

## **Podcast Transcript: Doug Donahue and Hugo Mandujano, Director of Investment Promotion for the State of Querétaro**

### ***“Flying High: How Querétaro Became a Leading Global Manufacturing Location,” July 2014***

#### **Part 1: Manufacturing and Economic Opportunities in Querétaro (17 minutes)**

**Doug:** Welcome, ladies and gentlemen to Entrada’s ongoing series on Manufacturing in Mexico. Today we have with us the Director of Investment Promotion for the state of Querétaro, Hugo Mandujano. Hugo has an interesting background. He has worked both in the government sector in promoting investment, as well as the private sector, working with manufacturers and other international companies setting up in Mexico. He worked as a project manager for Norgren, in bringing their die line casting line to Mexico and setting it up. He’s also worked in quality areas as a Quality Insurance Supervisor for Chevron Phillips. He has an M.B.A. from the University of Barcelona. Hugo, thank you very much for joining us today.

**Hugo:** Thank you, Doug. It’s my pleasure to join you and your audience also.

**Doug:** At Entrada Group, we spend a lot of time talking to and advising aerospace and aviation companies, particularly manufacturers. The first time I always talk to them they want to talk about Querétaro. It’s the first thing on their mind. How has Querétaro become such a known commodity, such a known center, in the aviation/aerospace industry?

**Hugo:** The pursuit of more competitive education, an education focused on competencies, has been the key. And that was the factor that in 2006, when we were asked from Bombardier to participate in the bidding of establishing a site, we defined the project of the national, of the Querétaro Aerospace University. And that was basically the turning point from the decision for Bombardier. We were able to support the demands of the industry. We didn’t invent it. We followed what they were doing in Canada. We got support from French companies also in terms of developing a system that could work for the rise of this industry and that was the cornerstone.

**Doug:** A lot of Entrada Group’s work and a lot of the people who listen to this podcast are in the automotive sector. And I know that, while aviation has grown, Querétaro has also stayed strong in attracting automotive manufacturers. What type of opportunities do you see into the future in Querétaro for auto parts suppliers, particularly those from North America?

**Hugo:** Today the aerospace cluster in Querétaro has 45 active members, 20 manufacturing companies, 4 special process companies, 3 educational institutions, 5 design engineer centers, 4 MRO companies, 9 general service companies and more than 6,000 workers. The difference with the automotive sector is that for the automotive sector we have more than 55 tier-one companies, more than 150 tier-two companies, and overall almost 400 companies working in the automotive sector. Today, we have more than 45,000 people employed in this industry. So it's an example of how two industries, how they can live together and they can grow successfully together. In this industry, in the automotive industry, one of the things that we can recall is that we have not had a strike in the whole state of Querétaro in the past 25 years, even though more than 90 percent of our automotive companies are unionized.

**Doug:** When Entrada Group first got started 12 years ago, our focus was so much on cost, and everybody was so interested in cost, and we had this onslaught of competition from China. Over the last three or four years, we've seen the manufacturers still worried about cost, obviously, but they've started to move away from just thinking about what labor-intensive work they can do here, to bringing in also capital-intensive operations, machine operations. And they feel this necessary demand that their talent be at a higher level. It seems to me, and I'd like you to elaborate on it, Querétaro has been very successful in attracting those types of companies that have a mixture of labor-intensive and capital-intensive operations. How did this develop?

**Hugo:** Well, today we still have a challenge. We still have a great challenge in terms of adapting to the requirements of every project. The thing is that we have several institutions today that give us a chance to adapt the training, the education programs, depending on the demands of the industry. And for projects that require trained people or better educated or competent people in certain areas, we are using programs in which we pay for the training of the people for two or three months, while they get their last part of the training either at the educational institution or at the workplace, depending on the project. For us that is the key challenge: Being able to put together a training center, a school nearby the location of where these operations are supposed to happen. And obviously putting the resources in the universities, in the schools, in the training centers, so we can have competent labor pool in Querétaro. Something else that is really helpful for us, is the location of Querétaro. We are very close to a lot of cities, and one of the important things that we always mention is that Querétaro is the demographical center of the country. We have 45 million people. We can reach 45 million people within a 350-kilometer radius. So that is something that we take advantage of and for us is very easy to draw enough talent when more qualification is required, especially for those capital-intensive operations. And for those operations which are more labor intensive, definitely things are changing in the metropolitan area of the city of Querétaro, because obviously the cost of labor is a little bit higher. But there are new regions within the state of Querétaro that offer the same conditions that Querétaro used to offer, say 10 years ago, so it's a matter of finding the proper spot for the proper investment.

