



## Querétaro: A Symbol of Mexico's Future

## EXECUTIVE SUMMARY & INTRODUCTION

### Querétaro: A Symbol of Mexico's Future

Santiago de Querétaro is the capital and largest city of the state of Querétaro, Mexico, which is home to about one and a half million people. The city, usually referred to simply as Querétaro, is two hours north of the sprawling federal capital, Mexico City. With a population approaching one million, Querétaro has become a choice destination for foreign investors as well as for Mexico's best and brightest. The reasons are simple enough: Querétaro is a peaceful city with impressive educational institutions, solid infrastructure, and a lively arts and culture scene.

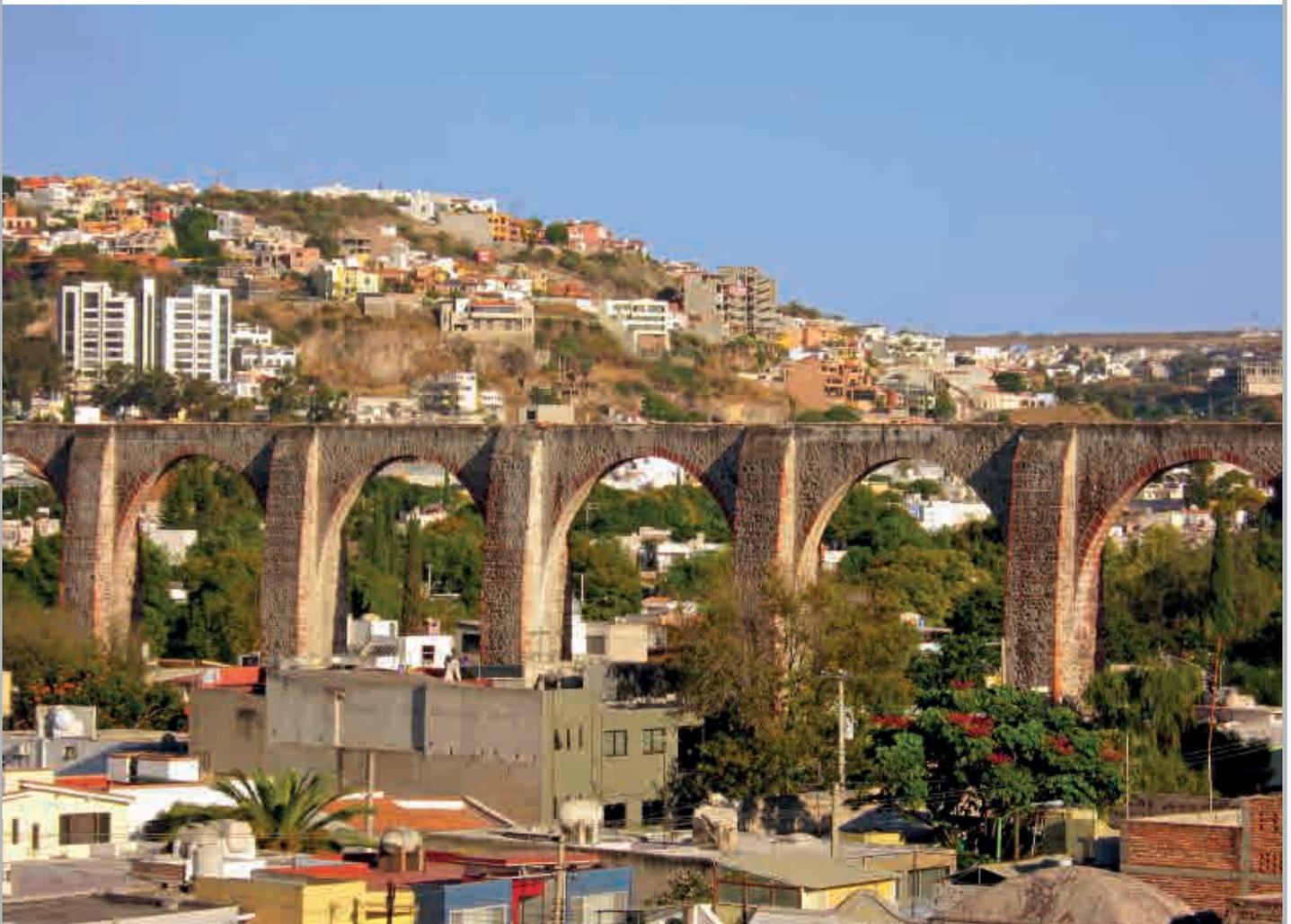
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**A CITY ON THE UP**

Querétaro is home to a thriving economy that is being driven in part by high value investments in manufacturing and information technology. The educated workforce, close proximity to the United States, and the affordability of doing business have made the area a magnet for investment. The facts speak for themselves. During the first half of 2013, the state saw a 120% increase in infrastructure project volume, with the city of Querétaro in a class of its own with regard to foreign direct investment, recording a 233.3% annual increase – the highest in the world.

