

# Making diversification a reality

## INTERVIEW WITH BRUNO FERRARI

CHIEF EXECUTIVE OFFICER, PRO MÉXICO



**BRUNO FERRARI** holds a law degree from the Escuela Libre de Derecho in Mexico City and has concluded post-graduate courses in administration, finance, human resources, and competitiveness from Harvard University, Stanford University and INSEAD, among others. For the past 15 years he has had a successful career in a variety of industries focused on agribusiness in different parts of the world. He was appointed CEO of ProMéxico by President Felipe Calderón in July 2007.

### **How did the creation of ProMéxico come about and how do its responsibilities integrate with those of other government departments and agencies?**

ProMéxico was created in 2007 with three principal mandates: to increase foreign direct investment in Mexico, to increase the volume and diversity of Mexican exports and to coordinate the various entities of the Federal Government promoting Mexico abroad.

In the past, Mexico tended to view foreign investment with caution, even suspicion, partly due to the historical experience of foreign interventions in our country. Now, of course, we realise that investment means employment, it means jobs and it means exports, so it's an important part of the successful formula that we have today: the more investment we have the more trade we will have.

Instead of having a fragmented presence at trade fairs and exhibitions as we did previously, with the Ministry of Economy, the Ministry of Agriculture and various states doing their own thing, we now have a unified approach which strengthens the image of Mexico abroad and offers a more streamlined and simplified entry process for investors.

We have a network of 51 offices in Mexico and 35 outside of the country which enable us to provide a wide range of services such as 'soft landing' and investor after-care for companies coming to Mexico, and prepare detailed market intelligence for exporters.

We don't just want foreigners to buy our products – we want them to be based in Mexico and to sell their products from here.

### **How successful has the organisation been in achieving its aims and how do you measure its performance in concrete terms?**

Obviously, there are different ways of measuring investment – investments announced and investment registered with the government are two very different things – but in terms of the latter I would say ProMéxico has had a clearly discernable impact in its two years of existence.

We benchmark ourselves against similar investment and trade promotion agencies around the world and on average the most successful of these contribute around 4 per cent in terms of trade and no more than 6 per cent in terms of investment.

In the past year, despite the difficult economic conditions, we have been contributing almost 3 per cent to the trade figures and around 15 per cent to registered investment.

2007 was a record year for FDI in Mexico – US\$27 billion (bn) – due to the amount of pent-up investment caused by the presidential elections in 2006, but FDI for last year was US\$18.5 bn and we estimate that 2009 will be around the same figure.

### **Mexico has signed trade agreements with 44 countries yet 80 per cent of the country's exports still go to the United States. What is ProMéxico's strategy for the further diversification of the country's export markets?**

We actually trade with 54 countries because we also have bilateral trading agreements that are not necessarily free trade agreements (FTAs), and if you take into consideration the fact that in 1994 we had just one trading partner, clearly we have come a long way.

Between 2000 and 2009 our dependence on trade with the US fell from 90 per cent to 80 per cent, and 5 per cent of this decrease has been in the last two years. This is largely due to the emphasis that President Calderón has placed on the diversification of our export markets. We now have a global export market of more than a billion people, and one which includes those with some of the highest per capita incomes in the world.

It is also worth noting that in the last two years the European Union countries have invested more in Mexico than any other region, after the US and Canada.

Mexico recently came in 60th position out of 134 countries in the World Economic Forum's index of competitiveness and our aim is to be in the top 20, so we are setting our sights high.

### **How important is Mexico's economic relationship with the United Kingdom in particular and what do you regard as the main complementarities between the two?**

We regard it as extremely important. The UK is our 13th largest trading partner, which is significant in itself but also means that we have plenty of room for improvement. Since 2000 the value of UK-Mexican trade has grown 122 per cent, from US\$1.96 bn to US\$4.35 bn in 2008.

In 2008 the UK was also the third largest EU investor in Mexico, with almost US\$7.3 bn invested, equivalent to 3.4 per cent of the total FDI registered in Mexico. Around 72 per cent of this investment is in the services sector, with around 20 per cent in the manufacturing industry, 3.3 per cent in transport and communications and the rest in extractive industries such as mining and petroleum. Between 2007 and 2008 alone, British investment in Mexico grew by around 154 per cent.

We see significant opportunities for increasing UK investment in Mexico in areas related to technology. Britain is also one of the world's leading providers of financial services and, the current financial crisis notwithstanding, there will always be a demand in Mexico for this type of expertise, particularly in niche areas such as Public-Private Partnerships (PPPs).

Furthermore, Mexico is currently experiencing a surge in demand for its exports of medical devices, and with an ageing population in Europe we see opportunities in this sector also.

We believe that Mexico can act as a gateway to many possibilities in Latin America for UK companies. Similarly, the UK represents an important entry point for Mexican companies into Europe and beyond. Britain continues to have a great deal of influence and contacts in parts of the world such as Africa and the Middle East, for example, and we believe that Mexican companies can benefit from this.

