would certainly improve trade in this sector.

- **Manufacturing Sector**

The Mexican manufacturing sector is among the most developed in Latin America. Multinational corporations have invested heavily in modern facilities producing motor vehicles, electrical and electronic equipment, and aeronautical manufactures. Major industrial plants in Mexico also include petroleum refineries, foundries, meatpacking plants, paper mills, cotton mills, tobacco-processing plants, and sugar refineries. Other important plants in Mexico produce clothing, fertilizers, chemicals, cement, glass, pottery and leather goods, Mexico’s overall manufacturing output increased at an average rate of 4.2% annually from 1990 to 2004.

Manufacturing accounts for nearly one-fifth of Mexico’s GDP and for about three quarters of exports. It can be said that the manufacturing sector is the mainstay of the Mexican economy. Mexico’s strength in this sector presents an opportunity to Australia, since in recent times a portion of Australia’s manufacturing industry has been shipped off shore (specifically to China). Mexico could provide Australia with an alternative region in which to manufacture goods, giving it key advantages in product variety, offering the products entry to many markets in this dynamic region and protecting it from fluctuations in global exchange rates.

Mexico has already proven to be a world-class automotive manufacturer (the ninth largest in the world) with manufacturers like Toyota, Chevrolet, General Motors, Ford and VW, and auto parts companies such as Delphi and Visteon. Plenty of small and medium enterprises (SME) have successfully developed alongside the larger vehicle-manufacturing base.

There is also an important opportunity for the creation of joint ventures in the auto parts industries. Both countries have strong auto parts industries and both could greatly benefit from joining forces and selling high quality products to countries such as the US, Canada and China. The new and growing markets of China and India and their escalating demand for motor vehicles over the next decades would provide ample market potential for such a joint venture.

⁵ JEG Joint Report, pp. 5

- **Services**

Australia's trade in services with Mexico is, by any comparison, small. In 2007 it totalled 105 million (Aus\$) making up a total share of only 0.3% of Australia's global service trade. Australia exported 36 million (Aus\$) in education related travel to Mexico and 17 million (Aus\$) in business services. During the same period, Australia imported 21 million (Aus\$) in personal travel services excluding education from Mexico and 3 million (Aus\$) in business travel services⁶.

However between 2006 and 2007, total Australian service exports to Mexico grew by 68.7%, while total Australian service imports from Mexico grew by 16.1% between 2006-2007⁷.

The expansion of energy and mining-related services also offers strong potential for future growth. The relationship has grown as Australian companies, in a range of industries (mining services and technology and education and professional services), enjoy success in Mexico. Australian direct investment in Mexico is modest, and concentrated in mining, consolidated services (linked to finance and leasing arrangements) followed by manufacturing⁸.

The JEG Report found that the service industry, being the largest sector in both the Mexican and Australian economies, made for substantial opportunities for future growth in bilateral trade. Technological advances are increasing the types of services which are tradeable across borders, leading to the development of a global services industry in which comparative advantages are still evolving.

- **Food and Beverages**

The sector of beverages has been an important component of bilateral trade in the last years. Exports of beer and tequila to Australia have been increasing constantly, and nowadays this sector represents 11% of the Mexican exports to Australia.

The Mexican Government is committed to promoting the good quality of products that have Mexican certificates of origin, as is the case of tequila. Therefore, it would be convenient to explore further means of collaborating in the recognition by Australia of this appellation of origin. The Embassy of Mexico in Australia has received manifestations of concern from distributors and consumers of tequila regarding beverages of dubious quality being sold in Australia under the name of "Tequila".

⁶ www.dfat.gov.au/geo/fs/mexico.pdf

⁷ www.dfat.gov.au/publications/stats-pubs/downloads/AM_2007.pdf

⁸ www.dfat.gov.au/geo/mexico/mexico_brief.html

There is a great potential to increase bilateral trade in the beverages sector. Mexican consumers are diversifying their preferences for wine. The Australian wine industry is steadily gaining a share of the Mexican market and this sector offers good opportunities for further cooperation.

There is great interest in Mexico for exploring new ways to approach the markets of Asia-Pacific region in order to increase exports of the so-called "traditional goods", such as meat, fruit and fresh vegetables. Nevertheless, Mexican producers are also interested in the marketing of processed foods with high added value. In this regard, they are re-focusing production processes in order to increase the life of the products, their freshness and their ability to access more consumers.

In recent years, Mexican exports of food and beverage to the Asia-Pacific region have grown at an average annual rate of 17%. The former Mexican Bank for Foreign Trade (now called ProMexico, as discussed above) has considered that the Asia-Pacific region will be the most important market destination for these products in the next years. Australia is one of the highest income-per capita countries in the region.

In this area, there is potential for strategic alliances between small firms and leading businesses in the domestic and international markets. There are currently negotiations for joint ventures between Australian and Mexican agricultural producers, particularly in mangoes. Complementarities between Australia and Mexico exist not only in seasonal terms, but also in terms of trade markets and climatic conditions.

Almost all the Mexican territory offers interesting products for investment in food and beverages. The Mexican Bank for Foreign Trade has identified opportunities for foreign investors in the establishment of new processing plants, in the improvement of production processes through new technology, and in the marketing and commercialisation of new products such as Mexican frozen canned or dried food, sauces, organic dairy products, organic spices, goat's cheese, processed and frozen nopal and Aloe Vera, processed and frozen avocado, frozen and dried chillies and honey.

Mexican State Governments are also committed to promoting foreign direct investment in order to increase the competitiveness of the Mexican products in the international market.

- **Education, Science and Technology**

Economic issues only represent one aspect of the overall relationship between Mexico and Australia. In the educational field, the number of Mexican students enrolled in Australian universities is growing strongly. There are currently about thirty cooperation agreements between Mexican and Australian institutions of higher education as a result of which more than 1,500 Mexican nationals are studying in this country. Mexican students are one of the fastest growing groups in New South Wales, Victoria and Queensland. Universities from both countries with cooperation and exchange programs include UNSW with Mexico's National Council for Science and Technology (CONACYT), La Trobe has a Centre for Mexican Studies (financed partly by Mexico's Ministry of Education), and Macquarie University has programs with the Tec de Monterrey and other institutions.

The Institute of Continuing and TESOL (Teaching English to Speakers of Other Languages) Education at the University of Queensland has enjoyed a strong relationship with Mexico. From 2004 to 2006 it was selected as the only provider in Australia to facilitate the Mexican Leadership Program (SEP-Vanguardia). Programs like this one could be expanded to include more Australian and Mexican universities working in tandem to promote mutual understanding through scholarly exchanges.

In 2003 Mexico and Australia signed a Memorandum of Understanding on Cooperation in the Field of Education and Training. Additionally, Mexico has played a very important role in the Peace Scholarship Program, which provides opportunities for Mexican nationals to study in Australia for one or two semesters. Additionally, the program of scholarships *SEP Vanguardia* allows Mexican students to improve their language skills, receive training in leadership and conduct internships in Australian institutions. These programs promote the interaction of diverse cultures through international education opportunities and improve cross-cultural understanding.

Australian students to Mexico amounted to 100 in 2007. As the Spanish language is currently spoken by more than 400 million people around the world (plus more than 40 million in the United States alone), it would be important to encourage that Spanish be included as an elective language at all levels of the Australian education system. This has been brought-up with the Minister of Education at the Federal level and at State levels. Mexico would also welcome more student exchanges between both countries. Mexico's National University has an excellent Institute for Spanish as a Second language (Mexico is the largest Spanish speaking country in the world).

In the sphere of science and technology, Australia and Mexico signed the Basic Agreement on Scientific and Technological Cooperation in 1981 to

strengthen the bilateral relation in this field. According to the agreement, a Joint Commission shall meet every two years alternatively in each country to discuss the program for bilateral cooperation in science and technology. However, the last meeting of the Joint Commission was held in Mexico City in 2000.

Both countries have expressed their interest in reactivating the scientific and technological cooperation through the exchange of scientific and technical information, the reciprocal visits of scientist, the participation in seminars and the implementation of joint projects of research.

Some of the fields identified for possible cooperation include: innovative systems for agriculture; biodiversity, ecosystems and sustainable development; animal biosecurity; exploration and mining, renewable sources of energy as well as water management.

The area of innovative systems for agriculture includes investigation and development in new pesticides and new phytosanitary standards for international trade. It also includes production processes for agricultural products such as the sugar cane and various seeds, as well as the use of its related products.

The Mexican territory comprises several kinds of ecosystems. Currently the Mexican Ministry for Natural Resources is carrying on many programs on biodiversity conservation. More than 160 areas are now protected and are kept as maritime, animal or forestry reserves. CSIRO has an entomology research centre in Veracruz, Mexico, which has contributed to the conservation of Australian ecosystems.

The livestock sector is also an important part of Mexico's current policies on investigation and technology development. In this regard, the Mexican Ministry for Agriculture and the Mexican Confederation on Breeding and Livestock are constantly searching for more innovative production systems and investigations concerning animal health.

Exploration and mining are considered areas where bilateral cooperation can be enhanced. In 2003, Mexico held the first Seminar on Technical Mining in Acapulco, organised within the Memorandum of Understanding in Mining signed in 2001 between the Mexican Ministry for Economy and the Australian Ministry for Industry, Resources and Tourism.

Australia is increasing its participation in the Mexican mining sector. On the other hand, Mexico is interested in technology development and research related to this industry (in areas such as safety and security administration, waste management, etc).

One example of successful bilateral technological cooperation refers to the production of polymer banking notes. In March 2002 Mexico became one of the first nations in the American continent to acquire the Australian technology to produce polymer currency. In 2002 it started printing 20 peso notes and in 2006 produced 50 peso notes. This polymer is produced by Australian firm *Securrency*, who has now signed an agreement with the Bank of Mexico to establish the first polymer plant outside Australia, which is scheduled to begin operations in Mexico during the first semester of 2009.

