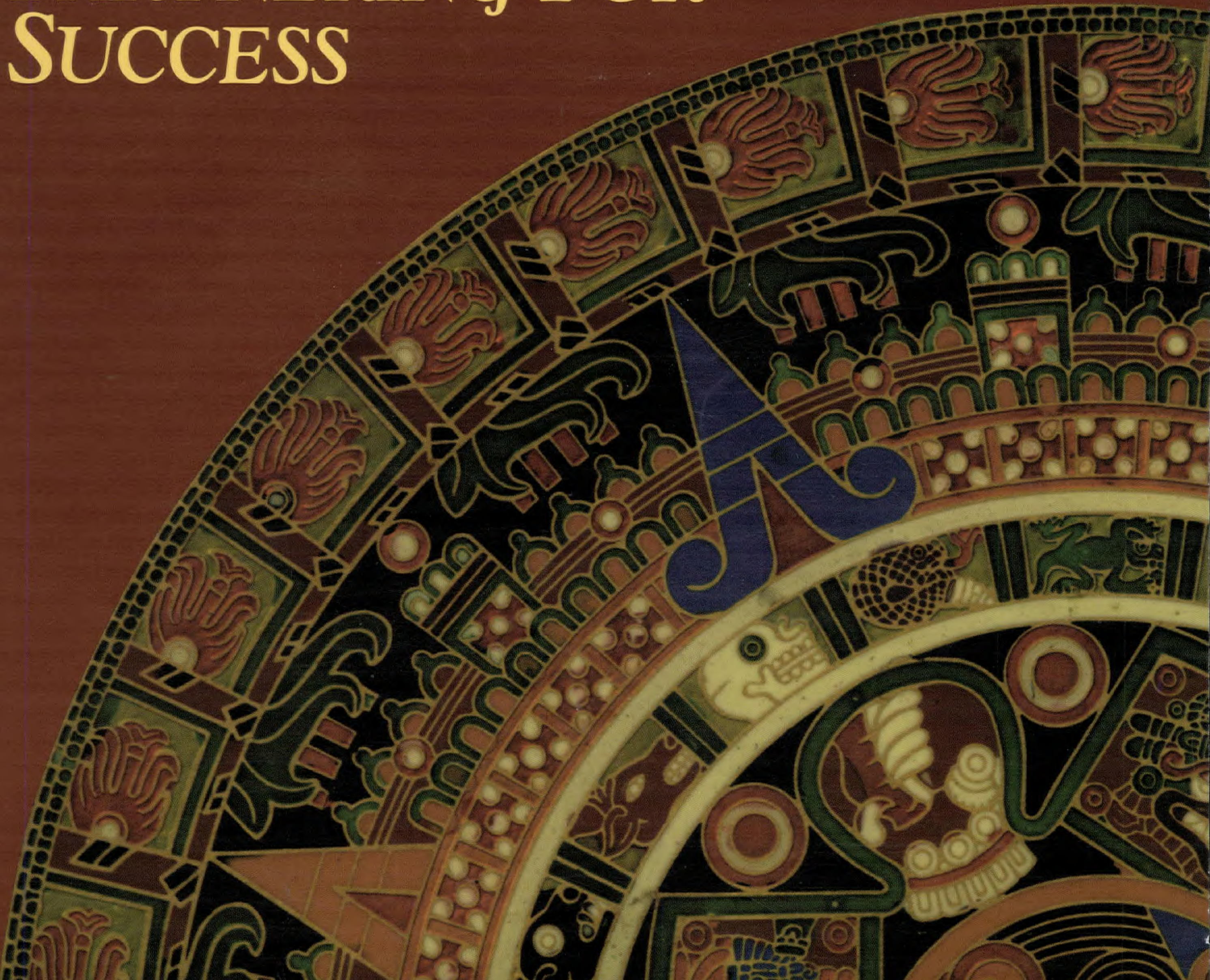
Third Edition

CANADA · MEXICO

PARTNERING FOR SUCCESS



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Atlantic Canada Opportunities Agency
Agence de promotion économique du Canada atlantique

Western Economic Diversification Canada
Diversification de l'économie de l'Ouest Canada

Canada — Mexico: Partnering for Success was developed jointly by Prospectus Inc. and Townsend Trade Strategies Inc.

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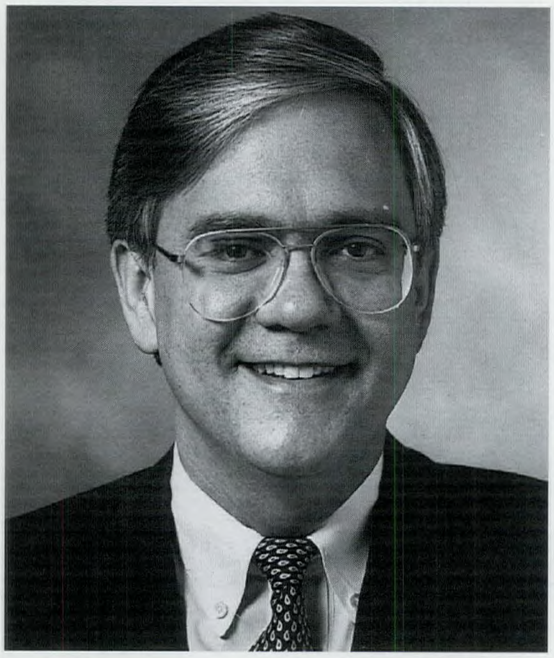
CANADA – MEXICO: PARTNERING FOR SUCCESS

A PROSPECTUS HANDBOOK

From the Bank of Montreal



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

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

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

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

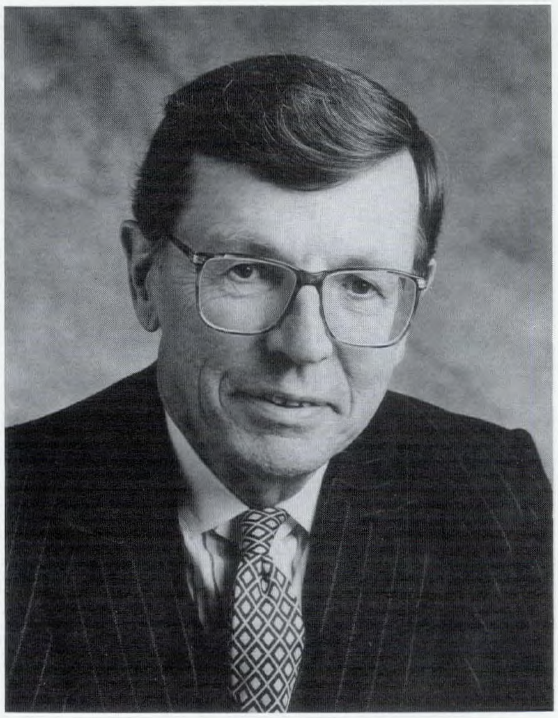
Today, at our more than 1200 branches in Canada and our affiliates and offices abroad, we are partners with our Canadian customers in meeting the challenge of the global market. At our representative office in Mexico City, we are ready to help our Canadian customers do business in the new Mexico. Our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

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

Jeffrey S. Chisholm
Vice-Chairman

Bank of Montreal
We're Paying Attention

From the Government of Canada



Mexico has emerged to take its place as one of the most dynamic economies in the world today. The reforms of the past decade have created a solid foundation for growth and development. At the same time, it has opened up the country to expanding trade and partnership with the rest of the world, including membership in the GATT.

Partnership is the key to Canada's relationship with the new Mexico. Cooperation between Canadian and Mexican companies now extends right across the economic spectrum. Two-way trade between our two countries has been expanding rapidly. It will reach $3.5 billion in 1993 making Mexico one of Canada's most important trading partners.

The North American Free Trade Agreement will further enhance the ability of Canadian companies to capitalize on the business prospects which exist in Mexico. As tariffs are eliminated over the next several years, a growing and increasingly dynamic North American market will be available to Canadian exporters and investors. It is a market within which Canadian companies must be prepared to compete effectively.

The Government of Canada is committed to the Mexican-Canadian partnership. As part of that commitment, it has joined with others in co-sponsoring *"Canada-Mexico: Partnering for Success"*, a publication specifically designed to inform Canadian companies about Mexico and provide them with the practical tools they need to do business there.

I am confident that this book will serve as a useful and informative starting point for Canadian firms interested in finding out more about Mexico and the opportunities it offers.

Yours sincerely,

Roy MacLaren

Roy MacLaren

From Baker & McKenzie

With more than fifty offices in 27 countries, Baker & McKenzie is the largest law firm in the world. In Mexico, the Firm has had a very significant presence since 1961. In Mexico City, the Firm operates locally under the name Bufete Supelveda and in all other locations in Mexico the Firm is known as Baker & McKenzie. The Firm currently has offices in the cities of Juárez, Mexico City, Monterrey, and Tijuana, with expansion plans to the other growing industrial regions in Mexico. A substantial percentage of all foreign companies establishing operations in the maquiladora regions have retained the services of Baker & McKenzie to assist them in all aspects of their endeavours in this regard.

The lawyers of the Firm combine expertise in Mexican law with an understanding of the business environment and governmental process in Mexico. The Firm enjoys an excellent reputation in business and government circles as one of the leading Mexican firms dealing with international and domestic business transactions. The lawyers from the four Mexican offices regularly meet with their Canadian counterparts to discuss coordination of business activities in the North American context and to encourage trade and investment activities between Canada and Mexico. Partners of the Mexican offices serve on a number of domestic and international bodies as representatives of both national business organizations and the Mexican Government. Partners of the Mexican offices regularly advise the Mexican Government on international business matters including the recent NAFTA negotiations.

The Toronto office, in existence since 1962, is an integral part of the North American practice of the Firm which includes nine offices in the United States and four in Mexico.

The areas of Firm expertise in Canada and Mexico include:

- Administrative Law
- Banking and Finance
- Corporate and Commercial
- Customs
- Environmental Law
- Foreign Investment and Maquiladora Law
- Health Law
- Immigration
- Intellectual Property
- International Trade
- Labour and Employment Law
- Real Estate, Tax and Transportation
- Tax

The Baker & McKenzie offices in Canada and Mexico work to assist Canadian companies to find the right partner to enable them to establish or expand business activities in Mexico. Whether a company's objective is to raise capital, establish a joint venture or strategic alliance, or begin exporting to the Mexican market, Baker & McKenzie offers a coordinated approach to ably facilitate entry to the Mexican market.

