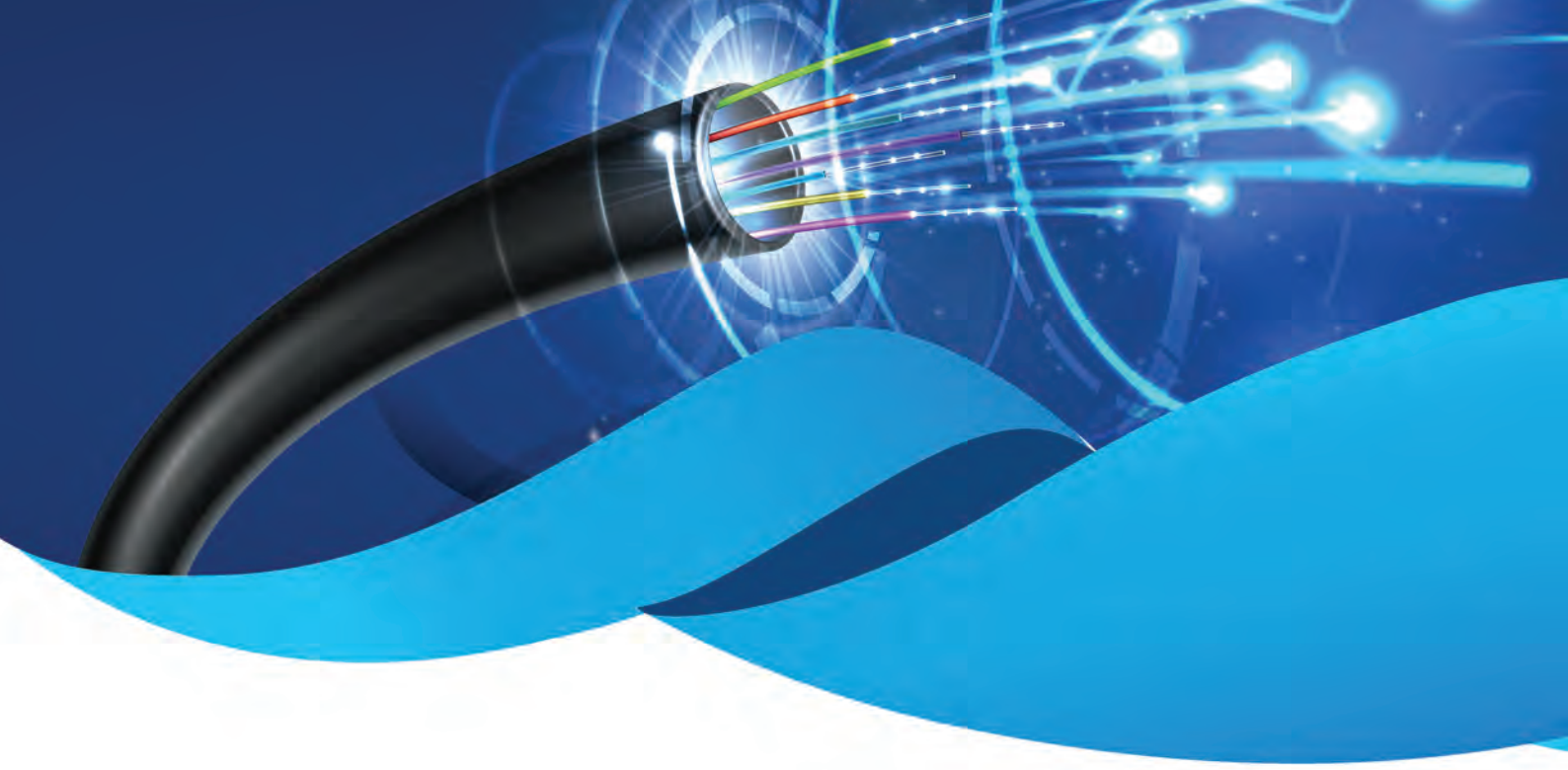




the business | year

MEXICO
2023

Diplomacy & Economy | Finance | Green Energy & ESG | Energy | Mining
Industry | IT & Telecoms | Transport & Logistics | Construction & Real Estate
Agriculture & Agrofood | Health & Education | Tourism & Sports



LINKING THE WORLD

Eleven years operating in the telecommunications industry and with a human capital of over 25 years in the sector, Grupo BackBone today is emerging as a Mexican company that seeks to satisfy the growing demand for communication networks and and keeps up with state-of-the-art technology and innovation in communication.

Grupo BackBone has three subsidiaries:
Estevez.Jor, Kuali Digital and Vigiliner



Estevez.Jor Servicios, is the company where we develop, install and operate telecommunications networks based on fiber optics. We have an installation capacity of up to 4,000 kilometers per year and a construction force that positions us as a leading company in the sector, with an average annual income of 30 million dollars.



Kuali Digital brings to Mexican homes and businesses the fastest internet connection through fiber optic with an attractive business model, accessible prices and without forced contracts. We pursue the development of infrastructure, to offer quality internet connectivity, as well as a personal and special attention to all our clients.



At **Vigiliner** we provide the best experience in the satellite location service, being the 100% Mexican creators and developers of a tracking platform to locate, track, enable and disable in "real time", with the added value of a personalized experience.



ENGINEERING

Survey and digitization of external and internal plant; LD-FTTH network design; executive and as built projects; ATP.



PERMISSIONS AND LICENSES

Procedures and management to obtain the right of way



CONSTRUCTION

Aerial or underground infrastructure for long distance networks, external plant and FTTH



CONNECTION

Downspouts, LD and FTTH connections.



MAINTENANCE SERVICE 7x24x365

Corrective, preventive, land system, attention to contingencies, SLA's, network cleaning



TURNKEY PROJECTS



FOUNDRY DIVISION

Design and manufacture of fittings and special parts of galvanized steel



STRUCTURED WIRING

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Evonik site in Mobile, Ala. (USA)

THE BUSINESS YEAR: MEXICO 2023

After a two-year hiatus of the country's main industry and networking events, the making of *The Business Year: Mexico 2023* was one of celebration as we reunited with the familiar faces in the market and met with the emerging players setting new benchmarks.

This edition includes a comprehensive examination of the main trends in Latin America's second-largest economy during an unprecedented period of uncertainty and change. To understand how this economy performed during this period and how it might recover, we conducted a year-long investigation that includes interviews with top executives and officials from the public and private sectors.

Since *The Business Year* entered Mexico in 2012, we have seen the market transition from one in which a few titans ruled the conditions of the country to one still largely controlled by these few, but where smaller players with competitive solutions are finally being allowed to make a name for themselves. There are various factors behind this new reality, including the entry of a new political party in 2018, which, while divisive, changed the usual faces in the game. Secondly, the pandemic motivated traditional companies to enter unorthodox business segments. Thirdly, technology has allowed projects with limited resources to become scalable businesses.

