






DOING BUSINESS IN MEXICO



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INTRODUCTION

Mexico has a network of free trade agreements (“FTAs”) with 45 countries, along with 32 Reciprocal Investment Promotion and Protection Agreements (“RIPPAs”) with 33 countries, nine trade agreements (Economic Complementation and Partial Scope Agreements) within the framework of the Latin American Integration Association (“ALADI”) and is a member of the Trans-Pacific Partnership Agreement (“TPP”), with only a handful of strategic sectors or industries not yet open to private investment. To facilitate business, the Mexican government has also negotiated an equivalent number of tax treaties and tax and information exchange agreements.

Mexico has made significant strides in creating a favourable business environment. The government has implemented reforms to promote economic growth, attract foreign investment, and enhance competitiveness. These reforms have resulted in simplified procedures for starting a business, streamlined regulations and improved protection of intellectual property rights.

Overall, doing business in Mexico offers an exciting prospect for growth and expansion. With its strategic location, diverse economy, favourable investment climate and rich cultural heritage, Mexico presents a wealth of opportunities for entrepreneurs and investors seeking to tap into this vibrant market.



ECONOMIC OVERVIEW

Despite the current complex international climate, the Mexican economy has grown at an average pace of 2.1 percent over the past 10 years. Mexico's responsible economic, financial and commercial policies, which work to expand the domestic market, are the foundation of the country's economic success. For instance, Mexico's economic development strategy calls for increasing financial inclusion, promoting private investment in key industries, increasing public investment and strengthening international trade ties in order to rebuild the global value chain. It also calls for strengthening consumption as a result of social programmes.

- **Gross domestic product("GDP") and growth:** The Mexican economy grew by 3.1% in 2022, after a bounce back of 4.7% in 2021 and a 8.0% fall in 2020 due to the COVID-19 pandemic. In recent years, the country has experienced moderate economic growth, with an average annual growth rate of around 2% to 3%.
- **Industry and manufacturing:** Mexico has a robust manufacturing sector, particularly in automotive, electronics, aerospace, and medical devices. The country is a major exporter of manufactured goods, with a strong presence of multinational corporations operating in export-oriented industries. Manufacturing exports, including automobiles, play a significant role in driving economic growth and generating employment.
- **Services sector:** The services sector is a significant contributor to Mexico's economy, accounting for a substantial portion of GDP and employment. Key subsectors include finance, telecommunications, tourism, and professional services. Tourism, in particular, plays a vital role in the Mexican economy, with popular destinations such as Cancun, Mexico City and Los Cabos attracting millions of international visitors each year.

- **International trade:** Mexico has a highly open economy, with a strong emphasis on international trade. The country has a vast network of free trade agreements which provides preferential access to markets in North America. Mexico is a top exporter of goods, particularly automobiles, machinery, electrical equipment and agricultural products.
- **Foreign direct investment (“FDI”):** Mexico has been successful in attracting foreign direct investment due to its strategic location, competitive labor costs, skilled workforce and access to global markets. FDI inflows are primarily concentrated in the manufacturing sector, with significant investments from the United States, Canada, Spain and Germany.
- **Labor market:** Mexico has a relatively young and growing labor force. However, labor market informality remains a challenge, with a significant portion of the workforce engaged in the informal sector. The government has implemented labor reforms to improve workers' rights, promote formal employment and enhance productivity.
- **Infrastructure:** Mexico has been investing in infrastructure development, including transportation, energy, telecommunications, and logistics. The country has an extensive network of highways, railways, ports and airports, facilitating domestic and international trade.
- **Challenges:** Mexico faces several challenges, including income inequality, poverty, corruption and security concerns. These issues can impact economic development and business operations. The government has been implementing reforms and initiatives to address these challenges and foster inclusive growth.

KEY SECTORS

Energy & maritime

Mexico's energy sector is undergoing significant transformations due to the energy reform, which has opened up opportunities for private operators and investment. The country possesses vast untapped hydrocarbon reserves, making it an attractive market for oil and gas exploration and production. With over 100 exploration and production contracts signed with private operators, there is a growing presence of companies in the sector. The Mexican government has shown strong support for the petroleum industry, creating a pro-petroleum environment that encourages investment and competition. This government stance contributes to the attractiveness of Mexico as an oil and gas market.

Agri-food & horticulture

Mexico's favorable climate, abundant agricultural land and affordable labor have positioned it as a global leader in horticultural production. The country's agricultural sector serves both its large domestic market of over 126 million people and export markets worldwide. Mexico has emerged as a significant exporter of vegetables, fruits, and flowers, creating opportunities for agricultural technology and innovation. The high-tech agriculture and horticulture industry is experiencing rapid growth in Mexico. There is a demand for advanced agricultural technologies, such as precision farming, greenhouse technologies, irrigation systems and sustainable farming practices. Companies specializing in these areas can find opportunities to supply products and expertise to Mexico's thriving agricultural sector.



