



**The Chamber of the Americas**

## **Doing Business in Mexico: Identifying Opportunities**

**Sheraton**

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## 1

## Mexico: General Information

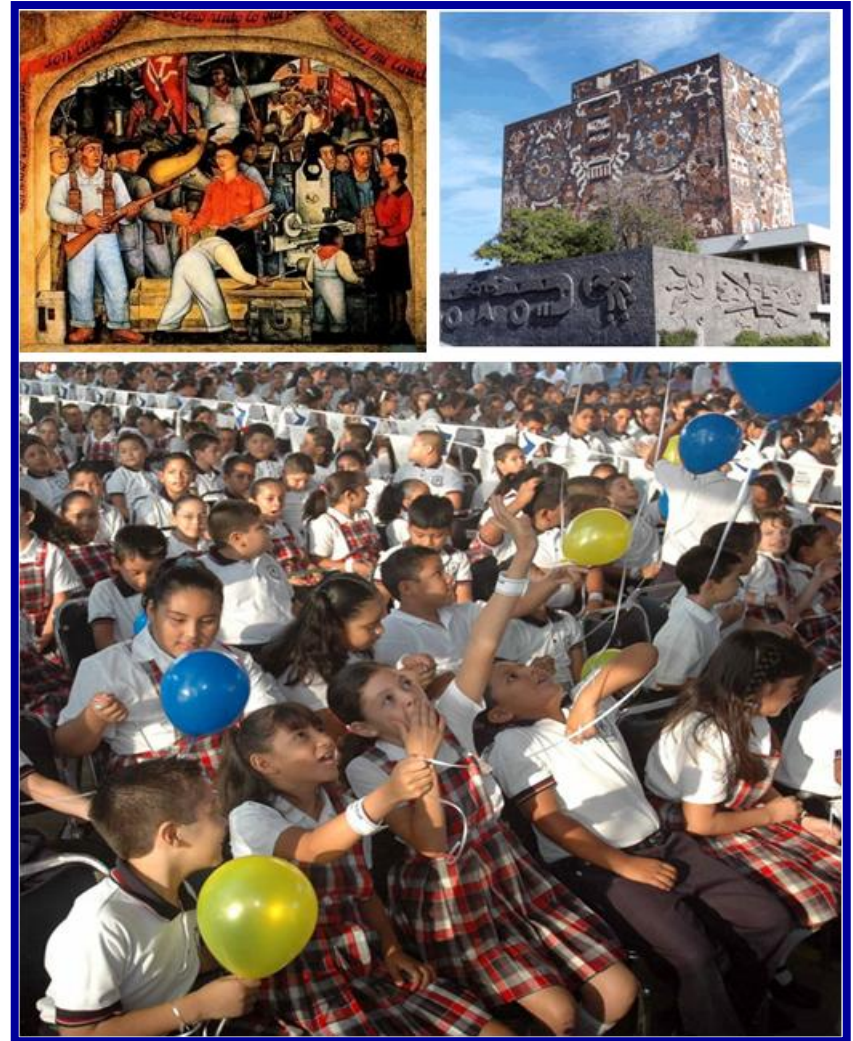
- Mexico covers an area of 1,958,201 square kilometres.
- Mexico is a Federal Republic of 31 States and a Federal District.
- Until July 2009, population was 106.6 million people.
- Approximately 40% between 20 and 50 years old.
- There is a rate of 77% of urban population with a growth of 1.5 estimated to 2010.
- The most important cities are:
  1. Mexico City = 8.8 million inh.
  2. Guadalajara = 7.0 million inh.
  3. Monterrey = 4.4 million inh.

**Big, fragmented and diverse market**



## Dynamic and fast growing economy, unpredicted somewhat urgent demand: be there first!

- In 2008 GDP grew 1.3% and for 2009 a forecasted slowdown between 0.38% to -1.1%, but with a considerable growth of 2.89% for 2010.
- Mexico's GDP is the 16th in the world and the 2nd in Latin America with USD \$ 1,143 billion.
- Inflation rate 6.27% Mexico's macroeconomic performance in recent years has been driven by a strong domestic market and dynamism of the exports.
- According to the WTO and the World Bank, Mexico is one of the world's leading trading nations, the 8th largest importer and 10th largest exporter and 51 of 181 countries where is easier to do business.



- The Mexican government announced an economic recovery plan on 7th January 2009 aimed at helping the economy during the global financial crisis, with measures like freezing petrol prices and boosting spending on public works.
- The unemployment rate has increased up to 9%, but the Mexican government has recently set up an anti-crisis plan to face this issue, enforcing the National Employment Program so as to reach USD\$160,000 million and support companies established in Mexico with USD \$146,000 million.
- In a recent study, Goldman Sachs predicted that Mexico will be a leader in the world economy by 2050, along with China, Japan, US, Brazil and India.

