BUDAPEST BUSINESS SCHOOL
FACULTY OF INTERNATIONAL MANAGEMENT AND BUSINESS
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Mode of study: full time

„GLOBAL VALUE CHAINS, FOREIGN TRADE AND FOREIGN DIRECT INVESTMENT – MEXICO CASE STUDY”

Internal advisor: Imre Birizdó

By Eduardo López Patiño

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INTRODUCTION

It is well-known that Mexico is an immense recipient country with a large amount of Foreign Direct Investment, its role in Global value Chains is fundamental for neighboring countries, hence, this country's activities account for an important part of the revenue obtained from exports, with the finality of boosting the economy. Although, the fact that it is heavily dependent with its northern neighbor United States might result controversial.

It is relevant to understand the importance of Mexico in the selected areas, and how they affect the economy. Also, to analyze those factors that might affect its economic activities, so as the possible threats and to identify the reasons throughout time that have helped developing the economy. The following research seeks to evaluate the development of Mexico in Global value chains, foreign trade and foreign direct investment, analyzing its evolution through time in order to identify the sectors that have contributed more to its progression, its importance to the economy and what kind of transformation has been present.

Problem statement

The alliance that brought the agreement that was enacted in 1994, NAFTA, resulted in a beneficial integration for all parties, due to the fact that trade liberalization spurred the economy and attracted FDI to Mexico. Moreover, there was creation of jobs and increment of exports in sectors such as agriculture and manufactures (Chatzky, McBride, & Aly Sergie, 2020). However, it is known that Mexico's number one trade partner is its northern neighbor, with a share of almost 77.85% of the total exports (World Bank, 2020). This shows a high degree of exposure to possible rise on tariffs, as the previous president from USA threatened with. Hence, although it might not be easy and it would take time, identifying the opportunities that diversification would bring for this country may be a good option.

The present research seeks to find an answer to the questions below:

1. What does it mean for Mexican international trade and foreign investment to be heavily dependent on a country like United States?

2. What is the importance of Mexico in Global Value Chains?

3. What are the key sectors of the economy that play an important role in Mexico's exports?

4. How convenient it is for foreigners to invest money in Mexico?

Objectives

The long term objective of the current research is to understand the actual role of Mexico in global value chains, foreign trade and foreign direct investment, so as to identify what are the strongest sectors in the economy that are causing more benefits, which ones are in need of more attention, or what are the ones in which they have to be specialized; Also, to analyze the current relations with United States, what are the benefits or disadvantages for the local economy, and what are the opportunities of diversifying trade relations with other countries; All this, with the finality of creating a detailed body of knowledge that will showcase the advantages of becoming an investor in this country.

Literature review

Mexico is a member of the OECD, this means that relevant and accurate information is possible to obtain from there. For example, in 2014 and in value added-terms, the exports of the country accounted for 20% of total GDP, which was one of the highest values recorded in that period. However, comparing it with OECD countries, it is below the median of 30%. Moreover, in those exports there is a high content of domestic value added. (OECD, 2017).

Graphical location, market size, level of development, industrial structure, among others, can be considered as the determinants of participation in global value chains. When it comes to policy determinants, it is possible to mention low import tariffs, engagement in preferential trade agreements and openness to inward FDI. Mexico´s backward integration is high and over-performing; the non-policy determinants are also high and can be explained by Mexico´s proximity with United States. (Dougherty & Reynaud, 2017).

This country´s openness to FDI comprises the vast majority of economic sectors and can be considered as one of the biggest developing economies recipients of foreign direct investment. Due to the proximity with the United States and preferential access to its market, plus the skilled and cheap labor force and several other factors Mexico has to offer, makes it an attractive country for foreign investors. (U.S. Department of State, 2021).

For Mexico, USA is one of the biggest contributors to FDI. As it is stated by the Mexicans´ Secretariat of Economy, comparing the total of FDI flows in 2020 that accounted for a total of $29.1 USD billion represented a decrease of 14.7% in comparison with the previous year. Nevertheless, the secretariat appointed to the pandemic´s negative effects on global economic activity as the principal cause of decrease. Moreover, share of new investments in 2020 was 20% (6.4 billion dollars), that accounts approximately to just half of the investment summed for the country during the previous year, and 55.4% came from reinvestments, whereas 24% from parent companies. The sectors that receive larger quantity of FDI are: automotive, telecommunications, financial services, electronics and aerospace. (U.S. Department of State, 2021).

The location where the largest amount of investment contributed by foreign investors is located on the northern states near the border with United States, where most of the assembly and manufacturing factories are based, also in the area of “el Bajio”, that is the region around Guanajuato and Queretaro, and also in Mexico City. Commonly, investors do not pay attention to the southern states. However, the administration is putting efforts on developing immense projects that will contribute for a better infrastructure such as: Dos Bocas refinery, the Maya Train and trans-isthmus rail project, this with the objective of attracting foreign capital to that area in the country. (U.S. Department of State, 2021).

Methodology

The present research project will adopt a literature review approach obtained from online sources, and it will be based on analysis from previous investigations, and relevant statistical data, in order to elaborate a proper comparison throughout selected periods of time and evaluate the impact from several historic events that might have caused a different development of the country´s economy.

General overview of Mexico

This country has a population of 128.9 million people, from which 25.8 million are under 15 years old, and 7.8 million above 65 years old; the population density per square kilometer is 66.3; life expectancy at birth accounts for 75.1, for men is 72.2, whereas for women is 77.9; it is important to mention that political presidencial elections take place every 6 years, and the last general election was in July 208. The gross domestic product in current prices is 1,095.4 (billion USD) or 23,357.4 (billion MXN); the main sectors with higher value added are: services with 64.2%, industry that includes construction with 31.7% and agriculture, forestry and fishing with 4.1%. The gross financial debt compared to the average of OECD countries (108.9% of GDP), is relatively low with 61% of GDP and net financial debt 52.4% of GDP, in comparison with the average of OECD countries (68.% of GDP) is also lower. (OECD, 2022)

When we talk about foreign trade, Mexico´s main exports of services and goods (39.6% of Gross Domestic Product) are larger than the imports of services and also goods (37.6% of Gross Domestic Product). However, comparing it with the average numbers of OECD, exports account for 50.6% of GDP and 47.2% of GDP. There is a disparity with the percentage of total merchandize in exports: transport equipment and machinery have the largest percentage with 59.9%, and the second largest share is considerably lower than the first one, which is 9.3% and corresponds to food and live animals and miscellaneous manufactured articles represent 71.1%; and remaining shares of total merchandize in imported products is similar: transport equipment and machinery account for 46%, manufactured products 12.2% leaving chemicals and related products with 11.1%, which also shows a larger share comparing the main type of imported products with the others. (OECD, 2022)

People from 15 years old are considered to be apt to work; this is why the employment rate is measured from 15 years and over. An indicator that is high, and hence, might result attractive for investors is the average hours worked per year, with 2,124 and 1,687 for the OECD average; the unemployment rate is 4.5%, and for those who are considered as youth people (from 15 to 24 years old) is 7.2%, whereas only 0.1% accounts for the long-term unemployment, which is categorized with such name after not having a job for more than one year; the tertiary education attainment for people aged 25 to 64 is 19.4%; however, the share of GDP spent on research and development is considerably low (0.3%) in comparison with the OECD average (2.6%). (OECD, 2022)

Nevertheless, the most worrying indicators are regarding the society. According to the most recent data available from 2018, Mexico scored 0.418 in the Gini coefficient, which shows the degree of income inequality, comparing it to the OECD average (0.317). Such coefficient shows that, when the number is closer to cero everybody is equal, and the closer to number one means that all the country´s income is earned by one single person; also, the relative poverty rate pointed out that 15.9 % of the population were in that situation; the median disposable household income was considerably low (6.4 thousand USD Purchase Power Parity in 2018) in comparison with the OECD average (25.4 thousand USD Purchase Power Parity in 2018); the public spending measured as a percentage of GDP in 2019 showed also the gap that is present with Mexico in comparison with the OECD average, being 6.2% and 8.8% for health care and 3.1% and 8.6% respectively; when it comes to education outcomes, the measurement utilized was the PISA score, which assesses the ability of 15-year-old people to utilize their mathematics, science knowledge and reading skills with the objective of addressing challenges that are possible to be encountered in real life (Organization for Economic Co-operation and Development, 2022). In reading (420 points), mathematics (409 pints) and science (419 points) the score was well above the average of 485, 487 and 487 points respectively; however, the share of women in parliament presented an astonishing 48.2%, being well above the average of 31.5% in OECD countries. (OECD, 2022)

GLOBAL VALUE CHAINS IN MEXICO

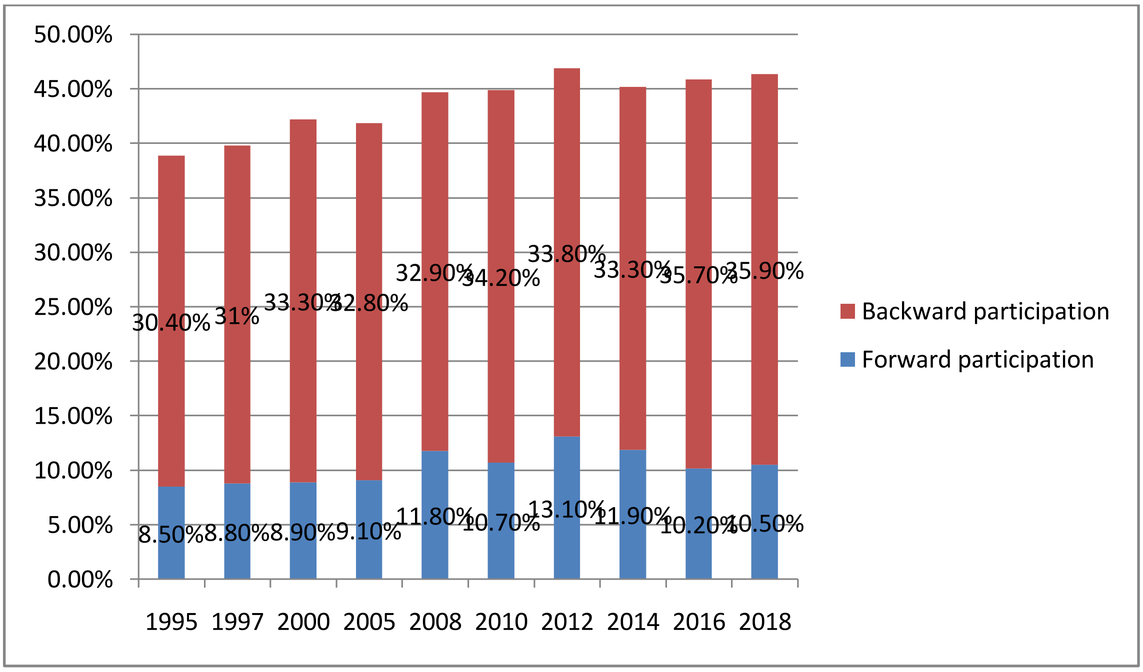
First of all, in order to understand the global value chains in Mexico, it results of extremely importance to know this definition. The different stages of production processes are being carried out in different locations, mostly in different countries, and it is also relevant to mention that investment, trades and international production are organized within global value chains, or as understood by its acronym, GVC´s. The phenomenon called globalization played an important role in this, due to the fact that it encourages companies to set up a different structure of their operations internationally by making use of outsourcing and offshoring activities. (OECD, 2021).

When we talk about backward GVC participation, it can be counted as the percentage of foreign value added content of exports to the economy´s total gross exports. This is can correspond to value added of inputs that were imported with the finality of producing intermediate or final products that are going to be exported. Furthermore, the forward GVC participation corresponds to the percentage of domestic value added that will be sent to third destinations to the total gross exports of the economy. This comprise the domestic value added of exported intermediates, or those inputs that are going to be returned to the economy of origin with a process that comprise materials embodied in other intermediates and that will be used to produce goods that will be exported. It can also be translated as the value added round-trip between two or even more countries and remarks the content of domestic value added that is present in a country´s imports. (World Trade Organization, 2018)

The current situation in Mexico regarding GVC´s, indicates that there is a considerable difference between its forward and backward participation, being the latter the one with the largest share. According to the most recent data found in OECD, by the year of 2018, Mexico had a backward participation of 35.9% of its gross exports, which highlights how specialized it is in assembling and manufacturing, by importing intermediate goods with the finality of re exporting them after aggregating value to such goods. On the other hand, 10.5% corresponds to the forward participation this country had in the same year, which is considerably lower. This means that this country is not a supplier of intermediate goods for those that are assemblers. (Organization for Economic Co-operation and Development, 2021).

Figure 1. Mexico – Forward and Backward participation in Global Value Chains

(% of gross exports, 1995 - 2018)

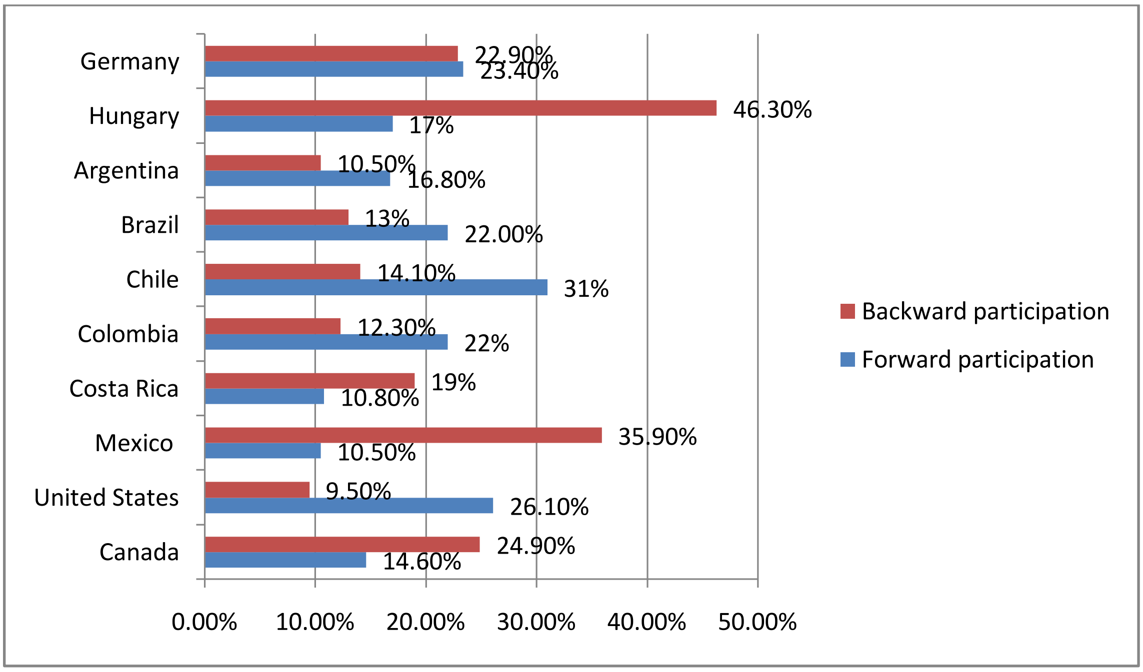


Source: https://stats.oecd.org/index.aspx?queryid=106160

As it is possible to visualize in figure 1, the backward participation throughout the years have been far greater than its forward participation. In addition, the trending those two indicators have had during previous years, did not present a meaningful change, which confirms that this country is very well integrated in global value chains as an country that imports intermediate goods in order to add value and export it again as a different intermediate good, or even a final product. The participation this country presented in the exports of raw materials that are going to be transformed in foreign countries in order to be exported again, can be granted to its exports of steel, petroleum and agricultural products, among others.

Figure 2. Forward and Backward participation in Global Value Chains in selected countries

(as a percentage of gross exports, 1995 - 2018)



Source: https://stats.oecd.org/index.aspx?queryid=106160

In figure 2, a comparison between several selected countries from different continents is visible. What results more remarkable is the fact that Hungary has a higher backward participation than Mexico, which indicates that this country also contributes in Global Value Chains by adding domestic value in order to re-export such goods, even to a greater extent than the North-American country. On the other hand, Chile is the economy that demonstrates a larger share of forward participation in GVC´s, which confirms that its commercial activities are more inclined to add value to foreign country´s exports, and this can be related to Colombia and Brazil, due to the fact that these country´s exports comprise soy beans, iron ore, copper ore, crude petroleum, among others. In the case of Mexico and Brazil that are similar sized economies, results interesting the contrast of economic activities that led to the convergence of these indicators regarding their participation in GVC´s. Moreover, a higher participation in forward rather than backward participation can be related to more developed economies, which is the case of United States; however, it is also possible to observe that Canada has a higher backward participation, mainly due to its exports of crude petroleum and its participation in the automotive sector. Nevertheless, Germany is the most balanced country with a slightly higher share in forward participation, and also its relatively large share in backward participation can be granted for its participation in automotive sector.

