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Doing Business in Mexico

EFTA – MEXICO
FREE TRADE AGREEMENT

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Government Palace, Mexico City; Source: http://en.wikipedia.org/wiki/Image:MexCity-palacio.jpg

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FOREWORD

One of the main objectives of Swiss foreign economic policy is to ensure - to the largest extent possible - stable, predictable and non-discriminatory access to important foreign markets worldwide. Besides its membership in the WTO and close ties with the European Union (EU), Switzerland endeavours to achieve this aim by establishing free trade relations with partners around the world and implementing economic strategies with major emerging countries. In this context, relations with Mexico were strengthened recently with government and business talks under a Joint Economic Commission.

The Free Trade Agreement (FTA) with Mexico is in force since July 1, 2001. It is the first FTA concluded by EFTA countries with an overseas partner. Its coverage is very comprehensive, including areas such as services, investment, government procurement and intellectual property.

The FTA brings three major advantages: market opening, stronger legal framework for business and new channels to address trade-related issues. The purpose of this publication is to highlight the key elements of the FTA for Swiss business as well as the potential of the Mexican marketplace.

Mexico is a significant political, economic and cultural player in Latin America. As a member of the OECD and of the G20, its role on global issues is expected to continue to grow. Sharing a large common border with the United States, Mexico benefits from a strategic geographic location to supply its large neighbour.

In addition, Mexico's foreign economic policy is open to other continents with a large number of FTAs including with the EU, EFTA States, Japan and most Latin American countries. Thus, Mexico forms a cultural, political and physical "bridge" between North America and Latin America and is a window to the Pacific through its APEC membership.

Major Swiss firms have a longstanding presence in Mexico. Small- and medium-sized enterprises are thus cautious before entering Latin American markets be it Mexico or other countries. Political, economic and cultural considerations as well as geographical distance act as a significant barrier. This is reflected by the fact that during the past few years, the Swiss share in Mexico's imports has only slightly increased, while the EU's grew substantially.

We hope that this publication will contribute to increase the awareness of Swiss SMEs of the significant potential of the Mexican market, bring an insight on how to launch export or investment activities and raise such an interest.

The Swiss Embassy in Mexico, OSEC Business Network Switzerland, the Latin American Chamber of Commerce in Zurich and SECO Americas Unit are your partners for a first approach to the Mexican market. They will be very pleased to support you, so that Mexico may soon become your gateway to both North and South America.

Jean-Daniel Gerber
State Secretary

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This publication is based on *"Doing Business in Mexico"* authored by Thomas Zimmermann in 2002 who graciously accepted our proposal to write a shorter update of his thorough analysis of the Mexican market and its potential for Swiss companies.

This text is the result of the work of a very dedicated team in Mexico City and Bern.

Petra Heusser from the Americas Unit of the State Secretariat for Economic Affairs made a major contribution as she initiated the process, drafted chapters I and II and coordinated between the various authors. The Mexican insight was brought by Heinrich Schellenberg and Annie Tremblay from the Swiss Embassy in Mexico who are to be thanked for their valuable contribution. A special word of gratitude is also expressed to Martin Peter from the Americas Unit of the State Secretariat for Economic Affairs for enriching the text with various analyses and finalising the publication.

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Philippe G. Nell
State Secretariat for Economic Affairs
Minister, Head of Americas Unit
Editor

Popocateptl volcano[1]

Vizcaino desert (UNESCO world heritage site)[2]

1 flickr.com/photos/21566410@N07/2696168720/
2 www.panoramio.com/photo/2399341

INTRODUCTION

With a domestic market of over 100 million inhabitants, Mexico belongs to the 15 largest economies in the world and has the potential to move to the 6th position by 2050.[3] One of the most stable economies in Latin America, Mexico remains very dependent on the U.S. economy and vulnerable to U.S. downturns.[4] Around 70% of GDP emanate from services, 26% from industry and 4% from agriculture. Mexico is Switzerland's second most important trading partner in Latin America. Since July 1, 2001, both countries benefit from a Free Trade Agreement (FTA). Based on Mexico's importance and considerable potential, the Swiss Federal Council adopted a foreign economic strategy for Mexico in December 2007 to further strengthen bilateral trade and investment relations.

The geographical closeness to the U.S. market, an FTA network embracing 44 countries all over the world, a large domestic market as well as a young and abundant labour force contribute to Mexico's attractiveness for foreign firms. Under the World Economic Forum's *Competitiveness Ranking* (2007-2008), Mexico holds the third and under the World Bank's *Ease of Doing Business* the fifth position among Latin American and Caribbean countries.

The aim of this second edition of "*Doing Business in Mexico*"[5] is to raise Swiss business awareness for the potential of the Mexican market. Chapter 1 presents basic political and economic information on Mexico as well as on its relations with Switzerland. Chapter 2 highlights the advantages of the FTA for Swiss business in key areas. Chapter 3 focuses on market entry strategies and selected business aspects. Chapter 4 points to business opportunities based on major Swiss interests. Finally, Chapter 5 provides practical information on market access, with a special emphasis on Mexico's specific success factors and cultural particularities.[6]

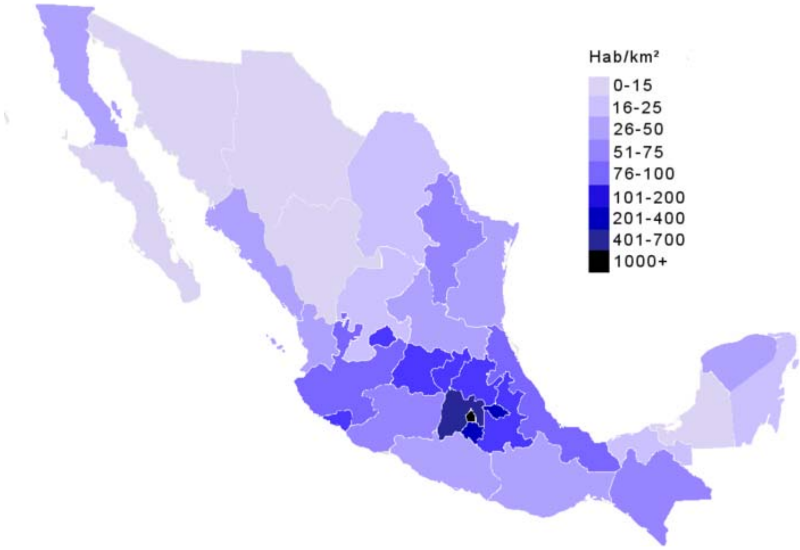
3 Global Economics Paper N°134, Goldman Sachs, December 2005.
4 The U.S. financial crisis and the U.S. recession are having presently a major impact on Mexico's economy.
5 First edition: Thomas A. Zimmermann, Doing Business in Mexico – A guide Designed for Practitioners in Swiss Small and Medium-Sized Enterprises, Verlag Rüegger, Chur/Zürich, 2002.
6 Picture source: www.cia.gov/library/publications/the-world-factbook/geos/mx.html

CHAPTER I
GENERAL COUNTRY INFORMATION

1. Population

Mexico covers a land area of 1.96 million square km with a population of 108 million inhabitants; its growth rate decreased significantly in recent years to reach 1% in 2007, one third of the population being under 15. The average age is 27 and life expectancy 75 years.

About three quarters of Mexicans live in urban areas, as prospects for a higher living standard lead to migration to cities. Migrants mainly move to the northern border States, attracted by opportunities of an increased income in the "*maquiladoras*" industry (assembly plants for re-export) or by tourist centres on the Caribbean-Atlantic coast. Sixty percent of the Mexicans live in the central region, including Mexico City, which generates 60% of the gross domestic product (GDP). One quarter of the population lives in the north (generating 30% of GDP), 15% in the southeast. The number of U.S. citizens of Mexican origin is estimated at about 29 million (2007) with 25 million first-generation Mexican immigrants - 6 million of them without regular migrant documentation.



Population density[7]

Around 10% of the Mexican population is indigenous and belongs to groups like the Náhuatl, Maya, Zapotec and Mixtec, who mainly live in the southern States. More than 60 ethnic and language groups are recognized.[8] Although Spanish is the official language throughout the country, various indigenous languages such as Mayan or Nahuátl are still spoken by more than 6 million Mexicans, particularly in the south and in Yucatán.

2. Political system

Mexico is a representative, democratic and republican federation with a congressional system as laid out in the 1917 Constitution. It has three levels of government: federal, state (32) and municipal. The federal government represents the United Mexican States and is divided into three powers: executive, legislative and judicial. The President is both Head of State and Head of Government.

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[7] Wikipedia Image: http://commons.wikimedia.org/wiki/Image:Mexico_states_blank.png

[8] Comisión Nacional para el Desarrollo de los Pueblos Indígenas: www.cdi.gob.mx/index.php?id_seccion=1

In 2000, the political scene experienced an historical transformation: after 71 years of continuous rule, the *Partido Revolucionario Institucional* (PRI) lost the Presidential election to Vicente Fox from the *Partido Acción Nacional* (PAN). As the new President did not hold a majority in Congress, the power concentration moved from the executive branch to the legislative which is composed by the Senate (upper house) and the Chamber of Deputies (lower house). Senators are elected for six years, deputies for three; a re-election is not possible in neither body.

In December 2006, Felipe Calderón (*PAN)*, was elected President for a six-year term on a historically tight margin. His main rival, Andrés Manuel López Obrador of the Party for Democratic Revolution (PRD), contested the election results and organized large rallies and protests against the new government. Since then, the influence of the opposition has continually diminished.

During his first two years in office, President Calderón has engaged in a number of overdue reforms in the fiscal, pension, judicial, educational and energy[9] fields. Although important steps were taken, many of these reforms stopped short of tackling deep-rooted problems due to political pressure.

Presently, one of the major concerns of the government is the security situation. President Calderón has made security a core objective of his presidency and has taken measures to fight organized crime. At the beginning of 2009, the number of deaths related to organized crime has declined.

On the foreign policy side, the relations with the U.S. and the migration policy are central. President Calderón also puts emphasis on strengthening political and economic relations with Latin American countries, partly to ease dependence on the northern neighbour.

3. Economy

Since the Mexican currency crisis in 1994, the Mexican economy has gone through a painful, but overall quite successful adjustment process (opening of market/NAFTA). This has led Mexico to become one of the macro-economically most stable countries in Latin America. Around 70% of GDP is generated by the services sector, over 25% by the industrial and less than 5% by the agricultural sector. In foreign trade, industrial products dominate with 80% of all exports. With a share of 30% of GDP, the export industry has significantly gained in importance over the past years. The sound economic environment has attracted substantial foreign investment (USD 23 bn in 2007; USD 19 bn in 2008).

However, in the second half of 2008, the U.S. financial and economic crisis has also started to affect Mexico. Between September and December 2008, the peso depreciated heavily, losing 25% against the U.S. dollar. With 6.5%, inflation was significantly higher than the original Central Bank forecast (3.0%). Still, State budget remained relatively balanced despite an important decrease in international oil prices and national oil production. However, public debt showed a slight upward trend (19.3% of GDP). Due to Mexico's heavy dependence on the U.S. economy - 80% of Mexican exports go to the northern neighbour - the Mexican Central Bank expects a contraction of the economy in 2009 between 3.8 and 4.8%.

The economic situation raises significant challenges. Despite countercyclical measures, the present downturn will not allow President Calderón to realize his pledge of an "employment" presidency. In addition, Mexico's international competitiveness is decreasing, especially with regard to its Asian competitors. In 2003 already, Mexico was replaced by China as the second most important supplier (behind Canada) of the U.S. In the coming years, the Mexican trade deficit is bound to increase due to a decline in oil production, lower oil prices and a sustained strong internal demand.

Though the government has introduced a fiscal reform[10] aimed at increasing tax revenues by 1.1% of GDP in 2008, this will hardly be sufficient to counterbalance declining oil revenues (which provide 40% of the State budget) and thus avoid a public sector deficit. A further increase in fiscal

[9] For further details on the tax and the energy reforms, see heading 3. Economy.

[10] The fiscal reform focused mainly on direct taxes. Its most important feature is the introduction of a flat rate tax for companies (IETU – *Impuesto Empresarial de Tasa Única*) of 17.5% of the turnover.

revenues is thus seriously needed to allow the government to tackle important shortcomings in the areas of education and infrastructure. The latter shall be boosted through the 2007-2012 infrastructure program introduced by the President at the beginning of his term; public and private infrastructure spending should increase from previously 3% to 5% of GDP to reach USD 38 bn per year. Projects shall focus on highways, train systems, ports and airports. However, the ambitious program could be substantially reduced due to the economic recession and financial markets crisis.

In the energy sector, the government has attempted to undertake a far-reaching reform. Owing to fierce opposition and lengthy debates in Congress, the initial project underwent modifications. Whilst the finally adopted bill addresses some of the problems of the State oil enterprise PEMEX, it will hardly guarantee a sustainable future for the whole sector. Key questions, such as the financing of required deep-water explorations to substitute the dwindling reserves of existing oilfields, have not been addressed. Nevertheless, the adopted measures set a precedent which could pave the way for a more ambitious reform in the medium term.

Another problem of the Mexican economy is deficient competition in various sectors. An important element of the government's economic program is therefore the opening of mono- and oligopolistic markets to increase competition, especially in the telecom and energy sectors. In addition, reforms of the labour market would be of paramount importance for the future development of the Mexican economy.

Box 1. Key country data: 2006 – 2008[11]

	Mexico				Switzerland
	2006	2007	2008		**2008**
GDP (USD bn)	952	1'025	1'088		493
GDP per capita (USD)	9'138	9'742	10'235		67'385
Real GDP growth (%) (constant prices)	5.1	3.3	1.3		1.6
Inflation (%)	3.6	4.0	5.1		2.4
Current account (% of GDP)	-0.5	-0.8	-1.4		1.0
Public debt (% of GDP)	32.5	31.5	33.0		41.5

In 2008, Mexican foreign trade was led by strong exports of natural resources. With around 80% of exports directed to the U.S. (~25% of GDP), Mexico is very dependent on U.S. economic performance and the Peso-USD exchange rate level. In recent years, the latter had a negative impact on Mexico's export competitiveness for manufactured products. With the current international financial crisis, the peso has however come under pressure, benefitting thereby Mexican exports. The dependency and the strong linkages of Mexico's trading and financial sectors with the U.S. imply a very high vulnerability to U.S. economic cycles.

Mexico's fastest growing import sectors are the automotive industry, snack food and dairy food.

Mexico's trade liberalization agreements cover 70 percent of world GDP with 1 bn consumers. The country has concluded FTAs with the USA and Canada (NAFTA, 1994), the G-3[12] (1995), Costa Rica (1995), Bolivia (1995), Nicaragua (1998), Chile (1999), the European Union (2000),

[11] IMF, World Economic Outlook, April 2009. For public debt: Mexico 2008 Article IV Consultation, February 2009.
[12] The Group of Three (G-3) Agreement was negotiated among Colombia, Mexico and Venezuela. In 2004, Panama requested inclusion into the G-3 and in 2006 Venezuela withdrew from the Agreement.

Israel (2000), the European Free Trade Association (2001), the "Northern Triangle" comprising El Salvador, Guatemala and Honduras (2001), Uruguay (2004) and Japan (2005). In addition, Mexico is currently negotiating with ten other countries or groups of countries.[13] Mexico also has a preferential agreement in the automotive sector with Mercosur (2002), which could eventually lead to an FTA.

In addition, in the framework of the Latin American Integration Association (LAIA), Mexico has concluded Economic Complementarity Agreements (ECAs) with Argentina, Brazil, Cuba, Paraguay and Peru, liberalizing thereby trade for a whole range of products.

During the 1999-2008 period, FDI flows to Mexico amounted to USD 212 bn[14] with a yearly average of USD 21 bn, 56% originating in the U.S. and 1.8% in Switzerland. Forty-four percent of investments went to manufacturing, 23% to the tourism sector and 5% to the financial sector.

Mexico has bilateral Investment Protection Treaties with the following 25 countries: Argentina, Australia, Austria, Belgium, Czech Republic, Cuba, Denmark, Finland, France, Germany, Great Britain, Greece, India, Iceland, Italy, Korea, Luxemburg, Netherlands, Panama, Portugal, Spain, Sweden, Switzerland, Trinidad & Tobago and Uruguay.

4. Regional Pattern

Box 2. Mexican States

AGU	Aguascalientes	MO	Morelos
GUA	Guanajuato	QU	Queretaro
HID	Hidalgo	TLA	Tlaxcala
ME	Mexico State		

[13] Ecuador, Peru, Mercosur (Argentina, Brazil, Paraguay, Uruguay; applying for membership: Venezuela), South Korea, Singapore, Pakistan.
[14] Source: ProMéxico

Mexico City and the surrounding States

Despite the rapid growth experienced by other Mexican regions (particularly in the North) during the last decade, Mexico City remains undisputedly the major economic centre of the country with the highest income per capita. Mexico City has reached its limits for sustainable industrial growth and is now restructuring its economy towards services. Meanwhile, the States surrounding the Federal District have become bustling centres of industrial activity and home to many multinational corporations active in various industrial fields. They enjoy the proximity to the country's major market, Mexico City, without having to incur the latter's disadvantages such as the high risk to personal security, environmental contamination, space constraints and continuous traffic congestion.

Mexico City and the neighbouring States have the following economic structure:

- Mexico City/Federal District: Government, financial and other services, education[15], health services, logistics and distribution. Highly-diversified industry, yet gradually relocating to the surrounding States due to space constraints and high production costs.
- State of Mexico: Highly-diversified industry with all major manufacturing sectors.
- Puebla: Cars and automotive parts, sugar, paper, petrochemicals, textiles.
- Tlaxcala: Textiles and apparel, non-metallic minerals, plastics, food, metal industries, chemical industries and car parts.
- Hidalgo: Railroad cars, heavy machinery, cars, parts and commercial vehicles, textiles, food processing, machine tools, petroleum refining, petrochemicals.
- Morelos: Textiles, car parts, pharmaceuticals and cosmetics, electrical equipment and electronics, machine tools.

States bordering the U.S.

With the noteworthy exception of the traditional industrial agglomeration of Nuevo León (Monterrey), industrialization in the northern States is recent. The industrial centres of Tamaulipas, Coahuila, Chihuahua, Sonora and Baja California along the U.S. border have emerged since the 1960s when the government began to promote their industrialization with special programs. These were aimed at "*maquiladoras"* that is industrial plants designed for in-bond assembly of temporarily imported components, the finished products being subsequently exported mainly to the U.S. The "*maquiladora"* industry has enjoyed a particular boom with NAFTA. In Tijuana, the population grew by a breathtaking 70% in the 1990s and "*maquiladora"* jobs by 220%.

Taking advantage of the proximity to the U.S. of Baja California and cities such as Mexicali and Tijuana, the State government managed to go beyond the "*maquiladora*" scheme and facilitated the creation, among others, of an important aerospace cluster. Companies such as Honeywell formed alliances with local universities to get qualified labour responding to their needs. It is important to point that numerous firms started with very simple manufacturing activities in Mexico. They then conducted more complex tasks with local qualified workers[16] seizing thereby the opportunity to reduce costs.