Our 2023 edition covers the companies that until now had been patiently waiting for their moment to come, particularly in IT. Resilience will continue to be the name of the game as

global indicators expect even more challenging market conditions in 2023 than in 2022 as the full long-term effects of the pandemic become a reality. Fortunately, a full recovery is expected in 2024 for those willing and able to wait for the economic rebound.

Three key industries were highlighted throughout the year by top business leaders, including finance, as it continues its efforts to increase access to financial services in a country with a population of 130 million; IT and telecoms, with the rise of investment in data centers and telecoms infrastructure; and manufacturing, thanks to nearshoring and the potential Mexico has to become a global hub.

Energy security remains a debate as the public and private sectors continue to search for the best ways to collaborate. The consensus among interviewees points toward making the development of national gas infrastructure a priority. Following this trend, major investments were announced by key players in the industry, including TC Energy's partnership with the national electricity company (CFE).

This is all to say that 2023 will be a crucial year in the Mexican economy and will determine how AMLO's term will be remembered in history as it comes to an end. The private sector will also be rushing to complete its projects before the start of a new administration, which will bring unknown market conditions, all while balancing the opportunities that are laid out before Mexico, including the industrial investment boom. ✕

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MEXICO
2023

the business year

In partnership with:



13

3 From the editor's desk

7 Executive summary

9 Timeline

10 DIPLOMACY & ECONOMY

11 The time for more • Chapter summary

12 Luz María de la Mora, Former Undersecretary for Foreign Trade, Mexico's Secretariat of Economy • Interview

13 Mauricio Kuri, Governor, Querétaro • Interview

14 Enrique Zorrilla, President, Canadian Chamber of Commerce in Mexico (CanCham) • Interview

15 TBY Analytics Mexico 2023

16 Altagracia Gómez, President of the Board, Promotora Empresarial de Occidente • Interview

18 A focal point • Focus: Nearshoring

20 A who's who • Photo essay: Events roundup

22 Luis Durán Luján, Managing Director, Grupo Industrial Monclova (GIMSA) • Interview

24 Querétaro rising • Focus: Querétaro

26 Menotti Franceschini, Former Country Manager Mexico & Head of North Latam, Thomson Reuters • Interview



36

27 A fork in the road

• Communiqué: DOT Consulting

29 Paulo Moledo, CEO & President, Hy Cite Enterprise • Interview

30 Mónica Vera, Managing Director, TMF Group • Interview

32 Voices from the sector

34 FINANCE

35 Time for reflection • Chapter summary

36 María Ariza, CEO, BIVA • Interview

37 Raúl Gallegos, President, Mexican Association of PE & VC Funds (AMEXCAP) • Interview

38 Chris Howard, Founder & CEO, Softeq • Interview

40 Karina Ojeda, President, Mujeres Invirtiendo (Women in Investment) • Interview

42 Miguel Marcos, Regional Commercial Director (Latam), Exness • Interview

44 Julio Escandón, Managing Director, Grupo Financiero Base • Interview

45 Marco Antonio Soto, Managing Director, Abanca Mexico • Interview

46 Fabián Ferrari, Managing Director, Getnet • Interview

48 Felipe Vilá, Managing Director, Fondo de Fondos • Interview

50 In praise of the see-through
• Focus: Formalizing the financial industry

52 TBY Analytics Mexico 2023: Finance

53 Marc Martínez, CEO, Zurich Mexico • Interview

54 Gustavo Cantú Durán, Chairman & CEO, Seguros Monterrey New York Life • Interview

55 Saúl Ruiz, Managing Director, Asesores Senior • Interview

56 Innovation • Forum

57 Harry Sacal, CEO, Pluscorp • Interview

59 Guillermo Cruz, US Managing Partner, Maquia Capital & Jerónimo Peralta, Mexico Managing Partner, Maquia Capital • Interview

60 Guillermo Osorio Rodríguez, Founder & President of the Board, Macropay & Alejandro Herrera Correa, CEO, Macropay • Interview

62 Christian Hauswaldt Álvarez, CEO, Invested • Interview

64 Voices from the sector

66 GREEN ENERGY & ESG

67 What next? • Chapter summary

68 Israel Hurtado, President, Mexican Hydrogen Association • Interview

69 Gerardo Pérez Guerra, Vice President & Country Manager, EDF • Interview

71 Andrés Friedman, Co-Founder & CEO, Solfium • Interview

72 The renewables battlefield
• Focus: Renewable energy policy

73 Solar energy • Forum

75 Eduardo Bustamente, CEO, Biobox • Interview

76 Advisory • B2B



77 Jessika Slovik, Founder, Tolerancia Activa • Interview

78 Juan Pablo Navarro, Co-Founder, Introspecta & Sebastián Peñalva Orozco, Co-Founder, Introspecta • Interview

79 Foundations • Forum

80 ENERGY

81 Gas rises • Chapter summary

82 Jennifer Pierce, President, TC Energía • Interview

83 Angélica Ruiz, Senior Vice President Latin America & Head of Country Mexico, bp • Interview

84 Giacomo Bonfanti, CEO, GDI • Interview

86 The transition • Focus: Natural gas

87 Warren Levy, CEO, Jaguar E&P • Interview

88 Giuliano Cacciatore, Managing Director, DG Impianti • Interview

90 Energy • B2B

91 Gustavo Blejer, General Manager Americas, Bonatti, Mexico • Interview

92 MINING

93 Dig, interrupted • Chapter summary

94 Karen Flores, General Director, Mexican Mining Chamber (Camimex) • Interview

95 Carlos Pavón Campos, General Secretary, National Union of Miners and Metallurgists (FRENTE) & Federal Deputy, PRI • Interview

96 Carlos Silva, CEO, Santacruz Silver Mining • Interview

97 Mining • B2B

99 The long run • Focus: Mines of the future

100 Juan Carlos Mazón, Managing Director, Muntar • Interview

102 Suppliers • Forum

104 Enrique Guinea, CEO, Hanka • Interview

105 Adrián Márquez, Managing Director, VMX MinePro • Interview

109 Armando Lucero, Director of Operations, Globexplore • Interview

110 INDUSTRY

111 Key role • Chapter summary

113 Alejandro Preinfalk, President & CEO, Mexico, Central America and the Caribbean, Siemens • Interview

114 Martín Toscano, President, Evonik • Interview

115 Ramon Mariscal Leal, President, DuPont Latin America • Interview

116 Miguel Valdivia, Commercial Director, Trade Chemicals & Products (TCP) • Interview

118 Verónica Pérez, President, Dow North Latin America Region & Commercial Director, Industrial Solutions Business, Dow Latin America • Interview

