



WELCOME
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DOWN MEXICO WAY

Mexico is geographically located in North America together with the US and Canada, giving it proximity to the largest consumer market in the world and enabling it to participate in Nafta, says Francisco Rios, centre director of IE Singapore’s Mexico Overseas Centre

Why should Singapore firms set up operations here?

Mexican President Enrique Peña Nieto’s administration has embarked on a series of structural reforms expected to enhance business opportunities for Singapore companies. The reforms look set to improve the country’s competitive business environment; put an end to traditional monopolies in the telecommunications and energy sectors; diversify government revenue sources; and improve the quality of education.

Investors are confident in the market, as can be seen from Mexico’s foreign direct investment (FDI) of US\$35.2 billion in 2013. This is a record high in recent years. While growth in 2014 has been disappointing, the general business sentiment remains positive. In fact, growth has picked up in the final few months of 2014, with the year expected to end on a strong note as the reforms bear fruit. Businessmen – both Mexican and foreign investors – with whom we have been interacting are particularly impressed with the speed and diligence that some of the reforms were executed.

Mexico is geographically located in North America (together with the US and Canada). This gives Mexico proximity to the largest consumer market in the world and enables the country to participate in the North American Free Trade Agreement (Nafta). In the last 20 years, Mexico has become the industrial powerhouse for the countries leveraging the favourable cost structure made available by Nafta. Today, industrial sectors of the

US, Canada and Mexico have evolved into a unified supply chain. So integrated are the three markets that setting up a manufacturing facility in Mexico to produce products for the US and Canada has been said to be one of the most efficient ways to venture into North America. Businesses also benefit from the established logistics, financial and labour support system.

What sort of investments is the country hoping to attract, and are there any laws in place that are friendly to such investments?

In general, Mexico is a friendly country for foreign investors. The country has in place a good support system and government incentives at the federal, state and municipal levels to help foreign companies. We see opportunities for Singapore companies in three key sectors:

1) The energy sector is beckoning. Under the new administration, PEMEX – the national oil company – is determined to double oil production from two million barrels per day to four million barrels per day. The energy reform, which broke long-standing monopolies in the sector, has been implemented in a timely manner. Round one of oil field concessions expected in 2015 is well on track and expected to generate an additional one per cent growth in gross domestic product (GDP) for the country. In anticipation, Mexican companies and international majors in the industry have been forming alliances, positioning themselves for the opportunity.

Singapore players have also been preparing

themselves. Both small and large companies have visited Mexico during the past year to forge alliances and better understand the market.

2) The manufacturing sector is one of the traditional drivers for the Mexican economy. A little more than a year ago, Volkswagen and Bombardier announced additional investments into the market. Today, investments continue to pour into the market at a furious pace, particularly in the automotive sector.

Mexico produced three million vehicles in 2013, ranking eighth globally as a vehicle manufacturer. A testament to the quality of the automotive manufacturing industry is the growth of automotive FDI from US\$8 billion in 2004 to US\$43 billion in 2013. Mexico continues to attract original equipment manufacturers (OEMs) such as General Motors, BMW, Daimler, Renault, Mazda, Nissan and Toyota to establish manufacturing facilities there.

To adhere to Nafta regulations, Tier 1 automotive suppliers are expected to fulfil 55 per cent local content requirement, resulting in many looking to source for components from Tier 2 suppliers with a Mexican presence. This is an area of opportunity for Singapore companies. In particular, the Mexico automotive industry lacks suppliers with capabilities in plastic injection moulding, integrated electronics, and tooling and machining – these are gaps that Singapore companies can fill.



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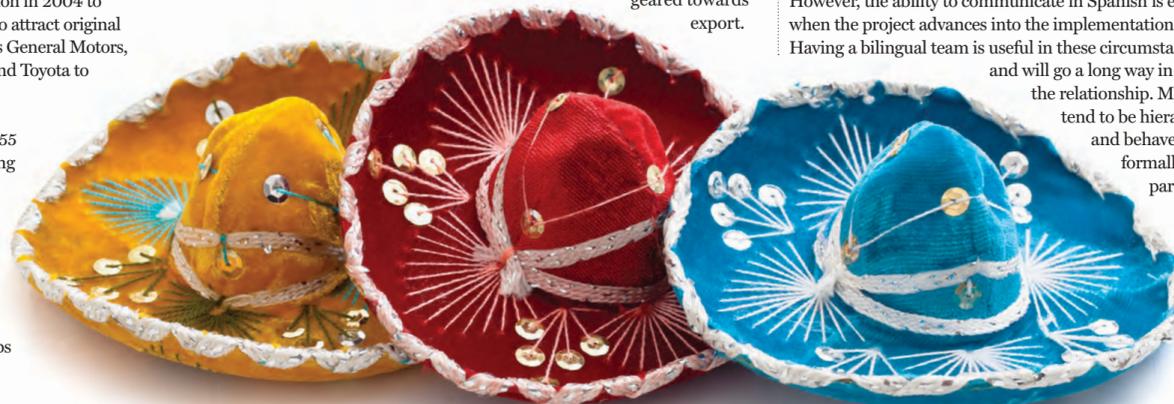
3) The infrastructure sector is also picking up steam. The government has announced a US\$566 billion investment plan to be executed by 2018. We believe that more than 90 per cent of this investment is addressable by Singapore companies. About half (US\$290 billion) will be devoted to energy-related projects. A significant amount will go to developments in transportation and ports (US\$97 billion) and tourism infrastructure (US\$13 billion).