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**How significant is President Calderón's State Visit to the UK and what are your own objectives and expectations for the trip?**

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I think it sets the seal on the achievements of the past ten years in terms of our growing commercial relationship and the many areas in which Mexico and the UK cooperate politically, diplomatically and culturally. I also hope it will enable us to take our relationship to a new level in terms of cooperation in areas such as education – in which the UK is an acknowledged world leader – and research and development.

Both Mexico and the UK have been strong advocates for action to tackle climate change and share many common positions in fora such as the G-20. I think this opens up many opportunities for cooperation in sustainable business practices and renewable energy technologies, and I look forward to exploring these with our British counterparts.

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**What is your view of the potential for renewable energy technologies in Mexico and what opportunities do you see arising for British and other international companies as a result?**

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The potential for alternative energy sources in Mexico is phenomenal. Approximately 20 per cent of our current installed capacity of 53,000 Megawatts (MW) is derived from hydroelectric generation and a further 20 per cent from other renewables such as wind and solar, and by the end of the current ►

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Photo courtesy of ProMéxico

Mexico City's ultra-modern Santa Fe business district, home to many of Mexico's leading companies

## Mexico's experience of previous financial crises has given the country a useful competitive advantage

◀ administration the latter figure will have risen to 24 per cent. In addition to which, the contribution of geothermal power to Mexico's energy matrix is the second largest in the world.

The Pacific coastal area of Mexico is among the zones receiving the highest concentration of direct sunlight in the world, with a solar power capacity of more than 5.8 kiloWatt hours per square metre per day, while 'La Rumorosa' in Baja California and 'La Ventosa' (literally 'the windy place') on the Isthmus of Tehuantepec require especially resistant aeolic turbines and other equipment to withstand the very strong winds that these locations experience.

The recent reforms in the energy sector allow for greater participation by private enterprise in these types of electricity generation projects and I would strongly recommend that British and European companies, who already have a great deal of expertise in this area, take advantage of these opportunities.

### What differentiates Mexico from other countries in the current crisis, and how do you see the country coming out of it in a year or two's time?

Firstly I think we were fortunate to find ourselves in the economic circumstances that we did when it struck. I know people weren't happy about the weakness of the peso for example, but it has undoubtedly helped make our exports more competitive at a time when other exporters are struggling. We also have the lowest inflation in the Region, equal to that of Canada, with very low country risk.

Secondly, we have gained a significant economic advantage from the President's decision to invest US\$50 bn per year in the country's infrastructure, which has had a powerful counter-cyclical stimulus effect on the economy. The fact that the plans for this were drawn up well in advance of the global financial crisis has undoubtedly cushioned its effect on Mexico. This is not only creating jobs and income for private sector contractors, but it also shows that Mexico is serious about becoming a logistical hub for the world. After all, in many ways we have the perfect geographical position: we share a huge border with the United States, we can ship products easily to Asia from our Pacific coast and to Europe from our ports on the Gulf of Mexico, and we are a North American country that shares a common language and culture with the rest of Latin America.

Thirdly, our population is very young – on average between 27 and 28 years old – which means that in thirty years' time we are going to have more people working than ever. These people will have a much better income than their parents and will demand increasingly sophisticated products and services, making Mexico a very attractive market in its own right

as well as an excellent platform for export.

Ironically, the experiences of our own domestic financial crises over the past two decades have also given us a useful competitive advantage, to the point where the US Federal Reserve has actually been asking for our advice in dealing with the current situation.

### Which industries do you expect to see driving Mexico's recovery?

I would say that the industrial landscape of Mexico is changing quite rapidly, with sectors such as Information Communication Technology (ICT) and Business Process Outsourcing (BPO) now reaching maturity, while some of our more traditional industries such as the automotive and electronics sectors are undoubtedly feeling the effects of the crisis.

As certain sectors are coming up some of the older ones are declining, and then there are others that are undergoing a transformation, such as the textile sector, for example. We were able to identify a niche market in bedding and clothing which prompted a company from India to make a huge investment here in Mexico, and now they export all their production to the US. That was a niche where our own domestic companies were not taking part and it created an opportunity for a foreign company which benefited all concerned.

There are also a number of sectors that are just starting out but which we expect to play an important part in the overall economic picture in future, such as renewable energies, biotechnology and nanotechnology, all of which are growing very fast. In addition, we are seeing a new momentum in food and agri-business, where previously we simply sold our fresh produce but now we are looking for new ways to add value through processing, pre-cooking and packaging.

One of the most promising industries for the future, and one which has seen a huge influx of investment in recent years, is the aerospace sector. We now have some 200 aerospace companies active in Mexico, generating around 30,000 jobs. In 2009 already we have seen three major aerospace investments, from Aernova, ITR, Safran and Triumph, who recently announced an investment of US\$208 mn in the state of Zacatecas.

The bulk of the industry is clustered in the 'El Bajío' region which includes Michoacan, Jalisco, Queretaro and Guanajuato, and in Monterrey in the north of the country, where we now have an aerospace academy to feed the companies based there. Our objective is to move from the production of components and maintenance services into final assembly and, ultimately, design.

We see the current crisis as a big opportunity for Mexico, which is why we are looking for companies around the world to partner with their counterparts here, in order to form joint ventures and seek out new markets together. **F**