CANADA MEXICO

PARTNERING FOR SUCCESS

Fourth Edition

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Canada – Mexico: Partnering for Success

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This business guide is designed to provide an overview of the market for **Canadian capabilities in Mexico**. Although efforts have been made to avoid errors and inaccuracies in this document, it is not intended to be used as the only source of market information on this sector. We encourage the reader to use this publication as one of several resources for commercial dealings with Mexico.

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CANADA - MEXICO:

PARTNERING FOR SUCCESS

FOURTH EDITION

A PROSPECTUS HANDBOOK

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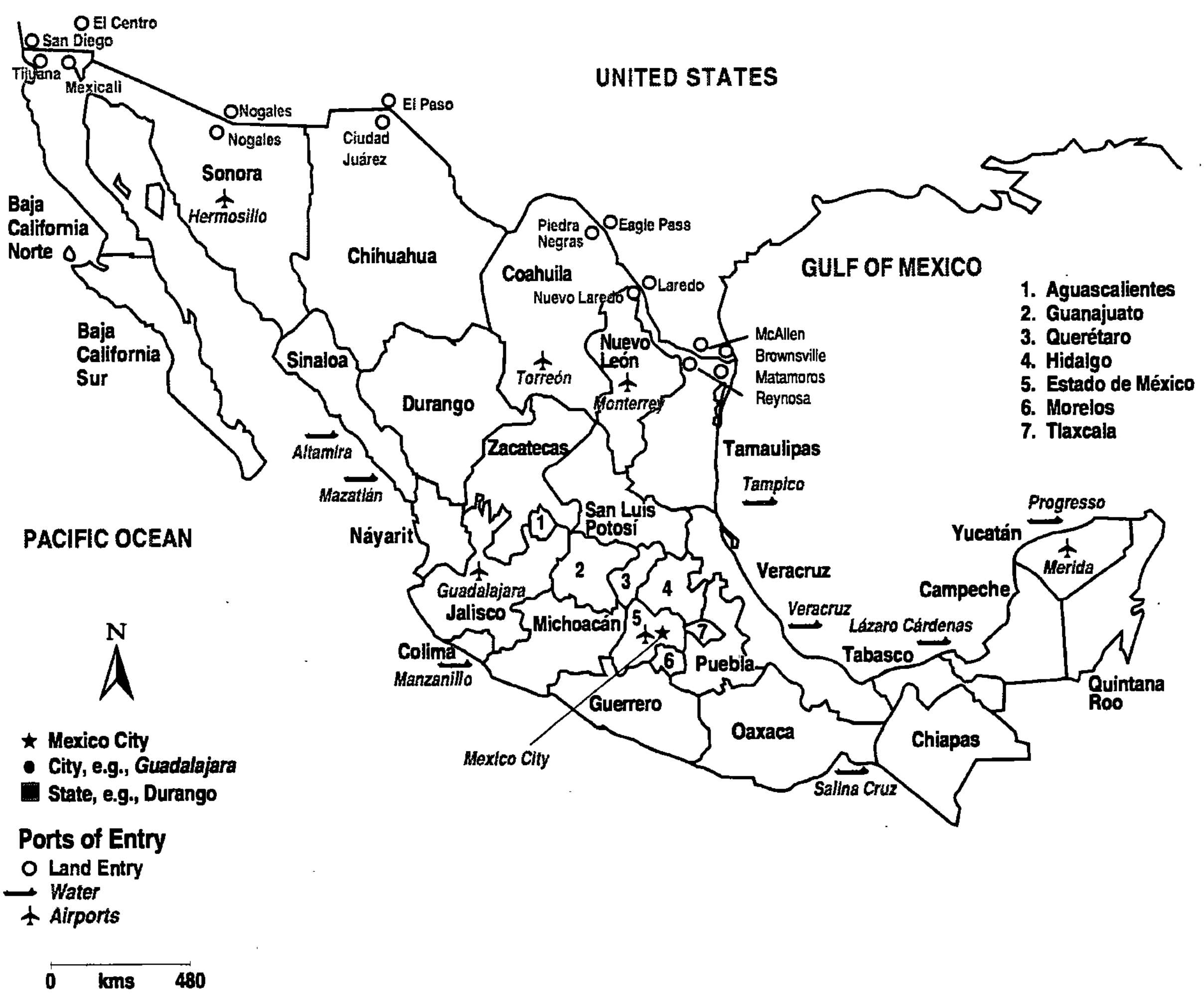

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The North American Free Trade Agreement (NAFTA)

The NAFTA expands Canada's free-trade area of 270 million people into a market of 360 million — a market larger than the population of the 15 countries of the European Union and one with a total North American output of $7 trillion.

Mexico is Canada's most important trading partner in Latin America. Two-way merchandise trade with Mexico exceeded $5.5 billion in 1994 and is expected to exceed $7 billion by the end of the decade.

Canadian direct investment in Mexico is growing rapidly, increasing from $452 million in 1992 to over $1.2 billion in 1994.

This guide has been prepared with the problems inherent to the new exporter in mind. However, it is not exhaustive. The differing circumstances, interests and needs of individual companies will influence their strategies for the Mexican market.

Further assistance can be obtained by addressing requests to:

Department of Industry (DI) through the provincial International Trade Centres (see Canadian Government Departments, Programs and Services) or contact the InfoCentre at:

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Fax: (613) 996-9709
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Executive Summary

In August 1992, Canada, Mexico and the United States announced the conclusion of the North American Free Trade Agreement (NAFTA). On January 1, 1994, the Agreement came into effect following formal ratification by the legislatures of the three signatory countries. At the time of writing (October 1995), commentators had begun discussing the prospect of expanding the NAFTA, with Chile expected to be the next country likely to become part of the Agreement.

This book is designed to help Canadian business people take advantage of opportunities 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 recent economic history and current 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 book provides the names and addresses of Mexican and Canadian organizations and agencies that can help Canadian companies interested in taking advantage of Mexico's emerging opportunities.

With a population of some 92 million, Mexico ranks as the largest Spanish-speaking country in the world. Despite its great diversity of natural resources and growing middle class, Mexico has long been viewed as a Third World country that has far more in common with its Central and South American neighbours than with industrialized countries like the United States or Canada. While Mexico is certainly less developed than Canada, it is a market with considerable long-term appeal.

Mexico's economic development has been shaped by a long history of protectionism and state intervention. Until the late 1980s, Mexico was a largely closed and insulated economy, profiting from its abundant oil resources but intent on sheltering its domestic industries behind intrusive regulations and high tariffs. The collapse of oil prices, followed by a deep recession in the early 1980s, delivered a severe blow to Mexico. It was forced to grapple with crushing foreign debt and virtual 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 former president Carlos Salinas came to power. A great deal has changed in Mexico since then. The Salinas administration renegotiated the foreign debt, adopted a National Development Plan to revitalize the nation's infrastructure, and secured broad popular support for voluntary measures to restrain wages and prices in order to reduce inflation and stabilize the economy. Other key reforms implemented in the late 1980s and early 1990s included: privatization of state-controlled enterprises, deregulation, heavy investment in infrastructure development and policies to encourage foreign investment to assist in building a more modern economy.

These policies met with considerable success. The rate of inflation tumbled, the value of the peso stabilized, and the country's public finances were restored to health. International confidence in Mexico grew stronger. In 1994, the NAFTA was implemented and Mexico joined the Organization for Economic Development (OECD), a prestigious international body consisting of 25 industrialized countries. Foreign businesses representing the entire spectrum of industrial and commercial activity stepped up investments in the country, convinced that Mexico's economic and social transformation was well underway.

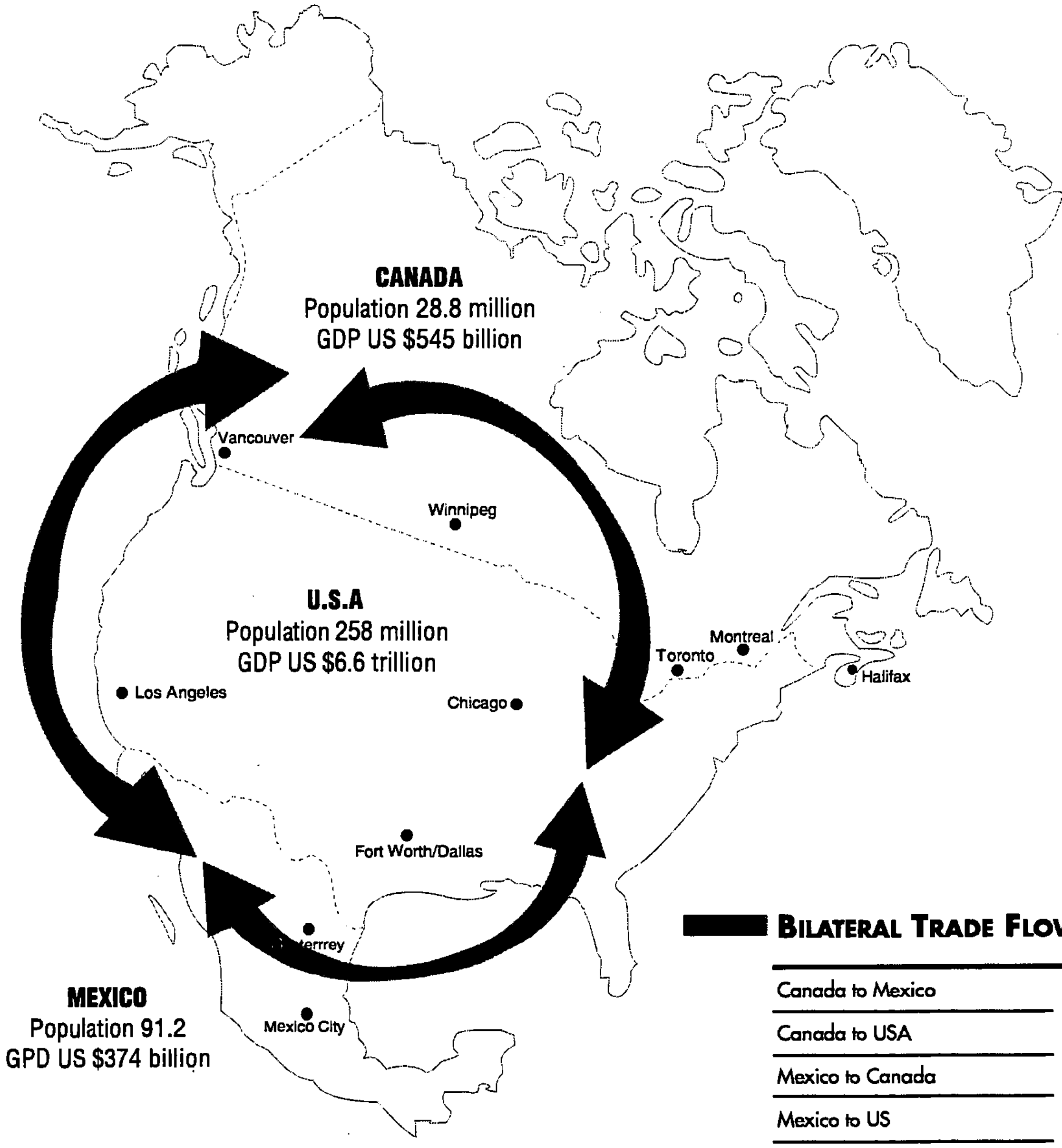
The 1993-94 period saw the emergence of certain economic imbalances after several years of healthy growth and rapid policy and structural change. As Mexico grew and its trade barriers came down, imports rose sharply and foreign capital poured into the country. By 1994, Mexico found itself in serious difficulty, partly because of an unsustainably large current account deficit and the resulting downward pressure on its currency, and partly because of political instability. An official devaluation of the peso was announced in late December, shortly after the swearing-in of a new government led by President Ernesto Zedillo. A further, unplanned and substantial devaluation occurred in the early months of 1995 as world financial markets temporarily lost confidence in Mexico. Interest rates and inflation rose dramatically, and the economy fell into a deep and painful recession. The international community, led by the United States, developed an extensive financing package to help Mexico overcome its short-term liquidity crisis.

Despite this significant economic setback, the Zedillo government has remained firmly committed to the market-oriented and liberal economic policies followed by its predecessor. By late-1995, confidence in Mexico was on the rise, interest rates were falling, the peso had stabilized and Mexico's economic outlook was improving.

SECTION ONE: THE OPPORTUNITY

I. The Emerging Economy

The North American Market — 1994



Bilateral Trade Flows, 1994

Canada to Mexico	US $1.4 billion
Canada to USA	US $128 billion
Mexico to Canada	US $3.3 billion
Mexico to US	US $49 billion
US to Mexico	US $51 billion
US to Canada	US $114 billion

Source: *GeoFitt Mexico*, Ottawa: Forum for International Trade Training. September 1995; U.S. Department of Commerce, *Business America*, September 1995, p. 23.

The Mexican Economy: A Snapshot

Although the 1980s began in economic crisis, they ended with Mexico a transformed economy. Within a single decade, the country experienced tremendous structural change. The key milestone in Mexico's renewal was the program of far-reaching economic reform developed through the mid-1980s and energetically pursued by Carlos Salinas de Gortari after he assumed the presidency in 1988.

Mexico's once ailing economy performed quite well as the government's ambitious reform agenda was implemented. Adjusted for inflation, economic output grew by 4.6 percent in 1990, 3.6 percent in 1991 and 2.6 percent in 1992. The economy then cooled, with growth falling to just 0.7 percent in 1993. The following year saw some improvement, as real growth edged back up to 3.5 percent in 1994.

Mexico's Reform Agenda

Reduction in inflation: In the late 1980s, the government persuaded business and labour to agree to the *Pacto para la Estabilización y Crecimiento Económico (PECE)*, Pact for Stabilization and Economic Growth (widely known as *El Pacto)*. Under this instrument, each of the participants accepted general guidelines for increases in prices and wages, and negotiated any exemptions with a follow-up and evaluation commission. This approach avoided the pernicious effects associated with a blanket freeze on prices and wages, and allowed for some selective relative adjustment in wages and prices. As a result, Mexico's inflation rate dropped from 159 percent in 1987 to 11.9 percent in 1992 and into single digits in 1993 and 1994. The 1995 financial and peso crisis temporarily boosted the inflation rate, but it is expected to fall back to the 20 percent range by 1996.

Renegotiation of the foreign debt: At the height of the crisis of the early 1980s, Mexico was transferring the equivalent of 6 percent of its gross domestic product (GDP) abroad each year to service its debt. To stop the hemorrhage, the government renegotiated and restructured the debt. As a result, Mexico's foreign obligations to commercial banks were reduced by some 20 percent. At the 1992 year end, total external debt stood at US $113 billion, about one-third of GDP.

Reduction in government deficit: A combination of spending cuts and fiscal and tax reforms has sharply reduced the state's budgetary deficit over the past decade. By broadening the tax base, the government was able to reduce tax rates while increasing total income. The federal budget has been prudently managed and the overall public sector ran a modest surplus in 1992. Further fiscal surpluses are expected over 1995-96.

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Deregulation: As part of its program to reduce the state's role in the economy, the Mexican government has moved to ease the regulatory burden on business and simplify many economic regulations.

Liberalization of trading relationships: Even before former President Salinas came to power, Mexico had already accepted the need to reduce trade barriers. 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. Tariffs and non-tariff barriers have both been substantially reduced since the late 1980s. As a concrete expression of its commitment to trade liberalization, Mexico has concluded the North American Free Trade Agreement (NAFTA) with the United States and Canada. It also signed the 1994 Uruguay Round trade agreement and has become a member of the new World Trade Organization.

Privatization of state-owned industries: The once bloated state-owned sector has been reduced from 1,155 to fewer than 200 enterprises through privatization. The proceeds have been directed into infrastructure development such as road construction. Further privatizations are planned over the 1995-97 period.

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. Some US $8 billion in new foreign direct investment entered Mexico in 1994.

Articulation of a National Development Plan: The government has a long-term strategy to promote sovereignty, democracy, economic growth and prosperity. President Zedillo unveiled the most recent five-year plan in May 1995.

The 1995 Financial Crisis: The onset of financial instability in late December 1994, extending through much of 1995, caused a significant contraction in economic activity. As interest rates and inflation climbed sharply, the peso declined in value, and both international and domestic investor confidence in the country waned. At the worst point in the crisis, in March 1995, the peso had fallen by 50 percent against the American dollar relative to its pre-crisis level, and nominal short-term interest rates were hovering around the 80 percent level. As a result, private sector investment plummeted, consumer spending dwindled and Mexico's banking system encountered severe strains. The rate of unemployment in the formal economy rose as business conditions deteriorated.

While painful for Mexicans, this period of economic disruption is expected to pass. Conditions began to improve after the spring of 1995. An international financial assistance package totalling US $50 billion enabled Mexico to meet its immediate financial obligations and provided sufficient liquidity to keep the economy functioning. Mexico has already begun to repay its foreign borrowings. By late 1995, the peso had stabilized at a lower level. This means lower living standards, but it also promises to improve the competitiveness of Mexican exports. In response to the crisis, the government imposed a stringent fiscal austerity program consisting of sweeping spending cuts and selective tax increases. These measures have served to aggravate the recession in the short term, but they are paving the way for large public sector surpluses and a markedly smaller current account deficit over the balance of the 1990s.

For 1995 as a whole, forecasters predict that Mexico's gross domestic product (GDP) will be down by 5 to 6 percent compared to 1994. The outlook for 1996 and beyond is more favourable: a return to real economic growth of perhaps 2 to 3 percent per year, a continuing unwinding of the 1995 run-up in inflation and interest rates, and restoration of external balance as the current account deficit shrinks.

Dealing with the issue of unemployment will pose perhaps the biggest challenge over the balance of the 1990s. Upwards of one million jobs were lost in the 1995 recession. Mexico needs to create a climate supportive of job creation to absorb both the current unemployed and the large numbers of new job-seekers entering the labour market every year.

Looking back, it is clear that several factors combined to produce the recent economic difficulties besetting Mexico: the lingering effects of the American and global recessions of the early 1990s; rising American interest rates throughout 1994; an overvalued peso accompanied by gradual exhaustion of Mexico's financial reserves for defending its currency; lax credit conditions; and excessive private sector borrowing. All of this was exacerbated by the government's efforts to dampen the economy and thus stem the country's mounting current account deficit. This deficit hit a record US $28.8 billion in 1994, on the heels of US $23–24 billion in each of the two preceding years.

Also damaging to confidence in Mexico was a series of extraordinary political events that took place over the course of 1994. These included the assassination of Luis Donaldo Colosio, the expected successor to President Salinas. Following this event, Ernesto Zedillo emerged as the presidential candidate of the ruling *Partido Revolucionario Institucional (PRI)*, Institutional Revolutionary Party. Other notable political events included the subsequent assassination of a senior *PRI* official and a protracted peasant uprising in the southern state of Chiapas. Another political milestone was the August 1994 election, won by President Zedillo and the *PRI*. The Zedillo administration believes that political and institutional reform must accompany efforts to build a more modern and prosperous economy. After taking office, President Zedillo began an ambitious program of political and legislative reform intended to strengthen law and order, improve democratic institutions and practices, reduce corruption, and transfer more power to the states. In a break with past traditions, he also named respected opposition party members to positions in his cabinet.

The Framework for Economic Reform

Selected Highlights of the 1989 and 1995 National Development Plans

1995 Plan:

- ☐ annual economic growth target of 5 percent, over 1997-2000
- ☐ 1 million new jobs per year
- ☐ raise domestic savings rate to 22 percent
- ☐ privatize more state-owned enterprises
- ☐ continued support for trade liberalization and the NAFTA

1989 Plan:

- ☐ increase area of land under irrigation by 2 million hectares
- ☐ construct 15,000 kilometres of new four-lane highways
- ☐ modernize 15,000 kilometres of railroad
- ☐ 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 megawatts
- ☐ construct six to eight million housing units
- ☐ construct more than 1,500 wastewater treatment plants

To spur the development of Mexico's economy in the wake of the foreign debt crisis and skyrocketing inflation of the early 1980s, former president Salinas announced a *Plan Nacional de Desarrollo*, National Development Plan, shortly after assuming office in late 1987. The plan was designed to serve as a framework to guide the country's efforts to modernize and expand its infrastructure over the next ten years. It provided a comprehensive overview of Mexico's priorities and highlighted key areas in which it would seek cooperation with foreign businesses.

President Ernesto Zedillo unveiled an updated five-year National Development Plan in May 1995. The new plan continues the focus on improving infrastructure and education. In addition, it sets a number of ambitious macro-economic goals, including annual real economic growth of 5 percent between 1997 and 2000, the creation of one million new jobs each year, and a significant increase in Mexico's domestic savings rate. The latter step is necessary to reduce Mexico's reliance on foreign capital inflows. Dependence on unstable short-term foreign capital to finance its huge current account deficit was a major factor behind Mexico's 1994–95 financial crisis. The new Plan aims to boost the domestic savings rate from 14 percent of GDP to 22 percent.

A notable feature of recent economic reform in Mexico has been the gradual withdrawal of the government from many areas of commercial activity. In contrast to the past, the private sector is now largely driving investment and economic activity. Over the period between 1991 and 1994, gross fixed capital formation averaged between 22 and 23 percent of Mexican GDP. Of this, private investment accounted for the lion's share, about 17 percent of GDP. Adjusted for inflation, private non-residential investment rose 18 percent in 1991 and 15 percent the following year. It continued to grow, albeit at a more modest rate, until the onset of economic instability in 1995. A significant portion of private investment since the late 1980s has been channelled into machinery and equipment, most of which is imported into Mexico. Machinery and equipment represents a key area of long-term export opportunity for Canadian businesses interested in the Mexican market.

Though it is frequently portrayed as a developing economy, Mexico in fact displays some of the structural characteristics typical of developed industrialized economies (see Figure 1.1). These include a relatively small primary sector coupled with a significant and growing service sector. Services now account for more than 60 percent of Mexico's GDP, not far below the levels of Canada and the United States.

FIGURE 1.1
COMPOSITION OF MEXICO'S GROSS DOMESTIC PRODUCT, 1993
(PERCENTAGE)

Agriculture, forestry and fishing	6.8
Mining and quarrying	2.1
Manufacturing	20.0
Electricity, gas and water	1.6
Construction	5.0
Wholesale and retail trade	23.2
Transport and communications	9.5
Financial services	11.8
Other services	20.0

Source: Inter-American Development Bank, Mexico: *Economic Statistics*, (August 21, 1995), p.5.

Figure 1.2 reports on the performance of the main sectors of Mexico's economy in 1993 and 1994. Growth has been uneven. Construction, transportation and communications, and electricity, gas and water have all benefitted from the modernization of the economy and extensive infrastructure development programs. Poor public infrastructure is perhaps the most critical constraint on Mexico's economic growth. As a result, areas such as road and port construction are top priorities. The government's current highway program calls for the construction of 15,000 kilometres of new four-lane highway by the year 2000. The electricity, gas and water sector has expanded significantly with the inclusion of more than two million new electricity users since 1990. In common with all parts of Mexico's economy, these relatively fast-growing sectors have been hurt by the recession that began in early 1995. Their long-term prospects, however, are excellent.

The government has been aggressive in deregulating and privatizing state-owned enterprises in the transportation and communication sectors. For example, *Telmex*, the state-owned telephone company, was privatized over 1990 and 1991, generating some US $6.2 billion in revenues. The heavily protected and regulated transportation industry is being opened to foreign competition. In 1995 the government announced plans to privatize ports, airports and railways. Looking ahead, continued modernization efforts, a rising population and an expected return to economic growth after 1995 will place strong demands on the transportation and communication sectors, and fuel the continued expansion of these industries.

FIGURE 1.2
SECTORAL GROWTH RATES
(PERCENTAGE, CONSTANT PRICES)

	1993	1994
Primary*	3.6	2.0
Mining	0.9	1.6
Manufacturing	-0.8	3.6
Construction	2.8	6.4
Electricity, gas and water	4.2	7.7
Commerce	-1.3	2.8
Transport and communications	3.3	7.8
Financial services	3.6	4.3
Other services	1.2	1.0
GDP	0.8	3.5

*Agriculture, forestry and fishing

Source: Inter-American Development Bank, *Mexico: Economic Statistics* (August 21, 1995), p. 4.

Mexican manufacturing expanded quite rapidly in the early 1990s but its growth has slowed more recently. Manufacturing output rose by a robust 6.1 percent in 1990 and 4.0 percent the following year, before falling back to 2.3 percent in 1992. The manufacturing sector actually shrank slightly in 1993, but then recovered to post a 3.6 percent growth rate in 1994. Strength in manufacturing has been particularly evident in industries such as machinery and equipment, and automobiles. The 1995 recession has caused a contraction in manufacturing output for the year. However, the significant devaluation of the peso since late 1994 has bolstered the international competitiveness of Mexico's export-oriented manufacturers, as well as of some industries that sell mainly in the domestic market but compete with imports. This will support the growth of many of the industries that make up Mexico's broad manufacturing sector.

Since the mid-1980s, the Mexican government has pursued a multi-pronged reform strategy focussed on reducing inflation, improving public finances, privatizing state-owned enterprises, liberalizing trade and making Mexico more attractive to foreign investors. The following sections summarize some of the principal elements of economic reform in Mexico and elaborated further on aspects of the country's recent economic performance.

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 7000 B.C. agriculture was already established in Mexico.

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

The country was inhabited by many aboriginal groups, most notably the Mayans, who dwelt in the southern region, including what is now Yucatán 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 overshadowed by 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 to 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 to 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 territory that it occupies today. Its economy was in ruins and the conservatives who had led the country were discredited. Benito Juárez, 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 Juárez from power for a time. Ultimately, French intervention failed, Maximilian was executed and Juárez resumed the presidency in 1867. Juárez died in office and was succeeded by Porfirio Díaz, whose presidency of 30 years marked the first extended period of peace as well as the onset of industrialization.

The Revolution: 1910 to 1929

In 1910, the autocratic Díaz regime was overthrown by a revolution led by Francisco I. 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 *Partido Revolucionario Institucional (PRI)* and has held federal power to this day. In 1938, President Cárdenas 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.

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Contemporary Mexico

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 former president Miguel de la Madrid, a policy of economic openness was initiated and, in 1986, Mexico joined the General Agreement on Tariffs and Trade (GATT). President Salinas came to power in 1988 and began to introduce reformist economic policies to privatize industry, liberalize economic institutions and address needed social reforms. Despite a temporary economic and financial crisis in 1995, the reform and modernization process is continuing under President Zedillo, who assumed office in late 1994.

The War Against Inflation

The cornerstone of the macroeconomic policy pursued by the Mexican government is the *Pacto para la Estabilización y Crecimiento Económico (PECE),* Pact for Stabilization and Economic Growth. Widely known as *El Pacto*, it is based on a common understanding between government, business and labour unions. By the mid-1980s, there was broad agreement that Mexico needed to accelerate structural reform, tighten fiscal and monetary policy, control wages and prices in the public and private sectors, and freeze the nominal exchange rate of the peso vis-à-vis the American dollar. When *El Pacto* was initially launched in late 1987, the most urgent priority was to tame inflation, then running at an annual rate of almost 160 percent (see Figure 1.3).

Figure 1.3
Inflation Trends in Mexico
(Average Annual Change in Consumer Price Index, Percentage)

1985	57.8
1986	86.2
1987	131.8
1988	114.2
1989	20.0
1990	26.6
1991	22.7
1992	15.5
1993	8.7
1994	6.9

Source: Inter-American Development Bank, *Mexico: Economic Statistics* (August 21, 1995) p.3.

El Pacto was originally conceived as a four-year stabilization program, but it has been renewed periodically, most recently in 1994. Through a combination of tight fiscal and monetary policy, and wage, price and exchange rate controls, the program was remarkably successful. Inflation plummeted from a peak rate of 132 percent in 1987 to an average of about 20 percent over the years between 1989 and 1992. It then dropped to 8.7 percent in 1993 and 6.9 percent in 1994.

Unfortunately, the sudden collapse of the peso in December 1994 led to dramatic increases in both interest rates and inflation. By early 1995, Mexican consumer prices were rising by 8 percent per month. Both the government and private forecasters predicted an average inflation rate of up to 50 percent for the year as a whole. However, as the government's austerity program took hold, inflation dropped back to a monthly rate of 2 to 3 percent by the summer of 1995. The Conference Board recently forecast an inflation rate of approximately 20 percent in 1996, less than half of the projected 1995 level. Containing inflation will be critical to stabilizing economic conditions in Mexico and attracting new foreign investment.

Owing to Mexico's long history of high inflation, the peso was repeatedly devalued during the late 1970s and much of the 1980s. This "cheap peso" policy ended with the reform program of the late 1980s. A central goal of reform was to reduce inflation, which required a strong and reasonably stable currency. This goal was achieved over the period between 1987 and 1994.

At the end of August 1992, one American dollar was worth approximately 3,000 pesos. Calculating even simple transactions was proving to be extremely cumbersome. In September 1992, the government announced its intention to introduce a new peso equal to 1,000 old pesos. This was not a devaluation but rather a re-denomination that amounted to eliminating three zeros from all prices. For a time, prices had 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 began to circulate in parallel with the old peso. Later, the old peso was withdrawn completely.

The reform program carried out by the administration of former President Salinas succeeded in stabilizing the peso (see Figure 1.4). This helped to dampen inflationary pressures and also drew large amounts of foreign capital to Mexico. Following the introduction of the new peso in 1992, and as part of a renewed *El Pacto*, the government established a publicly announced intervention band for the peso. The floor was fixed at 3.056 pesos per American dollar, with an adjustable ceiling set slightly above that level. The exchange rate policy proved successful through 1993 and most of 1994. However, by late 1994 there was a widespread belief in financial markets that the peso was overvalued. Lending support to this view were Mexico's surging imports, its unsustainably large and rising trade and current account deficits, and the gradual exhaustion of its international reserves. This led to the December 1994 official devaluation and the ensuing financial crisis, which drove down the peso far more than the government initially expected. In fact, the peso lost half of its pre-crisis value relative to the American dollar, before stabilizing at an exchange rate somewhat above N $6 pesos per American dollar by late 1995. While forecasts for 1996 and 1997 vary, most analysts expect the peso to remain valued at between 6.0 and 6.5 to the American dollar, with some possibility of modest appreciation after 1996.

FIGURE 1.4
EXCHANGE RATES: N $ PESOS PER US $
(ANNUAL AVERAGE)

1988	2.27
1989	2.46
1990	2.81
1991	3.02
1992	3.09
1993	3.11
1994	3.86
June, 1995	6.25

Source: World Bank. *Latin American Economy and Business*, July 1995.

