Conclusions: Facing uncertainties and diversifying international trade to new markets

Mexico City, January 2017:

On January 25, Oxford Business Group (OBG) hosted their second conference in Mexico City in collaboration with their tax partner Deloitte. In the context of political macroeconomic uncertainty, the panelists discussed the best ways to generate long term economic opportunities for Mexico, with a strong focus on diversification. The audience was composed of 80 CEOs from local and international companies in a closed door format. Jaime Pérez-Seoane de Zunzunegui, Regional Editor for OBG Latin America, made a brief introduction before giving the floor to the five invited speakers:

- Ricardo González Orta – National Director of Taxes and Legal Services, Deloitte Mexico
- José Oriol Bosch – CEO, Mexican Stock Exchange
- Frédéric Garcia –President, Executive Council of Global Companies (CEEG)
- Fernando Turner Dávila – Minister of Economy and Labour, Government of the State of Nuevo León

While confirming that a Mexican exit of the North American Free Trade Agreement (NAFTA) could be an option for the country, Ricardo González Orta also highlighted the necessity of undertaking a comprehensive reform of the treaty to mutually benefit all three member states. Furthermore, he suggested a revision of Mexico's costs of production in order to increase the population's purchasing power. González also mentioned that Mexico could remain competitive in spite of the current macroeconomic uncertainty due to its wide-reaching export platform. Eventually, he highlighted the importance of the internal market as the first step towards economic diversification of the country and that structural changes are essential if Mexico wishes to strengthen its homegrown demand and limit its reliance on the North American market.

After Ricardo González's presentation, Fernando Turner Dávila put an emphasis on the lack of incentives for Mexican entrepreneurs which consequently limit investment levels. The Minister of Economy recommended limiting red tape and implementing constraints against monopolies that dictate competition rules. He also stated that Mexico needs to reform its economic system and stabilise its highly volatile currency. Therefore, Mr. Turner advised implementing an exchange rate sustained by the price of oil in order to bring about macroeconomic stability to the country's currency and the economy.

Frédéric Garcia discussed the trend of economical digitalisation and its impact on production and consumption habits. He compared Mexican investment in research and development (R&D)-around 0.5% of its GDP-with the equivalent figures of the South Korea, which contributes around 4.5% of its GDP to R&D. Mexico has the necessary qualities to climb higher in global value chains and eventually double its GDP per capita by 2030. In order to reach that target and become the fifth largest exporter in the world, Mexico must address the imbalance in the production levels of all 32 states: southern states will have to match the productivity of the states of Bajío for the country to reach this goal.

Garcia added that it is critical to undertake deep structural changes such as stricter management of public finances and increased investment in engineers and other professionals in order to secure Mexico's long term economic health. Lastly, Garcia proposed incentives for students such as attractive loans for those who are interested in fulfilling technical education.

Finally, José Oriol Bosch focused his speech on the necessity of improving financial education and mentioned the significant opportunities the stock market finance has to offer to Mexican companies. Very often executives are reluctant to use stock market financing because of the implied rules. Indeed, companies willing to be in the stock market have a transparency obligation that involves a cost. Nonetheless, the CEO of the Mexican Stock Exchange stated that higher transparency would increase the competitiveness of SMEs that would be financed at a lower cost. Furthermore, it is important to create a more inclusive system since 90% of the companies in the stock market are concentrated in four states: Mexico City, Nuevo León, Jalisco and Mexico State. Oriol Bosch mentioned a number of key recent IPOs, the latest of which was the tequila company José Cuervo expecting to get at least MX$15,251 millions in order to initiate their international expansion plan.