Life sciences & health

The healthcare sector in Mexico offers several opportunities for companies looking to expand their presence in the market. Being an early adopter of advanced healthcare technologies and practices can give companies a competitive advantage, allowing them to introduce innovative solutions and establish a strong foothold in the evolving healthcare landscape. European Union (“EU”) healthcare products and technologies have a good reputation for their quality and reliability, providing an opportunity for European companies to leverage their brand and offer advanced healthcare products and services in Mexico. As the largest importer of healthcare products in Latin America, Mexico presents a significant market for international healthcare companies, with a demand for various healthcare products such as medical devices, pharmaceuticals and advanced treatment options.

Advanced manufacturing

Mexico has transitioned into an advanced manufacturing hub, with a focus on automotive and electronics industries. It is the world's sixth-largest automotive manufacturer and the largest exporter of flat screens. The aerospace sector is also growing rapidly. Factors such as skilled workforce, strategic location, trade agreements, governmental incentives and potential as an industry contribute to the opportunities in Mexico's advanced manufacturing sector.

Tech & e-commerce-

E-commerce is experiencing significant growth in Mexico, with double-digit increases in market value for two consecutive years. The country is expected to have over 77 million e-commerce users by 2025. This growth creates opportunities for payment solution providers and businesses to cater to the needs of the growing digital consumer base. Additionally, technologies like digital twin, cloud computing, artificial intelligence and cybersecurity present transformation possibilities in industries such as automotive, pharmaceutical and hardware.

FOREIGN DIRECT INVESTMENT

The Foreign Investment Law (“FIL”) sets the specific rules that allow the entry of foreign direct investment (“FDI”) to the country and encourage its contribution to national development. Mexico is one of the emerging countries most open to foreign direct investment, the world's ninth largest FDI recipient. In 2021, Mexico was the second largest recipient of in Central America.

Investments mostly come from the United States, Canada, Spain, Japan, and Germany. The sectors receiving significant foreign investment are manufacturing (especially the automobile industry), financial and insurance services, transport, retail and wholesale trade, mining and quarrying, and communication. Foreign investments are mostly concentrated in towns neighbouring the U.S border. FDI flows to the country fluctuate strongly depending on the arrival and departure of large international groups.

As a member of United States Mexico Canada Agreement (“USMCA”), Organisation for Economic Co-operation and Development (“OECD”), G20 and the Pacific Alliance, Mexico is very well integrated into the world economic order, making it an attractive country for FDI.

Additionally, Mexico enjoys a strategic location, a big domestic market, a wide variety of natural resources, a relatively well-qualified workforce and diversified economy. Mexico's approach to foreign direct investment has undergone significant changes over time. Throughout the following decades, the government implemented various policy tools such as import licenses, quotas, tax breaks, subsidies and limitations on FDI to develop local industries with mixed results.

ADVANTAGES OF DOING BUSINESS IN MEXICO

1. Free trade agreements

Mexico holds the record for having the highest number of free trade agreements (“FTAs”) in the world, with 13 agreements with 50 different countries. These agreements provide manufacturers in Mexico with significant growth opportunities and contribute to the strength of the Mexican economy. The USMCA is a particularly beneficial FTA, enhancing trade relationships among its member countries and introducing favorable regulations for digital trade, labor, and intellectual property. The USMCA eliminates trade barriers, facilitating the smooth flow of goods and products.

2. A diversified, stable, and growing economy

Mexico's highly diversified economy and resilient nature enabled it to be better than many other countries. The country's specialized industries and strong vertical supply chains played a key role in maintaining stability. As the second-largest economy in Latin America, Mexico continues to experience growth, driven in part by increased foreign investment in the industrial sector. Foreign companies are choosing to expand in Mexico to establish resilient supply chains and tap into new consumer markets. This presents opportunities for manufacturers to differentiate themselves and access a large consumer base.

