Costs and Risks of Doing Business in Mexico

As of May 2009, Mexico (along with India) outranked China as the lowest-cost manufacturer of industrial components (AlixPartners study). US plants have reduced costs in recent years, but the cost of production in the US is still significantly higher than most of the countries examined in the study. According to the World Bank Group’s 2009 “Doing Business” measures, Mexico scored low in the following categories: business tax burden, employing workers, and overall difficulty of starting a business (www.doingbusiness.org). Let’s take a closer look at corporate taxes and employment costs in Mexico, as well as legal differences between the two countries that can affect a business during startup.

In Mexico, the type of business entity will be a determining factor in taxation. Some business entities will pay tax in Mexico as well as in the US, while some will not. Estimate the amount of profit you intend to repatriate and discuss your plans with legal advisors to determine the best business entities, Mexican and American, for your operation.

Mexican labor laws are very protective of employees, and contain statutes that we don’t have in the US, like mandatory profit-sharing laws. Carefully structuring your Mexican business and possibly having more than one company can help you avoid unnecessary expenses. Get familiar with Mexican labor laws early in your process, as you will be in for some surprises, particularly where short-term layoffs are concerned. Unlike the US, Mexican law requires the company to pay wages and benefits to laid-off workers, as well as three month’s salary in severance pay to terminated workers.

This being said, labor costs are substantially lower overall in Mexico than the US, and the longer workweek can provide increased productivity over the 40-hour US workweek. “The 41% drop in the peso against the dollar since August has made Mexico an even cheaper place to manufacture: Factory workers in Juárez can be hired for $1.50 an hour” (Business Week, April 2009).

While it may not be an area of high cost for your operation, you will want to become familiar with the Mexican legal system to protect your self from risk. It presents a few important differences from US business law; for example, contracts in Mexico must bear an original signature. Engage a Mexican attorney with experience in multi-national business to avoid any errors that could come back to haunt you later. The United States Department of Commerce offers listings of legal and other business service providers with expertise in Mexico: http://www.buyusa.gov/mexico/en/business_serviceProviders.html

For general information and news pertaining to US-Mexico relations, law, and business, visit the US Embassy in Mexico: http://mexico.usembassy.gov/eng/main.html
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