PUBLIC FINANCES

Since the mid-1980s, Mexico has enjoyed much healthier and better managed government finances. Total public expenditure as a percentage of GDP dropped from a high of about 45 percent in 1986 to just under 26 percent by 1992. At the same time, the public sector's total annual financial deficit declined from almost 15 percent of GDP in 1986 to a modest surplus position by the early 1990s. Public finances deteriorated in 1993 and 1994, but overall government spending and revenues remained approximately in balance. In response to the financial crisis of 1995, the Mexican government implemented a new austerity program that included large expenditure cuts, equivalent to some 1.6 percent of GDP. Together with accompanying changes in tax policy, this is projected to produce significant public sector financial surpluses over the period 1995 to 1997.

The improvement in public finances since the mid-1980s has been based on a variety of parallel measures, including tight limits on public spending, the reduction or elimination of government subsidies, a commitment to trim the size of the public payroll, and an aggressive campaign to privatize state-owned industries. The latter step, in particular, has done much to bolster the government's coffers, generating some US $22 billion in revenues during the period between 1983 and 1992. Further privatization initiatives were announced in 1995 as part of the Zedillo administration's plan for dealing with the financial crisis; these should also strengthen public sector finances in the years ahead.

At the same time, Mexico's tax system has been substantially overhauled. Effective corporate and personal income tax rates have been lowered, while the tax base has been broadened. The net result is higher total revenues, despite lower tax rates. For businesses operating in Mexico, the basic tax rate on corporate income now stands at 34 percent, down from 42 percent in 1989. There is a separate minimum 2 percent tax on the average annual value of a company's fixed and financial assets, but this is only applied when the amount exceeds the regular income tax due. In addition, some states and municipalities impose property and payroll taxes. Personal income tax rates were also trimmed in the late 1980s. Top marginal rates of personal income tax fell from 55 to 35 percent. Other fiscal reforms implemented by the government have improved tax administration and ensured stricter enforcement of tax laws.

The 1995 financial crisis also left an imprint on tax policy. To assist in generating a larger public sector fiscal surplus, necessary to help reduce Mexico's need for foreign capital, the government raised the existing national value-added tax from 10 to 15 percent. It also substantially increased prices for gasoline, diesel fuel, gas and electricity.

DEREGULATION AND PRIVATIZATION

Over the past decade, Mexico has made impressive progress in scaling back regulations affecting industry and in privatizing most of the state-owned industries traditionally active in its commercial economy.

The government began simplifying its complex array of economic regulations in 1983. Since then, deregulation has been used as a strategic policy tool to open up economic activity to private participation, stimulate competition and make economic decision-making more market-driven and flexible. More players have been encouraged to participate in the economy while the degree of direct government intervention in production and commercial decisions has been reduced. Important regulatory adjustments have been made in many sectors, including the automotive industry, transportation, petrochemicals, mining, telecommunications, aquaculture and financial services. The Zedillo administration intends to press forward with further initiatives to reduce the extent of regulation.

In the process of privatization, Mexico has made remarkable strides over the past dozen years. The number of state-owned enterprises has shrunk from 1,155 in 1982 to about 200 today. At present, the government retains sole control over only a few larger enterprises that it deems of strategic importance to the economy. These include *Petróleos Mexicanos (PEMEX)*, the national oil company, *Comisión Federal de Electricidad (CFE)*, Federal Electricity Commission, and *Compañía Nacional de Subsistencias Populares (CONASUPO)*, the state-run system of agricultural marketing boards. Among the state-owned enterprises sold to the private sector since the late 1980s are 18 banks, two airline companies, the sugar industry, and *Teléfonos de México (Telmex)*, the national telephone company. The sale of the latter, with assets in excess of US $10 billion, marked the third largest global privatization in history.

In 1995 the government announced further privatization plans. As part of the financial aid package provided by the United States and the International Monetary Fund (IMF), it agreed to raise another US $12 billion from new privatizations by the end of 1997. Ports, railroads and airports are all slated to be sold to the private sector. In May 1995, the Mexican Congress approved changes to the constitution to allow private companies to play a greater role in sectors once exclusively reserved for the state. Examples include the distribution of natural gas and the production of petrochemicals. Several Canadian companies have expressed interest in participating in these sectors.

The success of Mexico's privatization policy, now a model for many other Latin American countries, can be attributed not just to the government's commitment, but also to the enthusiastic response of Mexico's private sector and the participation of foreign investors. Foreign participation was sought and encouraged in most privatizations, although restrictions on the level of foreign ownership have continued to exist in some areas, notably banking and telecommunications. Overall, the foreign share in the purchase of privatized Mexican enterprises has been between 15 and 20 percent.

Deregulation in Various Industry Sectors

Automotive: Liberalized regulations opened the domestic market to imports, eased domestic content rules, eliminated controls on both production limits and models manufactured in Mexico, and loosened requirements on foreign currency compensation balances. The NAFTA is further improving access to the Mexican market for Canadian and American automobile and parts producers.

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. As a result, an annual reduction of US $1 billion in transportation and production costs is predicted. The NAFTA has improved access to the Mexican market for Canadian and American truckers.

continued next page

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 in the number of primary products whose production is reserved for 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 also made secondary 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 paraffin, asphalt, lube oil and industrial grease. Canadian and American companies also benefit from improved opportunities to invest in Mexico's petrochemicals sectors under the NAFTA.

Mining: A complete overhaul of the tax structure in this sector has eliminated all production taxes and reduced 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 forming of shrimp, oysters, lobster and five other species was 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 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. The NAFTA has further enhanced access for Canadian financial institutions.

Source: United States Department of Commerce, *1995 Country Guide: Mexico.*

FOREIGN DIRECT INVESTMENT

More than 90 percent of the 754 economic activities into which the Mexican economy has been classified are now open to 100 percent foreign investment and 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
- ☐ transportation

Source: *Bancomext*, Mexico: Basic Guide for Foreign Investors, 1994, p. 5.

The drive to privatize the Mexican economy has been coupled with a parallel push to open it up to foreign direct investment (FDI). From the time of the 1910 revolution until the 1980s, Mexican policy discouraged direct foreign investment. Some foreign investment was attracted to the country in the 1960s and 1970s, mainly after the establishment of the in-bond manufacturing industry known as the *maquiladora* in 1965. Overall, however, the government did not exhibit a welcoming attitude toward foreign investment.

In 1973, a law to promote Mexican investment and to regulate foreign investment was adopted. The law defined areas where FDI would be allowed. In most areas where FDI was permitted, foreign equity participation was limited to 49 percent. Sweeping changes to the rules governing foreign investment were made in 1989 when the government issued new regulations for the 1973 law. As a result, most sectors of the Mexican economy were opened to foreign participation. The revised code allowed foreign investors to hold majority shares in such industries as steel, cement, construction, textiles, pulp and paper, hotels, commerce, investment dealerships, legal and accounting services, publishing, cattle farming, international maritime transportation and metallurgy. In addition, Canadian and American investors enjoy even wider access under the NAFTA. The 1989 rules reserved 12 activities for the state and another 34 for Mexican nationals. In several other cases, only minority foreign participation was permitted.

Mexico's foreign investment rules are administered by a body known as *Secretaría de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development. In addition, all corporations or trusts in which there is foreign participation must register with the national registry of foreign investment at the *Comisión Nacional para Inversión Extranjera (CNIE)*, National Commission for Foreign Investment, 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. Those projects in most unrestricted sectors do not require *CNIE* approval. 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.

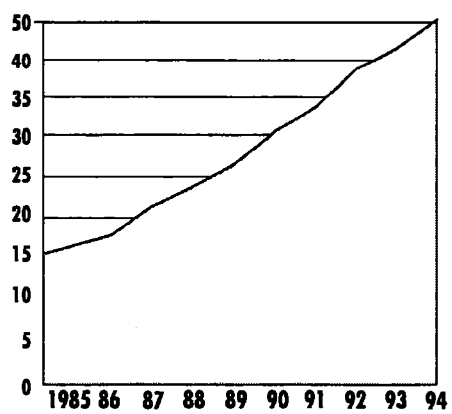
As noted above, certain activities are categorized as "classified" and are reserved for the state or for Mexican nationals. However, trusts may be established for a period of 20 years in activities reserved for Mexican investors or in activities in which foreign investment is limited to a minority stake. 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 of 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

Activities requiring authorization from the National Commission of Foreign Investment for foreign investors to own more than 49% of the capital stock

- ☐ Port services for vessels to conduct their inner sailing operations such as towing, cabotage and large sailing
- ☐ Shipping companies engaged in operating high sea vessels
- ☐ Air terminal management
- ☐ Private preschools, elementary schools, middle schools, high schools, and higher education
- ☐ Legal services
- ☐ Security rating institutions
- ☐ Insurance agents
- ☐ Cellular telephones
- ☐ Construction pipelines to transport oil and oil by-products
- ☐ Oil and gas well drilling

Source: *Bancomext*, Mexico: Basic Guide for Foreign Investors (1994), p. 15.

Figure 1.5
Cumulative Direct Foreign Investment (US $ billions)



Sources: *Dirección General de Inversión Extranjera, Secretario de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development, and Inter-American Development Bank.

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 the shares.

It should be noted that the NAFTA will further liberalize access to the Mexican market for Canadian and American investors. Over time, Mexico's laws governing foreign direct investment will be brought into close alignment with those of Canada and the United States. Mexico will eliminate most screening of new foreign investment, and scale back its screening of takeovers by Canadian and American investors. Under the NAFTA, review of acquisitions of Mexican companies by Canadian and American investors is limited to those whose value exceeds a threshold of US $25 million, rising gradually to US $150 million. Remaining investment restrictions are being reduced. Liberalization of Mexico's investment rules under the NAFTA is particularly beneficial to Canadian investors interested in sectors such as mining, construction, secondary petrochemicals, agriculture, autos, financial services, and other business and professional services.

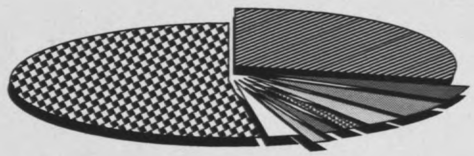
Mexico's more welcoming attitude toward foreign investment has encouraged strong and rising investment inflows (see Figure 1.5). Between 1985 and 1992, cumulative FDI more than tripled, reaching US $40 billion in the latter year. The years 1993 and 1994 brought additional FDI inflows of US $4.9 billion and $7.9 billion, respectively.

More than half of all existing FDI in Mexico is in the manufacturing sector, with the remainder divided between services, commerce and mining. FDI is growing fastest in the services sector. In 1989, only 12 percent of all foreign direct investment in Mexico was in services; by 1992, this had risen to 35 percent.

The United States is by far the largest source of foreign investment in Mexico, accounting for US $30.6 billion in 1994, or more than 60 percent of the accumulated total (see Figure 1.6). Other significant sources are the United Kingdom, Germany, Switzerland, France, Japan, Spain and Canada. Canada represents about 1.6 percent of cumulative FDI. In 1994, new Canadian direct investment in Mexico totaled some US $160 million.

Apart from FDI, Mexico has also drawn massive inflows of foreign portfolio capital since the late 1980s. Foreign portfolio investment is investment in financial assets such as bonds, equities, etc., by foreign individuals, companies and institutions. Such investment does not confer control over the enterprises in question. Direct foreign investment, in contrast, results in effective control by the foreign investor. Portfolio capital flows are very sensitive to shifts in exchange rates, interest rates and investor confidence. Direct investment in physical plant and other tangible assets is also influenced by these factors, but it tends to be more stable.

FIGURE 1.6
KEY SOURCES OF FOREIGN INVESTMENT IN MEXICO, 1994
(PERCENTAGE)



Source: *Banco de Mexico, The Mexican Economy*, 1995.

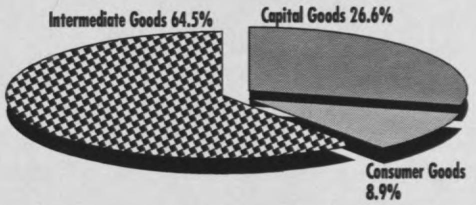
Foreign portfolio investment jumped from US $190 million in 1988 to US $9 billion in 1992. This was accompanied by the repatriation of capital that fled the country earlier in the decade. It then soared to more than US $21 billion in 1993. Foreign investors poured vast amounts of short-term capital into the country's financial markets as the inflation rate continued to fall and the prospect of the NAFTA loomed. By now, Mexico had become extremely dependent on short-term foreign capital inflows to finance its enormous current account deficit, which reached US $23 billion in 1993. As confidence in the value of the peso dwindled over 1994, new foreign portfolio investment fell. With the onset of the financial crisis late in the year, private-sector inflows temporarily dried up and the peso fell sharply.

Looking ahead, the immediate challenges facing Mexico are to restore economic and financial stability and to reduce reliance on short-term foreign capital flows. Both, among other things, require boosting the domestic savings rate and bringing down the current account deficit. However, the government also recognizes that Mexico must continue to attract substantial FDI into its manufacturing, service and mining industries if it hopes to achieve the key economic objectives of modernization, infrastructure development and improved living standards.

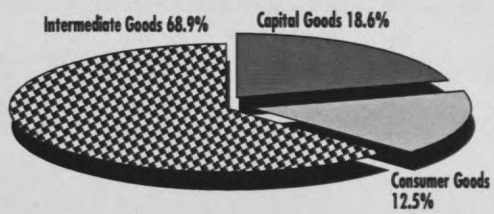
TRADE LIBERALIZATION

One area where Mexican economic policy has undergone particularly dramatic change is foreign trade. Until the early 1980s, Mexico pursued a highly protectionist industrial strategy based on import substitution backed up by high tariffs and strict import controls. In response to the debt crisis of 1982, virtually all merchandise imports were subject to quantitative controls. Since 1983, however, Mexico's trade policy has been transformed. The government has moved aggressively to liberalize Mexico's trade relationships in order to increase its participation in global markets and bolster its international competitiveness. This significant shift in trade policy was marked by Mexico's accession to full membership in the GATT in 1986. As part of its obligations under GATT, Mexico reformed its tariff structure to bring it more in line with those of other countries. At the same time, it largely dismantled many traditional non-tariff barriers such as import licences (see Figure 1.7). As a result, what was once a closed economy became in less than a decade one of the most open economies in Latin America. Under the new Uruguay Round multilateral trade agreement of 1994, Mexico's most-favoured nation tariffs will continue to decline and many of its remaining import licensing arrangements will be phased out. It has also joined the new World Trade Organization (WTO).

FIGURE 1.8
IMPORT STRUCTURE, 1982
(PERCENTAGE)



IMPORT STRUCTURE, 1992
(PERCENTAGE)



Source: Bank of Mexico.

FIGURE 1.7
MEXICAN TRADE LIBERALIZATION, 1985-1991
(PERCENTAGE)

As of December:	1985	1987	1989	1991
Import licensing*	47.1	25.4	20.3	17.4
Average tariff**	28.5	22.7	12.8	12.4
Maximum tariff rate	100	40.0	20.0	20.0

* Percentage coverage of production of tradeables, 1986 weights
** Weighted by production of tradeables, 1986 weights

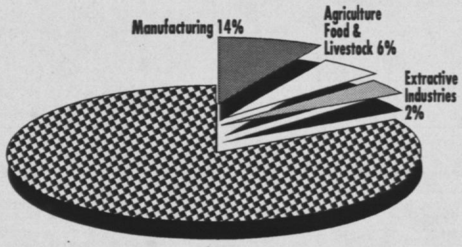
Source: World Bank, *Mexico: Country Economic Memorandum, Report* 11823-ME, May 16, 1994, Volume I, p. 10.

To speed Mexico's integration into the larger international economic community, the government has also pursued the option of regional trade agreements. The most significant of these is the NAFTA concluded with Canada and the United States. Its main provisions are summarized later in this chapter. In addition, Mexico has entered into a bilateral free trade pact with Chile and, in 1994, joined a free-trade "Group of Three" with Venezuela and Colombia. Mexico is also working to negotiate trade pacts with several countries in Central America.

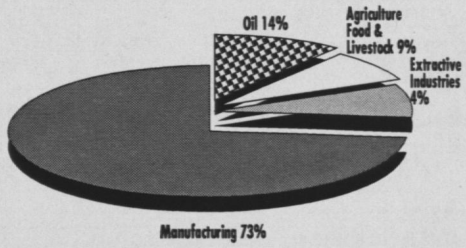
Imports: One of the most striking consequences of Mexico's economic reforms and its increasingly open trading regime has been a pronounced surge in imports. Traditionally, Mexico had limited imports and ran large merchandise trade surpluses with the outside world. After 1987, however, as restrictions on imports were eased, it began purchasing larger volumes of imported goods and services, especially from the United States (see Figure 1.8). Total imports in 1994 reached a record US $69 billion, compared to US $36 billion in 1990. These figures are official Mexican government data from *SECOFI*. They apparently exclude the value of gross flows of exports and imports of the in-bond or *maquiladora* industry. If the latter are included, 1994 imports rise to approximately US $80 billion. Over the decade 1983 to 1993, the volume of Mexican imports of goods and services increased at an average annual rate of 13.4 percent, the fastest rate of growth in the Organization for Economic Cooperation and Development.

This rapid growth in imports led to a highly negative trade balance which, in turn, was a major factor behind Mexico's fast-rising current account deficit. By late 1994, concern over the size of the current account deficit helped trigger a loss of confidence in the peso and the subsequent financial crisis. The almost 50 percent devaluation of the peso in 1995, coupled with the dampening of domestic demand caused by the government's tough austerity program, has affected Mexican imports. For 1995 as a whole, total imports are likely to be down as much as 10-15 percent in nominal terms compared to 1994 levels. While temporary, the drop in imports will help reduce Mexico's current account deficit. Most forecasters expect imports to recover and to register at least some growth in 1996.

Figure 1.9
Export Structure, 1982
(percentage)



Export Structure, 1993
(percentage)



Source: Bank of Mexico. Inter-American Development Bank, *Mexico: Economic Statistics*, August 21, 1995, page 7.

Exports: While Mexico's imports have surged, its exports have also risen strongly. In fact, between 1982 and 1989, Mexican exports grew faster than those of the four East Asian tigers (Hong Kong, Taiwan, Singapore, and South Korea). In 1993, Mexico's exports stood at US $52 billion, and between 1983 and 1993, its export volumes increased at an average annual rate of 3.7 percent. Exports rose further to reach US $61 billion in 1994.

As a result of ongoing economic restructuring and Mexico's improved competitiveness, there have been significant shifts in the structure of the country's exports (see Figure 1.9). In particular, manufactured goods have replaced oil and oil products as its most important exports. In 1982, oil products accounted for more than 70 percent of total exports. Partly because of lower world oil prices, but also because of increased industrial activity and exports, more than 70 percent of Mexico's exports now consist of manufactured and semi-manufactured goods. Within this sector, the automotive, chemical, electrical, steel, food and drink, and tobacco industries are among the leading exporters. For a summary of Mexico's most important exports and imports in the years 1991 and 1992, see Figure 1.10.

The 1995 financial crisis and the sharp devaluation of the Mexican peso have served to strengthen the international competitiveness of Mexico's export sector and to dampen imports. Over the first half of 1995, its merchandise exports were up about 35 percent over the same period in 1994, and the previous year's trade deficit had turned into a substantial surplus. Strong export growth is vital to an economic turnaround in Mexico and to achieving external balance.

Figure 1.10
Selected Products Traded by Mexico
(in order of importance)

Exports	Imports
Electric and electronic equipment	Electric and electronic equipment
Crude oil	Automobile parts
Automobiles and transport equipment	Chemical products
Chemical products	Iron and steel industry
Textiles and leather goods	Plastic and rubber products
Iron and steel industry	Textiles and leather goods

Source: Bank of Mexico, 1993.

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 of Mexican tariffs and licensing regulations, the removal of other non-tariff barriers, and the implementation of the NAFTA in 1994, two-way Canadian-Mexican trade grew from C $2.4 billion in 1990 to C $3.5 billion in 1992, and more than C $4.6 billion by 1994.

Mexico's major trading partners are shown in Figure 1.11. The United States dominates Mexico's trade profile, taking more than 80 percent of its exports and supplying about three-quarters of its imports in recent years. It should be noted that in the past, Canada's exports to Mexico have been somewhat understated by the official statistics because of incomplete data and the fact that some Canadian-made goods are trans-shipped via the U.S., which is then recorded as the country of origin. The NAFTA rules concerning certificates of origin should eliminate this problem.

FIGURE 1.11
MEXICO'S MAJOR TRADING PARTNERS, 1993
(PERCENTAGE OF MEXICAN IMPORTS AND EXPORTS)

Country	Imports	Exports
United States	74.5	81.7
Japan	5.4	1.4
Germany	3.5	0.8
Spain	1.9	1.9
Brazil	1.8	0.6
Canada	1.6	4.6
France	1.4	0.9

Source: *GeoFITT Mexico.* Ottawa: Forum for International Trade Training. September 1995, Session 1, page 5.

MAQUILADORAS

A significant factor in the development of Mexico's manufacturing economy has been 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 part 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 *maquila* 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 *maquila,* takes the form of critically-needed skilled jobs and increased industrialization.

A large majority of the approximately 2,000 odd Mexican *maquiladoras* are subsidiaries of American companies and ship most of their output back to the United States. Under American tariff rules, *maquiladoras* that sell their output in the U.S. pay duty only on the Mexican value-added; no tariffs are levied with respect to the American content of products fabricated or manufactured in the *maquiladora* enterprises.

The program has permitted foreign companies to take advantage of Mexico's competitive labour costs while enabling the Mexican economy to reap the benefits of the value-added involved in assembly and processing. American 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 blossomed. Total *maquiladora* exports climbed from US $3 billion in 1981 to a record high of US $19 billion in 1992. Only a modest portion of this amount, however, represented true "value-added" in Mexico, since the components and raw materials used to produce manufactured goods are imported duty-free. Figure 1.12 reports World Bank estimates of Mexican value-added and employment in the *maquiladoras*.

FIGURE 1.12
ESTIMATES OF VALUE-ADDED AND EMPLOYMENT IN THE MAQUILADORA

Year	Million US $	Number of Employed Workers
1985	1,267.2	211,968
1986	1,294.5	249,833
1987	1,598.1	305,253
1988	2,337.4	369,489
1989	3,000.8	418,533
1990	3,551.2	447,762
1991	4,133.9	467,454
Average annual growth rate	19.7%	13.1%

Source: World Bank. *Mexico: Country Economic Memorandum*. Report 11823-ME, May 16, 1994, Volume I, p. 63.

Originally based in textiles, the *maquiladoras* have diversified into such areas as consumer electronics and transportation equipment (see Figure 1.13). Although labour-intensive production continues to be the trademark of the *maquiladoras*, 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. Competitive wages and proximity to the American border, together with favourable exchange rates, have allowed Mexico to compete directly and successfully with Southeast Asia for investment, particularly in manufacturing facilities. Transport equipment, including auto parts, and electrical and electronic products are now Mexico's most important *maquiladora* exports.

FIGURE 1.13
EXPORTS BY MAQUILA INDUSTRY BY TYPE OF PRODUCT, 1992
(PERCENTAGE OF TOTAL MAQUILA EXPORTS)

Gross Exports:	US $18.9 billion
Product Category	**Percent of Total**
Electric and electronics materials, etc.	30.5
Transport equipment	30.4
Electric and electronic machinery and equipment	12.4
Other manufacturing	8.7
Textile products	5.2
Wooden furniture	5.2
Services	1.9
Chemical products	1.3
Non-electrical tools and equipment	1.3
Food products	1.1
Toys and sporting goods	1.1
Shoes and leather products	0.9

Source: World Bank. *Mexico: Country Economic Memorandum. Report* 11823-ME, May 16, 1994, Volume II, p. 25.

The success of the *maquiladoras* along the northern border with the U.S. 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 U.S. border.

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 *maquiladora* 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 *Secretaría de Relaciones Exteriores*, Secretary for Foreign Relations, and the *Secretaría de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development. 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.

In view of the importance of this sector to the Mexican economy, *SECOFI* passed a decree for the development and operation of the *maquiladora* 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.

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 *Secretaría de Desarrollo Social (SEDESOL)*, the Secretariat for Social Development, and the U.S. Environmental Protection Agency (EPA). The first stage of the Border Plan, as it is known, extended over the period between 1992 and 1994. It covered 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 *SEDESOL*'s border area inspectorate to 200. The Mexican government committed US $460 million to the Border Plan for the period between 1992 and 1994. The Zedillo administration has pledged to take further steps to strengthen Mexico's environmental laws and performance.

In addition, the NAFTA should also be beneficial to Mexico's environment over the long term. Not only will it enable Mexico to increase its standard of living, and thus its environmental standards, but the provisions of the Agreement preclude lowering environmental standards and oblige the three countries to properly enforce their own environmental laws. Moreover, the "side agreement" negotiated as part of the NAFTA, the North American Agreement on Environmental Cooperation, contains measures to facilitate cooperation between the three signatory countries to improve the environment.

With the phasing out of American, Mexican and Canadian tariffs on trilateral trade in manufactured goods under the NAFTA, the distinction between *maquiladora* and other foreign operations in Mexico will diminish and eventually disappear. Over time, the import tariff advantages enjoyed by the Mexican free trade zones will be eroded as tariffs come down. The move to zero tariffs on goods crossing the border will reduce the significance of the Mexican and American tariff provisions that have done much to spur the growth of the *maquiladoras*. *Maquiladora* enterprises will face increased competition from other Mexican producers in their export markets, especially the United States. At the same time, they will become freer to sell their products in the domestic market, something they generally could not do prior to the NAFTA.

Despite the changes in tariffs and other areas of government affecting the *maquiladoras*, Mexico continues to boast important advantages as a location for certain types of manufacturing and processing. Among other things, its relatively inexpensive labour costs and competitive exchange rate are attractive to foreign firms looking to establish labour-intensive assembly and manufacturing facilities to produce goods for export to American and other markets.

The North American Free Trade Agreement

In 1992, Canadian, American and Mexican leaders signed an agreement to eliminate trade and investment barriers between the three countries — the North American Free Trade Agreement (NAFTA). The Agreement came into effect on January 1, 1994.

The NAFTA now governs the largest free trade zone in the world, with more than 360 million consumers. The first comprehensive free trade agreement ever concluded between developed and developing countries, the NAFTA will eventually eliminate most tariffs and other trade barriers between the three countries. For Canadian businesses, an important feature of the NAFTA is that it preserves and, in some cases, enhances the improved access to the United States market achieved through the 1989 Canada-U.S. Free Trade Agreement (FTA). The accompanying box details some of the advantages that the NAFTA has over the bilateral FTA from Canada's vantage point.

THE NAFTA EXPANDS ON THE GAINS OF THE CANADA-U.S. FTA BY PROVIDING FOR:

- ☐ elimination of most tariff and non-tariff barriers within ten years
- ☐ clearer and more predictable rules of origin
- ☐ an extension of existing Canadian duty drawback provisions
- ☐ an improved mechanism for consultation and dispute settlement
- ☐ a strengthened "sideswipe" exemption from American safeguards
- ☐ a reduced American capacity to retaliate in dispute settlement cases
- ☐ better access to American and Mexican government procurement markets
- ☐ the addition of an intellectual property chapter
- ☐ enhanced investment provisions

It should be noted that despite the NAFTA, the removal by Canada and the U.S. of tariffs and trade barriers affecting their mutual trade will continue as scheduled under the terms of the bilateral Canada-U.S. FTA. The timetable for phasing out remaining Canadian and American tariffs on each other's goods under the FTA, for example, is unaffected by the NAFTA.

The NAFTA represents the extension of the FTA to a third country, with the result that Canada and the U.S. will now gain improved access to Mexico, and vice versa. But the NAFTA goes beyond the FTA in a number of areas. For example, it covers a larger group of service industries and activities. It also expands the scope and coverage of the consultative and dispute settlement procedures included in the bilateral FTA. The NAFTA also refines the rules of origin contained in the FTA. Following implementation, the NAFTA superseded the FTA.

KEY MARKET ACCESS HIGHLIGHTS UNDER THE NAFTA

The NAFTA provides for the elimination of most tariff barriers within North America over a period of ten years. Four major phase-out categories were agreed to:

- immediate elimination upon the entry into force of the NAFTA
- in five annual steps (1994 to 1998)
- in ten annual steps (1994 to 2004)
- in 15 annual steps (1994 to 2008) for a limited number of American products

Note that tariff phase-outs between Canada and the U.S. will continue as scheduled under the bilateral FTA.

Several products of strategic interest to Canadian business were targetted for accelerated tariff phase-out, including: fertilizers; sulphur; aluminum ingots; agricultural, construction and resource machinery; rail and industrial equipment; selected wood pulp and paper items; telecommunications equipment; pre-fabricated housing; printed circuit boards; medical equipment; and auto parts.

The new rules on duty drawback in the agreement give Canadian manufacturers greater flexibility in using inputs from non-NAFTA countries. These rules allow credits for duties paid when inputs are incorporated into exports of manufactured products to other NAFTA countries. These duty drawbacks are to be terminated in two phases:

- by January 1, 2001, for Mexico-U.S. trade and Canada-Mexico trade; and
- by 1996, for Canada-U.S. trade.

Sectors of Immediate Opportunity

The initial impact of the NAFTA is expected to be small in relation to Canada's trade with other countries, particularly the United States. However, several Canadian sectors stand to benefit from the NAFTA, including:

- ☐ telecommunications
- ☐ aerospace
- ☐ urban transit and rail equipment
- ☐ agrifood
- ☐ energy
- ☐ financial services
- ☐ information technologies
- ☐ environmental technology
- ☐ mining technology/services
- ☐ industrial machinery and equipment

The 1994 deadline established in the FTA for the elimination of drawback programs was extended for two years.

Rules of origin have been simplified and strengthened so that their application is more transparent and certain. This will narrow the scope for disputes resulting from differences in the interpretation and application of the rules of origin.

Other Market Access Highlights

- The NAFTA requires the elimination of all duty waivers or remissions that are based on performance requirements.
- The Agreement essentially incorporates the FTA's articles regarding import and export restrictions. All three countries will eliminate import prohibitions and quantitative restrictions such as quotas and import licences. Exempted from this obligation is trade in agriculture, autos, energy and textiles.
- The NAFTA prohibits the introduction of new customs user fees such as merchandise processing fees. Mexico will eliminate its existing customs processing fee by June 30, 1999. The U.S. eliminated its merchandise processing fee on January 1, 1994.
- Customs administration procedures have been improved under the NAFTA. These customs improvements include:
  - uniform regulations to ensure consistent interpretation, application and administration under the rules of origin;
  - uniform certification procedures and requirements;
  - advance rulings on the origin of goods;
  - uniform rights of review and appeal of origin determinations for exporters in all NAFTA countries; and
  - specific time periods to ensure the timely resolution of disputes.

Selected Sector Highlights

Automotive

The NAFTA will phase out Mexican trade and investment restrictions in the automotive sector over a ten-year period. For imports from Canada and the United States, Mexico will:

- reduce its tariff on passenger autos and light trucks to 10 percent immediately
- gradually eliminate the remaining tariff over ten years (five years for light trucks)
- gradually eliminate its tariff on all other vehicles over ten years

This will create a fully integrated market for autos and auto parts. Canadian and American exports of autos and auto parts rose significantly in 1994 following implementation of the NAFTA. Canadian motor vehicle and parts exports to Mexico now exceed C $100 million, compared to just C $5 million in 1989.