Examples of high-end manufacturers investing in Querétaro include aerospace leaders Eurocopter and Bombardier, as well as Hitachi Automotive Systems, Mitsubishi Electric Automovie de México, Samsung Electronics, Daewoo, General Electric, Siemens, and ThyssenKrupp, among others. On the information and communications technology front, the business process outsourcing (BPO) and telecom industries are making their mark, with Swedish telecom giant Ericsson setting up a Global Service Center, Tata Consultancy Services having expanded its footprint to 700 employees, and Santander Bank locating its Latin American call center in the city.

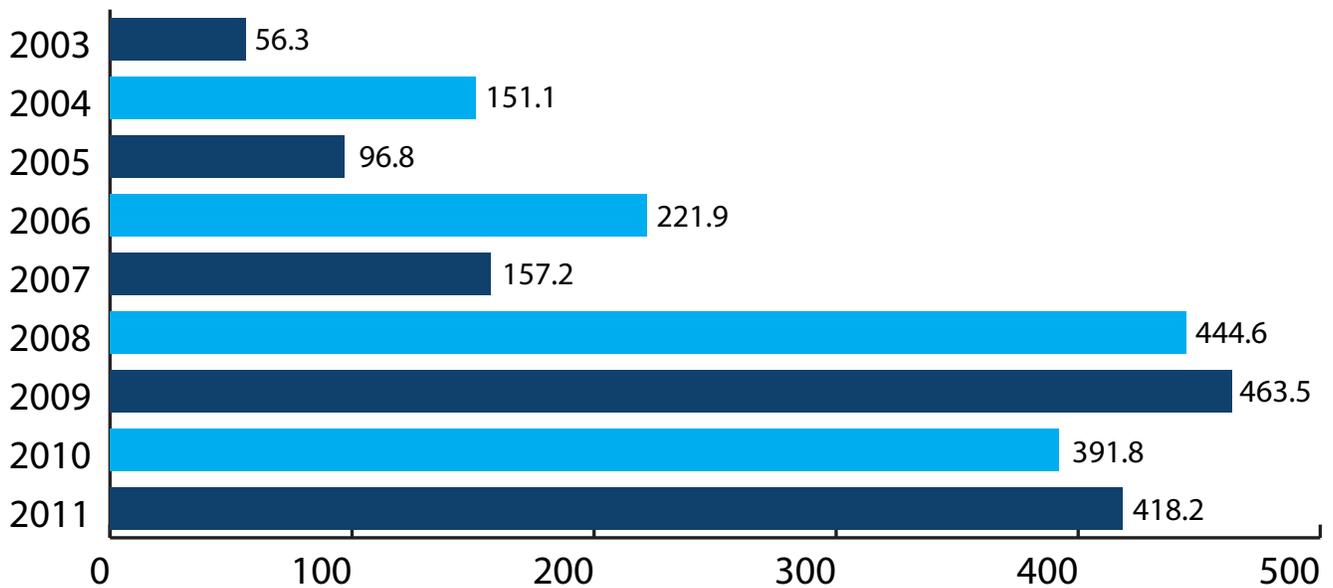
**Chart #1: State of Querétaro: Population growth since the Second World War**

Year 1	Population	Growth%
1950	286,238	+17.0%
1960	355,045	+24.0%
1970	485,523	+36.7%
1980	739,605	+52.3%
1990	1,051,235	+42.1%
1995	1,250,476	+19.0%
2000	1,404,306	+12.3%
2005	1,598,139	+13.8%
2010	1,827,937	+14.4%

The strength in Querétaro's manufacturing sector makes it stand out in the Mexican economy. Manufacturing represents 29.3% of the national GDP, yet in the state of Queretaro that number rises to 55.1%. All told, almost 120,000 people work in manufacturing in the state, with 42,500 of those in the automotive sector. In large part because of this, Queretaro rose from 17th place to 7th in Mexico in terms of direct foreign investment in the last decade.

