Our World

MEXICO

Reforms impact the nation

The newly unified government agenda has removed barriers to Mexico's socioeconomic progress and created increased freedom of investment in a variety of key sectors that is expected to see GDP more than double this year and a seismic shift in some of its most vital industries

In less than two years, Mexico has succeeded in unifying its government around a set of far-reaching reforms that are boosting its economy and spurring activity across North America, particularly in the United States. While still in various stages of implementation, the benefits of these deep structural reforms have already begun to show up.

Mexico's GDP growth is forecast to more than double this year, compared to last year, when it fell to 1.1%. The country is on track to hit the government's target of 2.7% for 2014, and its GDP goal of 3.7% for 2015 chimes with observations from the International Monetary Fund (IMF) that Mexico is on its way to a steady clip of nearly 4% annual growth from 2016-2019.

During this time, Mexican GDP expansion will be roughly double the rate in Canada and will surpass growth in the U.S. by more than one percentage point, with this gap widening in the medium term. However, these forecasts fail to take into account the full impact of last year's array of reforms. If the strategy is carried out as planned, Mexico could achieve a 6% growth rate in the years to come, with an increasingly competitive set of industries that could propel Mexico past China as the world's largest exporter to the United States by 2018, according to *The Economist*.

"We need higher economic development," President Enrique Peña Nieto declares. "The greatest challenge in the area of economics and social development is that we have reached a higher rate that has been recorded in the last 30 years, an average rate of 2.6%. And yes, it is positive, these are positive figures, but it's quite evident that we need to increase this rate more, to have more social development and a better standard of living for Mexicans. Therefore, we needed the reforms. Right now, we are seeing signs of a better economy, more growth."

To what does Mexico owe this bright outlook? The answers, experts argue, come in the form of the newly unified government agenda that has removed barriers to progress and created increased freedom of investment in a variety of key sectors.

Under Mr. Peña Nieto's leadership, competing parties in Mexico's government came together to break decades of political gridlock and revamp the country's economic and political system, fundamentally altering the country's trajectory.

It is difficult to overstate the historic nature of the changes in a country where many powerful institutions have resisted modernization for the better part of a century. The changes include the opening up of Mexico's state-owned oil and gas sector to private investment, a major overhaul of the country's educational system, and new laws restricting the reach of powerful monopolies that have traditionally dominated the telecommunications sector, among other important measures that include a streamlining of the tax system and electoral governance.

"The statistical figures about how our industry will grow, how jobs will grow, and our exports will grow are quite optimistic," President Peña Nieto acknowledges. "We're going to reach that goal; the forecast for next year is 3.7%, based on all of the groundwork prepared for that to happen, and the reforms will boost our economy. It is clear that the implementation of the reforms will not happen overnight, and the effect of each of one the reforms will not happen overnight. Most of the benefits of these reforms, yes, are evident. People are starting to see the results. But it will take some time to see the full impact of the reforms. And eventually, we'll see it reflected in how our economy will grow. We're seeing it. Next year we will see the signs, and in the upcoming years, we're expecting to have more expedited economic growth. And this is the same forecast that we see by financial analysts that know the Mexican economy."

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>
> **ENRIQUE PEÑA NIETO**, President of Mexico

One of the key mechanisms available to governments to encourage economic growth and inspire confidence and optimism among investors and society is public spending on infrastructure investment. Mexico's infrastructure ambitions rank among the biggest on the continent and it has already completed numerous outstanding civil engineering feats, such as the $2.2 billion Durango-Mazatlán Highway, designed to enable safe, speedy transit of commerce across the Sierra Madre and Mexico's northern states. The 140-mile mountain road crossing entailed constructing 61 tunnels and 115 bridges, including the magnificent Baluarte Bridge. It was the final piece in completing the 715-mile Mexican Federal Highway 40, which connects Mazatlán on the Pacific Ocean with Matamoros on the Gulf of Mexico and carves out a superhighway offering a 12-hour coast-to-coast drive.

In April, the government presented its $596 billion National Infrastructure Program 2014-2018 that targets six specific sectors: Communications and transport, energy, water, health, urban development and housing, and tourism. Compared to past infrastructure plans, it pays special attention to boosting the comparatively underdeveloped South-Southeast region, as well as enhancing the North and Central regions, and the government is particularly keen for the private sector to become actively involved.

Taken together, these developments and the emerging impact of the government's far-reaching reforms in 11 key sectors – including the historic Energy Reform – have created unprecedented optimism for Mexico's future, with international institutions like the World Bank and the IMF applauding the country's direction and major investors lining up to take part in its resurgence.

IMF Managing Director Christine Lagarde recently declared Mexico "the only emerging market country that has passed such number of sweeping reforms, in such a short time, and with such broad political support."

Since Mr. Peña Nieto took office in late 2012, he has sought to forge closer links within Latin America and bolster ties with nations further afield. In November, the President announced that China and Mexico are to set up a $2.4 billion investment fund to support infrastructure, mining, and energy projects, and that the two countries are eyeing an oil deal worth up to $5 billion.

Mexico's renewable energy sector attracted $11 billion in FDI between 2003-13, with wind power leading the pack. The investment came mainly from Spain, Germany and the U.S. and interest is far from on the wane. Trade and investment agency ProMéxico announced in September 80 renewable energy projects worth $8.5 billion will take off over the next two years, with 80% connected to wind power generation, 15% to solar and 5% dealing with biomass or hydroelectric projects.

Ignacio Galán, Chairman and Chief Executive of Spain's Iberdrola, the largest private generator in Mexico, recently told the *Financial Times*: "Mexico is going to be one of our main investment destinations in the next few years, with up to $5 billion through to 2018 in new combined-cycle gas turbine plants and wind farms. As a result, we will be producing more energy in Mexico than in any other country where we have operations." Good news, as cheaper electricity will be vital to powering the country's plans to boost its industrial competitiveness and attracting further foreign interest.

U.S. Secretary of State John Kerry has underscored the special ties that the United States and Mexico share. "There are really few countries with whom the United States enjoys as dynamic and as close a relationship as the one that we enjoy with Mexico," he said. "Our interests are obviously intertwined in many ways. We are neighbors, but we also have a common set of objectives, a common set of goals and aspirations. And because of our histories, our people are connected as closely as any two peoples on Earth."

Historic deals emerge from world-leading integration

n ew business ventures unite one of the most extensive economic unions in the world further as mexico removes barriers to foreign investment

U.S. President Barack Obama with Mexico's President Enrique Peña Nieto, center, and Canadian President Stephen Harper, right, at the 2014 North American Leaders Summit, held in Toluca, Mexico

After years of waiting and months of speculation, the results of Mexico's historic reforms are starting to become known, with strong implications for investors in the U.S. and across the world. Recent cross-border trade and investment deals illustrate how the new framework opens vital sectors to trade and investment, in a strong step toward the realization of a common North American market.

In November 2014, U.S. telecom giant AT&T made history with its $2.5 billion purchase of Mexico's Grupo Iusacell SA, the country's third-largest wireless operator. The deal gave AT&T 8.6 million new subscribers, but more importantly created the first-ever wireless provider serving customers in the U.S. and Mexico.

The Iusacell deal, a milestone in itself, coincides with another watershed development: the creation of Mexico's first privately owned, independent oil company, Sierra Oil & Gas,

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which is backed by $525 million in U.S. investments. These deals signal a new level of engagement that is reshaping an already dynamic relationship.

Building on one of the most extensive economic relationships in the world, in February leaders from the U.S., Mexico and Canada came together at the 2014 North American Leaders Summit in Toluca to reinforce cooperation in commerce, education, sustainable development and innovation.

This symbiotic relationship has already helped Mexico to become a major global manufacturer, while supporting millions of jobs within the U.S. Thanks to its strong industrial base and thriving relationship with its North American partners, Mexico has surpassed China to become the world's largest exporter of flat-screen TVs. Mexico has also risen to become Latin America's largest car manufacturer, and the fourth largest exporter of autos in the world. About one out of every four vehicles imported into the U.S. comes from Mexico, with that share poised to rise as Japan's Nissan, Germany's Daimler, and South Korea's Kia all planning billion-dollar manufacturing plants in the country.

In addition, Mexico is home to a burgeoning aerospace industry that includes global giants like Bombardier, as well as ambitious new startups. Over the past decade, the sector has grown from 100 U.S. and European manufacturers to more than 300 in 2014.

Cooperation at the international level has helped Mexico to successfully modernize its democracy

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and open its economy to the world, resulting in the creation of globally competitive industries.

Its pro-regional integration stance further heightens the country's appeal to foreign investors looking for a foothold in Latin America's expanding markets.

In June, Mexico assumed the pro tempare leadership of the Pacific Alliance (PA) for a year, with Mexican President Enrique Peña Nieto hailing the PA "the most daring regional integration mechanism of the decade". He later defined the Alliance – comprising Chile, Colombia, Mexico and Peru – as a union of open countries "involved in structural transformations so as to expand social rights and strengthen our democratic institutions".

The President made the comments when the PA's four heads of state met in New York at the opening of the 69th UN General Assembly in September, during which *Bloomberg* referred to the four leaders as "the people who are moving markets and shaking the world".

Mr. Peña Nieto commented: "We are involved in growth policies that make compatible the active participation of the private sector with the country not losing control over its natural resources, particularly when it comes to hydrocarbons".

As its key industries surge, Mexico will draw upon its revamped energy sector through the Pact for Mexico, as the country's recent array of reforms is known, to increase output, reduce end-user costs, and accelerate socioeconomic development for its people.

NAFTA IN FIGURES

450m people in one market

US$17tn worth of goods and services produced annually

US$2m worth of trade every minute between the three nations

US$130m in daily exports from Mexico before NAFTA

US$1bn daily exports from Mexico with NAFTA

US$2bn a year average FDI in Mexico before NAFTA

US$20bn a year average FDI in Mexico with NAFTA

753% rise in sales of Mexican products to the U.S. and Canada

444% increase in U.S. exports to Mexico, to US$226.2bn in 2013

603% rise in U.S. imports from Mexico, to US$280.5bn last year

NAFTA still sets the standard for economic cooperation after 20 years

Since n AfTA launched on January 1, 1994, trade between the three nations has tripled to top $1.2 trillion per year and investments have quadrupled

THANKS in large part to the framework established in the 1994 North American Free Trade Agreement (NAFTA), the economies of the U.S., Canada and Mexico have become integrated on an unprecedented level. Since the agreement, trade between the three has more than tripled and now tops $1.2 trillion annually, while investments have quadrupled, laying the groundwork for many companies to operate on a continent-wide basis, tapping into a market that consists of some 450 million people and nearly $20 trillion in total economic activity.

"Before NAFTA and after NAFTA, we have built a relationship between the U.S. and Mexico, between Mexico and the U.S," President Enrique Peña Nieto says. "We have been able to build an intense relationship with a growing trade growth…We have a trade exchange that ranges around $1 million a minute. And being Mexico, the third top trade partner of the United States, and the second destination of its exports, and being Mexico, a country that buys more from the United States than all of the BRICS countries together – more than Brazil, Russia, India, China, and South Africa, together. That is how important it is for the United States and the same, the U.S. is very important for Mexico, because the U.S. is a top destination of our exports."

While it has at times been the subject of intense debate, many economists credit NAFTA with helping U.S. manufacturing become more competitive globally, and its effect on trade and investment on both sides of the border has been undeniable. The United States, for example, represents the largest source of foreign direct

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investment (FDI) in Mexico. Its stock of FDI in Mexico increased from $15.2 billion in 1993 to over $100 billion currently – a nearly 560% expansion. While lesser known, Mexican FDI in the United States has seen an even greater leap, moving from just over $1 billion in 1993 to more than $15 billion today, representing a 1400% increase.

A look at the trade numbers shows a similar story. Between 1993 and 2013, total U.S. trade with Mexico increased by more than 522%, nearly double the rate of non-NAFTA countries. Mexico and Canada now make up the two largest markets for U.S. exports in the world, together accounting for one out of every three dollars the U.S. earns from exports. U.S. exports to Mexico increased rapidly since NAFTA, leaping from $41.6 billion in 1993 to $226.2 billion in 2013, an increase of 444% according to research done by the U.S. Congressional Research Service. U.S. service exports to Mexico have also made impressive gains: U.S. private services exports to Mexico multiplied from $10.4 billion in 1993 to $27.4 billion in 2012.

Pointing to these numbers as evidence, policymakers argue that having an active cross-border marketplace has proved to be an important asset for the United States.

"Mexico is one of the most open economies you can find in the world," Mr. Peña Nieto emphasizes. "Mexico has decided to be an open economy, and Mexico is considered the fifth most open economy in the G20 countries…I believe that today, the world is defined by what happens in specific regions, and when we talk about North America, we need to link ourselves better so we can create synergy. We need a joint effort to make this region a more competitive one."

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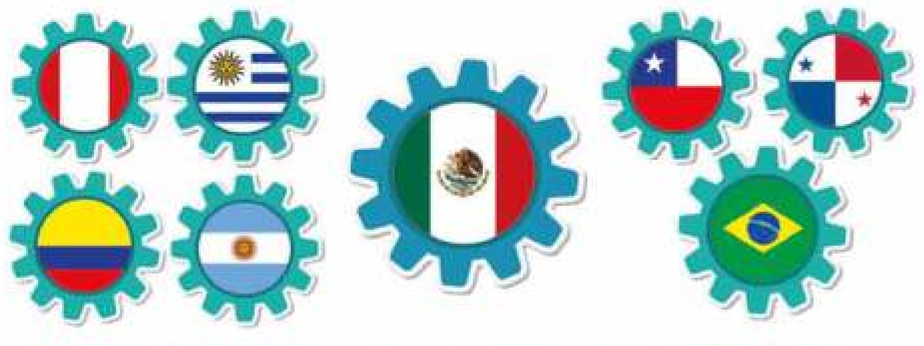
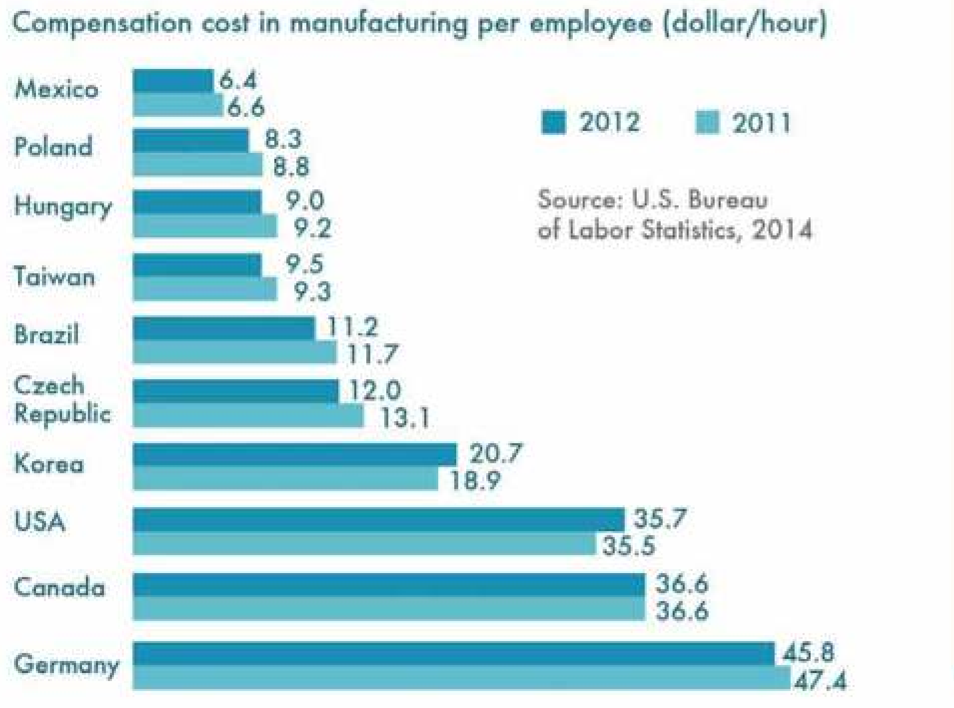
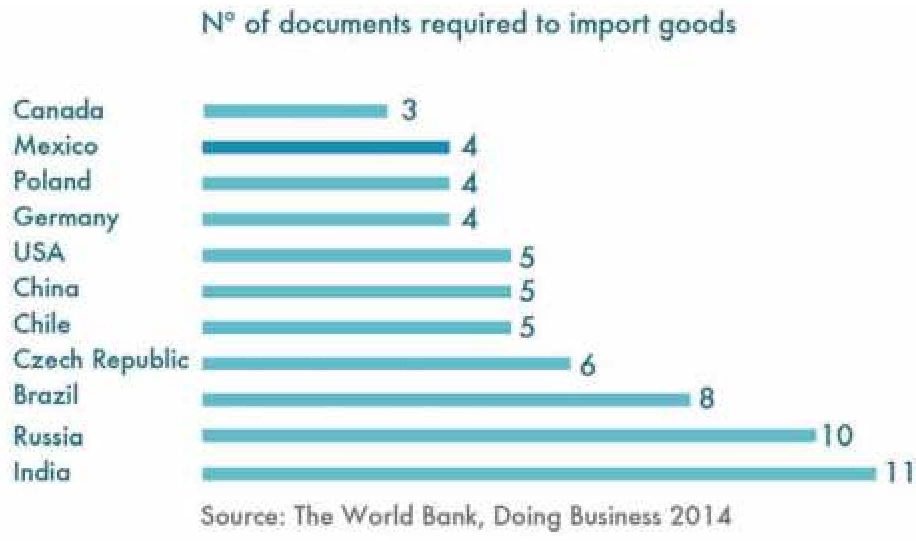
Mexico's strong record in favor of trade and investment agreements gives credence to these statements. According to figures from the United Nations, Mexico ranks in the top 10 of countries globally in terms of the attractiveness of its investment climate, and has signed more free trade agreements than any other country in the world.

