Chapter 1: Mexico and the investment opportunities

1.1 Mexico: analysis of the country system

Mexico (official name: United States of Mexico) is a Democratic Republic, Federal Representative and consists of 32 states. The seat of government and the powers of the Union are located in Mexico City, also known as the *Distrito Federal*. The current head of state and government is the president Enrique Peña Nieto, who began work on December 1, 2012, for a term of six years.

Mexico is an open door to the rest of the world since it is part of the largest economic bloc in the world, NAFTA, accessing a market worth an estimated $ 17 billion. It is also one of the most open economies in the world, thanks to 12 trade agreements; Mexico has preferential access to 44 countries, which is a market of one billion people and produce more than 60% of global GDP.

Businesses are recognizing the competitive advantages of Mexico and that is why the country has received substantial flows of foreign direct investment (FDI). From 2005 to 2012, Mexico has surpassed China and India regarding the attraction of FDI per capita (in 2011 alone, Mexico has registered investment of more than 21 thousand million dollars) and in 2012 this percentage was even exceeded.

Mexico is a top-level logistics platform for international trade as shown by the CIA World Fact book: it can rely on solid infrastructure since the country invests nearly 5% of its GDP in the construction and modernization of existing infrastructure. Of which 2.5% absorbed by PEMEX, the state owned Petrol Company (The average of the 34 OECD countries is 3.5% of GDP). It has 63 airports, 61 seaports, more than 27 thousand km of railways and more than 130 thousand km of roads passable. The Mexican road network covers over 350 thousand km, of which almost 50 thousand of federal roads (highways with about 7 thousand km), easily connecting all major cities of the nation. The railway network extends over 26,000 km and is mainly used for freight. The main seaports are Veracruz and Altamira on the Gulf of Mexico and Lázaro Cárdenas and Ensenada, Manzanillo on the Pacific coast.

1.1.1 *Geography and climate*

Figure 1: Geographical location of Mexico.

Mexico covers an area of almost two million square kilometers across the southern belt of North America and a part of Central America , as seen in **Figure 1.** For land area is the twelfth country in the world and the third in Latin America after Brazil and Argentina. The majority of its territory is mountainous , bounded by mountain ranges which tend to be higher as we move towards the south. The southern plateau includes Mexico City , the political capital and economic center of the country, located at 2,240 meters above sea level is also one of the metropolis located at the highest altitude in the world.

About 50% of the national territory , including the entire north, is arid or semi-arid . The situation is reversed in the south, where in some provinces there's even record values of more abundant rainfall in the world. The rainy season usually lasts from June to September , with low rainfall in the rest of the year , except for the areas close to the Gulf of Mexico. The climate seems very varied, wether for the different altitudes of the various areas of the country, or for the influence of the Pacific Ocean and the Gulf of Mexico coastal areas. In the latter dominates a humid tropical climate , while in the central regions, which also includes Mexico City, semitropical conditions are usually found. Even though there are extreme changes and low temperatures might be recorded, snow rarely falls. The metropolitan area of Mexico City records an average temperature of 17 degrees, with occasional minimum around zero between December and January, and maximum around 30 degrees in April and May, before the start of the rainy season .

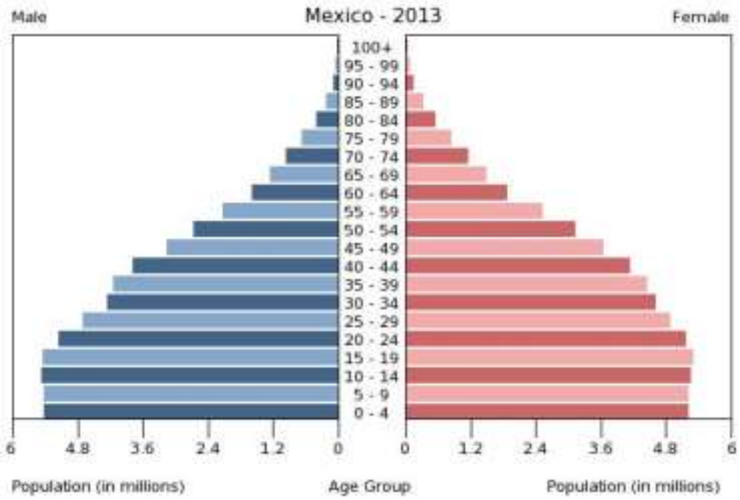
The country borders for over 3000 km with the United States of America: therefore boasts a strategic location that allows easy access to the NAFTA markets. Investing in Mexico means enjoying a privileged geographical position. To export from Mexico to the United States, on wheel, it takes only 3 days, but to do it from Europe: 24. Paradoxically , the same advantage in terms of time is also true for Japan to export goods, it takes 17 days, as opposed to 24 as you would when starting from Europe. Mexico has 54 connection points along the border with the United States. About 2.1 million trucks pass through the North American Super Corridor Coalition (NASCO), this load is equivalent to more than $ 190 billion between Canada, the United States and Mexico, as seen in **Figure 2** .

Figure 2: Nord American Super Corridor Coalition (NASCO).

Source: NASCO Network (2013)

1.1.2 Demographics

Figure 3: Age pyramid of Mexico.



