

1. Introduction

The President of Poland Andrzej Duda paid a State visit to Mexico in April 2017. During the three-day visit, together with the President of Mexico, Enrique Peña Nieto, a joint Mexican-Polish declaration **“Towards strategic partnership between Poland and Mexico”** was signed, expressing their commitment to further strengthen bilateral relations in the areas of politics, economy, culture, science, education, sports, and police cooperation. President Peña Nieto emphasized that Poland and Mexico had enormous economic potential.

Since 1999, the bilateral trade between the two countries had increased twenty-fold: from USD \$50 million to over USD \$1 billion annually. **Currently, the annual trade between Mexico and Poland is more than 1,200 million USD.** During the State Visit, the Mexican president, Enrique Peña Nieto, said that cooperation with Poland would be vital to "updating the cooperation agreement between the European Union and Mexico".

In the aforementioned visit, several Polish-Mexican inter-ministerial agreements were signed, including those on economic cooperation, mutual investment, dialogue between the Polish Ministries of Development and Finance and the Mexican Ministry of Economy, and cooperation between Polish state bank BGK and PAIH with their Mexican counterparts.

President Andrzej Duda said that Poland sees a great opportunity for Polish business development in Mexico. Macroeconomic stability, open trade, investment policies, and the growth of local consumers' purchasing power are factors fostering mutual economic relations.

This creates an attractive market for services and goods produced in Poland in one of the largest economies. **According to financial forecasts, Mexico would become one of the eight largest economies in the world by 2050.**

Also, during the encounter, it was added that Polish exports to Mexico have been recording steady increases as well as Mexican investments in Poland. There is confidence that there is still a lot to offer to take fully advantage of the potential. President Duda pointed out that Poland was particularly interested in cooperation in areas such as electromobility, information and communication technologies, green economy, pharmacy, and biotechnology.

Mexican investors' presence in Poland is a result of the country's comprehensive support for entrepreneurship and investment, "which made Poland an undisputed leader in Central and Eastern Europe in terms of inflows of foreign direct investment". There is a very positive momentum in Poland and a real interest in approaching Mexico not only to strengthen the political dialogue but also to turn the country into its main trade and investment partner in Latin America.



Polish President Andrzej Duda at the opening of the PAIH office in Mexico City. Photo: PAP/Radek Pietruszka.

¹ Instytut Międzynarodowych Finansów i Bankowości Economic Bulletin, Made in collaboration with Pablo Lozano Lozano, Deputy Head of Mission of the Embassy of Mexico in Poland.

2. Current situation of the Polish-Mexican business cooperation in numbers

Mexico and Poland are living a re-discovery in the last years. For the first time, both countries have recognized in each other a trade partner with enormous potential for the growth of their commercial relations and for the promotion of reciprocal investments.

Bilateral relations have good foundations for further exploration in the near future, especially as both countries hve as a priority the diversification of their markets (nowadays, 78.5% of Mexican exports go to the United States, and 75.8% of Polish exports to the European Union). In the face of the latest economic slowdown in some economies, Polish and Mexican companies started to search for prospective trade partners in other markets.



The very good dynamics of economic relations between Mexico and Poland have permitted to move forward to take advantage of the vast potential between its markets. We are in the presence of two phenomena. On the one hand, we already observe a real growth of the bilateral relations and, on the other hand, promotion strategies have been strengthened. Simultaneously, the ongoing process of modernization of the legal framework between Mexico and the European Union is seen as an opportunity for Mexico and Poland to explore their potential.

As a result:

- ✓ Poland is Mexico's 32nd most important trading partner globally and the most important in Central Europe.
- ✓ Mexico is Poland third partner in Latin America and the Caribbean (with bilateral trade of \$900 million), and Poland has been running a trade surplus with Mexico (\$225 million) since 2011.

3. The success of Mexican companies in Poland

Mexican companies are showing enormous interest in investing in Poland. The first recorded Mexican investment in Poland, took place when the Mexican cement giant **Cemex** bought two Polish plants in 2004. Another major investment came in 2006 when manufacturer **Nemak** acquired **TK Aluminum** for US \$71 million. In 2009, **Bienes Turgon**, a Mexican holding company operating in the automotive industry acquired - through its subsidiary **Katcon** - a Polish plant producing exhaust systems. Others Mexican players that entered the Polish market are **Maxichem** and **Grupo Industrial Saltillo**.