3. Strong intellectual property (IP) protections

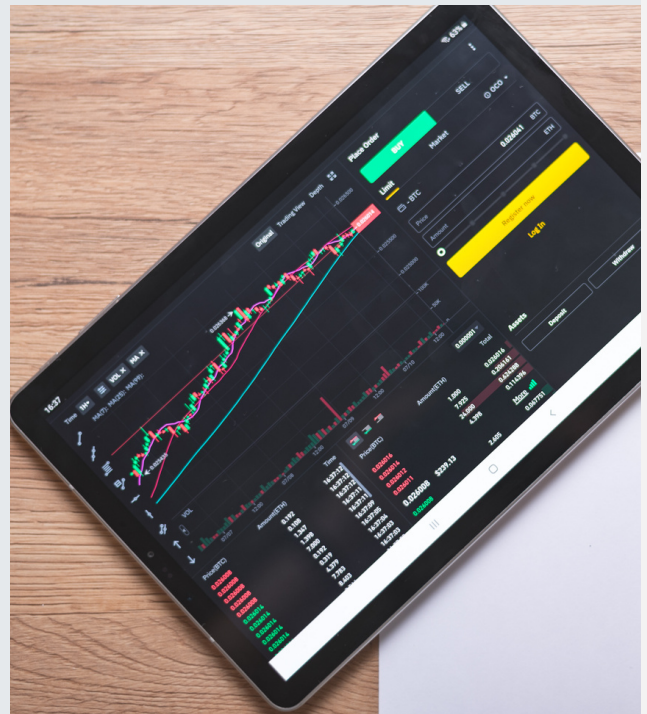
The protection of intellectual property (“IP”) is increasingly vital for many businesses; however, numerous countries lack robust IP laws. Mexico, on the other hand, has stringent IP regulations, many of which result from international treaties. The USMCA, for instance, prioritizes Intellectual Property Rights (“IPR”) as a core focus. Its provisions include measures such as criminal penalties for the theft of confidential business information with commercial value (trade secrets) and ex-officio authority, which empowers customs officials to seize goods that violate IPR.

4. Reliable infrastructure

With a long-standing manufacturing history, Mexico boasts a well-established infrastructure network, encompassing railways and highways that span the entire country and extend into the United States. As foreign companies increasingly invest in Mexico's manufacturing sector, the Mexican government has renewed its focus on developing the national infrastructure.

5. The IMMEX program

Mexico's IMMEX program attracts global manufacturers due to its favorable benefits. This program permits foreign manufacturers to import materials and components without incurring taxes and duties, on the condition that all finished goods are exported out of Mexico within a specified timeframe. In addition to cost-saving advantages, the IMMEX program allows businesses to operate under a shelter manufacturer. By collaborating with a shelter company, the foreign manufacturer can rely on the shelter company as the legal Mexican entity.



TAXATION IN MEXICO:

As a business owner, one will need to obtain a tax identification number known as Registro Federal de Contribuyentes (“RFC”). This number is used for tax purposes and is required for various transactions and filings.

Corporate income tax: Mexican companies are subject to corporate income tax on their worldwide income. The standard corporate income tax rate is 30% for most businesses. However, there are different rates and incentives available for certain industries or regions. It is important to consult with a tax advisor to understand the specific tax rates and regulations that apply to one’s business.

Value added tax: The value-added tax is a consumption tax applied to most goods and services in Mexico. The standard rate is 16%, although there are reduced rates for certain goods and services. Businesses are responsible for collecting and remitting VAT to the tax authorities.

Payroll taxes: If a person has employees in Mexico, they will be responsible for payroll taxes, including social security contributions and withholding income tax from employee salaries. The rates and requirements for payroll taxes can vary based on factors such as employee compensation and benefits.

Tax filing and reporting: Businesses in Mexico are required to file periodic tax returns and reports, including annual tax returns, monthly or quarterly VAT returns, payroll tax filings, and other relevant reports. Compliance with tax filing deadlines and accurate reporting is crucial to avoid penalties and maintain good standing with the tax authorities.

Tax incentives and treaties: Mexico offers certain tax incentives and benefits to promote investment and economic development. These incentives can vary depending on factors such as the location, industry, and size of the business. Additionally, Mexico has signed tax treaties with many countries to avoid double taxation and provide tax relief for businesses operating internationally.

EMPLOYMENT AND LABOR LAWS

Employment and labor laws in Mexico are designed to protect the rights of workers and regulate the relationship between employers and employees. These laws cover various aspects of employment, including working conditions, wages, benefits, termination and labor disputes. Here are some key points about employment and labor laws in Mexico:

- **Labor contracts:** Mexican law requires employers to establish a written employment contract with their employees. The contract should outline important details such as job duties, working hours, compensation, benefits and termination procedures.
- **Minimum wage:** Mexico has a minimum wage that is determined by the government and is applicable to all employees. The minimum wage may vary depending on the geographic area and the type of economic activity.
- **Working hours:** The standard workweek in Mexico is 48 hours, with a maximum of 8 hours per day. Overtime work should be compensated at a higher rate. Employees are entitled to at least one day of rest per week.
- **Vacation and holidays:** Employees are entitled to annual paid vacation based on their length of service. In addition, there are public holidays in Mexico that entitle employees to a day off with full pay.
- **Employee benefits:** Mexican labour laws require employers to provide certain benefits to their employees, including social security coverage, healthcare and retirement benefits. Employers may also offer additional benefits such as life insurance, disability insurance and employee savings plans.
- **Termination and severance:** Termination of employment in Mexico must comply with legal procedures and grounds for dismissal. In cases of termination without cause, employers are generally required to provide employees with severance pay based on their length of service.

