The Mexican Defense Industry: Market Opportunities and Entry Strategies, Analyses and Forecasts to 2016

Description: Product Synopsis
This report is the result of ICD Research / Strategic Defence Intelligence's extensive market and company research covering the Mexican defense industry. It provides detailed analysis of both historic and forecast defense industry values including key growth stimulators, analysis of the leading companies in the industry, and key news.

Introduction and Landscape
Why was the report written?
The Mexican defense Industry Market Opportunities and Entry Strategies, Analyses and Forecasts to 2016 offers the reader an insight into the market opportunities and entry strategies adopted by foreign original equipment manufacturers (OEMs) to gain market share in the Mexican defense industry.

What is the current market landscape and what is changing?
During the review period, the Mexican defense budget recorded a CAGR of 8.7%, as expenditure was driven by measures to control drug trafficking and organized crime, and through contributions to United Nations (UN) peacekeeping missions. In 2011, the Mexican defense budget stood at 0.48% of GDP and is expected to increase to 0.6% of GDP by 2016, as a result of an increase in defense expenditure of US$8.97 billion by 2016. Between 2007 and 2011, Mexico's capital expenditure allocation stood at 3.8% of the total defense budget and is expected to increase to 4.2% over the forecast period due to higher allocation for equipment purchases.

What are the key drivers behind recent market changes?
Mexico's campaign against drugs gained momentum after President Felipe Calderón took office in December 2006, which resulted in the death of over 5,700 people in 2008 and 7,000 people in 2009, as opposed to 1,300 people in 2005. Moreover, the drug gangs are reported to have access to high end sophisticated weaponry such as grenades, launchers, machine guns, mortars, and anti-tank rockets that are traded from across the border of their immediate neighbor, the US. In response to this, the Mexican MoD is acquiring city-wide surveillance and monitoring systems, UAVs, aerostats, medium-lift helicopters, maritime patrol aircraft, and aircraft with advanced electro-optical surveillance turrets.

What makes this report unique and essential to read?
The Mexican defense Industry Market Opportunities and Entry Strategies, Analyses and Forecasts to 2016 provides detailed analysis of the current industry size and growth expectations from 2012 to 2016, including highlights of key growth stimulators. It also benchmarks the industry against key global markets and provides a detailed understanding of emerging opportunities in specific areas.

Key Features and Benefits
The report provides detailed analysis of the current industry size and growth expectations from 2012 to 2016, including highlights of key growth stimulators. It also benchmarks the industry against key global markets and provides a detailed understanding of emerging opportunities in specific areas.

The report includes trend analysis of imports and exports, together with their implications and impact on the Mexican defense industry.

The report covers five forces analysis to identify various power centers in the industry and how these are expected to develop in the future.

The report allows readers to identify possible ways to enter the market, together with detailed descriptions of how existing companies have entered the market, including key contracts, alliances and strategic initiatives.

The report helps the reader to understand the competitive landscape of the defense industry in Mexico. It provides an overview of key defense companies, both domestic and foreign, together with insights such as key alliances, strategic initiatives and a brief financial analysis.
Key Market Issues
Corruption is rampant in the Mexican armed forces, specifically in the army. There is increasing evidence about the expanding role of the Mexican military in the drug war and it is suspected that arms procured by the army are passed to the drug cartels, which use the arms to enhance their drug trade. There is also concern that US aid to Mexico — US$1.4 billion has been pledged to help Mexico reduce drug trafficking — could be used for criminal activity or for personal gain by top military officials. Moreover, there is a lack of transparency in defense contracts awarded to international suppliers, with the government classifying most defense procurements as top secret. Overall, corruption and a lack of transparency are hindering the growth of Mexico’s defense industry.

As the Mexican defense industry comprises only state-owned companies with little specialization in weapon categories, the resulting lack of advanced defense technology means that foreign weapon suppliers who intend to conduct business in Mexico face infrastructure challenges. Although foreign suppliers can bring advanced technology to Mexico, this results in technology imports without offset incentives, as the defense offset terms are not clearly defined by the Mexican MoD. Consequently, foreign suppliers find pursuing a defense opportunity in Mexico challenging.

Offset obligation provides an opportunity for the development of domestic infrastructural and technological capabilities. However, Mexico has not disclosed any offset obligations imposed for its arms procurement, which is partially responsible for the lack of development in the domestic defense industry. In March 2009, its first major offset agreement was signed between Mexico and France in which, with the purchase of six EC 725 multipurpose helicopters worth US$300 million from Eurocopter, the French company set up an assembly facility in Mexico worth US$500 million, which will help Mexico to develop its aeronautical capabilities. However, during the forecast period, the country is also expected to give preference to arms exporters who provide technology transfers to offset equipment imports.

Key Highlights
During the review period, Mexican defense expenditure grew at a CAGR of 8.7% and registered US$5.5 billion in 2011. The persistent threat from drug cartels and active participation in peacekeeping missions stimulated expenditure during the review period, and these factors are expected to continue to drive defense expenditure throughout the forecast period. The expenditure on defense by Mexico is anticipated to increase at a CAGR of 10.2% and reach a value of US$8.97 billion by 2016. As a percentage of gross domestic products (GDP), the Mexican defense budget stood at 0.45% in 2011 and is expected to marginally increase to 0.56% of GDP by 2016. Key opportunities for equipment suppliers are expected in areas such as surveillance equipment, special operation helicopters, and maritime patrol aircraft.

In 2011, Mexican homeland security expenditure valued US$3.3 billion, and is expected to register a CAGR of 10% during the forecast period to reach US$7.6 billion in 2016. HLS expenditure is expected to be driven by the policing of drug trafficking, arms trafficking, and money laundering. In order to counter these threats, Mexico is expected invest in city-wide surveillance and monitoring systems, UAVs and aerostats, medium-lift helicopters, land-based fixed wing naval aircraft, aircraft with advanced electro-optical surveillance turrets, ground support infrastructure, and maritime radars.

During the review period, 74% of Mexico’s total defense imports were from Spain and the US. Aircraft and engines collectively accounted for 90% of the country's total arms imports during the review period. As Mexico plans to increase its defense budget and procure more weapons to modernize its weapons arsenal, imports are expected to increase during the forecast period.

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