Monterrey[17]

Monterrey, a city of approximately 4.3 million inhabitants, is considered as one of the best cities to do business in Latin America.[18] The population's average education level is three years above the national average. Monterrey boasts some of the best schools and universities in Mexico. In 2007, the State of Nuevo Leon, accounted for 7.6% of the national GDP with a GDP per capita of

[15] According to the *Times Higher Education Rating 2008*, the *National Autonomous University of Mexico* is the best University in Latin America and Spain.
[16] Baja California's Secretariat of Economic Development: www.investinbaja.gob.mx
[17] Nuevo León's Secretariat of Economic Development: www.nl.gob.mx/?P=economiaynegocios
[18] In 1999, Fortune Magazine named Monterrey best city in Latin America to do business.

USD 15'614. Excluding the telecom and oil monopolies (Telmex and PEMEX), Monterrey controls more than half of Mexico's industrial assets.

More than 30'000 firms are established in Nuevo Leon, the national leader in important sectors with the production of:

- 75% of glass containers;
- 60% of cement;
- 60% of artificial and synthetic fibre;
- 50% of beer;
- 50% of ceramics;
- 40% of basic steel;
- 40% of household appliances.

Since 2004, the State Government has promoted the implementation of a knowledge-based economy through partnerships with local universities and the private sector. As a result, universities have recently established fifteen new Research and Development centres as well as three high-technology business incubators. The authorities have also begun the construction of a Research and Innovation Technology Park near Monterrey to attract new investment.

Guadalajara

Guadalajara, the country's second largest city, has undergone a major diversification through the last three decades, starting mainly from food industries. Today, electronic and technological firms dominate the industrial scene. Other noteworthy industries in the State of Jalisco include petrochemicals, shoes and leather, dairy products, sugar, paper and cellulose. Coastal areas play a major role for fruit growing. The most famous product of Jalisco is Tequila, which is produced around Guadalajara.[19]

The Bajío Region

In the last years, rapid economic development has started in the Bajío region, located two to four hours driving time to the north-west of Mexico City.

It is seen as a region with high potential because of its:

- proximity to major Mexican markets;
- closeness to the "NAFTA highway" going north from Mexico City towards the U.S.;
- efficient administration;
- high quality of life.

The States of Querétaro, Guanajuato and Aguascalientes have become popular locations for foreign investors, especially in the late 1990s.

While manufacturing relies traditionally on processed agricultural products, textiles, leather and shoes, industry has begun diversifying into other sectors. Investments in the automotive industry (including parts) were particularly successful with the region's location near Mexico's most important centres of automotive production.

Other noteworthy economic regions are the oil State Veracruz on the Gulf of Mexico and the tourist locations of Guerrero (Acapulco region and Taxco) and Quintana Roo (Cancún, Playa del Carmen). It must be pointed that most of the south still lags far behind in economic development and industrialization terms. The State of Chiapas has a long tradition as a coffee producer.

[19] According to Mexican geographic indications rules, agave liquor produced in one of the following States is allowed to be denominated "Tequila": Jalisco, Nayarit, Guanajuato, Michoacán and Sinaloa.

Box 3. Basic Economic Data on the Mexican States

State	Population 2006 (million)	GDP 2006 (USD billion)	Share in GDP (percentage)	FDI 2006 (USD million)
North				
Baja California	2.9	27.0	3.6	917
Baja California Sur	0.5	4.7	0.6	197
Chihuahua	3.3	34.2	4.5	1393
Coahuila	2.6	24.7	3.3	302
Durango	1.5	9.7	1.3	103
Nuevo Leon	4.3	56.5	7.5	1424
Sinaloa	2.6	14.2	1.9	35
Sonora	2.4	21.4	2.8	269
Tamaulipas	3.1	24.2	3.2	496
Zacatecas	1.4	5.6	0.7	11
South				
Campeche	0.8	9.2	1.2	10
Chiapas	4.4	12.2	1.6	1
Oaxaca	3.6	11.4	1.5	7
Quintana Roo	1.2	11.9	1.6	181
Tabasco	2.0	9.5	1.3	45
Yucatán	1.9	10.6	1.4	24
Central				
Aguascalientes	1.1	9.5	1.3	84
Mexico City	8.8	161.7	21.5	7754
Guanajuato	5.0	26.0	3.5	100
Guerrero	3.2	12.0	1.6	30
Estado de México	14.3	72.8	9.7	1247
Morelos	1.6	10.1	1.3	307
Querétaro	1.6	13.7	1.8	152
San Luis Potosí	2.5	14.3	1.9	12
East				
Hidalgo	2.4	9.7	1.3	1
Puebla	5.5	27.6	3.6	386
Tlaxcala	1.1	4.0	0.5	9
Veracruz	7.2	32.0	4.3	38
West				
Colima	0.6	4.0	0.5	64
Jalisco	6.9	46.7	6.2	603
Michoacán	4.0	16.0	2.1	181
Nayarit	1.0	4.2	0.6	142

Source: ProMéxico

Box 4. Doing Business in Mexico: World Bank Report 2009

Business is subject to rules specifying rights and obligations to secure the interests of all parties involved, e.g. producers, consumers, workers, creditors, competitors and government. The creation of new firms and the cost of running operations may be seriously influenced by federal and local regulations. Foreign investors and in particular small- and medium-sized firms with limited resources attach a significant importance to straightforward, simple, transparent and clear procedures.

Based on four indicators – starting a business, registering property, getting credit and enforcing contracts - the World Bank and the International Financial Corporation (IFC) have compared business conditions across the 32 Mexican States and their main cities.

Doing Business in Mexico: Where it is easiest

1	Aguascalientes (Aguascalientes)	12	Nuevo León (Monterrey)	23	Tlaxcala (Tlaxcala)
2	Chiapas (Tuxtla Gutiérrez)	13	Sonora (Hermosillo)	24	Veracruz (Coatzacoalcos)
3	Zacatecas (Zacatecas)	14	Michoacán (Morelia)	25	Guerrero (Acapulco)
4	San Luis Potosí (San Luis Potosí)	15	Nayarit (Tepic)	26	Yucatán (Mérida)
5	Sinaloa (Culiacán)	16	Hidalgo (Pachuca de Soto)	27	Baja California (Tijuana)
6	Colima (Colima)	17	Querétaro (Querétaro)	28	Estado de México (Tlalnepantla de Baz)
7	Campeche (Campeche)	18	Durango (Durango)	29	Jalisco (Guadalajara)
8	Tabasco (Centro/Villahermosa)	19	Puebla (Puebla)	30	Morelos (Cuernavaca)
9	Guanajuato (Celaya)	20	Oaxaca (Salina Cruz)	31	Baja California Sur (La Paz)
10	Coahuila (Torreón)	21	Tamaulipas (Matamoros)	32	Distrito Federal
11	Chihuahua (Cd. Juárez)	22	Quintana Roo (Benito Juárez/Cancún)		

Source: Doing Business en México 2009, World Bank and IFC

5. Economic relations between Switzerland and Mexico

In 1827, Switzerland opened the first Honorary Consulate on the Latin American continent in Mexico, only six years after independence. The first Bilateral Friendship, Trade and Establishment Agreement was already signed in 1832. Economic relations gained momentum at the end of the XIXth century and continued to grow through the XXth Century. Switzerland officially recognized Mexico in 1925[20] and opened a legation (elevated to embassy status in 1958).

Swiss-Mexican economic relations benefit from an excellent institutional framework with an Agreement on Double Taxation (1994)[21], a Bilateral Investment Treaty (1996) and a Free Trade Agreement (2001) with the European Free Trade Association.

Mexico is Switzerland's second most important economic partner in Latin America. In 2006 and 2007, trade between the two countries increased by 24% and 10% respectively. In 2008, Swiss imports from Mexico increased by a further 38%, whilst Swiss exports to Mexico registered a decline of 5%; Switzerland's most important export of goods to Mexico were pharmaceuticals (33%), machines (21%), watches (17%) and chemicals (11%). Swiss imports from Mexico consisted mainly of automobiles (26%), chemicals (19%), agricultural products (17%) as well as machines and electrical appliances (17%)[22].

In 2007, Swiss firms had a foreign direct investment (FDI) stock of CHF 4.9 billion and employed 45'000 persons in Mexico. Important Swiss firms such as Nestlé (75 years) have a long presence. According to Mexican statistics, Switzerland is one of the main foreign investors with accumulated investments since 1999 of about USD 2.5 billion. Roche has inaugurated in September 2007 a high potency plant in Toluca (State of Mexico) with investments of USD 72 million creating 150 jobs up to 2010. From Mexico, Roche will supply the domestic, regional and world market. ABB (in San Luis Potosí) and Holcim Apasco (in Sonora, USD 400 million and 1200 jobs) are also making very significant investments.

[20] The official recognition was delayed due to internal turbulences in Mexico during the XIXth century.

[21] The Swiss and Mexican tax authorities agreed on June 15, 2009 to a revision of the double taxation agreement. extending the administrative assistance in tax matters in accordance with art. 26 of the OECD Model Tax Convention. See Box 4, p. 40.

[22] Federal Customs Administration, Swiss-Impex, 4.2.2009.

About 400 firms with Swiss capital are active in Mexico in areas such as manufacturing (31.5%), general services (30%), commerce (25%) and financial services (8.5%). They are mainly located in Mexico City and the State of Mexico.

Considering Mexico's growing importance in the world economy and the significant Swiss-Mexican economic relations, the Swiss Government has adopted a foreign economic strategy for Mexico in December 2007. Its objective is to strengthen bilateral economic ties. On the basis of a survey among Swiss firms established in Mexico, key issues to be addressed were identified. They refer to complex customs procedures, deficient protection of intellectual property rights, state monopolies, as well as to horizontal questions such as inflexible labour regulations, competition by the informal sector, bureaucracy, deficient rule of law and crime.

In order to implement its strategy, the Swiss government has devised a set of measures covering trade and investment to improve conditions for business. Actions are foreseen at three levels.

a) The multilateral level provides a good basis to discuss trade and investment issues. For instance, systemic problems in the area of customs procedures can be dealt with in the negotiations on trade facilitation at the World Trade Organization (WTO). More specific questions can be raised under Mexico's periodic WTO Trade Policy Review. In addition, the GATS negotiations[23] under the WTO Doha Round provide the opportunity to further liberalize services. Problems linked to intellectual property can be raised at the WTO TRIPS[24] Council as well as at the World Intellectual Property Organisation (WIPO).

b) At plurilateral level, the EFTA-Mexico Free Trade Agreement has established a Joint Committee which meets on a regular basis. In this framework, EFTA Members and Mexico can discuss issues of common interest, like the revision of the agreement and its expansion to additional services or processed agricultural products. Broad questions can also be raised under the OECD surveys which examine regularly Mexico's economic situation. The strengthening of the implementation of intellectual property rights is also addressed under the ongoing negotiations for an Anti-Counterfeiting Trade Agreement (ACTA).[25]

c) Finally, at the bilateral level, key problems faced by business are discussed under the Swiss-Mexican Consultative Group[26]. At its last meeting in September 2008 in Zurich, the Consultative Group dealt with intellectual property rights (test data protection, relationship between patent and market authorization agencies, counterfeiting), environmental cooperation, temporary admission of imports (ATA carnet[27]), technical barriers to trade (inspections; labelling requirements), as well as the horizontal issues mentioned above. Increased cooperation in specific sectors –e.g. science, technology and innovation; environment – is presently being envisaged.

Teotihuacan (UNESCO world heritage site)[28]

[23] GATS: General Agreement on Trade in Services
[24] TRIPS: Trade-Related Intellectual Property Rights
[25] ACTA will enhance international cooperation and contain effective international standards for enforcing intellectual property rights.
[26] The Swiss-Mexican Consultative Group was established by a Memorandum of Understanding on Trade and Economic Cooperation (1998).
[27] ATA Carnet : international customs document enabling temporary imports in a country (without paying customs duties and taxes) provided the product will not be sold or stay in the country ; carnets ATA are commonly used for trade shows. ATA stands for "Admission temporaire; temporary admission".
[28] Wikipedia Image: http://commons.wikimedia.org/wiki/Image:View_from_Pyramide_de_la_luna.jpg

CHAPTER II

THE EFTA-MEXICO FREE TRADE AGREEMENT: CONTENT AND IMPLICATIONS

The European Free Trade Association (EFTA) was established in 1960 by the Stockholm Convention. The original purpose of this intergovernmental organization was to remove customs duties on industrial products in trade among its Member States. The members of EFTA are Iceland, Liechtenstein, Norway and Switzerland. In contrast to the European Union (EU), EFTA is not a customs union. Individual EFTA States set their own customs tariffs and trade measures vis-à-vis third countries. EFTA is a platform to strengthen relations with the European Union – through the European Economic Area of which Switzerland is not a Member - and for joint negotiations of FTAs with interested partners. Sixteen FTAs[29] are currently in force and several are being ratified[30] or negotiated.[31]

1. The EFTA-Mexico Free Trade Agreement

The Free Trade Agreement between the EFTA States and Mexico was signed in Mexico City on November 27, 2000, and entered into force on July 1, 2001. Until January 2007, the FTA eliminated duties on practically all industrial products and abolished or reduced duties on many processed agricultural products. Tariff reductions relating to selected agricultural products are included in bilateral agricultural agreements negotiated between the individual EFTA States and Mexico.

The EFTA-Mexico FTA strengthens economic and trade relations and guarantees mutually improved market access. It also facilitates the participation of Swiss enterprises in public procurement, Swiss investment in Mexico and the provision of services by Swiss suppliers.

With respect to technical barriers to trade and sanitary and phytosanitary measures, the Agreement provides that the rights and obligations of the Parties are governed by the relevant rules of the WTO. A further chapter contains rules and procedures for the settlement of disputes.

A Joint Committee supervises and administers the Agreement, by making recommendations and taking decisions. The Committee supports consultations and exchange of information. The last meeting of the Joint Commission took place in September 2008 in Geneva.

2. Trade in goods

2.1. Rules of origin

In order to get preferential status upon import into Mexico, Swiss firms must fulfil specific rules of origin. They indicate the working and processing required to be carried out on non-originating materials.

The rules of origin of the EFTA-Mexico FTA are relatively liberal compared to the EU-Mexico FTA. This difference reflects EFTA countries' smaller industrial basis and the limited availability of domestically-produced inputs. The EFTA-Mexico FTA does not foresee cumulation of European Union inputs. They are considered as third country materials although the European

[29] Switzerland and its EFTA partners have FTAs in force with : Canada, Chile, Croatia, Egypt, Israel, Jordan, Lebanon, Macedonia, Mexico, Morocco, PLO, Singapore, South Africa, South Korea, Tunisia and Turkey.

[30] The EFTA-Colombia FTA, the EFTA-Gulf Cooperation Council (Bahrain, Kuwait, Oman, Quatar, Saudi Arabia, United Arab Emirates) FTA and the bilateral Switzerland-Japan FTA are signed and will be ratified after Parliamentary approval. The EFTA-Peru FTA has not been signed yet.

[31] Negotiations take place presently between the EFTA States and Albania, Algeria, India, Serbia and Ukraine.

Union has also concluded an FTA with Mexico. Thus far, cumulation between the European Union, EFTA countries and other FTA partners is limited to Europe and the Mediterranean[32]. Reimbursement or suspension of duties[33] for inputs temporarily imported and incorporated in goods exported under the FTA is not allowed.

The rules for the major Swiss exports to Mexico are:

Machines[34]: the rules of origin generally foresee the tariff shift[35] whereby the end product has to fall into a heading of the Harmonized System (HS)[36] different from the heading of the inputs, or alternatively a 50% value-added rule. In the automobile sector, value-added is limited to 40%.

Pharmaceuticals[37]: the rules of origin require 50% value-added and a tariff shift with a tolerance allowing up to 20% (value terms) of non-originating materials classified in the same heading as the pharmaceuticals.

Watches[38]: the rule of origin foresees 60% value-added.

Chemicals[39]: the rules of origin require a tariff shift with the possibility to use up to 20% of non-originating materials classified in the same heading as the product or 50% value-added on the ex-works price of the product. For chapter 36 (explosives; pyrotechnic products), value-added must reach 60%.

Precision instruments[40]: the rules of origin foresee a tariff shift or 50% value-added.

Textiles: the EFTA-Mexico FTA has similarly restrictive rules as the EU-Mexico FTA. Fabrics must be produced from originating yarn. However, the processing of fabrics is recognized with printing or deying accompanied by at least two preparatory or finishing operations (such as scouring, bleaching, mercerizing, heat setting, raising, calendaring, shrink resistance processing, permanent finishing, decatizing, impregnating, mending and burling) with a minimum of 52.5% of value-added. Exports from EFTA States under such rules are subject to quotas amounting to a maximum of USD 2 million per year; the same applies to Mexican exports to EFTA States.

Embroidery : the rule of origin requires a tariff shift and a value-added of 50%.

Clothing : the rules of origin foresee the production of both the fabrics and the assembly of the clothes. More liberal rules –tariff shift except for accessories and parts classified in the same chapter- are subject to quotas amounting to a maximum of USD 2 million per year; the same applies to Mexican exports to EFTA States.

In order to benefit from preferential treatment, exporters must submit a proof of origin, i.e. a declaration on the invoice or the movement certificate EUR.1. Proofs of origin and all relevant documents used to prove the originating status of the products must be kept for three years.

Consignments may be split in third states (e.g. after their arrival in a European port) without the loss of preferential origin. With regard to Switzerland's landlocked geographical position, this is useful for many Swiss exporters.

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[32] For more information see: Swiss Federal Department of Finance, General Customs Directorate, http://www.ezv.admin.ch/zollinfo_firmen/abfertigungshilfen/00372/index.html?lang=fr&download=M3wBPgDB/8ull6Du36WenojQ1NTTjaXZnqWfVp7Yhmfhnapmmc7Zi6rZnqCkkIN3gH2DbKbXrZ6lhuDZz8mMps2gpKfo&typ=.pdf;

[33] This refers to drawback.

[34] Chapter 84 and 85 of the Harmonized System.

[35] A tariff shift is a movement between two tariff positions at the four-digit level of the Harmonized System.

[36] The Harmonized System (HS) is a classification system for goods comprising 21 Sections, 96 Chapters and 1'241 headings (4-digit level). Some headings are sub-divided into sub-headings (6-digit level) which are further sub-divided at a national level into two-dash sub-headings (8-digit level). The HS includes 5'018 separate categories of classification of goods. It is implemented by the international Convention on the Harmonized Commodity Description and Coding System of 1 January 1988. It is now used in the customs tariffs and trade statistical nomenclatures of nearly 120 countries. For more details, see Hironori Asakura (1993): *The Harmonized System and Rules of Origin,* 27 J.W.T. 4, pp. 5-21.

[37] Chapter 30 of the Harmonized System; medicaments are classified in two tariff positions, 3003 and 3004.

[38] Chapter 91 of the Harmonized System.

[39] Chapters 31 to 36 of the Harmonized System.

[40] Chapter 90 of the Harmonized System.

