

7. Mexico

Key statistics	Mexico	Peer average
Manufacturing GDP CAGR (2010-13)	3.2%	2.3%
Manufacturing GDP percentage of total GDP (2013)	17.6%	16.7%
Labor costs (US dollars per hour) (2015)	\$6.2	\$18.7
Manufacturing exports percentage of total exports (2014)	77.7%	60.2%
Highest corporate tax rate (2015)	30.0%	25.3%
Researchers per million population (UNESCO 2013)	383	2,852
Per capita personal disposable income (US dollars, 2015)	\$7,081	\$14,910
Per capita personal disposable income (US dollars) CAGR (2005-2015)	1.9%	3.8%

Supplemental analysis Mexico – Competitiveness at a glance

Manufacturing highlights

- Mexico is a major manufacturer of electronics and parts, machinery and appliances, aerospace crafts and parts.
- Mexico's manufacturing exports formed three-fourths of total merchandise exports over the five-year period 2010-14.
- Mexico's manufacturing GDP peaked in 1988 at 22.4 percent. Since then, it is on a decline from 20 percent during the 1994-2003 period to 17.4 percent in 2004-13 period.
- Mexico has emerged as a global automotive manufacturing powerhouse, as it is the seventh largest vehicle manufacturer and the sixth largest auto parts manufacturer. The country accounted for 3.7 percent share of the global vehicle production in 2014. The annual vehicle production volume increased by more than 10 percent between 2013 and 2014, that is, from 2.9 million in 2013 to 3.2 million in 2014. 93 out of the top global 100 automotive parts manufacturers operate in Mexico.

Advantages to manufacturers

Competitive labor costs: Mexico offers lowest labor costs in the North American region, approximately six times lower than that in the United States and Canada. Even in Latin America, the country has labor costs lower than that of Brazil and Argentina, with hourly wages at US\$6.36 compared to US\$11.20 in Brazil and US\$18.87 in Argentina (2012).

Close proximity to the United States: Being near the United States means Mexico has access to one of the largest markets in the world; hence, presenting tremendous offshoring advantages. Similar time zones also mean that finished products manufactured in Mexico can reach the United States in transit time of less than a day, along with lower transportation cost.

Lower energy costs: Being close to the United States means that natural gas prices in the region are tied down to the ones in the United States. Furthermore, the average industrial gas prices in the region are 63 percent lower and electricity costs 4 percent lower, when compared to the prices in China.

Presence of free trade agreements (FTA): Not only does the country has FTAs with the United States and Canada, but also with 42 other countries. This is significantly higher even when compared to United States at 20 and China at 18. The presence of such FTAs gives Mexican goods unrestricted access to current and future potential demand markets.

Supplemental analysis Mexico – Competitiveness at a glance

Challenges

Low-skilled workforce: The education level in the country is below the OECD average. Furthermore, the education infrastructure is not conducive for higher education as it does not impart the necessary skills required, resulting in students dropping midway out of the education system. Absence of an established education system has major implications on the productivity and economic growth of the nation.

High productivity gap: Mexico's GDP per person engaged was \$38,272 (constant 2011 PPP international dollars) in 2014. Though it is higher than emerging economies such as India and China, it is considerably lower than advanced nations such as United States, Germany, and Japan. The labor productivity deficit is due to the presence of a large number of smaller and low-productivity firms.

Lack of ecosystem and supplier base: Major administrative, regulatory, and legal hurdles exist in Mexico's manufacturing ecosystem. The country also lacks the presence of an established supply base which leads to higher logistics costs. The Logistics Performance Index*, which measures the ground efficiency of the supply trade chains of a nation, was 3.13 for Mexico in 2014, lower than China (3.53) and United States (3.92) for the same year.

Things to watch out

Structural reforms: A series of structural reforms have been initiated across several sectors such as labor, tax, legal, energy, economics, and politics. The Productivity Law introduced recently focuses on enhancing the growth and bridge the existing high productivity gap.

Sync between industrial clusters: The country is positioned to further experience strong growth due to the sync between different industrial clusters such as automotive, appliances, transportation equipment, and computer hardware; hence, presenting opportunities for the integration of supply chain.

Increased investment from the United States:

- Not only are the investments increasing, but a recovering US economy also presents tremendous boost to the demand for the goods manufactured in Mexico, as United States is a key export partner for Mexico.
- The country is also expected to emerge as a major automotive hub with many global OEMs either expanding scale of their current operations or building a new plant or both.

Note: *Logistics Performance Index overall score reflects perceptions of a country's logistics based on efficiency of customs clearance process, quality of trade- and transport-related infrastructure, ease of arranging competitively priced shipments, quality of logistics services, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time. The higher the index (range from 1 to 5), the superior is the logistics network of a nation.

Source: Deloitte Touche Tohmatsu Limited analysis ^(xxviii)