119 Fernanda Guarro Hernández, President & CEO, 3M Mexico • Interview

120 Angel Proaño, Sales & Marketing Director, The Western States Machine Company • Interview

121 Chemicals • Forum

122 Manuel Nieblas, Audit Partner, Deloitte • Interview



124 José Zozaya, President, Mexican Association of the Automotive Industry (AMIA) • Interview

125 Automotive • B2B

126 EV rider • Focus: Electric vehicles

127 Elias Massri, CEO & President of the Board, Giant Motors Latin America (GML) • Interview

128 Miguel Barbeyto, President, Mazda Motor • Interview

129 José Román, President & CEO, Nissan Mexicana • Interview

131 Montserrat Martínez, Brand and Product Director, Jaguar Land Rover México, Latin America & Caribbean • Interview

132 Felipe Villareal, CEO, Alian Plastics • Interview

134 Ignacio Romero, Managing Director, Famosa • Interview

135 Enrique Figueroa, Managing Director, Latin American North, Caldic Latam • Interview

136 Jorge Puig, Managing Director, AGM • Interview

138 Voices from the sector

140 IT & TELECOMS

141 Data, data everywhere • Chapter summary

143 Raymundo Fernández Pendones, Deputy CEO, Megacable • Interview

145 Ray Fletcher, CEO, Fermaca Networks • Interview

148 Renato Tradardi, CEO, Gold Data • Interview

149 Carlos Arguimbau, CEO, IENTC • Interview

152 Ricardo Arévalo, Managing Director, Odata Mexico • Interview

154 Antoine Delaprée, CEO & Founder, MXT Holdings • Interview

156 Jorge Estévez, CEO, Grupo Backbone Mexico • Interview

157 Amet Novillo, Country Manager, Equinix Mexico • Interview

158 Information hub • Focus: Investment in data centers

160 Maribel Dos Santos, Managing Director & Senior VP, Oracle • Interview

161 Angela Gómez Aiza, President, SAP • Interview

162 Digital transformation • Forum

164 Alfredo Gutiérrez, Country Manager, Workday • Interview

166 TBY Analytics Mexico 2023: IT & Telecoms

167 Hugo E. Freytes, Country Manager, Salesforce • Interview

168 María Esther Viso Álvarez, Regional Sales Manager, Latam Bluevoyant • Interview

169 Julian Vargas, Latin America Director, Oracle NetSuite • Interview

170 Rodrigo Marinho, VP Sales Latam, Twilio • Interview

171 Juvenal González, General Manager, Qualcomm Mexico • Interview

172 Rafael Sánchez Loza, Former Managing Director, Genesys • Interview

173 Fernando Ruiz-Galindo, Mexico Director, Avaya • Interview

174 Call centers • B2B

176 Juan Ignacio Sada, CEO, Teleperformance (Mexico, Central America & Caribbean) • Interview

177 Carlos Chavarría, CEO, NA-AT Technologies • Interview

178 Technology entrepreneurship • Forum

180 Carlos Brito, Executive Director NoLA, Logicalis • Interview

181 René Martín Torres Frago, CEO & Founder, CONTPAQi • Interview

182 Alberto Rosati, Country MD Mexico & Leader for Spanish speaking countries in the Americas, GFT • Interview

183 Julio Heshiki, General Director, Kyndryl, Mexico • Interview

184 Voices from the sector

188 TRANSPORT & LOGISTICS

189 Greater vision • Chapter summary

190 Rogelio Jiménez Pons, Undersecretary of Transport, Secretariat of Infrastructure, Communications, and Transportation • Interview

191 Isidoro Pastor Román, Managing Director, Felipe Ángeles International Airport (AIFA) • Interview

192 Come fly with me • Focus: Felipe Ángeles International Airport

194 Diana Olivares, General Manager for Mexico, LATAM Airlines • Interview

195 Mobility transformation • B2B

196 Victor Monroy Vollmer, Managing Director, MSC Mediterranean Shipping Company • Interview

197 Manuel Tamayo, Country Head Mexico, Element Fleet Management • Interview

198 CONSTRUCTION & REAL ESTATE

199 The need for more • Chapter summary

200 Simón Galante, President, Mexican Association of Real estate FIBRAS (AMEFIBRA) & CEO, Fibra Hotel • Interview

201 Federico Cerdas, CEO, Global Businesses & Skyhaus • Interview

203 A place to build • Focus: Demand for industrial real estate

204 Eugene Towle, Managing Director, Softec • Interview

205 Proptech • B2B

206 Mauricio Suárez, Managing Director, FICADE • Interview

207 Luca Piccolo, CEO, Venit • Interview

208 Juan Pablo Ramírez Castellanos, Founding Partner, Bantimex • Interview

210 Ramón Reyes Medina, Managing Director, Imperquimia • Interview

211 Voices from the sector



212 AGRICULTURE & AGROFOOD

213 In the neighborhood • Chapter summary

214 Guilherme Secamilli, CEO Mexico, The Kraft Heinz Company • Interview

216 Agrofood • Forum

218 Pablo Ricaud, Co-Founder, Rising Farms & Mauricio Ricaud, Co-Founder, Rising Farms • Interview

219 The seeds of smart thinking • Focus: Formalizing the agriculture industry

220 María Teresa García Plata, General Director, Mexican Food Banking Network (BAMX) • Interview

221 Alejandro Martínez, General Secretary, National Union of Food and Commerce (SNAC) • Interview

222 HEALTH & EDUCATION

223 Healthy starts • Chapter summary

225 Miguel Ángel Hernández, Executive Director, National Association of Private Hospitals (ANHP) • Interview

226 Humberto Javier Potes González, General Director, Mexican Hospital Consortium (CMH) • Interview

227 Juan Carlos Grier, Managing Director, Médica Sur • Interview

228 Modern procedures • Focus: Modernizing the healthcare system

230 José María Zubiría Maqueo, Managing Director, ABC Medical Center • Interview

232 Patrick Troop, Managing Director, Pharma Tyca • Interview

234 Health • Forum

235 Kenneth Campbell, President & CEO, L'Oréal Mexico • Interview

236 Mar Campos, CEO & Co-Founder, Clínica MOS • Interview

237 Fernando Fogarin, Managing Director, Organon Mexico • Interview

238 Renzo Casapía, Head of Latam, Coursera Enterprise • Interview

240 TOURISM & SPORTS

241 Rising juggernaut • Chapter summary

242 Raúl Zurutuza, Managing Director, Abierto Mexicano Tennis (Mexican Open) • Interview

243 Alejandro Ramos, Co-Founder & CEO, Sículo • Interview

246 Work in the sun • Focus: Digital nomads

248 Demetrio Alberto Hernández Coria, CEO & Founder, Mezcal Alpha Centauri • Interview

250 César Menchaca, Creative Managing Director, Menchaca Studio • Interview

251 Luis López Morton, Founder, Morton Subastas • Interview

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EXECUTIVE SUMMARY

Mexico heads to the polls to choose a new president in 2024, meaning 2023 could see big moves from outgoing president Andrés Manuel López Obrador.

MOMENTUM was felt throughout 2022 as activities and trade shows were back in full-swing after a two-year hiatus, a welcome opportunity to get a feel for the market and the direction it's heading in. Despite the celebration, business leaders continue to be cautious in their investment decisions considering the risks that remain, including the knock-on effects of Russia's invasion of Ukraine, higher interest rates, and supply chain challenges.