- **Tourism**

Tourism is an important sector in Mexico's economy. In 2005 Mexico became the 7th most visited country in the world, receiving 22 million international tourists. The tourist sector contributes to 7.7% of Mexico's GDP and to 5.3% of total employment.

Mexico offers a fantastic variety of things to discover. The excitement of sports and adventure, the beauty of its beaches, the mystery of archaeological sites and national parks, the enchantment of colonial cities, the joy of festivals and traditions and a world-class cuisine and arts.

In 2007 almost 30,000 Australians visited Mexico; an increase of 200% compared to 2004. The tourist flow is expected to expand with the signature of the bilateral agreement on air services.

The tourist industry in Mexico offers an attractive opportunity for foreign direct investment and joint ventures. Some current topics that are worth addressing in this sector include a Working Holidays Agreement which is in the final phase of negotiation and the possibility of including Mexico in the Electronic Travel Authority (ETA) visa category.

7.- FINAL REMARKS

Since 2001, the Mexican economy has had positive rates of growth and macroeconomic stability. The current financial crisis affecting many nations will undoubtedly impact Mexico, but this effect will certainly be lessened due to current policies which have reduced inflation and interest rates to record lows and increased per capita income.

President Felipe Calderon and his administration are focused on further strengthening Mexico's economy through international trade and foreign direct investments. To this end, measures have been taken to ensure that the necessary frameworks are put in place through economic reforms and incentives for foreign investors. Tax reductions and fiscal incentives have meant a more robust corporate sector and a more trusting international investment environment.

Mexico has become one of the most open economies in the world. With free trade agreements spanning 44 countries around the globe, manufacturing and investing in Mexico is certain to offer growth and expansion to any company.

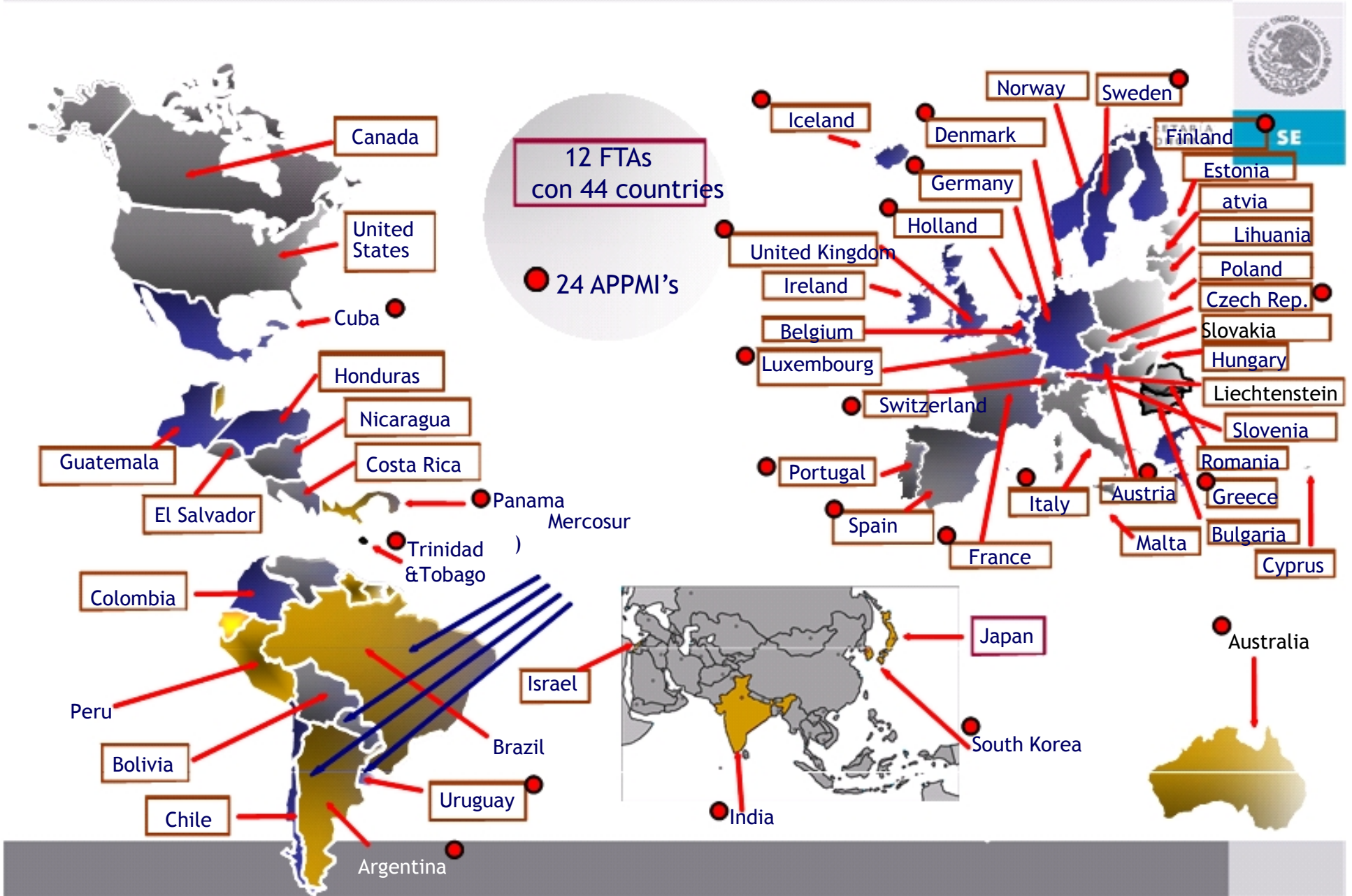
Mexico and Australia enjoy positive trade relations. But there are ample opportunities which the business communities in both countries are unaware of. It thus becomes very important to enable those who wish to succeed in trade and investment ventures to have the most updated information about each other. It is for this reason that the Embassy of Mexico strongly encourages creating more awareness of the opportunities that each country offers through increased visits by high-level government representatives, business delegations and an enhanced parliamentary diplomacy. It has also been noted that there is an increasing interest at the State level to enhance business activities with Mexico and the Embassy certainly supports all these endeavours.

Once our government and business leaders obtain a deeper knowledge of each other and of the great opportunities that exist in trade and investment, old stereotypes will give way to a sense of trust, partnership and indeed, much higher yields for both sides.

The Foreign Policy of Mexico, under the current administration of President Calderon, gives high priority to fostering relations with the Asia Pacific region in general and especially with Australia. In order to support this policy, a Consulate General of Mexico will open in Sydney during the coming months.

Annex 1

Countries with which Mexico has signed Free Trade Agreements and Agreements for the Promotion and Protection of Mutual Investments



National Infrastructure Plan 2007-2012



Investment and Trade

Opportunities in infrastructure

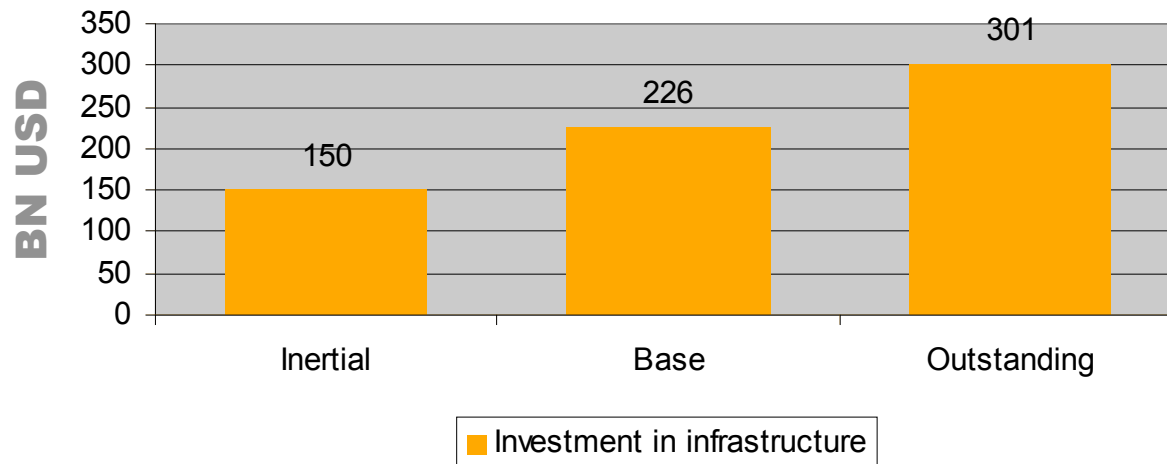
- The President of Mexico has announced the National Infrastructure Program 2007-2012 .
- It gives a clear view into our infrastructure strategies for the future.
- It underlines specific projects in highways, railroads, ports, airports, telecommunications, energy and water supply among others.
- This will create an unrivaled infrastructure platform in Latin America which will raise the quality of life in Mexico, as well as important business opportunities for our partners.



