



Cross-Cultural Business Conference 2016

“Doing Business in Mexico: Economic and Cultural Insights”

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This lecture's topics...

- Mexico's basic information and data
- Specifics about Mexican Market
- Trade agreements
- Modes and options to enter the Mexican Market
- Culture and protocol

This is Mexico...
Basic information and Data:

Geography



- Mexico's surface of 1.97 million square kilometers
- Fourteenth largest country in the world
- Best endowed with natural resources of Latin America.

Geography

- Strategically placed between 3,152 kilometers of border with the United States of America
- To the south, a border of 1,149 km with Guatemala and Belize
- 11,122 km of coastline on the Pacific and Atlantic Oceans
- Making communication with the growing markets of the Pacific Rim and Europe easier.



MEXICO – Quick Facts

- **Country Name:** United Mexican States
- **Capital:** Mexico City
- **Government Type:** Federal Republic
- **Total Area:** 1,972,550 Km² (Europe: 10,180,000 km²)
- **Population:** 115 million people (58% under 29 years old, 20% middle class)
- **Population density:** 58 people per Km² (Austria: 103/km²)
- **Population growth:** 1.2%
- **Urban population:** 78%
- **Estimated Population in 2050:** 153 + Million



More quick facts:

- **Languages:** Spanish, various Mayan, Nahuatl, and other regional indigenous languages (at least 52 dialects)
- **Literacy:** 89.6% total, 91.8% male, 87.4% female
- **Religions:** Catholic 89%, Protestant 6%, other 5%
- **Life Expectancy:** 68.73 male, 74.93 female
- **Currency:** 1 Mexican peso (Mex\$) = 100 centavos
- **Income:** 9100 USA dollars per person per year
- **Ease of Doing Business:** 38 in 2016, 42 in 2015, 53 in 2014, 52 in 2013... (189 countries)
- **Ease of Starting a Business:** 65 in 2016, 63 in 2015...

Ease of Doing Business in Mexico:

- Ease of doing business (#38 in 2016 from #42 in 2015)
- Starting a business (7 days)
- Getting electricity (114 days if no electricity in the area, 5-7 days if within grid)
- Registering property (74 days)
- Paying Taxes (404 hours)
- Enforcing contracts (415 days)
- Time to export/import (14/17 days)

<http://www.doingbusiness.org/data/exploreeconomies/mexico>

Quick facts (cont'd)

- **Main influx of income from abroad:** oil, tourism, and remittances
- **GDP (per capita):** \$8626 USA dollars (68% of world average)
- **Industry:** food and beverages, tobacco, chemicals, iron and steel, petroleum, mining, textiles, clothing, motor vehicles, consumer durables, tourism
- **Agriculture:** corn, wheat, soybeans, rice, beans, cotton, coffee, fruit, tomatoes; beef, poultry, dairy products; wood products
- **Arable Land:** 12%
- **Natural Resources:** petroleum, silver, copper, gold, lead, zinc, natural gas, timber

Macroeconomic Data

- **Gross Domestic Product (GDP):** \$8626 USA dollars (per capita)
- **GDP - composition by sector**
 - Services: 50.8%
 - Industry: 26.2%
 - Agriculture: 3.8%
 - Mining: 1.5%
- **Inflation:** 5.5% for 2016 (.45 in April 2016)

Macroeconomic Data (cont'd)

- **Unemployment:** 4.3% (official figure)
- **International reserves:** USA \$ 176 billion dollars (176,321 millions of dollars, Feb)
- **FDI inflows:** USA \$24 billion dollars (24'154,173,750)
- **Mexico's foreign external debt** has enjoyed Investment grade status for almost a decade.
- **Mexico's country risk:**A4

<http://globaledge.msu.edu/countryInsights/country.asp?countryID=5>

Mexico's history in 30 seconds:

- Mexico's earliest known native group in the region: 1200 BC
- Aztec empire: 500 AD – 1521 AD
- Spanish conquest: 1521
- Spanish Colony: 1521 – 1821
- Mexico as an independent nation: 1821 to today
- 1960s – 1980s: Mexico developed a largely oil-based economy.
- 1980's: Opening of our economy, trade agreements
- 1994: Mexico, Canada, USA as trade partners (NAFTA)
- 2000: 1st time opposition party wins elections (president)
- 2000's: More trade and tax agreements signed
- 2018: Next presidential elections



- Mexico's north: industry and agribusiness
- Central Mexico: industry, center of government
- Mexico's south: agriculture, Mayan archaeological sites, tourism

Our language: Spanish

- Spoken by over 95% of Mexicans
- Cultural legacy left by Spaniards
- How it sounds:
 - Buenos días, como estás? (*Good morning, how are you?*)
 - Bien y tu? (*fine, and you?*)
 - Bien, gracias! (*fine, thanks!*)

Spanish 101

- How it sounds:
 - Buenos días, como estás? (Boo-‘n-os dee-as, como ‘s-taz?)
 - Bien y tu? (Bee-‘n ee-too?)
 - Bien, gracias! (Bee-‘n gra-see-as)

Mexican Currency: 'Peso'

- Currency bills come in denominations of 20, 50, 100, 200, 500 and 1,000 pesos. Coins are issued in denominations of five, 10, 20 and 50 cents, and one, two, five, 10 and 20 pesos
- Many businesses will quote prices in USA dollars along with price in “pesos” . The USA dollar is accepted at all money exchange bureaus across the country
- One Mexican peso = .048 Euro
- One USA dollar = 18.50 Mexican pesos
- One USA dollar = .89 Euro

Tourism Sector

- The tourism sector makes up for more than the 8% of the GDP and contributes with more than the 9% of the direct and indirect employment.
- In 2015 Mexico had 22 million visitors that brought earnings of over 8.3 billion dollars, making tourism the fourth most important activity in generating foreign currency after oil exports, remittances and manufacture.

