



# Doing Business in Mexico

**The economy of Mexico is the 11th largest world economy by purchasing power parity (IMF). The Mexican economy has experienced unprecedented macroeconomic stability in recent years, which has reduced inflation and interest rates to record lows and has increased per capita income. However, unresolved issues still remain including the upgrade of infrastructure, the modernization of the tax system and the reduction of income inequality. The economy contains rapidly developing industrial and service sectors, with increasing private ownership. Recent administrations have expanded competition in ports, railroads, telecommunications, electricity generation, natural gas distribution and airports. As an export-oriented economy, more than 90% of Mexican trade is under free trade agreements (FTAs) with more than 40 countries.**

Mexico is one of the two most attractive emerging markets in 2018 (Bloomberg). Why? Because of the low wages, improved logistics, its monetary policy, and open economy with many trade relationships and agreements with other countries. Mexico is in the top-15 largest economies worldwide, and the second largest economy in Latin America with a GDP of USD 1.046 billion (2016). The current administration (2012-2018) has implemented economic reforms, with the intention of encouraging foreign investment, activate competition, as well as increasing the country's tax base. The most significant reform is in the energy sector, where Mexico has left behind the state-controlled energy monopoly that lasted over 70 years, and now attracts major new investments in both oil & gas and renewables.

## **Ports and logistics sector**

Mexico has 117 functional ports and terminals along its 11,500 kilometer of coastline. 67% of the cargo moved is concentrated in 16 commercial ports, mainly managed by the Ministry of Communications and Transport. Mexico exchanges USD 64 billion of cargo annually and has 114 regular shipping lines between Mexican and American ports on both coasts. The current Government pledged to invest USD 5 billion in its ports to increase capacity and throughput, and better serve the country's auto and energy industries.

Port infrastructure in the Gulf of Mexico is required to cater for a predicted boom in exports, including fuels due to the energy reform. The government's objective is to improve multimodal connectivity and logistics nationwide, building infrastructure to connect the Gulf ports with the Pacific ones, creating three inter-oceanic corridors, the Santa Fe Rail freight, Logistic Activities Zone (ZAL), and the Transport and Logistic Attention Centre (CALT).

Port projects will duplicate the total installed capacity from 2012 to reach more than 500Mt this year (2018). The largest project is the expansion of Veracruz Port with an investment of USD 1.4 billion with four new terminals, the most ambitious project in the last century; the project aims to increase Veracruz's cargo handling ability to 66 million tons (Mt) after the first stage is completed in 2018; and will increase to 90Mt by 2024.



Veracruz Port

## Energy

The reform of the energy market is proceeding prosperously. Mexico is the world's 12<sup>th</sup> largest oil producer, and it recently obtained International Energy Agency membership. In the upcoming years, Mexico will continue to offer blocks by bidding rounds and farm outs. This offers opportunities for both oil companies – Shell won nine blocks in the last bidding round – and offshore suppliers from the Netherlands.

Mexico has also indicated that it wants to learn from the cooperation between the Dutch state and various companies for the extraction and sale of natural gas, especially regarding tax systems, legislation and regulations. Other areas of opportunities for Dutch business are oil and gas crisis management and storage, as well as more efficient use of gas and CCS.

The Mexican government is working towards reducing greenhouse gasses and compounds by 30% in 2020, and by 50% in 2050 and to generate at least 35% of its electrical energy with clean energy by 2024. Therefore, Mexico actively seeks foreign investments in the clean energy sector. Mexico is among the most attractive countries in the world to invest in photovoltaic solar projects because it is located in the so-called "solar belt" which has a radiation exceeding 5KWh per square meter per day. Furthermore, Mexico has a wind energy potential of 71,000 MW, although only 1,7% of this potential is currently in use.

## Agriculture

Besides being an important destination for Dutch export of food products, Mexico has business opportunities in sustainable agriculture in the area of seeds, semen, knowledge and technology for production and processing. There is also a renewed interest for Dutch knowledge of agro parks and agro logistics. It is expected that the renewed Free Trade Agreement between Mexico and the EU will further increase Dutch market access. In addition, the two countries work together on increased market access in the phytosanitary and veterinary field.

