

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

Ron Hesse 0:07

Hello, everyone. Welcome to today's webinar, Moving Your Manufacturing from China to Mexico. I'm Ron Hesse. And I will be your moderator for today's program. There's been a great deal of interest in this topic, and thus we have a very large number of attendees today. And let me describe how today's program will go. First, I will provide you with a short introduction on each of our three presenters will follow that with a short 10 minute presentation by each one of our guest presenters. And then we will open up for questions from you. Please go ahead and type your questions into the chat box. And I'm going to point but I'm going to point that way. It'll be on the right side where you'll see a chat box. And that's where you can enter your questions. And because of the large audience naturally, we will try to get to all of your questions today. And if we don't, if we're not able to answer all of your questions, please contact us. And we will respond accordingly. As we're also recording today's event, so we'll be able to share that link with you in the near future. So let's get started. First up is Dan Harris, followed by Alejandra Maldonado. And she is followed by Adrián Cisneros Aguilar. Let me provide a short background on each starting with Dan. Dan is a founding member of Harris Bricken, an international law firm where he mostly represents companies doing business in emerging market countries. Most of his time is spent helping American and European companies by working with the international lawyers at his firm in setting up companies overseas, such as wealthy's wholly owned foreign enterprises, rep offices and joint ventures, drafting international contracts, protecting IP and overseeing m&a transactions. In addition, Dan writes and speaks extensively on international law with a focus on protecting foreign businesses in their overseas operations. He's also a prolific and widely followed Brock blogger, writing as a co author of the award winning China law blog. I frequently attend I checked it out quite a bit. So it's a great blog by the way for you for you out there. Next up is Alejandra is project administrator at INTERMEX. One of the leading industrial real estate developers, and administrative services for maquiladoras, Alejandra has facilitated the soft landing experience for many foreign companies establishing and operations in Mexico. She represents INTERMEX at the Mexican Manufacturing Association and shelter committee, as well as Chihuahua's Aerospace Cluster. And our third presenter is Adrián who oversees Paris Brookins, Mexico practice group where he assists companies with US Mexico, China cross border matters. Adrián has studied, worked and consulted in Mexico, North America, Western Europe, and Asia and is fluent in English, Spanish, French and Mandarin Chinese. Adrián is also a regular contributor to the award winning China Blog. And he regularly writes and represents, excuse me present some business internationalization, particularly as related to Mexico, the US and China. Adrienne lectures on business and law at one of Mexico's most prestigious universities, Universidad en OAC. So let's get today's program going, Dan, if you will.

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

Dan Harris 4:07

Thank you, Ron. Good morning. Good afternoon, and good evening, everyone. The one of the first things I'm going to do before I actually get into the heart of my talk is address a question that many of us have gotten, which is should everyone be moving their manufacturing from China to Mexico? And the answer to that is most certainly not. Mexico is great for certain things. China's Great for certain things. It really depends on your business and your product. So with that, I am going to focus on what it takes to move out of China. Obviously the first part of the equation in moving your manual fracturing from China to Mexico. What's interesting about what I find interesting about my portion of this is, how many people do not realize that this is even a question because they think, Well, moving out is easy. You just up and leave? Well, that's not really the case. Those of you who have been in China already know that China is not like a lot of other places in the world. And it's certainly not like most other places in the world, when it comes time to leave. So what are the issues you're going to face? When leaving China? What what sorts of things do you have to do to essentially prepare to leave? Well, the first thing is, be careful about announcing that you are leaving, because news of your departure will set off a scramble for what you might be leaving behind. And what you might be leaving behind is your IP, your payments, your your product of structure, etc. And so I'm going to talk very briefly about that. One of the issues that people often face when they leave China is that their vendors, their suppliers, even employees, have their suppliers go off and file for their IP. And that happens to companies that have not protected their IP in advance in China. And so it's very critical that you understand that that could happen to you. Because those people who have been nice to you in China, in the past need not be nice to you, now that you're leaving one of the risks, you're going to be facing his counterfeiting of your products. And obviously that can happen whether you're in China or not. But when you leave, your manufacturer no longer is going to make money by making your product. And so oftentimes, they will turn to making your product for you. So they will turn to making your product for themselves. And again, that's something you need to protect yourself against. And I will talk about how to do that very shortly. I've also thrown out here, the fact that relations between the US and China are worsening, they've been worsening or getting worse, for years now, I expect they will continue to worsen. And that also puts you at risk in China. And it puts everything you have in China when you leave at risk as well. Alright, so like I said, I will return to what you do to protect yourself here is another risk you are facing hostage situations.