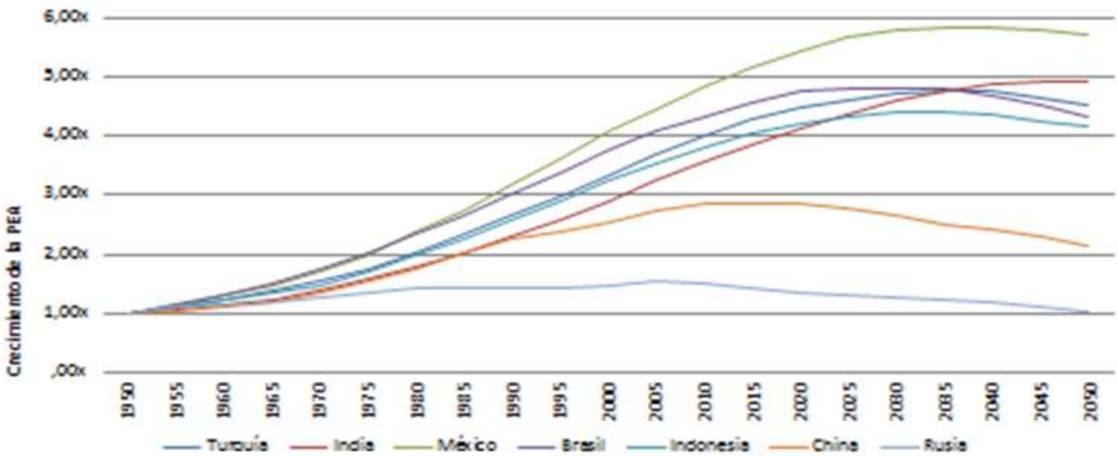
Source: CIA World Fact Book 2013

The country consists of 112 million inhabitants, making it the most populous Spanish-speaking country; it is a mosaic of mixed populations, mainly mestizo and creole. A fifth is of European origin, of Spanish origin, but there are also French, British, Germans, Poles, Russians and, of course, Italian. The ethnic groups are subdivided as follows: mestizo (55%), Amerindian (29%), whites and Creoles (15%), blacks and Asians (1%).

The average is 26 years; including 47 million contribute to the workforce. As can be seen from **Figure 3**, according to forecasts, by 2030 the Mexican population pyramid shows a tendency towards a base formed by young people of working age much more constant comparison of China. According to projections, more than 60 million people will participate in the production base in 2030. Seven out of ten Mexicans now live in urban areas. Although the average population density is only fifty-seven inhabitants per square kilometer, at the local level there are found strong variations: from fourteen inhabitants per square kilometer in the southeastern state of Campeche to nearly six thousand inhabitants per square kilometer in Mexico City.

Figure 4 shows that compared to other emerging economies, Mexico will experience a growth of the labor force in the coming years higher than that of the emerging economies and the BRICS. According to the WEF, among the greater 20 nations Mexico is one of the five countries that will have no shortage of manpower in 2020-2030.

Figure 4: Evolution of the economically active population, 1950-2050



Source: ProMéxico (2012)

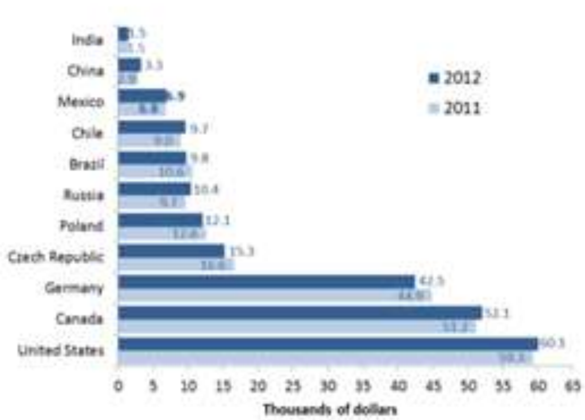
(Population in 1950 =100).

In addition, more than 115,000 engineers graduate each year, the number of graduates is higher than countries like Germany, Canada, United Kingdom and Brazil. According to the FDI Benchmark offers a quality and availability of labor higher than India, China and Brazil.

Figures 5 & 6 shows the quality of the workforce, cost competitive according to Global Insight, which shows that while Mexican salaries are not as low as those of Chinese or Indian workers, it does have a clear and wide comparative advantage in terms of growth. The Alix Partners Manufacturing Cost Index places Mexico as the best of all countries, with a 25% cost advantage over the U.S. (above the BRICs). It is the most competitive in terms of costs and fees, according to the study of the Global Benchmark Report 2011, published by the Confederation of Danish Industries.