According to the IMF, 2023 will prove to be a more challenging year globally than 2022 as GDP growth will slow to 2.9% from 2022's estimated 3.4%, before rebounding in 2024 to 3.1%. Locally, the IMF upgraded Mexico's forecast by 0.5% in 2023 with estimated GDP growth of 1.7%. And while that is a drop from the estimate 3.1% of 2022, it is the highest estimated GDP growth in the region, 0.5% more than Brazil, Mexico's main economic competitor in Latam. In all, the final results of 2023 will depend greatly on Mexico's capacity to strengthen international commercial ties, widen its telecommunications capacity to serve as the foundation for industrial growth,

assure energy security, and promote legal certainty to continue attracting investment.

NEARSHORING BOOM

While the rest of the world recoils from the consequences of supply chain disruptions, Mexican companies are jumping to take advantage of the opportunity to become the next global hub for manufacturing. Commercial disputes between China and the US are forcing companies to restructure global supply chains more regionally, and Mexico is an important runner-up next to countries in East Asia such as Vietnam. However, Mexico has an important advantage being neighbors with the largest economy in the world, the US. A wide array of international treaties serves as a bridge between North America and Latin America for companies wanting to enter the region for the first time. Leaders from both the public and private sectors spoke to The Business Year for this edition to share their enthusiasm for what this could mean for the country and the importance of learning

lessons from China, such as prioritizing added-value manufacturing over cheap labor to assure industrial growth occurs with a sense of social and environmental responsibility.

CONNECTING THE DOTS

Digitalization and technology will play a key role in making sure Mexico has what it takes to compete for investment against other countries with similar characteristics. Fortunately, players are aware of this fact and shared with The Business Year a strong interest in amping up the development of data centers throughout the country over the next couple of years. So much so, that Panduit, a provider of data center infrastructure, announced a 20% growth in data centers in Mexico in 2022, the highest growth in this area in the world. As of mid-2022, Brazil has 70 data centers thanks to its head start, while Mexico has 14. According to Research and Markets, the main drivers behind this growth are related to the rise of cloud adoption, IoT, the commercial development of the 5G network, and smart city initiatives.

POWERING GROWTH

Amid discussions of the opportunities that lay ahead for Mexico, a primary concern that is often laid out on the table is the capacity the country's energy grid has to supply the power demands of incoming investments. All agree that Mexico has what it takes to be an industrial power, but investment will ultimately rely on the country's power grid. For example, Querétaro has an installed generation capacity of 1,200MW, but only 10 of the 20 data center projects will demand

350MW of energy, representing 29% of its current capacity.

According to PRODESEN, the Program for the Development of the National Electricity System, the country estimates a 2.7% annual rise in energy demand for the next 15 years. Considering the context, the Mexican Energy Association emphasizes the need for public policies and a legal framework that can guarantee the organized growth of the electricity system.

Meanwhile, companies agree that an important first step toward energy security is strengthening the national gas network. Recently, TC Energy announced a partnership with CFE to speed up the development of natural gas infrastructure in Mexico with a USD4.5 billion pipeline.

AMLO'S PENULTIMATE YEAR

All eyes will be on AMLO in 2023, as this year represents his penultimate year in office. In 2024, attention will be consumed by electioneering, meaning 2023 is his final full year to fulfill campaign promises and complete key projects. So far, two of his most recent reforms have been knocked back by congress, including an electricity and electoral reform. Some fear that he will attempt to propose one last reform before his term is up to counteract the rejections, creating legal uncertainty among investors. When it comes to the administration's headline projects, the most anticipated among our interviewees, but strangely the least promoted, is the Interoceanic Multimodal Corridor of the Isthmus of Tehuantepec, which aims to alleviate the saturation of the Panama Canal and further diversify the country's logistics network. ✖

GDP PER CAPITA (2021)

SOURCE: THE WORLD BANK

USD9,926.42

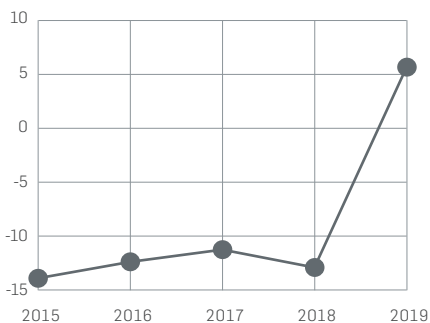
INFLATION (2021)

SOURCE: WORLDDATA

5.7%

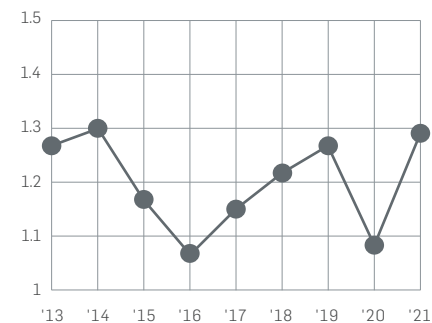
TRADE BALANCE (USD BN)

SOURCE: FOCUS ECONOMICS



GDP (IN USD TRILLIONS)

SOURCE: THE WORLD BANK



2022
MARCH 21

Felipe Ángeles Airport (AIFA) is inaugurated, a project of the current administration to alleviate the saturation of the main airport in Mexico City, Benito Juárez International Airport (MEX)

2022
APRIL 18

Congress rejects AMLO's controversial electricity reform, a bill that aimed to increase the public sector's authority over power generation

2022
JUNE 5

Aguascalientes, Durango, Hidalgo, Oaxaca, Quintana Roo, and Tamaulipas elect new governors, and four of them represent AMLO's political party, Morena

2022
OCTOBER 28

Senate approves the elimination of daylight savings time in Mexico with an exception for border states

2023
JANUARY 1

The government implements a new vacation scheme in Mexico that demands a minimum of 12 days of vacation after an employee's one-year anniversary and up to 32 days after 31 years of labor

2022
APRIL 13

State-owned Olmeca-Maya-Mexica is created to administrate various airports, Tren Maya, and the development of a new airline, Mexicana de Aviación

2022
MAY 4

The Business Year celebrates the launch of its 11th edition on Mexico by uniting executives from the economy's leading sectors to discuss the new rules of the game as the world continues to restructure itself in the wake of COVID-19 and the disruption of global supply chains

2022
JULY 1

Second anniversary of the US-Mexico-Canada Agreement (USMCA), an updated version of the North American Free Trade Agreement (NAFTA)

2022
DECEMBER 7

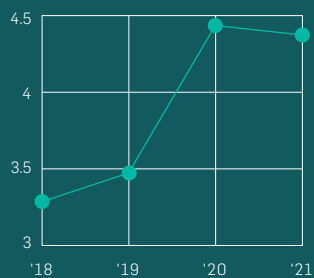
Congress rejects electoral reform proposed by AMLO that had the objective of replacing INE, the national electoral institute, with a smaller organization, reduce the budget given to political parties, and reduce the number of deputies in the chamber

2023
JANUARY 9

Presidents Biden, Trudeau, and Lopez Obrador meet in Mexico City for the 2023 North American Leaders Summit to discuss the challenges and opportunities of North American cooperation