Main activities that contribute to forward and backward participation

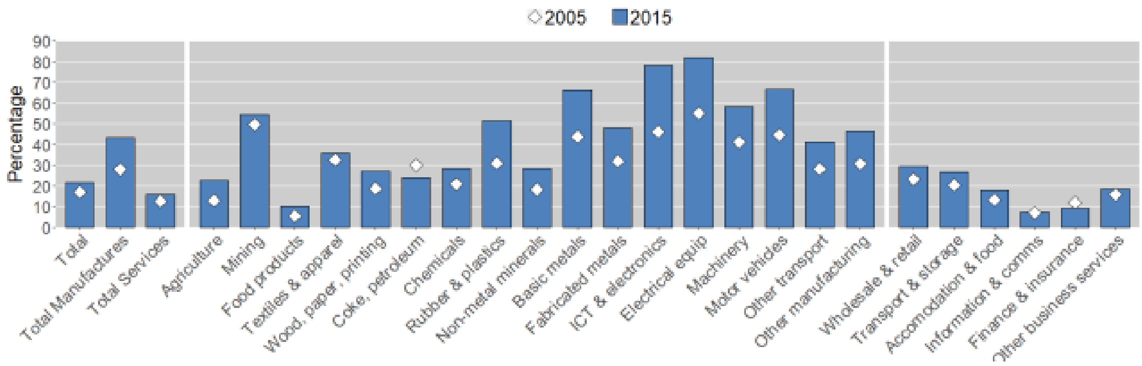
In forward participation, by 2015, Mexico´s top three sectors that have higher percentage in total exports of domestic inputs that will be forwarded to third economies are wholesale and retail trade, motor vehicles and transport and storage with 25.5%, 10.7% and 8.3% respectively. The countries that export more Mexican inputs through GVCs are United States with an astonishing 41.1% participation in the total exports of domestic inputs that are going to be sent to third countries, whereas China and Canada have 8.3% and 8.2% respectively. This means that Mexico contributes to the backward participation in these sectors and sends its domestic produced goods to third countries, mostly to United States. On the other hand, the top three sectors in which Mexico has higher backward participation are motor vehicles, computer and electronics and wholesale and retail trade with 29.3%, 20% and 7.2% of the participation in the total foreign content of exports, respectively. The top foreign input providers are United States with 38.4% participation in total foreign content of exports and China and Japan with 21.5% and 5.1% respectively. The high backward participation Mexico presents in the automobile sector, it is a result of its specialization in manufacturing, assembling, and also the affordable and excellent labor force. (World Trade Organization, 2018).

By the year of 2017, the export of intermediate goods accounted for 40% participation of the total exports, whereas the imports of intermediate products resulted in a 63% share of total imports, which underpins the fact that this country has an important backward participation in global value chains, hence, it is more dedicated to adding value to products that are going to be exported after experiencing production processes in this country. (World Trade Organization, 2018).

Between 2005 and 2015, the export orientation of Mexico´s manufacturing sectors increased considerably, it had a share of domestic added value that was driven by foreign demand rising from 30% to 45%, indicating an increase in export competitiveness. As it is possible to see in the figure 3, Mexico´s largest export sectors were ICT and electronics and motor vehicles with 80% and 70% respectively. (Organization for Economic Co-operation and Development, 2018).

Figure 3. Mexico – domestic value added in foreign final demand

(% of value added by industry, 2005 to 2015)

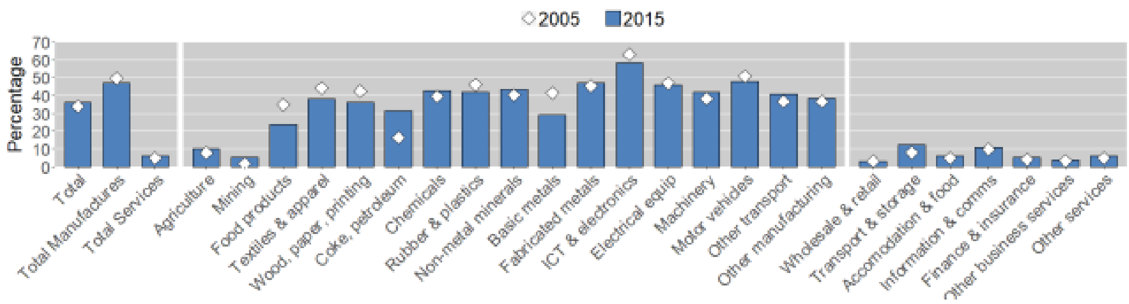


Source: https://www.oecd.org/industry/ind/TIVA-2018-Mexico.pdf

During the same period of time, the share of intermediate inputs that were embodied in the exports also presented an increase in manufacturing sectors, being motor vehicles and ICT and electronics those with a larger increment with 85.9% and 79.5% respectively, as it is possible to observe in figure 4. Altogether, these indicators demonstrate that this country progressed in its integration within global value chains. (Organization for Economic Co-operation and Development, 2018).

Figure 4. Mexico – foreign value added content of gross exports

(% of gross exports, by industry, 2005 to 2015)



Source: https://www.oecd.org/industry/ind/TIVA-2018-Mexico.pdf

Automotive industry in Mexico

During the year of 2021, Mexico´s production of vehicles accounted for a total of 2,979,276. The reason that caused production sites to stop can be granted to a logistical disruption and a semiconductor crisis, causing a -2% drop in production in comparison with the previous year. In December, just 212,272 automotives were added to the year´s total, which presented a decrease of 16.51% than during the same month in 2020. The manufacturers with the highest production in 2021 were: Nissan with 536,323, General Motors with 518,175, Stellantis with 406,973, Volkswagen with 294,408 and Toyota with 222,346. Production was halted at the plants of GM, this caused a negative affection with a decrease of 28.9% during the year. However, Toyota presented a growth of 31.3% , in addition Ford Motor experienced an increase in its production of 60.4%, achieving 218,289 automotives, which was only a small quantity below KIA that left it occupying the sixth place with 219,400 units. (Cluster Industrial, 2022).

The total vehicles accumulated by Mexico between January and December 2021 were 0.9%, more than the previous year. On that note, the trucks´ exports that were produced within the country presented a considerable increment, 12.5% in comparison with the year of 2020. Unprecedented events for automotive industry took place in this country, for example, the introduction of new models like Ford Mustang March-E, which was the first all electric vehicle that was produced in mass in Mexico and the production of Toyota Tacoma that took place in Guanajuato. However, the exports in the last month of the 2021 year reached 227,465 automotives, which accounted for 17.3% less than during the same month in the previous year. The astounding amount of 2,071,668 light automotives that were manufactured in Mexico was exported to USA in 2021. Moreover, those brands that were exported more were: General Motors with 531,383, Stellantis with 404,453, Nissan with 390,501, Volkswagen with 254,331 and Toyota with 220,126. (Cluster Industrial, 2022).

During 2021 in Mexico, the number of automotives sold was 1,014,680, a 6.8% more than in the previous year. From the total amount, 367,235 sold vehicles were manufactured in Mexico and 647,445 were imported, this resulted in an increase of 1.5% and 10.1% respectively. It is relevant to mention the high acceptance of Chinese brands, and hence, the growth of 307.56% it presented in 2021 comparing it with the previous year, reaching a total of 26,593 units sold. MG Motor resulted as the most important of the mentioned brands with 16,358 units sold. (Cluster Industrial, 2022).

Those brands that sold less than 25,000 automotives in 2021, and despite of that, managed to grow the most in comparison with the previous year were: Mg Motor, with an increase of 2,203.9 percent and 16,368 sales; JAC presented a 92.1 percent increment which resulted in 8,203 units sold; whereas Mitsubishi, Subaru and Seat had grew 71.1 percent (17,872 sales), 46.7 percent (2,119 sales) and 39.3 percent (20,942 sales) respectively. On the other hand, the bigger brands with a considerable growth that sold more than 25,000 units during 2021 were: Suzuki 27.2 percent (33.044 units sold), Toyota 19 percent (91,090 units sold), Hyundai 15.4 percent (37,209 units sold), Kia

11.4 percent (82,040 units sold) and Renault 10.6 percent (28,218 units sold). Moreover, brads like GM and Honda fell 15.3 percent and 10.8 percent respectively. In addition, Mercedes Benz experienced a decrease of 7 percent, Infiniti 17.3 percent and Audi with 4.3 percent. (Cluster Industrial, 2022).

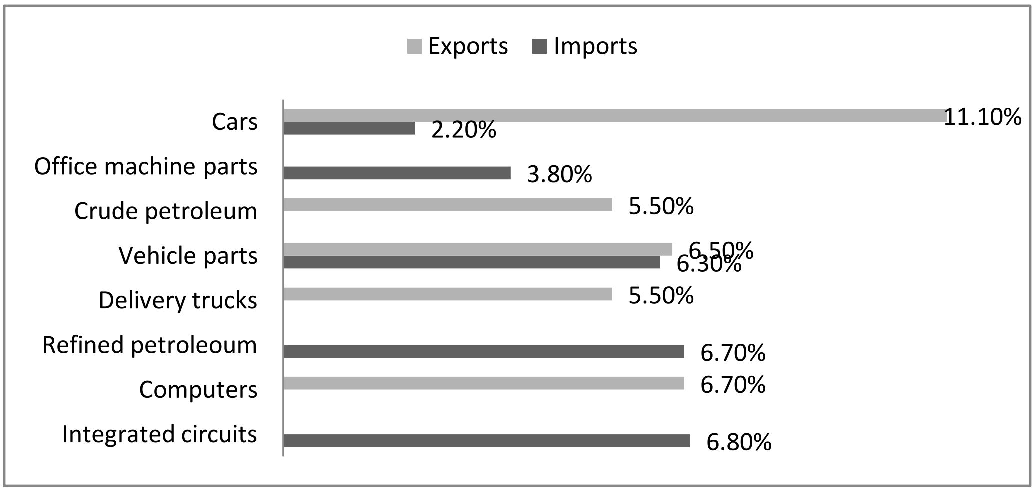
Those brands that were sold the most in Mexico during 2021 were: Nissan with 203,918, General Motors with 127,300, Volkswagen with 98,436, Toyota with 91,090 and KIA with 82,040 units sold. Now, if we take a look to those cars that were sold the most in the country, the Nissan Vera earned the first place, achieving 7,124 sales in March, which resulted as the largest figure in 2021 for a single model. In addition, the total number of units sold of Nissan March was 69,775, followed by the Nissan NP300 with 47,884, and then Chrysler Aveo, Nissan March and Volkswagen Vento with 37,039, 34,974 and 29,380 units sold respectively. (Cluster Industrial, 2022).

FOREIGN TRADE IN MEXICO

Mexico is a country that depends heavily foreign trade activities; these commercial activities in 2020 accounted for 78% of total Gross Domestic Product. The main exports of this country are: automotives (11.1 percent), computers (6.7 percent), vehicle parts (6.5 percent), delivery trucks (5.5 percent), and crude petroleum (5.5%), among others. Imports contemplated integrated circuits (6.8 percent), refined petroleum (6.7 percent), vehicle parts (6.3 percent), office machine parts (3.8 percent), and cars (2.2 percent). Foreign trade forecasts of IMF indicate that services and goods exports´ volume experienced an increment of 7.7% in 2021 and there are expectations that it will experience a growth of 5.6% in 2022, whereas the services and goods imports´ volume also experienced an increment of 17.3% in 2021 and the expectations point out that it will increment 7.3% in 2022. (RBC Global Connect, 2022).

Figure 5. Mexico – Top exports and imports

(%, 2020)



Source: https://rbcglobalconnect.rbc.com/en/resources/explore-new-markets/country-profiles/mexico/trade-profile

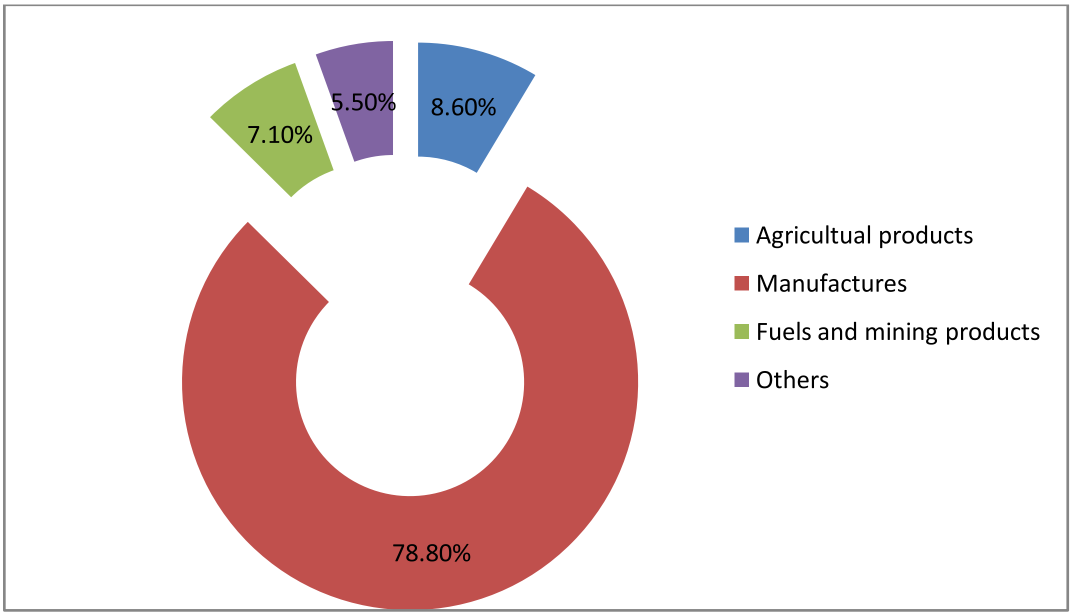
It is evident to see the high dependence on commercial relations this country has with United States, its main trading partner. They contemplate more than three quarters of the economy´s exports. As per imports, the main countries of origin are US with 54.4%, China with 14.4%, European Union with 11.3% and Japan with 2.9%. Although the North-American´s trade balance is negative, Mexico presented a trade surplus in recent years. During the year of 2020, exports of services and goods experimented a decrease of 7.3%, which resulted as $434.4 billion dollars; whereas imports contracted by 14.8%, accounting for $418.2 billion dollars, leaving as a result a surplus of $34.4 billion dollars in the trade balance. These numbers are a result of the strength in the automotive industry, comprising production of motor vehicles and motor parts; in addition, the US and china trade war had a positive impact for Mexico, due to the fact that increased its exports to United States. (RBC Global Connect, 2022).

Mexico´s ranking in world trade by 2020 is as it follows: in merchandise exports and imports, it occupies the place number 11 and 13 respectively; if we exclude the intra European Union trade, the ranking places for exports is 7 and 9 for imports. On the other hand, the ranking of commercial services experiences a considerable decrease, due to the fact that Mexico goes down several places, taking the number 42 and 34 for exports and imports of commercial services; and if we exclude the intra European Union trade, there is a small improvement, its ranking for exports and imports are 25 and 22 respectively. Despite of the lower rankings in foreign trade activities of commercial services, this country plays an important role in global trade. (World Trade Organization, 2021).

The total value of Mexico´s merchandise exports by 2020 accounted for 417.67 billion dollars, resulting in a 2.7% total share in global exports. On the other hand, the total value of its merchandise imports was 393.24 billion dollars, which resulted in a total share in global imports of 2.21%. As it is possible to observe in figure 6, the highest share on total exports belongs to manufactures with 78.8%, the second place is relatively low in comparison, which is fuels and mining products with 7.1%, and agricultural products with 8.6% and others with 5.5%. (World Trade Organization, 2021).

Figure 6. Breakdown in Mexico´s total exports

by main commodity group (%, 2019)

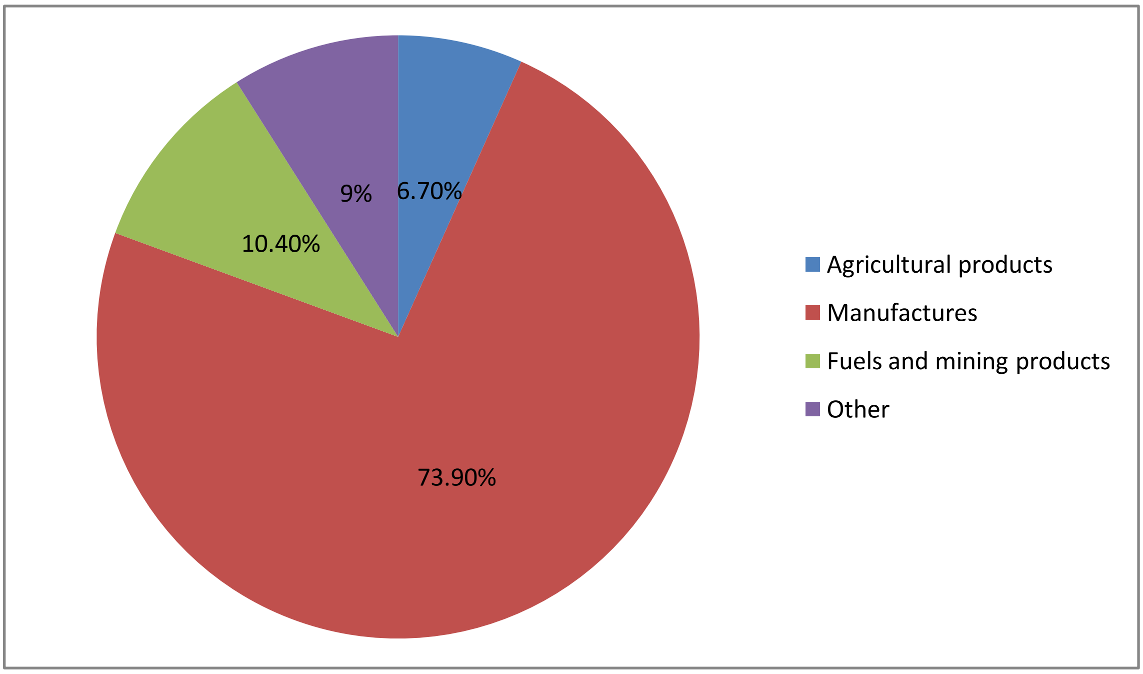


Source:
https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/MX_e.pdf

As it is possible to notice in figure 7, the share of imports is similar as that of the exports, being manufactures the top sector with 73.9%, fuels and mining products with 10.4%, others with 9% and agricultural products with 6.7%. These shares are completely understandable after mentioning that the role of Mexico in Global Value Chains is mainly concerning backward participation, which involves adding value by producing and transforming manufacturing products with imported inputs that are most likely to be exported again as intermediate or final products. (World Trade Organization, 2021).