Figure 5 Unit labor costs in selected countries

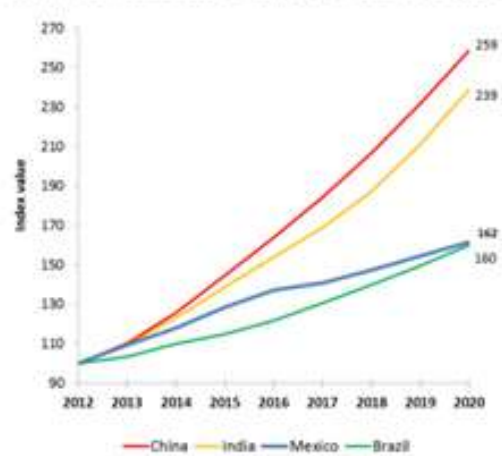
Salaries paid per employee in the year; numbers in thousands of dollars



SOURCE: Global Insight, May 2013

Figure 6 Forecast for unit labor costs 2012-2020

Index 2012=100, from annual salaries per employee, in dollars, selected countries



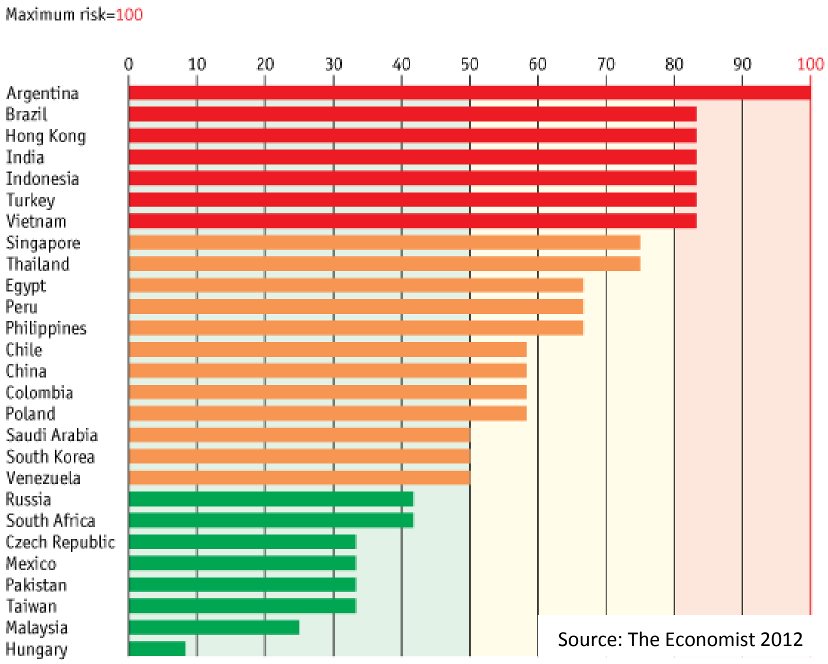
SOURCE: Global Insight, May 2013

1.1.3 Economic Indicators

Mexico can count on a strong and structured economy, and enjoys a favorable and stable macroeconomic condition. The per capita growth of GDP of Mexico has been relatively stagnant, at only 2.5% in the last decade, mainly due to low occupancy, experiencing a labor participation rate of 60% according to the OECD.

The country has taken important steps to implement, establishing sound fiscal policies, trade and monetary terms. Moreover, the government has completed ambitious reforms in the following areas: management of the public debt, financial markets (in which domestic interest rates have fallen from 38% to 9% over the past decade) and expectations of inflation, price stability has grown, setting around 3.5%. Member of the OECD, the G8 +5 and G20, Mexico can boast a stable economy, a sound financial system, commercial agreements with major world economies and a climate conducive to enterprise culture. These factors enable the country, according to AT Kearney's Foreign Direct Investment (FDI) Confidence Index for 2013, to rank eighth among the top ten domestic destinations more attractive to foreign direct investment.

Figure 6: Emerging Market Overheating Index of the Economist.



Mexico is considered the fifth country to lower risk in the Overheating Index of the Economist as can be seen from **Figure 6**, this index, based on an analysis by The Economist, which ranks 27 economies according to the risk of overheating.

They take the temperature of each economy using six different indicators: the inflation rate, the unemployment rate from its average of ten years, the growth of GDP compared to the trend, the excess credit (the growth in bank lending minus the growth nominal GDP), the real interest rates, and the expected change in the current account balance in 2011. Countries are ranked in the first place according to the risk of overheating suggested by each indicator (2 = high risk, 1 = moderate, 0 = low). For example, if the growth of credit in excess is more than 5% is scored 2 points, 1 point and below 0-5% 0% Zero. Scores for each indicator are summed, converted into an overall index, 100 means that the economy is red-hot on all six measures.

There are seven hot spots where the majority of the indicators are flashing red: Argentina, Brazil, Hong Kong, India, Indonesia, Turkey and Vietnam. In particular, credit growth is crisp in all seven. Argentina is the only economy where all six indicators are in the red, but Brazil and India are not far away. China, often at the center of the concerns of overheating, it is well below the chart in the middle of the zone of yellow/orange, thanks to more aggressive monetary tightening. Russia, Mexico and South Africa are in the green zone, suggesting little risk of overheating.

