

ECONOMIC AND LEGAL CONSIDERATIONS FOR START-UPS AND SCALE-UPS WISHING TO DO BUSINESS OR INVEST IN MEXICO

Mexico is one of the largest world markets with a population of more than 126 million people (10th most populous country), out of which 46.8% correspond to the economically active population. Young and competitive people largely compose its workforce, where 45% are between the age group of 30-49 and 22% between 20-29. Mexico is increasing its engineering graduates, which currently account for around 17% of the total number of graduates. It is the 7th largest exporter in the world and the 1st in Latin America, and in 2019 it became the top US trading partner, accounting for a total trade worth 614.5 billion USD, surpassing Canada and China. It offers a strategic geographic location in North America with extensive coastlines to the Atlantic and Pacific oceans, and a sound infrastructure and logistics network, ranked by the WEF among the top 30% countries with best transport infrastructure. It is the 4th most biodiverse country in the world and possesses abundant natural resources that significantly stimulate a competitive and cost-effective manufacturing sector (e.g. 12th world oil producer and 21st natural gas producer). Mexico has a diverse, innovative, and knowledge-based industrial platform, ranked in the Economic Complexity Index as the 19th most complex economy. It is a leading manufacturing country. In the automotive industry it is the 6th largest producer of vehicles and the 4th exporter in the world. It is the 6th largest exporter of IT products and services and the 8th largest exporter of medical devices.

In a nutshell:

International economic relations. Mexico is a member of the United Nations (UN), the World Trade Organization (WTO), the Organization for Economic Co-Operation and Development (OECD), the G20, and the Asia-Pacific Economic Cooperation (APEC). Mexico's economy is driven by foreign trade, it offers broad access to world markets through its network of 12 free trade agreements (FTAs) with 48 countries connecting the Mexican economy to more than 1.3 billion consumers (60% of the world's GDP); 32 Reciprocal Investment Promotion and Protection Agreements (RIPPAs); 45 Avoidance of Double Taxation Agreements; and it is a signatory Party of the Convention on Mutual Administrative Assistance in Tax Matters.

International business. Its investment, import, export, and transit regimes are mainly regulated by WTO rules, and international, regional and bilateral agreements to which Mexico is a Party. In addition, its related domestic legislation includes the Foreign Trade Law, Customs Law, Foreign Investment Law, Federal Law for the Protection of Intellectual Property, and the General Import and Export Taxes Law. Foreign investments must be registered in the Foreign Investments National Registry (RNIE, which is managed by the Ministry of Economy).

Main trade competitors. According to a study on the degree of similarity of each country's comparative advantage pattern with that of Mexico, it was observed that Mexico's main trade competitors in worldwide markets were Hungary, Thailand, Philippines, South Korea, Turkey, Poland, China, Portugal, Malaysia, and Hong Kong.¹

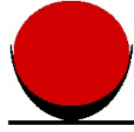
Foreign investment incentives. Mexico's investment environment is supported by a robust domestic legislation and an extensive international agreement network, including free trade agreements, RIPPAs and bilateral investment treaties. Mexico's foreign investment regime has undergone significant reforms aimed at simplifying and streamlining procedures, and deregulating key sectors, including sectors traditionally limited to the Mexican State, such as the energy sector, but also significantly eliminating restrictions for foreign investment in the financial and telecommunications sectors.

National business. It is mainly regulated by the General Law of Commercial Companies, the Income Tax Law, the Value Added Tax Law, the Federal Law for the Protection of Intellectual Property, the Labour Law, the General Law for the Protection of Personal Data and the State and local codes and laws regulating business establishments.

Legal forms of companies. The General Law of Commercial Companies provides for seven types of commercial companies: limited liability stock corporation; non-stock variable capital limited liability corporation; general partnership; limited partnership; branch office in Mexico; association in participation; and joint venture. The first two are the most common for foreign investors.

Labour legislation. Employment relationships are regulated by the Political Constitution of the United Mexican States (Constitution) and the Federal Labour Law. The Federal Labour Law regulates individual labour relationships, duration of labour relationships, suspension of labour relationships, resignation of labour agreements, termination of labour relationships, outsourcing services, labour conditions, minimum wages, hours of work, legal holidays and paid vacations, rights and obligations for workers and employers, as well as labour unions, strikes, amongst others. Employers have the obligation to register their employees with the Mexican Social Security Institute (IMSS), which responsible for managing the social security system. IMSS services are financed through fees that are funded by employees and employers, and include health insurance, maternity benefits, injury and disability benefits, and pension rights, amongst others.

¹ Banco de México – Documentos de Investigación 2007-12: Comparative Advantage and the Performance of Mexican Manufacturing Exports during 1996-2005



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Access to labour market. Pursuant to the Mexican Immigration Law, foreign nationals wishing to work in Mexico need to apply for a Mexican work permit, issued by the National Migration Institute in Mexico.

Taxation. The main taxes for which companies doing business in Mexico are subject are the corporate income tax, withholding taxes, value added tax (VAT), tax on real estate property and social security contributions (on behalf of employees). The Tax Administration Service is the government agency responsible for assessing and collecting federal taxes and customs duties. Local taxes are assessed and collected by the State or municipality authorities. Customs and excise duties must be paid in accordance with the General Import and Export Taxes Law, and free trade agreements, as appropriate. Other taxes include the special tax on production and services that is applicable to certain goods such as alcoholic beverages and tobacco.

Economic and legal weaknesses. Mexico's Gini coefficient is around 0.5, which places it among the high inequality countries. There are high levels of corruption and criminality and a relatively large informal sector. Political decisions from President Andres Manuel Lopez Obrador from the leftist "Morena" political party, such as the cancellation of the \$13.3 billion New Mexico City International Airport project, have reduced business confidence.

Economic and legal strengths. Strategic geographic location in North America with access and connectivity to Latin America, Europe and Asia; certainty and predictability supported by several international trade agreements, including the new US-Mexico-Canada Agreement (USMCA); strong macroeconomic framework, including free-floating exchange rate, commitment to fiscal targets, sound debt management and an appropriate monetary policy; large domestic market; large, skilled and young labor force; broad internet connectivity and broadband access; and it is Member of one of the most important economic blocks that accounts for 6.5% of world's population, 18.3% of Global GDP, 23.1% of world FDI, and 15.9% of global trade.

For detailed business research and investment diagnostic, please contact: research@gicel.ch.

Next Brief: Economic and legal considerations for start-ups and scale-ups wishing to do business or invest in Bulgaria.