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PARTNERING FOR SUCCESS

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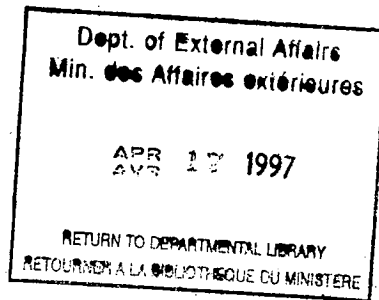
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Disponible en français

MEXICO – CANADA: PARTNERING FOR SUCCESS

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From the Bank of Montreal

Canada and Mexico share a continent, but they have long been strangers to each other. Both have been intent on the internal development of their vast territories and abundant resources. And perhaps neither has been able to see past the overwhelming presence of the United States and recognize a neighbour on the other side.

Today that is changing, and changing very rapidly. Mexico has made a commitment to building an open, modern, dynamic economy and a fully democratic society. And Canada has made a commitment to building a true free trade area with both our neighbours on the North American continent.

The results are already apparent in increased flows of trade and investment. Canadians are becoming aware of Mexico as one of the economic success stories of our time. Yet we have only scratched the surface of what can be done. For both Mexico and Canada, the other country is a new frontier with virtually limitless economic potential.

Bank of Montreal is Canada's first bank, and with over \$100 billion in assets we are one of the largest banks in North America. We opened our doors in 1817, 175 years ago, and we have been helping Canadians do business at home and abroad ever since. We have repeatedly played a significant role in Mexico since we opened our first office there in 1906, and at one time Bank of Montreal was the largest bank in the republic.

Today, at our more than 1200 branches in Canada and our affiliates and offices abroad, we are partners with our Canadian customers in meeting the challenge of the global market. At our representative office in Mexico City, we are ready to help our Canadian customers do business in the new Mexico. Our sponsorship of this handbook is an important way of doing that.

We believe that Canadian businessmen and women will find the book informative, practical, and deeply knowledgeable about the Mexican way of life. Most of all, they will find it an incentive to become part of one of the most exciting economies in the world.



Bank of Montreal
We're Paying Attention

From the Government of Canada



Canada's prosperity depends on our ability to compete in international markets: 30% of our GDP is generated by exports. One in every four Canadian jobs is directly related to trade.

The policies and initiatives that the Canadian Government is pursuing, among them the North American Free Trade Agreement (NAFTA), trade liberalization through the multinational negotiations of the GATT, and the Prosperity Initiative, recognize this reality. They are part of a wider plan to ensure our access to foreign markets, increase the competitiveness of our industry, and provide long-term opportunities for individual Canadians.

With a booming economy and 85 million consumers, Mexico represents a massive market opportunity for Canadian business. Bilateral trade is expected to exceed \$3 billion in 1991, underscoring Mexico's status as Canada's largest trading partner in Latin America. The economic reforms now being implemented by the administration of President Salinas de Gortari, and the future elimination of Mexican import tariffs and other barriers to trade under NAFTA, hold out the promise of substantial rewards for those targeting Mexico as an export destination.

Indeed, Canadian firms are already working hard to develop new opportunities in Mexico, and the vast majority – over 80% – of the firms driving our renewed export push are small and medium-sized businesses. These efforts are starting to generate results: Canada's exports to Mexico rose 105% to \$316 million in the first five months of 1992 over the year earlier period, and will exceed \$800 million in 1992.

Canadian men and women have demonstrated that they can compete with the best on the basis of quality goods and services, anywhere in the world. Certainly we have the specialized knowledge and skills to complement Mexico's economic development efforts.

With access to the world's wealthiest and largest free trade area now secured by NAFTA, I urge you to examine Mexico as a potential export market and act on the opportunities, whether through strategic partnerships, joint ventures, or direct sales. It is my expectation that *Mexico – Canada: Partnering for Success* will prove a useful aid to your efforts.

A handwritten signature in cursive script that reads "Michael Wilson".

Michael H. Wilson
Minister of Industry, Science and
Technology and Minister for International Trade

Author

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The Mexican States



Executive Summary

Mexico offers Canadian business people a wide variety of exciting new opportunities. The country is experiencing a rapid economic and political transformation that is opening up this market of 85 million people to international trade. An aggressive program of structural reform is stimulating a powerful demand for foreign goods and services while economic stabilization is creating wealth and stimulating consumer demand. At the same time, the conclusion of a North American Free Trade Agreement will make it easier for Canadians and Mexicans to do business with each other by removing barriers and clarifying the rules of the game.

Mexico has made impressive strides in overcoming economic problems that a decade ago seemed ready to overwhelm it. At that time, the country faced soaring foreign debt, accelerating inflation, a deteriorating infrastructure and serious degradation of the environment. In response, the government renegotiated its arrangements with foreign creditors, reduced government spending, checked the decline of the peso and waged a concerted war against inflation. As part of the process of restoring economic health, it secured the support of labour and the private sector in an agreement known as El Pacto, designed to hold down wage and price increases.

An integral part of Mexico's economic renewal has been extensive deregulation, privatization and public spending restraint, all of which have created a new and more appealing business climate. The government's National Development Plan aims at modernizing and expanding the country's infrastructure, especially in communications, transportation, housing and education. Finally, the Mexican government is encouraging foreign firms to do business in Mexico and participate in the country's infrastructural development. In response, foreign companies are beginning to take a stronger interest in the country's possibilities. Many of the Canadian firms which have pursued opportunities in the Mexican marketplace have already reaped substantial benefits from their involvement there.

Success in Mexico should by no means be taken for granted; it requires detailed knowledge of the market, including information about demographic characteristics, current trends and regional variations in advance of your business plans. Potential exporters must also be flexible enough to provide goods and services in a form that matches the target market's requirements. Of course, exporters must also be familiar with the conditions and regulations governing the shipment of products into the Mexican market.

There are many ways of doing business in Mexico. Canadian firms can sell goods, services, expertise, technology, or franchises to Mexican customers. They can sell them directly or they can go through a variety of agents, distributors, or retailers. They can attempt to do their own marketing, or they can hire someone to do it for them. They can also enhance their exporting efforts through alternatives such as co-marketing, co-production, and even joint ventures. What is common to all of them, however, is the need to have good partners in Mexico and to demonstrate to these partners a commitment to doing business in this market. Approaching the Mexican market without first forming strong local contacts rarely results in sales. Even large companies cannot do it alone.

Your Mexican partner may be an agent, a distributor, a broker, or a retailer. It may be a company that has agreed to market your products. It may be a joint-venture partner. It may even be someone willing to invest in your firm. Whatever the specifics of the business relationship, however, all of these forms of partnering depend on finding complementary capabilities, clearly defining common objectives and developing mutual confidence. Sometimes referred to as *strategic alliances*, partnering arrangements between Canadian and Mexican enterprises offer the best chance for Canadian business people to increase their exports and realize some of the vast potential inherent in the Mexican marketplace.

This handbook offers Canadian firms a basic primer on doing business in Mexico. It covers not only the opportunities, but the challenges associated with those opportunities. More specifically, it describes how to export to Mexico by providing information on how to develop an export strategy, how to find suitable contacts in Mexico, how to negotiate mutually advantageous agreements, and how to avoid common pitfalls. It also offers information on some of the Mexican laws and regulations that can affect exporting and the conduct of business with Mexican firms. To illustrate these points, the handbook includes a few brief profiles of just some of the many Canadian companies already operating in the Mexican market.

The material in the handbook has been arranged into two broad sections. The first offers a general overview of the business opportunity in Mexico and how to pursue it.

Chapter 1 – The Emerging Economy provides an introduction to Mexico and a summary of its history, economy and public policy. It also discusses how the

Government's new National Development Plan addresses the country's economic challenges. The chapter concludes with an examination of the impact of foreign trade and investment on Mexico. It explains the operations of the *maquiladoras*, or foreign production zones, and how the Mexican government is using them to stimulate economic development.

Chapter II – The Mexican Market offers an overview of the size, demographic characteristics and key trends prevailing in the Mexican marketplace. It also highlights Mexico's most important regional markets as well as its major industrial centres.

Chapter III – Mexico and Canada reviews the trade and investment relationships between the two countries. The chapter also examines key sectors of the Mexican economy and suggests where to look for opportunities suitable to Canadian strengths.

Chapter IV – Exporting to Mexico offers a brief overview of the steps involved in exporting from Canada to Mexico. It includes discussions of the role agents play in exporting, modes of transportation, documentation, Mexican tariffs and duties, and export financing.

Chapter V – Partnering for Market Entry explains the crucial role that various types of partners can play in enhancing your export strategy and penetrating the Mexican market. This chapter looks at different types of partnering arrangements and offers advice on how to go about finding the right people to work with in Mexico.

Chapter VI – Doing Business in Mexico focuses on the unique aspects of Mexico's business culture and offers advice on how Canadians can overcome cultural differences to build mutually rewarding relationships with Mexican partners. In addition, there is some basic information designed to help the business-traveller in Mexico. The chapter concludes with a discussion of the role played by trade fairs and trade missions in the promotion of Canadian products and services in Mexico.

The second section contains some basic tools designed to help the potential exporter get started in the Mexican marketplace.

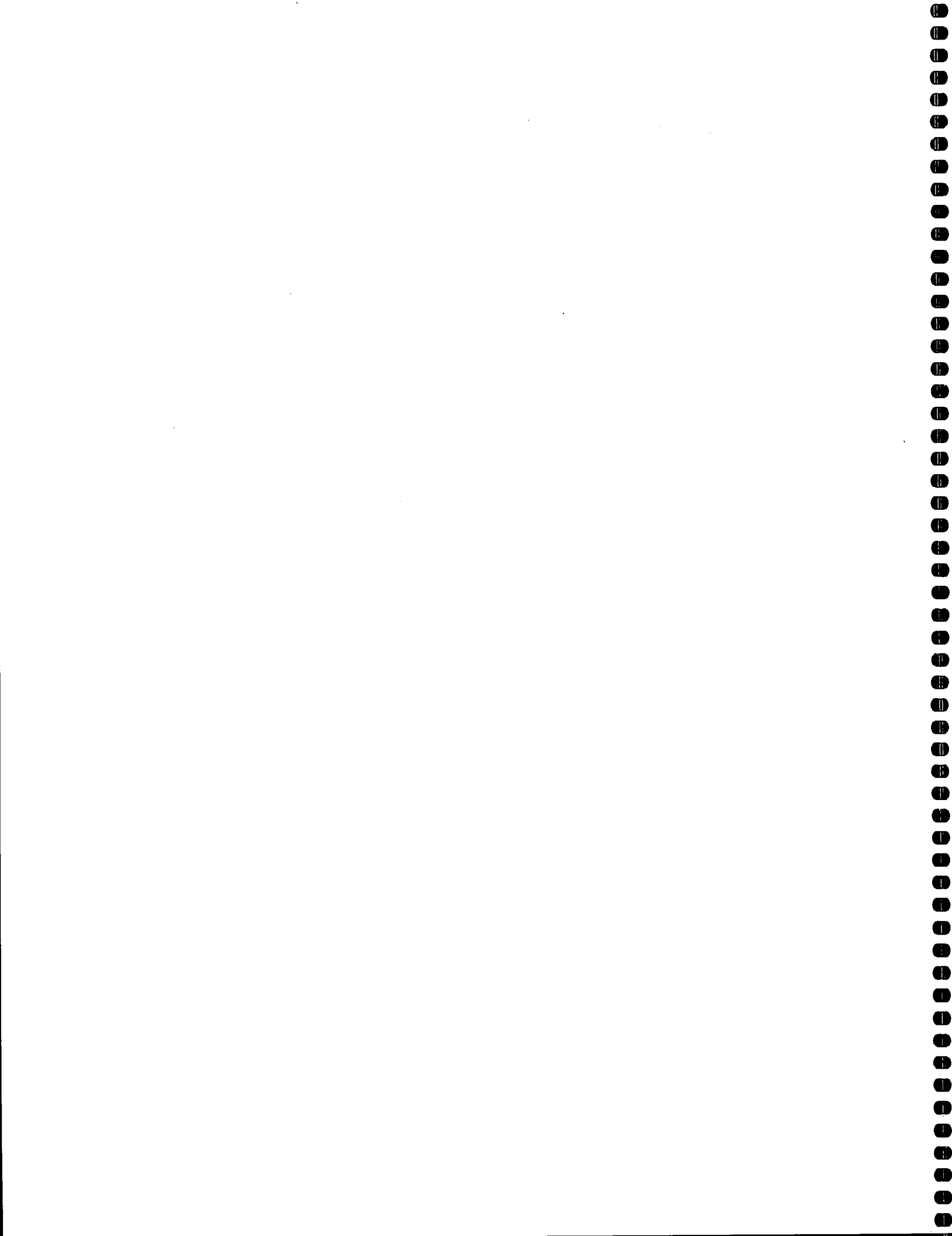
Chapter VII – Preparing Your Export Strategy provides a road-map that will help your company plan for and develop a strategy for doing business in Mexico. It will help you focus on the information you need to gather in order to draw up a detailed action plan for exporting into the Mexican market.

Chapter VIII – Government Programs contains descriptions of Canadian government programs and services that can help you penetrate the Mexican market.

Chapter IX – Key Contacts lists some of the most important institutions and offices both in Canada and in Mexico that can help a prospective exporter get started.

Chapter X – Glossary includes some of the most frequently used terms relevant to doing business in Mexico.

SECTION ONE: THE OPPORTUNITY



I. THE EMERGING ECONOMY

Introduction

The New Mexico

The War Against Inflation

Dealing with the Foreign Debt

Public Finances

Deregulation

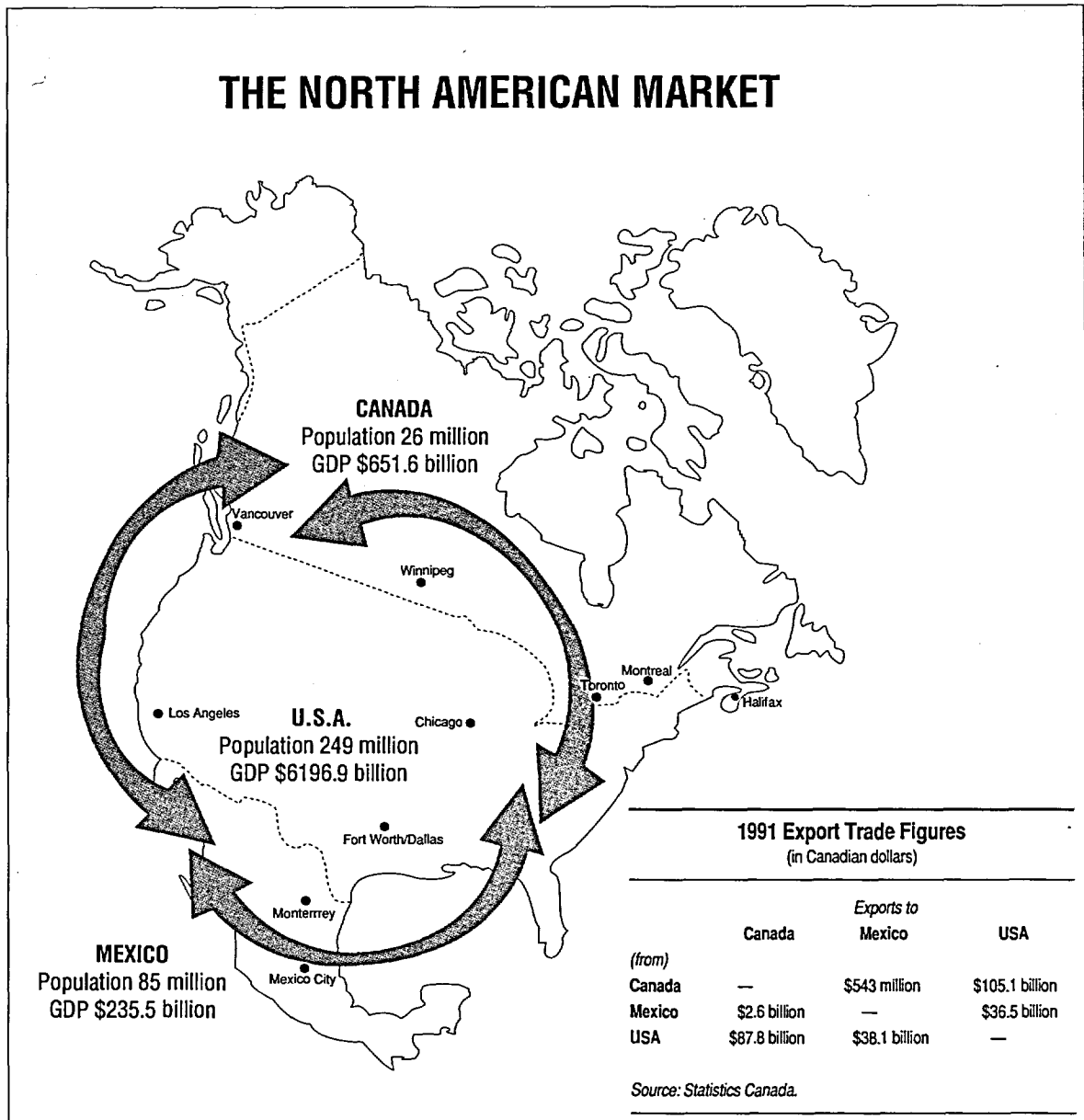
Trade Liberalization

Maquiladoras

Privatization

Foreign Direct Investment

THE NORTH AMERICAN MARKET



If you are sitting in an office in Toronto, you are actually closer to the Mexican/US border than you are to Saskatoon and closer to Mexico City than you are to Calgary.
Waterloo University, 1992.

In August of 1992, senior trade officials from Canada, Mexico and the United States announced the conclusion of a North American Free Trade Agreement (NAFTA). Once ratified, the agreement will pull down barriers to cooperation among the three partners and create the largest free trade area in the world.

This handbook is designed to help Canadian business take advantage of the numerous opportunities available to them in Mexico. As a primer on how to do business in Mexico, it offers a realistic and practical approach to penetrating the Mexican market. It reviews the country's current economic situation and describes Mexican society from a business viewpoint. It summarizes the basics of exporting to Mexico and explains how to develop an export strategy. It also shows how various types of partnerships between Canadian and Mexican firms can be used to help firms enter the Mexican market.

In addition, the handbook includes the names and addresses of Mexican and Canadian agencies that can assist businesses seeking to take advantage of Mexico's emerging opportunities.

With a population estimated at 85 million, Mexico is the largest Spanish-speaking country in the world. Despite its great diversity of natural resources and a rapidly growing labour force that now stands at 31 million, Mexico has long been viewed as a Third World country, resembling its Central and South American neighbours more than it resembles either the United States or Canada.

This traditional perception was reinforced by protectionism and state intervention of the kind that was found in many developing countries. Mexico used to be a closed economy, profiting from its oil resources but sheltering its domestic industries behind intrusive regulations and high tariffs. The collapse of oil prices followed by a recessionary slump in the early 1980s threw Mexico into seemingly irreversible decay. The country was crushed by massive foreign debt and plagued by hyperinflation. Its domestic industries could do little to arrest the decline since they were highly protected, subsidized, inefficient and misdirected. What was worse, as the crisis deepened, the nation's fragile infrastructure fell into a state of increasing disrepair.

The turnaround began in the mid-1980s and was given a strong boost in 1988 when a new government, led by President Carlos Salinas de Gortari, came to power. Since then, economic reforms have been sweeping the country.

The new leadership renegotiated the foreign debt, adopted a National Development Plan to revitalize the nation's infrastructure, and secured broad popular support from business, labour and the population at large for voluntary measures to restrain wages and prices as a way of reducing inflation and stabilizing the economy. Other aspects of the reform package include privatization of state-controlled enterprises, deregulation, massive investment in infrastructural development, and the encouragement of foreign participation in building efficient production capacity.

By all estimates, these policies are meeting with success. The rate of inflation has dropped dramatically, the value of the peso has been stabilized, and public finances are on the mend. As a result, the confidence of international investors has risen appreciably. Foreign businesses representing the entire spectrum of industrial and commercial activity are investing in Mexico, and the economic and social transformation of the country is well under way.

Mexico presents Canadians with a tremendous array of business opportunities. As with every opportunity there are also challenges. As this book will show, however, the Canadian firms who have made a commitment to the Mexican marketplace have been learning how to respond to these challenges and they are already reaping substantial rewards.

History of Mexico

Origins

The origin of the inhabitants of Mexico may be traced back to 50,000 B.C. when the first settlers arrived from Asia across the Bering Strait. It is estimated that by 7,000 B.C. agriculture was already established in Mexico.

Pre-Hispanic Period 2000 B.C. - 1521 A.D.

The country was inhabited by many aboriginal groups, most notably the Mayans, who inhabited the southern region, including what is now Yucatan, and neighbouring countries to the south. In the 12th century A.D., the Aztecs arrived from the north and settled in what is known today as Mexico City and surrounding areas. Initially, they were subservient to other indigenous groups in the area, but by the mid-13th century, the Aztecs extended their empire over a large part of present-day Mexico. Despite its imposing appearance, the Aztec empire collapsed within two years of the arrival of the Spaniards in 1519.

The Colonial Era 1521 - 1821

Mexico's colonial administration reserved all government positions for those born in Spain. Local manufacture of even the most basic products was prohibited to ensure a captive market for Spanish goods. These restrictions were increasingly resented by Mexican-born creoles and mestizos who now numbered two million people. The outbreak of civil war in 1810 marked the beginning of the end for Spanish colonial rule.

Independence 1821 - 1910

Mexico formally gained independence in September 1821. At that time, it covered a vast territory stretching from Oregon to Panama. By 1853, however, after a series of wars, Mexico was reduced to the territories that it occupies today, its economy was in ruins, and the conservatives who had led the country were discredited. Benito Juarez, who came to power in 1848, introduced a new constitution and liberal reforms that alarmed the conservatives. They looked abroad to Napoleon III of France for assistance and a French army under Maximilian von Habsburg drove Juarez from power for a time. Ultimately, French intervention failed, Maximilian was executed and Juarez resumed the presidency in 1867. Juarez died in office and was succeeded by Porfirio Diaz whose presidency of thirty years marked the first extended period of peace as well as the onset of industrialization.

The Revolution 1910 - 1929

In 1910, the autocratic Diaz regime was overthrown by a revolution led by Francisco Madero, a moderate democrat. The ineffective Madero was soon overthrown and executed by General Huerta and a bloody civil war raged for seven years during which more than one million Mexicans died. The revolutionary forces finally triumphed in 1917 and introduced a new constitution that reformed land tenure and entrenched the rights of labour unions. The post-revolutionary years, however, were marked by ongoing instability as local warlords refused to submit to the central government.

Contemporary Mexico

In 1929, the *Partido Nacional Revolucionario* (PNR) was founded as a broad-based organization that drew support from all social groups and regions in Mexico. The PNR became the PRI (*Partido Revolucionario Institucional*) and has held federal power to this day. In 1938, President Cardenas nationalized the petroleum industry and the railways, which one year later were turned over to the unions. This initiated a period of economic nationalism, protectionism and state interventionism which lasted until the late 1980s.

The discovery of significant new oil reserves made Mexico one of the world's oil-exporting countries. The new-found wealth led to a boom economy with shallow foundations. Things rapidly turned sour after oil prices collapsed in the early 1980s. Having borrowed on the strength of its oil wealth, the Mexican government found itself increasingly hard pressed to honour its international financial obligations. In 1982, it announced that it could no longer make payments on its debt.

The debt crisis was the most visible sign of a malaise that had spread throughout the Mexican economy. Low productivity, an inefficient state-sector, top-heavy government, and hyperinflation all characterized Mexico in the mid-1980s. Even so, there were signs of change. Under President Miguel de la Madrid, a policy of economic openness was initiated, and Mexico joined the GATT in 1986. Then President Salinas de Gortari came to power in 1988 and began to introduce wide-ranging economic policies to re-privatize industry, liberalize the economic institutions and address needed social reforms.

"Economic, social and cultural relations are becoming increasingly interdependent. There is a greater interdependence between rich and poor, between the powerful and the weak, between North and South, and between East and West. Modernizing the country in this sense means opening up to the contemporary world while reaffirming our identity."

Carlos Salinas de Gortari

To understand the new Mexico, one must begin with the old. To some extent, Mexico today is grappling with the consequences of decisions taken in the 1930s. At that time, the government adopted interventionist and protectionist policies that led to a great expansion in the state-owned share of the economy. The economic role of the state was further expanded as the discovery of huge oil reserves promised the government vast additional revenues. As a result, Mexico's development policy was heavily oriented toward state spending.

The 1980s were especially difficult. After the collapse of oil prices early in the decade, Mexico found itself facing

crushing foreign debts, runaway government spending, severe inflationary pressure, and a large but uncompetitive state-owned sector that relied on protectionism for survival. The recession of 1981-82 was felt throughout the industrialized world but its impact was particularly devastating in Mexico. The country arrived at a political, financial and economic impasse in 1982 when it announced that it could no longer service its international debts. What followed was a bleak period, characterized by hyperinflation, unprecedented fiscal deficits, paralyzing external debt, and a growing lack of confidence in a devalued national currency.

Though the 1980s began in economic crisis, they ended in hope and revival. Within a single decade, Mexico has undergone a dramatic structural transformation, leading the country from bust to boom. The key milestone in Mexico's renewal was the program of far-reaching economic reform developed through the mid-1980s and pursued energetically by Carlos Salinas de Gortari after he became Mexico's president in 1988 (see box).

MEXICO'S REFORM AGENDA

Reduction in the Rate of Inflation: The government has persuaded business and labour to agree to a Pact for Stability and Economic Growth (*El Pacto*). Under this instrument, each of the participants accepts general guidelines for increases in prices and wages and negotiates any exemptions with a Follow-up and Evaluation Commission. This approach has avoided the pernicious effects associated with a blanket freeze on prices and wages and allows for some selective relative adjustment in wages and prices. As a result, Mexico's inflation rate has dropped from 159 percent in 1987 to about 18.8 percent in 1991. It is expected to fall to the 13-14 percent range in 1992.

Renegotiation of the Foreign Debt: At the height of the crisis, Mexico was transferring the equivalent of 6 percent of its GDP abroad to service its debt. To stop the hemorrhage, the government renegotiated and restructured the debt. As a result, Mexico's foreign obligations were reduced by some 20 percent.

Reduction in Government Deficits: A combination of spending cuts, fiscal reforms, simplification of taxation and enhancements to the system of collecting taxes have all reduced the state's budgetary deficits. By broadening the tax base, the government was able to reduce tax rates while increasing total income. The federal budget has been strictly adhered to and the process by which public resources are allocated has been reformed.

Deregulation: As part of its general intention to withdraw from the economy, the Mexican government is reducing the regulatory burden on business and simplifying economic regulations.

Liberalization of Trading Relationships: Even before Salinas de Gortari came to power, Mexico had already accepted the need to end protectionism. In 1986, it joined the General Agreement on Tariffs and Trade (GATT). The policy of controlling imports through permits has been abandoned in favour of a system of moderate tariffs. As concrete expression of its commitment to trade liberalization, Mexico has concluded a North American Free Trade Agreement with the United States and Canada.

Privatization of State-Owned Industries: The bloated state-owned sector was reduced from 1155 to fewer than 250 enterprises through private sale. The proceeds have been directed into infrastructural development such as road construction.

Liberalization of Foreign Investment Regulations: The government has adopted policies to encourage the inflow of investment capital. These include simplifying the rules governing foreign investment, easing restrictions on foreign ownership, and enhancing protection for intellectual property. As a result, a record \$US 9.9 billion in new investment entered the country in 1991.

Articulation of a National Development Plan: The government has announced a longer-term strategy embracing the promotion of sovereignty, democracy, economic growth and prosperity. In the economic sphere, it seeks to complement the initiatives mentioned above with measures to enhance productivity, improve competitiveness, and modernize the country's infrastructure.

National Development Plan

Main Features:

- Increase the area of land under irrigation by two million hectares.
- Construct 15,000 kilometres of new four-lane highways.
- Modernize 15,000 kilometres of railroad.
- Expand or create three industrial ports in the Gulf of Mexico and three more on the Pacific Coast.
- Develop and upgrade industrial parks in order to double their current employment capacity.
- Increase the generation capacity of installed electrical plants from 25 million to 45 million MW
- Construct six to eight million housing units.
- Construct more than 1,500 waste water treatment plants.

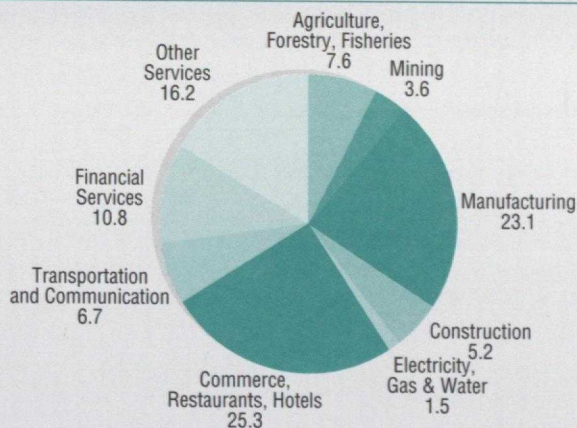
All projects are to adhere strictly to environmental regulations and policies.

Mexico's once ailing economy is on the mend. Gross Domestic Product (GDP) grew by 4.4 percent in 1990 and by 3.6 percent in 1991 for total growth of just over 8 percent in the past two years. Preliminary figures for the first six months of 1992 suggest that this strong performance is continuing. The recent surge in Mexico's economy stands in sharp contrast to the situation in 1986 when GDP shrank by 3.9 percent. Growth offers concrete evidence of the fact that the reform program is having the desired effect. Mexico's GDP in 1991 stood at over \$US 280 billion making it the fifteenth largest economy in the world. But Mexico offers more than just size. Its striking economic dynamism holds out the promise of expanding future opportunities.

Though it is sometimes regarded as a developing economy, Mexico already displays structural elements typical of developed industrialized economies (see Figure 1.1). These include a relatively small primary sector coupled with a significant and growing service sector.

To further accelerate the development of Mexico's economy, President Carlos Salinas de Gortari announced a National Development Plan (*Plan Nacional de Desarrollo*) which serves as a framework for the country's efforts to modernize and expand its infrastructure over the next ten years. This Plan offers a comprehensive overview of Mexico's priorities and suggests the areas in which cooperation with foreign businesses will be especially welcome.

Figure 1.1
Composition of Mexico's Gross Domestic Product, 1991
(in percent)



Source: EAITC, Economic and Trade Policy Section.

As part of its overall program of restructuring, the Mexican government is gradually withdrawing from many areas of economic activity. In sharp contrast to previous years, it is now the private sector rather than the public that is driving investment. Real private investment now constitutes 76.1 percent of total investment, having risen by 14.1 percent in 1991. This increase more than made up for the 7 percent fall in government investment. Real gross fixed capital formation grew by 8.5 percent and consumption rose by 4.7 percent, most of which was also driven by the private sector. Much of

the new private-sector investment has gone into construction and the purchase of imported capital goods (machinery and equipment).

In addition, more than 50 percent of the proceeds from the government's privatization drive has been committed to the National Solidarity Program. The Program seeks to ensure public support for continuation of the reform process by sponsoring social development aimed at improving the living conditions of the poorest segments of society. At the same time it works to improve Mexico's overall competitiveness by investing in housing, electrification, roads and other enhancements to the country's infrastructure.

Most sectors demonstrated positive growth in 1991 (see Figure 1.2). Especially significant was expansion in the industrial sector (mining, manufacturing, construction and electricity) which posted overall growth of 3.1 percent in 1991 and 3.3 percent in the first quarter of 1992. The construction sector continues to grow as a the direct result of a commitment to infrastructural development by the government. Mexico's poor public infrastructure is probably the most critical constraint on the country's economic growth. As a result, road and port construction have become major priorities. The government's highway program calls for the construction of 15,000 kilometres of four-lane highway by the year 2000.

The government has also moved toward deregulation and privatization in both transportation and communications. For example, Telmex, the state-owned telephone company, was privatized in December 1990, and the heavily protected transportation industry is being opened to foreign competition. Transportation and communications grew 6 percent in 1991 and a striking 9.5 percent in the first quarter of 1992, as a reflection of the fact that overall economic expansion throughout the Mexican economy is placing new demands on transportation and communication services and is leading to further expansion in these sectors.

The manufacturing sector grew by 3.7 percent during this period, led by metal products, machinery and equipment. The rapid growth of the automobile industry over the last two years has been a factor in this improvement. The electricity, gas and water sector has expanded significantly with the inclusion of nearly one million new electricity users in 1991. The major contributor was residential consumption, as service was extended to more private users.

Figure 1.2
Sectoral Growth Rates
(in percent)

| | 1991 | 1992 (Q1) |
|--------------------------|------------|--------------|
| Agriculture | -1.4 | 3.7 |
| Industrial | 3.1 | 3.5 |
| Mining | 0.1 | 4.2 |
| Manufacturing | 3.7 | n.a. |
| Construction | 2.6 | 4.9 |
| Electricity, gas & water | 4.1 | 5.0 |
| Services | n.a. | 4.7 |
| Commerce | 4.5 | 4.8 |
| Transport/Communications | 6.0 | 9.5 |
| Financial Services | 4.1 | 3.4 |
| Other Service | 3.7 | 4.7 |
| GDP | 3.5 | 4.2 |

Source: EAITC.

The War Against Inflation

The cornerstone of the economic policy pursued by the Salinas administration is the Pact for Stability and Economic Growth (*Pacto para la Estabilización y Crecimiento Económico, PECE*). Widely known as *El Pacto*, it has created a common understanding between government on the one hand, and labour and the private sector on the other.

As part of a general campaign to build public awareness of the need to combat inflation, merchants and restaurateurs display signs of support for El Pacto in their shop windows and store premises.

El Pacto was originally conceived as a tough four-year stabilization program. Introduced in December 1987, it was aimed at reducing inflation which by then had reached annual rates of 180 percent. Through a combination of tight fiscal and monetary policy, and wage, price and exchange rate controls, the program has been tremendously successful, reducing inflation to an annual rate of 18.6 percent in 1991 (see Figure 1.3).

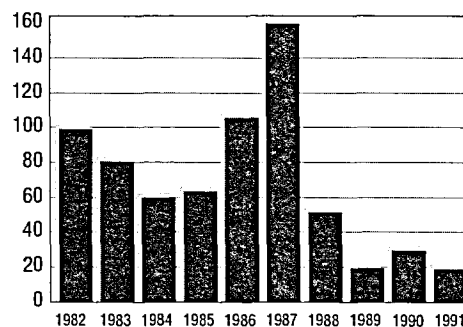
In November 1991, *El Pacto* was extended to January of 1993. In this second phase, it aims to further lower the inflation rate in 1992 and eventually to reach the single-digit range. Other key features of this new extension are a reduction in the rate at which the peso is devalued from 40 to 20 centavos per day (by Government decree, however, the peso is also subject to market fluctuations), a 12 percent increase in the minimum wage, and a reduction in the rate of the *Impuesto al Valor Agregado (IVA)*, the value-added tax, from 15 percent to 10 percent.

Dealing with the Foreign Debt

Mexico's foreign debts became crippling after the collapse of oil prices in the early 1980s, the sudden rise in international interest rates, and the withdrawal of enormous amounts of capital from the country as investors sought to escape the rapid devaluation of the peso. When Carlos Salinas de Gortari began his term as President of Mexico in December 1988, the country's foreign debt had grown to \$US101 billion, equivalent to 59 percent of GDP. In that year, debt servicing and repayment of the principal amounted to 10.2 percent of GDP and effectively strangled economic growth.

The Mexican peso has been devalued by some 23,000 percent in just 12 years as a result of inflation. At the end of August 1992, one US dollar was worth approximately 3000 pesos. Calculating even simple transactions was proving to be extremely cumbersome. At the beginning of September 1992, the government announced its intention to introduce a new peso that is to be worth one thousand old pesos. The measure is not a devaluation but a re-denomination that amounts to eliminating three zeros from all prices. Effective as of September 1, all prices are to be posted in both old and new pesos as part of a program of public education. After their appearance on January 1, 1993, the new notes will circulate in parallel with the old pesos throughout 1993 after which the old peso will be withdrawn completely.

Figure 1.3
Inflation in Mexico – Changes to the Consumer Price Index, (December to December)
(in percent)



Source: Bank of Mexico.

The Salinas administration made renegotiation of foreign debt one of its priorities. Any attempt to stabilize wages, prices and the national currency could not succeed over the longer term if the problem of the debt was not resolved. In tackling it, the government actively pursued four fundamental objectives:

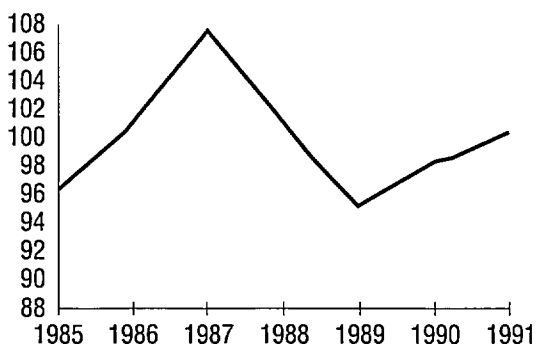
1. reduction of the accumulated debt;
2. reduction of the net transfer of resources abroad;
3. an agreement with foreign creditors that would cover a period of several years; and
4. reduction in the debt as a percentage of GDP.

After two years of negotiation with its creditors, the Salinas administration signed a debt restructuring agreement on February 4, 1990. The arrangement relieved Mexico of \$US7.2 billion in outstanding principal and reduced interest payments by \$US950 million (see Figure 1.4). As a result of the agreement, the Mexican government has managed to reduce the contractual balance of the foreign debt to below 40 percent of GDP (see Figure 1.5), and it has lowered debt service costs to 6 percent of GDP. Mexican officials are confident that the net outflow of capital to service the debt can be further reduced to the equivalent of 2 percent of GDP

(at interest rates of 7.5 percent) over the remaining two years of the Salinas administration.

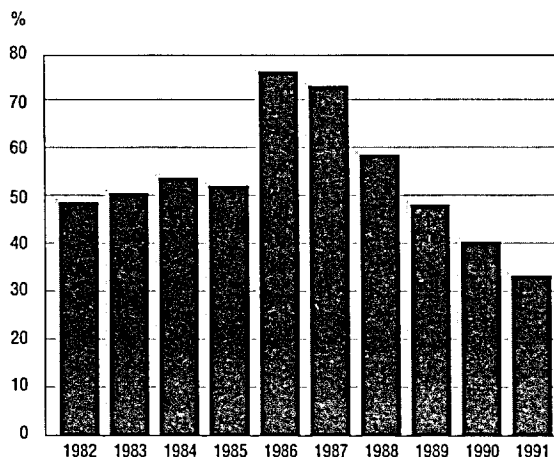
This impressive success in restructuring the debt has produced a surge of optimism among investors and creditors. Today, confidence in the Mexican economy, both at home and abroad, is at its highest in years. It is reflected in inflows of foreign investment, which reached \$US9.9 billion in 1991, and in the repatriation of \$US2.5 billion in capital that had once fled the country.