2.2. Tariff dismantling for manufactured products under the FTA

The FTA applies to products falling within Chapters 25 through 98 of the Harmonized System with the exception of products listed in Annex I of the WTO Agreement on Agriculture, fish and other marine products.

Since the entry into force of the EFTA-Mexico FTA in 2001, Mexico has gradually removed all its tariffs on manufactured products. Since January 1, 2007, Swiss products like watches, machines, chemicals, pharmaceuticals and textiles benefit from tariff-free entry into the Mexican market.

2.3. Tariff regime for processed and basic agricultural products under the FTA

Trade in agricultural products is covered in a Swiss-Mexican Agricultural Agreement. Some substantial concessions were negotiated on both sides, while taking into account the respective sensitivities. This Agreement is subject to the relevant disciplines of the main Agreement for trade in goods.

Mexico has eliminated its tariffs on some basic agricultural imports from Switzerland such as vegetables and fruit, e.g. salad, onions or apricots. Processed agricultural products that enjoy tariff-free treatment on the Mexican market include soups, sauces, beer and certain spirits. Concessions were also granted for some processed agricultural products containing sugar such as chewing gum and lemonade. In order to enable inward processing, an exception from the general prohibition of duty drawback[41] was provided for sugar.

Basic agricultural goods such as milk, meat and cereals are excluded from the coverage of the Agreement. Since Mexico does not provide preferential treatment to goods benefiting from export subsidies, no market access improvement was achieved for chocolate or cheese. The general provisions of the EFTA-Mexico FTA (import and export restrictions, national treatment, sanitary and phytosanitary measures, safeguards and general exceptions) also apply to the Swiss-Mexican Agriculture Agreement. However, the bilateral Agreement has specific rules of origin.

2.4. Tariffs applied by Mexico to non-preferential imports

Products which do not meet the rules of origin are subject to tariffs upon import in Mexico.

Between 2001 and 2008, Mexico has reduced the average tariff from 16.5% to 11.2%[42]. The largest reductions apply to non-agricultural products (-5.7%; average tariff 9.9%), with minerals, chemicals, metals and manufactures thereof, machinery and equipment. The reduction for agricultural products was less significant (-1.9%; average tariff 23%).

The Mexican tariff displays tariff escalation[43] as the average tariff applicable to processed goods (13.4%) is higher than for semi-processed goods (7.4%). At the same time, though, there is negative escalation between semi-processed goods and raw materials as the average tariff for the latter (12%) exceeds that for the former. This implies a cost disadvantage for Mexican companies hindering their competitiveness.

According to Customs Law, temporary imports are exempt from any import duty under the condition that they comply with other obligations concerning regulations and non-tariff restrictions.[44] There are two main categories of temporary imports: goods which enter Mexico for a limited time and for a special purpose, subsequently returning abroad without any transformation; and goods imported for processing, transformation or repair by companies with export programs authorized by the Ministry of Economy.[45]

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[41] Situation in which a duty or tax that has been lawfully collected is refunded or remitted, wholly or partially, because of a particular use of the commodity on which the duty or tax was collected.

[42] Source: Trade Policy Review, Mexico, WTO, February 2008: www.wto.org

[43] Tariff escalation: Higher import duties at every production stage namely, on finished products respective to semi-processed products and to raw materials. This policy protects domestic processing industries and discourages the development of processing activity in the countries where raw materials originate.

[44] Article 104 of the Customs Law.

[45] Op. cit., Trade Policy Review, Mexico, WTO.

2.5. Impact of the FTA on trade between Switzerland an Mexico

In line with Mexico's GDP and import growth, Swiss exports to Mexico have steadily increased between 2000 and 2008. Still, Switzerland only accounts for 0.5% of Mexico's imports. The FTA has thus contributed to strengthen Swiss exports to Mexico with a surge in 2004 (+14.2%), 2006 (+29.1%) and 2007 (+6.9%). Declines were registered in 2003 (-7.7%), 2005 (-5.1%) and 2008 (-4.7%).

Based on Mexican trade statistics, Table 4 compares Mexico's imports with selected partners between 2000 and 2008. Imports from Switzerland grew during that period at a yearly average of 8.2%, slightly faster than overall Mexican imports (7.4%).

Box 5. Mexican imports by origin, 2000 and 2007

Origin	Mexican Imports 2000 (in USD mn)	Share of total imports 2000 (in %)	Mexican Imports 2008 (in USD mn)	Share of total imports 2008 (in %)	Total growth 2000-2008 (in %)	Av. Annual gowth 2000-2008 (in %)
USA	127'534.4	73.1	151'334.6	49.0	18.7	2.2
EU	15'328.6	8.8	39'183.2	12.7	155.6	12.4
China	2'879.6	1.7	34'690.3	11.2	1'104.7	36.5
Japan	6'465.7	3.7	16'282.5	5.3	151.8	12.2
Korea	3'854.8	2.2	13'548.1	4.4	251.5	17.0
Switzerland	*752.7*	*0.4*	*1'412.9*	*0.5*	*87.7*	*8.2*
Total	**174'457.8**	**100.0**	**308'603.3**	**100.0**	**76.9**	**7.4**

Source: Banco de México

The U.S. share in overall Mexican imports declined considerably (-24.1%) with the surge of the share of China (+9.5%) and the noticeable increases of the shares of Korea (+2.2%) and Mexico's free trade partners, the EU (FTA: 2000; +3.9%) and Japan (FTA: 2005; +1.6%).

China's very strong yearly average growth (+36.5%) was linked with its export-oriented economy, comparative advantage in several categories of manufactured products and a major market access improvement to Mexico resulting from WTO accession in 2001. Korea (+17%), the EU (+12.4%) and Japan (+12.2%) realized also significant yearly growth.

Compared to Switzerland, the EU's higher performance may be linked to a stronger presence on the Mexican market, substantial investments in Mexico as well as an important commercial representation with e.g. large Chambers of Commerce.

For Switzerland, the FTA has enabled to keep a level playing field with the EU - the major competitor for its product portfolio on the Mexican market - and slightly increase its market share in a period characterized by significant shifts and very strong international competition.

3. Government procurement

Mexico has not joined the WTO Agreement on Government Procurement (GPA) and is not an observer in the WTO Committee on Government Procurement. The EFTA-Mexico FTA opens government procurement between the Parties.[46]

It is estimated that total procurement by Mexico's public sector was around USD 47 billion in 2007, corresponding to some 5.6% of GDP. Of this amount, 36% referred to goods, 25% to services, and 36% to public works.[47]

[46] Ibid.

The EFTA States and Mexico grant each other non-discriminatory access to procurement markets for goods, services and public works at the central government level and for entities operating in the fields of drinking water, electricity, urban transport, airports and ports. Mexico provides access to EFTA suppliers under the same conditions as to European Union, U.S. or Canadian suppliers. In return, the EFTA States grant Mexican firms similar access as under the WTO Government Procurement Agreement, excluding the sub-central level.

All major buyers at the Federal Government level and major parastatal enterprises are covered under the FTA, as are major goods and services typically bought through public procurement. Swiss suppliers must be considered by purchasing entities if the value of a contract is equal or superior to the following thresholds[48]:

- federal government entities, the threshold amounts to USD 50.000 for contracts for goods, services or any combination thereof, and USD 6.5 million for contracts for construction services;

- government enterprises, the threshold amounts to USD 250.000 for contracts for goods, services or any combination thereof, and USD 8 million for contracts for construction services.

Mexico applies the NAFTA thresholds in order to avoid discrimination between NAFTA and EFTA bidders. NAFTA thresholds are regularly adapted to the U.S. inflation rate. Suppliers from EFTA countries are entitled to equal treatment with national suppliers. The rules of origin for public procurement are the same as those applied in the "normal" course of trade.

In recent years, some changes were introduced into the legislation with the aim of reorganizing and improving the transparency of the government procurement process. For instance, the procedure for opening bids was simplified so that technical and commercial proposals from bidders are opened simultaneously. Government bodies must publish on internet their estimated procurement program for the upcoming year, at the latest by November 30.

Regulations affecting government procurement include the *Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público* – LAASSP (Law on Purchasing, Leasing and Services by the Public Sector), the *Ley de Obras Públicas y Servicios Relacionadas con las Mismas* – LOPSRM (Law on Public Works and Related Services), and their respective Implementing Regulations.

The LAASSP states that public tenders may be of three types:

1. National, in which only persons of Mexican nationality may participate and the goods to be purchased must be produced in Mexico with a minimum national content of 50%.
2. International, in which only Mexican and foreign bidders from countries that have signed an international agreement may take part. The goods to be purchased must comply with the rules of origin specified in the agreement.
3. Open international, in which any Mexican or foreign bidders may participate and the goods to be purchased may be of any origin.

In 2006, the most common type of public tender was national (46%), followed by international tenders covered by agreements (30%) and open international tenders (24%).

Mexico has no central procurement office. The federal entities, companies with a majority government shareholding and state entities have autonomy to plan and purchase. The Ministry of Public Function (SFP) is responsible for determining and promoting the necessary measures to ensure the impartiality and transparency of procedures for government procurement of goods and services. The SFP is the only government body responsible for regularly monitoring and investigating unlawful acts in relation to purchases and public works.

[47] Ministry of Economy: www.economia-paasop.gob.mx/pasop
[48] These thresholds are from NAFTA: Chapter 10, Government Procurement.

Each government agency and parastatal corporation is autonomous in awarding contracts. As provided for in the legislation, procurement generally takes place through open tendering procedures following public notices. Such invitations to participate are published in the Official Journal and on the Internet through the Compranet Service (http://web.compranet.gob.mx/ayudas/licitantes/como.html). Any supplier who fulfils all the requirements specified in the invitation to participate and in the tender documentation may submit a bid.

Public Tenders in Mexico

The Mexican government has three methods for purchasing goods and services:

1. **Public tender** : most commonly used, standard purchasing method for all government entities in Mexico and under NAFTA; a tender notice must be published in Mexico's Official Journal (*Diario Oficial de la Federación*).

2. **Direct award :** used when there is only one party who can offer the desired product or service due to ownership of patents or copyrights.

3. **Invitation** : used when the tender is very small, the product perishable or national security at risk; at least three suppliers must be invited; the final selection is made under the same criteria as for public tenders.

The Compranet system, managed by the Ministry of Public Function (SFP, http://www.compranet.gob.mx) is a comprehensive website with all public tenders from federal and state governments, the oil company PEMEX and the Federal Electricity Commission (CFE).

A very useful guide for tender participants is available under: “Información y ayudas” and then “Licitantes”.

Interested companies may buy the bidding documents required to submit to tender through Compranet.

Box 6. Example of projects on Compranet

Licitaciones vigentes de obra pública

Seleccione una o más opciones de los criterios de búsqueda y oprima el botón ***buscar***.

☐ **Dependencias**

Todas las dependencias

Concepto de Obra

<Todos>

☐ **Ubicación geográfica**

Todos los estados

Período de publicación de la licitación

Del 09 AGO 2007 Al 20 FEB 2009

Para realizar de una manera más ágil la consulta de la información sobre las contrataciones del gobierno, Compranet cuenta con la información en línea del año vigente y el anterior.
Si desea consultar información de años anteriores, ingrese a la dirección www.ifai.gob.mx o www.sisi.gob.mx.

Tipo de contratación ☐ Obra pública ☐ Servicios relacionados con obra pública

Carácter de la licitación ☐ Nacional ☐ Internacional

Crédito externo ☐ <Todas>

Número de la licitación ___ - ___ - ___

Número máximo de registros por hoja 20

Buscar | Limpiar

BUZÓN

No. de licitación	Descripción	Fecha límite de pago de bases	Costo de bases	Costo de bases en compra*net*
16101036-001-09	REHABILITACIÝN DE 20 POZOS EN LOS RAMALES DE LA ZONA NORTE: LOS REYES FERROCARRIL, TIZAYUCA- PACHUCA Y TEOLOYUCAN, ESTADO DE MÝXICO E HIDALGO	20/02/2009	$1,100.00	$1,000.00
16101036-002-09	COORDINACIÝN, SUPERVISIÝN Y CONTROL DE LA OBRA RELATIVO A LA REHABILITACIÝN DE 20 POZOS EN LOS RAMALES DE LA ZONA NORTE: LOS REYES FERROCARRIL, TIZAYUCA- PACHUCA Y TEOLOYUCAN, ESTADO DE MÝXICO E HIDALGO	20/02/2009	$1,100.00	$1,000.00
16101036-003-09	MANTENIMIENTO INTERNO Y EXTERNO DE LOS ACUEDUCTOS, CAMBIO DE TUBOS, REFORZAMIENTO, COLOCACIÝN DE SELLOS Y REHABILITACIÝN DE LA INFRAESTRUCTURA DEL SISTEMA CUTZAMALA, DESDE LA PLANTA DE BOMBEO NO. 1 (COLORINES) HASTA EL PORTAL DE ENTRADA DEL TÝNEL ANALCO-SAN JOSÝ, INCLUYENDO: AL SUBSISTEMA CHILESDO, ESTADO DE MÝXICO	20/02/2009	$1,100.00	$1,000.00
16101036-004-09	COORDINACIÝN, SUPERVISIÝN Y CONTROL RELATIVO AL MANTENIMIENTO INTERNO Y EXTERNO DE LOS ACUEDUCTOS, CAMBIO DE TUBOS, REFORZAMIENTO, COLOCACIÝN DE SELLOS, Y REHABILITACIÝN DE LA INFRAESTRUCTURA DEL SISTEMA CUTZAMALA, DESDE LA PLANTA DE BOMBEO NO.1 (COLORINES) HASTA EL PORTAL DE ENTRADA DEL TÝNEL ANALCO-SAN JOSÝ, INCLUYENDO: AL SUBSISTEMA CHILESDO, ESTADO DE MÝXICO	20/02/2009	$1,100.00	$1,000.00
16101036-005-09	REPOSICIÝN DE DOS POZOS DE AGUA POTABLE EN EL RAMAL TLÝHUAC (7 Y 9), ESTADO DE MÝXICO Y DISTRITO FEDERAL	21/02/2009	$1,100.00	$1,000.00
16101036-006-09	SANIDAD Y LIMPIEZA, CONSISTIENDO EN EXTRACCIÝN Y RETIRO DE LIRIO Y MALEZA, DE LAS PRESAS VALLE DE BRAVO, Y COLORINES SISTEMA CUTZAMALA, ESTADO DE MÝXICO	21/02/2009	$1,100.00	$1,000.00
16101036-007-09	COORDINACIÝN, SUPERVISIÝN Y CONTROL DE LA OBRA RELATIVO A LA SANIDAD Y LIMPIEZA, CONSISTIENDO EN EXTRACCIÝN Y RETIRO DE LIRIO Y MALEZA, DE LAS PRESAS VALLE DE BRAVO, Y COLORINES SISTEMA CUTZAMALA, ESTADO DE MÝXICO	21/02/2009	$1,100.00	$1,000.00
16101036-008-09	MANTENIMIENTO DEL CANAL DONATO GUERRA, ESTRUCTURAS Y DESAZOLVE DE CANALES DE DESFOGUE, SISTEMA CUTZAMALA, ESTADO DE MÝXICO	21/02/2009	$1,100.00	$1,000.00
16101036-009-09	COORDINACIÝN, SUPERVISIÝN Y CONTROL DE LA OBRA RELATIVO AL MANTENIMIENTO DEL CANAL DONATO GUERRA, ESTRUCTURAS Y DESAZOLVE DE CANALES DE DESFOGUE, SISTEMA CUTZAMALA, ESTADO DE MÝXICO	21/02/2009	$1,100.00	$1,000.00
16101036-010-09	MANTENIMIENTO DEL CANAL DE CONDUCCIÝN Y CAMINO DE OPERACIÝN DE LA PRESA TUXPAN A LA PRESA EL BOSQUE, SISTEMA CUTZAMALA, ESTADO DE MICHOACÝN	03/03/2009	$1,100.00	$1,000.00
16101036-011-09	COORDINACIÝN, SUPERVISIÝN Y CONTROL DE LA OBRA RELATIVO AL MANTENIMIENTO DEL CANAL DE CONDUCCIÝN Y CAMINO DE OPERACIÝN DE LA PRESA TUXPAN A LA PRESA EL BOSQUE, SISTEMA CUTZAMALA, ESTADO DE MICHOACÝN	03/03/2009	$1,100.00	$1,000.00
16101036-012-09	MANTENIMIENTO, PROTECCIÝN DE OBRAS DE DRENAJE EN CUBETA DEL CANAL Y TÝNELES DE CONDUCCIÝN, REVESTIMIENTO DE TRAMOS DE CAMINOS DE OPERACIÝN DE LA PRESA "BOSQUE" A LA PRESA "COLORINES", SISTEMA CUTZAMALA, ESTADOS DE MICHOACÝN Y MÝXICO	03/03/2009	$1,100.00	$1,000.00
16101036-013-09	COORDINACIÝN, SUPERVISIÝN Y CONTROL DE LA OBRA RELATIVO AL MANTENIMIENTO, PROTECCIÝN DE OBRAS DE DRENAJE EN CUBETA DEL CANAL Y TÝNELES DE CONDUCCIÝN, REVESTIMIENTO DE TRAMOS DE CAMINOS DE OPERACIÝN DE LA PRESA "BOSQUE" A LA PRESA "COLORINES", SISTEMA CUTZAMALA, ESTADOS DE MICHOACÝN Y MÝXICO	03/03/2009	$1,100.00	$1,000.00
16101036-014-09	CONSTRUCCIÝN DE BARDA PERIMETRAL PARA PROTECCIÝN DE LA ZONA FEDERAL EN LA PLANTA POTABILIZADORA LOS BERROS, (ATENCIÝN A-32/2007), SISTEMA CUTZAMALA, ESTADO DE MÝXICO	04/03/2009	$1,100.00	$1,000.00
16101036-015-09	COORDINACIÝN, SUPERVISIÝN Y CONTROL DE LA OBRA RELATIVO A LA CONSTRUCCIÝN DE BARDA PERIMETRAL PARA PROTECCIÝN DE LA ZONA FEDERAL EN LA PLANTA POTABILIZADORA LOS BERROS, (ATENCIÝN A-32/2007), SISTEMA CUTZAMALA, ESTADO DE MÝXICO	04/03/2009	$1,100.00	$1,000.00

It is imperative for companies interested in participating in public tenders to plan in advance, possess the necessary language skills and seek local legal advice. International companies with a strong interest in various fields monitor constantly local opportunities and have developed a clear understanding of which government entities might present the best sales and project opportunities.

