

Some Risks, Many Rewards

While Challenges Exist, Mexico Remains Attractive to Foreign Business

While there is no doubt that foreign companies in Mexico should be concerned by issues such as narco-violence, corruption, and expatriate flight, these risks should be balanced against the tremendous opportunities that exist in Mexico. So, what is the true situation on the ground and what are the steps foreign companies can take to limit their risks?



NOT ALL OF MEXICO IS AFFECTED BY VIOLENCE

Mexico is, of course, a very big country and violence varies from region to region. Mexico City, as well as other key manufacturing centers such as Puebla, San Luis Potosi, Queretaro, Toluca, and Aguascalientes remain relatively insulated from the serious dangers afflicting other parts of the country. The drug wars are largely concentrated in the border areas and, recently, in Monterrey.

THE BUSINESS FUNDAMENTALS ARE POSITIVE

The business fundamentals in Mexico remain compelling

- The federal deficit is only 2.3% of the Mexican economy
- Mexico possesses an attractive exchange rate versus the dollar
- Mexico boasts relative labor peace
- Wages are attractive (average Mexican wages are only 14% more than Chinese wages)
- Road and rail transport from Mexico make just-in-time delivery requirements to the U.S. very feasible

POLITICS WILL DRIVE THE REFORM EFFORTS

While resolution of the drug violence may take some time, and the police forces and judiciary must be reformed, the Mexican government appears committed to dealing with these problems quickly and efficiently. Indeed, it must do so in order for Mexico to remain competitive with other emerging markets.

Congressional elections in Mexico this past summer nearly gave the PRI (the former ruling party) a majority and the PRI may regain the presidency in 2012. A major question mark for Mexico will be how the next government and president attempt to stem the violence and continue the reform efforts.

SHORT-TERM ADVICE FOR FOREIGN COMPANIES

- Plan to operate with fewer expatriate employees
- Hire excellent local managers and staff – invest time and money to get the best
- Understand where the unrest is located and craft your business strategy accordingly, including moving your facility if necessary

- Step up background checks, focus on training Mexican managers and staff and more fully integrate employees into headquarters' culture and activities
- Plan for the worst – disaster plans should include kidnapping and extortion scenarios
- Security plans must include protection for local hires

There are many good reasons to do business in Mexico. Indeed, a list published by Bloomberg of companies recently locating or expanding in Mexico (including Intel, Blackberry, Flextronic, Cessna, Polaris, and Whirlpool) demonstrates that Mexico remains attractive to many multi-national businesses. If you are thinking about establishing operations in Mexico, our firm can help you craft an effective business and legal strategy.

Mexico
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Marie Alsace Galindo Joins Firm

Marie Alsace Galindo has joined our International Business practice. Marie is the only licensed-in-Mexico attorney certified by the State Bar of Michigan to advise on Mexican law. She is our international practice advisor for Mexican and Latin American legal and business issues. Her practice involves advising companies in structuring investment strategies, consulting on business opportunities, establishing and expanding operations in Mexico, and negotiating and documenting Mexico-related transactions.