Figure 1.4
Total External Debt: Public Sector, Commercial Banks, Banco de Mexico and Private Sector
(\$ billions)



Source: *The Mexican Economy, 1991.*

Figure 1.5
Total External Debt as a Percentage of GDP



Source: *Ministry of Finance.*

Public Finances

A less visible but equally important part of the reform program has been the improvement in the management of government finances. Total public expenditure as a percentage of GDP has declined from a high of about 45 percent in 1986 to about 30 percent in 1991. Moreover, the public sector's financial deficit has declined from a record 16 percent of GDP in 1987, to only 1.5 percent of GDP in 1991. Economists estimate that if the state deficit can be kept under 2 percent of GDP over the longer term, there should be no difficulty in financing it. Another encouraging sign is the fact that interest rates on the internal public debt (what the government owes Mexican citizens) fell during the course of 1991 from 26 percent to 16.7 percent by year end.

including the imposition of strict discipline in public spending, a reduction in or elimination of government subsidies, reductions in the number of people on the public payroll, and the massive privatization of state-owned industries.

At the same time, the tax system has been rationalized. For example, the highest applicable personal income tax rate has been lowered from 60.5 percent to 35.0 percent. Even so, revenues generated from taxation have actually increased because the tax base has been broadened through a redefinition of tax brackets. In addition, collection methods have been improved.

The overall improvement in the health of public finances has been achieved through a number of parallel measures

DEREGULATION IN VARIOUS INDUSTRY SECTORS

Automotive: Liberalized regulations opened the domestic market to imports, eased domestic content rules, eliminated controls both on production limits and models manufactured in Mexico, and loosened requirements on foreign currency compensation balances.

Passenger Transportation: To foster competition and improve quality, new regulations eliminated legal and economic barriers for new service providers.

Trucking: Amended regulations effectively doubled trucking capacity by lifting many restrictions. \$US1 billion dollar annual reduction in transportation and production costs is foreseen as a result.

Petrochemicals: The products that comprise basic and secondary petrochemicals were reclassified. Both domestic and foreign private sectors were thus encouraged to participate more aggressively in petrochemicals. Deregulation in petrochemicals has also been facilitated by a reduction from 34 to 18 primary products whose production is reserved to the state. The number of secondary petrochemicals, whose production is limited to companies with Mexican majority ownership, has been reduced from 800 to 66. Foreigners can now participate with majority capital through temporary trusts.

Deregulation has made petrochemical production more attractive to private investment by allowing majority foreign ownership. Permits are no longer required for the production of basic refinery derivatives such as special types of paraffins, asphalts, lube oils and industrial greases. Motor oils need only comply with commercial labeling standards.

Mining: A complete overhaul of the tax structure in this sector has eliminated all production taxes and has provided for the regulation of royalty payments. Vast tracts of idle, but potentially productive land, held by the government or private individuals, have been released for mining use, and administrative, legal and concession requirements have been simplified.

Telecommunications: Deregulation of this important sector has included the elimination of connection permits for equipment such as telefaxes, telexes, computer modems and other devices. Regulations aim to stimulate development of a competitive value-added service market. Antitrust provisions now require dominant carriers, like Telmex, formerly a state-owned monopoly, to interconnect with new telephone companies.

Technology Transfer: Private companies wishing to transfer technology have been made solely responsible for the process. Terms for the purchase of technology, technical assistance, trademarks and patents are to be arranged entirely by the companies and their foreign suppliers. This amendment limits the government's authority to set the quality and price of technology. The development of franchises and the protection of industrial property have also been established.

Aquaculture: The farming of shrimp, oysters, lobster and five other species have been opened to private investors, provided the activities are carried out on private holdings. Foreign ownership of up to 49 percent is allowed in such operations. Permits are no longer required and farmers need only comply with sanitary standards.

Financial Services: Foreign investors are permitted to hold minority shares in Mexican insurance, factoring, warehousing, bonding and leasing companies. The new Law of Financial Groups and Credit Institutions gives non-governmental foreign investors the right to participate, through series "C" shares, in up to 30 percent of the equity holding of banking enterprises.

Source: Mexican Investment Board Handbook, 1991.

The Mexican government started simplifying its economic regulations in 1983. Deregulation is intended to open up economic activity to private participation, promote competition, and make economic decision-making more flexible. It has encouraged more players to participate while reducing the degree of direct government intervention in

production. Significant regulatory adjustments have been made in the automotive industry, transportation, petrochemicals, mining, telecommunications, aquaculture and financial services (see box). Other initiatives are under way in agriculture, manufacturing, tourism, as well as domestic and foreign trade.

Trade Liberalization

One of the most important areas of the Mexican economy to be affected by the reform effort has been foreign trade. Up to the early 1980s, Mexico pursued a protectionist industrial strategy based on import substitution. Since 1983, the government has radically liberalized the country's trade relationships in order to increase its international competitiveness. This significant change was marked by the accession of Mexico to full membership in the General Agreement on Tariffs and Trade (GATT) in July 1986. As part of its obligations under the GATT, Mexico has been moving to reform its tariff structure to bring it into line with practices in other countries. At the same time, it has been dismantling many traditional non-tariff barriers such as import licences (see Figure 1.6). As a result, what was once a closed economy has opened up significantly to commerce with the outside world.

Figure 1.6
The Liberalization of Mexican Trade
(in percent)

| | 1982 | 1989 |
|--|------|------|
| Average tariff | 27.0 | 13.1 |
| Weighted average tariff | 16.4 | 9.5 |
| Number of rates (units) | 16 | 5 |
| Share of imports subject to licences (by value) | 100 | 17.3 |

Source: EAITC.

Following along the path of integrating Mexico into a larger international economic community, the government has been pursuing various free trade agreements. The most significant of these initiatives is the North American Free Trade Agreement concluded with Canada and the United States. In addition, Mexico has entered into a free trade pact with Chile and it is negotiating similar arrangements with the countries of Central America and with Colombia and Venezuela.

Imports: Perhaps the most dramatic consequence of recent changes to Mexico's trading regime has been a surge in imports. Traditionally, low imports and large trade surpluses had been the rule and this continued up to 1987. As restrictions on imports were eased, Mexico began purchasing a larger volume of imported goods and services, especially from the United States. To take one example, once import controls were lifted, U.S. shipments of computer software and related programs grew from only \$US0.5 million in 1987 to \$US20.8 million in 1991. As a result of such trends, total imports in 1991 were 23.4 percent higher than they had been in 1990. The country's traditionally positive trade balance had evaporated by 1990 and in 1991 Mexico had a massive trade deficit of \$US11 billion. The year also marked the first time in a decade that the United States had a trade surplus with Mexico.

The dramatic growth in imports coupled with a highly negative trade balance are not as problematic as they might seem at first glance. There are four reasons for this:

- Intermediate and capital goods constitute about 85 percent of all imports. This means that Mexico's import boom is not fuelled by consumption but by investments in infrastructure.
- The growth in imports slowed in the second half of 1991. Imports grew by 29.6 percent between January and June but only by 18.4 percent in the second half of the year.
- The growth rate for imports of consumer goods dropped dramatically from the 43 percent level of a few years ago to 12 percent in 1991. This was just half the growth rate for imports of capital and intermediate goods in the same year.
- Approximately 92.5 percent of imports in 1991 were made by private companies rather than the government.

"Our foreign trade policy is based on two principles: The opening up of our economy and the promotion of exports....It is important to realize that a large part of today's trade deficit is tomorrow's export potential."

Pedro Noyola, Under Secretary of SECOFI

Exports: While Mexico's imports have surged in the past two or three years, it is important to keep the current trade deficit in perspective. Mexico's exports over the past decade have also grown remarkably. In fact, between 1982 and 1989, the country's exports grew faster than those of the four Asian Tigers (see Figure 1.7).

Figure 1.7
Mexico and the Four Asian Tigers: A Comparison of Growth in Manufactured Exports, 1982-89
 (in percent)

| | |
|-------------|-----|
| Mexico | 450 |
| Hong Kong | 330 |
| South Korea | 280 |
| Singapore | 290 |
| Taiwan | 290 |

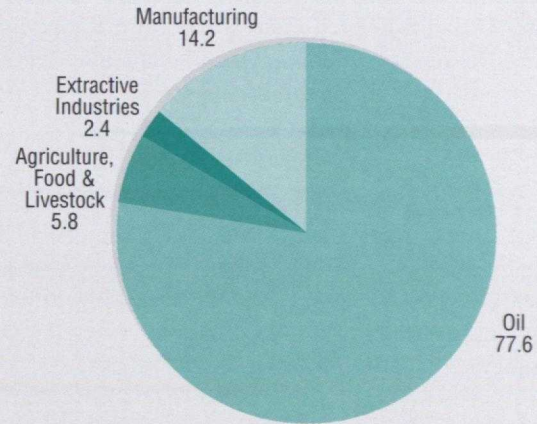
Source: *Mexican Agenda*, 12th edition, July 1991, p. 27.

As a result of restructuring, important changes have occurred on the export side of Mexico's trade relationships. Manufactured goods have replaced oil and oil products as the country's most important exports. And the United States continues to be Mexico's number one trading partner.

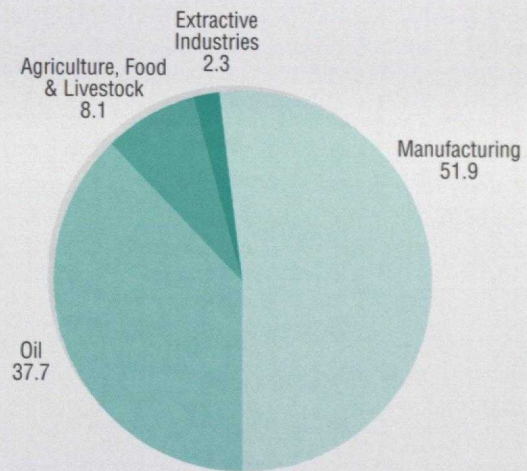
Oil and oil derivatives have traditionally been the most important of Mexico's merchandise exports. In 1982, oil products accounted for 70 percent of total exports. Exports of these products fell by almost 50 percent between 1983 and 1990, largely because of a slump in world prices, but also because of a dramatic increase in the export of non-oil products. Today, 70 percent of exports come from other industries. Manufacturing now heads the list of non-oil exports (see Figure 1.8). Within this sector, the automotive, chemical, steel, food and drink and tobacco industries are the main exporters.

These trends have continued into 1992. While the value of oil exports dropped from \$US1,410.9 million in the first two months of 1991 to \$US1,152.4 million in the comparable period of 1992, manufacturing exports rose from \$US2,251.8 million to \$US2,540.4 million.

Figure 1.8
Export Structure, 1982
 (in percent)



Export Structure, 1990
 (in percent)



Source: Bank of Mexico.

Figure 1.9
Major Exports
 (\$US millions)

| | 1988 | 1989 | 1990 |
|---------------------------------|-------|-------|-------|
| Crude oil | 5,883 | 7,292 | 8,921 |
| Automobiles | 1,398 | 1,534 | 2,614 |
| Automobiles, engines | 1,367 | 1,366 | 1,274 |
| Fresh vegetables | 268 | 197 | 430 |
| Tomatoes | 243 | 199 | 429 |
| Spare parts | 443 | 397 | 393 |
| Processing information machines | 340 | 377 | 368 |
| Cattle | 203 | 212 | 349 |
| Coffee grains | 434 | 514 | 333 |
| Iron bars | 180 | 237 | 320 |
| Gas, oil | 50 | 91 | 309 |
| Silver bars | 318 | 347 | 301 |
| Machinery spare parts | 193 | 276 | 295 |
| Manufactured iron or steel | 233 | 254 | 273 |
| Manufactured glass | 235 | 237 | 258 |

Source: *Bancomer, Economic Outlook of Mexico, 1991.*

About two-thirds of Mexico's total exports go to the United States which supplies about three quarters of Mexico's imports. Despite efforts to diversify its trading relationships, Mexico's reliance on the U.S. has not decreased in recent years. The total value of two-way trade between the U.S. and Mexico for 1991 stood at \$US 68 billion.

The Basis for North American Free Trade

The Canada-U.S. bilateral trading relationship is the largest in the world. Mexico follows Japan as the United States' third largest trading partner. Mexico is Canada's most important trading partner in Latin America. With the reform in Mexican tariffs and licencing regulations, and the removal of other non-tariff barriers, Canadian-Mexican trade grew by 88% in the first quarter of 1992.

Maquiladoras

A relatively new and highly significant element in the Mexican economy is the emergence of the *maquiladoras*, the in-bond manufacturing establishments that have sprung up to serve the needs of foreign companies. Conceived in 1965 as an element of Mexico's Border Industrialization Plan, *maquiladoras* were intended to create jobs along the U.S.-Mexican border. The government's aim was to absorb excess human resources left unemployed after the 1964 suspension of the Bracero program which had allowed Mexican workers to enter the U.S. on a seasonal basis.

The Spanish word *maquilla* refers to the portion of cornmeal a miller retains as payment for grinding a farmer's grains. The *maquiladoras*, or foreign in-bond processing plants, enjoy duty free import of the machinery, equipment, parts, raw materials and other components used in the assembly or manufacture of semi-finished or finished products. Finished products, once assembled or manufactured, are exported back to the country of origin or to a third country. Mexico's payoff or, *maquilla*, takes the form of critically needed skilled jobs and increasing industrialization.

The program has permitted foreign companies to take advantage of Mexico's highly competitive labour costs while enabling the Mexican economy to reap the benefits of the value-added involved in assembly and processing. U.S.

companies became heavily involved in the 1970s when the combination of a devalued peso and increased competition from Asian-produced goods made low-cost manufacturing in Mexico an attractive means of remaining competitive. As a result, the program has blossomed. In just four years between 1986 and 1990, the contribution of the *maquiladoras* to Mexico's foreign exchange earnings has risen by about 50 percent (see Figure 1.10). In 1990, *maquiladoras* generated \$US3.6 billion in value-added foreign exchange earnings.

Figure 1.10
Structure of Mexico's Foreign Exchange Earnings
 (in percent)

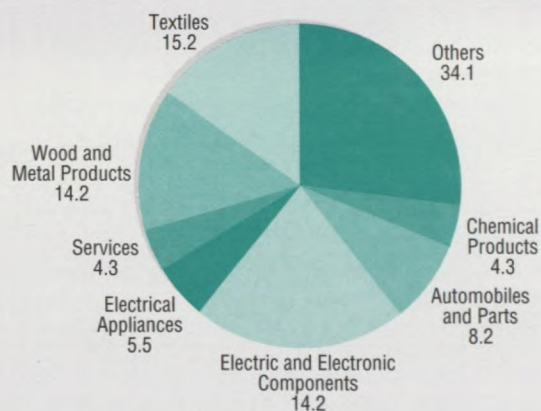
| | 1986 | 1990 |
|---------------------|------------|------------|
| Exports | 66.3 | 59.4 |
| Oil | 26.1 | 19.8 |
| Manufactures | 29.4 | 32.8 |
| Others | 10.8 | 6.8 |
| Tourism | 7.4 | 7.5 |
| Border transactions | 5.0 | 4.3 |
| Maquiladoras | 5.4 | 8.1 |
| Others | 15.9 | 20.7 |

Source: *Banco de Mexico.*

The great success of the *maquiladoras* convinced the Mexican government to extend the program's provisions to the broader Mexican economy. *Maquiladoras* are now scattered throughout the country, although the greatest concentration is still along the country's northern border with the United States.

Originally based in textiles, the *maquiladoras* have diversified into such areas as consumer electronics and transportation equipment (see Figure 1.11). Although labour-intensive production continues to be the trademark of a *maquiladora*, they are now becoming more technologically sophisticated. *Maquiladoras* are generally engaged in assembly activities, combining inexpensive Mexican labour and material with foreign technology, components and capital. The competitive wages and proximity to the U.S. border, together with competitive Mexican exchange rates, have allowed Mexico to compete directly and successfully with Southeast Asia for investment, particularly in manufacturing facilities.

Figure 1.11
Composition of Maquiladora Industry by Main Activities, September 1990
 (in percent)



Source: Conference Board of Canada, June 1992.

There are three types of *maquiladora*:

1. **Subsidiary:** a wholly-owned subsidiary of a foreign company, allowing for the greatest possible degree of control and operational flexibility for the foreign investor. A majority of the more than 2,000 *maquiladoras* operating in Mexico are subsidiaries.
2. **Shelter Program:** a Mexican-owned operation which shelters its foreign investors from the ordinary risks of

ownership. The foreign customer provides the raw materials, machinery and equipment. The Mexican concern exists solely to manufacture or assemble the goods for the foreign investor. By this means, the foreign investor acquires control over the *maquiladora* operation while maintaining a low level of exposure in Mexico. This is the fastest growing segment of the industry and is the most popular type for small to medium-sized manufacturers.

3. **Contract Operations:** manufacturing is contracted out to a Mexican company that is already in operation, thus avoiding the costs involved in setting up either the shelter or the subsidiary. Both the foreign firm and the Mexican contractor set the prices, quantities of production and the dates and locations for delivery.

When establishing a new enterprise as a *maquiladora*, the appropriate permits must be obtained from the Secretary for Foreign Relations (*Secretaría de Relaciones Exteriores*) and the Secretariat for Commerce and Industrial Promotion (*Secretaría de Comercio y Fomento Industrial, SECOFI*). The details of the proposed *maquila* program must be spelled out, including a description of the manufacturing process as well as the resulting product or service. A list of the goods intended to be imported temporarily into Mexico must be included.

The *maquiladora* industry is covered by a set of laws which govern items such as:

- the type of raw materials, tools and equipment that can be temporarily imported;
- how long the goods can stay in Mexico;
- how waste and scrap is to be treated;
- maintenance of accounting records; and
- labour and environmental rules.

In view of the importance of this sector to the Mexican economy, SECOFI passed a Decree for the Development and Operation of the *Maquila* Industry in 1989. The Decree simplified some of the regulations and procedures, making the arrangement even more attractive to the foreign investor. It also improved access to Mexico's domestic market both for sourcing and sales. Manufacturers are now allowed to sell up to 50 percent of total production within Mexico itself.

The rapid expansion of the *maquiladoras* has placed considerable stress on the environment. The Mexican government has awakened to the ecological danger. An integrated environmental plan for the Mexico-U.S. border area has been developed by SEDUE, Mexico's Secretariat

of Urban Development and Ecology and the US Environmental Protection Agency (EPA). The first stage of the Border Plan, as it is known, extends through the 1992-94 period. It covers water supply and waste water treatment, solid waste treatment, highways and bridges, the supply of

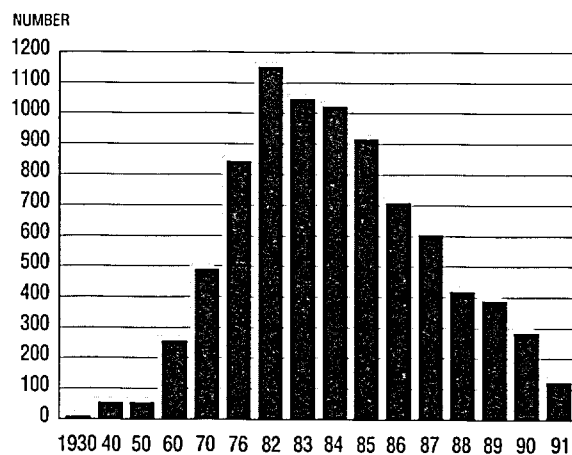
utilities to housing areas along the border, and the doubling of SEDUE's border area inspectorate to 200. The Mexican government has committed \$US460 million to the Border Plan for the three-year period starting with 1992.

Privatization

The Mexican government has radically changed the role of the state in the economy. By December of 1991, there were only 125 enterprises still owned by the state. This represented a striking reduction when compared with the 1,155 enterprises owned by the government at the end of 1982 (see Figure 1.12). The government intends to retain sole control over only a small number of enterprises that it considers of critical strategic significance to the economy. These enterprises include the following:

- PEMEX (*Petróleos Mexicanos*) — the state-owned oil and gas enterprise
- CFE (*Comisión Federal de Eletricidad*) — the federal electricity commission
- *Ferrocarriles Nacionales de México* — the national railroad commission
- CONASUPO (*Compañía Nacional de Subsistencias Populares*) — the state-run system of agricultural marketing boards

Figure 1.12
Government-owned Companies in Mexico



Source: Banco Nacional de México.

Between January 1989 and December 1991, 165 state-owned companies were sold for a total of \$US14 billion.

Recent legislation permitted the sale of commercial banks to private owners. The banks were nationalized in 1982 by president Lopez Portillo. Of the 18 commercial banks previously held by the government, 12 were sold between June 1991 and April 1992, fetching a total of \$US10.4 billion (see Figure 1.13). The remainder have since been privatized.

Figure 1.13
The First 12 State-Owned Mexican Banks To Be Privatized

| Banks | Price \$US m | Times Book Value | Buyer |
|------------------|-----------------|------------------|--------------|
| Banamex | 3,235 | 2.62 | Accival |
| Bancomer | 3,300 | 2.99 | Vamsa |
| Bancreser | 141 | 2.53 | Alcantara |
| Banpais | 182 | 3.02 | Mexival |
| Banco Serfin | 918 | 2.69 | OBSA |
| Banco de Oriente | 74 | 4.00 | Margen |
| BCH | 284 | 2.10 | Cabal |
| Confia | 297 | 3.73 | Abaco |
| Comermex | 877 | 3.73 | Inverlat |
| Cremiti | 249 | 3.40 | Multivalores |
| Mercantil | 204 | 2.66 | Probusas |
| Somex | 616 | 3.38 | Invermexico |
| Total | 10,377 | | |

As an integral part of the privatization drive, Mexican authorities have also adopted measures intended to stimulate competition among banks, and between banks and other financial intermediaries:

- Controls have been abolished on interest rates and maturities for all traditional banking instruments.
- The reserve requirement system for traditional banking instruments has been replaced by liquidity ratios similar to those applicable to bank acceptances. This has provided increased credit capacity to the private sector.

Another area in which privatization has made significant gains is the airline industry. Aeromexico and Mexicana, the

Citibank & Banesto

Citibank owned by Citicorp of New York is Mexico's only foreign bank with a branch licence. This is a result of the fact that the bank has been present and active in Mexico since 1932.

Spain's Banesto is one of the first foreign banks to participate in the program to privatize Mexico's banks. Acting with another Spanish partner, it acquired a 10-percent share in Banco de Oriente, the smallest Mexican bank.

The Canadian Presence in the Financial Services Sector

"Mexico is one of the most under-banked markets in the world with total banking assets of only \$100 billion. Canada has three Schedule A banks that each have assets in excess of \$100 billion. There is a great deal of room for growth in a market the size of Mexico."

Lloyd Atkinson, Executive Vice-President and Chief Economist, Bank of Montreal

country's two largest airlines were privatized in 1989. Telmex, the state telephone monopoly followed in 1990. Telmex, with assets of \$US10 billion was the third largest privatization in the world. Its terms of sale included an initial investment of \$US3 billion with a commitment of a further \$US7 billion in investment over the ensuing five years.

The success of the privatization policy — now a model for many Latin American countries — lies not only in the government's commitment but in the enthusiastic response of the Mexican private sector. Mexican companies have met the challenge. They are continuing to buy public enterprises and to participate in infrastructure projects in spite of the substantial resources involved in managing these operations. Proceeds from the sale of these enterprises are providing much of the money the government is now directing toward social programs such as health and education.

Foreign Direct Investment

With 72 percent of the 754 economic activities into which the Mexican economy has been classified now open to 100 percent foreign investment, ownership and opportunities for investment have multiplied. Domestic and foreign entrepreneurs will find many attractive opportunities in such growing industries as agribusiness, chemicals and petrochemicals, construction, electronics and computers, financial services, mining, natural resources, steel, textiles, telecommunications, tourism, and transportation.

Mexican Investment Board — Your Partner for Growth

The drive to privatize the Mexican economy has been coupled with a parallel push to open it up to foreign direct investment. The by-laws governing foreign investment in Mexico are contained in The Law to Promote Mexican Investment and to Regulate Foreign Investment, first adopted in 1973 and amended in May 1989. The by-laws are administered by SECOFI (*Secretaría de Comercio y Fomento Industrial*), the Secretariat for Commerce and Industrial Promotion.

As a result of the changes to investment regulations made in 1989, most sectors of the Mexican economy were opened to foreign participation. The revised code allows foreign investors to hold majority shares in such areas as steel, cement, construction, investment dealerships, legal and accounting services, publishing, cattle farming, international maritime transportation and metallurgy.

All corporations or trusts in which there is foreign participation must register with the National Registry of Foreign Investment at the National Commission for Foreign Investment (*Comisión Nacional para Inversión Extranjera* or *CNIE*) within 45 business days. Projects which fail to comply with one or more of the foreign investment criteria or which are subject to partial restrictions, must apply for authorization by the CNIE. Authorization is considered to be automatic if a formal reply is not received within 45 working days. Duly registered Mexican corporations must periodically provide detailed information by filing the appropriate forms describing economic activity, and showing financial and balance of payments information.

Many investors have taken advantage of the simplified regulations. Of the total of 2,000 operations authorized during the first 10 months of 1991, only 10 percent required a ruling by the CNIE.

Certain activities are categorized as "classified" and are reserved for the state or for Mexican nationals. However, trusts may be established for a period of 20 years in activities reserved for Mexican investors or in activities in which foreign investment is limited to a maximum of between 34 and 39 percent. These trusts may be authorized by the CNIE in order to improve the financial or operational condition of a company in a classified activity. In such cases, the foreign investment must take the form of cash or a capitalization of company liabilities. In addition, the trust must provide for the sale of shares to Mexican investors at the end of its term of 20 years. Special trusts may be established by publicly traded companies in order to have access to foreign capital markets through the public placement of certificates representing its shares.

By law, foreigners are not allowed to own land within *restricted zone* areas. *Restricted zones* include all land within 100 kilometres of Mexico's borders and within 50 kilometres of the coastline. Nevertheless, the land may be held in real estate investment trusts which have a life of 30 years. Estate investment trusts may be renewed thereafter for additional periods of 30 years. The investment trusts, whether for industrial, tourism, or residential purposes, may be established through Mexican bank trusts and must be authorized by the CNIE under its 45-day rule.

Where foreign investment exceeds 49 percent, the CNIE imposes additional criteria. It seeks investments that:

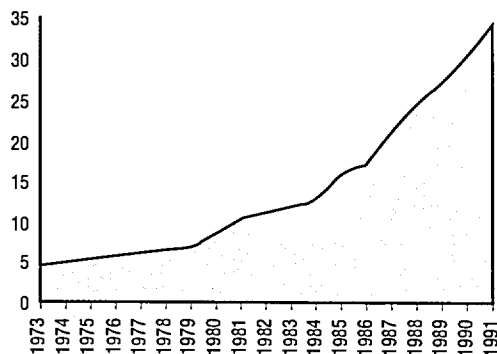
- complement domestic investment;
- show a positive balance of payments and promote exports;
- create jobs and improve employees' earnings;
- contribute to the development of zones or regions where economic improvement has a high priority;
- bring new technology into the country; and
- contribute to local research and development.

Criteria for Foreign Investors

Authorization of a foreign investment is now automatic upon registration if the project meets the following six criteria:

1. Investment in fixed assets during the pre-operative period does not exceed \$US100 million.
2. The project is funded from abroad.
3. Industrial projects must be located in areas other than Mexico's three largest metropolitan areas – Mexico City, Guadalajara, and Monterrey.
4. The investment creates permanent local employment and establishes worker training and personnel development programs.
5. Technology satisfies current environmental requirements.
6. Accumulated foreign exchange flows are anticipated to be in balance over the project's first three years of operation.

Figure 1.14
Cumulative Direct Foreign Investment
(\$US billions)



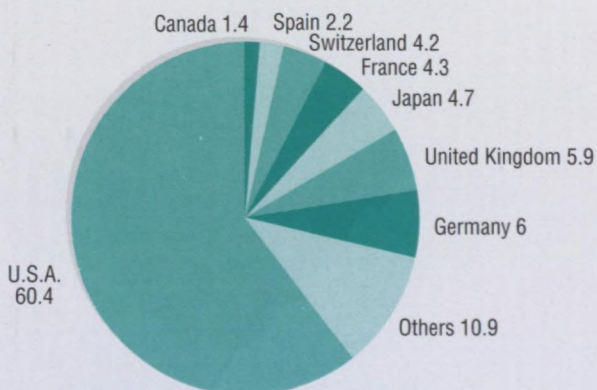
Source: Dirección General de Inversión Extranjera, SECOFI.

The liberalization of Mexico's investment regime has resulted in strong and rising inflows of foreign investment (see Figure 1.14). During 1991, it increased by 11.8 percent bringing total accumulated investment to an impressive \$US33.9 billion. A significant part of this inflow has taken the form of portfolio investment in Mexico's securities and equity markets. This has been coupled with the repatriation of capital that had left the country during the crisis of the early 1980s and that is now being encouraged to return. These strong capital inflows have more than compensated for the growing trade deficit. In fact, foreign monetary reserves increased to a record high of \$US17.5 billion during 1991; up from \$US6.9 billion at the end of 1989. The high level in foreign reserves has helped to keep inflation in check and even to edge it downward.

The key challenge for Mexico in the immediate future is to continue attracting large amounts of foreign direct investment. Its recent economic reforms have encouraged such investment both from the Mexican private sector and from foreigners. Ongoing reforms in the financial sector are improving market efficiency and have also been critical to promoting investment growth.

The United States is by far the single largest source of foreign investment in Mexico. By 1991 it accounted for more than 60 percent of the accumulated total (see Figure 1.15). Germany and the United Kingdom were virtually even in second place and Japan was fourth. Canadian investment accounts for about 1.4 percent of the total.

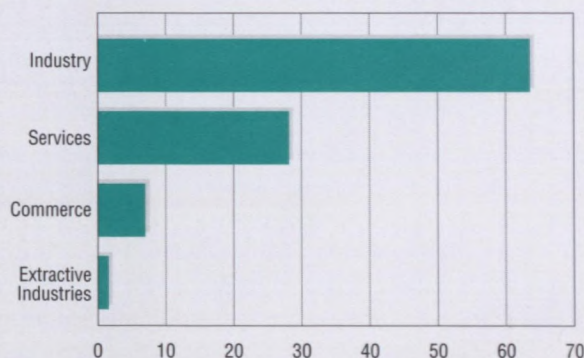
Figure 1.15
Direct Foreign Investment, 1991
 (Total: \$US33.9 Billion)



Source: EAITC.

Perhaps unsurprisingly almost two thirds of foreign direct investment in Mexico is destined for the industrial sector (see Figure 1.16). Services attract slightly less than a third and the share directed toward commerce and the extractive industries is relatively insignificant.

Figure 1.16
Sectoral Shares of Accumulated Foreign Direct Investment in Mexico, as of 1990
 (in percent)



Source: SECOFI.

II. THE MEXICAN MARKET

Opportunities and Challenges

Demographic Profile

Employment

The Informal Economy

Education and Skills

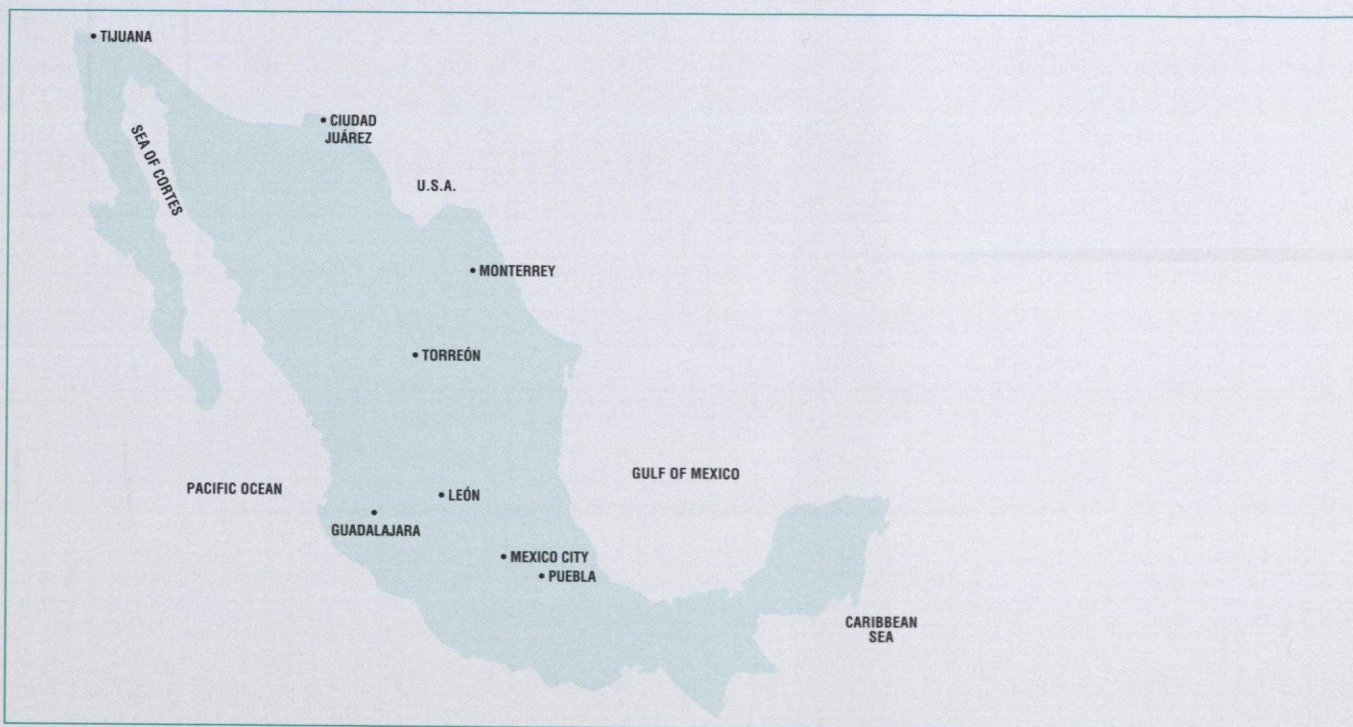
Science and Technology

Income Levels

Main Regional Markets

Industrial Decentralization

The Mexican Market: Basic Data



Location: Mexico is the northernmost country of Latin America. It shares a 3,234 km border with the United States. It is bounded on the west by the Pacific Ocean, on the east by the Caribbean, and to the south by Guatemala and Belize.

Land Area: With a total area of 1,973,000 km², Mexico is the thirteenth largest country in the world. About 19 percent of the total area is cultivable, 48 percent suitable for livestock, and 29 percent is forested.

Population: 85 million according to recent estimates. About half the population is currently under the age of 20 and one million people enter the labour force every year.

Growth Rate: Population growth moderated to 1.9 percent annually in 1991, down from an annual average of 3.5 percent in the 1970s and 1980s.

Main Towns: (population in '000s)

| | | | |
|--------------------------|--------|---------------|-----|
| Metropolitan Mexico City | 19,396 | León | 837 |
| Guadalajara | 3,400 | Ciudad Juárez | 751 |
| Monterrey | 3,300 | Tijuana | 637 |
| Puebla | 1,135 | Torreón | 604 |

Political Structure: Federal Republic comprised of 31 states and one federal district (Mexico City) which is the seat of the federal government.

Climate: Tropical in the south, temperate in the central highlands, and dry to the north.

Languages: Spanish is Mexico's official language.

Measures: Metric system.

Time: Mexico City is 6 hours behind GMT.

Source: EIU Country Profile, 1991.

Opportunities and Challenges

Mexico's aggressive program of economic reforms has had an immediate and dramatic impact on the economy. The country has already experienced several years of strong economic growth and all indications suggest that the economy will continue to grow at a steady pace as further restructuring occurs and as the country develops commercial partnerships around the world. Today's Mexican market offers a rich mix of advantages and challenges (see box). It is now considered a low risk business environment offering

a number of comparative advantages. Chief among them are a large and growing domestic market, a young, abundant and cost-competitive labour supply, and the proximity of the wealthy U.S. market to which Mexico will have free access once the NAFTA is fully implemented. For the careful and determined business person, it is an opportunity not to be missed.

Mexico Today

Opportunities

- A strategic geographical location including a 3,234 kilometre border with the United States, coastlines facing Europe and Asia and a gateway into Latin America
- Access to the United States, the world's largest market, once the North American Free Trade Agreement is implemented
- A cost-effective and relatively young workforce of 31 million people that has been proven capable of delivering quality at a fraction of the labour costs common in the advanced industrialized economies
- Plentiful natural resources
- A rapidly growing and increasingly affluent domestic market of 85 million people
- A liberalized public policy climate which is becoming more supportive of private business activity and investment

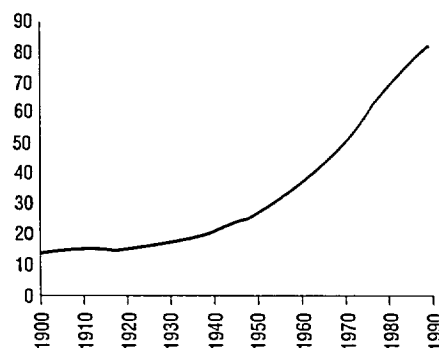
Challenges

- Government regulations still complex and their application not entirely predictable
- Basic education and specific training programs needed to create a skilled labour force
- Poor or non-existent communications links, inadequate roads, and deficient port facilities plague the growth of industry and commerce
- Shortages of quality materials
- Cost of capital high
- Though the threat of devaluation has diminished in recent years, the current deficit in the balance of trade is worrying many economic observers

Demographic Profile

For Canadian exporters, Mexico represents a growing market of some 85 million people. Mexico's dynamic population growth is a recent phenomenon. Before this century, its population grew at a more moderate rate (see Figure 2.1). The economic developments of the 20th century, and advances in medicine and health care have combined to produce a population explosion. Annual population growth rates have remained at 1.9 to 3.5 percent throughout the past 50 years. The country's population has more than doubled since the 1960s though there are indications that the growth rate is slowing.

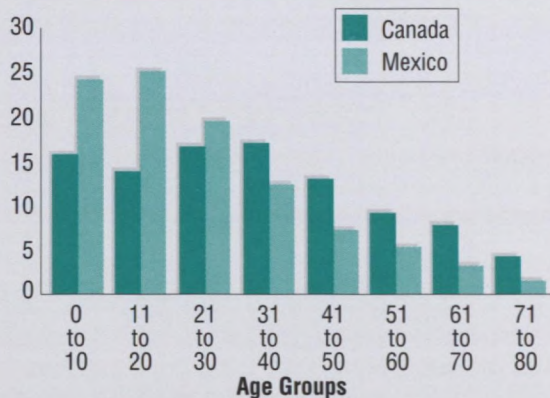
Figure 2.1
Population Growth In Mexico
(millions of inhabitants)



Source: Mexico Social, 1990-91.

