One-Stop Shopping for Investment Attraction: Does the ProMexico Model Work for Canada?

The Case of the Automotive Industry

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Executive Summary

The Mexican automotive manufacturing industry is growing. Production climbed from 1.2 million in 2007 to 3.4 million in 2015 with forecasts of more than 5 million vehicles being made there by 2020. Mexico's ascendency has been mirrored by Canada's more modest success. In Canada, no new assembly plants have been built since 2008 and commitments about new product mandates for many Canadian vehicle assembly facilities remain ambiguous.

Coinciding with Mexico's rise in automotive investment has been the emergence of the ProMexico organization, its mission being to promote international trade and investment in that country. This paper does not suggest that ProMexico is singularly responsible for the ascent of the Mexican automotive manufacturing sector, however, it does explain how ProMexico operates. This has particular relevance for Canada because:

1. Canada does not have a centralized investment attraction agency analogous to ProMexico, and
2. Both the Government of Canada and the Province of Ontario have committed to introducing what they term "One-Stop Shopping" for investment attraction.

This paper discusses whether and how Canada and Ontario could adopt an approach similar to that which ProMexico has deployed.

Before Canadian governments rush forward, this paper raises several cautions. For starters, it suggests that the dynamics in Canada and Ontario in 2016 are fundamentally different from those that caused policy-makers in Mexico to establish ProMexico in 2007. For example:

1. The effect of ProMexico was to detach potential investors from the instability that plagued the country; conditions not evident in Canada in 2016.
2. Those in Canada seeking a single point of contact assume that such an agency would be able to respond to opportunities and challenges more quickly than present. Their expectation is that such an agency would have a mandate to advocate on potential investors' behalf and the authority to approve incentives. It should be emphasized that this was not the primary objective of ProMexico.
3. Individual Canadian provinces and specific government Departments and Ministries would need to agree to surrender elements of their authority to a single body. This seems an unlikely development.

Instead, this paper recommends several practices to provide potential investors with a ProMexico-like experience without building a full-scale ProMexico-like apparatus. For example, it recommends:

- A sectoral and/or geographically-defined approach to a single-window to be launched as a pilot;
- A more comprehensive website that includes site selection tools and jurisdiction-specific economic data;
- All steps of the investment attraction process should be examined to truncate the process; and that
- Ontario should continue its efforts to certify specific sites and industrial parks – including those capable of accommodating vehicle assembly plants – as ready for immediate development.

A. Introduction

For decades, governments around the world have taken measures to position their jurisdiction to gain a 'fair share' of automotive investment. Mexico has been particularly active and over the years, its policy toolkit has expanded and evolved to contain a range of measures. These have included Automotive Decrees, the Maquiladora program, the North American Free Trade Agreement (NAFTA) and the negotiation of a series of Free Trade Agreements with other countries. Since the North American economy started to recover from recession in 2009-10, Mexico has garnered growing attention as its share of global automotive investment has leaped forward. Coinciding with Mexico's rise in automotive investment has been the emergence of the ProMexico organization with a mission to promote international trade and investment in the country.

ProMexico has generated growing attention by governments in Canada and the U.S. as it is seen as an active, visible and arguably successful catalyst for automotive FDI in Mexico. Canadian automotive stakeholders have become particularly interested in ProMexico's activities, a function of the fact that Mexico's ascendency has been mirrored by Canada's comparatively modest success. Questions have arisen about the relative importance of ProMexico in Mexico's successful attraction of FDI.

This paper aims to help answer questions related to ProMexico. Specifically:

1. What is ProMexico and how does it operate?
2. What role do different levels of government as well as private enterprise play in attracting FDI to Mexico?, and
3. How does the ProMexico approach to attracting investment compare to the approaches taken by Ontario and Canadian governments?

This report will explore the symbiotic relationship that exists in Mexico between all three levels of government: local, state and national, and explain how they engage with the private sector to attract FDI. Although ProMexico manages a mandate beyond the automotive sector and FDI attraction, this paper's primary focus is to explore the agency's role in the attraction of FDI in general and automotive FDI in particular.

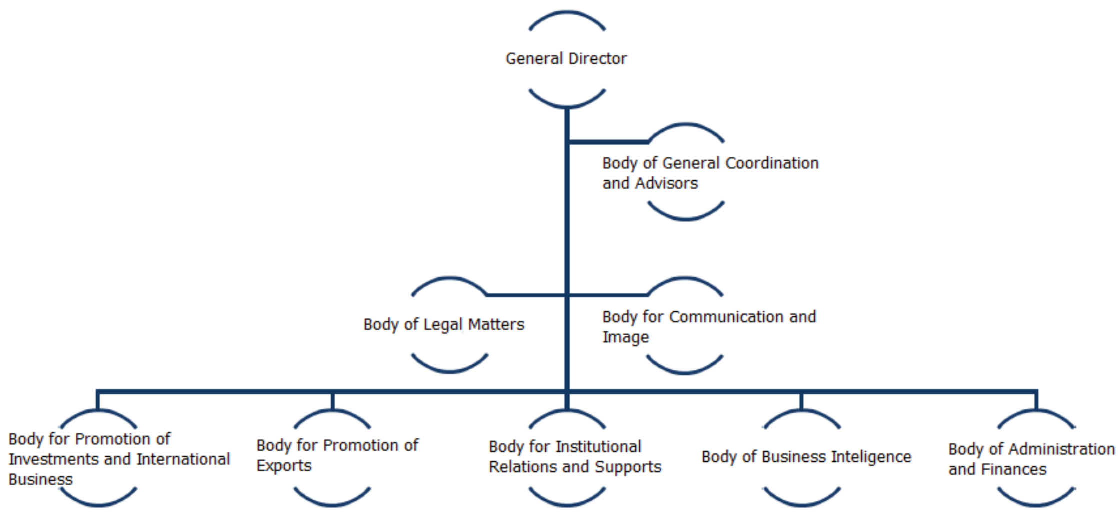
What this paper cannot do is explain the importance of ProMexico relative to other factors, such as market opening trade deals, workforce improvements and low labour costs, which have also contributed to Mexico's success in attracting automotive FDI. For example, ProMexico's rise coincides with declining real wages in Mexico despite rising skill and education levels of the workforce; a trend that distinguishes Mexico from countries such as China. The effect of such matters on Mexico's rising levels of FDI requires more exhaustive study.

B. How ProMexico Fulfills its Mandate

ProMexico was established officially in 2007, its objective being to coordinate the public service in the:

1. Promotion of Mexican exports outside of Mexico
2. Internationalization of Mexican firms including the identification and realization of foreign opportunities
3. Attraction of FDI into Mexico (the focus of this paper)

Figure 1: ProMexico Organization (Translated)



Source: Gonzalez, 2015

ProMexico is comprised of six primary bodies. The functions of each are described in Table 1.

ProMexico groups its activities into strategic sectors of the economy that cover a wide range of industries. Initially, most of ProMexico's activities were concentrated on automotive manufacturing and agriculture. Today, ProMexico has expanded its mandate to include media, communications, aerospace, satellites, health and services. There is a gradual movement away from focusing solely on manufacturing, a transition that is occurring alongside growing emphasis on education, coupled with attracting greater research and development capabilities.