Tourism (con't)

- Mexico altogether offers an extensive variety of tourism attractions:
 - the inheritance of the Pre-Spaniards civilizations and the development of archaeological sites as symbols of national identity;
 - beauty of its beaches;
 - the mixture of the millenary cultures and the big cities;
 - natural areas that are home to historic elements;
 - a tourism infrastructure that makes this country a unique place in the world

Other Tourism data

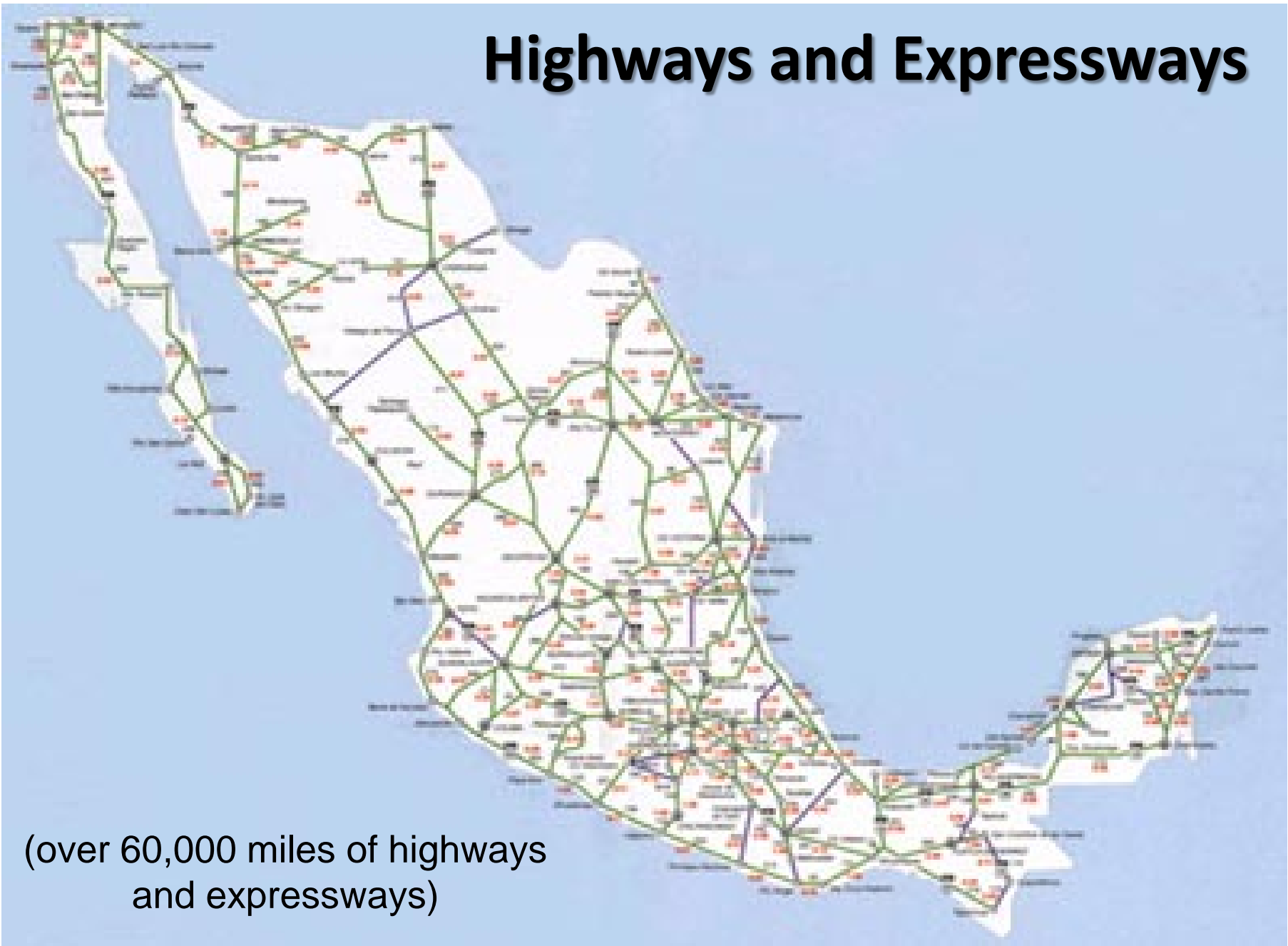
- Among its wide variety of cultural and natural attractions, Mexico has 25 sites declared World Heritage by the UNESCO.
- Mexico ranks the 8th country internationally in tourist arrivals.
- Mexico ranks the 12th country internationally in tourist income.
- Mexico offers easy access from USA and Europe, with convenient flights to vacation and business destinations.
- 57 international and 28 national airports serviced by leading airlines.
- An extensive and diversified 35 billion dollar tourism industry.