One of the consequences of this explosive growth in population is that Mexico has become a relatively young society. A comparison of the age distribution among the people of Canada and Mexico shows that a larger percentage of Mexico's population is concentrated in the younger age brackets (see Figure 2.2). In fact, half of the country's population is below the age of 20.

Figure 2.2
Age Distribution of Canadian and Mexican Population
(percent of population)



Source: Mexican National Institute of Statistics, Geography and Information (INEGI).

Between 1930 and 1990, Mexico gradually transformed itself from a rural to an urban nation. At present, 70 percent of the country's population lives in cities. Better employment opportunities in the urban centres were the driving force behind a general migration to the cities and corresponding redistribution of the population. Today, 38 percent of the country's population can be found in the states of Jalisco, Nuevo León, Puebla, and the Federal District where Mexico's four principal metropolitan centres are located. Together these four regions account for 53 percent of the nation's GDP.

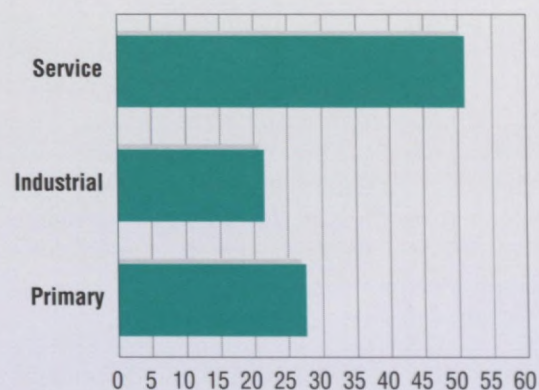
Within Mexico, there have been vast migrations of people for economic or social reasons. Much of this migration is accounted for by male seasonal labour. A 1987 study revealed that migratory movement is no longer only from the countryside to the cities, but also from city to city. Emigration from Mexico is insignificant on a national scale, but it is high in the states bordering the United States.

Employment

In 1991, the estimated size of the Mexican labour force was 31.5 million, less than 40 percent of the total population. This low participation rate reflects the fact that a large percentage of the population is under 15 years of age, and more importantly, that only about half of those of working age actually enter the formal labour market. Unemployment levels are therefore difficult to measure, but a 1989 study estimated unemployment to be at about 10.2 percent. It should also be noted that even among those who do have jobs, under-employment is a fairly common phenomenon.

More than two thirds of the Mexican work force is male, and women have yet to have the same impact on the economy that they do in Canada. More than a quarter of Mexico's workers are active in the primary sector, mostly agriculture (see Figure 2.3). Almost one quarter work in the industrial sector and about one half provide services.

Figure 2.3
Employment by Sector, 1988
(in percent)



Source: Mexico Social.

The Informal Economy

Otherwise known as the black or parallel economy, the informal economy is pervasive throughout Mexico. It consists of those economic activities that are not formally recorded and therefore are not included in national economic statistics. Workers in the informal sector suffer a number of disadvantages such as poor job security, long hours, unsafe working conditions and no social benefits. Nevertheless, work in the informal sector is often preferable to unemployment or to taking on the bureaucratic impediments of setting up a business legally.

Since most of those who operate in the informal sector are reluctant to discuss how they earn an income — for fear of ending up in the taxman's net — statistics are difficult to gather. CANACINTRA, Mexico's National Chamber of Industrial Transformation, estimates that 5.7 million people, or 22.5 percent of the economically active population, are engaged in informal activities, and that the value of their production is equivalent to 10 percent of Mexico's GDP.

The informal economy is measured in two different ways:

- according to the activities which employ most people; and
- according to the value added by informal activities in each sector.

By the first method, the largest number of workers in the informal sector are to be found in transportation and communications (18.7 percent), communal services (15.4 percent), and commerce (13.1 percent). By the second method, most of the value added by informal activities is found in the catering trades and commerce (35.1 percent) and small-scale manufacturing (17.5 percent), primarily in foodstuffs, beverages, tobacco and textiles.

The National Institute for Statistics, Geography and Information (*Instituto Nacional de Estadística, Geografía e Informática, (INEGI)*), offers a different analysis. Its figures show that retailing accounts for almost 19 percent of workers in the informal sector, while other services such as repairs, make up a further 12 percent.

Just over two thirds of those surveyed by INEGI were running single-person operations. More than half of the remainder employed relatives who did not declare their wages. About half of them do business either on the streets or in customers' homes. Only a fifth work on their own premises. The INEGI survey also revealed that low rates of pay in the formal sector are a major force driving people into the informal sector.

Education and Skills

The 31.5 million economically active Mexicans comprise the full range of unskilled, semi-skilled, managerial, and executive capabilities. The overall educational level of the population has improved dramatically in the last twenty years. In 1990, more than 25 million Mexicans had attained some level of formal education ranging from pre-school to postgraduate studies (see Figure 2.4).

The rapid growth of Mexico's population and its distribution have created a significant challenge for the National Education System. The 1989-1994 Program to Modernize Education has taken up this challenge by allocating an increasing portion of the federal budget to education. As a result, the educational budget grew from 6 percent in 1989, to 13.5 percent in 1991. The specific objectives of this program are:

- to upgrade the quality of education and increase final effectiveness;
- to expand access to educational services for all who need them;

- to link education, scientific research, technology and experimental development to the national requirements of Mexico; and
- to make education an ongoing process that involves the participation of the whole society.

These objectives are being met through an ambitious program of school construction and remodelling as well as an extensive scholarship program to provide students and researchers with economic support. In 1990, there were 154,000 schools in the country. Of these, 14,300 were private schools. There were also 1,600 technical and higher learning institutions.

Mexico's official literacy rate of over 90 percent is not very different from rates to be found in the U.S. work force, and Mexico boasts a steadily increasing number of university graduates. In fact, today, Mexico has slightly more engineering graduates per capita than does the United States. You can find highly trained engineers and managers, many with foreign experience, throughout Mexican industry.

Regional Differences in Work Experience

In 1987, a New Jersey lighting manufacturer learned the hard way what the impact of local training differences could be. "It never occurred to anyone, including me, to look at the work experience of the labour force", confesses the marketing vice-president. Company representatives made a preliminary trip to Monterrey and Juárez and failed to note a crucial difference between the two sites. On the basis of this brief look, they chose Juárez as the site of their new plant.

Unfortunately, most workers in Juárez are assembly workers with little or no experience in skilled manufacturing jobs. Many had received only abbreviated training in basic assembly-line procedures. The lighting company, by contrast, is a fully-integrated manufacturing operation with many high-tech processes. Soon after the move to Juárez, it became clear that the new staff there would require considerably more training than the company expected before it could become fully productive.

Vitro Corporation

A growing cadre of skilled engineers and trained workers is allowing Mexican companies not only to master basic assembly technologies but also to compete effectively with advanced technology. Vitro Corporation is one of Latin America's largest privately-owned companies, with annual sales exceeding \$2 billion. It is one of many Mexican companies capable of working on an equal footing with the world's most sophisticated enterprises. Glass production is Vitro's major business, although the 37,000-employee company has integrated vertically and diversified into other businesses.

One of its subsidiaries, FAMA, makes Vitro's glassmaking machines and molds and increasingly sells to outside companies. The company has become a global player, while building a solid base of human resource skills and substantially increasing its communications and technical capabilities. Today, more than 50 percent of FAMA's managers and white-collar workers have technical degrees, and almost 10 percent have a graduate technical education. To buttress and promote these skills, FAMA has established cooperative relations with the Massachusetts Institute of Technology (MIT), the University of Texas, and the Tecnológico de Monterrey (Mexico's most prestigious technical institution). In addition, the company has forged technology-sharing links with Owens-Illinois, Westinghouse, and Yamazaki.

Figure 2.4
Enrollment by School Level

| Level | 1988-1989 | 1989-1990 | 1990-1991 |
|------------------|-------------------|-------------------|-------------------|
| Initial | 100,817 | 104,397 | 105,201 |
| Preschool | 1,688,561 | 1,662,588 | 2,734,054 |
| Primary | 14,656,357 | 14,493,763 | 14,401,588 |
| Secondary | 4,355,334 | 4,267,156 | 4,190,190 |
| Intermediate | 427,686 | 413,481 | 378,894 |
| High School | 1,642,785 | 1,678,839 | 1,721,626 |
| Bachelor College | 126,676 | 118,501 | 108,978 |
| Undergraduate | 1,085,164 | 1,094,325 | 1,097,141 |
| Graduate | 45,102 | 45,889 | 45,889 |
| Subtotal | 25,128,482 | 24,879,945 | 24,783,588 |
| Training | 439,958 | 436,168 | 413,587 |
| Total | 25,568,440 | 25,616,117 | 25,197,167 |

Source: *The Mexican Agenda 1990-91*.

In addition to formal educational programs, technological, professional and business training courses are offered by the country's leading academic centres and by businesses working in conjunction with educational institutions. Over 3,000 companies have established their own employee training programs. These represent a determination to keep up with the fast pace of technological progress as well as with new managerial techniques that have been introduced as part of Mexico's drive toward modernization.

The low average age of Mexican workers makes them exceptionally willing to learn and implement new systems. As a result, the productivity of the Mexican labour force has increased steadily over recent years. An example of this is the number of international quality awards won by Mexican automotive divisions of U.S. car manufacturers.

Science and Technology

Mexico has a significant and growing research capability. The National Autonomous University of Mexico (UNAM) plays a key role in the country's scientific research. It accounts for approximately half of all research conducted within Mexico between 1988 and 1991. Other important centres are: the Centre for Research and Advanced Studies of the National Polytechnical Institute, the Colegio de México, the Centre for Economic Research and Education, the Colegio de la Frontera Norte, the Centre for Research on Food and Development, the Colegio de Michoacan, and the Institute of Astrophysics, Optics and Electronics, and the Tecnológico de Monterrey.

In order to promote research in science and the humanities, to encourage technological development, and to stem the so-

called brain drain through emigration of Mexican scientists to other countries, the government of Mexico has placed strong emphasis on the National System for Researchers (SNI). This program provides economic incentives that are distributed according to the academic merit of the scientists and the nature of the research.

The number of researchers in the program has grown from 2,653 in 1988 to 3,520 in 1990. Further growth to 4,500 was projected for 1991 which would amount to a 70-percent increase over four years. The number of actual research projects has increased by 32 percent over the same four-year period.

Income Levels

Canadians looking to sell their products in Mexico should recognize and try to understand some of the seeming contradictions of the Mexican marketplace. According to some recent studies, about half of all Mexicans cannot afford the nutritional minimum prescribed by the Food and Agricultural Organization (FAO). In terms of income and income distribution, Mexico still resembles a developing country. On the other hand, two thirds of all households have television sets and the growing middle class in Mexico may almost be as numerous as it is in Canada.

Certainly Mexico's workers earn low wages — nearly 60 percent lower than South East Asia, 70 percent lower than Western Europe and 80 percent less than the United States. At present, low income levels and unequal wealth distribution mean that the Mexican market for consumer goods remains relatively small. As the country develops economically, however, it is inevitable that these wages will rise, improving disposable incomes and purchasing power.

On a per capita basis, Mexico's GNP is only about a seventh that of Canada. The year 1991 marked the nineteenth consecutive year that the minimum wage in Mexico dropped in real terms. Overall, between January 1986 and June 1991, the real minimum wage fell by 47 percent. As partial compensation for this fall, the government increased the minimum wage by 12 percent to \$US4.12 per day, net of benefits as of January 1992. About 20 percent of the population earns this minimum wage but another 17 percent actually receives less.

Despite the overall softness in Mexican wages, there has been some recovery in the wages paid in the manufacturing sector since 1988. There are workers that have benefited from more generous increases which have at least been in line with inflation. In addition to wages, most Mexicans receive fringe benefits (see Chapter VI) which — in the case of the *maquiladoras* — amount to as much as one third of a worker's total compensation package. In 1989, the average Mexican industrial worker received a wage equal to 4.5 times the minimum, representing a real increase of 9.3 percent over 1988.

Wages have been held down in recent years as part of *El Pacto*, the anti-inflationary agreement. This social consensus has been made possible by the threat of unemployment and the fact that the ruling PRI party dominates the trade-union movement.

The immediate promise of Mexico for Canadian exporters lies in the provision of capital goods to support the country's ambitious and rapid economic transformation. This in turn will stimulate economic activity, improve Mexican incomes and ultimately expand the demand for imported consumer goods.

Main Regional Markets



Mexico is made up of 31 states and the Federal District surrounding Mexico City. Each region displays specific characteristics that are the result of climate as well as differences in human and natural resources. For example, northern Mexico is characterized by large stretches of arid desert. In contrast, the southern part of the country has ample water and is quite fertile.

Such variations lead to differences in the temperament of the inhabitants as well as unique comparative advantages. The distribution of resources throughout Mexico's states translates into diverse and distinctive regional markets that deserve closer inspection by Canadian firms interested in doing business in Mexico. Moreover, diversification outside the major industrial areas is a priority of the Mexican Government. Both federal and local incentives are available to encourage local economic activity, creating stronger demand for imported goods and services throughout the regions.

Detailed information on the size, location and economic activity of each of Mexico's states is provided in Chapter VIII. The remainder of this section discusses the three main industrial centres which constitute over a third of Mexico's population and contribute almost half the country's GDP.

Metropolitan Mexico City: With its 19.5 million inhabitants, Mexico City (most often referred to in Mexico as D.F. for *Distrito Federal* or Federal District) is the largest city in the world. Located in the southern part of the Valley

of Mexico, at an altitude of 2,260 metres, the city proper comprises 376 square kilometres. The entire Federal District covers 1,479 square kilometres.

The capital of Mexico is the country's economic, financial and industrial centre, as well as being the hub of the country's transportation network. More than 30 percent of the country's manufacturing industry is established in the Federal District. All sectors of industry are well represented in this region which is home to more than 35,000 industrial companies. Although heavily populated, the district still contains agricultural areas where corn, beans and vegetables are grown.

Mexico City offers the largest consumer market in the country. It has an upper- and middle-income consumer population estimated at about five to six million. This group, which exhibits a growing appetite for many consumer products, is familiar with and often prefers, imported products.

In addition to the large market for finished goods, the well-developed communications, transportation, and manufacturing infrastructures remain key reasons why many foreign businesses focus on this metropolitan area.

Guadalajara: Capital of the state of Jalisco, Guadalajara is Mexico's second-largest city. It has a population of 3.4 million and is the most important financial and commercial centre in the central-western part of Mexico.

The state of Jalisco boasts a high level of development in all economic areas. Due to its location on the Pacific coast of Mexico, it is a strategic zone for industry and commerce, one of Mexico's principal food producers and one of the country's most technologically advanced industrial zones. The National Development Plan calls for the state of Jalisco to promote medium and light industries. In and around Guadalajara, a Mexican "Silicon Valley" has emerged where world industry giants such as IBM, AT&T, Wang, Motorola, Hewlett-Packard, Mitel and Unisys have established operations.

Agriculture is still the most important economic activity in this state. A significant proportion of Mexico's corn, sorghum, wheat, fruit, and vegetables originates from this area. Tourism is well developed in Jalisco. The popular Puerto Vallarta is a prime example of existing tourism infrastructure as well as an indication of future potential.

Monterrey: The capital of the state of Nuevo León, Monterrey is situated in the northeast corner of the country about 240 kilometres from the Texas border. It has a population of 3.3 million and is Mexico's third largest city and second most important industrial centre. The state of Nuevo León accounts for an estimated 6 percent of Mexico's GDP and ranks third in GDP per capita. Iron and steel, glass production, textiles, petrochemicals, and capital goods are the state's principal manufacturing activities.

Of Mexico's top 500 businesses, 53 percent are based in Monterrey. The city's five biggest corporations — Grupos Vitro, Cydsa, Cemex, Alfa and Visa, which are all owned by branches of two local families, rank among the largest enterprises in the country and have considerable international exposure.

Since 1982, when the Mexican market collapsed and the debt crisis hit the country, the city's leading industrial conglomerates have been quietly restructuring, striking up joint ventures, modernizing, expanding into new markets, and investing heavily in their core sectors. In 1991 alone, the ten largest Monterrey groups invested close to \$US2 billion and achieved sales of around \$US10 billion.

More than 250 foreign firms, including *maquiladoras*, operate in Monterrey and the state of Nuevo León. It is an excellent site for joint venture operations, given its established industrial infrastructure. Monterrey boasts an abundance of skilled labour, and one of the most prestigious technical universities in the country, the Tecnológico de Monterrey, from which highly-skilled engineers and technologists graduate.

Other Industrial Areas: Apart from the three major industrial centres described above, there are several smaller cities that have recently experienced spectacular growth.

- *León* is located in the state of Guanajato. Its recent growth is based on newly established foreign companies specializing in footwear, cement, chemicals, and food processing.
- *Puebla* enjoys a central geographic location and excellent communications. Traditionally focused on textiles, it has now become a centre for the automotive industry.

Monterrey's Industrial Groups

CEMEX: Cemex is the fourth largest cement company in the world and holds first place among the producers and exporters of portland cement in North America. The strategic location of its plants and constant upgrading of its technology have permitted CEMEX both to satisfy national cement demand and to compete successfully in international markets. Annual revenues are estimated at \$US1.7 billion. CEMEX continues to grow and has diversified into the tourism sector. Through a joint venture with Marriott Corporation, it has taken a lead in hotel construction in areas such as Cancun and Puerto Vallarta.

Grupo Alfa: The group operates in four main sectors: basic steel, petrochemicals, diversified products, and food. Operations are carried out through 108 subsidiary enterprises located in more than 50 cities throughout Mexico. In 1988, ALFA's foreign market sales were \$US310 million. ALFA has achieved a highly advanced technology base due in part to its association with world leaders such as BASF of Germany, DuPont, Ford Motor Company, and Kawasaki Heavy Industries of Japan.

Grupo Cydsa: Dominating Mexico's petrochemical industry, Grupo Cydsa began in 1945 as a manufacturer of continuous rayon filament. Today, Cydsa operates in four areas of activity: fibers, film, packing, and basic chemistry and runs an international division. Cydsa produces cellophane films, bio-oriented polypropylene, acrylic fibers, resin, and P.V.C. piping. In 1987, Cydsa's total assets exceeded \$US500 million and it employed more than 8,000 people.

Grupo Vitro: Grupo Vitro is a pioneer in the manufacture of industrial glass. Today, as Mexico's largest industrial group, its core activity remains the production of glass, though it has expanded into such diverse activities as furniture, non-ferrous mineral production, construction and mining equipment, and soaps and detergents. Its activities are divided among six operating divisions: containers, crystal, flat glass, heavy equipment, fiber, and silicates, and house wares.

Valores Industriales, S.A. de C.V. (Grupo VISA): This group specializes in the food and beverage, and packaging businesses. It began in 1890 as Cervecería Cuauhtemoc, a brewery, and has grown to become one of the main industrial groups in the country. Sales are estimated at \$US900 million for 1988. Assets are valued at about \$US1.5 billion, and it has 39,000 employees. VISA's exports totalled \$US55 million in 1988.

- *Ciudad Juárez* in the state of Chihuahua is located on the U.S. border. Its *maquiladoras* produce electronic components, automotive parts and textiles.
- *Torreón* is one of the industrial centres of Coahuila state which borders on the United States. The state is known for its mineral resources, its iron and steel industry, as well as a growing automotive industry.
- *Tijuana*, in the state of Baja California, is located on the border with the United States. Its economy is based on a booming *maquiladora* industry. The city contains important industrial centres which provide investors with attractive opportunities.

When contemplating opportunities in Mexico, business people usually look at the country's three main industrial areas: Mexico City, Guadalajara and Monterrey. There is, however, a wealth of opportunity to be found outside of these centres. The most dynamic sectors of opportunity include the following:

- agriculture and food products (coffee, cocoa, fruits and vegetables, sugar cane, livestock, rice, corn, cereals, wine, beer) especially in the more fertile and tropical south of the country;
- mining, which is especially appealing given the vast abundance of minerals (gold, silver, manganese, lead, copper, zinc and iron) located in many of the country's 31 states;
- oil and gas extraction and petrochemical processing, especially in the coastal and offshore regions such as, Campeche, Veracruz;
- processing and manufacturing (automobiles, textiles, machinery, electronic components, appliances, pharmaceuticals), especially in the regions along the border with the United States - Baja California, Coahuila;
- fishing and seafood processing along Mexico's long Pacific Coastline and the Yucatan Peninsula;
- forestry and related products such as pulp, cellulose, plywood, cardboard, and wood mouldings in states such as Chihuahua and Durango; and
- tourism, especially in the coastal areas and in the ancient Mayan areas of the Yucatan peninsula.

Industrial Decentralization

The Mexican government wishes to spread economic growth more evenly across the country and reduce the urban pressures being felt by the largest cities, particularly Mexico City, Monterrey and Guadalajara. Both the federal and state governments are trying to develop industry in the less urbanized areas of the country. State governments all offer promotional incentives to encourage the location of new industry within their boundaries. SECOFI maintains representative offices in each state to provide foreign investors with information on the opportunities available in each region.

Special incentives are offered in priority development zones such as coasts, ports and border areas where industrial development will encourage export industries. Priority industries are divided into two categories: Category 1 includes agro-industries and many types of capital goods; Category 2 includes non-durable household appliances, electric household appliances, certain types of furniture, parts for transportation industries, equipment and parts for certain service industries, intermediate petrochemical and

metallurgy products, and construction materials. Category 1 industries qualify for more attractive incentives.

Tax credits ranging from 10 to 25 percent of federal corporate taxes are offered to Mexican majority-owned companies. The amount of credit depends on the location of the investment, the type of industry, the amount of employment generated, the purchase of Mexican-made machinery and equipment, and the size of the company. Small companies are favoured.

Certain economic activities qualify for reduced income-tax rates: a 40 percent reduction for agriculture and fishing; 25 percent for companies which process or transform their own products; and 50 percent for publishers. Many geographical areas — outside the Federal District, Guadalajara and Monterrey — offer attractive incentives for the establishment of industries. A number of Mexican states promote new investments in their own territories. They typically provide local tax incentives and/or offer industrial sites at little cost.

III. MEXICO AND CANADA: THE OPPORTUNITY

Trade

Investment

Sectoral Opportunities

Primary Sector

Industrial Sectors

Services

Trade

Canada and Mexico have only just begun to develop their trading partnership to its full potential. In 1991, Mexico ranked sixth as a source of imports to Canada and seventeenth as a destination for Canadian exports. Less than 1.4 percent of Canada's 1991 imports came from Mexico while less than 1 percent of Canada's exports went there. Even so, Canada enjoys trade relations with Mexico which are broader and more substantial than with any other country in Latin America. Two-way trade totalled more than \$3 billion* in 1991 (see Figure 3.1), and recent trends suggest that it could exceed \$5 billion annually by the year 2000.

Figure 3.1
Canada-Mexico Merchandise Trade
(\$'000s)

| | Exports to Mexico | Imports from Mexico | Total Two-Way Trade |
|-------------------------|----------------------|------------------------|------------------------|
| 1985 | 398,740 | 1,325,999 | 1,724,739 |
| 1986 | 403,583 | 1,163,433 | 1,567,016 |
| 1987 | 530,168 | 1,165,406 | 1,695,574 |
| 1988 | 500,800 | 1,327,729 | 1,828,529 |
| 1989 | 603,100 | 1,698,400 | 2,301,500 |
| 1990 | 593,700 | 1,729,800 | 2,323,500 |
| 1991 | 524,544 | 2,574,000 | 3,098,544 |
| 1992 (first six months) | 387,100 | 1,347,300 | 1,734,400 |

Source: Statistics Canada.

Figure 3.2
Canadian Exports to Mexico
(\$'000s)

| | 1990 | 1991 | 1991 Jan-June | 1992 Jan-June |
|-------------------------------|----------------|----------------|------------------|------------------|
| Motor vehicle parts | 82,032 | 153,461 | 44,800 | 84,400 |
| Iron and steel products | 67,727 | 46,281 | 19,400 | 55,900 |
| Aircraft and parts | 39,091 | 18,583 | 1,400 | 20,800 |
| Bituminous coal | 0 | 2,178 | 0 | 15,200 |
| Telecom equipment & parts | 51,527 | 23,048 | 900 | 16,700 |
| Newsprint | 15,923 | 34,489 | 4,200 | 15,400 |
| Asbestos | 13,448 | 15,989 | 6,500 | 7,300 |
| Milk powder | 72,529 | 13,429 | 5,900 | 18,000 |
| Sulphur | 28,830 | 18,868 | 4,400 | 7,500 |
| Rape or colza seeds | 0 | 0 | 0 | 3,700 |
| Meat & livestock | 21,600 | 18,900 | 10,000 | 13,500 |
| Wood pulp | 27,543 | 15,299 | 8,300 | 4,100 |
| Rubber articles | 5,863 | 3,768 | 900 | 3,600 |
| Paper products | 10,995 | 18,888 | n.a. | n.a. |
| Office/data process equipment | 2,570 | 10,283 | n.a. | n.a. |
| Pulses | 5,715 | 0 | n.a. | n.a. |
| Petroleum oils | 5,106 | 16,109 | 16,100 | 0 |
| Wheat | 8,421 | 25,038 | 0 | 53,400 |
| Others | 134,450 | 89,936 | 84,900 | 67,600 |
| Total | 593,682 | 524,544 | 207,700 | 387,100 |

Source: Statistics Canada.

*Please note that all currencies in this publication are stated in Canadian dollars unless otherwise noted.

Mexico exports to Canada were the first to take off. Canada's liberal trade regime together with its General Preferential Tariff (GPT) applied to Mexico means that approximately 80 percent of all Mexican goods can enter Canada free of all duties or licences. As a result, Mexican exports to Canada were buoyant throughout the 1980s.

Canadian exports to Mexico have been slower in catching up, largely because Mexico only began reforming its trade rules after its joining the GATT in 1986. While this has made it easier to export to Mexico, there are still some licencing requirements and other non-tariff barriers in place that will not be lifted until the North American Free Trade Agreement is fully implemented.

The asymmetrical nature of their respective trade regulations has made it easier for Mexicans to export to Canada than for Canadians to export to Mexico. The gap widened further in 1991, when Canadian exports declined

by over 11 percent while imports from Mexico climbed by nearly 50 percent. This was partly the result of a drop in Mexican demand for Canadian exported resources and commodities (iron and steel, and powdered milk), and the loss of the lucrative Mexican market for canola (\$US60 million) to aggressive Polish competition after 1989, which has since been partially regained.

There are other signs of a turnaround as well. Canadian exports to Mexico increased dramatically in the first half of 1992. In fact, if the trend holds, Canada's exports to Mexico could almost double within the year (see Figure 3.2), and further prospects look extremely promising. At the time of writing, Canada's Systemhouse had just announced a multi-year deal worth half a billion dollars to supply computing services to Mexico. At the same time, Mexican exports to Canada continue to grow, though at a slightly lower rate (see Figure 3.3).

Figure 3.3
Mexican Exports to Canada
 (\$'000s)

| | 1990 | 1991 | 1991 Jan-June | 1992 Jan-June |
|------------------------------------|------------------|------------------|------------------|------------------|
| Automotive vehicles | 127,737 | 716,400 | 204,200 | 315,900 |
| Automotive parts | 436,265 | 722,859 | 232,800 | 327,400 |
| Radio, telephone, audio equipment | 146,572 | 143,225 | 52,900 | 84,300 |
| Ignition wiring sets | 89,192 | 104,815 | 45,800 | 68,900 |
| Engines & engine parts | 300,187 | 235,174 | 146,600 | 64,300 |
| Vegetables | 79,306 | 48,546 | 39,900 | 31,800 |
| Petroleum oils | 56,804 | 97,606 | 38,900 | 66,800 |
| Air conditioners, fans, parts | 32,030 | 58,334 | 27,100 | 40,200 |
| Fruit, coffee & nuts | 68,485 | 76,008 | 41,900 | 35,100 |
| Air filtering systems (industrial) | 33,586 | 26,601 | 11,400 | 34,000 |
| Kitchen appliances (small) | 13,670 | 23,317 | n.a. | n.a. |
| Carpets, fabrics & yarns | 27,813 | 30,077 | 13,600 | 15,900 |
| Springs (iron or steel) | 10,411 | 15,083 | 6,500 | 9,300 |
| Furniture | 33,586 | 19,318 | 8,800 | 6,200 |
| Toys | 12,552 | 12,158 | 5,700 | 5,800 |
| Clothing | 9,078 | 11,450 | n.a. | n.a. |
| Glass articles | 12,806 | 15,672 | n.a. | n.a. |
| Photocopying machines & parts | 3,508 | 5,893 | 59,100 | 51,500 |
| Others | 247,934 | 195,933 | 223,300 | 189,900 |
| Total | 1,729,848 | 2,573,972 | 1,158,500 | 1,347,300 |

Source: Statistics Canada.

Canadian exports to Mexico have traditionally been based on raw materials and agricultural commodities — dairy products, grains, iron and steel — and some manufactured products such as auto parts and telecommunications products. Canada imports mainly manufactured goods from Mexico — primarily autos and auto parts — and a somewhat smaller proportion of resource and agricultural products such as petroleum, fruits and vegetables. Recently, however, there are signs that Canadian exports to Mexico have begun to shift away from resource-based commodities and toward manufactured products. This change is likely to accelerate in the future as Canadians begin to contribute more directly to the development and modernization of Mexico's infrastructure.

Market reforms, Mexico's desire to upgrade its technological capability and global competitiveness will all create more opportunities for Canadian technologies, manufactured products, and services. Canadian exporters in

the telecommunications, plastics, automotive, machine tooling, and metal working sectors have already been able to penetrate the Mexican market successfully, achieving significant sales from strong marketing efforts.

Promotion of better trade relations between the two countries was the purpose of Prime Minister Mulroney's visit to Mexico in March 1990. On that occasion, an Agreement on a Framework for Consultations on Trade and Investments was signed by the two countries. A similar framework agreement has been signed by the governments of the United States and Mexico. When the North American Free Trade Agreement is fully implemented in 1994, commercial opportunities will expand even further. Moreover, Canadian firms that have developed strategic positions in Mexico can expect to reap additional benefits from their experience in this Latin American market as they move to tackle the growing markets of South America.

Investment

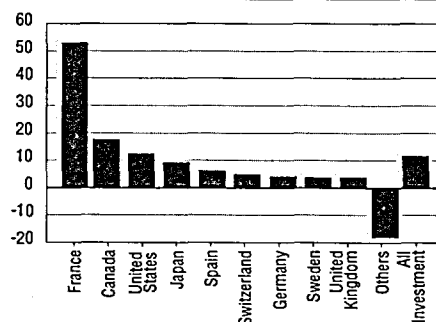
Canada's economic relationship with Mexico goes beyond trade. It includes investment links developed by many Canadian companies as a way of enhancing and extending their trading activities. There is, for example, a market of some 500 million people south of Mexico in Latin America.

By the end of 1991, accumulated Canadian direct investment in Mexico totalled \$US491 million. During the twelve months of 1991 alone, Canadians invested \$US74 million in Mexico, a substantial 17.7 percent increase over investments made in 1990. Though Canadian investment still comprises only 1.4 percent of total foreign direct investment in Mexico, it is growing more quickly than investment from all other countries except France (see Figure 3.4).

Many investors remain cautious in their approach to Mexico. They are waiting to see if the country will continue along its current course of fundamental economic reform and transformation and they want to be reassured that the Mexican economy will remain stable throughout this process. Even so, more Canadian companies are making inquiries, participating in trade missions and positioning themselves to profit from the new Mexican investment climate. The Canadian embassy in Mexico City reports that it received more than 1,500 inquiries from the Canadian business community in 1991, almost double the number recorded in 1990. This figure will likely double again in 1992.

As has already been noted in Chapter I, the *maquiladoras* are an important element in the development of Mexico's manufacturing sector. A small number of Canadian companies have been established in *maquiladora* plants since 1978 when Ideal Equipment Co. Ltd. of Montreal set up a plant in Matamoros (see Figure 3.5). The underlying rationale for Canadians is invariably to maintain competitiveness. Major customers are encouraging their suppliers to go to Mexico to reduce their costs and thereby their prices. This phenomenon is particularly evident in the automotive products, white goods and consumer electronics industries. It accounts for the presence in the *maquiladora* of companies like the Dominion Group, Fleck Manufacturing Limited and Custom Trim.

Figure 3.4
Fastest Growing Sources of Foreign Investment
in Mexico, 1992
(increase over 1990 in percent)



Source: SECOFI.

Figure 3.5
Examples of Canadian Maquiladora Operations

| Company | Canadian Base | Maquiladora | Type | Products | Start |
|--------------------------|---------------|----------------------------------|--------------|---------------------------------------|---------|
| Custom Trim Ltd. | Waterloo | Matamoros | Subsidiary | Leather-wrapped steering wheels | 1984/85 |
| Dicon System Ltd. | Toronto | Ciudad Juárez | Sub-contract | Smoke detectors | 1988 |
| Dominion Group Inc. | Toronto | Ciudad Juárez | Subsidiary | Wiring harnesses and assemblies | 1987 |
| Fleck Manufacturing | Toronto | Nogales, Imuris Ciudad Juárez | Subsidiaries | Wiring harnesses and assemblies | 1985 |
| Ideal Equipment Co. Ltd. | Montreal | Matamoros | Subsidiary | Sewing machine parts | 1978 |
| Noma Industries Ltd. | Toronto | Ciudad Juárez | Subsidiary | Artificial Christmas trees and lights | 1990 |

Source: The Conference Board of Canada.

At present, there are more than 200 Mexican companies that have some capital participation by Canadians, concentrated in the manufacturing and service sectors, in commerce and in the mining sectors. Canadians hold a majority of the shares in about a third of these firms and a minority position in the remainder. Among the most prominent Canadian companies investing in Mexico are Northern Telecom and Magna International Ltd. Northern Telecom has invested about \$US60 million in Mexico while Magna, an Ontario-based auto-parts manufacturer, has a \$US10 million investment in southern Mexico to produce bumpers for Volkswagen.

Canadian companies investing in Mexico are aware of the fact that investment has become a major factor in supporting international trade. Increasingly, economic relations between countries are moving beyond the confines of strict exchanges of merchandise. In many cases, trading relations can only be established on a viable footing if they are supplemented by some form of investment. Foreign investment, in effect, has become a key to enhancing exports and thus expanding domestic economic activity.

It is no coincidence that most of Mexico's major trading partners are also its most significant sources of foreign direct investment (see Figure 3.6). In many cases, the

Mexican market would have been inaccessible to exporters if it were not accompanied by some form of in-country investment, a condition which is set to change under NAFTA. Companies are using ventures in Mexico as a foundation upon which they can build a solid and expanding trade relationship. In the past, Canadian trade with Mexico was impeded by the absence of such developed, ongoing and substantive linkages between the two countries. Today, Canadian business people are showing a growing interest in Mexico's long-term potential and are looking for Mexican partners with whom they can develop mutually beneficial relationships.

Figure 3.6
Mexico's Leading Trade and Investment Partners: A Comparison, 1991
 (in percent)

| Top Two-Way Trade Partners and Share of Total Trade | | Top Ten Foreign Investors and Share of Total FDI | |
|---|------------|--|------------|
| United States | 77.7 | United States | 60.4 |
| Japan | 5.2 | Germany | 6.0 |
| Germany | 3.6 | United Kingdom | 5.9 |
| Canada | 2.9 | Japan | 4.7 |
| Spain | 2.1 | France | 4.3 |
| France | 1.9 | Switzerland | 4.2 |
| Italy | 1.0 | Spain | 2.2 |
| U.K. | 0.8 | Canada | 1.4 |
| Brazil | 0.6 | Sweden | 1.2 |
| Belgium/Luxembourg | 0.6 | Italy | 0.2 |

Source: Direction of Trade Statistics (1991); SECOFI.

Sectoral Opportunities

Figure 3.7
Top Ten Commodity Areas with Both Canadian Export Capabilities and Mexican Import Demand

1. mineral fuels, mineral oils and products of their distillation, bituminous substances, mineral wax
2. organic chemicals
3. wood and articles of wood, wood charcoal
4. plastics and articles thereof
5. aluminum and articles thereof
6. optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus
7. inorganic chemicals, organic or inorganic compounds of precious metals of rare-earth metals, etc.
8. sugars and sugar confectionery
9. furniture, bedding, mattresses, mattress supports, cushions and similar stuffed furnishings, lamps and lighting fittings
10. copper and articles thereof

Source: Conference Board of Canada, *Canadian Export Opportunities in Mexico*, (1992).

The Mexican marketplace is in the midst of a vast process of transformation. The integration of Mexico into an increasingly global economy offers excellent prospects for Canadian companies seeking to penetrate new markets. In its analysis of Canadian Export Opportunities to Mexico, the Conference Board of Canada identified 57 product areas where there were both demonstrated Canadian capabilities and strong Mexican demand; ten of which were held to be especially promising (see Figure 3.7). External Affairs and International Trade Canada has prepared market studies of six of the many sectors that hold out the most promise of increased Canadian business in Mexico (see Figure 3.8).

The following sections discuss some of these opportunity areas in greater detail. At present, opportunities for Canadian exporters are especially abundant in new agriculture, mining, export-oriented manufacturing, infrastructural construction, transportation, telecommunications, tourism, and pollution control systems and equipment. It should be added, however, that Canadians should think beyond the simple export of products. The export of services, technology, and expertise is assuming an increasing importance in today's international economy. Here too, Canadians have developed a rich storehouse of know-how that can be of significant benefit in Mexico's drive toward modernization.

Figure 3.8 Sectoral Opportunities for Canadian Companies in Mexico

Detailed market studies in several promising sectors have been prepared by the Canadian Embassy in Mexico and are available from the Latin American and Caribbean Trade Division (LGT) at External Affairs and International Trade Canada in Ottawa. The sectors included are:

| | |
|---|--|
| Agricultural Equipment, Seeds and Related Chemicals | Iron and Steel Industry |
| Automotive Industry and Auto Parts | Machine Tools and Metalworking Equipment |
| Bottled Water | Materials Handling Equipment |
| Building Products and Materials | Meat and Livestock Products |
| Computer Software | Mining Industry |
| Consumer Product Distribution Systems | Oil and the Petroleum Industry |
| Educational Systems | Plastics Industry |
| Electrical Distribution Equipment | Pollution and Environmental Control |
| Electronic Components | Safety and Security Related Products |
| Fish and Fish Product Distribution | Shipping Documents and Customs Regulations |
| Food Processing and Packaging Equipment | Sporting Goods and Leisure Products |
| Forestry Harvesting and Woodworking Equipment | Telecommunication Equipment and Systems |
| Sporting Goods and Leisure Products | Tourism, Hotel and Restaurant Equipment |

Primary Sector

Agriculture: Agrarian reform is high on the government's priority list. President Salinas declared, in his State of the Union Address of November 1, 1991, that the process of modernization which the Government of the Republic faces in agriculture is one of the most complex and urgent challenges. A few days later, Salinas, who wrote his doctoral thesis on agrarian reform, introduced amendments to the constitutional framework of land tenure and property rights.