ProMexico Activities Related to Automotive Manufacturing FDI

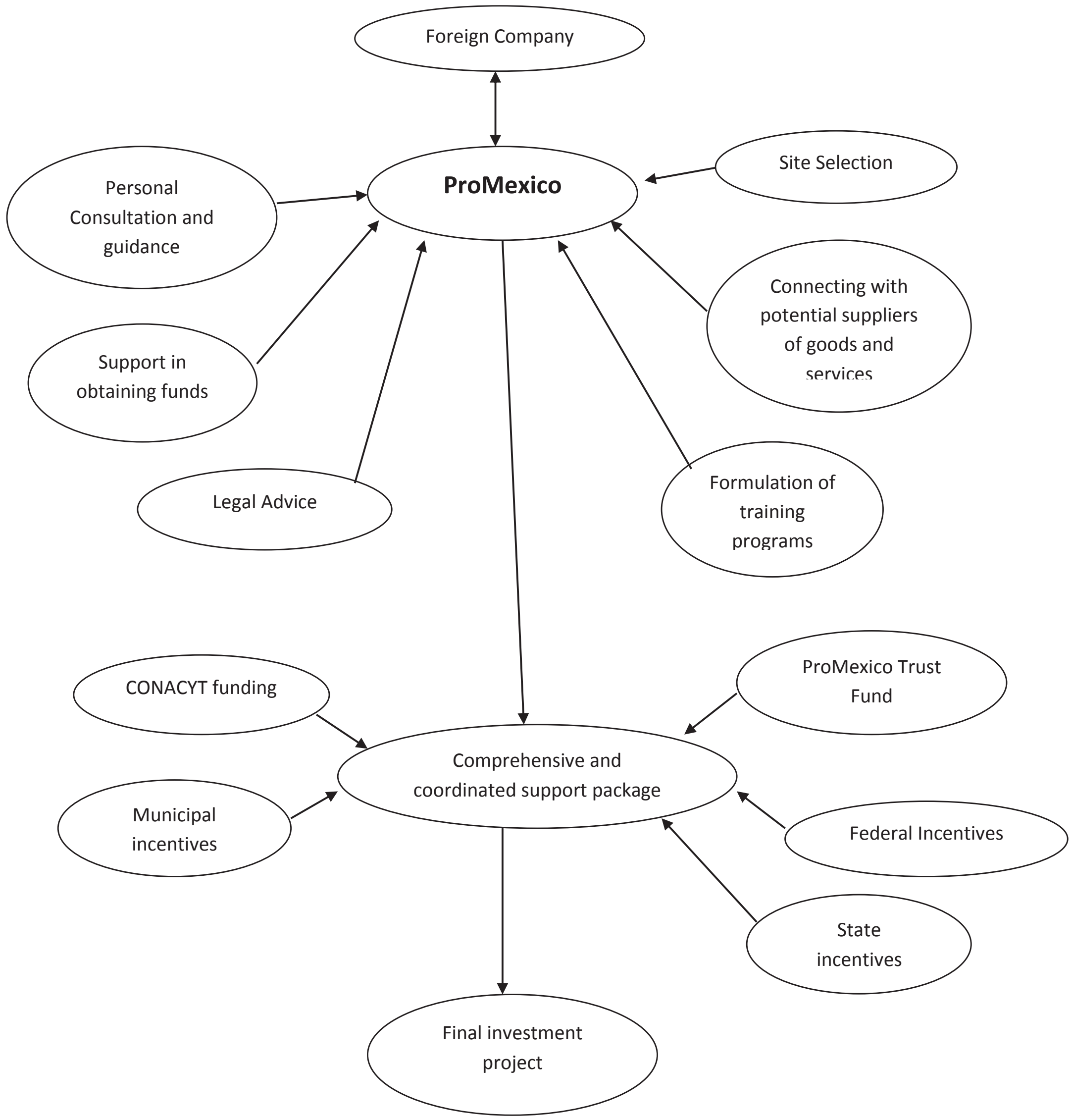
As indicated in the introduction, this paper focuses on those aspects of the ProMexico mandate that support the attraction of automotive manufacturing FDI. In that regard, ProMexico functions as a coordinating body across multiple levels of government and between the state and private companies. It does so by offering support in two broad categories:

1. Providing business intelligence and aiding in site selection
2. Creating an environment conducive to automotive investment

Table 1: Organization of ProMexico

Body	Function
Promotion of Investments and International Business	• Outward seeking in nature • Scans international markets for potential FDI attraction targets • Coordinates the activities of ProMexico's 48 international offices • Identifies potential investors and provides them with advice and assistance on investing in Mexico (Note: this is the heart of the international community's perception of the ProMexico mandate)
Promotion of Exports	• Encourages and facilitates the internationalization of Mexican firms • Works with / advises Mexican and Mexico-located firms, supporting their efforts to export their goods and services to international markets • Oversees Pro-Mexico's 30 offices within Mexico
Institutional Relations and Support[1]	• Manages ProMexico's relationships with institutions and companies • Compiles support packages for clients • Designs and develops training programs to increase the skill and abilities of the Mexican workforce
Business Intelligence	• Collects, analyses and publishes data collected on firms, sectors, states, and regions for both ProMexico and its clients
Administration and Finances	• Provides administration support for the organization
Legal Department	• Supports legal interests of both ProMexico as well as clients

Figure 2: ProMexico: A Catalyst for FDI



1. Business Intelligence and Site Selection

ProMexico leverages a network of private firms, government agencies and non-government organizations to harvest an extensive array of business information to create detailed information about each of Mexico's 31 federal states. That information is:

- Easily accessible to current and prospective investors
- Comprehensive, and
- Transparent

What follows are descriptions of the material and services ProMexico offers related to the first category of support: Providing business intelligence and aiding in site selection.

i. Site Selection

Through the ProMexico website, the potential investor is offered data on a range of factors to narrow his or her consideration of a suitable state or states in which to invest. ProMexico has designed its site selection data to allow the customization of searches to the particular needs of the investor. The six factors and their sub-elements available for a web-based search are described in Table 2 .

Table 2: Site Selection Elements

Factor	Specific Elements
1. Economics and Productivity	• Gross Domestic Product (GDP) • Labour productivity • GDP per capita • Availability of local suppliers certified for export
2. Labour Force	• Level of education attained • Percent of population economically active
3. Quality of Life	• Cultural infrastructure • Health services availability
4. Logistics Access	• Distance to domestic market • Distance to ground border • Distance to maritime port • Availability of air transit (for goods) • Availability of air transit (for people)
5. Infrastructure	• Advanced highway availability • Road safety • Households with landlines • Households with mobile phones • Internet access availability
6. Basic Services	• Households with piped water • Households with sewage treatment • Households with electricity

ii. Subnational Statistics

ProMexico also offers access to comprehensive state by state data for all 31 states. The form in which this data is provided points to the internally competitive nature of investment attraction in Mexico. The provision of data to support state-by-state comparisons means that ProMexico is effectively encouraging competition between states for FDI, something that is discouraged in practice and through public policy by both federal and the Ontario governments. Sub-national data provided by ProMexico is listed in Appendix A.