Opportunities in infrastructure

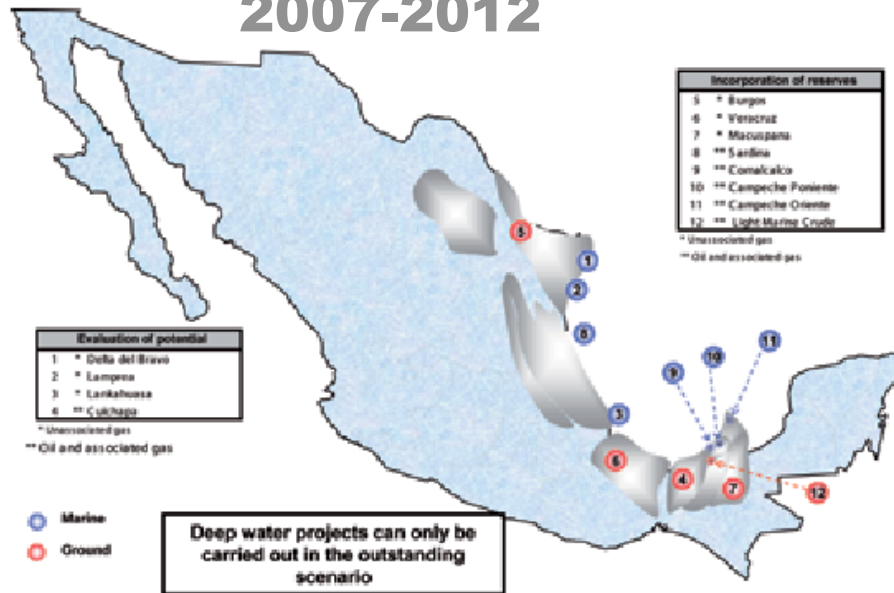
Scenario	Percentage of GDP	Investment in infrastructure	Jobs generated
Inertial	2.50%	150 BN USD	0
Base	4.00%	226 BN USD	720 thousand
Outstanding	5.50%	301 BN USD	1,440 thousand

Investment in infrastructure



Opportunities in oil and gas production: \$73 BN USD

Exploration projects 2007-2012



Production projects 2007-2012



Achieve oil production of 2.5 million barrels per day, and maintain production of natural gas of 5 million cu. ft. per day.

Opportunities in refinery, gas and petrochemicals: \$34 BN USD

Refinery projects 2007-2012



Transport and storage of oil 2012



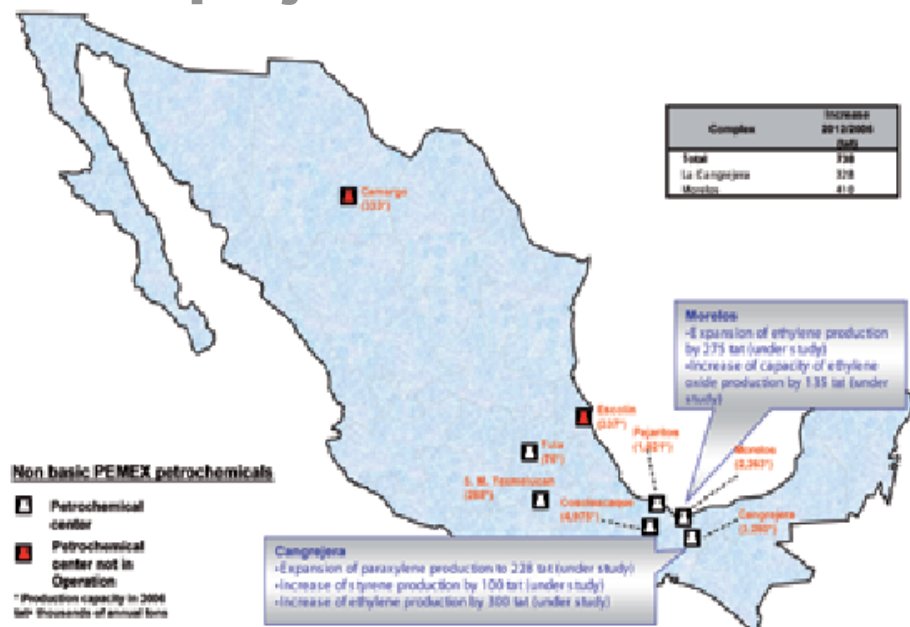
Process 1.4 million barrels per day by 2012; build 800 km of pipelines for natural gas transport.

Opportunities in refinery, gas and petrochemicals: \$34 BN USD

Gas processing and transport 2012

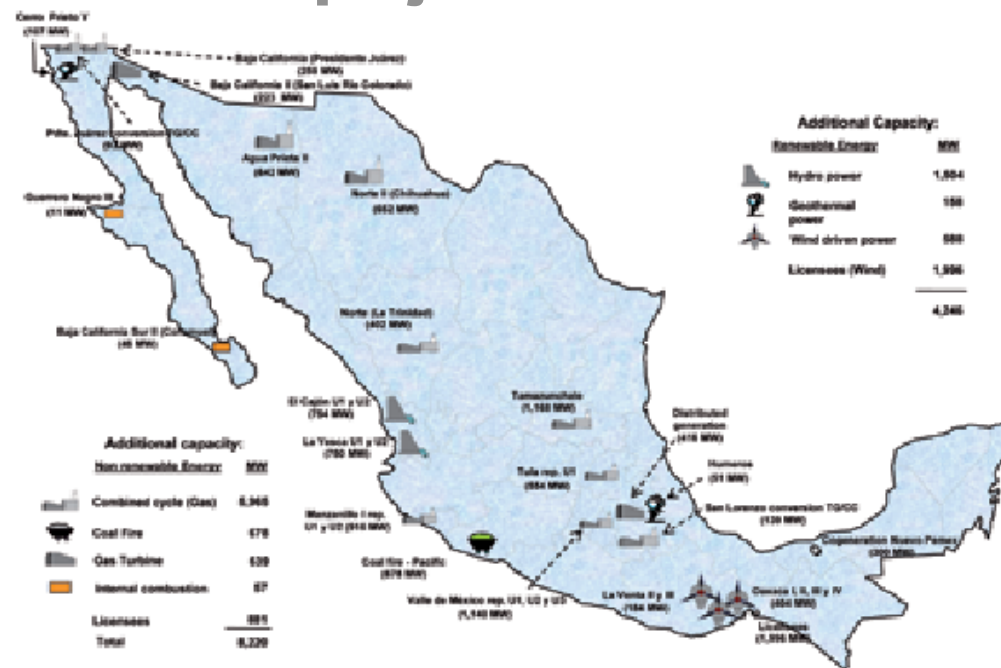


PEMEX petrochemical projects 2007-2012



Opportunities in electricity: \$34 BN USD

Main projects 2007-2012



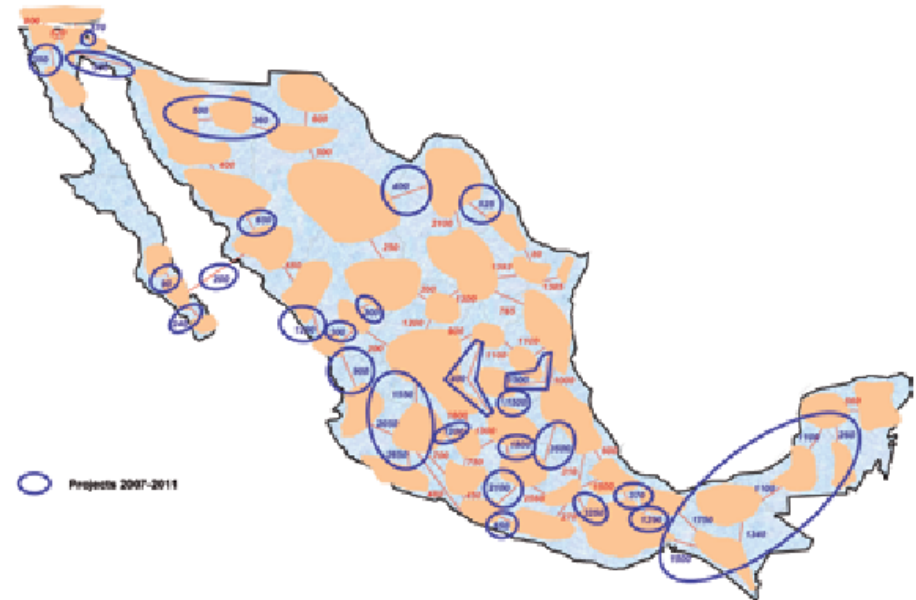
Increase generation capacity by 9,000 megawatts, plus achieve electricity coverage to 97.5% of the population.