Figure 7. Breakdown in Mexico´s total imports

by main commodity group (%, 2019)

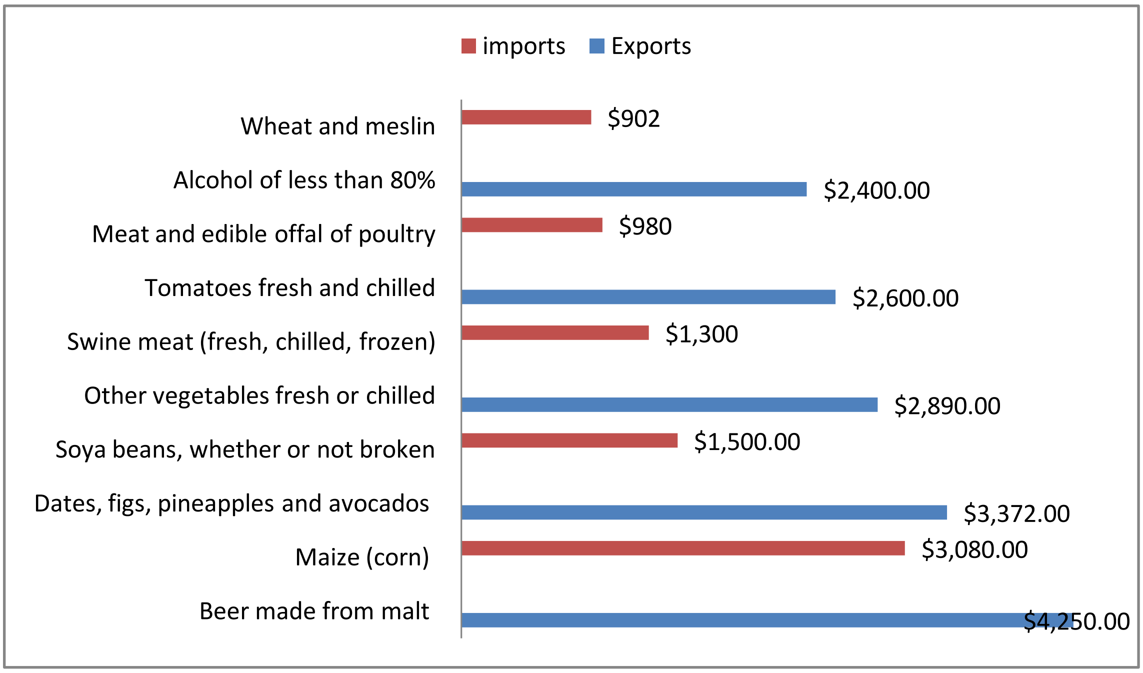


Source:
https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/MX_e.pdf

Top exported agricultural products by 2020 are as it follows: the top place belongs to beer made from malt with a total value of $4.25 billion dollars; the second one belongs to dates, figs, pineapples and avocados with a total value of $3.372 billion dollars; other vegetables fresh or chilled, tomatoes fresh and chilled and alcohol of less than 80% volume had a total value of $2.89, $2.60 and $2.40 billion dollars respectively. Now, the top imported agricultural products belong to different categories: the top product was maize (corn) with $3.08 billion dollars; soya beans, whether or not broken with $1.50 billion dollars; swine meat (fresh, chilled, frozen), meat and edible offal of poultry, and wheat and meslin with $1.30 billion dollars, $980 and 902 million dollars respectively. And it is worth to mention that the exports from 2010 to 2020 presented an average increase of 8%, merely in the year of 2019 it grew 8% and in 2020 only 6%. On the other hand, the imports experienced an average increment of 2% in the period of time from 2010 to 2020, whereas in 2019 the growth accounted for only 2%, and in 2020 it decreased a 5%. (World Trade Organization, 2021).

Figure 8. Mexico – Top exported and imported agricultural products

(in million USD, 2020)



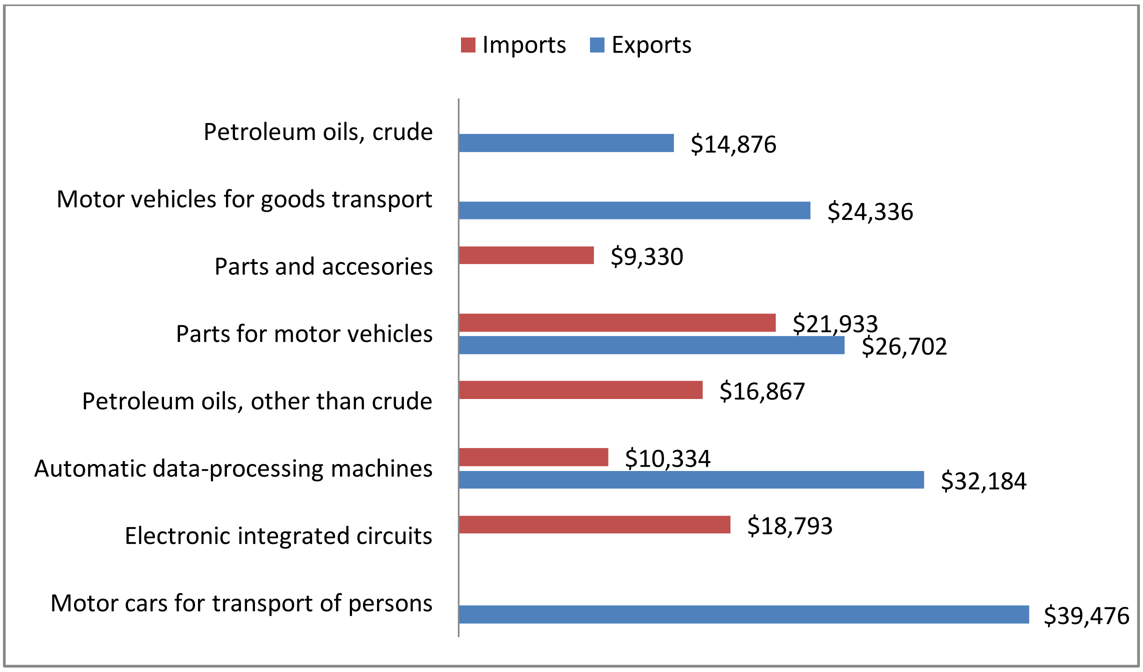
Source:
https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/MX_e.pdf

For non-agricultural products, the exports by 2020 were comprised as it follows: the total value of exports from the motor cars for transport of persons was $39.74 billion dollars, following by automatic data processing machines with a total value of $32.184 billion dollars, and parts for motor vehicles, motor vehicles for goods transports and petroleum oils, crude with a total value of $26.702, $24.33 and $14.876 billion dollars respectively. The top imported products were parts for motor vehicles, electronic integrated circuits, petroleum oils that are other than crude, automatic data processing machines and parts and accessories with a total value of $21.93, $18.79, $16.86, $10.33 and $9.33 billion dollars respectively. About the total value and total percentage change, Mexico´s exports accounted for $368.29 billion dollars, with an average change growth of 3% from 2010 to 2020, whereas in 2019 the growth accounted for only 1% and in 2020 a decrease of 11%, which is understandable due to COVID-19 reasons. The total value of imports in 2020 was $338.93 billion dollars, with an average growth of 2%

from 2010 to 2020, and a decrease of 2% and 17% in 2019 and 2020 respectively. (World Trade Organization, 2021).

Figure 9. Mexico – Top exported and imported non agricultural products

(in million USD, 2020)



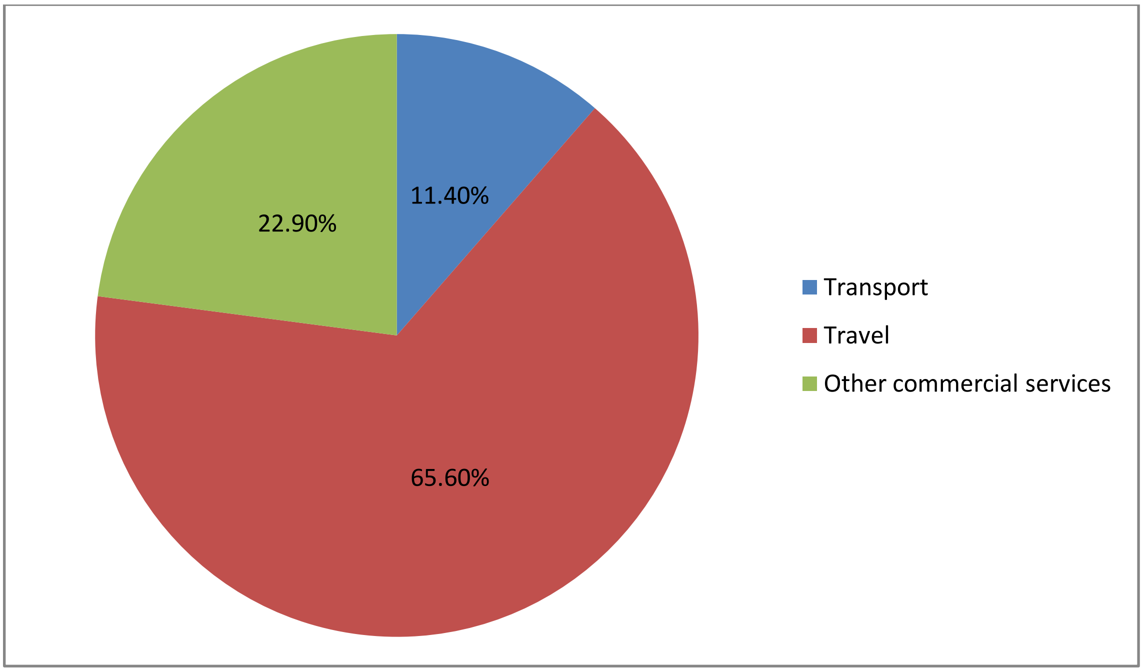
Source:
https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/MX_e.pdf

Top destination countries by 2020, as it was mentioned previously, are comprised in the top with United States of America with a surprising share of 79.1%, showing how well integrated Mexico and US are, although, since a considerable share of GDP are comprised by foreign trade, it could be said that Mexico´s economy is heavily reliant on its northern neighbor; European union encompasses 3.5%, Canada 2.6% China with 1.9%, Chinese Taipei with 1.1%, and other countries with 11%. (World Trade Organization, 2021).

The trade in commercial services is considerably lower, due to the fact that in 2020 the total value of exports accounted for $16.803 billion dollars, and the average change it presented from the period of 2010 to 2020 resulted in a growth of 1%, whereas in 2019 it increased 10%, in 2020 it decreased 46%. On the other hand, the commercial services imports were higher, consisting in a total value of $25.04 billion dollars, and an average decrease of 1% in the period of 2010 to 2020, continuing with a decrease of 1% in 2019 and a major decrease of 32% in 2020. These contractions can be granted to the COVID-19 pandemic that we all had to experience, and also taking into consideration that mostly, Mexico´s trade in commercial services are related to transport and travel. (World Trade Organization, 2021).

Figure 10. Breakdown in Mexico´s total exports

by main services (%, 2020)

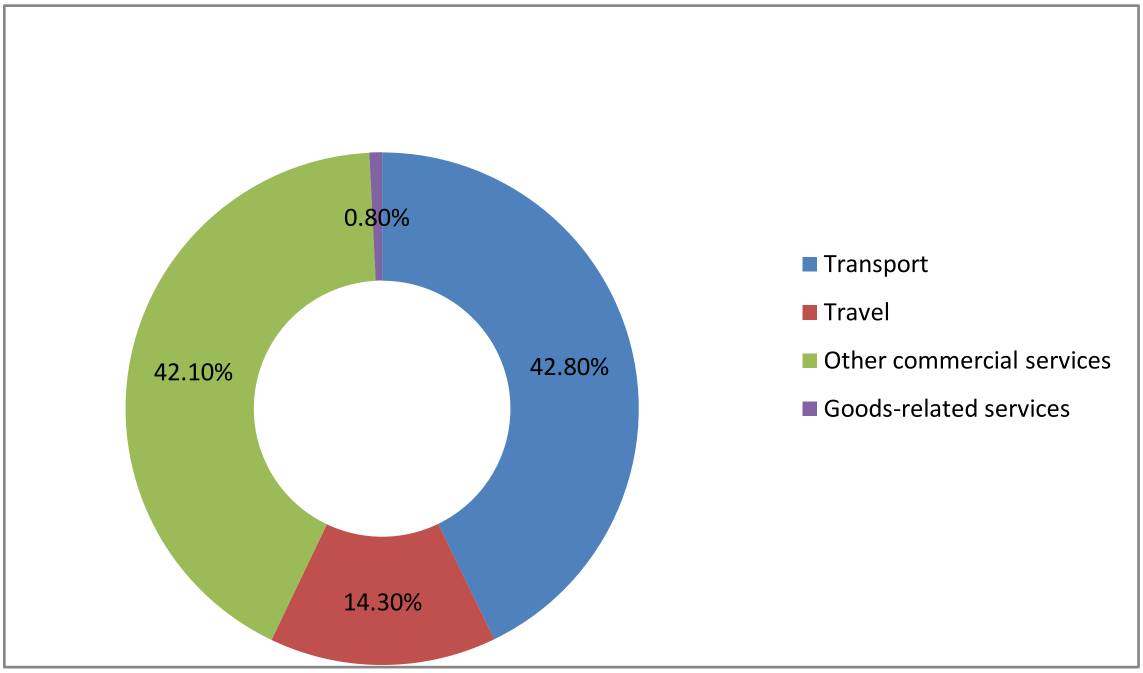


Source:
https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/MX_e.pdf

Mexico´s share in world exports in 2020 was 0.34%, and the share in imports accounted for 0.54%. The breakdown in this economy´s total exports resulted in a share of 65.5% that belongs to traveling services, transport services´ share was 11.4% and the other commercial services presented a 22.9% share, although it is interesting to mention that during that year, this country did not export any goods related services. As in comparison with merchandize trade, the breakdown in total imports is totally different than the one of the exports. The highest share belonged to transport services with 42.8% of total imports, traveling ones had a 14.3% of the total imports, whereas the imports of goods related services´ share was minimal, with a 0.8%, and other commercial services represented 42.1%. (World Trade Organization, 2021).

Figure 11. Breakdown in Mexico´s total imports

by main services (%, 2020)



Source: https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/MX_e.pdf

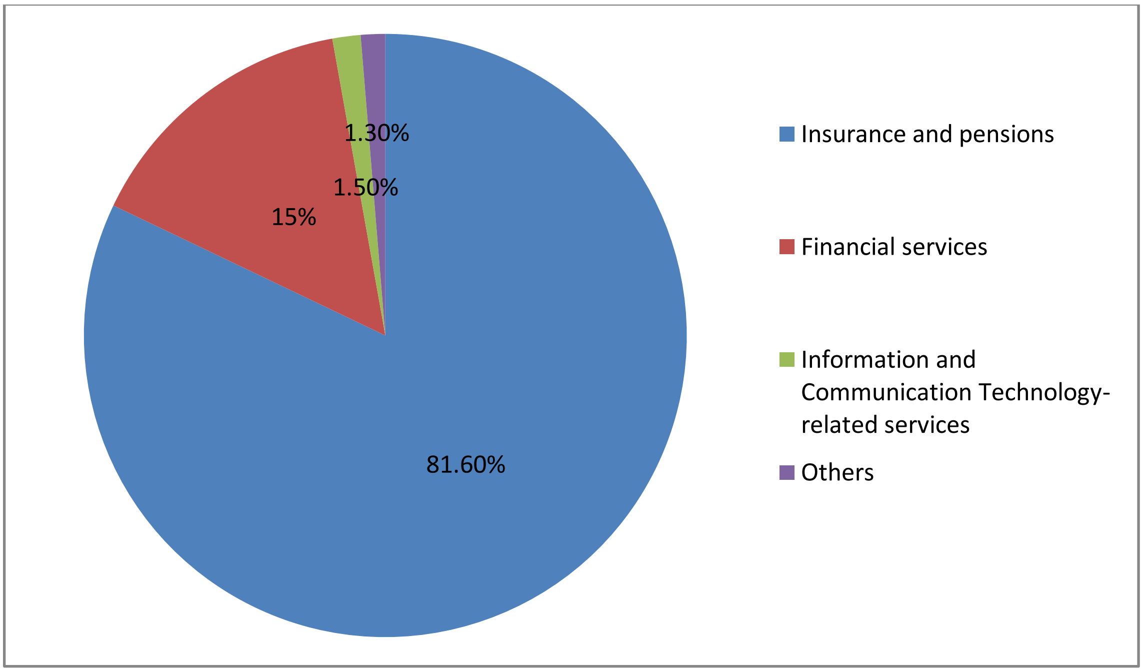
Total value of transport services accounted for only $1.91 billion dollars in 2020, with an average growth of 6% during the period of 2010 to 2020, whereas in 2019 it presented a considerably high growth of 34%. However, during the next year, the decrease of 35% was also enormous; the imports reached a total value of $10.72 billion dollars. Nevertheless, the average growth from 2010 to 2000 remained in cero, accompanied by a decrease of 4% and 27% during 2019 and 2020 respectively. In addition, by 2020, the means of transport that comprised the total share of services exported were categorized by sea (2.9%), earth (34.5%) and other, (61.7%), which can be represented as a total value of $66 million dollars, $661 million dollars and $1.18 billion dollars respectively. As of imports, the categorization of the total share in transport services is the same. However, the transportation by sea (67.4%) accounted for $7.23 billion dollars, by air (32%) represented $3.42 billion dollars, and by other means (0.06%) presented a total value of $61 million dollars. (World Trade Organization, 2021).

