



Mexico: the ideal alternative for your nearshore needs

Overview of the Mexican economic and political environment, and the vibrant IT industry that supports it.

Introduction

This document provides an overview of Mexico and the opportunity it presents for the outsourcing of Information Technology services. Attached also are relevant sections of the U.S. State Department's Country Report for Mexico.

We are certain that you will find the facts compelling, both for Mexico and for its IT industry. The country's economic and political stability, its modern infrastructure, its ready supply of educated workers, and its geographic proximity to the United States, all make Mexico an attractive opportunity for outsourcing.

Mexico offers equivalent quality and competitive pricing to the top offshore destinations. Its competitive advantage lies in its natural (geographic) proximity to the United States. Communication becomes faster and more convenient when working next-door. Interaction becomes easier. Problem solving becomes more collaborative and direct. In sum, the total experience is enhanced and benefits not possible in an offshore model are realized.

Mexico has in the recent past made significant strides in becoming a major player on the global economic stage. The country's economic strength is reflected in a stable currency, record low levels of inflation and interest rates and the growth of a strong and modern industrial base. Deep political and economic ties with the U.S., an educated and hard-working population, and a pro-business administration, which is encouraging the development of a software industry to capitalize on the country's proven industrial success are all indications of the potential that lies next door.

Add to that an aggressive new Federal Government program to support the IT services industry, and you will find an ideal alternative to the offshore needs for outsourcing.

Mexico - An Era of Growth and Opportunity

Mexico, because of its geographic and cultural proximity to the U.S., offers a compelling option. Time-zone differences are minimized, long flights to the

other side of the globe are eliminated, and the critical factor of communication is enhanced.

Mexico has in the last ten years shown a remarkable potential for growth and development. A strong and diversified export base, built upon a structural transformation of Mexican industry resulting from the competitive influence of the North American Free Trade Agreement (NAFTA) on both productivity and quality levels has resulted in Mexican companies capable of competing at world-class levels. The presence of thousands of American and European manufacturing companies who operate best-in-class manufacturing facilities in Mexico has led to a dramatic change in the country's industrial landscape.

As the United States' **second-largest trading partner**, Mexico has quickly become a key partner in the production capabilities of a large part of U.S. industry. The southern neighbor offers the advantages of a secure political environment and a robust economy, which is closely integrated with that of the U.S. This explosive growth has been impelled by the legal and regulatory structures of NAFTA, and is an indication of the level of maturity that the Mexican economy has achieved over the last decade.

With a population that has surpassed 100 million and a GDP of \$600 billion, Mexico is just beginning to display its economic and political potential. An additional 20 million Mexicans or Mexican Americans residing in the U.S., part of a fast-growing Hispanic population that possesses over \$350 billion worth of purchasing power, and the growing population centers on both sides of the 2000-mile shared border with the U.S., provide further evidence of the influence of Mexico on the U.S. economy.

Political Stability and Economic Strength

Mexico was able to pursue a policy of deregulation and of an opening of the economy to global competition. This transformed and strengthened Mexican industry and led to a stabilization of the currency through the attraction of long-term capital flows. The resulting industrial boom has led to a period of prosperity in which Mexico has been transformed into a major player in the global economy. Mexico is currently the world's ninth-largest economy and has, in fact, more free-trade agreements than any other country in the world.

The NAFTA Effect - Strong and Diversified Export Growth

Mexico's government has pursued a pro-business, pro-American agenda, continuing the free-market policies. Previously state-controlled industries such as banking, steel and railroads have been privatized and free-trade agreements with the United States, the European Union and various Latin American nations have been signed.

Liberalizing policies have resulted in a dynamic, globally competitive industrial base distinguished by the presence of the thousands of manufacturing facilities of foreign multinationals.

