MEXICO

The Guelaguetza Festival in Oaxaca, one of Mexico's most celebrated cultural events–photo courtesy of Rincones de mi Tierra

Mexico Rising Above the BRICS

The Mexican economy is growing steadily despite challenging global conditions. With the U.S. also on the rebound, Mexico has a golden opportunity to grasp long-lasting GDP growth.

Mexico, praised by the IMF in a recent report for showing resilience in the face of the falling peso, global financial tremors and the drop in oil prices, is still the top economic performer in Latin America. Outstripping regional growth by 1.2% in 2014, and with IMF forecasts of 2.4% growth for 2015, Mexico is battling through turbulent global conditions thanks to its powerful manufacturing and industrial sectors, and seeking increased foreign direct investment (FDI) as a result of the economic slowdown seen in the BRICS (Brazil, Russia, India, China and South Africa) countries.

The government has been enacting vital OECD reforms designed to boost GDP growth by an extra percentage point per year for the next 10 years. These major structural measures have been legislated to improve Mexico's competitiveness, education, energy, finance sector, labor, infrastructure, telecommunications and tax system.

Conditions in the manufacturing sector have been improving, and thanks to low unemployment and low inflation along with better economic prospects, consumer confidence has also increased. Mexico's economic output is directly linked to the recovery of the U.S. economy, global developments in the oil and gas sector, and the effect of China's slowing economy on world markets, creating external pressures on the country that the new reforms have been designed to counter.

However, even in the face of uncertainty, Mexico is now the fourth-largest car manufacturer globally, while high-tech exports such as machinery, aerospace sector products, computers and electronics now account for more than $45 billion worth of exports, showing that the economy is diversifying. Gabino Cué Monteagudo, governor of Oaxaca state, says that 2015 is a vital year for the country, because not only will the national reforms kick in, but also the ones his administration has been enacting during the past five years.

"Many reforms focused on changing the perception of a state embroiled in social and political conflicts," Cué Monteagudo says. "They resulted in a marked increase in private investment in tourism, which remains our primary source of wealth, wind energy and services."

Mining investments have also featured prominently, with Oaxaca now being the fourth-largest state in Mexico in terms of mining production. Oaxaca is more than an investment destination, however: it also represents a huge element of the tourism industry in Mexico, with its fascinating pre-Hispanic history—as the geographical point where the Zapotec and Mixtec civilizations met—and the rich colonial heritage, with its lavish culinary and artistic legacy, showing there is something for everyone.

"We have beaches that span 550km [341.8 miles] of coastline," Cué Monteagudo says. "Puerto Escondido is also very attractive to

Gabino Cué Monteagudo
Governor, Oaxaca

Roberto Borge Angulo
Governor, Quintana Roo

younger travelers or surfing enthusiasts, and we are also speaking to airlines about opening a direct connection to Los Angeles to better tap into the U.S. market."

Those tourist dollars, however, will be keenly fought over by other states such as Quintana Roo, the home of Cancún and one of the prime destinations of the region, famed for its miles of sandy beaches. Roberto Borge Angulo, governor of the state, says that Quintana Roo has maintained its leadership in the tourism sector and in the generation of foreign exchange, and although Quintana Roo's economy is centered on the service sector, competitiveness has grown by 5.5% since 2014.

The latest report on regional economies from Banco de México predicts tourist activity in Quintana Roo will expand over the next 12 months as a result of an increase in national and international air connectivity, expanding hotel infrastructure, and the depreciation of the peso. "Many of Quintana Roo's coasts are registered as protected natural areas or have some state regulations to conserve them," Borge Angulo says. "Environment conservation is key to maintaining the natural richness that allows us to prosper as a tourist destination, so we prioritize care for the forests, the barrier reef and water treatment.

"We will also continue to improve our tourism and port infrastructure across the state in order to remain competitive during 2016.

The Mayakoba resort includes the Banyan Tree, Fairmont and Rosewood hotels.

By the end of 2015, we will most likely have received more than 17 million visitors by air, sea, and land. We are also expanding our port infrastructure. Carnival Corporation, the world's largest travel and leisure company, recently opened a highly anticipated expansion of its operations in Cozumel, adding a third berth to the company's pier at Puerta Maya, the most popular cruise destination in the Caribbean."

