

HOW TO DO BUSINESS IN MEXICO

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AMERICAS**

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ON DOING BUSINESS IN THE AMERICAS





INTRODUCTION

Enterprise Ireland and BMT Consulting have prepared the following report outlining the current business environment and key opportunities available to companies conducting business in Mexico. This report will outline key information on the following areas: resource and demographic overview, primary economic activities and policies, current political climate, and business culture.

ABOUT MEXICO

Geography

Mexico covers an area of 1,958,201 square kilometres. The United States lies to the north, on the south and west is the Pacific Ocean, Gulf of Mexico is to the east, with Guatemala, Belize and the Caribbean Sea all to the southeast. The capital, Mexico City, is located in the highlands of the central plateau, at 2,250m above sea-level.

Population

In 2007, the estimated national population was almost 110 million people (56.2 inhabitants per square kilometre). Approximately 40% of the population is between 20 and 50 years of age. Some 15% of Mexicans have 8.1 years of education.

Language

Mexico is the most populous Spanish-speaking country in the world; the official language is Spanish but there are also 62 native languages such as Nahuatl and Maya used regionally as well. Nevertheless, English is spoken and understood by many people because of its proximity to the USA and the education system.

Currency

Mexican Peso, the code for the peso is: (MXN)

Exchange Rates: Euro = 15.1194 MXN
U.S. Dollar = 10.24 MXN
Sterling Pound = 18.9630 MXN

Transport

There are many ways to commute in Mexico, most notably by automobile. Nevertheless, there are different ways of transportation such as:

- Highways: Mexico has 355,796 kilometres of highways
- Air: there are 82 airports of which 53 are international
- Waterways: there are 22 commercial ports.
- Railways: railroad network covers 26,622 kilometres around Mexico.

Travelling around Mexico by car can be expensive largely due to the toll road systems in place. However, it is highly recommended for both the security and comfort that it affords. The inter-city bus network is also efficient.

There are a number of different kinds of taxis available: Sitio, Libre, Radio and Tourist Taxis. Most recommended however is the Radio Taxi or Hotel Taxis. Radio Taxis are identifiable by their radio antenna. **It is important not to take a street taxi at night.**

Visas

Mexico has 71 embassies and 64 consulates in 135 cities all over the world. The requirements for a Mexican Visa are different in every country depending on the bilateral agreement in place. However an Irish passport holder can visit Mexico with a Tourist Card (not a visa), for which there is no charge and in some cases is valid for up to six months. This can be obtained:

- On the airplane
- At a port of entry into Mexico
- At the Mexican Consulate

However tourists are strictly forbidden to perform voluntary, remunerative or lucrative activities.

Requirements:

- Passport, valid for at least six months from the date of travel
- Return airline ticket, or onward ticket
- Proof of financial means (international credit cards or traveller checks) may be requested at the port of entry

Industry & Infrastructure

In the second quarter of 2007, more than U.S.\$215,897¹ was accounted for by an industry sector including manufacturing, metal-mechanic, energy, oil and electronics.

Manufacturing comprises about one fifth of GDP and provides jobs for more than one sixth of the workforce.

Manufacturing outputs include: motor vehicles and parts, processed foods and beverages, paints, soaps and pharmaceuticals, cement, iron, steel, metal products, paper, chemicals, electronics and refined petroleum.

The metal-mechanical industry is one of the sectors that plays a vital role in the country's economy, supporting a large range of industries in Mexico (mining, fishing, agricultural industry, electric, electronics, steel, metallurgy, ports, oil, automobiles, transport, telecommunications, etc.). It also accounts for almost 12% of manufacturing sector GDP, encompassing more than 30,000 companies throughout the country and employing over 1.7 million people.

The most prevalent places of industrial activity are located in the north of Mexico.

Mexico recently released the National Program of Infrastructure 2007-2012, within this program an investment of approximately U.S.\$75 billion is planned. This money is to be allocated towards the development and improvement of highways, railways, ports, airports and telecommunications. It is expected that almost U.S.\$50 billion will be awarded in contracts to private sector companies in the scheduled developments and upgrades.

Economy

The Mexican economy has grown rapidly in the last few years seeing more than 4.5% growth. Mexico's macroeconomic performance in the last year has remained stable due to a strong domestic market and the increasing dynamism of their exports.

- Inflation 3.6%
- Unemployment 3.5%

The GDP of Mexico is the 14th highest in the world and the 2nd highest in Latin America. The Gross National Income per Capita was the highest in Latin America positioning Mexico as a country with generally medium-to-high income levels².