Automotive goods have to meet a specified percentage of North American content to qualify for preferential tariff treatment within the NAFTA. The required North American content will increase to 62.5 percent over eight years for passenger autos and light trucks and to 60 percent for other vehicles and auto parts. This represents a significant increase in the 50 percent content requirement set out in the Canada-U.S. FTA. The higher content requirement is intended to encourage North American sourcing of automotive parts and components by automobile assemblers operating in the three countries.

Agriculture

The agricultural provisions contained in the FTA have been carried forward into the NAFTA. In addition, a series of bilateral agricultural arrangements have been negotiated under the NAFTA to speed the process of liberalization. Mexican tariff phase-outs on various agricultural products of interest to Canadian exporters are summarized in Figure 1.14.

Figure 1.14
Agricultural Tariff Elimination under the NAFTA by Mexico on Canadian Products

Immediate (1994)	Five years	Ten years
Rye	Mushrooms	Apples
Buckwheat	Peppers	Vegetable oils
Broccoli	Frozen broccoli	Pork
Lentils	Frozen sweet corn	Wheat
Raspberries	Canary seed	Cereal flours
Frozen blueberries	Barley	
Beef and cattle	Malt	

Services

The NAFTA goes beyond the FTA and many other international trade agreements in its broad coverage of services. Chapter 12 of the NAFTA sets out key principles governing cross-border trade in services. Separate chapters of and annexes to the Agreement define how these principles will apply to designated sectors, such as professional services, telecommunications and financial services.

Unlike the FTA, with the NAFTA all services are presumed to be covered unless specifically excluded or dealt with separately elsewhere in the Agreement. Canada, for its part, included reservations and exclusions with regard to culture, social services and several other sectors. Land transport and a wide range of professional services are among the sectors benefitting from liberalized access under the NAFTA.

Under the NAFTA, no local presence is generally required to sell a cross-border service covered under the agreement. The parties agreed to extend national and most-favoured-nation treatment to cross-border service providers from other NAFTA signatories. Each country also pledged not to increase current discrimination against service providers from other NAFTA signatories and to ensure that future laws and regulations do not discriminate.

Other Important NAFTA Highlights

The ***dispute settlement*** mechanism found in the bilateral FTA was made a permanent feature of the NAFTA. The dispute settlement procedures were extended to Mexico to ensure transparency based on due process. In addition, Mexico agreed to make the necessary amendments to its legislation and procedures to ensure consistent application of its antidumping and countervailing duty laws.

Land transportation provisions of the NAFTA will allow Canadian truckers to organize their North American traffic more efficiently. There is now greater freedom to provide trucking services and bus transportation services into Mexico. The NAFTA rules allow truckers to carry cargo from one country to the other, but reserve local cargoes for truckers based in the country. For example, Canadian truckers can now carry and deliver goods to the United States from Mexico. Then, the Canadian trucker will be able to pick up cargo in the United States and deliver it to Canada.

Under the NAFTA, a significant part of the American and Mexican ***government procurement*** markets has been opened to Canadian suppliers on a non-discriminatory basis. This was achieved despite the fact that Mexico was not a party to the 1979 GATT Procurement Code. In particular, Canada has gained improved access to Mexican government procurement on the part of its petroleum and electricity monopolies, *PEMEX* and *CFE*, as well as its petroleum and electricity institutions. In addition, access to American government procurement markets was also enhanced. The NAFTA gives Canadian suppliers improved access to goods, services and construction contracts with a total value of over C $70 billion, up from C $20 billion under the FTA and GATT.

Under the bilateral FTA, Canada entered into a comprehensive set of rules and obligations regarding inward and outward ***investment***. The NAFTA goes further to guarantee most-favoured nation status to NAFTA investors. Canadian investors will be treated the same as American investors in the U.S. and as Mexican investors in Mexico. All forms of performance requirements are prohibited, e.g., specified export levels, minimum domestic content, preferences for domestic sourcing, trade balancing, and technology transfer. Other key investment provisions include: free transfer of foreign currency between the NAFTA countries; due process and fair compensation in the event of expropriation of NAFTA investors; recourse for NAFTA investors through either the host country's domestic courts or binding investor-state arbitration.

Mexico agreed to change its foreign investment laws in accordance with the NAFTA. Most screening of new investment has been eliminated and acquisition reviews are being curtailed. Mexico will be able to review acquisitions with an initial threshold of C $25 million, rising to C $150 million by 2004.

Canada maintained existing restrictions on sensitive sectors such as transportation, telecommunications, social services and cultural industries. Also, Canada's ability to review major foreign takeovers was left intact, with a review threshold of C $150 million for direct acquisitions.

Labour and Environmental Standards

Labour and environmental standards were sensitive issues during the NAFTA negotiations, largely because of concerns about the implications of lower wages and weaker environmental rules in Mexico. The text of the Agreement itself contains provisions touching on both subjects. In addition, in 1993, the three countries negotiated supplemental "side agreements" in which they agreed to effective enforcement of their domestic labour and environmental laws.

Turning first to labour standards, the NAFTA confirms the rights of the three countries to set high labour standards as well as their obligation to enforce workers' rights under applicable domestic laws. The NAFTA also recognizes that difficult labour adjustment problems can sometimes arise with the removal of trade barriers. Thus, Chapter 8 of the Agreement has provisions permitting "emergency" action to be taken against specified imports, in the event that an import surge at least partially attributable to the more liberal trade conditions afforded by the NAFTA causes or threatens "serious injury" to domestic producers.

Highlights of the NAFTA Environment Provisions

The NAFTA recognizes the importance of domestic and international environmental objectives. Specifically, the text of the Agreement includes provisions which:

- ☐ preserve the rights of governments to set high environmental standards
- ☐ affirm the rights of governments to protect the environment
- ☐ this protection may conflict with other trade obligations but should not be discriminatory or take the form of trade barriers
- ☐ establish that the trade-related obligations in certain international environmental agreements can override obligations under the NAFTA
- ☐ allow any panel established to address an environmental issue access to environmental expertise to help in its deliberations
- ☐ affirm that no NAFTA country should lower its health, safety or environmental standards in order to attract investment

Apart from the provisions of the NAFTA itself, a separate "side agreement," the North American Agreement on Environmental Cooperation, was negotiated by the three countries in 1993. It will strengthen cooperation in the areas of environmental enforcement, research and policy-making.

The supplemental labour agreement, known as the North American Agreement on Labour Cooperation, provides for increased cooperation between the three countries and establishes procedures to settle disputes. It also commits each NAFTA signatory to effective enforcement of its own labour laws. Failure to enforce these laws may trigger a dispute panel and eve tually result in the assessment of a penalty, in the form of a monetary fine against a non-complying NAFTA country.

The NAFTA is the first international trade agreement o address the environmental implications of trade relationships. The hree countries agreed to implement the Agreement in a manner consistent with environmental protection and the promotion of sustainable development. Each c untry retains the right to set its own environmental standards. Each also agreed not to lower its health, safety or environmental standards in order to attract investment. The NAFTA accepts that the parties' obligations under certain international environmental and conservation agreements will prevail in the event of inconsistency with the provisions of the NAFTA itself.

The environmental "side agreement," known as the North American Agreement on Environmental Cooperation, calls for increased cooperation to protect and enhance the environment in the North American region. It promotes transparency and public participation in the development and improvement of environmental policies and laws. While affirming each country's right to establish its own environmental laws, the Agreement also requires that these domestic laws be properly enforced. In the event of a dispute that cannot be resolved through consultations, a dispute settlement panel may order the imposition of financial penalties against a country that persistently fails to enforce its environmental laws. The Secretariat established to administer the NAFTA environmental agreement is located in Montreal. It has developed a work program that emphasizes the regional, collective responsibility for protecting and improving the quality of the North American environment.

Looking Beyond Mexico: Latin America in the 1990s

An important feature of the NAFTA is the accession clause included in the Agreement (Article 2204). This allows other countries to seek admission to the free trade area if they can meet conditions laid down by the parties to the Agreement. Importantly, the NAFTA itself will not have to be renegotiated each time a new member joins. Instead, each new member will have to bargain over the terms of its admission.

In the next few years, other Latin American countries may seek to become part of the NAFTA. Already, Chile, Argentina and Bolivia have expressed interest, and others are likely to follow. The idea of building a wider free trade zone in the Western Hemisphere was given considerable impetus by the "Summit of the

Americas" meeting held in Miami in December 1994, and involving 34 countries from North, Central and South America. The meeting saw the assembled national governments agree to work toward the ultimate objective of free trade in the Americas by the year 2005. This pledge was then renewed at a subsequent meeting in July 1995.

In light of the prospect that the NAFTA could eventually evolve into a broader trade agreement, and given the growing economic openness and dynamism evident in much of Latin America, the following section briefly discusses Latin America as a Canadian business opportunity.

Latin America: An Overview

With a population of about 500 million, including the Caribbean and Mexico, Latin America is becoming an increasingly important part of the global economy. Since the mid-1980s, many countries in the region have instituted far-reaching economic reforms aimed at achieving lower inflation, fiscal consolidation, trade liberalization, deregulation of the economy, and a general reduction in the role of the state in commercial activity. Many countries have also adopted laws and policies to welcome foreign investment. A number of Latin American countries have succeeded in getting their foreign debt problems under control. Inflation has fallen markedly, although it remains high in a few countries. Government deficits have been substantially reduced. Impressive progress has also been made in democratizing political systems in much of Latin America.

Like Mexico itself, Latin America is a diverse region with a modest per capita income measured by developed country standards. However, it represents a significant opportunity for Canadian business, an opportunity that has assumed a higher profile with the implementation of the NAFTA. Gross domestic product in the region, including the Caribbean, is in the neighbourhood of US $1 trillion. Average per capita income is a little more than US $2,300. This figure is low by Canadian standards, but it obscures the presence of a rising number of increasingly affluent middle-class consumers with an appetite for western-style consumer goods and services. Latin America is also a promising market for Canadian capital goods producers and for firms involved with infrastructure-related products and services. Looking ahead, the World Bank, the International Monetary Fund (IMF), the Inter-American Development Bank and various private economic forecasters all expect that Latin America will enjoy reasonably solid growth through the remainder of the decade, with real GDP expanding between 3.5 and 5 percent per year in the region as a whole.

To be sure, Latin America faces daunting problems. Owing to rapid population growth, the economic pain associated with the "lost decade" of the 1980s, a legacy of high inflation, and the initial impact of recent economic reforms, real (i.e. inflation-adjusted) per capita income in Latin America in 1992 was still below its level ten years earlier. Poverty and social problems are widespread. Until recently, rampant inflation was entrenched in the largest country in the region, Brazil; inflation remains a problem in Venezuela and some Central American countries.

Still, there is no denying the region's progress, nor its potential. Significant capital inflows have returned, stock markets have performed quite well, direct foreign investment is on the rise, and the private sector is being revitalized as the shackles of state control are removed.

Support for Free Trade Growing

Several regional trade groupings have come together to spur the process of liberalization, lower tariffs and other trade barriers on a reciprocal basis, and expand commerce among Latin American countries. These include the Andean Pact, comprising Venezuela, Colombia, Bolivia, Peru and Ecuador; the MERCOSUR group, including Argentina, Brazil, Paraguay and Uruguay; and the Central American Common Market, comprising Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. In addition, January 1, 1995 marked the official birth of the "Group of Three," which aims to lower tariffs between Mexico, Venezuela and Colombia over the next decade (see Figure 1.15). Chile, Latin America's star economic performer, has built its recent success on an aggressive export strategy. Chile has signed individual bilateral trade agreements with Mexico, Argentina and Bolivia. Partly because of closer intra-regional economic ties, trade between Latin American countries has more than quadrupled since 1984 and now exceeds US $31 billion.

Figure 1.15
Latin American Trade and Regional Integration Arrangements

Andean Pact	**Central American Common Market**
Bolivia	Costa Rica
Ecuador	El Salvador
Colombia	Guatemala
Peru	Honduras
Venezuela	Nicaragua
MERCOSUR	**Group of Three (1995)**
Argentina	Mexico
Brazil	Colombia
Paraguay	Venezuela

All of these developments are fostering support for trade liberalization in the region and helping to set the stage for the possible evolution of the NAFTA into a broader, hemispheric trade zone involving several countries in addition to the three original signatories.

Canada's Trade with Latin America

Canada's commercial ties with Latin America are modest. This reflects the lack of attention traditionally given to the region by Canadian business people and the fact that until quite recently, most Latin American countries maintained highly protectionist trade policies and did not welcome foreign investment. In 1992, Canadian exports reached C $3.2 billion, representing just 2 percent of all Canadian exports. Canadian imports from the region were higher, at C $5.8 billion, slightly under 4 percent of the total. Excluding Mexico, which is Canada's biggest Latin American trading partner, Canada's exports were C $2.4 billion and imports stood at about C $3 billion. Figure 1.16 summarizes Canada's trade with Latin America in 1992.

Figure 1.16
Canada's Trade with Latin America, 1992
(C $ billions)

	Exports	Imports	Balance
Argentina	101.2	112.2	–11.0
Brazil	620.6	715.2	–94.6
Caribbean	726.9	1,064.9	–338.0
Central America	97.8	246.3	–148.5
Chile	145.1	202.0	–56.9
Colombia	228.8	130.5	98.3
Mexico	770.6	2,751.1	–1,980.5
Venezuela	325.1	334.6	–9.5
Total Latin America	3,203.4	5,785.6	–2,582.4

Source: Statistics Canada; Department of Foreign Affairs and International Trade (DFAIT).

Focus on Selected Opportunities: Chile, Argentina and Brazil

Chile, Argentina and Brazil are the most promising Latin American markets for Canadian companies after Mexico. All three have instituted broad economic reforms and achieved varying degrees of macroeconomic stabilization. They have also moved to dismantle many barriers to trade and foreign investment, and have privatized state-owned industries. (See Figure 1.17.)

Figure 1.17
A Profile of Brazil, Argentina and Chile

	Brazil	Argentina	Chile
Population	156.3 million	33.5 million	13.8 million
1993 GDP, (US $)	$446 billion	$260 billion	$44 billion*
Imports from Canada, 1993	$772 million	$147 million	$213 million
Exports to Canada, 1993	$791 million	$116 million	$209 million

* 1994

Source: "Canada Aims to Establish Trade Broker's Role," *Financial Post*, January 21, 1995, p. 21.

Chile is likely to become the first new NAFTA signatory. Since 1989, its economy has grown by more than 5 percent a year. Per capita GDP has risen from about US $1,700 in 1988 to more than US $3,100 today. Chile's population stands at 13.9 million, and its GDP now exceeds US $44 billion. The 1993 World Competitiveness Report ranked Chile as the fifth most competitive newly industrialized country, after Singapore, Hong Kong, Taiwan and Malaysia. It scores highly on indicators such as outward orientation, trade liberalization, openness to investment, and managerial skills. In the area of trade policy, Chile's tariffs are among the lowest in the world, and it maintains few non-tariff barriers. Exports account for about 30 percent of its GDP.

Two-way trade between Canada and Chile reached C $422 million in 1993, up 21 percent over 1992. Exports and imports between the two countries are almost evenly balanced. Traditionally, Canadian companies have shipped resource-related products, but forestry and mining equipment have seen impressive gains since 1990. Other promising sectors for Canadian exporters include power generation, communications, and environmental technologies and equipment. Canadian direct investment in Chile now exceeds C $3 billion and is growing fast. Most of this is invested in the mining sector, where Chile boasts tremendous competitive advantages. Many Canadian mining companies have identified Chile as a key location for future exploration and development. With these Canadian mining investments have come market opportunities for Canadian firms that sell mining equipment, technology, services and related expertise.

With a population of almost 34 million, **Argentina** is the third largest market in Latin America after Brazil and Mexico. Its gross domestic product was estimated at US $260 billion in 1993, making Argentina one of the region's richest markets in terms of per capita income. Under President Carlos Menem, the government has taken bold steps to tame inflation, control the public sector deficit, remove regulations that impede growth, and sell off dozens of major state-owned enterprises. The results have been impressive. Argentina registered solid growth in the 1990s, although economic activity slowed in 1995 in the wake of financial market turbulence associated with the Mexican crisis. Economic confidence has returned after a long period of decline. Having sharply reduced its tariffs and dismantled most non-tariff barriers, Argentina has seen strong growth in imports. Continuation of current economic and trade policies augurs well for Canadian companies interested in this important market.

Bilateral trade between Canada and Argentina has fluctuated in recent years. Canada's exports to Argentina reached C $147 million in 1993, while imports were C $116 million. Export opportunities for Canadian businesses exist in several sectors, including environmental technologies and equipment; energy equipment and technology; telecommunications; food processing; packaging equipment; specialty food items; and infrastructure-related industries. Some Canadian companies show growing interest in investing in Argentina as it continues to liberalize its economy, privatize state-owned companies and improve its infrastructure. Nova Corporation, a major Canadian energy transmission and petrochemical company, recently invested in Argentina. Others are sure to follow.

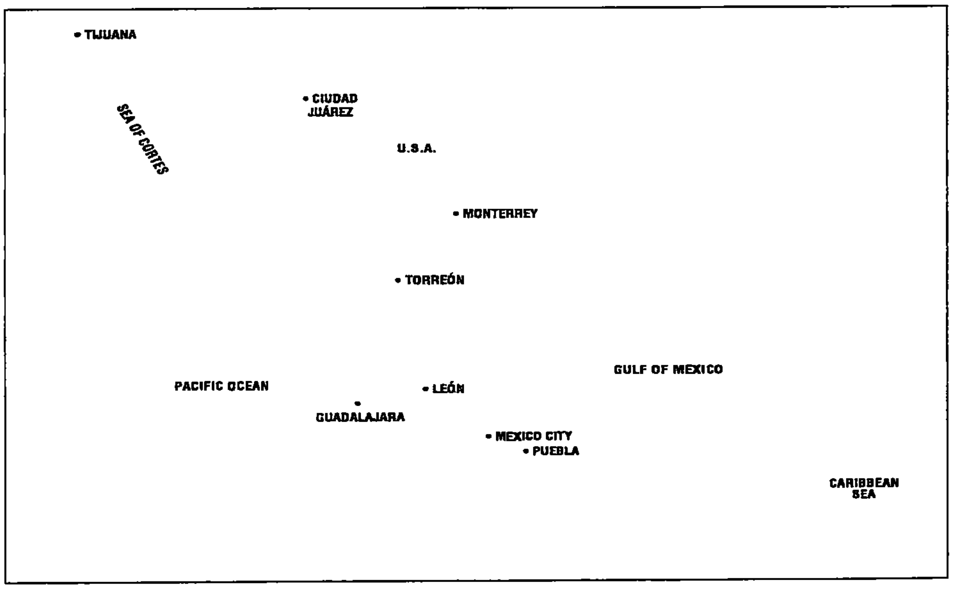
By far the largest country in the region, **Brazil** clearly deserves the attention of Canadian exporters. It accounts for 35 percent of the population of Latin America and the Caribbean, as well as for a similar proportion of the region's GDP. The new administration of President Fernando Cardoso has moved aggressively to reform Brazil's economy. This has included tackling its most serious economic problem, inflation, which averaged more than 1,000 percent per year in the late 1980s and early 1990s. Introduction of a new currency combined with a tighter monetary policy and other reforms have succeeded in dramatically reducing the inflation rate. At the same time, some 35 state-owned enterprises worth more than C $6 billion have been privatized since the beginning of 1993, with more major sell-offs planned by the central government. Although Brazil was slow to reform its economy and has a long way to go to match Chile, Argentina and Mexico, its drive to reform will make the country an increasingly attractive export market and investment location for Canadian business.

In 1994, Brazil was the world's twenty-fourth largest exporter, selling goods valued at US $44 billion abroad. It also ranked as the twenty-third biggest importer, buying some US $36 billion worth of foreign products in that year.

Brazil is already a significant Canadian trading partner. Two-way trade exceeded C $1.5 billion in 1993, meaning that Brazil is Canada's second biggest trading partner in the region after Mexico. Exports and imports are quite closely matched. Canada sells a wide variety of agricultural and manufactured products to Brazil. It supplies about 30 percent of Brazil's wheat imports, making wheat the single biggest Canadian export product. In early 1995, a "Team Canada" business-government trade mission to Brazil resulted in the signing of several major trade and investment deals worth more than C $600 million.

II. The Mexican Market

THE MEXICAN MARKET: BASIC DATA



Location:	Mexico is the northernmost country of Latin America. It shores 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 Sea 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 arable, 48 percent is suitable for livestock, and 29 percent is forested.
Population:	According to recent estimates, it is 92 million. About half the population is currently under the age of 20 years and one million people enter the labour force every year.
Growth Rate:	Population growth has moderated to about 2 percent annually, down from an annual average of 3.5 percent in the 1970s and 1980s.
Main Towns:	(population in '000s, 1990 Census) 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:	The Federal republic is comprised of 31 states and one federal district (Mexico City), which is the seat of the federal government. The legislative branch consists of two houses: the Senate (128 seats) and the Chamber of Deputies (500 members). The President serves as head of state and government. A new President is elected every six years.
Climate:	Tropical in the south, temperate in the central highlands and dry to the north.
Languages:	Spanish is Mexico's official language.
Measures:	Mexico uses the metric system.
Time:	Mexico City is 6 hours behind GMT.

Sources: *EIU Country Profile*, 1994; United States Department of Commerce, *1995 Country Commercial Guide: Mexico.*

Opportunities and Challenges

Mexico's decade-long program of economic reform has had a major impact on the economy. The country experienced several years of solid economic growth in the late 1980s and early 1990s, prior to the onset of a serious recession in 1995. Despite this recession, indications are that Mexico will recover and that its participation in the global marketplace will continue to increase. Today's Mexican market offers a varied mix of opportunities and challenges. In fact, Mexico has become one of the most open economies in Latin America and offers a number of comparative advantages. Chief among them are a large domestic market, a young, abundant and cost-competitive labour supply, and the proximity of the wealthy American market to which Mexico has gained free access under the NAFTA. For the careful and determined business person, Mexico has become an opportunity not to be overlooked.

Mexico Today

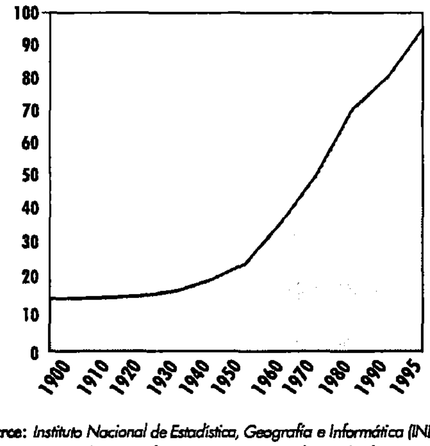
Opportunities

- 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.
- Preferred access to the United States, the world's largest market, under the North American Free Trade Agreement (NAFTA).
- A relatively young work-force of more than 30 million people that has proved capable of delivering quality at substantially lower labour costs than in the advanced industrialized economies.
- Plentiful natural resources.
- A rapidly growing domestic market of 92 million people.
- A liberalized economic policy and regulatory climate that is supportive of private business activity and investment.

Challenges

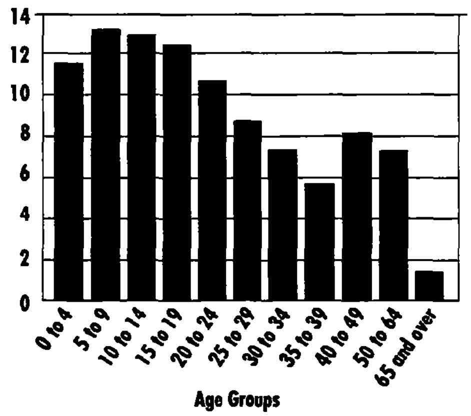
- Poverty remains a significant problem in much of the country. Many Mexican consumers lack the incomes needed to buy the goods and services purchased by Western consumers.
- Achieving economic stabilization and a return to steady growth after the 1995 recession.
- Government regulations are still complex and their application is not entirely predictable.
- Basic education and specific training programs are needed to create a skilled labour force.
- Poor communications links, inadequate roads, and deficient port facilities plague the growth of industry and commerce, although improvements are being made.
- There are shortages of quality materials.
- The cost of capital is high.

FIGURE 2.1
POPULATION GROWTH IN MEXICO (MILLIONS OF INHABITANTS)



Source: *Instituto Nacional de Estadística, Geografía e Informática (INEGI),* National Institute for Statistics, Geography and Informatics.

FIGURE 2.2
MEXICO'S POPULATION BY AGE GROUP (PERCENT OF TOTAL, BASED ON 1990 CENSUS)



Source: *Instituto Nacional de Estadística, Geografía e Informática (INEGI),* National Institute for Statistics, Geography and Informatics.

DEMOGRAPHIC PROFILE

For Canadian exporters, Mexico represents a large and steadily growing market projected to reach almost 95 million by 1996. Mexico's rapid population growth is a twentieth century phenomenon, and reflects advances in medicine and health care (see Figure 2.1). Average life expectancy in Mexico has increased markedly, rising from 40 years in 1930 to 47 years in 1950 and to almost 70 years by the early 1990s. Annual population growth rates have ranged between 1.9 and 3.5 percent over the past 50 years. The country's population has more than doubled since the 1960s, although the growth rate is now slowing. Recent years have seen the population rise by approximately 2 percent per year.

One consequence of Mexico's continued population growth is that it is a relatively young society. In 1993, more than 37 percent of Mexicans were under age 15. This compares to 20.7 percent of Canadians and 22 percent of Americans in the same age group. The most recent national census, completed in 1990, found that half of Mexico's population was below the age of 20 (see Figure 2.2).

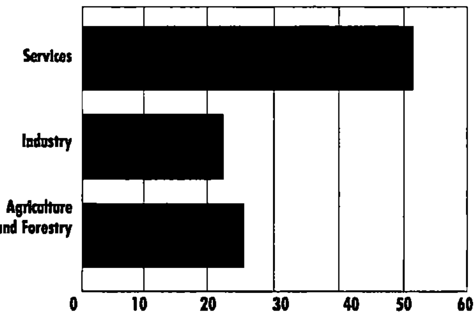
Since 1930, Mexico has gradually been transformed from a rural to a predominantly urban nation. At present, almost three-quarters of all Mexicans reside in cities, while the rural population now represents just one-quarter of the total. Historically, the existence of better employment opportunities in urban areas has been the main factor enticing Mexicans to move to the cities. Today, about 38 percent of the country's population can be found in the states of Jalisco, Nuevo León, Puebla, Mexico and the Federal District, where Mexico's four principal metropolitan centres are located. Together these regions account for more than half of the nation's gross domestic product (GDP).

Within Mexico, there have been large migrations of people for economic or social reasons. Much of this migration is accounted for by male seasonal labour. Emigration from Mexico to other countries is insignificant on a national scale, but it is high in the states bordering the United States.

EMPLOYMENT

Mexico's labour force in 1993 was estimated to number some 32 million, about one-third of the population. Traditionally, Mexico has had a relatively low labour force participation rate. This is related to the fact that a large percentage of the population is under 15 years of age. It also reflects the size of the "informal economy," where close to half of all working-age Mexicans earn all or part of their incomes.

FIGURE 2.3
EMPLOYMENT BY SECTOR, 1993 (PERCENT OF CIVILIAN MEXICAN EMPLOYMENT)



Source: Organization for Economic Cooperation and Development (OECD). *Figures*, 1995 edition, pp. 8-9.

Because of the importance of the informal economy, it is difficult to get an accurate estimate of the true unemployment rate. In 1992-93, the official unemployment rate was in the range of 3 percent, although this greatly understated the true extent of the problem. Unemployment rose slightly through 1994. The recent recession had a serious impact on Mexico's labour market, with more than one million jobs lost in 1995 as a result of dwindling consumer spending, government fiscal restraint, and a sharp drop-off in private sector investment. By mid-1995, the formal unemployment rate stood at close to 7 percent. With economic conditions bottoming out, most forecasters expect a small rise in employment in 1996.

It should also be noted that even among those Mexicans with 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 as they have in Canada. More than half of those employed in the formal economy work in the broad service sector, with just under one-quarter in the industrial sector (see Figure 2.3).

THE INFORMAL ECONOMY

Otherwise known as the "black market" or parallel economy, the informal economy is pervasive throughout Mexico. It consists of 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 lack of 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. Various sources have estimated that one-fifth or more of the economically active population are engaged in informal activities, with the value of their production equivalent to anywhere between 10 percent and one-third of Mexico's GDP. Improvements in tax administration and enforcement, coupled with continued economic modernization, should shrink the size of the informal sector over time.

The informal economy is measured in two different ways:

1. according to the activities which employ most people; and,

2. 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, community services, and commerce. By the second method, most of the value-added by informal economic activities are found in the catering trades and commerce, and small-scale manufacturing — especially in foodstuffs, beverages, tobacco and textiles.

The *Instituto Nacional de Estadística, Geografía e Informática (INEGI)*, National Institute for Statistics, Geography and Informatics, offers a different analysis. Its figures from a few years ago showed that retailing accounted for almost 19 percent of workers in the informal sector, while other services such as repairs made 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 economy are a major force driving people into the informal sector. This problem has no doubt been exacerbated in the short term by the economic downturn in 1995, which has had a dampening effect on wages.

EDUCATION AND SKILLS

The economically active Mexican population encompasses the full range of unskilled, semi-skilled, managerial, and executive capabilities. The population's overall educational level has improved dramatically in the past quarter century. Illiteracy rates have tumbled from more than 50 percent in 1970 to 11 percent in 1990. About 57 percent of the population aged ten years and over has at least six years of formal education (equivalent to having completed primary school); close to 40 percent have seven or more years; and almost 20 percent have ten years or more.

Not surprisingly, the biggest gains in educational attainment have been among younger age groups. More than three-quarters of all Mexicans aged 20 to 29 years have completed at least primary school, while close to 60 percent have seven or more years of education. Primary school enrollment is virtually universal and now covers 98 percent of the eligible youth population. At the secondary school level, the coverage ratio approaches 60 percent. Recent data on enrollment by level education is provided in Figure 2.4.

Educational attainment varies considerably across the country. The average number of years of schooling is noticeably lower in the poorer southern states. Quality of education is also far from uniform across Mexico, particularly in the case of basic education.

The need to improve the quality of education is one of the biggest challenges facing the country. The 1989 to 1994 program to modernize education responded to this challenge by allocating a rising portion of the federal budget to education. As a result, the education budget grew from 6 percent of the total in 1989, to about 13 percent in 1992–93. The program also encouraged a stronger focus on linking education, scientific research and technology development.