This strength can be seen in events such as Mexico's Aerospace Summit, which is held annually at Querétaro's Centro de Congresos. The last summit, held in late September 2013, celebrated 160 million dollars of investment in the sector, with growth expected to approach 30% for the year. All told, the aerospace sector employs 5,200 highly skilled workers in the area and is expected to grow by 200% in the next five years.

**Chart # 2: Foreign Investment Growth in Queretaro 2003 – 2011 (Millions of dollars)**



## LOCATION, LOCATION, LOCATION

A large part of Querétaro's appeal is its location. Querétaro Intercontinental Airport has direct flights to Dallas/Fort Worth on American Airlines, and Houston-Intercontinental on United Express. Domestically, there are also flights to Monterrey, which anchors the third largest metropolitan area in Mexico, and is home to many global corporations. A new direct flight service to Guadalajara, Mexico's second biggest city, is also due to be inaugurated before the end of 2013.

Querétaro's closeness to Mexico City is also a major advantage. Many transnationals have their offices in the federal capital. The heartbeat of the nation, Mexico City is a truly global city, attracting capital and talent from around the world. Its relationship to Querétaro has not gone unnoticed, with the Mexican government announcing plans to link the two cities by high-speed rail.

Much as Cuernavaca became attractive as a destination south of Mexico City after the Second World War, so now with its solid infrastructure and transportation links is Querétaro becoming the place to be for Mexico's up-and-coming generation of high-skilled workers and entrepreneurs.

***"The high-speed train project will not only modernize Querétaro, it will modernize México. Everyone benefits."***

José Calzada Rovirosa, Governor of Querétaro.

Every year, over 20,000 people migrate to Querétaro from other areas within Mexico. That's because the quality of life is unbeatable. Commute times are a fraction of those in Mexico City. The year-round temperature is spring-like, with average highs in the mid-20s centigrade (mid-70s Fahrenheit) year round. The air quality is excellent. And so is the education system, whether for primary, secondary, or post-secondary schools.

### **Arts and Culture**

*Anyone who has spent time in Mexico knows one thing: this is a country with a deep and abiding cultural history, and a population that is rightly proud of it. Querétaro is no exception, with archeological sites at Las Ranas, Toluquilla, El Quirambal and El Cerrito, and the historic center of the city is a UNESCO World Heritage Site. During Holy Week, Querétaro holds an eight day arts and culture festival that draws visitors from around Mexico and the world. Beginning with an inaugural parade, the festival devotes the next week to showing off Querétaro's gardens, theaters and plazas with wide range of arts exhibits, special activities for children, culinary events, and music shows headlined by national and international artists. During the rest of the year, students and performers are drawn to the Instituto Nacional de Bellas Artes (INBA), Conservatorio Libre de Música, and the Centro Nacional de Danza Contemporánea.*

## YOUNG AND EDUCATED

From a business perspective, the strong presence of university and college-level education in Querétaro helps secure a labor force while also representing opportunities for collaboration and internships. Querétaro has recently seen the addition of the Universidad Tecnológica de San Juan del Río and the Instituto Tecnológico de Querétaro, Jalpan Campus. This means that there are now 22 private and public post-secondary institutions in the area, many with advanced programs in science and technology. These include ITESM-Querétaro, Universidad Anáhuac, Universidad Autónoma de Querétaro, Universidad Pedagógica Nacional, Universidad del Valle de México, Universidad Tecnológica del Estado de Querétaro, and the Centro Interdisciplinario de Investigación y Docencia en Educación Técnica, to name but a few.

The city also has 36 research centers. Within these centers work 383 individuals who are active members of Mexico's Sistema Nacional de Investigadores (SNI), representing an impressive 20.4% of the national total. Many of these researchers work in centers that support the ICT and advanced manufacturing sectors.

***"Close to 50 families migrate to this city every day. I would say almost 50 percent of my workforce are from other parts of Mexico,"***

Delivery Center Head - Global Technology Giant.