Another projection is that in 2018 the Mexican market will open for Dutch pork meat. There are also good prospects for Dutch poultry meat, partly because Mexican importers want to diversify provider countries. The Mexican poultry industry is one of the most dynamic livestock activities in the country, accounting for a full percentage point of the national GDP. Clear opportunities are present for Dutch companies both in end-consumer products and for technology and services aimed to support Mexico's strategic development of self-sufficiency in this industry.

## Water

The World Economic Forum ranks water crises - droughts, floods, pollution - among the most important risks for the global economy in the coming decade. Mexico City ranks in the top 3 of cities worldwide that are most vulnerable to water crises. In Mexico only 30 percent of water is treated and only 1 % of waste water is recycled. When it comes to water, 105 of the 653 aquifers in the country are being overexploited beyond their capacity to recharge. Demand for water in Mexico City alone is among the highest in the world at 300 liters per person per day.

There is an increase in private initiatives and public-private partnerships working on creative solutions for the system and ensure the healthy development of infrastructure and water projects. Dutch technology and know-how is highly valued and welcomed in this regard. Moreover, opportunities for water-treatment and recycling technology are growing, as awareness grows among companies and municipalities of the need to reduce their water use and re-use and treat their wastewater. At the same time local regulations on the subject are tightening.

## Healthcare

Healthcare is an important but often overlooked element of Mexico's national development and economic growth. Mexico has a large public health system in place. However, it still has considerable potential and is underfunded. Mexico spends about 6.2% of GDP on healthcare, whereas the OECD average is 9.6%. The administrative costs, at roughly 10%, are significantly higher than in most other OECD countries.

The pressure on the Mexican healthcare system is driving public institutions to explore innovative mechanisms to improve efficiency through public-private partnerships (PPPs) and via the outsourcing of services. Philips is a good example of a company that offers integrated services in the country: as a provider it is responsible for not only the medical technologies, treatments and supplies but also for delivering them to patients.

Mexico faces an unmet demand for quality medical services that can be effectively addressed through PPPs or direct provision of services. Business opportunities exist in several key areas, including: Integrated Services & PPPs, Clinical trials, Research partnerships, Medical tourism, and Big data optimization.

## Electric vehicles (EV)

The Mexican government and the private sector reached an agreement to stimulate EV in Mexico, which started in 2015. In 2016 Tesla installed its first six charging facilities in the city of Cuernavaca, Morelos. Several cities in Mexico are following. Most of the car companies in Mexico sell an electric car model including Toyota, Honda, Ford, GM, Renault, BMW, etc.

Multinational companies are considering the use of electric vehicles. The major Latin American bakery company, Grupo Bimbo, has inaugurated its first Ecological Sales Center in Mexico

City, which includes 73 distribution vehicles with electric engines. Mexico City's government is evaluating different programs in order to reduce carbon emissions, including the use of electric powered public transport. Mexico City itself has several dozen electric charging stations and is open to new technologies for public transport, including electric chargers.



## Automotive and aerospace

Mexico's automotive sector represents 3% of the national GDP and 18% of the manufacturing sector, an industry worth over USD 52 billion a year and generating nearly 900,000 jobs. Clear opportunities exist for auto parts producers, following the opening of new plants across the six regional clusters in the country. These clusters gather ten of the world's largest manufacturers of light and heavy vehicles.

The aerospace sector in Mexico ranks 15th on a global scale and has grown on average 15% annually since 2010. The industry comprises more than 190 companies generating 45,000 jobs and exports for more than USD 7.2 billion. Interesting opportunities exist for SME's in this supply chain.

## Do's and don'ts in Mexico

### Communication and relationships

- Although English is widely spoken by businesspeople in Mexico you can't assume that your Mexican counterpart will be fluent in the language. You will have a great advantage if you speak Spanish.
- Relationships are vital to Mexican's (business) culture, so take time to build key relationships. There's no substitute for face-to-face encounters and this is particularly true in Mexico, so visit often. Have multiple face-to-face

encounters and engage in small talk before starting business conversations.