Reforms to the *ejido* system (see box) involve not only land tenure, but credit, investment, infrastructure, technology and bureaucratic organization as well. The agricultural reform law of 1992 promises that three forms of land tenure will continue in Mexico: the *ejidos*, communal properties and small private properties. The reform seeks to combine a need for change with an attachment to certain traditions.

- It permits *ejido* members to organize and produce in the way they find most convenient. The law also provides the legal security for producers to invest in long-term development projects.
- *Ejido* members can buy or rent land, hire labour or associate with other producers or third parties. They may also establish joint-venture schemes with domestic or foreign private investors.
- Stock companies can now buy or manage land within the limits established by law for agricultural, forestry and livestock purposes.
- Both domestic and foreign corporations can acquire land for agriculture, livestock and forestry. A corporation can hold up to 25 times the landholding limit applied to individual property owners.

The Constitution imposes limits on the ownership of private property by individuals:

The Ejidos

In its time, one of the most powerful symbols of the Mexican Revolution - the *ejido* - was considered to have brought justice to the countryside. The *ejido* redistributed the *latifundios*, the extensive private landholdings of the past, to those who worked the land. Although the system promoted equality in the distribution of land tenure, it did not encourage crops and animal husbandry to reach their full potential.

Mexican agriculture operates under both private and communal land-tenure systems. Approximately 47 percent of the country's farmland is under private ownership. These private farms have an average parcel size ranging from 20 to 100 hectares and are limited to a maximum of 100 hectares of irrigated land or 200 hectares of rain-fed land.

The *ejidos* and communal farms, which comprise 53 percent of the agricultural land base and employ 84 percent of the rural population, are areas originally expropriated by the government and distributed to the peasants after the revolution. The average size of an *ejido* is five hectares. Most are located in the rain-fed areas. The majority of *ejidos* are worked by individual families, but some are either worked collectively or leased to private farmers.

Because of difficult terrain and climatic conditions, only some 70 percent of total cultivable land, or 16 million hectares can be mechanized. Of the total cultivable land, 75 percent is rain-fed and the remainder is irrigated. These lands have the potential to become more fertile and productive through the use of improved technologies such as irrigation, drainage, better machinery and equipment, high quality seeds, and fertilizers.

Sources: Market Study for Agricultural Equipment, Seeds and Related Chemicals in Mexico, Sectoral Study, EAITC.

Agricultural Joint Ventures

There are many successful joint ventures involving private landowners, *ejidatarios*, foreign firms and domestic corporations. An example is the investment made by Trasgo, a vertically integrated firm which invested \$US60 million in a poultry project. It is currently expanding operations with a venture of \$US100 million. The project includes domestic, Japanese and U.S. capital. C. Itoh of Japan contributes knowledge and experience in the Japanese market. Tyson Foods Co., a U.S. firm, provides technology and technical assistance. Trasgo contributes its strong experience in the Mexican market. Fifty percent of production goes to Japan in the form of consumer products, specially packaged for supermarkets and restaurants. Trasgo currently represents 14 percent of domestic poultry production. Trasgo has also established an association scheme with both small private producers and *ejido* members.

Another example is the Gamesa-Pepsico project. Gamesa is a large Mexican corporation which makes cookies, crackers and pasta. The Gamesa-Pepsico joint venture was formed in 1989, with an initial investment of \$US12 million. The project produces wheat and beans on more than 9,000 hectares of land. It has optimized available natural, human and capital resources. Now two good crops are harvested each year where one was barely possible previously.

- A private owner may hold up to 150 hectares of land designated for the production of cotton.
- The limit rises to 300 hectares where it is used to grow bananas, sugar cane, coffee, hemp, rubber, palms, grapevine, olives, quinoa, vanilla, cacao, fruit trees, agave, or nopal cactus.
- The limit shrinks to 100 hectares of irrigated land, or its equivalent, if it is used to grow products other than those designated for the higher limits.

In an effort to reduce government intervention in the sector, CONASUPO, the state-owned purchaser and seller of agricultural products, has withdrawn from the purchase and sale of all products except maize and beans.

An organization called ASERCA has been created to further improve agricultural efficiency. Its aim is to promote commerce, eliminate intermediaries and substitute markets for state intervention. ASERCA provides information on national and international prices, maintains a register of sellers and buyers and helps producers and distributors to get credit, transportation and related services. In essence, the government is attempting to replace protectionist policies with market-oriented policies, over a long-term development process.

The United States, Canada, and the Mexican domestic markets are all potential customers for Mexican foodstuffs and other agricultural products. The Mexican food and beverage market is booming. Aggregate consumption has increased by 34 percent between 1989 and 1990, to \$US21 billion. Mexico is the second most important agricultural supplier to the United States and their two-way trade in agriculture amounted to \$US5.54 billion in 1990, an increase of 67.5 percent over 1985.

Mexico's principal exports to all countries are tomatoes, coffee, cattle and meat. Processed foods are a fast-growing product line. Items such as tomato paste, orange juice and beer now make up 20 percent of total agricultural exports.

Mexico continues to maintain high import duties and restrictions on many food products but will eliminate them for Canada once NAFTA is implemented. Mexico is unable to produce all of the food that it needs because of limited arable land and water resources. As the country's standard of living improves, imports of a wide range of agricultural food products are likely to increase. Trade in agricultural products between Canada and Mexico was \$244 million in 1990 and \$212 million in 1991. Despite its relatively low current level, commerce in this sector has an enormous potential for growth.

There are many examples of promising areas that offer opportunities for the export of Canadian agricultural expertise, services and technology. These include irrigation projects, crop production, processing, transportation, storage, the establishment of cold chains, and retail marketing techniques. Many of these activities in Mexico are aimed at penetrating foreign markets, particularly in the United States, by assuring more reliable delivery or using improved packaging.

Forestry: Mexico imports almost \$US1 billion of forestry products annually and imports are expected to grow at a rate of 12 percent per year over the next five years. There is

likely to be growing demand for chemical wood pulp, fine paper, sanitary paper products (including diapers), softwood lumber, newsprint, veneers, and plywood.

Industrial Sectors

Mining: Mexico's mining industry has been opened up to private-sector participation. This presents an opportunity to Canadian mining firms with the appropriate technology and expertise. Similarly, suppliers of mining equipment could do well in Mexico. Canadian business people might look at Mexican efforts to develop new properties in the central and northern states. These will require specialized services, managerial expertise, technology and capital from abroad to ensure attractive returns on investment.

Manufacturing: This sector accounts for almost a quarter of Mexico's GDP and employs 20 percent of its workforce. The expansion in manufacturing production has been steady for five consecutive years and reflects growing exports of several industries such as metallic goods and machinery and equipment. It also reflects the increased demands generated by construction activities. The machinery and equipment category is supported mainly by the automobile industry, the output of which is growing dramatically.

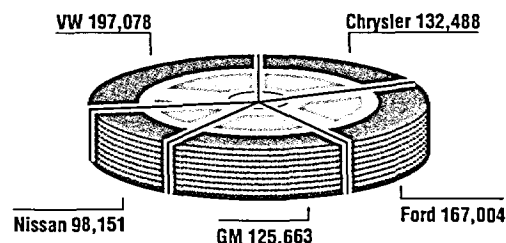
Aerospace and Defence Electronics Industries: Mexico's annual imports of products in this sector stand at about \$US1 billion and include airplanes, aircraft engines, flight simulators, radio remote-control apparatus, and helicopters.

Automotive: Mexico imports more than \$US5 billion in automotive products from Canada and the United States. It is estimated that its demand for imported automotive parts will grow at more than 7 percent per year over the next ten years.

The Big Three North American car manufacturers, as well as Volkswagen and Nissan, have taken advantage of the *maquiladoras* to produce in Mexico. Their investment was especially high during the late 1980s and collectively they have committed to investing an additional \$US3 billion between 1990 and 1993. Production is soaring, exports are exploding and so are sales. *Business Week*, March 16, 1992, stated that "the percentage change in light-vehicle sales from 1985 to 2000 is expected to be 0.7 percent in the US, 1 percent in Canada and 435.7 percent in Mexico".

Mexican vehicle output, 1991

Market share by manufacturer
(in units)



Source: DRI World Automotive Report.

The Mexican autoparts industry now comprises approximately 500 companies. Some of these operations are established as joint ventures with automobile manufacturers while others function independently, often with close links to the assembly plants. Almost all of the major local autoparts companies have technological and capital associations with foreign producers, either in the form of a licencing agreements or through direct technical assistance.

In 1989, car manufacturers with a positive trade balance were given the freedom to import automobiles. This relaxation was embodied in the Development and Modernization for the Automobile Industry Decree. A positive auto trade balance means more vehicles and parts exported than imported over the year. The Decree provides added incentive for assemblers to increase their Mexican content and puts pressure on Canadian suppliers to set up close to their principal purchasers in Mexico.

Chemicals, Pharmaceuticals and Plastics: PEMEX, the state petroleum monopoly, used to control all aspects of the

petrochemical industry but it is becoming more open to foreign suppliers and services. Imports in this sector are valued at \$US5 billion and include polyethylene, polypropylene, heterocyclic compounds, aluminum oxide and photographic paper.

Electrical Manufacturing Equipment: Mexican imports of electrical manufacturing equipment total about \$US2.5 billion annually. The leading imports include electrical apparatus for switching or protecting circuits. It is estimated that the market for imported electrical manufacturing equipment will grow by as much as 20-30 percent a year over the next five years.

Ferrous and Non-ferrous Metals and Fabricated Materials: In 1990, the Mexican market for ferrous and non-ferrous metals and fabricated materials was more than \$US4 billion. It is estimated that it will grow by as much as 14 percent a year over the next five years. Mexico imports products worth almost \$US2 billion in this sector including flat-rolled metal products, tin-plated steel, aluminum alloy, plate, sheet or strip, refractory bricks, unwrought alloyed aluminum, asbestos, and iron or steel bars and rods. By contrast, Mexico is a major international supplier of copper, lead, gold, silver and zinc.

Industrial Equipment: In 1990, the Mexican market for industrial products exceeded \$US6 billion. Mexico currently imports industrial equipment worth \$US3.9 billion and its demand for industrial products is expected to grow by as much as 35 percent over the next five years.

Information Technologies: Mexico imported \$US10.6 billion worth of information-related products in 1991. The Mexican market for imported technology products is expected to grow by as much as 20 percent over the next five years. Present Mexican imports are wide ranging and include television receivers, video monitors, projectors, telecommunications equipment and parts, as well as data input and output units.

Recreational, Household and Health-Care Products: In 1991, Mexico imported \$US6.3 billion worth of recreational, household and health-care products. The potential for growth is considerable given Mexico's expanding young urban population. It is estimated that the market for products in this sector will grow by more than 50 percent over the next five years. Mexico imports a wide range of consumer products including books, magazines, tapes, video games, newspapers, periodicals, cosmetics, and motorized toys.

Textiles, Apparel, Leather and Footwear: In 1990, the total Mexican market for textiles, apparel, leather and footwear reached \$US10.5 billion. Mexico currently imports \$US1.4 billion worth of these products.

Construction: Construction accounts for 5 percent of the GDP and employs 10 percent of the Mexican labour force. This sector has recorded impressive growth in recent years. One significant growth area is the construction of roads and ports. The government's emphasis on these projects reflects its need for new infrastructure to facilitate external trade.

Road Transportation: Because it is short of funds, the Mexican government employs creative methods to attract private sector financing for its ambitious highway building program. The most innovative and lucrative of these methods is the offer of toll-road concessions to investors (see Figure 3.9). Under a build-operate-transfer (BOT) plan, the investor finances and builds the road, retains ownership of the highway for a period of 15 to 20 years, and recoups the investment during that period from user tolls. At the end of the concession period, the ownership of the highway is transferred to the state. The government may extend the BOT concept to other infrastructure projects.

Figure 3.9
Toll Highway and Bridge Concessions, 1991

Total projected costs: 8 trillion pesos (\$3.2 billion)

| LOCATION | kms |
|--|--------------|
| Cuencame—Durango | 140 |
| Maravatio—Morelia—La Barca—Zapotlanejo | 305 |
| Sayula—Ocozocuaulla | 263 |
| Aguascalientes—Zacatecas | 100 |
| Pachuca—Tula—Jilotepec | 105 |
| Acayucan—Salina Cruz | 230 |
| Piramides—Tulancingo—Tuxpan—Tampico | 380 |
| Atizapan—Atlacomulco | 85 |
| Guadalajara—Tepic | 80 |
| Northern Beltway around Mexico City | 147 |
| Seven other projects (<50 km each) | 201 |
| Six bridges | |
| TOTAL | 2,036 |

Source: Programa de Trabajo 1991, Secretariat of Communications and Transportation.

Electricity, Gas, Water: The electricity, gas and water sector grew by 4.1 percent in 1991. Demand for electricity is growing by 7 percent a year, but supply is often problematic. Brown-outs have been a consistent problem facing businesses and individual users alike. Efforts are being made to correct the inefficiencies of the grids and to bring on new suppliers while servicing a growing clientele. Mexico now allows private enterprises to generate electricity for private use and for sale to the state. Canada's long-standing track record in the field of hydroelectric power generation may present opportunities for the sale of technology or expertise.

Business and Professional Services: There is a significant and growing demand for foreign technical expertise to help Mexico improve and develop its infrastructure, especially in areas such as telecommunications, utilities, power, and sewerage, as well as land and maritime transportation.

Environmental Services and Equipment: Despite the Mexican administration's emphasis on modernization, it will not allow industrial expansion to occur at the expense of the environment. One of the greatest challenges facing Mexico is to ensure that development is consistent with sound and sustainable environmental practices. A strict new federal law on environmental protection coupled with increased public pressure for enforcement has created a growing demand for different sources of anti-pollution equipment and related services. Environmental issues are also being addressed as part of the NAFTA process. Mexico is eager to match the environmental standards of its North American trading partners as soon as possible.

In environmental matters, Mexico has moved to a regulatory system with a supportive watchdog infrastructure. On May 25, 1992, the *Secretaría de Desarrollo Social* (SEDESOL), assumed responsibility for the previous environmental regulating secretariat, SEDUE. SEDUE's former regulatory powers are now divided between the *Instituto Nacional de Ecología* (INECO) and the federal Attorney General for Environmental Protection. INECO will act as the policy arm while the Attorney General for Environmental Protection will be responsible for enforcement and investigation of claims. Mexican states will assume more responsibility for environmental protection in the future. Nearly all the states have adopted their own environmental laws which must be at least as stringent as the General Law of March 1, 1988, which states that:

- all new public or private activities, or expansions of existing facilities which may cause ecological imbalance, or exceed the limits and conditions of ecological technical standards and regulations are required to demonstrate compliance and obtain authorization from SEDESOL before beginning operations;
- Mexico's natural resources are conserved and protected by ecological zoning. The zoning regulations impose siting restrictions on development projects;
- non-complying industrial plants are closed by SEDESOL, which enforces the General Law. A closed

plant can re-open only after negotiations with SEDESOL have produced an agreement and timetable for full compliance; and

- the General Law has also armed SEDESOL with an array of other enforcement mechanisms. These include stiff fines (which can range from the level of the daily minimum wage to \$US80,000); criminal penalties (prison terms from three months to six years); and administrative arrests. An administrative arrest, as distinct from a criminal penalty, confines a corporate officer for up to 36 hours.

Mexico's commitment to the environment was expressed by President Salinas de Gortari in his 1991 State of the Union address. "Mexico will not receive new polluting industries that are not accepted in other countries. And just as we do not want dirty or obsolete industries, we do not want to see our territory or our seas turned into garbage dumps whether for ourselves or others...."

Carlos Salinas de Gortari, State of the Union Address, 1991

Mexico is not just paying lip service to environmental issues. In March 1991, President Salinas de Gortari closed Mexico's biggest oil refineries, the country's worst polluters. The action cost Mexico \$US500 million and a net loss of 5,000 jobs. Major steps have been taken to improve air emissions in Mexico City. New, cleaner-burning diesel engines have been installed in public buses. Taxis, vans, minibuses and other vehicles licenced for public transport must be 1989 or newer models. Older vehicles must be replaced with 1991 or newer models. All vehicles produced from 1991 onwards must be equipped with catalytic converters. Mexico City's subway system is being expanded by nearly 30 kilometres, and the city has adopted a Day Without a Car Program.

Air Pollution: A \$US2.5 billion program for Mexico City will cut total sulphur dioxide emissions, now estimated at over five million tonnes a year, by 37.5 percent by the end of 1994. International financial organizations, like the World Bank and the Japanese Eximbank, will provide 40 percent of the estimated funding requirements.

Mexico was the first country to sign the 1989 Montreal Protocol which limits the amounts of certain ozone-depleting substances that can be produced and consumed. Under the Protocol, Mexico is committed to phasing out the use of CFCs by the year 2000. In 1991, SEDUE entered into an environmental technology transfer agreement with

Environment Commitment

Mexico City's Day Without a Car Program, initiated in 1989, has taken 400,000 of the metropolitan area's estimated 2.5 million registered automobiles out of circulation every day. All cars are issued a coloured sticker which is posted on the rear window. Every weekday is coded and owners of vehicles bearing that colour code are prohibited from using their vehicle that day. The program is a response to the city's notorious air pollution which reached critical proportions in March 1992. At that time, two colours a day were ordered off the roads as a temporary emergency measure.

Three sectors account for approximately 85 percent of purchases in pollution control equipment and instruments: industrial waste-water, municipal waste-water and air pollution control. These and noise pollution control have the greatest market potential for imported products.

"Mexico is really only just beginning to develop on the tourism front and there is an overall shortage of capacity.... This is a frontier country just beginning to enter a capitalist world. It is tremendously exciting...everything has yet to be done."

Kenneth Pryor, Director General, Grupo Situr

Northern Telecom, the Industry Cooperative on Ozone Protection and the US Environmental Protection Agency. The parties have agreed to exchange information on strategies and technologies to reduce CFCs and solvents used by the electronics industry in Mexico.

Instrumentation and Equipment: The total pollution control market can be divided into two categories. The instrumentation market, valued at \$US5.3 million in 1989, accounts for approximately 2 percent of the total market, all spent on imported instruments. The equipment market amounted to \$US220 million in 1989, of which \$US198 million is manufactured domestically, with the remainder imported. Demand for pollution control equipment and instruments is expected to grow to an annual total of \$US280 million in 1992. Imports represented approximately 12 percent or \$US26 million of the total market in 1989. In the longer term, they are estimated to grow at an annual rate of 15 percent, reaching 14 percent or \$US40 million of the total market in 1992. U.S. products dominate the market (72 percent) for both instruments and equipment, followed by Germany (9 percent), Switzerland (3 percent), Japan (3 percent), France (2 percent) and Canada (1.6 percent).

Waste Management: About three million tons of industrial waste are produced in Mexico every year, half of it in the metropolitan area surrounding Mexico City. Many of its large industrial garbage dumps are near saturation. Industries and hospitals are dumping waste into the city's sanitary fills, which are reserved for commercial and domestic use. Protocol de México, a division of Waste Management International, has been contracted to build Mexico's first plant to process and dispose of industrial waste. More waste-management companies are being invited to undertake similar projects in Guadalajara and Monterrey where comparable problems exist.

Financial Services: As Mexico enters the international economy, there will be a strong and growing demand for sophisticated financial services. This is reflected in the rapid capitalization of the Mexican stock market which grew from \$US41 billion to \$US102 billion during 1991 and then to \$US140 billion by April of 1992.

Telecommunications: Canadian firms are already major players in the development of a cellular telephone network in Mexico with 1991 sales at about \$US100 million. Excellent prospects also exist in the development of rural telephone networks, data transmission, local area networks, packet switching, and similar product areas in which Canada is a recognized world leader.

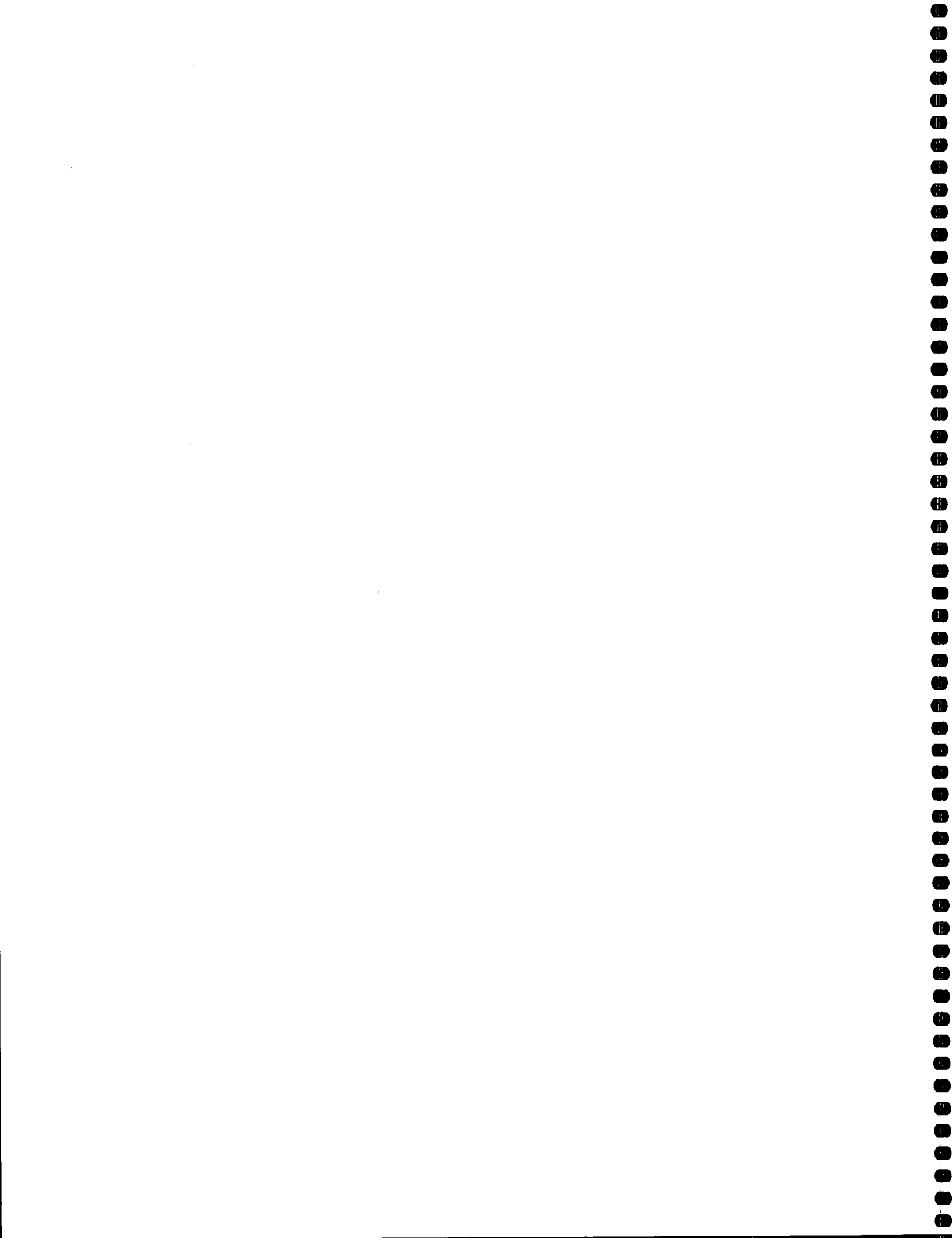
Transportation Services and Equipment: Mexico's domestic land transport regulations were dramatically liberalized in January 1990. Foreign transportation providers are now increasingly able to offer their services inside Mexico which currently imports transportation equipment worth \$US130 million annually. It is estimated that the market for imported urban transit and rail equipment will grow by as much as 10-18 percent over the next five years. The rehabilitation of Mexico's aging railway system could present an opportunity to Canadian suppliers of locomotive repair services, railway communications systems, and specialized managerial services. The bus and trolley systems in Mexico City are similar to those in Canada and offer additional opportunities for the supply of parts and service.

Tourism: Tourism is the biggest earner of foreign exchange after oil and the *maquiladoras*. About 92 percent of the foreign visitors are from the United States, 5 percent from Canada and 3 percent from Europe. The current level of six million tourists a year is expected to rise to ten million by 1994, creating new opportunities in real estate development, construction and the service sector. The tourist industry is expected to provide almost two million jobs. The government has designed a four-part strategy to promote Mexico as a resort destination, improve transportation and infrastructure, and improve personnel training. The aim of the strategy is to increase earnings by enticing smaller numbers of visitors to spend more time and money in Mexico.

Mexico's SECTUR, Secretariat of Tourism (*Secretaría de Turismo*) is actively promoting massive investment in megaprojects. Rafael Perez, SECTUR's communications director, says the projects will prepare Mexico for the tourism of the future. Under the megaproject investment scheme, Fonatur, the government agency which promotes

investment in tourism, sells large tracts of land to a developer. Having invested in the real estate, the developer then builds access roads and brings in electricity, water, sewage systems and telephone service. Marina Vallarta was the first of these mega-developments and there are another six in the pipeline. The mega-development concept responds to a changing market that has become more demanding. The huge hotel complex includes North American-style malls whose retail outlets bear familiar names, such as McDonald's.

The tourism strategy has created a vast demand for construction services and hotel furnishings. Opportunities also exist in other parts of the tourism sector. Canadian firms active in the transportation business may look at the transportation of tourists to and from Mexico as an expanding market. Mexico has opened its roads and skies to foreign firms. Non-Mexican bus companies and airlines can now enter the country with passengers, and national carriers are no longer protected. In the tourist regions along the coast, new docks are being built to attract boat visitors.



IV. EXPORTING TO MEXICO

Indirect Exporting

Direct Exporting

The Role of Agents

Transportation

Documentation

Standards

Customs

Bonded Warehouses

Re-Export

Selling

Export Financing

Indirect Exporting

Canadian firms contemplating exporting their products to Mexico for the first time may be daunted by the challenges and complexities of transport, customs clearance and distribution. There are alternatives to doing it yourself, however. Smaller companies with limited resources or firms that simply want to test the market before making a commitment can sell their products to an intermediary in Canada, leaving the latter to do the actual exporting. Such intermediaries may include an export management company, a trading house, a broker, or a foreign purchasing agent.

Export Management Company: There are companies who make it their business to look for overseas opportunities for their client firms. Usually they will represent a portfolio of several non-competing manufacturers and provide their services for a commission, retainer or flat fee. They tend to specialize in a particular sector, product area, or country and are in touch with well-established networks of foreign distributors who are familiar with all packaging, documentation and shipping requirements.

Trading House: Unlike export management companies, trading houses actually take title to the goods being shipped abroad and pay the manufacturer directly. This allows for fairly quick returns on sales destined for export. Some trading companies also provide a broader range of services such as making a commitment to achieve and maintain a certain level of sales. In return, the manufacturer may have to agree to maintaining inventories at certain levels, as well as guarantee certain turnaround times. The manufacturer

may also have to enter into certain undertakings regarding advertising, packaging, pricing, and financing.

Foreign Purchasing Agents: Some Mexican institutions, such as government agencies or private sector firms, have agents who make purchases for them in foreign countries. In such cases, the transaction would be completed in Canada and the agent would take on the responsibility of shipping the goods to Mexico.

Brokers: Finally, there are independent import-export brokers who specialize in particular products or commodities. They act as independent middle-men who receive commissions based on the value of the transactions they handle. In some cases, they may provide documentation, labeling, packaging, and marketing services.

Whatever the specific arrangements made, indirect exporting demands little or no knowledge of the Mexican market, no international experience and few resources. It is far less risky than attempting to export goods on your own and you will probably be paid faster. On the other hand, you exercise very little control over what happens to your product and how it is positioned in Mexico. You do not enter into direct contact with Mexican customers and therefore can gather little information about their needs or preferences. That, in turn, means that you may capture only a small portion of the total potential market for your product. In addition, using intermediaries means that there are more people with whom to share the profits from a transaction, and thus less that reaches your bottom line.

Direct Exporting

Once companies become familiar with the techniques of exporting into a particular market, they prefer to do it themselves. That is because there are several significant advantages to exporting directly. Above all, the company exercises at least partial if not full control over the way the product is positioned and sold. Direct exporters decide on pricing, distribution channels, promotion, and after-sales service. Because they can enter into direct contact with buyers or end users in Mexico, they can better understand customer needs and preferences and use this feedback to modify the product. In effect, they are more in touch with market signals. At the same time, the market presence associated with direct exporting means that a company can protect and exercise better control over its trademarks,

patents and good will. Finally, with fewer intermediaries involved, there will be fewer people with whom to share profits.

Direct exporting, however, is not simple. Above all, it demands that you visit Mexico, learn about the market, and meet with potential end users, distributors, agents, and government trade officials. You have to develop a network of contacts on the Mexican side and establish close working relationships with several key individuals. Ultimately, you are responsible for understanding the market, satisfying its needs, and dealing with any problems that may arise along the way.

There are several avenues open to you as you look for customers in Mexico. The one you choose will depend to a large extent on the type of product you want to export. If you are selling industrial machinery, for example, you will probably enter into an arrangement with an agent specializing in that type of product or with contacts in the target industry. You may also enter into a direct relationship with a government agency or the purchasing department of a larger private corporation. If you are shipping consumer goods, you may be better off making an arrangement with a professional distributor who will send it to a variety of outlets. Alternatively, you may enter into a direct relationship with a retailer who agrees to carry your product. In some cases, you may wish to establish your own outlets or chain of dealers and sell directly to end users.

Generally, distribution channels are less well defined in Mexico than in Canada or the United States. Consequently, as a Canadian firm you are well advised to take the time to select a good distributor or agent/representative that suits your business style. If you are using the services of a distributor, make sure that proper attention is being paid to your product and that the distributor is not treating it as an add-on to fill out a particular product line. In choosing a distributor, consider issues such as: the regions covered; product specialization; specific lines handled; the size of the firm; knowledge of your product; the distributor's track record; the size and quality of sales staff; relations with local governments; the condition of facilities; the distributor's willingness and ability to keep an inventory of your product; the possibility of offering after-sales service;

and the company's reputation and its relationships with financial institutions. Ultimately, you have to decide on how much interaction and cooperation will be required to make the relationship work and be comfortable with it. Above all else, you should keep an eye on the percentage that the distributor proposes to add to the final price to cover their services.

If you are selling consumer goods, one solution to the challenge of distribution is to enter into a direct relationship with a retail chain. Larger retail chains and discount stores are playing an increasing role in distribution of products to consumers in Mexico. Using marketing techniques similar to those found in the rest of North America, they are also introducing tools such as bar coding to speed up customer service. CIFRA, the largest retail chain, operates approximately 200 supermarkets, cafeterias and department stores in Mexico and does about \$US2 billion annually in sales. Other important retail chains include Comercial Mexicana, Grupo Gigante and Soriana.

Suppliers of goods and services to the Mexican government its agencies and controlled corporations are required to be registered as such with the Secretariat of Budget and Programming. The requirements for registration include filing copies of the company's charter of incorporation, recent financial statements as evidence of solvency, and proof that the company can deliver the goods or services that it is offering to the Mexican government. Every year, the Secretariat of Budget and Programming publishes a list of approved government suppliers.

The Role of Agents

Most Canadian companies presently exporting to Mexico are focused on selling capital goods, machinery, equipment, or components for assembly. A preferred and quite common approach for such companies is to enter into a relationship with an agent in Mexico. Agents solicit business on behalf of their principals but do not take title to goods. Many agents specialize in a particular product line or industrial sector where they have built up a network of contacts. In selecting an agent, consider the regions covered, product lines handled, knowledge of your product, track record, size and quality of sales staff, after-sales service, reputation, and the commission required. More than this, however, success depends on developing a good working relationship between the firm and the Mexican sales representative. To do so, ongoing personal contact is vital.

Mexico's tax laws are one reason for the popularity of agency agreements. All sales in Mexico are subject to income and value-added taxes. These include sales made by agents and sales subsidiaries who have the power to bind the Canadian exporter or those where the title passage occurs within Mexico. Most exporters, therefore, establish an agreement that does not give the agent the legal power to bind the exporter, to accept purchase orders locally, or to make deliveries to customers. Instead, the agent promotes an exporter's goods on an exclusive basis and operates through a representative office that can contact potential clients and supply information about what is being offered. In this way, the agent serves as a liaison between potential Mexican customers and the Canadian exporter. When goods are shipped to Mexico, it is not the agent but the purchaser that withdraws the goods from customs.

Tips on Selecting an Agent or Distributor

- Experienced distributors and agents are difficult to find, especially outside the three main commercial centres.
- Some agents are former manufacturers with established networks. Their networks may, however, be limited to former purchasers.
- Establish the agent's responsibilities clearly and ensure that the agent does not go beyond them. These responsibilities should mesh with your long-term corporate goals.
- The agent may want to use a Canadian business card but it is preferable, initially anyway, for the agent to use his/her own card,

Otherwise, title to the goods would pass from the exporter to the purchaser within Mexico, making the transaction subject to a 10 percent value-added tax (IVA).

In Mexico, contracts between exporters and their agents are not subject to government regulation. However, be careful to define your relationship with your agent clearly so that it

bearing the designation "Agent Representative for XYZ". This way, if the agent makes a mistake, the company's reputation is not irreparably damaged.

- Agents are usually hired on a retainer basis, at least initially. Percentages are negotiated later and tend to be based on varying percentages of transaction values. Do not relinquish access to the client.
- Some companies spend up to a year visiting Mexico to find an agent. A good place to start is the Commercial Division of the Embassy of Canada which may be able to direct you. Industry contacts may also be of assistance.

is not construed as an employer-employee relationship which is subject to tax and labor regulations. If the agent has the power to bind the Canadian exporter legally, this may be construed as an employer-employee relationship. In that case, the exporter would be obliged to provide the agent with a series of statutory benefits and pay taxes on the agent's income to the Mexican government.

Transportation

There are four ways of getting your goods to Mexico: road, rail, ship and air. Of these, road transport is the most popular. In 1990, about 40 percent of Canada's exports to Mexico went by road, 26 percent by rail, 17 percent by water and 17 percent by air. Based on the volume of merchandise shipped, the most important Mexican ports of entry are the following:

1. Vera Cruz and Tampico-Altamira on the Gulf of Mexico for maritime traffic;
2. Manzanillo and Acapulco on the Pacific Coast for maritime traffic;
3. Tijuana in the northwest and Nuevo Laredo in the northeast for land-based traffic; and
4. Mexico City International Airport for air shipments.

The decision as to which mode of transportation to use depends on a combination of factors including the nature of your product, the costs involved, the time it takes to move the goods, the complexity of the procedures involved and the provision of any additional services.

Trucking: Trucking to and from Mexico has grown in importance in recent years. It is both well-developed and adaptable. For example, refrigerated cargo moves almost entirely by truck. Trucking times from southern Ontario to the Mexican border average around 40 hours. In the past,

trucking goods to Mexico suffered from two basic impediments: customs procedures at the U.S.-Mexico border were excessively complex, and Mexican regulations required that all trucking within Mexico be performed by Mexican companies. As a result, there were significant delays at the border as goods were first cleared through customs and then transferred to Mexican carriers. Both of these impediments, however, are being overcome. Mexico has recently reformed its customs procedures as it seeks to encourage trade with the outside world. In addition, the regulations protecting domestic transportation are being changed, particularly with the conclusion of the NAFTA.

Railways: Recent changes have been made in the way cargo shipped by rail is cleared through customs. A new customs pre-clearing system through the San Antonio corridor to Nuevo Laredo has improved efficiency and shortened the time it takes to cross the border. U.S. rolling stock can now cross into Mexico, eliminating the need for re-loading at the border. In addition, rail service is improving with the increasing availability of double-stack trains, express trains, and inter-modal trains transporting containers and trailers. From a Canadian perspective, however, it should be noted that these trains originate in the United States so that the Canadian exporter must first ship the goods there before they can continue on to Mexico.

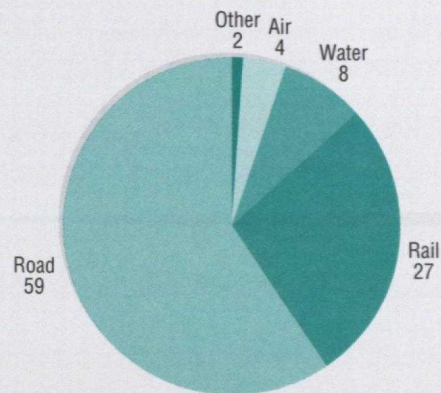
Marine: Sending goods by sea suffers from the lack of any regularly scheduled service between Canada and Mexico. At present, marine transport is generally not competitive with road or rail transport in terms of time, price or service. Such goods as are sent by ship usually consist of bulk and specialized cargoes that cannot easily be sent any other way.

Air: Air services between Canada and Mexico continue to improve as the number of direct scheduled flights increases. Montreal, Toronto and Vancouver are the originating points for direct commercial services to Mexico City. Much of the passenger service, however, is still based on chartered flights that do not have room for much additional cargo. Air transport remains best suited to the movement of people or compact merchandise that requires timely delivery.

Canada's experience in shipping directly to Mexico has been limited and much of the merchandise trade has traditionally been channelled through the United States for transshipment. New awareness of the Mexican market and an increase in exports have caused Canadian companies to search for more direct shipping routes by air, truck and sea. Improved Mexican roads, up-dated port facilities and streamlined customs procedures will eventually make access easier. This will allow for direct shipment of containers and reefers from Canada to Mexican destinations.

Freight Forwarding: Freight forwarders are independent companies that handle export shipments for a fee. Freight forwarders can arrange shipments for Canadian exporters using any mode of transportation. They offer a complete service package and are indispensable for first-time exporters since they can simplify the challenges involved and take care of various details and problems. Because of

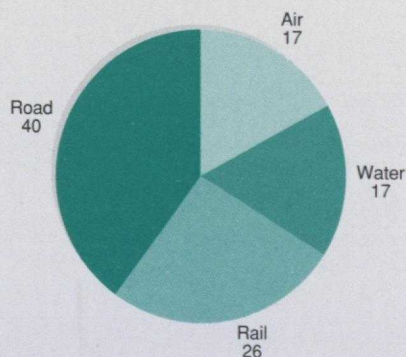
Imports from Mexico, 1990 (in percent)



Source: Statistics Canada, Imports — Merchandise Trade, 1987-1990, #65-203.

their professional experience, they are excellent source of information on regulations, documentation and shipping methods. The freight forwarder can consolidate shipments to save on costs, advise on the mode of transportation that best meets the needs of the exporter, arrange for customs documents, engage the services of a Mexican customs broker, and arrange for transport, warehousing and distribution within Mexico. While individual transport companies can sometimes make similar arrangements, they are geared toward exporters with large frequent shipments and will not always offer the full range of services of a freight forwarder.

