NAFTANEXT
Investment Climate in Mexico
April 2014

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2. 2013 GDP’s behavior during 2013
3. Mexican stock exchange behavior during 2013
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1. Structural Reforms

- Financial
- Taxes
- Energy
- Education
- Telecom

Structural Reforms
The 2013 reforms will open key sectors of the economy…

- Competition
- Telecommunications
- Energy

And improve the quality and/or availability and cost of inputs

- Education
- Financial
- Labor: from the final days of the prior Administration

2. GDP’s behavior during 2013

GDP 2012 & 2013

- **1Q**: 4.8
- **2Q**: 4.4
- **3Q**: 3.1
- **4Q**: 3.3

**GDP 2012**

- **1Q**: 1.07 promedio anual 2012
- **2Q**: 3.90 promedio anual 2012

**GDP 2013**

- **1Q**: 0.6
- **2Q**: 1.6
- **3Q**: 1.4
- **4Q**: 0.67
2. GDP’s behavior during 2013

- The origin of the declining growth seems to have lied first in softer external demand and then in a contraction of domestic investment.

![Real aggregate demand chart](chart)

**Real aggregate demand**
Quarterly change, %, s. a.

- Exports of goods and services
- Investment

Q1 2012 Q2 2012 Q3 2012 Q4 2012 Q1 2013 Q2 2013

s. a. / Seasonally adjusted
Source: INEGI
GDP’s expectation for 2014 and 2015

Forecast variation of GDP by quarter 2014 and 2015

Annual percentage rate

- December’s survey
- January’s survey
Expected GDP’s behavior during 2014

Main factors that could affect economic growth in Mexico
Feb 2014

- Problems of public insecurity: 18%
- Weakness of the external market and the global economy: 17%
- Weakness in the domestic market: 15%
- International Financial Instability: 13%
- Fiscal policy that is being implemented: 10%
- Uncertainty over domestic economic situation: 9%
- Domestic political uncertainty: 4%
- Levels of foreign interest rates: 3%
- Inflationary pressures in the country: 3%
- Others: 8%

Source: Encuesta sobre las Expectativas de los especialistas en Economía Del Sector Privado, Febrero 2014, Banxico
3. Stock Exchange behavior

**Mexican Stock Exchange** opened 2013 with 43,076.86 points and closed with 44,336.04.

2014 close expectations= 45,600 points
4. Foreign investment

Foreign direct investment flow to Mexico (by kind of investment, 2008-2013)
(Million dollars)

Ministry of Economy
December 31st, 2013
4. Foreign investment

FDI flows to Mexico by country of origin, 2012
(percentage share)

United States: 49.4%
Netherlands: 17.2%
Canada: 10.2%
Japan: 10.5%
Others: 4.6%

FDI flows to Mexico by country of origin, 2013
(percentage share)

Belgium: 37.7%
United States: 32.0%
Luxembourg: 13.2%
Japan: 4.4%
Netherlands: 7.6%
Others: 5.1%

Source: Ministry of Economy
To December 31, 2013

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4. Foreign investment

FDI flows to Mexico by target sector 2012 (percentage share)

- Manufactures: 42.5%
- Construction: 15.6%
- Mining: 19.3%
- Commerce: 10.1%
- Temporary accommodation: 6.6%
- Others: 5.8%

FDI flows to Mexico by target sector 2013 (percentage share)

- Manufactures: 73.8%
- Construction: 7.9%
- Mining: 7.9%
- Commerce: 4.9%
- Temporary accommodation: 3.0%
- Others: 2.8%
- Others: 7.7%

Source: Ministry of Economy
To December 31st, 2013
4. Foreign investment

COMPOSITION OF FDI INTO MEXICO
BY STATE, 2013*
(percentage share)

- Mexico City: 62.2%
- State of Mexico: 2.9%
- Coahuila: 3.5%
- Puebla: 3.6%
- Chihuahua: 5.4%
- Others: 22.5%

*/ Information at December 31, 2013.
Source: Ministry of Economy
Foreign Direct investment forecast for 2014

FDI Expected
$24,600 billion dollars
Competitiveness

Mexico advanced 20 places in the World Bank *Doing Business* index.