**Doug:** Obviously Querétaro is not the most cost-effective location in Mexico. How are you envisioning addressing cost issues over the medium- to long-term?

**Hugo:** Well, let me give you some factors. Inflation in the state of Querétaro has been since 2003 always below the national average. Last year, in 2012, it was 3.2 percent. In 2013, it was 4.8 percent. Up to today is one percent in the first three months of the year. But basically the average of the increase, the inflation in the state of Querétaro, has been around four percent over the past ten years. So it's become a little bit below the national average. That is the main factor. So to be honest, the cost of living has not been increasing higher than in the rest of the country. The difference today, when we're talking about industry, is the cost of the land. And that is a matter of the availability of land. Querétaro is a small state. It's not as large as Chihuahua or Zacatecas or either as Guanajuato. We have 11.6 thousand square kilometers of territory, and from that, probably 70 percent of that, are mountain chains. So that left us with not a lot of land to offer. So the cost of the land in the state of Querétaro is what has been increasing. But mostly for industrial use. Not for housing, not for quality of life of the people. So that is what has been the main cost, definitely, in terms of that. Also, when you go to statistics, you will find out that in terms of social security, average salary wage, we are the third highest one in the whole country, just below Mexico City and the state of Nuevo León, where Monterey is.

**Doug:** So you talked a little bit about it when we were talking about labor-intensive operations, and you sort of just alluded to it in your last answer. Whenever I talk about Querétaro, people always view it as the city of Querétaro. But it is a state also. Are there opportunities in other parts of the state?

**Hugo:** Yes. In the state of Querétaro I can mention two other important regions that can be very competitive. The first one, obviously, is the city of San Juan del Río, that is almost 300,000 in population, with a lot of industry today with companies such as Mitsubishi, Kimberly-Clark, Clarion, etc., automotive and industrial companies, with a lot of experience and that represent a lot of opportunity, for more labor-intensive operations, because of all the communities that surround them and that are willing to get a better opportunity at the job. So San Juan del Río is the second major city of the state of Querétaro, and it's growing very fast, and especially for these operations in terms of automotive, for [wire] harnesses. The ones that are more intensive in labor have been heading to San Juan del Río. San Juan del Río is just within 60 kilometers of the city of Querétaro, and strategically there, the International Airport of Querétaro is halfway between the city of Querétaro and the city of San Juan del Río. So the city of San Juan del Río is also located right beside the Nafta 57 Highway, which logistically it makes it a very competitive region. And the other regions that we are developing for more intensive manufacturing, they are the regions of Pedro Escobedo and Cadereyta [de Montes]. Both of these regions are within less than 45 minutes from the city of Querétaro and also, less than 35 minutes from the International Airport of Querétaro. Both of these regions have four-lane highways connected to them, and they have services available. Natural gas, electricity, and water, obviously, as part of the key elements that you need to develop new industry.

**Doug:** So I know we've gone over our allotted time here and you're a very busy guy, but I just want to talk about one other thing because I know this has been a big initiative, for you personally. We work with manufacturers throughout Mexico, and when we are helping them develop their supply base in Mexico, somehow we always end up in Querétaro for suppliers, whether it be services, components, certain skill sets such as mold making. We always end up in Querétaro. And I know that you and the state of

Querétaro have really tried to deepen the supply chain, not only for the Querétaro area, but for sort of all of the Bajío area or the Central Mexico area. Can you talk a little bit about some of the programs that you've done? I know you have the sourcing show once a year, but if you could just touch on that a little bit.