In 2016, the Mexican fund **Finaccess Capital** acquired more than 6 million shares of the Polish company **AmRest**, doubling its participation to the 60% of the shares and thus becoming the holder controlling. The market value of the operation carried out it was approximately 380 million dollars.



The opportunities for Mexico to do business with Poland are the result of the development and growth of the market with a solid consumer's base: green field and brown field projects are attracting investors.

In terms of investments, the relationship has developed fundamentally due to the density and importance of both economies and, in particular, by the intuition of Mexican entrepreneurs who have found in Poland a very strong internal market, with competitive labor costs, solid education and easy access to other markets in Central Europe.

4. The success of Polish companies in Mexico

Poland sees Mexico as one of five priority markets outside the European Union and as one of the best economies in which to invest. Polish entrepreneurs have found Mexico to be an attractive place to grow their businesses and establish operations. Polish investments in the country are estimated at USD \$16.7 million, the 15th place among EU members. As of 2017, 55 companies with Polish capital were operating in Mexico, including **Inglot**, **Fibrain**, **Maflow** and **Bury Technologies** (which opened in 2015 in the state of Tlaxcala a production plant of electronic components, with an initial investment of six million euros and the creation of 100 direct jobs).

The recent years have shown an increase in these figures: **from 21 companies in 2012 to 55 companies in 2017**. It is because Polish companies tend to favor Mexico as an ideal starting point for an expansion to the Americas, and a firm business partner for joint projects and initiatives.



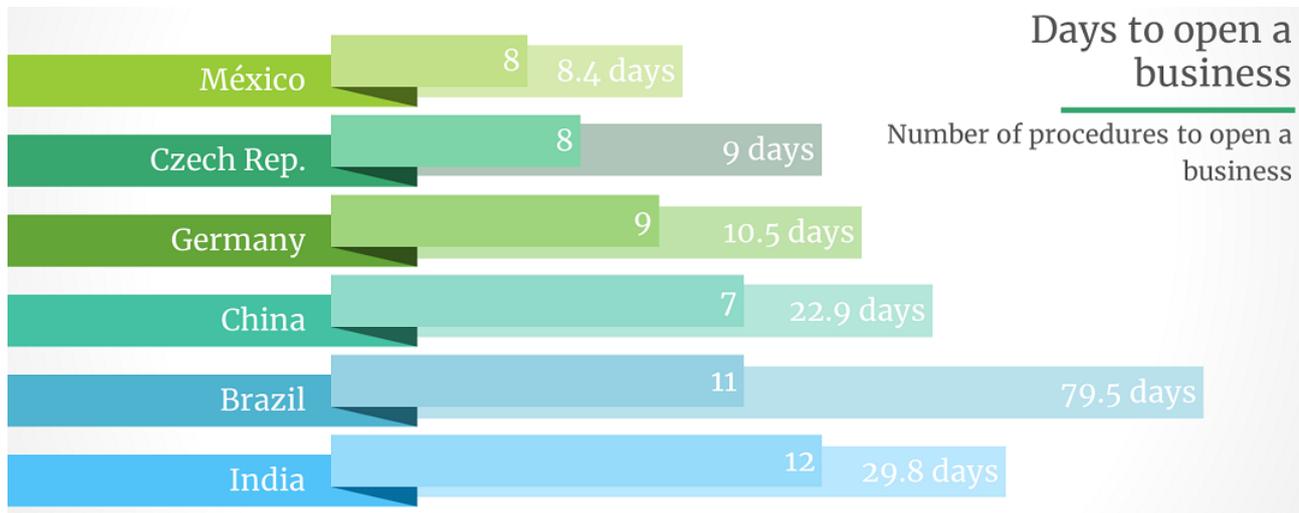
In the case of Mexico's relationship with Poland, there is a significant space for action. The creation of favorable conditions for the incorporation of small and medium enterprises into bilateral trade flows is essential.

5. Why is it worth investing in Mexico?

Mexico is one of the most competitive countries in the world for productive investment due to its macroeconomic and political stability, low inflation, size and strength of its domestic market, economic growth rate and capacity to produce advanced manufacturing (high-tech products).