Box 7. Government Procurement : Most important purchases

According to the Ministry of Public Function, in 2007 alone, 97 public tendering procedures were carried out per day. Mexico has around 3'000 buying entities at the federal level. The most important buyers are:

- The Ministry of Communications and Transports (Secretaría de Comunicaciones y Transportes; SCT; http://www.sct.gob.mx). Tenders cover road construction services, vehicles, signalling equipment, data processing equipment, etc.
- The Ministry of Public Education (Secretaría de Educación Pública; http://www.sep.gob.mx)
- The Ministry of Agriculture (Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación; http://www.sagarpa.gob.mx)
- The Ministry of Finance (Secretaría de Hacienda y Crédito Público; http:// www.shcp.gob.mx)
- The Ministry of Health (Secretaría de Salud; http://www.ssa.gob.mx) as well as the Instituto Mexicano del Seguro Social IMSS (http://www.imss.gob.mx) and the Institute of Social Insurance and Social Services for State Workers ISSSTE (Instituto de Seguridad y de Servicios Sociales para los Trabajadores del Estado; ISSSTE; http://www.issste.gob.mx). Tenders cover construction services, medical and surgical equipment, laboratory material and equipment, pharmaceutical products, hospital supplies, cleaning services, etc.
- Petroleos Mexicanos (PEMEX; http://www.pemex.gob.mx). Products include oil-drilling equipment, pipeline tubes, sea platforms, etc.
- The Federal Electricity Commission (Comisión Federal de Electricidad; http://www.cfe.gob.mx). Tenders cover products and services related to the production and distribution of electrical energy, such as construction services, power plant equipment, cable, fuel or coal.

4. Investment

The EFTA-Mexico FTA incorporates several important rules on investment. Mexico guarantees investors of EFTA States the right of free transfer of "*capital, returns, payments under contract, royalties and fees, proceeds from the sale or liquidation of all or any part of an investment*." The Agreement also recalls the Parties' international commitments with regard to investment and in particular commitments made in their respective bilateral investment treaties. In addition, Mexico and the EFTA members concur to promote an attractive and stable environment for reciprocal investments, in particular through the exchange of information on investment opportunities and a simplification of relevant administrative procedures. The investment section of the FTA is subject to a general review clause.

Mexico sees the promotion of foreign investment as an important complement to trade liberalization. Foreign investors can hold up to 100% of the equity of Mexican enterprises in all activities that are not reserved or subject to specific regulation. Some sectors are reserved for the State (e.g. hydrocarbons and electricity, with some exceptions), for Mexican ownership (e.g. domestic land transport), require majority of Mexican capital (e.g. certain telecommunications services, air transport, port administration) or prior approval before foreign participation may exceed 49% of total equity (e.g. airports and cellular telephony). In sectors where foreign investment participation is restricted, a larger share of the ownership is allowed through the neutral investment mechanism (i.e. shares with no voting rights).[49]

5. Services

The relevant services provisions under the EFTA-Mexico FTA are of considerable importance to Switzerland. They are largely based on the EU-Mexico FTA, thereby creating equal competitive conditions for EFTA operators on the Mexican market.

All four modes of services supply[50] as defined under the WTO General Agreement on Trade in Services (GATS), as well as all services sectors – including maritime services, financial services, telecom, distribution, energy, audiovisual tourism and environment - with the exception of air transport - are covered. A so-called standstill obligation (i.e. a prohibition on the introduction of new or more restrictive measures affecting market access) secures for services suppliers from EFTA States an equivalent access to the Mexican market as the one granted to companies from Mexico's other preferential trading partners. Within a period of ten years, remaining discrimination of services providers from EFTA countries as compared to national suppliers shall be eliminated to the largest possible extent. In September 2008, lists of services not to be covered by the Agreement (so-called negative lists) were exchanged between the Parties in view of further liberalizing this sector.

The financial services section ensures that EFTA banks and insurance companies are authorized to operate and establish themselves directly on the Mexican territory on equal terms with firms from other preferential trading partners. Financial services are covered by a specific standstill obligation[51].

Both the standstill obligation and the pledge to further liberalize the services sector within a period of ten years represent important advances as to commitments entered into by Mexico in the framework of the GATS.

Monterrey: Palace of State government[52]

[49] Op. cit., Trade Policy Review, Mexico, WTO.
[50] The GATS distinguishes between four modes to supply services: cross-border trade, consumption abroad, commercial presence, and presence of natural persons.
[51] A standstill obligation refers to a commitment not to introduce any new restriction.
[52] www.flickr.com/photos/hashek/3249040501/

6. Competition policy

The EFTA-Mexico FTA includes provisions on co-operation and exchange of information with the aim of ensuring and facilitating the enforcement of the Parties' respective competition laws.

The main general provisions on competition policy are incorporated in the Federal Law on Economic Competition (LFCE, 1993, revised in 2006); the Federal Competition Commission (CFC) is responsible for enforcement. The Implementing Regulations for the LFCE establish definitions e.g. for substantial market power, monopolistic practices and the relevant market.

According to the LFCE, economic agents operating under legally-constituted workers' associations, privileges conferred by copyright and patents, cooperative export associations that do not sell or distribute their products in Mexico, and strategic sectors reserved by law to the State under an exclusive right are not deemed to be monopolies. These economic agents are subject to the rules governing anti-competitive conduct in their respective markets, unless expressly exempted under the Constitution.[53]

7. Intellectual property

The FTA has a chapter on intellectual property which is closely based on the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights. This section presents the cornerstone of Mexico's intellectual property rights regime, which provides for a stable legal framework granting minimum protection standards for intellectual property rights.

7.1. Mexican IP laws and institutions

Mexico has considerably improved its protection of intellectual property rights (IPRs) in recent years. The country is a member of the World Intellectual Property Organization (WIPO) and a signatory to most international IPR agreements. The WTO Agreement on Trade-Related Aspects of IPRs (TRIPS Agreement) applies fully to Mexico since 2000. Concerning the international exhaustion principle regulating parallel trade, Mexican law generally allows for parallel importation for trademark protected goods, whilst it is less clear-cut for patent protected goods.

When it comes to the exhaustion principle with regard to patented products, it is disputed whether parallel importation is allowed or prohibited. Article 25 of the Mexican IP law seems to prohibit parallel importation, whilst Article 22(2) might be interpreted as allowing for an exception. As long as the Federal Courts have not issued any authoritative decision on this issue, one cannot state with certainty whether parallel importation of patented goods into Mexico is legal or not.

The main institutions involved in IPR protection are the Mexican Institute of Industrial Property (IMPI) and the National Copyright Institute (INDAUTOR). IMPI is an autonomous agency under the aegis of the Ministry of the Economy, responsible for the processing and granting of patents and trademarks as well as other titles to protect industrial property rights. INDAUTOR operates under the authority of the Ministry of Public Education. It is in charge of promoting copyrights and related rights. Finally, the Ministry of Agriculture is responsible for the registration of new plant varieties.

In the case of trade-related IPR infringement the competence for copyright is shared between IMPI and INDAUTOR. Infringers of industrial property rights may be punished by terms of imprisonment of up to ten years, as well as fines of up to 20'000 times the daily minimum wage in Mexico City (USD 4.8 in early 2008). Infringement of copyright for commercial purposes may be punished by a term of imprisonment of up to six years and fines of up to 15'000 times the daily minimum wage.[54]

[53] Op. cit., Trade Policy Review, Mexico, WTO.
[54] Ibid.

7.2. IP and the advantages of the FTA

The provisions of the EFTA-Mexico FTA on IPR protection go beyond the TRIPS Agreement. According to the FTA, the Parties shall grant and ensure adequate, effective and non-discriminatory protection of IPRs. An annual Joint Committee (JC) meeting shall address IPR issues of mutual interest or concern of either party arising in their free trade relationship.

With the JC, the FTA provides an institutional platform to address and resolve IPR implementation and enforcement issues consistent with the FTA. Compared to consultations or dispute settlement procedures in the framework of the FTA or multilateral organizations, the JC is an easily accessible and informal discussion platform. Right holders may bring their problems or difficulties (such as in the field of protection of patents, well-known trademarks or enforcement issues in the area of copyrights) to the attention of the JC, so as to seek a mutually satisfactory solution.

7.3. Copyright and related Rights

Protection for copyrights and related rights is granted to original works susceptible to disclosure or reproduction. It relates e.g. to literature, music, drama, dance, photography, architecture, audiovisual arts, radio and television, computer programs, and compilations including data bases. In Mexico, copyrights include moral and patrimonial rights. No registration is required for protection. Patrimonial rights protection is granted for the duration of the life of the author plus 75 years. Unless otherwise specified, the transfer of economic rights is for five years and, in exceptional circumstances for more than 15 years.

Given the following circumstances, there will be no violation of copyright protection: no direct financial gain, educational purposes or research purposes. No authorization is required for the following uses: reproduction of current affairs articles, unless expressly prohibited by the rights holder, and, partial reproduction for research purposes. No authorization is required either for making a single copy by individuals and by education or research institutions, as long as no financial gain is pursued. The author retains the inalienable moral right to withdraw publication rights.

7.4. Patents

Any invention, which is novel, results from an inventive step and is suitable for industrial application is patentable. The duration of the patent is 20 years from the date of filing and is non-renewable. Exclusions and limitations are in place with regard to biological processes for the production and propagation of plants and animals, biological and genetic material found in nature, animal breeds, the human body and its living parts, plant varieties, computer programs and schemes to present information.

Compulsory licenses may be granted in case a patent is not exploited within three years after its issuance or within four years after filing, whichever period terminates later. Public utility licenses for the use of a patent may be granted in case of emergencies and/or for national security needs.

7.5. Industrial Designs

Industrial designs are subject to registration as long as they are novel and suitable for industrial application. Ornamental industrial drawings are included. Protection is granted for 15 years from the date of filing and is non-renewable.

7.6. Utility Models

Utility models are defined as objects, utensils, appliances and tools that offer, as a result of modification, configuration, structure or form, a different function from their integrating parts. Protection is subject to registration. It is granted for ten years from the date of application and is non-extendible.

7.7. Trademarks

Trademarks eligible for protection are all visible signs that differentiate products or services from similar items in the market. They include slogans, denominations and commercial names. Protection of trademarks and slogans is subject to registration and is granted for ten years from the date of filing. In the case of commercial names, protection is subject to publication. By contrast to most other IPRs, they are renewable. However, a trademark's registration generally expires if it is not used for three consecutive years. Trademark protection is not possible for geographic denominations, for names that may mislead in relation to origin or for denominations that are similar to trademarks, which are considered familiar in Mexico. Authorities may regulate the use of trademarks for several reasons, including competition policy or national emergencies.

Between 2000 and 2006, Mexico recorded an increase in the filing of applications and in the issuance of patents, industrial designs, utility models, and trademarks. Trademarks are a particularly active and fast growing sector of IPRs in Mexico: during the 2000-2006 period, the number of applications for trademark registration increased by 15% and the number of trademarks granted by 21%. As a significant user of trademarks and geographical indications and one of the most dynamic export sector, the Mexican alcoholic beverages industry has contributed to these dynamic developments.[55]

7.8. Geographical Indications

Subject to a declaration from the authorities, denominations of origin are protected. They are defined as the name of a region serving to designate a product which originates therein and whose characteristics derive essentially from the geographic setting. Protection is granted for as long as the initial conditions for protection prevail. The State holds the title to denominations of origin, which may be used only with its authorization.

The EFTA-Mexico FTA brings some additional protection for geographical indications, which go beyond the obligations included in the TRIPS agreement. The FTA obliges each party to refuse or invalidate the registration of a trademark, which contains or consists of a geographical indication with respect to services not originating in or connected to the territory indicated. The obligation holds if the use of the indication in the trademark misleads the public as to the true place of origin.

7.9 IPR issues

Despite the fact that Mexico has a relatively modern legal framework, IPRs are a major problem for Swiss and other foreign companies. Regarding the pharmaceutical sector, all drugs and medical devices (supplies and machinery) must obtain prior authorization for import and commercialization in Mexico. Nevertheless, there are reported cases of patent violations in which the authorization to manufacture generic drugs under patent protection is granted for drugs to be acquired subsequently through public tenders. Furthermore, there is no law that provides for a fixed period of test data protection regarding the confidential data submitted in the framework of a market authorisation procedure for pharmaceutical or agrochemical products. Various countries are insisting on a greater linkage in Mexico between the patent office and health/drug authorities. There is also a growing concern about counterfeit drugs in Mexico (10 to 14%): copies made in clandestine laboratories, repackaging of expired drugs or illegal commercialization of sample drugs offered to doctors. This exists particularly in small local discount pharmacies in which the owners buy bulk products from dubious salesmen at very low prices.

The need for more efficient law enforcement mechanisms to tackle patent, trademark and copyright infringements in Mexico is evident. To get an idea of the scope of counterfeit products in Mexico, seven music CDs out of ten and eight DVDs out of ten are of illegal origin. Half of sold apparels come from smuggling or piracy activities. The phenomenon is widely spread among all social classes and involves the organized crime that provides jobs to thousands of unemployed

[55] Ibid.

people to sell their products on the streets or in markets.[56] Despite the authorities' increased efforts through raids and seizures of counterfeit material, few people are indeed arrested and sentenced to more than one year, thus undercutting the deterrent effect of the raids and arrests. The two Swiss industries most affected by IPR issues are pharmaceuticals and watches.

In 2008, the Federation of Swiss Watch Industry spent several months preparing a large-scale operation to seize counterfeit watches. After a lengthy investigation, it was on the initiative of the anti-counterfeiting group and under the aegis of the Mexican federal public prosecutor's department that authorities in Mexico City struck a significant blow against the capital's counterfeiters. More than 90'000 counterfeit watches of ten different brands were seized and sequestrated.

Mexico City: Palacio de Bellas Artes[57]

[56] American Chamber, "Comportamiento del consumidor: la piratería en México", November 2007.
[57] http://de.wikipedia.org/w/index.php?title=Datei:Palacio_de_bellas_artes_1.jpg&filetimestamp=20070309181615

CHAPTER III
MARKET ENTRY IN MEXICO

The choice of a market entry strategy depends heavily on product, firm and country market characteristics. This chapter provides an insight on how to proceed and includes selected aspects referring to pricing, payment, collection and taxation.

1. Trade

1.1. Indirect Exports

Indirect exports refer to goods not exported directly by the producer but through an intermediary in the country of origin such as a trading house, an export agent, a purchasing agent or the like. Trading houses, for instance, buy the products directly from the producer and look for customers abroad. They administer export formalities and may even offer financing arrangements to the customer. The advantage of indirect exports is that they offer a risk-minimising strategy to producers, particularly if they are newcomers to exporting or if they plan only occasional exports to Mexico. Depending on the intermediary, a producer may benefit from the former's considerable market knowledge and a good network within the Mexican market.

The downside of indirect exports is that the producer loses control over the marketing of the product. Indirect exports are also an inadequate market entry strategy for selling more sophisticated products that require professional after-sales service. In addition, the producer does not gain knowledge of the Mexican market and customers' needs. Finally, success of the Mexican venture depends entirely on the competence of the trading house.

In order to find a suitable trading house in Switzerland, seek the advice of OSEC Business Network Switzerland (http://www.osec.ch) or use industry contacts. The Swiss Association of International Trading Houses (Schweizerischer Verband der Internationalen Handelsfirmen; SVIH) might also be in a position to provide some help or trade promotion agencies of foreign bilateral Chambers of Commerce.

1.2. Direct Exports

Direct exports refer to products sold directly by the producer to Mexico. Direct exports is a strategy with relatively low risks. Its key advantages over indirect exports are that the producer retains control over the marketing of his products and gets into direct relation with the Mexican customer, or at least with Mexican intermediaries. This allows him to gain better market knowledge and to obtain information on customers' preferences required to improve the product and to adapt it specifically to Mexican needs. For these reasons, direct exports are deemed to offer far better prospects for the development of a producer's business activities than indirect exports. However, direct exports require better knowledge of the Mexican market, specific preparation and the ability to undertake international transactions.

In the case of direct exports, goods may be sold directly from the Swiss manufacturer to Mexico, or through a proper sales office in the Mexican market. Establishing such a sales office should be considered when after-sales service is necessary or if commitment to the local market must be visible to customers. Obviously, the expected long-run volume of sales should justify the investment and the fixed costs of running a local office. An alternative to an individual office may be the establishment of a joint office in co-operation with business partners that export complementary products to Mexico. Depending on the market, some exporters sell the products directly to the customers. Most exporters, however, make use of local intermediaries such as commercial representatives or distributors to benefit from their market knowledge and business relations.

Box 8. Trade Barriers

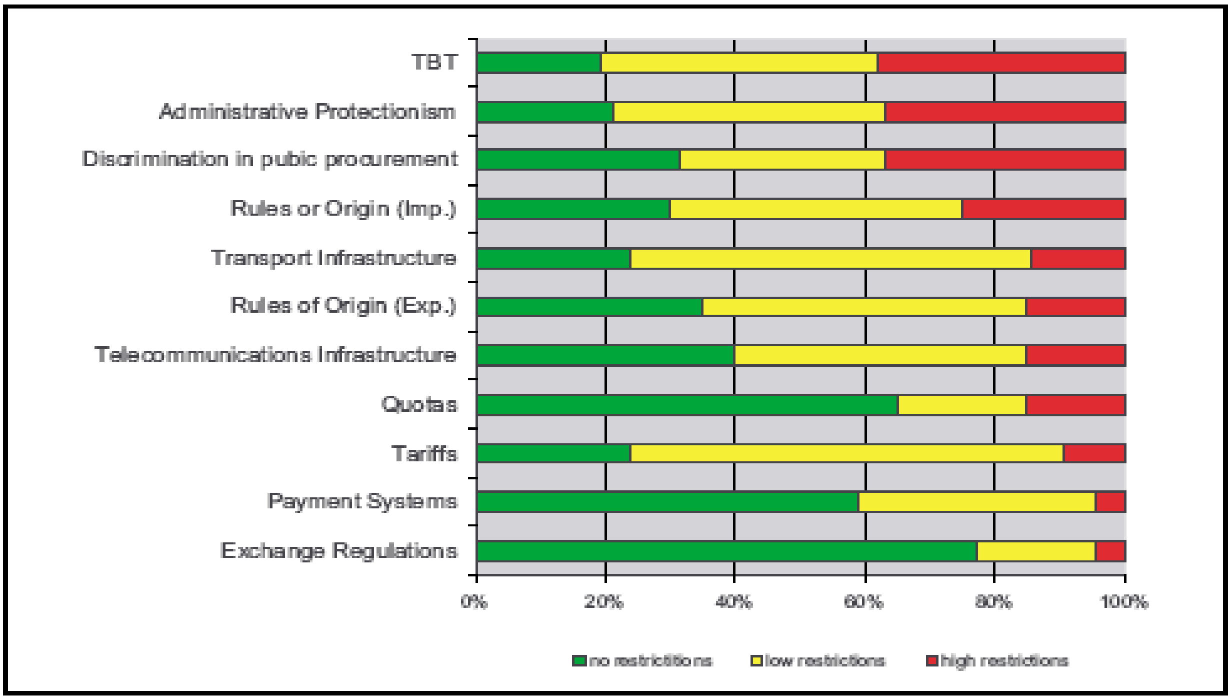
In surveys conducted among Swiss business executives in Mexico in 2001 and 2007, respondents rated the trade-restrictiveness of the major trade barriers. The results show that ”classical” trade barriers such as tariffs have a minor impact on business activity.

A different picture emerges, however, with regard to the more subtle non-tariff barriers.

In this respect, technical barriers to trade (TBT) were rated as a serious impediment, as well as administrative protectionism (bureaucracy), which may assume different forms, such as delays in border control, a complicated tax system or massive paperwork requirements.