Mexico is a young country and Querétaro even more so, in large part due to the migration of young people to the city. These young Mexicans are looking for a good education, decent jobs, and a safe and healthy environment in which to raise a family. They have found that in Querétaro, where the average age is only 26. An incredible 46.2% of the population is under 25, with only 7.3% over 60, giving the small city a vibrancy unlike typical metropolitan areas in Europe, the United States, and Japan, which are increasingly defined by the challenges of an aging workforce.

**GOVERNANCE AND SECURITY**

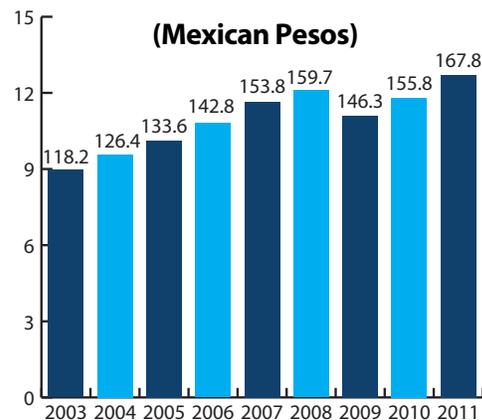
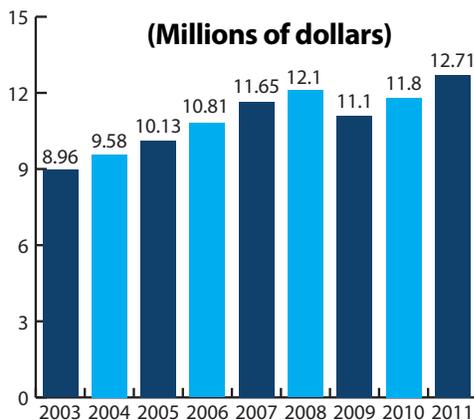
According to Transparencia Mexicana, an NGO that tracks and fights corruption in Mexico, the state of Querétaro repeatedly ranks as one of the least corrupt of Mexico's 31 states. The state capital is also one of Mexico's safest cities, with 8.8 murders per 100,000, and a sentencing rate of 5.5 per 100,000. This homicide rate is a fraction of many metropolitan areas in the United States, including Detroit (54.6), New Orleans (53.5) St. Louis (35.5), Baltimore (35), and Memphis (24.1).

Security and good governance have resulted in Standard and Poor's affirming its 'BBB-' rating for the city of Querétaro on April 2, 2013. In delivering the rating, Standard and Poor's noted that "Querétaro's debt continues to decrease, and is lower than many of its national and international peers. We expect its strong budgetary performance to continue in 2013 and 2014."

Explaining its stable outlook, Standard and Poor's noted that Querétaro had continued to decrease its debt over the last three years. The solid rating also reflected Querétaro's "strong budgetary performance thanks to surpluses after capital expenditures and debt repayment from 2010 to 2012."

Inflation is a steady 3.2%, with the city home to 23,554 businesses. Of these, 2,602 are manufacturers. Direct foreign investment is notable for its emphasis on the industrial sector, which represents 73.8% of the total.

**Chart # 3: Growth in Internal Gross Domestic Product**



## INFRASTRUCTURE FOR THE LONG HAUL

In the last ten years, the metropolitan zone of the city of Querétaro has grown 34.4%, in large part due to internal migration. This mini-boom has resulted in 29% of the population who are resident in the zone having been born outside of Querétaro. That influx has resulted in an increase in business activity and entrepreneurship, while also buttressing the tax base. It has also been met with a solid vision to invest in infrastructure.

The city has a dozen industrial parks that are home to more than 700 companies – with more on the way, including two new “micro-parks” and an expansion of the Parque Industrial Querétaro (PIQ). There is a direct federal highway that connects Querétaro to Mexico City as well as running north to the border with the United States. The city is building out to serve the growing middle class, with the Antea LifeStyle shopping mall expected to be the largest commercial center in Latin America. To support all this growth, Querétaro has also established agreements to secure its water supply for decades to come.

With plans for a high-speed train in the works, and given the importance of aerospace to its industrial sector, Querétaro will almost certainly see increased volume at its airport, which at present handles 17,141 tons of cargo – largely through DHL Express and FedEx – and 275,286 passengers annually. These numbers are growing at 23.8% and 62.2%, respectively. To facilitate this international travel and commerce, Querétaro has its own customs office, thus ensuring that expansion to additional international destinations will be easy to accommodate.