Travel services by 2020 presented a total value of exports of $11.02 billion dollars, an average decrease of 1% from the period of 2010 to 2020, while in 2019 there was an increment of 9%, and an immense decrease of 55% in 202. The total value of exports was lower, reaching $3.58 billion dollars. As a result, an average decrease of 7% was present in the period from 2010 to 2020, and during 2019 and 2020, the tendency remained negative, declining 12% and 64% respectively. (World Trade Organization, 2021). This reflects the negative impact that COVID-19 had around the world, due to the fact that during 2020, the decline that was experienced in travel services exports and imports, reached unimaginable levels.

The category of other commercial services is comprised in 81.6% by insurance and pension, 15% financial services, 1.5%, Information and Communication Technology-related services, and 1.3% of others. By 2020, the total value of exports of other commercial services reached $3.85 billion dollars, presenting an average increase of 5% from 2010 to 2020, experiencing a decrease of 1% in 2019 and a 1% growth in 2020. The total value of imports was higher, with $10.53 billion dollars, an average increase of 2% within a period of 10 years from 2010 to 2020, whereas in 2019 and 2020 an increment of 14% and a contraction of 12% respectively, was present. (World Trade Organization, 2021).

Figure 12. Mexico – exports of other commercial services

by main item (%, 2020)



Source:

https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/MX_e.pdf

In numbers of goods-related services it is possible to observe the largest disparity between exports and imports: the first one reached $7 million dollars, with a decrease of 30% and 7% during 2019 and 2020 respectively; and the latter amounted for $204 million dollars, an average increment of 2% within a period of 10 years, from 2010 to 2020, and a 20% rise and 42% decline in 2019 and 2020 respectively. (World Trade Organization, 2021).

Free Trade agreements

In order to have a better understanding about the foreign trade in Mexico, it is important to signal the existent Free Trade Agreements this country has, due to the fact that some of them brought immense prosperity to this economy. An example of it is the NAFTA, an acronym for North American Free Trade Agreement, which was an agreement enacted since 1994 between Mexico, United States and Canada, that stimulated their relationship, and as a result, boosted the economy through reduced trade barriers.

USMCA is the name of the updated agreement succeeding NAFTA, this counts with several products that are tariff-free when transiting between these countries. An example of country of origin rules is that when vehicles with 75% of their parts were manufactured within the territory of North America, they are exempted of taxes. When it comes to labor protection, it states that by 2023, the manufacturers are going to pay a certain share of their worker`s wages of sixteen dollars per hour or even more, in order for those products to continue being tariff-free. A higher protection of intellectual property affirm that duties on electronic transmissions can no longer exist, and that economies are going to have less rights to demand the source code for programs. The reaction these new provisions are having are that they are incentivizing North American manufacturing jobs and providing economic stimulus in those areas of free trade, whereas equally extending protection for forms, the environment and employees. (NAPS, 2020).

Mexico, Singapore, Australia, Brunei, Vietnam, Chile, Peru, Canada, Japan, Malaysia, and New Zealand are part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which is an agreement that was formed after United States did not want to continue with the Trans-Pacific Partnership. This agreement abolishes tariffs along all the sectors among the participants, removing trade barriers and promoting economic growth within these nations. (NAPS, 2020).

When it comes to agreements between Mexico European nations, it enjoys of two trade agreements with them, and they incorporate provisions that are slightly different: the European Union-Mexico Association Agreement was updated in the year of 2020, and this FTA attained that 99% of trade between the participants is duty-free. The remaining 1% that it is not included, consists of automobiles manufactured less than 55% in the originating nation, dairy products and meat. Also, additional rules contemplate the implementation of provision in order to comply with the terms of Paris Climate Agreement. On the other hand, The European Free Trade Association is an agreement between Mexico and those nations that comprise the European Free Trade Association, that are: Switzerland, Liechtenstein, Norway and Iceland, which aims to gradually eliminate tariffs between the EFTA nations and Mexico.

Mexico counts with a plethora of bilateral and multilateral trade agreements with economies in Central and South America: Mexico - Central America free trade agreement, implements an economic zone and diminish tariffs between Mexico, Nicaragua, Honduras, Guatemala, El Salvador and Costa Rica; The Pacific Alliance FTA, consisting of Chile, Colombia, Peru and Mexico as members, removes 90% of tariffs and seeks to promote cooperation with participant states; Mexico-Colombia is an agreement that provides provision in intellectual property and rules of origin, and at the same time promoting trade in the agricultural sector; the Mexico-Chile FTA that was enacted in 1998, eliminates most of the tariffs between the two countries; in 2011 the Mexico-Peru agreement entered into force, with the aim of gradually phasing out tariffs, promotion economic cooperation and market access among the two economies; Ratified in 2015, the Mexico-Panama Free Trade Agreement grants methods for resolving disputes and rules for trade; The Mexico-Bolivia FTA was built on a previous agreements, whose aim is promotion of free trade and fair competition. (NAPS, 2020).

Other kinds of Free Trade Agreements comprise the Japan-Mexico. Despite of the fact that both countries are also members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, this bilateral agreement, it forms an economic partnership between the members, with the finality of reducing trade barriers such as tariffs and duties. However, a quota for Japanese vehicles that are exported to Mexico is in existence. Also, in 2000, Mexico and Israel signed an agreement, with the main purpose of granting Israel access to the Mexican market, and eases the investment in several sectors, that include water treatment and technology. (NAPS, 2020).

North American Free Trade Agreement (NAFTA)

An agreement that results to be the largest one back when it was enacted on January 1, 1994, with Mexico, Canada and United States of America as members. This resulted to be first occasion in which a trade agreement was signed between an emerging market country and at two developed nations. Thanks to this agreement, the members acknowledged that the best thing to boost the economies contemplated removing trade barriers between them. By this action, the increment of opportunities for investment rose. (Amadeo, 2022).

There were several relevant points in the agreement that was awarded to the participating countries: most favored nation status was granted to the three members, this could be translated as the treatment from one country to another was going to be fair and was not able to treat in a better manner to domestic investors rather than foreign ones. Moreover, it was not possible to grant a better deal to investors which did not belong to NAFTA, and it also needed to offer federal contracts to companies within the rest of the country members. (Amadeo, 2022).

Furthermore, one of the most attractive points in this agreement corresponded to the elimination of several tariffs on exports and imports among member countries. It also set up specific rules to manage the trade within different sectors, such as: farm products, clothing and automobiles. It is clear that this point was created in order to prevent damage to domestic industries and to prevent dumping. (Amadeo, 2022).

Also, so as to waive tariffs, the exporters needed to obtain certificates of origin. The products had to be originated from the territories of Canada, Mexico or United States. Goods produced in third countries, even when they were imported from countries within the territory of North America, and directed to another nation signatory of the agreement, were not eligible to avoid tariffs´ payment. (Amadeo, 2022).

The procedures about resolving disputes in trade activities indicates that the members will commence a formal discussion, and discussion meeting at a Free Trade Commission (FTC) will be followed, only if it is necessary. In case the dispute was not solved in spite of implementation of previously mentioned means, a panel will review the dispute. This is an important point, due to the fact that it helped members to them interpret the agreement´s complex rules and procedures in order to escape pricy lawsuits in local courts. In addition, the investors were also eligible to make use of these trade disputes protections. (Amadeo, 2022).

There was a requirement for member countries to respect copyrights, patents and trademarks. In addition, the treaty ensured the intellectual property rights did not hinder trade. Also, NAFTA permitted travelers with business purposes easy access through member countries. However, migration problems resulted in a downside that did not allow free movement of people within the territory of participant countries. (Amadeo, 2022).

Thanks to tariff free imports, grocery prices in US were lower, which resulted in an enormous advantage for this country. Also, Mexico and Canada´s oil imports contributed to prevent an increment of gas prices. And generally speaking, the fact of eliminating tariff restrictions and decreasing the prices of many goods, spurred the economic growth and trade for the involved nations. There was an increase in competitiveness of these economies in global marketplace, which permitted them to compete more with European Union and China. (Amadeo, 2022).

On the other hand, the negative effect it presented was related to the workforce. There were arguments that this agreement caused the effect of sending several manufacturing jobs to Mexico due to its lower cost. The workers who were able to maintain their employee state within such industries were forced to accept a reduction in their salaries. In addition, Mexico´s employees went through hard times due to the terrible labor conditions in the “maquiladora” programs, which are known to be a low cost factories or manufacturing establishments that are located in Mexico, commonly close to the northern border, and that are owned by United States. (Amadeo, 2022).

How did NAFTA affect Mexico?

First of all, this agreement incremented farm Imports to United States coming from Mexico, which have increased more than three times since the implementation. Moreover, hundreds of thousands of automotive manufacturing related employments have been created; also there was an increment in productivity and decrease in consumer prices in the country. NAFTA marked the beginning of the transition for Mexico from a highly protectionist country, to one that is open to trade. When it joined the General Agreement on Tariffs and Trade, known for the acronym GATT, and also the precursor of the World Trade Organization, in 1986, several barriers for trade were reduced. However, a pre-NAFTA average tariff level of 10% remained. (Chatzky, McBride, & Aly Sergie, 2020).

Mexican policymakers saw this agreement as a good chance to accelerate and lock in beneficial reforms of the country. Trade liberalization, introduction of a balanced budget rule, of the foreign reserves, decrease of public debt, stabilization in inflation were the effects that were attained. The problem resides in Mexico´s dependence with USA; the first one suffered a hard hit by 2008 due to the strong commercial relations with the latter. The economy suffered a contraction of 6% due to the decrease of 17% in Mexican exports to United States, However, the economy bounced back relatively fast, due to the fact that by 2010, it returned to growth. (Chatzky, McBride, & Aly Sergie, 2020).

Mexico´s experience with NAFTA struggled from promises disparities between some of the supporters, there was claims that the agreement would bring with it fast growth, increment in wages, and emigration reduction. Nevertheless, in the period between 1993 and 2013, an epoch in which Latin America experienced an important expansion in the economy; Mexico experienced a slow growth of 1.3%. Poverty was present with same levels of 1994. In addition, there was an expectation of convergence with United States´ and Mexico´s wages that never occurred. Mexican´s income per capita rose averagely only 1.2% a year, which was not fast, in comparison with other Latin American economies like Peru, Brazil and Chile. (Chatzky, McBride, & Aly Sergie, 2020).

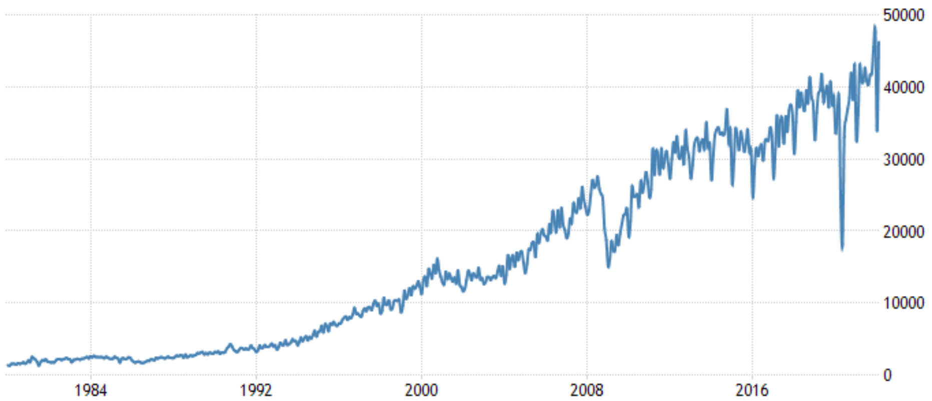
Some economists blame on NAFTA for the increase on unemployment, due to the fact that local farmers, especially corn producers, faced a densely subsidized competition from USA´s agriculture. Mark Weisbrot, an economist that led a study that estimated that because of NAFTA, about two million Mexican farmers producing in small scale lost their jobs, which had as a consequence an increment of illegal migration to US. In fact, migration to this country, whether legal or illegal, increase more than double after 1994, reaching its zenith by 2007. Nonetheless, the trending started to decrease after 2008, as the number of Mexican born immigrants who wanted to leave the country surpassed the number of those who were arriving. (Chatzky, McBride, & Aly Sergie, 2020).

Several analysts point out that this outcome is mainly driven by the “two speed” nature of Mexico´s economy. NAFTA boosted high tech manufacturing, foreign direct investment which caused as a result increasing salaries in the north, whereas the largely agrarian south continued to be isolated from this new benefits. Economist Mauro Guillen from the University of Pennsylvania debated that the increasing inequality has its origins from NAFTA-oriented workers in the north of the country, whose wages from trade related activities are much higher. (Chatzky, McBride, & Aly Sergie, 2020).

Mexico´s economic performance can also be affected by factors that are not related with NAFTA. The 1994 peso devaluation increased Mexican exports, whereas the competition with China and its low cost manufacturing sector possibly decreased a potential boost in the economy. Also, public policies like the land reform one eased the farmers to simply put their lands on sale and move out of the country. This country´s struggles are largely caused by domestic issues like low productivity informal sector in the economy, poorly developed markets and dysfunctional regulation (Chatzky, McBride, & Aly Sergie, 2020).

Figure 13. Mexico´s exports value

(in millions of dollars, 1980 to 2022)

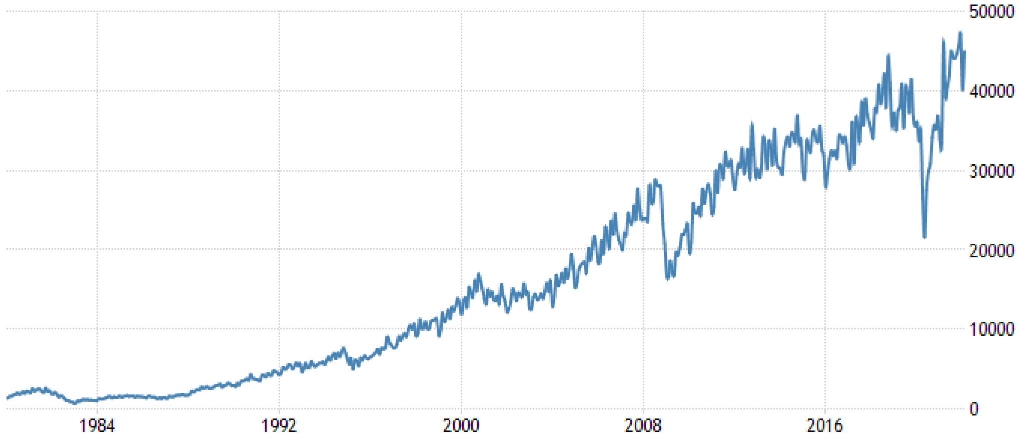


Source: https://tradingeconomics.com/mexico/exports

As it is possible to observe in figure 13, after NAFTA entered into force in 1994, the Mexican´s export started to experience an immense growth in comparison with previous years. Throughout this period of time it is also visible that during the great recession, the exports declined significantly, as it was mentioned before, due to the high dependence on United States. Moreover, the moment that presented the steepest drop in the exports can be granted to the COVID-19 period, in which economies from all over the world suffered. However, it is also visible that the recovery was fast and the value of exports even surpassed the one in the pre COVID-19 era.

Figure 14. Mexico´s imports value

(in millions of dollars, 1980 to 2022)



Source: https://tradingeconomics.com/mexico/imports

On the other hand, the imports presented a similar growth in comparison with the exports, as it is possible to observe in figure 14. The same periods of decrease occurred during the global financial crisis and COVID-19 era. Although, de difference was that, after enacting North American Free Trade Agreement, the imports presented higher increment than the exports. There was no doubt about the fact that the agreement caused an impact in the early 90´s in Mexico. Finally, this country was able to have access to a wide variety of products, mostly coming from USA, at a fair price for most of the population.

USMCA

It is a trade deal between United States, Mexico and Canada. It was signed on November 30, 2018. This agreement was a replacement for NAFTA that was enacted since 1994. As we know, the terms of this agreement stipulated that tariffs on several goods transiting between member states, was gradually eliminated. By the year of 2008, tariffs on several agricultural, textiles, automobile and other goods were drastically reduced or eliminated. (Reiff, 2021).

An interesting fact about the USMCA is that, the negotiation was conducted when the administration of Trump in US was in charge, and the idea was brought up time before that. NAFTA was criticized and blamed for the export of US in the manufacturing sector to Mexico, which carried with wages reductions and job losses from employees in United States. By 2008, Obama pledged to renegotiate NAFTA, so as to obtain a better deal for benefitting the American workers, however, during his presidential period he declined to do so. Nevertheless, when Trump was a candidate in 2016, he campaigned to renegotiate the agreement so as to obtain more favorable terms for his country. The USMCA started to truly form when the required 90 day notice was sent to congress by the president Trump´s administration, signaling that it was necessary to commence with the renegotiation talks, and these started on August 16, 2017 and finished on September 30, 2018. (Reiff, 2021).

Firstly, the deal was ratified on June 19, 2019 by the Mexican senate, approving amendments to it on December 12, 2019. After that, in December 19, 2019, USA´s House of Representatives passed legislation so as to approve the agreement. It was in January 16, 2020 that the legislation passed the senate, and on January 29 of the same year, the president signed it into law. Lastly, it was ratified on March 13, 2020 by the Canadian parliament. (Reiff, 2021).