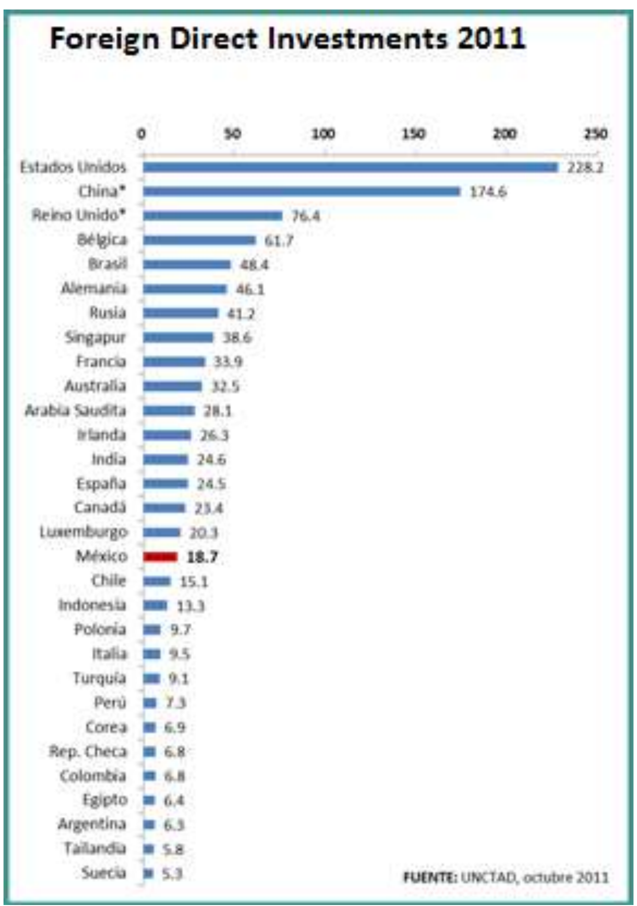


Figure 7: Foreign Direct Investment in 2011.

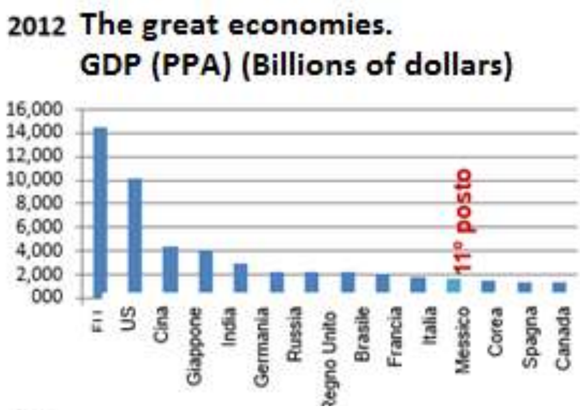
In the second quarter of 2012, the GDP increased by 4.5%, a rate higher than expected by analysts. As for inflation, there was a price increase of 3.5%. For the current year it is estimated GDP growth of about 4%.

Another very positive indicator is that of international reserves, which exceeded 164 billion dollars, a sum with which it would be possible to solve twice the total external debt of the federal government. According to UNCTAD, in 2011, the FDI in Mexico increased by 22%

Otherwise, the global flows recorded only 5% growth in 2010; the country occupied the 18th position as a nation receptive to IDE, as shown in Figure 7.

1.1.4 Future perspectives

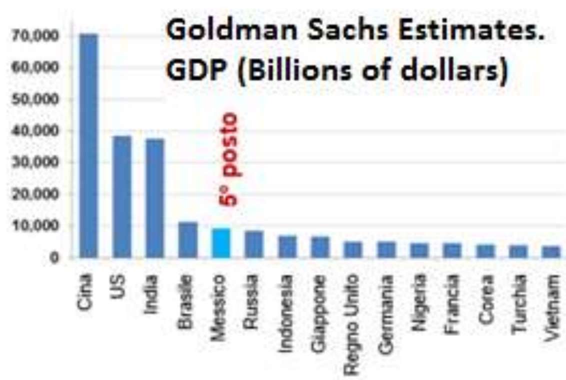
Figure 8: The major world economies.



According to the World Bank's Doing Business 2012, Mexico has improved its position for the sixth consecutive year and now is found to have exceeded the BRICs.

The country has increased by eight positions in the Global Competitiveness Report of the World Economic Forum in 2012, rising to number 37 out of 142 states, and has been the country that has experienced the highest growth in the Americas.

Figure 9: Goldman Sachs estimates.



Finally, according to the 2012 World Competitiveness Yearbook of the International Institute of Management Development (IMD) in Mexico is one of the most competitive countries of the American continent and is ranked in sixteenth place out of 59 countries.

In **Figure 8**, we observe that Mexico now stands as the 11th world economy. In agreement with an estimate of Goldman Sachs, as seen in **Figure 9**, in 2050, the country will be the eighth largest economy in the world and will be between the fifth and the eighth largest economy with a PPA comparable to that of developed countries.

Figure 10: Macroeconomic Comparison between Mexico and the Euro-Zone.

	GDP growth in% 2012	
Study Source	**Mexico**	**Euro**
JP Morgan	3.3	-0.8
Deutsche Bank	3.3	-0.5
Goldman Sachs	2.8	-0.8
Banco de México	3.5	NA
International Monetary Fund (Regional Economic Outlook)	3.6	1.1
Secretaría de Hacienda y Crédito Público de México (Macroeconomic framework)	3.3	NA
Media Market (macroeconomic expectations for Mexico for the international brokerage)	3.2	NA

From **Figure 10** we can see a comparison of the macroeconomic situation present and its future prospects regarding the Eurozone and Mexico. The competitive position of Mexico is balanced. The global business environment fosters competitiveness (macroeconomic and business environment). In addition to all this, you also fit other indices of competitiveness that give support to the idea of the potential of Mexico and to its growth, as shown in **Figure 11**.