The ProMexico approach to the provision of data merits comment, mostly related to the three features listed above (accessibility, comprehensiveness, transparency).

a. **Accessible and Comprehensive Information:**
   Prior to the creation of ProMexico, access to reliable, consolidated data about cost structures in Mexico was difficult to uncover. It is quite possible that such challenges were a function of investor language barriers and lack of knowledge or understanding about Mexico's institutional infrastructure. One of the primary functions of ProMexico has been to address these concerns, providing data in English, Spanish, Arabic, French, Korean, Chinese, Portuguese, Italian, Dutch and German.

b. **Comprehensive and Transparent Information by State:**
   ProMexico publishes data that compares one state to another, encouraging competition between states. A series of indices are employed about key competitiveness factors on a state-by-state basis and ProMexico shares those rankings with potential investors. An inventory of incentives that could be available in each of the states is also provided. Most jurisdictions tend to avoid this kind of internal rivalry, often as is the case in Ontario, through policy restrictions on municipalities.[2]

The subnational, state-by-state competition for FDI is also evident in Mexico's labour market institutions. In fact, Mexico is quite unique in that as its auto industry has expanded, real wages have actually declined (Mexico, 2012), explained by United Auto Workers Leader, Bob King, as a function of the lack of independence between unions and management (Barkholz, 2011).

iii. Industrial Parks

A third site selection tool lists and describes industrial parks in Mexico. It includes recommended contact and general information for each park, as well as a list of infrastructure and services that are available in each park (e.g. access and/or availability to rail services, child nursery, training centre(s), security, urban transportation, networks, a customs brokerage etc.). It also notes if the industrial park offers access to a 'shelter' program, to which we return below. Ownership of such parks is both public and private.

Table 3 illustrates the information available for one industrial park in the state of Guanajuato.

Certainly, offering basic data about industrial parks is not particularly innovative, but its provision is consistent with the overall approach adopted by ProMexico of facilitating the process of investment as much as possible. It is also worth noting that this kind of data does not appear to be available on a national basis in competitor jurisdictions.

Table 3: Guanajuato Industrial Park

General Information	
Name of the Park	Parque Industrial Amistad Bajio
Business Associate	Amistad Desarrolladores Industriales
Number of Companies Established	24
Contact Details	
Webpage	www.amistadmexico.com
Telephone	+52 (877) 772-6363
Street	Boulevard Juan José Torres Landa
External Number	204
Internal Number	2º Piso
Settling	Colonia del Parque
Municipality	Celaya
State	Guanajuato
Land Information and Warehouses	
Surface (ha)	74.79
Urbanized Surface (ha)	74.79
Type of Industry	Mixed
Water-intensive	No
Water (L/SEG/HA)	-
Type of Ownership	Private

Infrastructure and Services			
Pavement	Yes	Green Areas	Yes
Sidewalks	Yes	Nursery	No
Drinking Water	Yes	Training Centre	No
Sanitary Sewer	Yes	Security	Yes
Storm Drain	Yes	Internal transportation of Staff	No
Water Treatment Plant	Yes	Urban Transportation	Yes
Natural Gas	Yes	Waster Collection	Yes
Street Lighting	Yes	Internal Customs	No
Electrical Facilities	Yes	Customs Broker	No
Power Substation	Yes	Consulting Services	Yes
Telephone	Yes	Shelter Program	Yes
Satelitte Communication	Yes	Built-to-suit Services	Yes
Digital Facilities	Yes	Rulse of Procedure	Yes
Fire Station	Yes	Administrative Offices	Yes

Source: AMPIP, April 2015

iv. Customized Information

Beyond the narrowing process described in parts i - iii above, ProMexico also provides individual companies with reports on key sectors of the Mexican economy. Industrial road maps are prepared to make firms aware of the government's plans for developing key sectors. ProMexico is also capable of identifying domestic firms or clusters of firms that have the potential to support new FDI as suppliers of goods or services. They do this by tracking international and domestic firms operating in Mexico's key sectors. By utilizing these sources of information, and through the process of navigating the layers of government on behalf of clients, ProMexico is able to devise unique, customized business intelligence and investment strategies tailored to individual firms.

All of this data – and all of the expertise – that ProMexico holds is developed through an elaborate domestic and international network of 48 offices in 31 countries. While Canadians tend to be most familiar with ProMexico's FDI attraction efforts, the agency is equally engaged in operations to expand exports and investment by Mexican firms. ProMexico actively monitors investment activity by individual companies in international jurisdictions. Therefore, they compete directly with Canada – in Canada – for investment. These international offices develop detailed knowledge about the economic landscape and the industries in the 31 countries in which it operates. They learn about the needs and aspirations of firms operating in key sectors and they transfer information back and forth from the main ProMexico hub in Mexico. All of this contributes to the accretion of ProMexico's institutional knowledge. Ultimately, it enables ProMexico to develop bespoke messages or pitches to potential investors.

Part of the customized approach can sometimes involve ProMexico organizing company-specific trade missions to companies that have expressed serious consideration of a potential investment in Mexico. During these visits, company officials may meet with relevant minsters and other public officials, sit down with experts, visit potential sites, or network with Mexican firms and suppliers that might be able to support their business. ProMexico also introduces potential investors to a range of potential service providers including accountants, lawyers and others to help remove questions and challenges surrounding new ventures (ProMexico, 2011).

Notwithstanding Canada's well-developed infrastructure and extensive data collecting capabilities, a potential investor in Canada cannot find the same level of detailed, coordinated and publicly available data that is offered by ProMexico in a single location. As well, in many instances, Canada does not collect or organize the kinds or levels of data made available through ProMexico.

The difference between the approaches in the two jurisdictions may be an outcome of the more centralized role that the Mexican federal government tends to play in investment attraction than is evident in Canada (or the United States). In Canada, this difference has often resulted in inconsistent levels of coordination between Canadian federal and provincial governments. At the core of the Mexican method is recognition and acceptance of the primary role played of the federal government in attracting FDI, as well as securing opportunities for outward FDI and export opportunities for Mexican firms. The states become involved, but in most cases, the federal government, via ProMexico initiates the process.

Therefore, whilst the activities engaged in by ProMexico appear similar to those advanced by different branches of Canadian governments, ProMexico:

- Offers more comprehensive business intelligence information to potential investors
- Demonstrates greater singularity of purpose with the federal government (via ProMexico) playing the primary role
- Provides centralized FDI attraction, improving coordination and communication across levels of government and between government and private enterprises
- Encourages competition between Mexican states (which is also supported by labour unions that operate in an environment that engenders additional inter-state competition and keeps wages low)

2. Creating an Environment Conducive to Automotive Investment

Incentives

In the US and Canada, a significant portion of the automotive site selection calculus revolves around the availability and level of government incentives. Media coverage of each major investment or re-investment in the U.S. and Canada includes mention of the level of government support accompanying the decision. With respect to automotive investment in Mexico, one might conclude that such support mechanisms are unavailable, a conclusion one could reasonably draw based on an absence of media attention on the matter.[3] However, those that base their assessment of the role of incentives in Mexico's efforts to attract automotive FDI on media accounts only would be incorrect.

The truth is that incentives are, in fact, available in Mexico. By some U.S. state standards, total packages in Mexico are not large. However, by Canadian standards, the aggregate level of incentives for certain investments can rival that which is available in Canada.

In Mexico, automotive manufacturers gain incentives from two sources: the federal government and the state, a situation that parallels the approach in Canada where both the federal and provincial governments are generally involved.

Mexico's federal support program is offered through ProMexico where incentives are said to be capped at 10% of the investment with a ceiling of US$30 million (ProMexico, 2012, p. 5). Funds do not flow until the project has been implemented and an assessment of the project has been completed (ProMexico, 2012). In other words, the money does not flow to the investor until the investor has actually fulfilled prescribed obligations. This means that the amount of funding actually provided may be adjusted depending on the final amount of investment, an approach that mirrors the process in Canada and Ontario.

The second source of funds available to automakers comes through the states, and the fact that at least one of the states has attempted to limit the level of support available has provided an opening for greater understanding of state level incentives. In 2008, the State of Nuevo Leon passed a bill called the Law for the Promotion of Investment and Employment. The law stipulates that the state government is allowed to offer a maximum of five percent of the total amount spent by the investor (Rodriguez, 2015).