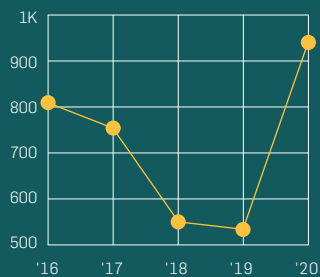
UNEMPLOYMENT (%)

SOURCE: MACROTRENDS



NET OFFICIAL DEVELOPMENT ASSISTANCE AND OFFICIAL AID RECEIVED (CURRENT USD MN)

SOURCE: WORLD BANK



TOP-10 EXPORT GOODS

SOURCE: GLOBAL EDGE

- 1 Motor and vehicle parts
- 2 Industrial machinery
- 3 Electrical machinery
- 4 Oil & mineral fuels
- 5 Precision instruments
- 6 Furniture
- 7 Plastics
- 8 Items nesoi
- 9 Beverages
- 10 Fruit & nuts



The Mexican flag flying in Zocalo square, Mexico City

Image: Eve Orea



Diplomacy & Economy

THE TIME FOR MORE

Nearshoring was a repeating topic throughout this publication and it should come as no surprise that it also proved to be a main priority for Mexico's foreign trade policy as the public sector put forth efforts to prepare itself for what many call the "Mexico Moment." In *Diplomacy and Economy, The Business Year* presents the opinion of public sector authorities, chambers, and business leaders that have played a key role in strengthening Mexico's commercial ties to the global market, including the Governor of Querétaro and the Former Undersecretary for Foreign Trade in Mexico's Secretariat of Economy.

The second anniversary of the United States, Mexico and Canada Agreement (USMCA) was a key moment in the year as many celebrated its successes across the continent. "Diversification is an agenda that Mexico has always pursued; this is one of the pillars of the foreign trade policy of this administration," said Luz María de la Mora, Former Undersecretary for Foreign Trade. "Every product that complies with rules of origin of USMCA can have access to the US market. Our exports to the US reached USD398 billion in 2021, and our exports to the rest of the world were another USD100 billion." The former Undersecretariat also emphasized the importance of the 11th anniversary of the Pacific Alliance that was signed in 2011 as the mechanism connects Asia Pacific to Latam.

Thanks to the USMCA, connections between

Mexico and Canada have deepened and business leaders are in agreement with the Mexican government on the importance of diversification. "Canada is the third-largest investor in Mexico, and 40% of Canadian investment is concentrated in the mining industry," Enrique Zorrilla, President of the Canadian Chamber of Commerce in Mexico (CanCham). "There are still many opportunities to diversify the type of Canadian companies present in Mexico, for example in technology or in terms of community relations and how training is performed."

Municipal and state authorities are also making their own initiatives to connect local communities to global opportunities by showcasing the unique characteristics of each region considering the size of Mexico. Querétaro, for example, is currently being governed by business savvy Mauricio Kuri, an ex-entrepreneur that understands both what the state and private sector needs to combine interests. "Even though we represent less than 2% of the territory, our state is at the top of the list when it comes to economic growth, exports, labor, and training," shared Kuri in an exclusive interview with *The Business Year*. "Every company that comes to Querétaro should know that the state government is their partner and wants them to succeed," he concluded.

This chapter also highlights key moments from our networking events organized in 2022 such as our networking breakfast on nearshoring and our launch event for our 2022 edition. ✖

INTERVIEW

MORE *options*



Looking to further diversify Mexico's export and trading partners, enter more dynamic regions, and attract foreign investors, the Secretariat of Economy has several ambitious plans in place for the coming years.

Luz María de la Mora
FORMER UNDERSECRETARY
FOR FOREIGN TRADE,
MEXICO'S SECRETARIAT OF ECONOMY

USMCA treaty
celebrated its second
anniversary in

2022

US represents

80%

of Mexico's exports

In what ways is Mexico benefiting from the restructuring of global supply chains?

Many factors have introduced a great deal of uncertainty to trade including the COVID-19 pandemic, Russia's invasion of Ukraine, high levels of inflation, commodity prices, and the energy sector. This has also impacted business decisions. We are seeing trends of the restructuring of value chains as a result of all of these events taking place in the world. This also includes the disruption in the logistic chain. Globalization has been restructured to a certain extent and there's more interest of companies moving their production to be closer to their final consumers, building more resilient supply chains. For example, nearshoring and the new concept of ally-shoring where companies are realizing they have to do business among countries that have a similar vision. More companies are forced to rethink how they can build more resilient and also cost competitive value chains. In this regard, Mexico is seen as a reliable partner. We are also seen as a site that can offer what companies are looking for, which is preferential market access as a result of our 14 FTAs with 50 countries across the world. Mexico has a great deal of experience in doing business with other countries and a strong entrepreneurial community that knows how to do business with the world. We also have a talented and skilled local workforce that supports global value chains. We have a stable macro economy understanding that every country in the world is undergoing important challenges with respect to inflation and higher interest rates. Mexico has been able to cope well during these challenging times.

What are some of Mexico's objectives to diversify its international commerce portfolio?

Diversification is an agenda that Mexico has always pursued; this is one of the pillars of the foreign

trade policy of this administration. It is evident that everyone wants access to the US market from the Mexican market. Every product that complies with rules of origin of USMCA can have access to the US market. Our exports to the US reached USD398 billion in 2021, and our exports to the rest of the world were another USD100 billion. We are exporting twice as much today, around 250% more than what we exported to markets beyond the US than the total amount of our exports in 1993. We sometimes lose sight of that because we only pay attention to the fact that 80% of our exports go to the US market which is a big number, but we neglect the other USD100 billion. Our business community and export sector are gradually looking for alternative markets, and they have been extremely successful. One example is agriculture. We have become the 12th-largest export market for agricultural products in the world. We are an important exporter of products from beef, cattle, and all sorts of animal exports. Processed food is also an important market where Mexico has become a thriving exporter. Entering the Pacific Alliance is an important integration mechanism for us that has been in place since 2011. We celebrated the 11th anniversary in 2022 and hold the chair of Pacific Alliance. The Alliance is an integration mechanism for trade, goods and services along with investment liberalization, people, tourism and so on. It's also a mechanism where the four of us are looking into the Asia Pacific region. This is why we negotiated a free trade agreement with Singapore. We hope to get this agreement in place in one or two years, and it will help us to address one of the most important objectives of the Pacific Alliance, which is the four of us entering the most dynamic market or region in the world. Democratizing trade and ensuring all citizens in the region can experience the benefits of being part of the Pacific Alliance is among the priorities we are pushing this year. ✖

BIO

Luz María de la Mora holds a PhD in political science from Yale University and has over 25 years of experience in the public sector, serving as head of the economic relations and international cooperation unit at the Ministry of Foreign Affairs and as head of the international negotiations unit in the Ministry of Economy. She was also part of the negotiations team of the NAFTA. She is the former vice minister for foreign trade in the Ministry of Economy in Mexico.

getting IT DONE

In addition to drawing investors' attention to the many competitive advantages of Querétaro as an investment destination, the governor is also working on local initiatives to better serve its residents in terms of public transports, safety, and more.