Opportunities in electricity: \$34 BN USD

Transmission network 2006

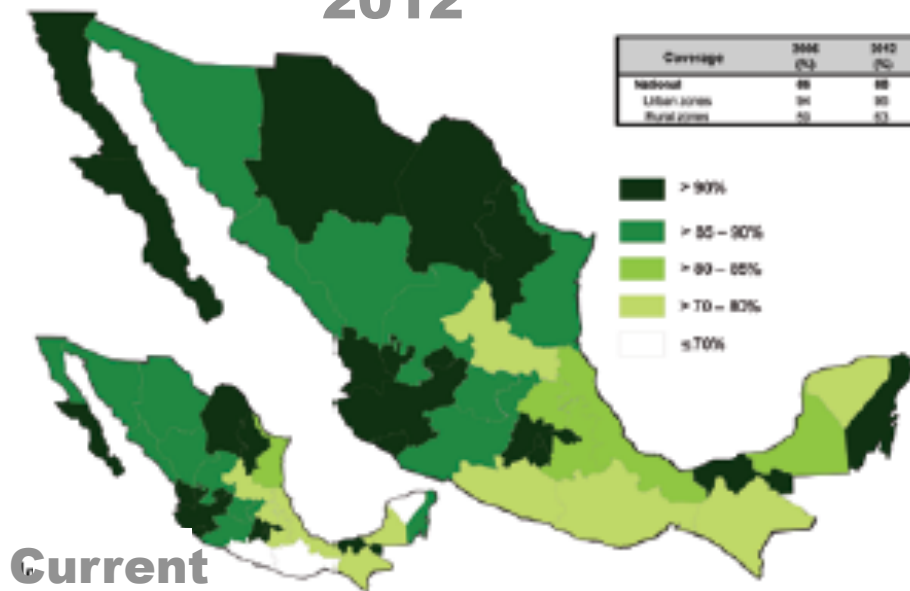


Transmission network 2012

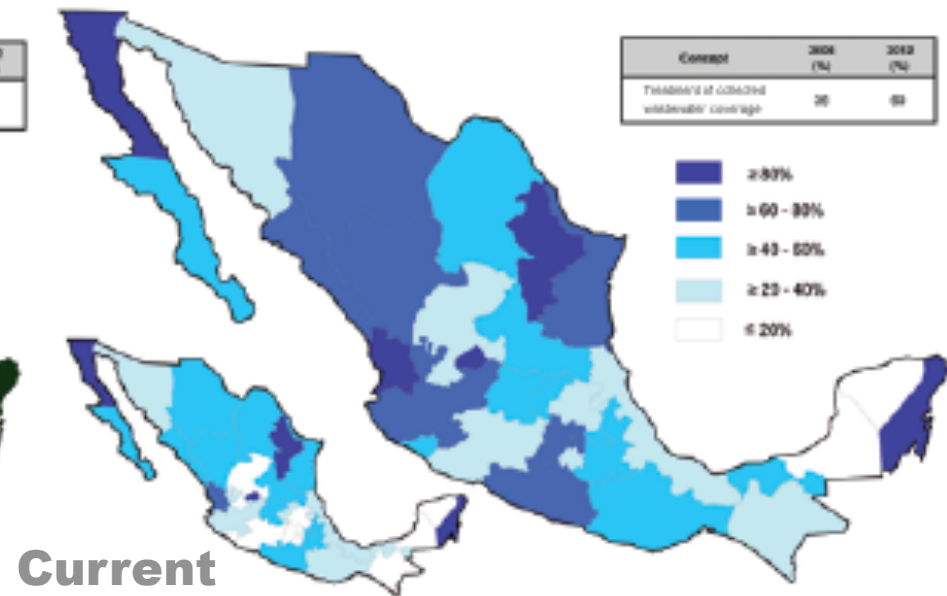


Opportunities in water supply and sanitation: \$14 BN USD

Sewerage coverage 2012



Wastewater treatment 2012



Increase sewerage coverage to 88% and wastewater treatment to 60% of collected water.

Opportunities in irrigation and flood control: \$4 BN USD

Main projects 2007-2012



Modernize 1.2 million, plus 160,000 new hectares of irrigatable land. Protect 6 million inhabitants against floods.

Opportunities in highways: \$26 BN USD

Mexico 2006



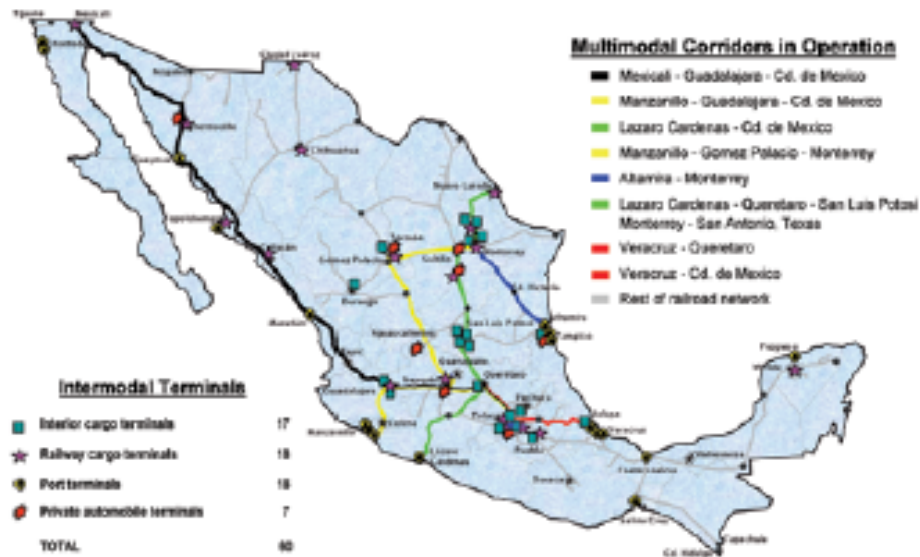
Mexico 2012



Construction and modernization of 12,300 kms.

Opportunities in railroads: \$4 BN USD

Mexico 2006



Mexico 2012



Build 1,418 kms of railroads, develop 10 multimodal corridors including 12 intermodal cargo terminals.

Opportunities in ports: \$6 BN USD

Mexico 2006



Mexico 2012



Build 5 new ports, and expand or modernize 22 more; increase container management from 4 to 7 million TEUS and build 13 cruise ship docks.

Opportunities in airports: \$5 BN USD

Mexico 2006

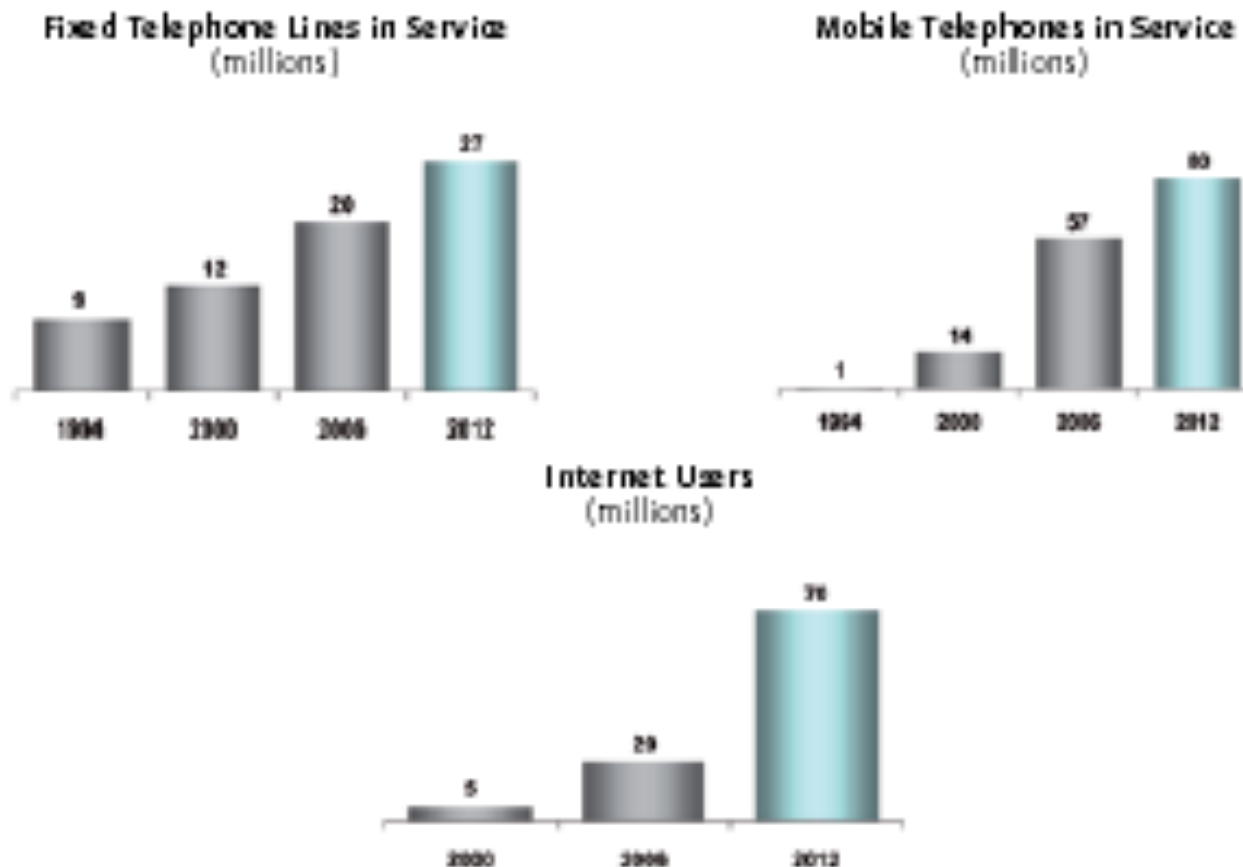


Mexico 2012



Build 3 new airports and expand another 31; 50% of airports offer world class service.

Opportunities in telecom: \$25 BN USD



Achieve 24 and 75 million users of fixed and mobile line coverage respectively, and also 70 million internet users.

National Infrastructure Program Summary Billions of USD

Sector	Public resources	Private resources	Total
Highways	15	11	26
Railroads	2	2	4
Ports	1	5	6
Airports	3	2	5
Telecommunications	2	23	25
Water supply and sanitation	10	4	14
Irrigation and flood control	3	1	4
Electricity			34
Oil and gas production			73
Refinery, gas and petrochemicals			34
Total			226

Opportunities in real state developement for 2nd homes



1. There are currently more than 1 million americans living in Mexico.*
2. Between 500,000 and 1,500,000 homes in our country are owned by americans. **
3. There are 78.2 million Baby Boomers in the US who are in their retirement process.***
4. This market has a disposable income of more than 2 trillion USD, and their savings account for much more, they are expected to spend more than 80 billion USD in vacation or retirement homes.****
5. This also brings opportunities for investment in infrastructure, medical, tourism services among others.

