



In Bad Economic Times, **Mexico Is Here to Help**

The Ciudad Juárez-El Paso Region Is the Ideal Location

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During the current economic slowdown, U.S. companies should find alternatives to reduce their costs in order to continue being competitive. Outsourcing has proven to be a reasonable alternative. In the last few years, outsourcing in the world's economy has gained enormous importance. Although outsourcing is a controversial topic, the fact is that, in a globalized economy, in which companies and individuals compete with everyone from everywhere around the world, outsourcing is a reality that all countries are now facing. Even India—known for being the world's outsourcing recipient—is now “outsourcing outsourcing” to countries like Mexico.¹ Because of its proximity to the U.S., Mexico is still an optimal location to help U.S. companies reduce their costs by establishing Business Process Outsourcing

1) Anand Giridharadas, *Outsourcing Works, So India is Exporting Jobs*, The New York Times (September 25, 2007).

(BPO) operations. The U.S.-Mexico border, in particular, is the ideal location for BPO operations. U.S. companies should pay close attention to the binational metropolis of Ciudad Juárez, Mexico and El Paso, Texas.

At the midpoint of the U.S.-Mexico border, a binational metropolitan area has emerged as a world-class manufacturing and outsourcing center in recent years. Ciudad Juárez (known as “Juárez”) and El Paso comprise the so-called *borderplex* with a combined population of over 2.5 million people, which also includes prosperous suburbs in the state of New Mexico. Both cities—connected by bridges used annually by 15 million private vehicles—operate as one metro area that comprises almost 20 percent of all the U.S.-Mexico trade. Juárez, which is home to dozens of *maquiladoras* (manufacturing factories located mostly in Mexican border cities), is now Mexico’s fifth most populous city and the largest employer in the manufacturing industry. The *Foreign Direct Investment Magazine*—a publication of the Financial Times group—designated Juárez as the “city of the future” due to “its growing importance as a regional industrial and logistics centre on the border.”² Historically, manufacturing activity has taken place in Juárez, but recently there has been an important presence of companies in the outsourcing services industry. Its sister city, El Paso, which is one of the fastest growing cities in the U.S., operates as a major logistics hub in which distribution centers are located to support the *maquiladoras* in Juárez. Both cities possess a sophisticated binational product-sharing system in which operations take place on both sides of the border.

Juárez offers numerous benefits when establishing BPO operations. Its proximity to the continental United States is definitely the most important advantage. A facility in Juárez is typically only a few miles from a U.S. port of entry. In addition, the proximity results in convenience for executives of U.S.

2) *North American Cities of the Future 2007/08*, fdi Magazine—Foreign Direct Investment Magazine (published by the Financial Times group) (April 25, 2007).

companies. For instance, hundreds of these executives live in El Paso and commute to Juárez. The fact that El Paso Airport offers non-stop flights to major U.S. cities normally allows executives visiting facilities in Juárez from other regions in the U.S. to fly back home the same day. Besides these benefits, Juárez offers a very competitive and experienced labor force at lower costs.

Customer Care Outsourcing is an area in which Juárez may offer numerous benefits. For instance, under this area, sales support may help U.S. companies reduce their costs. Mexican nationals who are raised in Mexico's border cities have a good understanding of the U.S. culture and traditions. According to a *New York Times* article, the *borderplex* possesses "the largest bilingual, binational work force in the Western Hemisphere."³ Because the U.S. Hispanic market is the fastest growing segment of the population and its purchasing power is in the hundreds of billions of dollars, excellent Spanish speakers in Juárez, who understand the American culture due to its proximity to the U.S., may be the most suitable to serve this profitable market.

Transaction Process Outsourcing (TPO) is another area in which Juárez may offer some advantages. TPO may include data entry centers, processing of credit card applications, transfer of payments, records management, document processing, and order processing. An important company in the business process industry has a significant presence in Juárez, relying on "the educational and training facilities, talent pool and positive business climate" of Juárez.⁴ A Fortune 500 company that provides BPO services also operates in Juárez. Some of its services include transaction processing, finance and accounting, and call centers. In addition to TPO services, Mexico is also attracting engineering and design centers to support U.S. companies. For example, a world's major automobile parts supplier, which employs thousands of workers in manufacturing facilities in Juárez,

3) Lisa Chamberlain, *2 Cities and 4 Bridges Where Commerce Flows*, The New York Times (March 28, 2007).