Education Data



- 40% of total annual federal budget dedicated to education
- Enrollment growth, last ten years:
 - Pre-school 180%
 - Elementary 35%
 - Secondary (7th-9th standard) 43%
 - Tech 200%+
 - High School 75%
 - Undergraduate and graduate -45%

Highways and Expressways



(over 60,000 miles of highways
and expressways)

Airports

AEROPUERTOS



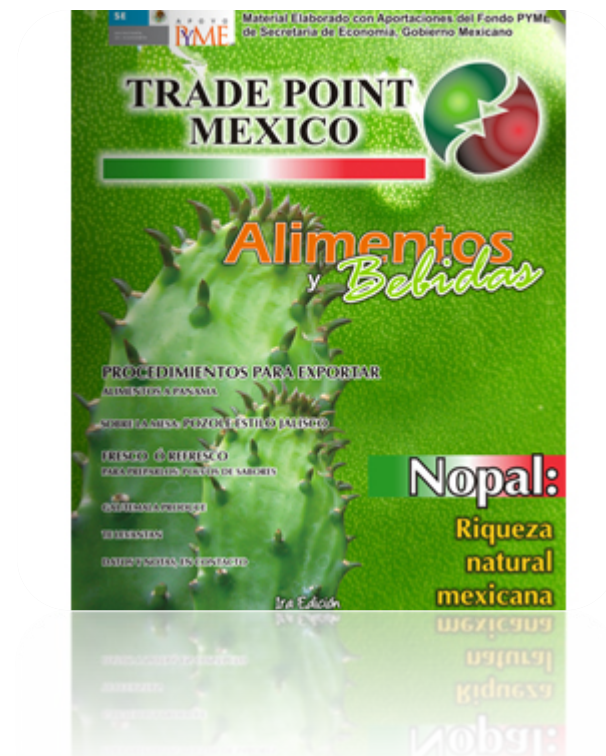
Maritime Ports

ESTADOS UNIDOS DE AMÉRICA





Trade Agreements



Opening our Economy

- **Mexico has signed more free trade agreements (FTAs) than any other country** in the world and this has placed itself in a privileged position as one of the ten biggest exporters worldwide and one of the main receivers of foreign direct investment.
- To date, Mexico has signed **FTAs with 38** countries/regions.
- Such Economic Cooperation Agreements have been signed with United States, Canada, European Union, Argentina, Brazil, Colombia, Paraguay, Uruguay, Bolivia, Chile, Ecuador, Peru and Venezuela, among others

Trade Agreements

- **Mexico-Chile:** On April 17, 1998, Mexico and Chile signed the Free Trade Agreement which replaces the Economic Complementation agreement.
- **Mexico-Bolivia:** In effect since January 1, 1995
- **Mexico-Nicaragua:** In effect since July 1, 1998.

Trade Agreements (cont'd)

- **Mexico-Israel:** In effect since July 1, 2000, this agreement establishes the full liberalization of trade between the two countries as of 2003
- **Mexico-The Northern Triangle:** Guatemala, Honduras and El Salvador. Came into effect in August 2001. Most important market for Mexican products in Latin America with a share of 25%
- **Mexico-European Free Trade Association (EFTA):** Norway, Switzerland, Iceland and Liechtenstein. This Agreement was signed on November 27, 2000
- **Mexico-Costa Rica:** The Free Trade Agreement between Mexico and Costa Rica was implemented in January, 1995.

Trade Agreements (cont'd)

- **Mexico-European Union:**
 - In effect since July, 2000, this is one of the most ambitious foreign policy instruments ever signed by Mexico. It is known as the “Global Agreement”
 - Three main streams: political dialogue, cooperation, and commercial liberalization.
 - Liberalization program for Mexican products was concluded on January 1, 2003, while the one for European products exported to Mexico was concluded in 2007.

Trade Agreements: NAFTA

- In January 1994, Mexico joined Canada and the United States in the North American Free Trade Agreement (NAFTA), which will phase out all tariffs over a 15-year period.
- The highest starting tariff was 20% and it is being reduced each year in accordance with the NAFTA program. Since its implementation in 1994, tariffs have been eliminated on 84.5% of all non-oil and non-agricultural Mexican exports to the United States and 79% of exports to Canada.
- Ten years after the implementation of NAFTA, in January 2004, only 1% of products were subjected to tariffs and, after 15 years, no more tariffs on products traded by the 3 countries.

NAFTA's impact



- Services
- People
- Commerce
- Productivity and competitiveness
- Mexico's northwest

Other Agreements

- **APEC.** Mexico was the first Latin American member of the Asia Pacific Economic Cooperation forum (APEC), joining in 1993
- **OECD.** In April 1994, Mexico joined the Organization for Economic Cooperation and Development
- Founding member of the World Trade Organization (**WTO**), 1996

Tax Treaties

- Signed in order to:
 - Avoid double taxation and tax evasion by international companies that have their production, distribution and sales processes, etc. located in different places; and,
 - Reduce withholding taxes, taxes on dividends, on interest operations and capital gains among corporations