Mexico has undergone an ambitious program of school construction and remodelling. In 1990, there were 154,000 schools in the country. Of these, 14,300 were private schools. In the same year, Mexico also had 1,600 technical and higher learning institutions, including 82 universities.

If technical colleges are excluded, Mexico has about 740 institutions of higher learning that consist of entities funded by the federal and state governments as well as the private sector. They offer a variety of technical, specialist, bachelor's and graduate (master's and doctoral) degrees. Institutions tend to operate quite independently with respect to programs offered, curricula and faculty hiring.

In Mexico, degrees obtained in four- or five-year post-secondary programs are called *licenciaturas*. Roughly half of all higher education students in the country are enrolled in programs leading to a *licenciatura*. Smaller numbers (slightly above 50,000) pursue master's and doctoral degrees. Funding for higher education comes mainly from government.

Of the institutions of higher education in Mexico, those in Mexico City account for about 40 percent of total enrollment, while the states of Jalisco and Nuevo León each account for 20 percent of the total.

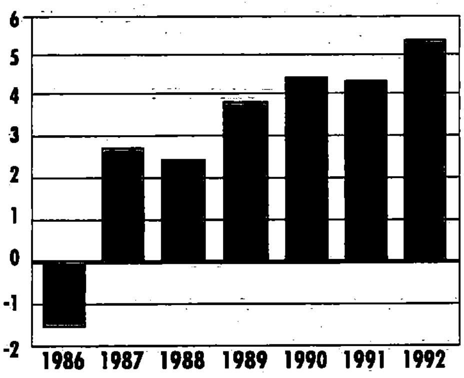
Although Mexico needs to improve educational attainment to strengthen the quality of its labour force and support continued economic modernization, its basic literacy rate of over 90 percent is not very different from rates in Canada and the United States. In addition, it boasts a steadily increasing number of university graduates. In fact, Mexico has slightly more engineering graduates per capita than does the United States. Companies can find highly trained engineers and managers, many with foreign experience, throughout Mexican industry.

FIGURE 2.4
ENROLLMENT BY LEVEL OF EDUCATION
('000S OF STUDENTS)

Level	1988-1989	1992-1993
Preschool	2,669	2,859
Primary	14,656	14,426
Secondary	4,355	4,203
High School (technical)	428	410
High School (academic)	1,643	1,767
College (undergraduate)	1,085	1,144
Graduate	45	52
Professional licensing	127	111
Job Training Programs	440	403

Source: World Bank. *Mexico: Country Economic Memorandum. Report* 11923-ME, May 16, 1994, Volume II, p. 42.

FIGURE 2.5
GROWTH OF MANUFACTURING LABOUR PRODUCTIVITY, 1986-1992
(ANNUAL CHANGE IN PERCENT)



Source: World Bank. *Mexico: Country Economic Memorandum*. Report 11823-ME, May 16, 1994, Volume II, p.59.

In addition to the formal education system, a multitude of technological, professional and business training courses are offered by the country's leading academic centres and by businesses working in conjunction with educational institutions. A growing number of Mexican companies have established their own employee training programs. There is an awareness of the need to keep up with the fast pace of technological change as well as with new managerial techniques that have been introduced as part of Mexico's drive toward modernization. Overall, however, the evidence points to insufficient investment in on-the-job training by Mexican firms, especially the small- and medium-sized businesses (SMEs) which account for a substantial majority of all jobs in the country.

One advantage of the relatively young average age of Mexican workers is that it tends to make them quite receptive to learning new skills. This fact may have contributed to the rising productivity of the Mexican labour force in recent years, a phenomenon particularly evident in larger manufacturing firms. One example is the various international quality awards won by the Mexican automotive divisions of American car manufacturers. Average productivity growth per worker in the manufacturing sector has increased steadily since the late 1980s (see Figure 2.5). The 1995 World Competitiveness Report ranked Mexico 27th in the world in manufacturing value-added per production worker. Among developing countries, only Argentina, Chile, Korea, Taiwan, Singapore and Peru did better. The same study also ranked Mexico twenty-seventh in the world in overall labour productivity.

While productivity has risen in some sectors, Mexican workers on average remain much less productive than their Canadian and American counterparts. This is due to factors such as Mexico's lower educational levels, less sophisticated infrastructure, and smaller capital stock.

SCIENCE AND TECHNOLOGY

Mexico has a significant and growing commitment to research, science and technology development. A recent report from the OECD estimated total Mexican expenditures on research and development at some US $1.6 billion. Of this, slightly more than two-thirds is financed by government and the rest by industry. Between 1989 and 1993, Mexico's total research and development (R&D) expenditures, measured in inflation-adjusted terms, rose at a compound annual rate of 11.6 percent, while business expenditures on R&D grew by 16.5 percent per year. A glance at recent trends in investment and exports also points to Mexico's growing technological sophistication. In 1993, Mexico ranked tenth in the world in gross investment in machinery and equipment as a share of GDP, and third in the world in exports of engineering goods as a proportion of all manufactured exports. Notwithstanding these positive indicators, business executives still rank Mexico's technological infrastructure as significantly inferior to that available in developed countries and most Asian developing economies.

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 *Instituto Tecnológico de Monterrey*, Mexico's most prestigious technical institution. In addition, the company has forged technology-sharing links with Owens-Illinois, Westinghouse, and Yamazaki.

The university sector is an important part of Mexico's science and technology infrastructure. The *Universidad Nacional Autónoma de México (UNAM)*, National Autonomous University of Mexico, plays a key role in scientific research. It accounted for approximately half of all research conducted in Mexico between 1988 and 1992. 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 Michoacán*, the Institute of Astrophysics, Optics and Electronics, and the *Instituto Tecnológico de Monterrey*.

In order to promote research, encourage technological development, and stem the so-called "brain drain" through emigration of Mexican scientists to other countries, the government 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 considerably since the late 1980s.

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 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 be as numerous as it is in Canada.

Figure 2.6 provides a breakdown of average family expenses by type of product. As shown, food and related products eat up more than 35 percent of the average family's budget. Housing represents a small share by Canadian standards.

FIGURE 2.6
FAMILY EXPENSE AVERAGES BY TYPE OF PRODUCT, 1992

Total	National	Urban Areas*	Rural Areas**
Food, tobacco and beverages	35.56	34.22	45.85
Cloth and shoes	7.84	7.79	8.21
Housing and energy	7.77	8.12	5.09
House cleaning, furniture and appliances	8.37	8.24	9.38
Health care	3.53	3.40	4.54
Transportation	16.19	16.56	13.29
Education and entertainment	13.07	13.92	6.50
Other	7.67	7.75	7.14
Total	**100.0**	**100.0**	**100.0**

* towns with more than 2,500 inhabitants
** includes towns with fewer than 2,500 inhabitants

Source: *Instituto Nacional de Estadística, Geografía e Informática (INEGI),* National Institute for Statistics, Geography and Informatics.

According to the 1995 World Competitiveness Report, in 1994 Mexico ranked twenty-ninth among the countries surveyed in per capita gross domestic product measured in American dollars. This means that its GDP per capita was slightly less than one-sixth that of the United States. However, this relatively high figure was due in part to an overvalued Mexican peso. The 1995 recession and substantial devaluation of the peso have reduced incomes in Mexico, resulting in a significant decline in its American dollar per capita GDP.

By developed country standards, Mexico's workers earn low wages, even in the manufacturing sector where wages tend to be highest. In 1994, total hourly compensation for Mexican manufacturing workers, measured in American dollars, was 47 percent of the level in Taiwan, 42 percent of the level in South Korea, and just 16 percent of the level in Canada. Again, these figures have fallen during the 1995 economic crisis, meaning that Mexico's international cost competitiveness has improved.

Mexico has statutory minimum wages which are periodically set by a tripartite National Minimum Wage Commission. In 1994, the minimum wage stood at N $15.27 pesos per day (equal at the time to about US $5.00) in Mexico City and major border cities, and somewhat less in other parts of the country. The minimum wage has declined in real terms over most of the past two decades. Approximately 12 percent of employed Mexicans receive the minimum wage.

In addition to wages, Mexican workers earn additional statutory and contractual benefits, including social security, medical care and pension benefits. These benefits, which can amount to up to one-third of total compensation, are discussed further in Chapter VI.

Average wages across all sectors of the Mexican economy have been held down since the mid-1980s 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 *Partido Revolucionario Institucional (PRI),* Institutional Revolutionary Party, dominates the trade-union movement.

The Import Market: 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, wages will rise, thus improving disposable incomes and purchasing power. In the short term, however, the Mexican import market is weak because of the recent recession and decline in the value of the peso. Real personal income in Mexico has dropped as much as 10 percent since late 1994. This will obviously affect spending on all consumer goods. As noted in Chapter I, Mexican imports have fallen in 1995, but in the case of consumer goods, the drop has been particularly steep, by up to one-third of 1994 levels. Imports of intermediate and capital goods have been more stable.

Although consumption of many goods has declined due to falling consumer incomes, demand for some products is growing because of the "substitution effect" as Mexicans look for less expensive alternatives to various goods and services. This has created some opportunities in niche markets of potential interest to Canadian businesses. For example, pork and chicken are popular substitutes for higher-priced beef, while demand for automotive aftermarket parts and accessories has recently grown at the expense of that for new cars.

The most promising immediate opportunities for Canadian exporters continue to lie in the provision of capital goods to support Mexico's continued economic transformation. Examples include all manner of machinery and equipment, and a wide range of products, services and technologies related to infrastructure modernization and development. Over time, continued investment in Mexican industry and infrastructure will stimulate economic activity, improve 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.

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 but 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.

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.

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 more than 22 million inhabitants, Mexico City (most often referred to in Mexico as D.F. for *Distrito Federal*, 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 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 3.5 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, Motorola, Hewlett-Packard, Mitel and Unisys have established operations.

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. *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 Cancún 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. *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: fibres, film, packing and basic chemistry, and runs an international division. *Cydsa* produces cellophane films, bio-oriented polypropylene, acrylic fibers, resin, and polyvinyl chloride (PVC) piping.

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, fibre, 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 1980 as *Cervecería Cuauhtemoc,* a brewery, and has grown to become one of the main industrial groups in the country.

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 the 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 more than 3.5 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, about 50 percent are based in Monterrey. The city's five biggest corporations — *Grupos Vitro, Cydsa, Cemex, Alfa* and *Visa* — are all owned by branches of two local families. They 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 US $2 billion and achieved sales of around US $10 billion. Investment has weakened temporarily as a result of the 1995 recession.

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 *Instituto 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 Guanajuato. 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 focussed on textiles, it has now become a centre for the automotive industry.

- *Ciudad Juárez* in the state of Chihuahua is located near the American 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, and its 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 and Veracruz;
- processing and manufacturing (automobiles, textiles, machinery, electronic components, appliances, pharmaceuticals), especially in the regions along the border with the United States such as Baja California and Coahuila;
- fishing and seafood processing along Mexico's long Pacific Coastline and the Yucatán 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 Yucatán Peninsula.

INDUSTRIAL DECENTRALIZATION

The Mexican government wants 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. *Secretaría de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development, 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: the first includes agro-industries and many types of capital goods; the second 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. The first category 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

Canada and Mexico have only recently begun to develop their trading partnership to its full potential. According to Statistics Canada, by 1994 Mexico had become Canada's ninth largest export market. In the same year, however, it ranked fourth as a supplier of Canadian imports. The information collected by Statistics Canada is known to understate the magnitude of Canada's exports to Mexico. In part this is because some goods may be shipped to another country such as the United States before ultimately finding their way into Mexico. Mexican import statistics give a more reliable picture of the true sources of Mexico's purchases from other countries. Official Mexican government statistics for 1993 show Canada as Mexico's sixth biggest source of imports.

In 1994, two-way Canada-Mexico merchandise trade amounted to approximately US $4.7 billion, compared to just over US $1.8 billion five years earlier, an increase of 158 percent (Figure 3.1). As a result, Canada's trade relations with Mexico are now broader and more substantial than with any other country in Latin America.

FIGURE 3.1
CANADA'S MERCHANDISE TRADE WITH MEXICO (US $ MILLIONS)

	1989	1994	Percentage Change
Exports	365	1,425	290.4
Imports	1,447	3,258	125.2
Total	**1,812**	**4,683**	**158.4**

Source: Statistics Canada for imports; *Secretaría de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development, for exports.

The traditional pattern has been for Mexican exports to Canada to significantly exceed its imports from Canada. Canada's relatively liberal trade regime, together with its General Preferential Tariff (GPT), which applied to Mexico prior to 1994, meant that approximately 80 percent of all Mexican goods could enter Canada free of duties or licences, before the North American Free Trade Agreement (NAFTA) came into effect. As a result, Mexican exports to Canada were quite buoyant through most of the 1980s and into the early 1990s. Between 1989 and 1994, they climbed by some 125 percent (measured in U.S. dollars).

Canadian exports have been slower to catch up, in part because Mexico only began reducing tariffs and reforming its traditionally protectionist trade rules after joining the General Agreement on Tariffs and Trade (GATT) in 1986. While this has made it easier to export to Mexico, there are still tariffs, licensing requirements and other non-tariff barriers in place that will not be phased-out until the NAFTA is fully implemented. As a result, in 1994, Canada was still running a significant bilateral merchandise trade deficit with Mexico of US $1.8 billion. However, the value of Canada's exports to Mexico (measured in U.S. dollars) more than tripled over the five-year period between 1989 and 1994. In fact, in 1994 alone, Canadian exports to Mexico rose by 37 percent over the previous year. And throughout the entire five-year period, exports to Mexico were growing much faster than imports from Mexico.

Canada's export surge was temporarily stalled when Mexico experienced the economic crisis of 1994 to 1995. Exports to Mexico have fallen off in 1995 as a result of that country's serious recession. However, with an anticipated economic recovery in Mexico in 1996 to 1997, exports should revive and new opportunities emerge over the longer term.

Figures 3.2 and 3.3 list the main goods in bilateral Canada-Mexico trade in 1994. Canadian exports to Mexico traditionally were weighted toward mining commodities, forestry products and agricultural goods such as dairy products and grains. Manufactured products such as auto parts and telecommunications equipment tended to play a secondary role.

Recently, however, Canadian exports to Mexico have begun to diversify and to shift more toward manufactured products. This change has been facilitated by improved access to Mexico under the NAFTA. As a result, between 1989 and 1994, motor vehicles and parts, aircraft and parts, as well as electrical machinery and equipment were among the fastest growing Canadian exports to Mexico (see Figure 3.2). Over the same period, exports of dairy products as well as salt and sulphur actually declined, and there was below average growth in oil seeds and grains, iron and steel, pulp and paper, and other forestry products. It should be added that exports of Canadian services have also posted solid gains. Communications services, construction services, environmental services, and engineering services are among the areas that hold considerable promise for Canadian businesses.

FIGURE 3.2
CANADIAN EXPORTS TO MEXICO
(US $ MILLION)

	1989	1994	Percentage Change
Manufacturing Sector			
Nuclear reactors, boilers, machinery etc.	34	160	370.6
Electrical machinery and equipment	15	151	906.7
Motor vehicles and parts	5	107	2040
Aircraft and parts	1	68	6700

continued on next page

	1989	1994	Percentage Change
Agriculture and Related Sector			
Oil seeds and grains	50	120	140.0
Cereals	7	115	1542.9
Live animals and meat	9	69	666.7
Dairy products	60	23	-61.7
Mining and Metal Sector			
Iron and steel		45	82.0
Mineral fuels		0	23.0
Salt, sulphur and related products	30	22	-26.7
Ore	2	20	900.0
Forestry Sector			
Pulp and paper	26	124	376.9
Others	80	339	323.8
Total	**365**	**1,425**	**290.4**

Canada mainly imports manufactured goods from Mexico, although it also buys resource and agricultural products such as petroleum, fruits and vegetables. Motor vehicles and parts are the most significant import category, followed by electrical machinery and equipment, as well as other types of machinery, boilers and engines. While these categories continue to show strong growth, Mexico has also substantially increased its exports of furniture to Canada. Other important Mexican exports to Canada include vegetables, fruit, coffee, tea and spices, as well as mineral fuels (see Figure 3.3).

FIGURE 3.3
MEXICAN EXPORTS TO CANADA
(US $ MILLION)

	1989	1994	Percentage Change
Manufacturing Sector			
Motor vehicles and parts	256	1,262	393.0
Electrical machinery and equipment	285	632	121.8
Machinery, boilers, engines, mechanical appliances	398	555	39.4

continued on next page

	1989	1994	Percentage Change
Furniture and related supplies	9	207	2200
Glass and glassware	13	36	176.9
Optical and precision equipment	8	33	312.5
Toys and games	14	19	35.7
Beverages, spirits, vinegar	13	16	23.1
Carpets and floor coverings	8	16	100.0
Agriculture			
Vegetables, fruits, coffee, tea, spices	83	130	56.6
Oil, Chemicals, Mining and Metals Sector			
Mineral fuels	42	111	164.3
Iron and steel, articles of iron and steel	26	39	50.0
Organic chemicals	9	27	200.0
Miscellaneous articles of base metal	3	24	700
Plastics	6	12	100
Others	275	137	-50.2
Total	**1,447**	**3,258**	**125.2**

The NAFTA and market reforms: The NAFTA has continued the process of transforming Mexico from a highly regulated economy to a much more open market. While Mexico did a great deal on its own to reform and modernize its economy before the NAFTA, the trade agreement went further by reducing and eliminating remaining trade and investment barriers. Together with the creation of a regional free trade area under the NAFTA, Mexico's desire to upgrade its technological capability and global competitiveness promises to create more export opportunities for a broad range of 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, achieving significant sales growth on the basis of stepped-up marketing efforts.

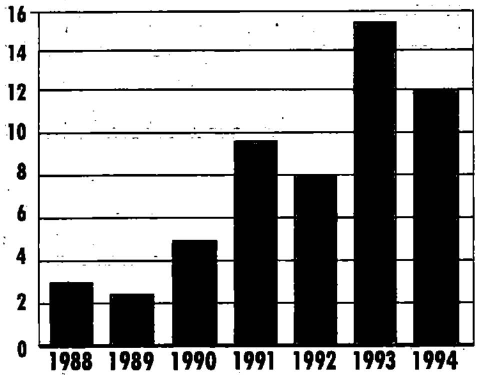
The key benefit of the NAFTA to Canadian business is the phasing-out of Mexican import tariffs, which were substantially higher than Canada's own tariffs when the NAFTA was negotiated. Many Mexican tariffs have been eliminated, while others are being phased-out over a period of ten years. Equally important, access to Mexico has also been improved for Canadian suppliers of services. Canadian truckers, for example, are now freer to do business in Mexico. Canadian banks and other providers of financial services have been licensed to operate in Mexico. The Mexican market has also been opened to Canadian telecommunications, air transportation and professional services firms, among others.

Mexico's non-tariff barriers to trade have been greatly reduced. Long-standing Mexican import licensing requirements were eliminated under the NAFTA, and government procurement has been opened to Canadian firms subject to a phase-in program.

Finally, Canadian firms that have developed strategic export positions in Mexico can expect to reap additional benefits from their experience in this key market as they move to tackle other growing and high-potential markets in Latin America.

INVESTMENT

FIGURE 3.4
INFLOWS OF FOREIGN INVESTMENT INTO MEXICO, 1988-94 (US $ BILLIONS)



Source: GeoFITT Mexico, Ottawa: Forum for International Trade Training, 1995.

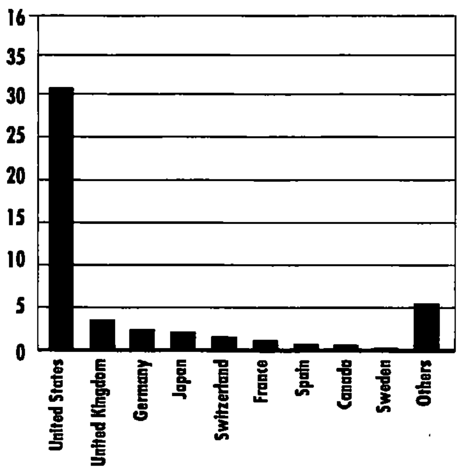
Canada's economic relationship with Mexico goes beyond trade. It includes investment links developed by a growing number of Canadian companies, often as a way of enhancing and extending their trading activities. Apart from Mexico itself with its population of more than 90 million, Canadian investors are using a foothold in the Mexican market as a way of positioning themselves to address an even larger market of about 400 million people elsewhere in Latin America. Investing in Mexico can be an important initial step in developing a presence in this growing regional market.

International investment in Mexico grew strongly in the period between 1988 and 1993. Thereafter, however, international investors became increasingly cautious in their attitude to Mexico, especially in the wake of the devaluation of the peso in December 1994 (see Figure 3.4). These investors are waiting to see if the country recovers from this recent, severe recession and whether it can continue along the sometimes difficult path of economic and institutional reform.

The United States is the leading source of foreign direct investment in Mexico, accounting for more than 60 percent of the accumulated total. Other major sources include the United Kingdom, Germany, Japan, Switzerland, France, and Spain (see Figure 3.5). In 1994, Canada accounted for about US $160 million in new investment, or about 2 percent of the total inflow for the year, giving it about 1.6 percent of total cumulative direct investment.

Since 1991, thousands of Canadian companies have made inquiries about Mexico and participated in trade and investment missions to the country. Some have gone further by taking concrete steps to position themselves to profit from the new Mexican investment climate. The Canadian Embassy in Mexico City reported that over 4,500 Canadian firms visited its commercial division in 1992, up from 2,200 in 1991 and only 193 in 1988. Despite recent economic difficulties in Mexico, many Canadian companies continue to express an interest in Mexican opportunities, and many of those who have already invested continue to profit from their position in the Mexican economy.

FIGURE 3.5
SOURCES OF FOREIGN DIRECT INVESTMENT IN MEXICO, 1994
(CUMULATIVE TOTALS IN US $ BILLIONS)



Source: *Banco de Mexico. The Mexican Economy*, June 1995.

As noted in Chapter I, the *maquiladoras* have played an important role in the development of Mexico's manufacturing sector. A modest 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 3.6). The underlying rationale for Canadian firms investing in operations in Mexico is invariably to maintain competitiveness. Major customers sometimes encourage their suppliers to go to Mexico to reduce costs and, thereby, their prices. This phenomenon has been particularly evident in the case of automotive products, white goods and consumer electronics industries. And it largely accounts for the presence in the *maquiladora* companies like the Dominion Group, Fleck Manufacturing Limited, and Custom Trim. However, as discussed in Chapter I, the unique competitive advantages of the *maquiladora* for Canadian investors should diminish over time as Mexico's tariffs and other trade barriers come down. In contrast, other regions of Mexico which are not part of the traditional *maquiladora* may become more attractive.

FIGURE 3.6
EXAMPLES OF CANADIAN MAQUILADORA OPERATIONS

Company	Canadian Base	Maquiladora	Type	Products	Start
Custom Trim Ltd.	Waterloo	Matamoros	Subsidiary	Leather-wrapped steering wheels	1984/85
Dicom Systems Ltd.	Toronto	Ciudad Juárez	Subcontract	Smoke detectors	1988
Dominion Group Inc.	Toronto	Ciudad Juárez	Subsidiary	Wiring harnesses and assemblies	1987
Fleck Manufacturing Ltd.	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.

The Canadian Embassy in Mexico City recently estimated that 350 Canadian companies now have operations in Mexico. These span several industry sectors, but are mainly found in mining, manufacturing, and commercial services. Some 60 Canadian companies have invested in the Mexican mining sector. While new Canadian investment has slowed with Mexico falling into recession, investment is likely to pick up again in 1996. Among the most prominent Canadian companies investing in Mexico in recent years have been Northern Telecom, Magna International Ltd., John Labatt Limited, Bombardier, Quebecor, and ScotiaBank.

Northern Telecom has invested about US $60 million in Mexico while Magna, an Ontario-based auto-parts manufacturer, has a US $20 million investment in Pueblo to produce bumpers for Volkswagen. ScotiaBank, one of Canada's five biggest chartered banks, has taken a substantial equity position in a leading Mexican bank, *Grupo Financiero Inverlat, S.A.*

The new wave of privatizations in Mexico presents further opportunities for Canadian investors. Unlike earlier privatization efforts, the current program targets businesses in which Canadian business has demonstrated competitive strengths. Natural gas, telecommunications, electricity generation, railways and parts of the oil business are all opening up to foreign participation. Many Canadian companies active in these sectors have begun to take notice, with some taking initial steps to invest in Mexico.

Canadian companies investing in Mexico are aware that investment has become a major factor in supporting international trade. Increasingly, economic relations between countries are moving beyond the confines of simple 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 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 principal sources of foreign direct investment. In many cases, the Mexican market has been inaccessible to exporters unless accompanied by some form of in-country investment. However, this situation has changed as a result of the NAFTA as well as unilateral Mexican moves to lower its trade barriers. Many foreign companies continue to use 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.

SECTORAL OPPORTUNITIES

The Mexican marketplace is in the midst of a major 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 these were held to be especially promising. The Department of Foreign Affairs and International Trade (DFAIT) has prepared market studies for many of the sectors that hold out the most promise of increased Canadian business in Mexico.

The following sections discuss some of these sectors in greater detail. At present, opportunities for Canadian exporters are especially abundant in agriculture, mining, export-oriented manufacturing, infrastructure development, 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.

PRIMARY SECTOR

Agriculture: Agrarian reform continues to be high on the Mexican government's priority list. This process began under the administration of former president Salinas and has been given an even higher priority under the new government of President Ernesto Zedillo. The objective is to introduce market-oriented policies and to modernize this sector. The administration of these reforms is presently in the hands of the *Secretaría de Agricultura, Ganadería y Desarrollo Rural (SAGAR)*, Secretariat of Agriculture, Livestock and Rural Development.

Much attention has been focussed upon Mexico's *ejido* system — especially with respect to land tenure and property rights.

Reforms to the *ejido* system 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 land holding limit applied to individual property owners.

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 crop 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 that were 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: Department of Foreign Affairs and International Trade (DFAIT). *Market Study for Agricultural Equipment, Seeds and Related Chemicals in Mexico, Sectoral Study.*

Ganong Bros. Limited

Ganong Bros. is a confectionery company headquartered in St. Stephen, New Brunswick with an export and sales office in Toronto. Ganong has been exploring the international marketplace since 1988. It has already been successful in the Pacific Rim, especially Japan and received the Canadian Export Award in 1991 for its efforts in this area. It has a joint venture with a partner in Thailand and has built a factory there to take advantage of that country's proximity to both supplies of raw materials and clients.

Closer to home, the company has developed business in Puerto Rico and Argentina, and thus has some experience in Latin America. This has inspired Ganong to address the Mexican market. Political changes in Mexico and changes to the trading environment made the country's markets more appealing.

Mexico has a history of chocolate consumption predating the arrival of the Spanish. Their domestic product, however, differs from typical North American chocolate. Even so, increased international travel and exposure to foreign products have led Mexicans to develop a taste for North American chocolate bars and imported boxed chocolates, which are considered prestigious. As a result, Ganong has found a large and growing market for its boxed chocolate.

Because Mexico's population presents an enormous potential market, Ganong is continuing to search for partners that have the necessary facilities, distribution network and thorough knowledge of regional markets throughout the country. Ganong, in turn, will support its products through a jointly-managed promotional program incorporating marketing techniques such as offering coupons and samples. The company has obtained contacts in Mexico through the Canadian Embassy, Canadian business associations and DFAIT. It also takes advantage of Canadian government programs such as the Program for Export Market Development (PEMD), official trade missions, and Export Development Corporation (EDC) programs to support its expansion.

Mr. David Ganong, President of Ganong says that, "exploring the possibilities in a partnership is a slow process. It takes time to develop the personal relationships necessary to succeed. An appreciation of the differences of culture and language is essential since these affect both knowledge of the marketplace and the timing involved in developing the partnership".

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

- 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, cacaos, 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, *Compañía Nacional de Subsistencias Populares (CONASUPO)*, the state-owned purchaser and seller of agricultural products, has withdrawn from the purchase and sale of all products except maize and beans, which are considered essential staples.

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.

Agricultural output was disrupted by a severe drought in the five northern states bordering Texas beginning in late 1994. Rainfall in the states of Chihuahua, Coahuila, Durango, Nuevo León and Tamaulipas has been 40 percent below average. According to some estimates, the dry conditions prevented the planting of almost 400,000 hectares of crops and killed more than 200,000 head of cattle. In spite of this setback, total agricultural output increased slightly in 1994. In the first eight months of 1995, Mexico's trade surplus in agricultural products increased by 60 percent as a result of the devaluation of the peso.

Meanwhile, the real output of manufactured food, beverage and tobacco products grew by about 0.4 percent in 1994. This follows several years of robust growth. Aggregate consumption of food and beverages is roughly US $30 billion. Mexican imports of food and beverage products were valued at more than US $6.8 billion in 1994. The potential opportunities for Canadian exporters, especially with the NAFTA, are significant.

As the country's standard of living gradually improves, imports of a wide range of food products are likely to increase. Canada's exports to Mexico of food products increased from about C $375 million in 1993 to almost C $500 million in 1994.

There are many examples of 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.

Market opportunities abound for food, processed foods, oilseeds, grains, meat products, livestock and breeding stock. Under the NAFTA, Mexican tariffs that have not already been eliminated will be phased-out over a ten-year period. For instance, tariffs on Canadian barley and malt imports will be eliminated over the ten-year period which began on January 1, 1994. As a result, Canada's exporters expect significant market opportunities to develop for barley and barley products.

Forestry: Mexico imported US $3 billion worth of forestry products in 1994, and imports are expected to grow substantially once the effects of the 1994 devaluation of the peso have been absorbed. Mexican imports of Canadian forestry products nearly doubled to C $160 million in 1994. Demand for Canadian forest products will increase when Mexico's construction industry recovers, probably sometime in 1996 or 1997. There is likely to be a growing demand for chemical wood pulp, fine paper, sanitary paper products (including diapers), softwood lumber, newsprint, veneers and plywood.

Industrial Sectors

Mining: Mexico boasts a rich mineral resource base, being among the world's leading producers of zinc, silver, sulphur and lead. It also produces gold, molybdenum and more than a dozen other metals and non-metallic minerals. 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 should note 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.

Currently, more than 75 Canadian mining companies are involved in exploration activities in Mexico. This is based on reports that only approximately 20 percent of Mexico's potential mineral wealth has been surveyed properly. Government officials have helped the industry by streamlining application and approval procedures for permits and concessions. As a result, the approval process has been shortened from five years to six months for new mining concessions. Finally, recent tax reforms in this sector have eliminated all production taxes and provided for the regulation of royalty payments. Consequently, the potential for Canadian mining companies is quite high.