This is something that was has not been talked about much until recently, people didn't want to talk about it, because they didn't want to be seen talking about it. When they went to China, it has become more open. In fact, I actually wrote an article, an academic article on this with a professor, we researched the number of hostage situations, hostage situations occur when

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

oftentimes occur when your manufacturer is unhappy with you. And they get very unhappy with you when you say you're going to be leaving. And so what often happens when you tell your manufacturer in China that you're going to be leaving is you then go over there to let's say, look at your molds, or your tooling, or upcoming products or whatever. And you literally get held hostage and you get held hostage, usually under a claim that you owe money. The Chinese government does not care. Our law firm has been involved in at least a dozen hostage situations. The Chinese government has never helped the US government does help as much as they can for other foreign governments help as much as they can. But the Chinese government doesn't. So the the strongest piece of advice I can give you is once you have announced that you're leaving China, it's a good idea not to go there and not to send anyone else from your company there. If there is any way you can avoid going there and there ought to be a way. So that's something to be very mindful of. So how do you protect yourself? Well The first bit of advice I give is, don't tell anybody you're leaving until everything. And I mean everything is in order in China for you. Because if you tell someone you're leaving, and then you send, let's say you have sent \$500,000, to your manufacturer for more product. And before you get that product, you reveal that you're leaving. Well, at that point, there's a good chance you will never get your product. So our advice is, basically don't tell anyone you're leaving until after you've left do it. Baltimore Colts style. So how do you protect your IP, have your contracts and registration in place before you announce your departure. And what I mean by that is register your trademarks in China have contracts with your manufacturer, saying that you own XYZ mold and tooling, have contracts that say if your manufacturer does not return your molds and tooling, then they owe you a certain amount of money. These are things you should have had in place already. But if you didn't do it now, and it may feel a little bit dishonest, to sign a new contract with a manufacturer, you know, you're going to be leaving, but do it anyway. Because that's the only way you can protect yourself, then you need to start focusing on what's going What are you going to do to protect yourself after you left. If you're selling your products in China, let's say from the United States, then you're going to need some help over there. Get a licensing agreement in place with whomever distribution agreement, whatever you need to do that's really going to vary with your company. And again, don't go there. And very briefly, what do you need to do in Mexico? I call it rinse, wash, repeat. You should do in Mexico, whatever you failed to do in China, only do it earlier in Mexico so that you're ready to go. Thank you. I'm going to now turn it over to our next speaker. Alejandra.

Ron Hesse 12:21

Hello, Alejandra is with INTERMEX one of the leading industrial real estate developers and administrative services. Alejandra.