MINIMUM ELIGIBILITY CRITERIA FOR COMPANY REGISTRATION IN MEXICO



Choosing a business structure: Determine the type of legal entity one wishes to establish, such as a sole proprietorship, partnership, corporation, or limited liability company. Each structure has specific requirements and legal implications.

Company name: Choose a unique and distinctive name for company that complies with Mexico's naming conventions. The name should not conflict with existing registered company names and may require approval from the public registry of commerce.

Articles of incorporation: Prepare the articles of incorporation or the equivalent document for the chosen business structure. This document outlines essential information about the company, such as its purpose, shareholders, capital structure and management.

Shareholders and directors: Identify the shareholders and directors of the company. In some cases, a minimum number of shareholders may be required, depending on the chosen business structure. Shareholders and directors must provide identification documents and fulfill any additional requirements, such as being of legal age and having a valid tax identification number (“RFC”).

Capital requirements: Determine the initial capital requirements for the chosen business structure. While there is no minimum capital requirement for most business types in Mexico, certain industries may have specific capital requirements or restrictions.

Registered Address: Provide a registered address for the company within Mexico, which will serve as the official address for legal and administrative purposes.

Tax registration: Register for tax purposes with the Mexican tax authority, known as the Servicio de Administración Tributaria (“SAT”). This involves obtaining a tax identification number (RFC) for the company and complying with tax obligations.

Obtain permits and licenses: Depending on the nature of the business activities, one may need to obtain specific permits, licenses, or certifications from relevant authorities or regulatory bodies.

Register with social security: If one plans to hire employees, it is important to register with the Mexican Social Security Institute (“IMSS”) and comply with social security obligations.

Register with the public registry of commerce: File the necessary documents with the local public registry of commerce to officially register company and obtain a unique registration number.



ACCOUNTING STANDARDS IN MEXICO

In Mexico, accounting standards are established and regulated by the Mexican financial reporting standards board in accordance with the International Financial Reporting Standards (“IFRS”).

Adoption of International Financial Reporting Standards (“IFRS”): Mexico has adopted the IFRS framework for financial reporting. This means that Mexican companies are required to follow the principles and guidelines set forth by the IFRS in preparing their financial statements.

Mexican financial reporting standards (“NIFs”): The NIFs are specific accounting standards developed to complement the IFRS framework and address certain local requirements and practices. These standards provide additional guidance and interpretations for Mexican entities in areas such as valuation, recognition, and disclosure of financial information.

Financial statement presentation: Mexican entities are required to prepare and present financial statements in accordance with the NIFs. This includes the balance sheet, income statement, cash flow statement, statement of changes in equity, and accompanying notes.

Accounting principles and measurement: The NIFs provide guidance on accounting principles and measurement methods for various transactions and events. This includes rules for revenue recognition, expense recognition, asset valuation, depreciation, inventory valuation, impairment, and financial instrument accounting, among others.

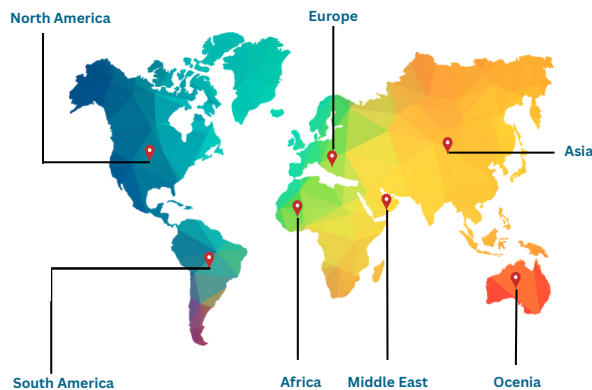
Disclosure requirements: The NIFs emphasize the importance of transparent and meaningful financial reporting. Mexican entities are required to provide adequate disclosures in their financial statements to ensure that users have a clear understanding of the company's financial position, performance, and risks.

HOW WE CAN HELP?

Our wealth of practical expertise guides companies throughout the entire business process. We deliver a range of services that help clients plan and complete the setting up of the business. These include;

- We assist clients in the implementation of the compliance management as well as assessing the risk of non-compliance, and serve as important basis for collaboration with business parties.
- Market research, including industry trends, consumer behaviour, market size and competitive analysis.
- Our professionals are trained to recognize, understand and communicate the key value factors, threats and opportunities that are most vital to our clients. Our extensive experience helps us to solve industry specific issues more effectively.
- Business etiquette and cultural norms, helping companies to navigate Mexican business customs and communication styles. Trade and import/export information, including policies, regulations, customs procedures and documentation requirements.
- Investment opportunities, such as emerging industries, government initiatives and incentives for foreign investors.

SERVING CLIENTS WORLDWIDE



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