BAKER & McKENZIE

Bill Watson
(416) 865-6910

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(416) 865-6903

Western Economic Diversification Canada

Western Canada is responding to the growing business opportunities that have resulted from the liberalization of trade and investment in Mexico. From grain to aerospace to trucking, business people in each eastern Canadian province are looking forward and capitalizing on Mexico's increasing consumer demands and expanding markets. The North American Free Trade Agreement will further open the door and offer western Canadian exporters enhanced and more secure access to the Mexican market.

Business, the federal government, and the provinces need to work together to champion our common trade interests in Mexico and around the world. A coordinated and cooperative approach is needed in export promotion, transportation, research and development, and training. This will help boost our profile in global markets and revitalize economic renewal in Canada.

Our sponsorship of *Canada–Mexico: Partnering for Success* represents our commitment to a team approach in developing global opportunities for western Canada. I am pleased to bring you this informative and timely report in cooperation with our partners from the public and private sector.

I wish you success in your marketing efforts and hope this guide helps you in your business plans for Mexico.

Lloyd Axworthy
Minister
Western Economic Diversification Canada

Atlantic Canada Opportunities Agency

Mexico provides a large and growing market for Canadian goods and services. But success in Mexico also requires an extensive knowledge of the market. Potential exporters need relevant, up-to-date information on a wide variety of areas such as demographics, trends and shipping regulations.

The *Canada–Mexico: Partnering for Success* handbook, now in its third edition, is designed to assist Atlantic Canadian businesses as they seek to expand into the Mexican market. Besides giving a general overview of the business opportunities in Mexico, the handbook will help prepare export strategies. It also provides information about relevant Canadian government programs, as well as key contacts in Canada and Mexico.

Atlantic Canada's prosperity is directly linked to our success in the world marketplace. The handbook is only part of a larger strategy to increase market development. Working with other federal partners, the provinces and the private sector, the Atlantic Canada Opportunities Agency (ACOA) is helping to create jobs and wealth at home by helping Atlantic Canadian firms compete successfully abroad.

As Minister for ACOA, I hope that you will find this handbook informative and that it will help you in your effects to expand into the Mexican market.

Sincerely,

David C. Dingwall
Minister
Atlantic Canada Opportunities Agency

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Dr. Jan Fedorowicz is a specialist in international business development for small- and medium-sized business. He has written extensively on international trade and investment issues, producing books on doing business in Canada, Mexico, Poland and Asia Pacific, as well as assisting in the development and writing of books and training materials geared to developing Canada's international trade capabilities. He has lectured on business development issues at a number of universities and colleges in Canada. Prior to assuming his present duties as President of Prospectus Publications, he has been a professor, a broadcaster, a manager of international trade for a major business association, senior writer/editor in a leading Canadian corporation, and senior partner in a research and consulting firm.

Marvin Bedward

Marvin Bedward is President of Prospectus Inc., a publishing and consultancy group providing business information, business tools and advice for international business development and economic development. He is also a Senior Partner in Prospectus Associates in Corporate Development Inc., a firm with offices in Toronto, Montreal and Ottawa, with a special program established to find partners in Mexico for Canadian business. Mr. Bedward has provided marketing and investment advice to North American and European companies seeking to do business in Canada and the U.S.A. He has worked with companies in the U.S., Japan, U.K. and Canada to develop licensing agreements and locate partners for strategic alliances. As a former senior advisor and manager in the Canadian federal government, he helped develop strategies for the promotion of investment and industrial development. He is a co-editor of *Growing Your Business Internationally.* Mr. Bedward holds degrees in business from the University of Ottawa.

JoAnna Townsend

JoAnna Townsend is President and founder of Townsend Trade Strategies Inc. (TTS). TTS is a Canadian-based consulting company started in 1989 to respond to the growing demand by Canadian corporations for advice and guidance on developing international business opportunities in Latin America. Ms. Townsend has a strong background in international finance, marketing and risk management, and has worked extensively in Mexico, other countries in Latin American and Europe. Prior to founding TTS, Ms. Townsend worked with a major Canadian financial institution where she managed large debt, insurance and loan portfolios. She has an M.Sc. in International Business from the University of British Columbia and is fluent in English, French and Spanish.

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The Mexican States

Executive Summary

This is the third edition of *Canada-Mexico: Partnering for Success.* The popularity of the initial document and the importance of the Mexican business opportunity to Canadian business have argued in favour of reissuing it again. Readers familiar with the first two editions will find that this revision incorporates a few changes, including a discussion of recent events in Mexico, fresh statistics, and an expanded treatment of the North American Free Trade Agreement. The book's practical approach, however, remains unchanged.

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

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

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

Success in Mexico cannot be taken for granted; Canadian business requires detailed knowledge of the market, including information about demographic characteristics, current economic trends and regional variations, in advance of preparing a business plan. And with an understanding of the business environment, potential exporters must be flexible enough to provide goods and services in a form that matches the target market's requirements. Of course, exporters must also be familiar with the conditions and regulations governing the shipment of products into the Mexican market.

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

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

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

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

Chapter I: The Emerging Economy provides an introduction to Mexico and a summary of its history, economy and public policy. It also discusses how the government's new National Development Plan addresses the country's economic challenges. The chapter goes on to examine the impact of foreign trade and investment on Mexico. It explains the operations of the *maquiladoras*, or foreign production zones, and how the Mexican government is using them to stimulate economic development. Finally, the chapter concludes with an overview of the North American Free Trade Agreement and a discussion of opportunities in other Latin American countries.

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

Chapter III: Mexico and Canada reviews the trade and investment relationships between the two countries. The chapter also examines key sectors of the Mexican economy and suggests those where opportunities for Canadian firms are most promising.

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

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

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

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

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

Chapter VIII: Relevant Canadian Government Departments, Programs and Services contains descriptions of Canadian government programs and services that can help you penetrate the Mexican market.

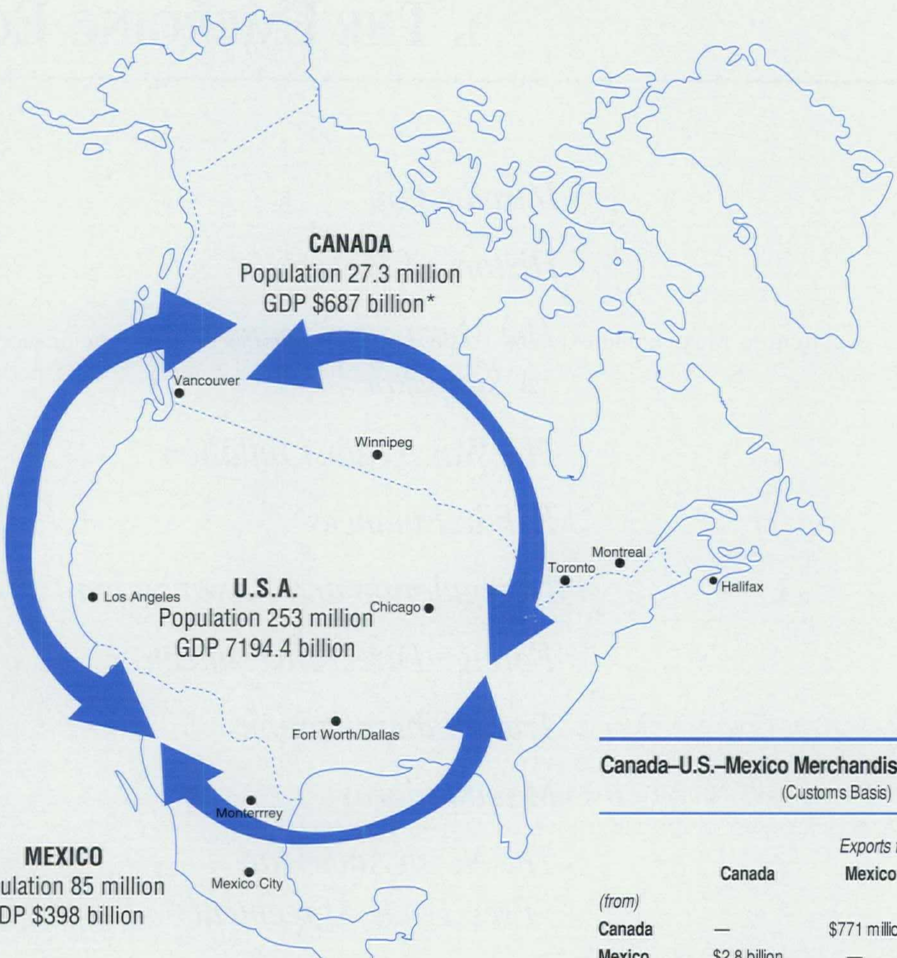
Chapter IX: Key Contacts and Addresses lists some of the most important institutions and offices both in Canada and in Mexico that can help a prospective exporter get started.

Chapter X: Glossary of Terms includes some of the most frequently used expressions and acronyms relevant to doing business in Mexico.

SECTION ONE: THE OPPORTUNITY

I. The Emerging Economy

THE NORTH AMERICAN MARKET — 1992



Canada–U.S.–Mexico Merchandise Trade Flows, 1992
(Customs Basis)

(from)	*Exports to* Canada	Mexico	USA
Canada	—	$771 million	$125.5 billion
Mexico	$2.8 billion	—	$42.6 billion
USA	$96.6 billion	$48.6 billion	—

Source: NAFTA: What's It All About? Foreign Affairs (1993), p. 3.

> If you are sitting in an office in Toronto, you are actually closer to the Mexican/U.S. border than you are to Saskatoon and closer to Mexico City than you are to Calgary.
> *Wilfrid Laurier University, 1992.*

All monetary values in this publication are stated in Canadian dollars unless otherwise specified.

In August of 1992, Canada, Mexico and the United States announced the conclusion of a North American Free Trade Agreement (NAFTA). Once implemented, the Agreement will pull down barriers to commerce among the three partners and create the largest free trade area in the world. At the time of writing (November 1993), NAFTA had been approved by Canada, Mexico and the United States Congress for proclamation in January 1994.