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

Alejandra Maldonado 12:33

Thank you. Thank you very much, Ron, thank you for the kindly introduction. Hello, everyone. Well, I'm here to talk about a shelter business model. It's very popular in Mexico for foreign companies established in here. And well, what is the shelter business model? Well, it's a very, it's a very value added program. They're thinking about when companies are coming to Mexico, and they don't know how to do it. What is the law saying what what how should I pay to my employees? How am I going to pay the taxes I'm going to calculate them and he was born due to the strategic location that we have neighboring the USA and also because we have a low labor cost. And so this IT program, it has been it's companies that have been taking advantage for this program for over 30 years. Now. The company that I represent intermix we have been in the market for this is our 50th anniversary. So we definitely know how to run a company here in Mexico, especially in a shelter business model. So if you look at this screen, you will see that the board manufacturing company has some liabilities and responsibilities when establishing here. And I believe one of the main advantages is that they don't need to incorporate a Mexican subsidiary here, we just signed a tilter agreement and we automatically the customer automatically will be in a safe zone to operate here in Mexico under intermix shoulder program or whatever your shelter provider is. So, the foreign manufacturing company is going to be focusing on raw materials production, quality assurance, delivery, compliance, customer satisfaction, very important engineering and technical support, production lines, everything related to the court business to the manufacturing process will be the responsibility of the of the company under the shelter, what is the responsibility of the shelter? All of the tasks not core to your operation. Everything related to administrative functions such as accounting human resources, from, from screening from hiring, running the payroll, communication problems with the employees legal support, paying to the suppliers here in Mexico, you know, the import and export compliance, environmental health and safety issues, and expert support and relocation as well. Because sometimes they struggle, you know, like, where am I going to live, I'm going to send some expats to Mexico, where are they going to live, which one is the nice neighborhood for them to live? Well, we help them even though to get their labor business into even get the driver's license. That's how complete is the shelter program. So this is basically what it's under the shelter program, we feel look at the the company picture right there, you can see that we are all inside the plant, but we are running the plant, but we are doing it together. Think about the shelter as an extension of your own staff, you will have an extension of your own staff, we will be there it's like we work together sometimes we will have people on site. Some other times we can run from central offices, it depends, it depends on the on what we agreed to are the size or the size of the project. So basically, we have some remarkable advantages under the shelter business model, we can start your operation in nine

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

weeks successfully start your operation, in nine weeks, you will be ready to run, you will be ready to import, you will be ready to to have your production ready and running.

And we also will reduce costs and optimize your operations performance because we will be saving you time and money because your learning curve will be basically be gone. Because we know how to do things here Mexico will be like your best advisory to avoid learning mistakes and bureaucracy and everything you know, so you can get to focus on your core business, which is the productivity and everything that I mentioned before. This is 100 legal in compliance with the Mexico laws and regulations. And you will be experiencing the self driving experience and avoiding the cultural shock and the learning curve that you get you're getting some times when you're going to a country that is you don't know. So at the end of the day, you will be protected from penalties. And another advantage under the shelter, especially with intermixes that you get to avoid is 16% ida tax. And this is something very value added for customers they love this in this allows them to have more cash flow. And who doesn't want that at the company. Right? So yeah, this is some of the main advantages on there to shelter. And I'm also going to talk a little bit about the comparative of being under the shelter versus being on a standalone operation. If you can see on there the shelter, you have your team, you don't need to hire your whole, your your whole team of accounting from HR, you don't need that, because we already are providing it. I mean, that's the shelter is very easy to budget, because you're only playing a monthly shelter fee for all the functions that I mentioned before you don't have a cost there. And if you go solo, you will have to hire your whole administrative team. Also the IT administrator platform, we already have the software's and the systems ready to operate everything needed for your operations here Mexico otherwise you will have to purchase them and it will definitely represent a significant cost. The Advising, well just pick up the phone and then you can just call us and tell us well I need the you know shelter supplier I need this, I'm struggling with this at customs I need your help and we will get figure it out. And otherwise well, you will have to hire third party advisors and that would also represent another cost for supervision. Well, you will require less time to be focusing on administrative tasks. And otherwise you will have to get in there and you will have to report your headquarters it will take more time or effort and this is what we kinda want to avoid. We have under the shelter we've been doing this for many years we have people with a lot of experience in each area. And during a standalone operation sometimes it will take you mistakes time and money loss to run the operation. So the solution of admin Yesterday of issues like I mentioned before, where they're just one call away. And otherwise, the manager sometimes gets a lot into details that are not important for your productivity that are administrative issues. And they don't want to handle that. Handle that of course. So we can do this, like I mentioned before, and a minimum of nine weeks, which is definitely an advantage, a huge advantage. And at the end of the day, if

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

you compare costs to shelter is it would take less, it would be less less expensive than if you go stand alone, because under the shelter, I'd like to think about this as an all inclusive vacations, you know, just pay for it. But you know, you're going to have everything included, and all the whys you will have to figure it out on your own, you have to invest time money, it will be more tired for companies to invest in this. So this is mainly scope of the shelter. And I hope you have enjoyed my presentation. Thank you very much.