Government

Mexico is a Federal Republic of 31 States and a Federal District. The central government comprises of a two-Chamber Congress elected by universal adult suffrage. The 128-member senate is elected every six years and the 500-member Chamber of Deputies every three years. Judicial power is vested on the Supreme Court (Suprema Corte de Justicia de la Nacion). Executive power lies with the President (directly elected) and each State has its own government comprised of a Governor and an elected Chamber of Deputies. The current President is Felipe de Jesús Calderon Hinojosa from the National Action Party (Partido Accion Nacional – PAN).

Legal System

The Legal System includes the federal juridical frame, and is represented by the following structure:

- Mexican Politic Constitution of United States of Mexico (CPEUM)
- International Agreements and Conventions
- Federal Laws
- Regulation of Federal Laws
- Fiscal Agreements and administrative dispositions

Doing Business in Mexico

General

Mexico has diplomatic relationships with 186 different countries priding itself as a country that is very open to foreign investment. Foreign direct investment (FDI) is very important to Mexico in order to promote significant growth of domestic enterprises. In 2007, Mexico received U.S.\$23 billion³ in foreign direct investment. FDI is also important because it allows the inflow of knowledge and advanced technology. As result, the skill level of the labour force increases and the national productivity and competitiveness are enhanced.

¹Secretaria de Economia 2007

²Banco de Mexico 2007

³Secretariat of Economy (Secretaria de Economia), 2007

Business Structures

Small and medium companies (PYMES) account for 80% of Mexico's economic activities. To open a new business it is necessary to fulfil eight requirements; filling those documents takes 27 days. Mexico is one of the five countries in Latin America where opening a business is easiest. The Economy Ministry is currently coordinating a system that will allow businesses to expedite this process even quicker. The main objective is to facilitate the requirements for businesses that are considered low risk-business. This program aims to allow the incorporation of new companies within 48 hours.

The Investment Climate

Mexico has signed trade agreements with 44 countries, which gives these countries preferential access to more than a billion consumers. Mexico is also ranked 2nd in Latin America and 14th in the world as a recipient of foreign direct investment.

Mexico currently offers a very favourable business environment:

- Stable political climate
- Investment grade economy
- Low inflation rates
- Healthy public finances: Fiscal and monetary discipline
- Solid institutions
- High level of international reserves

Labour Relations & Workforce

- The Mexican workforce is young
- The level of education is Junior School with 31.36% of the total population reaching this level
- More than 90% of the population are literate

The fringe benefits by law are:

- Annual Vacation: at least six working days to be compensated at 125% of daily salary
- Annual bonus of at least 15 days of salary
- Profit Sharing: 10% of earnings before taxes to be distributed among employees other than certain high officers

Taxation

The taxes payable by individuals and by corporations operating in Mexico and, in certain cases, by foreign companies, are determined by the federal government. The approved budget for 2008 is 9.8% larger than the 2007 budget. This has been increased as part of an effort to reduce the effects of the US economic slowdown. Fiscal Reform and Flat Rate Entrepreneurial Tax were approved. The tax rates have decreased including: income tax to a rate of 19% and current assets to a rate of 1.25%.

The main taxes in Mexico include:

Federal Taxes:

- Taxes on income
- Import and export taxes
- Value-added tax
- Payroll taxes, social security, mandatory retirement savings system, and contributions to the National Workers' Housing Fund

Intellectual Property

The Mexican Institute for the Intellectual Property (Instituto Mexicano de la Propiedad Industrial - IMPI) protects: patents, industrial designs, brands, commercial publications, industrial top secret processes, and other intellectual property rights.

The intellectual property protected under the North American Free Trade Agreement (NAFTA) includes:

- Patents
- Trademarks - a name or design or logo
- Copyright of data
- Industrial designs
- Trade secrets
- Layout designs of semi conductor integrated circuits
- Copyright of sound recordings
- Geographical indications, use of words or pictures indicating where a good originates
- Protection of satellite signals

Market Entry Strategies

Preferential Rates

Mexico has 12 Free Trade Agreements with 44 countries; this network represents two thirds of the total imports in the world as well as three quarters of the World's Gross Domestic Product.

- Preferential tariffs to 44 countries
- Potential market of more than one billion people
- Mexico is the largest exporter in Latin America and the 13th largest in the world

Global Standards

Mexico has legislation that promotes quality in all companies. The standard in every company is regulated by a Mexican standards body that ensure protection for consumers, the environment, product quality, and especially consumers' health. It is important to establish quality and continue improving in services and products as well. This is one of the main objectives of the Mexican standards. The Mexican Government operates an official entity that regulates the top quality and nature of the product.