This handbook 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 current economic situation and describes Mexican society from a business viewpoint. It summarizes the basics of exporting to Mexico and explains how to develop an export strategy. It also shows how various types of partnerships between Canadian and Mexican firms can be used to help firms enter the Mexican market.

In addition, the handbook includes the names and addresses of Mexican and Canadian organizations and agencies that can help Canadian companies interested in taking advantage of Mexico's emerging opportunities.

With a population of at least 85 million, Mexico is the largest Spanish-speaking country in the world. Despite its great diversity of natural resources and a rapidly growing formal labour force that now stands at 26 million, Mexico has long been viewed as a *third world* country, resembling its Central and South American neighbours more than it resembles either the United States or Canada.

This traditional perception was reinforced by protectionism and state intervention of the kind that was found in many developing countries. Mexico was for a long time a closed economy, profiting from its oil resources but sheltering its domestic industries behind intrusive regulations and high tariffs. The collapse of oil prices, followed by a recessionary slump in the early 1980s, delivered a severe blow to Mexico. The country was forced to grapple with massive 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 President Carlos Salinas, came to power. Since then, economic reforms have been sweeping the country. The new leadership renegotiated the foreign debt, adopted a National Development Plan to revitalize the nation's infrastructure, and secured broad popular support from business, labour and the population at large for voluntary measures to restrain wages and prices as a way of reducing inflation and stabilizing the economy. Other key elements of the reform package have included: privatization of state-controlled enterprises, deregulation, massive investment in infrastructural development, and the encouragement of foreign participation in building efficient production capacity.

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

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. — 1521 A.D.

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

The Colonial Era: 1521 — 1821

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

Independence: 1821 — 1910

Mexico formally gained independence in September 1821. At that time, it covered a vast territory stretching from Oregon to Panama. By 1853, however, after a series of wars, Mexico was reduced to the territories that it occupies today, its economy was in ruins, and the conservatives who had led the country were discredited. Benito 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 thirty years marked the first extended period of peace as well as the onset of industrialization.

The Revolution: 1910 — 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 PRI *(Partido Revolucionario Institucional)* 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.

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

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

The Mexican Economy: A Snapshot

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

Carlos Salinas de Gortari

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

Mexico's once ailing economy is on the mend. Gross Domestic Product (GDP) grew by 2.6 percent to reach U.S. $323 billion in 1992, following a 3.6 percent increase in 1991. As a result, Mexico is now one of the 15 largest economies in the world. Economic growth is now easing off, however. This reflects both the impact of the U.S. and global economic slowdown, as well as the Mexican government's own actions to cool off the economy in order to stem the country's ballooning current account deficit, which reached U.S. $23 billion in 1992. Over the first six months of 1993, Mexico's economy grew by a modest 1.3 percent. Growth is expected to pick up again in 1994–95.

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

MEXICO'S REFORM AGENDA

Reduction in inflation: The government has persuaded business and labour to agree to a Pact for Stability and Economic Growth *(El Pacto)*. Under this instrument, each of the participants accepts general guidelines for increases in prices and wages and negotiates any exemptions with a Follow-up and Evaluation Commission. This approach has avoided the pernicious effects associated with a blanket freeze on prices and wages, and allows for some selective relative adjustment in wages and prices. As a result, Mexico's inflation rate has dropped from 159 percent in 1987 to 11.9 percent in 1992 and into single digits as of June 1993.

Renegotiation of the foreign debt: At the height of the crisis, Mexico was transferring the equivalent of 6 percent of its GDP abroad to service its debt. To stop the hemorrhage, the government renegotiated and restructured the debt. As a result, Mexico's foreign obligations to commercial banks were reduced by some 20 percent. At year-end 1992, total external debt stood at U.S. $106 billion, about 30 percent of GDP. While foreign holdings of Mexican financial instrument has lead to sizeable increases in the external debt, recently its share of GDP has continued to decline, falling below 40% in 1992.

Reduction in government deficits: A combination of spending cuts and fiscal and tax reforms has sharply reduced the state's budgetary deficit. 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 actually ran a surplus in 1992.

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

Liberalization of trading relationships: Even before 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. As a concrete expression of its commitment to trade liberalization, Mexico has concluded a North American Free Trade Agreement (NAFTA) with the United States and Canada.

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

Liberalization of foreign investment regulations: The government has adopted policies to encourage the inflow of investment capital. These include simplifying the rules governing foreign investment, easing restrictions on foreign ownership, and enhancing protection for intellectual property. As a result, U.S. $8.3 billion in new foreign investment entered Mexico in 1992, on the heels of a record U.S. $9.6 billion in 1991.

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

National Development Plan

Main Features:

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

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

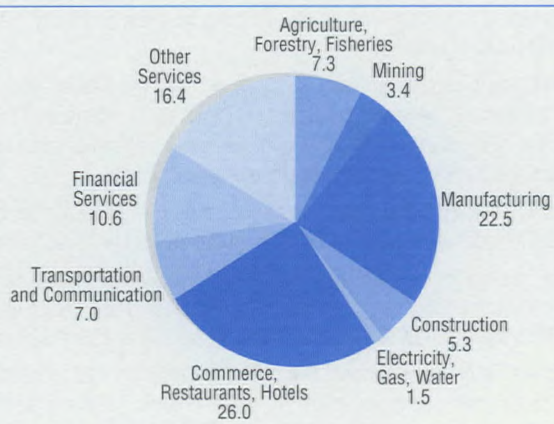
One important feature of the Mexican reform program has been the gradual withdrawal of the government from many areas of economic activity. In contrast to the past, it is now the private sector that is driving investment in Mexico. In 1992, gross domestic investment reached 22 percent of Mexican gross domestic product. Of this, private investment represented 17.9 percent of GDP and public sector investment only 4.9 percent. Private investment increased by more than 20 percent in 1992. A significant portion of private investment in recent years has been channeled into machinery and equipment, most of which is imported into Mexico. Sophisticated machinery and equipment is thus a key area of export opportunity for Canadian business in the Mexican market.

Though it is sometimes regarded as a developing economy, Mexico already displays many 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.

Most sectors of the economy have demonstrated positive growth in recent years (see Figure 1.2). The key industrial sector (mining, manufacturing, construction and electricity) posted overall growth of 2.8 percent in 1992. Construction, which grew 7.8 percent in 1992, continues to expand as a direct result of the government's strong commitment to infrastructural development. Mexico's poor public infrastructure is probably the most critical constraint on the country's economic growth. As a result, road and port construction have become major priorities. The government's highway program calls for the construction of 15,000 kilometres of four-lane highway by the year 2000.

The government has also moved toward deregulation and privatization in both transportation and communications. For example, Telmex, the state-owned telephone company, was privatized over 1990-91, and the heavily protected transportation industry is being opened to foreign competition. Output in the transportation and communications sectors grew 6 percent in 1991 and 7.6 percent in 1992. The overall expansion of Mexico's economy is placing new demands on transportation and communication services and fuelling the continued growth of these industries.

Figure 1.1
Composition of Mexico's Gross Domestic Product, 1992
(in percent)



Source: Bank of Mexico, "The Mexican Economy", 1993, p. 46.

Figure 1.2
Sectoral Growth Rates
(in percent)

	1991	1992
Agriculture	-1.4	-1.5
Industrial	3.1	2.8
Mining	0.1	1.3
Manufacturing	3.7	1.8
Construction	2.6	7.8
Electricity, gas and water	4.1	4.4
Services	4.1	3.1
Commerce	4.5	3.3
Transport/communications	6.0	7.6
Financial services	4.1	4.4
Other services	3.7	1.7
GDP	**3.5**	**2.6**

Source: DFAIT for 1991; Bank of Mexico, "The Mexican Economy" 1993 for 1992 figures and for the 1991 figures for services category, which were not available in original version of handbook.

The manufacturing sector grew by 3.7 percent in 1991, but growth slowed to under 2 percent in 1992. Strength in manufacturing output over the past few years has been concentrated in industries such as machinery and equipment, and automobiles. The electricity, gas and water sector has expanded significantly with the inclusion of nearly 2 million new electricity users since 1990.

The Mexican government has simultaneously pursued a broad reform strategy focused 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.

The War Against Inflation

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

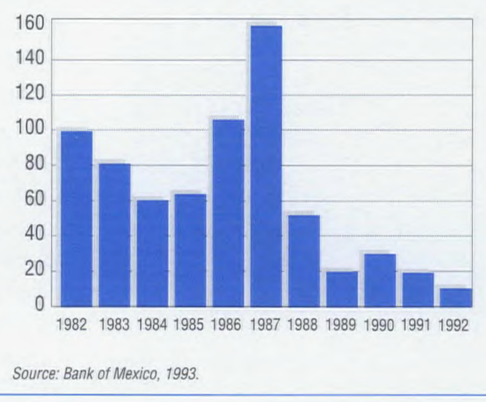
El Pacto was originally conceived as a tough four-year stabilization program. Introduced in December 1987, it was aimed at reducing inflation, which by then had reached annual rates of 160 percent (see Figure 1.3). Through a combination of tight fiscal and monetary policy, and wage, price and exchange rate controls, the program has been remarkably successful, reducing inflation to an annual rate of 11.9 percent in 1992. Inflation has continued to fall, reaching single digits in the middle of 1993.

Owing to the country's long history of high inflation, the Mexican peso has been devalued by some 23,000 percent over the past dozen or so years. At the end of August 1992, one U.S. dollar was worth approximately 3,000 pesos.

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

Calculating even simple transactions was proving to be extremely cumbersome. Therefore, in September 1992, the government announced its intention to introduce a new peso equal to 1,000 old pesos. The measure was not a devaluation but a re-denomination that amounted to eliminating three zeros from all prices. All 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 pesos. In time, the old peso will be withdrawn completely.

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



Source: Bank of Mexico, 1993.

Public Finances

An important part of the Mexican reform program has been the shift to much healthier and better managed government finances. Total public expenditure as a percentage of GDP has dropped from a high of about 45 percent in 1986 to under 30 percent in 1992. Moreover, the public sector's financial deficit has declined from a record 16 percent of GDP in 1987, to an actual surplus in 1992. The improvement in public finances has been achieved through a number of parallel measures, including the imposition of strict discipline over public spending, the reduction or elimination of government subsidies, reductions in the number of people on the public payroll, and the massive privatization of state-owned industries.