Ron Hesse 21:13

Thank you very much. Alejandra. Next up is Adrián and he oversees Harris Bricken, Mexico practice group where he assists companies with us, Mexico, China cross border matters.

Adrian Cisneros Aguilar 21:29

Good afternoon, everyone. By now, it's clear, it's clear to all attendees, that Mexico is uniquely positioned to receive all those people belonging to international that are having issues in China and elsewhere. As Dan Harris pointed out at the end of this webinar, it doesn't necessarily mean that the Mexico is the best option for you, or your company, where you need to ask yourself in the first place is whether you need an Mexico entity or not. Yes, Mexico has one of the widest Free Trade Agreement network working for us, we have we are party to the USMCA or NAFTA, we are party to the CPTPP which gives us a unique access to to all the major markets in in the most dynamic region in the world which is Asia-Pacific. Still, we are well aware that many people are looking into Mexico out of necessity. And since they're looking looking out out or looking for Mexico out of necessity we need to we need to find the best means to accommodate them. So, do you need a business entity or not? If you are just buying widgets from Mexico to export into the US and you have US and Canada as your as your final destination market, then probably you do not need an entity but any anything more than that you're probably in need of one, and there are mainly three options in Mexico to penetrate the markets. You have the representative office, which is what you use when you don't want to engage into international transactions with customers, you just promote your product. If you want to engage in transactions but not have a permanent presence in Mexico (which is what you will have when you when you set up an entity), you just set up a branch, and a subsidiary is the Mexican equivalent to China WFOE, a foreign invested company that has full flexibility and is going to be allowed to enter into transactions completely separate from the parent company. Now, once you have decided to enter the Mexican market, you have have decided to set up an entity, which one is the right one? There are several options provided for in the law. However, the most common ones, the most typical ones, are the stock corporation or sociedad anónima

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

in Mexican Spanish, or the limited liability company, both of them have their pros and cons. The main characteristic of a limited liability company is that it's easier a to form, it has less formalities. The stock corporation, however, in the medium-long run, can allow you to raise investment in a more efficient way. Regardless of whether you decide to form an entity or not in Mexico, you have to protect your IP that's a no brainer and you have to protect it in the same way you would in China or elsewhere. How do you do that? First you need to know that the Mexican Patent and Trademark Office or IMPI in Spanish is there to either certify that you have an IP right or to declare you have an IP right. It is the government agency in charge of registering trademarks, patents, trade names, geographic indications so on and so forth. If what you want to register is a copyright then you go to the Mexican Copyright Institute. In the case of trade secrets, just as happens in many other jurisdictions, you have to sign a contract and take adequate measures to protect that trade secret information that gives you an advantage over your competitors.

And this topic of contracts or having contracts it is important because whether you deal with suppliers or you deal with employees, you need to have your IP rights protected in writing, okay? Under Mexican law, there is no specific regulation concerning how contracts protecting protecting IP rights should be drafted, and therefore you have to take into account the fact that you have full flexibility to sign an OEM and ODM or a contract manufacturing agreement. In the same way, non-compete or confidentiality clauses that protect trade secrets have to be contained in labor agreements in writing. And now that we are talking about employment agreements, employment agreements, you have to take into consideration that under Mexican law (Mexico, by the way, is the country that presented the legal world with labor law) there's no legal difference between blue-collar and white-collar employees. This is important, because the fact that every every type of employee is equal before the law doesn't mean that you have to sign a single type of contract or employment agreement that covers labor rights and obligations. You have different sorts of employees provided for in the law, nonetheless. You have employees in positions of trust: those managers, supervisors, who perform managerial tasks. You have specific task employees, definite or a fixed-term employees. You have employees who work for Mexican companies, but outside the Mexican territory. You have employees who work in specialized industries, such as actors, sportsmen, mining industry, domestic workers, so on and so forth. All those employees have their have their rights protected by law, and if you are hiring someone, you have to take into account that the contract has to be signed by both parties, and in the case of collective bargaining agreements, they have to be duly registered with the government. These contracts have minimum rights and obligations that are set forth by law, and when you want to protect your IP you have to include additional clauses in these contracts. And well, my colleagues, Alejandra in particular has given

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

us a very good explanation of what shelter manufacturing is. Now how do we distinguish it from the contract manufacturing scheme that is that is so common in China?