Mexico is also an open economy that guarantees access to international markets through a network of free trade agreements. The country possesses a strategic geographic location and competitive costs to service global markets, as well as a highly-skilled and young workforce.

Mexico's strengths: Mexico enjoys an attractive business atmosphere: It has macroeconomic stability; legal certainty by a large bilateral legal framework both with Poland and the European Union; one of the largest FTA's networks in the world; a service-driven open economy that also is a manufacturing powerhouse²; it has skilled labor and a highly competitive cost profile. In order to facilitate business operations, the country makes big investments in infrastructure development and in deregulation. The Mexican economic outlook is going through a great evolution given its many competitive advantages. Also, the structural reforms taken place in Mexico in different social and economic topics ensures the competitive advantage of the country.



Access to Internal Market and NAFTA Region. With a population of 120.2 million inhabitants, the Mexican internal market is of interest in its own right for the firms that establish in the country, considering, for example, the GDP, which in 2014 added for 1,291 billion dollar; in fact, Mexico occupies the 15th place worldwide in terms of the size of its economy.



Mexico's FTA network covers 63.7% of global GDP.

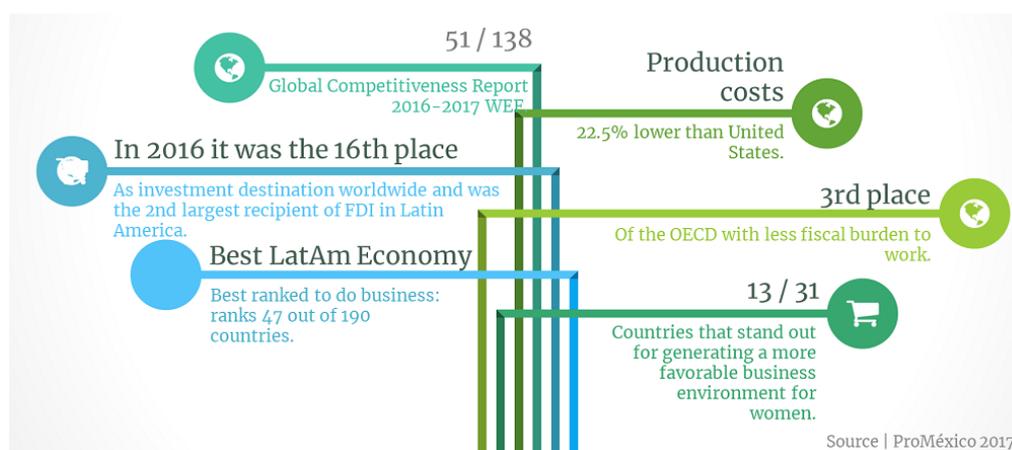
² More than 65% of Mexican exports are medium to high-technology manufactures and more than 70% of high-tech exports from latinamerica are originated in Mexico.

A network of Free Trade Agreements and Trade Procedures. Free trade agreements signed with 46 nations make Mexico one of the most open countries to international trade in the world, with preferential access to over one billion potential consumers representing more than 60% of global GDP.

To export and import from and to Mexico, only require 20 to 44 hours respectively to comply with the procedures at borders and customs. This includes the time for obtaining, preparing and submitting documents during port and border handling, clearance, and inspection procedures.

Legal Certainty for Foreign Investment. The signing of Reciprocal Investment Promotion and Reciprocal Protection Agreements (RIPPAs) forms part of the strategy to grant Mexican and foreign investors a legal framework that strengthens protections for foreign investment in Mexico, as well as for Mexican investment abroad. In general, RIPPAs cover the following areas: definition of an investment, scope, promotion and admission, treatment of investment, expropriation, transfers and Investor-State and State-State dispute resolution.

To date, Mexico has signed 29 agreements of this kind. Furthermore, certain Free Trade Agreements signed by Mexico include chapters on investments that resemble RIPPAs. This is the case with the FTAs signed with the United States, Canada, Chile, Colombia, and Japan, among other countries. This structure provides legal certainty to firms that decide to locate their operations in Mexican territory.³



A Competitive destination for business

Trained Personnel. According to the National Association of Universities (ANUIES) and Higher Education Institutions information, annually more than 120 thousand students of engineering, manufacturing, and construction graduated from Mexican institutions. From UNESCO's 2012 data, Mexico had 26% more graduated per capita of such programs than in the USA. The Mexican Higher Education System comprises 2,967 institutions that offer educational services and facilities for international exchange.

