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MORE MEXICAN COMPANIES CONSIDER U.S. INVESTMENTS

S+S INSIGHTS

Political uncertainty at home and the draw of the world's biggest economy are two factors that have driven Mexican companies to consider investments in the United States more seriously than ever. But many companies are unsure how to proceed or where to start.

Those are a few takeaways from our international business trips over the past year in conjunction with the South Carolina Department of Commerce and the U.S. Embassy in Mexico and our recent conversations in Mexico with more than a dozen companies, which ranged from publicly traded to family-owned businesses across sectors such as pharmaceuticals, petrochemicals, textiles, and household goods and appliances.

WHAT'S CAUSING MEXICAN COMPANIES TO CONSIDER LOOKING NORTH?

The overwhelming majority of business leaders we spoke to cited growth opportunities and geopolitical uncertainty as reasons to consider investments abroad, especially after certain unilateral actions the Mexican government has taken recently, such as:

- The expropriation of 120 kilometers of railways owned by the conglomerate Grupo México utilizing eminent domain for a public utility project.
- The purchase of 13 power generation operations owned by a Spanish company to allow the state-owned power company CFE to control 54% of the electricity market.

Additional concerns arise because the current government has control of the House and Senate with the ability to pass laws with very little opportunity for the business community to weigh in.

The overall perception is that business in the U.S. is more stable and predictable than in Mexico. Many businesses we spoke with were particularly interested in the Southeastern U.S. (this is a newer trend, as Mexican companies have commonly chosen states such as California, Texas, and Florida in the past). The Southeast offers access to more than 70% of the U.S. population within a day's driving distance, as well as easy access to key ports and cities on the East Coast. Companies were also attracted by the Southeast's cost of doing business and availability of labor.

KEY CONSIDERATIONS FOR U.S. INVESTMENTS

As companies explore their first investment in U.S., legal issues to consider include:

- **Choosing the most appropriate entity structure for U.S. operations.** A legal entity in the U.S. is formed at the state level, and there are several types of U.S. entities (the U.S. does not have federal or nationwide entities). Corporations and limited liability companies (LLCs) are two common choices, and each has its own advantages and disadvantages.

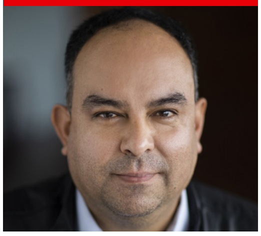
- **Selecting a site and securing government incentives.** There is variability in state and local tax rates, availability and cost of real estate, access to skilled labor and likelihood of dealing with labor unions, and richness of government incentive packages.

- **U.S. regulations.** U.S. immigration laws are complex and can cause problems and delays for companies that fail to plan ahead for their U.S. travel and personnel needs. Businesses locating in the U.S. also need to understand their obligations under applicable federal, state, and local tax and environmental laws, as the regulations there tend to be as complex as in Mexico.

Given the myriad considerations at play, it can be especially valuable to partner with legal and site selection professionals who can provide data-driven answers to each company's key questions.

WHAT ABOUT COMPANIES THAT DECIDE TO STAY AND INVEST IN MEXICO?

Despite the headwinds in Mexico, foreign direct investment is still occurring there. Mexico has been a natural place to access the United States market, which may be boosted by the nearshoring effect due to economic disputes with China and also because the Mexican government wants to encourage foreign investment in the south of the country. Additional factors are the recent strengthening of the Mexican peso versus the U.S. dollar and the attractive interest rates in Mexico, in some cases exceeding 11%.



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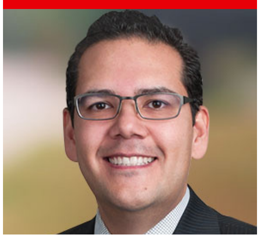

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