

“Doing Business in Mexico” Series

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Part 1: Making the Decision



For many companies making the decision to start operations in Mexico can be a difficult one. Some businesses come to Mexico out of necessity and for others it can be a tantalizing option, but in either case there are rewards to be reaped. Oftentimes the decision is based upon a good customer in the United States or elsewhere that also has operations in Mexico and wants a supplier’s presence in Mexico too, even though it may have no experience there. What is a business to do?

These articles in the “Doing Business in Mexico Series” aim to provide you, the entrepreneur, business owner, manager, and/or risk taker, with concise and valuable information to help you make that final decision and then to offer tools to help your business succeed and thrive.

Of course, you know that there is a lot that goes into a significant decision like starting operations in a foreign land, such as building the business case and considering the political climate, logistics, import/export, accounting/taxes, legal, HR, culture, company objectives, and even safety. What qualifies me to write on this subject?

I am a business and environmental person by education and a business / environmental / chemical / entrepreneurial person by trade. I have gotten my hands dirty doing everything from cleaning up diesel spills on the highway and leading environmental compliance for various General Motors facilities in Detroit, to serving as a legal representative, site manager, and operations manager responsible for 50+ employees for a chemical management Tier 1 service provider in Mexico. I have learned a tremendous amount about running a business in Mexico in my various leadership roles here. Now with Amerris Consulting, I would like to share some key experiences and knowledge that I’ve gained to help your business succeed in Mexico and avoid learning lessons the hard way.

The key question for this article is: Why should your company consider starting operations in Mexico? Let’s let the numbers give the answer. One of the fastest growing industries in Mexico is automotive. Original Equipment Manufacturers (OEMs) are slated to invest more than US \$12 billion in new and



Figure 1: Chevrolet Trax, produced at GM's San Luis Potosi facility.

existing facilities by 2020.¹ All of the world's leading automotive OEMs have manufacturing facilities in Mexico, including GM, VW, Ford, Chrysler, Toyota, Nissan, and Honda. The latest investment announcements include BMW's commitment of US \$1 billion to build facilities in San Luis Potosi² and Kia's investment of at least US \$500 million to build facilities near the city of Monterrey. All of this added production has resulted in Mexico overtaking Brazil as the world's seventh-largest automotive producer in the world through the first half of 2014.³

However, as impressive as growth has been in Mexico's automotive sector, other industries are thriving as well. Mexico's aerospace industry attracted more foreign investment than any other country from 2009-2012.⁴ In late 2013 the Mexican Congress passed legislation opening up the country's state-owned petroleum industry to foreign investment for the first time since the 1930's.⁵ Appliance and electronics manufacturing are two other industries that have a strong foothold in Mexico with solid growth.

Two of the major reasons automakers and other manufacturers are focused on Mexico are competitive labor costs and its proximity to the world's largest economy to the north. Mexico's labor costs have remained stable since 2000, while those in China have increased fivefold.⁶ Combine those competitive labor costs with its geographical advantage over its Asian competitors and Mexico becomes the world's cheapest place to produce goods bound for the U.S.⁷

According to the World Bank, Mexico is ranked 53rd out of 189 countries in terms of the "ease of doing business."⁸ Their report considered numerous factors, including: starting a business, registering property, protecting investors, getting electricity, paying taxes, and trading across borders. While 53rd may not sound all that impressive, consider that Mexico ranked far better than other industrial powerhouses such as China (96th), Brazil (116th) and India (134th).

I strongly believe that the data and statistics clearly illustrate why businesses should give strong consideration to starting their operations in Mexico. There is tremendous growth in the automotive, aerospace, appliance and electronics industries, with significant new investment also expected in the energy sector due to changes to Mexican law opening up the industry to foreign investment. Original equipment manufacturers and their suppliers are betting heavily that Mexico is, and will remain, an excellent place to do business and generate profits. Yes, doing business in Mexico has its challenges such as security concerns, currency fluctuations, and an often complex bureaucracy, but when armed with the proper knowledge and support, leaders of foreign business can see why Mexico is truly a land of opportunity.

¹ Reuters, October 20, 2013.

² Automotive News, July 3, 2014

³ El Universal, July 12, 2014

⁴ Financial Times, Dec. 2, 2013

⁵ Wall Street Journal, Dec. 18, 2013

⁶ The Economist, Nov 24-30, 2013

⁷ The Economist, Nov 24-30, 2013

⁸ Doing Business 2014 Report, 2013