The state may provide incentives for a company contingent upon on the type of investment, the quantity and quality of jobs that it will generate, and the company's potential to attract future investment. Potential investments are assessed on a 100 point scale with the highest rated investment being granted the maximum five percent incentive (Rodriguez, 2015).

In the state of Guanajuato alone, foreign companies have received grants and incentives of about four billion pesos. Some of those funds have come directly from Guanajuato, but much has come directly from ProMexico (AM, 2015). Miguel Marquez, the Governor of Guanajuato explained that the process of attracting investment intense: "I'm in contact with account executives 24 hours a day, 365 days a year" (Merida, 2015). The team in Guanajuato tasked with negotiating investment consists of an Undersecretary of Investment Attraction, whose mandate is attracting investment to the state. Part of the team is based in Guanajuato while others are located abroad.

When asked specifically to outline the incentives he offered Toyota when they agreed to build the new Corolla assembly plant in his state in April 2015, Governor Marquez avoided specifics, a tendency found throughout Mexico. State officials refuse to comment and contract negotiations are confidential. In regards to Toyota's investment in Guanajuato the closest acknowledgement of the role of incentives came from a Toyota supplier who asked to remain anonymous and said that Queretaro, the State of Mexico, Nuevo Leon and San Luis Potosi all competed to secure the investment, and all offered a "large amount of incentives" (Escalante & Diaz, 2015).

Following Audi's decision to locate in the state of Puebla in 2012, small pieces of that incentive package emerged. For example, Puebla provided Audi approximately US$100 Million to build its plant in the remote area of San Jose Chiapa (Hernandez, 2014). The Finance Commission of the State Congress also approved a donation of 460 hectares to Audi and a 12 year exemption on payroll tax (Carmona, 2012)

More detailed information about incentives in Mexico has surfaced because of shifts in the political dynamic in the state of Nuevo Leon. Kia Motors announced plans to build a plant in August 2014 and the plant achieved the maximum 100 point rating from the state. As a result, according to the Nuevo Leon law, Kia was eligible for up to US $50 million in state incentives (five percent of total spending of US$1 Billion). It was only when a new government was elected in 2015 and incoming Governor Jaime Rodriguez started expressing concerns about the largesse offered by his predecessor, Rodrigo Medina, that information started to emerge. As a result, specifics of the deal started to appear in Spanish language media in Mexico. According to Davila (2015), Nuevo Leon provided Kia Motors with:

- Direct economic incentives valued at approximately US$115 Million divided into 15 equal monthly payments
- 533 hectares of land
- A waiver of the payroll tax for 20 years
- A waiver of property taxes for 5 years
- Kia suppliers with incentives of U.S. $100 Million
- Infrastructure spending to support with the installation of the plant of U.S. $197 Million

The State also offered to pay for the plant's inauguration party (Flores, 2015).

Clearly, Nuevo Leon went beyond the authority of its 2008 law and the five percent ceiling on incentives.

The generosity is not restricted to Nuevo Leon. At the Federal level, according to a detailed ProMexico report from June 2014, ProMexico fund provided Mazda with more than US$50 Million to locate its assembly plant in Salamanca. It also supported both Volkswagen and Pirelli with US$43 and US$42 million respectively, and approved subsidies of more than US$32 million to Honda for the installation of its assembly plant in Celaya (AM, 2015). All are well above the US$30 million ceiling established by ProMexico.

The cases examined here point to the fact that both federal and state level caps on incentive spending are not strictly enforced, and because they are not strictly enforced, they are less than transparent. Rather than operating as a ceiling for incentives, it would appear that they effectively act as the floor from which automakers begin negotiation.

Beyond the directly ProMexico funded incentive, Mexico's federal government also offers a suite of additional programs designed to facilitate FDI. Canada has a similar regime of broad-based offerings beyond the high profile anchor programs specific to automotive manufacturing. These ancillary incentives include measures such as tax credits and support for training and education. Many of Mexico's programs are described in Table 4. ProMexico works with private companies in the coordination of these additional incentives. They offer a single point of reference for investors, providing consultation services, legal advice, and assistance in obtaining the required documentation. They are available to coordinate all steps of the process, from helping companies secure appropriate visas and permits to navigating various federal and state programs.

The ProMexico funded incentives and the Government of Mexico programs and incentives described above represent just one piece of the support programs available to potential investors. A more detailed explanation of the specific incentives offered by each state can be found in the Appendix B and C. Also, see the Appendix B and C for a direct example of how ProMexico apprises individual investors of state-by-state options with respect to incentives.

Table 4: Mexican Federal Income Programs

Incentive	Description
Import Tax Refund to Exporters (Drawback)	Returns a duty previously paid on imported goods that are subsequently exported to other markets
Manufacturing, Maquiladora and Export Service Industry (IMMEX)	Allows for the temporary import of goods necessary for use in industrial processes, production services, transformation, or repair of goods that are then exported. The program removes the general import tax, value added tax, and where appropriate, countervailing duties.
Sector Promotion Programs (PROSEC)	Sector specific program targeted at firms producing specified products. It allows firms to import goods for use in the development of specific products at preferential import tax rates (ad-valorem tariffs), regardless of whether the goods are made for export or domestic markets.
New Scheme for Certified Companies (NEEC)	A program to strengthen the security of the logistics chain of foreign trade through the implementation of minimum standards in international safety. Implemented in coordination with the private sector. It allows qualified firms to speed up the customs process by becoming a preferred shipper.
Federal Tax Incentives for Companies that do not have an Established Residence in Mexico	Under certain conditions, eligible maquiladoras companies (now IMMEX) may be granted a significant reduction in the payment of income tax.
Federal Tax Credit for R&D	Eligible companies may receive a 30% tax credit of total spending on R&D activities, including process and design
Innovation Incentives Program	Support programs for companies investing in research, technology development, and innovation. Administered through CONACYT (Mexico's National Council on Science and Technology).

Source: https://www.promexico.gob.mx/es/mx/pasos-invertir-mexico (2015/08/27).

The Private Sector and FDI Attraction: Shelter Companies

Doing business in Mexico adds layers of complexity that Canadian firms, particularly those in the Small to Medium Size Enterprise (SME) category, are often under-equipped to manage. Challenges include operating in a second language, adapting to cultural change, and subtle and not so subtle state and regional differences in terms of their levels of development, legal frameworks and regulatory environments. Certainly, ProMexico has done much to strip away some of the initial challenges associated with establishing operations and its work has been helpful and successful. But what about the longer term? What happens after the factory is opened and the day-to-day challenges of operating a business in a foreign country emerge? What help is available to support the ongoing management of the operation?

Into this void have stepped so-called shelter companies or shelter service providers. These companies act as a one stop shop or single point of contact for FDI firms looking to invest and manufacture in Mexico. They act as a conduit between a foreign manufacturer and various Mexican government bodies and some types of vendors. In many ways, they represent a long-term, private sector extension of the role of ProMexico. While ProMexico clears away the bureaucracy and anxiety that can occur during the development stage, shelter service providers are available to step in and perform a similar function on an ongoing basis. In essence, the idea of a shelter service provider is to provide foreign corporations with most of the benefits of operating in Mexico while avoiding the challenges of navigating unfamiliar laws and business practices (Offshore Group, 2015).

