Mexico P3 Market Snapshot

The Business Case for Mexico

According to the International Monetary Fund, Mexico is the 2nd largest economy in Latin America and the 15th worldwide. Despite the challenging global environment, Mexico's average annual growth in last 10 years has been 2.5%.

Mexico scaled 6 positions in the Global Competitiveness Report 2016 – 2017 of the World Economic Forum (WEF), ranking 51th out of 138 economies. According to the WEF, this improvement is based on the efficiency of its domestic market, its openness to domestic and foreign competition, the flexibility and incentives provided by the labor market, and the easiness to access financial services. Mexico's macroeconomic effectiveness has been supported by a series of economic, financial, fiscal, and commercial reforms implemented during the last years, which have strengthened its internal market and positively impacted its economic growth.

In 2015, Mexico ranked 15th place as foreign direct investment recipient, and 6th among developing economies. Its success as one of the most attractive destinations for foreign direct investment is due to different factors, which include a modern and growing infrastructure sector.

With a total surface area of almost 2 million square kilometers and a long coastline that represents a natural bridge between the Atlantic and the Asia-Pacific region, Mexico has a privileged location as the heart of the Americas and its objective is to become a worldwide logistic platform.

Infrastructure Sector Highlights

Mexico has demonstrated commitment to promote the development of new infrastructure in the country, as well as to maintain and improve the existing one with an aim to foster balanced regional development, sustainable urban development, and interconnectivity improvement. Mexico has a nationwide long term plan for infrastructure development, the National Infrastructure Program 2014-18, which includes 743 projects and an expected investment equivalent to US$594 billion.

Despite a number of announced federal budget cuts, a number of infrastructure projects in different sectors have been successfully executed in Mexico with the participation of the private sector and, in some cases, different models of public-private participation have been implemented, including: concessions (for highways, railways, ports, airports and urban transport); long term service delivery contracts (including construction, operation and infrastructure maintenance for hospitals, jails and water infrastructure); and Government financed and shared risk mechanisms in the energy and hydrocarbons sectors. Developments between 2012 and 2016:

Roads Mexico allocated over CAD$21 billion for the construction, rehabilitation, and maintenance of the road infrastructure.

26 highways were completed (more than 1,500 km).[1] Different schemes of Public Private Partnerships were used to sustain this growth including service agreements; concessions; and management and operating Agreements.

Airports Mexico allocated CAD$150 million to improve airport network connectivity. The Federal Government is currently building Mexico City's new international airport, with an estimated investment of USD 13 billion. It is expected to be the third largest in the world, and the most important infrastructure deliverable of the current administration. Operations expected to start in 2020.

Ports Mexico increased its ports' shipping capacity from 280 million tons/year to almost 400 million tons/year at the end of 2016. Investments of over CAD$4.5 billion will be made in priority port projects to consolidate the shipping capacity in the Pacific Ocean and Gulf of Mexico coastlines.

Railway Investments in the railway sector of approximately CAD 5 billion, including the construction of 59.8 km of new tracks.

Water Almost CAD$10 billion allocated for the development of water supply, sewage and waste water treatment infrastructure. 176 water treatment plants were incorporated, representing an additional capacity of 5.65 m3/s; and 22 water purification plants for an additional flow of 1.49 m3/s.

Oil & Gas In the last two years six tenders for exploration and extraction activities have taken place awarding 69 contracts (shallow-water, on-shore, and deep-water) to private companies like ExxonMobil, Chevron, Total, Statoil, China Offshore Oil, Sierra Oil & Gas and the Canadian firms Renaissance Oil, International Frontier Resources, and Sun God.

Electricity In 2015, four turbo jet mobile units were installed in Baja California Sur, with an investment of USD 81 million and a power generation capacity of 104 MW. Likewise, approximately USD 1.5 billion were invested in the construction of power plants under the independent power producer model, and four electric plants were rehabilitated, with an additional investment of USD 840 million.

Mexico's Public Private Partnerships (P3) Law was enacted in 2012 to provide appropriate regulation for the development of this type of projects, while guaranteeing transparency and accountability in the exercise of public funds. P3 contracts were expected to be an alternative for Mexico to finance infrastructure projects in a time of constant government budget cuts, but its application is still minimal. At this point of time, private companies are seeking more options to participate in P3 projects (i.e. unsolicited proposals), and the Mexican government is making efforts to find ways to make its processes more effective at Federal and State level. In terms of funding, the private sector and institutional investors can diversify their equity and debt portfolios through investment vehicles such as stock market certificates (CEBURES); Investment and Real Estate Trusts (FIBRA); Development Capital Certificates (CKD); Private Capital Funds; Investment Projects Certificates (CERPI); and Energy and Infrastructure Investment Trusts (FIBRA E).

Implications for Canadian Firms

Mexico represents opportunities and challenges for Canadian companies. According to the Mexican Chamber of the Construction Industry (CMIC), the construction sector grew 2% in 2016 and it is expected to grow between 1 and 1.5% for 2017, mainly due to continued investment in commercial and residential building projects by the private sector.

According to the National Bank of Public Works and Services, there are currently 163 projects in execution and 130 in design/pre-investment phase in Mexico (73 Electricity; 22 Transport; 12 Water; 10 Hydrocarbons; 7 Social Infrastructure; 4 Tourism; 1 Education; 1 Telecom). In this regard, Canada's successful experience in the development of PPP projects in Canada is an asset that can help generate collaboration and business opportunities with Mexico.

Business opportunities for Canada are also related to the use of advanced technologies and materials in infrastructure projects (i.e. intelligent transportation systems, intelligent buildings with features including energy-efficient materials, security systems, telecommunications channels, and emergency systems).

Doing Business in Mexico

One of the best ways of achieving success in Mexico is through cooperation with a solid local partner who can assist in assessing clients' specific needs, and give access to the traditionally closed supply networks of the industry. In this regard, the Canadian Council for Public-Private Partnership (CCPPP) annual conference represents an excellent opportunity to meet with key stakeholders in the Mexican infrastructure sector and explore collaboration opportunities.

Mexico is committed to improve its infrastructure in various areas and is willing to see more Canadian companies developing those projects. The decision is yours!

For additional information please contact:
Miguel.Gonzalez@international.gc.ca