All told, the municipality of Querétaro has confirmed 39 projects moving into 2014, representing 6,270 new jobs and an investment of over \$63 million. This includes keeping up with investments in logistics, which are growing at 5% annually. Given the importance of manufacturing, and the need to serve markets in the United States and Canada, commercial rail service is crucial. Both Kansas City Southern de México (KCSM) and Ferromex serve Querétaro, offering crucial intermodal links by land to the United States and Canada. They are also able to connect to Mexican ports on the Pacific for Asian trade, and the Gulf of Mexico for access to Europe and beyond.

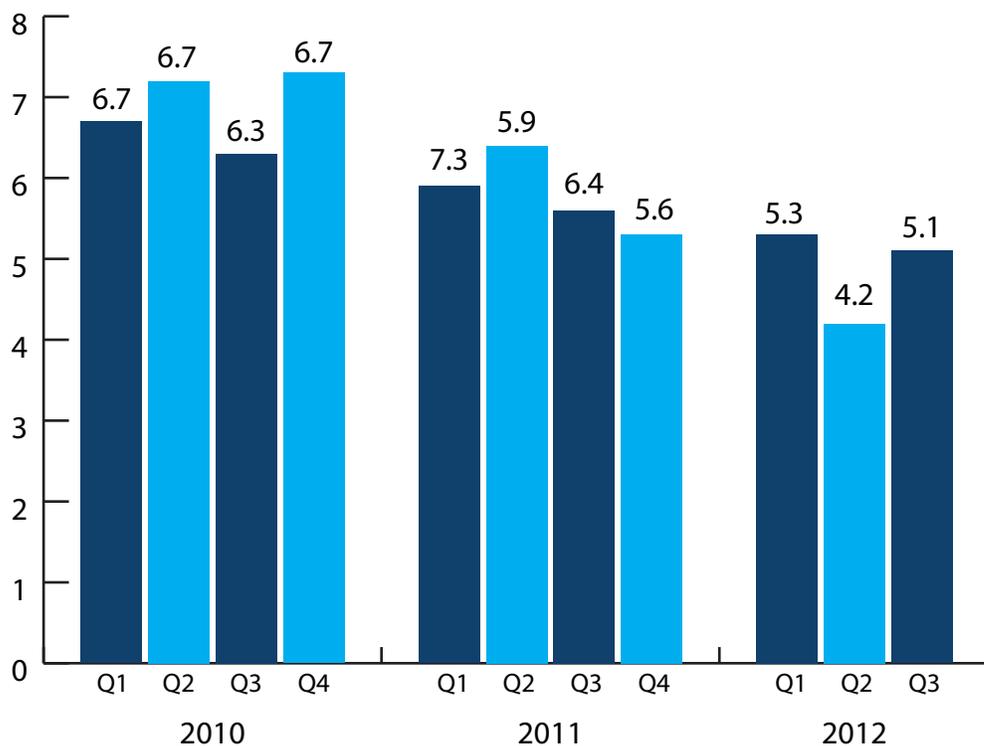
***"The city enjoys strong liquidity with regard to its financial obligations as well as low debt as compared to its national and international peers,"***

Cesar Barceinas, Standard & Poor's credit analyst.

**MEXICO ON THE MOVE**

Querétaro is a solid location within a country that is experiencing a renaissance of entrepreneurship and opportunity. Mexico is becoming a hub for Asian manufacturers looking for competitive access to the North American market via NAFTA. According to IMF data, in the last two years Mexico's growth has surpassed the other big players in the hemisphere, the United States, Brazil, and Canada. Incredibly, as reported in the New York Times using data from both the United States and Mexico, "more Americans have been added to the population of Mexico over the past few years than Mexicans have been added to the population of the United States." This is a stunning turn of events, and is supported by data from the World Bank and the International Finance Corporation that had Mexico's Ease of Doing Business ranking jump from 53rd spot globally in 2012 to 48th spot in 2013. That is the third-highest ranking in Latin America – Chile and Colombia stayed competitive at 37th and 45th place, respectively – and well ahead of fellow Latin American giant Brazil, which fell two points to 130th place in 2013. To facilitate further growth, Mexico is showing impressive progress at cutting through red tape and corruption in order to support entrepreneurship: in 2012 the country ranked 74th in terms of the ease of starting a business, and in 2013 that number leapt to 36th, a 38-point jump in the ranking.

**Chart # 4: Querétaro's declining unemployment rate (until Q3 2012)**





## **SOURCES**

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