For example, Mexico City’s new airport is a key project announced recently. Located on 4,430 hectares of federal land beside the current terminal, the project will be designed by a team led by renowned architect Sir Norman Foster. It calls for six runways with a total capacity of 120 million passengers per year, making it one of the biggest and most sophisticated airports in the world. An investment of US\$12 billion is expected for the project, to be funded by the Mexican government and private investors.

What is the process of setting up operations here, and what are the basic costs involved? Mexico has in place a well-developed, structured business system for investors wishing to set up operations.

The Mexican legal system offers a number of vehicles through which companies can establish presence:

- **Joint Venture:** After signing the agreement specifying the respective rights and responsibilities of the foreign company and the Mexican partner, the JV would either have to be registered as a traditional company or have its operations carried out by the Mexican partner.
- **Public Limited Company or Limited Liability Company:** This structure is normally used when a legal entity is required and can take two main forms: SA de CV (Sociedad Anonima de Capital Variable), similar to a public limited company; and S de RL (Sociedad de Responsabilidad Limitada), similar to a limited liability company. The setting-up process is straightforward and relatively fast, but requires a Mexican legal representative to be responsible for tax and to respond to local authorities if needed.
- **Maquiladora (or Maquila):** This structure is specific to companies with factories or assembly plant operations, for which the Mexican government provides a preferential tax regime. Companies under this set-up are allowed to import raw materials duty free as long as production is geared towards export.



• **Shelter Operations:** This is a variation of the Maquiladora where labour-intensive companies can outsource their non-core activities (including legal, accounting and human resources) to a shelter operator who retains the legal exposure. This is particularly relevant for smaller companies or companies in their initial years of operations as a tool to mitigate risk.

Does Singapore have a tax treaty with the country?

Singapore and Mexico have an Investment Guarantee Agreement (IGA) signed in 2009 and an agreement for the Avoidance of Double Taxation (DTA) signed in 1994. An amending protocol to the DTA was signed in 2009.

Ties between Mexico and Singapore remain strong – 2015 will mark the 40th year of bilateral relations between both countries. In 2013, Mexico was Singapore’s fourth largest trading partner in Latin America. Bilateral trade amounted to S\$4.2 billion, an 18.1 per cent increase from 2012. Singapore’s total stock of FDI into Mexico amounted to US\$980 million at the end of 2012, placing Singapore as Mexico’s third largest investor from Asia-Pacific.

What are the laws in place to protect foreign investments and the repatriation of profits?

Despite having a friendly environment for foreign investment, there are differences in interpretations of the laws and regulations that companies must be mindful of. For example, when acquiring a company, Mexico’s legal definitions on interest from back-to-back loans and how they are characterised as dividends may not be the same or as clear as Singapore’s definition. To mitigate serious legal repercussions, we advise companies to do their due diligence and engage consultants where necessary.

Are there any social and cultural norms that firms need to be aware of when doing business in the country?

Understanding the business culture and speaking the language are important. Having studied or worked abroad (mostly in the US), a large number of senior Mexican businessmen are proficient in English. Initial engagements and project negotiations can often be done in English. However, the ability to communicate in Spanish is essential when the project advances into the implementation phase. Having a bilingual team is useful in these circumstances, and will go a long way in building the relationship. Mexicans tend to be hierarchical and behave quite formally, particularly when

SETTING UP
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securing meetings with senior representatives. A formal letter requesting a meeting is a good way to start but more importantly, it has to be directed to the correct person within the organisation. Persistently following up on your request with a phone call to the personal assistant will increase chances of securing the meeting. In addition, you should be prepared for confirmation and changes at late notice, so be flexible in adapting your schedule.

Cultivating good personal relationships is a must. Be friendly and be prepared to wine and dine before any business discussion. Note that business lunch starts somewhere between 2.30pm and 3pm, and may last a few hours. Mexicans are known to close important business deals with either friends or family, hence cultivating personal relations is critical to a company’s success in Mexico. Having a partner or an employee with personal connections will work to your advantage.

Any advice and tips you would like to give to companies that are looking to invest here?

Find a good local partner – Mexico’s private sector is well established both locally and internationally, but also highly saturated. The country’s economic wealth is concentrated among a small but very powerful group of businessmen. Companies led by these businessmen are increasingly international, and can be potential partners for Singapore companies looking to enter Mexico and the region. To operate and compete successfully in such a consolidated and established environment, Singapore companies should focus on integrating local knowledge into their operations, be it through a JV, an acquisition of established companies, or by hiring experienced local talent. Beware of the risks and challenges:

- **Lack of transparency:** Corruption is an issue present in specific sectors and within the government. While there has been progress under the new administration and important policies are being implemented (including the anti-corruption and transparency reforms), there are still complexities when doing business in Mexico.
- **Bureaucracy:** The Mexico of the 80s and 90s was known for “painful” bureaucracy. Today, however, one is able to make online payments for most services (electricity, phone, water and even tax), and the service centres of local governments have improved greatly. While there are areas for improvement, the Mexican government is taking steps in the right direction. In the meantime, a little patience and persistence go a long way.
- **Lack of security:** It is a critical concern among Singapore companies, but it is not an insurmountable barrier to doing business – as shown by the large amount of FDI received by Mexico.
- **Lack of public information on companies:** Unlike Singapore, there is no centralised system in Mexico through which one can access information on companies’ financial, legal or credit performance. Hence, when choosing a partner, a background check is of paramount importance. This can only be done successfully through personal referrals, seeking the opinions of trusted partners or engaging professional services to conduct the necessary due diligence. ■