**Hugo:** Well, definitely, Doug. And one of the important things for us is filling in the gaps. We understand that for in order to become more competitive, we need better suppliers. We need better manufacturing suppliers, more suppliers, and sometimes these operations, they are not as proficient or they do not have all the economical support than the largest companies, they have. So for us, every time a supplier is looking for a business case, it's an opportunity for us to develop something in Querétaro. We have supply chain development programs for each of the manufacturing sectors in the state of Querétaro. That is automotive, that is aerospace, that is home appliances. And for those three sectors, we have twice-a-year manufacturing events. These supply chain manufacturing events are held by all the major companies, by all the major companies in Mexico, that are willing to substitute their imports. All the largest OEMs that are around Querétaro, such as Nissan in Aguascalientes, Mazda in Salamanca, Honda in El Bajío, GM in Guanajuato, Volkswagen in Puebla, Chrysler and Fiat in Toluca, General Motors and Ford in Mexico City, Audi in Puebla again, Chrysler in Saltillo. So we invite them and we invite these substitution importation programs. And we make B2B meetings between them and the local suppliers. What we want is to grow the local economy. What we want is to have recognition of the opportunities of manufacturing in the supply chain locally because there are a lot of opportunities for that.

**Doug:** Well, I think that your last comment is really insightful and to the point, because we've seen the same thing. Typically companies are coming to Mexico because a client has requested them or yes, even cost. But the opportunities to add to the top line instead of reducing just your cost. We've seen over the last three to five years in our work has been tremendous also. You have somebody who comes down for one client and once they've set up an operation there, they get many other opportunities because the overall base in Mexico has grown so much.

## **Part 2: Life and Education in Querétaro (12 minutes)**

**Doug:** So I've been traveling to Querétaro now for 20 years, and each time I go, I see something new, I see some change. Can you talk a little bit maybe for somebody who hasn't been there in 10, 15 years, how the community has developed over that time?

**Hugo:** Well, the growth of the metropolitan area of Querétaro has increased by about 42 percent within 10 years. In 2003, it was 700,000 people. Today we have a little bit more than 1.1 million people. The increase in industrial growth has gone from 428 companies in 2003 to more than 1,300 companies by the end of 2013. So that's an increase of 208 percent in FDI. And obviously the GDP. The GDP of the state in 2003 was \$12 billion. Today it's more than doubled to \$24.8 billion. So these have been the major changes in the past 10 years.

**Doug:** Let's jump into some of the more intangibles of the city. What do your first-time visitors say about the city when they come through?

**Hugo:** How clean the city is. That's the first impression from everyone that is coming. Especially the people that have been able to visit other parts of Mexico, border cities for manufacturing proposals in the past. And they find out that Querétaro is a different metropolitan area that looks like competitive and has a good balance between a cultural heritage city and a modern city. So for us that is a great balance and for us that is one of the things that gives a great impression for visitors. They find out that the quality of life represents a different state of mind and comfort and quality of living for the people that comprise this community. And that is reflected in the job area. That is reflected on the commitment of the people to their positions and to their jobs.

**Doug:** You know, obviously Entrada Group's focus is on manufacturers. However, as I've been in Querétaro over the last couple of years, I've really noticed sort of a development of higher skilled operations. And not even necessarily manufacturing operations. I understand that Siemens has put in an engineering center. My understanding is GE Aerospace, has an engineering center. Do you see this as a growing trend – multi-nationals using Querétaro, not only just for manufacturing but also their engineering centers?