Exports to Mexico, 1990 (in percent)



Source: Statistics Canada, Exports — Merchandise Trade, 1987-1990, #65-202.

Freight Forwarding: New Linkages

A few freight forwarding companies in Canada have anticipated an expansion in Canada-Mexico trade, especially as a consequence of NAFTA. They are making improved services available to Canadian exporters. An example of a Canadian freight-forwarding company filling a growing niche in the market is the joint venture created between BLM/Challenger Transportation Group Inc., located in Kitchener, Ontario, and Figuremex S.A. de C.V., located in México D.F. The objective of the partnership is to streamline delivery, provide warehousing and promise effective distribution to a Mexican and Canadian clientele.

Documentation

Every product exported to Mexico requires a specific set of accompanying documents. It is best to work with a Mexican customs broker to ensure that documents appropriate to the transaction are included with the shipment. At a minimum, all shipments require the following:

- a commercial invoice;
- a packing list specifying contents; and
- a bill of lading or air waybill.

Mexican customs officials insist on the *absolute accuracy and completeness of these documents*. Any discrepancies can lead to delays, penalties or even confiscation. For further information and assistance, contact the nearest Mexican Trade Commission.

The commercial invoice must be signed by the exporter, showing the marks, numbers, types, and quantities of products being shipped. The document must be presented in its original form with up to 11 copies. A Spanish translation

must accompany the English original. The invoice must also show all costs including an itemization of the freight charges and insurance since Mexican tariffs are calculated on the basis of the value of the goods plus the cost of insurance and freight.

Sanitary certificates in quadruplicate must accompany the shipment of live animals, seeds, plants, and related products. These are provided by various Canadian government agencies and the original must be notarized by a Mexican consulate in Canada before shipment is made.

Special labelling requirements apply to silver and nickel plated goods, wearing apparel, leather goods, packaged foodstuffs, beverages, pharmaceuticals, fertilizers, prepared feeds, and insecticides. For these products, consult with the customs broker, representatives of the Mexican Trade Commission in Canada, or the Mexican government agency regulating imports in your sector.

Standards

Product standards are an important consideration for companies exporting capital goods, machinery and industrial equipment to Mexico. Standards are the purview of the Mexican Bureau of Standards (*Dirección General de Normas*), commonly referred to as the DGN, which is part of SECOFI. This institution establishes the weight and measurement standards for the country. The metric system is used in Mexico and standards for goods are determined according to the International System of Units. Generally, Mexican standards follow those that are widely adhered to in the industrialized countries. In addition, Mexico follows the standards set by the American Society of Mechanical Engineers (ASME), the American Society for Testing of Materials (ASTM) and the Society of Automotive Engineers (SAE).

All imported goods, including building and construction materials, electronics, chemicals and medical equipment, require a quality and standards authorization from the DGN called the "NOM" before they are allowed into the country. DGN publishes quality standards for a wide range of products in its catalogues. Canadian firms are advised to consult with a customs broker or freight forwarder to find out whether a given product conforms to DGN standards and is therefore eligible for a NOM.

More detailed information and copies of DGN standards may be obtained by contacting:

Secretaría de Industria e Inversión Extranjera
Dirección General de Normas
Depto. de Certificación y Verificación de Normas Obligatorias
Av. Puente de Tecawachalco No. 6, Piso 1
Col. Fuentes de Tecawachalco
México, D.F.
México
Tel: 540-2620 or 589-9877, ext. 130

Where a NOM is required, applications must be made to the following special division of SECOFI:

Dirección General de Asuntos Fronterizos
Periférico Sur 3025, Piso 7
Col. Héroes de Padierna
Del. Magdalena Contreras
México, D.F.
México
Tel: 683-4394 or 683-7055, ext. 2706

Since Mexico became a member of the GATT in 1986, import tariffs have tumbled. The maximum tariff rate, which stood at 100 percent in the mid 1980s, is now 20 percent. The tariffs range from 5 to 20 percent and increase at 5 percent intervals. Very few tariffs fall into the 5 percent category and on a weighted basis Mexican tariffs average around 10 percent.

With the negotiation of the NAFTA agreement by Canada, Mexico and the United States, tariffs will decrease according to a specific and negotiated timetable. The new rules of origin provisions in the Agreement will be the determining factors as to whether a given Canadian export to Mexico will qualify for eventual free trade treatment. Special treatment for sensitive national interests in each country is recognized in the Agreement.

Mexican tariffs are calculated on an *ad valorem* basis, that is they are assessed on the value of merchandise when it appears in Mexico. That means that the tariff is usually calculated on the basis of the original cost of the merchandise plus the cost of insurance and freight to the Mexican border. That is why it is important to itemize these costs in the invoice presented to customs officials.

In addition, specific duties are charged on certain commodity items and are calculated by weight, volume, length, or other unit. If they are charged by weight, it is important to establish whether the charge includes the weight of the packaging. Some products are subject to compound duties that include both *ad valorem* and specific duties charged on the same product. In other cases, the customs officials calculate both types of duties and then apply the higher one.

Mexico collects a value-added tax of 10 percent similar to our GST whenever the ownership of goods changes. There is also a customs processing fee of 0.8 percent calculated on the same *ad valorem* basis as tariffs. Some goods produced in Mexico are subject to excise taxes. When the same products are imported, a similar excise is charged over and above other duties. In such cases, the taxable values used in calculating the excise are the sum of the price plus the import duties. Finally, there is a statutory 0.2 percent broker's fee that is payable with the customs declaration.

As noted, the valuation of merchandise for the sake of collecting duties is usually based on the price cited in the commercial invoice. If there is a financial, commercial or other type of relationship between the foreign supplier and

the Mexican importer, it will be presumed that free competitive conditions are not present and a preferred price has been charged. At that point, the importer is required to determine the normal price level by increasing the sales price to eliminate any preferential or uncompetitive discounts.

The Director of Customs is empowered to review import declarations, to carry out physical inspections of merchandise, and to request additional information or documentary support to confirm the legal status of any foreign merchandise. Non-compliance with customs regulations is severely punished in Mexico. This can lead to additional duties, fines reaching 50 percent of the value of the merchandise or even the confiscation of merchandise without possibility of recovery. In extreme cases, criminal prosecution may also apply.

As of 1988, Mexico's customs handling system has been completely updated with the introduction of a computerized tracing system. Since then, traffic control and warehousing have improved dramatically and customs and storage facilities are adequate and secure. Customs clearances should be made by the importer within two months of the arrival of the goods, extendible by one additional month. If merchandise is still unclaimed after this maximum period, the goods are listed in the Official Newspaper and a 15 working-day grace period is given for their customs clearance. Once this period ends, the property is automatically transferred to the government.

In 1988, Mexico converted to the Harmonized System for Merchandise Classification and Codification, the same system used in Canada. With the change to the Harmonized System came a general simplification of bureaucratic procedures and the elimination of the previously required import permit system. As a result, customs clearance in Mexico is now quite expeditious, especially for imports that are destined to be integrated into goods assembled in Mexico for subsequent re-export.

The tariff system described above will continue to operate until the NAFTA is ratified and implemented. After that time, tariffs on goods originating anywhere in North America will be phased out gradually. Potential exporters are advised to consult the NAFTA provisions to determine the timing for phasing out tariffs in their particular industry.

Bonded Warehouses

Canadian exporters seeking to avoid paying duties up-front, may arrange to store their goods in one of the many bonded warehouses operated by private companies under government regulations. For goods in such warehouses, import duties are payable only once the goods are actually withdrawn from storage. This procedure often results in a substantial reduction of the funds needed to ship goods to Mexico. Moreover, once the goods are in the bonded warehouse, they are immune to any subsequent limitations on imports or changes in the customs duties charged. The value of the merchandise for the purpose of assessing import duties is frozen at the moment when the merchandise enters the warehouse. Any subsequent devaluation of the Mexican currency does not increase the dutiable value in pesos. The

last provision is especially useful in a country where the rate of inflation (and the corresponding devaluation of the peso) remains relatively high by Canadian standards.

Apart from bonded warehouses, the state of Baja California, the city of Agua Prieta and an area in the state of Sonora, as well as a number of ports in the southern part of Mexico in the state of Quintana Roo, have been established as free zones to which merchandise and equipment may be shipped free of customs duties and with a minimum of control, as long as they do not enter the rest of the country. There is no limit to the length of time equipment or materials may remain in these free zones.

Re-export

Mexican customs regulations contain extensive provisions allowing for the temporary import of goods. These rules allow exporters to avoid import duties on merchandise. There are four basic categories of rules governing temporary imports:

1. the general temporary import regime;
2. rules governing the temporary import of goods that are to be returned abroad in the same state or condition (i. e. containers, exhibits, rental equipment);
3. the temporary import of goods for transformation, processing, or repairs; and
4. goods destined for designated industrial areas where they are to be incorporated into manufactured products destined for export from Mexico.

In general, temporary imports require the posting of a bond or other means of guaranteeing payment of the duties that would apply if the goods were to be imported on a permanent basis. If, during the term of the temporary import (including extensions), the importer wishes to change the status of the goods from temporary to permanent import, he or she should notify the authorities, comply with any import permit requirements, file the import declaration, and pay the duties and other taxes that may apply in accordance with the rates, valuation and other statutes in force on the date the import becomes definitive. Upon customs clearance, the original bond will then be cancelled.

Selling

Promotion and Advertising: Mexican companies do not pay as much attention to promotion and advertising as their Canadian or American counterparts. Given the strong Mexican preference for imports, especially from the United States, much of Mexico's advertising is typically North American.

The *Consejo Nacional de Publicidad* (the National Advertising Council), a private organization funded through its 125 member-associations and -companies, coordinates public service campaigns and is the media's biggest customer in Mexico. Mexico has a well-developed

advertising infrastructure focusing on the press, magazines and broadcast publicity. About 320 newspapers and 200 major magazines are published in Mexico. Total newspaper circulation is close to 10 million copies a day.

Approximately 10 million households have television sets. Seven TV networks operate throughout the republic. Some areas of the country receive transmissions from the U.S. via cable or satellite dish. Over 900 radio stations operate throughout the country and most are commercial. Estimates put the number of radios in Mexico at 22 million. Of the \$US2.17 billion spent on advertising in Mexico in 1991,

60 percent was directed at TV advertising, 20 percent was spent on radio, 15 percent on print and 5 percent on outdoor advertising. Advertising is relatively expensive. One minute of prime-time advertising on Televisa, the largest TV network, costs \$US10,000. A one-page ad in El Universal, a large daily with a circulation of 1.2 million, costs up to \$US6,000.

Pricing Strategies: Standard cost-pricing formulas should not be relied upon in Mexico since they may lead to over-pricing. Market research should be conducted to determine what prices will be accepted by the market. Once a market niche is established, more flexibility on pricing may be possible.

Credit and Collection: Most sales to Mexico are made on a cash or letter-of-credit basis. Many suppliers advance credit to better known clients to become more competitive, but extreme caution should be exercised when exploring the option. A firm's ability to investigate credit worthiness, collect accounts, or retrieve unpaid debts is limited. Mexican banks are in a position to assist with credit checks, and there are private companies, such as Dun & Bradstreet, which specialize in that area. Lines of credit and export insurance may also be available through Canada's Export Development Corporation in the case of sales of particular types of goods and services.

Debt Collection

Many Mexican companies use couriers or collection agencies to pick up receivables, partly because of the inefficiencies of the mail. Traditionally, many clients wait until the bill-collector is at the door before paying their accounts. In the words of one official with Moore Corporation, "You need a collection staff if you want to get paid. You could mail statements out forever, but the company will only pay when someone comes and stands there with a hand out." Moore has produced business forms at its San Luis Potosi plant for the Mexican and export markets since 1949.

Export Financing

Commercial Banks: Canadian Commercial Banks were highly exposed at the time of the economic crisis in the early 1980s. They eventually agreed to renegotiate the terms of the loans and credits that they had extended to the Mexican government. Mexico's recent economic turnaround promises a gradual reduction in overall levels of this sovereign debt. In terms of financing private ventures, commercial banks are interested in Mexico's possibilities and are receptive to business proposals which they will review on a case-by-case basis. The Bank of Montreal, the Royal Bank, the Bank of Nova Scotia and the Canadian Imperial Bank of Commerce all maintain offices in Mexico. They support the activities of their clients with traditional trade financing instruments and they are well positioned to assume a larger role in the future.

Export Development Corporation (EDC): EDC makes financial support or export insurance available to Canadian exporters. It has also extended 13 lines of credit valued at \$US820 million to Mexican financial institutions for which sales of Canadian capital goods or services in excess of \$100,000 may qualify. This financing mechanism has proven especially important in supporting market entry by new exporters who have been able to direct their customers to the Mexican banks that have access to EDC credit facilities.

Lines of credit may be acted on with relative ease and transactions may be finalized in a matter of weeks. EDC will

finance up to 85 percent of the value of a commercial contract under a line of credit. An exporter who believes that an anticipated transaction may be eligible for financing should approach EDC when the transaction is first being negotiated. Before committing itself, however, EDC will need the following documentation:

- a copy of the proposed commercial contract;
- a set of the exporting company's financial statements; and
- a completed Canadian Content form — the minimum eligible Canadian content is 60 percent and EDC will assess whether Canadian content is being optimized.

During this period, the Mexican importer should approach banks in Mexico which offer financing through EDC's lines of credit. The importer should establish the willingness of the bank to accept the credit risk of the Mexican buyer and the terms of the commercial contract. Assuming the transaction and the transacting parties meet the conditions of the lender (EDC) and the borrower (the Mexican bank), these two entities will then confirm their participation and extend the commitment. EDC disburses directly to the Canadian exporter once the latter has complied with the terms of the commercial contract.

A commitment under a line of credit involves costs which are borne by both the exporter and the importer. The

Canadian exporter must pay an exposure fee which is based on the country to which the goods are being shipped, the term of the loan requested, and nature of the sovereign or commercial risk involved. The Mexican borrower pays a commitment fee on the financed amount, plus an administration fee. These fees are usually passed on to the Mexican importer.

The actual interest rate which applies to the line of credit will normally vary. Two options are available: a floating rate based on LIBOR (London Inter-Bank Offered Rate), or a fixed rate based on "Consensus Terms". The Consensus Terms are established by the Secretariat of the Organization for Economic Cooperation and Development (OECD) in Geneva. EDC uses these in determining interest on its lines of credit. Repayment terms for the Mexican borrower will range between two and ten years. The Mexican bank will establish appropriate similar repayment terms for the Mexican importer.

EDC also offers export credit insurance. Under this program, the export credit offered to the Mexican importer

by the Canadian exporter may be insured by EDC against both the commercial and the political risk of non-payment. The cost of the insurance will vary with the nature of the risk including the country risk, or political risk, the invoicing terms, the commodity or the services being sold, and the overall export volume insured (the spread of risk). The premium generally ranges between \$0.50 and \$1.50 per each \$100 of insured volume. This means that the insurance premium may be less than half the cost of the financing fees an exporter is required to pay in order to secure financing under a line of credit. Where the line of credit is granted, the risk of non-payment by the buyer is not the concern of the Canadian exporter. Under the insurance program, however, and in the case of commercial default by the buyer in Mexico, the exporter must act to recover the funds in Mexico and will have to wait for a specified period, usually six months after default by the foreign buyer, before making a claim under the insurance policy. The processing time for payment of a claim will depend on the nature of a transaction and the steps taken by the exporter to secure and recover payment after default, according to the terms of the commercial contract.

V. PARTNERING FOR MARKET ENTRY

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What Partnering Can Achieve

Why Canadians Form Partnerships in Mexico

Reducing risk or sharing financial burdens are seldom sufficient reasons to enter into the complexities of a partnership. There are several other good reasons for the intensification of partnering activity in Mexico by Canadian small- and medium-sized enterprises (SMEs).

- Canada has only a few large firms in each sector. In some industries, such as mining or telecommunications, there are only one or two firms which can afford a prolonged investment in the market.
- In many industries, smaller Canadian firms are customized producers of small batches; they usually work in close cooperation with clients located in Mexico. These companies cooperate effectively on technical projects and are better able to formalize agreements with suppliers, clients and competitors.
- Partnering is essential for SMEs in markets characterized by rapid technological change, the overnight entry of new competitors and rapid product obsolescence.
- Mexico is an emerging market in need of almost everything. The current economic downturn in Canada and the U.S. and the opening up of the Mexican market have attracted Canadian firms.
- Mexico is seen as a launching pad from which to penetrate emerging markets throughout Latin America.
- Mexico complements Canada's economy in many ways. Mexican partners enhance the comparative advantage already enjoyed by Canadian companies in the Mexican market.

Most Canadian firms seeking to take advantage of the opportunities emerging in Mexico, especially under NAFTA, will follow the route of direct exporting. As noted in the two previous chapters, exporting usually benefits from the services of a local agent or distributor who is familiar both with your product and with the Mexican market for that product. It should be noted, however, that some internationally active companies go beyond agency agreements and use various other forms of partnering, sometimes called strategic alliances, to complement and enhance their export efforts.

Partnerships can help to overcome the many challenges of doing business abroad. Barriers impeding entry into foreign markets may include cultural factors, corporate concentration, unfamiliarity with consumer tastes, or government regulation of foreign ownership. A local partner can complement a company's capabilities, providing the expertise, insights and contacts that can spell out the difference between success and failure.

For their part, domestic companies welcome the interest of foreign partners. Such arrangements allow them to extend their horizons, learn international business techniques and gain access to other markets. A well-structured partnership offers concrete benefits to both sides, often translating the synergy gained into a competitive advantage that will help them survive in today's global marketplace.

- Each company focuses on what it does and knows best.
- The partners share the risk and therefore minimize the consequences of failure.
- Partnering extends each side's capabilities into new areas.
- Ideas and resources can be pooled to help both sides keep pace with change.
- Even small firms can use partnering to take advantage of economies of scale and achieve the critical mass needed for success.
- Through partners, a company can approach several markets simultaneously.
- Partnering can provide a firm with technology, capital or market access that it might not be able to afford or achieve on its own.

Partnering abroad can be used to support an export-based business strategy by offering a variety of ways in which the Canadian firm can penetrate the Mexican market. In the United States, for example, more than half of the fastest-growing manufacturing companies use various forms of partnering to enter foreign markets. In the service industry, this figure is close to 100 percent. In addition to exporting, companies are penetrating foreign markets through joint ventures, consortial arrangements, co-production or co-marketing agreements, mergers, acquisitions, and even greenfield investment.

In an economy that is changing as quickly as Mexico's, a successful export drive will not in itself assure the Canadian firm of a long-term position. For the firm that thinks beyond the immediate sale, an ongoing relationship with a Mexican partner and a local presence can provide the Canadian firm with a window from which to follow market trends and satisfy emerging demands. It

may also be more cost-effective to export some Canadian inputs and components for final processing and assembly in Mexico. In this way, partnering offers the possibility of using a position in Mexico as a source of international competitive advantage.

Several Canadian companies have been active in Mexico for a decade or more. They include Moore de México S.A. de C.V. (Moore Business Forms) from Toronto; Custom Trim, which operates in the northern *maquiladora* region of Mexico; Northern Telecom, Noranda Mines, and Mitel. However, most small- and medium-sized Canadian companies have entered the Mexican market place only recently. Since 1989, Canadian companies have grown more skilled at the formation of partnerships with domestic firms

or wholly-owned subsidiaries. They are just beginning to operate as full participants in the new Mexican business environment.

The experience of Canadian firms that have been successful in penetrating the Mexican market show how partnerships can be used. Nearly all the Canadians interviewed in the preparation of this handbook favoured the formation of some kind of partnership. They noted that a Mexican partner can provide valuable advice on how to modify a product to meet local regulations and satisfy Mexican market preferences. In this way, partnering improves the Canadian company's responsiveness and flexibility, as well as enhancing its chances for success in the Mexican marketplace.

Selecting An Approach

There are many different forms that partnering can take. Agreements between firms may call for the transfer of technology, cooperation on research or product development, or the exchange of marketing rights. Sometimes, firms provide equity to form a new, free-standing joint venture. The following are brief descriptions of the most common forms of partnership.

A *joint venture* is an independent business formed through the cooperation of two or more parent firms. Its basic characteristic is that it is a distinct corporate entity, separate from its parents. As such, it involves levels of organizational and managerial complexity that need careful consideration. The ownership split of a joint venture usually reflects the relative sizes and contributions of the partners. If ownership is split 50-50, it is usually because the partners are about the same size, and because each wants a significant voice in how the new company is to operate. A different equity split usually reflects unequal resource commitments.

Joint ventures have traditionally been used as a way of avoiding restrictions on foreign ownership when entering a foreign market. In the case of Mexico, this is less of a consideration given the opening up of its economy and the relaxation of ownership restrictions governing foreign direct investment.

There are, however, other uses for joint ventures. Forming a joint venture with another firm makes sense if the project requires commitments from the partners that are far more complex and comprehensive than anything that can be spelled out in a simple contract. This is especially true of a longer-term arrangement that requires joint product

development as well as ongoing manufacturing and marketing.

Licencing is not usually considered to be a form of partnership though it can lead to partnerships or be an important element in their formation. In a licencing agreement, a firm sells the rights to use its products or services. Since licencing transfers usage rights but not property rights, the licensor still retains some control over the product. Issues that are subject to negotiation include royalties, patents, sub-licencing possibilities, rights to sell and manufacture, duration of the arrangement, geographical limitations of the licence, exclusivity, and issues related to the updating of technology. This type of arrangement is often highly beneficial for third-country marketing. In the case of Mexico, for example, licencing could be used to allow the Mexican partner to manufacture under licence for export to lucrative markets other Latin American countries.

Cross-licencing is a strategic alliance between two firms in which each licences products or services to the other. Today, many companies are exchanging the rights to use their products or services with each other. Both licencing and cross-licencing are relatively straightforward ways for companies to share products or expertise without the complications of closer collaboration. However, because they involve minimal cooperation, cross-licences are less likely to achieve that state of synergy in which cooperation creates a whole greater than the sum of its parts.

Cross- or co-manufacturing agreements are a form of cross-licencing in which companies agree to manufacture each other's products. Co-manufacturing may be combined

A Mexican Franchise

An international success story, the Mexico-based Pollo Loco, now operates 51 restaurants throughout Mexico, 261 establishments in the U.S., 13 in Japan and has sold start-up contracts in Thailand, Indonesia and Singapore.

The idea began, almost by coincidence, in January of 1975 in the small town of Guasave, Sinaloa, when founder Francisco Ochoa decided to convert his less-than-lucrative shoe shop into a sidewalk business selling grilled chicken. The new business took off, and over the next few years, Ochoa convinced his 12 brothers and sisters in cities throughout the Republic to open their own Pollo Loco branches. By 1980 nearly the entire Ochoa family had joined the act and Pollo Loco restaurants had sprung up in such far-flung places as San Luis Potosi, Morelia, Tampico and Mazatlán. By the end of 1982, Pollo Loco had 19 restaurants in Los Angeles, of which 16 were franchises.

Offers for the Pollo Loco master franchise came in from various companies, among them Kentucky Fried Chicken and several Pollo Loco franchise operators. Denny's Inc., of coffee-shop fame, offered triple the going rate to obtain the global rights. The deal established the joint rights of both companies to promote the franchise in Asia and Europe. Franchise rights sell for \$23,000 and costs for location and equipment can bring the final figure to an average \$400,000. The company has set its sights on covering all major Mexican sites within the next ten years.

Mexico's changes in the franchising law this year gave the business an added impetus. Ochoa credits the new Intellectual Property Law with helping to combat a growing number of pirate pollos. "Non-violently, we've been able to go after the large number of establishments that carried our trademark throughout Mexico. Just this year 26 had to close down or change their names."

Source: *Business Mexico*, December 1991.

with co-marketing or co-promotion agreements through which companies cooperate to advertise and sell each other's products. A comprehensive cooperative agreement could involve cross-licencing, a shared promotion campaign, or even the formation of a joint venture to market each other's products. Most do not involve licences or royalties, but some rights to the product may be worked into the agreement.

Co-marketing is also done on the basis of a fee or percentage of sales. For firms wanting to enter new markets, a co-marketing agreement is an effective way to take advantage of existing distribution networks and an ally's knowledge of local markets. It allows firms with complementary products to fill out a product line while avoiding expensive and time-consuming development.

In a **joint production agreement**, companies cooperate to produce goods. These agreements enable firms to optimize the use of their own resources, to share complementary resources and to take advantage of economies of scale. Companies may cooperate to make components or even entire products. Many foreign engineering firms have entered joint production agreements with domestic firms that have manufacturing expertise. In the auto and telecommunications industries, competing firms often form an alliance to make components used by all the competitors.

The **franchise** is a more specific form of licencing. The franchisee is given the right to use a set manufacturing process or service delivery process, along with set business systems or trademarks and the franchiser controls their use by contractual agreement. The franchiser is remunerated through an initial franchise agreement fee, from royalties on sales and, in some cases, through control of supplies to the franchisee.

Franchising is one of the fastest growing industries in Mexico. Within 18 months of Mexico's deregulation of franchising in 1990, the number of franchises operating in the country grew from less than a dozen to more than 80. The number is expected to top 250 by the end of 1992. To date, most franchises in Mexico have been American entering Mexico via joint venture and master-franchise sales. Individual franchise sales and U.S.-owned development are rarely used. Most franchises are in the hotel and fast-food industries. The protection offered by the new law on intellectual property is expected to encourage significant growth in the service and product franchise areas.

Corporate Vehicles: Regardless of the type of partnership arrangement involved, foreign investments in Mexico are usually made through a Mexican corporation with variable capital (*Sociedad Anónima de Capital Variable*, abbreviated as *S.A. de C.V.*). Another possibility that is used occasionally is a limited liability company (*Sociedad de Responsabilidad Limitada* or *S. de R.L.*). A third option is a general partnership with unlimited liability (*Sociedad en Nombre Colectivo* or *S. en N.C.*).

The minimum share capital for an *S.A. de C.V.* is 25,000 pesos, equivalent to approximately \$10.00. The corporation must have at least five shareholders. Once all the necessary authorizations have been secured, the by-laws must be formalized in a public deed and executed before a public notary. Prior

authorization from the Ministry of Foreign Affairs (*Ministerio de Relaciones Exteriores*) is required to form a

corporation or business entity. Authorization from the same source is also required to amend the by-laws of a business.

Developing a Plan

While there are many reasons why companies pursue partnering arrangements, that does not automatically mean that partnering is right for your company. Before investing time and money in finding a partner or negotiating an agreement, make sure that it makes sense given the specifics of your own particular corporate strategy. It may also be wise to gain greater experience in the market to ensure an appropriate decision.

Start by defining your company's goals. Where is your company headed? What are its competitive advantages? What is missing? What role can the Mexican market play in achieving your goals? The answers to these questions should be embodied in a clearly stated business plan based on careful market research. Without such research, your company cannot develop a realistic assessment of how Mexican opportunities can contribute to your company's future.

Once you have a clear sense of what you expect from Mexico, the next step is to assess your own ability to get it. Analyze your company's competitive strengths and weaknesses. Do you have the skills and resources to succeed in Mexico given that Mexican tastes, customs, values, and ways of doing business are different? What elements are missing? A dispassionate evaluation of the company's capabilities should identify any missing elements that might prevent the firm from meeting its competitive objectives. Which of these skills and resources can the company acquire? Which can only be secured through a local partnership?

If your needs can be satisfied in-house within a reasonable time frame then a partner is unnecessary. If the problem is financial, you may be better off looking for investors instead of partners. But if, after going through all of these options, there is still something missing — special expertise, synergy in product development, a local market presence — then partnering should be given a closer look.

This type of analysis will help your firm make a vital choice — whether it is best to go it alone or seek a partnership. Remember that for all its advantages, partnering can be complex, time-consuming, costly, and frustrating. You may have to give up some freedom of action. You may have to spend considerable energy just on managing the relationship. It may be preferable to avoid partnering altogether if there are any other ways of securing the same benefits. If not, make sure you are clear as to what you are looking for and why.

Once you have completed this analysis you should know exactly what you want from any prospective partner. What skills and resources should the partner bring to the table to make the venture a success? And how should that contribution be formulated? There are many different types of partnering arrangements. What are the pros and cons of each? Which one is best suited for your Mexican venture?

Establishing a Joint Venture in Mexico

Should a Canadian firm consider that the best means of enhancing sales of Canadian goods and services is through the formation of a joint-venture, then the Commercial Division of the Canadian Embassy in Mexico City, EAITC, and the nearest International Trade Centre are available to provide assistance.

1. Conduct a thorough analysis of the market for your product in Mexico, including the positioning necessary for your firm to gain a foothold in the market. Carry out a preliminary study, either on your own or through market specialists. A good place to start is your nearest International Trade Centre or External Affairs and International Trade Canada which can provide you with important and current market intelligence. The objectives of the preliminary study are to identify your firm's niche and its potential clients or potential partners.
2. Visit Mexico. Meet with officials at the Embassy of Canada, in Mexico D.F., and with the sources identified later in this chapter. This will help you to draw up a short list of potential Mexican partners. Prior to your departure for Mexico, contact Bancomext, the Mexican Trade Commission in Toronto, Montreal or Vancouver. Bancomext will provide valuable orientation to the Mexican market.
3. Approach the two or three best potential partners and interview them in open discussions about the potential for the trade, co-manufacturing, licencing or joint venture activity you have in mind. A plant visit or office tour is *de rigueur*. First impressions are likely to be unreliable, as are written descriptions. Always verify by personal inspection.
4. Armed with the insights gained from previous steps, reflect on your best approach. Then return within a relatively short time to negotiate the terms of a joint venture best suited to your needs. At this point you may need assistance from professionals with a good knowledge of the market.
5. Draft the terms of the agreement with the assistance of a Mexican lawyer and a Mexican tax accountant.
6. Secure necessary project funding and guarantees.
7. Open a Mexican bank account and deposit initial capitalization.
8. Submit a registration form, or an application for approval if required, to the National Registry of Foreign Investment at the CNIE (Comisión Nacional para Inversión Extranjera).
9. Notarize the company's charter and begin operations.

Some types of partnerships such as outright mergers might affect the Canadian company's core business. If this is a concern, be careful about the form of partnering you pursue and make sure you limit the relationship to non-core areas. Occasionally partnerships can lead to dependence on another firm. And with many forms of partnering there is the danger that strategic or proprietary information may be

inadvertently shared or leaked outside the partnership.

Entering a partnership without a clear set of objectives, means risking loss of control over its direction. Developing a clear plan before you engage in the process can minimize such dangers and ensure a positive result.

Building Your Team

Experience in Mexico: A Small Company – POP Media Inc. (Ottawa, Ontario)

The experience of POP Media Inc. shows that initiative can pay off. POP Media established operations in Mexico in 1989. In the relatively short period of time since then, it has won virtual control of the Mexican market for electronic signboards.

The company entered a joint venture with a Mexican publicity firm and established production facilities in Mexico while retaining its corporate headquarters in Ottawa. POP began with contracts from chain store giants Aurrera and Superama. It now displays its boards in Gigante Supermarkets throughout Mexico City and sells signs to banks, brokerage houses and bus terminals through a local distributor.

The company has rapidly built up \$US1.5 million in assets and does an estimated \$US400,000 in invoices a year. POP Media has begun exporting its Mexico-manufactured product at an internationally competitive price. "We now have a product that is 40 percent cheaper than the competition in the U.S. and Asia", said Eric Hutchingame, president of POP Media. He adds that the company is shipping to K-Mart in the U.S. Hutchingame credits the Mexican operation with the company's success. "We have the capacity now to compete with much larger companies."

POP Media's success stems from an incremental investment strategy. In 1988, it entered into an agreement with a non-exclusive distributor for its products in Mexico. POP later upgraded this arrangement into a joint venture in which the Ottawa company owned a 49 percent interest — the maximum then allowed by Mexican law. When foreign investment regulations changed to allow 100 percent ownership of private enterprises in this field, POP Media formed a wholly-owned operation. Throughout, it has maintained 100 percent ownership of its technology. POP believes technology ownership vital to its continuing control. At the same time, it gives the Canadian firm the ability to pull out quickly should that step become necessary.

One of the keys to POP Media's success in Mexico is its willingness to adapt. The company's network electronic sign board system relies on the transmission of signals over telephone lines. POP incorporated software enhancements into the system to cope with the inadequacies of the Mexican phone system.

Now POP is involved in three forms of partnership in the manufacturing, sales and network marketing of its product. POP has found that separate relationships in these three areas enhance its control over the operation.

Once you have articulated your company's goals in Mexico, you must assemble the team that will be charged with implementing your strategy. A vital element in the process will be finding a suitable partner and negotiating an agreement.

Your team should be drawn from a variety of areas and management levels, ensuring that it has a command of all the issues which might affect the partnership: from broad strategic concerns to legal and technical details. The team must then do its homework, familiarizing itself with the company's situation, preparing draft agreements and negotiating positions, and examining the candidacies of prospective partners. Team members must have the sensitivity and confidence to be able to bridge cultural gaps. In cross-cultural communication, nuances, the misinterpretation of body language and even humour can quickly become major obstacles.

Besides a team, however, your Mexican venture will need a leader. The firm should appoint at least one person with enough clout to make things happen. The leader becomes the key catalyst for, and promoter of, the partnership within the firm. He or she is the driving force, taking responsibility for its creation and often serving as the chief negotiator.

Giving the Project a Leader

The Mexican investment project should be assigned to a specific person in the home organization. A world class manager is the best person to head such a team. This strategy gives the project a leader. The leader should be flexible, fully cognizant of the firm's position, have a good command of the language and have experience in Mexican or other overseas markets.

Many of the same people who were involved in negotiating the partnership will be charged with its implementation. They must have enough power and authority to make things happen. A thorough understanding of the respective cultures and practices of both partner companies will be critical to the overall success of the venture. They should be competent in their normal managerial or technical roles and they will also need strong interpersonal skills. They must be active listeners, able to sense the unspoken and hidden dynamics of the other side and find reasonable compromises. Entering the Mexican market involves learning a whole new set of skills. The Canadian firm should carefully assess the linguistic skills of its key managers, their familiarity with and openness towards other cultures and their attitudes toward the new business challenge.

Successful management of a partnership goes beyond overcoming organizational challenges. It also involves dealing with the peculiarities of Mexican social and corporate practices. These can pose major stumbling blocks for Canadian firms seeking Mexican alliances. A lot

depends on the quality and skills of the people involved, especially the general manager. Finding the right person to manage the relationship — or to look after liaison between the partners — is of vital importance.

Finding the Right Partner

Canadian companies will find that both large and small Mexican firms are open to partnering. Mexican companies see joint ventures and other forms of partnering as the best way to introduce state-of-the-art technology, R&D and managerial know-how. They also look to alliances to give them access to foreign markets. However, the wise foreign investor will learn to distinguish between genuine potential and mere enthusiasm in the many suitors who come forward.

Once the right type of partnership has been selected, the search for a suitable partner can begin. It is important to be ready and willing to assume the large commitment involved in finding the right partner, in structuring the deal and managing the venture. Poor partner selection is one of the key reasons cited by experienced managers for the disappointing performance of unsuccessful partnerships. The process is time consuming and expensive and needs to be approached with considerable patience and realistic expectations.

Too many firms underestimate the amount of work and time involved in establishing a successful partnership. The selection process for an international partnership is particularly complex. The right partner is one that complements your capabilities so that the venture has a complete set of the skills and resources required for success. In addition, the partner's organization must be able to work harmoniously, effectively and efficiently with your own.

Before selecting a partner, you may want to think about how much cooperation will actually be required. The amount of collaboration needed tends to increase with the uncertainty and complexity of a venture. If the partnership aims to cover a wide spectrum of functional areas, a lot of interaction will be required. Similarly, levels of interaction will increase with the number of products involved, the size and number of the markets being addressed, and the number of distinct objectives set for the partnership. Close cooperation will also be required if the two partners are characterized by any striking dissimilarities.

For example, if the partners are very different in size, special partnering arrangements may be required to compensate. To avoid being overwhelmed, the smaller partner may prefer to enter into a joint venture that is accorded considerable autonomy. In the case of partnering between Canadian and Mexican firms, cultural differences will also have to be overcome. And there are always the internal characteristics of an organization — its operating philosophy, attitudes, practices, and structures — that make it unique. These too must be accommodated in any partnering arrangement. Are operations centralized or decentralized? Are organizational structures compatible? Do the partners have a similar attitude to marketing and distribution strategies or customer service? Are they compatible in the all-important area of finance?

Stiff International Competition

There is stiff international competition to get into the Mexican market. The Europeans, the Americans and the Japanese are vying to secure agreements with the most promising Mexican joint venture partners. This competition makes it more difficult to locate an ideal partner who is open to discussions. Some companies spend more than a year finding the right partner.

Almost without exception, it is the Canadian side that must initiate the contact for a Mexican joint venture. Mexicans rarely come to Canada in search of a partner. There is a general lack of market knowledge in Mexico about Canada. Market specialists, lawyers and accountants in firms with good international connections, and the Canadian Embassy in Mexico City are important resources for companies looking for partners in Mexico.

The Right Partner

The small- and medium-sized Canadian companies interviewed in the preparation of this handbook, as well as some of the larger companies, particularly stressed the importance of personal relationships with their partners. Good personal relations are important to success.

According to an EA/TC trade official, the guiding principle is that Latins do business differently than we do; they do business with their friends. Close personal friendships are impossible to guarantee, but the Canadian representative must be available for informal personal events and be seen as taking the time to build a relationship. Where strong personal respect exists, verbal agreements are taken very seriously. Prior experience in the market, often gained through exporting, is considered very helpful by some of the Canadian firms interviewed. It provides a clearer understanding of how the Mexicans do business and opens up new opportunities for joint ventures.

Too Compatible

One Canadian firm entered the Mexican market in the late 1970s without the assistance of a local representative or agent. The decision was made entirely in Canada. Contracts were very slow in developing and required much costly travel and negotiating time in Mexico.

By the mid-1980s, a potential joint venture partner was located and a protocol of understanding established between the two firms. Yet no cooperative basis for an alliance has evolved. The reason? In the view of the Canadian firm, the partners were too similar in nature. Both were interested in doing the same type of work. This absence of any complementarity meant that they were not strategically compatible. The Canadian firm looks back on its experience and investment in Mexico with some misgivings, and questions whether the market really holds much potential for its product.

