

# To the point!

Cross-Asset- and Strategy-Research

## A postcard from Mexico City

The country offers stability and access to the US market

Last week, I had the pleasure of attending the celebrations to mark the 15th anniversary of LBBW's presence in Mexico City. It was a courageous decision at that time. Mexico was still in crisis. Political unrest was shaking the country, especially in the south, the financial crisis was casting its shadow, and the highly controversial presidential election in 2006 had led to strong polarization.

But the courage proved to be justified. Today, 15 years later, the country presents itself from its chocolate side (incidentally, chocolate is borrowed from the Aztec word Xocolātl – the cocoa plant originally comes from Mesoamerica). In conversations with analysts and foreign investors on site, I witnessed many flashes of confidence.

### No longer a crisis country for a long time

The image of debt crises, inflation and devaluation – in short, macroeconomic instability – no longer applies to Mexico. Neither does the consistently negative image conveyed by the Netflix series "Narcos Mexico": a country plagued by drug cartels, violence and lawlessness.

Sure, the security problem has not yet been solved satisfactorily. Public safety remains the number one concern for most citizens, as well as for many companies. However, the security situation in many regions, including the capital, has improved considerably in recent times.

Above all, in a clear break with the less encouraging past, Mexico is now characterized by a quite long spell of macroeconomic



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Foto: Carlos Aguilar via Unsplash.com

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More than just drug cartels, violence and lawlessness

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stability. Although growth is not (yet) particularly exhilarating, inflation and public finances are firmly under control. Last year, the peso proved to be one of the strongest currencies in the world.

### Political stability provides investment security

Economic stability is now regarded as a valuable asset by all relevant political parties. The presidential election in June 2024 is therefore not primarily interesting for the differences in policy orientation, but because it is all but certain that a woman will become president for the first time: Both frontrunners are female. Claudia Sheinbaum from the ruling Morena party is currently well ahead in the polls.

During conversations in Mexico, it usually doesn't take long for the topic of nearshoring to come up. This is because Mexico is part of the free trade zone USMCA with the U.S. and Canada. Production in Mexico is therefore not affected by Washington's protectionist measures. If Donald Trump were to be elected president for a second time at the end of 2024, I expect him to impose further, more draconian trade restrictions. These are likely to be aimed in particular at countries that have a trade surplus with the US, including Germany.

### Springboard into the US market

The pipeline of investment projects from foreign companies is growing. Chinese companies in particular are apparently seizing the Mexican opportunity. However, more than 2000 German companies are already active in the country. I expect this number to increase. Unhindered access to the North American market, economic and political stability, a young population and a moderate wage level should make the memory of "Narcos Mexico" fade when viewed rationally from a business perspective.

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The 2024  
presidential  
election promises  
continuity

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Mexico offers  
protection  
against US  
protectionism

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