The most basic distinction is this: under a contract manufacturing arrangement. You as the international company own the design and the branding. In its most fundamental form, you own the whole IP and you're just having the domestic company in this case a Mexican company, manufacture your product per your specifications. Under a shelter manufacturing program, you have as [Alejandra] pointed out, an all-inclusive service. You have an entity providing a service that comprises manufacturing, administrative, and legal services, but the international company as such doesn't create an entity. Which one is better [contract manufacturing or shelter manufacturing] depends on what your objectives are and what your needs are. If you are a new company, a company that is new to the Mexican market, even if you have experience with China, then perhaps you will do well by merely signing a contract manufacturing agreement. If you have experience manufacturing in other jurisdictions in addition to China, then you will find it easier -we have certainly seen that with some clients of ours- you will certainly do better and you will and you will get along well with with a shelter manufacturing program. A WFOE or wholly foreign-owned entity is an option that is seldom chosen by our clients. And the reason for this is that it is more often than not in Mexico costly and cumbersome. There is no such thing in Mexico as shell companies. We are well aware that there are jurisdictions like China for example, and mainly Hong Kong, where shell companies are commonly offered as a service to international companies looking to penetrate the market. A shell company is a company in which you you, as a service provider, as a business consultancy or as a law firm, form a company and then transfer the ownership to the international company for a fee. Since in Mexico most of the company types have to be formalized before a Notary Public and that increases costs you will seldom find shell company services offered in Mexico. It is way easier that you appoint someone through a power of attorney to form the company Mexico on your behalf, either a WFOE, a subsidiary or a branch. Or if you have already definite goals to penetrate the American and Canadian markets, you could readily use a shelter manufacturing program and be ready to manufacture in two or three months, as my colleague Alejandra has already stated. My question here is, is Mexico the answer for me? If it is, do I need a Mexican entity? If so, do I have to form a limited liability company or a stock corporation? And finally, and perhaps more importantly, how do I protect my IP? What happens with the Mexican rule of law? Do I have to register my trademarks in advance? Do I have to register my patents in advance? Do I have to secure the protection of my trade secrets in advance through contracts? Yes, have everything in writing. Those are the main key takeaways. Thank you very much. Back to you, Ron.

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

Ron Hesse 33:40

So what Thank you very much. Before we get started, and I see Adrián already answered one of those questions. There are many, many questions. So before we get started, let me just share with you a little bit. For some of them that wanted to hear a little bit about who we are. Some of you may be already familiar with global auto industry.com As you're a subscriber to our weekly e journals or audio interviews, which by the way now are accessible to over a million automotive industry professionals worldwide. But we also offer a number of Best in Class services through select partners. In other words, we can't cover all the topics today about moving any kinds of operations from China to Mexico but probably have some other important issues you have to deal with whether merger and acquisition acquisitions. Commercial real estate, supplier qualification or selection, things like that. So HR issues. So what we'd like to share with you is just the fact that all you need to do is if your questions not answered today, go ahead and contact us and we will definitely help you out. Let's start off with the first questionnaire. Maybe this is for Alejandra. And Dan, how does the availability of qualified staff and workers in Mexico compared to China?

Dan Harris 35:18

Yeah, that's that's actually a very tough question. Because it's it's going to depend a great deal on what we're talking about in terms of qualified staff. I would say that my both Mexico and China have a lot of very qualified engineers, accountants, lawyers, administrators, etc. The difficulty is finding the right people. It also depends on what exactly you will be doing in Mexico, or Anna, or in China in terms of how you're going to set up. So I don't think that it will be any more difficult to find good people in Mexico than in China. I think the biggest issue most companies face when moving from China to Mexico with their manufacturing, or I should say looking to move is whether it's going to make sense overall, particularly when looking at costs.