"Making contacts is easy in Mexico. Doing business with these contacts is much more difficult. Follow-up is critical and be concrete about your suggestions. Be flexible and be prepared to negotiate everything."

Michèle Duclos, Delegation du Quebec, México, D.F.

Do they have similar attitudes to risk, the distribution of dividends, reinvestment, the most appropriate debt/equity ratios, or tax policies? Do they have similar employee policies, compensation programs, hiring strategies, and attitudes to labour relations?

Even when you know exactly what kind of a partner you want, you may not know where to look. A good place to start is to examine any existing business contacts in Mexico, especially any in the same industry. Basing a partnership on an existing business relationship means that you already know how well your companies work together: You have personal ties; and your companies are familiar with each other's skills, resources, corporate culture, and values.

If you have no close business contacts in Mexico, you may look for leads from suppliers, customers, industry associations, banks, other financial institutions, auditors, government officials, and regulators. Remember too that the Trade Commissioner at the Canadian Embassy in Mexico City and the satellite office in Monterrey can help you to identify candidates and arrange for introductions. You may also want professional help from financial advisers, accountants, lawyers, consultants or market researchers who can fill gaps in your own capabilities. If you reach for expert advice, be sure to define clearly what you expect before retaining a professional. This will give them the basis of drawing up a work plan and providing you with satisfactory deliverables.

Screen all prospects carefully, no matter how many are under consideration. In the final analysis, the overriding consideration must be the compatibility, commitment and credibility of the potential partner. If none of the prospects are compatible, reconsider alternatives such as licencing, short-term contracts, mergers, acquisitions, or a greenfield investment.

Negotiating the Deal

Negotiations between prospective partners are the heart of the partnering process. They will set the tone and create the structure of the relationship. Communications should be honest and frank. Cooperation depends on an atmosphere of mutual respect and trust. Trust, however, does not mean ignoring difficult questions or brushing aside serious reservations. Trust allows partners to meet challenges and solve problems together. Nor does trust mean ignoring questions of corporate security. Frank and clear definitions of intent, of the scope of cooperation, and of the terms of confidentiality are important. Clarity builds trust. The avoidance of important and legitimate concerns can only lead to confusion, unease and suspicion.

Once negotiations have been initiated, personnel with a superior grasp of technical, operational and legal details should be used. Senior executives have been known to avoid

raising thorny issues to maintain a pleasant, collegial atmosphere. They may also lack detailed knowledge of issues that affect lower levels of management and they may simply assume that difficult details will be ironed out later.

On the other hand, senior executives do have the broad strategic understanding and the clout to keep talks on track and break deadlocks in negotiations. Their involvement should be limited, but should come at the right strategic point in the discussions. The choice of that point may be gauged according to the composition of the potential partner's negotiating team.

Once the negotiation process is under way, it is common to prepare an interim agreement such as a memorandum of understanding. This may be only a brief statement that signals the intentions of the negotiating parties, lays out the

ground rules for the rest of the negotiation and sets a time frame within which results are expected. A memorandum of understanding can also protect the confidentiality of any information brought to the negotiating table and it can prevent either company from entering into parallel negotiations with competitors.

As negotiations continue, it is important to anticipate as many challenges as possible, but it is unlikely that all contingencies can be provided for in the initial agreement. After all, one of the purposes of forming a partnership is to accommodate rapidly changing circumstances. Even the most carefully constructed arrangement will need to evolve as conditions change. Flexibility in its structure, however, will be useless unless it is matched by flexibility among the participants. The partners themselves must be open to ongoing modification of their arrangements. In successful partnerships, the negotiation process never really comes to an end.

Finally, as you enter into more detailed negotiations with a prospective partner, keep in mind that the success or failure of any partnership depends on whether or not it successfully meets the objectives of both sides. To develop a stable partnering arrangement, you need to be clear not only about your own company's goals but also about those of your potential partner.

Those goals and objectives may be both explicit and clearly stated or they may be implicit and unstated. Understanding both sets of goals may be essential to success. You can find out the former through the process of negotiating a partnering agreement. The latter, however, may require a careful study of your prospective partners corporate activities even before you get to the negotiating table.

Remember too, that the two sides in a partnering arrangement do not necessarily need to have the same goals. It is enough, and perhaps even preferable, if their goals are complementary and fit easily into a single overall strategy. Just make sure that the goals of both sides are reflected clearly in the partnering agreement. That may go a long way toward reducing the effort required to manage the relationship. It may also avoid a situation in which the partners may be confronted with a choice between opportunities that favour very different goals.

The effort involved in identifying the right partner and negotiating the right agreement will be repaid many times. It will help to avoid delays, misunderstandings or the breakup of the partnership because of unsatisfactory performance. It will go a long way toward creating a viable and balanced relationship. And, if properly constructed, it can prove invaluable in helping your company meet its corporate objectives.

Gathering Information During the Negotiation Stages

Experienced Canadian firms interviewed for this handbook offered the following advice:

- Protracted face-to-face negotiations are essential. No one simply arrives on the spur of the moment and is done with it by the weekend.
- Most deals take longer to negotiate than expected. Negotiations may become protracted where the time has not been taken to form good relationships. A stiff or awkward relationship may be a prime cause for delay and mistrust on the part of the Mexican partner.
- Confirmation of data supplied by the prospective partner will be very difficult to get in the market place. Knowledgeable professional assistance will be invaluable at this point.
- It is unusual for all the information to be offered by the prospective partner during the first round of negotiations. Information is most often held back until the moment is right, or until it is specifically asked for. Knowing the right questions to ask, and when to ask them, is important.
- Mexicans are shrewd negotiators, urbane and experienced. Some Canadians have a tendency to come to their bottom line too quickly. Patience is the watchword. The two sides need time to sound out each other's position and willingness to compromise before the shape of a possible deal becomes visible.

Composition of the Negotiating Team

Who is on the team will depend to some extent on the size of the companies. The smaller the company, the more likely it is that the president will take a personal position in the negotiations. Despite the size of the companies, it is important to match position for position on the respective teams.

In Mexico, the involvement of top management from both companies is seen as important. Their presence signals genuine commitment. In Mexico's traditional and hierarchical decision-making process, it is usually the owner who calls the shots. Therefore, negotiating with the proprietor takes on more importance. Where the owner or a top senior executive is not involved, negotiations can be slow and cumbersome. The Canadian representatives may find themselves giving up too much to too many interveners in order to convince them to send in the top people. The last card should be saved for the final session with the owner — thereby making the final concession only to the owner and thus giving all parties credibility.

Experience in Mexico: A Large Canadian Company – Bombardier Inc. (Boucherville, Quebec)

The largest Canadian direct investment in Mexico in the past three years took place in April 1992 when Bombardier Inc. acquired the Mexican government-owned railcar builder, Constructora Nacional de Carros de Ferrocarril, also known by the names CNCF and Conccarril. The purchase price was \$90 million with a further expected investment of \$23 million in plant modernization. The plant is located north of Mexico City in Sahagun.

CNCF had been making subway cars for Mexico City's metro system and rolling stock for the state-owned railroad. It suspended operations in December 1991 to prepare for privatization. Operations were scheduled to resume in 1992 once all negotiations with the union and previous employees were completed. Bombardier will staff its Conccarril plant with

many of the former employees of CNCF. A key group of five or six Canadians will provide links to head office. The purchase of Conccarril provides Bombardier with a manufacturing point for markets in Mexico, the southern U.S. and developing markets in Central America.

Bombardier has been active in the Mexican market since 1981 when it began supplying cars to the subway system in Mexico City. New market opportunities and forecast growth in the transportation systems of its target markets have encouraged the company to establish a presence in the region. The company attributes its successful purchase of Conccarril to a long standing commitment to, and presence in, the Mexican market. Over the years, Bombardier has invested time and energy in maintaining close relationships with the buyers and government officials responsible for all aspects of rail transportation in Mexico. The company also recognizes the valuable experience it has gained from government privatization initiatives in Canada for the purchase of Canadair and in the United Kingdom for the purchase of Short PLC.

Shaping the Relationship

Identifying a suitable partner and entering into negotiations is only the beginning of a complex and ongoing process of shaping the relationship to suit the objectives of both sides.

Control: One of the critical issues that must be resolved early on is that of decision-making and control. Insufficient control will impair the partnership's ability to deliver what is expected. Too much control may be both crippling and expensive.

The relative weight of each partner's influence on the relationship must be established at the outset. For example, in constructing a joint venture, should the Canadian side aim for a minority, majority, or equal position? Securing a majority position may avoid costly decision-making deadlocks, it may prevent leaks of proprietary information, and it may focus the partnership more explicitly on satisfying the controlling partner's overall objectives.

On the other hand, exercising one-sided control may diminish the partnership's overall performance. A 50-50 split, by contrast, may have important symbolic value in securing enthusiasm and commitment from both sides. An even split also protects the interests of both partners, fosters decision-making by consensus and encourages the partners to negotiate as equals. Interestingly, between 1981 and 1988, joint ventures in which control was evenly divided showed a higher survival rate (58 percent) than did ventures with majority ownership (48 percent).

Management: How ownership is divided, however, may be less important than how the partnership will be managed. In negotiating the partnership, make sure that you have a decisive say in those activities that are strategically important to your interests. This will give you greater practical day-to-day influence in crucial areas than your ownership share might warrant.

Managerial control can be exercised by the dominant partner in a relationship, it can be shared between managers representing both sides, or it can be apportioned in a selective area of crucial importance to each side. In some forms of partnership, particularly joint ventures, it may be preferable to create a completely autonomous structure that is independent of both sides. It may be useful to bear in mind that independent ventures have the lowest control costs; dominant-partner arrangements are slightly more costly; split-control ventures are costlier still; and shared management ventures are the most complex and costliest to control since they require the most coordination between the partners.

Valuation: Another critical aspect of negotiating a partnership involves putting a fair value on the respective contributions of the two sides. Where the contribution is financial, there is no problem, but there are a host of other assets, some of them intangible, which clearly have value and yet are difficult to evaluate with any precision. They include the following:

- land and the rights to land;
- facilities and equipment;
- personnel, managerial expertise;
- technology and technological expertise, proprietary technology or processes;
- name brands, trade marks, copyrights, patents;
- access to preferential financing;
- access to distribution channels;
- access to government or other types of contract opportunities;
- a network of valuable contacts;
- regulatory approval and certification; and
- corporate identity, reputation and good will.

Each side may value these assets in different ways. They may also account for them and depreciate them in different ways. The value set on each side's contribution will affect how the venture is structured, what taxes are likely to be incurred and how proceeds are distributed. And, as if this were not complex enough already, there are the fluctuations in the exchange rate between the Canadian dollar and the Mexican peso that can have dramatic consequences for any financial arrangement.

Policies and Procedures: It is inevitable that Canadian and Mexican firms will exhibit different approaches to the task of operating the partnership. In negotiating the partnership, make sure that you come to some explicit understanding about how you propose to handle the following issues:

- accounting practices;
- budgeting and financial reporting;
- health and safety guidelines;
- environmental protection;
- personnel practices;
- public relations and communications;
- sourcing of raw materials, components, and other inputs;
- transfer pricing and evaluating profitability;
- reinvestment or dividend payouts;
- conflict resolution; and
- maintaining the confidentiality of proprietary information.

Clarification of these points at the outset will save much time and energy later on in the relationship. Partnerships can only succeed if both sides are willing and able to devote enough time, energy, resources, financing, and skilled people to make them work. They also require surrendering a certain amount of independence. Only when both sides are prepared to make concessions and display flexibility can the partnership prosper. If you find that there is little understanding or flexibility on these points during the negotiation process, you may be well advised to cut your losses, look for another partner, or try a different market entry strategy because it is not likely that the relationship will work.

Experience in Mexico: A Large Canadian Company – Noranda Minerals Inc. (Toronto, Ontario)

Noranda Minerals Inc. began its involvement in Mexico in the mid-1950s. It purchased and then developed a fluorspar mine in San Luis de Potosi. The company was the sole owner of the mine until the 1970s. At that time, the Mexican government changed its foreign investment laws to require that there be Mexican participation to a minimum of 51 percent in mining and natural resource projects.

Noranda found joint venture partners who included Noranda's resident Mexican managers, legal advisors and manufacturing partners and sold them a 51 percent share in the venture. Noranda remained responsible for external financing, marketing and technical advice. The Mexican partners assumed the responsibilities of relations with the government, management of the mine, expansion of activities in Mexico, and internal financing requirements for the venture. During this period, Noranda supported expanded investment in down-stream activity. An associate company, Minnova, located in Panama, kept an eye on other Mexican market developments for Noranda Minerals. Noranda, through its former subsidiary, Canada Wire and Cable, was also involved in producing conductors in Monterrey until 1981.

In 1991, when the Mexican government opened up new foreign investment opportunities in the mining sector, the company took a renewed interest. Foreign investors were empowered to own 100 percent of a mining operation. Noranda started exploring for minerals in late 1991 from an office in Hermosillo, in the State of Sonora. Its vehicle for this activity is Noranda Exploración de México, S.A. de C. V., a wholly-owned Mexican company, which prospects for gold, copper, zinc, and silver.

Financing the Venture

Experience in Mexico: A Medium-Sized Canadian Company – Diachem Inc. (Vancouver, British Columbia)

Diachem is a manufacturer of specialty chemicals used for water purification. One of the major industrial users of the company's products is the pulp and paper industry. In 1991, the company decided that Latin America was likely to be a growth market for its products.

Diachem chose Mexico as its first Latin American venture. By the end of 1991, the company had located a Mexican partner and had established a joint venture to manufacture some of its products for the Mexican market.

Diachem's motivation to establish a joint venture was based on certain conditions prevailing in Mexico. First, the reformed economic environment there made it the logical choice for an initial venture. Second, the Mexican government's strong environmental laws created an immediate and growing market for Diachem products in the pulp and paper sector. Third, good Mexican partners were available with technical ability and access to distribution channels. The Mexican partners also demonstrated the integrity and openness Diachem was looking for.

In the joint venture Diachem negotiated with the Mexican partner, it retained 51 percent of the shares. Diachem remains responsible for introduction of the technology, for which it is paid a royalty by the Mexican partner while the Mexican partner assumes the manufacturing, sales and distribution tasks of the business. Diachem also sells Canadian products in Mexico through its partner's distribution network. Diachem retains ownership of the patents of products manufactured in Mexico.

Diachem assessed both the Mexican market and potential partners thoroughly in advance. During the initial stages, the company worked closely with the Canadian Embassy in Mexico. The company believes the Embassy's help was crucial to the eventual success of the venture.

As a result of its own preparations and Canadian Embassy assistance, Diachem was able to negotiate a deal with its Mexican partners in less than a month. The partnership agreement was put together by Diachem's senior officers. Since then, Diachem has made a continuing effort to ensure that both the Mexican partner and the company's Canadian employees are comfortable with the new arrangement.

Diachem believes the alliance would have benefited from a stronger Canadian presence in Mexico at the outset of operations. Because this was not possible, Diachem has provided for regular visits to Mexico by its senior management and regular visits to Canada by the Mexican partner. Diachem also provides Spanish lessons for its Vancouver employees. And, the company has introduced a training programme on laboratory and sales techniques for the Mexican operation.

The financial arrangements involved in the partnership must be specified in the negotiations leading to an agreement. For example, the method used to finance new investment should be established as part of the deal. The same goes for the timing of establishing a new plant, sending personnel, and inventory; conditions for debtors and creditors; and banking arrangements to be negotiated in new markets. In addition, a plan should be made to deal with foreign currency transactions in existing markets; and new sources of business financing and their costs, including overseas banking. There is also the issue of dividend payouts and reinvestment of profits.

Five factors are important in determining how the alliance should be financed. They cannot be considered in isolation but are an interconnected whole. The decision on the form and amount of financing should be made based on how each factor influences the overall deal.

Structure of the Partnership: The type of partnership being contemplated will influence the nature of the financial commitment by the partners. For instance, a joint venture based on equal shares for the partners will have different financing implications than would a licencing arrangement or a marketing agreement. Joint ventures involve more significant legal and financial obligations than do other forms of cooperation. In fact, co-marketing, cross-manufacturing and cross-licencing alliances may not require a substantial financial commitment at all, since they use resources that can be financed out of existing operations budgets.

Roles of Parties: The amount that a company may be willing to invest in a partnership will depend on its role. It may assume the role of financier, in which case it takes on the responsibility for providing capital for the whole project. If it wants a controlling interest, it will have to make a corresponding financial contribution. Sometimes, an investment is required as evidence of serious commitment to a project. It may also be limited to an initial exploration of future possibilities for cooperation. If the role of one of the parties is to contribute know-how to a project, it may offer patent rights in exchange for shares in the venture.

Capital Sources Available: Much depends on the financing available to each of the partners. In addition to financing available through the commercial banking system, the Canadian partner may also be eligible for financial assistance from various federal programs (see Chapter IX). Financing is also available in Mexico though it currently tends to cost 1.0 to 2.5 percent more than capital in Canada. The specific rate charged, however, will depend on the quality of the borrower and the nature of the investment. Part of the difference in the rate is due to the perceived risk still associated with Mexican ventures. That perception is expected to linger for a while. Part of the additional cost of Mexican capital, however, arises from the large bureaucracies of the Mexican banks themselves. The effects of bank privatization should overcome this problem in the short to medium term. State governments and various incentive programmes established in Mexico may be helpful in providing access to local sources of financing or incentives. Private sector financial specialists may also

be instrumental in sourcing financing or guarantees. The strength and reputation of either party may make a stock issue possible in Mexico, depending on the nature of the project and prevailing market conditions.

Risks and Rewards: The willingness of either party to make a financial commitment to the partnership will also depend on what other investment opportunities are available. If participation in the relationship promises one of the sides greater rewards for less risk than other alternatives, that partner will be more willing to increase its contribution in return for a larger share of the returns.

Statement of Financial Criteria: The Canadian firm should formulate financial criteria that will make it easier to define financial performance objectives as well as targets for investment, risk financing, new share issues, retained earnings, and earnings-per-share. The firm should also make clear at the outset what its intentions are regarding additional funding, potential sources of new funds, key financial ratios, and dividend goals. Finally, it should

describe the organization and structure to be used for the financial management of the proposed venture.

A partnership in Mexico can be evaluated according to the same criteria for success as are normally applied in Canada. Even so, it is better to take a long-term view of the venture since it is likely to take several years before significant financial returns materialize. Ultimately, however, the purpose of any business venture is to generate profits. There should be a clear agreement between the partners as to how profits are to be handled. In the case of some partnerships, any dividends due are deferred or reinvested during the venture's early years. In addition, some companies are able to arrange for profits to accrue to them through transfer prices and service contracts. Over the long term, the partners may come to differ over the issue of retaining earnings for reinvestment or redistributing them to the partners. Some of this can be avoided early in the relationship by specifying how much and how quickly the partners want their venture to grow and also by making the appropriate arrangements for the disposition of earnings at that time.

Tax Considerations

Canada and Mexico have entered into a Double Taxation Agreement that has been ratified by both governments and only awaits passage of the required legislation. This tax treaty with Canada was the first such international tax treaty entered into by the Mexican government.

The objective of tax treaties in general is to prevent double taxation, to establish fiscal cooperation between taxing authorities of the signatory countries, to ensure fairness to taxpayers, and to enforce the revenue laws of both countries. Such treaties tend to reduce the amount of tax that a corporation from one country must pay another country. Thus, in setting up a partnership, it is important to consider how to take advantage of the tax regimes currently in existence in Canada and Mexico. Proper planning can greatly reduce the tax burden, and it is wise to consult tax advisors in both countries.

Mexico recently imposed an income tax on non-residents who work 15 days or more in Mexico during a 12-month period. The tax is due regardless of whether the salary is paid by a non-resident employer or a Mexican entity. The regulations are vague in the definition of what constitutes a day's work or how the tax will be collected. According to the law, the first 14 days are exempt from the tax, but on the 15th day, all work, including the first 14 days will be subject to the tax. The regulations imply that the employer is required to withhold 30 percent of the non-resident's gross salary. A Mexican tax expert can determine the extent of the fiscal impact on the company.

Mexico rarely accords special tax treatment to foreign investors, foreign subsidiaries, or expatriate personnel working and residing in Mexico. As a

There are no exchange controls or other restrictions on the repatriation of capital or the remittance of profits from Mexico. The necessary foreign currency is acquired on the free exchange market. There are no restrictions on the remittances of dividends, providing all applicable taxes are paid. There is also no withholding tax on dividend payments if the dividend is paid from previously taxed profits and remitted to a foreign company.

Two Tax Incentives

Mexico offers two tax incentives to encourage foreign investment:

1. all inventory purchases are immediately deductible from income. As a consequence, they cannot be later deducted as costs of goods sold; and
2. a substantial portion of the total cost of new fixed assets acquired may be written off at the option of the company. As part of the government's regional development policy this write-off is not available for assets used in the Federal District, Monterrey and Guadalajara. The objective is to discourage further growth in these already overcrowded areas and encourage it in the other regions.

Recent Tax Changes

The Mexican government made significant changes to its tax codes in 1991. Among the most publicized of these changes was the reduction in value-added tax (IVA) from 15 to 10 percent. Other significant changes were included in the tax amendment package.

- Exchange controls on foreign currency transactions were repealed, allowing for greater convertibility of Mexican currency now that exchanges are determined at floating rates.
- Businesses are now required to keep a register of payroll payments. In the absence of records, or in case of irregularities, tax authorization can be used to determine the amounts of remuneration.
- Taxpayers must now keep tax records and books for ten years instead of five years.
- A 2-percent tax on the value of total fixed assets must be paid annually.

result, it is generally preferable to operate in Mexico as a Mexican corporation and receive more favourable tax treatment. Specific taxes are levied on income, capital or commercial transactions and contracts or agreements.

The corporate income tax rate has been reduced from 42 percent in 1989 to 35 percent in 1991, making it fully competitive with rates in both developing and developed countries. With a few exceptions, withholding taxes have been lowered from 50 percent in 1989 to zero in 1991. On the other hand, investment incentives have been limited as part of efforts to reduce the federal government deficit and are normally applicable only in cases of minority foreign participation.

Taxpayers in Mexico must apply for a federal registration number. For fiscal purposes, distributable profits are accrued at the point where they are effectively remitted to the head office. No further tax is imposed on income already subjected to corporate income tax.

A new regulation allows a group of Mexican corporations with a common Mexican parent company to file a consolidated income tax return and pay the minimum tax on assets. The Mexican holding company must be owned by a foreign corporation, and that corporation must be based in a country that has signed a comprehensive tax information exchange agreement with Mexico.

Mexico is striving to make its tax system more competitive, and is taking strong collection enforcement measures. Since tax laws are complex and subject to change, it is advisable to consult with a professional tax advisor in Mexico prior to establishing a new operation there.

Summary

In determining whether or not to pursue market opportunities in Mexico through a partnership, it is useful to draw on the experience of Canadian firms that are already there. A survey of their opinions suggests the importance of the following:

- know the market and do your research;
- adopt a clear set of market objectives, and a well-defined corporate strategy suited to the Mexican market;
- choose complementary partners to avoid feelings of perceived competition later on;
- be prepared for major delays and costs due to bureaucratic procedures which are different from those encountered in Canada;
- assign a world-class manager who is flexible and knowledgeable in the languages required (English and Spanish) and cultures;
- be sure you are providing something that the Mexicans need and that your niche is well identified;
- ensure that your contributions of capital and/or technology are duly recognized in the joint venture agreement;
- aim to have the Mexican operation become self-sustaining; and
- negotiate, wherever possible, the appointment of a Canadian manager to the project in Mexico for the first few years of operation. This will ease the adjustment and facilitate communication and problem-solving.

According to a trade official at External Affairs and International Trade Canada, *a well-defined state of mind, a long-term perspective, deep pockets, a stiff constitution, and the right human resources dedicated to the project will make the venture work.*

VI. DOING BUSINESS IN MEXICO

Working in a Different Culture

Management Issues

Labour Practices

Business Travel

Patents, Trademarks and Copyrights

Product Quality

Trade Fairs and Missions

Working in a Different Culture

Meetings

"Working around cancelled meetings is a common problem. You can make an appointment, but it may be cancelled by your Mexican counterpart on very short notice. Fine distinctions must be made in such matters. For instance, the other party may cancel a meeting because a positive outcome is deemed unlikely. Or your Mexican counterpart may feel forced to cancel because of a sudden demand for his or her time by a senior official. Mexicans avoid giving offence at all costs. A cancelled meeting may be seen as a much lesser offence than failing to agree to a meeting in the first place."

Doug Clark, Managing Director, Northern Telecom, México, D.F.

Effort vs. Results

In the words of one Canadian director who manages a company in Mexico, "When a Mexican deviates from a commitment, the most important issue is whether there was malice. If not, you are expected to forgive. This is also reflected in meeting business targets. Very often for the Mexican it is not the result which is most important but rather the effort expended in achieving the result. Employees find it difficult to not be rewarded for their effort first, targets and objectives taking second place to effort."

Canadians will find Mexico to be as diverse, complex and sophisticated as our own society. Doing business there may seem like a daunting task, especially for a company with limited international experience. The time needed to research market information, to analyze the opportunities in Mexico, to locate an agent or other type of partner, to negotiate an understanding, and to battle through red tape may seem insurmountable. For those who persevere, however, the rewards are substantial.

The first step for the newcomer is to understand and appreciate the cultural differences between Mexico and Canada. Mexican culture is distinctive and being aware of Mexican values will help cement a solid and harmonious business relationship. Mexicans are inclined to be more formal than their Canadian and American counterparts. In meeting with Mexican business people, bring business cards and be on time, even if those with whom you are meeting are late. At the beginning and the end of a meeting, they will take the time to shake hands with all those in attendance. They will make small talk about current events or the interests of their Canadian guests. For Mexicans, personal relationships are very important, and developing them is the key to success. Mexicans do not like doing business over the telephone. They prefer to meet in person as a way of developing a closer and more trusting relationship. The time spent developing such relationships will be well repaid.

The family is predominant in Mexican life and the family hierarchy is also the model for business. The notion of delegated responsibility, therefore, is not always readily accepted by Mexicans. Everyone is more comfortable when the person in charge makes the decisions. Mexican subordinates may be reluctant to go beyond instructions without specific authorization. They are more likely to make constant reference back to the manager.

Mexican culture is changing, however. Both government and business are challenging traditional business practices. The youthfulness of the workforce, and the liberalization of the regulatory environment has given birth to a new "can-do" spirit which is gradually permeating both society and business. Even so, old customs die hard.

Because saving face is important to Mexicans, even technical or administrative specialists may be reluctant to criticize or offer unsolicited advice to a senior member of a firm. By the same token, reprimands and changes in direction must be handled with great care.

Honour is important. The sensitive business person deals first with the individual and then with the issue. For this reason, an employee should never be corrected in front of peers. This could cause personal damage which may be impossible to repair. Privacy and delicacy are much appreciated in such situations.

Canadian business people with extensive experience, in Mexico have commented on the reluctance of Mexicans to say no. It can take a while for the Canadian newcomer to understand how to interpret the yes which has been given in response to a question. Saying that one does not have the answer is

difficult for Mexicans to do and they tend to be very polite and solicitous at all times. It is better to provide no answer at all than to deliver bad news. Sensitivity is essential and there is no substitute for experience.

Competent Spanish speakers who are well acquainted with the interests of the Canadian firm are vital to any negotiations. This remains true even when the Mexican officials and company executives on the other side are proficient in English. Even if expert translation is available, language can still be a barrier to doing business in Mexico. It is not so much a question of rendering words exactly but of capturing nuances and interpreting gestures. Canadians doing business in Mexico should be careful to go beyond simple words to understand the spirit in which the transaction is being conducted (see box).

One surviving relic from the old days of doing business in Mexico is *la mordida* or the bite, the practice of taking bribes. It may be encountered by Canadian companies seeking permits or licences from officials. It might be encountered in dealings with private companies offering some form of preferential treatment. Sometimes the demand is quite explicit. At other times it is so subtle as to be easily misunderstood. The Mexican government and the business community have adopted an increasingly hard line toward the practice, recognizing that business must be conducted fairly and above the table, and that Mexico's reputation for doing business in an ethical fashion is on the line.

The backlash against *la mordida* sometimes catches companies by surprise. Some firms have found themselves blacklisted because they assumed they should offer bribes in exchange for commercial favours. Doors have been known to slam shut if the wrong approach is taken.

On the other hand, the campaign against *la mordida* sometimes takes extremes that are surprising to Canadians. One company tells how its purchasing department sent out calendars with the corporate inscription at Christmas time. One was sent to a government department. It was promptly returned, unopened with a note saying that the enclosure could not be accepted. Government officials have been known to return small pocket-sized agendas and even Christmas cards unopened, because they fear being marked as practitioners of *la mordida*.

"Canadians have a very traditional way of conducting business and therefore, knowing Mexico as little as they do, they are nervous about doing business there. Travel will dispel their hesitation. If the interest Canadians have expressed on paper were translated into a visit to Mexico, they would be much better positioned."

Alfonso Salazar, Toronto Director, Bancomext

Language

"Language extends far beyond the spoken word. Very often that which was written in English or Spanish, and which both parties have appeared to understand, is badly interpreted in practice. The innuendo of the language, be it English or Spanish, is as important as the spoken word. Body language often communicates the message and cannot be readily interpreted by someone new to either the Mexican or Canadian culture. The nuances of body language will tell you more about the state of your business transaction than the spoken word. Misinterpretations can quickly dispel the advances made in your discussions."

David Adam, Minister Counsellor, Embassy of Canada

A Note on Mexican Names

Mexicans tend to use the family names of both their fathers and their mothers as in Carlos (given name) Salinas (father's family name) de Gortari (mother's family name). The father's family name comes first and is the one that is normally used, for example when asking for the individual. The full name is generally used in correspondence. Any titles or academic degrees should also be added to the address or salutation in a letter and be used in conversation with individuals that you do not know very well.

Management

The older generation of Mexican managers grew up and was trained in a highly protected environment in which the economic role of the state was paramount. Many of them may still work for large traditional companies that have yet to introduce modern administrative techniques or change their method of operations. Such companies may be slow to recognize that their environment is changing and that they must change with it.

There is, however, a younger generation of managers that is increasingly influencing the course of events. Many members of this generation have been trained outside Mexico at prestigious management schools. They are bright and energetic administrators who are well versed in the latest management techniques. It is not uncommon for them to put in long hours implementing some of the more innovative approaches to manufacturing, quality assurance and organizational development. Many of these managers are to be found in the large, innovative and sophisticated corporations that are at the leading edge of Mexico's economic transformation.

Mexico, like Canada, also benefits from a large and growing number of small-and medium-sized enterprises. These businesses include traditional family-owned food stands, small retail outlets and manufacturing operations. They also include a growing number of enterprises specializing in trade and commercial services, marketing and consulting. Many of these businesses are characterized by an entrepreneurial energy that reflect a traditional determination to survive adversity, as well as a contemporary recognition of the need to adapt to a more dynamic and competitive environment.

Management styles differ vastly in Canada and Mexico. A sensitivity to this disparity in methods of conducting business is necessary for a successful working relationship in Mexico. Canadian business people with experience in this market cite a number of management issues as critical elements:

- It often takes two or three times longer than anticipated to get things done. Patience and stamina are required virtues on the part of foreign business representatives.
- Mexican managers take a more paternalistic approach to management and problem-solving than do Canadians. One of the outcomes of this approach is that employees will remain silent about a manager's errors or omissions.

- Workplace hierarchies and traditions may make it difficult to encourage decision-making at lower levels.
- Mexican managers need special encouragement and training to instil a sense of responsibility for cost-efficiency in the operations they manage.
- Hiring is usually done through professional recruitment offices, through word of mouth and through family and other connections. Statistics point to a continuing shortage of middle management skills.
- Foreign companies that have set up operations in Mexico have found that it is tremendously important to put a Mexican face on the management of their enterprises.

The strength of Mexican managers lies in their ability to establish and maintain harmonious relations with both superiors and subordinates. Their weakness consists in the inability to make decisions and in an excessive reliance on those above them to do so. Generally, Mexican middle-managers concentrate on implementing decisions rather than planning. They tend to resolve conflicts by referring to authority and hierarchy rather than by establishing consensus.

COMPARATIVE MANAGEMENT STYLES

| ASPECT | MEXICO | U.S.A. |
|--------------------------|--|---|
| Work/Leisure | Works to live. Leisure considered essential for full life. Money is for enjoying life. | Lives to work. Leisure seen as reward for hard work. Money often end in itself. |
| Direction/Delegation | Traditional manager is autocratic. Younger managers starting to delegate responsibility. Subordinates used to being assigned tasks, not authority. | Managers delegate responsibility and authority. Executive seeks responsibility and accepts accountability. |
| Theory vs. Practice | Basically theoretical mind. Practical implementation often difficult. | Basically pragmatic mind. Action-oriented problem-solving approach. |
| Control | Still not fully accepted. Sensitive to being "checked up on." | Universally accepted and practiced. |
| Loyalty | Mostly loyal to superior (person rather than organization). Beginnings of self-loyalty. | Mainly self-loyalty. Motivated by ambition. |
| Competition | Avoids personal competition. Favors harmony at work. | Enjoys proving her/himself in competitive situations. |
| Training and Development | Training highly theoretical. Few structured programs. | Training concrete, specific. Structured programs in general. |
| Time | Relative concept. Deadlines flexible. | An absolute imperative. Deadlines and commitments are firm. |
| Planning | Mostly short-term because of uncertain environment. | Mostly long-term in stable environment. |

Source: *Adaptation of Management in Two Cultures* by Eva Kras.

Labour Practices

Mexican labour law provides a very complex and sophisticated system of protection for the Mexican worker. The labour code lays down the guidelines on collective bargaining, dismissal, compensation, maximum work hours, vacations, housing benefits, profit-sharing, the right to strike, and social security benefits. These regulations also extend to any foreign companies which directly employ Mexican citizens.

Social-Security Benefits: The Mexican social-security system was first set up in 1942 and then broadened in both scope and coverage through many years of refinement and modification. The most recent and profound changes to the system were made in 1973. Social-security laws guarantee medical and social services to workers and their families. Social security is required for all employees and covers

accidents and occupational hazards, illness and maternity, nursery care, old-age pensions, and death benefits. Additional insurance coverage is not required.

Social-security benefits are financed by federal funds, employer contributions and employee salary deductions. Retirement pensions are normally payable at age 65, although early retirement with reduced benefits may be taken as early as age 60.

Coverage under social security is compulsory for practically all those who are privately employed. It can amount to as much as 15 percent of the total payroll. Separate systems cover federal government employees and workers in the petroleum and electricity industries. Benefits and contributions are determined on the basis of daily salary

levels. The federal government has established a minimum salary for social-security calculations, on which both contributions and benefits are based.

Health Care: Health care is guaranteed to all citizens and is covered in Mexico by social security, social assistance, private health centres, or specialist clinics. Various social assistance agencies, which are wholly financed by the government, guarantee health care to every Mexican citizen.

Work Week: The Mexican Constitution lays down an eight-hour working day with one day a week compulsory rest. The legal maximum work week is therefore 48 hours. Overtime is usually paid at double time for the first nine hours in excess of 48, after which triple time is paid.

Vacation: A worker earns six vacation days after working one year, with two additional days for each of the next four years. After five years, two vacation days are added for each five-year period. Vacation time must be paid in full, together with a premium of 25 percent of the regular salary for each vacation day.

Holidays: There are five statutory holidays that are fully paid.

Other Benefits: Profit-sharing is regulated and entitles employees to a share in 10 percent of the company's taxable net revenues. Workers are also entitled to an annual year-end (Christmas) bonus of at least 15 days of salary. Women are allowed 12 weeks off for maternity leave and must be guaranteed a position on returning.

Various non-regulated benefits are often provided by employers. These can include meals at work, transportation to the work place, discount coupons which are honoured in grocery stores and market places, and housing benefits. Compensation packages which include day-care, sports facilities, education for children, an extra month's pay and Christmas bonuses are now commonplace in many industries. Worker benefit packages can thus comprise a significant portion of the overall compensation plan.

Business Travel

Visas: A tourist card in a valid passport does not entitle the foreign visitor to carry on business operations. Visitors who plan to do business in Mexico should enter the country on a non-immigrant visa as an employee of a company, or as a self-employed individual. Those travelling on tourist visas are not allowed to receive remuneration from Mexican

In some manufacturing regions, these additional benefits have become the norm. An employer may find they represent the minimum conditions required to attract an appropriately skilled workforce or to satisfy union demands. This is especially the case for workers such as tool and die makers whose skills are in short supply. Foreign employers are finding that they have to offer similar non-compulsory benefits if they are to get appropriately-trained workers or experienced managers.

The extensive benefit packages mentioned above constitute hidden costs that, in effect, decrease the wage gap between Mexican workers and those in either Canada or the United States. In some cases, benefits can increase the base wage rate by as much as 50 to 100 percent.

Trade Unions: With its revolutionary history, Mexico's labour force is highly organized. Collective bargaining is a long-established element of labour-management relations and the rights of labour unions have been entrenched in the Mexican constitution since 1917. About 8 million Mexican workers or 35 percent of the work force are unionized but in manufacturing that proportion rises to as much as 90 percent.

Mexican law permits the workers in any company with more than 20 employees to set up a union. Organized labour groups have the right to request that a company enter into a collective contract and recognize the union as the sole bargaining agent for its employees. Labour unions are given broad rights, including the right to strike during negotiations and the right to stage strikes in sympathy with other unions, but management-labour relations are relatively harmonious and labour disputes are infrequent and generally settled swiftly. The Mexican Confederation of Workers (*Confederación de Trabajadores de México, CTM*), with over 5 million members, is the country's largest labour organization and is a major force in Mexico's political and economic life. Labour participates with both government and the private sector in El Pacto, the national plan for inflation control.

sources. Visas are readily obtained from Mexican consulates throughout the world.

Currency: The monetary unit is the peso which is subdivided into 100 centavos. To denote Mexican currency, Ps \$ is used before the amount. If the documents are for

internal use only, the Ps is often dropped. Coins are in denominations of 100, 500, 1,000 and 5,000 pesos while banknotes start at 2,000 pesos. It is proposed that as of January 1993, new bills and coins will circulate with nominal values identical to the old units minus 000, and they will bear the same name.

As of late 1991, devaluation against the dollar was halved from 40 centavos to 20 centavos in any given day, ending speculation about further changes to exchange rate policy. The abolition of exchange controls means that Mexico now has only one exchange rate.

All major credit cards are accepted throughout Mexico's business and tourist areas. Money can be changed at a bank or at an exchange house (*Casa de Cambio*) where the rate is often better. Many banks are willing to cash travellers' cheques without a fee. Others may charge 1 percent of the value of the cheques.