At the same time, the Mexican tax system has been substantially overhauled. The effective rate of taxation has been reduced by lowering rates, while the tax base has been broadened. The result has been higher overall revenues, despite lower tax rates. For businesses operating in Mexico, the basic tax on corporate income is now 35 percent, down from 42 percent in 1989. Personal tax rates have also fallen significantly. In addition, tax collection has improved in conjunction with tax reform, and enforcement of the tax laws has been stepped up.

Deregulation and Privatization

Citibank & Banesto

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

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

Size of the Mexico's Financial Services Sector

"Mexico is one of the most under-banked markets in the world. There is a great deal of room for growth in a market the size of Mexico."

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

The Mexican government has made a concerted effort to scale back regulations affecting industry and to privatize the enormous number of state-owned industries active in its commercial economy. The government started simplifying its economic regulations in 1983. Deregulation is intended to open up economic activity to private participation, promote competition, and make economic decision-making more market-driven and flexible. It has encouraged more players to participate in the economy while reducing the degree of direct government intervention in production. Significant regulatory adjustments have been made in the automotive industry, transportation, petrochemicals, mining, telecommunications, aquaculture and financial services (see box). The government's stated intention is to continue to press forward with additional initiatives to reduce the extent of regulation.

Turning to privatization, Mexico has made remarkable strides over the past few years. The number of state-owned enterprises has tumbled from more than 1,100 in 1982 to slightly more than 200 at the end of 1992. Today, the government retains sole control over only a small number of enterprises that it considers of strategic importance to the economy. These include PEMEX (the state-owned oil company), CFE (the electricity commission), *Ferrocarriles Nacionales de México* (the national railroad commission), and CONASUPO (the state-run system of agricultural marketing boards). Among the state-owned enterprises sold to the private sector in the past few years are all 18 formerly state-owned banks, two airline companies, and Telmex, the state telephone monopoly. The sale of the latter, with assets in excess of U.S. $10 billion, represented the third largest privatization in history.

The success of Mexico's privatization policy — now a model for many other Latin American countries — is attributable not just to the government's own commitments, but also to the enthusiastic response of Mexico's growing private sector and, to a lesser extent, to the participation of foreign investors. It should be noted that proceeds from the sale of Mexico's state-owned firms have improved the government's finances, while also providing funds for the expansion of education and health programs and for projects to modernize Mexico's infrastructure.

DEREGULATION IN VARIOUS INDUSTRY SECTORS

Automotive: Liberalized regulations opened the domestic market to imports, eased domestic content rules, eliminated controls both on production limits and models manufactured in Mexico, and loosened requirements on foreign currency compensation balances. NAFTA will further improve access to the Mexican market for Canadian and U.S. 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. A U.S. $1billion dollar annual reduction in transportation and production costs is foreseen as a result.

Petrochemicals: The products that comprise basic and secondary petrochemicals were reclassified. Both domestic and foreign private sectors were thus encouraged to participate more aggressively in petrochemicals. Deregulation in petrochemicals has also been facilitated by a reduction from 34 to 18 primary products whose production is reserved 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 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 paraffins, asphalts, lube oils and industrial greases. Canadian and U.S. companies will benefit from improved opportunities to invest in Mexico's petrochemicals sectors under 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 farming of shrimp, oysters, lobster and five other species have been opened to private investors, provided the activities are carried out on private holdings. Foreign ownership of up to 49 percent is allowed in such operations. Permits are no longer required and farmers need only comply with sanitary standards.

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

Source: Mexican Investment Board Handbook, 1991.

Foreign Direct Investment

With 72 percent of the 754 economic activities into which the Mexican economy has been classified now open to 100 percent foreign investment, ownership and opportunities for investment have multiplied. Domestic and foreign entrepreneurs will find many attractive opportunities in such growing industries as:

- agribusiness,
- chemicals and petrochemicals,
- construction,
- electronics and computers,
- financial services,
- mining,
- natural resources,
- steel,
- textiles,
- telecommunications,
- tourism, and
- transportation.

Source: Mexican Investment Board — Your Partner for Growth

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

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

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

Certain activities are categorized as "classified" and are reserved for the state or for Mexican nationals. However, trusts may be established for a period of 20 years in activities reserved for Mexican investors or in activities in which foreign investment is limited to a maximum of between 34 and 39 percent. These trusts may be authorized by the CNIE in order to improve the financial or operational condition of a company in a classified activity. In such cases, the foreign investment must take the form of cash or 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 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.

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

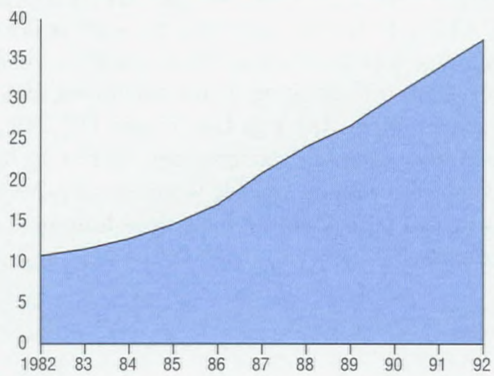
Where foreign investment exceeds 49 percent, the CNIE imposes additional criteria. It seeks investments that:

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

It should be noted that NAFTA will further liberalize access to the Mexican market for Canadian and U.S. investors. Over time, Mexico's laws governing foreign direct investment will be brought into conformity with those in place in Canada and the United States. Mexico will eliminate most screening of new foreign investment and will also scale back its screening of takeovers by Canadian and U.S. investors. On the date NAFTA enters into force, review of acquisitions of Mexican companies by Canadian and U.S. investors will be limited to those whose value exceeds a threshold of U.S. $25 million, rising gradually to U.S. $150 million over ten years. Investment restrictions affecting more than 700 sectors of Mexico's economy will be reduced to a few dozen. Liberalization of Mexico's investment regime under NAFTA will be particularly beneficial to Canadian investors interested in such sectors as mining, construction, secondary petrochemicals, agriculture, autos, financial services, and other business and professional services.

The liberalization of Mexico's investment regime has resulted in strong and rising inflows of foreign investment (see Figure 1.4). During 1992, total accumulated foreign investment rose 10.6 percent to reach an impressive U.S. $37.5 billion. A significant part of this inflow has taken the form of portfolio investment in Mexico's securities and equity markets. This has been coupled with the repatriation of capital that had left the country during the crisis of the early 1980s and that is now being encouraged to return. These large capital inflows have more than compensated for the growing trade deficit. In fact, foreign monetary reserves increased to a record high of U.S. $18.5 billion

Figure 1.4
Cumulative Direct Foreign Investment
(U.S. $ billions)



Source: Dirección General de Inversión Extranjera, SECOFI.

Criteria for Foreign Investors

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

1. investment in fixed assets during the pre-operative period does not exceed U.S. $100 million;
2. the project is funded from abroad;
3. the projects are located in areas other than Mexico's three largest metropolitan areas — Mexico City, Guadalajara, and Monterrey;
4. the investment creates permanent local employment and establishes worker training and personnel development programs;
5. technology satisfies current environmental requirements; and
6. imports and exports are anticipated to be in balance over the project's first three years of operation.

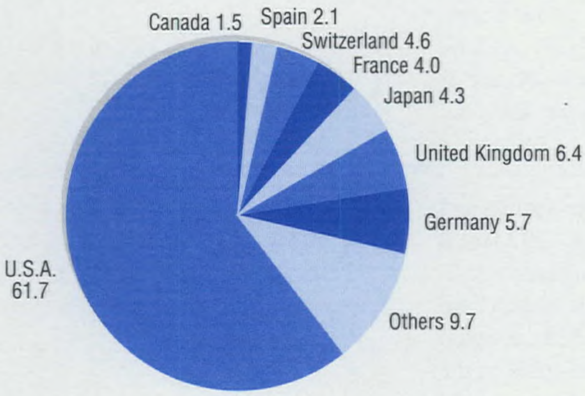
during 1992, up from U.S. $6.6 billion at the end of 1989. The high level in foreign reserves has helped to keep inflation in check and to edge it downward.

The United States is by far the single largest source of foreign investment in Mexico. By 1992, it accounted for more than 60 percent of the accumulated total (see Figure 1.5). The United Kingdom accounted for 6.4 percent, Germany 5.7 percent, Switzerland 4.6 percent, Japan 4.3 percent and France 4.0 percent. Canadian investment accounts for about 1.5 percent of the total.

By 1992, just over half of Mexico's cumulative foreign direct investment was in the industrial sector (see Figure 1.6). This is lower in relative terms than in 1982, when more than 75 percent of total foreign direct investment went to this sector. The shift is due to the substantial increase in foreign direct investment into Mexico's services sector over the past decade — up from 12 percent in 1982 to 40 percent in 1992.

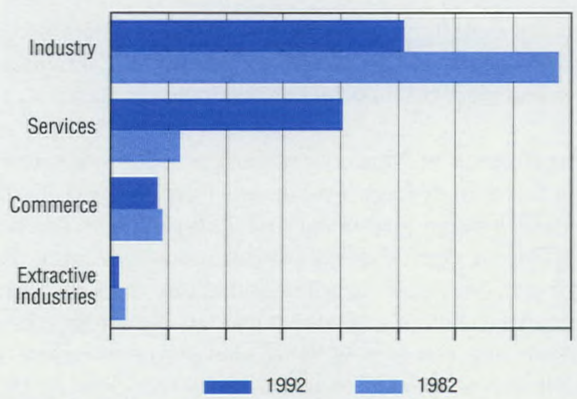
The key challenge for Mexico in the immediate future is to continue attracting large amounts of foreign direct investment. Its recent economic reforms have encouraged such investment both from the Mexican private sector and from foreigners. Ongoing reforms in the financial sector are improving market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

Figure 1.5
Direct Foreign Investment, 1992
(in percent)



Note: Total cumulative foreign investment U.S. $37.5 billion.
Source: Dirección General de Inversión Extranjera, SECOFI.