Borge Angulo also says that Quintana Roo and the Yucatán Peninsula are safe spots for tourism. U.S. tourists can check the travel advisory notices issued by the Department of State, and these warnings

El Dorado Maroma. **www.karismahotels.com**

show the major travel destinations in the state have no warnings in place. In fact, this year, Canadian and U.S. officials pointed out that the Yucatán Peninsula, composed of the states of Quintana Roo, Campeche and Yucatán, is the safest region in Mexico.

With unparalleled scenery underwater and on land, Quintana Roo offers some of the most exciting diving and snorkeling sites in the world, and when coupled with the many biosphere reserves and national parks that are home to a diversity of animal and plant life, its reputation as a natural playground is easy to understand.

Agustín Sarasola
Managing Director
OHL's Mayakoba Development

While Quintana Roo's famed Riviera Maya boasts a growing number of hotels to meet its ever-increasing popularity, Agustín Sarasola heads a unique resort with the legendary Mexican hospitality in place. A team of dedicated biologists, architects and designers work in the conservation of native flora and fauna—six miles of freshwater canals surrounded by exotic mangroves and bird life—where guests can take a relaxing boat trip, while a spectacular 18-hole Greg Norman golf course awaits them.

As Sarasola says, "The Mayakoba is a feat of environmental engineering. It was designed to take advantage of a beautiful natural environment, where we have created a unique concept combining sustainability with some of the best hotel brands in the world: Banyan Tree, Fairmont and Rosewood."

Catering to the inner-rock-star visitors of all ages are the Hard Rock Hotels All Inclusive: a select resort concept in Mexico and the Caribbean and the brainchild of native Mexican and famed tourism entrepreneur Roberto Chapur. The holding company was the first to create an all-inclusive resort in Cancún in 1990.

Chapur, CEO of Hard Rock Hotels All Inclusive, says, "We opened the very first all-inclusive Hard Rock Hotel. Music is universal, and the Hard Rock brand has a global reach. The authentic music memorabilia, unique music amenities, and fun experiences found throughout our hotels resonate with guests from all around the world. The average stay is six days, which beats the average Cancún stay of five days. We have a program called Limitless Resort Credit, which offers guests up to $1,800 per room that they can spend on whatever they want: be it

Rafael Feliz
Chairman/CEO
Karisma Hotels & Resorts

tours, our spa or our golf course."

To ensure maximum customer enjoyment, the company has partnered with family-friendly brands such as HIT Entertainment—whose characters include Barney, Bob the Builder and Thomas the Tank Engine—allowing them to cater to each age group so that every family member enjoys their vacation.

In 2014, Mexico had 25 million passenger arrivals, representing 19% growth, with 2015 proving even better. From 2009 to 2014, Mexico saw a further increase in tourism spending and hotel-room pricing of some 35% above prices before the global financial crash. This surge is the reason that Rafael Feliz, chairman and CEO of Karisma Hotels & Resorts, was keen to expand its group of resort complexes. As he says, "Karisma started as the dream of a group of young people working for Allegro Resorts, which was a leader in the sector in the '90s. When Allegro was sold to Occidental Resorts in 2000, we launched our own project, Karisma. Mexico is now our flagship, although we are also present in Jamaica, Colombia, the Dominican Republic, Croatia and Serbia.

"We founded the Gourmet Inclusive trademark, which seeks to apply the gourmet concept to every part of a stay in our hotels, from check-in to check-out. We partnered with Viacom to create the Nickelodeon Experience at the Azul Hotels in the Riviera Maya, which has been a great success. We then began a program called the Culinary Series, with chefs visiting each month to cook for our guests."

Mexico City, the political capital, is increasingly becoming a destination for tourism in its own right, competing against sun and sea destinations in the country with a lavish collection of museums, heritage and lifestyle options. With the structural reforms taking pace, the number of foreign expats in the city is growing.

Grand Polanco: 34 rental apartments, fully luxury-furnished. www.grandpolanco.com

Marcos Achar Tawil, CEO of real-estate developer IMAT and the Grand Polanco Residencial, one of the capital's foremost luxury addresses, says "We like to do things that are timeless. That's why Grand Polanco Residencial is a development of iconic architecture in Polanco, the city's most prestigious neighborhood. We offer apartments with all amenities, luxuriously furnished and ready to be occupied, making them

Jaime A. Cervantes Covarrubias
CEO, Grupo Vitalmex

perfect for the expatriate market. The hallmark of our developments is quality and comfort."