Shopping: Mexico has a value-added tax (IVA) similar to the Canadian GST. As in Canada, some establishments include this tax in their prices, others do not, but it will appear as a separate item on your final bill. Occasionally, all prices in a list such as a menu, may be reduced by a certain percentage to conform to anti-inflation regulations. In some cases, prices are not listed on items such as souvenirs. This is an invitation to bargain and you may be able to negotiate your way down to about half of the original asking price. It is customary to tip waiters (5-15 percent), barbers or hairdressers (15 percent), and tourist guides (10 percent), though not taxi drivers.

Taxis: You are well advised to take taxis, particularly when visiting Mexico City. With its population of 20 million, its many narrow twisting streets, and its eccentric street names and numbering plan, the capital presents a challenge to Mexican drivers, let alone newcomers. Taxis are generally available and can be hailed on the street. The cheapest taxis are coloured yellow or green. The meter should be switched on but if it is not, settle the fare to the destination in advance. The more expensive taxis tend to gather in front of the hotels and do not have meters. Their fares should be negotiated in advance. You may find that the ride back to a hotel in a regular taxi costs far less than it did from the hotel out. Fares rise by at least 10 percent and in some cases double after dark. The complexity of Mexico City's street plan can foil even its taxidrivers. To avoid excessive fares, consult a map before you get into a cab.

Time Zones: Most of the country is on Eastern Standard Time minus one hour. The far northwest of Mexico is on Pacific Time. Some northern border states have adopted

Daylight Savings Time which advances the clocks by an hour between April and November.

Business Hours: Business hours usually run from 9 a.m. to 6 p.m. with a two-hour lunch break. In some locations, especially Mexico City, lunch hours are staggered. In these cases, restaurants and other businesses may stay open throughout the day. The industrial city of Monterrey mirrors the business outlook and business hours of the U.S., reflecting its proximity to the Texan border. However, it is not unusual to find business people in their offices at 7 p.m. or 8 p.m., and meetings are sometimes scheduled at these times.

Retailers are open from 10 a.m. to 7 p.m. Some close during the lunch hour. Banking hours are normally from 9 a.m. to 1:30 p.m. though some banks will also be open from 4 p.m. to 6 p.m. to handle certain kinds of transactions. Certain banks open from 9 a.m. to 5 p.m. on weekdays as well as on Saturday mornings. Government offices are open to the public from 8:30 a.m. to 2:30 p.m., Monday through Friday, but many government agencies have had their hours extended until 7 p.m. or 8 p.m. to better serve the public. Factories work eight-hour shifts beginning at 7 a.m. or 8 a.m., with a half-day shift on Saturday mornings.

Statutory Holidays: Mexicans celebrate nation-wide holidays on January 1 and 6, February 5, March 21, May 1 and 5, September 16, November 20, and December 25. December 1 is an obligatory holiday for the inauguration of a new president every six years, the last inauguration occurring in 1988. Religious holidays are frequently observed in private industry although not always in government offices. Such holidays include the Thursday and Friday of Easter week, All Saints' Day (*Día del Muerto*) on November 1 and 2, and December 12.

Telephones and Faxes: Mexico's telecommunications infrastructure continues to have room for improvement. There are just under 11 million phones serving a population of 85 million; the system is overloaded and line quality tends to be poor. There is a long waiting list to get a telephone installed, and thus there is strong demand for cellular telephones. The white pages of the telephone directory are reserved exclusively for personal listings. Business numbers will appear in the yellow pages which are organized according to trade. Few switchboard operators speak English and it may be best to find a Spanish-speaking person to help you make the initial contact. Faxes are increasingly being used in the larger centres though performance is uncertain in more remote areas. It is advisable to call ahead and let the party know you are sending a fax to avoid it being misdirected or ignored.

Patents, Trademarks and Copyrights

Patents, trademarks, trade secrets and copyrights are covered by new laws which align Mexico with many of its trading partners. The laws, which became effective on June 28, 1991, provide increased protection for trade and industrial secrets. Tough penalties are established for their unauthorized use. Some of the regulations interpreting the new laws have not yet been released, and one should consult a Mexican lawyer for up-to-date advice on this issue.

Patents: The term of a patent is 20 years from the date of application. Patents can be obtained for inventions that are new, non-obvious and have industrial application. Patents are available in various technological fields including chemicals, pharmaceuticals, alloys, foods and beverages, biotechnology, plant varieties, and microorganisms. Because of staffing problems at the Mexican Patent and Trademark Office, IMPI (*Instituto Mexicano de Propiedad Industrial*), which falls within the jurisdiction of SECOFI, long delays are still the norm. Even so, the product or process is still protected during the application period.

About one and a half years after an application is first made, SECOFI publishes notification of the patent application. This serves legal notice to third parties who may be using or planning to use the product or process. The notice also informs holders of legitimate identical or similar patents who may wish to contest the application.

The patenting company is required to use the patented product or trademark. Failure to do so exposes the firm to the issuance of a compulsory licence allowing others to take

advantage of the patent. The patent expires two years after issuance of a compulsory licence if the patent holder fails to put the patented product or process into use. A patent may be licensed by the patent holder to another party for use in Mexico based on privately negotiated terms. No government restrictions are imposed on royalties, assistance fees or the like. A licensing agreement must, however, be registered with SECOFI.

Trademarks: The term of a trademark is registered for ten years with renewals for additional ten-year periods. A renewal is automatic if a sworn declaration denies that the mark has been subject to non-use for any period of three consecutive years. Otherwise the trademark is subject to expiry. Expiry is waived, however, where justifiable cause for non-use can be demonstrated. There are no compulsory licences for trademarks. Variation in the use of a trademark does not cause the trademark to expire unless the variations change the essential characteristics of the trademark.

Copyrights: Authors or owners of exclusive rights to software, video and sound recordings, books and other intellectual or artistic works, must register their property with the *Dirección de Derechos de Autor* to obtain copyright protection. The copyright law gives the holder exclusive distribution and reproduction rights for 50 years.

Markings: Mexico now recognizes internationally accepted markings for trademarks and copyrights. A trademark can be marked with MR (*Marca Registrada*) or an "R" symbol, and a copyright with a © symbol.

Product Quality

Many Canadians using suppliers in Mexico have noted that quality remains a problem. Some companies in the very high end of the market have even resorted to importing the raw materials required for manufacturing in order to ensure quality throughout their production process. This practice is prevalent in the northern *maquiladoras*. Government and industry have focused on improving the availability of high quality Mexican-made products. Emphasis is also being placed on reliable delivery. Until a company develops its supply channels, however, problems may be encountered in terms of both the quality and the timely delivery of raw materials or components.

Interviews with Canadian companies operating in Mexico suggest that success depends on establishing appropriate quality standards at the outset and introducing training to ensure that the standards are met. These Canadian firms also believe that, given equal access to technology and training, the Mexican labour force can produce to the highest possible standards. They attribute current quality and delivery problems to an aged infrastructure and not to the abilities of the Mexican workforce.

Trade fairs are numerous in Mexico, and Canadian participation in them is increasing. Several Canadian trade missions are also in the works. Missions are organized by the Latin America and Caribbean Trade Division (LGT) at External Affairs and International Trade Canada, by regional International Trade Centres located in major cities across Canada, by provincial ministries responsible for trade, by Bancomext and by some private-sector associations.

Trade fairs and missions may have a general or sector-specific nature. Both are important tools for the community of Canadian companies seeking direct trade or some form of partnership to produce goods or services for Mexican consumption. The value of a trade mission to the individual participant will be greatly enhanced if careful research is conducted prior to departure. This research can make the difference between being prepared to enter into concrete discussions about a deal or delaying negotiations and possibly missing the opportunity.

The Importance of Trade Fairs to Canadian Exporters

Canada Expo '92 took place in Monterrey in January 1992. This trade fair, the largest ever undertaken by Canada in Central and South America, involved the participation of 206 Canadian companies, 165 exhibitors and nearly 15,000 visitors.

Participants included producers of industrial machinery, automotive accessories, information and telecommunication equipment, construction materials, services, pollution control equipment, packaging equipment, etc. A survey conducted by External Affairs and International Trade Canada after the trade fair revealed that participating firms concluded over \$2.9 million in sales on the site in Monterrey. Further projected sales for the ensuing 18 months exceed \$80 million.

More than 30 firms concluded agency and representation agreements at Monterrey and 16 potential joint venture arrangements were identified. More than two-thirds of the participants in the fair were first-time visitors to the Mexican market. The majority of the firms were small- and medium-sized enterprises with previous export experience to the U.S. and limited exposure to Mexico or other Latin American countries.

Mexican Trade Fairs and Missions – 1992-1993

The following are proposed fairs in or missions to Mexico (at the time of writing), in which the Latin America and Caribbean Trade Division of EAITC have participated or will be participating:

Mexico Trade Fairs/Missions Program '92 - '94

(*) Events Organized by Others

National Swine Congress

Swine industry event in Cancun

30 Sept - 4 Oct '92

Expo Petro y Chem '92

Info booth to distribute catalogues to Oil/Gas industry audience.

4-6 Nov '92

Process Automation & Robotics Mission

Industrial process technology mission will hold meetings in México D.F. and Monterrey. 18 participating companies.

23-27 Nov '92

OEM Auto Parts Mission (*)

APMA/EAITC mission will visit auto plants including new Nissan facility which has all the latest equipment. Co-sponsored by the Mexican Investment Board. 18 members

22-27 Nov '92

Mining Equipment/Services Mission from B.C. (*)

2-4 Dec '92

Expocomm '93

Largest annual telecom show in Latin America. Canada has participated in each year for the last five. 20 companies will participate.

9-12 Feb '93

Antad Expo '93

Canada's first major show in Guadalajara will feature 100 companies from food, store fixture and consumer products sectors (hardware/housewares)

28-30 Mar '93

Metal Expomex '93

Directed to the rapidly expanding machine tool and metal working sector in Monterrey, this event will follow up on the successes of Canadexpo 92. 12-15 participants expected.

9-12 Mar '93

PLANNED OR PROPOSED MEXICAN TRADE FAIRS AND MISSIONS:

Expetro '93

Petroleum equipment/services event. 15-20 participants expected.

Apr '93

Expopak '93

Mexico's leading packaging/labelling machinery show.
12-16 participants expected.

18-21 May '93

Pesca Indústria '93

Event for fish/fish processing equipment in Ensenada.

May '93

Conferencia Ganadero

Event for livestock and poultry.

May '93

Environmental Protection Forum

Technical conference. Participation supported.

May '93

Maquinamex '93

México D.F.'s only machine tool show.

Jun '93

Techno Mueble '93

Furniture industry suppliers event. 7-10 participants expected.

9-11 Jun '93

Expo Alimentos '93

Food processing, packaging, labelling, bottling event in Monterrey.
10 participants expected.

2-5 Aug '93

Expo Rujac '93

Aftermarket auto parts/servicing equipment event in Guadalajara.

8-10 participants.

20-22 Aug '93

National Swine Congress

Swine industry event in Cancun.

Oct '93

Tecomex '93

Sited in Monterrey, event will be the major environment equipment
in Mexico. 15-20 participants expected.

26-30 Oct '93

Mexican Mining Congress '93

Biennial congress/trade show in which Canada has participated
each time. 60 participants are expected.

25-29 Oct '93

Canadaexpo '94 (Monterrey)

A repeat of our highly successful '93 expo, featuring industrial
equipment. 350-400 participants expected.

24-27 Jan '94

Expocomm '94

México D.F.'s principal telecom event. Participation expected.

Feb '94

Antad '94

Only event directed to the retail industry.

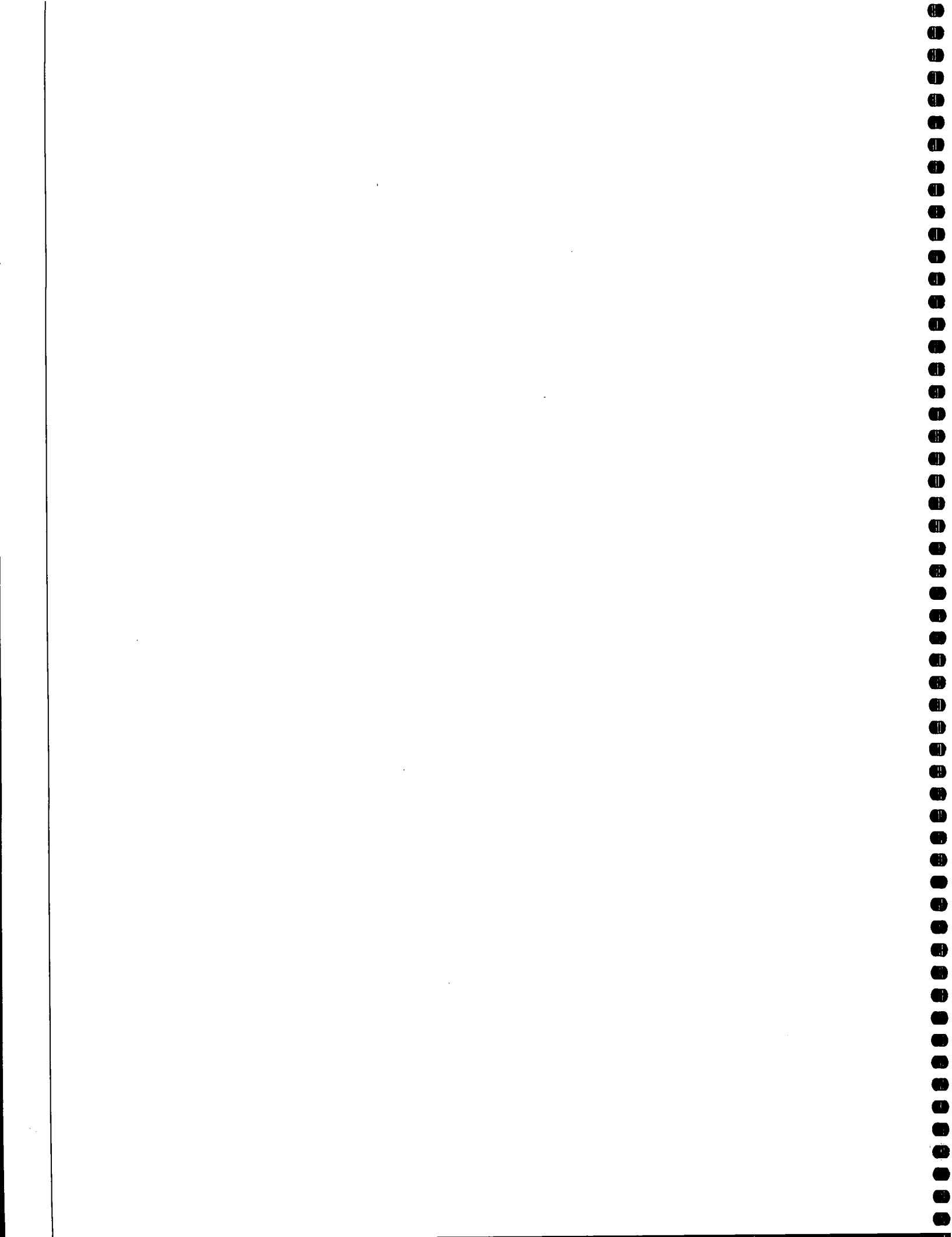
Mar '94

Canadaexpo '94 (México D.F.)

Planned to be Canada's largest commercial trade show, this week-
long event will showcase our expertise in a wide number of sectors.
450-500 participants expected.

12-18 Apr '94

SECTION TWO: TOOLS



VII. PREPARING YOUR EXPORT STRATEGY

Why Mexico?

Are You Ready for Mexico?

Market Research

Sources of Information

Market Entry Strategy

Can You Make Money?

What Kind of Partner?

Negotiating the Deal

Setting a Value

Financing the Venture

Implementation

Mexico represents a large and growing market for Canadian goods and services. For those companies that are determined to take advantage of these opportunities the potential rewards in terms of jobs and growth are tremendous.

Entering a market such as Mexico's, however, can take time and effort. To make sure that the Mexican opportunity is right for your firm, compare your company's strengths and capabilities with what's needed or imported into Mexico. If you feel that there's a business opportunity for your firm, start gathering more information. If it still looks promising, decide on a strategy and put together a detailed action plan.

Why Mexico?

Mexico clearly represents a tremendous business opportunity for many companies, but what is the specific opportunity for you and your firm? Which of the following possible approaches to the Mexican market complement the strengths, advantages and objectives of your company?

- sales of goods and services into the Mexican domestic market
 - selling intermediate goods to Mexican industry
 - selling consumer goods to Mexican end-users
 - selling to the Mexican government or state-owned enterprises
- licencing of your technology, know-how (or other intellectual property) to Mexican firms

Are You Ready for Mexico?

If you enter the Mexican market, you will have to know about the details of the Mexican market, local business culture, exchange rates, taxation, distribution, sales networks, and language. In addition, you will have to devote either your attention or that of an employee to pursuing the opportunity in Mexico. You should, therefore, consider your company's ability to meet these new challenges. Ask yourself the following questions:

1. Do you know what the Mexican market can do for your product or service? Do you know how to find out?
2. Do you understand the Mexican market for your product or service well enough to feel comfortable doing business there?

The outline contained in this chapter will help you focus on the information you need to make a sensible decision about doing business in Mexico. It will also provide you with a framework, outlining some of the steps and decisions you have to take to get into the Mexican market.

Every business transaction is unique. Not everything contained in this chapter will be relevant to your company. And not every important issue can be covered in such a brief summary. In general, however, you will need local allies, partners or contacts to be successful in the market. This outline will get you started on developing a strategy and an action plan for Mexico. The rest, however, is up to you.

- improved access to the U.S. market *through the back door*
- expanded access into the markets of Latin America
- financial contributions (an investment in your company or its operations)
- access to complementary capabilities (such as Mexican marketing experience in Latin America)
- enhancing Canadian exports by accessing Mexican resources, R&D capabilities, or manufacturing facilities

A key question to ask yourself is whether or not there are other markets in which you may be better able to achieve these objectives. In other words, why Mexico?

3. Do you personally have the time at hand to pursuing business in Mexico? What activities would you have to give up to make the time?
4. What do you think doing business in Mexico will cost you in terms of time and money? How do you know? How can you find out?
5. When would these costs have to be recovered? How long do you expect to have to wait for revenues from your transactions in Mexico?
6. Can you cover these costs out of current operations? Would you need additional financing? Are there any immediate or obvious sources of financing available?

7. Are there any people in your company who speak Spanish? Are there any who have had some experience in Mexico or in Latin America? Does anyone have any specific knowledge of the Mexican economy? Does anyone have personal contacts in Mexico?
8. Can you afford to assign an employee to focus on pursuing business opportunities in Mexico? Does that person have the authority to act as a leader and make things happen?
9. Do you know anyone who has done business in Mexico? Have you any business acquaintances or have you met anyone at conferences or seminars who may know about this market?
10. Do you have access to any sources of help outside your company who might assist you in entering the Mexican market?

Market Research

Before trying to enter the Mexican market, find out everything you need to know about it. The success of your products or services will depend on such matters as technological sophistication, cost, quality, and the ability to sell to specific market niches. You will want to know what the competition is like. You may also want to consider putting some effort into product modification, marketing or advertising to better position yourself in the Mexican market. At a minimum, you will need to start with the following hard data:

- What is the size of the market in Mexico for your product or service?
- Who is buying the product or service and what are their characteristics? Are you targeting industries, or consumers and end users?
- What are the typical cost, quality and features of competing products already serving that market?
- How are competing products produced, distributed, advertised, and sold
- Is after-sales service available?
- Are there niches available that are not covered?
- Who are your competitors (domestic and foreign)?
- What are their corporate characteristics (size, financial resources, business direction, technological capabilities, etc.)?
- How does your product measure up to theirs in terms of cost, quality, service, timely delivery, etc.?
- If you are addressing an entirely new and untapped market, how can you establish yourself, build awareness, and shape market demand?
- If you are looking at an established market, how do you challenge the competition? Do you compete on price, quality, features, timeliness, process, service, distribution methods etc.?
- What are the relevant regulations governing your product (e.g. health and safety rules, technical standards, patents)?
- What are the applicable tariffs?

Sources of Information

Clearly, you will not have all of the information needed to answer the questions in the previous section at the outset. Help is available, however. You may consider the following list of potential sources and select those most appropriate to your needs. Do you already have any established contact with any of them?

- your local International Trade Centre located in major cities across Canada
- Mexican specialists in the Latin America and Caribbean Trade Division at EAITC
- the Trade Commissioner at the Canadian Embassy in Mexico City
- private intermediaries (banks, consultants, lawyers, accountants) specializing in Mexico
- a business association such as the Canadian Chamber of Commerce in Mexico, the Canadian Manufacturers' Association, the Canadian Exporters' Association, the Canadian Council for the Americas
- the Conference Board of Canada which has recently prepared a statistical analysis of Canada's export opportunities in the Mexican market
- a local Mexican or Hispanic ethnocultural business association
- the Mexican Embassy or the Mexican Trade Commissioner's Service (known as Bancomext) located in Vancouver, Toronto and Montreal

- various EAITC publications on exporting
- EAITC profiles on sectors of opportunity in Mexico (see Chapter III)
- numerous books and pamphlets on export-related topics issued by other federal departments, provincial governments, and the private sector
- commercial databases containing country profiles and international economic information

See also Chapters VIII and IX of this book for possible contacts and the titles of some useful publications. After tapping some or all of these sources of assistance, be prepared to find out more through a personal visit to Mexico. In the words of one specialist, *don't try to do business in Mexico until you've seen the country.*

Market Entry Strategy

Companies trying to enhance their exports from Canada have several market-entry strategies available to them. What is best for you should emerge from your business objectives, an appraisal of your strengths and weaknesses, and the characteristics of the Mexican market. The following list offers some of the most common forms of entering any foreign market, including Mexico's. You should consider the pros and cons of each approach in relationship to your own business. In particular, focus on the cost, complexity, operational requirement, overall risk, and expected returns.

- direct export (where you sell directly to the end user)
- export through an agent or distributor who sells to a retailer or end user
- sale of a licence (eg. for technology, a process, a patent, a copyright) to a Mexican firm

- sale of a franchise that permits a Mexican to use your processes, techniques, logos, corporate identity, and marketing approach
- co-marketing (by which a Mexican firm agrees to market your products in Mexico and you undertake to market their products in Canada)
- co-production (by which a Mexican firm offers you the use of their manufacturing facilities in exchange for similar use of your facilities)
- joint venture with a Mexican partner, creating a separate and distinct corporate entity that can export goods from Canada into Mexico (or other markets), or engage in other types of business
- greenfield investment in a Mexican facility

Can You Make Money?

A critical element in selecting your market entry strategy will be its financial implications. If you are to make money in the Mexican market you need to prepare a realistic estimate of the costs involved and the expected returns. This may vary from one entry strategy to another.

For example, in the case of direct exports from Canada to Mexico, cost calculations are relatively simple. To the cost of production in Canada, you must add the costs of at least some of the following: transportation, export documentation, insurance, applicable tariffs and customs processing fees, licences and permits, distribution, marketing, and sales. This should include broker's or agent's fees, distributor's fees or any sales commissions. You should include any costs associated with modifications to the packaging (i.e. Spanish labels) or even to the product itself. Many goods are delivered CIF to Laredo, Texas and the local client importer handles the import of the goods into Mexico and all associated fees and documentation.

Selling a franchise or licence in Mexico involves a relatively straightforward calculation. If you have already recouped your original investment, any returns from Mexico will represent additional profit. You should, however, consider the costs associated with the sale (travel, your time, other expenses) and set those against the expected return.

Other market entry strategies are more involved. A co-marketing arrangement, for example, will complicate this formula since it will add the cost of marketing your Mexican partner's products in Canada but subtract some or all of the costs of marketing your products in Mexico.

If you are contemplating production in Mexico, your calculations will be more complicated. If you are pursuing a greenfield investment, the cost of the investment (land, building, employees, machinery, product development, raw materials and inputs, operations, advertising, distribution, and sales) will have to be set against expected volume, sales

price, and margins. Ultimately, the whole calculation should yield an expected rate of return (and a risk factor) that you can compare with other potential investments to determine your best opportunity.

Perhaps the most complex cost calculations will result from a joint venture. A joint venture that combines the import of inputs from Canada with processing or assembly in Mexico will combine the elements of an exporting and an investment strategy. Calculations will be further complicated by attempts to set a value on the relative contributions of the two partners (see below).

Whichever entry strategy you pursue, as you work out your costs and expected returns, do not forget to include the effect of factors such as differential rates of inflation and interest rates in Canada and Mexico, fluctuating exchange rates, taxation, and changes to tariffs scheduled as part of the implementation of NAFTA. Remember too, that Mexican standards of living and overheads vary significantly from Canada's, depending on the target market and its location. As in Canada, they vary from region to region. A detailed, comprehensive budget, containing accurate information on all of the cost elements included above will help you avoid financial problems down the road.

What Kind of Linkages?

Whether you want to export directly to Mexico or pursue other types of opportunities there, you will need to work with people on the Mexican side. The following is a checklist of the kinds of partners or associates you may need in Mexico:

- an agent or representative who will sell your products to Mexican customers
- a professional distributor for your products
- a retailer with outlets for direct sales to end users
- a marketer/advertiser (for promotion of your product)
- a manufacturer (for a joint venture)
- a researcher (for product development or modification)
- an investor (as a source of funding)
- a franchisee to purchase your franchise
- a buyer of a licence to use your technology

Generally, you should be looking for someone with complementary capabilities. For example, if you are a Canadian manufacturer contemplating exporting your machinery to Mexico, you should be looking for an agent with experience in sales, marketing, or distribution to the specific industry that buys your equipment. One way of approaching the selection process is to draw up a table similar to the following, comparing all of the most significant characteristics of your own company with those of an ideal agent or distributor.

| | Your Company | Prospective Agent |
|---------------------------------|--------------|-------------------|
| Annual Sales | _____ | _____ |
| Nature of Business | _____ | _____ |
| Product Lines | _____ | _____ |
| Competitive Advantages | _____ | _____ |
| Experience in the Industry | _____ | _____ |
| Value of Existing Relationships | _____ | _____ |
| Weaknesses | _____ | _____ |
| Capabilities | _____ | _____ |
| Technical Skills and Resources | _____ | _____ |
| Financial Resources | _____ | _____ |
| Proposed Role | _____ | _____ |
| No. of Employees | _____ | _____ |

You would do well to profile several different candidates in Mexico, interview them, and then select the most suitable to work with your firm. If you are not sure you have found the right agent or distributor, look again or review your overall approach. Do not feel pressured into a decision; better a delay or change of course than to undertake a serious venture with an inappropriate partner.

Strategic Considerations

As you try to identify a prospective partner in Mexico and strike a deal to define the relationship, focus your activities by asking yourself the following questions:

1. What are my strategic objectives? What do I want out of this relationship?
2. What am I prepared to offer or to put on the table?
3. What am I not prepared to offer or expose to my prospective agent/distributor?
4. What do I want my prospective partner to do? What value does that have to me?
5. What am I prepared to give up?
6. Will the agent present himself as part of my company (carry my company's card) or act as an independent representative?
7. Will our relationship include provisions for exclusivity on one or both sides?
8. What does my prospective partner want to get out of this deal? What are his or her strategic objectives, both stated and unstated?
9. What are my strengths and weaknesses going into this negotiation? What are those of my prospective agent/distributor?
10. What skills and expertise do I need (translation services, legal or tax advice) to get the best deal for my company?
11. What are possible dangers arising from this negotiation (such as leaks of proprietary information)? What can I do to protect myself against them?

Protect Yourself

Be cautious and protect yourself, especially if you own proprietary technology. An agent or distributor who knows a lot about your technology could cause a lot of damage if you do not protect against the divulging of proprietary information.

1. Are there measures in place in the agreement you have drawn up with your partner to protect your technology, ideas, patents, processes, etc?
2. Are you familiar with Mexican intellectual property laws? Do you know how to apply them to protect yourself?
3. What practical measures can you take to preserve confidentiality or to guard against unfair appropriation of your know-how?
4. What do people who have already done business in Mexico have to say about their experiences there?
5. What are the various legal risks involved in competing in Mexico? How can you minimize those risks to your company?

Financing the Venture

Financing is an all-important element in any business transaction. Do you have enough financing available to carry through on the deal? If not, can you get the financing you need at a reasonable rate?

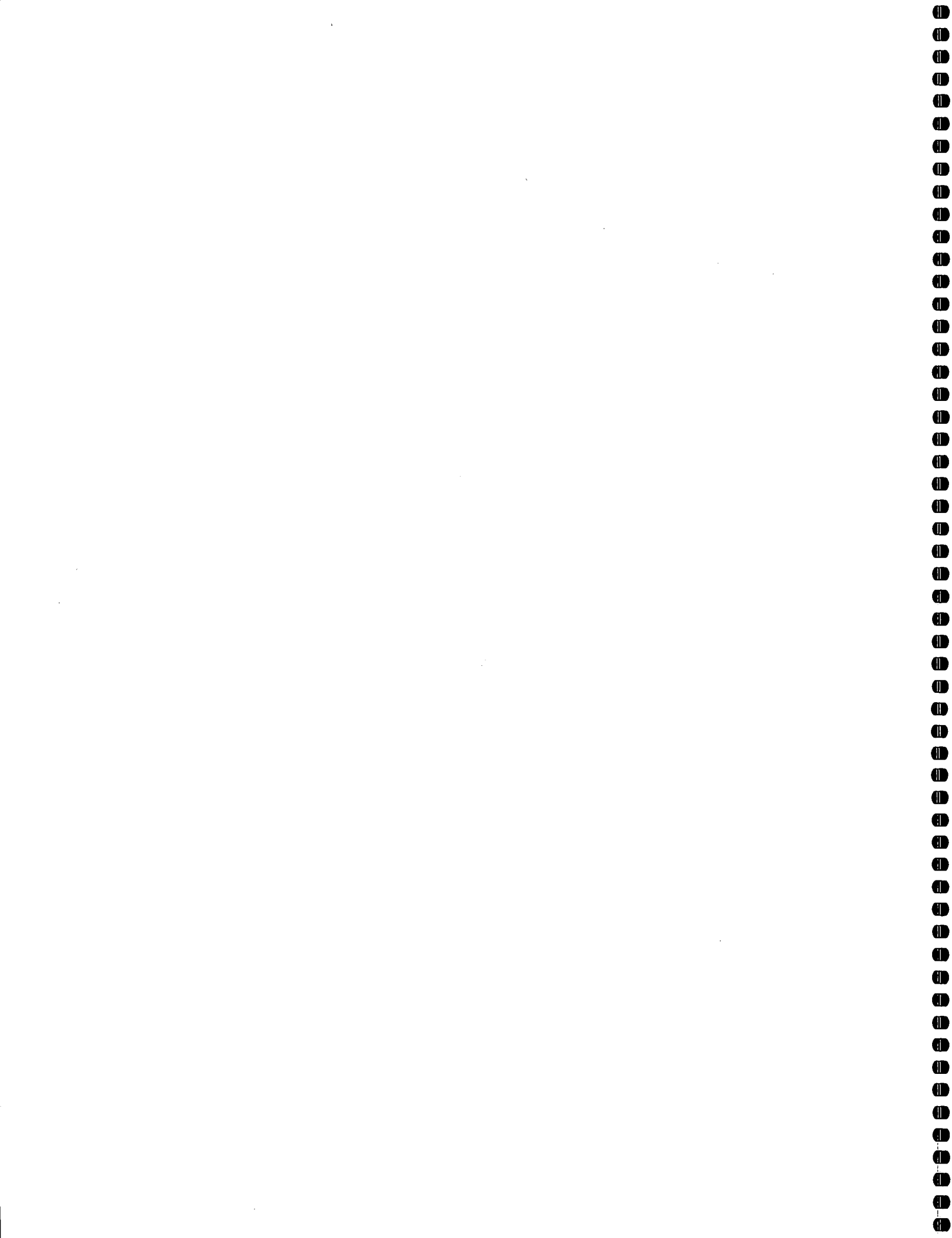
1. Which of the following expenses would be involved in pursuing the business opportunity you have in mind? How much would each item cost?
 - market research
 - travel to Mexico
 - hiring professional assistance (translators, lawyers, tax specialists) in Mexico
 - production of items for export into the Mexican market
 - product modifications for the Mexican market
 - transportation costs
 - agents and distributor's fees

- sales commissions
 - marketing in Mexico
2. How much of this cost can you cover from available resources or from operations? How much additional financing does the transaction require? How much of it is one-time only (up-front) expenditure? How much is ongoing?
 3. When do you need the financing? Do you need it all at once? Can it come in stages?
 4. Which of the following external sources of financing are available to you?
 - commercial banks
 - programs offered by the Canadian federal government (see Chapter VIII)
 - provincial programs
 - investors (if so, who and on what terms)
 - a Mexican partner
 - the Mexican government
 - international agencies (such as the World Bank or agencies of the United Nations)
 5. If conventional financing is unavailable, can you arrange for a commercial factoring house to purchase your receivables (at a discount) and thus pay you faster than you could expect to be paid by your Mexican partners?

Implementation

Finally, after the deal is signed and sealed, you will need to draw up an implementation plan. As you do so, make sure to include answers to the following questions:

- what has to be done (detail all of the steps in your action plan)?
- who is responsible for what part of the action plan?
- what are the basic operating principles and procedures relevant to the Mexican opportunity that should be specified in the action plan?
- what are the major milestones?
- what is the timetable for achieving these milestones?
- what returns are expected?
- when are they expected?
- how are the returns to be applied?
- who is responsible for reviewing and reassessing your Mexican strategy and when will this take place?



VIII. RELEVANT CANADIAN GOVERNMENT DEPARTMENTS, PROGRAMS AND SERVICES

*External Affairs and International Trade
Canada*

Industry, Science and Technology Canada

Canadian International Development Agency

Atlantic Canada Opportunities Agency

Western Economic Diversification Canada

Export Development Corporation

Canadian Commercial Corporation

National Research Council

External Affairs and International Trade Canada

External Affairs and International Trade Canada (EAITC) is the Canadian federal government department most directly responsible for trade development. Its Latin America and Caribbean Trade Division promotes trade with Mexico. There are several Trade Commissioners at the Embassy of Canada in Mexico City, and there will soon be another located at a satellite office in Monterrey. Trade Commissioners can provide a range of services including introducing Canadian companies to potential customers in Mexico, advising on marketing channels, assisting those wishing to participate in a trade fairs, helping identify suitable Mexican firms to act as agents, and compiling credit and business information on potential foreign customers.

Latin America and Caribbean Trade Division (Ottawa)

The Latin America and Caribbean Trade Division can provide Canadian companies with the following information:

- economic outlook for Mexico;
- intelligence on the market for particular products and commodities;
- details of major upcoming projects;
- market access information such as tariff rates, regulations, licencing, non-tariff barriers, product standards, and required documentation;
- details and implications of the North American Free Trade Agreement; and
- relevant publications, and market briefs on Mexico or its regional markets.

This geographic trade division is also responsible for assisting and advising exporters on how to market their products and services. It can provide information on Canadian government export-related programs and services. It also monitors product and project opportunities as they arise.

Latin America and Caribbean Trade Division (LGT)
External Affairs and International Trade Canada
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel: (613) 996-6547
Fax: (613) 943-8806

International Trade Centres

International Trade Centres have been established across the country as a first point of contact to support the exporting efforts of Canadian firms. Co-located with the regional offices of Industry, Science and Technology Canada (ISTC), the centres operate under the guidance of EAITC and all have resident Trade Commissioners. They help companies determine whether or not they are ready to export; assist firms with marketing research and market planning; provide access to government programs designed to promote exports; and arrange for assistance from the Trade Development Division in Ottawa and trade officers abroad. Contact the International Trade Centre nearest you:

British Columbia: Scotia Tower
900-650 West Georgia Street
P.O. Box 11610
Vancouver, B.C. V6B 5H8
Tel: (604) 666-0434
Fax: (604) 666-0617

Yukon: Room 210
300 Main Street
Whitehorse, Yukon Y1A 2B5
Tel: (403) 667-3921
Fax: (403) 668-5003

Alberta: Canada Place
Suite 540
9700 Jasper Avenue
Edmonton, Alberta T5J 4C3
Tel: (403) 495-ISTC(4782)
Fax: (403) 495-4507

11th Floor
510-5th Street S.W.
Calgary, Alberta T5P 3S2
Tel: (403) 292-6660
Fax: (403) 292-4578

Northwest Territories: Precambrian Building
10th Floor
P.O. Box 6100
Yellowknife, NWT X1A 2R3
Tel: (403) 920-8578
Fax: (403) 873-6228

Saskatchewan: Suite 401
119-4th Avenue South
Saskatoon, Sask. S7K 5X2
Tel: (306) 975-4400
Fax: (306) 975-5334

4th Floor
1955 Smith Street
Regina, Sask. S4P 2N8
Tel: (306) 780-5020
Fax: (306) 780-6679

Manitoba: 7th Floor
330 Portage Avenue
P.O. Box 981
Winnipeg, Manitoba R3C 2V2
Tel: (204) 983-4090
Fax: (204) 983-2187

Ontario: Dominion Public Building
4th Floor
1 Front Street West
Toronto, Ontario M5J 1A4
Tel: (416) 973-5000
Fax: (416) 973-8714

Quebec: Stock Exchange Tower
Suite 3800
800 Victoria Square
P.O. Box 247
Montréal, Québec H4Z 1E8
Tel: (514) 283-7907
Fax: (514) 283-5269

New Brunswick: Assumption Place
770 Main Street
P.O. Box 1210
Moncton, N.B. E1C 8P9
Tel: (506) 857-ISTC(4782)
Fax: (506) 851-6429

Prince Edward Island: Confederation Court Mall
Suite 400
134 Kent Street
P.O. Box 1115
Charlottetown, PEI C1A 7M8
Tel: (902) 566-7400
Fax: (902) 566-7410

Nova Scotia: Central Guarantee Trust Tower
5th Floor
1801 Hollis Street
P.O. Box 940, Stn "M"
Halifax, N.S. B3J 2V9
Tel: (902) 426-ISTC(4782)
Fax: (902) 426-2624

Newfoundland: Atlantic Place
Suite 504
215 Water Street
P.O. Box 8950
St. John's, Nfld. A1B 3R9
Tel: (709) 772-4866
Fax: (709) 772-5093

World Information Network for Exports

The World Information Network for Exports (WIN Exports) is a computer-based information system designed by EAITC to help Canada's trade development officers abroad match foreign needs to Canadian capabilities. It provides users with information on the capabilities, experience and interests of more than 30,000 Canadian exporters. To be registered on WIN Exports call (613) 996-5701.