At the time it went into effect, NAFTA represented the most comprehensive and far-reaching free trade agreement in the world and contained several groundbreaking provisions. Since then, economists argue, it has helped North American industries, especially the U.S. auto industry, become more globally competitive through the development of global supply chains. In serving as a foundation and a template for future economic cooperation, its impact continues to be felt strongly today.

By strengthening the framework created two decades ago by NAFTA, argues Mr. Peña Nieto, "We will be able to generate a stronger synergy to carry out joint efforts to make this region a more competitive one. Development that Mexico will show in its energy sector without a doubt will make it – this region more competitive, and it adds up to what the U.S. has contributed to, specifically in the area of exploiting shale gas, and also to have inputs that are more affordable compared to other places in the world, this is where we should target our efforts. We need to work in the space of mutual respect, but we have to link efforts and create synergies. We want a win-win situation for North America and each one of its components."







UNCTAD predicts a 'powerful boost' of FDI in Mexico

Exceptional openness has transformed Mexico into one the world's best places to do business and it now ranks among the 10 most attractive foreign investment destinations worldwide

Evidencing the rise of the country's economic prospects, the 2014 World Investment Report from the United Nations Conference on Trade and Development (UNCTAD) reports that Mexico raked in a record $38 billion in foreign direct investment (FDI) last year, placing it ahead of countries like the UK, India and Germany. The report also predicted a "powerful boost" of investment in the country's oil and gas sector in the coming years, and cited the removal of investment barriers in its telecommunications sector as among the most important investment-related developments in the world in 2013. Likewise, AT Kearney ranks Mexico among the 10 most attractive countries in the world in which to invest, a huge boost over just one year ago when it did not make it into the top 25.

Further evidence of Mexico's ascendance comes from research done by the investment firm Goldman Sachs, which forecasts Mexico's economy to become the seventh largest in the world by 2020, while the Japanese research firm Nomura predicts that Mexico will soon overtake Brazil as Latin America's largest economy, if its economic reforms have their expected impact.

"Today, the world is beginning to value the optimal and favorable conditions in Mexico for investment," President Enrique Peña Nieto acknowledges. "Mexico now presents itself to the world as a secure country, a country that is creating favorable conditions to attract productive investments."

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Since the 1990s, Mexican leaders have worked to cultivate a positive environment for entrepreneurship, investment and trade. Building on the foundation laid by the NAFTA agreement, Mexico has gone on to secure groundbreaking pacts with globally important trade partners. In 2011, Mexico became a founding member of the Pacific Alliance, a regional integration initiative that counts Chile, Colombia, Mexico and Peru as its members. Years of preparation and increasing cooperation culminated in early 2014, when Mexico joined the Latin American Integrated Market (MILA), which links equity markets in Mexico, Chile, Peru and Colombia into a single trading platform. With the entry of Mexico, MILA became the first Latin American market by capitalization, at over $1 billion, and by number of firms, with nearly 1,000, after Brazil's BOVESPA. MILA aims to facilitate greater capital flows between the member countries and among investors worldwide, while providing businesses access to global capital markets and encouraging initial public offerings.

This steady buildup of vital partnerships and accords has placed Mexico in an elite group of countries worldwide. It now counts free trade deals and treaties with 45 countries altogether, which account for more than 60% of the world's GDP, making it the world record holder for signing free trade accords. The reforms enacted by the current government, led by President Enrique Peña Nieto, have given Mexico's economy a further jolt of momentum. Earlier this year, Moody's upgraded Mexico's government bond rating to A3, making it the second country in Latin America to receive an A rating, after Chile.

According to Nomura Securities economist Benito Berber, FDI in Mexico's energy sector alone will increase by $10 billion annually, starting in 2016, while Gabriel Casillas, Chief Economist at Grupo Financiero Banorte SAB, estimates that annual private investment made possible under Mexico's Energy Reform will reach $50 billion by 2020. Government forecasts, meanwhile, show that accelerated activity in the energy sector will boost the country's overall economic output by an additional 1% and create close to half-a-million jobs by 2018, on the way to generating 2.5 million jobs and adding an additional 2% to the country's GDP by 2025.

In an additional boost to companies wishing to do business in Mexico, it benefits from virtually unfettered access to the world's largest economy through a 2,000-mile border, the signing of numerous agreements and accords protecting the rights of investors, the presence of an open and transparent legal and regulatory system, and a very young and increasingly well-educated population. More than 60% of Mexico's 112 million citizens are 35 years or younger. And there are signs that Mexico's industrial base is developing important synergies, as an increasingly dense and capable foreign-owned supply chain drives a production surge in the automotive, aerospace and electronics industries.

In March of this year, former U.S. Federal Reserve Chairman Ben Bernanke singled out the positive steps being taken by Mexico, mentioning it as one of the countries in the world where "things are happening." Mr. Peña Nieto emphasizes the "climate of cooperation, harmony, change and transformation that Mexico is living," as well as the atmosphere of confidence in the country. He also notes "the expectations that today are being created by the structural changes, the reforms that we're achieving in total cooperation and agreement with the political institutions of the country, the government of the republic, with broad support and social consensus."

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The President, who begins his third year in office this December, also underlined the benefits he expects this will bring to all Mexicans. "We are working toward making Mexico a destination for productive investments that create jobs and, most of all, well-paid jobs, jobs that extend security, ongoing training and the opportunity for individual growth to workers, within the development opportunities offered by the companies that come to do business in Mexico."

Many of these opportunities are being discussed between heads of state at this year's Ibero-American Summit. In the host state of Veracruz, Mexico, presidents from across the region focus on measures to improve economic cooperation and human development. Participants have the chance to see firsthand the progress that Mexico has achieved, particularly within its energy sector. "I emphasize the Energy Reform because Veracruz will be the principal beneficiary," says Veracruz State Governor Javier Duarte de Ochoa, "being that we are the state that houses 80% of the country's petrochemical industry, the state with the country's largest reserves of natural gas, and its second-largest oil reserves."

As Mexico continues to open its borders, cut red tape and remove investment barriers, it has increasingly attracted multinational corporations from all over the world. Companies like Grupo Empresarial PAE are easing the way to successfully enter Mexico. Founded as a Mexican company with a global perspective, PAE has more than 21 years experience providing human resource services to companies, particularly small to medium-sized firms, that prefer to outsource their HR management so they can focus more on their core businesses.

"Personnel are paramount to us," says PAE's Vice-President Ulises Muñoz. For businesses wishing to enter Mexico, Mr. Muñoz says PAE can "assist in their arrival and we provide the necessary services so that they can develop their business in an effective manner. We endeavor to provide a constant focus on personnel, training and skills."

Services provided by the human capital outsourcing company include payroll administration, socioeconomic studies and recruitment and selection to a growing number of companies and industries. Its focus on Mexico has enabled it to steadily expand across the entire country since its establishment in 1993, later expanding overseas and developing a presence in Central America, Peru, and on the East and West Coasts of the U.S. PAE is also eyeing the potential of venturing further afield, into Canada, Colombia and maybe even Spain, and expressed an openness to silent partners who could become shareholders in the group as it develops its business by expanding and enabling more new companies set up in Mexico.

"WE'RE NOW enTerIng A neW erA In mexIc O ThAT WIll f OSTer Inn OvATIOn And creATIvIT y, And ThAT WIll BrIng c OmPeTITIO n fr Om ABr OAd"

ULISES MUÑOZ, Vice-President of Grupo Empresarial PAE



States react to unprecedented reforms to reshape the nation

Over the first 20 months of President Enrique Peña Nieto's administration, 11 structural reforms were passed by Congress, six of which specifically target increasing the country's productivity and growth: labor, education, economic competition, finance, telecoms and energy

In Mexico, change and reform may entail political risk, though no one doubts that the rewards can be considerable. But even the worthiest initiative may come up short when its implementation becomes a top-down process orchestrated from the Mexican capital. To minimize that risk, President Enrique Peña Nieto took care to line up the support of local officials and state governors for his bid to turn around Mexico's reputation as the land of unrealized possibilities.

Under the Pact for Mexico, an unprecedented cooperation accord between the country's three mainstream political parties, congress passed legislation that shook up the education, telecom, financial and labor sectors, among others. Five of those measures required amendments to the constitution. Economists at the ProMéxico import-export promotion board say that once they are fully up and running, they could attract foreign direct investment on the order of $40 billion per year.

"The most important economic change in the past 50 years," is how the President described the decision to open up the country's rigid energy sector to private capital, and it may be an understatement at that.

However, the reform dynamic did not stop there. Even a relatively resource-rich, export-savvy, geographically advantaged state like northern Chihuahua has a to-do list, with education at the very top of it. "We're trying to achieve tangible results through education, infrastructure, and the reforms promoted by the president, improving the level and quality of people's lives," says Chihuahua's Governor, César Duarte Jáquez. "The education reform is an essential tool for us. In fact, we had prepared to comply with the reforms by investing in new generations of trained professionals."

Mexico spends more money on educating its children than any country in the world with the exception of New Zealand, but results were less than satisfactory. National standards for evaluating students and teachers have now taken effect, and merit rather than seniority becomes the determinant in hiring, promotion and tenure decisions. At the same time, students going the university route will have their right to enrollment guaranteed and a scholarship available when required, in keeping with their constitutionally enshrined right to a quality education.

Running in a dead heat with Chihuahua for the title of 2013's economic growth champion is Aguascalientes, an inland state small in size, thin in population, and low on natural resources, yet it still gets the best credit rating of any Mexican state, to say nothing of praise for its living standards.

"*Forbes* magazine calls Aguascalientes the Jewel of Mexico," says Governor Carlos Lozano de la Torre. "The *Financial Times* ranks us one of the five best states to invest in Latin America and among the top 10 in the world."

Mr. Lozano de la Torre is very upbeat about the reforms package, saying they are going to benefit all the states and all Mexicans. "Mexico is transforming itself in ways that other countries are incapable of doing. This is going to bring about higher economic growth and promote greater national wellbeing, as well as attract foreign investment," he states.

Although Aguascalientes can proudly say there hasn't been a strike in the state for the last 46 years, elsewhere in Mexico, the power wielded by trade unions has long been a divisive issue. President Peña Nieto moved to curb their veto power and modified regulatory rigidities that, by making it prohibitively expensive to dismiss or lay off workers, had acted as a brake on hiring them.

WITH THE EXCEPTION OF NEW ZEALAND, MEXICO SPENDS MORE MONEY ON EDUCATING ITS CHILDREN THAN ANY COUNTRY IN THE WORLD AND THE REFORMS WILL PROVIDE SCHOOLS WITH GREATER MANAGEMENT AUTONOMY

Labor laws that might have made sense in a 19th-century industrial society proved of little use in a country where 95% of the people work in a family-owned or other type of micro-enterprise with fewer than 10 employees. But the presidential reforms will allow them to enjoy basic benefits such as unemployment coverage for up to six months and a pension for retirees.

Other measures address the issue of off-the-books employment, a huge problem affecting anywhere from 30% to 60% of the workforce that deprives the government of revenues and workers of the protection they are entitled to. Incentives for employers to hire more women and first-time entrants to the labor market were also adopted at the President's insistence.

In Chiapas, in Mexico's deep south, the reforms have received a warm welcome, particularly the one laying down strict rules for the tender and execution of public works contracts, ensuring that both the work and the government's payment for same will be delivered at the stipulated time.

The other area being closely monitored in Chiapas is transport and telecommunications infrastructure, which is off to a flying start locally with the construction of the new airport at Palenque that accommodates visitors to the breathtaking ruins of the Mayan city of that name.

"Our priority now is to boost development in the north of the state with a highway from San Cristóbal to Palenque," says Chiapas' Governor Manuel Velasco Coello, who has a lengthy wish list of modern highway and rail links.

Much as the people of Chiapas value the high-altitude pine groves, coastal lagoons and tropical rain forests that make their state "the green lung of Mexico" they still need a reliable telecommunications network to hold everything together. That was what the President promised them when he made one of his frequent visits to the state last September.

"We can't just sit back and do nothing, so that's why we are pushing for telecommunications reform," the President pledged. "It will permit the most remote and distant parts of the country to have Internet access, not just in the big cities, but everywhere, to stay connected with the rest of the country."

Access apart, the reform also opens up the former monopoly telecom sector to competition and modifies the pricing framework for the services these companies provide, eliminating domestic and foreign roaming charges and establishing a flat per-second tariff for cell phone calls.

An exceptionally young governor himself, Mr. Velasco Coello stresses the importance of "generational renovation", and notes that 48-year-old President Peña Nieto "symbolizes this generational change, and he demonstrates it by having made very brave decisions. Through commitment and leadership he has achieved the necessary consensus to go forward with the reforms package in just one year."

For his part, Rubén Moreira Valdez, Governor of Coahuila, the logistical clearing center and manufacturing base for exports to the U.S. and Canada, welcomes the reforms as "the necessary step to compete with the world."

While every single one of the reforms is intended to enhance the economy and well-being of the people in the medium to long-term, it is perhaps the Energy Reform that has sent the biggest shock waves through the world, and many state governors are watching closely, and acting accordingly.

"The greatest challenge for Coahuila is to make the best of the Energy Reform in two ways," says Mr. Moreira Valdez. "To become an oil producer, which for the time being we are not, and to take advantage of the less expensive and more competitive production of energy."

Coahuila is also in a good position to harvest solar and wind energy, and with its installations "out in the desert", there is little in the way of conflict and infrastructure is easier to build.