- It's important to be courteous and diplomatic in your communication. Mexicans are not very direct in their communication so a "yes" can mean a "no". Therefore understanding body language is essential.
- Mexicans are warm and friendly and enjoy having conversations at a close physical distance. Therefore, do not step back and be prepared for a hug (between men) or a kiss on the cheek (between women or between a man and a woman).
- Engage local help. In Mexico, having a local representative or partner will be invaluable to solve problems and issues.
- Don't compromise too soon in negotiations; this will be interpreted as a sign of weakness.
- Don't show up late to a meeting, but expect that Mexicans might. There is a more relaxed view on time in Latin-America. At social events at private homes it's normal to be half an hour to an hour late.

### Challenges

- Negotiations or processes can be slow because of bureaucratic processes.
- Corruption is a significant problem in Mexico and can be a barrier for doing business in the country.

## How can we support your business?

### Business Partner Scan (BPS)

A Business Partner Scan is an overview of possible business partners with their contact information in a target country. These business partners are personally approached by the Embassy's economic team and have indicated they want to come into contact with the Dutch company requesting this service. Dutch companies can profit from the government's extensive network of offices abroad, local market knowledge and know-how to deal with language and cultural barriers. There is also a possibility to opt for a simplified version of the BPS.

### Starters International Business (SIB)

This program aims to support companies likely to be successful with their first steps in a foreign market. Companies can apply for

a voucher worth € 2,400 that can be used for individual coaching support supplied by various agencies, such as the chamber of commerce, various trade associations and consulting companies.

### Dutch Trade and Investment Fund (DTIF)

This fund is meant for Dutch companies wanting to invest in or export to foreign markets. DTIF offers support through loans, guarantees, and direct or indirect shares with a repayment obligation. Companies can apply for a financial support up to EUR 15 million for each project. This business support instrument is implemented by RVO.

### Subsidy scheme for Demonstration projects, Feasibility studies and Investment preparation studies (DHI)

The DHI scheme supports Dutch enterprises that want to invest in or execute a project in emerging markets and in developing countries.

### Partners for International Business (PIB)

Create market entrance and long-term positioning of clusters of Dutch SMEs in promising markets with the help of the unique role of the government. Promotional activities include missions, seminars, liaison, Holland branding and promotion materials.

## Relevant links and contacts

The Embassy of the Kingdom of the Netherlands in Mexico:

<https://www.nederlandwereldwijd.nl/landen/mexico>

Mexican embassy in The Hague:

<https://embamex.sre.gob.mx/paisesbajos/#popup>

Netherlands Business Support Office Querétaro:

<https://www.netherlandsworldwide.nl/countries/mexico/about-us/netherlands-business-support-office-queretar>

Dutch Chamber of Commerce in Mexico:

<http://www.thekvk.com/>

Official name	United Mexican States
Government type	Federal Presidential Constitutional Republic
Population	123,7 million
Area	1.972.550 km <sup>2</sup>
Time difference	(UTC – 6)
Currency	Peso (MXN)
GDP growth rate	2,3% (2016)
GDP per capita	USD 18.535 (2016)
Trade volume	USD 761 billion. Total Exports USD 373,9 bn. Total Imports USD 387,1 bn. (2016)
Inflation	2,82% (2016), 6,04 (2017)
Global Competitiveness Index	51 <sup>st</sup> (2018)
Ease of Doing Business	49 <sup>th</sup> (2017)
Global Corruption Index	135 <sup>th</sup> (2017)
Main trading partners	United States, Canada, Germany and China
Major exports	Cars, vehicle parts, computers, crude petroleum, delivery trucks
Major imports	Refined petroleum, vehicle parts, integrated circuits, computers, broadcasting accessories
Netherlands FDI in Mexico	EUR +45 billion (2017)
Dutch-Mexico trade	EUR 3,9 billion (2015)

Published by:  
Embassy of the Kingdom of the Netherlands in Mexico  
<https://www.nederlandwereldwijd.nl/landen/mexico>  
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