Figure 11: Other competitiveness indexes.

INDEX	AUTHOR	POSITION	CONTEXT
Global Manufacturing Competitiveness Index	Deloitte	7	Mexico has become the seventh nation more competitive with regard to the manufacture, surpassing countries such as Germany, Singapore, Canada and Poland
Manufacturing Outsourcing Cost Index	Alix Partners	1	Mexico is the most profitable nation in the world for offshore production of manufactured goods for the U.S. market.
Trade Confidence Index	HSBC	3	This study places Mexico ranking third in the world after India and the United Arab Emirates. Estimate the prospects and commercial growth of the next six months

The country is focused on the attraction of companies, universities, research centers and institutions for their cooperation in order to strengthen the technological competitiveness. Three objectives were set for the programs undertaken: increase investment in human capital and technology, enhance the technological development and improve the added value of the country; eliminating regulatory barriers to technological development.

In addition to research institutes and private, two entities are playing a key role in these processes: the programs for the Sectorial Promotion and the *Consejo Nacional de Ciencia y Tecnología*. In addition, the Ministry of Economic Development is focused on the inward investment, the development of SMEs, business collaboration and innovation, and regional development.

Furthermore, Mexico enjoys long-term partnerships with multilateral institutions such as the World Bank Group, which offers the country the capacity to support the knowledge, and coordination of the companies. Among other things, according to the Independent Evaluation Group of the World Bank, 93% of funded actions were satisfactory in their goal. According to all these indexes presented above, it can be inferred that Mexico has all the cards in hand to become an economic power in the coming years.

1.1.5 *Banking System*

The Mexican banking system, among the most developed in Latin America, is solid, well capitalized, and liquid and has a very good asset quality. Currently, there are 42 commercial banks operating in the country. The industry is highly concentrated (the 6 major commercial banks hold 76% of total assets). As well as 17 foreign banks operating in the country (which controls about 90% of the banking system). They are active more than 100 bank representatives, including BBVA Bancomer, a subsidiary of the Spanish group BBVA, is the largest commercial bank with 21% of total assets of the sector held.

The average interest rate on loans is currently around 5% while for the medium to long term the figure is around 7% with the official rate set at 4.5%. Operate in the country even six development banks owned by the state (NAFIN, BANOBRAS, Bancomex, SHF, BANSEFI, Banjercito), specialized in facilitating access to credit and savings activities and in providing training and technical assistance to individuals and businesses.

In particular, NAFIN (Nacional Financiera), among its different activities, includes the provision of support programs for direct investment and production alliances, and Banco Nacional de Comercio Extrerior (Bancomext) that performs the dual function of commercial bank and promoter of foreign trade. NAFIN has lines of credit in the medium and long term with preferential interest rates for financing imports of machinery, accessories, spare parts, agro-industrial sector of intermediate goods, raw materials and services. NAFIN and Bancomext have recently been incorporated into ProMéxico.

1.1.6 *Corporate Legislation*

According to the *Ley General de Sociedades Mercantiles*, a foreign company can legally operate in Mexico through a branch. All functions performed by the branch in Mexico will be in the name and on behalf of the foreign company. In accordance with various Mexican legal provisions, those allow the possibility of the creation of representative offices in the country. Branches and representative offices must request an authorization to the National Commission of Foreign Investment and submit a copy of the statutes of the Italian company, a copy of the financial statements and the prosecution of the person representing the company in Mexico.

The entry in the Public Registry of Commerce and the National Register of Foreign Investments is an essential condition for those who want to work in the country. Since 1995 is in effect a new investment law (*Ley de Inversión Extranjera*) adopted to attract more foreign capital useful to strengthen the industrial and financial structure of the country. This law provides for the possibility for a foreign company to hold up to 100% of the share capital of a company based in Mexico. The formation of a company takes place at a public notary with regard to the most common forms there are:

- Limited Liability Company: It is constituted of members who are bound only by reason of their contributions. The company shares cannot be represented by negotiable securities, the order or to bearer, and are transferable only in the cases and according to the requirements set out in the Code of Commerce. No limited liability company may have more than fifty members. The share capital can never fall below the 3,000 pesos and should be divided into company shares. No member may hold more than a single participation. When one partner makes a new contribution or acquisition of all or a fraction of the participation of another member, will increase due to the proportional value of its holding, unless they involve investments that provide for different rights, in this case will be careful to preserve the individuality of equity.

- Anonymous Society: Regulated by the Articles ranging from 87 to 206 of the Commercial Code. Is constituted of members whose bonds are solely those relating to the payment of their actions. The company name can be free, but must always be distinguished from that of any other company, and must be followed by the words Anonymous Society or by the SA abbreviation. The requirements for the establishment of a limited liability company are:
    - That there are at least two members and that each of them subscribes to at least one action.
    - That the social capital is not less than 50,000 pesos and that it is fully subscribed.
    - That being awarded in cash at least 20% of the value of each share is payable.
    - That exhibits entirely the value of each action that is to be paid in whole or in part, with distinct assets.