While corruption was mentioned by several respondents, others deplored rapid changes to trade rules and their allegedly opaque administration. Other trade barriers with substantial impact are allegations of discriminatory practices in public procurement as well as the rules of origin of free trade agreements and their administration. Insufficient infrastructure for transports or telecommunications also have some trade-restrictive impact. The results of the 2001 survey are displayed in the following figure.

Trade barriers and their trade-restrictiveness



Source: Survey conducted among members of the “Asociación Empresarial Mexicano-Suiza” in September 2001; 25 respondents.

2. Foreign investment

2.1. Technological Co-operation: License Agreements

Licensing refers to the transfer of the right of use (not the property right) of a product or service to another manufacturer. Depending on the terms of the agreement, the right of the Mexican partner may be limited to the Mexican market or it may be extended to other markets. Licensing agreements have become a feasible option to enter the Mexican market in recent years since the country has increased the protection of intellectual property rights (IPRs) through new laws and regulations as well as the adherence to international treaties. However, observers note that enforcement of legal obligations is still rather weak, thus limiting the factual effect of IPR protection.

The advantages of licensing are that no significant financial resources are required for market entry, no additional capacity must be installed in Switzerland, and barriers to trade and investment may be overcome. Moreover, the licensor has access to his partner's knowledge of the local market and his distribution networks. The disadvantage of licensing, however, is that the licensor retains only limited control over his technology. Where such technology is the core business of the licensor, licensing implies more risks and Swiss SMEs should double check the trustworthiness of their prospective Mexican partner. Generally speaking, the success of market entry through licensing depends crucially on the qualities of the Mexican partner. Moreover, experienced legal counsel in Mexico is an absolute must in order to assure that the agreement is beneficial to both parties.

A licensing agreement should contain provisions e.g. on royalties, sub-licensing, rights to sell and manufacture, duration of the arrangement, geographical limitations of the license, exclusivity and technology updating.

A particular form of licensing is franchising.[58] In addition to usage rights for technology and trademarks, the franchisor supports the franchisee with logistics, organisation, marketing and management. Similar to other forms of licensing, the franchising system has experienced considerable growth in Mexico in recent years after the rights of the franchisor have been strengthened and the State has withdrawn from heavily regulating franchises. Franchisor and franchisee now enjoy considerable contractual freedom.

2.2. Foreign Direct Investment: Joint Ventures

The establishment of a joint venture between a Swiss firm and a partner already present in Mexico usually implies capital investment in Mexico, thereby increasing the commitment and the exposure to risks that go along with market entry.

Joint ventures differ according to the scope of the functions that are transferred (i.e. whether the joint venture is limited to certain functions such as R&D, production or marketing, or whether extensive co-operation is sought) and according to participation, i.e. whether both partners participate equally (50:50) in the joint venture or whether one holds a majority position. Whereas some joint ventures are established only temporarily in order to jointly carry out a project, others are meant to last.

Similar to other forms of co-operation such as licensing, joint ventures between a Swiss firm and an experienced Mexican partner may be very rewarding. They give the Swiss side access to local market knowledge and local networks while the Mexican partner benefits from new technologies and additional capital. Yet, this mode of co-operation is not unproblematic: It is the sharing of power, in particular, which may entail management problems. In order to minimise risks, it is important that the basic prerequisites of successful partnering are observed.

Among these are the diligent screening of the prospective partner, a clear articulation of each partner's objectives at the beginning of the talks and unambiguous written agreements on possibly contentious issues. These include, inter alia, sourcing and marketing policies, growth strategies, rationalisation policies, transfer pricing, the allocation of profits/losses, each party's

[58] Typical examples of franchising are fast food restaurants.

responsibility for future capital requirements or termination provisions. In case the joint venture implies some transfer of technology, the transferring partner should protect its technology from being seized.

The thorniest of all issues are those related to governance: governance structures, dispute settlement and emergency measures such as special directors, mediation, arbitration or even dissolution. While ownership of shares will certainly influence voting rights in some way, the minority partner may be protected through corresponding arrangements such as veto powers. Each partner should make sure that incentives are set in a way that the other partner is equally committed to the success of the joint venture. An arrangement where one party has much lower exit costs than the other party may foster opportunistic behaviour of the former to the detriment of the latter.

Agreements on the establishment of a joint venture must be set up in co-operation with an experienced lawyer. Finally, partners will have to dedicate time and attention to the management of the joint venture. Intense communication, mutual trust and good personal ”chemistry” are all essential to the success of a joint venture.

2.3. Wholly-Owned Subsidiaries

The establishment of a wholly-owned foreign subsidiary offers a Swiss firm the advantage of complete control of the Mexican venture. The grievances of power-sharing inherent to joint ventures may thus be avoided and the risk to lose core technologies which is associated with co-operation is greatly reduced. Furthermore, serving the Mexican market from a location inside Mexico may reduce transportation costs considerably, and first-hand experience may be gained in direct contact with market forces. Investing in Mexico has become both easier and more rewarding in recent years: barriers to FDI have come down significantly, political and economic stability have improved. Besides offering a large internal market, Mexico is evolving into an international centre of production as free trade agreements have simplified access to a large number of countries.

While the establishment of a wholly-owned subsidiary with fully-fledged production plants may be an excellent way to serve the Mexican market in the long term, with a firm’s products gaining recognition and meeting customer demand, it is questionable whether it is a suitable market entry strategy for a SME: much capital is needed, proper management must be selected and organised, and qualified human resources must be hired. Furthermore, the foreign firm has a higher exposure to the political and economic risks associated with doing business abroad. Finally, even a fully-owned subsidiary will have to co-operate with Mexican partners in order to develop its activities. The acquisition of an existing firm may be an alternative to a ”green field” project (i.e. the establishment of a new firm).

2.4. Location : Industrial Parks

Much of FDI has flown into industrial parks in recent years. Mostly built by private site developers, industrial parks offer generally good conditions for FDI. The noteworthy advantages include modern facilities with good infrastructure and accessibility, a better-than-average provision of water and electricity (partially through own facilities) and access to advanced telecommunications infrastructures. The administration of an industrial park is usually acquainted with the particular needs of foreign investors including bureaucratic proceedings. Often, other foreign firms will have invested in the same park before which makes it easier for newcomers to establish contact and to benefit from other foreign firms’ experiences.

More information on industrial parks in Mexico is available from the Mexican Association of Private Industrial Parks (Asociación Mexicana de Parques Industriales Privados; AMPIP; http://www.ampip.org.mx) or the Mexican System for the Promotion of Industrial Parks of the Ministry of the Economy (Sistema Mexicano de Promoción de Parques Industriales; SIMPPI; accessible through http://www.contactopyme.gob.mx/parques/intranets.asp). A list of selected industrial parks by region and their corresponding websites is also available in a publication by Proméxico (”Industrial costs in Mexico – ”A Guide for Foreign Investors”; http://www.promexico.gob.mx/wb/Promexico/industrial_costs).

3. Distribution Channels

3.1. Consumer Goods

In Mexico, very modern distribution systems exist in parallel with very traditional, multi-layered systems. While elaborate logistics allow direct deliveries from major producers to large department stores at the one extreme, a multi-layered system between producer and consumer is in place at the other extreme, consisting of a long chain of distributors, wholesalers, retailers, small corner stores or even "ambulantes" – persons selling products on the streets. Dealing with both systems is a major logistical challenge for any supplier of consumer goods in Mexico.

In general, the decision for a particular distribution channel will depend on various factors, including the nature of the product, its position in the market with regard to price and quality, brand policies, technological content, service needs and the producer's marketing mix (product policy, distribution policy, communication policy, price and condition policy). These factors will determine whether there is a need to keep control of the marketing of the product and, therefore, the choice of specific channels:

- Wholesalers: Wholesalers take title to the goods and are responsible for marketing them. Generally, they only expect the honouring of warranties by the producer. The disadvantage of marketing through wholesalers is that they carry many competing product lines and additional efforts by the producer might be necessary to promote his products. Moreover, there are marked differences in size between wholesalers, and they usually have limited regional or local coverage. Before assigning a wholesaler, the Swiss exporter should make sure that the wholesaler has the logistical capacities to ensure that the products reach retailers and/or consumers on time and in good condition.

- Distributors: Distributors also take title to the goods. In contrast to wholesalers, they usually do not carry competing products but complementary products. When choosing a distributor, it should be made sure that he has good reach and sufficient capacity to ensure continuous delivery to retailers (staff, logistics, warehouse space, etc.) which is a major factor for the success of imported products on the Mexican market.

- Retailers: As has been pointed out above, there is a wide spectrum of retailers, ranging from small convenience stores to large-scale locally-owned and foreign-owned retail chains. The basic recommendations on partnering in Mexico apply when choosing distribution channels and reaching agreement on co-operation.

Information and publications on retailing are available through market research professionals or the National Retailers' Association of Mexico (Asociación Nacional de Tiendas de Autoservicio y Departamentales, A.C.; http:// www.antad.org.mx) which publishes retailer directories and a trade magazine.

3.2. Capital Goods and Intermediate Products

The marketing of capital goods usually requires both specific market knowledge and profound product knowledge. In many cases, after-sales service must be available. Unless considerable resources are at hand, small and medium-sized enterprises will generally find it difficult to sell directly to Mexican customers without the help of one or more experienced local partners. Selling in Mexico is highly interpersonal and, generally speaking, requires access to existing networks.

Some exporters will have to assign specific partners to each Mexican region. Each of the three main economic poles (Mexico City and surroundings, Guadalajara, Monterrey) has its own networks and distribution channels; well-established local partners should be assigned to each area.

The following two generic options are available:

- Commercial representatives: They do not take title to the goods. The buyer will therefore receive the imported goods directly from customs. Usually, commercial representatives sell the product and are remunerated on a commission basis. Unless explicitly excluded in the agency agreement, the agent is entitled to a refund of expenses.

Any agreement should include provisions on the agent's responsibilities, on commissions, and on access to the client and client data by the exporter. Exporters should make sure that the relationship with the agent is defined clearly so that it may not be interpreted or construed as an employer-employee relationship, which would oblige the exporter to provide the agent with statutory benefits, and to cope with onerous labour regulation which would also have tax consequences. Cooperation with a lawyer is strongly recommended.

- Distributors: They take title to the goods and often provide additional services such as financing to purchasers, inventoring, advertising or after-sales service; their margins reduce exporters' earnings significantly.

Choosing an appropriate agent or distributor is a difficult task that may take considerable time.

4. Promotion and Advertising

One major step in promoting one's products is undoubtedly the careful selection of a well-established partner with the necessary motivation, skills and networks. Where necessary, the marketing of products should be supported through promotion and advertising activities.

4.1. Consumer Goods

Instruments to advertise consumer goods include television –largest share of advertising revenue-, radio –local and regional stations, second most important medium for advertising-, newspapers and magazines – limited circulation but focused audiences-, direct mail, telemarketing –growing importance-, billboards –very popular on highways and in cities, internet and trade fairs.

4.2. Capital Goods and Intermediate Products

With regard to capital goods and intermediate products, highly-targeted promotion and advertising activities are recommended. In most cases, you will need to produce Spanish-language promotional material with information about your firm, your product and your technologies. Ideally, such material should be reviewed by someone who is familiar with the Mexican culture and the Spanish language.

Promotional activities include:

- direct mailings (cover letter and promotion material) with subsequent follow-up by telephone or personal visits.
- Attendance of and participation in specialised trade shows and exhibitions.
- Advertising in industry-specific trade journals, often edited by industry-specific business associations or chambers.
- Offering technical seminars on which you introduce your technology to Mexicans.
- Building and maintaining a good network of industry-specific contacts to firms and associations.

Mexico City: Ángel de la Independencia[59]

5. Partnering in Mexico

Partnering in one way or the other is central to most forms of market entry. Experienced business executives confirm the importance of co-operating with trustworthy Mexican partners when initially entering the Mexican market. Partnering is a process that often lasts longer than originally expected; choosing the wrong partner is one of the major reasons foreign companies fail in Mexico. The main steps to successful partnering are set out below.

First step: Identify whether market entry through a partnership is the right option

- Articulate your company's goals: What do you want to achieve by expanding to Mexico?
- With your strategic goals in mind, conduct thorough research of the Mexican market for your product and carry out a SWOT (Strengths-Weaknesses-Opportunities-Threats) analysis with regard to your Mexican venture: Is your company suited to serve the Mexican market, and does the Mexican market offer perspectives for your company's business success? Does selling your product require a partnership? Is your firm ready for a partnership?
- What form of partnership are you looking for? What does your partner need to contribute in order to build a complementary relationship? What can you offer in return to make the partnership stable, sustainable and successful?

[59] http://en.wikipedia.org/wiki/File:Angel_de_la_Independencia_Mexico_City.jpg

- Do you have the commitment of top management and will your firm provide you with enough resources (human, financial, managerial)? Does top management stand behind your plans to enter the Mexican market through partnerships?

Second step: Look for potential candidates

- Use existing contacts to business acquaintances (suppliers, firms offering complementary products, customers, etc.) who are already established in Mexico in order to identify potential candidates.
- Make use of business directories and seek information from industry-specific chambers and associations. Consult bilateral chambers of commerce and industry in Mexico, trade promotion agencies, banks, consulting firms or the Swiss embassy. Visit events such as trade shows and exhibitions.

Third Step: Screen and choose potential candidates

- Seek information about your prospective partners on the following issues: regional and industrial coverage (in the case of commercial agents or distributors), product specialisation, specific lines handled (competing products?), size of firm, product and market knowledge, marketing programs and techniques, customers, size and quality of staff, condition of facilities, ability and readiness to keep inventories or offer after-sales service, credit record and relations to financial institutions, networks and relationship with government, track record, reputation.
- Visit potential partners. Analyse your prospective partner’s objectives and check whether they are compatible with your own plans. Tour their offices and manufacturing/logistics installations.
- For the verification of information obtained directly from your prospective partner, seek references. Think of customers, suppliers, banks, distributors, etc. who know your prospective partner from a long term relationship. Seek information through the institutions and instruments mentioned under ”Second step” above.

Fourth Step: Negotiating and establishing the partnership

- When negotiating a partnership agreement, be well prepared.
- Make sure to negotiate the following points, where applicable:
  – Ownership structure and/or responsibilities of each party
  – Valuation of partners’ contributions
  – Transfer and updates of technology, licenses, trademarks, etc.
  – Governance: Selection of management, decision rules for crucial issues (sourcing and marketing policies, growth strategies, etc.), dispute settlement procedures
  – Distribution of earnings and/or royalties
  – Procedures for raising capital
  – Staffing of the partnership
  – Rules for the termination of the partnership or the exit of a partner; ownership in case of dissolution with regard to technology, customer lists, trademarks, patents or other assets.
- Subsequently draft a partnership agreement with your prospective partner. In the case of more complex relationships (such as joint ventures), draw up a memorandum of understanding (MOU) first which outlines the key points of an agreement. Use clear and concise terms. The MOU is the basis for the elaboration of the legal framework. Do not proceed without support from lawyers or institutions that are familiar with the Mexican legal system and labour environment. Always include a Mexican lawyer who is familiar with the tax implications.

6. Pricing, Payment, Collection and Export Risk Insurance

The Mexican market is regarded as relatively price sensitive. However, the availability of credit and finance conditions are often more important.

As long as market conditions permit, Swiss exporters should seek prepayment whenever possible in order to minimise risks such as non-payment or currency fluctuations. In most cases, however, this option will not be available. Trade partners will then resort to common forms of payment such as (documentary) letters of credit or collections.

Credit being difficult to obtain through the Mexican financial system, supplier credits have evolved into the most important source of finance for many Mexican firms. Hence, financial conditions are often the most important variable in a buyer’s decision to buy a certain product, usually ahead of price or quality considerations. Generally, exporters should consider giving credit in order to win or retain customers. Of course, precautions should be taken to reduce the risk of non-payment. Experienced business executives recommend to reflect on the following issues:

- The payment ethic is regarded as relatively weak in Mexico. Non-payment is a real risk and exporters should proceed with caution, checking the creditworthiness of buyers. While credit rating agencies are only at an early stage of development, such information may be available from the exporter’s bank or through more informal industry contacts. The conclusion of a written sales contract which constitutes a legal document is helpful.
- It is not uncommon for Mexicans to exceed established terms of payment. Exporters should take such delays and arising financial costs into consideration when calculating prices and planning cash flows. Slight delays do not necessarily imply a risk of non-payment. If, however, a customer’s payment is unusually slow, first try the path of persuasion: the loss of reputation is often a more frightening thought for a Mexican than the idea of legal action, which does not always yield satisfactory results. Also consider personal visits in order to collect your debt, which is not uncommon in Mexico. Only if you fail to obtain the payment within a reasonable period of time should you proceed to advanced remedies such as lodging a formal protest to register the debt or taking the claim to court or commercial arbitration respectively.

The U.S. Dollar is the most frequently used currency for international transactions with Mexico. Unless your buyer agrees to a contract that is to be paid in Swiss Francs, you will probably opt for a contract denominated in U.S. Dollars. In order to minimise the currency risk, various instruments are available such as forward transactions and currency options.

In order to check the creditworthiness of prospective buyers, you should seek advice from your bank in Switzerland or from a financial institution in Mexico. A major international provider of credit information and receivables management services with offices in Mexico is Dun & Bradstreet (http://www.dnbmex.com.mx). In some cases, it may also be feasible to check the reputation of prospective buyers through industry-specific contacts.

Export Risk Insurance

The Swiss Export Risk Insurance Cover provides insurance against default of payment for individual exports and covers the following risks :

- Political risks such as extraordinary government measures and wartime events.
- Inability to fulfill contractual obligations for political reasons, consequently nullifying the exporter's entitlement to compensation for provision of products/services.
- Confiscation of, damage to or destruction of dispatched goods before transfer of risk due to political factors, unless insurable otherwise under marketable terms.
- Risks of force majeure, unless insurable otherwise under marketable terms.
- Transfer risks such as non-conversion/non-transfer of amounts in the respective national currency.

- Credit risks such as ordering party insolvency or failure to pay invoices within three months of due date (protracted default).

The maximum cover ratio for political risks is 95 percent; the maximum cover ratio for economic risks is also 95 percent, limited until the end of 2011. For detailed information, consult Swiss Export Risk Insurance (SERV) : http://www.serv-ch.com/en/.

7. Selected Aspects of Taxation

It would go far beyond the scope of this publication to deal with the Mexican taxation system in great detail. We will limit ourselves to presenting major features of Mexican taxation. Given frequent changes to tax rules and their complexity, it is very important that foreign investors have recourse to local tax specialists in order to discuss the consequences of certain investment decisions on their tax burden. Prior to the decision on how to enter the Mexican market, the fiscal implications should be considered carefully.

Roughly speaking, tax obligations in Mexico increase with a firm's presence on the Mexican market. While exporters do barely need to bother about tax obligations in the case of indirect exports (see subsection 1.1 above), they are major considerations if FDI is planned in Mexico (see section 2 above).

All companies with operations in Mexico need to register a fiscal domicile – regardless of whether they plan to open a no-income office only or whether outright manufacturing operations are planned. They will then receive the Taxpayer's Federal Registration Number (RFC number; Registro Federal de Contribuyentes). If a no-income representative office is established, the only obligation is to report the earnings of the employees. Permanent businesses will pay taxes just as any other Mexican company.