Figure 1.6
Sectoral Shares of Accumulated Foreign Direct Investment in Mexico, as of 1992
(in percent)



Source: SECOFI.

Trade Liberalization

One of the most important areas of the Mexican economy to be affected by the reform effort has been foreign trade. Until the early 1980s, Mexico pursued a protectionist industrial strategy based on import substitution. Since 1983, however, the government has radically altered course. It has liberalized Mexico's trade relationships in order to increase its participation in global markets and improve its international competitiveness. This significant shift in trade policy was marked by the accession of Mexico to full membership in the General Agreement on Tariffs and Trade (GATT) in July 1986. As part of its obligations under GATT, Mexico has reformed its tariff structure to bring it into line with practices in other countries. At the same time, it has been dismantling many traditional non-tariff barriers such as import licences (see Figure 1.7). As a result, what was once a closed economy has opened up significantly to commerce with the outside world. Indeed, Mexico's average weighted tariff today is lower than those of some developed countries.

Figure 1.7
The Liberalization of Mexican Trade
(in percent)

	1982	1989
Average tariff	27.0	13.1
Weighted average tariff	16.4	9.5
Number of rates (units)	16	5
Share of imports subject to licences (by value)	100	13

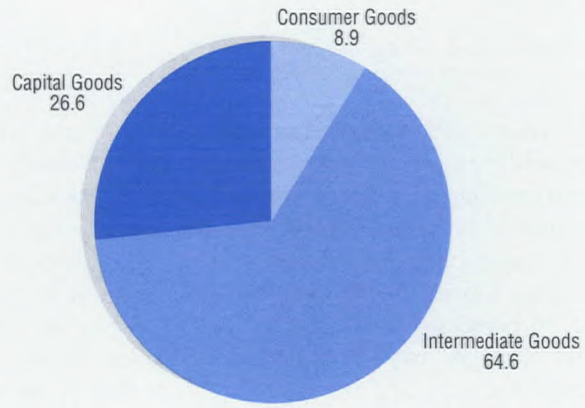
Source: DFAIT, Review of the Mexican Economy, p. 6.

To speed Mexico's integration into the larger international economic community, the government has pursued various regional free trade agreements. The most significant of these, of course, is the North American Free Trade Agreement concluded with Canada and the United States. The main provisions of this Agreement are reviewed later in this chapter. In addition, Mexico has entered into a free trade pact with Chile, and is negotiating similar arrangements with Bolivia, Colombia, and Venezuela as well as five countries in Central America.

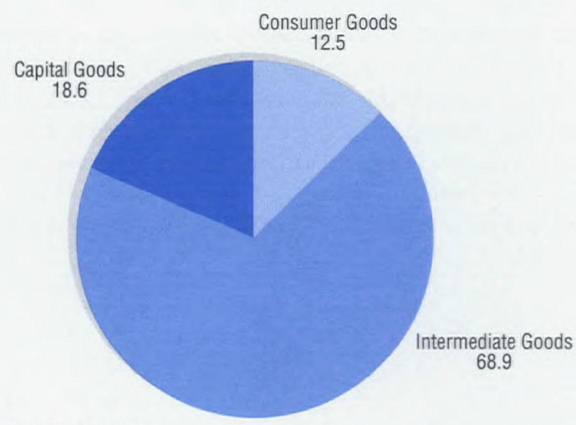
Imports: Perhaps the most dramatic consequence of recent changes to Mexico's trading regime has been a pronounced surge in imports. Traditionally, Mexico had limited imports and ran large trade surpluses with the outside world. After 1987, however, as restrictions on imports were eased, Mexico began purchasing larger volumes of imported goods and services, especially from the United States (see Figure 1.8). Total imports in 1992 reached an estimated U.S. $62.1 billion, up 24 percent over the previous year. Of this amount, slightly more than one-fifth went to the in-bond industry in Mexico for re-export and thus did not represent a net use of foreign currency.*

The dramatic growth in imports has led to a highly negative trade balance which, in turn, has contributed to Mexico's growing current account deficit. To some extent, the trade and current accounts deficits are not as serious as they might seem at first glance. For one thing, intermediate and capital goods constitute about 85 to 90 percent of all Mexican imports. This means that Mexico's import boom is being fuelled not so much by consumption as by investment in machinery, equipment and infrastructure — investments that will pay future dividends in the form of increased productivity, exports and competitiveness. In addition, notwithstanding its deteriorating current account, Mexico has been able to finance its rising external deficit with strong capital inflows. Total capital inflows, for example, were U.S. $24 billion in 1992. However, mounting concern over the size of and trend in the current account deficit prompted the Mexican government to take steps to dampen the economy in 1993. Weaker economic growth has promoted a sharp slowdown in the growth of imports in the first half of 1993 which has encouraged a decline in the trade imbalance.

Figure 1.8
Import Structure, 1982
(in percent)



Import Structure, 1992
(in percent)



Source: Bank of Mexico.

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

Pedro Noyola, Under Secretary of SECOFI

** Beginning in 1992, the Mexican government changed the basis for calculating the country's foreign trade statistics by including the value of gross flows (imports and exports) of the in-bond, or maquiladora, industry. This has resulted in Mexico's past-year import and export statistics being restated at higher values.*

Exports: While Mexico's imports have surged in the past few years, its exports have also grown remarkably. In fact, between 1982 and 1989, Mexico's exports grew faster than those of the four Asian Tigers (see Figure 1.9).

Figure 1.9
Mexico and the Four Asian Tigers: A Comparison of Growth in Manufactured Exports, 1982-89
(in percent)

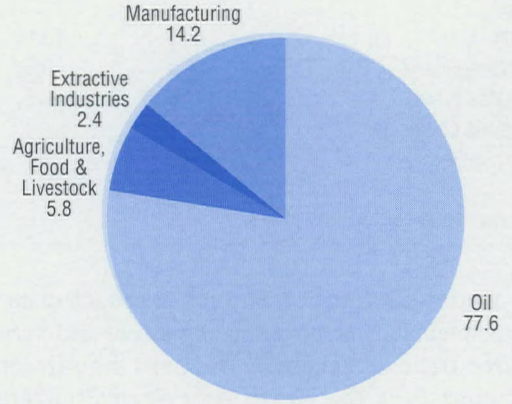
Mexico	450
Hong Kong	330
South Korea	280
Singapore	290
Taiwan	290

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

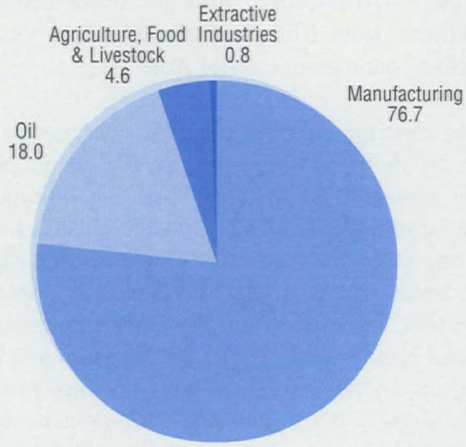
As a result of restructuring and Mexico's improved competitiveness as a location for certain kinds of manufacturing, significant changes have occurred in the structure of Mexico's exports. In particular, manufactured goods have replaced oil and oil products as its most important exports. In 1982, oil products accounted for more than 70 percent of total exports. Partly because of lower world oil prices, but also because of a dramatic increase in industrial activity and exports, today more than 70 percent of exports consist of manufactures and semi-manufactures. Within this sector, the automotive, chemical, electrical, steel, food and drink and tobacco industries are among the leading exporters (see Figures 1.10 and 1.11).

The Canada-U.S. bilateral trading relationship is the largest in the world. Mexico follows Japan as the United States' third largest trading partner. Mexico is Canada's most important trading partner in Latin America. With the reform in Mexican tariffs and licensing regulations, and the removal of other non-tariff barriers, two-way Canadian-Mexican trade grew from $2.4 billion in 1990 to $3.5 billion in 1992.

Figure 1.10
Export Structure, 1982
(in percent)



Export Structure, 1992
(in percent)



Source: Bank of Mexico.

Figure 1.11
The Most Important Products Traded by Mexico
(In percent)

Exports	1992*	1991	Imports	1992*	1991
Total	**100.0**	**100.0**	**Total**	**100.0**	**100.0**
Electric and electronic equipment	25.4	22.8	Electric and electronic equipment	17.7	17.9
Crude oil	16.1	17.0	Automobile parts	14.8	14.6
Automobiles and transport equipment	15.9	15.3	Chemical products	7.1	7.4
Chemical products	5.0	5.0	Iron and steel industry	5.6	6.0
Textiles and leather goods	5.0	4.7	Plastic and rubber products	5.1	5.1
Iron and steel industry	2.5	3.0	Textiles and leather goods	4.9	4.5
Machinery parts	1.8	1.9	Metallurgy	2.5	1.6
Plastic and rubber products	1.7	1.6	Computers and parts	2.4	2.4
Oil by-products	1.4	1.5	Professional and scientific equipment	2.0	1.9
Potatoes	1.4	1.5	Paper and editorial industry	1.8	3.6
Fresh vegetables	1.2	1.1	Fuel oil and gasolines	1.7	1.9
Professional and scientific equipment	1.2	1.1	Metalwork industry	1.4	1.0
Glass and glass manufacturers	1.1	1.0	Wood industry	1.3	0.9
Wood industry	1.1	1.0	Fresh and frozen meat	1.1	1.3
Computers	1.0	1.1	Sugar	1.1	0.5
Fresh fruits	0.9	1.0	Airplanes and parts	1.0	0.9
Mining	0.8	1.3	Photographic appliances	0.9	0.9
Cattle	0.7	0.8	Sorghum	0.9	0.7
Photographic appliances	0.7	0.6	Petrochemical products	0.8	1.0
Canned fruit and vegetables	0.6	0.6	Soybean seed	0.8	0.7
Coffee	0.6	0.9	Pumps and turbo pumps	0.7	0.8
Copper (in bars)	0.6	0.5	Textile machinery and parts	0.6	0.6
Petrochemical products	0.6	0.6	Milk powder and skim milk	0.6	0.2
Frozen shrimp	0.5	0.6	Edible oils and fats	0.6	0.8
Others	12.2	13.5	Others	22.6	22.8

**preliminary figures.*
Source: Bank of Mexico.

Maquiladoras

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

The Spanish word *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 increasing industrialization.