Mauricio Kuri
GOVERNOR,
QUERÉTARO

What advantages does Querétaro have when it comes to investments?

Querétaro is the logistics center of the country located on the most important highway in Mexico: Highway 57. We have 45 million potential clients within 500km, and we are two hours away from Mexico City. Even though we represent less than 2% of the territory, our state is at the top of the list when it comes to economic growth, exports, labor, and training. Logistics wise, the best place is Querétaro, not just because of the location but also because of everything else it has to offer, such as qualified labor, connectivity to multiple highways in the country, an international airport that has been growing its cargo by almost 40% year after year, and so on. We also have more than 50 daily flights and expect to have more than 1 million passengers this year. Querétaro Airport is becoming the alternative to Mexico City airport.

What types of incentives do you offer to businesspeople entering the Mexican market through Querétaro?

We completed a successful tour in Europe, visiting Germany, Italy, the UK, and France. Every company that comes to Querétaro should know that the state government is their partner and wants them to succeed. On our tour, we did great in the automobile and aerospace industries. We went to the Farnborough Airshow in the UK, where we closed investments with Airbus for MXN400 million and with Aerotech for more than 1,000 well-paid jobs for Querétaro. What were our competitive advantages compared to other states? Mainly, we have an aeronautic university working together with companies so talent can be prepared according to companies' needs as well as legal certainty in the state, not just in terms of physical and patrimonial assurance but also in labor assurance. Querétaro offers skilled labor that go the extra mile. This is part of our nature.

How are you promoting a circular economy?

Companies such as Siemens are asked by their

clients to ensure sustainability within their operations. I admire this because we do not have another Earth. Companies and consumers are becoming aware of the need for eco-friendliness and its importance. We are creating carbon vouchers to support companies who are reducing their emissions, and we are punishing those that are not. We need to work closely with those companies that contaminate by providing them with the tools and solutions to mitigate that damage. We also have a solar energy program with around 2,000 companies. We provide them with the panels, and it is cheaper for them and better for the environment. We also offer fiscal incentives. For example, we are working with Siemens to install electric car chargers in all shopping malls.

What have been your biggest achievements in this first year as Governor?

Public work is part of the reactivation of the economy. During my first 100 days, we did more than one public work per day. Now, we are working on large-scale public work for energy. We started working on the largest public work in Latin America when it comes to mobility, which is the 5 de Febrero Highway, with daily traffic of 120,000 cars, 300,000 people on public transport, and 30,000 pedestrians. This is a considerable challenge for Querétaro, but it has to be done. In terms of the economy, economic reactivation has been an important priority. We have many new companies that are attracting investment to Querétaro. With regards to safety, we have invested MXN4 billion on security to be spent on the border, drones, and the police. We are the only state at a national level to have its entire police force certified. Regarding legal assurance, which is what investors need, Querétaro was named as the place with the greatest legal assurance to invest. At the same time, we also work heavily on social development. Public transportation prices are low, and we continue to support women. We are on the right track, and we are getting there. ✖

Many logistical advantages for investors

BIO

Mauricio Kuri serves the people of Querétaro as Governor for the period 2021-2027. He graduated in law from the University of Valle of Mexico. In addition, he has completed specialties in finance, personal business and leadership development. He served as president of the National Chamber of Commerce in Querétaro from 2006-2008. He was also president of COPARMEX in Querétaro from 2012-2014. In 2015, endorsed by Partido Acción Nacional, he ran for the municipal presidency of Corregidora. From 2008-2021, he was Senator of the Republic and coordinator of the Parliamentary Group of Partido Acción Nacional. He won the election for the governorship of the state in 2021, with the highest number of votes recorded in the entity.

MORE *to achieve*



Enrique Zorrilla
PRESIDENT,
CANADIAN CHAMBER OF
COMMERCE IN MEXICO
(CANCHAM)

CanCham in Mexico has three main focal areas: networking for its members, know-how and expertise for a more educated decision-making process; and connecting others to participants in regional sectors, industries, and more. to: connecting business opportunities between Mexico and Canada in strategic industries.

BIO

Enrique Zorrilla was appointed Executive Vice President and Country Head of Scotiabank Mexico in 2017. He was vice president of Asociación de Bancos de México (ABM). Prior to joining Scotiabank in 2013, Zorrilla worked for Banco Nacional de México, S.A. (Banamex) for 31 years. He was also a member of the Citigroup Senior Leadership Committee, a member of the board of directors of Seguros Banamex, Afore Banamex, and Crédito Familiar, and chairman of the board of Buró de Crédito and Soriban Servicios Financieros. He received his undergraduate degree in business administration from Universidad Iberoamericana and was honored with the Presidential Award for the Best Students of Mexico. He was also acknowledged in the Professional Excellence Category with the Dr. Agustín Reyes Ponce Award in 2011. Zorrilla also holds a certified public accounting degree from Universidad Nacional Autónoma de México and an MBA from Northwestern University (Kellogg School) in Chicago.

What are the main opportunities for investments between Mexico and Canada?

Mining and energy play an important role in the Canadian economy. Canada is the third-largest investor in Mexico, and 40% of Canadian investment is concentrated in the mining industry. There are still many opportunities to diversify the type of Canadian companies present in Mexico, for example in technology or in terms of community relations and how training is performed. This is still a fantastic opportunity to create jobs, develop stronger and more integrated communities as a mining project is being developed and starts operating. These are the traditional kind of sectors that Canada has expertise in, and it is natural for Canadian companies to invest in those sectors in Mexico. In addition, the Canadian company Bombardier has boosted the aeronautic industry as a whole in Querétaro. Right now, we have a university there founded by Bombardier; it was originally the training department of Bombardier that eventually became a university. Canadian investment has also resulted in many positive developments. The auto parts industry, heavily concentrated in Bajío, will require a great deal of investment, since the industry is gradually evolving toward a completely different kind of vehicles, with hybrid or electric automobiles becoming the norm. The energy sector will also require trillions in investment to produce the electricity that will be required. Another new area is agriculture, in which there are many opportunities but few partnerships between Canadian and Mexican companies. About 70% of the Canadian investment comes from Ontario, and 20-25% comes from Québec.

What can be done to further incentivize investment between these two countries?

Mexico and Canada have had a 20-year bilateral relationship with NAFTA. It is important to strengthen and enhance relations between Mexico, the US, and Canada. For Mexico to attract further Canadian investment, the stability of the rule of law, the transparency of laws, and the

way in which laws are applied and put in place are critical. Mexico is extraordinarily attractive to Canadian companies and investors, but it must guarantee greater legal certainty, for example, for local regulations that are in conflict with federal laws. Our vocation is North America, and economic integration is extremely important for the two countries. In that respect, we have to better understand our interests, customs, education, laws, and so on and be clear about those issues that are important for the different countries to better take advantage of the opportunities that Mexico offers.

What are the advantages of being part of CanCham?

