Mexico
Opportunities and barriers to inbound construction

G20 rankings & data

G20 heatmap rankings

| Construction industry health | Construction industry value | 14 |
| Construction industry, real growth | 8 |
| Announced spend on construction in next 3 years | 19 |

| Country financial health | Budget balance | 4 |
| Overall announced fiscal stimulus | 12 |
| GDP/Head | 12 |
| Credit ratings rank | 6 |

| Ease of doing business | Doing business overall rank | 12 |
| Dealing with construction permits rank | 5 |
| Business transparency rank | 13 |

| Tax regime | BDO overall tax rank | 3= |
| World bank – paying taxes rank | 18 |

Financial metrics

- Total fiscal stimulus announced: £4bn
- Announced spend on construction in the next 3 years including fiscal stimulus to construction: £3.3bn
- Construction industry value – 2009: £28bn
- Main corporate tax rate: 28%

Construction sector metrics

<table>
<thead>
<tr>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction industry value, £bn</td>
<td>27</td>
<td>27</td>
<td>28</td>
<td>29</td>
<td>30</td>
<td>33</td>
</tr>
<tr>
<td>Construction industry, real growth, per cent y-o-y</td>
<td>3.0</td>
<td>0.7</td>
<td>1.4</td>
<td>4.2</td>
<td>4.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Construction industry, per cent of GDP</td>
<td>7.1</td>
<td>6.9</td>
<td>6.8</td>
<td>6.8</td>
<td>6.9</td>
<td>7.1</td>
</tr>
</tbody>
</table>

BDO review of tax

- Headline corporate tax rates are lower than North American neighbours but above some other G20 countries
- Thin capitalisation rules are quite restrictive
- Tax depreciation rules provide for faster relief than many other nations
- Significant tax incentives may apply, including environmental measures

Overall scoring: 7/10
3= out of the G20

BDO ease of doing business

There are some significant barriers for inbound construction activity, however it is possible to get round these

1 Very easy
2 Quite easy
3 Average
4 Quite difficult
5 Very difficult

Top construction firms

- Cemex
- Holcim Apasco
- Empresas ICA
- Consorcia Ara
- Corporacion Geo

There are some significant barriers for inbound construction activity: some of the large Mexican companies will act as a barrier when tendering for work.
Opportunities and barriers

Ranked 18th overall in our G20 heatmap, Mexico offers a limited but growing opportunity for inbound construction activity.

A large number of both redevelopment and new projects were under way in Mexico by 2007 as the nation tried to recover from the destruction caused during the hurricanes in 2005. In 2007, the Mexican government was planning to invest $1.2bn (£873m) in road infrastructure; $1.32bn (£96m) to improve digital communication networks; $81m (£59m) for airport security improvement and about $190m (£138m) in port infrastructure and dredging.

In January 2009, President Calderon added a further $1.50bn (£1.09bn) to Mexico’s economic stimulus package of $5.6bn (£4bn) announced in March 2008. In its efforts to strengthen its domestic economy, the national government planned new investments in infrastructure development, housing and other diversification projects.

According to reports, Mexico’s construction sector is suffering a severe decline as a result of the downturn in the US construction sector; its largest market. To help the sector keep its head above water, the government announced several large-scale projects.

The country’s national infrastructure programme (2007-2012) envisages major development on the construction front. A number of projects are currently underway (particularly in the transport infrastructure sub-sector), which were due to receive government investment to the tune of MXN50.1bn (£3.3bn) in 2008.

The National Infrastructure Plan is designed to address current transport bottlenecks, which have acted as a drag on economic growth. It proposes 100 new highway projects including the development of an interstate highway system and 4,000km of new roads in rural areas. Three new airports are to be built, with capacity expansions at a further 31. New intermodal railway corridors will be built, taking the total up from eight to 18. Three suburban passenger rail lines are also due to be built in the Mexico City area.

In total, Mexico’s programme to boost growth and employment comprises MXN90bn (£5.4bn) in fiscal spending, of which approximately MXN25bn (£1.5bn) will be used to offset declining oil and tax revenues and the remaining MXN65bn (£4.9bn) will go to the infrastructure projects.

Mexico’s membership of the North American Free Trade Agreement (NAFTA) has made the country a prime destination for foreign manufacturers, creating construction opportunities. Mexico has negotiated several bilateral investment treaties (BITs) with countries in Latin America, Europe and Asia. These treaties represent a legal framework that has granted certainty to investors and has bolstered the attraction of foreign direct investment into Mexico.

The central bank’s focus on curbing high inflation, combined with a greater diversity of export markets will help maintain stable and sustained growth levels despite a poor external environment. In addition, foreign direct investment is set to increase in line with the government’s ambitious plans to revamp the country’s infrastructure.

In July 2007, President Felipe Calderon launched the National Infrastructure Program (NIP), a five-year programme to increase the coverage, quality and competitiveness of Mexico’s infrastructure. There are huge long term opportunities, especially for British companies with knowledge of PPP in Mexico. The government is expected to spend £250bn on hospitals, prisons, schools and infrastructure.

Reasons Mexico is attractive for inbound construction activity

- Relatively benign tax environment with some good incentives.
- Ambitious infrastructure expansion plans will provide demand over longer term.
- Low budget deficit and focus on reducing high inflation.


Barriers/challenges to construction activity

- The lowest announced spend on infrastructure in the next 3 years out of the G20.
- Relatively high level of corruption out of the G20 is a cause for concern.
- Weakening economic outlook is reducing confidence amongst foreign investors.
- The nation’s transport infrastructure suffers from inadequate funding and lack of focus, leading to slow progress in the development of roadways and port terminals.
- Tight credit market and the economic downturn means that growth in infrastructure projects has slowed.

BDO viewpoint and advice

 Pitfalls to avoid when doing business in Mexico

- Difficulties with local authorities and government including corruption.
- Differences in regulations across the 31 Mexican states and Federal District.
- Wide variation in the time taken to set up a construction company across the various States.

Practical advice for inbound construction activity

- Local advice from advisors who have specialist local advice is essential to navigate the regional differences when doing business in Mexico.
- Build relationships with the Chambers of Commerce and NGO’s which are key players in the sector.
- Mexican clients don’t like fixed-price contracts, so a lot of work is done with design and build or guaranteed maximum price deals.

Useful tax and other incentives for inbound construction activity

Main depreciation rates:

- Buildings – Straight line tax depreciation is calculated at 5 per cent per annum for industrial buildings and warehouses.
- Machinery and equipment – Straight line tax depreciation is calculated, for example at 30 per cent per annum on computer hardware.

Other incentives:

- Taxpayers engaging in construction and sale of real estate developments may benefit from incentives including the possibility to deferring corporate tax and business tax (ETU) payments.
- Full 100 per cent first allowance is available for capital expenditure on qualifying environmental machinery and equipment.
- In November 2008, the Fundo de Garantia do Tempo de Servico (FGTS), Brazil’s employment guarantee fund, announced that it plans to invest BRL1.0bn (£2.96bn) in state water and sanitation utility companies. The fund is hoping to provide a boost to the utilities’ financial positions.