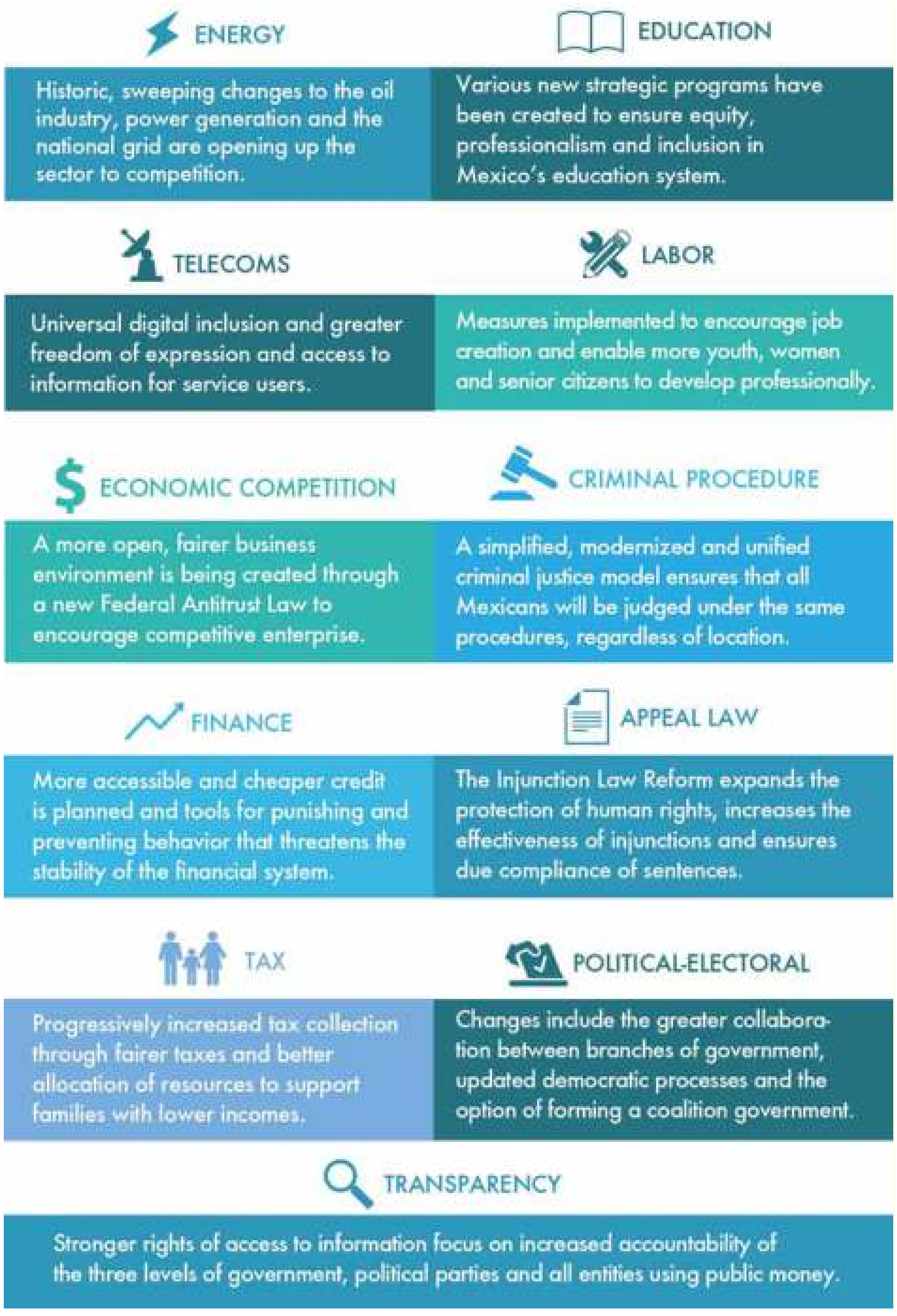
The Energy Reform is also being tracked closely in Veracruz, the Gulf rim state that is home to 80% of Mexico's booming petrochemical industry, its largest gas reserves and its second-largest petroleum reserves.

"Ultimately, the Energy Reform means employment, development, welfare, improvement in the people's quality of life," highlights Veracruz Governor Javier Duarte de Ochoa. "In fact, even before the changes were implemented, private investment had already begun to arrive. In Coatzacoalcos, a Mexican group – alongside an American one – already invested $4.5 billion and created 14,000 jobs."

Just inland from the Gulf, the resource-rich state of Nuevo León is Mexico's top FDI earner, and there seems to be no slowing down. Governor Rodrigo Medina de la Cruz proudly states that his was the first state to publish a plan for the energy sector.

"We know that our opportunities lie in exploitation itself due to our presence in the Burgos basin and we are aware of all the services that will be needed as a result of the exploitation of energy resources. We want it to turn into the Houston of Mexico," says Mr. Medina de la Cruz.

Nuevo León, he adds, also boasts highly skilled human capital. "We have the most prestigious research universities in the country and a high level of technical education; our lowest level activity here is advanced manufacturing. We are also growing in research and science, and at the same time, our strategic location is also a help."



"I'VE BEEN HERE MANY TIMES, BUT I AM VERY IMPRESSED WITH THE COURSE OF THE REFORMS, THE MEXICAN ECONOMY AND THE DETERMINATION OF THE TEAM"

CHRISTINE LAGARDE, Managing Director of the IMF

"THE STRUCTURAL REFORMS APPROVED IN MEXICO WILL ALLOW SUSTAINED GROWTH TO CONTINUE FOR THE NEXT 50 YEARS"

JOSÉ ÁNGEL GURRÍA TREVIÑO, Secretary General of the OECD

"WE HAD PREPARED TO COMPLY WITH THE REFORMS BY INVESTING IN NEW GENERATIONS OF TRAINED PROFESSIONALS"

CÉSAR DUARTE JÁQUEZ, Governor of Chihuahua State

"THE FREE TRADE PACTS THAT THE GOVERNMENT HAS SIGNED ALLOW US TO EXPORT TO OVER 100 COUNTRIES AROUND THE WORLD"

CARLOS LOZANO DE LA TORRE, Governor of Aguascalientes State

"OUR PRIORITY NOW IS TO BOOST DEVELOPMENT IN THE NORTH OF THE STATE WITH A HIGHWAY FROM SAN CRISTÓBAL TO PALENQUE"

MANUEL VELASCO COELLO, Governor of Chiapas State

"WE ARE IN A GOOD POSITION TO HARVEST SOLAR ENERGY AND WE ALSO WE HAVE A VERY HIGH WIND QUALITY "

RUBÉN MOREIRA VALDEZ, Governor of Coahuila State

"THE ECONOMIC GROWTH WE HAVE EXPERIENCED AS A RESULT OF PUBLIC INVESTMENT IS LEADING TO PRIVATE INVESTMENT AND JOB CREATION "

JAVIER DUARTE DE OCHOA, Governor of Veracruz State

"IN 2011, WE HAD $1.7BN IN FDI, BY 2012 IT WAS $2.7BN. THIS YEAR WE ARE EXPECTING TO EXCEED $4BN"

RODRIGO MEDINA DE LA CRUZ, Governor of Nuevo León State

Energy industry faces its greatest challenges ever

The liberalization of Mexico's energy industry is reducing the dominance of the state-owned giant Pemex, heralding a seismic shift in the sector and a spurring a new lease on life for the oil company's operations

Sweeping reforms now under way represent a historic overhaul of Mexico's energy sector and will play out over the next 10 to 15 years. "The Energy Reform opens a great opportunity for Mexico, and we need to seize it with full and rapid implementation," President Enrique Peña Nieto said when the reforms were signed into law in August. "I've told the government to accelerate all of the measures necessary to put this reform into action for the good of Mexico."

The country's energy industry has long needed such a makeover. Mexico is the world's sixth largest producer of hydrocarbons with reserves of crude oil estimated at 10 billion barrels and 17 trillion cubic feet of natural gas. Yet its state-owned and operated petroleum company, Petróleos Mexicanos (Pemex), which has controlled the sector for more than seven decades, has been stalled in exploiting the country's underground riches with falling production, antiquated equipment and hidebound labor practices keeping Mexico from realizing its true energy potential.

"We were the country with the greatest energy riches on the whole continent, except for the United States and nonetheless we didn't make the best of it," explains Marco Antonio Bernal, the President of the Energy Commission of the Lower House of Deputies. "Our reserves were dropping, we didn't produce enough, we hadn't worked on our infrastructure in ages and we squandered almost all our resources in running costs," he adds.

Under the laws establishing this new regimen, private and foreign investors are being invited in to help relaunch the Mexican oil industry into the modern age and expectations are high that Pemex, and society, will benefit.

"the reforms REPRESENT THE MOST PROFOUND TRANSFORMATION OF THE ECONOMY [AND] ATTRACTED INTERNATIONAL ATTENTION FOR THEIR IMPACT"

PEDRO JOAQUÍN COLDWELL, Secretary of Energy

"PEMEX FACES THE BIGGEST CHALLENGE IN ITS HISTORY, TO COMPETE ALL ALONG THE VALUE CHAIN [AND] FOR THE FIRST TIME IN AN OPEN MARKET"

EMILIO LOZOYA AUSTIN, CEO of Pemex

"These reforms started by President Peña Nieto represent the most profound transformation of the Mexican economy in many years and are the result of a broad national consensus that has attracted international attention for their impact and for the growth they will generate for years and decades to come," states Mexican Secretary of Energy Pedro Joaquín Coldwell.

"With these changes, it is estimated that Mexico could boost its crude output from the current 2.5 million barrels a day to 3 million in 2018 and 3.5 million in 2025," he says. "Regarding natural gas, production will rise from today's 5.7 billion cubic feet per day to 8 billion in 2018 and 10.4 billion in 2025."

The government has allotted 83% of the country's potential reserves to Pemex, which it can develop on its own or in partnership with multinationals.

"Pemex faces the biggest challenge in its history, to compete all along the value chain," says the company's CEO, Emilio Lozoya Austin, who notes that the changes "will allow Pemex to compete with other companies for the first time in an open market."

As well as dragging Pemex into the modern world to make it more competitive, the reforms have a number of aims, which include attracting foreign technology to the country's vital petroleum sector, and boosting production – and therefore earnings – from Mexico's prime national resource.

Indeed, Pemex accounts for a third of Mexico's government revenue; in other words, the company is currently responsible for paying for one out of every three schools, one out of every three hospitals, and one out of every three miles of roads.

The expected increased cash flow triggered by the reforms will bring economic growth, create tens of thousands of new jobs, and provide badly needed funds to improve the country's dilapidated education, healthcare and social benefit programs, as well as spur clean energy and infrastructure projects.

"Under this framework and with everything that has been happening in Mexico – macroeconomic stability and healthy finances combined with a competitive industrial organization in leading sectors – the country will be able to make the most of all it has," says Francisco Salazar, the President of Mexico's Energy Regulatory Commission.

"It also means Pemex and the entire sector will have to learn to become more competitive because the business model and the market organization we had before the reform was a closed one which didn't allow competition," he adds.

Shaking up the ailing Pemex, from how it does business to how it operates its fields, could not come at a better time. This summer, the company announced that it had to lower its crude oil production forecast for this year to 2.35 million barrels per day, the lowest annual output in decades.

Plus, according to its most recent financial data report, Pemex posted a $4.4 billion loss for the third quarter, almost double the figure for the same June-September period in 2013, blamed largely on falling production and a drop in exports.

Pemex's crude oil output hit a record 3.4 million barrels per day in 2004 and government officials and industry experts argue that the new dawning for the company will help reverse its decline in both production and general operations. But it won't happen overnight.

"We're going to give Pemex a certain amount of time to prepare itself," comments Mr. Bernal. "Pemex has to be more flexible in its decision making and now it will compete with others as an equal and participate in bids. We think it has the capacity and the structure to be a very competitive company."

In addition to increasing its role, alone or with partners in upstream exploration and production, Pemex also has ambitious downstream plans, specifically in refining so Mexico can become closer to full self-sufficiency in gasoline supplies.

"Our low refining capacity means that we have to import almost 50% of our national gasoline consumption and the reform will open up investment for refining," notes Mr. Coldwell.

Pemex has earmarked $2.8 billion to upgrade five refineries to produce cleaner gasoline and diesel, and will spend $2.5 billion to expand the country's largest natural gas pipeline, which will one day feed gas from the United States across the border and south to central Mexico.

All ambitious plans, and the historic company certainly looks to have its work cut out.

Oil services ready for expansion

Service providers in the energy sector are prepared for productive alliances with new foreign entrants to the market, placing quality over quantity

Poised to get in on the ground floor in the expected boom in oil and gas-related business flowing from Mexico's energy sector reforms is Oil International Services (OIS). It already has experience working with international companies, especially U.S.-based firms, and is counting on further contracts as the sector expands.

"We've had this vision of anticipating the market for a long time and this is actually one of the key factors in the success of this company," explains OIS Director General Eric Bustamante de la Parra.

"We've been able to understand trends and consolidate those niches where we saw an opportunity," he adds.

Proof of this forward looking attitude is OIS's move several years ago into providing offshore services and investing in drilling projects – just the kind of activities that are expected to take off once new players, both foreign and domestic, seize the opportunities presented by the overhaul of Mexico's energy sector.

"Now we are experts in the field and recently OIS has been awarded a number of contracts, even though we had to compete with the biggest company in the sector. And with these reforms, we can propel our exploration activities, especially in mature petroleum and gas fields," he says.

"It's not about what we want to do, but rather it's about what we have done that provides a true picture of the company. We have learned to integrate solutions through our own resources and in cooperation with our major partners to provide the best technology at the most competitive prices."

"SINCE OUR EARLY DAYS WE HAVE HAD INTERNATIONAL EXPOSURE AND WE UNDERSTAND THE IDEOLOGY OF MULTINATIONALS"

ERIC BUSTAMANTE DE LA PARRA, Director General of OIS

OIS has a proven track record in engineering, construction, installation, commission, operation and maintenance services

Not all Mexican companies operating in the petroleum sector are ready to meet the new demands that the government reforms will unleash. There are many such firms that have grown from small, family-owned and run enterprises that have not evolved along with the market.

Meeting the rigorous demands of global investors means these companies must have good governance, transparent procedures and efficient practices.

"Companies that do have all of this in place can play in this market and are ready to form partnerships with international players," the director general says.

Over the past several decades, OIS has provided engineering, construction, installation, commission, operation and maintenance services, as well as labor supply and turnkey/EPC projects.

It has worked extensively on projects with Pemex, both in Mexico and other parts of the world, so while the company is in good stead for further cooperation with the state-owned petroleum giant, OIS is also eager to work with multinationals.

"Since our early days we have had international exposure and we understand the ideology of multinationals, especially American companies, and we have representative offices in the United States," Mr. Bustamante de la Parra says. "We are open to new, long-term partnerships and to further develop our lines of business."

But the executive is adamant that the company can be very selective in choosing partners which compliment OIS and it is not interested in hooking up with just anyone nor taking on too many alliances. "We are not," he declares, "looking to form 200 joint ventures around the world. We only want truly productive alliances."

ALTHOUGH U.S. COMPANIES LEAD IN TECHNOLOGY DEVELOPMENT, THEY COULD BENEFIT FROM PARTNERING WITH LOCAL FIRMS FOR THEIR INVALUABLE KNOW-HOW IN TERMS OF DOING BUSINESS IN MEXICO

Attracting a foreign partner for Mexican companies can be an arduous process because there can be, as in any such potential tie-up, concern as to whether the local outfit will be able to fulfill its end of the bargain.

American companies contemplating an alliance must be convinced that the Mexican partner is a serious player and will be able to manage any opportunities that arise.

U.S. petroleum firms and Mexican companies can be an excellent fit, Mr. Bustamante de la Parra argues, drawing on his long experience in the industry on both sides of the border.