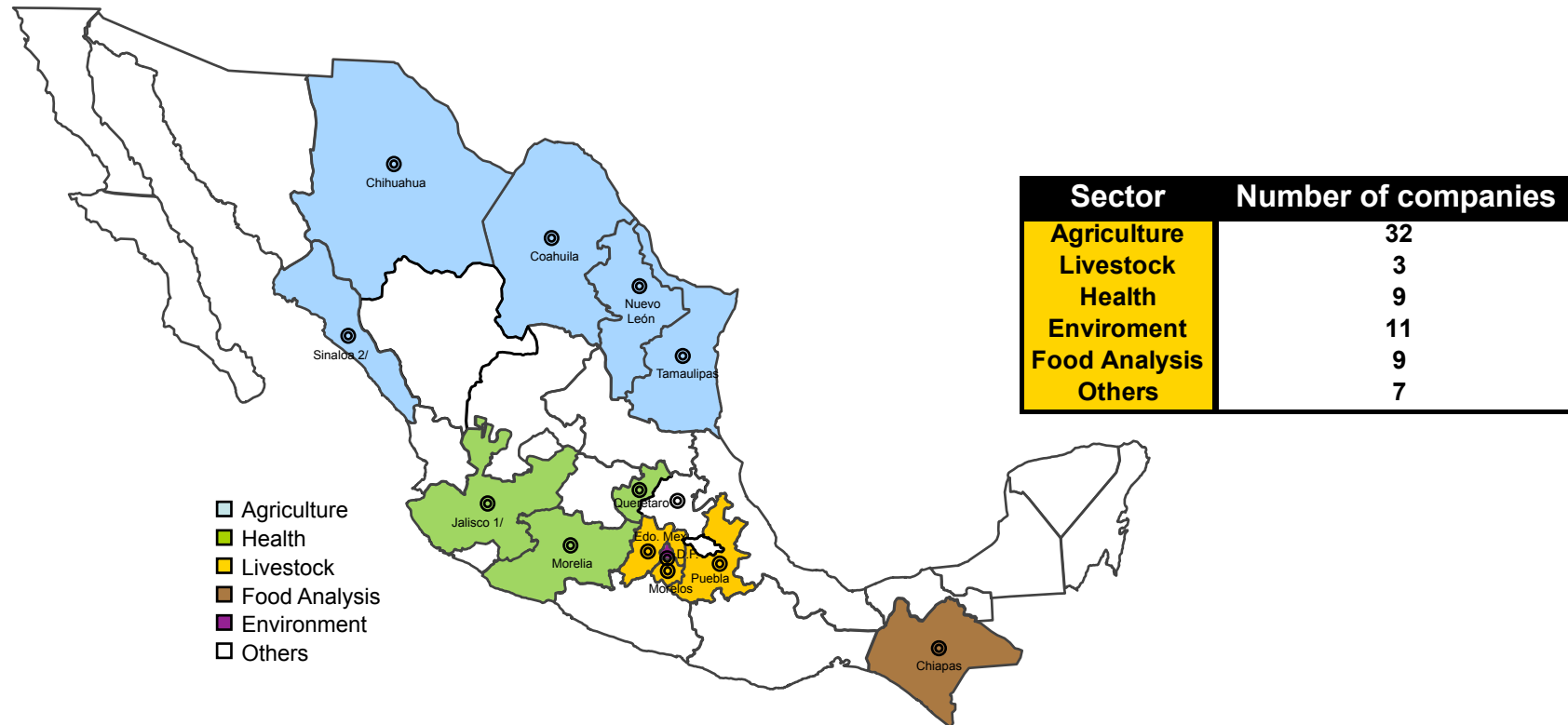
*US Department of State

**National Association of Realtors

*** US Census Bureau

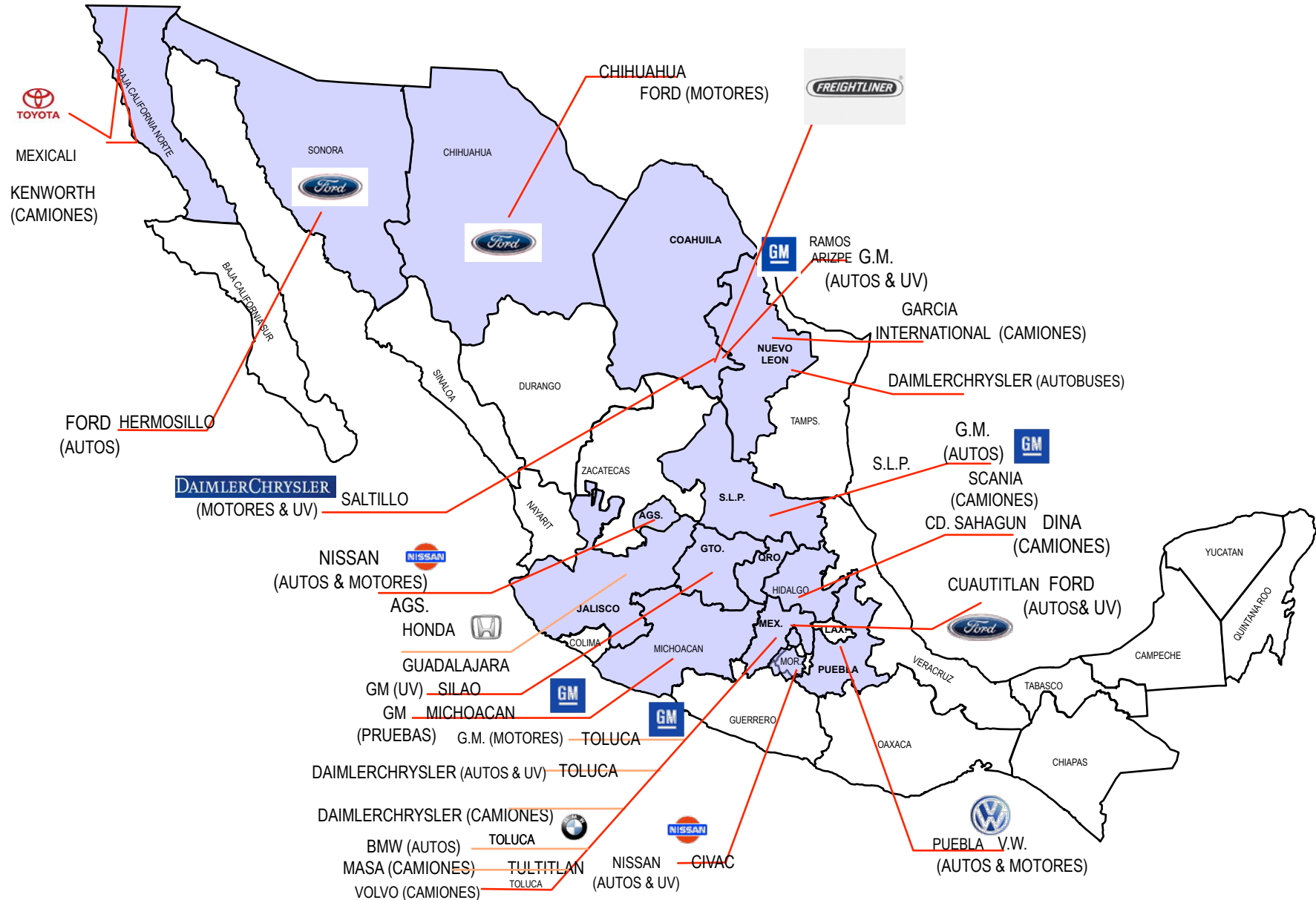
**** Matlock Michelle "Who's buying second homes"

Opportunities in biotech



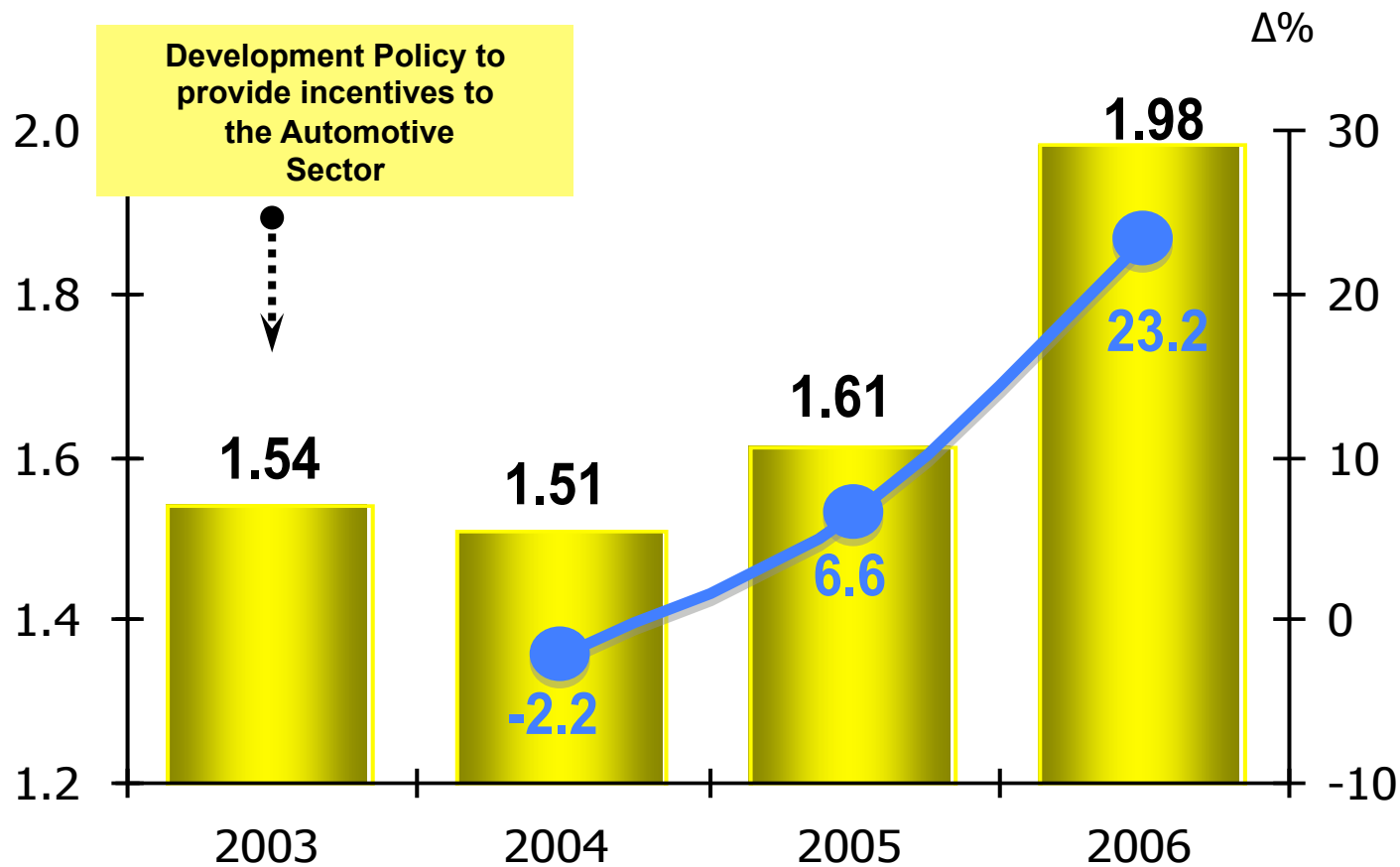
There are currently 71 biotech enterprises in our country that are working in such diverse endeavours such as corn hybrids developement, specific cancers treatment r&d and active proteic elements gathering, among several others.