We work with a Canadian company to get involved with the authorities or get in touch with other participants in a particular industry to better understand our geography through our committees. We have 11 committees and cover legal issues, diversity, entrepreneurship, talent, and international commerce. We also have task forces for mining, energy, and manufacturing. In that respect, we have representatives in industries that any particular Canadian company could be interested in. We promote a more educated decision-making process, providing our members with information directly from the experts in a particular industry or on a particular topic. We provide access to the experts who are actually in action and know what is happening regarding the economy, region of development, and so on. Those are the three most important elements: networking, an expert's opinion for a more educated decision-making process, and the ability to communicate with other participants in regional sectors, industries, and more. We are enablers. CanCham is a platform, and we strive to not only be a responsible business community, but also promote trade and investment between Mexico and Canada as well as business between our members. We will celebrate our 40th anniversary, and even as a chamber, we are still young in comparison to others. ✖

TBY ANALYTICS MEXICO 2023

185 interviews were conducted for *The Business Year: Mexico 2023* Analytics.

BUSINESS CONFIDENCE INDEX

How confident are you about the outlook for business in Mexico this year (1-5)?

3.4

 AVERAGE
RATING

SECTORS TO WATCH



FINANCE

3


GREEN ENERGY

3


ENERGY

3.5


MINING

2


INDUSTRY

4

 IT &
TELECOMS

4

 TRANSPORT
& LOGISTICS

3.5

 CONSTRUCTION
& REAL ESTATE

3.5

 AGRICULTURE
& AGROFOOD

4

 HEALTH &
EDUCATION

3


TOURISM

4

ADVANTAGES & CHALLENGES

What are the most commonly mentioned advantages and challenges of doing business in Mexico?

ADVANTAGES

- Increasing digitalization
- Strong labor force
- Increasing rate of FDI
- 5G developments
- Strong growth in secondary cities
- International Trade Agreements

CHALLENGES

- Low wage growth
- Lack of education about waste management
- Falling rate of mining exploration
- Lack of fuel storage
- Ongoing impact of COVID-19
- HR deficiency in some areas
- Lack of EV infrastructure
- Inflationary pressures

INTERVIEW



Altagracia Gómez
PRESIDENT OF THE BOARD,
PROMOTORA EMPRESARIAL DE
OCCIDENTE

SIGNS *of success*

With many opportunities available across Mexico, including food production, real estate, and logistics, Promotora Empresarial de Occidente is working to develop sectors that are poised to boom in the coming years.

BIO

Altagracia Gómez Sierra is Chairman of the Council of Minsa, a company of Grupo Empresarial G, which she joined as CEO. She now serves as a member of the board of directors. She is the deputy general director of Almer and is in charge of the energy division of the conglomerate. She has a law degree with three honorable mentions from the Escuela Libre de Derecho. She has also completed various academic programs at the Royal Academy of Oxford and took two finance and trading courses from Harvard Business School (HBX). Additionally, she conducts the weekly television program "Prospecciones" in C7 Jalisco, together with the State Secretary of Education, Alfonso Gómez, and various distinguished guests.

Why did the group decide to invest heavily in industrial real estate and logistics?

There are different niches left unattended and a huge opportunity to grow in those special segments. For example, logistics in cold storage has the capacity to grow five times in the next five to 10 years in Mexico, and we are currently building 20,000sqm of cold storage. Then, there is last-mile deliveries, which are not the same in urban areas as they are in less densely populated areas. In terms of finance, we have a solid capital structure and are heavily diversified in our sources. We work with development banks and traditional banking systems to ensure there are no problems with liquidity. We are working on two or three acquisitions specifically oriented toward the storage business including strategic grain facilities. We acquired 14 grain facilities in 2021 in different states in Sinaloa, Guanajuato, and Jalisco, specifically in locations right next to railroad infrastructure because we use that as centers of transfer for bulk storage. It is currently a great time to enter into industrial real estate. There are also two or three companies that we are planning to acquire in 2022, specifically in industrial real estate. We also have 59ha in Riviera Nayarit, 1km from the marina, and it has the best location. We have sold three or four towers of real estate apartments there and are in the process of looking for a partner to develop a five-star hotel. We are also developing a financial tool for the public market in real estate. The smart choice for 2023 is to launch an instrument that has equity and not credit. We have 300,000sqm of land to develop. With the current market conditions, we expect growing interest for people to invest in real estate because it has always been the safe bet for investments. We have an excellent track record in real estate; that is where the group started 40-50 years ago. We want to capitalize on our track record

and have some great projects not only in industrial real estate but also in real estate for homes and tourism.

Considering the size of the holding, what will be the main focus for the medium term?

Promotora Empresarial de Occidente has many companies in different sectors, and each one has its specific goals. As a holding, you have two or three main roles, one of which is legacy, because that is the one most important to the shareholders, namely the family that started it. In Tier 1 and Tier 2, we produce thermoform plastic for Tesla, Lucid, John Deere, and Greenbrier. That has grown 60% from 2021 mostly due to nearshoring. There has been a substitution of providers in Asia to Mexico, and that specific company has the opportunity to diversify, as we are getting contacted by aerospace companies. Minsa right now has to navigate the challenge of the international price of corn and its relevance to the culture in Mexico. Almer, meanwhile, has been growing by double digits for the last 10 years, and it will heavily invest in making acquisitions and also continuing to diversify its products and offerings. Dina is transforming back to heavy duty trucks. It has incorporated some Chinese technology, though we are committed to incorporating more national content each year and will do so. For Dina, we are working with the government of Mexico City and Politécnico to create the first electric bus. We are also switching some of the fleet to electrical buses. Each company has its own goals but as a whole, we all have a responsibility to society. We have a great team right now, and the company plans to continue its relevance economically, culturally, socially, and politically. We are dedicated to influencing public policy for everyone's benefit in providing solutions for mobility, solutions for farmers in Mexico, and solutions for the different things we have a say in. ✖

A coastal view of Mazatlan, Sinaloa



FOCUS

Nearshoring

A FOCAL POINT

Nearshoring in Mexico is going through a paradigm shift, with Mexican contractors taking on a more proactive role in innovation and business processes.

MEXICO has been the quintessential nearshoring destination for American businesses for almost half a century. This economic relationship has had many ups-and-downs over the years. With the rise of China as a cheap manufacturing hub in the 2000s, some American corporations had to choose between nearshoring in Mexico and offshoring in Asia.

In more recent memory, nearshoring came under threat from Donald Trump's "trade war" against its southern neighbor. Fortunately, however, the punishments imposed by the Trump administration on some American businesses outsourcing their operations to Mexico never amounted to a full-scale trade war and a new trade agreement was signed between the US, Mexico, and Canada in 2020.

As of 2022, nearshoring is still very much alive, accounting for up to 25% of Mexico's service economy and manufacturing sector. Let us take a step back for a second, however, to examine the economic incentives encouraging American companies to outsource some of their operations to Mexico in 2022.

In plain words, Mexico is a far more affordable place than the US or Canada, but many parts of the country enjoy nearly the same technological advancements and industrial infrastructure found in the rest of North America. The maintenance of offices, R&D labs, and production lines is considerably more cost-effective in Mexico than in the US.