The services offered by shelter companies vary, including any one or a combination of:

- Capital infrastructure and real estate, including overall facilities management
- Human resource management, including training and hiring local employees, oversight of occupational health and safety, and payroll & benefits management
- Accounting and taxes
- Navigation of local and federal legal frameworks
- Import/export management
- Logistical support

Shelter companies are not suitable for every investor. For example, larger enterprises might be better-equipped to handle the complexities themselves or via a series of individual service providers. As well, smaller operations might partner with a shelter company in their early phases of operation and transition to standalone status at a later point in time.

To provide a deeper sense of the role of shelter companies in the Mexican context this report profiles two such companies: The Offshore Group and Entrada Group. In this section we profile The Offshore Group as a means by which to explain the range of functions shelter companies typically provide. Then, in the next section we focus on education and training and explain how the Entrada Group navigates and leverages the local education network on behalf of its clients.

The Offshore Group

Headquartered in Tucson, Arizona, The Offshore Group has been operating in Mexico for over two decades. It employs nearly 100 people in the United States and operates four sprawling manufacturing centres across three Mexican states with over 16,000 employees, representing 73 companies (Offshore Group, 2015). The Offshore Group has partnerships with several US and Mexico-based legal entities that are privately held and configured to provide solutions to foreign manufacturers that want the benefits of operating in Mexico without the challenges inherent in operating in a foreign country.

The company claims its advantages lie in:

> dealing with Mexico's workforce, handling international logistics, complying with regulatory requirements and providing the brick-and-mortar factory operations in Mexico so that clients can focus on making good products, delivering them on time and operating at the lowest possible cost (Offshore Group, 2015).

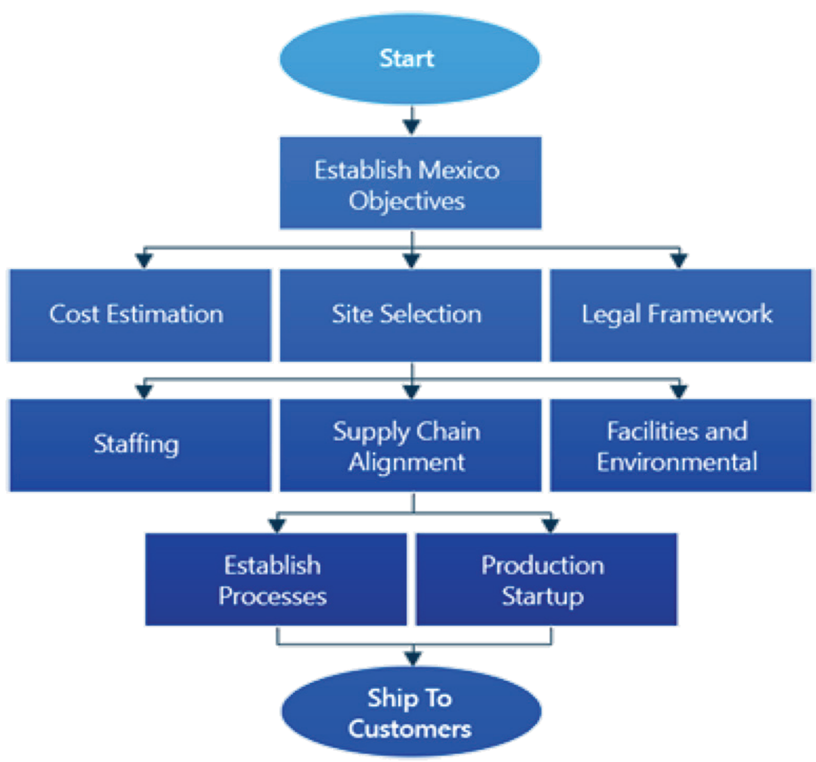
Most of The Offshore Group's services are geared towards helping investors establish a presence in one of their large manufacturing campuses. They own over 4.5 million square feet of high quality industrial space across four different cities: Empalme, Sonora; Guaymas, Sonora; Saltillo, Coahuila; and Guadalajara, Jalisco.

Within each industrial park they provide fully staffed medical services, childcare facilities and year round grounds keeping maintenance. Standard buildings are approximately 35,000 square feet and are tailored to clients' needs. The company also offers transition plans and advisory services for companies that want to eventually operate as a wholly owned subsidiary (Offshore Group, 2015).

Depending on how the relationship with the shelter company is structured, foreign manufacturers might choose to maintain control over production, but avoid some of the legal and administrative burdens associated with being the employer of record. In addition, a shelter company might also serve as the tenant on the lease, and bear direct responsibility for taxes and other administrative burdens (Miller Canfield, 2014).

The process of establishing a manufacturing presence in Mexico through The Offshore Group is described in Figure 3.

Figure 3: Operations and Services Provided by the Offshore Group



Source: Offshore Group, 2015

Certainly, legal subtleties exist that make establishing and maintaining manufacturing operations in Mexico a challenge. For example, property ownership restrictions and barriers to entry persist in certain segments of the economy. Many of the constraints have been dismantled, a function, for example, of Mexico's Foreign Investment Law of 1993 along with provisions contained in NAFTA and Mexico's other trade liberalizing initiatives. However, navigating the process and obtaining necessary authorizations can still be a challenge. Shelter companies simplify the process of establishing a new manufacturing presence and absorb the responsibilities and risks associated with managing real estate, employment and administrative formalities. They also absorb some of the longer-term risk. Like ProMexico, their presence reflects how deeply intertwined governments are in working with companies to support investment in Mexico.

C. Education and Training

ProMexico plays an important role in coordinating and advancing the education and training of the Mexican workforce. To that end, it partners with universities and educational centres in Mexico to facilitate:

1. Research and Development agreements (via the country's university network), and
2. Workforce training (via various technical training institutes)

Beyond the process of introducing firms to training institutes, ProMexico will also take a direct hand in planning and funding company specific training programs.

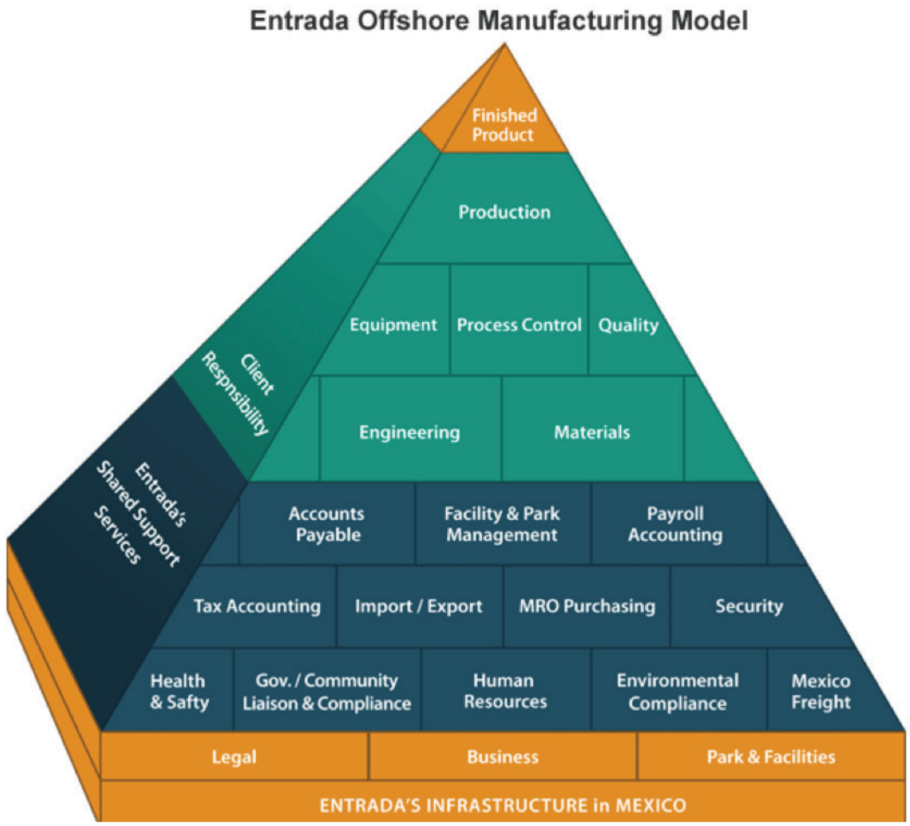
The second shelter company we profile differentiates itself by highlighting the quality of the workforce it has at its avail. Entrada Group, a shelter company operating in a manner similar to The Offshore Group, has a single manufacturing centre in Mexico. It operates out of Zacatecas in the heart of the country and controls 1 million square feet of dedicated manufacturing space in an expandable 60-acre park. It offers 24/7 security, health care, and day-to-day maintenance (Figure 4; Entrada, 2015).