Some difficulties emerged before and after entering into force on July 1, 2020. It was in May 31, 2019 that the president of US claimed that he was going to impose a 5% tariff on Mexican imports. But behind this, the true reason was that he wanted to stop migration from the southern border, and they needed Mexico to put strict measures about it. They attained a deal in order to evade avoid the threats. After some time, Trump also announced that tariffs on Canadian aluminum were going to be reinstated. On the other hand, the Canadian government claimed that they had a plan to also place tariffs on aluminum products coming from its southern neighbor. At the end, there were no negative effects for any country; however, USA ended up the argument saying that if the Canadian aluminum imports from Canada exceeded the expected volume, he will reinstate the tariffs (Reiff, 2021).

It is considered that USMCA brings benefits for ranchers, farmers, workers, and business. It utilizes NAFTA as basis for this new agreement. And it is relevant to mention the most important provisions that are included in the treaty: Regarding dairy and agriculture, it increases the access farmers have to Canadian dairy market by increasing the amount of products that can be exported to Canada with no tariffs. It gives a possibility of accessing to up to 3.6% of the dairy market from the northern neighbor of United States. Also, the quantity of allowed tariff free exports for selected poultry products will be increased as well. (Reiff, 2021).

When it comes to automotives, which is one of the most important parts the agreement possesses, it establishes new trade regulations for automobiles and parts. With NAFTA, cars and trucks that were assembled with at least 62.5% of components produced in one of the member economies were eligible to be sold tariff free. Now with USMCA, the requirement reached a minimum of 75%. Also, it stipulates minimum wages for employees in the automotive manufacturing process. From 40 to 45% of work elaborated on automotives should be carried out by workers that earn a minimum of $16 USD per hour. (Reiff, 2021).

Intellectual property protections increased with the implementation of USMCA. The new agreement extends the copyright period to 70 years beyond the life of the creator, whereas in selected cases only an increment of 20 years. This renegotiation was important regarding the addition of new products that were inexistent when NAFTA was written. Proof of it, is that tariffs on digital music, electronic books and similar digital products are prohibited. Also, copyright safe harbor for internet companies was established, that can be translated to the fact that they cannot be held accountable for copyright infringement of their users if they make good faith efforts for such violation termination. (Reiff, 2021).

An enormous difference from USMCA with NAFTA is that the new agreement was set to expire within 16 years from the moment in which entered into force, unless it is renewed before that period. The members are required to make a reunion for a joint review every 6 years. It is also stipulated that the agreement is not automatically terminated in the case of one member refuses to renew it at one of those meetings for revision. Instead, it is a requirement for the nations to come together every year for the following 10 years after the agreement entered into force, in order to resolve the issues that hinder the renewal. In case no agreement is attained during those 10 years, the treaty expires. (Reiff, 2021).

The USMCA established an independent investigatory panel that is able to investigate factories accused of violating worker´s rights, stopping deliveries coming from factories implicated on infringement of labor laws. Moreover, Mexico promised to enact several labor reforms that will have a positive impact on workplaces and will encourage union, and at the same time stop violence and other abuses of workers. The objectives for establishing these provisions are related to improve conditions for Mexican workers and implement a more even playing field between factories from Mexico and United States, due to the fact that wages in the first one are likely to increase. (Reiff, 2021).

Mexico and United States relationship

These North American countries have a strong and vital relation. Such countries share border with fifty five land ports of entry. The bilateral relations these economies have, present a direct impact on the lives of millions of people with cooperation in trade and climate change, economic development, entrepreneurship, education exchange, innovation, citizen security, drug control, migration, public health, human trafficking, and environmental protection. The relation between these two North American nations is broad and is deeper than only official and diplomatic relations, due to the fact that it comprises extensive commercial, cultural and educational ties. United States is the major trading partner of Mexico, and according to the department of commerce of United States, the exports of goods and services to its southern neighbor estimated a support of 1.1 million jobs in 2019. Moreover, during the same year, hundreds of thousands of civilians crossed the border legally each day. Furthermore, 1.6 million US citizens live in Mexico, being the top destination for travelers coming from United States, which is favorable for Mexican tourism sector. (U.S. Department of State, 2021).

The economic and trade relationship between these two North American countries is of the interest of the US policymakers, including members of the congress, due to the fact that the proximity between these two nations, the extensive bilateral trade and investment relationship spurred by NAFTA, and its replacement the USMCA, and also the strong cultural and economic ties connect them. (Congressional Research Service, 2021).

In the year of 2020, Mexico was the United States´ second largest merchandize trade partner, China was the number one. In the merchandize exports from US, Mexico it is located in the second place among US markets, just after Canada. Ranking also in the second place in suppliers of USA, after China, proves that these economies are very well integrated and they are relevant in each other´s trade activities. On that note, US is by far Mexico´s most important export market for goods, due to the fact that 80% of Mexican exports are destined to its northern neighbor country. Thanks to NAFTA, merchandize trade between the two countries increased exponentially. Although, in 2020, the global economic slowdown due to the pandemic caused by the Coronavirus disease in 2019, it resulted in a 12 percent decrease in total bilateral merchandize trade, which signified that the total value of $614.5 USD billion was reduced to $538.1 USD billion. (Congressional Research Service, 2021).

Figure 15. Mexico – US merchandize trade

(In USD billions, 2002 – 2020)

Source: https://sgp.fas.org/crs/row/IF11175.pdf

It is possible to compare the merchandize trade balance with a surplus of $1.7 USD billion in favor to United States, to an astounding deficit reaching $112.7 billion dollars in 2020, USA´s merchandize exports to Mexico increased from $41.6 billion dollars in 1993, to a peak of $265.9 USD billion in 2018, later on it decreased to $212.7 USD billion in 2020. The top imports to Mexico coming from its northern neighbor in 2020 consisted of petroleum and coal products with a value of $18.2 USD billion, motor vehicle parts which accounted for $15.8 USD billion, semiconductors and other electronic components with a value of $15.3 USD billion, computer equipment totaling $11.5 USD billion, and basic chemicals with a value of $8.9 USD billion. Mexico´s exports to United States increased from $39.9 USD billion in 1993 to $358 USD billion in 2019, and then they decreased to $325.4 USD billion by 2020. The most important Mexican exports to United States in 2020 are comprised by motor vehicles with a total value of $56.4 USD billion, motor vehicle parts totaling $43.7 USD billion, computer equipment accounting for $27 USD billion, audio and video equipment with a value of $12.7 USD billion, and electric equipment totaling $11.8 USD billion. (Congressional Research Service, 2021).

On the other hand, services trade with $3.1 USD billion in 2019 was the sector in which US had a surplus against Mexico, which was lower from the $5.1 USD billion from the previous year. The services that were exported to Mexico from USA totaled $32.9 billion in 2019, which is an enormous amount in comparison with the one of 1999 that accounted for $14.2 USD billion. Nevertheless, the imports presented a bigger increment from $9.7 USD billion in 1999 to $29.8 USD billion in 2019, and the services involved in the trade between those countries enormously consisted of travel, transportation, business and financial services. (Congressional Research Service, 2021).

It is credited to NAFTA for boosting the manufacturing industries in US manufacturing industries, especially in the automotive one, which was transformed into a more competitive through the development of supply chains. A relatively large portion of merchandize trade that occurs between Mexico and United States arises from the fact that production sharing involves manufacturers in each country working together with an objective of creating goods. The flow of intermediate inputs that are manufactured in the US, that are sent to its southern neighbor, then, the return flow of finished products results in a increasingly importance of the border region between these countries as a production site. Moreover, United States´ manufacturing industries, that include motor vehicles and electronics, depend heavily on the cooperation of Mexican manufacturers. Within the automotive sector there are multilayered connections between these countries, its suppliers and assembly points. It is possible that an automobile produced in USA, could obtain several parts coming from diverse states within the country, and several locations in Mexico. The place of final assembly might not be as significant as where the components were fabricated. Most economies indicate that those linkages offer important trade and welfare gains from FTA´s. (Congressional Research Service, 2021).

Regarding USMCA, some policymakers from United States see it as vital for their companies, employees and farmers; also it will bring benefit for their economic interests. Some others are worried about Mexico´s implementation of worker rights provision and the ability of the government to enact required labor reforms. USA´s business community claims that this agreement will enhance supply chains and will have a positive effect with the recovery from COVID-19 pandemic. However, there is also concern regarding Mexico´s steps to improve the state´s role in the energy sector, due to the fact that it could affect US´s investment in energy sector. Nevertheless, the entire effects from this agreement on the relationship between these two countries are not expected to be meaningful, due to the fact that almost all trade that is being carried out by these economies meet rules of origin requirements, and has been conducted duty and barrier free during several years during NAFTA period. From a point of view in United States, many economists believe that it is possible that USMCA effects will not have a measurable effect in investment, wages, trade, jobs, and overall economic growth between these countries. (Congressional Research Service, 2021).

There are important economic ties between US and Mexico. a disruption to this relationship might result in negative effects for productivity, employment, investment or competitiveness in North America. The unfortunate pandemic caused by COVID-19 has brought up new problems regarding supply chains between these countries and North American policymakers might take into consideration issues on how is it possible for USA to improve cooperation with its southern neighbor in areas of mutual interest. There are some policy experts that strongly advice and try to encourage increment in cooperation in cross border trade and investment. Officials in Mexico signaled to a USMCA established "Competitiveness Committee", an essential framework with which it is possible for the two nations to progress with shared interests. (Congressional Research Service, 2021).

The high level of integration this countries present can be beneficial and prejudicial, depending on the situation. The fact that Mexico is heavily reliant with its northern neighbor results in a possible threat, taking into account that previously the former administration of United States, threatened to impose 5% tax on certain goods. Although, it might also need to be considered the kind of administration that are leading the country, in order to predict what are the actions that need to be taken into consideration. Although USA also depends on Mexico as a supplier, an immense economy as US is, counts with several other trading partners that would be able to suffice its needs in case something happens with this relationship with its southern neighbor. This reminds me of the controversial thoughts that came to mind at the beginning of NAFTA, due to the fact that two developed economies were going to sign a Free Trade Agreement with a developing economy. As years went by, this agreement proved to be beneficial for every party involved.

In spite of the formation of this important integration between these countries in North America, and as it has been previously discussed the risks that Mexico might face; it proves that this country has to be prepared for everything. Taking into consideration that Mexico has signed a plethora of trade agreements between nations from all over the world; this provides the opportunity of diversifying the trade relationships with other countries, so as to slowly decrease the immense dependence with its northern neighbor. In addition, the result will be a higher opportunity for other countries to strengthen economic relationships with Mexico, and at the same time, for this country to have access to different markets. Although, the proximity with United States and Mexico can be a decisive factor that contributes to the high preference on making business with each other, Mexico has a lot of opportunities to also sign more treaties, and there also exists the possibility of forming another block or integration with other economies that can give Mexico another option of spurring the partnership with alternative countries.

FOREIGN DIRECT INVESTMENT IN MEXICO

Mexico a country that nowadays has become very open to Foreign Direct Investment; it is also the world´s ninth largest FDI recipient. Unfortunately, the inflows from 2020 were not as good as the previous years, because it was already suffering a recession in 2019, adding to this the pandemic unfortunate events affected this area. Comparing the year 2019 when the value of FDI inflows was 34 USD billion, in 2020 it fell to 29 USD billion, resulting in 15% less than the previous year. However, 60% of net inflows were created within the first three months of the year. (Santander Trade, 2022).

The total value of FDI in the country is estimated at 597 USD billion by 2020. However, there were a series of events that caused the uncertainty of investors, such as the focus on fiscal austerity, uncertainty on the government´s economic agenda, slump in fixed investment and contraction of GDP (-8.2%). Those factors were compounded by concerns about the current administration´s critical stance on public-private partnerships, also to the role of the private sector in important industries, altogether with the financial situation of the state owned company PEMEX, which receives an immense aid from the government (about $3.5 billion dollars). In addition, there were shifts in the five-year plan in the policy of CFE, which is the the state electricity supplier, resulted in discouraging private investment in public utilities and contributed to a drop of 67% in FDI in electricity generation, distribution and transmission. (Santander Trade, 2022).

Table 1. Mexico – Foreign Direct Investment

(2018 – 2020, in million USD)

	2018	2019	2020
Foreign Direct Investment inward Flow (million USD)	$33,730	$34,097	$29,079
Foreign Direct Investment stock (million USD)	$515,015	$567,747	$596,826
Number of Greenfield investments	601	641	302
Value of Greenfield investments (million USD	$27,033	$27,859	$13,659

Source: *UNCTAD.*

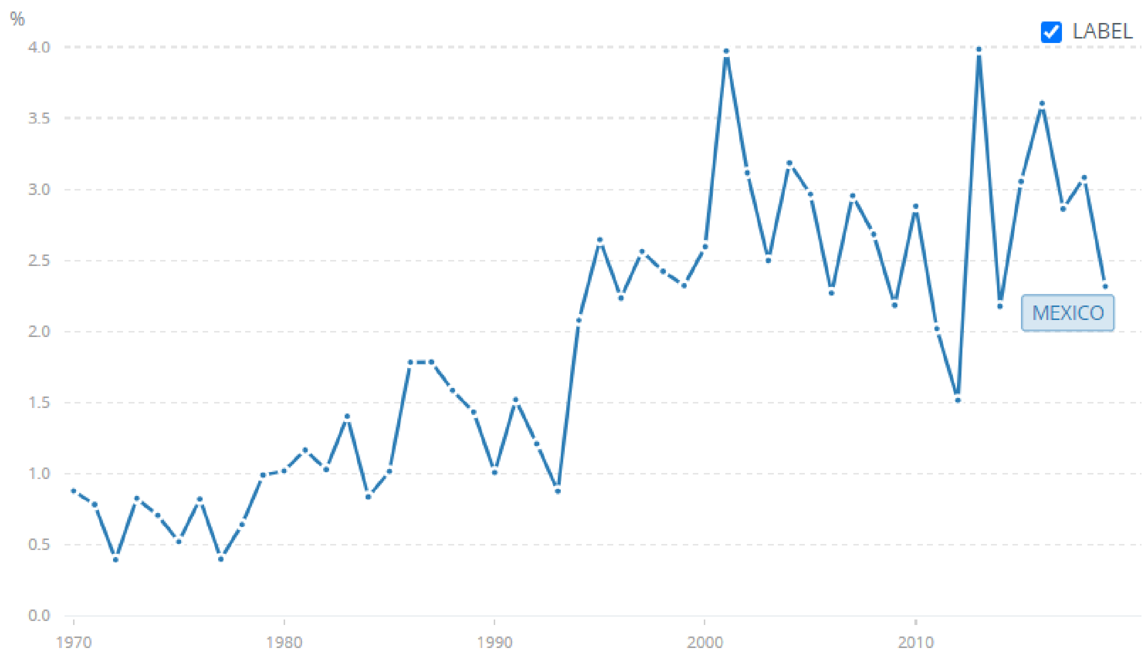
The investments in Mexico mostly comes from United States, Canada, Germany and Spain, being the manufacturing sector, especially the automotive industry the one that receives most investment, following by insurance and financial services, communication, retail and wholesale trade. The investments coming from abroad are mostly carried out in neighboring towns with USA´s border, where a great number of assembly factories are located, also in Mexico City. The tourism in Mexico is a strong sector and due to the fact that is a popular destination for foreigners along the world, and this help to boost the investments, especially in regions as the Yucatan Peninsula.

This is an indicator on how FDI inflows fluctuate in the country, related to the numbers in this sector and the most popular locations. (Santander Trade, 2022).

Mexico is very well integrated into the world economy order, taking into consideration that is a member of USMCA, OECD, G20, and the Pacific Alliance, affecting positively for the country to become more attractive for foreign investors. In addition, it enjoys a strategic location, vast natural resources, an immense domestic market, a diversified economy and a relatively well qualified workforce, not to mention affordable for most of the countries. However, this country ranked 60th out of 190 in the World Bank´s 2020 Doing Business, six places down compared to 2019, due to the suffer in competitiveness caused by the increase on organized crime, tax regulations and also lack in energy reforms. It is well-known that corruption is something present in Mexico, this accompanied by administrative inefficiency have been a major problem, and the business environment remains in awe due to risks regarding safety in the country. (Santander Trade, 2022).