Alejandra Maldonado 36:34

I just like to complement your answer, Dan, by mentioning that in Mexico, actually, we graduate 640,000 engineers, just the last year in this goes up, because each year because in Mexico, we are an increasing population, unlike other countries where they are in decrease population, we are going up. So we have a lot of availability, talent availability. And I think it's also worth to come and that another remarkable difference in between China and Mexico is that fully loaded salary in China for lawyers is approximately around 15 to 20%. Higher than it is in Mexico, as well. Thank you.

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

Ron Hesse 37:26

Excellent. Next question. Would you compare? And maybe, also, I'm going to add one comment, somebody asked what is Wolfie. And I'll let Dan and Adrián, talk about that, too. What that is, would you compare rule of law? Would you compare the rule of law between Mexico and China?

Dan Harris 37:48

Okay, well, that's probably intended for Adrián and me. Very briefly, a Wolfie is nothing more than a subsidiary. It's the term that's used a lot for China. It's a company that you're you hold young, you own 100% of it. It is a separate entity. And it typically operates like any other company in Mexico or China, though China claims not to have limitations, but it does in terms of rule of law. I would say. I mean, without going into specifics, I would say that in a lot of respects, the countries are similar in that they're 90%, good 10% bad. I saw as I was talking, somebody said, Well, what's essentially said, What's the point of registering your IP in China, they don't protect it very well? Well, China actually does a very good job at protecting roughly 95% of IP, meaning if your intellectual property is tied up in something like rubber duckies, China will protect it, where China's really terrible is when it comes to really critical products like nuclear power, artificial intelligence, etc. If the Chinese government wants to get at those products, and that IP, it basically will and its court system does the bidding of the Chinese Communist Party. Mexico has its own issues. But generally overall, its its rule of law is quite good. I mean, these are not these countries are not Denmark. And you're going to be taking greater risk having your products manufactured in Mexico or China as compared to Denmark. But there's a reason none of our clients have their products manufactured in Denmark. I think the key is knowing what those risks are specific to your business. Adrián.

Adrian Cisneros Aguilar 40:08

Yeah, absolutely. I totally agree. I would just add that the main difference between Mexico and China in regards to rule of law is that, yes, we may have our own issues, which are well known to anyone. Politically in terms of a cartels, crime rates on and so forth. But here it's possible to defend your rights, regardless of the government's policy position on things, because what we have here is not rule by law. In China, on the other hand, you have a system where law is used by the State as an instrument for social control. That's what explains that when a when you're trying to defend rights, and those rights are considered of paramount importance for the

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

existence of the Party and the Chinese State and/or wants to protect their industries, you cannot reasonably expect a fair trial.

Ron Hesse 41:17

Excellent. Next question, I'm going to read it the way it is because I don't want to change what the person is trying to say. But this is to Alejandra is it shelter agreement? Have a term where companies use this to start up and then move to a standalone? And is there a penalty to hire any of the shelter people?

Alejandra Maldonado 41:42

Okay, that's, that's an interesting question. No, there's no, I mean, it depends on the filter. But normally, in an inter Max, what we do is that we require a minimum of one year, or the agreement of the human, because there are some tasks that we have to do to that we would take us around. So your company will be ready either for continuing under the shelter, or to, to a Mexican entity, whatever that makes sense for your business. And that's also a service that we provide, once our customers say, Okay, I don't want I don't need the shelter anymore, I want to incorporate my own Mexican entity. We also provide a service, we set up your company, and then we also shelter your Mexican company, of course, you will be paying taxes then. But it's it's a shelter for your Mexican company as well. And we also have a startup business model of 24 months, where we train and hire the person that is going to be operating your company. And in in that time period during that time of 24 months. They will be ready to run your operators. That's that's that's the timeframe of the agreement. And there are no penalties, no penalties for you know, getting into a different business, and no penalties for hiring any people under the shelter. Nope. I also had an I read another question that they asked if the shelter was only for Texas companies? And the answer is no. It's for all foreign companies. No matter where they are from, they can be from all around the world.