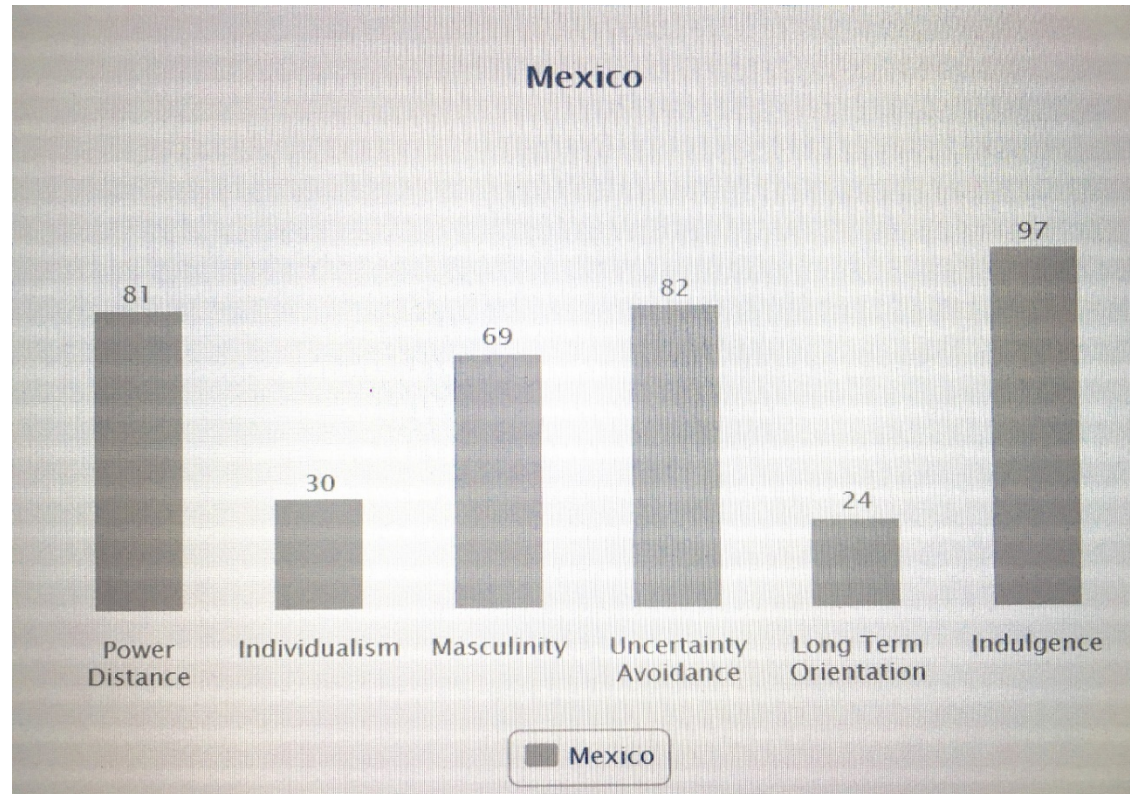
Tax Treaties (cont'd)

- Mexico has signed tax treaties with Belgium, Canada, Chile, Czech Republic, Denmark, Ecuador, Finland, France, Germany, Ireland, Israel, Italy, Japan, South Korea, Luxembourg, the Netherlands, Norway, Portugal, Romania, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.
- We have also concluded tax treaty negotiations with India, Greece, Indonesia, Poland and Venezuela.



Doing Business with Mexicans: Culture

Hofstede's Research and Mexico



<https://geert-hofstede.com/mexico.html>

Power Distance

- Score: 81
- Hierarchical society;
- Inherent inequalities;
- Centralization is popular;
- Subordinates expect to be told what to do;
- Ideal boss is a benevolent autocrat

Individualism - Collectivism

- Collectivistic society;
- Close long-term commitment to the member 'group' (be that a family, extended family, or extended relationships).
- Loyalty in a collectivist culture is paramount, and over-rides most other societal rules and regulations.
- The society fosters strong relationships where everyone takes responsibility for fellow members of their group.

Career Success – Quality of Life

- Score: 69
- People (for the most part) “live in order to work”;
- Managers are expected to be decisive and assertive;
- The emphasis is on equity;
- Competition and performance pay are (for the most part) seen as a norm in many companies
- Many Mexicans prefer to spend time with friends and families... and time off and holidays are popular

Uncertainty Avoidance

- Score: 82
- Very high preference for avoiding uncertainty
- Maintains rigid codes of belief and behavior
- Sometimes intolerant of unorthodox behavior and ideas
- Emotional need for rules
- Mx have an inner urge to be busy and/or work hard
- Innovation may be resisted
- Security is an important element in individual motivation.