"Mexico lags in terms of technology, while the United States is the leader in terms of technology development," he says. "But many companies in the United States don't have the know-how in terms of doing business in Mexico. OIS is a good partner in this regard."

Mr. Bustamante de la Parra suggests that foreign companies that want to come to Mexico take the time to study the market, choose the right partner and then move in.

"There are many large companies that work in other markets perfectly but don't succeed in Mexico where you need a lean and efficient organization to be successful," he explains.

The DG of OIS says that the reforms come at just the right time for his company, as it is eager to grow and expand into new fields and help Mexico become a prosperous and forward-looking nation.

"We are committed to our country and we want to prove that Mexican companies can lead the way in the industry," he says. "All the stakeholders in this sector have lined up behind the President to fulfill our nation's potential."

$50bn in new investment by 2018

A new 'El Dorado' for private-sector participation and partnerships in the energy sector has opened and investors are betting millions on its gas potential

Fermaca's Supervisory, Control and Data Acquisition (SCADA) system is one of the most modern in the country

Mexico will need more than $10 billion in capital investments in natural gas infrastructure over the next five years

One year after Mexican legislators gave the green light to the historic bill that ended the state-owned oil company's 75-year strong hold on crude production, the once hidebound Petróleos Mexicanos (Pemex), which has long been shy of working with foreign concerns, is sealing accords with major private-sector enterprises that are expected to channel tens of billions of dollars to the country's energy sector.

Impressed with the speed at which the Mexican President Enrique Peña Nieto is pushing through groundbreaking reforms that were all but unthinkable just a few years ago, major multinationals like ExxonMobil, BP, Petrobras, Chevron, Shell and many others are already lining up to get a piece of the action and industry players say it can only help the state-owned oil company over the long term.

In one of the latest such deals, in October 2014, Pemex executives signed a cooperation agreement with U.S. petroleum giant Exxon Mobil to jointly study upstream and downstream opportunities in oil and gas exploration, production, refining, storage and transportation. According to the President of ExxonMobil Ventures Mexico, Enrique Hidalgo: "Mexico has really captured the imagination of the world energy sector."

A FIRST PHASE OF TENDERS IN 2015WILL OPEN UP SOME 169 ONSHORE AND OFFSHORE EXPLORATION AND EXTRACTION BLOCKS

Similar agreements are expected to give Pemex, and the industry, a new lease on life and generate an estimated $50.5 billion from new private and foreign investment by 2018.

A first phase of tenders in 2015, known as Round One and expected to be followed by two further rounds, will open up some 169 onshore and offshore oil and gas exploration and extraction blocks covering a total of 11,000 square miles.

"I believe the reforms should lead us to being able to obtain cheaper fuels and help Mexico become a serious business competitor on a global scale," says Fernando Calvillo Alvarez, President of Fermaca, a leading Mexican operator of gas infrastructure. "Today we are the United States' number one partner, but we want to keep on growing and strengthening our position."

Critics have been very vocal in denouncing the reforms, arguing that the government is privatizing a natural resource that is owned by all Mexicans and that the energy sector will go the way of banking, telecommunications and railways that underwent disastrous reforms in the past.

"These criticisms are false conceptions of the reforms' range," says Francisco Salazar, the President of the Energy Regulatory Commission. "The energy reforms do not privatize, they liberalize which means allowing competition. Privatization means to transfer state assets into the private sector and the states' assets, like Pemex, are not for sale. It is also clear that the resources, as in many parts of the world, are still owned by the nation."

Mr. Salazar admits that Mexico's selling off its banks, telecoms and railway operations was badly bungled and that the government learned from its mistakes. Others say that the measures allowing big multinationals to operate will inevitably crush the smaller, local companies in the sector. But executives say they welcome the changes and are looking forward to the new scenario.

Luis Vázquez, the President of oil services provider Grupo Diavaz, adds: "This gives us the chance to create alliances with big companies that can provide us with new technology and funding. I believe these reforms will make us more aggressive and open up the market even more."

"Our hopes concerning the reforms are very high," says Carlos Arriola, the Director General of the Igasamex gas transport company. "We believe they can completely invigorate Mexico's energy sector, which carries so much weight in our economy."

A clear indication of the confidence the reforms and the sector's liberalization are inspiring in the international investment community was evident in February 2014 when Partners Group, a Swiss-based global private equity firm, acquired a majority stake in Fermaca in a transaction of a reported $750 million.

Jean Perarnaud, Managing Director in the Private Infrastructure team at Partners Group, stated in the company's press release: "Our investment in Fermaca is an exciting addition to our portfolio as a core investment in energy infrastructure. Mexico's growing economy will be supported by increasing amounts of natural gas and Fermaca provides an opportunity to connect the abundant shale gas supply in the United States with the growing natural gas demand in Mexico. We are extremely impressed with the Fermaca management team and look forward to building a leading energy player in the region."

PROVEN CRUDE OIL RESERVES BY COUNTRY

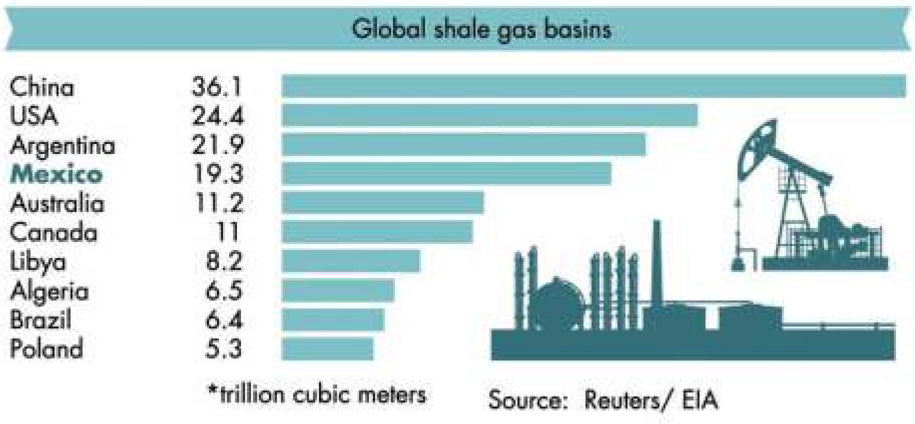
	2011	2012	2013
Venezuela	297,571	297,735	298,350
USA	29,000	33,000	33,000
Brazil	12,841	13,154	13,219
Mexico	10,030	10,070	10,070
Ecuador	8,235	8,235	8,832
Canada	4,085	4,893	4,893
Argentina	2,505	2,805	2,820
Colombia	1,900	2,200	2,377

*millions of barrels
Source: OPEC Annual Statistical Bulletin 2014

PROVEN NATURAL GAS RESERVES BY COUNTRY

	2011	2012	2013
USA	8,627	9,461	8,735
Canada	1,897	2,022	2,022
Brazil	417	460	459
Mexico	349	360	360
Argentina	359	333	323
Bolivia	281	281	281
Colombia	153	155	162
Chile	43	41	41
Ecuador	6	6	6

*billion standard cubic meters
Source: OPEC Annual Statistical Bulletin 2014



Mexican firm Fermaca won a major pipeline deal from CFE over state-owned Pemex, heralding the new era of open competition

Fermaca's founders, Fernando and Manuel Calvillo Alvarez, also stated: "Mexico will need capital investment of over $10 billion for natural gas infrastructure over the next five years to meet its targeted growth plan. With the abundance of projects planned, and the very favorable political and regulatory framework provided by the Reform, we find the current environment extremely attractive to continue building, owning and operating new gas infrastructure assets. We are excited to be partnering with Partners Group in this management buyout, a firm that shares our ambition and vision for our continued, sustainable growth and success."

Fermaca operates two major natural gas pipelines: the 237-mile long Tarahumara Pipeline, which supplies cheap natural gas from the U.S. to nearly 2 million people in the northern state of Chihuahua via an interconnection at the U.S.-Mexican border. The other main pipeline is the Palmillas pipeline in the state of Toluca, which is operated by the natural gas transportation company Tejas Gas de Toluca, and has been supplying the gas needs of various business parks and industrial areas in Mexico State without interruption for more than a decade.

Mexico's state-owned electricity utility, the Comisión Federal de Electricidad (CFE), awarded the contract to Fermaca in 2011 for the engineering, procurement, construction and operation of the Tarahumara project, also known as the, Chihuahua Corridor gas pipeline. Its bid beat a French-Spanish consortium and also a U.S.-Pemex joint venture. So what did it mean for the private Mexican company to surpass the all-powerful Pemex in a project as important as this pipeline?

"It represents a 360-degree change," says its president, Fernando Calvillo Alvarez.

FERMACA OPERATES TWO MAJOR NATURAL GAS PIPELINES IN MEXICO: THE TARAHUMARA PIPELINE, AND THE PALMILLAS PIPELINE IN TOLUCA

"Since the arrival of President Peña Nieto, we have returned to the old rules of the game where there is no favoritism for anyone and everyone has the same opportunities when facing a project. Under those rules, we have won many bids and we have worked hard to fulfill our commitments.

"This pipeline has become the backbone of the country. In the end it was the only pipeline in this country that was delivered on time, to specification and budget, although few expected us to achieve this in the beginning. In fact, this earned us various awards, including the 'Best Latin American Midstream Project Finance', 'The Deal of the Year', a 'Megaprojects' award for best infrastructure in the country, and 'Energy Firm of the Year'.

"We have done well; we have shown that we can match any company worldwide. Our communications systems, for example, are the newest and most innovative in the country; they are products of intelligent and calculated preparation, supported by large investors. We just invested $3 million in our SCADA (Supervisory, Control and Data Acquisition) system, which can today operate the entire pipeline network in the country via satellite." The system constantly checks parameters such as pressure, temperature and humidity of the gas in real-time to ensure an uninterrupted supply of natural gas and strengthens the company's assurance of its systems being totally reliable.

INVESTING IN A NEW COUNTRY CAN BE DAUNTING FOR EVEN THE LARGEST AND MOST EXPERIENCED MULTINATIONAL AND TO ENSURE THE PROCESS IS AS PAINLESS AS POSSIBLE, FOREIGN FIRMS SHOULD ENGAGE A LOCAL PARTNER

Fermaca is also developing compression, cogeneration and liquefied natural gas (LNG) projects. "We are building the country's biggest gas compression station in Soto la Marina via a joint venture with Enagas, which requires an investment of $150 million," says Mr. Calvillo Alvarez. The project involves the ownership, design, construction, operation and maintenance of the new compression station in Tamaulipas State that will be able to compress natural gas from 570 million cubic feet to a maximum daily amount of 1846 million cubic feet, from a pressure of 698 psig to 998 psig. According to the company, natural gas will be received from the national pipeline system's primary trunk line, compressed at the Soto La Marina Compression Station, and then finally fed back into the same pipeline for CFE.

Investors have also taken note that the Ministry of Energy has estimated over the next 10 years $100 billion in investment will be needed to develop Mexican shale gas resources.

The gas sector is certainly one that has piqued widespread interest. In the U.S., the prolific Eagle Ford shale formation is possibly the largest single economic development in the history of the state of Texas, and its reserves extend south across the border into Mexico's Burgos Basin, which accounts for two-thirds of Mexico's shale gas resources. Mexico's approximate 19.3 trillion cubic meters of gas shale and 13 billion barrels of recoverable shale oil resources rank it among the top 10 countries in the world.

Nevertheless, the shale gas sector in Mexico is still in its infancy, finding it hard to compete with cheap imports from the U.S. that give further momentum to companies like Fermaca who are rapidly expanding Mexico's gas transportation sector.

"Doing the impossible is fun. We are up for the challenge"

Faced with multinationals now moving into Mexico as the energy sector reforms become a reality, Fermaca is one local company unfazed by the influx of possible competition thanks to its long experience and alliances

Fernando Calvillo Alvarez, President of Fermaca, provides an overview of an industry in the midst of unprecedented transition and discusses how his company is already seeing its effects. He also highlights the importance of local experience and accomplishments for major multinational oil and gas companies looking to enter Mexico.

Is Fermeca well positioned as a strategic partner for international investors coming to Mexico?

I believe so. I have always said our company has greatly benefited from the experience of past years. We are an international company, born and bred in Mexico. We have made alliances with American, German and Japanese companies and therefore we know how foreign investors think.

We have also brought technology from other countries to Mexico, so Fermaca can certainly be a great ally and partner for foreign companies that come to the country to invest.

Fermaca has been in the market for 52 years and we have made the best of the lessons we have learned in that time, developing government projects. Our acquired experience places us in a preferential spot.

"WE HAVE BROUGHT TECHNOLOGY FROM OTHER COUNTRIES TO MEXICO, SO FERMACA CAN CERTAINLY BE A GREAT ALLY AND PARTNER FOR FOREIGN COMPANIES that come to the COUNTRY TO INVEST"

Regarding large and international oil companies, I believe they have to work together with local companies because those are the ones that will guide them through the right path, a path they already know and have traveled.

Money and technology do not always level the playing field – the experience and tradition of the locals is necessary: they know the details, the permits, the security protocols, the way to protect the environment, etc.

How has Fermaca managed to endure for so long and what is the company's spirit?

In the first place, our line of business has always been focused on Mexico. Only recently have we begun to think about international developments. I believe we are a few steps ahead of the competition, and this is our competitive advantage, both in possibility analysis and in the establishment of the necessary developments to execute our businesses.

What role does Fermaca have with regard to the new responsibilities the CFE (Federal Electricity Commission) will assume with the Energy Reform?

I believe we will have a window of opportunity. Compared with the gas pipelines in the United States, we can clearly see we have a great need for infrastructure. It is worth mentioning that the state of Texas has 500,000 miles of pipelines; our country has 13,000 miles and most of them are practically unused. This gives us an idea of the great need for infrastructure in our country.

All industries are crying out for cheap supplies. The Energy Reform will be able to generate those prices for our products, but I think it will happen over many years. Therefore, our vision tells us that we have to connect as much as we can with the United States' southern gas supplies to bring it to Mexico.

This is possible because with new fuels the price of natural gas has dropped and they don't have the infrastructure to store it in the U.S. Therefore, that gas will naturally flow to Mexico. This means I believe I can affirm we will be a net importer of natural gas.

Does Fermaca have national competitors?

On a national level, I don't think so, because there aren't any companies building pipelines as large as ours. There are very important local companies but in other niches, other sectors. We like to work with larger volumes and larger investments.

Fermaca has over 50 years of experience. Currently, what are the main activity levels of the company and what main services does it offer international partners interested in coming to a country like Mexico?

They say that to know success you need to have gone through failure. In fact, you always learn more from your failures than from your successes.

We almost lost the entire company in 1994 and we tried to recover from that scandalous devaluation the country went through. We had to redefine our objectives. So I proposed we enter into a long-term business with stable income.

Ever since, we have had three lines of business, of which energy is the most important.

Today we are a global quality company and we have the possibility of searching for \$3 billion in investments.

On the other side, we have the engineering and construction company that has survived everything. And, last year we started something that has nothing to do with our traditional activities, but which has brought us great results: medicine distribution.

\$3 billion to invest in the energy sector is a very significant sum. Where are you thinking of investing that money?

In the midstream sector.

2014 is the 20th anniversary of NAFTA. What do, or can, the northern countries represent?

I believe they must be at a lesser advantage because I think we signed a free trade agreement that is a little advantageous for our country.

We are trying to redefine some policies between the countries, because today we are service providers to the north. I feel like a service provider and not an economic partner.

Entering the north isn't easy, but I am sure we are going to make it. I think doing the impossible is fun. It is an experience that starts at the very beginning.

We are here to demonstrate that Mexicans do things with quality, that we know how to work, that we are honest and that we are up for the challenge. That is the message we have always wanted to convey with the company.

What is the landmark you are most proud of having achieved?

