Mexico: A snapshot

In July 2012, Enrique Peña Nieto won Mexico's presidential election. His ascent to power has been greeted with a good deal of enthusiasm within the infrastructure sector. Bank of America Merrill Lynch predicts: "Based on Peña Nieto's time as Governor in the State of Mexico, in which investment in public works more than doubled, we expect the next administration to speed up infrastructure spending." As Governor, Peña Nieto presided over an ambitious infrastructure program, and succeeded in attracting significant participation from the private sector. As president, he needs to repeat this pattern on a grander scale, since Mexico requires major investment in everything from ports to highways, energy production to water treatment plants.

For decades, Mexico underinvested in its infrastructure. But that began to change under Peña Nieto's predecessor, President Felipe Calderón, who initiated Mexico's first National Infrastructure Program for 2007-12. That plan placed infrastructure development at the heart of the government's efforts to transform Mexico's economy. Overall, the plan required $233.8 billion in infrastructure investment, including $110.9 billion in oil and gas infrastructure, $35.1 billion in electricity infrastructure, $26.1 billion in telecommunications, and $26.5 billion in highways.

However, some of the plan's goals have not been met, leaving Peña Nieto with much to do. He is expected to publish a second National Infrastructure Program (for 2013-18) in the coming months. According to BN Americas[1], the President has already indicated that his plans include proposals for the construction of railways and highways in the southeast; improved infrastructure for collecting and recycling waste; and ambitious water-related infrastructure programs to enhance sanitation and wastewater treatment and to boost the availability of drinking water by promoting the use of desalination plants. Indeed, Business Monitor International expects the water-related infrastructure sector to achieve average annual growth of around 13% from 2012-16. Meanwhile, the college of Civil Engineers has drawn up proposals for $38.1 billion of spending on new transport infrastructure over six years.

The greatest challenge will be to attract sufficient private investment, given that the government lacks the financial resources to meet these targets alone. From 2007-09, 82% of Mexican infrastructure investment came from public funds, but the environment for private investors has improved since then. Most important, the country passed a new Public-Private Partnerships law in 2012, offering much-needed regulatory clarity and legal protection for private investors. This should open up new pools of capital, which are expected to flow into market segments such as ports, energy, and roads. In the long term, Mexico's deep-pocketed pension funds are also expected to invest heavily in infrastructure projects, giving a further boost to the sector.

1 *Peña Nieto kicks off public consultation for national development plan*, BN Americas, March 1, 2013. http://www.bnamericas.com/news/privatization/pena-nieto-kicks-off-public-consultation-for-national-development-plan

Major infrastructure projects

Roads: In its National Infrastructure Program for 2007-12[1], Mexico's government allocated $41 billion for transportation infrastructure projects, with a particular focus on upgrading and extending the country's highways and rural roads. One major initiative is a "super highway" — featuring 63 tunnels and 32 bridges — connecting the economically vital Pacific port at Mazatlan to the state of Durango in the center of the country. The government's plans also include the building of nine roads connecting ports on the Pacific and Atlantic coasts, along with six roads linking the northern border to the south via Mexico's most important cities. Meanwhile, the National College of Civil Engineers has outlined plans for the construction over 20 to 30 years of 75 highway arteries spanning 9,042 km.

Ports: A second container terminal is being built at the Port of Manzanillo on Mexico's Pacific Coast to manage two million containers per year. Mexico's Ministry of Communication and Transportation has estimated that the total investment will amount to $800 million and that the project will generate more than 6,000 jobs. A Philippine port operator, International Container Terminal Services, has begun the first phase of construction. In 2010, the company signed a 34-year concession contract to develop and operate the terminal. The Mexican government is jointly funding the project, which will transform Manzanillo into Mexico's primary container terminal.

Renewable Energy: A 396 MW wind farm is being built in the Mexican state of Oaxaca, with the help of around $700 million in financing from a syndicate of commercial banks and development banks, including HSBC and Santander. The wind facility lies at the heart of Mexico's plans to boost its production of electricity by harnessing renewable sources of energy. The Macquarie Mexican Infrastructure Fund, which was created by Australia's Macquarie Group, acquired a 32.5% stake in this wind project in March 2011. On completion, it is expected to be the largest single-stage wind farm in Latin America.