Automotive final assembly location map



Automotive industry in Mexico

Automotive production
Millions of units and anual growth
2003-2006

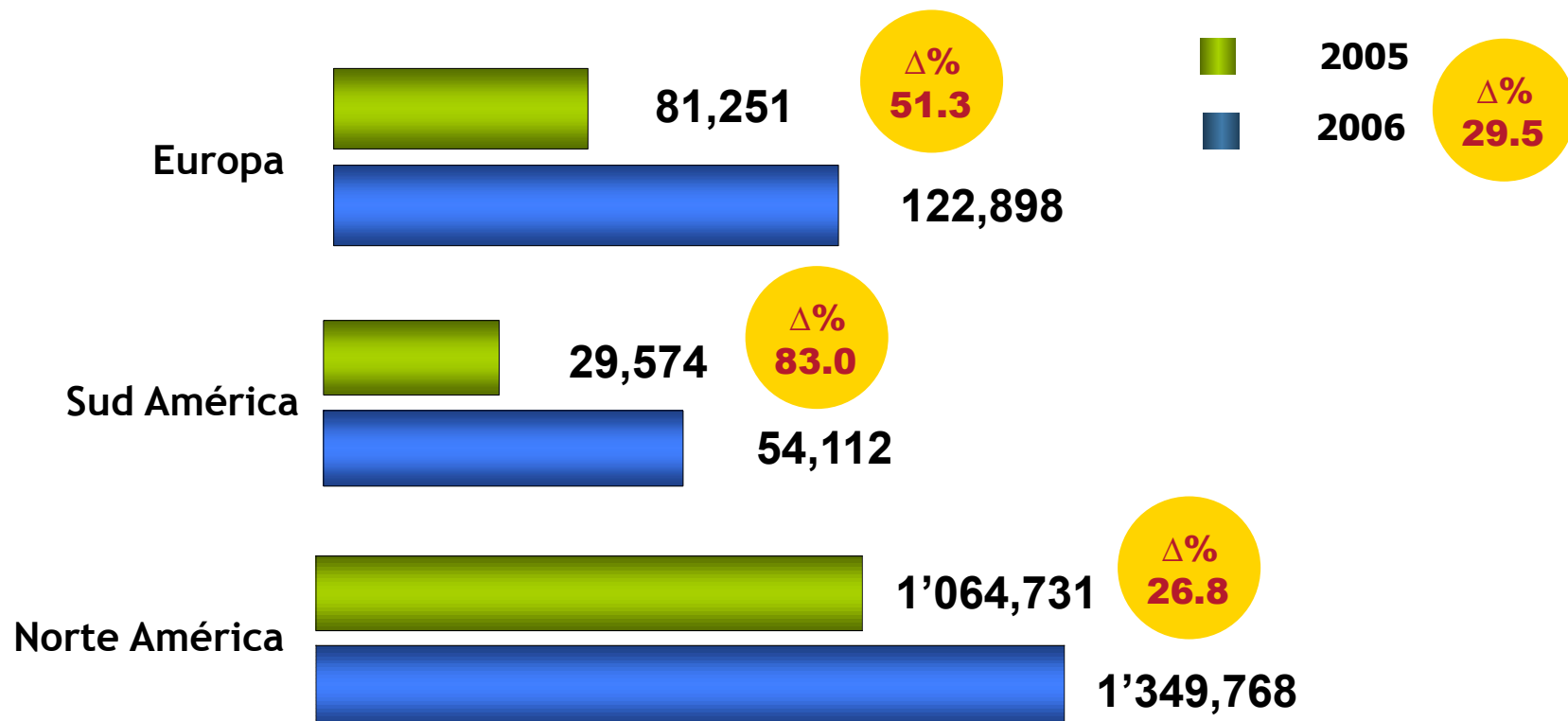


Fuente: AMIA

 Vehículos

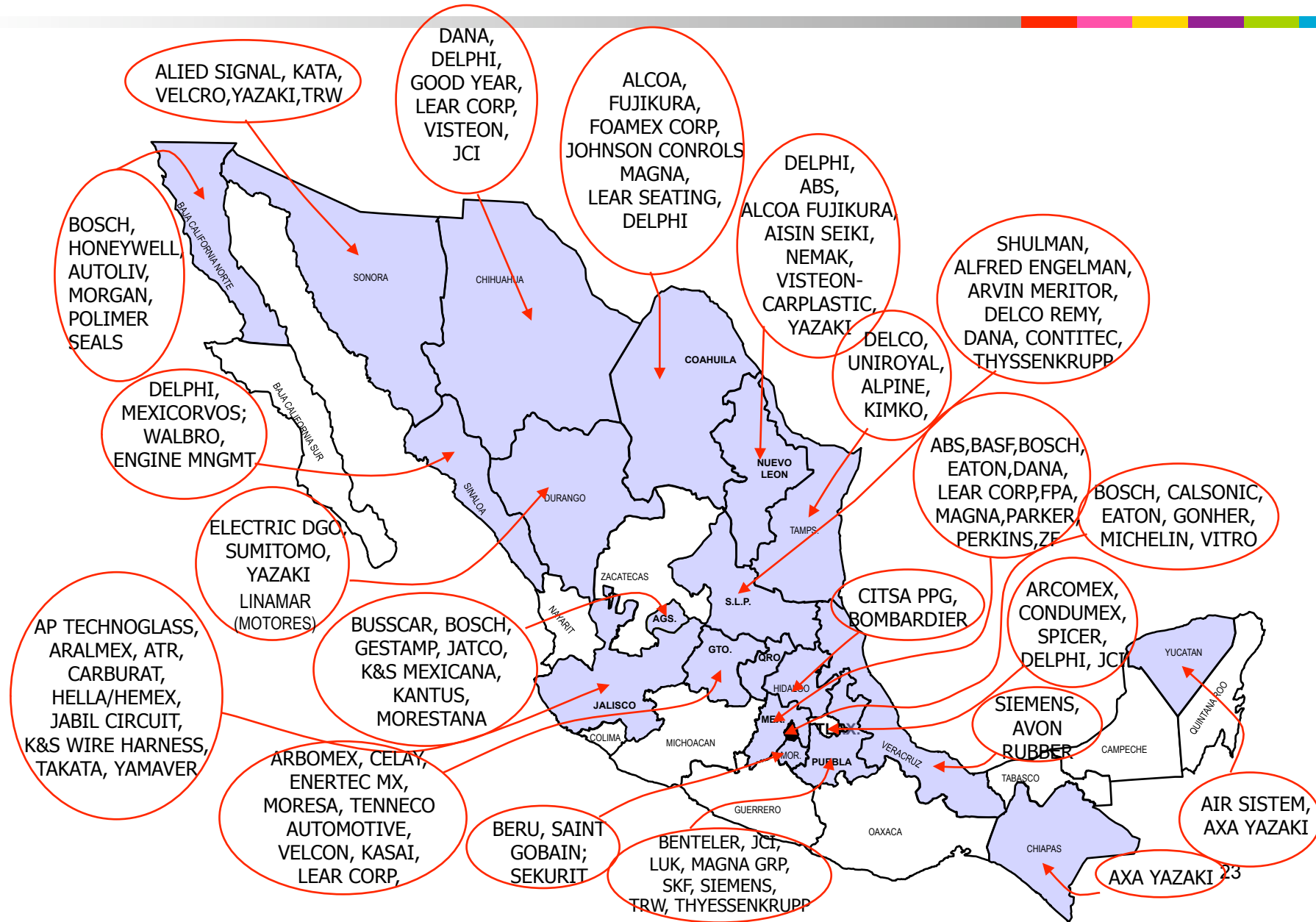
 Crecimiento Anual

Exports of Vehicles by destination 2005 - 2006 Units