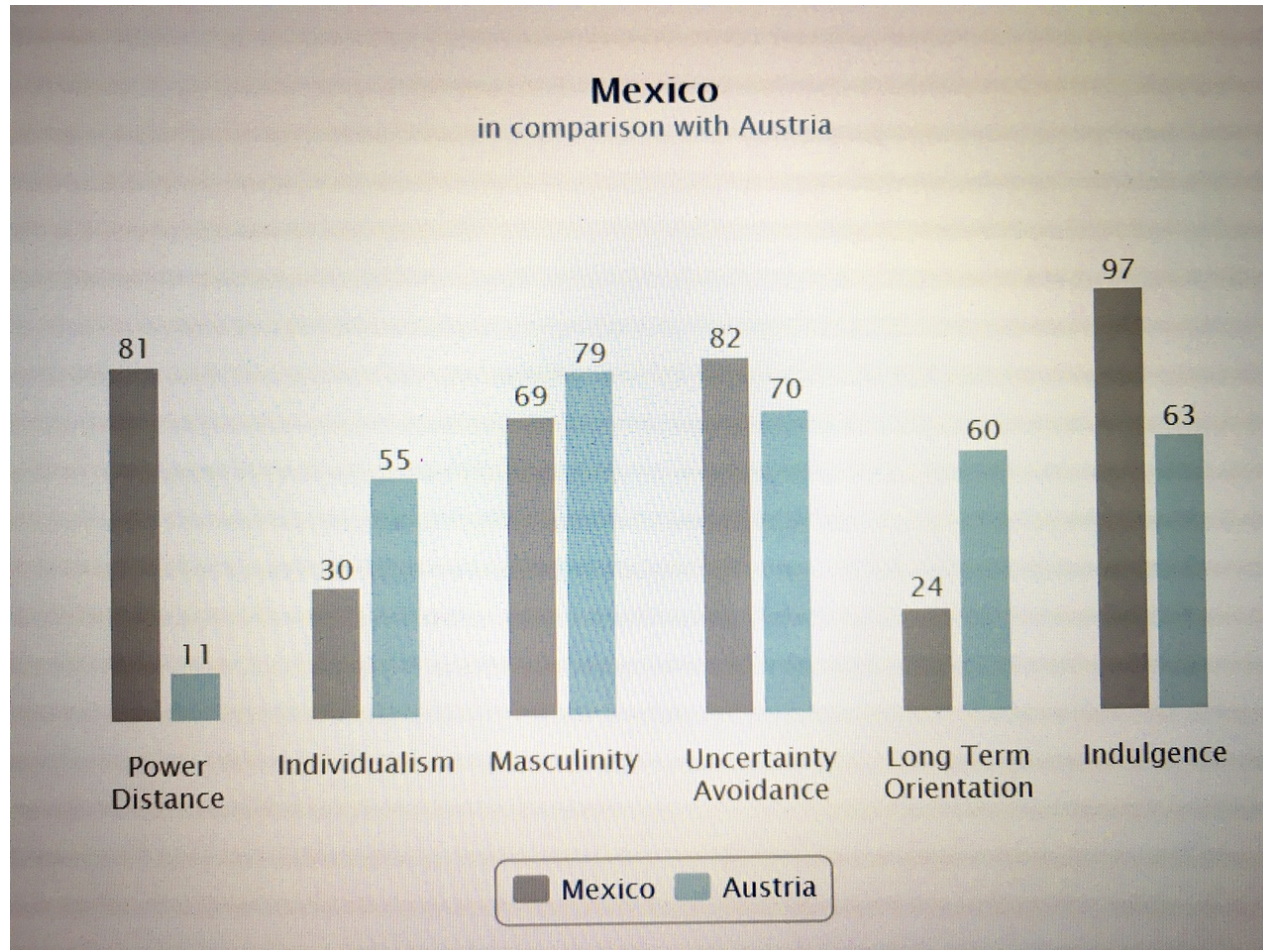
Long Term Orientation

- Score: 24 (relatively low)
- Mexican culture is normative
- Mexicans have a strong concern with establishing the absolute truth
- Past and past events are important
- They are normative in their thinking
- Exhibit great respect for traditions
- Relatively small propensity to save for the future
- Focus on achieving quick results.

Indulgence

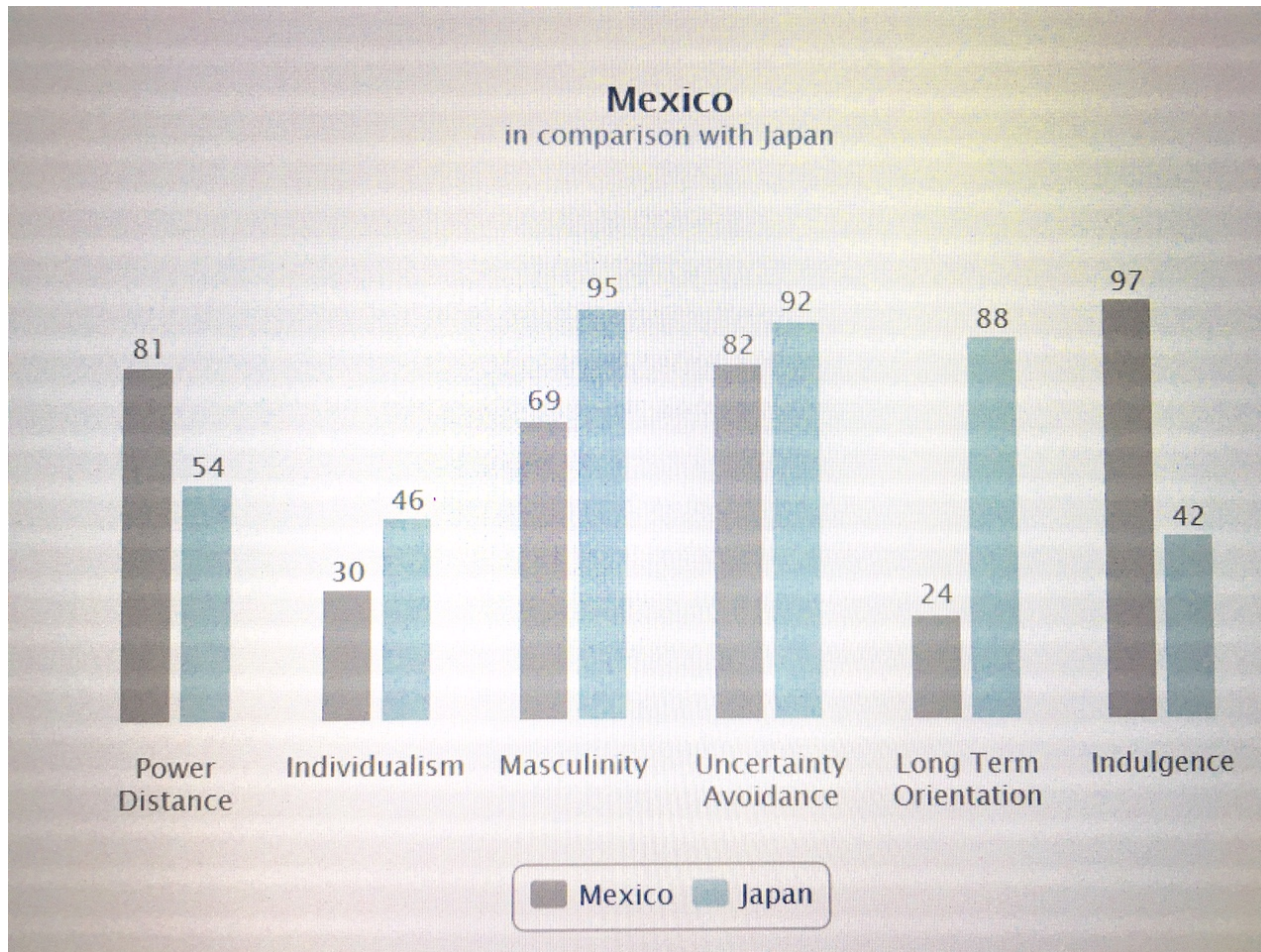
- Score: 97 (high)
- Mexican culture has a definite tendency toward Indulgence
- Willingness to realize impulses and desires with regard to enjoying life and having fun
- Possess a positive attitude and have a tendency towards optimism
- In addition, they place a higher degree of importance on leisure time, act as they please and spend money as they wish