A large majority of Mexican maquiladoras are subsidiaries of U.S.-based companies and ship most of their output back to the U.S. Under U.S. tariff rules, maquiladoras that sell their output in the United States pay duty only on the Mexican value-added; no tariffs are levied in respect of the U.S. 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. U.S. companies became heavily involved in the 1970s when the combination of a devalued peso and increased competition from Asian-produced goods made low-cost manufacturing in Mexico an attractive means of remaining competitive. As a result, the program has blossomed. In just four years between 1986 and 1990, the contribution of the *maquiladoras* to Mexico's foreign exchange earnings rose by about 50 percent (see Figure 1.12). In 1990, for example, *maquiladoras* generated U.S. $3.6 billion in value-added foreign exchange earnings.

Total employment in Mexican maquiladora plants was estimated at approximately 460,000 in 1990.

Figure 1.12
Structure of Mexico's Foreign Exchange Earnings
(in percent)

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

Source: Bank of Mexico.

Further, the *maquiladora* industry, along with the automotive sector, have been Mexico's two fastest growing export sectors over the past several years. In 1992, exports of manufacturing products from the *maquiladoras* increased 18 percent versus 6 percent for the remainder of Mexico's manufacturing sector. The *maquiladoras* currently account for over 50 percent of non-oil manufacturing exports and 20 percent of total employment in Mexico's manufacturing sector.

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

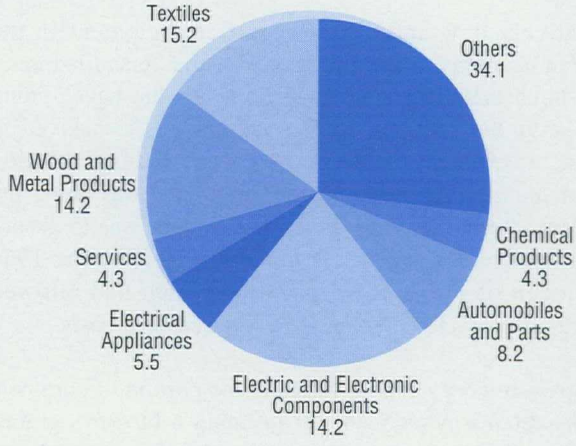
Originally based in textiles, the *maquiladoras* have diversified into such areas as consumer electronics and transportation equipment (see Figure 1.13). Although labour-intensive production continues to be the trademark of a *maquiladora,* they are now becoming more technologically-sophisticated. *Maquiladoras* are generally engaged in assembly activities, combining inexpensive Mexican labour and material with foreign technology, components and capital. The competitive wages and proximity to the U.S. border, together with competitive Mexican exchange rates, have allowed Mexico to compete directly and successfully with Southeast Asia for investment, particularly in manufacturing facilities.

There are three types of *maquiladora:*

1. **Subsidiary:** a wholly-owned subsidiary of a foreign company, allowing for the greatest possible degree of control and operational flexibility for the foreign investor. A majority of the more than 2,000 *maquiladoras* operating in Mexico are subsidiaries.

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

Figure 1.13
Composition of Maquiladora Industry by Main Activities, September 1990
(in percent)



Source: Conference Board of Canada, June 1992.

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

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

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

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

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

The rapid expansion of the *maquiladoras* has placed considerable stress on the environment. The Mexican government has awakened to the ecological danger. An integrated environmental plan for the Mexico-U.S. border area has been developed by SEDUE, Mexico's Secretariat of Urban Development and Ecology and the US Environmental Protection Agency (EPA). The first stage of *the Border Plan,* as it is known, extends through the 1992-94 period. It covers water supply and waste water treatment, solid waste treatment, highways and bridges, the supply of utilities to housing areas along the border, and the doubling of SEDUE's border area inspectorate to 200. The Mexican government has committed U.S. $460 million to the Border Plan for the three-year period starting with 1992. In addition, NAFTA will promote further efforts by Mexico to improve environmental conditions, both because it will enable Mexico to increase its standard of living and also because the provisions of the Agreement preclude lowering environmental standards and compel governments of signatory countries to enforce their own environmental laws.

With the phasing out of U.S., Mexican and Canadian tariffs on trilateral trade in manufactured goods under NAFTA, the distinction between maquiladoras and other foreign operations in Mexico should diminish and eventually disappear. Special Mexican government regulations presumably will no longer apply to maquiladoras, and such enterprises will thus have greater scope to sell their products in the Mexican domestic market. The move to zero tariffs on goods crossing the border will reduce the significance of Mexican and U.S. tariff provisions that have done much to spur the growth of the maquiladora industry. However, this development will not undermine Mexico's attractiveness as a location for certain types of manufacturing and processing. Mexico will continue to offer relatively inexpensive labour to entice foreign firms to establish assembly and manufacturing facilities that produce goods for export to the U.S. and elsewhere.

The North American Free Trade Agreement

In December 1992, the leaders of Canada, the United States and Mexico signed an agreement to eliminate trade and investment barriers among the three countries — the North American Free Trade Agreement (NAFTA) — which is scheduled to come into effect on January 1, 1994.

NAFTA will govern 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, NAFTA will eventually eliminate most tariffs and other trade barriers among the three countries. For Canadian business, an important feature of NAFTA is that it preserves and, in some cases, enhances the improved access to the United States achieved through the 1989 Canada-United States Free Trade Agreement (FTA). The accompanying box details some of the advantages that NAFTA has over the bilateral FTA from Canada's vantage point.

It should be noted that despite NAFTA, the removal by Canada and the U.S. of tariffs and other trade barriers affecting their mutual trade required under the terms of the

NAFTA expands on the gains of the FTA by providing for:

- elimination of most tariffs 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 U.S. safeguards;
- a reduced U.S. capacity to retaliate in dispute settlement cases;
- better access to U.S. and Mexican government procurement markets;
- the addition of an intellectual property chapter; and
- enhanced investment provisions.

Sectors of Immediate Opportunity

The initial impact of 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 NAFTA, including:

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

FTA will continue as scheduled in that Agreement. The timetable for phasing out remaining Canadian and U.S. tariffs on each other's goods under the FTA, for example, is unaffected by NAFTA.

NAFTA represents the extension of the FTA to a third country, with the result that Canada and the United States will now gain improved access to Mexico, while Mexico enjoys the same with respect to its two North American neighbours. But 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. NAFTA will also refine the rules of origin contained in the FTA. Once NAFTA is implemented, it will supercede the Canada-U.S. Agreement.

Key Market Access Highlights Under NAFTA

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 NAFTA;
- in five annual steps (1994-1998);
- in ten annual steps (1994-2004); and
- in fifteen annual steps (1994-2008) for a limited number of U.S. products.

Note that tariff phase-outs between Canada and the United States will continue as scheduled under the FTA.

Several products of strategic interest to Canadian business are targeted 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. (See box for additional examples of gradual removal of Mexican tariffs on Canadian goods).

The new rules on duty drawback in the Agreement 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:

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

The 1994 deadline established in the FTA for the elimination of drawback programs will be 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:

- 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.
- NAFTA prohibits the introduction of new customs user fees such as merchandise-processing fees. In addition, Mexico will eliminate its existing customs processing fee by June 30, 1999 and the U.S. will eliminate its current merchandise processing fee by January 1, 1994.
- Customs administration procedures have been improved under NAFTA.

  These 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.

Specific Sector Highlights

Automotive
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); and
- gradually eliminate its tariff on all other vehicles over ten years.

This will result in a fully integrated market for autos and auto parts.

Automotive goods must have a specified percentage of North American content to qualify for preferential tariff treatment within NAFTA. This will increase to 62.5 percent over 8 years for passenger autos/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 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 NAFTA. In addition, a series of bilateral agricultural arrangements have been negotiated under this Agreement in response to the slow progress of the GATT Uruguay Round of multilateral trade negotiations. Mexican tariff phase-outs on Canadian agricultural products are summarized in Figure 1.14.

Ganong Bros.

Ganong Bros. is a confectionery company headquartered in St. Stephen, N.B. 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 their efforts in this area. It has a joint venture with a partner in Thailand and 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's efforts 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 couponing and sampling. The company has obtained contacts in Mexico through the Canadian Embassy, Canadian business associations, and the Department of Foreign Affairs and International Trade. It also takes advantage of Canadian government programs such as PEMD, official trade missions, and 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."

Highlights of NAFTA Environment Provisions

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 in NAFTA;
- allow any panel established to address an environmental issue to have access to environmental expertise to help in its deliberations; and
- 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, separate "side agreements" on the environment and labour standards negotiated by the three countries in 1993 will strengthen cooperation in these areas.

Figure 1.14
Agricultural Tariff Elimination under NAFTA By Mexico on Canadian Products

Immediate	Five years	Ten years
Rye	Mushrooms	Apples
Buckwheat	Peppers	Veg. oils
Broccoli	Frozen broccoli	Pork
Lentils	Frozen sweet com	Wheat
Raspberries	Canary seed	Cereal flours
Frozen blueberries	Barley	
Beef and cattle	Malt	

Services
NAFTA goes beyond the FTA and other international trade agreements in its broad coverage of services. Chapter 12 of 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 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 for 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 NAFTA.

Under NAFTA principles, no local presence generally will be required to sell a covered cross-border service. The parties have agreed to extend national and most-favoured-nation treatment to cross-border service providers from other NAFTA signatories. Each country has also agreed 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 currently in the FTA has been made a permanent feature of NAFTA. These procedures have been extended to Mexico to ensure transparency based on due process. In addition, Mexico has agreed to make the necessary amendments to its legislation and procedures to ensure consistent application of its antidumping and countervail duty laws.

Land transportation provisions will allow Canadian truckers to organize their North American traffic more efficiently. There will be greater freedom to provide trucking services and bus transportation services into Mexico. NAFTA will allow truckers to carry cargo from one country to the other, but it reserves local cargoes for truckers based in that country. For example, Canadian truckers will be able to 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 NAFTA, a significant part of the U.S. and Mexican ***government procurement*** markets will be opened to Canadian suppliers on a non-discriminatory basis. This was achieved despite the fact that Mexico is not a party to the GATT Procurement Code. In particular, Canada will have access to Mexican government procurement by its petroleum and electricity monopolies, PEMEX and CFE, as well as its petroleum and electricity institutions. In addition, access to U.S. government procurement markets will be enhanced. NAFTA will give Canadian suppliers improved access to goods, services and construction contracts with a total value of over $70 billion, up from $20 billion under the FTA and GATT.