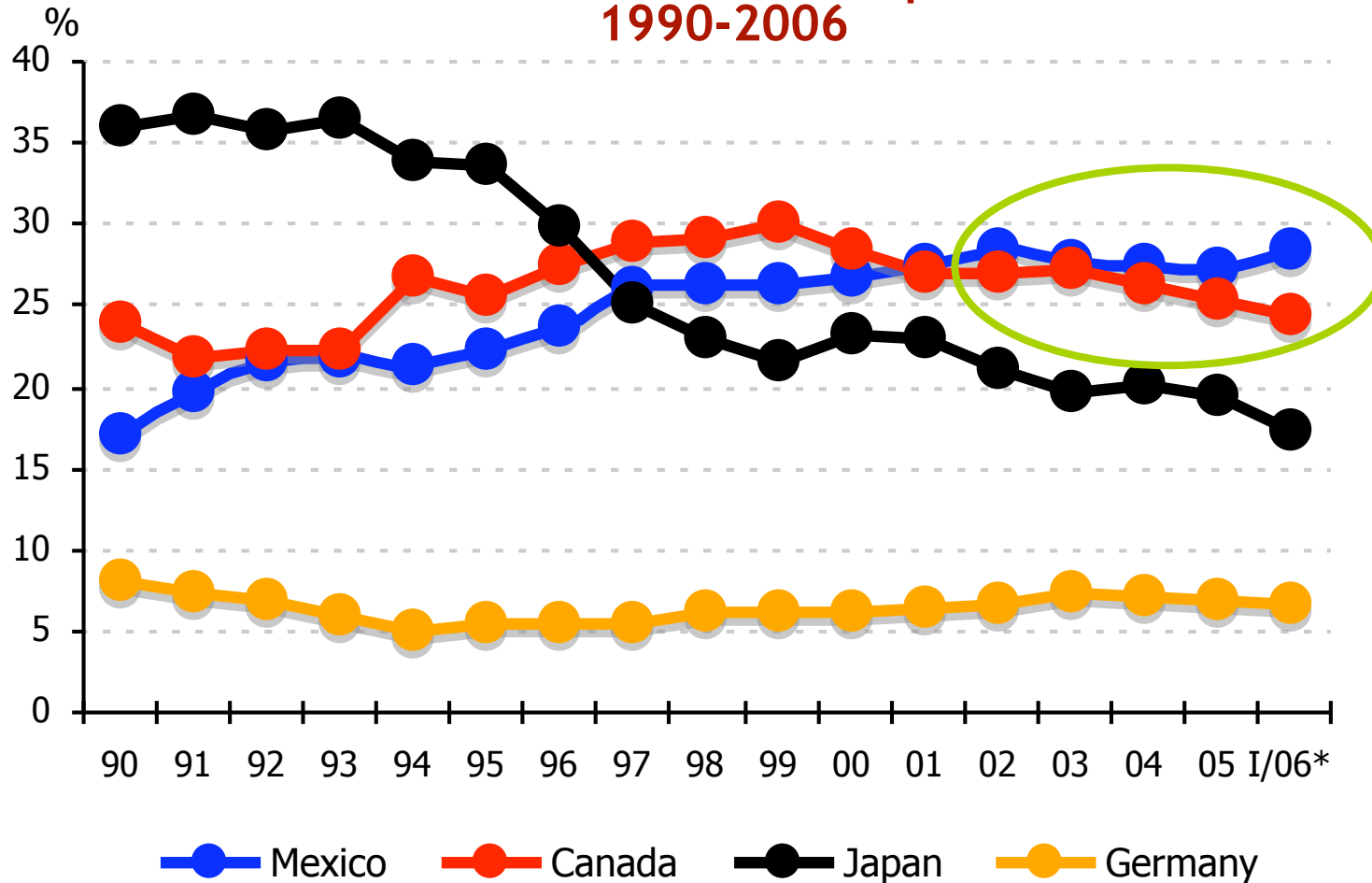
Fuente: AMIA.

Auto Parts location map



...Mexico is the first supplier of auto parts into the US market

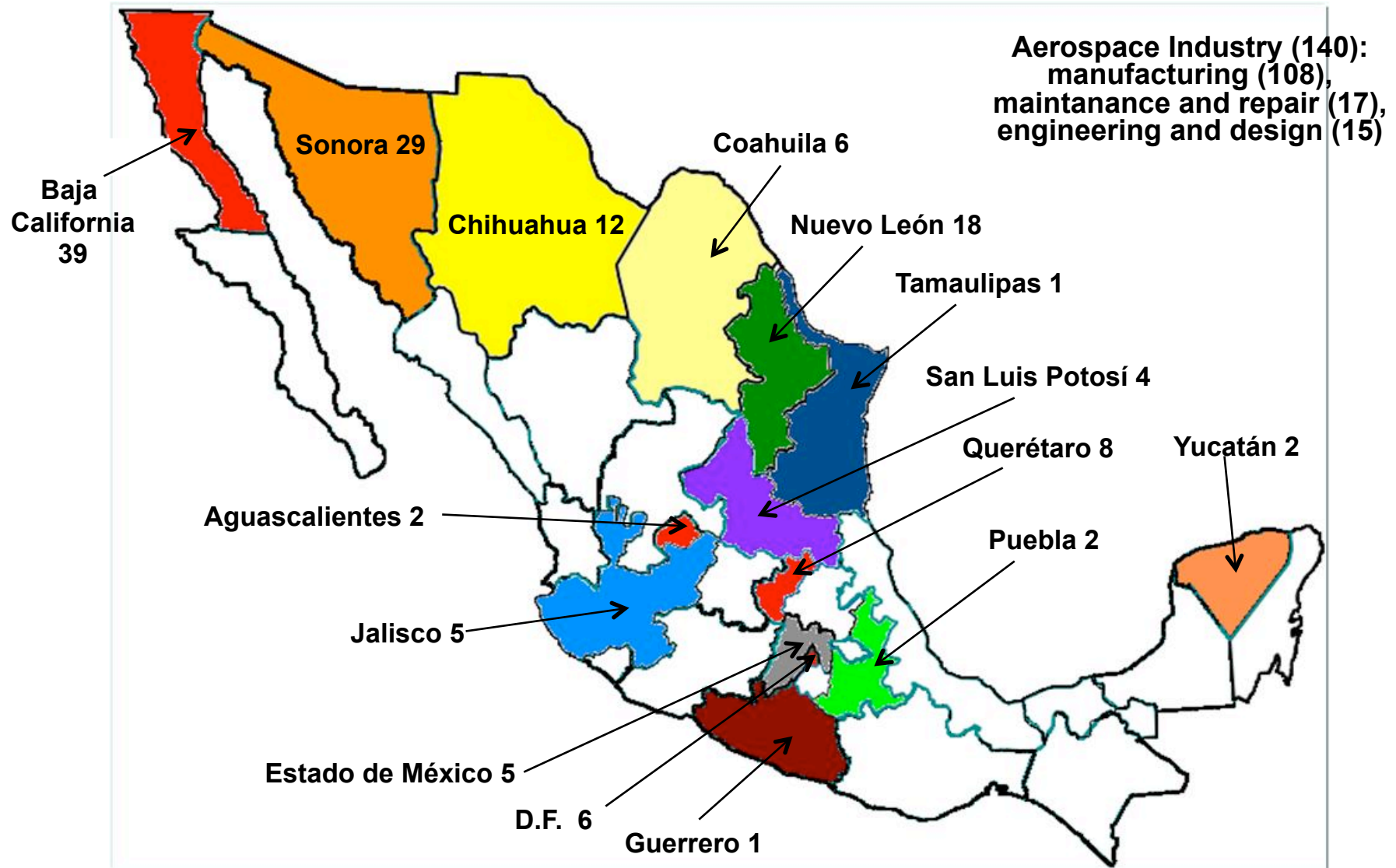
**USA Motor Vehicle Parts Imports share
1990-2006**



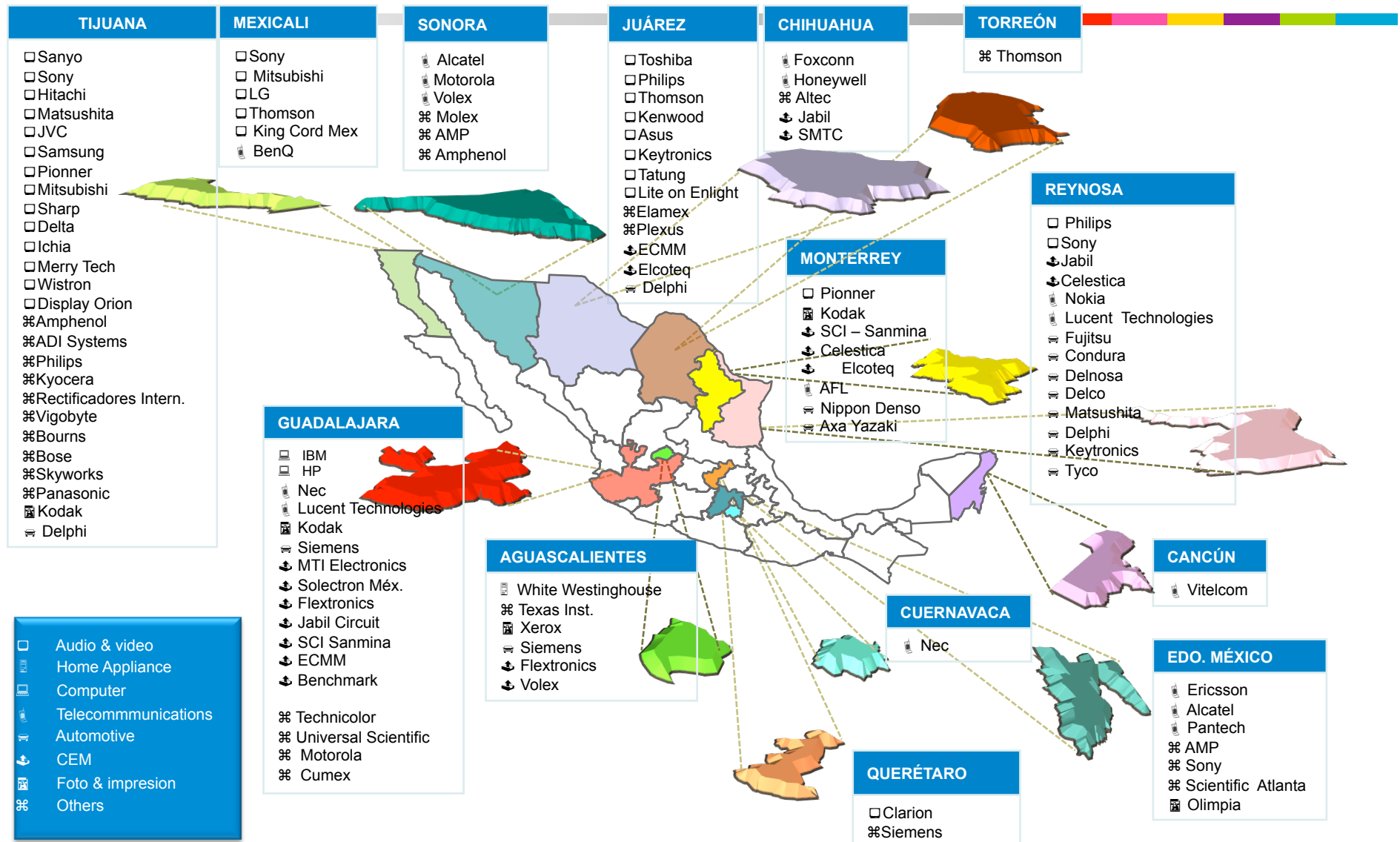
* First Semester 2006

Source: Trade Stats Express. National Trade Data.