**Doing Business 2012**
(ranking)

<table>
<thead>
<tr>
<th>Country</th>
<th>Ranking</th>
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<tbody>
<tr>
<td>Chile</td>
<td>39</td>
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<tr>
<td>Colombia</td>
<td>42</td>
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<tr>
<td>Spain</td>
<td>44</td>
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<tr>
<td>Mexico</td>
<td>53</td>
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<td>Bulgaria</td>
<td>59</td>
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<td>Poland</td>
<td>62</td>
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<td>Czech Rep.</td>
<td>64</td>
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<td>Turkey</td>
<td>71</td>
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<td>Romania</td>
<td>72</td>
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<td>Mexico (2006)</td>
<td>73</td>
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<tr>
<td>China</td>
<td>91</td>
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<tr>
<td>Rusia</td>
<td>120</td>
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<tr>
<td>Brasil</td>
<td>126</td>
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<tr>
<td>India</td>
<td>132</td>
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</tbody>
</table>
This index includes:
- Financial attractiveness: tax and regulatory costs, infrastructure cost, compensation cost
- People skills and availability: education and language, attrition risk, labor force availability, remote services sector experiences and quality ratings
- Business environment: infrastructure, cultural exposure, country environment, security of intellectual property.

*Index metric: Financial attractiveness, people skills and availability and business environment.*
Manufacturing powerhouse

Mexico exports more manufactured goods than the rest of Latin America and the Caribbean combined.

Exports of Manufactured Goods from Latin America and the Caribbean 2012
(billion USD)

- Mexico: 302
- Brazil: 82
- Argentina: 25
- Panama: 15
- Chile: 10
- Colombia: 10
- Costa Rica: 7
- Peru: 5
- Dominican Republic: 5
- Honduras: 5
5. Economic impact of the Fiscal reform

• According to Mexico’s Central Bank, the 2014 fiscal package will impact inflation, economic activity, and the use of financial resources.
• The economy is expected to recover gradually in 2014 and 2015.

GDP forecast
Annual growth, %

1/ Maximum, average and minimum
Source: Banco de México (2013), Encuesta sobre las expectativas de los especialistas en economía del sector privado, October; Banco de México (2013), Informe sobre la Inflación Julio – Septiembre 2013, November; and Latin-American Consensus Forecasts. October
6. Mexico’s main political actors that influence the business climate

Enrique Peña Nieto  
President

Luis Videgaray Caso  
Secretary of Finances

Ildefonso Guajardo Villarreal  
Secretary of Economy

Francisco Nicolás González Díaz  
Chief Executive of ProMéxico
6. Mexico’s main political actors that influence the business climate

- Pedro Joaquín Coldwell
  Secretary of Energy

- Emilio Lozoya Austin
  PEMEX Chief Executive

- Alfonso Navarrete Prida
  Secretary of Labor

- Gerardo Ruiz Esparza
  Secretary of Communications and Transportations

- Carlos Fernando Almada López
  Undersecretary of Transportations.
6. Mexico’s main political actors that influence the business climate

Miguel Ángel Osorio Chong
Secretary of Interior

Luis Enrique Miranda Nava
Undersecretary of the Interior

Monte Alejandro Rubido García
National Security Commissioner

Jesús Murillo Karam
Mexico’s Attorney General
7. KCS is a successful case of investment in Mexico
KCS incomes

- 2010: $1.8B
- 2011: $2.1B
- 2012: $2.2B
- 2013: $2.4B

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Mexican Railway System

Sistema Ferroviario Mexicano

Lineas Troncales (Kms)

- KCSM: 4,251
- Ferromex: 7,930
- Ferrosur: 1,886

Lineas
- Kansas City Southern de México
- Ferromex
- Ferrosur
- Union Pacific

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Mexican Railway System
Mexico rail trends

Automotive Supply Chain Ripple Effect

Rail Transportation and Energy Transformation in Mexico
Auto production plants in Mexico
KCS is well-positioned to benefit from growth in Mexican automotive plants

KCS currently has access to nine automotive plants in Mexico:

- Chrysler Fiat (Toluca)
- Chrysler (Encantada)
- Ford (Cuautitlán)
- GM (San Luis Potosí)
- GM (Rojas)
- GM (Silao)
- Nissan (Aguascalientes)
- Nissan (Cuernavaca)
- VW (Puebla)

Additional plant openings in 2013-14:

- Honda (Celaya)
- Mazda (Salamanca)
- Nissan (Aguascalientes)
- Audi (near Puebla)
Automotive ripple effect

Plastics

Containerized Metals

Calcium Carbonate

Auto parts

Assembly

Finished automobiles
The ripple effect... percentage of average vehicle weight of each raw material

Source: AT Kearney Analysis

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Is 5% growth feasible?

- YES
- But it depends on...
  - How the reforms are implemented
    - Secondary legislation
    - Implementing regulations
    - Implementation
  - World growth, particularly growth in the US
The rail industry is key to Mexico’s economic growth and industrial capacity.

Mexico is generating the conditions to become more competitive, though its structural law reforms.

A sustained economic recovery requires external demand and the improvement of international financial conditions.

Structural reforms have raised the credit rating of the public debt of Mexico, meaning that the country possesses solid and attractive conditions for investment.