Dan Harris 43:32

And just a quick follow up to that question and questions that I have seen on here, which relate to how many companies are leaving China for Mexico and who are those companies? Now? I don't have statistical answers. But what I can say is that it is we're getting a lot a lot of Chinese companies that are looking at Mexico, but are either unable or unwilling to pull the trigger. It's mostly American companies that want to take advantage of the excellent US China, US Mexico

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

Canada relationship and avoid the tariffs. And it we're seeing it in all sorts of different industries.

Ron Hesse 44:31

Alright, next question. Maybe. Adrián, you want to try this one? What about Mexico's many domestic challenges such as infrastructure, political and social instability? Why is it different this time?

Adrian Cisneros Aguilar 44:46

Wow. That's a very good question. And the answer is what the government has dubbed "Plan México" or "Mexico Plan". This plan, which was designed by the Mexican government and announced by the Mexican president late last year, is aimed at tapping at North America's strong consumer market. Why? Because what the Mexican government is saying is "we have a strong consumer base, but we produce very little of what we consume". We are dependent on Asian, mainly Chinese, imports. So how do we reverse this trend? We integrate North America's economy and industrial development in a first stage, and then integrate the North American region with the rest of the Americas. The Plan Mexico is a working plan that includes credits and tax incentives to attract investment and international companies and have them manufacture in Mexico under programs such as the shelter manufacturing. In that way, they expect in the coming 5, 10, 15 years, to eliminate reliance on Asian imports, and counter China's trade dominance. 'China's dominance' is, by the way, an expression proffered by the Mexican president late last year. This is important, because if this Plan Mexico works, we will be talking about the first actual structured strategy to deal with China on the part of the Mexican government.

Dan Harris 46:33

I'm going to step in here and answer this question because I'm not Chinese. And I'm not Mexican. But I've been dealing with both of these countries for a long time. And I don't believe this person intended this as an unfair question. But these sorts of questions always irritate me, not not irritated with the questionnaire, it makes me irritated with China. Because there's this view out there that Mexico has all these problems, and China has solved the difference is that we know about Mexico's problems, just like we know about the US as problems, because we have a free press and China does. And as someone who has dealt with China for a long time, I have seen a huge number of their problems, including problems that relate directly

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

manufacturers, and I hinted at them in my talk. And that is that. And you can get ripped off there by your manufacturer. And it happens again and again and again. And there's very little you can do. So if you talk about crime in Mexico, there are plenty of places in Mexico that are very safe. But you should talk about crime in China that is propagated by some of these manufacturers in China. And there are fake companies in China that will just take your money and not happening factoring now are they're great and fair and US companies in China, of course there are there are many of those. But the risks of being robbed Rob, in China, as a manufacturer are far greater based on what I have seen, then in Mexico. And it's it to me, it's almost a question of public relations. And, and there are also major social issues in China, the birth rate, etc. The way foreigners are treated, the risks that come from China's COVID, 00 COVID policy that are not nearly as present in Mexico. So you really do need to do your own sort of balancing.

Ron Hesse 49:01

All right, next question is, perhaps Alejandro wants to take this one is regarding SEL programs. Is it only for very specific types of industries? Or is it all inclusive, meaning any industry can benefit from this?

Alejandra Maldonado 49:17

Yeah, yeah, that's, that's also it's a very flexible program under the shelter we, like I mentioned before, we don't need to be the expert on your manufacturing process. That's why we've been having customers from all types of manufacturing industries, automotive, metal mechanics, aerospace, plastic injection, blow molding, and many, many processes. So it's definitely a forum for industries and no matter the size, we've been having customers with one employee to 515 20 100 so we have to run the payroll Either way, so we have the software, we have the system, it really doesn't matter the size or the industry, it's a program for everyone. And from I repeat from anywhere too.

Ron Hesse 50:15

Excellent. One of the things that I'm going to bring up, as you had mentioned 100, that, you know, programs like yourself, you can help with suppliers. I think what needs to be distinguished is the difference between helping with suppliers that provide manufacturing help you provide manufacturing process, as opposed to this the supplies that go into a product that

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

a manufacturer might be producing, correct. So you help with helping secure, whether it's equipment and suppliers like that? Or do you also get involved in the components?