7.1. Direct Taxes

In force since January 1, 2008, the flat tax (*Impuesto empresarial a taza única*, IETU) is a 17.5% tax on turnover that substitutes the Mexican Asset Tax. The IETU is integrated with, and part of, the Mexican income tax system. The income tax is creditable against the IETU.

Being a tax that taxes the realization of receipts, it is a direct tax that does not subject to tax the acts or activities carried on by the taxpayer, as would be the case of indirect taxes, but the income that such taxpayer would obtain for carrying out each one of such activities or acts. Thereon, the IETU and the income tax share the same nature, due to the fact that they are direct taxes and tax receipts derived by taxpayers.

The IETU was structured to moderate the tax benefits of certain deductions and to prevent evasion and certain abusive transactions and practices. In addition, the IETU has been designed to encourage investment and employment in the context of the Mexican income tax system. Owing to its structure as a minimum tax, the IETU will discourage aggressive taxpayer behaviour, including the use of tax shelters, excessive leverage and earning stripping transactions.

Taking this into consideration, the Mexican income tax and the IETU constitute together a single Income Tax System composed of two separate subsystems operating together to ensure a sufficient level of tax by increasing the tax base and reducing tax evasion. Furthermore, since financial accounting income reported by Mexican companies exceeds in several instances their reported taxable income, the IETU will ensure a minimum amount of tax is paid.

The IETU operates as a cash flow tax.

Please consult the following link for detailed information:
http://www.diputados.gob.mx/LeyesBiblio/abro/lia/LIA_abro_01oct07.pdf

Swiss firms investing in Mexico should be aware of the bilateral Double Taxation Agreement.

Box 9. Double Taxation Agreement Mexico-Switzerland

A Double Taxation Agreement (DTA) is in force between Switzerland and Mexico since January 1995. It aims at reducing or eliminating double taxation. The State at the source of the income accepts to forgo some or all taxes e.g. on dividends, interests and licences.

The DTA provides for the application of the national treatment principle. It has largely been designed according to the OECD Model Tax Convention of 1977 with some clauses adapted to the specific interests of the parties.

On June 15, 2009, Switzerland and Mexico agreed to extend the administrative assistance in tax matters in accordance with art. 26 of the OECD Model Tax Convention and initialled a revised DTA[60]. This will permit the exchange of information in individual cases where a specific and justified request has been made.

The text of the Swiss-Mexican DTA is available in the three Swiss national languages from the website of the Swiss Federal Government at http://www.admin.ch, Systematic Compendium of Swiss Federal Law No. 0.672.956.31.

7.2. Indirect Taxes

The most important indirect tax is the Value Added Tax (VAT; *Impuesto al Valor Agregado*; IVA). It is levied at a general rate of 15% (10% in border regions) on sales of most goods and services. The rate is zero percent on some transactions, while other transactions are exempt. The latter include education services, certain insurance services, specific types of public entertainment, some medical services and certain transportation services.

In the case of imported goods, VAT is levied on the value declared for import duties plus the amount of the duties. Some specific government programs may exempt imports from VAT. Exports of goods and services as well as port services for export shipments are zero rated. Almost all food products and medicines are taxed at the zero rate.

In addition to VAT, the so-called Special Tax on Production and Services (*Impuesto Especial sobre Producción y Servicios*; IEPS) is levied on certain goods such as alcoholic beverages, tobacco and fuel. Rates vary from product to product, and some are variable over time. Since January 1, 2002, the IEPS is also levied on certain soft drinks and some telecommunication services.

On 1 January 2002, a new tax of 5% was introduced on "luxury products" such as perfumes, cars worth more than 250'000 Mexican pesos (MXP)[61], clothing made of silk or leather, electronic articles or computer equipment worth more than 25'000 MXP.

Federal taxes are also levied on the ownership of motor vehicles. Moreover, new cars are subject to a specific tax (*Impuesto Sobre Automóviles Nuevos*; ISAN).

In addition to these federal taxes, a number of state and municipal taxes are levied. The former include taxes on the proceeds of capital, on earned income and on certain types of production. With the Fiscal Reform 2002, States may establish a maximum 3% sales tax on goods and services to the general public. Municipal taxes consist mainly on those levied annually on real property (which have substantially increased in recent years) and those levied on transfers of real estate.

Since July 1, 2008, individuals and legal entities must pay a cash deposit tax for all deposits in cash, in foreign or national currency, made in any nominative account in institutions of the financial system. This tax is applied to amounts exceeding 25’000 pesos in cash deposits carried

[60] The revised text will come into force after signature and national approval procedures.
[61] 1 USD equals 13.26 Mexican pesos. (Source: OANDA.com, 06.07.09)

out in institutions of the financial system, whether for one deposit or the sum of several deposits per month. This tax is calculated by multiplying the amount that exceeds 25’000 pesos by a 2 percent rate. The 2 percent tax must also be paid when acquiring a cashier's check in cash regardless the amount. The aim of this tax is to fight money laundering and tax evasion.

Cash deposits cover deposits in favour of individuals or legal entities through internet transfer, through or by account transfer, credit titles or any other document or system agreed with institutions of the financial system according to the applicable laws, even though such deposits are charged to the same institution that receives them.

Box 10. Ease of Doing Business in Mexico

Since 2003, the World Bank analyses anually business conditions around the globe and draws comparisons between countries based on several quantitative indicators. In 2009, Mexico ranked 56th out of the 181 countries included in the study. The following table presents some of the results for Mexico.

MEXICO					
Ease of doing business (rank)	**56**				
Starting a business (rank)	**115**	**Registering property** (rank)	**88**	**Trading across borders** (rank)	**87**
Procedures (number)	9	Procedures (number)	5	Documents to export (number)	5
Time (days)	28	Time (days)	74	Time to export (days)	17
Cost (% of income per capita)	13	Cost (% of property value)	5	Cost to export(US$ per container)	1472
Minimum capital (% of income par capita)	11			Documents to import (number)	5
		Getting credit (rank)	**59**	Time to import (days)	23
Dealing with construction permits (rank)	**33**	Strength of legal rights index (0-10)	4	Cost to import (US$ per container)	2700
Procedures (number)	12	Depth of credit information index (0-6)	6		
Time (days)	138	Public registry coverage (% of adults)	0	**Enforcing contracts** (rank)	**79**
Cost (% of income per capita)	131	Private bureau coverage (% of adults)	71	Procedures (number)	38
				Time (days)	415
Employing workers (rank)	**141**	**Protecting investors** (rank)	**38**	Cost (% of claim)	32
Difficulty of hiring index (0-100)	33	Extent of disclosure index (0-10)	8		
Rigidity of hours index (0-100)	40	Extent of director liability index (0-10)	5	**Closing a business** (rank)	**23**
Difficulty of firing index (0-100)	70	Ease of shareholder suits index (0-10)	5	Time (years)	2
Rigidity of employment index (0-100)	48	Strength of investor protection index (0-10)	6	Cost (% of estate)	18
Firing cost (weeks of salary	52			Recovery rate (cents on the dollar)	64.2
		Paying taxes (rank)	**149**		
		Payments (number per year)	27		
		Time (hours per year)	549		
		Total tax rate (% of profit)	51.5		

Source: Doing Business 2009, World Bank

CHAPTER IV

OPPORTUNITIES FOR SWISS EXPORTERS AND INVESTORS

1. Opportunities and Challenges

There are many good reasons to consider expanding business operations to Mexico:

- Population: With its 108 mn inhabitants, Mexico offers one of the most interesting internal markets in the world. Its young and growing population is very consumption-oriented and striving to reach living standards that compare to those of the U.S. Thirty percent of the population has a purchasing power ranging from low middle-class to very high-class.
- Investment opportunities: Industrialization is proceeding and the need of further investment – for instance in infrastructure but also in the modernization of industrial facilities – is tremendous. The Calderon administration has ambitious plans in this area with the construction of new highways and the modernization of existing facilities. Foreign companies should benefit from this growth in infrastructure spending.
- Geographical considerations: In addition to the great potential of its domestic market, Mexico is also a potentially interesting production location for international companies, given its proximity to the U.S. market, its FTAs with more than 40 countries and the availability of a large workforce.

Yet, a number of challenges have to be considered with due care:

- Role of the State: The challenges most frequently mentioned to doing business in Mexico refer to the involvement of the State in economic processes. Bureaucracy appears as a limiting factor. Despite considerable improvements in the recent past, Mexican bureaucracy is still frequently considered as slow, cumbersome and relatively inefficient. Corruption is mentioned as another issue when dealing with public officials. Recourse to the legal system as a remedy in disputes (especially in enforcing payments) is not seen as a very promising avenue. This highlights the need for good preparation and trustworthy information on partners and buyers, and therefore the need to establish personal networks in the Mexican business community.
- Labour market: Many observers consider the labour environment as over-regulated. In addition, the often inadequate level of qualification of many workers is a concern. It is therefore indispensable to carefully select employees and train them actively and continuously. Swiss entrepreneurs established in Mexico have experienced that through training one can obtain a very motivated and loyal workforce. There is an existing pool of highly-qualified executives, whose salary rates are comparable with international standards.
- Dependency on the U.S.: Exports to the northern neighbour represent more than 80% of total exports. The Mexican economy is very sensitive to U.S. business cycles. Mexican companies are induced to diversify export markets and to look for new outlets.
- Infrastructure: The scarcity of water in some regions, the inadequacy of transport infrastructure, or the low quality or complete unavailability of sophisticated services impact on business activity.
- Intellectual property rights: The protection and the enforcement of IPR rights represent a major issue for Swiss and other foreign companies.[62] Despite the fact that Mexico has a relatively modern legal framework (except in the area of test data protection for pharmaceutical protection), the efficiency of the judiciary system to guarantee the rights of patent owners is dubious and legal procedures take too long to obtain satisfactory results. Regarding fines, they should be much higher to have a dissuasive effect on intellectual property rights' violations.[63]

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[62] According to several reports produced by the Swiss Embassy in Mexico.
[63] For more information on IPR see Chapter II; 7. Intellectual Property.

Box 11. Mexico's Competitiveness

The International Institute for Management Development (IMD) in Lausanne publishes annually the "World Competitiveness Yearbook" which ranks 55 major industrial and newly industrialised economies according to their "national competitiveness". Overall competitiveness is broken down into four input factors: Economic Performance, Government Efficiency, Business Efficiency and Infrastructure, each consisting of 60 to 84 criteria. The results are widely accepted as one of the best-available basis for international comparisons in this field. In order to better grasp the Mexican business environment, the following table contains the five strongest and weakest criteria for each input factor. Overall, Mexico ranked 50th out of 55 countries in 2008. The top ranks were held by the U.S. (1), Singapore (2), Hong Kong (3) and Switzerland (4) and the last ones by Argentina (52), South Africa (53), Ukraine (54) and Venezuela (55).

Mexico's competitiveness : Selected criteria

Economic Performance Ranking: 33			
Strengths	**Ranking**	**Weaknesses**	**Ranking**
LT-unemployment (% of labor force)	2	Diversification of the economy	53
Youth unemployment	3	Exports of commercial services	53
Terms of trade index	4	Real GDP growth per capita	48
Cost of living	6	Real GDP growth	41
Exchange rates	11	Employment (% of population)	41
Government Efficiency Ranking: 40			
Strengths	**Ranking**	**Weaknesses**	**Ranking**
Employee's social security contribution rate	8	Tax evasion	55
Total general government debt	12	Political parties' understanding of challenges	54
Collected total tax revenues	13	Parallel (black-market, unrecorded) economy	56
Effective personal income tax rate	13	Cost of capital	51
Ageing of society	15	Real corporate taxes	51
Business Efficiency Ranking: 55			
Strengths	**Ranking**	**Weaknesses**	**Ranking**
Working hours	1	Banking and financial services	54
Compensation levels	16	Credit flow	54
Remuneration in services professions	22	Need for economic and social reform	54
Skilled labor	33	Entrepreneurship of managers	54
Foreign high-skilled people	33	Venture capital	53
Infrastructure Ranking: 54			
Strengths	**Ranking**	**Weaknesses**	**Ranking**
Computers in use	13	Urbanization of cities	55
High-tech exports	18	Sustainable development	55
Total public expenditure on education	25	Technol. cooperation between companies	55
Energy intensity	28	Pupil-teacher ratio (primary education)	51
Mobile telephone costs	34	Mobile telephone subscribers	50

Source: World Competitiveness Yearbook 2008, IMD, Lausanne

2. Foreign direct investment promotion

The government seeks to promote FDI through specific programs, which are designed to attract export-oriented industries. Numerous "*Maquiladoras*" have been established in Mexico over the past three decades mainly along the northern border with the U.S. The most important promotion programs are:

- ProMexico: created in 2007 by President Felipe Calderon; a global network provides practical assistance to international companies establishing and expanding their business in Mexico.
- PROSEC: Sectoral Promotion Programs to promote industrial development in selected industries. The main benefits consist of tariff reductions on inputs, irrespective of whether the final products will be sold domestically or exported.

3. Swissness

As in other parts of the world, Swissness is a significant asset to penetrate the Mexican market.

Box 12. The Image of Swiss Products

Swiss products are generally known in the Mexican market. For instance, the precision of Swiss machinery is well recognized. Exporters should be aware and make active use of Swissness.

"Swiss quality" is a positive characteristic associated with functionality, reliability, durability, precision and efficiency, Switzerland being a leader in technology and sophistication.

The perceived "honesty" of Swiss business culture is another goodwill factor that has ingrained itself into the positive perception of Swiss products, which – although expensive – are being thought of as "honest deals".

On the negative side, Swiss products are almost immediately associated with high prices. Moreover, Swiss companies are thought of as narrow-minded and very particular – for instance when it comes to payment terms.

As far as Swiss consumer goods are concerned, they are considered an exclusive privilege of upper class households. While this may be a limiting factor in the consumption of Swiss products on a mass market, the positive aspect is that many status-oriented buyers may prefer to buy Swiss products just because they are not accessible to others.

4. Key sectors for Swiss firms

In 2008, Mexico was Switzerland's second most important export market (after Brazil) and its third import partner (after Brazil and Colombia) in Latin America. Swiss exports amounted to CHF 1'300 mn with mainly pharmaceuticals (33%), machines (22%), watches (17%) and chemicals (6%). Swiss imports from Mexico (CHF 243 mn) consisted of vehicles (27%), machines (17%), agricultural goods (17%), pharmaceuticals (13%) and chemicals (11%).

Santa Fe, Mexico City[64]

[64] Wikipedia Image: http://commons.wikimedia.org/wiki/Image:Santa_feconj.jpg

4.1. Health and Pharmaceuticals sectors

For Switzerland, pharmaceuticals are the most important exports to Mexico[65] with more than a doubling of sales between 2000 and 2008 (CHF 435 mn; +13%).

The government of President Felipe Calderón is promoting investments in healthcare, and for the first time, more Mexicans have healthcare insurance (either public or private) than those who do not, albeit by a very narrow margin. Business opportunities for medical devices and supplies are provided by the public sector through public tenders or the thriving private hospital networks; imports represent 90% of the market.

The Mexican Institute for Social Security (IMSS) provides medical services to private sector workers and the Institute of Social Security and Services for Public Employees (ISSSTE) for public sector workers. The IMSS and ISSSTE are funded by employers' and employees' contributions as well as transfers from the federal government. Both institutions operate their own hospital and clinic networks. Furthermore, other social security schemes are available for the armed forces and PEMEX employees. In the private sector, clinics, hospitals, doctors' offices and laboratories buy directly medical devices; they register a significant growth potential.

Competition can be fierce and Mexicans tend to be extremely price sensitive. Swiss companies will need patience and a strong local partner able to deal with all the administrative procedures in order to get the necessary sanitary authorizations and licenses to import and commercialize medical equipment, drugs or chirurgical supplies in Mexico.

According to the Mexican Association of the Pharmaceutical Investigation Industry, the Mexican pharmaceutical market is the leading Latin American market, valued at USD 14 bn in 2007 and the tenth largest worldwide.[66] The market is dominated by foreign companies (Abbott Laboratories, Bayer, Boehringer Ingelheim, Bristol-Myers Squibb, Ely Lilly, GlaxoSmithKline, Merck, Novartis, Pfizer, Roche, Sanofi-Aventis, Wyeth) with a few domestic players. The few Mexican firms mainly produce generic drugs; so does Novartis, through its affiliate company Sandoz. Farmacia Similares, attending a very low-income part of the population, produces copycat drugs.[67]

The leading cause of illness and death in Mexico is shifting away from infectious diseases to chronic conditions such as diabetes and cancer. The rising and concerning prevalence of obesity - about three quarters of the population are considered overweight or obese — is a contributing factor to this tendency.

Swiss companies active in this sector in Mexico are: Novartis, Roche, Straumann.

Events:

- National Congress of Pharmaceutical Sciences: www.afmac.org.mx
- Expofarma Interphex: www.expofarmainterphex.com
- Expo-Med: www.livemed.org

Associations:

- Private Hospitals National Association (ANHP): www.anhp.org.mx
- Mexican Association of the Pharmaceutical Investigation Industry (AMIIF): www.amiif.org.mx

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[65] Swiss pharmaceutical exports 2005: CHF 327 mn; 2006: CHF 337 mn; 2007: CHF 383 mn. Pharmaceuticals include pharmaceutical products, vitamins and diagnostics.

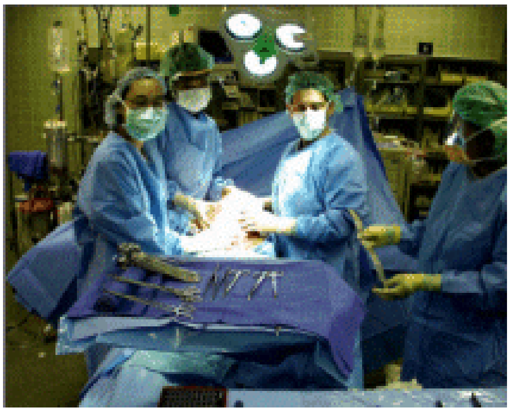
[66] National Chamber of Pharmaceutical Industry CANIFARMA: www.canifarma.org.mx

[67] The term "copycat drugs" is normally used for *generic* drugs, copies of synthetically produced brand name products containing the identical active agent and sold on the market after expiration of the patent protection of the original. In contrast, *biosimilars* are biotechnologically produced medicines, which are similar to the original product, but not identical in terms of their active agent and therefore their effect. As generics, biosimilars can only be sold on a given market after expiration of the patent protection of the original.