Outsourcing in its simplest sense has been criticized by many in Mexico in recent years, including the country's senate. The mere outsourcing of labor is seen to be beneath Mexico, whereas the outsourcing of services and projects is welcomed. In this new framework, Mexican subcontractors are keen to accept a project from an international corporation and see through its execution with a say in how it is implemented.

It used to be the case that only manufacturing operations were outsourced to Mexican subcontractors, but in recent years, IT services, R&D, and financial services are increasingly entrusted with Mexican firms. "Our three key lines of services right now are Global Entity Management, Accounting and Tax, and HR & Payroll," said Mónica Vera, Managing Director of TMF Group to TBY.

The nearshoring of finance, IT, design, and similar services to Mexican firms has become possible, largely thanks to the country's sizable semi-skilled and skilled workforce. Neither production lines nor international offices are likely to suffer from a shortage of human resources in Mexico these days. Mexican universities and colleges, for example, train 110,000 engineers every year, with education-

al standards which are not that different from those maintained by American universities.

The wages of the aforementioned engineers, on the other hand, are on average 30% lower than the US rates, which can be a big draw for American businesses on the lookout for skilled manpower near the US. Roughly 5.6 million members of Mexico's active workforce in 2019 were working for a subcontractor, according to the Labor Bureau of Mexico.

Automobile manufacturing, as a quintessentially American industry, can perfectly capture the scale of nearshoring operations in Mexico. The manufacturing of light vehicles in Mexico saw a three-fold growth between 1994 and 2016, rising to 3.5 million units. Quite unsurprisingly, almost every single one of those vehicles were sold under an American automaker's brand name.

All this does not mean that the US is the sole client of Mexican contractors. Canada, as a signatory to the revised North American trade agreement, is increasingly investing in Mexico. "Canada is the third-largest investor in Mexico, and 40% of Canadian investment is concentrated in the mining industry. There are still many opportunities to diversify the type of Canadian companies present in Mexico," according to Enrique Zorrilla, president of the Canadian Chamber of Commerce in Mexico, who talked to TBY.

Mexico has seen investment from across the Atlantic, as well. Mauricio Kuri, governor of the Mexican state of Querétaro told TBY that his state is keen on attracting investment from Europe, adding "We recently completed a successful tour in Europe, visiting Germany, Italy, the UK, and France." The tour has led to finalizing deals with European aerospace giants such as Airbus.

It is not difficult to see that Mexico's nearshoring market has gone through a paradigm shifts. It is no longer an overseas market for cheap labor, especially because the number of skilled workers has increased greatly. It is no longer serving just US business, although the US is a strategic partner. And, above all, Mexican contractors now prefer to execute the projects they accept in innovative ways which they have developed locally.

In this new era of Mexico-US cooperations, nearshoring is also becoming truly sustainable. Some 90% of Mexico's exports to the US are transported on-land across the border, eliminating the need for maritime logistics. This makes nearshoring in Mexico far greener than offshoring to faraway places across the Pacific. What is more, Mexico, as an ally of the US is more committed to the rule of law, financial compliance, and labor regulations than its competitors. ✖

México is full of magic with beauty in every corner



VILLA MEXICANA
GOLF & EQUESTRIAN RESORT
HOTEL

It is a beautiful place surrounded by history, open spaces that represent the flavors of Mexico, and gardens overflowing with vegetation, alluding to its name. We find ourselves at the foot of the fairway and home to the most important equestrian events in Mexico. Quality and service will make your stay an unforgettable moment.

We are located in the municipality of Corregidora, just 20 minutes from the beautiful historic center of the city of Querétaro, where you can enjoy a wide variety of museums, churches, and monuments. We also leave a list of recommendations to do in this wonderful destination such as:

Visiting Peña
de Bernal

Hiking

Hot air balloon
rides

Zip lining

Ecotourism

Mountain biking

Skydiving

Rappelling & rock
climbing



A WHO'S WHO

The Business Year's Mexico 2022 launch event and a networking breakfast brought together some of the country's top business leaders over the last year.



IN MAY 2022, The Business Year gathered key stakeholders for “Understanding the New Rules of the Game,” a day of panels and discussions and the launch of its 2022 Mexico publication, while in November key names were again assembled for Near-shoring to Mexico: Why Companies are Making the Move, a networking breakfast.

UNDERSTANDING THE NEW RULES OF THE GAME

The event was held at the Four Seasons Hotel Mexico City and organized in collaboration with BIVA MX, Skyhaus, Great Culture to Innovate®, COMCE Noreste, AIMMGM, and Amafore and sponsored by DG Impianti Industriali and Santo Gusano. Media partners included adn40Mx and Herald Media Group.

The event had two panel discussions. The first examined Mexico's role in the global supply chain and featured Ildefonso Guajardo, Federal Deputy of the LXV Legislature & Ex-Secretary of Economy; Antonio Tejedo Obregón, Executive Vice President of Investor Relations at Grupo Traxión; and Veronica Perez, President of the North Region Latam at Dow.

This was followed by a presentation from Federico Cerdas, CEO of Global Businesses Inc & Skyhaus, on empowerment and entrepreneurship.

The second panel looked ahead to the future of the Mexican economy and featured Ulises Neri, Vice Chair of the Expert Group on Sustainable Resources Management & Executive Director of the International Center of Excellence on Sustainable Resources Management for México and Latinamerica at



the United Nations ICE SRM; Arturo Saval, President of Nexus Capital; Claudia Janez, an independent advisor on the boards of directors of América Móvil, Grupo Industrial Saltillo (GIS), IDEAL, HSBC Mexico, and Bolsa Mexicana de Valores; and Bruno Riga, Country Manager of Enel Green Power.

María Ariza, CEO of Bolsa Institucional de Valores (BIVA MX), delivered closing remarks at this launch event for The Business Year's latest Mexico publication, *The Business Year: Mexico 2022*.



NEARSHORING TO MEXICO: WHY COMPANIES ARE MAKING THE MOVE

The event was Co-Hosted by Latin American Invest, sponsored by Evonik, IENTC Telecomunicaciones, and Alian Plastics, and supported by BIVA, CANCHAM, AMAFORE, Mujeres Invirtiendo, and AIMMGM.

The panel discussion kicked off after a welcome address from Berenice Rangel, Managing Director of Latin American Invest, about the implications of Globalization 2.0 and the new standards that the manufacturing industry is incorporating into its

processes. The discussion included the perspective of the public sector from Rogelio Jiménez Pons, Undersecretary of Transportation, the private sector from Altagracia Gómez Sierra, President of the Board of Promotora Empresarial de Occidente, and the manufacturing industry from Luis Manuel Hernández González, President of the National Council of the Maquiladora and Export Manufacturing Industry (INDEX NACIONAL).

All three panelists agreed that Mexico is in a favorable position to attract investment from international companies but needs to further prepare itself for the demand that this will create for infrastructure, energy, talent, and technology to compete with other manufacturing countries in East Asia. It is also an opportunity to promote the country as a hub for added value and innovation in industrial processes and eliminate the stereotype of Mexico as a country of cheap labor. ✖



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