A Developed Infrastructure

The quality of Mexico's infrastructure in telecommunications, power and transportation has greatly improved as a result of this massive manufacturing base. Companies such as General Motors, General Electric and Ford have built state-of-the-art manufacturing facilities that depend on modern infrastructure. The privatization of Telmex and the entry of ATT, MCI-World Com (now Avantel) and Sprint in the Mexican telecom market have resulted in the development of a world-class communications infrastructure, with fiber optic links to the U.S.

As an example of the "ease of use" in terms of telecommunications, US subscribers to wireless services with AT&T, Sprint and Nextel seamlessly have their cell phones active while in major metropolitan areas of Mexico.

The passing of NAFTA in 1994 has greatly simplified doing business in Mexico and has attracted huge levels of foreign direct investment. Regulatory and legal issues of cross-border business dealings have been significantly lessened. Companies have found that Mexico is business-friendly and culturally attuned to American business practices.

Investment Grade Status

Investor confidence is perhaps best reflected by the fact that both Moody's and most recently Standard & Poor's have upgraded Mexican government debt instruments to investment grade status and have deemed the outlook for the Mexican economy positive.

The economy has shown continued resilience to external shocks in the last few years, performing well despite the Asian crisis in 1997, the Russian crisis of 1998, and the Brazilian devaluation of 1999, and has shown strong growth and productivity gains in recent years. This confidence is further evidenced by strong long-term capital inflows, which have contributed to the Mexican peso's stability. The peso is in fact the only currency in the world to have appreciated against the U.S. dollar in the last few years.

Strong Commercial and Financial Ties with the U.S.

The robust economy is for the most part the result of sustained export growth, which has increased Mexico's level of integration not only with the U.S. economy but with Asian and European economies as well. Steady rates of GDP growth have been

evidenced for the last six years, with GDP growing 7% in 2000, until the past year when the economic slowdown in the U.S. was reflected in low or no GDP increase. With more than 80% of its exports going to the U.S., Mexico's growth is closely linked to that of its northern neighbor.

The banking system has undergone a major transformation in the last six years. The recent \$12 billion sale of Banamex to Citigroup, is a reflection of the health of the banking system. The advancement of significant political reforms has included a reduction in government interference in the private sector and an effort to divest formerly state-run operations in sectors such as the airports, electricity generation, and petro-chemicals. Massive privatization and the introduction of a program to reduce fiscal dependence on petroleum exports, have all contributed to the strength of the Mexican peso and the historic lows in interest rates.

Prudent fiscal and monetary policies, a manageable current account deficit, record levels of foreign reserves and the continued political and economic reforms being undertaken are good indicators of the health of Mexico's economy and of its potential for the future.

Now is the time to make use of a solid infrastructure; the IT services landscape and the opportunities for outsourcing.

Educational Quality

Mexico is home to numerous institutions of higher learning. The prestigious Monterrey Institute of Technology, IPADE, Universidad de las Americas and a huge State University System produce more than 15,000 graduates a year in IT related fields; add to that another close to 35,000 graduate of associate and technical degree programs a year and Mexico produces 50,000 IT related professional per year.

The importance of English today in the country's educational and business arenas cannot be overemphasized. A good command of English is a requirement for graduation from most of the private universities in the country and most engineering and technical subjects are taught using American texts. Most Mexican firms of any size require a command of English for advancement into management ranks.

Software industry in Mexico

A group of about 30 companies are the major service providers in Mexico. That includes both Mexican corporations as well as the Mexican subsidiaries of large multinationals. There are close to an additional 500 firms that also provide services for the domestic market.

The majority of those companies are members of AMITI (the Mexican IT Industry Association) which helps regulate the industry and is the interface to the Federal Government for the different initiatives to further develop the IT services industry in Mexico. As a result, a new program was developed last year and it is now part of the National Development Plan. The program includes seven different initiatives that include: to promote export services and attract direct foreign investment in the IT services industry; develop high quality and sufficient human capital to support the growth in the industry; promote additional legislation to support the initiative; develop and even larger internal market; strengthen the local IT industry; develop world class process capabilities; and develop additional infrastructure to support the growth in the industry (including technological park for IT services).