One of the main reasons the Entrada Group selected Zacatecas was its proximity to a more highly trained workforce. "Boasting eight technical schools and eight universities, Zacatecas' educational system creates a consistently outstanding labour force, with many experienced technicians and managers available from Zacatecas and the Altiplano region" (Entrada, 2015).

Entrada Group also offers on-the-ground employment services in the form of direct and indirect recruitment and subsequent onboarding. John Paul McDaris, Director of Business Development for Entrada Group explains that its clients are responsible for their own manufacturing operations, including the processes and materials as well as the job specific training of employees. Meanwhile, Entrada Group provides the legal infrastructure and recruits the workforce based on the profile desired. Mr. McDaris emphasizes that his firm is not expert in the business or the products its clients manufacture, but is equipped to work on its client's behalf with educational institutions to better develop its clients' people and ensure those clients obtain the skills they require (McDaris, 2015).

A representative of The Offshore Group describes a similar approach. Ricardo Rascon says that his company works with clients as well as the state and federal government to devise customized training plans. The Offshore Group's dedicated training centres have alliances with various institutions to build specialized training (Rascon, 2015).

Figure 4: Operations and Services offered by the Entrada Group



Source: Entrada Group

As Mexico's experience expands and as its exposure to global best manufacturing practices grows, it has increased its resolve to enhance education and improve the capabilities of its workforce. A program by Metalsa, a Mexican manufacturer of structural components for light and commercial vehicles, via its subsidiary Grup Proeza, provides an example of this commitment. It is implementing a new international education program focused on deepening Latin America's manufacturing capabilities. The program will train high school students from across Latin America, including Mexico, in technical skills and professional development. Training in math, physics and science is at the core. The goal is to train 7,600 students by 2020 (Business Call to Action, 2014). Partnering with Mexico's Department of Education, the company has currently adopted 11 schools in Argentina and Mexico, and plans to expand the program to additional schools and new partners (Business Call to Action, 2014).

After years of relying on the attraction of labour intensive industries, Mexican governments and companies have committed to improving productivity and attracting more research and development activities. Hence, education and training have become a key link between the state and FDI, especially in manufacturing. Luis Lozano Soto, lead partner of the automotive industry group at PricewaterhouseCoopers Mexico describes the primary attributes of the Mexican automotive labour force:

> The government and the private sector have been working together with private and public schools to put in place the proper knowledge that employers require to participate in this type of industry. In the past, companies had to invest a lot in trying to increase labour skills in Mexico (Arend, 2014)

So, while the initial, and arguably ongoing, appeal of manufacturing in Mexico is low cost labour, Mexico policy makers have come to recognize that they need to improve productivity and quality of production, in part by improving the quality and skills of the workforce. The Mexican government, in cooperation with ProMexico, has led that process. Individual states are also focused on education as a key differentiator as they compete with each other for FDI (Escobar Gamboa, 2013, p. 20).

D. Context, Discussion and Conclusion

We conclude by discussing ProMexico, specifically considering the Canadian perspective. We frame the discussion by posing four questions:

1. Why are Canadian industry stakeholders interested in ProMexico?
2. Is a ProMexico-like organization appropriate for Canada?
3. How could a ProMexico-like organization be structured in Canada?, and
4. Where does ProMexico fit in Mexico's overall investment attraction formula?

1. Why the interest in Canada?

Over the past two decades Mexico has developed a compelling narrative for inward automotive FDI. In 1994, for example, when NAFTA came into effect, Mexico made 1.1 million vehicles (Tarrant, 2015, p 103), just 7.1 percent of the North American total. By 2014, Mexico was producing 3.4 million vehicles (Tarrant, 2015, p 103) 19.7 percent of the North American total and on track to grow to 5.3 million by 2020 (Asociación Mexicana de la Industria Automotríz, 2015). Meanwhile, much discussion and consternation has ensued about the trajectory of the Canadian industry. The unease has perpetuated despite the fact that Canadian production has remained relatively stable. In 1994, for example, Canada made 2.3 million cars and trucks (Tarrant, 2015, p 103), 16.8 percent of the North American total. By 2014, Canadian production was actually 100,000 more, at 2.4 million (Tarrant, 2015, p. 103). So, rather than stripping Canada, it would appear that much of Mexico's ascendency has come at the expense of the US. There, production slipped by 900,000 units between 1994 and 2014 (Tarrant, 2015, p. 103) and its share of North American production dropped to 66.3 percent from 78.1 percent.

Why, then, the handwringing in Canada? Why are Canadian stakeholders interested in ProMexico? It would appear that the ProMexico interest is a function of the accretion of several connected factors:

1. Relative stagnancy of Canadian automotive production volume over the past 10 years when global, including North American, automotive production has increased significantly.
2. The perception of decline in Canada since the turn of the millennium, a function of a single stellar year (1999) when Canada produced 2.9 million vehicles (Tarrant, 2015, p. 103)

3. Growth in Mexican auto production in the 20 year period following NAFTA
4. Particularly strong growth in Mexican auto production during the period following the establishment of ProMexico in 2007. For example, between 2007 and 2014, production of automobiles in Mexico climbed by 1.2 million to 3.3 million (Tarrant, 2015, p. 125) and rapid growth is forecast to continue (Asociación Mexicana de la Industria Automotríz, 2015).
5. No new assembly plants have been built in Canada since 2008, the period when Mexico demonstrated its strongest growth.
6. Ambiguous commitments about new product mandates for many Canadian OEM facilities
7. The fact that Canada does not have a centralized investment attraction agency analogous to ProMexico

2. Is a ProMexico-like system appropriate for Canada?

Further to "7" above, there does appear to be some appetite in Canada for a ProMexico type agency. This was originally raised by the Canadian Automotive Partnership Council (CAPC) in 2014. Although the idea was promptly rejected by the Government of Canada at the time,[4] it emerged again in 2015 from two key sources. First, in its Fall Economic Statement, the Finance Minister for the Province of Ontario pledged to "establish a strategic investments office to serve as the province's one-window point of entry, providing improved investment attraction services, including new licensing and permitting coordination, enhanced program coordination services and expanded site selection services" (Ontario, 2015). It also arose following the Canadian federal election of 2015 by way of the mandate letter to Canada's Federal Minister of International Trade, Chrystia Freeland. In the letter, Prime Minister Trudeau instructed her to "Develop a new Canadian Trade and Export Strategy to … help Canadian jurisdictions attract foreign direct investment. This strategy will include … creating a strengthened Investment in Canada Office … to work seamlessly with provincial, territorial, and municipal governments and provide concierge services to promote business investment in Canada so that potential investors will have a one-window shop to make investing in Canada simpler and more attractive." (Prime Minister of Canada, 2015).