4) Genpact press release, *Genpact to Open Latin America Headquarters in Juárez, Mexico; New facility doubles existing capacity*, (September 18, 2007).

http://www.genpact.com/genpact/pdf/pr/Genpact_Latin_America_headquarters_Mexico_091807.pdf

possesses a sophisticated technical center in Juárez which employs dozens of Mexican engineers and design experts.

A foreign company will typically create a subsidiary in Mexico to operate an outsourcing facility. The foreign company, as a shareholder or partner of the subsidiary, is ordinarily not liable for corporate indebtedness in Mexico. The most common business entities in Mexico to establish a subsidiary are the *Sociedad Anónima* (“S.A.”) and the *Sociedad de Responsabilidad Limitada* (“S.R.L.”). Both entities may be 100 percent foreign-owned. The latter has become popular for U.S. companies due to the “pass through” benefits that it offers with respect to the U.S. entity. The S.A. provides free transferability of ownership interests through share certificates. In the S.R.L., some restrictions may apply in the transferability of ownership interests. The subsidiary is a legal entity in Mexico that is taxed as is any other business entity, but the foreign company is not considered a taxpayer in Mexico. The subsidiary may purchase (or lease) land directly for its operations anywhere in Mexico. If the property is located in the *zona restringida* (restricted zone),⁵ the subsidiary may purchase the land as long as it is for commercial or industrial purposes.

The Mexican government continues providing incentives to the manufacturing industry coming into Mexico. In the last few years, Mexico’s Ministry of Economy has issued various decrees for the manufacturing industry. Because the government is aware of the importance of BPO services, the current applicable decree for the industry—*Decreto para el Fomento de la Industria Manufacturera, Maquiladora y de Servicios de Exportación* (“IMMEX”)—also covers BPO services. On July 6, 2007, the government published in the *Diario Oficial de la Federación* (Mexico’s Federal Register) regulations that include various BPO services which may obtain the benefits of IMMEX.⁶ IMMEX provides benefits with regard to import duties and *Impuesto al Valor Agregado* (“IVA”)—Mexico’s sales tax payable on imports and purchases.

5) *Zona restringida* is the area of 50 km (31 miles approximately) inland from the coastline and 100 km (62 miles approximately) from any border. For residential purposes, foreigners may acquire the effective use of land in the *zona restringida* only through a trust.

6) *Acuerdo por el que la Secretaría de Economía emite reglas y criterios de carácter general en materia de Comercio Exterior, Anexo 3.2.4, Diario Oficial de la Federación* (Mexico’s Federal Register) (July 6, 2007).

Mexico's IVA rate is 15 percent, but it is only 10 percent if the company is located in a border city like Juárez. With respect to IVA, IMMEX allows inputs and components (incorporated into exported manufactured goods) and equipment and machinery (used in the production process) to be IVA exempt. In reference to import duties, NAFTA countries are exempt for inputs and components. A non-NAFTA country may be exempt from import duties on inputs and components if the country has a trade agreement with Mexico that provides an import duty exemption. In addition to IMMEX, the *Programa de Promoción Sectorial* ("PROSEC") offers other benefits with regard to importing materials from a non-NAFTA country at a reduced or exempt duty.

Outsourcing is now a world reality. Companies and individuals compete with everyone from everywhere around the globe. The *borderplex* offers excellent benefits for U.S. companies in order to reduce their costs by establishing outsourcing facilities in the region. Some of these benefits are reduction of transportation costs, proximity to the U.S., travel and residence convenience for executives, competitive labor force at lower costs, and experienced legal and customs services. In addition, the Mexican government provides IMMEX and PROSEC as business-friendly incentives to help companies establish themselves in Mexico. By shortening the supply chain, U.S. companies may significantly reduce their costs when they establish outsourcing operations in the Ciudad Juárez-El Paso metro area.

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