Geographic Location of Aerospace Industry



Geographic Location of Electronics Industry



Examples of electronic products assembled in Mexico

Telecommunications

- Microwave Receptions Apparatus
- Switching Equipment
- Telephone Sets
- Cellular Phones
- Radio Equipment
- Switching Transmission Equipment
- Modems



Audio & Video

- Television Sets (LCD, PDP, DLP, LCOS, CRT)
- Set Top Boxes
- Home Theaters
- Chassis
- Multifunction Equipment



Commercial And Office Equipment

- Photocopy Machines
- Electronic Transmission
- Security Systems
- Electronic Switches
- Automatic Control Apparatus



Computer equipment

- PCs
- Storage Unit
- CPUs
- Laptops
- Desktops
- Servers
- Multifunction Printers
- LCD Monitors
- Scanners



Home appliance products

- Side by Side refrigerators
- Front Load Washing Machines
- Digital Stoves
- Microwave Ovens
- Digital Fans
- Air Conditioners
- Waters Heaters
- Iron Machines



Parts & Components

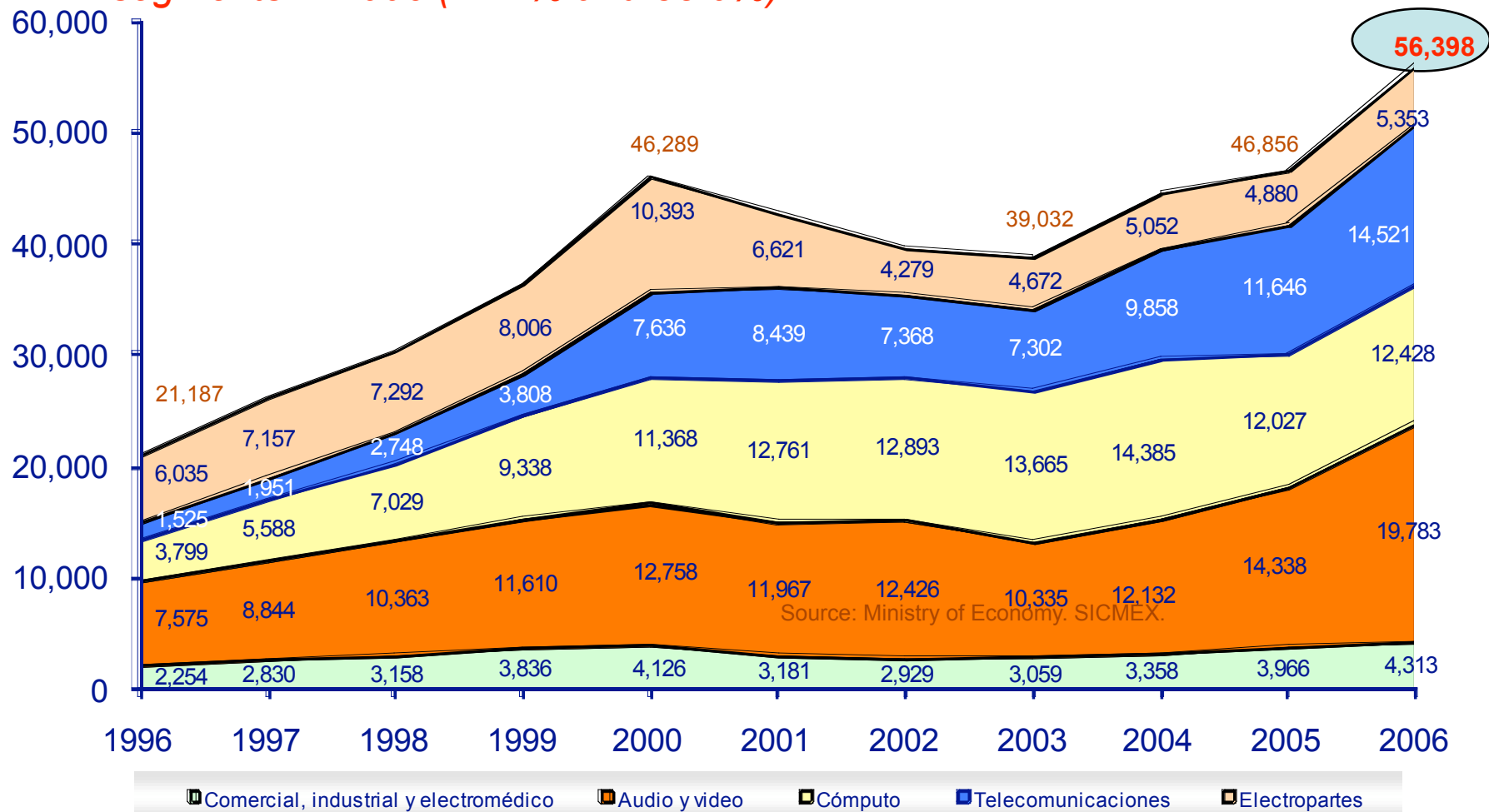
- Electronic Boards
- Power Sources
- Cathode Ray Tubes
- Tunners
- Fly Backs
- Digital Integrated Circuit
- Capacitors
- Connectors
- Cabinets
- Harnesses & Wires



Exports of Electronic, electric and home appliances products

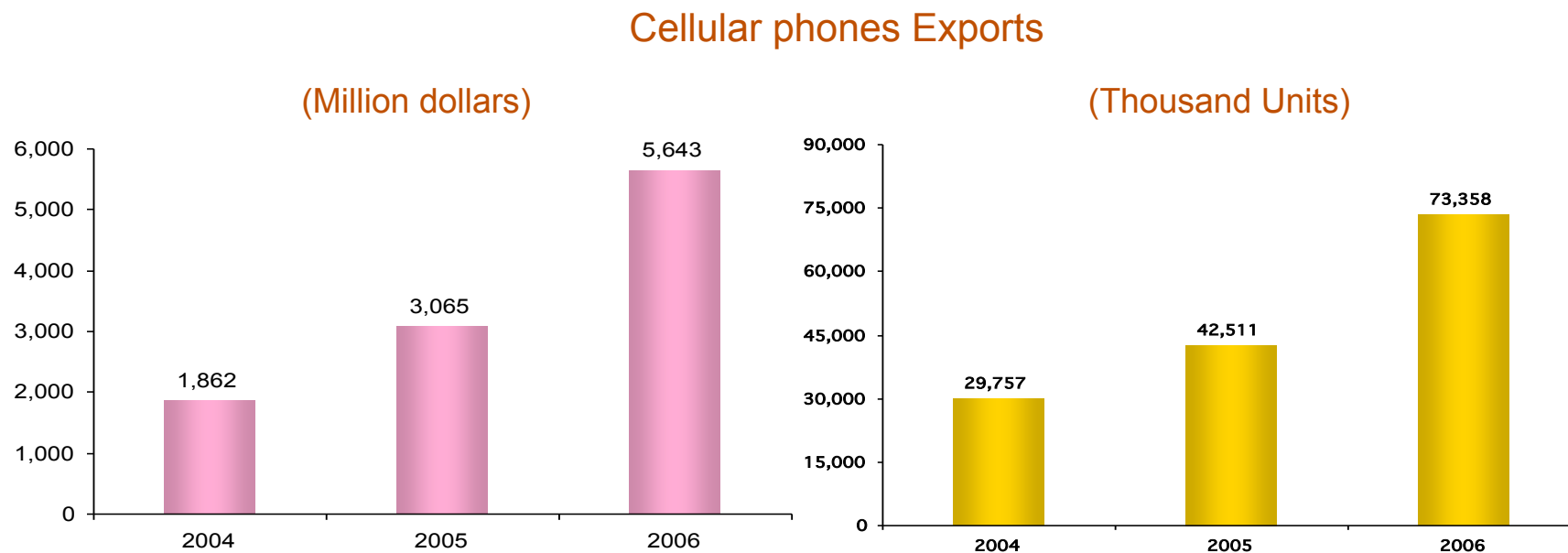
Millions of dollars

➔ In 2006 exports of this sector experienced 20.4% growth. Telecommunications and audio & video were the most dynamic electronics segments in 2006 (24.7% and 38.0%).



An example: mobile phones exports

- ➔ Total value of cell phones exported almost tripled during last two years.
- ➔ Mexico exported 73 million cell phones in 2006.



Source: Ministry of Economy. DGIPAT.

Mexican IT&SW Industry 2003-2006e

Years	Annual Production MDD	Annual Growth	Exports MDD
2003	1,880.0	3.0%	50.0
2004	1,926.0	7.0%	105.0
2005	2,130.0	10.7%	300.0
2006	2,375.0	11.4%	500.0

MDD = Million Dollars
Source: Ministry of Economy

Professional services is a growing industry in Mexico. World class companies are setting BPO in Mexico...we are ready to support these activities!



Thank You!!!