Manufacturing: This sector accounted for 22.5 percent of Mexico's gross domestic product (GDP) in 1994. Except for a mild downtum during the 1993 recession, the manufacturing component of GDP has grown every year since 1987. Mexico's imports of manufactured goods are strongly influenced by infrastructure investments. Several Canadian manufacturers have benefitted indirectly from this boom in investment. Canadian machinery and equipment manufacturers that have

Dare Foods

Dare is a private company, founded in 1892 in the town of Berlin (now Kitchener) by the grandfather of the current owner. Many of the candies, crackers and cookies that it makes go back to the very origins of the company. Dare remained a regional bakery until the 1950s when it began expanding across Canada. A decade later it was a national company that was also selling into the United States. The firm's success is based on forward thinking. It was first to use the now popular stand-up bag for packaging cookies. At the same time, the fact that the cookies were not visible through the bag prompted the use of professional photography to enhance the appearance of the product and emphasize its improved quality.

To enter the snack/cracker market Dare developed Breton and Cabaret, unique items that have propelled it into international markets. Michael Thompson, Dare's Vice President for International Markets, saw some opportunities in the Mexican market but was initially dissuaded by the country's restrictions on imports. When the border opened up after Mexico joint the GATT in 1986, the opportunities looked more promising. Shortly thereafter, a chance meeting led to a contact in Mexico.

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Dare Foods

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Initial discussions lasted six months and involved faxes, letters and telephone conversations. Dare eventually provided the contact with product samples, which were well-received and resulted in a first shipment in March of 1990. The Mexican distributor placed the product with *Gigantes* supermarkets (160 stores) for a promotional sale. Five weeks later, Thompson went to Mexico prepared to do business in the North American way with meetings, promotional events and pricing discussions. To his surprise, he discovered that his distributor was much more interested in establishing a closer personal relationship. He introduced Thompson to his family and associates through breakfast and lunch meetings. In the end, however, these lunch meetings were of critical importance to the business because they provided new contacts and enhanced the distributor's image. Trust was established and both sides in the partnership have benefitted.

Dare offers the Mexican distributor a quality product, experience in international marketing, training for sales staff and, when asked, strategic advice. The distributor has a knowledge of Mexican consumers, market dynamics and business practices. For example, it is common business practice to present an invoice in person and to appear again in person to receive payment. An invoice sent by mail will probably be ignored.

Thompson sees Mexico not only as a market in itself, but as a stepping stone to Central and South America. Dare is willing to grow slowly and solidly, choosing its partners with care. New opportunities to market their products are continuing to appear and are bringing new challenges to both Dare and its Mexican partner. Helping them increase their business increases Dare's own business.

entered the Mexican market include Martin's Foundry and Ironworks, Trench Electric, Pro-Eco, Champion Road Machinery and several others. Even since the devaluation, imports of intermediate goods have continued to grow. Overall imports fell by 7.8 percent in the first eight months of 1995, but purchases of intermediate goods rose by 3.4 percent.

Aerospace Industries: Mexico's annual imports of products in this sector were US $536 million in 1994. Imported products include airplanes, aircraft engines, flight simulators, radio remote-control apparatus, and helicopters.

Mexican tariffs on imports in this sector are typically modest, but Canadian firms will still benefit from their removal under the NAFTA. In 1994, Canada exported aircraft and parts to Mexico worth US $68 million.

Motor Vehicles: Mexico imported US $3.2 billion in motor vehicles and automotive parts in 1994. About 3.3 percent of these imports came from Canada. It is estimated that the demand for imported autoparts will resume growth of more than 7 percent per year once the economy has stabilized.

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.

The Mexican autoparts industry now comprises approximately 500 companies. Some of these operations were 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 licensing agreement or through direct technical assistance. More than 20 Canadian companies have extensive export ties to the Mexican automotive market.

The NAFTA will disproportionately benefit Canadian and American parts producers at the expense of Mexican competitors. Previously, Mexico was able to export both vehicles and original equipment manufactured parts to the U.S. and Canada without restriction while imports of similar products into Mexico were limited by Mexican national content requirements. Under the 1989 automotive decree, car manufacturers in Mexico had to maintain a positive trade balance before they were allowed to import automobiles. This, and a variety of other national content restrictions, will be phased out by January 1, 2004.

Chemicals, Pharmaceuticals and Plastics: For many years, *Petróleos Mexicanos (PEMEX)*, the national oil company, had a monopoly over virtually all parts of the petrochemical industry. But in recent years, the government has been getting out of the petrochemicals business. The list of basic petrochemicals reserved for the state was reduced from 70 to 20 products in 1989, and to eight in 1992. In early 1995, the government announced that 61 *PEMEX* petrochemical plants would be sold to the private sector. Imports in this sector were valued at almost US $7 billion in 1994.

Electrical Equipment: Mexican imports of electrical generation and distribution equipment totalled about US $629 million in 1994. In 1994, the government released a ten-year plan for the development of electrical infrastructure which envisions a much larger role for the private sector. In August 1995, the *Comisión Federal de Electricidad (CFE),* Federal Electricity Commission, announced that tenders for the construction of six electric generation plants would be issued by the end of 1995. The announcement went on to say that by the year 2000, the *CFE* will require 13 new generation plants, worth an estimated US $8.5 billion, to be built by private producers. The plants will most likely be constructed under the build-transfer-lease option allowed under Mexican law.

Oil and Gas Products, Equipment and Services: Mexico has the fifth largest known reserves of oil and gas in the world. *PEMEX* made minimal purchases and has done little updating or maintenance of its energy infrastructure over the past decade. This neglect is now beginning to affect production, and *PEMEX* has plans to spend US $20 billion on energy equipment and services in the next few years. Moreover, in early 1995, the government announced that the distribution of natural gas would be privatized. In addition, *PEMEX* has recently begun to build new facilities using private sector build-operate-transfer (BOT) contracts. Canadian companies can take advantage of Export Development Corporation's line of credit for *PEMEX.*

Ferrous and Non-ferrous Metals and Fabricated Materials: In 1994, Mexican imports of ferrous and non-ferrous metals and fabricated materials exceeded US $5.6 billion, an increase of almost 19 percent over the year before. Canada's exports were more than US $100 million. Several Canadian companies have developed export markets in Mexico, including: IPSCO, Stelco, Dofasco, Algoma Steel, Smoky River Coal, Cape Breton Development Corp., Sydney Steel, and Sidbec-Dosco.

Industrial Automation: Mexico's demand for industrial automation products is expected to grow by as much as one-third over the next five years. Trade liberalization has forced Mexican manufacturers to rapidly modernize to increase both productivity and quality. Most of the equipment and software needed to upgrade Mexican industry is imported. The devaluation of the peso has temporarily cut into sales of these products. Purchases have only been postponed, however, since companies that do not modernize will not survive. Meanwhile, manufacturers are seeking consulting services to help them get the most out of their recent purchases of equipment.

Household Products: In 1994, Mexico imported US $2.3 billion worth of household goods, including furniture, toys, books, periodicals and recreational products. The potential for growth is considerable given Mexico's expanding young urban population and high rate of family formation. Mexico also imports a wide range of other consumer products including electrical appliances and cosmetics. Imported consumer goods have been hard hit by the devaluation. Imports in this category fell by 41.5 percent in the first eight months of 1995, although sales are expected to recover as the economy stabilizes.

Textiles, Apparel, Leather and Footwear: In 1994, Mexico imported textiles, apparel, leather and footwear worth US $3.8 billion. This was an increase of 13 percent over 1993. Canada's exports to Mexico in this category were only US $21 million in 1994. But sales in some niche categories, such as engineered textiles, have increased rapidly and there is considerable market potential over the medium term.

Construction and Construction Engineering: In 1994, construction accounted for 5.5 percent of Mexico's GDP and it employed more than 10 percent of the labour force. This sector has recorded impressive growth in recent years. Real growth during 1994 was 6.4 percent. The high interest rates resulting from the devaluation of the peso and the economic crisis that followed, brought this sector to a virtual standstill during 1995. In the medium term, a trend towards BOT financing schemes is expected to bring about a recovery as the role of private sector developers grows. In particular, air and sea ports will be modernized by private developers. Several Canadian companies are already reaping the benefits of this expansion, particularly in the area of construction engineering and engineering services. Technological expertise, with respect to restructuring activities and production processes, is in great demand and will continue to be so for the foreseeable future.

Road Transportation: Because it is short of funds, the Mexican government has used 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. Under a 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, ownership of the highway is transferred to the state. The government may extend the BOT concept to other infrastructure projects.

Water and Sewage: The needs of Mexico's rapidly increasing population are driving a rising demand for municipal infrastructure including potable water and sewage disposal. Mexico's water resources are distributed unevenly relative to both its land mass and its population. The country's largest cities are in the centre of the country, where water resources are located at much lower altitudes than most of the population. Substantial energy is required to pump water to where it is needed. According to government sources, there are 13 million people who live in urban areas who do not receive potable water because of lack of infrastructure. Only 18 percent of municipal wastewater discharges are treated. The trend is towards private sector concessions for combined water and sewage systems, using BOT funding. A number of Canadian firms have participated in such projects.

Company Profile
Cintec Environnement Inc.

Cintec is a medium-sized environmental consulting company based in LaSalle, Quebec. It entered the Mexican market in late 1993.

Cintec's activities in Mexico have focussed exclusively on the management of polychlorinated biphenyls (PCBs), although the company is also interested in contaminated soil treatment. Their Mexican partner is *Perfotec*, which also specializes in hazardous waste. Their current arrangement is a joint-venture: Cintec provides technology and skills and, once staff is fully trained, *Perfotec* will provide sales, marketing, and operational expertise.

Recently, Cintec demonstrated its technology to *Petróleos Mexicanos (PEMEX)*, the national oil company. Testing was required to prove that Cintec's technology was capable of cost-effective reduction of PCBs to the standards of the U.S. Environmental Protection Agency (EPA).

The demonstration required a significant resource commitment, including three full-time staff (one engineer and two technicians) working in Mexico City. A Cintec executive noted that while the partnership has been successful, the parties had to reconcile their differences in terms of time allowances so as to achieve results.

Services

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 sewage, as well as land and maritime transportation. Under the NAFTA, Canadian business visitors and professionals are permitted to engage in temporary work in Mexico. This should facilitate efforts by Canadian professionals in fields such as engineering, architecture, consulting and information technology to sell their services to Mexican clients.

Environmental Services and Equipment: 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 anti-pollution equipment and related services. Environmental issues have also been addressed by the North American Agreement on Environmental Cooperation, the NAFTA "side agreement", which includes the Commission on Environmental Cooperation. Mexico is eager to match the environmental standards of its North American trading partners as soon as possible.

The new government of Ernesto Zedillo has reaffirmed Mexico's commitment to increased regulatory enforcement. One of the administration's first priorities was to establish a new secretariat for the Environment, the *Secretaría del Medio Ambiente, Recursos Naturales y Pesca (SEMARNAP)*, Secretariat of Environment, Natural Resources and Fisheries. The secretariat is responsible for two key regulatory agencies: *Instituto Nacional de Ecología (INECO)*, National Institute of Ecology, and the *Procuraduría Federal para la Protección del Ambiente (PROFEPA)*, the Office of the Federal Attorney for Environmental Protection. *INECO* sets standards and policy while the Federal Attorney for Environmental Protection is responsible for enforcement and investigation of claims.

Mexican states will assume more responsibility for environmental protection in the future. To date, 29 out of 31 Mexican states have adopted their own environmental laws. These must be at least as stringent as the *Ley de Equilibrio Ecológico y Protección al Medio Ambiente*, Law of Ecological Equilibrium and Environmental Protection, of March 1, 1988. The *Departamento del Distrito Federal (DDF)*, Department of the Federal District responsible for the Mexico City area, is also acting in this area. The *DDF* includes 16 municipalities, and is equivalent to a state administration. It is currently developing its own environmental laws, which are expected to be enacted during 1995.

Mexico is not just paying lip service to environmental issues. Major steps have been taken, for example, to improve air emissions in Mexico City. New, cleaner-burning diesel engines have been installed in public buses. *DDF* authorities have recently mandated a major shift from mini-buses to larger vehicles, by

Company Profile
Goodfellow Consultants Inc.

Goodfellow Consultants Inc. (GCI) is a Mississauga-based, Ontario engineering firm specialized in ventilation design, air pollution control, occupational health and safety, and environmental studies. Approximately 60 percent of their revenues are generated from exports.

In 1986, GCI designed air emission capture hoods for *Hysla*, a Monterrey-based facility. In 1992 and 1993, the company developed three environmental standards for the *Instituto Nacional de Ecología (INE)*, the National Institute for Ecology. Two were sourced through a bilateral cooperation agreement between Canada and Mexico; the third was through the World Bank.

Subsequently, GCI made a decision to develop a more permanent presence in the Mexican market. They developed two "technical cooperation agreements". The first was with *Contral Ambiental e Ingenieria Van Ruymbeke*, a Mexico City firm focussing on Environmental Impact Assessments (EIAs). The second was with *Procesadora Metalmécanica de Toluca*, a manufacturer of air pollution control equipment.

According to a GCI executive, a careful selection process was necessary to identify suitable partners. More than 50 potential partners were interviewed before a choice was made.

renewing the licences of private operators only on a two-for-one basis. All vehicles produced from 1991 onwards must be equipped with catalytic converters. Mexico City's subway system is being expanded and the city has adopted a "day without a car" program.

Mexican demand for private sector pollution control equipment and services should expand significantly over the next decade. The total market for 1996 has been projected at US $3.3 billion. The trend has been towards integrated solutions, rather than just equipment. There has also been a shift toward non-traditional financing, including BOT, operate-and-maintain and leaseback schemes. Imports will provide much of the required expertise, especially for industrial and municipal wastewater treatment, potable water treatment, forestry conservation and management, and air pollution control. Several Canadian firms are already cooperating with the Mexican government in a variety of projects and in standards enforcement. Canada currently accounts for between 2 and 4 percent of the Mexican environmental equipment market, depending on the category.

Waste Management: It is estimated that about 15,500 tons of industrial hazardous waste was generated in Mexico in every day of 1994. Almost 40 percent of it is produced 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 landfills. While there are a few privately-operated, hazardous waste disposal sites, Mexico currently has only one functioning hazardous waste dump which is open to the public. This facility is located at Mina, Nuevo León and is operated by *Residuos Industriales Multiquim (RIMSA)*. A second site in the state of San Luis Potosí has been authorized to be built by *Química Omega de México* and U.S.-based Metalclad, but it has run into political problems with the state government.

Financial Services: As Mexico increasingly enters the international economy, there will be a strong and growing demand for sophisticated financial services. Under the NAFTA, banks, insurance companies and securities dealers can set up wholly owned subsidiaries in Mexico and acquire existing firms. There will be a six-year transition period to ensure an orderly transition to an open market. Canadian banks have already established a beachhead in Mexico.

Mexico also offers business opportunities to Canadian banks which offer world-class expertise in the development and implementation of financial services technology. In response to the nation's acute shortage of housing, for example, the government is presently promoting the development of a secondary mortgage market. This will require advanced systems for risk assessment and information sharing, which have not been part of the Mexican financial sector in the past. Mexico's market for insurance-related services is the largest in Latin America, with annual premiums for life and other types of insurance in the area of US $3.5 billion. As Mexico's economy grows and modernizes, demand for insurance products and services is expected to grow steadily.

Telecommunications: The NAFTA has established common rules for providers and users of telecommunications services. All tariffs on telecommunications equipment imports into Mexico will be phased-out over a ten-year period. Mexico will also be required to improve the transparency of its telecommunications regulations and procedures. When it was privatized in 1990, *Teléfonos de México (Telmex)*, the national telephone company, was granted a temporary monopoly. This monopoly, which was intended to help finance system expansion, expired in mid-1995. Canadian companies are now able to establish themselves in Mexico (or on a cross-border basis) to provide enhanced telecommunications and computer services.

In spite of dramatic increases since 1990, Mexico's telephone density is still one of the lowest in the world, with about 11 lines per 100 persons. This compares with at least 20 per 100 in most developed countries. *Telmex* is committed to a massive expansion of this system.

Northern Telecom has had a plant in Mexico since 1991 and Bell Canada Enterprises has interests in Mexico as well. Canadian firms are already major players in the development of a cellular telephone network in Mexico. Excellent prospects also exist in the development of rural telephone networks, data transmission, local area networks (LANs), 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. Imports of public-type passenger motor vehicles, railway vehicles and associated equipment totalled almost US $400 million in 1994. The market is expected to grow, as Mexico's major cities continue to expand their mass transit systems. 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.

Several Canadian firms have made sales and developed linkages to take advantage of Mexican government plans to upgrade elements of its national railway and urban transit systems. Other future opportunities in Mexico include plans to purchase new aircraft, and plans to privatize the nation's ports and develop new maritime facilities. In addition, transportation operations, maintenance and consulting will provide new opportunities for the suppliers of transportation services.

Tourism: Tourism is the biggest earner of foreign exchange after oil and the *maquiladoras*. About 90 percent of the foreign visitors are from the United States, 5 percent from Canada and 3 percent from Europe. Ten million tourists are expected to visit Mexico in 1995 alone. This is creating opportunities in real estate development, construction and the service sector. The tourist industry is forecast 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 is to increase earnings by enticing smaller numbers of visitors to spend more time and money in Mexico.

The tourism strategy has created strong 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

Oscardo Inc. Trading Canadian Technology for Mexican Market Access

Eduardo Lulka, President of Oscardo, is a native of Mexico, so that country was a natural choice as the first export market for his fast-growing Toronto-based tie manufacturing company. Ten percent of the company's sales are in the Mexican market, and Lulka expects considerable growth not only in Mexico, but throughout Latin America.

Lulka decided to work with a Mexican manufacturer that carried a non-competing line but targetted the same type of retailer. As Lulka points out: "Retailers in Mexico are used to working with the owners: there are direct relationships based on years of doing business together. The retailers are only now learning to deal with distributors."

Oscardo's first Mexican partner went out of business, and Eduardo and Oscar Lulka subsequently founded a new company in partnership with an experienced distributor to the men's wear trade to manufacture lower-end ties and to distribute the high-quality silk ties produced in Canada in Mexico. Oscardo considered producing its high-end ties in Mexico but soon learned that it could produce them more competitively with the advanced technology and skilled labour in its Toronto plant. Oscardo is also using its technical and marketing expertise to help its Mexican partner improve manufacturing efficiency and develop export markets.

According to Lulka, the Mexican consumer is very fashion conscious. Tie widths change as frequently as they do in Canada and at about the same time. But the Mexican businessman tends to be more conservative: "We would never sell bold flowers; rather, the consumer is looking for something more traditional, something that is neat and classic looking."

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 foreign sales 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 to 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 middlemen who receive commissions based on the value of the transactions they handle. In some cases, they may provide documentation, labelling, 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 to Mexico, 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 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 goodwill. 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. To a large extent, the one you choose will depend 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 them 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.

Distributors

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, agent or 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

KAO

KAO opened for business in 1886 in Japan. Its first product was a bar of soap and the company originally built a reputation as the "Proctor and Gamble" of the Japanese market. In 1986, however, it decided to expand beyond household products and enter the market for computer diskette, digital audio tape (DAT) and CD-ROMs. At around the same time, the company entered the Canadian market where it quickly became the leading supplier of diskettes. It has also been very successful in the United States. The decision to explore the Mexican market was, therefore, a logical extension of their existing business in North America. Political change, economic reform and changes to the trading environment in Mexico all worked to make the country even more attractive. In addition, the proximity and size of the potential market were influential factors. Computers and computer products have already reached about 20 to 25 percent of the population, and this market segment is growing at a rate of 25 to 30 percent per year. By entering now, KAO hopes to secure a leading position in the Mexican market within the next five years.

KAO made its first contact with the Mexican market through leads provided by the Canadian Embassy in Mexico. At Comdex, a trade show in Las Vegas, they met a potential distributor. They attended a trade show in Mexico to look further into the market and explore the possibilities of a venture with the contact made at Las Vegas. A deal was struck after six months but the distributor eventually closed his business. KAO spent another three to four months developing a relationship with a former employee of the original Mexican distributor. This person eventually became a manufacturer's representative for KAO in Mexico. This arrangement allows KAO products to be marketed through several different distributors, offering KAO much more flexibility. At the same time, it allows the representative to expand his contacts and develop the business.

Johanne Allaire, International Business Manager, stresses the need to "do your homework. You must build a personal relationship with your partner; be willing to spend both the time and the money." Allaire also notes that most professional Mexicans are fluent in English, but it is still a good idea to learn Spanish and it is essential to incorporate the Spanish language into the packaging of products and company literature.

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.

RETAILERS

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 US $2 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 *Secretaría de Programación y Presupusto (SPP)*, Secretariat of Planning and Budget. 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 focussed 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

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, at least initially, for agents to use their own cards 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 at first. 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.

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. Otherwise, title to the goods would pass from the exporter to the purchaser within Mexico, making the transaction subject to a 15 percent *Impuesto al Valor Agregado (IVA),* value-added tax.

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 is not construed as an employer-employee relationship which is subject to tax and labour regulations. If the agent has the legal power to bind the Canadian exporter, 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.

Mexican Import Regulations

To some extent, the choice of distribution method will be influenced by the need to comply with Mexico's relatively complex import regulations. The Canadian exporter will usually need assistance from the importer or Mexican representative to ensure that all requirements have been met. Some of these requirements, such as those for certificates of compliance with quality standards, are the responsibility of the Mexican importer. But as a practical matter, the onus for compliance is often on the Canadian exporter, because certain documents must accompany the goods when they cross the border.

It is wise to include certain documents with the shipment even though they are not required by law. The best example is the certificate of origin, which establishes the country where the goods were produced. The regulations do not require that this document accompany the goods, but the inclusion of an original signed certificate is a simple way to ensure that the shipment is not erroneously subjected to countervailing duties. Mexico imposes anti-dumping duties exceeding 300 percent on some goods from the Far East. If preferential treatment under the North American Free Trade Agreement (NAFTA) is being claimed, a special NAFTA certificate of origin must be prepared. Again, it is prudent — although not mandatory — to include a signed original of this certificate with the shipment.

Imports must be cleared by a Mexican customs broker and retained by the Mexican importer. The broker must issue a *pedimento aduanal,* a petition to import into Mexico, and pay all duties and taxes before the goods are allowed to cross the border. The importer must be registered and hold a *Registro Federal de Causantes (RFC),* taxation registration number.

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 1993, about half of Canada's exports to Mexico went by road. Based on the volume of merchandise shipped, the most important Mexican ports of entry are the following:

1. Veracruz 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 about 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. Exporters can purchase transportation services directly through a trucking company, railway, airline cargo office or marine shipping agent, or else they can deal indirectly through a freight forwarder.

Trucking: Road transportation to and from Mexico has grown in importance in recent years. The proportion of Canadian exports transported by road grew from one-third in 1988 to more than half in 1993. Only large quantities of bulk commodities are outside the domain of truck transportation. Refrigerated cargo moves almost exclusively by truck. Road transportation from major Canadian cities to the Mexican border at Laredo, Texas, takes about four days in full truckloads (FTL) and up to seven days for less-than-truckload (LTL) shipments. Once customs is cleared, another two or three days are required for the goods to reach Mexico City.

The exporter should ensure that arrangements have been made to transfer the shipment to a domestic carrier at the Mexican border. Some trucking companies simply transfer the trailer to a Mexican tractor, others reload the cargo into a Mexican trailer.

Many Canadian trucking companies have developed arrangements with American and Mexican truckers and can provide a complete transportation package for the Canadian exporter. Examples include: Gerth Transport, Mill Creek Motor Freight, Can Pac International Freight Service, SGT 2000, Canadian American Transportation, SMR Transport, N. Yanke Transfer, Challenger Motor Freight, Future Fast Freight and Trimac.

Bovar Inc.

Bovar is a Calgary-based company specializing in pollution control and waste disposal technology. Its entry into Mexico through a subsidiary, Bovar Engineered Products, was largely driven by appreciation of Mexico's huge and growing market. Mexico is a leading producer and refiner of oil and natural gas, activities that can have a negative impact on the environment. The country's recent interest in pollution monitoring and control represents a tremendous opportunity for companies such as Bovar.

As a leading-edge manufacturer of engineered and specialized environmental technologies, Bovar knew that it was in a strong position to compete in Mexico. It also knew that if it did not move to take advantage of this opportunity, other companies would. A chance to participate in a trade show was the event that opened the door. It took time, however, for the company to develop the opportunity. Representatives participated in a trade mission in 1984 but they did not make their first sale until 1987.

Bovar does not operate a subsidiary inside Mexico. Its products are too complex to be produced inside Mexico given current capabilities. Instead, its Mexican activities are administered from an office in Houston which has experience in the Mexican market as well as employees fluent in Spanish. All local account-related decisions are left to a Mexican representative with whom it has a long-term agreement to market the company's products and serve its Mexican clients. Bovar is conscious of the fact that Mexico represents a unique business culture. Therefore, a key role played by the representative is to advise the company on the nuances of the Mexican market and its business practices. Bovar confines its own activities to providing support for both the Houston and Mexican offices.

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BOVAR INC.

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Bovar found that one of its biggest challenges in Mexico was to find a local partner that was both capable and qualified enough to represent the company's products. The first representative used did not meet the company's expectations. Eventually, however, they found a more suitable representative with the help of the Canadian Embassy and the company began to experience a rapid expansion of its Mexican business.

Mexican marketing practices are so unique that Bovar leaves its representative the freedom to act as is appropriate. The company has generally found that it takes much longer to finalize a deal than in the rest of North America. This is especially true for the Mexican government and its related agencies such as *Petróleos Mexicanos (PEMEX)*, the national oil company, but the process accelerates appreciahly when they let their representative do the negotiating.

Bovar's experiences in Mexico convinced it to pay close attention to cultural differences. Mexicans value friendliness, and honesty and openness are received extremely well. Forming real friendships that transcend the business relationship are crucial. Thus Bovar's message to its staff is simple: "do business the Mexican way."

Under the NAFTA, the right of entry for Canadian and American trucks will be phased in gradually over a six-year period, beginning with access to Mexico's northern border states in December 1995. However, following a Memorandum of Understanding between Canada and Mexico, Canadian trucking companies now have the right to cross into Mexico. They must transfer their load to a Mexican carrier within 20 km of the Mexican border. Canadian carriers may also pick up north-bound goods within this 20 km range of the border.

Railways: The use of rail transportation for exports to Mexico has declined in recent years from about 20 percent of total exports in 1988 to less than 14 percent in 1993. Rail transportation is used mostly for bulk commodities, intermodal traffic and "double stack" loads.

The Canadian exporter must first ship the goods to the United States before they can continue to Mexico, since the trains to Mexico originate there. A customs pre-clearing system at Laredo called *despacho previo* is more efficient and has shortened the time it takes to cross the border. Shipments can, with correct pre-clearing procedures, move across the border in less than 24 hours. High-priority trains, such as those carrying auto parts, have benefitted more from this system than others. Trains carrying products that have been designated as low priority, or are not classified as just-in-time (JIT) shipments, may still experience delays.

Nevertheless, American and Canadian rolling stock can cross into Mexico, eliminating the need for re-loading at the border. Rail service is improving with the increasing availability of double stack trains, express trains and intermodal trains. In addition, rail traffic congestion is being alleviated with the construction of new facilities on the American side of the border and the slow but continuous upgrading of the Mexican railway system. In particular, *Ferrocarriles Nacionales de México (FNM)*, Mexico National Railways, has been developing "rail-ports" that allow truck-rail intermodal transportation.

Marine: Marine transportation has varied in popularity in recent years. Marine transport declined from 48 percent of total Canadian exports to Mexico in 1988 to a low of 17 percent in 1990, and then increased to 32 percent in 1992. Marine transport rates are currently quite competitive with both truck and rail freight rates. The disadvantage is that marine transport requires at least ten days of transit time with an additional four to five days for customs clearance and warehouse storage. Nonetheless, some cargo is well-suited to shipment by sea, particularly bulk shipments such as grains and oil.

Air: Air traffic between Mexico and Canada is mainly vacation-oriented and is not well-adapted for cargo transport. Nonetheless, air transportation may be appropriate for products with a high value-to-weight ratio, such as electronics components, or perishables, such as flowers. Some producers of specialty meat products ship by air directly to Mexico City, where they reportedly receive rapid customs clearance. At present, Montreal, Toronto and Vancouver are points of origin for direct commercial services to Mexico. Much of the passenger service, however, is still based on chartered flights that do not have room for much additional cargo.

Intermodal Transport: Increasingly, Canadian exporters are choosing multiple modes of transportation to get their product to the Mexican market. Several carriers have attempted to meet this increasing demand. Highway trailers can be shipped by rail, and marine transporters offer linkages with both rail and truck transporters. Intermodal transport will be facilitated by CN North America's decision to construct a new tunnel under the St. Clair River between Sarnia and Port Huron, and the recent enlargement of the Detroit-Windsor tunnel.

Intermodal operators, which include shippers' agents, offer a complete transportation package on a contract basis. These operators will negotiate freight rates with railway and truck operators on behalf of the exporter. Transit time from Montreal or Toronto to the Mexican border can be as little as four or five days. Intermodal operators providing services between Canada and Mexico include: Inter-American, Sunac America and Wheels International.

Freight Forwarding: Freight forwarders are independent companies that handle export shipments for a fee. They provide advisory, administrative and physical services to facilitate exports. Freight forwarders can arrange shipments for Canadian exporters using any mode of transportation. They offer a complete service package that can be especially valuable to the first-time exporter. They are an excellent source of information on regulations, documentation and shipping methods and can save the exporter money on transportation rates because of economies of scale. The services provided by freight forwarders typically include the following:

- providing or arranging shipment handling, including packing and crating, marking, inspection and storage
- preparing documents for shipping and customs, as well as translating, certifying and transmitting documents, and obtaining permits, licences and certificates
- providing financial assistance such as negotiating letters of credit (L/Cs), arranging collections, placing insurance and filing insurance claims
- pre-paying and collecting freight charges
- providing advice about foreign requirements, transportation, government regulations, customs procedures and project management
- assisting with transportation arrangements, including selecting routes and carriers, negotiating rates, booking transportation space, securing charters, consolidating shipments, arranging local delivery, tracing shipments, and leasing equipment

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. To help find a suitable freight forwarder, or for further information, contact one of the following organizations:

Canadian International Freight Forwarders Association, Inc.
P.O. Box 929
Streetsville, ON L5M 2C5
Tel.: (416) 567-4633
Fax: (416) 542-2716

Distribution Service Industries Directorate
Service and Construction Industries Branch
Industry Canada
235 Queen Street
Ottawa, ON K1A 0H5
Tel.: (613) 954-2964
Fax: (613) 952-9054

The Canadian Exporters' Association
Suite 250, 99 Bank Street
Ottawa, ON K1P 6B9
Tel.: (613) 238-8888
Fax: (613) 563-9218

To take advantage of the services offered by freight forwarders, the exporter should ensure that the product is properly prepared, unitized or containerized. Otherwise, carriers may refuse to carry the goods and insurance companies may refuse to cover any damage or losses. Here are a few simple rules for preparing a shipment.

