

Chapter 1: Doing Business In Mexico

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Market Overview

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- The North American Free Trade Agreement (NAFTA), which was enacted in 1994 and created a free trade zone for Mexico, Canada and the United States, is the most outstanding feature in the U.S.-Mexico bilateral relationship.
- Since the implementation of NAFTA, Mexican imports from the United States have increased exponentially, totaling over USD\$111 billion in 2004.
- The United States accounts for nearly 75% of total Mexican trade and Mexico has become the United States' second largest trading partner since NAFTA began.
- In 2004, the economy grew by 4%, the strongest growth rate in several years.
- Politically, Mexico is gearing up for the presidential elections in 2006. President Vicente Fox won a watershed victory in 2000 after his PAN party defeated 71 years of single-party rule by the PRI. While Fox has successfully pushed through reforms making the Mexican Government more transparent and accountable, such as establishing Mexico's first-ever civil service and enacting freedom-of-information laws, much of his economic reform agenda has been defeated or is now stalled. Given the PRI-controlled Congress, spectators remain doubtful that he will be able to implement substantial legislative changes during the remaining two years of his term. Currently the presidential race is wide open with several viable contenders in the running. All three major political parties will elect new leadership in March and party candidates for the presidency will be confirmed soon afterwards.

Market Challenges

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- Mexico's size and diversity are often under appreciated by U.S. exporters. It can be difficult to find a single distributor or agent to cover this vast market.
- The Mexican legal system differs in many significant ways from the U.S. system. U.S. firms should consult with competent legal counsel before entering into any business agreements with Mexican partners. The U.S. Commercial Service can provide a list of attorneys with experience in dealing with U.S. corporate clients.
- The banking system in Mexico has shown some signs of growth after years of stagnation, but interest rates remain relatively high. In particular, small and medium enterprises (SMEs) find it nearly impossible to obtain financing at reasonable rates despite Mexican Government efforts to increase capital for the SMEs. Most importing is conducted on open account. Consequently, U.S. companies need to conduct thorough due diligence before entering into business with a Mexican firm, and should be conservative in extending credit and alert to payment delays. As one element in a prudent due diligence process, the U.S.

Commercial Service offices in Mexico can conduct background checks on potential Mexican partners. There is a fee for this service.

- Mexican customs regulations, product standards and labor laws may entail pitfalls to unwary U.S. companies. U.S. Embassy commercial, agricultural and labor attachés are available to counsel firms with respect to regulations that affect their particular export product or business interest.
- Have patience. Everything takes more time to accomplish in Mexico than what U.S. companies are used to or would like.

Market Opportunities

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- With the overwhelming amount of trade between the United States and Mexico, there are abundant market opportunities for U.S. firms in Mexico.
- Mexico's geographic proximity to the United States has propelled the maquiladora industry with thousands of factories near the U.S.-Mexico border for export back into the United States. Marketing to these manufacturers could lead to substantial opportunities for U.S. firms.
- Some of the most promising sectors include: automotive parts, electronic components, housing and construction equipment, airport and ground support equipment, travel and tourism services, plastic materials and resins, energy technology and services, environmental technologies and equipment, telecommunications equipment, security and safety devices, hotel and restaurant equipment, intermodal equipment, and education and training services.
- A complete list of the top prospects in Mexico is provided in Chapter Four. However, given the size of the Mexican market, there are numerous other promising prospects, including medical equipment, food processing equipment, opportunities in architecture/construction/engineering services, and more. If an industry is not explicitly mentioned as a "best prospect," it does not necessarily mean that there are not ample opportunities in the Mexican market.

Market Entry Strategy

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- In Mexico, business is done on the basis of relationships. U.S. exporters will need to travel to Mexico frequently to develop and strengthen relationships in order to do business successfully in Mexico.
- Mexican companies tend to be extremely price conscious and appreciate outstanding service. Time is essential to cultivate trust to enhance a professional partnership.
- Several market entry strategies have proven to be effective in Mexico. In general, Mexicans appreciate close working relationships, so working with a locally-based agent or distributor would enhance business prospects. However, market entry strategies often vary by sector and region in Mexico. U.S. Commercial Service staff is available to provide individualized counseling to determine the best market entry strategy for a given U.S. company/product.