Maritime Opportunities: Mexico
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James V. Koch
Board of Visitors Professor of Economics
Old Dominion University

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OVERVIEW

Population (millions) 114.8
GDP (US$ billions) $1,177.1
GDP per capita (US$) $10,247
GDP (PPP) as share of world total 2.12%
Military expenditure as share (%) of GDP .5%
Military expenditures, country comparison to the world 162
Human Development Index 2012 (UN) Score: 0.775 Rank: 61/187

DOING BUSINESS IN MEXICO

GENERAL CONSIDERATIONS

Global Competitiveness Index (World Economic Forum) Score: 4.3 Rank: 55/148
Doing Business 2014 (World Bank) DTF: 70.89 Rank: 53/189
Trading Across Borders (World Bank) DTF: 81.13 Rank: 59/189
Economic Freedom (Heritage Foundation) Score: 67.0 Rank: 50/177
Trade Freedom (Heritage Foundation) Score: 80.6 Rank: 66/177

TECHNOLOGY AND INNOVATION

Technological Readiness (GCI – WEF) Score: 3.7 Rank: 74/148
Innovation (GCI – WEF) Score: 3.3 Rank: 61/148

SECURITY CONCERNS AND CORRUPTION

Institutions (CGI – WEF) Score: 3.6 Rank: 96/148
Corruption Perceptions Index 2012 (TI) Score: 34 Rank: 105/176
Freedom from Corruption (HF) Score: 30 Rank: 98/185

Mexico and the United States enjoy a close, and mostly cooperative, relationship that is defined by the two countries’ 2,000-mile-long shared border. The U.S. and Mexico are linked by longstanding economic, cultural and personal ties, in addition to formal diplomatic agreements that extend to a wide range of issues, including border management and security, telecommunications, innovation and research, environmental protection and more. Mexico is the United States’ third-largest trading partner (after Canada and China), and its second-largest export market. Persistent thorns in the U.S.-Mexico relationship include illegal immigration, organized crime and the cross-border drug trade, all problems that are exacerbated by the countries’ considerable disparity in wealth. Mexico’s per capita GDP is just $10,247, with approximately half of its population living below the poverty line.

Enrique Peña Nieto assumed Mexico’s presidency in December 2012, returning the establishment Institutional Revolutionary Party (PRI) to power after 12 years of conservative National Action Party (PAN) rule. A hallmark of Peña Nieto’s presidency so far has been the Pacto por México, an ambitious program of liberalizing reforms that has been a cooperative initiative between PRI, PAN and the leftist Party of the
Democratic Revolution (PRD). “In the past eight months,” writes The Wall Street Journal, “Mexico’s Congress has passed a constitutional change to curb the powerful public teachers union; a legal reform to strip public officials of immunity from criminal protection; and a telecommunications bill that sharply limits the quasi-monopolistic powers of the country’s biggest telephone company, controlled by billionaire Carlos Slim… The steady stream of deal-making, after years of partisan gridlock, is causing ordinary Mexicans to take notice and reviving international confidence in the country’s economy even as interest in other big emerging markets flags.”¹

These and other Pacto por México reforms could bring the country’s internal affairs closer in line with the liberalizing approach that has more consistently guided its trade policy. The U.S. Commercial Service’s Country Commercial Guide notes that Mexico has more free trade agreements – with 43 different countries – than any other country in the world. These include the North American Free Trade Agreement (NAFTA) with Canada and the U.S., as well as similar agreements with the EU and EFTA. Mexico is a negotiating member of the Trans-Pacific Partnership, and a participant in the Alliance of the Pacific together with Colombia, Peru and Chile.

The Country Commercial Guide identifies 19 sectors that are particularly attractive for U.S. export, including Internet and IT Service, Security and Safety Equipment and Services, and Transportation Infrastructure Equipment and Services. Peña Nieto has announced an ambitious plan to update Mexico’s transportation infrastructure over the next five years, including the construction of a new port in Punta Colonet, as well the modernization and expansion of existing ports. Thus, there will be numerous opportunities for American exporters who can offer sophisticated solutions for port security and other operations.

Mexico’s proximity to the United States makes it an appealing and cost-effective export market, but corruption and security are major concerns. According to the Country Commercial Guide, “narcotics- and organized-crime-related violence has skyrocketed since 2006. Transnational criminal organizations (TCOs) fighting each other and the government for control of drug smuggling routes have carried out violent acts unprecedented both in number and nature… As the Mexican government increases the pressure, TCOs are expanding their operations into any available money-making venture, including kidnappings, extortion, human trafficking, and hijacking cargo shipments, often targeting business owners and others innocent of any involvement in narcotics trafficking.” Mexico is near the bottom of the World Economic Forum’s Global Competitiveness Index rankings for the business costs of crime and violence, organized crime and the reliability of police services. American companies must therefore enter the Mexican market with care, being sure to invest in the appropriate security precautions.

**PROCUREMENT STRUCTURE**

Defense procurement is decentralized in Mexico. The Ministry of National Defense (SEDENA) controls procurement for the army and air force through the Military Industry General Directorate. The Maritime Ministry (SEMAR) controls procurement for the navy, Armada de México.

Government efforts against narcotics trafficking and arms smuggling have been the focus of Mexico’s armed forces modernization, and hence defense-related procurement. For the Mexican navy this means emphasis on coastal patrol vessels and aircraft, rather than platforms for offshore operations.

GlobalSecurity.Org offers this concise summary of Mexican defense procurement:

> “The defense industry has a very decentralized and informal purchasing system. There are no formal public bids, and no written procurement regulations. Most requirements are sent out

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through informal channels, and it is necessary to be plugged into the largely hidden, word-of-mouth information network. For these reasons, most sales go through well-known Mexican companies which represent U.S. agents and companies in Mexico. The Ministry of National Defense and the Navy decide what they need and talk to various providers as necessary. They will almost always call the MLO at the U.S. Embassy, who will then contact U.S. suppliers. Once they decide (through a process totally internal to the ministry), they merely request funds from the President of Mexico and buy what they need.2

RESOURCES


2 www.globalsecurity.org/military/world/mexico/budget.htm