1. Assess the total transportation route and pack for the toughest leg.
2. Determine the frequency of trans-shipment or unloading and reloading. Prepare the goods for multiple handling.
3. Determine the packaging requirements that apply in the country of origin, for each carrier, at all ports of exit and entry, and in the country of destination.
4. Know the capabilities of the packaging, the strengths and weaknesses of the goods contained in it, its "stackability", and its susceptibility to weather.
5. Package the goods to minimize internal movement and to protect corners, edges, finishes, valves, dials and knobs, or upholstery and material.
6. Use appropriate unitizing devices and place, load and secure goods properly.
7. Determine the kind of handling equipment to be used and its availability at trans-shipment points.

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 that are needed for the transaction are included with the shipment.

The Role of Brokers

Customs brokers facilitate the importation process and can be a valuable business tool. They are familiar with complex international trade laws and regulations, not only in Mexico, but elsewhere in the world. Typically, the Canadian exporter will deal with a single Canadian broker who will make arrangements with its counterparts in the United States and Mexico to handle the shipment every step of the way. Nonetheless, it is useful for the exporter to understand the role of brokers.

Under Mexican law, all imports valued at more than US $1,000 must be handled by a customs broker. Only Mexican customs brokers are authorized to issue a *pedimento aduanal*, a petition for import into Mexico. Most Canadian exporters ship to Mexico on terms of cost, insurance, freight (CIF) or cost and freight (C&F) Laredo, Texas. The importer takes possession of the goods in Laredo and is responsible for clearance through Mexican customs, using a Mexican broker. The reason for this is that costs and risks vary widely beyond Laredo, and it can be difficult to provide accurate cost quotations. For example, fees for services such as drayage tractors that are used to transfer the goods over the border, for unloading and reloading, and for temporary storage can run into hundreds of dollars. Nonetheless, some Canadian firms ship "CIF or C&F destination" and retain their own Mexican broker to make the arrangements.

Mexican customs brokers charge a fee of 0.45 percent of the invoice value, plus expenses incurred by the broker, plus a service fee set by each broker to cover their operating expenses. The minimum fee is US $40. This increases with weight and/or value to a maximum of approximately US $300. A list of associations for customs brokers in Mexico is included in Chapter IX.

Regardless of the arrangements at the Mexican border, the Canadian exporter is responsible for preparing a commercial invoice and other documents before the goods leave Canada. The requirements are very detailed and the documentation must be in Spanish. Many exporters retain a Canadian customs broker to complete most of these documents. Although the broker can provide advice, the preparation of the NAFTA certificate of origin is the responsibility of the exporter. If the shipment will travel by land, the Canadian broker deals with an associated American broker to obtain a Transit and Exportation (T&E) bond, which allows the goods to travel through the United States. This bond must be cancelled by American authorities at the export yard, before the goods cross into Mexico. The Canadian broker also sends the necessary documents to the Mexican broker, before the shipment arrives at the border. The specific documents involved are discussed in detail in Chapter VI. Some Canadian brokers verify receipt of the documents by the Mexican broker before the shipment leaves Canada.

Shipping Documents

Every shipment of goods to Mexico must be accompanied by the standard set of documents that is generally used in all international trade. In addition, exporters may choose to include additional documents that may expedite clearance at the border. At a minimum, all shipments require:

- a commercial invoice
- an export declaration form
- a packing list specifying contents
- a bill of lading (B/L) or air waybill
- import permits
- a certificate of origin
- any special certificates specifically required by the nature of the transaction

Note: Mexican customs officials insist on the absolute accuracy and completeness of these documents. Any discrepancies can lead to delays, penalties or confiscation. For further information and assistance, contact the InfoCentre to request the publication *Documents and Regulations for Exporting to Mexico.*

Commercial Invoice

A commercial invoice must accompany every shipment. Invoices should be prepared in Spanish. If prepared in English, the Spanish translation may follow the original text on the invoice, or else a translation may accompany the invoice. The invoice should be manually signed by the exporter. Mexican customs officials insist on absolute accuracy and completeness of all documents. Any discrepancies could result in delay, penalties or confiscation. The invoice must contain the following information:

- place and date of issue
- complete name and addresses of the Mexican buyer or importer as well as the exporter
- detailed description of the merchandise, including marks, numbers, types and quantities
- all freight and insurance charges
- signature of seller, along with name and title
- shipper's invoice number and customer's order number

If possible, the importer's *Registro Federal de Causantes (RFC),* taxation registration number, should also be included on the invoice.

Copies of all shipping documents should be faxed to the Mexican importer and customs broker before the shipment leaves Canada. This will allow time to make revisions or to obtain special permits, if necessary. The original documents should accompany the goods. The exporter should also advise the importer and broker exactly when and how the goods were shipped, including the bill of lading (B/L) number.

If possible, the invoice should be accompanied by a catalogue or other literature describing the goods shipped. This may be helpful for properly classifying the goods for customs purposes. The original invoice should be accompanied by as many as eleven copies, depending upon the importer or customs broker involved.

Export Declaration Form (Form B13)

Under the provisions of the Customs Act, most goods exported from Canada must be reported to Canadian Customs in a prescribed manner. Exporters must complete an export declaration known as a Form B13. This form provides input into the federal government's System of National Accounts, particularly the balance of payments (BOP) and GDP, and is used in the formulation of trade and budgetary policies. Governments, exporters, manufacturers and shipping companies use the trade statistics to monitor export performance, commodity prices and volume changes, as well as to examine the transportation implications of this activity.

The exporting company is ultimately responsible for the preparation and submission of the export declaration to customs. In most cases, agents, brokers or carriers prepare and submit the B13 on behalf of the exporter. Goods that require an export declaration include:

- commercial shipments valued at C $2,000 or more
- controlled, regulated or prohibited goods, i.e. products exported under a permit or certificate, regardless of their value
- goods in transit through the United States
- goods exported from a bonded warehouse
- goods repaired in Canada when the repairs or additions to the goods are valued at C $2,000 or more
- gifts, donations and company transfers valued at C $2,000 or more

Packing List

A packing list is necessary when more than one package is shipped, unless the commercial invoice is sufficiently detailed to convey this information. The list should include the number of packages and a detailed list of merchandise contained in each package. The net, gross and legal weight of each package and of the total shipment must be shown in metric units, along with the volume or measurements of each package and of the total shipment. At least four, but up to seven, copies may be needed depending upon the mode of transportation.

Bill of Lading (B/L)

The B/L is the shipper's acknowledgement of the receipt of the shipment. A shipment may involve a set of B/Ls. The exporter should keep one set on file, send one to the importer and one to the customs broker. This document should show the types of packages in the shipment in addition to their weights and measurements. It should also include the names and addresses of the shipper and the Mexican importer, consignee or customs broker. Other required details include the ports of origin and destination, a description of the goods, a list of freight and other charges, and the number of B/Ls in the full set. Finally, the carrier's official acknowledgement of receipt on board of the goods for shipment is required.

Import Permits

Though discontinued for many products, import permits are presently required for roughly 300 items. Some of them may be subject to import quotas. The list includes:

- used machinery
- some agricultural products vital to Mexico's economy, such as pinto beans and powdered milk
- natural gas, petroleum and gasoline
- cars, trucks, tractors and some of their parts
- some chemical and pharmaceutical products
- arms and guns
- some luxury items

Import permits are issued by the *Secretaría de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development, and may take some time to be authorized. Valuation letters may also be necessary for used machinery, equipment or cars. These letters have to be legalized abroad and endorsed by a Mexican Consulate. Import licence applications usually require between one and two months to process and are valid for nine months. It is advisable to avoid shipping until receiving confirmation that the licence will be issued.

Certificate of Origin

General certificates of origin are used by customs officials throughout the world to establish the country where the goods were manufactured. The country of origin affects the rate of duty that will be applied to the imported good. For products which are subject to countervailing duties, the ability to prove that the goods did not come from a targetted country is essential. In Mexico, countervailing duties exceed 300 percent for some Far Eastern countries.

As of May 31, 1994, Mexican authorities require importers to prove the country of origin for a wide range of goods that are subject to countervail action. Failure to do so results in the application of countervailing duties if the product is subject to countervail action. These requirements rarely affect Canadian exports to Mexico, because the regulations state that compliance with the NAFTA marking rules is sufficient to demonstrate the country of origin. For practical purposes, this can be satisfied with a NAFTA certificate of origin.

The NAFTA certificate of origin is a uniform document established by all three countries. Its purpose is to demonstrate that the goods satisfy the NAFTA rules of origin and it is necessary only if preferential treatment under the NAFTA is being claimed. It can be completed in the language of the importer or the exporter, at the importer's discretion. These rules of origin are explained in Chapter VII. The certificate must be signed by the exporter, and it is valid for shipments made within any 12-month period specified on the certificate. It remains valid for preference claims made up to four years after the date of signature. A NAFTA certificate of origin is not required for goods valued at less than US $1,200, although a statement of origin should be included on the invoice.

Sometimes a NAFTA certificate of origin is not available, perhaps because the goods do not meet the NAFTA rules of origin. In this case, the exporter should consider including a general certificate of origin if there is any chance the goods may be subject to countervail action.

The NAFTA certificate of origin forms, along with completion instructions, can be obtained from Revenue Canada. More information can be obtained from the NAFTA Information Desk listed in Chapter IX: Key Contacts.

The regulations require that the certificate of origin be in the possession of the importer at the time of importation, and do not require that the certificate accompany the goods. Nonetheless, the certificate can help to avoid possible delays and many exporters elect to include a signed original with every shipment.

SPECIAL CERTIFICATES AND PERMITS

At least three months prior to the planned export shipment, the exporter should take steps to find out if the product is subject to any special import requirements. If it is, the exporter will have to work with the agent or importer to obtain all of the necessary permits and certificates.

The Government of Mexico regulates the quality and purity of a wide range of products. In general, the purpose of these regulations is to ensure that the products are safe for use by consumers. In some cases, they also require that consumers be provided with certain product information, including instructions for use and handling. This includes requirements for product labelling as well as point-of-sale material.

These standards apply to imported, as well as domestically-produced goods, and special certificates are required at the border for many products. Because compliance is, technically, the responsibility of the importer, these certificates are not, strictly speaking, "shipping documents". However, since Mexican officials require them before the goods can cross the border and because exporter-information is required to get them, for practical purposes, the onus for compliance falls on the exporter.

Since even minor deficiencies in the documentation can lead to serious delays, the exporter should ensure that all special certificates are in the hands of the Mexican customs broker before the goods leave Canada. Normally, a Canadian customs broker will make arrangements with the Mexican broker well in advance.

Special certificates fall into three main categories.

- Official standards, known as *Normas Oficiales Mexicanas (NOMs)* exist for such products as textiles, leather, electrical appliances, building materials and chemicals. They are administered by *SECOFI*. Goods subject to *NOMs* must be accompanied by a certificate of compliance in order to enter Mexico.
- Health regulations are administered by the *Secretaría de Agricultura, Ganadería y Desarrollo Rural (SAGAR)*, Secretariat of Agriculture, Livestock and Rural Development. The products covered include unprocessed agricultural and animal products. These regulations include a general requirement for phytosanitary and animal health certificates, as well as special regulations requiring a prior "sanitary authorization" for specific shipments of certain products.

- Health regulations are administered by the *Secretaría de Salud (SS),* Secretariat of Health. These affect all fish and fish products, as well as many processed foods and materials used to produce food, such as fertilizers and pesticides. They also cover medicines, health and personal care products. Specified products must be approved for import before they can enter the country and must be accompanied by a sanitary authorization.

Product standards are an important consideration for companies exporting capital goods, machinery and industrial equipment to Mexico. Standards are the purview of the *Dirección General de Normas (DGN),* Mexican Bureau of Standards, 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 *NOM* quality and standards authorization from the *DGN* 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 confirm whether a given product conforms to *DGN* standards and whether it is, therefore, eligible for a *NOM.*

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

Secretaría de Comercio y Fomento Industrial
Dirección General de Normas
Av. Puente de Tecamachalco No. 6
Col. Fuentes de Tecamachalco
53950 Tecamachalco
Estado de México
México
Tel.: 729-9300
Fax: 729-9484

For information relating to obtaining a *NOM,* contact the *Dirección de Normalización* at the above address. Where a *NOM* is required, applications must be made to the:

Dirección de Certificación de Calidad
Dirección General de Normas
Av. Puente de Tecamachalco No. 6
Col. Fuentes de Tecamachalco
53950 Tecamachalco
Estado de México
México
Tel.: 729-9300
Fax: 729-9484

The Mexican government has issued two executive decrees that specify products which are subject to special certification requirements at the border. A decree issued by *SECOFI* dated August 29, 1994, lists products that require some kind of prior authorization from either the *Secretaría de Salud (SS)*, Secretariat of Health, or *Secretaría de Agricultura, Ganadería y Desarrollo Rural (SAGAR)*, Secretariat of Agriculture, Livestock and Rural Development. A decree issued by *SECOFI* on March 8, 1994 lists products for which certificates of compliance are required.

These regulations are subject to change at any time. For example, a decree issued March 8, 1994, was subject to several "clarifications" before it was replaced by the August 29, 1994 decree. Therefore, the Canadian exporter should rely on the Mexican agent or importer or a Canadian customs broker for advice on the application of special product regulations.

LABELLING REGULATIONS

If the product is being exported to Mexico for the first time, another early priority is to have labels designed for the Mexican market. This means translating existing labels and ensuring that they meet Mexican regulations.

Product labelling in Mexico is governed, in part, by the *Ley Federal de Protección al Consumidor*, Consumer Protection Act. Article 34 of that law requires that all information contained on a product or its labels, containers and packages must be in Spanish. The same requirement applies to product advertisements. Nonetheless, the labelling decree of June 19, 1987 allowed "pre-packaged" goods to enter Mexico with foreign labels, as long as minimum Spanish labelling was added by affixing stickers. Pre-packaged goods have been defined as those that are packaged without the consumer being present.

In addition to these generic requirements, many products have long been subject to Mexico's *NOMs*. Compliance with *NOM* certification and labelling requirements has, until recently, been the responsibility of the importer. Clothing and textiles, leather products, electrical appliances, medical equipment and supplies, foods and beverages, as well as pesticides are among the products subject to these specific labelling requirements.

In the past, Canadian exporters of most consumer products were able to satisfy the Mexican requirements by arranging to have Spanish stickers applied to the original English and French labels by the Mexican importer or agent after importation and prior to resale.

In March 1994, the Government of Mexico published an Executive Decree which states that effective immediately, both the generic labelling requirements and those set out in the *NOMs* will be enforced at the border. This means that compliance has effectively become the responsibility of the Canadian exporter. More recently, it published new labelling requirements that require full original Spanish labelling to be affixed at the point of origin.

General Labelling Requirements

The new regulations apply to all goods intended for sale to consumers, with certain exceptions which are discussed below. All such products must be labelled in Spanish when they arrive at Mexican customs. The label must contain specific information that identifies the product, importer and exporter as well as instructions for use and care.

The labels must be legible, and must be "attached to the product, container or package, depending on the circumstances of the product and how it is to be marketed". Normally, the label will be affixed to each individual package offered for sale to consumers. If the product will be sold as a container of smaller containers, the individual packages do not need to be labelled. There are no specific requirements for label size or location.

Food and Beverage Products

Labelling requirements for food and beverage products have been established by the *Secretaría de Salud (SS)*, Secretariat of Health. Food and beverage labels must include the following:

- product description
- date of expiration
- list of ingredients
- nutritional content (if nutritional quality is claimed)

The regulations require that food and beverage labels be in Spanish and that they be affixed at origin. The product description must reveal the product's basic components. In addition to the present regulations for generic products, food and beverage labels will have to include a list of ingredients, the lot number, the expiry date and special instructions for preservation. A "best before" date is optional, and nutritional information is required only if a particular nutritional quality is claimed or advertised.

Outside packages or wrappers must contain all of the required information, or must allow for the visibility of inside labels. The new regulations also specify certain claims that may not be made on a food or beverage label. They include claims that a balanced diet does not supply adequate nutrition, claims that cannot be proven, and claims that contravene the *Ley de Salud*, Health Act.

Additional Labelling Requirements

Products for which *NOMs* have been issued, must be tested in Mexico and a compliance certificate must be obtained from *SECOFI* or from an agency accredited by them. This certificate must accompany the goods when they are imported.

Some of the *NOMs* include special labelling requirements and these are now enforced at the border. As of January 13, 1995, all products subject to *NOMs* must show the *NOM* logo on the product in a visible place, either on a label, sticker or decal. This means that the onus is on the exporter to determine the requirements and ensure that the product is properly labelled before it leaves Canada. Exporters of these products should obtain a copy of the *NOM* for each relevant product to learn about any special labelling regulations.

Products Subject to Special Requirements

Mexico's product labelling regulations contain special treatment for textile and leather products, electrical and electronic products, and refrigerators that differ from the general and *NOM*-based regulations described above. In addition, an emergency *NOM* covering all imported meat was issued for six months beginning in June 1994, and subsequently extended to June 1995.

Textiles, Clothing and Leather

Textiles, clothing and accessories, and leather, shoes and leather products, must meet specific labelling requirements that are enforced at the border. But they do not have to be accompanied by a certificate of compliance, even though they are subject to *NOMs*. For these products, labels must be affixed to the product and not just to the packaging. *NOMs* for clothing, textiles and accessories specify that the importer's Mexican taxation registration number must appear on the label. Sizes must be in Spanish according to the general system of measures. In addition, instructions for product care will have to include the following information:

- Washing: hand, machine wash, dry cleaning or special process, water temperature, use of soaps and detergents, any prohibitions.
- Drying: wring out, sunlight, hanging, horizontal. Use or prohibitions of special equipment, special recommendations.
- Ironing: warm, hot or steam, or no ironing, any special conditions.
- Bleaching.
- Special Recommendations.

The rules apply to all textiles, clothing and accessories including linen, towels, curtains and rugs.

Electronic and Electrical Products

In a letter of clarification issued March 10, 1994, *SECOFI* indicated that electronic and electrical products in addition to household appliances are not subject to the general requirement that product labels contain instructions for use and care. The reason is that such products are already subject to *NOM-024-SCFI-1993*, which requires instructions and warranties to be provided at the point of sale.

Refrigerators

Refrigerator labels must comply with a number of very specific requirements including adherence to energy-efficiency regulations in addition to all of the labelling requirements for textiles and leather. The label must show the refrigerator's type, size in cubic metres, the model number, the estimated average energy consumption and the annual energy cost.

Meat Products

Meat products are covered by emergency *NOM-EM-003-ZOO-1994*. This *NOM* is due to expire on June 27, 1995, but it has been extended once, and exporters should assume that it is effective unless advised otherwise by the importer. It requires that all meat products be labelled in Spanish with the following information: country of origin, producer's name and address, product name and description, lot number and net weight. The label must also include the words *mantengase en refrigeración o congelado*, keep refrigerated or frozen.

Exemptions

The Executive Decree (Article Six) lists several categories of goods which are exempted from both the labelling and certification provisions. A number of other exclusions have been established by letters of clarification. The following goods are exempt:

- A maximum of three units of goods submitted to the relevant Mexican authorities for the purpose of obtaining a certificate of compliance with an official standard.
- Goods that are part of accompanied passenger luggage on international flights.
- Goods that are part of the household effects of persons domiciled in Mexico.
- Goods imported by educational, scientific and non-commercial organizations including any organizations authorized to accept donations under the Income Tax Act.
- Samples that possess no commercial value.

- Temporary imports destined for repair or in-bond assembly.
- Goods that are new, one-of-a-kind or highly specialized and involve a security risk may be imported up to a maximum of 25 items per customs declaration. They must be accompanied by a contract that assigns risk to the recipient and states that the items are not for sale to the public.
- Capital and intermediate goods, provided that a written statement of final use accompanies the goods.
- Except where included in a *NOM*, any bulk goods defined as those that "must be weighed or measured in the presence of the consumer at the time of sale".
- Packages shipped by courier and valued at less than US $1,000.

The exclusion of capital and intermediate goods is established by a letter of clarification from *SECOFI*, dated March 10, 1994 which states that this intended use must be demonstrated by a sworn statement. However, capital goods are not exempted from certification requirements, if applicable.

Exporters can apply to *SECOFI* for authorization to ship unlabelled products under exceptional circumstances, but such exemptions are unusual.

Enforcement

During the first few days after it was issued, the labelling decree contained a number of errors and vague points that led to difficulties and delays at the border. *SECOFI*, the agency responsible for enforcement, issued a series of clarifying letters in March of 1994. Customs officers were given some latitude for flexibility during an unofficial grace period. Some officials have reportedly allowed products to be imported with Spanish labels provided separately, to be affixed in Mexico. Canadian officials in Mexico advise exporters to expect the regulations to be fully enforced, and suggest that Spanish labels should be applied before the product leaves Canada.

Generic Products

A 1994 government decree established a new *norma*, official standard. The *NOM-050-SCFI-1994* establishes the minimum commercial information that must be provided on product labels. The new rules will apply to all products not covered by another *NOM* or regulation.

Under the new rules, Spanish-language labels will have to be "included from origin". This will formally eliminate the practice of affixing Spanish stickers to English labels. The labels may include other languages as well, but they must meet the metric system requirements.

Product instructions may be on the label or in a separate booklet, and there must be a notice advising the consumer to read the instructions. They must include instructions for use and assembly, if applicable. Warranties will have to be printed in accordance with the *Ley Federal de Protección al Consumidor,* Consumer Protection Act. They must also specify the location of service centres in Mexico. During the term of warranties, manufacturers or importers will be required to replace "any damaged piece or component" free of charge.

Instructions, manuals and warranties must be "incorporated to the product" before sale, but they will not be required for customs clearance. The new regulations will also broaden the range of products excluded from the labelling requirements to include the following:

- products imported by duty free shops
- imports into border cities and zones
- live animals
- books, magazines and newspapers

The draft regulations also formalize exemptions for a number of other products, such as courier packages, presently included in "letters of clarification".

CUSTOMS

Since Mexico became a member of the General Agreement on Tariffs and Trade (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, tariffs will decrease according to a specific and negotiated timetable. The new rules of origin provisions in the NAFTA will be the determining factors as to whether a given Canadian export to Mexico will qualify for eventual free trade treatment.

Mexican tariffs are calculated on an ad valorem basis. That is, they are assessed on the value of merchandise when it appears in Mexico. This 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 the Canadian 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 that 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 Mexican 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.

Since 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 both 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 *Diario Oficial*, Official Gazette, 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. The change to the Harmonized System resulted in 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.

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.

Customs Clearance Procedures

When a shipment arrives at the border, it becomes the responsibility of the Mexican customs broker. If the goods arrive by truck, a forwarding agent takes possession on the American side of the border, usually at Laredo or Brownsville. The broker closes the Transit and Exportation (T&E) bond, and calculates the amount of duty payable. This may involve unloading the truck, especially for less-than-truckload (LTL) shipments. The broker notifies the importer and arranges for payment of the duty and taxes. Ideally payment will have been pre-arranged. The broker or the importer transfers the funds to Mexican customs, and the broker issues a *pedimento aduanal*, import petition.

If the shipment involves food or agricultural products, it will be inspected by the *Secretaría de Agricultura, Ganadería y Desarrollo Rural (SAGAR)*, Secretariat of Agriculture, Livestock and Rural Development, officials on the American side of the border. The health and phytosanitary certificates will be checked before the official issues a "certificate of import", which must be attached to the *pedimento* before clearing customs. There is an extra fee for this certificate.

Although Canadian tractors are allowed to travel a short distance into Mexico, it is often more convenient to transfer the trailer to a "drayage" tractor, which hauls it over the bridge into Mexico. The broker's dispatcher meets the drayage driver at Mexican Customs and arranges the clearance into Mexico.

About one truck in ten is randomly selected by computer and gets a red light pulling it off for a customs inspection, which means unloading the trailer.

In some cases, the Canadian trailer is transferred to a Mexican tractor when it reaches the Mexican side of the border. Some trucking companies do not allow their trailers to travel in Mexico, and the goods are unloaded and reloaded into a Mexican truck. Shipments arriving at the border usually clear customs the next day. But with early-morning arrivals, same-day clearance is possible, provided that the documentation has been prepared in advance.

Rail shipments are similar to truck shipments, except that American rolling stock can now enter Mexico and the goods are not normally unloaded and reloaded. Shipments arriving by sea are unloaded at government docks and kept in a customs warehouse until they are cleared. Air shipments must initially enter a bonded storage area in the airport, normally operated by the air carrier or a customs broker. Customs clearance from either customs warehouses or airport-bonded storage are otherwise similar to the procedures described for trucks.

Dealing with Customs Officials

Customs officials may ask for information on how the imported goods are to be used or what material they are made from. These information requests should be dealt with carefully, as the response could significantly impact upon the application of a duty. If it is not clear why the customs official wants this information, you should find out, either directly or through your broker. The exporter will be informed in writing of a change in rate or value of duty. A challenge to any change, particularly in duty rate or value, should be handled by your customs broker. Failure to respond to an information request could result in the imposition of a higher duty rate or duty value.

Temporary Imports and Deferred Customs

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.
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 a 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 statues in force on the date the import becomes definitive. Upon customs clearance, the original bond will then be cancelled.

Duty Drawback Rates

In some cases, Mexican companies or individuals involved in exporting may be eligible for a refund or a drawback of duties or taxes paid on imports of raw materials, parts and components incorporated into merchandise for export. Components and raw materials imported in the in-bond *maquiladora* industry are also exempt from duties.

The new rules on duty drawback contained in the NAFTA will give Canadian manufacturers greater flexibility in using inputs from non-NAFTA countries. These rules will allow credits for duties paid when inputs are incorporated into exports of manufactured products to other NAFTA countries. These duty drawbacks are to be terminated in two phases:

1. by January 1, 2001, for Mexico-United States trade and Canada-Mexico trade; and
2. by 1996, for Canada-United States trade.

The 1994 deadline that was established in the Canada-U.S. Free Trade Agreement (FTA) for the elimination of drawback programs, will be extended for two years.

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 it enters the warehouse. Any subsequent devaluation of the Mexican currency does not increase the dutiable value in pesos. This 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.

SAMPLES

Mexican customs regulations make special provisions for the import of product samples. All samples must be accompanied by an invoice stating that they are not for commercial use. If health or phytosanitary certificates are required for the product, they must also accompany the shipment. Duty may be charged on the samples.

Samples are exempted from some product certification requirements, depending on their type. Under the *NOM* certification requirements, samples are exempted in quantities of up to three units, if they were submitted for purposes of certification under the *NOM*. Moreover, any sample or collection of samples of no commercial value is exempted from the *NOM* certification requirements.

Under the health regulations administered by the Secretariats of Agriculture and Health, three categories of samples are recognized.

- Personal use samples may be imported without prior authorization. A letter should be presented to the Customs official, stating that the product is for personal use and will not be used for commercial purposes or be given to a third party.
- Samples for research and testing may be imported in quantities of up to three units, without prior authorization. Such samples are for use by laboratories conducting tests for certification or other purposes. They must be accompanied by a written notification to the *Secretaría de Salud (SS)*, Secretariat of Health, stating that the product is for research or laboratory tests and it will not be used for human consumption. Some laboratories require proof that the samples have been properly imported. Thus receipts for any duty paid should be retained.
- Samples for exhibition or tasting of products requiring prior import authorization must be accompanied by the appropriate sanitary authorization certificate. If the application states that the samples are not for commercial use, a permit will be issued even if the applicant is not an importer under Mexican law. Food samples of products that do not require prior import authorization only need a declaration that they are samples, and not for commercial use.

Free Trade Zones in Mexico

There are several border zones in Mexico that have been established as free trade zones. They include 20 kilometres along the United States-Mexico border, the Mexico-Guatemala border and the ports of Cancún, Cozumel, Chetumal and La Paz. The free trade zones also include the state of Baja California, the city of Agua Prieta and an area in the state of Sonora. When entering these zones, certain products are exempted from some or all taxes and duties and import permit requirements. The products covered may vary from time to time in each of these regions. Merchandise and equipment may be shipped free of customs duties and with a minimum of control. This applies as long as they do not enter the rest of the country. There is no limit to the length of time that either equipment or materials may remain in these free zones.

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*, National Advertising Council, is a private organization funded through its 125 member-associations and companies. It coordinates public service campaigns and is the media's biggest customer in Mexico. Mexico has a well-developed advertising infrastructure that focusses on the press, magazines and broadcast publicity. About 320 newspapers and 200 major magazines are published in Mexico. Total newspaper circulation is close to ten million copies a day.

Approximately ten 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 US $2.17 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 US $10,000. A one-page ad in *El Universal*, a large daily with a circulation of 1.2 million, costs up to US $6,000.

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 (L/C) 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 (EDC) in the case of sales of particular types of goods and services.

Moore Corporation

For Moore Corporation of Toronto, Mexico is nothing new. The company has been doing business there for more than 40 years. Headquartered in the State of Mexico, the company's subsidiary designs and manufactures business forms as well as mass-mailing materials and aids for electronic printers. The company originally entered Mexico because it believed in the country's capabilities and potential for growth. That confidence has been justified and Moore continues to invest in the country.

Moore operates in Mexico with a minimal management structure because it found that success in a highly competitive market required flatter organization. Most hiring is done locally and the company gives its Mexican staff considerable leeway to manage local operations. Often the company will bring foreign specialists into Mexico to provide technical assistance. But they make sure to pass on the expertise to the local staff whenever possible. The firm also believes in rotating international staff to give them exposure to a variety of markets. Any Canadians sent to work in Mexico are first taught Spanish and sensitized to local business practices.

Moore's emphasis on local expertise also extends to its marketing efforts. It hires a professional Mexican firm to conduct its market research and integrates their findings in its planning. Moore's sales representatives are also hired locally so that it is easy for them to gain the confidence of the firm's 5,000 to 10,000 clients.

Moore recognizes that it takes longer to finalize deals in Mexico and that Canadian business people must adjust to a different way of doing things. Personal relationships are important. In addition, some Mexicans often times need to be prodded into paying their debts. Thus, when it is time to get paid, sending an invoice will be less effective than making a personal visit.

On the other hand, Moore has also found that some areas of the country are becoming more like the rest of North America in their business practices. Monterrey is a case in point. Overall, the economy is speeding up, except for a sharp correction in 1995 stemming from the December 1994 devaluation of the peso. Albert Taylor, Moore's managing director in Mexico, says, "The Mexicans are set on increasing their buying power and are willing to work hard to do so. There seems to be a real interest in making things work to bring prosperity." As a company, Moore is convinced that Mexico is taking the kind of longer-term view that is needed to bring real and lasting change to the country.

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 that they will review on a case-by-case basis. The Bank of Montreal, Royal Bank of Canada, 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 US $820 million to Mexican financial institutions for which sales of Canadian capital goods or services in excess of C $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 requires 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. EDC will assess whether Canadian content is being optimized.