1 See National Infrastructure Program, 2007-2012; http://www.infraestructura.gob.mx/pdf/NationalInfrastructureProgram2007-2012.pdf

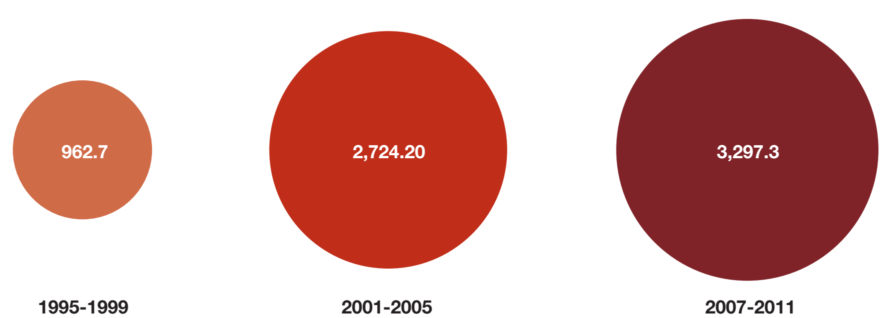
National Infrastructure Program (2007-2012)

Investments Required	US$ bn
Highways	26.5
Water, Wastewater	18.6
Telecommunications	26.1
Airports	5.5
Railroads	4.5
Ports	6.6
Oil and Gas	110.9
Electricity	35.1
TOTAL	**US$ 233.8 bn**

Source: National Infrastructure Program; Ministry of Communications and Transport

Private and Public Investments

USD millions



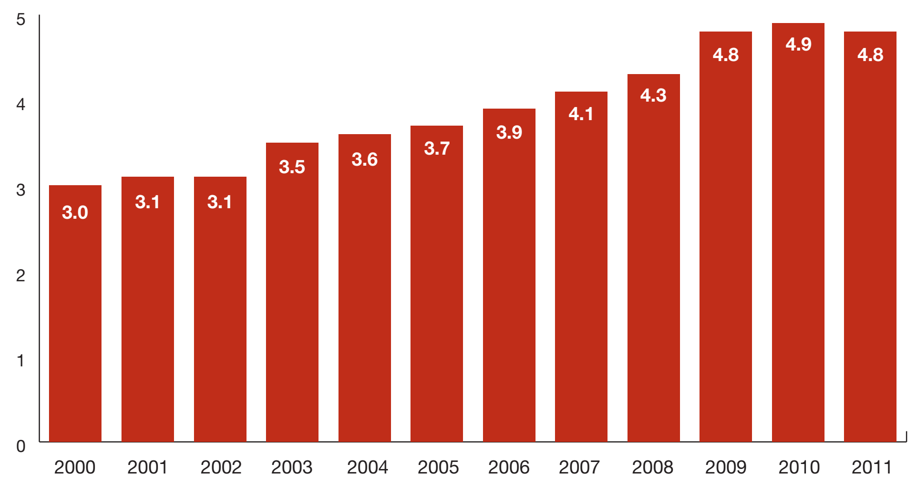
Source: www.mexicotradeandinvestment.com Investment Projects 2012

By the numbers

- Mexico's first National Infrastructure Program called for **$233.8 billion** to be invested in everything from electricity infrastructure **($35.1 billion)** to highways **($26.5 billion)** from 2007-12.
- In 2011, commercial cargo at Mexico's ports surged to **146 million** tons, up from **98 million** tons in 2000. As trade has grown, so has the need for additional infrastructure. From 2007-11, investment in Mexico's port infrastructure amounted to **$3.3 billion**, with **57%** from public funds and **43%** from the private sector.
- According to White & Case[2], the government's budgetary investment in 2011 included **$5.3 billion** for power infrastructure, **$1.2 billion** for oil infrastructure, **$347 million** for water infrastructure, and **$194 million** for railway infrastructure.
- Mexico is the **3rd** most important source of imports for the U.S. and the **2nd** most important destination for U.S. exports. About **70%** of this trade exchange is conducted by truck. In 2010, **4.8 million** trucks crossed the border from Mexico to the U.S., according to Mexico's Ministry of Foreign Affairs. This vigorous trade has spurred plans for improved international infrastructure, including new roads and bridges for commercial traffic.

2 See White & Case's March 2012 report on Energy, Infrastructure and Project Finance; http://www.whitecase.com/files/Publication/05aedb3f-881f-44da-b2d8-c448285024ff/Presentation/PublicationAttachment/337110dd-0f24-424f-9db3-cc6eeb90ac96/alert-Mexican-Public-Infrastructure-Projects-March-2012.pdf

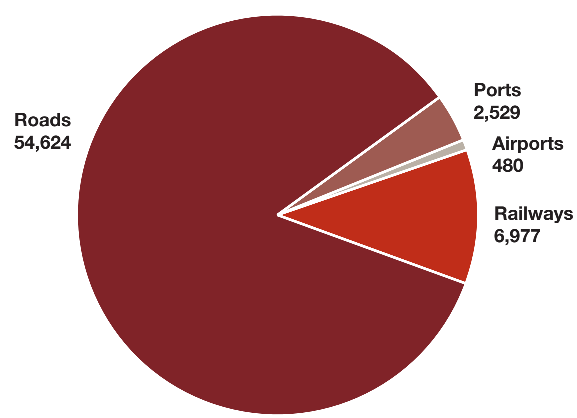
Mexico's investment in infrastructure (As a % of GDP)



Source: V Informe de Gobierno

Roads to dominate

2012 Planned public investments in transport infrastructure, MXNmn



Source: CMIC

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