I think breaking with the taboos that exist in the country. In 1997 we proposed building a new gas pipeline, which is a very risky enterprise. We received a negative answer from a public servant, saying that such large projects should be left to big, international companies. And, after many years, we demonstrated we could perform that huge challenge efficiently and those who didn't have faith in us at that time ended up recognizing our hard work.

"THE MAIN CHALLENGE IS THE COMPETITION. MEXICO IS NOW AN INTERNATIONAL FOCAL POINT AND THE LARGE COMPANIES ARE COMING FOR THE OIL. MY OBJECTIVE IS FOR US TO BECOME THE MOST IMPORTANT GAS TRANSPORT COMPANY IN THE COUNTRY"

We have the advantage of supplying Mexico's most important industrial cluster, which is Monterrey.

What are the main objectives and greatest challenges you will pursue in the near future?

The main challenge is the competition. Mexico is now an international focal point and the large companies are coming for the oil.

"I BELIEVE WE WILL HAVE A WINDOW OF OPPORTUNITY. COMPARED WITH THE GAS PIPELINES IN THE UNITED STATES, WE CAN CLEARLY SEE WE HAVE A GREAT NEED FOR INFRASTRUCTURE"

Therefore, it is difficult to reinvent ourselves, because it is not the same to compete on a bid for a gas pipeline with three or four companies than to do it with many others, which are also much larger. The big oil producers bring their contractors and service providers with them.

The only option we have left is to keep on making Fermaca more and more professional to be able to qualify as one of those companies. For me, the ideal situation would be for us to become the most important gas transport company in the country. That is my objective.

And does the acquisition of other small companies enter into your plans?

We want to acquire greenfield, brownfield and some other assets as big part of our business plan

There are very strict policies regarding the environment. What is Fermaca's engagement with its people, and its social responsibility point of view?

I believe the hardest thing here, respect of life, is to find the land to develop the projects. We have been successful in that we stay everywhere we go. Our projects are long-term projects, of 30 or 50 years. What we have to guarantee is an economic benefit for the local area and a fair price for the lands. We share with the community as much as the company allows us to. For this company, the most important things are security and the protection of the environment.

What do you feel when you look back and see everything you have achieved, not only through the work of so many people but also through your own influence? What are you most proud of?

I am very proud of the company. It has been a magnificent journey, a great experience, and pride comes mostly from seeing that what we do is part of the country's chain of progress. I always tell my children that we have to do something to make the country better.

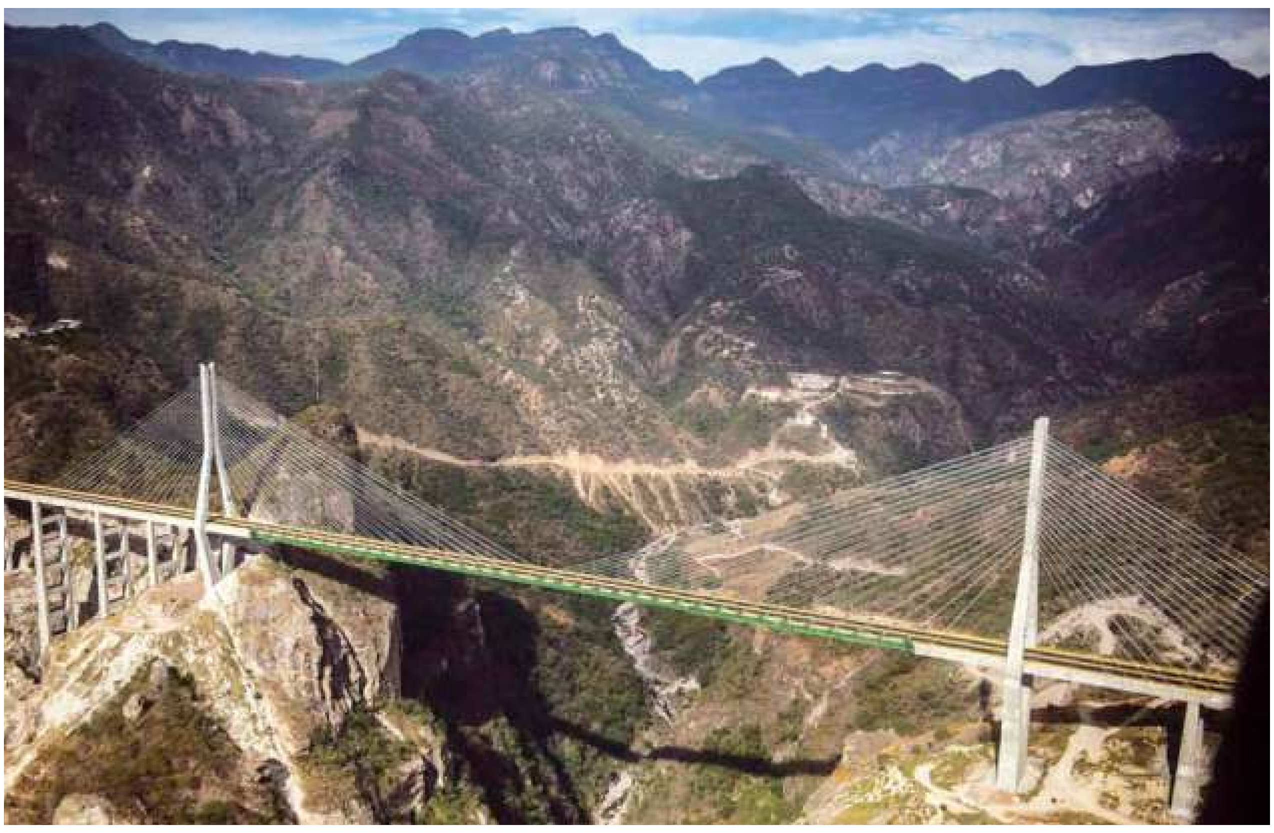
We have a very solid team that includes many second-generation employees. Ultimately, we have an organization to which people arrive and hardly ever want to leave.

We try to make our people comfortable and well paid. We believe we have to propel the three Ds: dignity, duty and diversion.

Fernando Calvillo Alvarez, President of Fermaca

$596bn infrastructure plan to create a bicoastal logistics legacy

The country's landscape is being dramatically transformed with new roads, bridges, seaports, airports and public facilities taking shape



The highest cable-stayed bridge in the world, the Baluarte Bridge straddles the border between Sinaloa and Durango and forms part of the $2.2bn Durango-Mazatlán Highway

Mexico is getting an extreme makeover with one of Latin America's largest investment programs ever. A few weeks after the last bit of enabling legislation was passed in August 2014, President Enrique Peña Nieto committed to one of the most ambitious undertakings in which a leader puts his administration's credibility and future legacy on the line: a comprehensive and cost-effective upgrade of the country's ageing infrastructure.

"This is the roadmap that shows us the way to the modern, competitive country we all want Mexico to be," is how the President sees the spending program intended to create thousands of jobs and give a boost to virtually all sectors of the economy by enhancing the country's competitiveness and productivity.

Roadways, rail transport, seaports and airports. Gas pipelines, power transmission grids, container terminals. Bus stations, even. You name it and it will probably appear as one of the 743 items on the government's to-do list – just so long as it is new, functional and incorporates the appropriate technology.

And, yes, the overall price tag is formidable: to the order of $596 billion, including construction of the new state-of-the-art Mexico City airport. It will be money well spent.

An estimated 63% of that funding will come from the federal and state government, with the remainder provided by private capital, whether as foreign direct investment, public-private partnerships (PPPs), or other modalities that will be flexibly structured. All ventures will be protected by a favorable regulatory environment and the guarantees enshrined in Mexico's new PPP laws, which are considered as equitable and comprehensive as in any comparable Latin American country.

In the World Economic Forum's *Global Competitiveness Report* for 2013-2014, Mexico came in 66th place among the 148 countries evaluated for the overall quality of their infrastructure, trailing nations like Greece, Rwanda and Kazakhstan. Its deficiencies are especially conspicuous in the country's road network, which is to receive priority attention during the first phase of the implementation process.

Actually, Mexico has a lot of roads for a country its size and, for the most part, their layout allows for good inter-city and regional connections. The trouble is that only 40% of those roads are paved, and those that are paved are likely to be in urgent need of grading, resurfacing or replacement.

THE TRANSPENINSULAR FAST TRAIN, SLICING ACROSS THE YUCATÁN PENINSULA BETWEEN CAMPECHE AND TULÚM, WILL TAKE VISITORS TO SUCH EMBLEMATIC BUT HARD TO GET TO INLAND DESTINATIONS AS IZAMAL OR VALLADOLID

Then there are new links such as the Durango-Mazatlán Highway. It may seem perverse to build a route that requires 61 tunnels along its 140-mile length, to say nothing of 115 bridges – including Puente Baluarte, the world's highest suspension bridge. But on its inauguration on October 17 2013, the segment completed the Matamoros-Mazatlán corridor – also known as the Interoceanic Highway – that cuts about six hours from the travel time between Mexico's Atlantic and Pacific coasts. An engineering challenge, but one with a payoff that could end up giving the Panama Canal a run for its money.

More funding is earmarked for the railroad sector, where it is hoped that the speed, efficiency and convenience of modern trains will attract passengers to routes such as Mexico City-Querétaro via fast train, or Mexico City-Toluca. The Transpeninsular fast train, slicing across the Yucatán peninsula between Campeche and Tulúm, will take visitors to such emblematic but hard to get to inland destinations as Izamal or Valladolid. The plan also calls for electric trains for the larger cities and a significant investment in rolling stock for moving merchandise by rail.

In his 2014 State of the Union address, the President said that various existing metro lines of Mexico City's crowded underground system would be extended deeper into the suburban belt around the capital, adding an extra 30 miles of coverage that will serve an estimated 9 million commuters.

Mexico's seaports are another strategic area coming in for major upgrades as the country advances its plans to become a bicoastal logistics hub. Veracruz may be the country's oldest and largest port, but its capacity to handle modern-day container shipping needs to be expanded and equipped with advanced monitoring and operation systems that require an outlay of some $1.8 billion.

Slicing the pie chart makes it clear that slightly over half the total investment will be absorbed by 462 initiatives in the energy sector.

Most of that money will end up at the state energy company Pemex, to cover the preliminary phases of identifying and developing the potentially huge oil and gas reserves in the deep waters of the Gulf of Mexico, and a series of modern refineries intended to reduce Mexico's imports of processed petroleum derivatives.

A pipeline grid conveying natural gas closer to its industrial and domestic end-users will also contribute to presidential plans to set the conditions for a more balanced energy sector.

Green power also has its place on the agenda, which contemplates 16 solar farms in the arid deserts of the north. An allocation of $2.5 billion will cover the start-up costs of six wind farms, in addition to two hydroelectric plants and a modern system of drainage tunnels for the Greater Mexico City region. Dams, aqueducts and water treatment plants also in short supply in different parts of the country will be built.

To be fair, massive investment in healthcare facilities got under way with the previous administration, which built or reconditioned several thousand hospitals and clinics. The President has made every effort to ensure that in addition to the facilities themselves, the product they deliver has all the funding it needs to attend to a growing population, with universal healthcare in all of Mexico's states as his ultimate goal.

Will he be able to implement these projects? Will the political, social and legislative reforms that sustain them hold up under the burden of expectations that they generate? Mr. Peña Nieto is convinced they will. "The foundations are in place," he has said, "so let's get busy building the nation we want for ourselves.

"One thing that must be clear to us is that this is not the country it used to be. This is the Mexico that dared to embrace change."

MEXICO CITY'S crowded UNDERGROUND SYSTEM IS TO BE EXTENDED further into the SUBURBS AROUND THE CAPITAL, ADDING AN EXTRA 30 MILES OF COVERAGE THAT WILL SERVE AN ESTIMATED 9 MILLION COMMUTERS

INFRASTRUCTURE AIMS INCLUDE 16 SOLAR FARMS IN THE ARID DESERTS OF THE NORTH, AS WELL AS SIX WIND FARMS AND TWO HYDROELECTRIC PLANTS, PLUS A MODERN SYSTEM OF DRAINAGE TUNNELS FOR THE GREATER Mexico city region

TRANSCONTINENTAL TRADE HAS BEEN GIVEN A BOOST WITH THE CITIES OF MATAMOROS ON THE GULF OF MEXICO AND MAZATLÁN ON THE PACIFIC OCEAN NOW LINKED BY SUPERHIGHWAY

Allies streamline cross-border trade

Mexico's largest road cargo transport company partners with U.S. and Canadian firms to offer comprehensive shipment options tracked by the latest technology

Is Mexico's freight hauling sector going through the best of times or the worst of times? The answer is "yes" – to both questions. Recently having celebrated its 20th anniversary, NAFTA is generating a steadily increasing flow of goods moving at a rate of $1m-$2m worth per minute. Mexico's GDP is robust, as are its industrial output and demand from the growing middle class. That is why efficient, punctual transport for moving factory output to wherever it is needed is of critical importance.

The bad news is that the government has introduced changes in the tax regime that draw blood from just about everyone in the freight hauling sector, but especially the small-time owner-operator. The write-off allowed for vehicle depreciation is only 8%, while truckers say its costs them at least 20% of revenues to meet safety regulations and compensate for ordinary road wear. Small wonder, then, that one in three small-time operators has gone out of business.

One firm with the resources and the determination to stay the course is TUM, Transportes Unidos Mexicanos, the country's largest road cargo transport operator. TUM has nearly 1,800 employees and operates a fleet consisting of almost the same number of vehicles, many of which are privately owned and leased to them by the driver, along with his services.

"It is a type of arrangement we would like to develop further," says TUM's Vice-President for Operations, Miguel Quintanilla Hernández, "and the invitation is open to all professionals. Truckers and their vehicles are given regular check-ups. They benefit from being able to access our infrastructure, keep operating expenses low, and not have to deal with bookkeeping and collection issues."

As a result of this enhanced capability, TUM is in a position to supply its distinguished list of corporate clients with everything from armored cars, refrigerated haulers, extra-length semis (over 200 of them), tanker trucks, light vans for door-to-door parcel delivery, container platforms, and just about any other type of wheeled vehicle used to move cargo from one place to another.

The range and versatility of its offer has impressed TUM customers such as Nissan, Honda, Nestlé, Ford, Costco, and most recently FedEx, following a deal signed earlier this year to serve as the U.S. transport firm's partner in Mexico.

"FedEx is an important customer," agrees Miguel Quintanilla Rebollar, Chairman of TUM's board of directors and father of the Vice-President. "Nowadays, we are operating their entire base network at the national level. And apart from that, owing to Mexican laws and the investment they made, we are in a very favorable position to compete in tenders for service contracts."

At the present time, TUM does not operate in the United States, however it will take a customer's shipment right up to the border, or across it, if preferred, to the nearest customs facility. But no further. At that point, one of the 25 U.S. or Canadian firms TUM has partnered with will take over and see that the cargo reaches its stateside destination.

Asked why that is the way it is done, Mr. Quintana Hernández merely says "ground transport between Mexico and the United States is anything but free, and I don't think that's going change any time soon."

"Therefore," he continues, "we decided to contract with U.S. companies to transport our shipments on the other side of the border. We prefer to concentrate on consolidating our position in the domestic market and that is going to take a lot of work."

From the 18 freight terminals and cross docks located from one end of the country to another, road-tested vehicles from the TUM fleet make some 1,300 pickups or deliveries per month. State-of-the-art technology allows every last one of them to be tracked by a satellite positioning system, and maintains constant communication between controllers and drivers.

"We have a network and systems capability that sets us apart from any other Mexican company and gives us access to the information that an outfit like FedEx insists that you have at your fingertips. We get a real-time street view from every cab," says Mr Quintanilla Hernández. "But the important thing is that we also have the people who are ready, willing and able to make sure the cargo gets to where it's going, at the right time and with the right guarantees."