Alejandra Maldonado 50:55

No, we don't get involved in the components. However, we can provide some advisory, we know the market, we know the locations industry, well, the main industrial locations. At intermix we we are we have established operation industrial cities, not just once, but many cities, the main ones on the country. So we can definitely take a look at the project. That's something we do as part of a site selection. And sometimes we recommend some suppliers to work with from starting, you know, from setting up all your machinery and equipment, inside plant all the building and and whatever needs were there to advise sometimes, we don't have the answer to everything immediately, like in regards to the supply chain, but we do have the connection in the context to to address you with some of them.

Ron Hesse 51:57

Excellent. Next question. Um, from your experience, what have you found to be the biggest cost differences for businesses when they transition? Who would like to tackle that one?

Dan Harris 52:15

That's a tough question. And, yeah, to find friends. Yeah, I mean, I'm not sure. I think the cost, there is always the cost, there's always going to be the transition cost. I think it really is product specific. In terms of the cost differences, I mean, we've had clients who have moved to Mexico, and their costs go down 5%. And they save on the tariffs. We've had other clients who have looked at Mexico and said, It's too expensive, even without the tariffs.

Adrian Cisneros Aguilar 52:59

Yeah, I would like to chime in there. Yes, to confirm that. Yeah. The case that we have seen lately in the Mexico office are actually the latter: clients that say 'well, even if I save with the tariffs, my costs have increased, because I have to pay Social Security fees, Workers Housing Fund fees that I that I hadn't considered. And that's when we tell them 'well, perhaps you shouldn't be forming a Mexican entity at all. Perhaps what you should be doing is finding a suitable shelter manufacturing program that is more competitive, or even better, engage in a

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

contract manufacturing agreement, which is not common, but it's not in itself prohibited by Mexican law, either.

Dan Harris 53:58

And one one thing I'll add, though, one thing that's interesting is we also have clients who have flat out said they would rather pay 510s, or even higher than that percent more to move their manufacturing from China to Mexico, because they're so concerned about the about being in China for the long term. So they're willing to pay more to reduce their long term risks. Some are also willing to pay more to diversify from China, so they're not leaving China entirely. They're just switching some of their manufacturing to Mexico.

Ron Hesse 54:40

All right. Here's one an interesting one is for electronics manufacturers, who still will presumably use many sub components from China. How will the tariff situation between China affect completed assemblies sent into the US and Canada?

Dan Harris 54:58

Okay, that's That's a great question. I'm going to answer that because it's actually a US law question, which incredibly few lawyers know the answer. And I'm not really one of those lawyers. But here's, here's the sort of high level answer. The high level answer is, if you take, let's say, a computer charger that has 80 components, and have 80 of those components made in China than shipped to Mexico, where they're wrapped in plastic, and shipped to the United States, you will have to pay the China tariffs on that product entering the United States. Net. So that's an easy example. It beyond that, it gets incredibly complicated, because it's based on US Customs and trade laws. And Adrián, I don't touch that stuff. We turn it over to our trade lawyers, and they analyze each product, talk with US Customs, etc. So on the flip side, if 79 of the 80 components come from Mexico, then it's almost certainly good. If it's 40 out of 80, then you need a lawyer. Who does that stuff? Yeah, that's the answer.

Ron Hesse 56:19

All right. Um, we've come to the end of the hour. And that's what how much we've allotted. And I want to thank everybody for joining us today and the audience, as well as Alejandro, Dan,

Moving Your Manufacturing to Mexico from China

Thursday, February 8, 2022

Presented by Harris Bricken attorneys [Dan Harris](#) and [Adrián Cisneros Aguilar](#), and Mexico manufacturing expert [Alejandra Maldonado](#) with moderator by [Ron Hesse](#), Chairman & CEO of GlobalAutoIndustry.com

and Adrián. And again, if you have any questions, please go ahead and contact us and we will address them as soon as possible. Thank you all very much.

Dan Harris 56:42

Oh, one thing I'm going to very quickly add is that we have gotten so many questions here today, that I'm thinking that the three of us may get together and do a blog post or something, answering at least some of these questions online so people can see the answers.

Transcribed by <https://otter.ai>