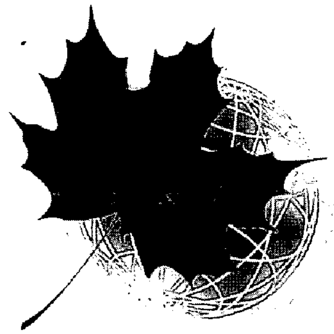
Major Opportunities in Mexico



Opportunities exist for Canadian suppliers in many Mexican sectors. Ten sectors have been identified for specific action.

No industrial sector or public enterprise has escaped the forces of change that have swept Mexico since the late 1980s. Manufacturers are rationalizing their operations and modernizing to meet the influx of foreign competitors. Service providers are struggling to become more efficient and to offer their customers the latest innovations. For the first time in decades, government agencies have been forced to consider new approaches as they react to budget cuts. And, on a broader scale, the federal and state governments have embarked on ambitious plans to modernize Mexico's outdated infrastructure. Increasingly, they are turning to the private sector to help make this happen.

This environment offers many opportunities for Canadian companies. The rationalization initially brought about by economic reforms has been accelerated by the recent peso crisis. Both elements are forcing Mexican buyers and decision makers to consider alternative methods and new suppliers.

Priority Sectors

Priority sectors offer substantial but largely untapped opportunities where there is a good fit between Canadian capabilities and Mexican needs. To focus Team Canada's efforts on markets with the greatest growth potential, five priority sectors have been selected for special attention:

- advanced manufacturing technology and industrial machinery;
- information technology and other advanced technology products and services;
- agriculture and agri-food;
- automotive maintenance equipment and aftermarket parts; and
- oil and gas equipment and services.

The opportunities in each of these sectors are discussed in the following sections, along with the action planned to overcome constraints facing Canadian exporters.

Advanced Manufacturing Technology and Industrial Machinery

Manufacturing is at the centre of Mexico's economy, representing a quarter of the country's total gross domestic product (GDP). Companies that are experiencing export-led growth are expected to continue the modernization trend established before the devaluation. The higher cost of equipment can be more than offset by the dramatic rise in dollar export sales.

In the post-devaluation economy, perhaps no sector has been forced to adapt as quickly as the manufacturing sector. In simple terms, the devaluation meant "export or perish." Those serving the domestic market found themselves saddled with debt from dollar-based expansion purchases, paying astronomical rates of interest and earning pesos suddenly worth half their previous value. Export manufacturers, on the other hand, found themselves with decreases in operational costs of 30-40 percent, which enabled them to lower prices and expand off-shore sales. Border towns in Mexico became booming manufacturing zones, while the interior industrial belts around Mexico City, Monterrey and Guadalajara faced closures and bankruptcies. The financial community was knocking on exporters' doors, hoping to lend money while they were foreclosing on bad loans made to domestic market manufacturers.

As a result, from 1995 to 1996, 90 percent of new manufacturing equipment purchases in Mexico were made in the border states, where most export manufacturers are located. Over the last two years (1995-96) Mexican imports of Canadian manufacturing technology have increased 56 percent, with purchases worth US$43 million in 1996. Since 1995, up to 30 percent of manufacturing machinery purchases in Mexico have been made by the purchasing offices of multinationals located in third countries.

Leading export manufacturing sectors include electronics, textiles, auto parts, furniture assembly and steel products. All of these industries have invested heavily in modernization over the last few years, pressured by the demands of the global market in which many are competing for the first time. In all of these sectors, Mexico maintained a trade deficit prior to the devaluation. Now Mexico boasts a trade surplus in all these segments.

Eighty percent of Mexico's manufactured exports are produced by only 300 firms, many of which are owned by foreign holding companies. Many of Mexico's leading opportunities in manufacturing technology sales begin with a phone call to a U.S., Japanese, Korean, Canadian or European office.

The most important locations in Mexico for export-oriented manufacturing are Tijuana, Mexicali, Ciudad Juárez and Matamoros, which are along the border, and various companies located in Monterrey, Guadalajara, Aguascalientes, the state of Guanajuato and near Mexico City.

The strongest suppliers in this sector are the Americans and Europeans. American suppliers work closely with regional banks to find customers and help their clients obtain financing. The European suppliers offer excellent technology levels in their equipment and often finance sales through government export-development programs or through their own credit offerings.

Opportunities

In the short term, demand from smaller domestic manufacturers will be severely curtailed by the low value of the peso. Nonetheless, Canadian companies that can use their expertise to help Mexican manufacturers modernize to meet export requirements will find interesting niche opportunities despite the devaluation.

New tax incentives have opened a further window of opportunity for suppliers of advanced manufacturing equipment. The initiatives suspended the assets tax and permitted a depreciation allowance on new investment in year one of up to 92 percent, depending on the item. These tax benefits were due to expire at the end of 1996, but remained in place for 1997 and can be expected to continue, although perhaps modified, in 1998. Any changes to the existing program will be published in the *Diario Oficial* in late December 1997.

In the longer term, there is strong potential for increased sales of all types of manufacturing equipment. Mexican companies have come to understand the benefits of flexible manufacturing. Compliance with ISO 9000 standards is widely discussed and is the goal of most Mexican manufacturers. Concepts such as total quality management and just-in-time production are catching on. As young, foreign-