Without question, ProMexico fulfills its role well. However, before Ontario and Canada rush to create one or even two single window infrastructures, they should be careful to understand that current dynamics in Canada and Ontario are fundamentally different from those that caused policy makers in Mexico to establish their single window remedy in 2007. For starters, the effect of ProMexico was to detach potential investors from the instability that plagued the country; conditions not evident in Canada in 2015. Second, those in Canada who have called for a ProMexico-like organization, appear to be looking for a Canadian organization to solve a problem substantially different than the one said to be tackled by ProMexico. For example, while this paper has documented ProMexico's ability to remove the anxiety associated with operating in a new environment, particularly for SMEs, the Canadian auto executives who comprise the CAPC membership sought a single point of contact in 2014 because they assumed that a single point of contact would have a mandate to advocate on their behalf, the authority to approve incentive agreements, and ultimately, the capacity to pivot faster than competitor jurisdictions.[5] That does not appear to be the primary reason for ProMexico's being.

3. How Could a ProMexico-like Organization be Structured in Canada?

Without question, establishing an organization of the nature of ProMexico – and in line with the direction expressed by both Ontario and Canada – will be a challenge. Fundamental (and somewhat ironic) is the fact that two single-window infrastructures are being contemplated. However, even if Ontario and Canada decide to combine their efforts, devising such a body could require:

- Individual jurisdictions beyond Ontario (assuming other provinces decide to join) agreeing to surrender elements of their authority to a single body. This seems an unlikely development. More likely is an agreed upon collaboration between municipalities within Ontario such that efforts could be better coordinated between and across them. The reinvigoration of the Ontario Auto Mayors group is an important step in this direction.
- Dismantling barriers and building trust and protocols between various federal and provincial departments and agencies (e.g. Federal Departments of Immigration, Science and Economic Development; Foreign Affairs; International Trade; Finance; the embassies)

The hurdles listed above are neither exhaustive nor modest and a comprehensive shift to a full ProMexico type arrangement would test the limits of governments' cooperative spirit. Instead, several practices evident in the ProMexico model may be more realistic. For example:

- A sectoral and/or geographically defined approach to a single-window could be achievable, possibly as a pilot. In that regard, an effort to align and streamline the process of automotive FDI attraction could be considered, restricted perhaps to Canada and Ontario
- If the effort was restricted to automotive, Canada and Ontario could adopt the strategy of approaching potential investors with the kind of tailored business plans devised by ProMexico
- On a broader scale, an enhanced, more comprehensive website seems possible, including various elements of the ProMexico site selection tool. This might include jurisdiction-by-jurisdiction economic data

Further, if one of the key challenges for Canada is, as the CAPC group identified, the speed with which processes unfold, what other measures could policy makers undertake to provide potential investors with a more rapid, ProMexico-like response? In other words, what could Canada do to give potential investors a ProMexico-like experience without building a full-scale ProMexico-like apparatus? Some further suggestions:

- Ontario should continue its efforts to certify specific sites and industrial parks as ready for immediate development. This could include the creation of a mega-site, one capable of accommodating a large scale final assembly operation;
- Policy makers should examine what steps they might take to truncate the incentives approval process. This could include, for example, establishing standards or guidelines of authority for officials and/or tightening the eventual approval process;
- Beyond site readiness and incentives, policy makers could review all processes associated with automotive manufacturing investment and consider where and how their involvement affects progress.

4. Where does ProMexico Fit in Mexico's Overall Investment Attraction Formula?

Over several generations Canadian policy makers have recognized the unique and powerful capacity that automotive manufacturing holds to drive economic growth. Policy makers in Mexico have developed a similar appreciation. Since the advent of NAFTA in 1994, enthusiasm for investing in the Canadian automotive industry has drifted, generally downward. Meanwhile, the Mexican auto industry has experienced rapid growth. In fact, the rate of growth in Mexico has become even more pronounced since the latter part of the first decade of the 21st Century, a period punctuated by the Great Recession of 2008-09 as well as the emergence of the ProMexico organization.

This paper does not suggest that ProMexico is singularly responsible for the ascent of the Mexican automotive manufacturing sector. Indeed, it can be argued that several factors have been at play; that Mexico's capacity to attract automotive FDI was built on a foundation of enduringly competitive wages and then supported by advantageous trade agreements (beyond NAFTA), improving infrastructure, increased attention to education and training, and geographic access to emerging markets in South America. It does seem clear that ProMexico has facilitated Mexico's rise and made the process unfold in a more efficient manner for individual actors. However:

- Were individual investment decision processes made easier because of ProMexico? Probably.
- Are some investments located in different places within Mexico because of ProMexico? Likely.
- Were automotive investors attracted to Mexico specifically because of ProMexico? Unlikely.

The growth of auto production in Mexico, combined with the increased visibility of ProMexico, has captured the attention of automotive industry actors in Canada: policy makers, executives and labour. We believe that this paper makes a contribution to the ongoing automotive policy discourse in Canada by explaining the overall mandate of ProMexico, its role in inward FDI attraction and its relationship with private sector actors. In so doing, we also provide perspective on the applicability of a similar organization for Canada.

Appendix A: Sub-National Data Provided by ProMexico

Indicator	Specific Data
Population and Labour Force	State total population and percent of national total including: • Population under 15 • Population over 15 • Economically active population • Economically inactive population
Employment Profile	Total Employed and Percent of National Total by Sector • Agriculture, fishing, hunting and forestry • Mining, electricity and water • Manufacturing • Construction • Wholesale and retail trades • Accommodation and food services • Transport and warehousing • Professional, financial and corporate services • Social assistance • Other services • Public administration • Non specified
Post-Secondary Study	Current technical education, undergraduate and graduate level enrolment by field of study including: • Agronomy and Veterinary • Humanities and Arts • Natural and Exact Sciences, and Computing • Social Sciences, Business and Law • Education • Engineering, Manufacturing and Construction • Health • Services
Education Infrastructure	Data for both secondary and tertiary education including: • Number of Students • Number of Teachers • Number of Schools

Indicator	Specific Data
Foreign Direct Investment	• Total Amount of FDI ($) • Cumulative Investment ($) by sector including: – Agriculture – Mining – Electric power generation, transmission and distribution, water and gas supply – Construction – Manufacturing – Wholesale and retail trade – Transportation and warehousing – Media – Financial and insurance services – Real estate services – Professional, scientific and technical services – Educational services – Health care and social assistance – Cultural and sporting recreation – Temporary accommodation – Other services, except government
Infrastructure	• Number of Airports – Domestic – International • Number of Seaports – International marine ports – Coastal shipping ports • Railways (kilometres) • Number of Medical Units – Public – Private • Number of Hotels and Lodging Establishments • Number of Hotel Rooms
Real Estate Cost	By municipality in each state including Minimum, Maximum and Average Cost per m^2 for: • Industrial land • Construction • Office space purchase • Office space rent • Warehouse space purchase • Warehouse space rent • Commercial space rent

Indicator	Specific Data
Water Rates for Domestic User	By municipality, rates for • Water per m^3 • Sewage per m^3
Water Rates for Industrial User	By municipality, rates for • Water per m^3 • Sewage per m^3
Petroleum Products	Rate history (by month) for: • Liquefied gas • Automotive gasoline • Jet fuel • Diesel • Fuel oil
Electricity Rates	Rates for smaller users and larger users by area per kw of: • Billable Demand • Peak Load • Intermediate Load • Base Load
Wages	Average wages per day
State Competitiveness Indices	State by state ranking related to several metrics: • Overall competitiveness • Legal system • Sustainable environment management • Inclusive, Prepared and Health Society • Functional and Stable Political System • Effective and Efficient Government • Labour Market • Stable Economy • Forerunner Industries • Use of International Relations • Industry Innovation
Productivity	State by state rating of productivity