Strategic Location. Another advantage offered by the country is the proximity to the main centers of world consumption. This is significant as it allows firms to respond more quickly to changes in demands and thereby reduce inventory costs.

Mexico is well connected, with 27,000 kilometers of railroads that link the country with the United States to the north, Guatemala to the south, the Pacific and the Atlantic Ocean. In addition, Mexico has a 3,145-

³ More info at: Mexico, Strategic Destination for Productive Investment - A Guide to Facilitate the Establishment of Businesses in Mexico - <https://www.promexico.mx/documentos/biblioteca/mexico-strategic-destination-part-1.pdf>

kilometer border with the United States, which makes for low transport costs to this market. There are 54 crossing points along the border with the United States.

The geographical location of the country and the implementation of NAFTA provide an excellent platform for selling from Mexico to the largest market in the world (regional GDP of 20,425 billion dollars) as well as to Latin America and the Caribbean. Estimates for 2020 indicates that the size of the regional market will reach 25,748 billion dollars, a figure that will represent 27% of future global GDP.

The country possesses numerous internal distribution terminals connected with the main seaports, which enables cost reductions and facilitates the entry and exit of goods. Mexico is 2nd best in Latin America in the quality of its infrastructure.

In brief, Mexico has:

- ✓ 76 airports (12 domestic and 64 international).
- ✓ 117 seaports (49 coastal shipping ports and 68 international maritime ports).
- ✓ More than 27,000 kilometers of railroads.
- ✓ More than 370,000 kilometers of roads.

6. Doing business with Mexicans = People to people

According to Kinga Brudzińska (Polish–Mexican Cooperation: Where Does Poland Stand?)⁴, *Mexicans and Poles connect well. They are both moderate pro-transactional cultures, which means that they prefer contact directly with people, and to do business with those they know. In most cases, business meetings are preceded by a few minutes of casual talk. They are also highly contextual cultures which suggest that people usually read “between the lines”... Cultural misunderstandings should not hamper attempts to establish relations, and Mexico and Poland should take advantage of their cultural similarities and use them for developing economic cooperation.*



In 2017, 50,741 Polish tourists visited Mexico. It represents a growth of 27.9% in relation to the previous year (39,658).

7. Trade Opportunities.

The dynamics of economic relations between Mexico and Poland is going in the right direction to take advantage of the enormous potential that exists for trade, investment, and cooperation.

The average Polish investor appreciates Mexico for its strategic geographic location, and its various competitive advantages: free trade agreements, labor, costs and infrastructure.

Mexico is today one of the most advanced manufacturing centers in several strategic fields, such as high-tech medical devices, energy, the aerospace industry, information technologies, the automotive industry, and electrical electronics.

The main products exported from Mexico to Poland are light automobiles mainly for the transport of people; machinery including turbojets and turbo propellers; electrical machinery; computers and computer parts; plastic manufactures and auto parts and accessories.

⁴ Brudzińska, Kinga - PISM Policy Paper No. 12 (60), May 2013 - Polish–Mexican Cooperation: Where Does Poland Stand? - https://www.pism.pl/files/?id_plik=13708

Likewise, Mexico imports from Poland mechanical appliances; telephones, telecommunication devices, and their parts; compression ignition piston engines; vehicle parts and accessories; furniture; rubber tires and vehicles for transportation of goods.

Where do we see opportunities in mutual investments? The sectors with the greatest potential for trade and investment are:

- ✓ Aerospace.
- ✓ Automotive.
- ✓ Home appliances.
- ✓ Electro-Electronic and Metalworking.
- ✓ Information technologies and creative industries.
- ✓ Clean and Renewable Energies.
- ✓ Medical equipment.
- ✓ Industry 4.0

The sectors of greatest interest for both countries are manufacturing, especially auto parts, iron and steel production, medical equipment, agro and creative industries, and IT.

There are sectors and clusters in both countries whose approach should be promoted. Especially the automotive industry - which is not only one of the fastest growing in both economies but also one with great complementarity, as shown by recent investments in both countries.