Figure 16. Mexico - Foreign Direct Investment, net inflows

(% of GDP, 1970 to 2019)

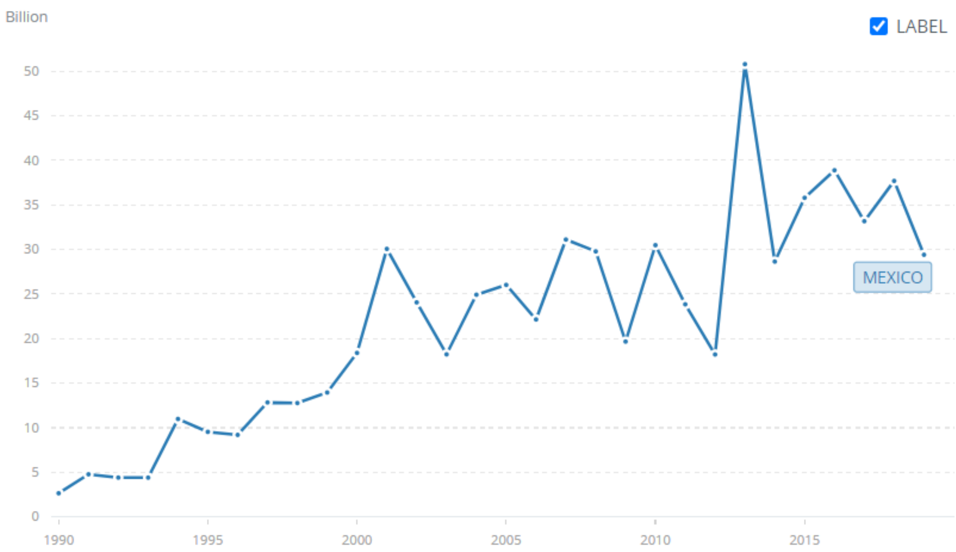


Source:

https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2019&locations=MX&start=1970&view=chart

Figure 17. Mexico - Foreign Direct Investment, net inflows

(BoP, current US$, 1990 to 2019)



Source: https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=MX

In figures 16 and 17 it is possible to observe that, during the 90´s, there was a considerable increase in FDI, and this is due to the most important foreign trade agreement for Mexico, NAFTA, which entered into force in 1994. As a result, the value of investment in this country from 1993 to 1994 increased more than double. From then, the country experienced mild decreases in investment followed by major increases that led to an enormous increment by the year of 2001, with a value of more than 30 billion USD. After that, the value of investment is fluctuating, reaching the all-time-high value in 2013 of almost 51 billion USD.

Transportation infrastructure

Another important factor to consider at the time of deciding if the country is a good destination for investment is the infrastructure of the transportation system, this signals with how much ease the company would be able to carry out their business operations. And also, if a country is improving their infrastructure accompanied with state of the art projects, this draws the attention of foreign investors.

Airports

In 2019, the AICM "Aeropuerto Internacional de la Ciudad de México" (International Airport of Mexico City transported 50.3 million passengers, experiencing increment of 5.4% compared to previous year. When the president Andrés Manuel López Obrador decided to cancel the construction of the New International Airport for Mexico City (NAIM) in Texcoco, it was then that he decided to bet on a different project, a three-fold strategy to develop an "Airport System for the Valley of Mexico", encompassing Toluca International Airport, AICM and the future AIFA. (International Trade Administration, 2021)

In 2019, the whole Mexican airport network transported 104.7 million people compared to 97.4 million from the previous year. During the period of 2013 to 2018, the number of transported people experienced an increase of 58.2%. (International Trade Administration, 2021)

In March 21, 2020, the inauguration of the newest airport in Mexico took place in Texcoco, 45 kilometers north of the current Mexico City Hub. "Aeropuerto Internacional Felipe Angeles" (Felipe Angeles International Airport) is the name of the airport that has caused controversy, due to the fact that although it has already been inaugurated, the construction work remains uncompleted. In addition, the airport suffers from congested roadways linking it to the city, and the train connection will not be available until next year. Nevertheless, a new highway connection to the airport is still under construction. (Madry, 2022).

Since its opening, the AIFA has averaged a dozen flights per day, about 2,000 passengers use the airport every day. According to their estimations, this airport will serve 2.4 million passengers in 2022, and the numbers will double by 2023. The Mexican carriers Volaris, Aeromexico, VivaAerobus, and the Venezuelan airline Conviasa have announced that they will operate in the airport. The great advantage is that prices to and from AIFA are expected to be cheaper in comparison with Mexico City International Airport. (Madry, 2022).

Ports

There are in existence a number of 102 along Mexico´s coastline and 15 out-of-port terminals. It counts with 24 Integrated Port Authorities that operate more than 40 cargo and passenger ports, 16 of these are international commercial cargo and passenger ports. (International Trade Administration, 2021).

The growth experience during the period from 2012 to 2018 was immense, going from 260 million to 317 million tons. However, there was a negative impact from COVID in 2020, reaching 267 million tons, although the predictions for the year 2021 are that it is going to increase 8%, thanks to a recovery in the economy in the US and other parts like Asia, that have a direct impact on cargo volume handled in this country´s ports. (International Trade Administration, 2021).

Rail infrastructure

The Mexican railway system is owned by the national government and it is operated by several entities under concessions that are granted by the national government. It gives freight and passenger service throughout the country, although most of the service is dedicated to freight. It is a very important system due to the fact that the network has connections with important industrial centers with ports and rail connections along the border with its northern neighbor. (International Trade Administration, 2021).

During the mid-90s there was a privatization in this sector, although nowadays the country is experiencing a revival. Railroads have played an important role in the transportation sector, although the participation it has in Mexican cargo movements is low. According Secretariat of Transportation and Communication and the Secretariat of Economy, from 980 million tons of goods that were transported across the country in 2019, 56% was moved by trucks, 13% by rail, 30.9% by boat and 0.01 by air. (International Trade Administration, 2021).

Based on data provided by the Railroad Transport Regulatory Agency, in 2019, 125.2 million tons were transported by train in Mexico; this can be translated to an increment of 5% in comparison with the previous year. During the same period, there was a movement of 88.3 million tons that were connected with foreign trade shipments. 66 million tons, that was 65%, corresponded to imports moving in the border crossing of

Nuevo Laredo, Tamaulipas (21.2 million tons) and Piedras Negras, Coahuila (11.9 million tons), located at the Northern border of Mexico, also as the port of Veracruz (7.4 million tons), and 22.3 million tons left, that equaled to 25%, corresponded to exports, and 71.3% was moved through land border crossings. (International Trade Administration, 2021).

The railway network in Mexico includes 26,915 km. of track; from which 17,440 km. (74.31%) are part of the main railway that is concessioned, 4,474 km. (19.06%) are part of the secondary railway, 1,555 km. (6.62%) are privately owned, and 3,445 km. are not used currently. The government is particularly interested in generating the necessary conditions and incentives to have a better participation of rail in land transportation, also to develop the railroad industry in Mexico for passenger and cargo transportation. (International Trade Administration, 2021).

In February 2021, there was an announcement regarding that some of the biggest concessionaries announced an immense investment around 530 USD million. Half of this capital will be used for maintenance of locomotives and infrastructure modernization, whereas other half is destined for growth projects in strategic regions, particularly in the north of Mexico. In order to enlarge the cargo capacity, the rail companies have reinforced the tracks and adopted double stack rail. It is interesting to know that only five countries in the world use this method to enhance the cargo capacity, apart from Mexico: USA, Panama, Australia and Canada. (International Trade Administration, 2021).

The improvement on the rail cargo in Mexico is related to the numbers in foreign trade. An important indicator of trade growth can be granted to automotive industry. Nowadays trains transport 7 out of 10 cards manufactured, whereas a decade ago, it only transported 3 out of 10. Rail is already the main fuel transportation method, and the growth in the oil and gas sector contributed to it. In addition, it is also useful to transport cereals, minerals and metals. (International Trade Administration, 2021).

Roads

The largest amount of projects announced in 2020 as part of the Economic Reactivation Agreement in October (70%) and November (55%) are going to be road and highway related. The priority objectives of Communications and Transportation Sectoral

Program 2020 – 2024 is the modernization, maintenance and construction of road infrastructure, in order to have a safe, efficient, accessible and sustainable, which contributes to the Mexico´s regional and intermodal development. (International Trade Administration, 2021).

Utility supplies

An important factor for site selection on the eyes of foreign investors is the utilities cost. Mexico offer low cost producing benefits, especially for the manufacturing companies that develop an accurate cost analysis early in their site selection process, taking into consideration all factors that have an impact in operational costs, such as labor costs, utility rates, price of real state, among others. If the selected country counts with low utility costs, this plays an important role in savings on the long term operational costs, and it becomes important that the new facilities know local rates and infrastructure availability. In this country, the industrial rates are calculated in compliance with market fluctuations and environmental agreements. In several situations, accessing utilities may depend on the availability of the resource per person and the distribution method. (Tetakawi, 2020).

Companies that are looking forward to establish in Mexico will want to ensure that water infrastructure is available near the preferred site location. It is necessary to take into consideration that utilities reach into most urban areas today, whereas some more rural locations may lack existing infrastructure. About 8% of the national water consumption is destined to industrial production. Due to the scarcity of this resource, the water reuse programs are very popular among large industrial firms, which results in significant savings. Also, utilities across this country are working to boost energy efficiency in order to have lower utility costs. (Tetakawi, 2020).

For manufacturing factories in Mexico, the water utility rates are calculated based on consumption per cubic meter. The utility might charge a percentage for sewer usage that may depend on the region. In addition to these calculations, special water usage is an added fee. An estimation of how much companies pay is $0.007 dollars per gallon of water. Moreover, it is also important to note that the National Water Commission sets the regulatory framework by which utilities operate, also it provides guidelines for developing water infrastructure and wastewater discharge. (Tetakawi, 2020).

About electricity in Mexico, Federal Commission of Electricity (CFE) is the one that regulates this utility in this country through power purchase arrangements arranged with private producers. Energy is obtained mainly from oil and natural gas, but renewable resources are playing an increasing role in industrial energy production. Electricity is charged per kilowatt, and the rates fluctuate depending on the season and time of the day. Power factors are calculated on a base rate (from 12 to 6 am), intermediate rate (in the summer, 6 am to 8 pm and 10 pm to 12 am; and in the winter from 6 am to 6 pm and 10 pm to 12 am), and peak rate (in the summer from 8 to 10 pm; and from 6 to 10 pm in winter), and peak rate during specific times throughout the day, and reflect of the regional demand. (Tetakawi, 2020).

The amount it is paid on average is about $0.094 dollars per kwh, which includes the power cost, taxes and distribution. Furthermore, it is important to understand what energy sources are and what kind of infrastructure is available when considering the potential sites for the facilities. An example is that in Baja California, on the northwest part of Mexico, there is a lack of natural gas, this is the reason why some plants need to use more expensive fuels for certain operations. In other words, it is necessary to compare the projected energy needs with available infrastructure so that it is possible to take all the potential costs inconsideration. (Tetakawi, 2020).

When it comes to natural gas prices, businesses pay less than households; by September 2020 the price for companies was $0.031 dollars, whereas the latter pays $0.065, which is more than double. (Global Petrol Prices, 2021) Nevertheless, this makes perfect sense, due to the fact that the quantity of utilities that companies purchase accounts for much more than those of the households, and also might be a consequence of incentives in order to attract investment to the country.

Working conditions

First of all, there has been a principle of 48 working hours per week, which leaves a full day of rest with complete pay, which is official by law. Nonetheless, there are some sectors like government service, banking and in most of the private sector companies, where forty hours of work per week have been established. In addition, workers in Mexico are protected against discrimination based on nationality, race, sexual preferences, religion, age, gender, disability, and social and marital status. These protections comprise the process of hiring and throughout the employment duration. (Fleming, 2020).

A normal working day in Mexico is categorized in day and night shift, in the first one there is a flexibility of working the 8 hours in a 14 hour period of time that works at 6 am and ends at 8 pm; whereas for the latter, there is a 10 hour window between 8 pm and 6 pm when workers are able to utilize their 8 active hours. It is important to note that although working hours in most offices run from 8 am to 6 pm, middle class people are now starting to extend it until 7 pm or later. And also, in the tourism sector it is expected for people to work on weekends, public holidays and late hours. The lunch break lasts 30 minutes. (Fleming, 2020).

There is certain controversy regarding the working conditions in Mexico, due to the fact that although there are basic rights that include severance pay, standard hours, good working conditions and health care, many companies find ways to decrease the benefits that workers should be receiving. In addition, it is relevant to mention that employed children in this country most of the times work in difficult conditions that endanger their lives. The most common activities that children have to carry out comprise carrying heavy materials like cement and wood, and also sometimes they might turn to be fieldworkers and servants. (Fleming, 2020).

All employees must be registered for Social Security Benefits, also they have the right to a share in the employer´s profits, fixed at a 10% of the company´s gross income; the employees have to be paid for government holidays; they are granted with an extra of 25% of the salary that corresponds to them during their vacation period; the Christmas bonus can be translated to a payment of at least 15 days of their daily base salary, this should be paid no later than December 20 each year. (L&E Global, 2021).

In case the employees are willing to work overtime, it is necessary to take into consideration that it is limited to three hours a day; it might not be carried out for more than three days in a row. Nonetheless, overtime it is calculated on a weekly basis, which means that it must not exceed nine hours a week. Moreover, it has to be paid at twice the hourly rate. If the 9 hours a week are exceeded, the overtime beyond those hours must be paid at a triple hourly rate. In addition, people less than 16 years and pregnant or nursing mothers, if it puts the worker´s or the child´s life at risk, it is not allowed for them to engage in overtime work. (L&E Global, 2021).

Employers have the obligation to start companies in accordance with the principles of worker safety and health, also to take necessary action that will assure contaminants do not surpass the maximum levels that are allowed in the regulations and instructions issued by competent authorities. Whenever it is required by authorities, employers should arrange physical modifications in facilities in order to ensure safety and health of workers. Those firms with more than 100 workers are required to establish preventive programs for safety and hygiene, so as to ensure employee´s safety and inform them of the risks in the workplace; this obligation applies as well to transportation of primary and hazardous materials, as well as in safety in the agricultural sector and rules regarding labor by pregnant women and minors. From October 2020, every worker is obliged to prevent work related stress by constantly evaluating the organizational atmosphere and applying control measures, such as medical examinations and records. (L&E Global, 2021).

Failure to comply with the previously mentioned provisions regarding health and safety matters; it will have as a consequence economic sanctions that consist of fines with a range from 50 to 5,000 times the Unity of Measure and Update, which is an economic reference in Mexican pesos to determine the amount of payment from obligations and alleged assumptions provided for in the federal law, for the states and Mexico City (INEGI, 2022), and that will occur for every violation and for every employee that is affected, regardless of sanctions of different nature that might be imposed according with other legal proceedings. (L&E Global, 2021).

Taxation in Mexico

Corporate taxes

The corporate tax rate is 30%, however, when it is about agriculture, livestock, fishing, and forestry activities, there is 30 % reduction of their tax liability. When it comes to foreign companies, they are subject to the same tax system as the national companies, although it is important to notice that they may benefit from certain exemptions. (Santander Trade, 2022).

After the first year of operations, firms might be subject to employee profit-sharing tax of 10%, also as special excise taxes on production and services, tax losses cannot be applied against the profit-sharing base, and no longer than May of the year following the year in which the profits were generated. Also, the transfer of real estate assets is subject to a tax at rates from 2% to 5% on the highest value of the transaction, the fair market value, or registered municipality. (Santander Trade, 2022).

Those companies that are engaged in oil exploration and production are subject to a special tax regime as it is stated in the Hydrocarbons Revenue Law. The social security contributions are based on the daily salary plus any other compensation that it is paid to the employee, with certain rates that vary depending to the base salary and the type of concepts for which the compensation is given. (Santander Trade, 2022).

Consumption taxes

The Value Added Tax in Mexico is called IVA "Impuesto al Valor Agregado", and the rate is 16%. There can be some reduced tax rates that consists of 8% when the supply of goods and services and use of enjoyments of goods in establishments that are located in the cross-border zone. A cero percent VAT rate is applicable to a number of transactions, including the exportation of goods and services, patented medicines, unprocessed food, and many others. (Santander Trade, 2022).

There are also goods and services that are exempt of any taxation, such as books, newspapers and magazines, constructions used for residential purposes, transfer of copyright by authors, public transport of passengers by land, education, transport of goods by sea for non-residents, credit instruments and local and foreign currency. However, there are certain goods that are subject to other kind of tax, known as excise, this tax apply on gasoline and has a variable rate, beer with 26.5%, wine from 26% to 53%, spirits with 53%, "junk" food with 8%, cigarettes and tobacco products with 160% plus an additional quota, telecommunication services with 3% and services for raffles and gambling with 30%. (Santander Trade, 2022).

Individual taxes

According to the Federal Tax Code, an individual resident for Mexican tax purposes when that person establishes or has his/her vital interests in Mexico, an individual´s centre of vital interests is considered located in Mexico if either more than half of the person´s income comes from sources in the country in a calendar year of it this country is the primary place of the individual´s profession activities. (Santander Trade, 2022).

Table 2. Mexico - tax rate

(MXN, %)

from MXN 1 to 7,735.00	**1.92%**
from MXN 7,735.01 to 65,651.07	6.4%
from MXN 65,651.08 to 115,375.90	10.88%
from MXN 115,375.91 to 134,119.41	16%
from MXN 134,119.42 to 160,577.65	17.92%
from MXN 160,577.66 to 323,862.00	21.36%
from MXN 323,862.01 to 510,451.00	23.52%
from MXN 510,451.01 to 974,535.03	30%
from MXN 974,535.04 to 1,299,380.04	32%
from MXN 1,299,380.05 to 3,898,140.12	34%
over MXN 3,898,140.12	35%

Source: https://santandertrade.com/en/portal/establish-overseas/mexico/tax-system

The deductions are made annually and the limit has to be equal to the lesser of 15% of the yearly total income of the taxpayer. These deductions are granted for business expenses, medical, dental and hospital as well as a limited amount of medical insurance, mortgage interest, retirement annuities, etc. (Santander Trade, 2022).

Since in Mexico there is no tax on estate or inheritance, it is considered as a normal income. A 10% withholding tax is applied to dividends that are paid to resident individuals. And a 25% withholding tax corresponds to income received by non-residents from the lease of real and personal property. The employees have to contribute to social security according to varying rates, with a maximum of 22,243mxn. (Santander Trade, 2022).

Minimum wage

If we take into account that every Euro equals to $21.60mxn, currently, the minimum wage in Mexico is $172.87mxn which equals to 8.003 Euros per working day. The numbers might seem very low, but in comparison to the last year, there was an increment of 23% which accounted for $141.70mxn, equaling to 6.56 Euros. Although, in the northern border zone the wage was raised to $260.34mxn, which results in an increment of 23% as well on the 2021 rate of $213.39mxn. (Mexperience, 2022).