EDC has also established a new, C $500 million line of credit specifically for Canadian exporters selling goods and services to *Petróleos Mexicanos (PEMEX)*, the national oil company.

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 the London Inter-Bank Offered Rate (LIBOR), 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 to determine 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 political risk of non-payment. The cost of the insurance varies 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, that is, the spread of risk. The premium generally ranges between C $0.50 and C $1.50 per each C $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.

Further information on EDC and how to contact the agency is provided in Chapter VIII.

V. Partnering for Market Entry

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 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 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 the North American Free Trade Agreement (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 a growing number of 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, and provide 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. Such synergy has certain characteristics:

- 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, franchises, and even greenfield investment.

Berclain America Latina

Berclain is a subsidiary of Quebec-based Berclain Group Inc. The Mexican subsidiary, which now has a partner in Brazil, provides a base for servicing customers throughout Latin America.

Berclain's most important product in Mexico is a product called MOOPI, a manufacturing synchronization software. According to the company, MOOPI schedules interdependent resources — people, tooling, equipment and materials — to ensure production is optimized at all times. Berclain provides a complete solution to manufacturers, which includes software, implementation, training and support.

According to a Berclain executive, the rapidity of Mexico's industrial restructuring took many companies by surprise, and they did not initially realize the importance of automation technology to corporate survival in the new liberalized environment. As he put it, "at first, it was like trying to sell a parachute to somebody falling between the 97th and 45th floors of a building who hasn't yet realized that he needs one."

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 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 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 experiences 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 book 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

Partnering can take many different forms. 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 now 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.

Licensing 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 licensing agreement, a firm sells the rights to use its products or services. Since licensing transfers usage but not property rights, the licensor still retains some control over the product. Issues that are subject to negotiation include royalties, patents, sub-licensing 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, licensing could be used to allow the Mexican partner to manufacture under licence for export to lucrative markets other Latin American countries.

Cross-licensing is a strategic alliance between two firms in which each licenses products or services to the other. Today, many companies are exchanging the rights to use their products or services with each other. Both licensing and cross-licensing are relatively straightforward ways for companies to share products or expertise without the complications of closer collaboration. However, because they involve minimal cooperation, cross-licensing is 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-licensing in which companies agree to manufacture each other's products. Co-manufacturing may be combined 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-licensing, 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 automobile 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 licensing. 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. To date, most franchises in Mexico have been American, entering Mexico via joint venture and master-franchise sales. Individual franchise sales and American-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, known as *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 N $25 pesos, equivalent to approximately US $4. 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 *Secretaría de Relaciones Exteriores,* Secretariat of Foreign Affairs, 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, this does not mean that partnering is always 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 timeframe, 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

When a Canadian firm decides that the best means of enhancing sales of Canadian goods and services is through the formation of a joint venture, it should contact the Commercial Division of the Canadian Embassy in Mexico City, Department of Foreign Affairs and International Trade (DFAIT), and the nearest International Trade Centre.

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 the nearest International Trade Centre and DFAIT, 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 México, D.F. and with the sources identified later in this book. 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, licensing 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 these 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.

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Establishing a Joint Venture in Mexico

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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 *Comisión Nacional para Inversión Extranjera (CNIE).*
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. 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 may result in the 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

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. This leader should be flexible, fully cognizant of the firm's position, have a good command of the language and have experience in the Mexican or other overseas markets.

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 and possess 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.

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 receptiveness 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 perceive joint ventures and other forms of partnering as the best way to introduce state-of-the-art technology, research and development (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

John L. Robinson, Interior Designer, Toronto, Ontario

John Robinson is an interior designer from Toronto who has lived and worked in Mexico for many years. He has seen a lot of foreigners arrive with big ideas and leave disappointed. "I don't think the cultural differences are stressed enough: it is the biggest hurdle foreigners must overcome and its impact on doing business should not be underestimated," he says.

Robinson has seen large, sophisticated operations founder on the inability of its expatriate staff to handle day-to-day business. "It is not just the language, it is the culture. You might understand the words, but what do the words really mean?" asks Robinson, referring to the many nuances a Mexican can place on what, to a foreigner, may sound like a straightforward conversation.

New entrants to the Mexican market should look for a partner "who is bicultural as well as bilingual," counsels Robinson. Not only does it take a great deal of time, patience and sensitivity to tap into the Mexican culture, there also exists a certain amount of hesitancy on the part of Mexicans to deal with North Americans. "There are insecurities on both sides," explains Robinson, "and these have to be understood." However, Robinson is quick to point out that cultural differences should pose no barrier to selling services into the Mexican market. For his part, Robinson loves the warmth and generosity of the Mexicans. Notes Robinson: "The people are terrific to work with."

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.

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? Do they have similar attitudes to risk, the distribution of dividends, reinvestment, the most appropriate debt to 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 is compatible, reconsider alternatives such as licensing, 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.

The Right Partner

The small- and medium-sized Canadian companies interviewed in the preparation of this book, 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 a DFAIT 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.

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 timeframe within which results are expected. A memorandum of understanding can also protect the confidentiality of any information brought to the negotiating table and 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.

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.

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.

Gathering Information During the Negotiation Stages

Experienced Canadian firms interviewed for this book 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 marketplace. Knowledgeable professional assistance will be invaluable at this point.

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Too Compatible

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- ☐ 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.

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 and managerial expertise
- technology and technological expertise, and proprietary technology or processes
- name brands, trademarks, copyrights and 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
- corporate identity, reputation and goodwill

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 arrive at an explicit understanding about how you propose to handle these 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
- 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 function. 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.

FINANCING THE VENTURE

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, establishing conditions for debtors and creditors, and determining banking arrangements to be negotiated in new markets. A plan should be made to deal with foreign currency transactions in existing markets. In addition, new sources of business financing should be found and their costs, including overseas banking, should be determined. 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 licensing 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-licensing 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

Temprano Associates

Temprano Associates is an established Ottawa-based firm that has been successfully selling its architectural services in Mexico. It first came in contact with that market when the firm's owner, Eliseo Temprano, was invited to Mexico to discuss the implications of the NAFTA by virtue of his position on the Canadian Architectural Council.

A key advantage was Temprano's fluent Spanish, which surprised and pleased Mexicans who noted that no American business people ever dealt with them in their own language. This opened the door to a wide network of contacts throughout Mexico. Temprano took the opportunity to give talks on architecture, Canada and the NAFTA. "Leave your attitudes at home and build relationships," says Temprano. He also feels that his knowledge of and respect for Mexico's language and culture has been a key to his success. Also important has been his non-aggressive marketing strategy that relies on personal contact and patience to build a solid long-term business.

The approach is beginning to pay off. Many of his Mexican contacts have been, in effect, marketing Temprano's wood-framework architectural techniques and are now calling with business opportunities.

Temprano's experiences in Mexico have led him to conclude that Mexicans are generally not familiar with Canadian capabilities. And yet, there are great opportunities for partnerships between the two countries in areas such as planning, environmental protection, transfer of appropriate technology, project management, communications (as in public opinion polling or surveys), and approval processes. These are perhaps not traditional areas for architects, but they do represent real needs where there is ample scope to develop a business.

One thing that Temprano counsels Canadians to do is to look for a "made in Mexico" solution to Mexican needs. Mexicans are a proud people who cherish their independence and who appreciate a cooperative approach that shares benefits. Partnerships between equals offer better opportunities for mutually fruitful business that will extend over the long term. Thus, instead of going to the expense of setting up a Mexican branch office or hiring locally, Temprano is looking for associates and partners in various cities as projects arise that require them.

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 VIII). Financing is also available in Mexico, though it currently tends to cost significantly more than capital in Canada. The specific rate charged, however, will depend on the credibility of the borrower and the nature of the investment. Part of the difference in the rate is due to the risk still associated with Mexican ventures, especially in view of recent turmoil in that market. It is also associated with higher rates of inflation and a relatively weak peso. 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 medium term. State governments and various incentive programs 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 then 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 early on.

Tax Considerations

Two Tax Incentives

Mexico offers two tax incentives to encourage foreign investment:

1. All inventory purchases are immediately deductible from income. Consequently, they cannot be deducted later as costs of goods sold.
2. A substantial portion of the total cost of newly acquired fixed assets 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 to 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, resulting in 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.

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 objectives of tax treaties in general are 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 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, corporate 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. These 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 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 established there. A survey of their opinions suggests the importance of these issues:

- 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 English and Spanish as well as the 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.
- 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 both communication and problem-solving.

According to a trade official at DFAIT, a well-defined state of mind, a long-term perspective, deep pockets, a stiff constitution, and the appropriate human resources dedicated to the project will make the venture work.

Zenon Environmental Inc.

Zenon is a 16-year-old company that went public in 1992. The company has been growing rapidly and has expanded into international markets with operations in Europe and the United States. Zenon believes that Mexico is a major potential market for its advanced municipal and industrial water purification and wastewater recycling technology. The Mexicans have a "national will to get on with things", which is creating a demand for environmental products and services.

Assistance from the Department of Foreign Affairs and International Trade (DFAIT) and Department of Industry (DI) have been instrumental in the efforts of Zenon Environmental Inc. of Burlington, Ontario to enter the Mexican market. Zenon has used the services of DFAIT and DI to help conduct its research into the Mexican market and to develop an understanding of the country's culture and ways of doing business. They have received assistance in networking and meeting contacts in Mexico through trade missions.

The Company initially entered the Mexican market by selling their products and services to General Motors and Chrysler, American companies with operations in Mexico. These automotive companies already knew what Zenon had to offer and could readily integrate the offerings into existing operations.

Zenon's objective is to form corporate relationships with Mexican partners interested in pursuing municipal water and sewage projects. They are now looking at partnerships that may involve any or all of pure product representation, joint ventures, OEM relationships and/or licensing agreements. They feel that they bring leading-edge technology, experience, and knowledge to a partnership, and are looking to their partner to provide an understanding of the culture, the way to do business, the markets for their products and customer-oriented service.

VI. Doing Business in Mexico

WORKING IN A DIFFERENT CULTURE

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.

Canadians will find Mexico 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 a partnership agreement, and to battle through red tape may seem insurmountable. For those who persevere, however, the rewards can be substantial.

The first step for the newcomer is to understand and appreciate the cultural differences between Mexico and Canada. Mexican culture is distinctive. Being aware of Mexican values will help to 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, it is important to bring business cards and to be punctual, 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 work-force, 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.

One surviving relic from the old days of doing business in Mexico is *la mordida,* 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 at stake.

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.*

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 (SMEs). 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 reflects 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 between 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 for 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.

Management Issues

- Workplace hierarchies and traditions may make it difficult to encourage decision making at lower levels.
- Mexican managers need special encouragement and training to instill 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 is their inability to make decisions and 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	United States
Work and leisure	Works to live.	Lives to work.
	Leisure considered essential for full life.	Leisure seen as reward for hard work.
	Money is for enjoying life.	Money often is an end in itself.
Direction and delegation	Traditional manager is autocratic.	Managers delegate responsibility and authority.
	Younger managers starting to delegate responsibility.	Executive seeks responsibility and accepts accountability
	Subordinates used to being assigned tasks, not authority.	
Theory vs. practice	Basically theoretically minded.	Basically pragmatically minded.
	Practical implementation often difficult.	Action-oriented problem-solving approach.
Control	Still not fully accepted.	Universally accepted and practiced.
	Sensitive to being "checked up on".	
Loyalty	Mostly loyal to superior (person rather than organization).	Mainly self-loyalty.
	Beginnings of self-loyalty.	Motivated by ambition.
Competition	Avoids personal competition.	Enjoys proving her/himself in competitive situations.
	Favours harmony at work.	
Training and development	Training highly theoretical.	Training concrete, specific.
	Few structured programs.	Structured programs generally.
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: Kras, Eva. *Management in Two Cultures, Bridging the gap between U.S. and Mexican managers.* Reprinted by permission of Intercultural Press, Inc.: Yarmouth, ME, 1988.

LABOUR LEGISLATION

Maximum Working Time

Shifts	Duration	Per Day	Per Week
Day	6 a.m. to 8 p.m.	8 hours	6 days/week (48 hours)
Night	8 p.m. to 6 a.m.	7 hours	6 days/week (42 hours)

VACATION

Years of Seniority	Days Per Year
1	6
2	8
3	10
4	14
5-9	16
10-14	18
15-19	20
25-29	22

LABOUR PRACTICES

Mexican labour law provides a 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 that 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 8-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 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 marketplaces, and housing benefits. Compensation packages which include daycare, sports facilities, education for children, an extra month's pay and Christmas bonuses are now commonplace in many industries. Thus worker benefit packages can comprise a significant portion of the overall compensation plan.

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 work-force 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 eight 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 *Confederación de Trabajadores de Mexicanos (CTM),* Mexican Confederation of Workers, with over five million members, is the country's largest labour organization. It 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.

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

Implementation of the NAFTA will make it easier for Canadian business people and professionals to travel to Mexico for business reasons.

Currency: The monetary unit is the peso which is subdivided into 100 centavos. To denote Mexican currency, N$ is used before the amount. Coins are in denominations of N $0.05, 0.10, 0.20, 0.50, 1.00, 2.00 and 5.00 pesos, while banknotes start at N $2.00 pesos. As of January 1993, new bills and coins were introduced into circulation at a rate of one new peso to 1,000 old pesos. For a time, both old and new pesos were in circulation together, after which the old peso was gradually withdrawn. The abolition of exchange controls means that Mexico now has only one exchange rate. During the financial crisis in early 1995, the value of the peso against the dollar fell by almost half.

All major credit cards are accepted throughout Mexico's business and tourist areas. Money can be changed at a bank or at a *Casa de Cambio,* exchange house, 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 goods and services tax (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 to 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, along with 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 taxi drivers. 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 it is important to note that 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 8-hour shifts beginning at 7 a.m. or 8 a.m., with a half-day shift on Saturday mornings.

Statutory Holidays: Mexicans celebrate national 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 1994. 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 de Muertos)* on November 1 and 2, and the Virgin of Guadalupe on December 12.

Telephones and Faxes: Mexico's telecommunications infrastructure continues to have room for improvement. There are about 12 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 came into effect 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 micro-organisms. Because of staffing problems at the *Instituto Mexicano de Propiedad Industrial (IMPI)*, Mexican Patent and Trademark Office, which falls within the jurisdiction of *Secretaría de Comercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development, long delays are still the norm. Even so, the product or process is still protected during the application period.

About 18 months 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 its essential characteristics.

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*, Office of Intellectual Property, 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 ® symbol. A copyright is denoted with a © symbol.

Impact of the NAFTA: The intellectual property provisions of the NAFTA, found in Chapter 17 of the Agreement, are far-reaching and go beyond those contained in any other major international trade agreement to date. The NAFTA commits each country to provide effective protection and enforcement of intellectual property rights. Specific standards of protection are defined in the areas of copyright, patents, trademarks, sound recordings, trade secrets, industrial designs, and semiconductor integrated circuits. Rules are prescribed for the enforcement of these rights, both in domestic law and at the border. Finally, the NAFTA also requires each country to give effect to the provisions of four international treaties relating to intellectual property protection.

Canada will make minor adjustments to its intellectual property laws as part of its implementation of the NAFTA. Mexico, however, will be required to make more significant changes in order to strengthen its domestic laws protecting intellectual property rights.

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 focussed 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 work-force.

Trade Fairs and Missions

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 DFAIT after the trade fair revealed that participating firms concluded over $2.9 million in sales while on-site in Monterrey. Further projected sales for the ensuing 18 months exceed $80 million.

More than 30 firms concluded either agency or 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 SMEs with previous export experience to the U.S. and limited exposure to Mexico or other Latin American countries.

There are numerous trade fairs in Mexico and Canadian participation in them is increasing. Several Canadian trade missions are also in the works. Missions are organized by DFAIT's Mexico Division, 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 focus. Both are important tools for 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.

There are directories of both trade fairs in Mexico and professional conferences in Mexico available in the Mexican Knowledge Base, Export I. For more information, contact DFAIT's InfoCentre.

SECTION TWO: TOOLS

VII. Preparing Your Export Strategy

WHY MEXICO?

Mexico represents a large and growing market for Canadian goods and services. For companies that are determined to take advantage of the opportunity, 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 is needed or imported into Mexico. If you feel that there is 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.

The outline contained in this chapter will help you focus on the information you need to make an informed decision about doing business in Mexico. It will also provide you with a framework, outlining some of the steps involved in getting 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 Mexican market. This outline will get you started on developing a strategy and an action plan.

Mexico clearly represents a tremendous business opportunity for many companies, but what is the specific opportunity for you and your firm?

- selling intermediate goods and services to Mexican industry
- selling consumer goods to Mexican end-users
- selling goods and services to the Mexican government or state-owned enterprises
- licensing your technology, know-how or other intellectual property to Mexican firms
- improving your access to the American market through the back door
- expanding your access to the markets of Latin America
- investing financial contributions in your company or its operations
- accessing complementary capabilities, such as Mexican marketing experience in Latin America, 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?

Are You Ready for Mexico?

Before entering the Mexican market, you will have to study the local business culture, exchange rates, taxation, distribution and 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 demands. 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?
3. Do you personally have the time to pursue 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? Do you need additional financing? Are there any immediate 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 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 targetting industries, or consumers and end users?
- What are the typical costs, 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, both domestic and foreign?
- What are their corporate characteristics, e.g. 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 the basis of 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, etc.?
- What are the applicable tariffs?
- If tariffs apply, how quickly will they be phased out by Mexico under the terms of the NAFTA?

SOURCES OF INFORMATION

You may consider the following list of potential sources and select those most appropriate to your needs.

- one of the International Trade Centres located in major cities across Canada
- Mexican specialists in the Latin America and Caribbean Branch at the Department of Foreign Affairs and International Trade (DFAIT)
- the Trade Commissioner at the Canadian Embassy in Mexico City, or in the consulates in Monterrey and Guadalajara
- private intermediaries such as banks, consultants, lawyers and accountants specializing in Mexico
- a business association such as the Canadian Chamber of Commerce in Mexico, the Canadian Manufacturers' Association, the Canadian Exporters' Associations or the Canadian Council for the Americas
- the Conference Board of Canada, which has 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 DFAIT publications on exporting
- DFAIT profiles on sectors of opportunity in Mexico
- 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. 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 export 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, i.e. selling directly to the consumer
- export through an agent or distributor who sells to a retailer or consumer
- sale of a licence to a Mexican firm for a technology, process, patent or copyright
- sale of a franchise that permits a Mexican company 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 venturing with a Mexican partner, by creating a separate and distinct corporate entity that can export goods from Canada into Mexico, or other markets, and 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 some or all of the following: transportation, export documentation, insurance, applicable tariffs and customs processing fees, licences and permits, distribution, marketing, and sales. This should include brokers' or agents' fees, distributors' 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 remember it will also reduce 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 in terms of 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 the 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
- a retailer with outlets for direct sales to end users
- a marketer or advertiser for promotion of your product
- a manufacturer, in the case of 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
- legal and accounting professionals

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 Agent	Prospect
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		
Number of employees		

You would do well to profile several different candidates in Mexico, interview them and 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 put on the table?
3. What am I not prepared to offer or expose to my prospective agent or 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, carrying 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 or distributor?
10. What skills and expertise do I need, e.g. translation services, legal or tax advice, etc. 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 that 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, e.g. translators, lawyers, tax specialists, etc. in Mexico
   - production of items for export into the Mexican market
   - product modifications for the Mexican market
   - transportation costs
   - agents' and distributors' 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 or 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, detailed 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?

Global Hustle

The parched residents in Monterrey, in northern Mexico, an arid, desert-like region, consume twice as many soft drinks as the rest of Mexico, 1,114 bottles a year per person, more than anyone else in the world. But until recently, over 90 percent of the lucrative market belonged to Coke's local bottler.

Then, in the spring of 1993, came PepsiCo's *Tormenta del Desierto*, or Operation Desert Storm. With all the precision, and even the camouflage uniforms, of an infantry battalion, Pepsi tripled its market share to 24 percent in just four months. So successful was the operation that PepsiCo promoted the burly commander of the assault, Manuel Rubiralta, to run all of PepsiCo's Mexican beverage business.

The key to the success of this venture was PepsiCo's acquisition in December of 49 percent, as well as management control, of the local bottling company from Mexican conglomerate *Grupo Protexa*. Operating from a heavily guarded command "bunker", Rubiralta smuggled in and stashed 250 new trucks around the city, along with 500,000 cases of new glass bottles, two million plastic 2-litre bottles and 8,000 store coolers. He put 1,150 new employees through an intense 16-day training regimen. Coke wasn't referred to by name: it was the "enemy". In record time, PepsiCo built a new plant from scratch that could fill plastic bottles, an innovation in the local market.

On April 27, four months after taking control, PepsiCo's motivated shock troops hit the streets and the airwaves. In two months Pepsi went from being sold in 6,900 locations, or 30 percent of the market, to 18,600 locations, or 81 percent. Previously, Coke and Pepsi offered only 12-ounces bottles at N $1.50 pesos, or about 20 cents. Pepsi introduced a half-litre bottle, roughly 16 ounces, at N $1.60 pesos or 23 cents, a 13 percent reduction in the price per ounce, and a 2-litre bottle at N $6.00 pesos or 80 cents, a 23 percent discount from Coke's price.

Rubiralta plans similar investment and assault tactics on other Coke fortresses, including what he calls "white areas", such as Chihuahua and the entire Yucatán Peninsula, where PepsiCo has no bottlers.

Source: *Forbes*, September 13, 1993, p. 222.

VIII. Relevant Canadian Government Departments, Programs and Services

Department of Foreign Affairs and International Trade (DFAIT)

DFAIT is the Canadian federal government department most directly responsible for trade development. The InfoCentre should be the first contact point for advice on how to start exporting. It provides information on export-related programs and services, acts as an entry point to DFAIT's trade information network, and can provide copies of specialized export publications and market information to interested companies.

InfoCentre
Tel.: 1-800-267-8376 or (613) 944-4000
Fax: (613) 996-9709
FaxLink: (613) 944-4500
InfoCentre Bulletin Board (IBB):
Tel: 1-800-628-1581 or (613) 944-1581

The Latin America and Caribbean Branch promotes trade with Mexico. There are several trade commissioners at the Embassy of Canada in Mexico City, as well as in the satellite offices in Monterrey and Guadalajara. 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 trade fairs, helping to identify suitable Mexican firms to act as agents, and compiling strategic business intelligence on potential foreign customers.

Mexico Division
Latin America and Caribbean Branch
Department of Foreign Affairs and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 996-5547
Fax: (613) 943-8806

International Trade Centres

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

Newfoundland	International Trade Centre P.O. Box 8950 Atlantic Place 215 Water Street Suite 504 St. John's, NF A1B 3R9 Tel.: (709) 772-5511 Fax: (709) 772-2373
Prince Edward Island	International Trade Centre P.O. Box 1115 Confederation Court Mall 134 Kent Street Suite 400 Charlottetown, PE C1A 7M8 Tel.: (902) 566-7400 Fax: (902) 566-7450
Nova Scotia	International Trade Centre P.O. Box 940, Station M 1801 Hollis Street Halifax, NS B3J 2V9 Tel.: (902) 426-7540 Fax: (902) 426-2624
New Brunswick	International Trade Centre 1045 Main Street Unit 103 Moncton, NB E1C 1H1 Tel.: (506) 851-6452 Fax: (506) 851-6429
Quebec	International Trade Centre 5 Place Ville-Marie Seventh Floor Montreal, PQ H3B 2G2 Tel.: (514) 496-4636 Fax: (514) 283-8794
Ontario	International Trade Centre Dominion Public Building 1 Front St. West Fourth Floor Toronto, ON M5J 1A4 Tel.: (416) 973-5053 Fax: (416) 973-8161
Manitoba	International Trade Centre P.O. Box 981 330 Portage Avenue Eighth Floor Winnipeg, MB R3C 2V2 Tel.: (204) 983-6531 Fax: (204) 983-2187

Saskatchewan

International Trade Centre
The S.J. Cohen Building
119-4th Avenue South
Suite 401
Saskatoon, SK S7K 5X2
Tel.: (306) 975-5315
Fax: (306) 975-5334

Alberta
**Edmonton office is also responsible for Northwest Territories*

International Trade Centre
Canada Place
9700 Jasper Avenue
Room 540
Edmonton, AB T5J 4C3
Tel.: (403) 495-2944
Fax: (403) 495-4507

International Trade Centre
510-5th Street S.W.
Suite 1100
Calgary, AB T2P 3S2
Tel.: (403) 292-6660
Fax: (403) 292-4578

British Columbia
**Vancouver office is also responsible for the Yukon*

International Trade Centre
300 West Georgia Street
Suite 2000
Vancouver, BC V6B 6E1
Tel.: (604) 666-0434
Fax: (604) 666-8330

World Information Network for Exports (WIN Exports)

WIN Exports is a computer-based information system designed by DFAIT 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 23,000 Canadian exporters. To register on WIN Exports, call (613) 996-5701, or fax 1-800-667-3802 or (613) 944-1078.

Program for Export Market Development (PEMD)

PEMD is DFAIT's primary export promotion program. It supports a variety of activities to help Canadian companies expand into export markets.

PEMD shares up to 50 percent of eligible expenses. Program financial assistance is a repayable contribution, not a grant, and must be approved in advance. Funded activities include:

- Market Development Strategies, which consist of a package of support for visits, trade fairs, and market support initiatives, under one umbrella of the company's marketing plan.

- New to Exporting Companies, which provides a vehicle for these companies to seek out individual export opportunities, either through a market identification visit or participation in an international trade fair.

- Capital Projects Bidding for specific projects outside Canada involving international competition/formal bidding procedures.

- Trade Association Activities undertaken by non-sales national trade or industry associations on behalf of their member companies.

Support is 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 persons and officials who can influence export sales. For general information, call the InfoCentre at 1-800-267-8376. For applications for assistance, call the International Trade Centre nearest you.

International Financing

DFAIT helps Canadian exporters interested in pursuing multilateral business opportunities financed by international financing institutions (IFIs). 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. DFAIT 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:

International Financing Division
Department of Foreign Affairs and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel.: (613) 995-7251
Fax: (613) 943-1100

Technology Inflow Program (TIP)

Managed by DFAIT and delivered domestically by the National Research Council, TIP is designed to help Canadian companies locate, acquire and adopt foreign technologies by promoting international collaboration. The Department of Industry (DI) also helps in program promotion. TIP officers respond to requests to identify technology sources and opportunities for cooperation between Canadian and foreign firms. The Program also helps Canadian firms make exploratory visits abroad to identify and gain first-hand knowledge of relevant foreign technologies, as well as how to negotiate to acquire them. For information, call (613) 993-5326.

Investment Development Program

The Investment and Technology Bureau (TID) promotes Canada as an attractive, competitive destination for business investment to potential foreign investors. It actively encourages investments that take the form of new plant and equipment, joint ventures or strategic partnerships. The Bureau is especially interested in attracting investment that introduces new technology into Canada, which is key to creating new jobs and economic opportunities. It also helps Canadian companies to find international investment partners and to access international sources of capital and technologies. TID provides support to the chief executive officers of Canadian subsidiaries of multinationals which are seeking to attract manufacturing and R&D mandates to Canada. It also monitors and analyzes investment trends and perceptions of Canada as an investment site. TID works closely with the "geographic" branches of DFAIT and the investment counsellors at Canadian missions around the world, as well as with provincial and municipal authorities, and professional and business organizations. For more information, contact:

Investment and Technology Bureau (TID)
Department of Foreign Affairs and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel.: (613) 995-4128
Fax: (613) 995-9604

Department of Industry (DI)

DI was created with a broad mandate to make Canada more competitive by fostering the growth of Canadian businesses, by promoting a fair and efficient marketplace for business and consumers, and by encouraging commercial ventures in scientific research and technology. 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 technolgical development; and the improvement in both 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; and
- promote and provide support services for the marketing of Canadian goods, services and technology.

The regional offices of DI 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 as well as trade and market development. DI also promotes and manages a portfolio of programs and services.

The following are areas in which DI 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 conncected to DFAIT and Canadian posts abroad;
- client focus on emerging and threshold firms; and
- business intelligence.

For more information, call (613) 941-0222.

Business Service Centre
Department of Industry
235 Queen Street
First Floor, East Tower
Ottawa, ON K1A 0H5
Tel.: (613) 952-4782
Fax: (613) 957-7942

NAFTA Information Desk
Department of Industry
235 Queen Street
Fifth Floor, East Tower
Ottawa, ON K1A 0H5
Fax: (613) 952-0540

The Business Opportunities Sourcing System (BOSS)

BOSS is a computerized databank that profiles over 25,000 Canadian companies. It lists basic information on products, services and operations of use to potential customers. The system was established in 1980 by the Department of Industry (DI) in cooperation with participating provincial governments. BOSS was originally established so that trade commissioners posted around the world by DFAIT 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. For more information, call (613) 954-5031.

Market Intelligence Service (MIS)

MIS provides Canadian businesses 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 businesses in decisions regarding manufacturing, product development, marketing and market expansion. A request for information can be custom-tailored to meet each client's particular need. Previously-published customized reports are also available on request. The database is updated quarterly and annually. MIS is offered free of charge by fax, letter or telephone. For more information, contact:

Strategic Information Branch
Department of Industry
235 Queen Street
First Floor, East Tower
Ottawa, ON K1A 0H5
Tel.: (613) 954-5031
Fax: (613) 954-1894

Revenue Canada

Revenue Canada, Customs Program Branch provides a NAFTA Help Desk telephone line with service available in Spanish. Revenue Canada publications and customs notices are available by calling or faxing the NAFTA Information Desk. For more information, contact:

NAFTA Spanish Help Desk
Tel.: (613) 941-0965

NAFTA Information Desk
Revenue Canada, Customs Programs Branch
191 Laurier Avenue West
Sixth Floor
Ottawa, ON KIA 0L5
Tel.: 1-800-661-6121, or (613) 941-0965
Fax: (613) 952-0022

Canadian International Development Agency (CIDA)

An important possible source of financing for Canadian ventures in Mexico is the special fund available through CIDA under the Industrial Cooperation Program (CIDA/INC). This program provides financial contributions to stimulate Canadian private-sector involvement in developing countries by supporting long-term business relationships such as joint ventures and licensing arrangements. INC supports the development of linkages with the private sector in Mexico by 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 that help eligible Canadian firms to conduct studies and that 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. For more information, contact:

Industrial Cooperation Division
Canadian International Development Agency
200 Promenade du Portage
Hull, PQ K1A 0G4
Tel.: (819) 997-7905/7906
Fax: (819) 953-5024

Atlantic Canada Opportunities Agency (ACOA)

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

ACOA 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. For more information, contact:

Atlantic Canada Opportunities Agency
Blue Cross Centre
644 Main Street
P.O. Box 6051
Moncton, NB E1C 9J8
Tel: 1-800-561-7862
Fax: (506) 851-7403

Western Economic Diversification Canada (WD)

WD is responsible for federal economic development activities in Western Canada. The Department works in partnership with the western provinces, business, industry associations and communities to stimulate the western Canadian economy.