The Port of Veracruz will quadruple in size following a $1.8bn expansion plan

States primed for FDI

Prospects of big returns by partnering Pemex to tap vast oil and gas reserves, as well as the need for infrastructure and tourism development, is pulling in rising foreign investment in states developing old and new sectors

Citizens in three of Mexico's 32 states in particular – Veracruz, Campeche and Chihuahua – are in a prime position to get a generous share of the benefits being sparked by the nation's reforms under way. And for each of the trio, the new realities have already spawned initiatives that will take full advantage of the major changes soon coming Mexico's way.

In the oil-producing state of Veracruz, the country's

VERACRUZ AND CAMPECHE ON THE GULF OF MEXICO ARE MAJOR PRODUCERS OF HYDROCARBONS. THE FORMER IS A NUCLEUS FOR THE PETROCHEMICAL INDUSTRY, WHEREAS THE LATTER PROVIDES A TOP-FLIGHT LOGISTICAL PLATFORM FOR THE UPSTREAM INDUSTRY

most important port aims to quadruple in size after a planned $1.8 billion expansion, while in Campeche the government has worked hard to transform itself into what the World Bank calls "the perfect investment destination."

To the north, sharing a 560-mile-long border with the United States, Chihuahua is already Mexico's leading manufacturing center and is spending millions of dollars on new transport infrastructure to boost the flow of goods in both directions.

"Veracruz is one of the pillars of development in Mexico because of our great economic and commercial activity," boasts the state's Governor Javier Duarte de Ochoa. "We have three ports on the Gulf of Mexico, one of which is the most important in Latin America, making us the most important logistics center from Tijuana to Tierra del Fuego."

Besides being the premier gateway to the Mexican market and beyond, there are the hydrocarbon deposits. Veracruz has the largest gas reserves in the country, the second-largest oil reserves and is the nucleus for 80% of Mexico's petrochemical industry.

Braskem, the largest petrochemical company in Latin America, has teamed up with Grupo Idesa of Mexico to build a $4.5 billion plant in Veracruz's port city of Coatzacoalcos, slated to open next year and will produce 1 million tons a year of ethylene and polyethylenes.

Clearly, foreign investors are taking notice of Veracruz, which has risen 13 places in the World Bank's *Doing Business* rankings.

"Opening a company here now takes 48 hours," says the governor. "The climate for private capital and investment is auspicious."

Veracruz is also joining in with the country's revived emphasis on education through a cooperation agreement signed this year with the Massachusetts Institute of Technology allowing the state's best and brightest students access to the U.S. institution's programs and courses.

"The first thing we want to do is take advantage of the capabilities, experience and intelligence of one of the most prestigious institutions in the world of education," Mr. Duarte de Ochoa says.

Another exciting event on Veracruz's horizon is the hosting in December of the Ibero-American summit bringing together the leaders of Spain, Portugal and all of Latin America.

Sharing the Gulf of Mexico coastline with Veracruz is the state of Campeche, which bills itself as the country's energy capital and whose Governor Fernando Ortega Bernés has praised the President's reforms and what they will do for the country and his state.

"Without a doubt, these reforms have extraordinary potential and they bring together all the determination to propel the changes that

ACCORDING TO THE GOVERNOR, IT NOW TAKES JUST 48 HOURS TO OPEN A COMPANY IN VERACRUZ STATE, WHICH HAS ADVANCED 13 PLACES IN THE WORLD BANK'S RANKINGS

Mexico has needed for many years. From this year on, Mexico will grow tremendously," he predicts.

In the petroleum sector, Mr. Ortega Bernés argues that the changes can only serve to benefit Campeche.

"The state's logistical platform supplying the oil extraction and production operations is the most skilled, experienced and valuable in Mexico and when the reforms kick in, all of that will strengthen the economy and further increase employment, investment and wealth," says Mr. Ortega Bernés.

The governor explains he is keen to also see new development in other sectors of the state's varied economy including industry, farming and food production, and even tourism. With its many miles of beautiful Caribbean beaches, colonial towns and monuments, captivating jungle environments and vestiges of the ancient Mayan civilization, Campeche is already a natural draw for foreign visitors and the government is working to lure more.

"Our main attractions include eco-tourism and our tourism offer also includes adventure and nature activities like fishing, birdwatching, hiking and other activities," the governor says.

"In Mexican Spanish, a *campechano* not only means someone from Campeche but also someone with a certain type of personality and that character includes the great warmth and joy with which *campechanos* receive visitors."

Mexico's largest state, Chihuahua, is also accustomed to visitors and while tourists certainly enjoy a warm welcome there, foreign investors, specifically Americans, are truly valued for their contribution to making Chihuahua not only a manufacturing powerhouse but also the country's leading exporter.

"Chihuahua's leadership in foreign direct investment has undoubtedly set a clear precedent in Mexico and the fact that we received more than $1.5 billion in FDI in 2013 proves that we have won the trust of investors," says Governor César Duarte Jáquez.

JUST ACROSS THE BORDER FROM TEXAS AND NEW MEXICO, CHIHUAHUA IS A TOP MANUFACTURING STATE AS WELL AS THE COUNTRY'S LEADING EXPORTER

The politician credits a range of factors which have made Chihuahua such an attractive investment destination, including the newfound sense of security there, the quality and skill of the workforce, and its constantly improving connections to the U.S.

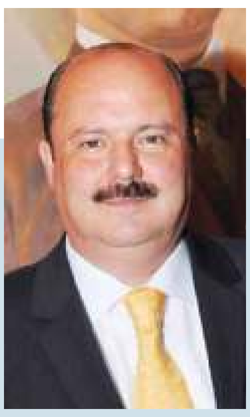
"We have the industrial, commercial and logistical infrastructure reaching across the border, which allows us to exchange all manner of goods with the United States quickly and conveniently," he notes.

"VERACRUZ IS ONE OF THE PILLARS OF DEVELOPMENT IN MEXICO BECAUSE OF OUR GREAT ECONOMIC AND COMMERCIAL ACTIVITY"

JAVIER DUARTE DE OCHOA, Governor of Veracruz State

"THE DISTINCTIVE FEATURE OF CAMPECHE'S INHABITANTS, THE , IS THEIR KINDNESS"

FERNANDO ORTEGA BERNÉS , Governor of Campeche State



"the fact that WE HAVE RECEIVED MORE THAN $1.5BN IN FDI IN 2013 PROVES THAT WE HAVE WON THE TRUST OF INVESTORS"

CÉSAR DUARTE JÁQUEZ, Governor of Chihuahua State

Durango City is home to the largest number of historic buildings in the north of the country

The Liverpool Interlomas Department Store in Mexico State is a futuristic hive of stores and cultural and relaxation areas

The intricately carved wooden doors of the Catedral de Santiago in Saltillo, Coahuila

States advance national progress

Efforts made in Mexico's individual states to highlight their own competitive advantages have the combined effect of driving forward the country's overall development and create a nation that will become even greater than the sum of its parts

Goldman Sachs forecasts Mexico will be the world's seventh-largest economic power by 2020. The country's resilience during the global economic crisis was the bedrock of its current financial health, but challenges remain at the national and state level; challenges that in partnership with the U.S. and Canada have not only spurred Mexico into greater efforts internally but have led to increased regional cooperation.

A Council on Foreign Relations independent task force co-chaired by retired U.S. General David Petraeus and former president of the World Bank Robert Zoellick stressed the importance of Mexico, the U.S. and Canada presenting a united front in the fields of security, energy, education and the development of natural resources.

"If the three North American countries deepen their integration and cooperation, they have the potential to again shape world affairs for generations to come," the CFR concluded.

A trilateral energy agreement proposed at the North American Leaders' Summit held in Toluca, State of Mexico, in February is the first step toward a North American common policy in fossil and renewable energies. Nationally, the government of Enrique Peña Nieto has implemented a series of reforms to best address the needs of a swiftly growing economy: "Public-private partnerships – a mechanism we will promote across all industries – may foster greater investment in the oil and electricity sectors, allowing Pemex [the national oil company] to remain an engine of development, without having to cede state ownership over our nation's resources," the Mexican President wrote in The World in 2013 by *The Economist*.

Mexico and the U.S. are increasingly working together on security issues, ranging from the border to the cartels while also seeking to increase the flow of legitimate cross-border commerce, which amounts to some $500 billion per year.

But as the governors of three of Mexico's largest and most prosperous states all concur, the key to tackling crime and poverty is education.

International cooperation in education has led to a rise in the number of universities in Mexico, which now offer degrees in international business, relations and commerce, and in partnership with Germany and other EU nations, promotes a dual education program across all of the major states. U.S. business schools and higher learning institutes are also forging productive cross-border links with their Mexican counterparts.

> GOVERNORS OF THREE OF MEXICO'S LARGEST AND MOST PROSPEROUS STATES ALL CONCUR THE KEY TO TACKLING CRIME AND POVERTY IS EDUCATION, AND COLLABORATIONS WITH INTERNATIONAL UNIVERSITIES ARE ON THE RISE

"We're investing in education because it encourages development," says State of Mexico Governor Eruviel Ávila Villegas. "Nelson Mandela said that if we want to change the world, we have a very powerful weapon to do it: education. We are going to use this weapon to change the world and to change Mexico."

Mexico State, says Mr. Ávila Villegas, is the "economic and geographic heart of Mexico." The largest of the country's 32 states, Edomex, as it is known from its Spanish title, is also the most populous and a major contributor to national GDP. Transport infrastructure is a priority for both Edomex and the U.S., which posted exports of $226.1 billion southwards in 2013. As a result, the three premiers – Enrique Peña Nieto, Barack Obama and Stephen Harper – have signed a commitment to create a North American Transportation Plan.

For Edomex, relations with the U.S. are vital to its mission to place the state at the forefront of economic development. Infrastructure accordingly goes hand-in-hand with efforts to facilitate investment and the entry of foreign companies in to the regional market.

"Transparency as well as accountability are extremely important," notes Mr. Ávila Villegas. "Both are part of the state's public policy and its development plan." National consultant ARegional places Edomex top out of the 32 states in that respect, while the World Bank's *Doing Business* 2014 report ranked the state in the top five business friendly Mexican regions.

Industry accounts for a large amount of Edomex's output, with agriculture, manufacturing, food and paper products supplemented by services and tourism, the latter accounting for some 20% of employment in the state. "According to the National Bureau of Statistics and Geography (INEGI), the State of Mexico has grown by 3.28% and came in third in terms of its contribution to GDP. Mexico State is essential to our country's economic strength," says Mr. Ávila Villegas, who adds that job creation in Edomex in the first quarter posted a 200% year-on-year rise.

However, Mr. Ávila Villegas does not shy away from the issue of security, one of the main obstacles in attaining the state's goals and an area of increasing cooperation with the U.S.

"Security is one of the challenges that we need to overcome, and as quickly as pos-

Yucatán targets R&D and regional tourism

One of Mexico's largest investors in R&D has closer links with the U.S. in its sights

IN RECENT years Yucatán has experienced an influx of foreign property owners seeking the good life on the peninsula, which juts out between the Caribbean and the Gulf of Mexico. As one of Mexico's safest states, the appeal is undeniable, although it faces stiff competition in terms of tourism from neighboring Quintana Roo and Campeche.

"Promotion is one our greatest challenges at the moment," says Yucatán's Governor Rolando Zapata Bello. "Yucatán is a well-known state, recognized throughout Mexico and the world as heir to the great Mayan culture, and also for our music, food and imposing archeological sites. But there is another, little-known, side which we are very interested in promoting. People should know that Yucatán has the biggest critical mass of researchers in the whole of the country's south-southeast region."

According to the OECD, Yucatán is one of Mexico's largest investors in terms of R&D. The state is actively encouraging foreign companies to take advantage of its strategic location (a Yucatán-U.S. ferry link is in the pipeline) and its potential for renewable energy patents, especially in the field of wind energy. As Mr. Zapata Bello notes, the re-establishment of a sea route between Yucatán and the U.S. would also benefit tourism and those Americans who have made the state their second home.

ROLANDO ZAPATA BELLO,
Governor of Yucatán State

According to the Mexico 2010 census, there are 738,103 Americans living in the country, the largest foreign diaspora in the world, and Yucatán is rapidly becoming a destination of choice. "Many U.S. citizens spend a large part of the year here in Mexico, and we are now working to frame this phenomenon in a temporary resident scheme so we can take maximum advantage of the situation," says Mr. Zapata Bello.

He adds that despite its reputation as a safe destination, the state's fight against crime is being extended continuously. "We believe that public safety cannot focus solely on policing. In addition to crime prevention plans our approach is focused on citizen participation. It is vital that our citizens get involved in public safety. And the most basic element to ensure society's involvement is public trust in its police forces."

As Yucatán extends its tourism and second-home offer, Mr. Zapata Bello also recognizes that competition is not a hindrance to state goals, but a vital part of a healthy regional sector. "Tourism is not competitive but complementary. The federal government is promoting regional strengthening. The big idea here is connectivity. We should make it possible for tourists to enjoy the different attractions we have to offer across the region in one sole trip."

The Aztecs believed that the gods created the universe in the ancient city of Teotihuacán, 30 miles from Mexico City

"WE HAVE A LONG-LASTING RELATIONSHIP WITH THE U.S., WHICH HAS MADE US BROTHER NATIONS"

ERUVIEL ÁVILA VILLEGAS, Governor of Mexico State

"THE EIGHT STATES OF THE NORTH ARE NOW MUCH MORE CONNECTED TO INTERNATIONAL COMMERCE"

JORGE HERRERA CALDERA, Governor of Durango State

"THE GROWTH forecast for THIS YEAR PLACES COAHUILA IN FOURTH PLACE NATIONALLY"

RUBÉN MOREIRA VALDEZ, Governor of Coahuila State

sible," he says. "It has to be stated that this is not a national problem; it is very localized and the federal and state governments are working together in this area. In Mexico State we are striving to make the most of our resources and if we do an international analysis, we are not above the average crime rates. Obviously this is not much comfort, provided that with a single case of violence we should commit ourselves to achieving better results. But the best promotion is for people to come here and walk our streets. I have received visitors from Illinois, Utah, Nevada and California."

Mexico State is soon to open a representative office in Los Angeles, complementing the two that already exist in Houston and Chicago. Mr. Ávila Villegas is a tireless promoter of his state and a firm advocate of the benefits of greater ties between Edomex and the U.S. "We have a long-lasting relationship with the U.S., which has made us brother nations," he says. "We are much more than partners; we're strategic allies. We want to encourage U.S. investment in the State of Mexico so that entrepreneurs become aware of the strengths of our state and understand that there are many business and investment opportunities waiting for them here."

Durango State rose to international prominence in the 1950s and 1960s as a favored location for Hollywood: the backdrop to several of the most celebrated John Wayne and John Ford collaborations is the dramatic landscape of the northwestern state. But Durango's love affair with celluloid stretches all the way back to the Mexican Revolution and the state's most famous son, Pancho Villa.

The name Durango – "fertile land, with rivers surrounded by mountains" – is believed to have been bestowed by Basque settlers. But although agriculture was once the staple diet of the state's economy, Durango has for two decades been synonymous with production of a different sort.

Taking its cue from the 1994 North American Free Trade Agreement, Durango quietly set about carrying out its own revolution, one based on industry and manufacturing. Assembly plants sprang up all over the state and goods for giant corporations, including Wal-Mart and Honda, began to roll off the lines. Today, Durango is the engine of the Mexican industrial sector.