### Preparing to Catch Up Fast track development



1

## Mexico: Market Overview

**Take advantage of the opportunities for partnership, technology change and co-investing, exporting and importing... expand business frontiers!**

- Over 90% of all Mexico's trade falls under one of the 44 Free Trade Agreements and Diplomatic relationships with 186 different countries Mexico has. (Mexico is the country with the most FTA's.)
- Mexico is open for foreign trade and investment: Part of the North America Free Trade Agreement (NAFTA) with the US and Canada since 1994.
- During the first semester of 2009, Mexico received USD\$9.976 million of foreign direct investment. From USA 50.3% and 3.5% from Canada.
- The sectors with more FDI were
  1. Services 45.7 %
  2. Manufacturing 32.4 %
  3. Trade 16.1%
  4. Others 5.8%



**If you are interested in Mexico as a potential market you must learn:**

1. Mexicans are friendly and kind to foreigners.
2. Relationships are always very important; avoid moving away and maintain the physical contact.
3. Customer service: the customer is always right; service can make a difference.
4. You can speak English and people will try to answer, but speak Spanish is better.
5. It is very common to close businesses in a dinner, lunch also breakfast. It is recommended to take the initiative and pay the bills.
6. In Mexico the first impression is the most important, that's why you must wear an appropriate dress code.
7. Mexican looks for close relationships and confidence with those doing business.



8. Government is your friend. The Mexican government is open to new foreign investors.
9. Send a friendly and wise business manager.
10. Take your time to listen the Mexican company, the rush and aggressiveness are considered impolite.
11. Mexicans are very nationalist that's why is very important to be careful to talk about Politics, Religion and Indigenous.
12. Don't be panic if the Mexican businessman invites you to personal events or family parties. It is normal.
13. Observe Holidays: Mexican people enjoy amusement, and for them work does not exist at holidays or party times.
14. Get aware about regulations and taxes: get a good accounting counsellor.



15. There are different business structures that investor's may use:
- Inc, Limited liability stock corporation (Sociedad Anonima)
  - Limited Liability Company (Sociedad de Responsabilidad Limitada)
  - Association in Participation (AP)
  - General Partnership.
  - Limited Partnership.
  - Mexican Branch.
  - Joint Venture Agreement (JVA).
16. If you are interested in the Mexican Market, you have to go, physical presence makes the difference.
17. "When *in Rome*, do as the Romans do" and "When *in Mexico*, do as the Mexicans do"





## A number of important weaknesses hinder Mexico's competitiveness including:

- Weak public institutions (97th)
- Violence (123rd)
- Inflexible labour market (99th)
- Higher education and training system (47th) , which does not provide the economy with the appropriate pool of skilled labour, notably scientists and engineers (105th)
- People loves say “yes” but is important to have a legal paper because at the end, "you never know”.
- Punctuality is another cultural aspect.

To identify greater potential in Mexico we suggest:

- ✓ Combine pull and push approaching,
- ✓ Reactive and proactive actions,
- ✓ Reactive respond at companies market enquiries and follow up progress.

## Manufacturing

- The value of the manufacturing industry in the first semester of 2009 represented 18.9% of the national GDP (USD \$ 1,143 billion).
- Manufacturing sector includes automotive, metal mechanics, aeronautical, chemical and plastics, machinery, construction, electric and electronic, processed foods and beverages, textiles.
- There is an important concentration of manufacturing companies called 'maquiladoras' along the US-Mexico border positioning the north of Mexico as an important region, there are also other regions specialized by industry.



## Automotive

- Automotive industry contributes 3% of the national GDP and 14% of manufacturing sector. It is largest foreign exchange earner, 23% of exports with a 5% of foreign direct investment.
- Important cities; Monterrey, Saltillo, Guadalajara, Guanajuato, Aguascalientes and Puebla.
- Manufacturers: General Motors, Ford, Volkswagen, Chrysler and Nissan. 1,000 companies for automotive components.
- Crisis scenario, the automotive industry is requesting to the Mexican government, a bailout for USD \$3 billion, as a guarantee to emit debt and reactivate the market.
- Opportunities for Manitoban companies would be related under:
  1. Access to other free trade regions through fabrication in Mexico.
  2. Establishing in Mexico for auto parts supported by the rank #1 published by KPGM.
  3. The Mexican truck fleet is ageing and there is considerable potential for renewal, particularly with recently introduced scrapping incentives according the National Development Plan 2007-2012 that will scope financial aiding programs.

## Aeronautic

- The aeronautical industry is 0.4% of the national GDP
- The Mexican aerospace Industry has been steadily growing the following areas:
  - 1) Design and Engineering
  - 2) Manufacturing
  - 3) MRO (Maintenance, Repair and Overhaul)
- The main partners; USA, Canada, Belgium, Ireland, China and Korea
- The most relevant companies location; Baja California 27  
Sonora 11 and Chihuahua GE and Kaydon.
- Imports specialized materials; aluminum, sandblast arena, silycons, pipes carbon and glass fibers, and appliances as turbines, fuselage, manufacturing process, jigs and fixtures.
- Opportunities for airport development: access controls, security systems, ground support equipment, luggage checking and management solutions.