- National Chamber of Pharmaceutical Industry (CANIFARMA): www.canifarma.org.mx

Government authorities:

- Federal Commission for Protection against Health Risks (COFEPRIS): www.cofepris.gob.mx
- Institute of Social Security and Services for Public Employees (ISSSTE): www.issste.gob.mx
- Ministry of Health (SSA): www.salud.gob.mx
- Mexican Institute of Social Security (IMSS): www.imss.gob.mx



4.2. Machinery and Precision instruments

In 2008, machines ranked second among Swiss exports to Mexico (CHF 280 mn ; -30%)[69], at a level roughly similar to 2005. Swiss exports of instruments and measuring devices reached CHF 58 mn.[70]

The automotive industry is one of the most important manufacturing sectors in Mexico (4% of GDP) and a major user of machines. Eleventh automotive producer worldwide, Mexico is forecasted to rank fifth in 2011. In 2007, the industry reached record production with over 2.1 million units (including trucks and buses). Ford, Volkswagen and Nissan have invested significantly in recent years. In 2009, the Mexican automotive industry will face a declining U.S. demand, which most probably will result in temporary stops of some production lines and in job losses.

Generally, the automotive assembly plants require their primary suppliers to be close to them in order to reduce inventory control and costs. Thus, vehicle manufacturers work with very few suppliers who can deliver entire systems for vehicles instead of specific components only.

According to the Packaging Machinery Manufacturers Institute, Mexico is one of the ten most important buyers of packaging equipment. In 2007, the market was evaluated at about USD 460 mn. Spare parts contributed another USD 65 mn.

Food processing, with 19% of manufacturing GDP, is a significant buyer of machines and in particular the largest client of the packaging industry (40% of sales). Between 2005 and 2007, food processing has registered an annual average growth of 3.7%.

The pharmaceutical industry is another major customer of the machine sector. It is also one of the largest buyers for packaging equipment, with an average growth rate of 7% in the last three years.

There is a strong tendency to purchase new packaging equipment, 85% being imported.

Mexican firms import more than 90% of their machine tools. About one third come from the U.S., other major suppliers being Germany (20%) and Japan (20%).

Swiss companies active in this sector in Mexico are: ABB, Bühler, Endress+Hauser, Leica Geosystems, Sulzer Pumps.

Associations:

- Mexican Machinery Distributors Association (AMDM): www.amdm.org.mx

[68] Picture source: http://hospitalia.com.mx/ingles/
[69] Swiss machinery exports 2005: CHF 250 mn; 2006: CHF 335 mn; 2007: CHF 398 mn. Machinery includes machines, electronic and non-electronic products.
[70] Swiss instruments, measuring devices exports 2005: CHF 41 mn; 2006: CHF 47 mn; 2007: CHF 53 mn.

- Mexican Packaging Association (AMEE): http://amee.org.mx
- Packaging Machinery Manufacturers Institute (PMMI): www.pmmi.org
- National Institute of Auto parts (INA) http://www.ina.com.mx
- Mexican Association of Automotive Industries (AMIA) www.amia.com.mx
- National Association of Bus and Cargo Trucks Producers (ANPACT) www.anpact.com.mx

Trade Shows:

- Expo Pack: www.expopack.com.mx
- Expo ISA Control: www.isamex.org
- TECMA: http://www.tecma.org.mx (machine tool sector)

4.3. Watches

In 2008, Swiss watch exports reached CHF 221 mn (+8%).[71] Mexico is the second largest market of the Swiss watch industry in the Americas after the United States, the 15th worldwide and the fourth in importance from its growth perspective.[72] Between 2006 and 2008, exports grew by 37% and by 252% since 2000. The Mexican market belongs to a very interesting group of emerging countries together with Russia, China and the United Arab Emirates.

Various luxury brands are present in Mexico. Distribution channels are generally self-owned boutique networks, recognized Mexican watchmakers or jewellers and upmarket department stores. Eighty percent of the sales are realized in major cities such as Mexico City, Guadalajara, Monterrey and Puebla. Duty-free shops located in international airports and in tourist areas such as Quintana Roo (Cancun / Riviera Maya) and Baja California (Los Cabos) register a lower volume.[73] The SWATCH group has established a repair centre in Mexico City and trains its local labour force.

In 2007, the "*Salon Internacional de la Alta Relojeria*" took place for the first time and gathered 38 high-end watch brands. This customized and successful happening was the first attempt to present the watch industry in Mexico.[74]

4.4. Chemicals

Chemicals is the fourth most important Swiss export sector to Mexico (2008: CHF 142 mn).[75] Since 2000 (CHF 141 mn), Swiss chemicals exports to Mexico were stable.

The Mexican chemical industry has been declining over the past decade, mainly due to uncompetitive input prices from the government-owned monopolistic oil company, Petroleos Mexicanos (PEMEX). Oil, gas and electricity in Mexico are among the most expensive in the world. At a first glance, an energy reform seems obvious, but in reality there is a string of interrelated conflicting issues, policies, and interests that have blocked any progress until now. According to the Mexican constitution, oil exploration, extraction and processing must be undertaken by the State.

According to the Mexican Chemical Industry Association, the sector has produced a value of USD 16.6 bn in 2006 and 17.2 bn in 2007.

[71] Swiss watch exports to Mexico 2005: CHF 113 mn.; 2006: CHF 161 mn; 2007: 205 mn.
[72] Swiss Watch Industry: www.fhs.ch/en/statistics.php
[73] Salón de Alta Relojería, Press Kit 2007.
[74] Salon Internacional de la Alta Relojeria: www.salonaltarelojeria.com
[75] Swiss chemicals exports 2005: CHF 123 mn; 2006: CHF 142 mn; 2007: CHF 143 mn.

Imports (in tons) are mainly composed of:

- synthetic resins, 32%;
- petrochemicals (PEMEX), 30%;
- agrochemicals and fertilizers, 12%;
- inorganic basics, 5%;
- artificial and synthetic fibers, 3%;
- synthetic and chemical rubber, 3%;
- petrochemicals (others), 2%.

Swiss companies active in this sector in Mexico are: Ciba, Clariant, Givaudan, Firmenich, Syngenta.

Association:

- Mexican Chemical Industry Association (ANIQ): www.aniq.org.mx

4.5. Food and Beverage

Food and beverage is another sector with untapped market opportunities for Swiss exporters, despite the generally high price level of such goods in Switzerland. High-quality consumer products made in Switzerland benefit from the excellent reputation that Swiss products enjoy among the more affluent and status-oriented consumers in Mexico's urban areas. During the last decade, a relatively large upper and upper-middle class has emerged in the metropolitan areas, particularly in Mexico City, Guadalajara and Monterrey. These consumers enjoy a high disposable income, and their consumption behaviour is less based on price than on quality considerations.

In addition, there are interesting business opportunities within the hotel and restaurant sectors.

Important Swiss companies active in this sector in Mexico are: Nestlé, Lindt & Sprüngli.

Associations:

- National Stores and Department Stores Association (ANTAD): www.antad.org.mx
- Hotels and Motels Mexican Association (AMHM): www.hotelesmexicanos.org
- National Chamber of Restaurants and Aliment Industries (CANIRAC): www.canirac.org.mx

Government authorities:

- Ministry of the Environment and Natural Resources (SEMARNAT): www.semarnat.gob.mx
- National Water Commission (CONAGUA): www.cna.gob.mx
- Secretariat of Energy (SENER): www.sener.gob.mx

Trade shows:

- Abastur Rest-Hotel: www.remexexpos.com/abastur
- Expo Alimentaria: www.alimentaria-mexico.com

- Expo-Antad: www.antad.org.mx

4.6. Services

The services sector maintained its traditional external deficit between 2001 and 2006. Tourism plays an important role for the economy. Despite natural phenomena that affected some of Mexico's tourist regions, the tourism balance remained positive in that period, growing by about 50%. The partly untapped potential of Mexico for the development of high quality tourism provides interesting opportunities for Swiss know-how and Swiss capital.

Imports of freight and insurance services expanded at an average annual rate of 10% (2001-2006) reflecting the predominance of the foreign commercial fleet in providing international transport services in Mexico, together with the growth of Mexico's external trade.[77]

Banking

A very large share of banking activities (80%) is carried out by foreign groups: BANAMEX (Citibank, USA), BBV-Bancomer (Spain), HSBC (Great Britain), Banco Santander (Spain) and Scotiabank (Canada). Among the Mexican banks, Banorte and Inbursa have relatively significant market shares with about 8% and 4% respectively. Of the remaining banks, only Bank of America, ING Bank, Banco del Bajio, Banco Azteca and J.P. Morgan reach a market share of about 1.5%.[78]

Mexico remains very attractive as bank penetration is still low. The Mexican Bank Association estimates that 25% of the Mexican population have no access to financial services. This represents a huge potential, especially for micro-credits. Furthermore, high-end financial services, such as private banking or wealth management are very interesting niches for Swiss banks wishing to offer off- or on-shore financial services. Credit Suisse and UBS are active in Mexico.

Association :

- Mexican Bank Association (ABM): www.abm.org.mx

Insurance[79]

Recent improvements in the regulatory framework have opened new markets for foreign investors. Mexico generates more than 25% of total insurance premiums in the region and is the second largest insurance market in Latin America, behind Brazil. Firms such as GNP, ING, Inbursa, Seguros Monterrey, New York Life, Bancomer, Banorte, Qualitas, Banamex and ABA account for 60% of the market. Concentration is moderate as the top three players hold about

[76] Picture source: http://www.mexico.name/catering.jpg
[77] Op. cit., Trade Policy Review, Mexico, WTO.
[78] Mexican Bank Association ABM: www.abm.org.mx
[79] Mexican Insurance Institutions Association AMIS: www.amis.org.mx

30% of the entire market. Accounting for only 2% of GDP, insurance has a low penetration in Mexico, much less than in other Latin American countries such as Brazil, Chile or Colombia.

Swiss companies active in this sector in Mexico are: SwissRe, Zurich Financial Services.

Association :

- Mexican Insurance Institutions Association AMIS: www.amis.org.mx

Logistics

The Mexican transportation sector faces very significant challenges due to the large increase of foreign trade and the corresponding growth in merchandise traffic in Mexican ports. The transportation sector will have to improve efficiency, cost savings and cargo security.

Important Swiss companies active in this sector in Mexico are: Belsped Logistics, Kühne & Nagel, Panalpina, Société Générale de Surveillance, Stöcklin Logistics.

Associations:

- Logistics: www.amti.org.mx
- AMACARGA: ''Asociación Mexicana de Agentes de Carga, A.C. www.amacarga.org.mx

Trade-Show:

- Expo Logistica: www.expologistica.com

Port of Veracruz[80]

[80] http://www.viajarencruceros.com/files/El-puerto-de-Veracruz1.jpg

4.7. Environmental Technologies[81]

According to international studies, business opportunities in the environmental technology field are significant in Mexico. The market has grown at an average annual rate of 6% between 2002 and 2004. Independent expert sources estimate that for the next ten years, the market will experience higher annual growth rates (about 10%).

The areas with the greatest potential refer to city authorities. Cities will have to treat their wastewater to comply with laws regarding discharge in public water supply. Cities over 20'000 inhabitants will soon have to install water treatment plants. In addition, the majority of Mexican cities have obsolete solid waste management infrastructure. This presents additional opportunities, such as biogas generation, hazardous materials transport and confinement. It is to be pointed that due to budget limitations, there is generally a preference for low cost technologies.

There are also interesting opportunities with the private sector as mid- and big-size companies are realizing or planning investments to comply with environmental law. Foreign companies established in Mexico are particularly sensitive to environmental issues.

Various Mexican and foreign firms are already active in this market. Most Mexican firms are small and medium size, mainly acting as distributors of foreign equipment or subsidiaries of foreign companies. The major foreign companies operating in Mexico are from the U.S., Spain, Canada, United Kingdom, Austria, Belgium and Italy.

Associations:

- Mexican Association for Energy and Sustainable Development (AMEDES): www.amedes.org.mx
- Mexican Association of Water Companies in Mexico (ANEAS): www.aneas.com.mx
- Mexican Network of Energy (REMEXEN): www.remexen.org
- National Council of Environmental Executives (CONIECO): www.conieco.com.mx
- Private Sector Research Centre for Sustainable Development (CESPEDES):

  www.cce.org.mx/CESPEDES

Trade-Show:

- Enviro-pro: www.enviropro.com.mx

4.8. Energy sector[82]

For the coming years, the energy sector has a significant growth and investment potential, based on forecasted energy demand. However, market access is a delicate issue : many important services continue to remain exclusive state monopolies sheltered from foreign competition and investment. With regard to goods, they are purchased through public procurement, making market access somewhat more difficult. In early 2008, discussions about the much needed energy reform have started in the government, the objective being to increase market openness in the near future.

[81] Report prepared for the Swiss Embassy in Mexico; *Market Report: The Environmental Market in Mexico*, January 2008.

[82] Based on various reports elaborated by the Swiss Embassy in Mexico.

Oil

Since Mexico's giant Cantarell deposit is in decline, the future of Mexico's oil production will increasingly be in deep waters in the Gulf. However, PEMEX has neither the technology, nor the financial resources for this kind of exploration and exploitation, which makes partnerships with the private industry one of the major axis of reform. Furthermore, Mexico's refinery capacity has not expanded at the same pace as the economy. The refineries are unable to supply domestic market needs in terms of either volume or quality of petroleum products, as evidenced by a large and growing import bill. In addition, in relation to finances, PEMEX is the most heavily indebted oil company in the world. Its debt, plus pension obligations and other liabilities add up to USD 100 bn.

Electricity sector

As with oil and gas production and processing, the primary opportunity for Swiss firms in the power generation sector will be the provision of equipment. The Federal Electricity Commission (CFE) tenders electrical generation projects to private companies. These plants are managed within an independent power producer contract, where the contractor is allowed not only to build the new plant, but also to operate it for a determined period of time before the CFE takes over plant operations.

Renewable energy

Renewable energy used for the generation of electricity, including mini-hydroelectric, biomass, photovoltaic-solar, wind power, and geothermal energies has experienced slow growth in Mexico. Nevertheless, the market will be growing as the Mexican Government has recently proposed new renewable energy goals. The increasing level of pollution, higher costs of fossil fuels, difficulties in the reform of the state oil company as well as heightened awareness of global warming urge the government to press for the adoption of cleaner energy sources.

Government authorities:

- Federal Electricity Commission (CFE): www.cfe.gob.mx
- Petróleos Mexicanos (PEMEX): www.pemex.gob.mx

Important Swiss companies active in this sector in Mexico are: ABB, Baumott, Filtrox, Endress+Hauser.

[83] Picture source: http://www.stratfor.com/files/mmf/1/7/17b430a23f16f6afa2ca6fc79665ac6712079524_two_column.jpg

4.9. Security, Safety Equipment and Services

President Felipe Calderon has made public security and in particular the fight against drug cartels a top priority. In 2007, Mexican public (military and civil protection budgets) and private actors spent together approximately USD 18 bn for security. Federal expenditures for national security reached about USD 6.5 bn, corresponding to 0.7% of GDP, of which USD 4 bn were allocated to military spending and the rest to federal public security.

The safety and security market in Mexico is complex and involves many sub sectors, including national security, industrial security (safety), electronic security, security services (personal protection, consulting, etc.), security systems, law enforcement products and services. Personal security products, protection products and high-tech solutions and services have the most significant opportunities due to the demand from government and private sectors.

In 2007, some products and services reached spectacular growth rates: 20% for armoured vehicles; 25% for closed-circuit television solutions and 18% for electronic security. The Latin American Security Association indicates that the local demand for security services in Mexico grew by 50% during 2007. According to the American Chamber of Commerce, private companies spend up to 12% of their budget in security.

Associations:

- Latin American Security Association (ALAS): www.alas.org.mx
- National Council of Private Security (CNSP): www.cnsp.org.mx

Trade Show:

- Expo seguridad: www.exposeguridadmexico.com

4.10. Construction / Infrastructure[84]

In July 2007, President Felipe Calderon launched the National Infrastructure Program (NIP), a five-year program to increase the coverage, quality, and competitiveness of Mexico's infrastructure. The plan identifies over 300 infrastructure projects in various sectors representing USD 226 bn (approx. USD 38 bn per year) to be financed using public-private partnerships, with significant Mexican public sector investment.

Furthermore, led by Mexico City, government and private sector entities in the Central Region have initiated an ambitious infrastructure development program aimed at increasing both the capital's liveability and attractiveness for FDI. The most important projects currently identified by city, state and federal government include over 30 separate initiatives for the region, with a value over USD 20 bn. The plan consists of projects in the areas of water and wastewater treatment, urban mass transit, highways, electricity (including generation, transmission and distribution), tourism, and digital and knowledge infrastructure. These projects shall be implemented during the next 20 years.

The proposed housing projects (low cost, middle and upper level) for the next few years will be concentrated in 100 cities each with over 50'000 inhabitants. Major housing developments are envisaged in Mexico City, State of Mexico, Guadalajara, Monterrey, Queretaro, Pachuca and Toluca. Estado de Mexico, Toluca and Monterrey will receive additional support from the Mexican Federal Government.

[84] See website: www.infraestructura.gob.mx/index.php?page=english-version

Associations:

- Mexican Chamber for the Construction Industry: www.cmic.org

Trade-Show:

- EXPO CIHAC: www.cihac.com.mx

Mex 57-D Expressway joining Nuevo Laredo and Mexico City[85]

[85] Wikipedia Image: http://en.wikipedia.org/wiki/Image:100_6173.JPG

CHAPTER V

THE MEXICAN MARKETPLACE: PRACTICAL ADVICES FOR ENTREPRENEURS

1. Customs procedures and requirements

1.1. Customs Valuation

With regard to customs valuation, the WTO rules apply. While the FOB (free on board) price is used for customs valuation purposes for imports from NAFTA partners, Mexican customs authorities generally calculate the customs value on a CIF basis (Cost, Insurance and Freight). In doing so, they use the transaction price and add commissions (except for those of the broker), the cost of receptacles and packaging materials as well as the packaging process, the cost of transport, insurance and related expenses such as handling, loading and unloading up to the moment when the merchandise arrives on Mexican territory – unless these costs were already included in the transaction price.

1.2. Value Added Tax

Generally, all imports are subject to the payment of the Value Added Tax (*Impuesto al Valor Agregado*; IVA). It is 15% on most products, and is calculated on the merchandise value plus tariffs and other levies in conjunction with the import.

1.3. Customs Fee

A customs-processing fee (*Derecho de Trámite Aduanero*; DTA) is levied on all imports. The general rate is 0.8% of customs value, but may also be higher in certain cases. In other cases, a fixed amount prevails. Information on these fees is provided in the latest version of the *Ley sobre el comercio exterior* and *Impuestos sobre el comercio exterior* (http://www.aduanas.sat.gob.mx/aduana_mexico/2008/normatividad/143_10519.html).

The Confederation of Customs Agents Associations of the Mexican Republic (CAAREM; www.caaarem.org.mx) can give advice about customs procedures and refer to a customs agent in order to proceed to merchandise imports. By law, only a recognized customs agent –acting as an intermediary to the customs authorities- can proceed with customs clearance.

2. Labour market and visa regulations

Labour regulations in Mexico are based on the 1917 Mexican Constitution and the Mexican Federal Labour Law, which regulates labour contracts, minimum wages, employee benefits and union activity within Mexico.[86]

Swiss travellers with a valid passport do not require an entry visa for tourism. However, they need a tourist card ("*tarjeta de turista*"), which is normally issued at the border. Travellers must not undertake remunerated work. A "*tarjeta de visitante*" (short stay permit) allows undertaking remunerated work for a maximum of one year. Work permit requests from Swiss citizens are treated by the Mexican Embassy in Bern in cooperation with the Mexican Ministry of Interior.