Under the FTA, Canada entered into a comprehensive set of rules and obligations regarding inward and outward ***investment***. NAFTA goes further to guarantee national treatment — Canadian investors will be treated the same as Americans in the U.S. and as Mexicans in Mexico — and most-favoured nation status to NAFTA investors. All forms of performance requirements will be 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 among 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 will change its investment laws in accordance with NAFTA. Most screening of new investment will be eliminated and acquisition reviews will be curtailed. Mexico will be able to review acquisitions with an initial threshold of $25 million phased up to $150 million ten years after the Agreement is put into effect.

Canada maintains existing restrictions on sensitive sectors such as transportation, telecommunications, social services and cultural industries. Also, Canada's ability to review major foreign takeovers remains unaffected, with a review threshold of $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 effectively enforce their domestic labour and environmental laws.

Turning first to labour standards, 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. NAFTA also recognizes that difficult labour adjustment problems can sometimes arise with the removal of trade barriers. Thus, chapter 8 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 NAFTA causes or threatens "serious injury" to domestic producers.

The supplemental labour agreement, known as the North American Agreement on Labour Cooperation, provides for increased cooperation among 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, eventually, result in the assessment of a penalty (in the form of a monetary fine) against the non-complying NAFTA country.

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

The environmental "side agreement," known as the North American Agreement on Environmental Co-operation, 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.

Looking Beyond Mexico: Latin America in the 1990s

An important feature of NAFTA is the inclusion in the Agreement of an ***accession clause*** (Article 2204). This allows other countries to seek admission into the free trade area if they meet conditions determined by the parties to NAFTA. NAFTA itself will not have to be renegotiated each time a new member joins.

In the next few years, it is certain that other Latin American countries will seek to become part of NAFTA. Already, Chile, Argentina and Bolivia have expressed interest, and others are likely to follow. Given the prospect of additional NAFTA members from Latin America as well as the positive economic trends in the region, this section briefly discusses Latin America as a Canadian business opportunity.

Latin America: An Overview

With a population of more than 450 million (including Mexico), Latin America is becoming an increasingly important part of the global economy. Since the mid-1980s, many countries in the region have implemented far-reaching economic reforms. This has included trade liberalization, deregulation of much of the economy, a reduction in the role of the state in commercial activity, and policies to welcome foreign investment. There has also been impressive progress made toward democratizing political systems in Latin America. Like Mexico, a number of Latin American countries have succeeded in getting their foreign debt problems under control. Inflation has fallen from previous levels, although it remains alarmingly high in some countries, particularly Brazil. Government deficits have been substantially reduced in most countries.

Like Mexico itself, Latin America as a whole represents a significant opportunity for Canadian business — an opportunity that will assume a higher profile with the implementation of NAFTA. Gross domestic product in the region (including the Caribbean) is now close to U.S. $1 trillion. Average per capita income is more than U.S. $2,300. This figure is small by Canadian standards, but it obscures the presence of a growing number of increasingly affluent middle-class consumers. Looking ahead, the World Bank, the International Monetary Fund, the InterAmerican Development Bank and private economic forecasters all expect that Latin America will enjoy reasonably robust 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 decline associated with the "lost decade" of the 1980s, a legacy of high inflation, and the painful economic reforms implemented more recently, real (inflation-adjusted) per capita income in Latin America in 1991 was below its level ten years earlier. Poverty remains widespread. Rampant inflation is breeding economic instability in Brazil and some Central American countries. Still, there is no denying the region's potential. Significant capital inflows have returned, stock markets have performed well, direct foreign investment is on the rise, and the private sector is being freed from the shackles of state control.

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. Such regional trade arrangements include the Andean Pact (Venezuela, Colombia, Bolivia, Peru and Ecuador); the MERCOSUR group (Argentina, Brazil, Paraguay and Uruguay); and the Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua). Chile, Latin America's star economic performer which has built its recent success on an aggressive export strategy, has signed trade agreements with Mexico, Argentina and Bolivia. All of these developments are helping to set the stage for the possible evolution of 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 businesspeople 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 $3.2 billion, representing just 2 percent of all Canadian exports. Canadian imports from the region were higher, at $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 $2.4 billion and imports stood at about $3 billion. Figure 1.15 summarizes Canada's trade with Latin America in 1992.

Figure 1.15
Canada's Trade With Latin America, 1992
($ 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; DFAIT.

Focus on Selected Opportunities: Chile and Argentina

Apart from Mexico, Chile and Argentina are among the most promising Latin American markets for Canadian companies. Both have instituted sweeping economic reforms, dismantled many barriers to trade and foreign investment, and privatized state-owned industries.

Chile is likely to become the first new NAFTA signatory. In the past five years, its economy has grown by an average of more than 5 percent a year. Per capita GDP has risen from about U.S. $1,700 in 1988 to closer to U.S. $3,000 today. Chile's population is approaching 14 million, and its GDP now surpasses U.S. $40 billion. The 1993 World Competitiveness Report ranked Chile as the fifth most competitive newly industrialized country, after Singapore, Hong Kong, Taiwan and Malaysia. It scored particularly well 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 GATT, and it maintains few non-tariff barriers. Exports account for about 30 percent of its GDP. In the 12-month period ending in June 1993, Chile's exports reached U.S. $9.8 billion with imports running at U.S. $10.5 billion.

Two-way trade between Canada and Chile was $347 million in 1992. 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 $2.2 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 mining equipment, technology, services and related expertise.

With a population of some 33 million, Argentina is the third largest market in Latin America (after Brazil and Mexico). Gross domestic product is estimated to have reached U.S. $154 billion in 1992, making Argentina one of the region's richest markets based on per capita income. Since 1990, 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 spectacular: the economy grew by 9 percent in 1992, the country has experienced large capital inflows, and a degree of economic confidence has returned after a long period of decline. Having sharply reduced its tariffs and dismantled most non-tariff barrriers, 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. Exports in 1992 were valued at $101 million and are expected to rise by one-quarter or more in 1993. 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. There is growing interest in investing in Argentina among some Canadian companies 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.

II. THE MEXICAN MARKET

The Mexican Market: Basic Data

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

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

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

Growth Rate: Population growth moderated to 2 percent annually in 1992, down from an annual average of 3.5 percent in the 1970s and 1980s.

Main Towns: (population in '000s)

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

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

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

Languages: Spanish is Mexico's official language.

Measures: Metric system.

Time: Mexico City is 6 hours behind GMT.

Source: EIU Country Profile, 1993.

Opportunities and Challenges

Mexico's aggressive program of economic reform has had a dramatic impact on the economy. The country has experienced several years of strong economic growth. Despite the recent slowdown, all indications are that the economy will continue to grow at a steady pace as further restructuring occurs and as the country develops commercial partnerships around the world. Today's Mexican market offers a rich mix of opportunities and challenges (see box).

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

Mexico Today

Opportunities

- A strategic geographical location including a 3,234 kilometre border with the United States, coastlines facing Europe and Asia and a gateway into Latin America
- Access to the United States, the world's largest market, once the North American Free Trade Agreement is implemented
- A cost-effective and relatively young workforce of 26 million people that has been proven capable of delivering quality at a fraction of the labour costs common in the advanced industrialized economies
- Plentiful natural resources
- A rapidly growing and increasingly affluent domestic market of 85 million people
- A liberalized public policy climate which is becoming more supportive of private business activity and investment

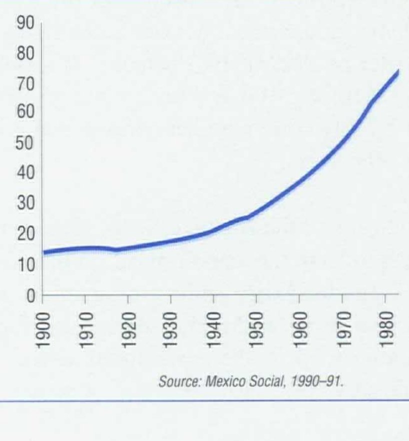
Challenges

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

Demographic Profile

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

Figure 2.1
Population Growth in Mexico
(millions of inhabitants)

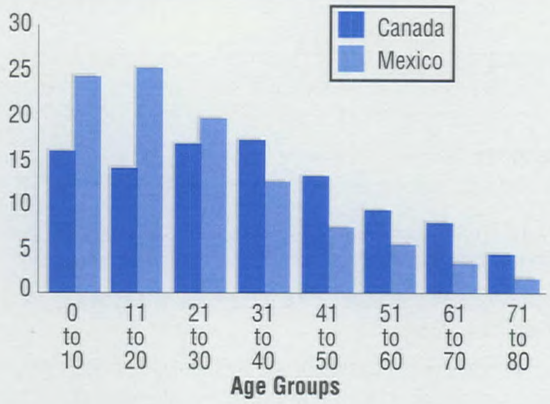


Source: Mexico Social, 1990–91.

One of the consequences of this growth in population is that Mexico is a relatively young society. A comparison of the age distribution among the people of Canada and Mexico shows that a larger percentage of Mexico's population is concentrated in the younger age brackets (see Figure 2.2). In fact, half of the country's population is below the age of 20. Since 1930, Mexico has gradually transformed itself from a rural to an urban nation. At present, 72 percent of the country's population lives in cities. Better employment opportunities in the urban centres were the driving force behind a general migration to the cities and corresponding redistribution of the population. Today, 38 percent of the country's population can be found in the states of Jalisco, Nuevo León, Puebla, and the Federal District where Mexico's four principal metropolitan centres are located. Together these four regions account for 53 percent of the nation's GDP.