During previous years the minimum wage had been raised in line with inflation, in order to avoid an excess on wage demands that could have caused an uncontrolled increase in prices and wages, which eventually could have had a bigger impact on the poorest people. Although, it is relevant to mention that over the years, the minimum wage had been extremely low, that not even the money acquired was enough to cover the living expenses of a single person, and even less that of the whole family. (Mexperience, 2022).

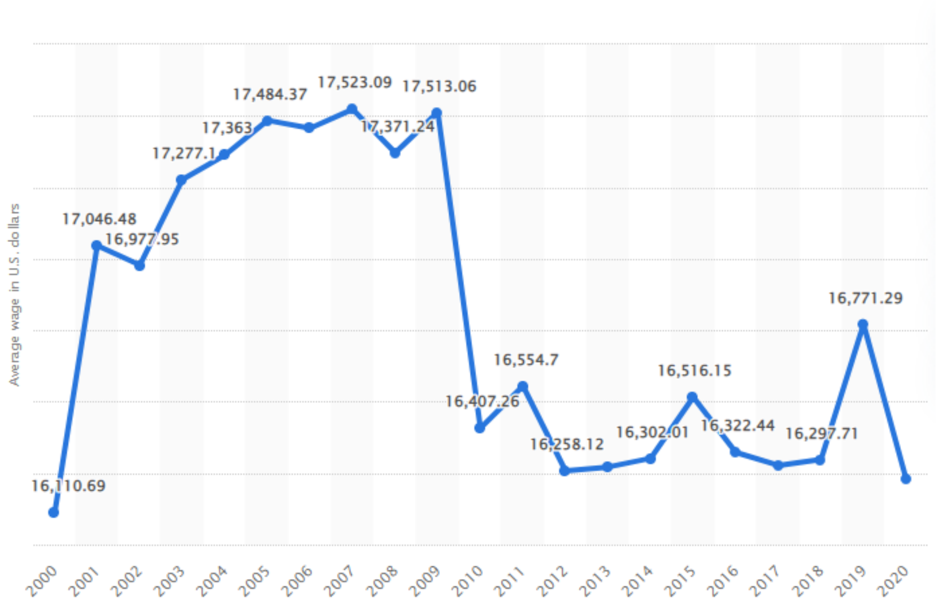
So as to have an idea of what has been the increase of the minimum wage, only in 2016, not many years ago, the minimum wage was 73.04mxn (3.38 Euros) per working day, by 2017 it rose about 9% to 80.04mxn (3.70 Euros), in 2018 increased 10% to 88.36 (4.09 Euros), by 2019 rose 16% to 102.68mxn (4.75 Euros) and during 2020 and 2021 it experienced an increment which led to $141.70mxn (6.56 Euros) and $172.87mxn (8.003 Euros) respectively. (Mexperience, 2022).

Average salary

It is said that typically, a person in Mexico earns around $33,200mxn a month, salaries range from $8,410mxn which is the lowest average to $148,000mxn which is the highest average. This includes housing, transport and other benefits. (Salary Explorer, 2022).

Figure 18. Average annual wage in Mexico

(In US dollars, 2000 to 2020)



Source: https://www.statista.com/statistics/812354/mexico-average-annual-wage/

The disparity of the salary varies drastically from one sector to another. The change in salary also varies from one location to another and depending on the achieved education level. An example of this is that generally speaking, employees with a bachelor´s degree earn 24% more than those have only a diploma, whereas professionals who attained a master´s degree are awarded with salaries that are 29% more than those with a bachelor´s degree, lastly, PhD holders can earn up to 23% more than those with master´s degree, and even doing the same job. (Salary Explorer, 2022).

Political situation in Mexico

In order to have a better understanding of the reasons why investors prefer to establish their businesses in Mexico, is imperative to know the political situation that is currently being experienced in this country, due to the fact that this is a decisive factor that demonstrates if the country is reliable enough for investments, which might result in a long term relation that is possible to benefit both parts, depending on the regulations initiated by the government, and the treatment they have towards foreign investors.

There is no doubt that Mexico has experienced a significant progress over the last three decades regarding the electoral competition and the regulatory environment, including market-oriented reforms. The higher positions of the country and an increasing percentage of the middle-class have been gaining knowledge and are experienced enough to be qualified for the role on how best to organize the country´s social, political and economic frameworks. (Muno, Faust, & Thunert, 2020).

Education in Mexico is an area that has experienced an increasingly development, the Mexican tertiary-education system is internationally competitive as are several major firms, including and increase number in the manufacturing sector. Proof education level is that policymakers in the country are well trained with international experience. (Muno, Faust, & Thunert, 2020).

On the other hand, probably one of the biggest problems in the country is related to the extreme unequal distribution of social benefits and services among the population. In addition, the most difficult situation that impedes socioeconomic progress is the inequality with north and south, rural and urban areas, and social classes. This leads to an ineffective implementation of policies, due to the fact that the gap is something to worry about and probably they will have a different effect on the different parts of the population. (Muno, Faust, & Thunert, 2020).

Comparing Mexico with several OECD countries, this one experienced a low increment on GDP, considerable inflation, persistently high levels of poverty and inequality and a lowest tax-to-GDP ratio. In addition, the renegotiation of the North American Free Trade Agreement was a difficult challenge in the year of 2018, it was very important due to the high reliance on United States markets, and this resulted into a dubious future for investors. However these were decreased when the trilateral agreement was signed for the North American Countries (USMCA) and another positive point was that Mexico renewed the free trade agreement with the European Union. (Muno, Faust, & Thunert, 2020).

The microeconomic situation is more discouraging, there is a lack of competition in important domestic sectors, with an economy that relies heavily on exports and it is tied completely to the economy in United States. However, Mexico has been oriented in multilateral arrangements in political and economic terms, it results important to mention the commitment the country has with Sustainable Development Goals and with the Paris Climate Agreement, also the cooperation with international financial institutions. (Muno, Faust, & Thunert, 2020).

There has been a considerable progress regarding to improve the political competition and ensure macroeconomic stability. Educational attainment among economic and political elites and also segments of the middle and lower classes has been another achievement. Nevertheless, economics and social modernization benefits have been distributed unevenly, and this has caused that disparities between social groups and regions are still present. Furthermore, economic development has happened at a considerably slow pace during recent years. Also, the country has experienced a decline in domestic security caused by failures in the rule of law, this include violence and corruption. Particularly the war on drugs signifies a big problem to overcome; this leads to an increase of the state fragility and even state failure in several regions in Mexico. (Muno, Faust, & Thunert, 2020).

Another aspect to evaluate is the arrival of a new president to the power, Andrés Manuel López Obrador became president of Mexico in 2018, and he has been making an effort to contribute to the country issues. He initiated a government program that is not very clear called “the fourth transformation”. Due to his actions, it can be assumed that the main problems to address are corruption, organized crime, poverty, social inequality and general reforms. Te president has initiated social programs and even raised the minimum wage, all these efforts to improve the social situation and improve life quality of the poorest population. The inflation has been kept under control thanks to the implemented austerity measures. (Muno, Faust, & Thunert, 2020).

On the other hand, some of the president´s decisions have been controversial, an example is the cancellation of the construction of a new international airport, and the simultaneous initiation of a large-scale infrastructure projects in the poor south of Mexico, like the “tren Maya” the Maya train, which is a rail project that aims to improve tourism in that region. (Muno, Faust, & Thunert, 2020).

A failed attempt to demilitarize the war on drugs with an approach that was labeled "hugs instead of bullets", taking into account that there was an immense presence of violence in his first year in charge, it could be said that it failed and he was criticized for its naivety. To put an end to corruption and to be have a transparent mandate are the main areas in which the president focus. He holds a daily morning press conference with the objective of improving transparency, but it has been said that it is only used to communicate in a populist way with the public. In addition, institutions such as the Supreme Court, the Ombudsman´s Office, the anti-corruption office have been filled with affiliate of the president´s political party (MORENA), this means that he is holding a majority in congress, which has led to criticism in a way that he is undermining democracy in a populist manner. (Muno, Faust, & Thunert, 2020).

During the pandemic, the Mexican health care system did not collapse formally, but only according to official figures that claimed there was never shortages of beds. However, there were reports from people who were not able to find a place in any public or private hospital, ended up dying at home. The distrust of the public health system is enormous; several people took care of their sick parents at home. According to most analysts, the people who were infected and deceased might amount to two or three times as many as it was officially informed. (BTI transformation index, 2022). The lack of accurate information, only demonstrates that it is possible that this country is not completely reliable, and might have a negative effect for foreign investors, due to the fact that these are going to lose trust and the long term relationship might result affected because of it.

Education in Mexico

Another important aspect to analyze is the educational system in this country, due to the fact that it is an indicator for the potential labor force that will be working in the companies opened by foreign investors, meaning that the higher the offered education quality is, the more possibilities there will be for them to obtain a job in such firms. Also, it is known that the labor force in this country is relatively cheaper in comparison with more developed countries, in addition, it the labor force is also well qualified to carry out their activities, it would appear as a good deal from the point of view of foreign investors, which could also play a role in the variables to analyze for taking a decision on whether to invest or not.

Higher education is an important drivers of inclusive growth. Benefits for societies, economies and countries can be regarded on the investments to it, the accessibility and the quality. Especially more in these times of knowledge economy, that is so competitive and complex. It is known that the accessibility and good quality education systems bring as results immense positive affections to the economies, such as increment of social awareness, increase tax revenues, decrease of spending on social transfers, inequality, informality, criminality, strengthen democratic participation, and increment in levels of innovation and productivity. (Gurría, 2020).

Unfortunately, it is an area in which Mexico has much work to do. Comparing with the OECD average of 63%, 82% of Mexicans between the ages of 25 and 64 do not possess any higher education. However, as times goes by, there has been some improvements. An example is that, in the academic year of 2017 – 2018, there were 4.5 million students registered in higher education, which is 2.4 million more than in the year of 2000. (Gurría, 2020).

A relevant attainment goes to the fact that public state universities, where more than a quarter of all students are enrolled, now have more than 80% of their undergraduate students in programs with a quality that has been externally accredited. Moreover, there has been an increment in creation and expansion of technological universities and polytechnics during the last two decades, adding to it the recent development of distance education, means that the supply of higher education is more diverse and better aligned to different student profiles and labor market needs. (Gurría, 2020).

On the other hand, there still are present significant challenges. Mexico has yet to build an effective system of governance for its higher education system, which requires clear objectives for higher education institutions, also responsibilities for federal and state authorities to assign and coordinate. It is said that Mexico has to implement a new higher education act that establishes a legal framework in order to provide clarity and certainty. Furthermore, it is also important to have accurate information for strategy and policy making. It is relevant to mention that key elements of comprehensive data system for higher education are in place, whereas reliable data on funding per student and true cohort data on student progression and graduate outcomes are not available. The lack of data could be resolved by developing a comprehensive and integrated data collection system for higher education. (Gurría, 2020).

It would be essential to consolidate and strengthen the coherence of education system in Mexico. There are thirteen relatively fragmented subsystems, there is no efficient credit transfer procedure, there is no single student identifier, and the national qualifications framework has not yet been implemented. In order to ensure quality and equity, adequate and properly distributed financial resources is required. The ideal scenario would imply increasing public investment for higher education so as to expand the coverage and quality of teaching staff. In addition, there is a high necessity of improving public financial support for students, especially those from disadvantaged backgrounds. Moreover, there is a lack of transparency in the budget allocation mechanism for resources for public higher education institutions. There are large disparities in the funding per student between institutions, even those that belong to the same subsystem. (Gurría, 2020).

As it exists in most OECD countries, an external quality accreditation system is required. There is still a lot of room for improvement in terms of equity. Taking into account that between 2007 and 2017, tertiary attainment from people from 25 to 34 years old increased from 16% to 23%, although this is far below the 44% OECD average, and even below countries like Colombia and Chile with 30%. The inequality along ethnic lines is immense, in 2015, only 6.6% of indigenous from 25 to 64 years old had completed tertiary education, in comparison with almost 19% in the rest of the population. In order to promote equity in higher education, it is necessary to concentrate the efforts on improving secondary education and continuing to strengthen technical higher education, including the associate technical degree, accompanied by efforts to improve and streamline public financial support for students. (Gurría, 2020). However, the inequality in ethnic lines can be tied to the fact that there is not enough monetary aid programs, to the lack of infrastructure and good transportation system in rural areas, where the concentration of indigenous people is higher.

During the past 15 years there has been a fast expansion of higher education in Mexico, the higher education attainment rate of the labor force across all states has experienced and increment by an average of 40%, in 3 states that are Hidalgo, Yucatán and Oaxaca, the increment has almost doubled. Nevertheless, there are still challenges present, related to matching its higher education system to the labor market. In this country, the potential benefits of higher education remain limited. There is presence of a significant degree of frustration for graduates and employer. Almost every second graduate works in a job where higher education qualifications is not required, and even more than one in four ends up in informal jobs. In addition, more than half of businesses report difficulties in filling job vacancies. (Gurría, 2020).

Disadvantages for young women are greater, due to the fact that they outnumber young men when graduating from higher education, the employment rate is 14% lower, which results in one of the biggest employment gaps in OECD countries. On the other hand, it is necessary to ensure that higher education responds to future labor market needs. As new technologies are being launched, like artificial intelligence and robotics, these trends are changing people´s jobs, as it has happened in many other countries, it might have an enormous impact on the Mexican labor market. (Gurría, 2020).

In order to raise productivity levels in the Mexican labor market, it is necessary to have higher level competencies, abilities and skills. This is why increasing specialization and innovation in medium and high tech industries will require a greater involvement of researchers and specialized professionals, and also higher education level graduates from several areas. In order to provide young people with necessary skills for the future labor market, it is recommended to implement a close collaboration between the government and higher education institution in key areas. (Gurría, 2020).

Aligning higher education with the changing needs of the labor market is the first one, this point talks about the situations when the choice students selected as a career are not always liked to current or future labor demand in the market. It is necessary to collaborate more with employers in order to know their needs, and these could also be involved in the design and delivery of programs; to provide more support for students is the second one, alumni need more support so as to succeed with their studies and also connect with the labor market. It is recommendable to provide teachers with access to professional training, including use of innovative and student focused approaches. In addition, it is important to recognize and reward teachers for the quality of their work; more flexibility in education and greater emphasis on lifelong learning is the third point, which highlights one of the problems that students face when they combine studies with work, due to the fact that it is difficult for them to change to another career or institution. The recommendation would be to provide better pathways for students to move around the system more easily, adjust the pace and mode of study to their needs, in order to return to higher education at a larger stage in life so as to complete or continue with their studies; better coordination between relevant actors is the last point, this one states that governments and stakeholders, as well as higher education and business associations need to work together with the objective of having a better coordination and inform evidence based policy and planning. (Gurría, 2020).

Major investors and sectors

According with information provided by the Ministry of Economy in Mexico, the main investing country is United States, with a total of 39.1% of the total investment in 2020, there is no doubt that the share of USA investment is something that proves the heavy reliance in this country, due to the fact that the second place belongs to Canada with a 14.5%, which is less than half of the share with the first country, but it also was something that could have been predicted taking into consideration the North-American free trade agreement, now called USMCA; the third place is taken by Spain with a 13.7% of the total investment, which is close to the share of the second country, this is still a high share, and proves that the language is an important factor to conduct business; the fourth and the fifth places are taken by Japan and Germany, with a share of 4.2% and 3.5% respectively. This indicates that there is a considerable gap of the amount invested from these countries, it is known that countries in Asia are developed countries with enough capital to invest, this is why it is necessary for Mexico to take action and create incentives that could draw the attention of this countries, in this way, the economy in this country would experience a booming and more countries would realize that it is an excellent country to invest money in. (Santander Trade, 2022).

The sectors in which there is more allocation of investments start by manufacturing with a 40.6% of the total investments in 2020, especially in the automotive sector, there are important automotive assembling factories in Mexico, this is also why a considerable part of the country´s exports are related to finished automobiles or automotive parts; the second place is taken by financial and insurance services with a 23.3%, similar to what happened with the share of investment in the countries, the first place on investment is considerably higher than the second; the third place is about transport with 9.8, then wholesale and retail trade with 7.7%, mining and quarrying with 4.6% and communication with 4.3%. All those sectors have a considerably less share than the first and second most important areas for investment. This proves that this country is highly reliant on investments of US, and that the strongest sector in the economy is manufacturing. It is a specialized country with high level of competitiveness, but it would be ideal if the country created incentives in order to take more investment for other countries than USA, in order to reduce that dependence. (Santander Trade, 2022).

The top foreign companies located in Mexico are IBM, Coca Cola, Motorla, Walmart, Inditex Group, BBVA Bancomer, Santander Group, Procter & Gamble, L´Oreal and 500 of the largest enterprises from Latin America are established in this country. (Santander Trade, 2022).

What to consider if you want to invest in Mexico?

Mexico attracts most of its FDI from Central and South America. Being well integrated into the world economic order by belonging to USMCA, OECD, G20 and the Pacific Alliance, indicates the country´s openness to FDI. The location is favorable, acting as a transit platform between North America and Latin America. The variety of natural resources, contributes to the fast development of all types of industries at competitive prices. When it comes to labor force, Mexico counts with a young and abundant one, which is relatively well qualified and to cost that is not very high. Tourism is very important for this country; it is the seventh biggest tourist destination in the world and has in parallel a large and important industrial base. (Santander Trade, 2022).