Across Latin America, almost 450 million people earning between $4 and $10 per day pay for their own health treatment, including 90 million in Mexico alone, according to the Inter-American Development Bank. Lack of empowerment and education about personal healthcare, and a public health system unable to serve each patient, are at the root of this situation. Many of the country's hospitals don't have the capacity or new technology that patients require. This leaves fertile ground for health care entrepreneurs like Grupo Vitalmex. Jaime A. Cervantes Covarrubias, the CEO of the group, says how his company has been at the forefront of working at the base of the health-care pyramid.

"We have dedicated ourselves to identifying ways to resolving three challenges facing the Mexican health care sector," he says. "The first is access to health care; the second is the availability of resources for patients; and the third is for patients to be seen when they need to be. These areas have become fragmented due to a lack of infrastructure, personnel and medicine, and because people are not affiliated with an insurance or public health care option."

Vitalmex is seen as a developer of innovative integrated services for the health care sector. Under its Plan 2025, launched in 2013, the company has a specific direction in which it aims to grow. The long-term plan is to create a health-care system, coordinate the fragmented elements that exist, provide better training for medical professionals and lastly, boost the availability of integrated services throughout the nation.

"Vitalmex pioneered the pay-per-procedure model that has now matured in Mexico's public health care system. This allows one payment to cover various aspects, such as IT, training, equipment, and supplies that largely remove the risk of medical waste," says Cervantes Covarrubias. "We want to combine this integrated-services approach with PPP contracts so that hospitals can be planned from the start, with the right budget in mind and the level of coverage needed. This will avoid the massive delays that happen at each stage of many PPP hospital projects. We could create economies of scale allowing us to renovate older hospitals and create new infrastructure without reducing the level of care on offer."

Miguel Granados, president of pharmaceutical market leader Landsteiner Scientific, recognizes the vast potential for growth.

"Our company is one of the five main pharmaceutical companies in the region and among the 10 most important labs in Mexico. Our new production facility is the biggest of its kind in Latin America," he says."Our business development plan is based on aggressive product development—particularly in generic biosimilars and highly specialized generics—with the development of our staff, while also making investments in technology. The greatest challenge Mexico's pharmaceutical industry faces is to resist the consolidation trend of the market by improving its processes to reduce costs and have more competitive prices. Furthermore, it needs to invest in technology and its people. Landsteiner has an aggressive expansion strategy for the Latin American market in place. We already have 30 products registered in Latin American countries, and by the end of 2016 we will have 100."

Meanwhile, a combination of low interest rates, which make mortgages more accessible, and government support for low- to middle-income housing buyers is spurring demand and generating golden

Miguel A. Granados Cervera
President
Landsteiner Scientific

Jorge Mario Arreola Real
CEO, PromoCasa

opportunities for real-estate developers in Mexico with the right expertise.

Jorge Mario Arreola Real, CEO of PromoCasa, a leading developer in northern Mexico, believes middle-income housing will continue to grow alongside demand in general at a rate around 7%. "The growth of the sector is based on economic stability," Arreola says. "If that stability is maintained and rates remain low, demand will continue to grow. The concept of a smart home is emerging, and technology will become a differentiating factor. In 2016 we will open two new communities in Los Cabos and Culiacán. Both are middle-income products that can appeal to returning Mexicans and Americans alike, and even to tourists."

While PromoCasa will grow by 50% in 2015, Arreola claims future growth could come from the ever-increasing number of public-private partnerships that are needed to improve many Mexican cities. "There are currently four partners in PromoCasa, but we are open to finding new ones, be they Mexican or international," he says.

Desarrollos Delta is one of the major players in Monterrey, northern Mexico's thriving industrial city, and, led by president Federico Garza Santos, they look set to continue their rise to the top. As Santos says, "We focus on built-to-suit space, tailor-made to the specifics of clients. We are working on a project for General Electric, which will host its operations center for Latin America. Our success comes from offering far lower prices to such companies. We also have two major growth strategies. First, as part of our real estate investment trust Fibra MTY, we acquire mature office-space properties. Second, our Delta arm develops new assets, giving our two divisions very different risk profiles." The company is now placing itself at the front of the industry by bringing together operators and developers within their trust, and will focus on becoming an administrator of funds in the U.S. and Mexico as the trust continues to grow.