Mexico and Austria



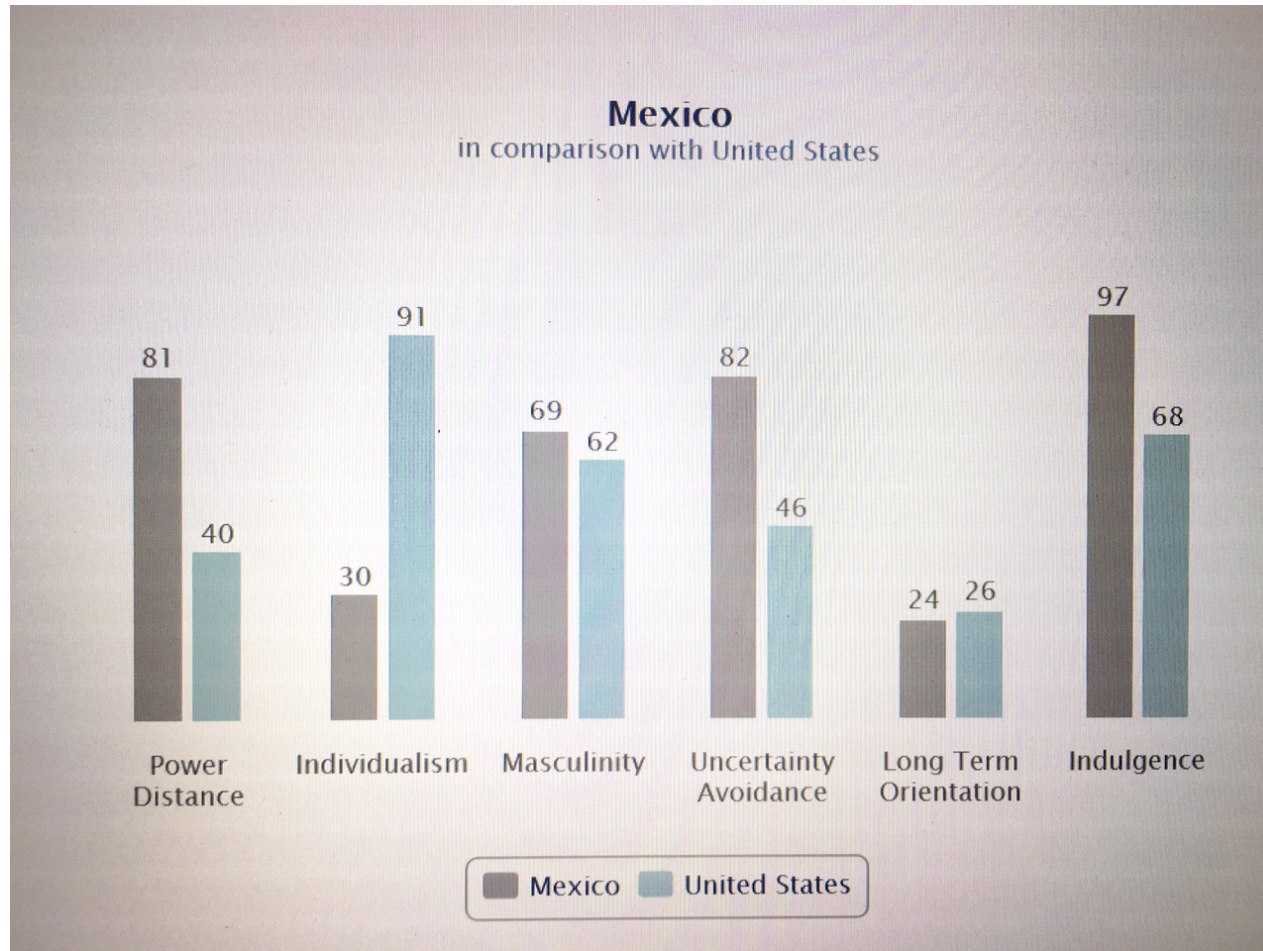
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Mexico and Japan



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Mexico and USA



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Doing Business with Mexicans: Suggestions

- Might take you long to find the right partners
- Might take you long to finalise agreements and contracts
- Patience is advised
- “Despacio que tengo prisa” (‘lets go slow because this is important for me’)
- Establish reputation by keeping every commitment

In Mexico, your contacts are important!

- Initial contact with key decision maker
- Networking: opens doors
- Chambers of business and industry
- Government contacts
- Before: do your research and get recommendations if possible

Business Communications

- Verbal? In writing? Always follow up..
- The need for signature for agreements
- Translations & translators - avoid mistakes
- Do you *really* speak Spanish?
- Advertising - hire a professional

Business Protocol

- Lunch/dinner invitation? Who pays?
Whoever extended invitation
- In our business culture a woman never pays for lunch/dinner
- It is ok to address a person by their first/given name (but after a few months of knowing him)
- Before that: 'Senior xxxxx'

Business Protocol (names cont.)