If individuals or companies have any doubts about immigration and visa issues, they should check the corresponding websites and ask the Mexican Embassy in Bern before setting out on any business trip.

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[86] American Chamber in Mexico: www.mexconnect.com/mex_/laborlaw.html

Mexican Embassy
Weltpoststrasse 20
3015 Bern
Switzerland

Phone: +41 (0)31 357 47 47
Fax: +41 (0)31 357 47 48/49

Opening hours Consular section: 9:00 - 13:00, Monday to Friday.
Opening hours Embassy (only upon appointment): 9:00 - 13:00 and 14:30 - 18:00, Mo - Fri

Homepage: www.sre.gob.mx/suiza

Guanajuato[87]

3. Business practices

3.1. A Trustworthy Local Partner

With regard to Small and Medium-Sized Enterprises with limited resources, the Mexican market is, in general terms, not well suited for market entrants who want to do it all on their own. Particularly when selling, existing structures, channels and relationships play a major role. Therefore, it is crucial to team up with a reliable and trustworthy local partner. In addition to a high degree of moral integrity, such a partner should possess a solid knowledge of the market, its actors and their behaviour as well as of the legal and fiscal system, as these systems and bureaucracy are particular challenges to business. Frequent changes to laws and regulations have to be carefully considered.

3.2. Personal Networks

Given the interpersonal style of doing business in Mexico, a good personal network in the Mexican market is of high importance for commercial success. In an initial phase, membership in chambers and business associations can provide a useful starting point for new market entrants. Subsequently, however, successful managers need to establish their own contacts in their industry-specific environment.

87 http://upload.wikimedia.org/wikipedia/commons/8/81/View_of_Guanajuato_from_hill.jpg

The importance of such networks has not only its foundations in the "Latino" character of Mexican business people who may value personal relationships more strongly than, for instance, their Anglo-Saxon counterparts. Networks are also important as they clearly provide substitutes for institutions readily available in other markets but difficult to find in Mexico. For example, credit rating facilities are only at an early stage of development, although a relatively bad payment ethic and lack of credit are among the most serious obstacles to successful business in Mexico. Good market information may be equally hard to find as the Mexican market is relatively opaque and many actors are unwilling to disclose information for statistical purposes. Personal networks may prove helpful in reducing risks and in providing sources of information and contacts which otherwise would not be available.

3.3. Local Workforce

Mexico has an abundant workforce, especially with regard to relatively low-priced, lower-qualified labour. Yet, employees with a higher level of qualifications remain relatively hard to find. Mexican workers are prepared to change their employers faster than their European counterparts. Make this become your advantage, not your disadvantage.

3.4. Patience and Long Term Commitment

Time has a different meaning in Mexico, and success does not always come as fast as one would like. Instead, one may have to go through a rather frustrating stage full of obstacles at the beginning. For instance, administrative procedures may take much longer than expected. In addition, one needs to have some patience with prospective business partners such as buyers or suppliers. Many business people consequently stress the need for a long-term commitment; effort and patience are generally rewarded through good business opportunities in the long run.

"Do not expect results soon. Success in Mexico comes in the long run. Do not enter the market if you are not prepared to sustain two or three meager years and if you do not enjoy full support of your headquarters during this time."

3.5. Know When to Give Credit

Availability of credit is very limited in Mexico. Banks are unwilling or reluctant to provide credit, particularly to firms. Therefore, supplier credit is currently one of the most important sources of finance for businesses. This holds particularly for selling capital goods. Your customers are therefore likely to ask you to help them finance their purchase.

Indeed, it is not uncommon that financing conditions – for instance in the purchase of machinery – are the key variable in a Mexican buyer's selection of a supplier. If you exclude such an option right from the start, you might not be suited for entry into the Mexican market. Considering at least the possibility of giving credit is a must for market success.

"Despite all the problems, Mexico offers great opportunities. All Swiss companies who have established themselves as successful players in the Mexican market have stood by the country and have always remained here, even during times when things were pretty bad."

However, given the relatively bad payment moral of many Mexican customers and the omnipresent risk of non-payment, investigation of the prospective buyer's credit record well before financing his purchase is important. Although credit rating agencies are at an early stage of development, such information is not impossible to find. Banks might have access to such information or also membership in professional associations will help to obtain information which otherwise would be difficult to find.

3.6. Well-Negotiated

Long-lasting face-to-face negotiations are quite common in Mexico. Normally, Mexican partners do not quickly negotiate a deal in just a few days. Mexicans want to establish a good relationship first, which may then speed up the negotiating process considerably.

Do not expect the same level of transparency from your Mexican business partners that you might expect from a business partner in Europe or North America: Mexicans are relatively reluctant to share crucial business information, and you may have to ask for it. You should always seek confirmation of data supplied by the candidate for a partnership. When negotiating, avoid reaching the bottom-line too quickly and hold back important concessions as they might become valuable in the lengthy bargaining process. Given the traditionally hierarchic management of many Mexican firms, negotiations with intermediaries may be particularly cumbersome. Usually, the owner or top manager of the firm speaks the last word. Hold some concessions back for the final meetings where top management is involved.

3.7. Recognition and Acceptance of Cultural Differences

When expanding to Mexico, you need to recognize and accept the cultural differences between your home and your host country:

- Punctuality and time have a different meaning in Mexico. You may not always expect your Mexican counterparts to attend meetings punctually and their failure in doing so must not be interpreted as a lack of interest. You should always try to be punctual yourself. If someone tells you that a task will be done "*mañana*" (tomorrow), this is not necessarily meant to be taken literally. Be patient, but always follow up.
- Work times differ. While it may be difficult to reach people at their offices before 10 am in the morning, they may well work there until 8 pm or later. Most Mexicans have their lunch breaks between 1 and 3 pm.
- Meals, particularly lunch and increasingly late breakfasts, are a popular setting for business negotiations. Such business lunches usually take place during the afternoon, starting around 2 pm and lasting until 4 or 5 pm. You should use these occasions actively.
- Mexicans generally accord less importance to following a contract on a letter-by-letter basis. On the flip side, Mexicans have the advantage of being more flexible and more spontaneous.
- The Mexican business style is more interpersonal and less inter-institutional. Mutual trust, respect and knowledge are essential. Do not be surprised or angered if business talks meander towards personal or even political topics as well. This does not mean a lack of interest for the topic to be discussed; personal acquaintance is a prerequisite for successful business relations and therefore a reflection of the other party’s interest.
- Negotiations with Mexicans may take longer than in Europe or in the U.S. Negotiating in Mexico, like anywhere else, is a give-and-take. You should never say ”This is the deal – take it or leave it”.
- Hierarchies are more important than in Europe or in the U.S. Often, decisions are made at upper hierarchical positions only. Try to find your interlocutor on the corresponding level or ensure that those with the power to decide are informed on the progress of talks.
- ”Yes” does not always mean ”yes”: many Mexicans may not openly display disagreement by saying ”no” because they value respect for their interlocutors. In order to get to a better understanding, ask open questions instead of questions that have to be answered with ”yes” or ”no”.

However, it must be stressed that each of your business partners will have his or her proper personal style – as anywhere in the world. Personal styles may vary not only according to the individual’s personality but also according to the corporate culture of the firm he is working for, his education or the region where he lives. For example, business style in Guadalajara is regarded as relatively relaxed. By contrast, Monterrey and the northern States bordering the U.S. are highly influenced by the Anglo Saxon business culture. By contrast, business style in the south is said to rely on paternalistic ties and class-influenced relationships. Similar differences may be noted between more experienced and younger business people. The latter have often enjoyed their business education in the U.S. and therefore prefer the more formal Anglo-Saxon business style to the more Latin business atmosphere.

Box 13. Reasons for failure of Swiss firms in the Mexican market

- Misunderstanding of Mexican culture and insufficient adaptation
- Impatience, no long-term vision and no long-term commitment
- Market entrants do not train and qualify local workforce sufficiently
- No clear contracts and no knowledge of the legal framework
- No experience in developing country markets
- Overestimation of the market and underestimation of competition

3.8. Speak Spanish

Given the highly interpersonal style of doing business in Mexico and the need to communicate with partners, buyers, suppliers, employees or public officials, it is highly advisable to learn Spanish. Although no one expects you to master the language, Mexicans highly value even modest efforts by foreigners to speak their language in an initial stage. In the long run, having someone in Mexico with a good command of the language is essential.

"El Castillo" pyramid, Chichen Itza (UNESCO world heritage)[88]

[88] http://sanifra.files.wordpress.com/2008/04/chichen-itza.jpg

ANNEX 1: Useful internet addresses

Main statistical sources from Mexico
National Statistics Institute (INEGI): www.inegi.org.mx
PROMEXICO - Mexican Export Promotion and attraction of Investment: www.promexico.gob.mx
Central Bank (Banco de México/BANXICO): www.banxico.gob.mx

Mexican Government
Presidency: www.presidencia.gob.mx
Ministry of Finance: www.shcp.gob.mx
Ministry of Economy: www.economia-snci.gob.mx
Ministry of Foreign Affairs: www.sre.gob.mx
Ministry of Environment and Natural Resources: www.semarnat.gob.mx
The Ministry of Labour and Social Security: www.stps.gob.mx
Public procurement offers: www.compranet.gob.mx
Federal Electricity Commission (CFE): www.cfe.gob.mx
National Water Commission (Comisión Nacional del Agua, CNA): www.cna.gob.mx
Import Guide by the Mexican Customs Authority: www.aduanas.sat.gob.mx; Section *Importando y Exportando*

Chambers of Commerce
Swiss-Mexican Business Association (AEMS): www.aems.com.mx
French-Mexican Chamber of Commerce and Industry: www.cfmci.com
German Chamber of Commerce in Mexico: www.camexa.com.mx
U.S. Chamber of Commerce in Mexico: www.amcham.com.mx

Mexican federations and private associations
National Mexican Association of Importers and Exporters (ANIERM): www.anierm.org.mx
Mexican Employers Confederation (COPARMEX): www.coparmex.org.mx
Mexican Council of Foreign Trade, Investment and Technology (COMCE): www.comce.org.mx
Confederation of the Industrial Chambers of Commerce (CONCAMIN): www.concamin.org.mx
Coordination Council of Entrepreneurs (CCE): www.cce.org.mx
National Council of Ecologist Industrials of Mexico (CONECO): www.conieco.com.mx

Mexican Research Institutes and others
Center of Research for Development: www.cidac.org
Center of Economic Research of the Private Sector: www.cce.org.mx/CEESP
Mexican Competition Institute: www.imco.org.mx
Centro de Investigación y de Docencia Económicas (CIDE): www.cide.edu
Instituto Tecnológico Autónomo de Mexico (ITAM): www.itam.mx
Instituto de Investigaciones Económicas – Universidad Nacional Autónoma de Mexico (UNAM): www.iiec.unam.mx/indice.htm

Swiss websites
OSEC Business Network Switzerland: www.osec.ch
State Secretariat for Economic Affairs: www.seco.admin.ch
Latin American Chamber of Commerce in Switzerland: www.latcam.ch
Mexican Embassy in Switzerland: www.sre.gob.mx/suiza
Federal Office for Migration (Booklet in German: *Leben und Arbeiten in Mexiko)*: www.swissemigration.ch/themen/laenderinfos/laenderliste/00114/index.html?lang=de.
This document provides information on living and working requirements for Swiss who want to emigrate to Mexico.

ANNEX 2: Contact addresses

Latin American Chamber of Commerce
Talstrasse 11
8001 Zürich
Phone: 044 272 08 52
Fax: 044 219 79 15
E-mail: admin@latcam.ch
Website: www.latcam.ch

President: Richard Friedl
Executive Director:Dorit Sallis

Asociación Empresarial Mexicano-Suiza
Mexico City
(not member of Swisscham)
Phone: (55) 55 43 78 56
Fax: (55) 55 23 98 43
E-mail: info@aems.com.mx
Website: www.aems.com.mx

President:Rolf Gafner

Swiss Embassy in Mexico City
Torre Optima, piso 11, Apartado 10-724
Paseo de las Palmas Nr. 405
Lomas de Chapultepec
11000 Mexico DF
Phone: 0052 55 91 78 43 70
Fax: 0052 55 55 20 86 85
E-Mail: mex.vertretung@eda.admin.ch
Website: www.eda.admin.ch/mexico

Swiss General Consulates

Cancún
Av. Coba No. 12, local 214
Edif. Vénus, SM5, MZ1
77500 Cancún, Q.Roo
Phone: 0052 99 88 84 84 46
Fax: 0052 99 88 84 84 46
E-Mail: rolandicancun@rolandi.com

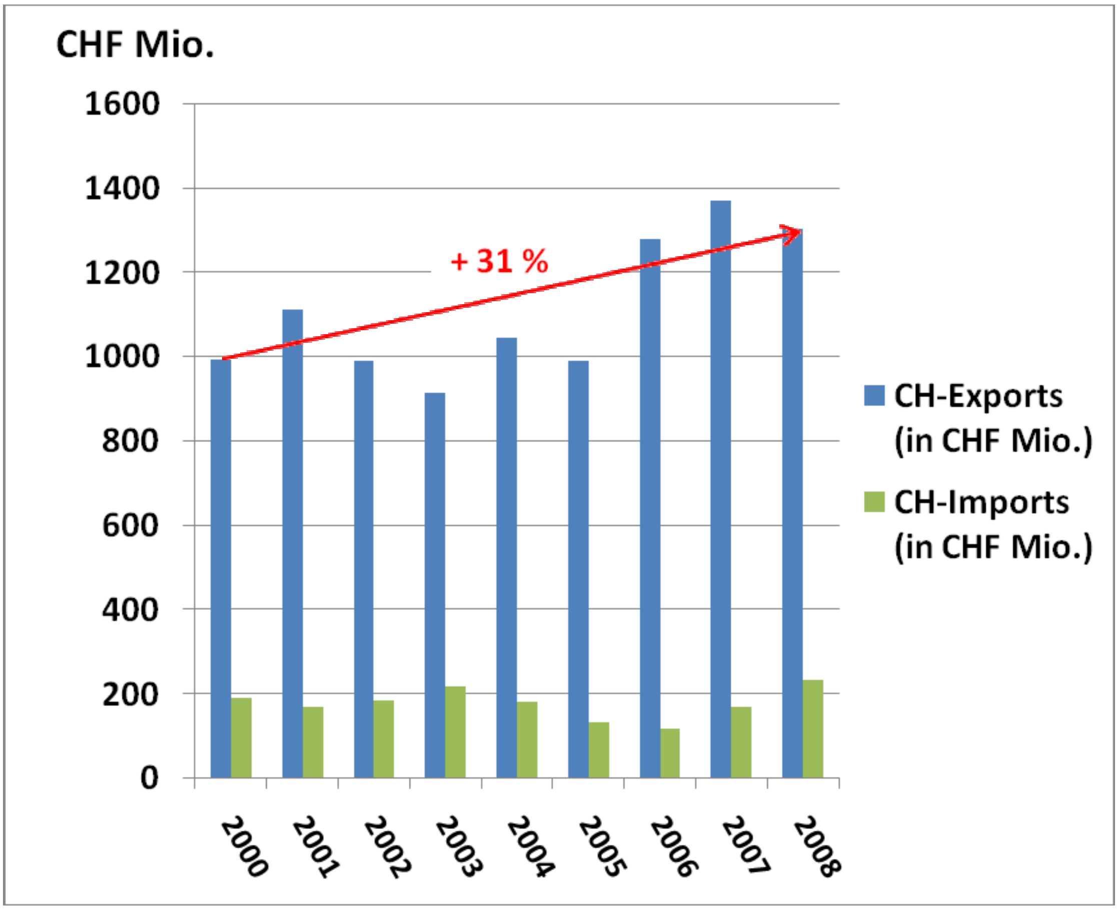
Guadalajara
Srta Ursula Stump Diestel
Calle # 5 s/n (al lado del # 131)
Col. Seattle
45150 Zapopan CP, Jal.
Phone: 0052 33 38 33 41 22
Fax: 0052 33 38 33 40 21
E-Mail: suizagdl@prodigy.net.mx

Veracruz (consular agency)
c/o Sr. Mario Maraboto
Abeto No. 72
Entre Pino y Granado 3538 H
Fracc. Floresta
91940 Veracruz, Ver.
Phone: 0052 22 99 35 38 14
Fax: 0052 22 99 35 38 14
E-Mail: maraboto5@hotmail.com

Monterrey
Ing. Andres E. Engels Errass
Calle Ignacio L. Vallarta 811 Sur
Col. El Mirador Centro
64070 Monterrey, NL
Phone: 0052 81 83 42 92 92
Fax: 0052 81 82 28 92 93
E-Mail: aengels1@yahoo.com

ANNEX 3: Basic economic data

Swiss-Mexican Bilateral Trade, 2000-2008



Source: Federal Customs Administration, SWISS-Impex, 4.2.2009.

Components of gross domestic product: 2007, 2008 (percentage)

	2007	2008
Agriculture	4.0	4.3
Industry (mines, manufacturing, construction, electricity)	26.6	34.7
Services (incl. banking services)	70.7	62.8

Source: INEGI (Instituto Nacional de Estadística y Geografía, Mexico)

Gross domestic product by economic sector: 2007 (percentage)

	2007
Personal services	25.7
Other services (transport, communication, financial, housing property)	23.7
Retail trade, restaurant and hotels	21.3
Manufacturing	17.9
Construction	5.7
Agriculture, Fishing and Forestry	4.0
Mining	1.6
Electricity, Gas and Water	1.4
Banking	1.3

Source: INEGI

Employment by sector: 2007, 2008 (percentage of total labor force employed)

	2007	2008
Agriculture	13.9	13.6
Industry	24.5	24.6
Services	60.7	61.0

Source: INEGI

Income distribution: 2004 (latest data available)

	% of total income
Poorest quintile	4.3
Second quintile	8.3
Third quintile	12.6
Fourth quintile	19.7
Richest quintile	55.1

Source: INEGI with data from the World Bank

Major exports: 2007 (percentage of total exports)

Manufactured goods	80.7
Oil	15.8
Agricultural products	2.8
Mining	0.6

Source: Economist Intelligence Unit

Note: Amongst the manufactured goods, electronics and motorized vehicles are the most important productions.

Main destination of exports: 2008 (percentage)

USA	82.1
Canada	5.3
Germany	2.4
Spain	1.5
Colombia	1.3

Source: INEGI; Ministry of Economy, Mexican Central Bank

Main origin of imports: 2008 (percentage)

USA	49.6
China	10.5
Japan	5.8
Korea	4.5
Germany	3.8

Source: INEGI; Ministry of Economy; Mexican Central Bank

Distribution of the Mexican population by age: 2005 (latest data available)

age	percentage
0-4	10.2
5-9	10.4
10-14	10.9
15-19	10.1
20-29	17.0
30-39	15.0
40-49	11.0
50-59	7.2
60-69	4.5
70-79	2.5
80+	1.2

Source: INEGI