On the other hand, there are still many obstacles present for investors in Mexico. The fact that it relies heavily on its partnership with US, leaves this country vulnerable to any changes on the Free Trade Agreement. In addition, the level of corruption is high and the crime rate is something to worry about, due to the fact that investors are more interested in countries that are stable and where their investments will be safe, which is related to the fact that Mexico faces important structural economic and social problems. Drug gang violence is a major danger, both socially and economically in several areas, especially in border areas with United States. In addition, some sectors are reserved only for the Mexican state or Mexican citizens. A strong competition is present in certain sectors, not to mention that it is also an economy vulnerable to fluctuations in the oil prices. Even though during recent years there have been more infrastructure projects present, the infrastructure in transport and oil sector remain ineffective, following by a system of education have proven to be generally deficient. (Santander Trade, 2022). Nevertheless, corruption is the biggest problem; this leads to a worrying situation caused by it, due to the fact that it is present everywhere. If there was no corruption in this country, probably there would be more infrastructure projects with a better quality that it is possible to attract even more FDI.

Government incentives

The government in Mexico has made an effort to successfully create an open and safe environment for foreign investors. The country is a leader in foreign direct investment attracted to Latin America. It has 35 bilateral agreements for protection of the investments that have been negotiated and promotion. This contributes to make this region a safe destination for investments and an ideal base for exporting. The best thing about it is that there exist organizations that support the FDI, an example is ProMexico, an entity with the main objective to attract investment to the country. (Santander Trade, 2022).

The most common incentives are tax deductions, technology, land grants or discounts, innovation and workforce development funding. However, there are other means for encouraging investment: Special Economic Zones (SEZs) have the main purpose to attract investment to the underdeveloped areas in the southern states. The advantages those firms acquire are mainly trade facilities, duty-free customs benefits, easier regulatory processes and infrastructure development prerogatives; The IMMEX program “maquiladora program” consists in allowing foreign manufacturers to import components and raw materials into de territory with tax and duty free, only with a requirement that hundred percent of the finished goods will be exported out of the country in a previously established timeframe; The New Certified Companies program (NEEC) aids with bureaucracy, allowing the companies to move goods fast in and out of the country with less paperwork; when we talk about Free Trade Zones (FTZ), we are talking about the places where goods that will be directed to foreign markets are able to leave the country duty free; The incentive about refund of import duty paid on definitive imports establishes a benefit for importers, who are able to acquire a refund of the import duty that was paid on the definitive import of finished goods or raw materials, only when it is exported within 12 months after being imported; and also Real Estate Investment Funds (REITs). (Santander Trade, 2022).

Protection of investments

Mexico is a member of Multilateral Investment Guarantee Agency (MIGA) which is a member of the World Bank Group, with the aim of promoting cross-border investment in developing countries by providing guarantees (political risk insurance and credit enhancement) to investors and lenders. (Multilateral Investment Guarantee Agency, 2021). In addition, comparing Mexico with LATAM and Caribbean, United States and Germany, in the Index of transaction transparency, this country scored 8 out of 10, being over the rest of them with 4.1, 7 and 5 respectively; in the index of Manager´s responsibility, Mexico scored the lowest with 5 out of 10, and USA the highest with 9, LATAM and Caribbean and Germany 4.1 and 5 respectively; in the index of shareholders´ power, Mexico scored again 5 out of 10 and United States 9, LATAM and Caribbean and Germany 6.7 and 5 respectively. (Santander Trade, 2022).

In order to know in which are is better to invest, it is necessary to know what the key sectors of the national economy are. As mentioned before, machinery, auto parts, equipment, financial services, insurance services and chemicals are the best sectors for foreign direct investment, due to the high role in the economy; the banking sector being developed at a fast pace and it represents an opportunity for foreign investors, some other areas that are growing and are categorized as high potential sectors are after-sales services in the automotive sectors (maintenance, repairs, sale of parts and accessories), distribution chains, electronics, food, beverages and tobacco products, renewable energies and specialized and customized professional technical services. There are relevancy on knowing that the government is also aiming to modernize the country´s infrastructure, and this includes transport, hospitals, in order to attract major foreign investment. (Santander Trade, 2022).

On the other hand, the sectors where there are less investment opportunities are monopolistic sectors, in these areas, activities are allowed to be carried out only by the Mexican government: probably the most important is about the exploration and extraction of oil and other hydrocarbons; Nevertheless, there was a scheme that initiated in 2015 that allows private investors to participate; everything related to planning and control of the national electricity system and the provision of electricity transmission and the distribution of that public service; nuclear power generation, radioactive minerals, telegraphs, telegraphy and mail, currency issue and the control, supervision and surveillance of ports, airports and heliports. (Santander Trade, 2022).

Table 3. Industrial property in Mexico

(2019)

	Residents	Non-residents	Total
Patent applications	1,305	14,636	15,941
Trademark applications	112,970	32,946	145,916
Industrial design applications	1,348	2,378	3,726

Source:
https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/MX_e.pdf

As it is possible to observe in table 2, the patent applications for residents accounted for 1,305 in 2019, which is relatively low in comparison with the non-residents applications that resulted in a number of 14,636, totaling 15,941. On the other hand, there was an immense disparity on trademark applications for residents and non- residents, which accounted for 112,970 and 32,946, with a total of 145,916. Additionally, the industrial design applications accounted for a lower number than the other two previous kinds of applications, being 3,726 the total, which comprised 1,348 for residents and 2,378 for non-residents.

Opportunities in Mexico for investors

Experts claim Mexico might be benefitted from investment in the manufacturing sector, particularly by businesses migrating from China to this country, which will cause that companies based in the Asian country are in better position to meet their supply commitments to the United States. Its southern neighbor can provide the US market with better delivery stability, and Chinese companies are looking forward to set up plants in there. Cities located to the north of the country will be benefitted most;

however, the saturation of the ports in California and that of the Panama Canal creates an opportunity for Mexico. (Mitchell, 2022).

There is no doubt about the fact that Mexico and China have competed, but also complemented each other in production processes, the first one possesses opportunities at the level of delivery at the final destination point, the latter presents advantages due to its plant scale and access to the Asian Market. It is possible for the North-American country to attract more investment and many foreign investors only consider China in the first instance without analyzing Mexico in detail. Cooperation between these two countries might result in mutual benefits, due to the fact that China and Vietnam are ideal for serving the Asian market, and Mexico can serve the North American market. (Mitchell, 2022).

The mining of metals is one of the industries that is attracting most FDI to Mexico. Foreign investment in the sector reached $1.75 billion USD during the first nine months in 2021, which accounts for almost six times the $296 million invested in the whole 2020, although COVID-19 could be granted as the culprit for this lack of investments. The most important investors include Fresnillo and MAG Silver´s with $440 million USD silver-gold project. Output is predicted at more than 330,000 kilograms of silver per year and more than 1,200 kilograms of gold per year. Orla Mining also announced its Camino Rojo gold project in December 2021 with a value of $134 million USD, with an expected output of more than 2,600 kilograms of gold per year. (Mitchell, 2022).

There are many other sectors in which Mexico represents a good opportunity for investment, including Fintech, e-commerce and medical cannabis. In Latin America, Fintech or financial technology is growing at a fast rhythm, with Mexico as a major hub for tech innovation, especially in Guadalajara. With a good climate and available agricultural land, as well as the proximity of the major markets of the United States and Canada, the medical cannabis sector is considered as having many opportunities, even more as the product has an increasingly acceptance from the public. Mexico is already the seventeenth biggest e-commerce market in the world, this can be tied to the fact that the country is comprised by a huge population and the increasingly internet coverage reached 70.1% by 2019, also again to the closeness of the massive online markets of its northern neighbors, concluding that this country gives great prospects in online sales for the future. (Mitchell, 2022).

It is also expected that tourism sector generates satisfying results in the future. Taking into account that before the COVID-19, the Mexican tourism industry was expected to experience an increment of 15% that would have exceeded $9 billion USD in 2021, now it is estimated that this sector could attain $17 billion USD by 2025. Moreover, remittances have become an important contributor to the country´s economy, due to the fact that despite of the pandemic, it reached a high of $41 USD billion in 2020. Remittances have helped Mexico´s poorest population, whereas Foreign Direct Investment contributes to the principal engine of development that is manufacturing. Together, they have cushioned the negative effect of declining private and public investment. On the long run, it is necessary for Mexico to take advantage of the relatively low interest rate cost for financing public investments in the current environment and the nation´s low debt-to-GDP ratio so as to invest in projects that will complement private sector efforts. However, this also requires public policies that need to be designed in order to increase attractiveness for investors and maximize output growth. (Mitchell, 2022).

On the other hand, it is well-known that Mexico´s economy is heavily export-based, even to a greater extent than several developed countries, and FDI plays a very important role. Investing in this country is still a heavily regulated and bureaucratic process, in comparison with other destinations, to invest money in that country, it is required the involvement of several authorities with whom it is needed to deal directly in order to acquire authorizations, permits and the access to export/import programs, among other requirements. This process may increase the cost of an investment, and might even result as a discouraging effect for investors. (Vejar, 2022).

Nevertheless, in March 22, 2022, there was an announcement of the “Invest in Mexico” Business Center, which consists on the Ministry of Economy facilitating the work of establishing investment in this country, all this by aiding investors with reaching out to various Mexican authorities that are involved in the process of establishing projects, as well as assisting in contacting other companies and service providers involved in any production chain. (Vejar, 2022).

The guidance assistance and qualified information provided will be managed by the Ministry of Economy´s Global Economic Intelligence Unit. Moreover, the agency may be a contact point so as to facilitate issues related with bureaucratic procedures such as establishment of companies, immigration, trademarks, inventions registration, social security, real state acquisition, construction and the general legal framework of foreign investment. (Vejar, 2022).

This is an important opportunity for Mexico to facilitate processes of investment procedures by addressing one of its weakest points that is bureaucracy. By implementing this Business Center, the attractiveness of the country grows in the eyes of foreign investors, due to the fact that what every investor desires, is a fast and uncomplicated procedure. Also, by taking into consideration the culture of the country where most of the investments comes from, United States, where “time is money”, this business center will prove to be a useful tool to improve the already good relationship between these countries, and to draw the attention of more economies.

CONCLUSION

Mexico is an enormous country filled with richness not only in resources, but also in culture that dates back to many years ago. This country possesses a vast population, which can be translated to potential labor force, and although the educational system presents some disadvantages, the progress this country has presented during the past years, is unprecedented and grants a hint on how this area will remain with a positive trend of development.

Globalization has certainly disrupted the way of carryin out business, this is why Global Value Chains play an important role in every economy in the world. In the case of Mexico, it is possible to conclude that this country is very well integrated in such activities, especially in backward rather than forward participation, meaning that this country is more dedicated to import intermediate goods so as to add value to them and re export them as final goods or transformed intermediate goods. The specialization of the Mexican economy is in the manufacturing sector, especially in the automotive industry, which supplies in great amount to its norther neighbor, United States.

In comparison with several other economies from Latin America such as Colombia, Brazil, Costa Rica, Chile, Argentna; others from North America such as Canada and United States; and even some from Europe such as Hungary and Germany, it is possible to note that Mexico´s backward participation in GVC´s is higher than most of them, with the expection of Hungary that presents an ever greater backward participation. On the other hand, Mexico also presents the lowest forward participation, which indicates that despite of being similar sized economies, their role in global value chains is different for most of them, and example is that Colombia and Brazil are more dedicated to export soy beans, iron ore, copper ore and petroleoum, whereas Mexico also exports crude petroleum, only in order to re export it processed, which also indicates that in some areas, this country is not very well prepared with enough infrastructure to supply domestic demand.

Mexico is a foreign trade that depends heavily on foreign trade, only by 2020 it represented 78% of the total GDP, and as previously mentioned, most of the exports are vehicles, parts, computers, among others. In addition, its main trading partner is United States, and also by the same year, the exports to this country accounted for more than three quarters of the total exports, which indicates a high reliance on that economy; as it is comparable with the other trading partners with a much lower contribution to the total exports, such as European Union and Canada with a bit more than 3% each. This only demonstrates that Mexico is very well integrated with its northern neighbor, which at the same time might not be a good situation, due to the power that US possesses and also the risks of imposing taxes or other barriers on foreign trade that could cause damage to the Mexican economy. Albeit, from the point of view of United States, the reason of imposing such barriers is on favor of the country itself.

Mexico´s exports and imports are comprised mostly of manufactures in both situations, the relevant thing to notices is that the share compared to the other exports and imports are much higher, which only remarks the specialization this country has with manufactures and the role in GVC´s it plays. And although the value of exported and imported agricultural products it is also important, comparing it to that of non agricultural products, it is only a fragment of the total transactions, this will also explain why the country has a lower forward participation in global value chains. However, the export and import of services is also important in several areas of the country; nevertheless, it also accounts for a lower value than the non agricultural exports and imports.

There are numerous free trade agreements that Mexico has signed, which gives it access to an important part of the world. However, the most important agreement that this country has signed is the NAFTA, which entered into force in 1994, and that resulted in increasingly economic development for the country. USA and its southern neighbor were already good trading partners; nonetheless, it was after the ratification of this treaty that the two economies started to increase their trading activities between each other, which brought as a consequence a more integrated relationship, but the thing that was left out was free transit of people, due to the fact that migration from southern countries that needed to transit through Mexico, and also residents from this country, started to experience an increment.

After time, the renegotiation of NAFTA to USMCA in 2020 brought with it some changes that resulted in benefits for some areas that were not covered or became affected from NAFTA such as for workers, farmers and businesses. As Canada is also included in this agreement, it is important for Mexico to start the development of relations with this country, in order to diversify its trading activities and start a path that will lead to the non fully dependence on United States, this is the easiest way of accomplishing it, enhancing relationships with a country member of the most important treaty the country has signed. Moreover, the fact that Mexico has several free trade agreements signed with a plethora of countries leaves a lot of room for mutual cooperation and the possibility to diversify. It is possible that the easiest countries to develop trade relationships with are Latin American countries, due to the common language and convenient location. If efforts are aligned between these countries, the possibilities of building up a trade bloc with benefits for all parties involved could emerge.

There is no doubt that when it comes to foreign direct investment, Mexico is an emerging country that is extremely open to it, and although in recent years due to COVID-19 the yearly investment decreased, there is still too much potential for this country to attract investors. Again USA is the major investor in this country, followed by Canada, Germany and Spain in manufacturing sectors taking the first place, but also services such as financial, insurance, communication and retail and wholesale trade.

Mexico is an immense country which gives several options for investors to put money in the country, and hence, there has to be modern infrastructure that adapts to the necessity of the people. And this country is betting on its transportation infrastructure, it counts with several airports, projects of developing new ones, many ports with several functions such as trade and tourism; railways that mainly function for trade purposes; roads that are constantly being improved; and with more infrastructure projects to be implemented that will focus on the main areas where economic development is needed such as the southern part of the country. Although, as my own experience, some infrastructure projects are not well elaborated and after some time of being completed, it is visible that they were constructed with a low budget and cheap materials, which only highlights the corruption that is present.

There are a several number of advantages for investing in Mexico, the low utilities cost is one of the decisive factors that influences on choosing the site selection for investment; also, although there are good working conditions in this country with a plethora of benefits for employees, there are still some disadvantages to it, due to the fact that there are situations in which the employer wants to undermine the regulations just for saving some money; minimum wages are relatively low, but since some years ago it is increasing.

When it comes to the political situation in the country, investors are also looking for a stable place in which to put money in, in order to establish a business for a long period of time. Mexico has gone through several types of mandates, and most of them have resulted in affections for the country, several reforms that make the investors hesitant on whether to invest or not; and although, since 2018 the new mandate of the left wing president started, it has become a revolution, there have been many controversies, but at the time also positive situations such as the increment of minimum wages, social benefits, infrastructure investment, among others. The real problem of Mexico is the corruption, I believe that, if corruption did not exist, this country could reach unimaginable goals and reach good levels of development, security, equality, among others; Nevertheless, there is needed a huge effort for it to become a reality.

Mexican education has a good level; this means that the workforce for investors´ businesses will be qualified. In addition this country offers several incentives for foreign investors, there are new organisms that ease the process of investing; this country also belongs to programs that protect the investment in the country, grants many facilities such as the temporary tax free import of certain items, promotes investment and truly takes care of the foreigners´ establishments, which has a positive effect on calling the attention from people who want to put money in the country as a shape of a business.

Mexico is a country that has everything, good location, resources, good education quality, opportunities for investors, qualified workforce, among others; unfortunately, the political problems play an important role in this country, corruption affects abruptly every possibility there is for enhancement and prevents the country from having a true development. In addition, the high reliance with United States brings uncertainty for the population, due to the fact that it is tied to a country that, although developed, could be considered as abusive and could have the power to affect negatively the Mexican economy. On the other hand, it is also thanks to this dependency that the economy could recover from the COVID-19, when in USA thanks to a stimulus package that increased demand, Mexico could slightly recover from the pandemic blow. However, due to the several treaties that this country has signed that comprise an important part of the world; diversifying is a good option to lower the risks. Furthermore, the role Mexico plays in Global Value Chains is important, especially in the automotive sector, which influences in great part to the foreign trade, due to the fact that what this country exports and imports more are intermediate goods or automobiles, in the case of exports. Moreover this country has a lot to offer for foreign investors, and it would be the ideal place to put money in due to the trust that this country demonstrates towards foreigners. And although there are some flaws, the important thing is that there is always room for improvement, and Mexico is fully dedicated to eliminate the flaws. All this, with the finality of making Mexico a better country.

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DECLARATION

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