- We have a **first/given name** (but someone might have an **additional first name...**)
- We have a **paternal family name**
- We have a **maternal family name**
- Maternal family name stays in the name
- Example: **Pedro Antonio Venezia Corona**
- Married woman: all names stay, but **'de'** is added **before husband's paternal family name** → Bertha Berenice Trujillo Beltran **de Venezia**

Business Protocol (cont.)

- Woman enters room - stand up
- Carry plenty of business cards
- Don't be hyperactive
- Don't look at the watch constantly
 - Allow at least 2 hours per meeting
- Be on time, but expect others to be late
- Remember: we are loud, use a lot of gestures, our personal space is smaller

Business Protocol: Schedule

- 8:00-9:00/10:00 Breakfast
- 10:00-2:00 - Office hours
- 2:00-4:00/5:00 – Lunch Time/break
- 4:30-6:00/7:00 - Office hours
- 7:00-9:00 - Cocktails, informal meetings
- 9:00-Midnight/beyond - Dinner

Remember the following.. and don't get discouraged!

- In Mexican culture a 'yes' can mean 'no' and 'no' could mean 'maybe'...
- In Mexico, it is impolite to turn people down

Understand (and always remember) that there are cultural differences!

- The status of your business contacts in Mexico is important
- Business relations based on trust and friendship
- As said before “Yes” could mean no and “no” can mean “maybe”: in Mexico, it is impolite to turn people down.
- Time definition and concept is different
- Business decisions are made at higher organizational levels
- Verify/check with companies doing business and/or present in the market

Doing business in Mexico...

Suggestions (cont.)

- Direct and personal customer contact
- Give importance to knowing your client(s)
- Mexicans like to do business with people they feel comfortable with
- Gain your Mexican counterpart's confidence and respect
- Be consistent and do a regular follow up
- Remember: Each region in Mexico has its own characteristics
- Commitment to the Market
- Local presence: it is important to visit often!



Specifics of the Mexican Market...

What Mexico needs (imports)

- Chemicals
- Machinery
- Equipment
- Agricultural products
- Mining Products
- Paper and Books
- Oil derivatives
- Pharmaceutical supplies
- Vehicles
- Wool

What Mexico sells to different countries:

- Petroleum
- silver
- machinery
- vehicles
- copper
- zinc
- lead
- shell fish and fish
- fruits
- Vegetables
- coffee
- cocoa
- spices
- sugar
- tomatoes
- cotton products
- footwear
- scientific instruments
- clothing

The Mexican Market

Two well identified economic groups: rich & poor

- Poor majority does not equal insignificant market
- 30 million consumers w/discretionary income
- Concentrated in major cities
- Sophisticated shoppers
- Rich = *really rich* = 24 out of 500 richest men are Mexican.