Given its prominent role in national and international industry, Durango was the obvious choice for one of Mexico's largest infrastructure projects of the century: the Durango-Mazatlán highway, a $2.2 billion, four-lane road linking Durango with the Pacific coast, the Gulf of Mexico and San Antonio, Texas. The feat of engineering was one of Mexico's finest: 115 bridges, including the spectacular Baluarte Bridge – the tallest cable-stayed bridge in the world – and 61 tunnels bypassing the former route, a treacherous stretch known as the Devil's Backbone. Mr. Peña Nieto officially opened 'Mexican Federal Highway 40' last year on October 17, Mexico's annual "Road Workers' Day" (*Día del Caminero*).

The highway is viewed as a land-based competitor to the Panama Canal, and at 12 hours coast to coast takes a similar time to traverse. "We have a great advantage," says Durango State Governor Jorge Herrera Caldera. "We already have two pipelines and a third is to be introduced to lower the price of natural gas and make the state more competitive. The Durango-Mazatlán Highway is the biggest of its kind in the history of Latin America. The eight states of the north are now much more connected to international commerce and we are also fighting to build a new port while the one in Mazatlán is being updated to triple its capacity. With these factors, Durango is ready to become an industrial development hub. This is a great opportunity to develop more international commerce and welcome investors. We also have an important plus: Durango is positioning itself as the first solar capital in the world. We are constructing the biggest solar farm on the planet, because we enjoy 300 days of sun each year."

GIVEN ITS PROMINENT ROLE IN NATIONAL AND INTERNATIONAL INDUSTRY, DURANGO WAS THE OBVIOUS CHOICE FOR ONE OF MEXICO'S LARGEST INFRASTRUCTURE PROJECTS OF THE CENTURY: THE DURANGO-MAZATLÁN HIGHWAY

MEXICO HAS ESTIMATED RESOURCES OF 600 TCF OF RECOVERABLE SHALE GAS, IN ADDITION TO 13 BILLION BARRELS OF SHALE OIL, MUCH OF WHICH IS LOCATED IN COAHUILA STATE

IN A 2014 SURVEY BY CONSULTANTS AREGIONAL, MEXICO STATE CAME FIRST IN TERMS OF FISCAL TRANSPARENCY. THE WORLD BANK'S

REPORT NAMED IT THE FIFTH MOST BUSINESS FRIENDLY STATE

Durango's growth has been swift, but the state has provided the infrastructure required to keep it ticking over, to the extent that last year there was a significant spike in its traditional output and an increase in the levels of foreign direct investment and U.S. companies setting up shop in the state.

Industrial power is also Coahuila State's major employment and revenue generator; both Chrysler and General Motors have assembly plants there and other export-oriented sectors thrive in the state. Traditionally a mining region, Coahuila still accounts for the majority of Mexico's output of fossil fuels and precious metals. The state also has potentially vast untapped reserves of oil and gas, which have attracted foreign investment, especially from shale companies. Coahuila Governor Rubén Moreira Valdez has been active in placing the northern state at the forefront of the country's energy policy and recently toured Southeast Asia to drum up interest from prospective partners in Japan, South Korea and Taiwan, who in turn sent investigative representatives to Mexico.

Mexico has estimated resources of 600 trillion cubic feet of recoverable shale gas, in addition to 13 billion barrels of shale oil, much of which is located in Coahuila. While the state-run oil and gas company Pemex has been active in investments in the field, there is a huge gap between what is available and what is needed – anything between $100 million at Secretariat of Energy estimates, and $250 billion according to some industry observers.

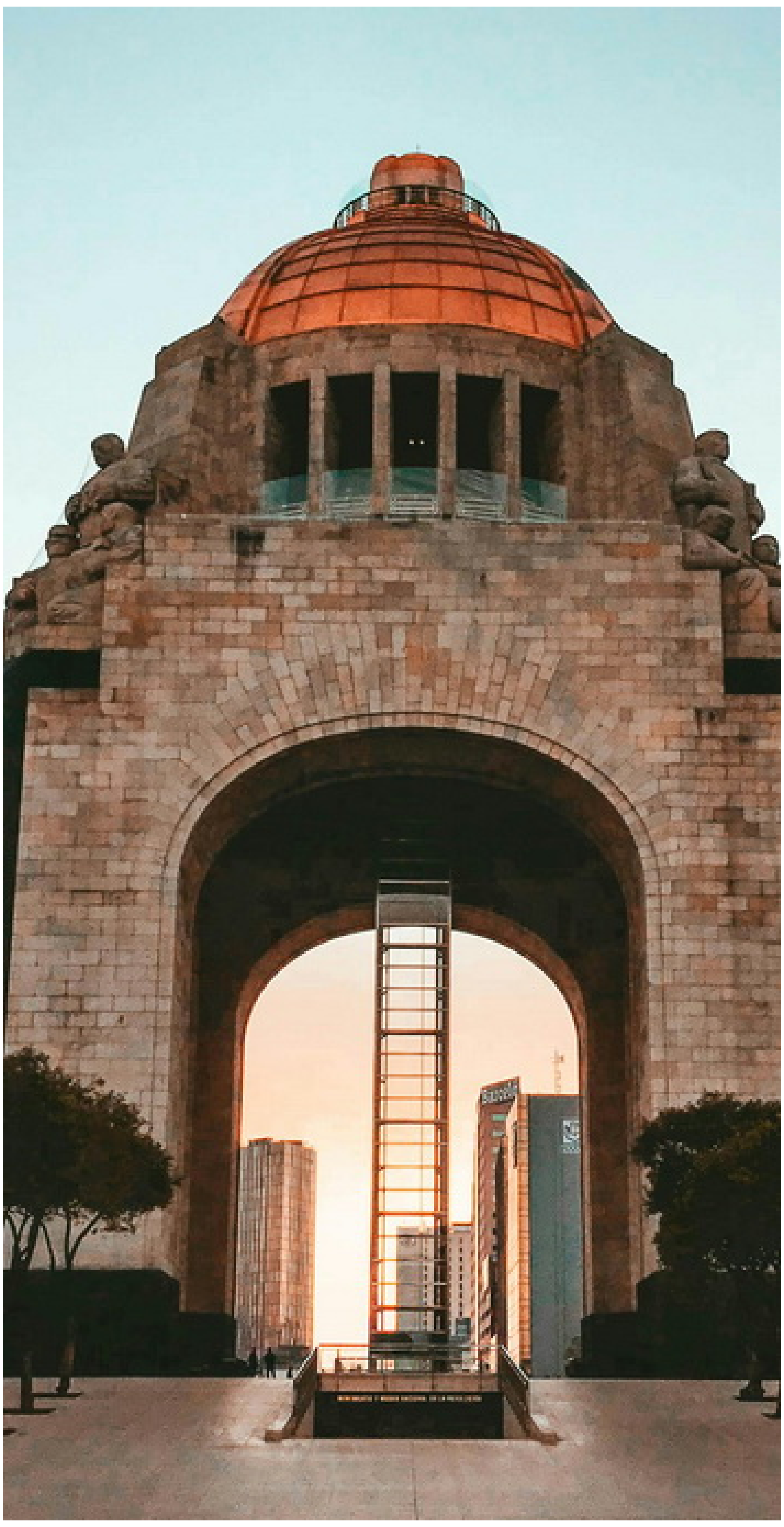
The 2015 Mexican Shale Summit in San Antonio, to be held on February 17 and 18, will bring together the world's leading industry experts, government officials and company executives to explore how best to channel investment into the region.

As a border state, Coahuila has had its fair share of conflicts over the years, not least due to the proximity of the U.S. However, as Mr. Moreira Valdez notes, the solution to illegal immigration "lies in understanding in-depth the reasons for immigration. I think dialogue between the United States, Mexico and Central America is very important. Coahuila is not an expulsion point to the United States. We are a transitory place that also absorbs Mexican population, especially in the north. We are also a place where migrants pass through to return to Mexico. We must understand that migrants are looking for work and we have to understand that generation of wealth in some places serves to generate wealth in others."

While Mr. Moreira Valdez agrees that violence has been a historical problem in Coahuila, today the state is "one of the symbols of the evolution of the way we are dealing with delinquency."

Coordinated efforts to improve safety in Coahuila have also had an effect on foreign investment, which has surged as the levels of insecurity have fallen. The state's importance to the country as a whole lies not just in its geographical proximity to the U.S., but also in terms of its ability to compete, and cooperate, economically with its northern neighbors.

"We are an industrial state and we have an important influence on the country's exports," notes Mr. Moreira Valdez. "The growth forecast for this year places Coahuila in fourth place nationally. We are the largest producers of coal, railway wagons, liquid steel and refined silver. We are leaders in mining and in the production of manufactured products. I look at the energy reforms as a necessary step to compete with the world. I see it as an essential need. We need the Energy Reform to become more competitive with Texas, for example. We need to obtain energy that's lower on cost and cleaner."



Natural and cultural tourism at the root of Veracruz's future

The passion for music and culture in Veracruz is surrounded by unspoiled tropical, coastal and mountainous regions, World Heritage sites and magical villages that make "the most Latin American state in the country" a must-see destination and a sure bet for tourism

Surely you have danced at least once in your life to La Bamba and there is even a chance you know those lyrics: "Para bailar La Bamba / Se necesita un poco de gracia / Para mi, para ti / ay arriba ay arriba..." Adapted by Mexican-American singer Ritchie Valens in 1958, it became a hit in the U.S. charts and is now considered as one of the founding songs of rock 'n' roll.

What you may not know is La Bamba is a folk song that originated from the state of Veracruz, known by connoisseurs for the musical talent of its people. Here, everybody dances and sings, it seems. And on a steamy night in the *zócalo* (central square) of the port city of Veracruz, there is a chance you will succumb to a *danzón* (a dance) as many locals do. There is an air of New Orleans in this city, but with a Latin beat.

Herein lies the charm of Veracruz, the main city (although not the capital) of the eponymous state situated in the central part of the country, narrowly spread along the coast of the Gulf of Mexico: it is authentically Mexican, in the modern sense of the term. It is in Veracruz that the pre-Columbian roots of the nation and its Spanish heritage are best fused and enhanced.

Founded in 1519, the city of Veracruz is the oldest European settlement in Mexico, the place where Hernán Cortés disembarked and which he claimed as property of the King of Spain. It is also where, three centuries later, the last Viceroy of New Spain signed the Treaty of Independence of its colony, in 1821.

Eco-tourism is a significant component of the tourism industry in Veracruz, with its wealth of natural attractions and variety of flora and fauna proving major draws

VERACRUZ STATE'S ADMINISTRATIVE CAPITAL XALAPA GAVE THE WORLD'S MOST FAMOUS CHILI PEPPER ITS NAME, JALAPEÑO, AND FEATURES A THRIVING ARTS AND CULTURE SCENE

"Veracruz is the most Latin American state in the country," says Governor Javier Duarte de Ochoa. "We are the front door. Here is the crucible in which Mexican culture is based. Here, an independent Mexico was born, and here the Spanish crown had its last stronghold."

Now a sprawling port city, one of the most important of the country, Veracruz City is a modern urban bric-a-brac that lacks the colonial charm and paradisiac beaches of other places in Mexico. It is precisely because this city has long been overlooked by tourists that you should make it a stopover.

Unless, of course, business has brought you here, since there are many foreign companies operating in the region – the vast oil reserves of Mexico are situated in the gulf nearby.

Share real life with Veracruzans and take the time to visit the aquarium, the largest in Latin America, and the naval museum.

If possible, the best time to visit is around the carnival, which will be held from 10 to 18 February 2015 and is expected to attract 1 million visitors. As any carnival should be, especially in such a Latin American musical hotspot, it promises to be lively, noisy, and a bit on the *loco* side too.

Home to 7 million inhabitants, Veracruz State has much to offer visitors, including the World Heritage colonial town of Tlacotalpan, where nothing much has changed since the early 19th century. Also, the three *pueblos mágicos* (magical villages) – selected as such by the Mexico Tourism Board for their particular charm: Coatepec, another colonial town in the coffee-producing region; Papantla, near the archeological sites of El Tajín and Cuyuxquihui; and Xico, founded by the Spaniards in the 16th century.

The administrative capital of Veracruz, Xalapa (pronounced "halapa") gave its name to the jalapeños, the hot green peppers that come from this region. Xalapa is an oasis of peace and balmy climate that contrasts with the hot and humid coastal area. Its jewel is the Museum of Anthropology. Opened in 1986, it is the second largest museum of its kind in Mexico (after the more famous one in Mexico City), containing some 27,000 artefacts, mostly from three of the state's most important cultures: the Olmecs, the Totonacs, and the Huastecs.

Eco-tourism is one of the strong points of the state, and where better to enjoy it than in the Biosphere Reserve of Los Tuxtlas, about 105 miles south of Veracruz City. With an area of approximately 600 square miles, it is a perfect place for nature tourism and bird watching. Nearly 60% of all of Mexico's birds live in Los Tuxtlas. With a bit of luck and armed with a good pair of binoculars or a telephoto lens, you will be able to see (and virtually "touch") parrots, eagles, larks, and toucans.

The annual Tlaxcala Fair mixes contemporary pop culture and traditional craftsmanship

$6.6m tourism boost for Tlaxcala haven

After attracting $36.5m in mostly industrial FDI in 2013, tourism is now being tipped as the next sector for growth

Many savvy residents of the incredibly jammed and noisy sprawl that is Mexico City have a sanctuary to escape their maddening urban environment that only few outsiders know of. It is called Tlaxcala and it is targeting tourism to raise both its profile and its revenues.

Last year, Tlaxcala signed a convention with the Secretariat of Tourism, according to which the federal state will invest MXN90 million ($6.6 million) for the development of tourism in Tlaxcala. The sector is seen by local and national officials as a potential engine for growth in a state that is one of the least developed in the country.

At the moment, its economy is predominantly rural: 57.7% per cent of its GDP comes from agriculture, livestock and forestry. However, it is also specialized in light industry, but it contributes only 0.6 per cent to the national GDP, with a total of some $6.1 million. Its population of 1.24 million represents just 1.1% of the Mexican population and the average income is lower than the national average.

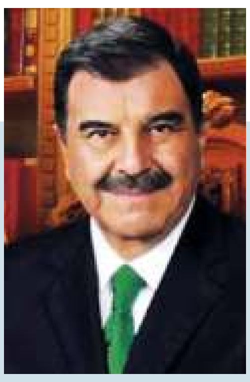
One of its main assets is its proximity to both Mexico City and Puebla, to the south. As such, "it is part of a consumer market of 20 million people," says the trade and investment agency ProMéxico. Excellent transport infrastructure allows it to benefit from this position, with easy access to the international airports of Mexico City and Puebla, and eastwards to the main port of the country at Veracruz.

According to a 2013 report by the Organization for Economic Cooperation and Development (OECD), "Encompassing 39 municipalities in two states, Puebla-Tlaxcala is the fourth-largest metropolitan zone in Mexico." It points out that over the past five decades the region has successfully attracted major national and international firms, building its reputation as both a manufacturing hub specializing in auto production and one of Mexico's most important centers of higher education."

Tlaxcala's Governor Mariano González Zarur confirms this assessment. "Although we are small, we have great potential thanks to our geographic location and to our work force, which is of excellent quality," he says. After having secured $36.5 million of foreign direct investment (FDI) in 2013, mainly in light industry, Tlaxcala now hopes to lure more foreigners, investors and visitors alike.

So what draws people to one of the smallest states in Mexico?

Situated about 75 miles east of the capital, Tlaxcala is a miniature version of everything people love about this country: millennium-old vestiges of civilizations whose art was full of noise and fury, tales of battles and betrayal between native people and mustachioed conquistadores, the fascinating fusion of Catholic fervor and pagan traditions, music and dancing in abundance, a large and thankfully inactive volcano, and welcoming, laid back people who find wisdom in their daily dialogue with the earth, the trees and the infinite sky.