Program for Export Market Development (PEMD)

This program seeks to increase export sales by sharing the costs of industry-initiated activities aimed at developing export markets. PEMD is administered by ISTC regional offices and funded by EAITC. Activities eligible for PEMD financial support (up to 50 percent of the costs) include:

- participation in recognized foreign trade fairs outside of Canada;
- trips to identify export markets and visits by foreign buyers to Canada;
- project bidding or proposal preparation at the pre-contractual stage for projects outside Canada;
- the establishment of permanent sales offices abroad in order to undertake sustained marketing efforts; and
- special activities for non-profit, non-sales food, agriculture and fish organizations, marketing boards and agencies, trade fairs, technical trials, and product demonstrations (for example).

Support is also provided for certain types of government-planned activities, such as outgoing trade missions of Canadian business representatives and incoming missions to Canada of foreign business and government officials who can influence export sales.

For information call: (613) 996-7200.

International Financing

EAITC helps Canadian exporters interested in pursuing multilateral business opportunities financed by international financing institutions (IFI). Canadian exporters and trade associations can access market data, obtain a better understanding of the competition, and determine if an IFI-funded market opportunity is practical and worth pursuing. EAITC can provide information and advice on the availability of Canadian government-funded assistance programs and can assist companies in developing effective export marketing. For further information contact:

Export Finance and Capital Project Division
External Affairs and International Trade Canada
Tel: (613) 995-7251
Fax: (613) 996-9265

Info Export Centre

The Info Export Centre offers advice on how to start exporting; it provides information on export-related programs and services; helps find fast answers to export problems; acts as the entry point to EAITC's trade

information network; and can provide interested companies with copies of specialized export publications. For information, call: 1-800-267-8376. Companies within the Ottawa area, call: 993-6435, Fax: (613) 996-9709.

Technology Inflow Program

Managed by EAITC and delivered domestically by the National Research Council, this program is designed to help Canadian companies locate, acquire and adopt foreign technologies by promoting international collaboration. ISTC also helps in program promotion. The program officers respond to requests to identify technology sources and opportunities for cooperation between Canadian and foreign firms. The program will also help Canadian firms make exploratory visits abroad to identify and gain first-hand knowledge of relevant foreign technologies as well as to negotiate to acquire them.

Investment Development Program

This program helps Canadian companies find the investment they need. It actively promotes investments that take the form of new plant and equipment, joint ventures or strategic partnerships. It is especially interested in attracting investment that introduces new technology into Canada, a key to creating new jobs and economic opportunities. Investment officers make contact with foreign investors and bring them together with Canadian companies. For information, call (613) 993-7348.

Industry, Science and Technology Canada

Industry, Science and Technology Canada (ISTC) was created with a broad mandate to improve the competitiveness of Canadian industry. In the area of small business, it has been given specific responsibility to:

- develop, implement and promote national policies to foster the international competitiveness of industry; the enhancement of industrial, scientific and technological development; and the improvement in the productivity and efficiency of industry;
- promote the mobility of goods, services, and factors of production within Canada;
- develop and implement national policies to foster entrepreneurship and the start-up, growth and expansion of small businesses;
- develop and implement national policies and programs respecting industrial benefits from procurement of goods and services by the government of Canada;

- promote and provide support services for the marketing of Canadian goods, services and technology; and
- promote investment in Canadian industry, science and technology.

ISTC Regional Offices

The regional offices work directly with Canadian companies to promote industrial, scientific and technological development. They help clients recognize opportunities in a competitive international marketplace by providing services in the areas of business intelligence and information, technology and industrial development, and trade and market development. They also promote and manage a portfolio of programs and services.

The following are areas in which ISTC regional offices have special competence:

- access to trade and technology intelligence and expertise;
- entry points to national and international networks;
- industry sector knowledge base;
- co-location with International Trade Centres connected to EAITC and Canadian posts abroad;
- client focus on emerging and threshold firms; and
- ISTC Business Intelligence.

The Business Opportunities Sourcing System (BOSS)

BOSS is a computerized databank that profiles over 26,000 Canadian companies. It lists basic information on products, services and operations that is useful to potential customers. The system was established in 1980 by ISTC in co-operation with participating provincial governments. BOSS was originally established so that Trade Commissioners posted around the world by EAITC could find Canadian companies that might be able to take advantage of foreign market opportunities. Today, more than 11,000 domestic

and international subscribers use the system not only to locate Canadian suppliers but also to obtain market intelligence and identify market opportunities. The majority of subscribers are Canadian companies.

Contact: ISTC-BOSS, (613) 954-5031.

Market Intelligence Service

This service provides Canadian business with detailed market information on a product specific basis. The service assists Canadian companies in the exploitation of domestic, export, technology transfer, and new manufacturing investment opportunities. The intelligence is used by Canadian business in decisions regarding manufacturing, product development, marketing, and market expansion. The information includes values, volume and unit price of imports, characteristics of specific imports (e.g. material, grade, price range, etc.), names of importers, major countries of export, identification of foreign exporters to Canada, Canadian production, Canadian exports, and U.S. imports. Two-thirds of the clientele for this service are small businesses. Contact ISTC – Market Intelligence Service, (613) 954-4970.

Canadian International Development Agency

An important possible source of financing for Canadian ventures in Mexico is the special fund available through the Canadian International Development Agency (CIDA) under the Industrial Cooperation Program or CIDA/INC. CIDA's Industrial Cooperation Program provides financial contributions to stimulate Canadian private-sector involvement in developing countries by supporting long-term business relationships such as joint ventures and licencing arrangements. INC supports the development of linkages with the private sector in Mexico encouraging Canadian enterprises to share their skills and experiences with partners in Mexico, and other countries. A series of INC mechanisms help enterprises to establish mutually beneficial collaborative arrangements for the transfer of technology and the creation of employment in Mexico.

There are five INC mechanisms which help eligible Canadian firms to conduct studies and provide professional guidance and advice to potential clients. Where a project involves environmental improvement, technology transfer, developmental assistance to women, job training, or job creation, early contact with CIDA's Industrial Cooperation Division is suggested.

An important CIDA criterion is that the project creates jobs in Mexico without threatening jobs in Canada. In fact, most CIDA-assisted projects have produced net increases in Canadian jobs.

Industrial Cooperation Division
Canadian International Development Agency
200, Promenade du Portage
Hull, Québec
K1A 0G4
Tel: (819) 997-7901
Fax: (819) 953-5024

Atlantic Canada Opportunities Agency

Atlantic Canadian companies seeking to develop exports to Mexico may be eligible for assistance from the Atlantic Canada Opportunities Agency (ACOA). The Agency works in partnership with entrepreneurs from the Atlantic region to promote self-sustaining economic activity in Atlantic Canada.

The ACOA Action Program provides support to businesses as they look to expand existing markets through the development of Marketing Plans. Efforts include monitoring trade opportunities arising from global economic change, communications efforts to promote the region; trade missions and associated activities, as well as better coordination with federal and provincial bodies that influence trade and investment opportunities.

ACOA Head Office: Blue Cross Centre
644 Main Street
P.O. Box 6051
Moncton, N.B. E1C 9J8
Toll free: 1-800-561-7862
Fax: (506) 851-7403

Newfoundland and Labrador: Suite 801, Atlantic Place
215 Water Street
P.O. Box 1060, Station C
St. John's, Nfld. A1C 5M5

Tel: (709) 772-2751
Toll free: 1-800-563-5766
Fax: (709) 772-2712

Nova Scotia: Suite 600
1801 Hollis Street
P.O. Box 2284, Station M
Halifax, N.S. B3J 3M5
Tel: (902) 426-8361
Toll free: 1-800-565-1228
Fax: (902) 426-2054

Prince Edward Island: 75 Fitzroy Street
3rd Floor
Charlottetown, P.E.I. C1A 1R6
Tel: (902) 566-7492
Toll free: 1-800-565-0228
Fax: (902) 566-7098

New Brunswick: 590 Brunswick Street
P.O. Box 578
Fredericton, N.B. E3B 5A6
Tel: (506) 452-3184
Toll free: 1-800-561-4030
Fax: (506) 452-3285

Western Economic Diversification Canada

Western Canadian companies interested in Mexico may be able to secure assistance from Western Economic Diversification Canada (WD). This agency provides financial assistance for projects which contribute to the diversification of the western economy. It acts as a pathfinder to ensure that western businesses are aware of and receive assistance from the most appropriate source of funding, federal or other, for their projects. It acts as an advocate for the west in national economic decision-making and it coordinates federal activities that have an impact on economic growth in the west. It also plays a role in promoting trade between western Canada and markets around the world. Inquiries about the Western Diversification Program and other activities of the department can be directed to any of the following regional offices:

Manitoba: P.O. Box 777
Suite 712
The Cargill Building
240 Graham Avenue
Winnipeg, Manitoba R3C 2L4
Tel: (204) 983-4472

Saskatchewan: P.O. Box 2025
Suite 601
S.J. Cohen Building
119-4th Avenue South
Saskatoon, Sask. S7K 5X2
Tel: (306) 975-4373

Regina toll free: (306) 780-6725

Alberta: Suite 1500
Canada Place
9700 Jasper Avenue
Edmonton, Alta. T5J 4H7
Tel: (403) 495-4164
Calgary toll free: (403) 292-5382

British Columbia: P.O. Box 49276
Bentall Tower, 4
1200-1055 Dunsmuir Street
Vancouver, B.C. V7X 1L3
Tel: (604) 666-6256
B.C. toll free: 1-800-663-2008

Export Development Corporation

Companies exporting to Mexico will need suitable financing and insurance for the transaction. The Export Development Corporation (EDC) may be able to help with both. EDC is a Canadian crown corporation whose purpose is to facilitate and develop Canada's export trade. The corporation provides insurance, guarantees and export financing which, combined with advice and the organization of financial services packages, facilitate the sale of Canadian goods and services abroad. EDC offers the following services:

Export Insurance and Related Guarantees

- global comprehensive insurance
- global political insurance
- selective political insurance
- specific transaction insurance
- specific transaction guarantees
- loan pre-disbursement insurance
- foreign investment insurance
- performance security insurance
- performance security guarantees
- consortium insurance
- surety bond insurance
- bid security guarantees
- specific sub-supplier insurance
- equipment (political risk) insurance
- bid-bond insurance
- medium-term agricultural guarantees

Export Financing and Related Guarantees

- loans
- line of credit allocations
- note of purchases
- protocols
- loan guarantees
- specialized credit

EDC's head office is located in Ottawa. Regional offices are maintained in Halifax, Montreal, Toronto, London, Ottawa, Winnipeg, Calgary, and Vancouver. General inquiries regarding EDC services can be channeled through

the regional offices maintained by the corporation in several major Canadian cities. Export services, however, are only handled by the Ottawa Office. Inquiries about export financing for Mexico should be addressed to the Export Financing Group for Mexico and South America in Ottawa.

Ottawa (Head Office): 151 O'Connor Street
Ottawa, Ontario K1A 1K3
Tel: (613) 598-2500
Fax: (613) 237-2690

Vancouver: Suite 1030
One Bentall Centre
505 Burrard Street
Vancouver, B.C. V7X 1M5
Tel: 604-666-8234
Fax: 604-666-7550

Calgary: Suite 1030
510-5th Street S.W.
Calgary, Alberta T2P 3S2
Tel: (403) 292-8888
Fax: (403) 292-8902

Winnipeg: 8th Floor
330 Portage Avenue
Winnipeg, Manitoba R3C 0C4
Tel: (204) 983-5114
Fax: (204) 983-2187

Toronto: Suite 810
National Bank Building
150 York Street
P.O. Box 810
Toronto, Ontario M5H 3S5
Tel: (416) 973-6211
Fax: (416) 662-1267

London: Suite 1512
Talbot Centre
148 Fullerton Street
London, Ontario N6A 5P3
Tel: (519) 645-5628
Fax: (519) 645-5580

Halifax: Suite 1003
T.D. Bank Building
1791 Barrington Street
Halifax, Nova Scotia B3J 3L1
Tel: (902) 429-0426
Fax: (902) 423-0881

Montreal: Suite 4520
800 Victoria Square
P.O. Box 124
Tour de la Bourse
Montreal, Quebec H4Z 1C3

Canadian Commercial Corporation

Companies seeking to do business in Mexico for the first time may be daunted by concerns about getting paid. The Canadian Commercial Corporation (CCC) helps to reduce the risks associated with international trade. It reassures foreign purchasers of Canadian goods and services by guaranteeing the performance of Canadian suppliers. And it helps Canadian firms doing business abroad by providing guarantees that they will be paid. Indeed, it can often advance payments to Canadian suppliers on the strength of its arrangements with foreign purchasers, even before payment is received from those purchasers.

CCC's guarantees will in some cases reduce, or even eliminate, the need for financial securities and expand the financing options available to both sides. In addition, CCC helps foreign buyers identify Canadian suppliers best able to respond to their requirements. It serves as a focal point of

contact where more than one supplier is needed to fulfill an order. And CCC assists the Canadian supplier through all phases leading to the conclusion of a transaction. In addition to analyzing the risks involved, CCC participates in negotiations and signs the contract with the customer. It then follows through on all aspects leading to the implementation of the contract, including payment to suppliers and collection from customers. For more information, contact:

Canadian Commercial Corporation
50 O'Connor Street, 11th Floor
Ottawa, Ontario K1A 0S6
Tel: (613) 996-0034
Fax: (613) 995-2121

National Research Council

Canadian companies hoping to succeed in the Mexican marketplace may require additional technology to improve their competitiveness. The National Research Council (NRC) works with Canadian firms of all sizes to develop and apply technology for economic benefit. The Council supervises the Industrial Research Assistance Program (IRAP), a national network for the diffusion and transfer of technology.

The IRAP network supports the process of developing, accessing, acquiring, implanting, and using technology throughout Canadian industry. IRAP has been in existence for 40 years and has acquired a reputation as one of the more flexible and effective federal programs. IRAP takes advantage of an extensive network that includes more than 250 regional and local offices, 60 provincial technology

centres, the Council's own laboratories and research institutes, federal government departments, and technology transfer officers in Canadian universities. The IRAP network also extends abroad through the technology counselors attached to Canadian posts in some 14 foreign countries. For more information or the name of the IRAP officer nearest you, contact the following:

IRAP Office
National Research Council
Montreal Road
Building M-55
Ottawa, Ontario K1A 0R6
Tel: (613) 993-5326
Fax: (613) 952-1086

IX. KEY CONTACTS AND ADDRESSES

In Canada

In Mexico

This chapter lists Canadian and Mexican institutions that can be especially useful to Canadian firms looking to do

business in Mexico. In addition to the name and address of the organization, a brief description is also provided.

In Canada

Business Associations

The Canadian Council for the Americas (CCA) is a non-profit organization formed in 1987 to promote business interests in Latin American and Caribbean countries. The CCA promotes events and programs targeted at expanding business and building networking contacts between Canada and the countries of the region. It also publishes a bimonthly newsletter.

The Canadian Council for the Americas (CCA)
Executive Offices, Third Floor
145 Richmond Street West
Toronto, Ontario M5H 2L2
Tel: (416) 367-4313
Fax: (416) 367-5460

Canadian Exporters' Association (CEA)
99 Bank Street, Suite 250
Ottawa, Ontario K1P 6B9
Tel: (613) 238-8888
Fax: (613) 563-9218

Canadian Manufacturers' Association (CMA)
75 International Boulevard, Fourth floor
Etobicoke, Ontario M9W 6L9
Tel: (416) 798-8000
Fax: (416) 798-8050

Mexican Government Offices in Canada

The Embassy of Mexico, Mexican Trade Commissioners in Canada, and Mexican consulates can provide assistance and guidance to Canadian companies in need of information about doing business in Mexico.

Embassy of Mexico
130 Albert Street, Suite 1800
Ottawa, Ontario K1P 5G4
Tel: (613) 233-8988
Fax: (613) 235-9123

Mexican Consulate in Ottawa
Tel: (613) 233-6665

Other Mexican Consulates General in Canada

Consulate General of Mexico
2000, rue Mansfield
Suite 1015
Montréal, Qué. H3A 2Z7
Tel: 514-288-2502/288-4916
Fax: 514-288-8287

Consulate General of Mexico
60 Bloor Street West
Suite 203
Toronto, Ont. M4W 3B8
Tel: 416-922-2718/922-3196
Fax: 416-922-8867

Consulate General of Mexico
810-1139 West Pender Street
Vancouver, B.C. V6E 4A4
Tel: 604-684-3547/684-1859
Fax: 604-684-2485

Mexican Honorary Consulate
380, Chemin St. Louis
No. 1407
Québec, Qué. G1S 4M1
Tel: 418-681-3192

Mexican Honorary Consulate
3107 Vercheres Street, S.W.
Calgary, Alta. T2T 3R6
Tel: 403-245-0303

For the Mexican Trade Commission offices in Montreal, Toronto and Vancouver see the following listing for Bancomext.

Mexican Banks with Offices in Canada

Bancomext offers credits, export guarantees and counselling services for those seeking to do business in Mexico. Credits are available for export, import and project financing. Counselling covers fiscal, financial, marketing and legal aspects of commercial transactions. Bancomext also sponsors trade fairs, international exhibitions and trade missions.

Bancomext
Trade Commission of Mexico
P.O. Box 32
Suite 2712
TD Bank Tower
66 Wellington Street
Toronto, Ont. M5K 1A1
Tel: (416) 867-9292
Fax: (416) 867-1847

Bancomext
Trade Commission of Mexico
200 Granville Street
Suite 1365
Vancouver, B.C. V6C 1S4
Tel: (604) 682-3648
Fax: (604) 682-1355

Bancomext
Trade Commission of Mexico
C.P. 305
Place Bonaventure
Floor F, Farham Hallway
Suite 18
Montréal, Qué. H5A 1B4
Tel: (514) 393-1758
Fax: (514) 393-3340

Banamex and Banca Serfin are private sector banks which offer specialized services through their international trade information centres. The centres participate in a computerized communications network with access to numerous economic, governmental and financial data bases throughout the world. These banks are located throughout Mexico, and maintain offices in Toronto.

Banamex (*Banco Nacional de México*)
Suite 3430
1 First Canadian Place
P.O. Box 299
Toronto, Ont. M5X 1C9
Tel: (416) 368-1399

Banca Serfin
161 Bay Street
BCE Place
Canada Trust Tower
Suite 4360
P.O. Box 606
Toronto, Ont. M5J 2S1
Tel: (416) 360-8900

In Mexico

Canadian Government Offices in Mexico

The Commercial Division of the Canadian Embassy in Mexico can provide vital assistance to Canadians venturing into the Mexican market. The trade commissioners are well informed about the market and will respond in whatever measure possible to support a Canadian firm's presence in Mexico. *To telephone México, D.F. dial: 011-52-5 before the number shown below:*

Commercial Division
The Embassy of Canada in Mexico
Schiller No. 529
Col. Polanco
Apartado Postal 105-05
11560 México D.F.
México
Cable: Canadian Mexico City
Tel: 724-7900
Telex: (22) 117-1191 (DMCNE)
Fax: 724-7982

Quebec House

Representing the Government of Quebec, the office deals with a wide range of issues. On the commercial side, it promotes Mexican business opportunities with Quebec firms and helps to prepare them for the Mexican marketplace.

Quebec House
Av. Taine 411
Col. Bosques de Chapultepec
11580 México, D.F.
México
Tel: 250-8208
Fax: 254-4282

The Canadian Chamber of Commerce in Mexico

The Canadian Chamber of Commerce in Mexico — *La Cámara de Comercio del Canada en México* - brings together Canadian business people working in Mexico. Its main objective is to provide information and contacts to Canadian firms interested in doing business in Mexico.

Rio de la Plata No. 30
06500 México, D.F.
México
Tel: 286-2526 or 256-0901

Bank of Montreal

The Bank of Montreal is the longest-serving Canadian bank in Mexico. It offers a wide range of international banking services and trade financing.

Bank of Montreal
Horacio No. 1855-301
Col. Polanco
11510 México, D.F.
México
Tel: 203-8211
Fax: 203-8542

Mexican Federal Government Departments

Secretariat for Commerce and Industrial Promotion - *Secretaría de Comercio y Fomento Industrial* (SECOFI)
This department of the Mexican federal government is responsible for developing the country's industry and its foreign and domestic trade. It administers supply and price policies, establishes industrialization, distribution and consumption policies for agricultural, livestock, forestry, mining, and fisheries products. SECOFI also promotes Mexico's foreign trade, and defines tariffs and sets official prices. It studies and determines the fiscal incentives needed for industrial promotion. SECOFI offices pursue investment throughout Mexico and encourage trade by local industry. They can be important sources of information.

Alfonso Reyes No. 30
Col. H. Condesa
06140 México, D.F.
México
Tel: 211-0036

Other Government Departments

Secretariat of Agrarian Reform — *Secretaría de la Reforma Agraria*
Calz. de la Viga No. 1174
Col. El Triunfo
09430 México, D.F.
México
Tel: 654-3300

Secretariat of Agriculture and Hydrological Resources — *Secretaría de Agricultura y Recursos Hidráulicas*
Insurgentes Sur No. 476
Piso 13
Col. Roma Sur
06760 México, D.F.
México
Tel: 584-0786/0834

Secretariat of Communications and Transportation — *Secretaría de Comunicaciones y Transportes*
Av. Universidad y Xola, Cuerpo C
1er. Piso
Col. Narvarte
03028 México, D.F.
México
Tel: 530-9203

Secretariat of Defense — *Secretaría de la Defensa*
Blvd. A. Camacho y Av. Ingenieros Militares s/n
Col. Lomas de Sotelo
11640 México, D.F.
México
Tel: 557-3200

Secretariat of Energy, Mining and State - Owned Industry — *Secretaría de Energía, Minas e Industria Paraestatal*
Insurgentes Sur No. 552, 3er. Piso
Col. Roma Sur
06769 México, D.F.
México
Tel: 564-8000

Ministry of the Federal District — *Departamento del Distrito Federal*
Plaza de la Constitución No. 1
Col. Centro
06068 México, D.F.
México
Tel: 518-1100

Secretariat of Finance and Public Credit — *Secretaría de Hacienda y Crédito Público*

Palacio Nacional
1er. Patio Mariano
Col. Centro
06066 México, D.F.
México
Tel: 518-5420 through 29

Secretariat of Fishing — *Secretaría de Pesca*

Av. Alvaro Obregón No. 269
Col. Roma
06700 México, D.F.
México
Tel: 211-0063

Secretariat of Foreign Affairs — *Secretaría de Relaciones Exteriores*

Ricardo Flores Magón No. 1
Col. Nonoalco Tlatelolco
06995 México, D.F.
México
Tel: 782-4144

Secretariat of Health — *Secretaría de Salud*

Lieja No.7
Col. Juárez
06600 México, D.F.
México
512-9994

Secretariat of the Interior — *Secretaría de Gobernación*

General Prim No. 21
06699 México, D.F.
México
Tel: 566-8188

Secretariat of Labour and Social Welfare — *Secretaría del Trabajo y Previsión Social*

Periférico Sur No. 4271
Col. Fuentes del Pedregal
14140 México, D.F.
México
Tel: 761-6000

Secretariat of the Navy — *Secretaría de Marina*

Eje 2 Oriente Tramo H.
Escuela Naval Militar No. 861
04830 México, D.F.
México
Tel: 684-8188

Secretariat of Public Education — *Secretaría de Educación Pública*

Argentina No. 28, 2o. Piso
Col. Centro
06020 México, D.F.
México
Tel: 521-6212

Secretariat of Tourism — *Secretaría de Turismo (SECTUR)*

Presidente Masaryk No. 172
Col. Polanco
11560 México, D.F.
México
Tel: 203-9111

Secretariat of Social Development — *Secretaría de Desarrollo Social (SEDESOL)*

Constituyentes No. 947
Col. Belén de las Flores
01110 México, D.F.
México
Tel: 271-1616

Office of the Federal Controller — *Secretaría de la Contraloría General*

Av. Insurgentes Sur No. 1735
Col. Guadalupe Inn.
01028 México, D.F.
México
Tel: 575-8088

Other Agencies and Organizations

Mexican Investment Board - *Consejo Mexicano de Inversión (CMI)* is a non-profit joint venture of the Government of Mexico and the private financial sector. It was created to assist foreign investors. Information on how the Board assists investors can be obtained from the Mexican Embassy or from consular offices operated by Bancomext in Vancouver, Edmonton, Toronto, and Montreal.

Reforma 915,
Col. Lomas de Chapultepec
11000, México, D.F.
México
Tel: 202-7804
Fax: 202-7925

National Chamber of Transformation Industry - *Cámara Nacional de la Industria de la Transformación (CANACINTRA)* offers a wide range of services to companies wishing to do business in Mexico. It offers information on government regulations and procedures as well as advice on trade, financial incentives, industrial parks, and joint ventures. A separate division of the Chamber prepares studies of Mexico's economic situation while the international affairs division focuses on trade promotion.

Av. San Antonio 256
Col. Nápoles
Delegación Benito Juárez
03849 México, D.F.
México
Tel: 563-3400 ext. 163
Fax: 598-6988

Financial Institutions

Central Bank of Mexico — *Banco Nacional de México, S.A.*
Av. 5 de Mayo No. 2
Col. Centro
06059 México, D.F.
México
Tel: 510-8871

Foreign Trade Bank — *Banco Nacional de Comercio Exterior (Bancomext)*
Camino Santa Teresa No. 1679
Col. Jardines del Pedregal
Del. Alvaro Obregón
01900 México, D.F.
México
Tel: 568-2122
Fax: 652-9526

National Financing — *Nacional Financiera (Nafinsa)* provides financing for small and medium-sized enterprises and promotes economic and regional development. To support business development in Mexico, it will offer venture capital to foreign entrepreneurs involved in joint ventures as well as domestic businesses.

Insurgentes Sur No. 1971
Col. Guadalupe Inn.
01020 México, D.F.
México
Tel: 550-1616

Bancomer — *Banco de Comercio* specializes in financing small and medium-sized companies. It will also handle the Mexican financing for joint ventures. Its officers can serve as intermediaries between foreign investors and Mexican partners.

Av. Universidad 1200
Col. del Valle
03339 México, D.F.
México
Tel: 621-3653 or 621-5922
Fax: 621-3265 or 621-3246

Mexican Stock Exchange — *Bolsa Mexicana de Valores*
Reforma No. 255
06500 México, D.F.
México
Tel: 208-3131

National Securities Commission — *Comisión Nacional de Seguros y Valores*
Barranca del Muerto No. 275
2o. Piso
México, D.F.
México
Tel: 593-9855

Major Business and Professional Organizations

Mexico has a number of Chambers of Commerce and professional organizations that can provide assistance and guidance to Canadian companies in Mexico. Their standards of service vary widely and you should consult with Canadian officials to determine which organization would best suit your needs.

Mexican Automotive Industry Association —
Asociación Mexicana de la Industria Automotriz
Ensenada No. 90
Col. Condesa
06100 México, D.F.
México
Tel: 515-2542

National Association of Importers and Exporters of the Mexican Republic —
Asociación Nacional de Importadores y Exportadores de la República Mexicana (ANIERM)
Monterrey No. 130
Col. Roma
06700 México, D.F.
México
Tel: 564-9379
Fax: 584-5317

National Association of Maritime Agents —
Asociación Nacional de Agentes Marítimos
Homero No. 1425 Piso 3
Col. Chapultepec Morales
11510 México, D.F.
México
Tel: 395-8931
Fax: 520-7165

Mexican Business Council for International Affairs —
Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI)
Homero No.527
Col. Polanco
11570 México, D.F.
México
Tel: 259-0314
Fax: 540-1552

Chamber of the Restaurant Industry —
Cámara de la Industria Restaurantera
Aniceto Ortega No. 1009
Col. del Valle,
México, D.F.
México
Tel: 604-0418

Management Coordination Council —
Consejo Coordinador Empresarial
Monte Caucazo 915-4
Col. Lomas de Chapultepec
11000 México, D.F.
México
Tel: 540-5230

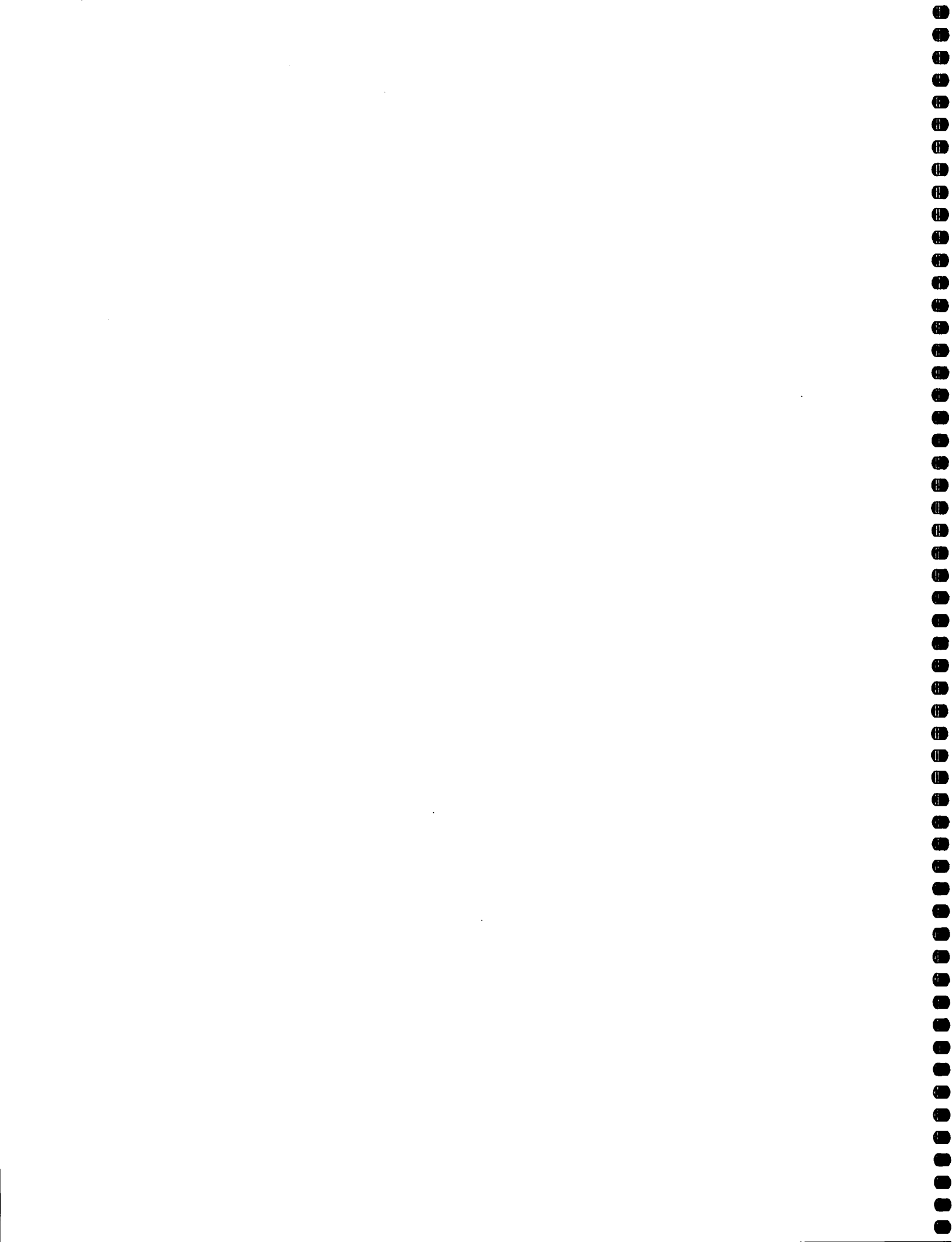
Mexican Confederation of Employers —
Confederación Patronal de la República Mexicana
Insurgentes Sur No. 950, 1er. Piso
Col. del Valle
06100 México, D.F.
México
Tel: 687-6664

National Chamber of Commerce —
Cámara Nacional de Comercio (CANACO)
Paseo de la Reforma No. 42
Col. Centro
06048 México, D.F.
México
Tel: 535-0215

National Chamber of the Construction Industry —
Cámara Nacional de la Industria de la Construcción
Periférico Sur No. 4829
Col. Parques del Pedregal
14010 Tlalpan, D.F.
México
Tel: 606-1599
Fax: 606-8329

National Chamber of the Garment Industry —
Cámara Nacional de la Industria del Vestido
Manuel Tolsá No. 54
Col. Centro
06040 México, D.F.
México
Tel: 588-0753

National Institute for Statistics, Geography and Information —
Instituto Nacional de Estadística, Geografía e Informática (INEGI)
Av. Heroe de Nacozari No. 2301
Fracc. Jardines del Parque
20290 Aguascalientes, Ags.
México
Tel: (49)-18.00.34



X. GLOSSARY OF TERMS

Glossary

ad valorem - a tariff imposed according to the value of a good

ANIERM (*Asociación Nacional de Importadores y Exportadores de la República Mexicana*) - National Association of Importers and Exporters of the Mexican Republic

ASERCA - agency to promote agricultural commerce and information

Asociación de Industriales de Transporte y Comercio Internacional - Transportation and Foreign Trade Industries.

Asociación Mexicana de la Industria Automotriz - Mexican Automotive Industry Association

Asociación Nacional de Agentes Marítimos - National Association of Maritime Agents

Bancomext (Banco Nacional de Comercio Exterior) - is the National Bank for Foreign Trade in Mexico but its role in Canada is to promote investment in Mexico by acting as a Trade Commission

Banco Nacional de México, S.A. - Central Bank of Mexico

Bancomer (Banco de Comercio) - Bank of Commerce

Bolsa Mexicana de Valores - Mexican Stock Exchange

BOT - build-operate-transfer plan

Cámara de la Industria Restaurantera - Chamber of the Restaurant Industry

Cámara Nacional de la Industria de la Construcción - National Chamber of the Construction Industry

Cámara Nacional de la Industria del Vestido - National Chamber of the Garment Industry

CANACINTRA (*Cámara Nacional de la Industria de Transformación*) - National Chamber of Industrial Transformation

CANACO (*Cámara Nacional de Comercio*) - National Chamber of Commerce

Casa de Cambio - financial exchange house

CEMAI (*Consejo Empresarial Mexicano para Asuntos Internacionales*)- Mexican Business Council for International Affairs

CFE (*Comisión Federal de Electricidad*) - federal electricity commission

CMI (*Consejo Mexicano de Inversión*) - non-profit joint venture of the Government of Mexico and the private financial sector set up to oversee and attract investment

CNCF & Concarril (*Constructora Nacional de Carros de Ferrocarril*) - government owned railcar builder

CNIE (*Comisión Nacional para Inversión Extranjera*) - National Commission on Foreign Investment

Comisión General de Seguros y Valores - National Securities Commission

CONASUPO (*Compañía Nacional de Subsistencias Populares*) - state-run system of agricultural marketing boards.

Confederación Patronal de la República Mexicana - Confederation of Mexican Employers

Consejo Coordinador Empresarial - Management Coordination Council

Consejo Nacional de Publicidad - National Advertising Council

CTM (*Confederación de Trabajadores de México*) - Mexican Confederation of Workers

Departamento del Distrito Federal - Ministry of the Federal District

D.F. (*Distrito Federal*) - Federal District, the jurisdiction within which Mexico City is located

DGN (*Dirección General de Normas*) - Mexican Bureau of Standards

Dirección de Derechos de Autor - government directorate for authors/owners to register for copyright protection

EAITC - External Affairs and International Trade Canada

EIU - Economist Intelligence Unit

ejidatarios - independent farmers holding an ejido

ejido - independent tenant landholding

EPA - US Environmental Protection Agency

FAO - Food and Agricultural Organization, a United Nations agency

Ferrocarriles Nacionales de México - the national railroad commission

GATT - General Agreement on Tariffs and Trade

GDP - Gross Domestic Product

GMT - Greenwich Mean Time

GNP - Gross National Product

IMPI (*Instituto Mexicano de Propiedad Industrial*) - Mexican Patent and Trademark Office

INEGI (*Instituto Nacional de Estadística, Geografía e Informática*) - National Institute for Statistics, Geography and Information

IVA - (*Impuesto al Valor Agregado*) - value added tax in Mexico (10%)

La Cámara de Comercio del Canada en México - Canadian Chamber of Commerce in Mexico

la mordida - the “bite” or practice of taking bribes

LIBOR - London Inter Bank Offered Rate

maquilla - term meaning the portion of cornmeal retained as payment from milling but used to mean value added from processing that remains in Mexico

maquiladora - foreign in-bond processing zones and in-bond manufacturing establishments

MR (*Marca Registrada*) - trademark symbol

Nafinsa (Nacional Financiera) - an agency providing financing for Small and Medium sized enterprises in Mexico

NAFTA - North America Free Trade Agreement, known in Mexico as the TLC or *Tratado de Libre Comercio*.

NOM - a quality and standard authorization from the DGN

PECE (*Pacto para la Estabilización y Crecimiento Económico* and commonly referred to as *El Pacto*) - Pact for Stability and Economic Growth

PEMEX (*Petróleos Mexicanos*) - the state-owned oil and gas enterprise

Plan Nacional de Desarrollo - National Development Plan

S. en N.C. (*Sociedad en Nombre Colectivo*) – a general partnership with unlimited liability

S. de R.L. (*Sociedad de Responsabilidad Limitada*) - a limited liability company

S.A. de C.V. (*Sociedad Anónima de Capital Variable*) - a corporation with variable capital, commonly referred to in Canada as an incorporated company

SECOFI (*Secretaría de Comercio y Fomento Industrial*) - Secretariat for Commerce and Industrial Promotion

Secretaría de Comunicaciones y Transportes - Secretariat of Communications and Transportation

Secretaría de Educación Pública - Secretariat of Public Education

Secretaría de Gobernación - Secretariat of the Interior

Secretaría de Hacienda y Crédito Público - Secretariat of Finance and Public Credit

Secretaría de la Defensa - Secretariat of Defense

Secretaría de Pesca - Secretariat of Fishing

Secretaría de Relaciones Exteriores - Secretariat of Foreign Affairs

Secretaría de Salud - Secretariat of Health

Secretaría del Trabajo y Previsión Social - Secretariat of Labour and Social Welfare

Secretaría General de la Contraloría - Office of the Federal Controller

Secretaría de Energía, Minas e Industria Paraestatal - Secretariat of Energy, Mining and State-owned Industry

Secretaría de Marina - Secretariat of the Navy

Secretaría de Agricultura y Recursos Hidráulicas - Secretariat of Agriculture and Hydrological Resources

SECTUR (*Secretaría de Turismo*) - Secretariat of Tourism

SEDESOL (*Secretaría de Desarrollo Social*) - Secretariat of Social Development

SNI (*Sociedad Nacional de Investigaciones*)- National System for Researchers

UNAM (*Universidad Nacional Autónoma de México*)- National Autonomous University of Mexico

WD - Western Economic Diversification

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