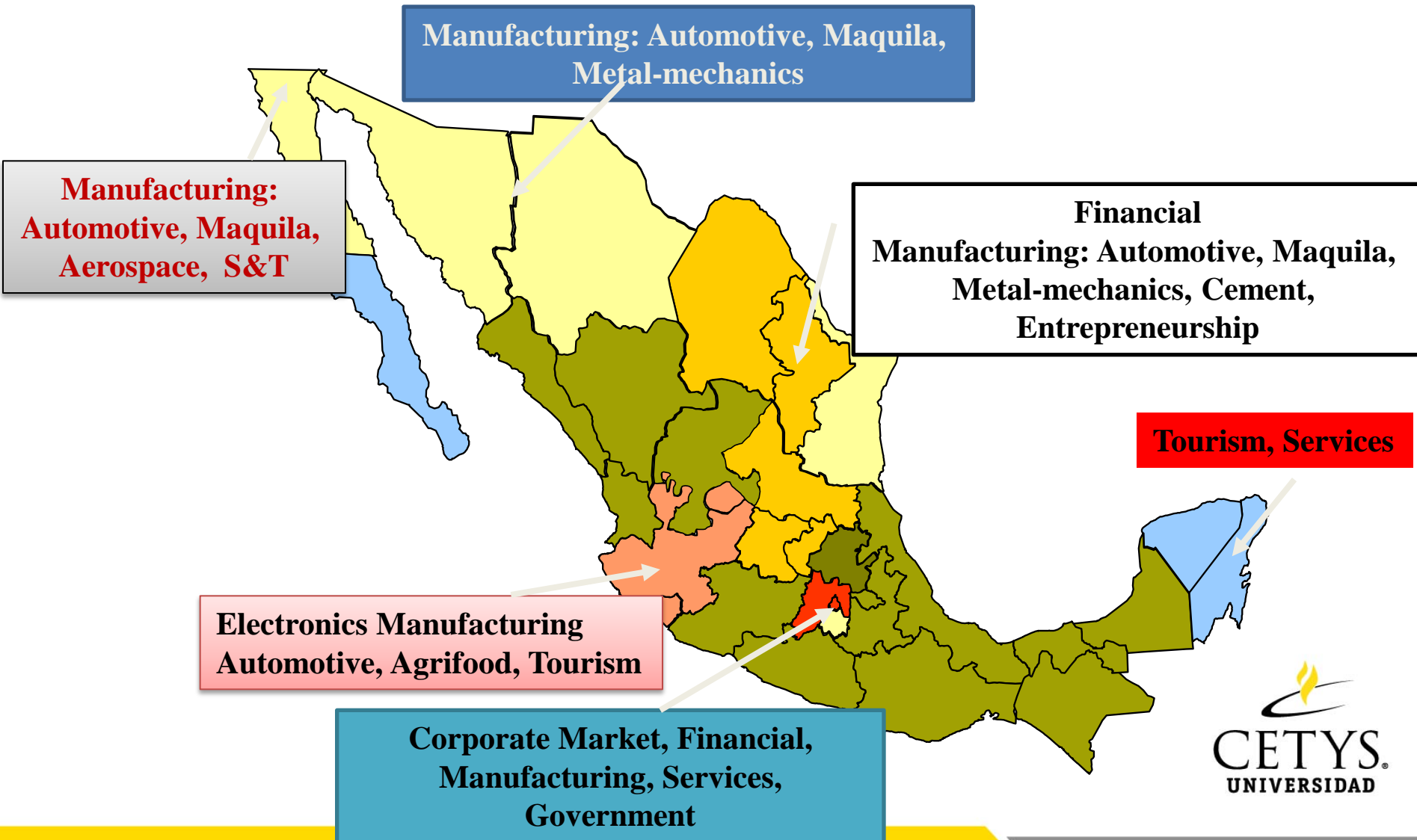
The Mexican Market

- Largest number of FTAs
 - Trade US & CAN tripled since NAFTA 1994
- Income distribution: top 20% earn 55% of total & private consumption lead growth in past 2 years
- Mexico is actively seeking foreign participation in its economy: the number of state owned enterprises has fell... 1982 >1000, 2000 <200, 2010 <50, 2015 <40

The Mexican Market (cont.)

- Consolidated clusters
 - Autoparts, home appliances, electronics, IT/software, steel, glass and cement.
- Shifting towards a knowledge-based economy:
 - Aeronautical and aerospace, biotechnology, nanotechnology, R&D centres.

Distinct Markets and Clusters



Where can you invest in Mexico? (Activities open to investors and entrepreneurs)

Activities reserved for the State:

- Oil production (shared) and oil refining
- Basic petrochemical production
- Sale of electricity to the public
- Nuclear power
- Telegraph and radiotelegraph services
- Local postal service
- Bill issuance and coin minting
- Control, supervision and surveillance of ports, airports and heliports

Activities Reserved for Mexican Investors

- Domestic land transportation of passengers
- Retail gasoline sale and distribution
- Radio broadcasting and television services
- Credit unions
- Development banks
- Professional and technical services where applicable

Foreign Investment Participation (allowed by law) has been increased:

- As of 1995 : 49% in Capital stock
- As of 2001 : 51% in Capital stock
- As of 2004 : 100% in Capital stock
 - Exception: 10% in Cooperative production companies
 - Exception: 25% in domestic and specialized air transportation and air shuttle services

(But some areas of economy remain protected)

Foreign Investment Participation: 49%

- Insurance and bonding institutions
- Manufacture and commercialization of explosives, firearms, etc.
- Printing and publication of newspapers
- Ownership of shares in agriculture, etc
- Cable tv and telephone services
- Fishing in fresh water and along the coast
- Integral port administration
- Supply of fuel and lubricants

Majority Interest Upon Approval: 49%+

**(interesting areas where your stake
can be higher than your Mexican partner)**

- Port services
- Naval companies engaged in management of vessels
- Administration of air terminals
- Private educational services
- Legal services
- Credit information companies
- Insurance agencies
- Construction of pipelines
- Oil and gas drilling
- Construction of public works

(Why start a company? Buy one!)

Acquisition of Existing Mexican Companies

- Foreign investors may acquire up to 100% of the shares of any company, unless one of the limitations previously mentioned applies to such company.
- A resolution from the FDI Commission is only required when foreign investors wish to acquire more than 49% of the capital stock.

Your options to enter

- Direct selling
 - Control over product
 - Expenses: staff & inventory
- Branch office
- Broker/Representative
 - Familiar with your market
 - Not exclusive

Your options to enter (cont.)

- Master distributor
 - One client, large shipments
 - One more on his list?
- Joint venture:
 - Ownership position in your business
 - Finding the correct partner

Your Challenges and Success Factors:

- Language Barrier
- Work approach
- Relationships you build
- Perception Skills
- Blending with a few words
- Access to high levels & business etiquette
- Networking and contacts
- Planning ahead
- Getting support of Business and trade associations

Business and Industry Associations

- National Chamber of Commerce, Services and Tourism (with members in every single state and major city in Mexico): concanaco.com.mx
- Federation of National Chambers of Industry (46 national chambers, 14 regional chambers, 3 generic chambers y 44 Associations): concamin.mx
- Coparmex (business owners association) 65 Business Centers in every state in Mexico, representing over 36000 businesses and industries: coparmex.org.mx
- Mexican Banking Association (ABM): abm.org.mx
- Association of Mexican Insurance Companies: amis.org.mx

Business and Industry Associations (cont.)

- Agribusiness Federation (agricultural production, services, financing): cna.org.mx
- Mexican Business Council on Foreign Trade, Investment and Technology: comce.org.mx
- National Association of Industry and Manufacturing (12 different industry sectors): canacintra.org.mx
- Mexican Association of Stocks and Securities' Brokers: amib.com.mx
- National Association of Retailers (including convenience stores and department stores): antad.net
- National Association of Construction and Builders: cmic.org

In closing: before doing business in a country or with an specific culture...

- Ask your self: What do I need to know?
- A little about the language
- Their history and traditions
- How do they behave, what moves them, motivates them
- What do they sell?
- What do they need?
- How do they do business, what is important to them?
- Is their economy closing, opening? Is it worth the risk?
- Politics and legal issues
- What advantages will I obtain if I settle my business there?
- Who do I contact to start the process?
- Where in that nation should I settle?

“Doing Business in Mexico: Economic and Cultural Insights”

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