Indicator	Specific Data
Availability of State Sponsored Incentives	Whether or not individual states make specific incentives available including: • Temporary exemption from state taxes • Temporary exemption from payroll taxes • Exemption of duties for the public registry of property and trade • Exemption of payment of land use permit • Exemption of payment of construction permit • Exemption of payment of tax on possession or use of automobiles • Exemption of duties on potable water and sewer connection • Reduction on state taxes and duties • Reduction of duties for the public registry of property and trade • Reduction on real estate appraisal costs • Reduction on property transfer tax • Tax reduction on vehicle registration and issuance of plates, sticker and state circulation card • Reduction on fees related to the revision of plans • Reduction on payroll tax for companies that create new jobs • Temporary reduction on payroll tax • Reduction on real estate acquisition tax • Reduction on the payment of fees for issuance of construction permits • Reduction on the payment of fees for connection to the drinking water and sewage system • Special incentives for technology research and development projects • Special incentives for projects outside metropolitan area • Temporary reduction on public lighting fees

Appendix B - Excerpt from ProMexico Trust Fund application

8. Requested support from the ProMexico Fund, in thousands of dollars

Years	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Total
Annual Amount:									0
% of Investment:								0	0

9. Additional sources of support to the project, in thousands of dollars

Prosoft Fund:									0
Promedia Fund:									0
CONACTY:									0
State Government:									0
Municipal Govern-ment:									0
Others 1:									0
Other 2:									0
Total of Supports:	0	0	0	0	0	0	0	0	0
% of Investments:								0	0

Note: Translated excerpt from the documentation filled out by ProMexico officials as part of the application by firms for financial support from the ProMexico trust fund showing the other main sources of financial supports for investment projects (ProMexico 2012)

Appendix C - Individual State Incentives

Fiscal Incentives	Aquascalientes	Coahuila	Puebla	San Luis Potosi	Sonora	Zacatecas
1. Temp. Exemp. State taxes and duties		Yes - 1	Yes		Yes	
2. Temp. Exemp. Payroll tax (ISN) for newly created companies	Yes	Yes - 2	Yes - 1	Yes	Yes	Yes - 1
3. Exemp. Duties for public registry of property and trade	Yes	Yes - 3			Yes	
4. Exemp. Payment of land use permit	Yes		Yes - 2		Yes	
5. Exemp. Payment of con-struction permit	Yes		Yes - 2		Yes	
6. Exemp. Tax on posses-sion or use of used motor vehicle			Yes			
7. Exemp. Duties of potable water and sewer connec-tion	Yes				Yes	
8. Reduction state taxes and duties	Yes		Yes		Yes	
9. Reduction duties for public registry of property and trade					Yes	
10. Reduction real estate appraisal costs			Yes		Yes	
11. Reduction property transfer tax				Yes	Yes	
12. Reduction tax on vehicle registration, plates, sticker, and state circula-tion card					Yes	
13. Reduction fees related with plant revisions			Yes - 2		Yes	
14. Reduction payroll tax (ISN) for companies that create new jobs	Yes	Yes - 4		Yes	Yes	Yes - 2
15. Temp. Reduction on payroll tax (ISN)	Yes	Yes - 5			Yes	
16. Reduction property tax	Yes	Yes - 6	Yes - 2	Yes	Yes	
17. Reduction real estate acquisition tax	Yes	Yes - 6	Yes - 2	Yes	Yes	
18. Reduction payment of fees for construction permits	Yes	Yes - 6	Yes - 2	Yes	Yes	
19. Reduction payment of fees for connection to drinking water and sewage system	Yes	Yes - 6			Yes	
20. Special incentives for tech. R&D		Yes - 6	Yes	Yes	Yes	

Fiscal Incentives	Aquascalientes	Coahuila	Puebla	San Luis Potosi	Sonora	Zacatecas
21. Special incentives for projects outside the metro area	Yes	Yes - 6	Yes	Yes	Yes	
22. Temp. Reduction on public lighting fees		Yes - 6	Yes - 2		Yes	

Table 4: State level incentives for a select group of states. Data obtained from ProMexico's online State Statistics tool (ProMexico 2014)

Coahuila:

1. Based on the project and as authorized by the state council for economic development.
2. 100% of the tax for one year or longer, depending on the project.
3. Up to 90% exemption for management and compliance.
4. 100% for one year or longer in case of extension or new project.

Depending on the project and the jobs created.

1. Negotiate with relevant entity

Puebla:

1. Investments exceeding 700 million dollars.
2. Handled by the municipality. Incentives are agreed with the company based on its investment project and the Law of Economic Promotion of the State of Puebla.

Sonora

- All projects are analyzed individually, based on the economic impact of offering incentives. Not all incentives are a matter of the state but rather of the municipalities and, therefore, arrangements are made to apply them based on the project.

Zacatecas:

1. 2%.
2. 2% subject to approval.

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Endnotes

[1] The Promotion of Investments and International Business Group makes the initial approach. It does so after conducting the necessary background research. After that, the Institutional Relations and Support Group develops and maintain the ongoing relationship (i.e. the client management function).

[2] This transparent inter-state rivalry-inspiring approach is relevant in so far as understanding the Mexican automotive manufacturing dynamic because Mexico's automotive industry is spread across several regions and multiple states. However, because Canada's auto industry is concentrated in Ontario, the effect of inter-provincial rivalry is less relevant.

[3] On April 15, 2015 Toyota Motor Corporation announced a US$1 Billion investment in Guanajuato state. As part of the research associated with this report, 75 Spanish language Mexican newspaper articles were reviewed covering the decision. Of those, only one report mentioned that investment incentives made available to Toyota. Even then, the information came from an unnamed source and did not mention any details associated with the amount of the incentive or the manner in which the package was structured.

[4] When asked about the role a ProMexico equivalent might have played in an unsuccessful attempt to gain a mandate for an engine facility in Windsor, Ontario, former federal Industry Minister, James Moore, had this to say: "If this body existed or this person existed in Canada, would we have secured that investment? I think the answer is no" (Globe and Mail, 2014). Minister Moore may well have been correct. Large, sophisticated automotive manufacturers like the company who decided to pass on the Windsor investment possess the full capability to understand and manage their way through national, provincial and local legal and cultural hurdles. After all, these kinds of companies have done so dozens of times in many countries over more than 100 years. However, Minister Moore may have overlooked the real argument CAPC was making: points that were articulated in their report. That: "to compete for large-scale automotive investment today, Canada and the provinces must step forward with large-scale, easy to understand partnerships that announce to the world's automakers, We want your investment and we're prepared to compete" (Canadian Automotive Partnership Council 2014, pg. 23).

[5] CAPC called for an approach that would "expedite the process and provide industry partners with a stronger hand when they advocate for investment with their head offices" (Canadian Automotive Partnership Council, 2014, pg. 23).

[6] The Province of Ontario is currently engaged in a process to certify industrial development sites through its "Investment Ready: Certified Site" program. The program is designed to facilitate more rapid site selection decisions. The province verifies that potential investment locations are ready for development and consolidates information on individual sites' attributes. Once accepted, the sites become part of the province's local and international marketing efforts.