1.2 Mexico: Investment and Commerce

1.2.1 Investments in Mexico

In the first half of 2011, Mexico's contribution in receiving FDI was 1 .8%, exceeding the 1 .6% in 2010. During the period 2005-2010, overcame China and India regarding the attraction of FDI per capita. In 2011, the country registered investments for more than 13 billion dollars. This until now for the period of activity of the Government last year has registered more than 106,000 million dollars at the end of the year. The country continues to be one of the main receivers of FDI between the countries in the developing world. The positive idea of Mexico as attractive destination for investment is reflected in several international reports and documents, among which:

- The UNCTAD World Investment Prospects Survey 2011-2013 places the country in 18th position in the nation among the most attractive for investment.

- The 3rd edition of the study *El impacto de la seguridad en México en el sector privado* of the American Chamber (2011) indicates that almost all the companies involved in the study say their commitment to continue to invest in Mexico. The majority also informs that its investment plans have not undergone any change.

Mexico has the third largest national market in America. It is ranked 11th in the world for its domestic market, just between Italy and South Korea. The population and location combined with participation in NAFTA explain the expansion of the Mexican domestic market. Macroeconomic stabilization and, in particular, the existence of an independent central bank which pursues price stability have helped and supported the growth of the domestic market.

Foreign investment in Mexico are regulated by the *Ley de Inversión Extranjera de 27de diciembre de 1993*, under which foreign investment was for the first time equated to the local level. Some sectors, including oil and petroleum products, petrochemicals, telecommunications, electricity and energy, however, still remain the exclusive competence of the State. Others may require a limit of foreign investment equal to 49% of the total relative. In the field of manufacturing limitations are not specific to foreign investment. All investments from abroad must be registered with the *Secretaría de Economía* in the National Registry of Foreign Investment (*Registro Nacional de Inversiones Extranjeras - RNIE*).

1.2.2 *Incentives for foreign investment*

The promotion of foreign investment in Mexico is carried out by the Ministry of Economy, the development bank (NAFINSA), by the bank for the promotion of exports (BANCOMEXT) and by the secretariats of economic development of the various states, especially when these investments are geared to the exports. The promotion carried out by these bodies, however, is limited to provide as much information as possible to companies interested in investing in Mexico and to facilitate bureaucratic procedures, contact with suppliers and qualified personnel, etc.

There are federal and state incentives officially endorsed by law, for investments of a certain size, you can negotiate favorable terms (Ex. reduced energy costs, lower taxes for a certain period, etc.) with federal and/or state authorities. There is in fact to be remembered that the various states (especially the more developed ones) are in constant competition with each other to attract investments in their territory and facilities granted to foreign investors are often very favorable. Some states of the Mexican federation promote the establishment of new industries in their territory by offering tax breaks to new investors and facilitating contact with suppliers, personnel, etc. However, there are formal standards at federal and foreign level where companies larger than usual negotiate the most favorable conditions directly with the secretary of economic development of the states.

It is very important to make contact with development agencies of the states in view of a possible investment, in order to make faster and paperwork to have a precise idea of the advantages and disadvantages inherent in one state rather than another. Some states, such as Guanajuato, Distrito Federal, Puebla, Nuevo Leon, Tamaulipas, Estado de Mexico, Aguascalientes, are more active in offering favorable conditions to foreign investors.

1.2.3 *Free Trade Agreements*

Mexico boasts of being the country with more free trade agreements in the world, counting with 12 treaties that allow the preferential access to 44 countries as shown in **Figure 14**. In **Figure 15** you can see the extensions of the areas of the world with which Mexico has free trade agreements (FTA in English); nations such as the USA, Canada (NAFTA), Guatemala, El Salvador, Honduras (TN), Iceland, Norway , Liechtenstein and Switzerland (EFTA), Colombia (G2), Bolivia, Costa Rica, Chile, Israel, Nicaragua, Uruguay, Japan and the European Union. Mexico is a founding member of the Latin American Free Trade Association (LAFTA) and the subsequent Latin American Integration Association (LAIA), according to which Mexican products can be imported with reduced customs duties. The country has also signed an economic cooperation agreement with Brazil, Argentina, Uruguay, and Paraguay under the name of MERCOSUR (Common Market of South America).

It is also a member of the World Trade Organization (World Trade Organization, WTO), international institution committed to the liberalization of trade.

Figure 14: Number of free trade agreements by country.

Source: ProMéxico

The participation of Mexico in the free trade zones has attracted continuous flows of foreign direct investment in the country, which in turn, led to expansion of an industrial infrastructure that has been developed in the period of import substitution industrialization and the country. These free trade agreements, including NAFTA, have greatly improved the productivity between 1990 and 2001 by 5.8% per year.

The most important agreement that governs the relationship between Mexico and Italy is the Mexico-European Union Free Trade Agreement (TLCUE also known as FTA EU), which came into force in July 2000. Because of this Agreement, trade between Mexico and Italy grew by 99% between 2001 and 2010, from $ 340 million in 2000 to $ 648 million, which represents an average annual growth rate of 8%.