**Hugo:** It is. It is definitely. Unfortunately for us, it is not because we have a developing human capital model such as India. We do not have a, we are not developing, a lot of engineers every day. And that is the reason. To be honest, the main reason for these engineering centers are the business environment, the competitiveness, the quality of life, first of all. Then the access to universities, the access to R&D centers that are located around here. So there have been opportunities because of some of the things that we mentioned. It's easy to relocate people and bring them to a city with less than one million people in Querétaro. Well, it's 1.1 million with two other municipalities, but the quality of life, it's one of the biggest assets that is bringing this to the city and to the region, and that's why engineering centers, that's why more opportunities are coming. And let me tell you about one of the most important examples of what is changing in the evolution of Querétaro. Two months ago, we started the construction of the first U.S. university in Mexico. A [fully] one hundred percent American campus in Mexico. It will be the first in the whole country. And this will be the Arkansas State University campus in Querétaro. It will be a university within 120 acres of land. It's more than a hundred million U.S. dollars of investment. It will be located in the municipality of Colón. The first operations will start in the fall of 2015. The construction is underway, and you can wonder why a project like this is taking place in Querétaro. And it is not taking place near the city of Querétaro. It's around 45 kilometers away from the city of Querétaro. In total, a campus where students will have the same experiences they get in the U.S., which is something very different in Mexico. It will be a fully English-speaking campus. It will not be a Spanish-speaking campus. So that is the idea. And they're bringing economic programs in biological science, biotechnology, business administration, chemistry, electrical engineering, mechanical engineering, sociology, technology, culture, languages and all investment is key because of the access of all the different industries that we have around. For manufacturing, for engineering, for everything that is within the reach

and the location of the region of Querétaro. For us, this is a very big asset and it's a very big investment. It closes the gap between how we want to contribute with our neighbors in the U.S. But as I was saying, this is just part of the influence of not only us in Querétaro, the eyes of the world, of the opportunities that we get by being here and by being located here. And this is another step to where we want to, to what we want to build, which is a more competitive community in all aspects.

**Doug:** That's very interesting. And I assume the university, is it going to be a typical university where they'll be on-house living and all of that? Or I assume it's going to try and attract from everywhere throughout Mexico.

**Hugo:** Exactly. Well, actually, it's a campus for, mainly, Arkansas students, first of all. They want to focus on bringing more American students to Mexico to take advantage of the industries that are located today in the [area] of that campus. But it will be also accessible for Mexicans to enter. Obviously the tuitions for education of an American university are way higher than for the most costly Mexican university. But there is a plan taking place in which the state will offer certain scholarships to and the federal government, certain scholarships to even that out for supporting this kind of a location. So yes, that is the plan.

**Doug:** So again, I apologize for running over the time here. But, you know, I just learned about this Arkansas State University, so I'm going to give you the closing opportunity. I learn something new every day. Is there anything else I should know about or the audience should know about that's going on in Querétaro in the last few months?

**Hugo:** Well, probably that is the biggest differentiator, the Arkansas State University. And I took advantage of that, and used your interview to promote that, because that is a big sign for us. We have been able to host in Querétaro different personalities. Two months ago we had a visit of the prime minister of Italy. Then one month ago we had a visit of the president of France, Mr. Hollande, and we have had a lot of visitors to the city just to see an example of, "Where can we be in Mexico?" We believe what we're building in Querétaro is something that is not yet where we want to be. It is a sign of showing where can Mexico be as a whole country, and we want this to be an example for the rest of the country. We work very hard with other states in Mexico. We want to show to the rest of the other states the success stories that we have been able to build. There's no secret at all what we are doing, so what we try to do is to welcome all kinds of companies. We believe there are a lot of opportunities within Mexico. If an investment is coming to Mexico, we are happy. We're happy with that. But especially with the opportunities, with the alliances, that we believe it can give us. We hope we can see some more of your customers and your friends over here in the near future.

**Doug:** Well, I appreciate that, and I appreciate your time today. I'll end with a little story. When Entrada Group first started looking into the Querétaro area, and it was being driven by the increase in skill sets being needed by our clients, I had my first meeting with Hugo and he looked at me and he said, "Doug, I really want you to bring more North American companies. My interest in Entrada Group is North American

companies. We have a lot of Europeans, and while I don't mind soccer, I'd rather talk about U.S. football at dinner." So that was my entrée into Querétaro. But thank you, Hugo, very much for your time. We really appreciate it and it's been very informative.

**Hugo:** Thank you, Doug. It's been my pleasure, and remember, you will always be welcome here to Querétaro. Thank you for being a partner for the state, a promoter also for Mexico and for our region, and for the friendship between our countries.

**Doug:** Thank you.

**Hugo:** Thank you very much.

**Doug:** Take care. Bye.