8. Export and investment tools for Polish entrepreneurs to Mexico.

Poland and Mexico have a history of 90 years of diplomatic relations. The development of its economic relations includes, as a premise, the steadiness of the bilateral dialogue. This involves both governments and private entities that, by their own approach, can identify priorities, adopt decisions and encourage other actors to get involved in economic relations. Besides the bilateral legal framework, **the Economic Partnership, Political Coordination and Cooperation Agreement between Mexico and the European Union signed in 1997**, has shaped their cooperation. The “Global Agreement” established a **Free Trade Area between the EU and Mexico** and have substantially enlarged the trade and investments as mentioned beforehand.



2017 Mexican Polish Economic Forum in Mexico City

During the visit of President Duda to Mexico, the following legal instruments to support business cooperation between Poland and Mexico were signed, including the creation of a high-level working group between the ministries of trade to increase bilateral trade and develop economic cooperation:

- ✓ Memorandum of Understanding on Cooperation in the Field of Export Credits between Mexico's National Bank of Foreign Trade, National Credit Society and Institution of Development Banking; Poland's *Bank Gospodarstwa Krajowego (BGK)*.
- ✓ Memorandum of Understanding on Cooperation in the Field of Export Credits between Mexico's National Bank of Foreign Trade, National Credit Society and Institution of Development Banking and Poland's *Korporacja Ubezpieczeń Kredytów Eksportowych Spółka Akcyjna (KUKE)*.
- ✓ On 25 April 2017, during the Polish business mission accompanying the official visit of the President of the Republic of Poland to Mexico, KUKE signed a cooperation agreement with the national export

credit agency, Banco Nacional de Comercio Exterior S.N.C. (**Bancomext**). The agreement reinforces the relations between the two countries but above all dynamically boost trade and investments between Poland and Mexico, thereby supporting the intensified foreign expansion of businesses from the two countries. The signed framework agreement provides a basis for KUKE and Bancomext to mutually support the foreign projects of their companies relating to co-insurance, credit insurance, and the exchange of information and experience, as well as in the implementation of joint export projects in third markets;

- ✓ Memorandum of Understanding between ProMéxico and the Polish Trade and Investment Agency (**PAIH**);
- ✓ Collaboration agreement between the Mexican Business Council for Foreign Trade, Investment, and Technology (**COMCE**) and the Polish Chamber of Commerce (**KIG**).

All these agreements are valuable tools that can be used by Polish exporters and investors interested in entering into the Mexican market.

9. Financial support offer to Polish exporters and investors to Mexico

Governmental Support. Polish government's support for the foreign ambitions of national companies has been steadily growing in the last few years. Polish exporters are supported by various public institutions. The National Economy Bank (*Bank Gospodarstwa Krajowego*, **BGK**) provides exporters with loans. The Export Credit Insurance Corporation (*Korporacja Ubezpieczeń Kredytów Eksportowych*, **KUKE**) provides insurance products and guarantees.

Other bodies, such as the Polish Agency for Enterprise Development (*Polska Agencja Rozwoju Przedsiębiorczości*, **PARP**), distribute state and EU funding for specific projects.

On April 2017, the **Polish Investment and Trade Agency (PAIH)** launched **the Foreign Trade Office in Mexico**. The Trade Office in Mexico was at the moment the 8th foreign bureau of the Agency and the first one inaugurated by the Polish president. This demonstrates the importance of Mexico and Latin America for the strategy of development of Polish exports and investments program.

The office provides information on the legal regulations on the Mexican market, search for potential business partners, organize business missions, meetings and workshops, as well as inform about the business opportunities in this market. The office also supports Polish business in developing a market strategy and receives financing for Polish projects. PAIH Trade Office is also the first contact for Mexican companies interested in doing business in Poland.⁵

Although the aim of the **Mexican Embassy in Poland** is to support Mexican businessmen who would like to start doing business in Poland, the Mexican Embassy in Poland it is also an excellent first contact point for Polish businessmen who would like to start doing business with Mexico to do inquiries about the country. Such entrepreneurs may also ask for help directly as well to **ProMéxico**, which is a Mexican trade and investment agency.



⁵ PAIH opens its Mexico City office - https://www.paih.gov.pl/20170425/PAIH_opens_its_Mexico_city_office