Among the main economic and trade agreements in force between Italy and Mexico is worth mentioning the Convention for the avoidance of double taxation. With respect to taxes on income and the prevention of fiscal evasion (1995); the General Agreement of Cooperation (1995); the Treaty of technical and scientific cooperation (1997) and the bilateral Agreement for the Promotion and protection of Investments (AP-PRI, 1999). Which among other things eliminates the risk of expropriation of the investment Italian in the country and avoid discriminatory treatment.

Figure 15: Free trade agreements of Mexico represented geographically.

Source: ProMéxico (2012)

1.2.4 Industrial Parks

Mexico has now consolidated its vocation as a market economy open to foreign investment; the same approach characterizes the policies of individual federal states. The NAFTA agreement , as well as having allowed Mexico to vastly increase its foreign trade , has had the effect of encouraging the establishment of a detailed legal framework within which the administrations of the individual federal states have been encouraged to adopt rules and procedures that have created an economic environment more conducive to investment .

In essence, they have created a positive competition between States in attracting investments. The individual federal Mexican states promote foreign investment in its territory through the establishment of industrial parks, business incubators and/or cluster technology becoming a receptacle for massive investment in the aerospace, automotive, mechanical metal, plastic, household appliances, electrical and electronic, telecommunications, information systems and food production.

Mexico City, home of the major companies operating in the country, offers great opportunities for its diverse economy and the existence of services very well developed. Not only catering, tourism and finance, but also trade, manufacturing and agriculture contribute to the strength of the economy of the capital. In the Distrito Federal, there are seven industrial parks equipped with the most modern infrastructure.

Next to the Federal Capital develops the State of Mexico, considered the industrial capital of the country, given that contributes 10 % of GDP by generating three out of ten jobs in the manufacturing industry nationwide. A large and modern infrastructure of industrial zones and technology, the most extensive network of highways in the country and remarkable quality in telecommunications services characterize the state.

In the center of the state of Jalisco is Guadalajara, the second city of the country, whose metropolitan area has some 20 industrial parks. The state of Chihuahua, to the north, with its 33 industrial zones and 8 industrial stockpiles, is the leading exporter manufacturer in the country and ranks second with regard to the reception of foreign direct investment, mainly used in the *maquiladora* sector. Also interesting is the State of Querétaro, in the center (15 industrial parks mainly specialized in mechanical, automotive and a park dedicated to the aviation industry), which provides for the opportunity to market the production on an area of 45 million consumers located within a radius of 350 km. The Baja California, to the north, is the state with the largest number of industrial zones in the country, no fewer than 86. Even in the north, in the State of Tamaulipas there are as many as 34 industrial parks with about 6,000 hectares allocated to new investments, most of which have everything you need for industrial plants. In the area on the border with the United States has formed a cluster of excellent industrial companies specialized in the electrical and electronics, as well as in the production of spare parts.

1.3 Risks of investing in the country

While Mexico is one of the most interesting, countries to invest on in the world there are a few drawbacks that can pose potential risks to investing in the country such as the following. Mexico suffers from low productivity of labor. The lack of reliability in different institutions affects competitiveness as it alters the context for the rivalry and strategy of the business. Compared to similar economies, dominates the country in terms of size and the market seems to be a satisfactory environment because of its infrastructure. On the other hand, it experiences serious shortcomings in terms of efficiency of the labor market, human development and technological advances.

1.4 The Italian System

Currently, the Italian system consists of about 20 thousand Italians living in the country, distributed in major urban centers such as Mexico City, Santiago de Queretaro, Guadalajara, Puebla and Monterrey. Playa Del Carmen in the state of Quintana Roo represents another pole of attraction for Italians.

1.4.1 Trade balance with Italy

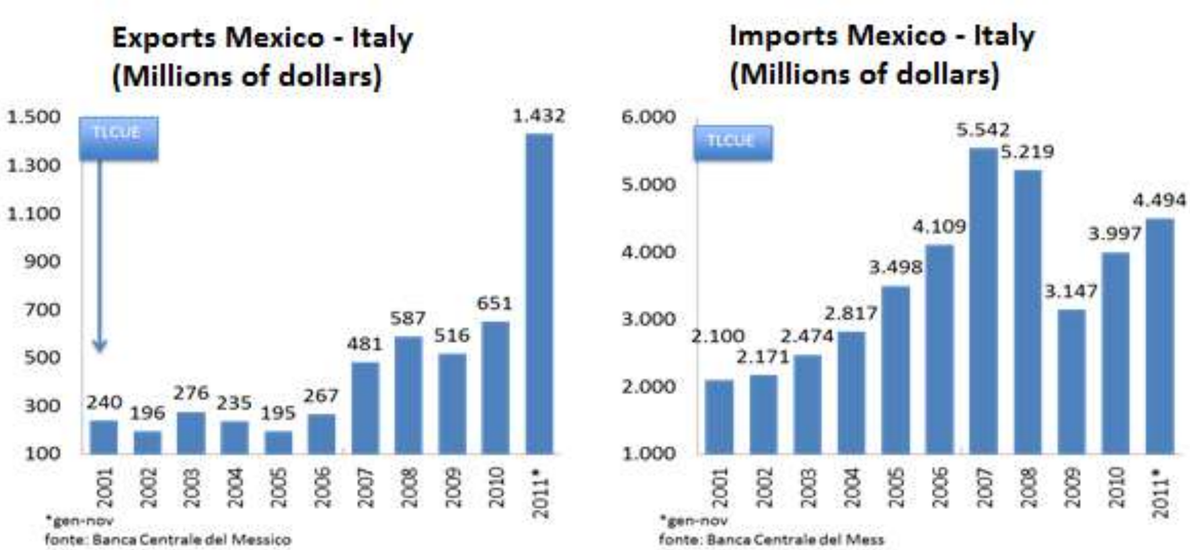


Figure 16: Mexico-Italy Trade balance (Exports and Imports)