Sector Opportunities for Irish Companies

Automotive

Mexico is the 10th largest automobile producer in the world. The industry expects to grow to U.S.\$78 billions by 2015, becoming the 5th largest producer in the world.

The main reasons for the growth of the automotive industry are shown below:

- Competitive technological developments
- Construction of standard vehicles
- Traditional producers relocating their operations from the USA
- Easy market entry

Aeronautics

The Mexican Government has promoted this industry; part of the strategy involves 140 aeronautical companies. The aeronautics industry represents US \$800 million per year. This sector is growing approximately 10% - 12% per year. The major reason behind this increase is the continued success of low cost airline companies. This growth is anticipated to continue in the incoming years.

The commercial balance in 2006 was: U.S.\$ 74 million

- Total imports: U.S.\$358 million
- Total exports: U.S.\$432 million

Electronics

Mexico has more than 50 years of experience in the electronics sector. It specialises particularly in value-added products. The proximity of the USA is a key factor in logistics for the major global TV manufacturers. More than 50% of the TVs imported by the United States were assembled in Mexico. The electronics industry has transformed itself into a full function industry. Nowadays companies are engaged in everything from product design to final delivery.

Financial

The use of credit and debit cards in Mexico increased 23% in 2007. Approximately 75% of the economically active population has at least one debit card. In Mexico there is no standard processing of debit/credit card transaction because it stimulates competency.

The government is interested in promoting the use of debit and credit cards so they can save money in the printing of currency, and also as a way of curtailing informal markets.

The Institutions which regulate the financial companies are:

- Secretariat of Finance and Public Credit (Secretaria de Hacienda y Crédito Público - SHCP)
- Mexico Central Bank (Banco de México – BANXICO)
- National Commission for the Retirement Savings (Comisión Nacional del Sistema de Ahorro para el Retiro - CONSAR)
- National Bank and Securities Commission (Comisión Nacional Bancaria y de Valores - CNBV)
- National Bond and Insurance Commission (Comisión Nacional de Seguros y Finanzas - CNFS)

Telecommunications

The amount of investment in telecommunications infrastructure has increased considerably. According to the Secretary of Communications and Transport, Telmex is the largest competitor in the wireless market with almost 20 million users (almost 5 million are non-residential) and Telcel is the largest supplier of mobile telephony services with more than 46 million subscribers. The Mexican demand for wireless telecommunications can be divided in two segments:

- Corporate (private and governmental organizations)
- Private consumer segment

Telecommunications in Mexico could become a hindrance instead of a catalyst for economic growth and competitiveness.

Tourism

Mexico has consolidated its position as a prominent international tourist destination and is positioned 7th among the world's top tourism recipient countries.⁴

The tourism industry is one of the biggest sources of income for Mexico, representing 7.7% of Mexico's U.S.\$893 billion Gross Domestic Product.

The tourism industry is very important for the macroeconomic welfare of the country; however, the sector has not reached its full potential. Mexico is the 14th largest receptor of tourism income in the world and the 1st in Latin America.

The Mexican government has set tourism as one of its top development priorities.⁵

Business Culture

- Learn about Mexico: Mexicans are friendly to foreigners. Nevertheless the culture is complex due to the overlap between politics, religion and cultural traditions.
- People are everything: Everything centres around relationships and there are many family companies.
- Customer service: the customer is always right; service can make a difference.
- You will need Spanish! You can speak in English and people will be happy to practice it, but Spanish is essential for business.
- Business around Food. You will be invited to lunch, it is how Mexicans close business, eat like a Mexican.
- The Government is your friend. The Mexican government is open to new foreign investors. BMT Consulting can help you to find useful links to gain market intelligence.
- Become aware of regulations and taxes: The Mexican fiscal system is very complex, get a good accounting counsellor.
- Send a friendly and wise manager: Mexicans love to talk and ask questions.
- Things not to talk about: Especially politics and religion. Remember most Mexicans are devout Catholics.
- Observe Holidays: Mexican people enjoy recreational days, and for them work and holidays do not mix.

Useful Websites

<http://www.presidencia.gob.mx/>

<http://www.economia.gob.mx>

<http://www.bancomext.com>

<http://www.sectur.gob.mx>

<http://www.impi.gob.mx>

<http://www.cofemer.gob.mx/>

<http://www.sat.gob.mx/nuevo.html>

<http://www.inegi.gob.mx/inegi/default.aspx>

<http://www.inami.gob.mx/>

<http://www.banxico.gob.mx/>

<http://www.sre.gob.mx/>

⁴World Tourism Organization, 2006. UNWTO

⁵El Turismo en México, 2006. SECTUR