"WE HAVE GREAT POTENTIAL THANKS TO OUR GEOGRAPHIC LOCATION AND TO OUR WORK FORCE, WHICH IS OF EXCELLENT QUALITY"

MARIANO GONZÁLEZ ZARUR, Governor of Tlaxcala State

One of the first things you see on the road from DF to Tlaxcala is a large sign that reads "Volcán La Malinche" (La Malinche volcano), named after an infamous indigenous woman who gave away the Aztecs to Hernán Cortés. Nowadays, La Malinche, also called Matlalcuéyetl, is mostly known by trekkers for being one of the highest mountains of the country, peaking at 14,600 feet.

The small and powerful empire of Tlaxcala was one of the few nations that resisted the Aztecs. It was also heir to the nation's most ancient civilizations: archeological evidence attests to the presence of societies as early as 10,000 BC.

Now Tlaxcala is determined to reclaim its roots – after all, it is the birthplace of the nation – and to make a name for itself in the world. "Tourism is very important for us," says Mr. González Zarur. "We are doing a lot of advertising and we launched a few years ago the yearly Tlaxcala Fair, a cultural festival that mixes contemporary pop culture and traditional craftsmanship." He also emphasizes that Tlaxcala is one of the safest states in the country with the third lowest crime rate.

When asked what he would recommend to visitors, Mr. González Zarur mentions Huamantla, which is one of the "magical villages" selected by the Mexican Tourism Office as part of their worldwide campaign. A visit there mid-August for "The Night In Which No One Sleeps" is highly recommended, when locals create a four-mile-long carpet of flowers and sawdust across town, leading parishioners to the main church where they pay homage to the Virgin Mary.

He also highlights the sanctuary of the fireflies (Villas del Bosque) in the Santa Clara woods. Each summer, countless fireflies flock to the oyamel trees, where females light up in order to attract suitable mates. Night after night, the whole forest scintillates as if by magic. "The potential is here and economic growth is well on its way," adds the governor.

Visitor numbers increase as green agenda gains ground

environmentally sensitive tourism approach taps into rising demand for adventure and eco-tourism in one of the safest states in the country: chiapas

Chiapas is a reign of emerald and turquoise, where the rainforest and the waterfalls are so pure, so magic that we wish there were a hundred words to say "green" and another hundred to say "blue". Maybe the Mayans had such a wealth of vocabulary to describe their enchanted land, just as the Inuit have a hundred words to describe the snow.

The southernmost state of Mexico, Chiapas is the "green lung" of the country. Its rich, fertile lowland was once home to the Mayas, one of the most fascinating pre-Columbian civilizations, which spread from the Yucatán peninsula to Guatemala and Belize.

To this day, people of Chiapas, including direct descendants from the ancient Mayas, revere nature perhaps more than many of their fellow countrymen. Indeed, they elected in 2012 as governor a member of the Green Party (Partido Verde Ecologista Mexicano, PVEM), Manuel Velasco Coello. As expected, the protection of the environment and sustainable development are high on his agenda. For example, Chiapas is a world leader in organic coffee production – it is the leading producer of coffee of Mexico, with 40% of the total production.

THe excepTIon AL Arc HITecTurAL AnD scu LpTurAL remAIns AT pALenque mAke IT "one oF THe mos T ou Ts TAnDIng cLAssIc perIoD sITes oF THe mAyA AreA"

A series of magnificent blue-water falls, the Cataratas de Agua Azul cut through dense green rainforest in southern Chiapas and include a 120ft drop at Misol-Ha

Having a cup of locally grown organic coffee is not a bad way to start a journey into Chiapas, for instance in one of the hip cafes of San Cristóbal de Las Casas. Nestled in the mountains, it is refreshingly cool and surprisingly trendy. It is also home to a large Mayan community, who still live by their age-old customs and beliefs as do their brothers all around Chiapas.

A few miles from San Cristóbal you can immerse yourself in a thriving contemporary Mayan community in the town of San Juan Chamula. Here, the local church has been converted into a native sanctuary after the priest was expelled decades ago for trying to impose on the locals the Catholic catalogue of do's and don'ts. Now, Mayan spiritual leaders perform ceremonies in the church itself, where the pews and the altar have been removed.

San Cristóbal de las Casas at night and rafting on the Cataratas de Agua Azul

Some 180 miles away sits one of the most breathtaking sites of the whole of Mexico, the sanctuary of Palenque, a UNESCO World Heritage Site. The grey pyramids emerging from the jungle make it "one of the most outstanding Classic period sites of the Maya area" according to UNESCO and attest to "the creative genius of this civilization", which was initially established circa 2000 BC and reached its peak between 500 and 700 AD.

The Mayan empire collapsed around the 10th century for reasons that are still unclear (war, diseases, environmental catastrophes are all cited as possible causes), but the Maya people managed to survive the Spanish conquest and to preserve some of their customs into modern-day Mexico.

Although it is not as popular as other world-renowned sites such as Chichen Itza (Yucatán) and Teotihuacán (State of Mexico), Palenque's reputation is, unsurprisingly, growing. "Because of the investment and development under way there, notably the new international airport, it is becoming one of the most important destinations in Mexico," says Mr. Velasco Coello.

From Palenque, it is quite easy to reach paradise, or so it seems when discovering the waterfalls of Misol-Ha and the nearby translucent Cataratas de Agua Azul (blue-water falls) 42 miles away from Palenque, in the heart of the Lacandon jungle.

Another Maya site near Palenque that should not be missed are the twin ruins of Yaxchilán and Bonampak. The latter contains striking murals whose vivid colors of red, turquoise and yellow have been amazingly preserved in spite of the damp jungle environment.

There are many other things to see in Chiapas but with this selection, visitors will have a good idea of what this place is about. Quite a far cry from the tired clichés about Mexican culture.

The governor is on a mission to make his state better known. "We have great tourism potential, which we are developing. We have demonstrated that Chiapas is a safe state not only for vacations but also for investment," says Mr. Velasco Coello. Indeed, in 2011, the administrative capital of Tuxtla Gutiérrez was the first in Mexico to be certified "safe city" by the federal government and by the independent Karolinska Institute of Sweden, due to its very low crime rate.

on the rise

- Between january and july 2014, chiapas received 2,913,172 visitors, which represents an 11.76% increase compared with the same period last year.
- 87% of visitors to the state in this period were nationals (2,533,729), which represents a 15% increase compared with the same period in 2013.
- expenditures by tourists increased by 10.6% year-on-year.
- Hotel occupancy was 36%, compared with 38% last year. But the number of hotel rooms increased by 250 (which explains the decrease in occupancy rate). The total number of hotel rooms available is 19,008.
- The most visited places are: san cristóbal de Las casas, chiapa de corzo, comitán de Domínguez, Tuxtla gutiérrez, p alenque, Tapachula, and Tonalá-puerto Arista.
- chiapas is the second most visited state of the maya World (mundo maya) after q uintana r oo and before yucatán, Tabasco and campeche.
- Between january and july 2014, 16 cruise ships arrived in puerto chiapas, compared with 10 in the same period last year. The total number of passengers they brought was 40,490, which represents a 50.6% increase compared to last year (21,667 passengers).
- The income generated january to july in 2014 reached $1,614,690, compared with $757,680 in the same period last year.

Thousands benefit from sustainable growth and welfare

In just two years, chiapas s tate has seen real changes take shape

Manuel Velasco Coello, Governor of Chiapas State, has overseen policies that have already benefitted 40,000 coffee producers

MANUEL Velasco Coello, the young governor of Chiapas, and his team have already achieved significant progress in the two years since he took office with an agenda based on sustainable growth and welfare.

One of the most important achievements is certainly the record on safety. "Chiapas has become one of the safest states in Mexico," says Mr. Velasco Coello. "The most important factors, apart from the security policy being carried out at the federal level, is that we have set up a new municipal police that it is better paid, better trained and better equipped. We have strong crime prevention policies in which citizens are encouraged to participate. We have reclaimed urban public spaces that had been taken over by delinquency, and we campaign against alcohol and drug abuse. Also, we receive strong support from the federal legislature to design and implement our crime prevention policies and programs."

In the area of transport infrastructure, the state government is particularly proud of the new international airport of Palenque. "This is a strategic equipment for the state," says the governor. With a price tag of $19.7 million, it is being paid jointly by the federal state and Chiapas. Obviously, this equipment will go a long way to foster tourism in and around the famous Maya site.

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As a member of the Green Party (Partido Verde Ecologista de Mexico, PVEM), Mr. Velasco Coello has a solid pro-environment policy, a theme particularly important in a state which boasts the greatest biodiversity of the country. "It is very important for us to care for and preserve our rainforest," he says. "We have a comprehensive environmental policy that includes a curricular program in schools, which was designed with the help of environmental experts. Indeed the best way to care for the environment is through education and awareness raising." It is to be noted that this educational program, titled Educating on Environmental Responsibility (*Educar con Responsabilidad Ambiental*, ERA) has been selected by authorities as a subject for the first grade of secondary school.

Regarding agriculture, a key sector for Chiapas, a leading project is the creation of an agro-industrial park, which will bear the brand name "Chiapas". The initial investment of $29.3 million is co-financed by the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food. In addition, the project has already obtained total investments of $16.1 million from the private sector.

The agricultural policy also includes initiatives to boost the all-important coffee sector. The program for the renovation of coffee plantations has already benefitted 40,000 producers. The creation of the Chiapas Institute of Coffee (Incafech) is another important initiative in this sector, in which investment has so far reached $39.3 million, including investment from the coffee federation.

Concerning this sector, the Chiapas brand "will help producers to advertise and commercialize their products on the national and international markets," says Mr. Velasco Coello. "Our ultimate goal is to see producers getting more profit, without the abuse of intermediaries."

Regarding health, the groundbreaking program "Wellbeing from heart to heart" (*Bienestar, de corazón a corazón*), seeks to provide help to single mothers through financial support, health services, education, empowerment for self-employment, and micro-credits.

Another important landmark is the new 180-bed Dr. Jesús Gilberto Gómez Maza hospital, which is expected to carry out some 193,000 medical examinations a year. This represents a 57% increase in health services in the state.

Also of note is the construction of 650 new outdoors sports centers planned for 2014. The objective of the state government is to reach 1,000 new gyms by the end of the six-year mandate.

Last but not least, the state of Chiapas recorded 5.2% growth in the first quarter of 2014, according to the National Institute of Statistics and Geography (INEGI). Growth is mainly based on the industrial sector (20.4%) and particularly the construction sector, with the service sector growing by 0.5%.

Such projects and results are becoming the hallmarks of an impressive couple of years for the governor and his proactive policies making a tangible difference to life in the state.

ESSA aims to produce 12m metric tons by the end of 2016, representing a 50% increase in six years

Potential 100x rise in salt sales

parastatal salt exporter ess A aims to dramatically add to already rising profits and production by adding value to its products

President Enrique Peña Nieto's Mexico, among many things, is in the process of facilitating the creation of globally competitive industries. Taking advantage of this new scenario of global competitiveness is Exportadora de Sal (ESSA), the world's largest saltworks, situated on the salt flats of Baja California Sur near Guerrero Negro, a town that has become a byname for the purest quality of salt.

A co-investment between Mexico's Ministry of Economy's Mining Promotion Trust Fund, which

> ess A ensures ALL o F ITs A cTIVITIes Are 100% comp ATIBLe WITH THe enVIronmenT AnD meeT exA cTIng InTern ATIon AL qu ALITy s TAnDArDs

owns 51% of the shares, and the Japanese Mitsubishi Corporation, owning the remaining 49%, ESSA was originally established in 1954 by American naval entrepreneur Daniel K. Ludwig, whose ingenious idea to extract salt from the ocean water by evaporation has turned this everyday element into Mexico's "white gold".

In fact, the company and the salt industry have been so important to Mexico's industry that in May this year, the National Lottery presented a special commemorative 60th anniversary lottery ticket in honor of ESSA. It was also announced earlier this year that Los Cabos was chosen as the site for the 2016 International Salt Symposium; this will be the first time the conference is held in a developing country.

Mexico's efforts in further opening its economy to the rest of the world has not been the only advantageous element aiding ESSA's growing presence in the world salt market. ESSA was also recently blessed with the arrival of Jorge Humberto López Portillo, who took over as the company's CEO in July 2013. Mr. López Portillo's impressive leadership and immediate decision to increase salt production and profit led the company full throttle into what seems to be the beginning of a golden era.

In the first six months of Mr. López Portillo's management, ESSA's production increased by 10%, producing a record 8 million metric tons of industrial salt (compared to an average of 7.2 million metric tons in previous years). A 26% increase in revenue (amounting to $136 million at the end of 2013) increased the company's net profit by 23%.

"As a mainly publicly owned company, we are world leaders in terms of quality and quantity of production," Mr. Lopez Portillo proudly states.

The CEO largely attributes ESSA's recent achievements to the efforts of his staff. Recognizing the importance of his workforce, Mr. López Portillo's new strategy affects the treatment of his workers by means of, what he calls, "the democratization of Mexican productivity," whereby the dividends obtained from the efficiency and growth of the company affect the salaries of its workers. "President Peña Nieto is mandating the democratization of productivity and social responsibility, and we, as a parastatal, should set the example," the CEO says.

Indeed, with the salt works embedded in an environmentally significant location – with 132 documented bird species and a large migration of grey whales – social and environmental responsibility is also, in the CEO's words, a "key matter".

The company's commitment to protecting the surrounding environment is evident by not only the work of their Department of Ecology and Safety, which ensures that all of its activities, products and services remain 100% compatible with the environment, but also by the certifications that ESSA has been awarded, such as the Clean Industry Certification granted in 2000 by Mexican environmental authorities, and the certification of Environmental Management System under the international standard ISO-14-001.

"Recently, Achim Stenier, Executive Director of the UN Environmental Program, told me that never in his life had he been surrounded by so much biodiversity and natural wealth while being in a factory," relates Mr. López Portillo.

"This made us very proud because it acknowledges that not only are the geographic, geological and atmospheric conditions unique in this corner of the world – nowhere else is there so much flat land along the coast with low precipitation (under two inches) and with winds that help erode the water to form the crystals – but also our installations coexist with the environment and even serve as a habitat. Some 170,000 seabirds, some of which fly all the

> IN 2013, ESSA'S reVenues rose 26% AnD proFIT s By 23%, AnD gL oBAL DemAnD For s ALT Is F orec As T To cLImB 1.5% Annu ALLy THrougH 2018 To 324 mILLIon meTrIc Tons

way from Russia to spend the winter here with us, call our artificial lagoons home."

Despite the degree of instability that permeates the salt industry – in both world market demand and production – ESSA has for decades maintained an increase in its production, enabling the company to become the world's third largest exporter of salt, with exports to Japan, the U.S., South Korea, Central America, Canada, Taiwan and New Zealand. However, with smart strategies and big visions, Mr. López Portillo plans to gain momentum: by the end of 2014 ESSA will produce 9.5 million metric tons, with an ultimate objective of reaching 12 million metric tons by the end of 2016, an increase which would represent a 50% rise during the six years of the current administration.

Through the decision to transcend from salt production alone to transformation into value-added products based on global market demand, Mr. López Portillo is ensuring that Mexico has an impact on the chemical industry: one that, as emphasized by President Peña Nieto during the September 2013 G-20 summit in St. Petersburg, is a key market.

With the chemical industry as the largest consumer of salt – NaCl being the base of bromine, potassium sulphate, and polyvinyl chloride, amongst others – by tapping into the derivatives industry, the CEO estimates that ESSA could increase its sales value – currently at $150 million – 100-fold.

Considering ESSA's advancements and the fact that global demand for salt is forecast to climb 1.5% annually through 2018 to 324 million metric tons, it is no surprise that the Mexican government recognizes salt as their national asset. "Chemical industries around the world prefer to use Guerrero Negro salt; it's the purest on the market," highlights Mr. López Portillo.