## Chemical and Plastic Industry

- The chemical industry has a value for 2007 of USD\$ 27.1 billion and grew 8.1% in 2008.
- Mexico City, Reynosa and Aguascalientes are the leading cities for manufacturing with an expected growth for 2010 of 8.4% among manufacturing GDP.
- Important segments include base chemicals representing 37.6% of the industry with a growth 8.1% in 2008.
- There is an expected growth for 2010 of the packaging industry representing more than 55% of the plastics GDP in 2005.



## Electronic Industry

- GDP 3.8% from the manufacturing, there are more than 700 specialized companies, 300,000 people employed.
- Industry location: Aguascalientes, Baja California, Chihuahua, Coahuila, Estado de Mexico, Jalisco, Nuevo Leon, Queretaro and Tamaulipas.
- Electronics production based in Guadalajara, 12 manufacturers, 16 EMS and 24 design centers
- Tijuana and Mexicali, electronic consumer good producers (Sony, Toshiba and Samsung)
- Threats related to Asian competitors, low cost manufacturing.
- Opportunities on high tech research and development, fulfilling requirements.
- Universities Researches on reducing costs for high tech prototype developments.

## Food & Beverages

- The food and beverage industries represent 23% of Mexico's manufacturing GDP.
- Some important companies include Grupo Herdez, Grupo Maseca, Grupo Bimbo, Grupo Modelo and Coca-Cola FEMSA with important International presence.
- Important performances were the Mexican savory snacks market that grew 8.2% in 2008.



## Textile Industry

- Clothing and footwear industry represents 3.9% in 2009 retroactive performance affected by the competitive levels imposed by China, problems with customs, security and corruption, erratic government policies, lack of variety of cloth (fabrics) and poor quality products in sewing and tailoring, among others.
- Puebla and Tlaxcala concentrate the textiles jobs.
- Opportunities: The National Plan of Development considers interesting incentives for local manufacturers that could reactivate these areas that's why they have launched





## Agriculture

Agriculture accounted for 4% of GDP with 44 millions hectares of land and employs nearly 16% of the active population.

- The country's main crop is corn, with US\$23.4 million tons with a value of US\$5.2 billion.
- Main products with high production are: wheat, cotton, oak, and sorghum.
- The livestock sector covers more than 31 million cattle and 15 million sheep and goats.
- Milk production, 10 million tons per year. Poultry industry 2.5 million tons of chicken meat per year, with 2 million tons of eggs.
- The biggest Mexican agro-businesses are concentrated mainly in the arid northern and northwestern Mexico, using modern irrigation systems; Sinaloa, Chihuahua, Sonora, Tamaulipas and Baja California. The production of these irrigated land accounts for 70% of agricultural exports.



## Science and Technology

- In 2009 Science and Technology accounted for 0.47% of the GDP. The challenge is to obtain a 1.2% by 2012.
- National investment on science and technology activities in Mexico during 2005 was US 6,125 million which represented 0.80% of the GDP for that year.
- The public sector provided the majority resources for science and technology with 48% of the total, The private sector with 43.4%
- (CONACYT) National Council for Science and Technology provides 80% of its financial support to: Mexico City, Estado de Mexico, Morelos, Jalisco, Puebla, Nuevo Leon, Guanajuato, Baja California and San Luis Potosi.
- Experimental Research and Development (IDE) went up from 0.37% in 2000 to 0.47% in 2006.





3

**Next steps, what can we do for you?**



*"We have worked with BMT Consulting since May of 2004. BMT has been responsive, versatile and has helped to guide us through the labyrinth of business and cultural issues associated with doing business in Mexico; they have been an able and effective business partner for our company."*

*Kurt Boerner,*

*President of Boerner, Inc. dba McGruff Safe Kids*

*"It is always a pleasure to work with BMT Consulting. Their staff is highly competent and professional, and the quality of their work has always met with the expectations of our customers here in Switzerland"*

*Mr. Lane M. Kingstone  
Senior Consultant*

*International Business Development  
OSEC Business Network Switzerland*

*"BMT Consulting has conducted market research studies and matchmaking services for the U.S. Commercial Service in México for East Jordan Iron Works. The work they have done has been professional, accurate and business focused"*

*Arturo Dessommes*

*Trade Advisor*

*U.S. Commercial Service*

- We are not only the gateway to the Mexican market but Latin-American :



There are Opportunities and Challenges for foreign companies in Mexico, in the words of our clients they consider the doing business in Mexico:

**“A complex and challenging endeavor where perseverance, presence, patience and commitment lead to profitable deals.”**

Gloria García Franco

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**Thank you very much!!**