From **Figure 16**, it is understood as the bilateral trade between the two countries has developed since the entry into force of the free trade agreement began in 2001 until 2011. The data indicate that in the first eleven months of 2011 the export of Mexico in Italy accounted for 7.4% of total trade that Mexico has made to Europe. Imports from Italy accounted for 11.7% of total imports between Europe and Mexico.

The Mexican government is currently working to be able to combine the two most important export promotion programs: The so-called *maquiladoras*, factories that are owned or controlled by foreign entities in which transformations occur or assemblies of components temporarily exported from most industrialized countries in a regime of duty-free and tax exemption. The products assembled or processed will then be exported abroad. This phenomenon is characteristic between Mexico and the United States as well as the Temporary Imports program. This is intended to resolve the complex tariff structure of Mexico, to adapt to outsourcing and offshoring and the reduction of organizational and administrative costs for businesses.

To encourage exporting firms, the government has implemented various taxation schemes. A tariff reduction on the inputs, for example, is constituted by a unilateral reduction on the Most Favored Nations (MFN) applied to 6,089 inputs. In this sense, Mexico will appeal also to the development of human capital: its expenditures on education have increased to support universities. To support SMEs, some funds are granted to provide activities to assist SMEs.

1.4.2 Main Italian investments in Mexico

Figure 12: Italian investments in Mexico (Total, millions of dollars).

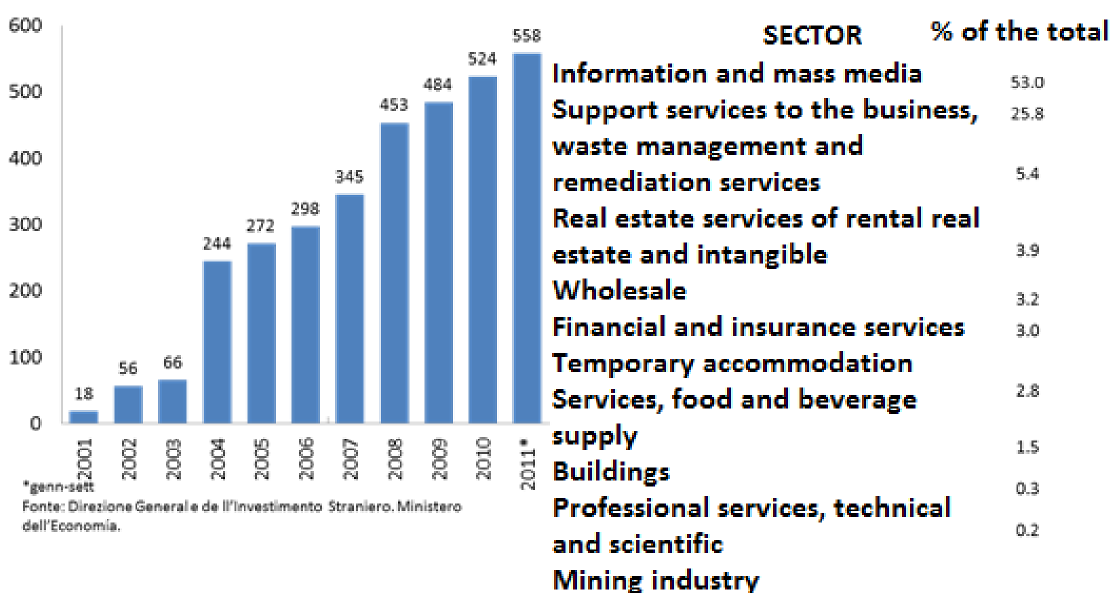


Figure 12 above, shows Italian investments in Mexico, from 2001 to 2011, which amounted to a total to an value equal to 558.3 million dollars, more than half on the manufacturing industry, followed by the information and mass media. In 2010, Italy was one of the main foreign investors in Mexico. To help with this positioning has been the concurrent operation of three major Italian groups, that is Ternium-Tenaris (Techint Group), Chrysler-Fiat and Pirelli, who have collectively invested about $ 1.63 billion in the country. Luxottica has also strengthened its presence in Mexico, with the purchase of two chains of specialty retail sun, for seventy outlets. In addition, the 2012 announcements by Ferrero and Fiat, on the opening of a manufacturing plant in Leon in Guanajuato and the start of vehicle production Duchy in Saltillo. The strength of the Italian reputation in Mexico finds its daily support in the extraordinary quality of its products and its services, as well as the professionalism of Italian entrepreneurs established in Mexico. Among the main Italian companies in Mexico, regions are represented in **Figure 13**.

Figure 13: Main Italian companies in Mexico by region.

Source: PwC 2012