Another boost to the economy is expected to come from the liberalization of the energy market, which should lower costs for users of electricity. One company looking to take advantage of this new, liberal environment is Química Apollo, headed by CEO Constantino Galanis. As he says, "Pemex [the state-owned oil giant] needed to transform itself with this energy reform. More importantly, its monopoly will be broken, which is what the industry has needed since the beginning. Química Apollo is very well positioned to work with the new players that are coming in. We know the market and the country, and we know the oil fields and the kind of oil that will be found so they can start—and even increase—production."

And, with the rules of the game in oil and gas changing, the need for expert advice to navigate the new legal maze increases. Juan Carlos Machorro, partner at Santamarina y Steta, says that his company—regarded by the market as leading experts in the energy sector—has foreseen this and has adapted to the new environment.

"Differentiation and balance have been the major reasons for our success."

Federico Garza Santos, President, Desarrollos Delta

"We see interesting PPPs arising with the support of private-sector financing," he says. "This company was formed to serve the mining and energy industries, and we understand the new rules of the game in depth, which puts us in a privileged position. Our differentiator is that we have the ability to offer ourselves as a single firm in all the areas of a business and the capacity to develop the entirety of an energy infrastructure project."

Herbert Bettinger Barrios, director general of Bettinger Asesores, also sees the new environment as an unprecedented opportunity for the whole economy as well as his company, as he looks to fully exploit years of expertise in tax and associated costs for businesses operating in Mexico. "We are tax specialists with a strong focus on mining, import and export, and we have many customers in the hydrocarbon industries," he says.

Química Apollo, Mexico's number one energy solutions expert. www.quimica-apollo.com.mx

Bettinger also sees that there is much work to be done in regards to the perception of Mexico abroad as an investment destination. It is time to invest in Mexico, but U.S. investors are very careful with their investments, and, of course, corruption can be a deterring factor. Mexico has very good controls in place, but what is needed is a push to make them work, which we, as an advisor to foreign investors, do."

Infrastructure throughout Mexico will see great increases in capacity, specifically in facilities such as the airports, which are vital to both the tourism and business sectors. One airport that has already had a remarkable surge in passenger numbers is that of Guadalajara, where arrivals have been climbing steadily. As Fernando Bosque Mohino, CEO of Grupo Aeroportuario del Pacífico (GAP) says, "Our most important airport is Guadalajara, the second most important city in Mexico. In 2015, it will receive 1 million more passengers than in 2014. The growth rate stood at 500,000 in 2013 and 600,000 in 2014, showing that Guadalajara and its state, Jalisco, are growing into real business and service hubs. Our five-year investment plan was approved at the end of 2014. In total, we will invest $340 million, with Guadalajara and Tijuana receiving the heaviest investments. We want Guadalajara to grow to over 13 million passengers by 2020, by integrating two terminals and a new international area and expanding capacity, including the number of gates. Our major goal is to increase connectivity between Mexico and the U.S."

Antonio Nacif Kuri
CEO
Grupo Galas Janel

One company benefiting from the U.S. recovery and improving investor interest in Mexico is Grupo Galas Janel, one of Mexico's prime export businesses that deals with major multinational companies. As CEO Antonio Nacif Kuri says, "Our business has two sides: one industrial, mainly working with packing materials and associated services for big companies such as Procter & Gamble, Nestlé, Unilever, PepsiCo, and more. This is a business with high-entry barriers, and because of that we have little competition, as there are few companies in Mexico that can work with the volume, quality and service required by those companies. Ours is a stable, secure business, and linked to the growth of large multinationals and the country itself. Then we have the sales side where we work with more than 25,000 products. We make things like sticky notes, masking tape, school tape, office tape, Christmas trees and decorations, and packaging for everything we retail. Unlike other players in the industry that mostly use base imported material, we are completely vertically integrated and manufacture in our factories in Monterrey."

The Mexican manufacturing industry is at a crucial stage globally, and the same can be said of the real estate, infrastructure, energy, tourism and health industries. Mexico has to take advantage of the increasing lack of competitiveness of Chinese products, and the economic slowdown in Brazil, which is adversely affecting its global reputation. U.S. companies are looking at Mexico to replace the supply of products from Asia as they become more expensive. With the Mexican middle classes seeing their purchasing power and access to credit increase, consumer culture in the country will continue to expand, opening domestic markets to producers from home and abroad. The much-vaunted "Mexican moment" is far from over: it is about to begin.