WD's "New Directions" program will work to enhance the export position of western companies by boosting their competitiveness in domestic and global markets.

The Department no longer provides repayable loans to individual companies, but seeks new innovative partnerships within both the public and private sectors. These partnerships will address the needs of small- and medium-sized enterprises for information, business services and captial, particularly for high growth industries critical to Western Canada's economic diversification.

One of WD's new products focused on export development is the International Trade Personnel Program. This federal-provincial initiative links export-focused western firms with recent post-secondary graduates. The program accomplishes two important socio-economic goals: it gives companies the extra person-power they need to penetrate new markets, and it gives recent graduates valuable work experience. Under the new program, the length of export-development projects may vary from one to three years. Approved projects will be eligible for assistance ranging from $7,500 for one year, to a maximum of $37,500 per graduate. For more information, contact:

Western Economic Diversification Canada
The Cargill Building
240 Graham Avenue
Suite 712
P.O. Box 777
Winnipeg, MB R3C 2L4
Tel.: (204) 983-4472
Fax: (204) 983-4694

Export Development Corporation (EDC)

EDC is a customer-driven, financial services corporation dedicated to helping Canadian businesses succeed in the global marketplace. EDC provides a wide range of risk management services, including insurance, financing and guarantees to Canadian exporters and their customers around the world.

EDC's products fall into four main categories:

- export credit insurance, covering short- and medium-term credits;
- performance-related guarantees and insurance, providing cover for exporters and financial institutions against calls on various performance bonds and obligations normally issued either by banks or surety companies;
- foreign investment insurance, providing political risk protection for Canadian investments abroad; and
- export financing, providing medium- and long-term export financing to foreign buyers of Canadian goods and services.

EDC has established relationships with leading commercial and public sector institutions in Mexico and Latin America. Exporters can call (613) 598-2860 for more information.

Smaller exporters, with annual export sales under Cdn $1 million, should call the Emerging Exporter Team at 1-800-850-9626.

Exporters in the information technology sector can call EDC's Information Technologies Team at (613) 598-6891.

For information on the full range of EDC services, contact any of the following EDC offices:

Ottawa

Export Development Corporation
151 O'Connor Street
Ottawa, ON K1A 1K3
Tel.: (613) 598-2500
Fax: (613) 237-2690

Vancouver

Export Development Corporation
One Bentall Centre
505 Burrard Street
Suite 1030
Vancouver, BC V7X 1M5
Tel.: (604) 666-6234
Fax: (604) 666-7550

Calgary

Export Development Corporation
510-5th Street S.W.
Suite 1030
Calgary, AB T2P 3S2
Tel.: (403) 292-6898
Fax: (403) 292-6902

Winnipeg

**office also serves Manitoba and Saskatchewan*

Export Development Corporation
330 Portage Avenue
Eighth Floor
Winnipeg, MB R3C 0C4
Tel.: (204) 983-5114
Fax: (204) 983-2187

Toronto

Export Development Corporation
National Bank Building
150 York Street
Suite 810
P.O. Box 810
Toronto, ON M5H 3S5
Tel.: (416) 973-6211
Fax: (416) 862-1267

London

Export Development Corporation
Talbot Centre
148 Fullarton Street
Suite 1512
London, ON N6A 5P3
Tel.: (519) 645-5828
Fax: (519) 645-5580

Montreal

Export Development Corporation
Tour de la Bourse
800 Victoria Square
Suite 4520
P.O. Box 124
Montreal, PQ H4Z 1C3
Tel.: (514) 283-3013
Fax: (514) 878-9891

Halifax

Export Development Corporation
Purdy's Wharf, Tower 2
1969 Upper Water Street
Suite 1410
Halifax, NS B3J 3R7
Tel.: (902) 429-0426
Fax: (902) 423-0881

Canadian Commercial Corporation (CCC)

The CCC, a Crown Corporation, provides Canadian exporters with valuable assistance when they are selling to any foreign government, or to an international organization. In such sales, CCC acts as a prime contractor and guarantor for the sale of Canadian goods and services to the foreign customer.

The CCC certifies the Canadian exporter's financial and technical capabilities and guarantees to the foreign buyer that the terms and conditions of the contract will be met. The CCC's participation in a sale provides Canadian suppliers with the tangible backing of their own government. This enhances their credibility and competitiveness in the eyes of foreign customers, which can often lead to the negotiation of more advantageous contract and payment terms.

The CCC offers a range of useful tools to provide access to specialized markets such as the U.S. Department of Defence. It can also assist exporters in their transactions with foreign private-sector buyers.

The Corporation's services, as well as the credibility it offers, are of particular benefit to Canadian small- and medium-sized enterprises (SMEs), many of whom are less-known internationally. In 1993 to 1994, nearly 70 percent of the Corporation's suppliers were SMEs. The CCC's recently introduced Progress Payment Program will make it easier for SMEs to obtain pre-shipment financing.

The Progress Payment Program was developed in co-operation with Canada's financial institutions. It makes pre-shipment export financing more accessible to small- and medium-sized exporters. The program allows exporters to draw on a special line of credit, established by their principal banker for a particular export sale. In most instances, the borrowing costs will approximate those associated with a typical demand line of credit. The program is available for transactions with foreign-government and private-sector buyers.

This program aims to get the exporter, its bank and the CCC working together to complete a successful export. The process usually is as follows:

- First, CCC will work with the company to determine whether the CCC can participate in the deal. The CCC assesses risks and the structure of the proposed contract. The customer's method of payment must be acceptable to the CCC.

- A positive assessment leads to preapproval by the CCC and the exporter's financial institution for pre-shipment financing. Negotiations can then begin with the customer, within parameters agreed to by the exporter and the CCC.

- The CCC will normally assume the role of prime contractor in the transaction to provide the performance assurance on which progress payment financing is based.

- Once a deal is in place, the CCC will work with the exporter, monitoring progress in completing the contract. The exporter's financial institution will release progress payments according to the progress of the work as well as the incurred project costs.

- The CCC will collect from the exporter's customer and remit payments to its financial institution.

For more information about the CCC, please contact:

Head Office
Canadian Commercial Corporation
50 O'Connor St., 11th Floor
Ottawa, Ont.
K1A 0S6
Tel.: (613) 996-0034
Fax: (613) 995-2121
Telex: 053-4359

National Research Council (NRC)

Canadian companies hoping to succeed in the Mexican marketplace may require additional technology to improve their competitiveness. The NRC works with Canadian firms of all sizes to develop and apply technology for economic benefit. The Council manages 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 50 years and has acquired a reputation as one of the most flexible and effective federal programs. IRAP takes advantage of an extensive network of more than 190 different locations within approximately 90 communities across Canada, including numerous provincial technology centres, the NRC's own laboratories and research institutes, federal government departments, and technology transfer offices in Canadian universities. For further information, contact:

Industrial Research Assistance Program
National Research Council
Montreal Road
Building M-55
Ottawa, ON K1A 0R6
Tel.: (613) 993-1770
Fax: (613) 952-1086

Canada Institute for Scientific and Technical Information
National Research Council
Montreal Road
Building M-55
Ottawa, ON K1A 0S2
Tel.: (613) 993-1600 or 1-800-668-1222
Fax: (613) 952-9112

IX. Key Contacts and Addresses

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

IN CANADA

SPONSORING ORGANIZATIONS

BAKER & MCKENZIE

Baker & McKenzie is one of the largest international law firms with offices in 35 countries. They presently have four offices in Mexico, in the cities of Juárez, Mexico City, Monterrey and Tijuana. In addition to providing legal advice, the firm's offices in Canada and Mexico work to assist Canadian companies to find the right partner to enable them to establish or expand their activities in Mexico. For more information, contact:

Baker & McKenzie
Barristers & Solicitors
BCE Place
181 Bay Street
Suite 2100
Toronto, ON M5J 2T3
Tel.: (416) 865-6910/6903
Fax: (416) 863-6275

BUSINESS AND PROFESSIONAL ORGANIZATIONS

The Canadian Council for the Americas
The Council is a non-profit organization formed in 1987 to promote business interests in Latin American as well as Caribbean countries. The CCA promotes events and programs targetted at expanding business and building networking contacts between Canada and the countries of the region.

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

Canadian Exporters' Association
99 Bank Street
Suite 250
Ottawa, ON K1P 6B9
Tel.: (613) 238-8888
Fax: (613) 563-9218

Canadian Manufacturers' Association
75 International Boulevard
Fourth Floor
Etobicoke, ON M9W 6L9
Tel.: (416) 798-8000
Fax: (416) 798-8050

The Canadian Chamber of Commerce
55 Metcalfe Street
Suite 1160
Ottawa, ON K1P 6N4
Tel.: (613) 238-4000
Fax: (613) 238-7643

Forum for International Trade Training Inc.
155 Queen Street
Suite 608
Ottawa, ON K1P 6L1
Tel.: (613) 230-3553
Fax: (613) 230-6808

Language Information Centre
240 Sparks Street RPO
Box 55011
Ottawa, ON K1P 1A1
Tel.: (613) 523-3510

Open Bidding Service
P.O. Box 22011
Ottawa, ON K1V 0W2
Tel.: 1-800-361-4637 or (613) 737-3374
Fax: (613) 737-3643

Canadian Standards Association
178 Rexdale Blvd.
Rexdale, ON M9W 1R3
Tel: (416) 747-4000
Fax: (416) 747-4149

Standards Council of Canada
45 O'Connor Street
Suite 1200
Ottawa, ON K1P 6N7
Tel.: (613) 238-3222
Fax: (613) 995-4564

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. For more information, contact:

Embassy of Mexico
45 O'Connor Street
Suite 1500
Ottawa, ON K1P 1A4
Tel.: (613) 233-8988
Fax: (613) 235-9123

Mexican Consulate in Ottawa
45 O'Connor Street
Suite 1500
Ottawa, ON K1P 1A4
Tel.: (613) 233-6665
Fax: (613) 235-9123

Other Mexican Consulates General in Canada

Consulate General of Mexico
2000 Mansfield Street
Suite 1015
Montreal, PQ H3A 2Z7
Tel.: (514) 288-2502/4916
Fax: (514) 288-8287

Consulate General of Mexico
199 Bay Street
Suite 4440
P.O. Box 266, Station Commerce Court West
Toronto, ON M5L 1E9
Tel.: (416) 368-2875/8141/1847
Fax: (416) 368-8342

Consulate General of Mexico
810-1139 West Pender Street
Vancouver, BC V6E 4A4
Tel.: (604) 684-3547/1859
Fax: (604) 684-2485

Mexican Honorary Consulate
380 Chemin St. Louis
Suite 1407
Quebec, PQ G1S 4M1
Tel.: (418) 681-3192
Fax: (418) 683-7843

Mexican Honorary Consulate
830-540 5th Avenue, S.W.
Calgary, AB T2P 0M2
Tel.: (403) 263-7077/7078
Fax: (403) 263-7075

Mexican Honorary Consulate
1900 Commodity Exchange Tower
360 Main Street
Winnipeg, MB R3C 3Z3
Tel.: (202) 944-2540
Fax: (202) 957-1790

Mexican Foreign Trade Commissions

Banco Nacional de Comercio Exterior (Bancomext) is the Mexican Foreign Trade Commission and has offices in Canada. It offers credits, export guarantees and counselling services to Mexican companies seeking to do business in Canada.

Mexican Banks with Offices in Canada

Banco Nacional de México (Banamex), *Banco de Comercio (Bancomer)*, 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 databases throughout the world. These banks are located throughout Mexico and maintain offices in Toronto.

Banco Nacional de México (Banamex)
1 First Canadian Place
Suite 3430
P.O. Box 299
Toronto, ON M5X 1C9
Tel.: (416) 368-1399
Fax: (416) 367-2543

Banco de Comercio (Bancomer)
The Royal Bank Plaza
South Tower
Suite 2915
P.O. Box 96
Toronto, ON M5J 2J2
Tel.: (416) 956-4911
Fax: (416) 956-4914

Banca Serfin
BCE Place
Canada Trust Tower
161 Bay Street
Suite 4360
P.O. Box 606
Toronto, ON M5J 2S1
Tel.: (416) 360-8900
Fax: (416) 360-1760

In Mexico

Commercial Division
The Embassy of Canada 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 measures possible to support a Canadian firm's presence in Mexico.

Note: to telephone Mexico City, dial 011-52-5 before the number shown. For contacts in other cities in Mexico, consult the international code listing at the front of your local telephone directory for the appropriate regional codes.

Commercial Division
The Embassy of Canada in Mexico
Schiller No. 529
Apartado Postal 105-05
Col. Polanco
11560 México, D.F.
México
Tel.: 724-7900
Fax: 724-7982

Canadian Business Centre
Centro Canadiense de Negocios
Av. Ejército Nacional No. 926
Col. Polanco
11540 México, D.F.
México
Tel.: 580-1176
Fax: 580-4494

Canadian Consulate
Edificio Kalos, Piso C-1
Local 108-A
Zaragoza y Constitución
64000 Monterrey, Nuevo León
México
Tel.: 344-3200
Fax: 344-3048

Canadian Consulate
Hotel Fiesta Americana
Local 30-A
Aurelio Aceves No. 225
Col. Vallarta Poniente
44110 Guadalajara, Jalisco
México
Tel.: 15-8665
Fax: 15-8665

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
Taine No. 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 de Canadá 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.

The Canadian Chamber of Commerce in Mexico
c/o Bombardier
Paseo de la Reforma No. 369, Mezzanine
Col. Juárez
06500 México, D.F.
México
Tel.: 729-9903, 207-2400
Fax: 208-1592

Mexican Federal Government Departments

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.

Secretariat of Commerce and Industrial Development
Secretaría de Comercio y Fomento Industrial (SECOFI)
Sub-Secretaría de Promoción de la Industria y el Comercio Exterior
Insurgentes Sur No. 1940 N- P.H.
Col. Florida
01030 México, D.F.
México
Tel.: 229-6560/6561, 229-6100
Fax: 229-6568

OTHER GOVERNMENT DEPARTMENTS

Secretariat of Agriculture, Lifestock and Rural Development
Secretaría de Agricultura, Ganadería y Desarrollo Rural (SAGAR)
Insurgentes Sur No. 476, Piso 13
Col. Roma Sur
06760 México, D.F.
México
Tel.: 584-0786/0271/6288
Fax: 584-2699

Secretariat of Communications and Transportation
Secretaría de Comunicaciones y Transportes (SCT)
Av. Universidad y Xola, Cuerpo C, P.B.
Col. Narvarte
03020 México, D.F.
México
Tel.: 530-3060, 538-5148/0450
Fax: 519-9748

Secretariat of National Defence
Secretaría de la Defensa Nacional (SDN)
Blv. Avila Camacho y Av. Industria Militar
Col. Lomas de Sotelo
11640 México, D.F.
México
Tel.: 395-6766, 557-8971
Fax: 557-1370

Secretariat of Energy
Secretaría de Energía (SE)
Insurgentes Sur No. 552
Col. Roma Sur
06769 México, D.F.
México
Tel.: 564-9789/9790, 584-4304/2962
Fax: 564-9769, 574-3396

Department of the Federal District
Departamento del Distrito Federal (DDF)
Plaza de la Constitución
Esquina Pino Suárez, Piso 1
Col. Centro
06068 México, D.F.
México
Tel.: 518-1100, 782-2088/3000
Fax: 542-1429

Secretariat of Finance and Public Credit
Secretaría de Hacienda y Crédito Público (SHCP)
Palacio Nacional
1er. Patio Mariano
Col. Centro
06066 México, D.F.
México
Tel.: 518-5420 through 29
Fax: 542-2821

Secretariat of the Environment, Natural Resources and Fisheries
Secretaría del Medio Ambiente, Recursos Naturales y Pesca (SEMARNAP)
Periférico Sur No. 4209
Col. Jardines en la Montaña
14210 México, D.F.
México
Tel.: 628-0602/0605
Fax: 628-0643/0644

Secretariat of Foreign Affairs
Secretaría de Relaciones Exteriores (SRE)
Ricardo Flores Magón No. 1, Piso 19
Col. Guerrero
06995 México, D.F.
México
Tel.: 782-3660/3765
Fax: 782-3511

Secretariat of Health
Secretaría de Salud (SS)
Lieja No. 8, Piso 5
Col. Juárez
06600 México, D.F.
México
Tel.: 553-7670/7940
Fax: 286-5497

Secretariat of Planning and Budget
Secretaría de Programación y Presupuesto (SPP)
Palacio Nacional, Patio de Honor, Piso 4
Col. Centro
06740 México, D.F.
México
Tel.: 542-8762/8763
Fax: 542-1209

Secretariat of the Interior
Secretaría de Gobernación (SG)
Abraham González No. 48
Col. Juárez
06699 México, D.F.
México
Tel.: 566-8188/3132, 592-1141
Fax: 546-7388

Secretariat of Labour and Social Welfare
Secretaría del Trabajo y Previsión Social (STPS)
Periférico Sur No. 4271, Edificio A
Col. Fuentes del Pedregal
14140 México, D.F.
México
Tel.: 645-3715/5466
Fax: 645-2595

Secretariat of the Navy
Secretaría de Marina (SM)
Tramo H. Escuela Naval Militar 861
Eje 2 Oriente No. 861
Col. Cipreses
04830 México, D.F.
México
Tel.: 684-8188
Fax: 684-8188 ext. 4328

Secretariat of Public Education
Secretaría de Educación Pública (SEP)
Argentina No. 28, Piso 2
Col. Centro
06029 México, D.F.
México
Tel.: 510-2557, 512-0358, 328-1000/1067
Fax: 518-4350, 5218293

Secretariat of Tourism
Secretaría de Turismo (SECTUR)
Presidente Masaryk No. 172, Piso 8
Col. Polanco
11587 México, D.F.
México
Tel.: 250-8171/8228
Fax: 254-0014

Secretariat of Social Development
Secretaría de Desarrollo Social (SEDESOL)
Av. Constituyentes No. 947
Edificio B, Planta Alta
Col. Belén de las Flores
01110 México, D.F.
México
Tel.: 271-8481/1616
Fax: 271-8862

Secretariat of the Comptroller General
Secretaría de Contraloría y Desarrollo Administrativo (SECODAM)
Insurgentes Sur No. 1735 – P.B.
Ala Norte, Oficina 22
Col. Guadalupe Inn
01020 México, D.F.
México
Tel.: 662-2762/3263, 663-3636
Fax: 662-4511

Mexican Foreign Trade Commission
Banco Nacional de Comercio Exterior (BANCOMEXT)
Av. Camino a Santa Teresa No. 1679
Piso 12, Ala Sur
Col. Jardines del Pedregal
01900 México, D.F.
México
Tel.: 652-8422/8620, 327-6000
Fax: 652-9408

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, Toronto, and Montreal.

Mexican Investment Board
Consejo Mexicano de Inversión (CMI)
Paseo de la Reforma No. 915
Col. Lomas de Chapultepec
11000 México, D.F.
México
Tel.: 202-7804
Fax: 202-7925

National Chamber of Manufacturing Industry — *Cámara Nacional de la Industria de 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.

National Chamber of Manufacturing Industry
Cámara Nacional de la Industria de Transformación (CANACINTRA)
Av. San Antonio No. 256
Col. Ampliación Nápoles
03849 México, D. F.
México
Tel.: 563-3400
Fax: 563-5381

FINANCIAL INSTITUTIONS

Mexico's Central Bank
Banco de México
Tacuba No. 4, Piso 1
Col. Centro
06059 México, D.F.
México
Tel.: 512-5817, 237-2378
Fax: 237-2370

National Development Bank — *Nacional Financiera (NAFIN)* 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.

National Development Bank
Nacional Financiera (NAFIN)
Insurgentes Sur No. 1971, Piso 13
Col. Guadalupe Inn
01020 México, D.F.
México
Tel.: 325-6000, 661-7165/4044
Fax: 325-6042, 661-8418

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.

Banco de Comercio, S.A. (BANCOMER)
Av. Universidad No. 1200
Col. Xoco
03339 México, D.F.
México
Tel.: 621-3301/3302, 621-0034
Fax: 621-3988

Mexican Stock Exchange
Bolsa Mexicana de Valores
Reforma No. 255
Col. Cuauhtémoc
06500 México, D.F.
México
Tel.: 208-8174
Fax: 591-0534

National Banking Commission
Comisión Nacional Bancaría y de Valores
Insurgentes Sur No. 1971
Col. Guadalupe Inn
01020 México, D.F.
México
Tel.: 724-6900/6000
Fax: 724-7364, 661-3608

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 Association of the Automotive Industry
Asociación Mexicana de la Industria Automotriz, A.C. (AMIA)
Ensenada No. 90
Col. Condesa
06100 México, D. F.
México
Tel.: 272-1144
Fax: 272-7139

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.: 564-8618/9218
Fax: 584-5317

Mexican Business Council for International Affairs
Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI)
Homero No. 527, Piso 7
Col. Polanco
11570 México, D.F.
México
Tel.: 250-7033
Fax: 531-1590

Mexican Confederation of Employers
Confederación Patronal de la República Mexicana
Insurgentes Sur No. 950, Piso 1 y 2
Col. del Valle
03100 México, D.F.
México
Tel.: 687-6465/6467
Fax: 536-2160

Mexican Confederation of National Chambers of Commerce
Confederación de Cámaras Nacionales de Comercio (CONCANACO)
Balderas No. 144, Piso 3
Col. Centro
06079 México, D.F.
México
Tel.: 709-1559
Fax: 709-1152

National Chamber of Commerce of Mexico City
Cámara Nacional de Comercio de la Ciudad de México (CANACO)
Paseo de la Reforma No. 42
Col. Juárez
06030 México, D.F.
México
Tel.: 592-2677/2665
Fax: 705-7412, 592-3571

National Chamber of the Construction Industry
Cámara Nacional de la Industria de la Construcción (CNIC)
Periférico Sur No. 4839
Col. Parques del Pedregal
14010 México, D.F.
México
Tel.: 665-0424, 424-7400
Fax: 606-6720

National Chamber of the Apparel Industry
Cámara Nacional de la Industria del Vestido (CNIV)
Tolsá No. 54
Col. Centro
06040 México, D.F.
México
Tel.: 578-0788, 761-6541, 588-7664
Fax: 578-6210

National Institute for Statistics, Geography and Informatics
Instituto Nacional de Estadística, Geografía e Informática (INEGI)
Edificio Sede
Av. Héroe de Nacosari No. 2301 Sur
Fraccionamiento Jardines del Parque
20270 Aguascalientes, Aguascalientes
México
Tel.: 918-6947
Fax: 918-6945

X. GLOSSARY OF TERMS

GLOSSARY

ad valorem — a tariff imposed according to the value of a good

Asociación Mexicana de la Industria Automotriz — Mexican Automotive Industry Association

Asociación Nacional de Importadores y Exportadores de la República Mexicana (ANIERM) — National Association of Importers and Exporters of the Mexican Republic

Banco de Comercio (Bancomer) — One of Mexico's major banks

Banco de México —Central Bank of Mexico

Banco Nacional de Comercio Exterior (Bancomext) — is the Mexican Foreign Trade Commission: its role in Canada is to promote investment in Mexico

Bolsa Mexicana de Valores — Mexican Stock Exchange

BOT — build-operate-transfer plan

Cámara Nacional de Comercio (CANACO) — National Chamber of Commerce

Cámara Nacional de la Industria de la Construcción (CNIC) — National Chamber of the Construction Industry

Cámara Nacional de la Industria de Transformación (CANACINTRA) — National Chamber of Industrial Transformation

Cámara Nacional de la Industria del Vestido (CNIV) — National Chamber of the Apparel Industry

Casa de Cambio — financial exchange house

Comisión Federal de Electricidad (CFE) — Federal Electricity Commission

Comisión Nacional Bancaria y de Valores — National Banking Commission

Comisión Nacional para Inversión Extranjera (CNIE) — National Commission on Foreign Investment

Compañía Nacional de Subsistencias Populares (CONASUPO) — National Council for Low-income Food Support

Confederación de Trabajadores Mexicanos (CTM) — Mexican Confederation of Workers

Confederación Patronal de la República Mexicana — Confederation of Mexican Employers

Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI) — Mexican Business Council for International Affairs

Consejo Mexicano de Inversión (CMI) — non-profit joint venture of the Government of Mexico and the private financial sector set up to oversee and attract investment

Constructora Nacional de Carros de Ferrocarril (Concarril) — government owned railcar builder

Departamento del Distrito Federal — Department of the Federal District

DFAIT — Department of Foreign Affairs and International Trade

Dirección de Derechos de Autor — government directorate for authors/owners to register for copyright protection

Dirección General de Normas (DGN) — Bureau of Standards

Distrito Federal (D.F.) — Federal District, the jurisdiction within which Mexico City is located

EIU — Economist Intelligence Unit

ejidatarios — independent farmers holding an *ejido*

ejido — independent tenant landholding

EPA — U.S. Environmental Protection Agency

FAO — Food and Agricultural Organization, a United Nations agency

Ferrocarriles Nacionales de México — the Mexican National Railway

GATT — General Agreement on Tariffs and Trade

GDP — Gross Domestic Product

GMT — Greenwich Mean Time

GNP — Gross National Product

Impuesto al Valor Agregado (IVA) — value-added tax in Mexico (15%)

Instituto Mexicano de la Propiedad Industrial (IMPI) — Mexican Patent and Trademark Office

Instituto Nacional de Estadística, Geografía e Informática (INEGI) — National Institute for Statistics, Geography and Information

La Cámara de Comercio de Canadá en México — Canadian Chamber of Commerce in Mexico

la mordida — the "bite" or practice of taking bribes

LIBOR — London Inter Bank Offered Rate

maquila — term meaning the portion of cornmeal retained as payment from milling; currently used to mean value-added from processing that remains in Mexico

maquiladora — foreign in-bond processing zones and in-bond manufacturing establishments

Marca Registrada (MR) — trademark symbol

Nacional Financiera (NAFIN) — 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*

Pacto para la Estabilización y Crecimiento Económico (PECE and commonly referred to as *El Pacto)* — Pact for Stability and Economic Growth

Petróleos Mexicanos (PEMEX) — the national oil company

Plan Nacional de Desarrollo — National Development Plan

Secretaría de Agricultura, Ganadería y Desarrollo Rural (SAGAR) — Secretariat of Agriculture, Livestock and Rural Development

Secretaría de Comercio y Fomento Industrial (SECOFI) — Secretariat of Commerce and Industrial Development

Secretaría de Comunicaciones y Transportes (SCT) — Secretariat of Communications and Transportation

Secretaría de Contraloría y Desarrollo Administrativo (SECODAM) — Secretariat of the Comptroller General

Secretaría de Desarrollo Social (SEDESOL) — Secretariat of Social Development

Secretaría de Educación Pública (SEP) — Secretariat of Public Education

Secretaría de Energía (SE) — Secretariat of Energy

Secretaría de Gobernación (SG) — Secretariat of the Interior

Secretaría de Hacienda y Crédito Público (SHCP) — Secretariat of Finance and Public Credit

Secretaría de la Defensa Nacional (SDN) — Secretariat of National Defense

Secretaría de Marina (SM) — Secretariat of the Navy

Secretaría del Medio Ambiente, Recursos Naturales, y Pesca (SEMARNAP) — Secretariat of Environment, Natural Resources and Fisheries

Secretaría de Programación y Presupuesto (SPP) — Secretariat of Planning and Budget

Secretaría de Relaciones Exteriores (SRE) — Secretariat of Foreign Affairs

Secretaría de Salud (SS) — Secretariat of Health

Secretaría de Turismo (SECTUR) — Secretariat of Tourism

Secretaría del Trabajo y Previsión Social (STPS) — Secretariat of Labour and Social Welfare

Sociedad Anónima de Capital Variable (S.A. de C.V.) — a corporation with variable capital, commonly referred to in Canada as an incorporated company

Sociedad de Responsabilidad Limitada (S. de R.L.) — a limited liability company

Sociedad en Nombre Colectivo (S. en N.C.) — a general partnership with unlimited liability

Sociedad Nacional de Investigaciones (SNI) — National System for Researchers

Universidad Nacional Autónoma de México (UNAM) — National Autonomous University of México

WD — Western Economic Diversification

HELP US TO SERVE YOU BETTER

We are interested in your views on this publication. Please take a few minutes to respond to the questions below.

1. What is your overall opinion of this publication?
   - ☐ **very useful**
   - ☐ **useful**
   - ☐ **moderately useful**
   - ☐ **not useful**

2. Please provide your assessment of each of the following aspects of this publication.

   a) Quality of text discussion (mark one only):
   - ☐ **excellent**
   - ☐ **good**
   - ☐ **fair**
   - ☐ **poor**

   b) Presentation of information (mark one only):
   - ☐ **excellent**
   - ☐ **good**
   - ☐ **fair**
   - ☐ **poor**

   c) Use of graphics and other visual aids (mark one only):
   - ☐ **excellent**
   - ☐ **good**
   - ☐ **fair**
   - ☐ **poor**

3. If this publication were updated, revised and re-issued in the future, would you be interested in receiving a copy?
   - ☐ **yes, very interested**
   - ☐ **probably interested**
   - ☐ **no, not interested**
   - ☐ **not sure**

4. How did you find the structure and format of this publication?
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   - ☐ **confusing and difficult to follow**

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   - ☐ **yes, definitely**
   - ☐ **to some extent**
   - ☐ **no**
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6. This publication would have been more useful to me if it had (mark all that apply):
   - ☐ **provided more qualitative information**
   - ☐ **provided less quantitative information**
   - ☐ **made greater use of graphs, charts and tables**
   - ☐ **contained a longer textual discussion**
   - ☐ **contained a shorter textual discussion**
   - ☐ **used more examples, case studies, company profiles**

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   - ☐ **yes — please specify:**

   ____

   ____

   ____

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   ____

   ____

   ____

9. Please offer any suggestions for improving the next version of this publication.

   ____

   ____

   ____

10. Will this publication assist you in your business development?

    ☐ **yes** ☐ **no**

11. a) Does your company currently export?
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    - ☐ **No, go to 11 c)**

    b) If yes, to which foreign markets?
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    - ☐ **Mexico** ☐ **Latin America**
    - ☐ **Other (please specify)**______________

    c) If not, are you planning to export within the next 12 months?
    - ☐ **Yes, where?**
    - ☐ **U.S.A.** ☐ **Europe** ☐ **Japan**
    - ☐ **Mexico** ☐ **Latin America**
    - ☐ **Other (please specify)**______________

12. What is the approximate size of your company?
    - ☐ **under $1 million**
    - ☐ **$1 to 5 million**
    - ☐ **$5 and $10 million**
    - ☐ **over $10 million**

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Company: ______________________________

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