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

Figure 2.2
Age Distribution of Canadian and Mexican Population
(percent of population, 1990)



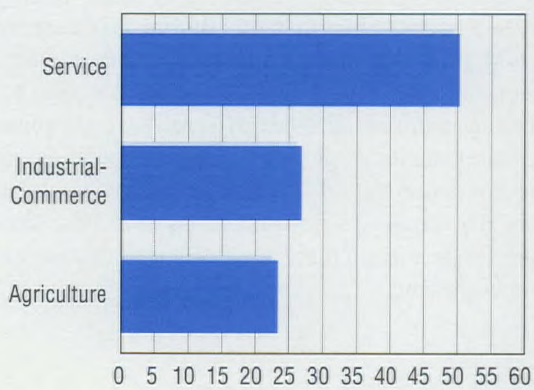
Source: Mexican National Institute of Statistics, Geography and Information (INEGI).

Employment

The current size of the Mexican labour force is estimated at 26 million, about 30 percent of the total population. This low participation rate reflects the fact that a large percentage of the population (about 38 percent) is under 15 years of age, and more importantly, that only about half of those of working age actually enter the formal labour market. (Many Mexicans work in the informal economy, discussed below). Unemployment levels are therefore difficult to measure, but the *Cuaderno de Información Oportuna* estimated Mexico's unemployment rate in the third quarter of 1992 at 10.3 percent. It should also be noted that even among those who do have jobs, under-employment is a fairly common phenomenon and is estimated to be as high as 19 percent.

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 a quarter of Mexico's workers are active in the industrial sector (see Figure 2.3). Almost one quarter work in the agricultural sector and about one half provide services.

Figure 2.3
Employment by Sector, 1992
(in percent)



Source: SECOFI.

The Informal Economy

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

Since most of those who operate in the informal sector are reluctant to discuss how they earn an income — for fear of ending up in the taxman's net — statistics are difficult to gather. CANACINTRA, Mexico's National Chamber of Industrial Transformation, estimates that 5.7 million people, or 22.5 percent of the economically active population, are engaged in informal activities, and that the value of their production is equivalent to at least 10 percent of Mexico's GDP. Other estimates point to an even larger informal economy. The private-sector Center for Economic Studies, for instance, believes that undocumented economic activity represents between 25 and 33 percent of Mexico's GDP.

The informal economy is measured in two different ways:

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

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

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

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

Education and Skills

The 26 million economically active Mexicans comprise the full range of unskilled, semi-skilled, managerial, and executive capabilities. The overall educational level of the population has improved dramatically in the last twenty years. In 1990, more than 25 million Mexicans had attained some level of formal education ranging from pre-school to postgraduate studies (see Figure 2.4).

The rapid growth of Mexico's population and its distribution have created a significant challenge for the National Education System. The 1989-1994 Program to Modernize Education has taken up this challenge by allocating an increasing portion of the federal budget to education. As a result, the educational budget grew from 6 percent of the total in 1989, to 13.7 percent in 1992. The specific objectives of this program are:

- to upgrade the quality of education;
- to expand access to educational services for all who need them;
- to link education, scientific research, technology and experimental development to the national requirements of Mexico; and
- to make education an ongoing process that involves the participation of the whole society.

These objectives are being met through an ambitious program of school construction and remodelling as well as an extensive scholarship program to provide students and researchers with economic support. In 1990, there were 154,000 schools in the country. Of these, 14,300 were private schools. There were also 1,600 technical and higher learning institutions, including 82 universities.

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

Regional Differences in Work Experience

In 1987, a New Jersey lighting manufacturer learned the hard way what the impact of local training differences could be. "It never occurred to anyone, including me, to look at the work experience of the labour force", confesses the marketing vice-president. Company representatives made a preliminary trip to Monterrey and Juárez 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.

Vitro Corporation

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

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

Figure 2.4
Enrollment by School Level

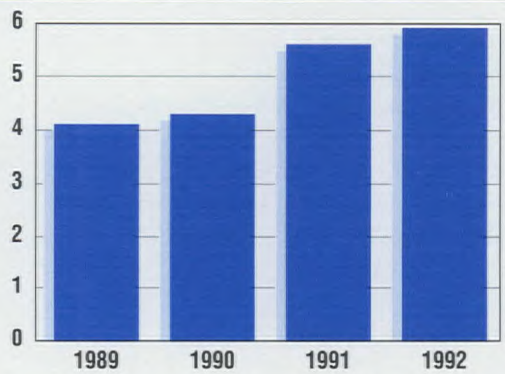
Level	1988-1989	1989-1990	1990-1991
Initial	100,817	104,397	105,201
Preschool	1,688,561	1,662,588	2,734,054
Primary	14,656,357	14,493,763	14,401,588
Secondary	4,355,334	4,267,156	4,190,190
Intermediate	427,686	413,481	378,894
High School	1,642,785	1,678,839	1,721,626
Bachelor College	126,676	118,501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

Source: The Mexican Agenda 1990-91.

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

The low average age of Mexican workers makes them willing to learn and implement new systems. As a result, the productivity of the Mexican labour force has increased steadily over recent years. An example of this is the number of international quality awards won by Mexican automotive divisions of U.S. car manufacturers. Indeed, average productivity growth per worker in the manufacturing sector has increased steadily from 3.2 percent in 1988 to 5.9 percent in 1992 (see Figure 2.5).

Figure 2.5
Average Productivity Growth in the Manufacturing Sector
(in percent)



Source: Estadística Industrial Mensual, INESI, 1993.

Science and Technology

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

In order to promote research in science and the humanities, to encourage technological development, and to stem the so-called "brain drain" through emigration of Mexican scientists to other countries, the government has placed strong emphasis on the National System for Researchers (SNI). This program provides economic incentives that are distributed according to the academic merit of the scientists and the nature of the research.

The number of researchers in the program has grown from 2,653 in 1988 to 3,520 in 1990. Further growth was projected for 1992 which would amount to a 70 percent increase over four years. The number of actual research projects has increased by 32 percent over the same four-year period.

Income Levels

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

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

On a per capita basis, Mexico's GNP is only about one seventh of that of Canada. The year 1991 marked the nineteenth consecutive year that the minimum wage in Mexico dropped in real terms. Overall, between January 1986 and June 1991, the real minimum wage fell by 47 percent. As partial compensation for this fall, the government increased the minimum wage by 12 percent to U.S. $4.12 per day, net of benefits, as of January 1992. On January 1, 1993, the minimum wage was increased another 8 percent from 12.1 to 13.1 new pesos per day. About 20 percent of the population earns this minimum wage but another 17 percent actually receives less.

Despite the overall softness in Mexican wages, there has been some recovery in the wages paid in the manufacturing sector since 1988. Average real earnings have risen every year since 1988, with a 9.8 percent increase in 1992. Certain divisions within the manufacturing sector — those employing the most productive workers — have experienced significantly higher real wage gains. Such sectors included: basic metals (15.5 percent), metallic products, plant and machinery (12.3 percent); and printing and publishing (11.2 percent). Between 1989 and 1992, average wages per worker increased 29 percent after inflation is taken into account.

In addition to wages, most Mexicans receive fringe benefits (see Chapter VI) which — in the case of the *maquiladoras* — amount to as much as one third of a worker's total compensation package.

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

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

Main Regional Markets

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

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

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 20 million inhabitants, Mexico City (most often referred to in Mexico as D.F. for *Distrito Federal* or Federal District) is the largest city in the world. Located in the southern part of the Valley of Mexico, at an altitude of 2,260 metres, the city proper comprises 376 square kilometres. The entire Federal District covers 1,479 square kilometres.

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

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

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

Guadalajara: Capital of the state of Jalisco, Guadalajara is Mexico's second-largest city. It has a population of 3.5 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 "Silicón Valley" has emerged where world industry giants such as IBM, AT&T, Motorola, Hewlett-Packard, Mitel and Unisys have established operations.

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

Monterrey: The capital of the state of Nuevo León, Monterrey is situated in the northeast corner of the country about 240 kilometres from the Texas border. It has a population of about 3.4 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, which are all owned by branches of two local families, rank among the largest enterprises in the country and have considerable international exposure.

Since 1982, when the Mexican market collapsed and the debt crisis hit the country, the city's leading industrial conglomerates have been quietly restructuring, striking up joint ventures, modernizing, expanding into new markets, and investing heavily in their core sectors. In 1991 alone, the ten largest Monterrey groups invested close to U.S. $2 billion and achieved sales of around U.S. $10 billion.

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

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

- *León* is located in the state of 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 focused on textiles, it has now become a centre for the automotive industry.

Monterrey's Industrial Groups

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

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

Grupo Cydsa: Dominating Mexico's petrochemical industry, Grupo Cydsa began in 1945 as a manufacturer of continuous rayon filament. Today, Cydsa operates in four areas of activity: fibers, film, packing, and basic chemistry and runs an international division. Cydsa produces cellophane films, bio-oriented polypropylene, acrylic fibers, resin, and P.V.C. piping.

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

Valores Industriales, S.A. de C.V. (Grupo VISA): This group specializes in the food and beverage, and packaging businesses. It began in 1980 as Cervecería Cuauhtemoc, a brewery, and has grown to become one of the main industrial groups in the country.

- *Ciudad Juárez* in the state of Chihuahua is located on the U.S. border. Its *maquiladoras* produce electronic components, automotive parts and textiles.

- *Torreón* is one of the industrial centres of Coahuila state which borders on the United States. The state is known for its mineral resources, its iron and steel industry, as well as a growing automotive industry.

- *Tijuana*, in the state of Baja California, is located on the border with the United States. Its economy is based on a booming *maquiladora* industry. The city contains important industrial centres which provide investors with attractive opportunities.

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

- agriculture and food products (coffee, cocoa, fruits and vegetables, sugar cane, livestock, rice, corn, cereals, wine, beer) especially in the more fertile and tropical south of the country;

- mining, which is especially appealing given the vast abundance of minerals (gold, silver, manganese, lead, copper, zinc and iron) located in many of the country's 31 states;

- oil and gas extraction and petrochemical processing, especially in the coastal and offshore regions such as, Campeche and Veracruz;

- processing and manufacturing (automobiles, textiles, machinery, electronic components, appliances, pharmaceuticals), especially in the regions along the border with the United States — Baja California, Coahuila;

- fishing and seafood processing along Mexico's long Pacific Coastline and the Yucatán Península;

- 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 Península.

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. SECOFI maintains representative offices in each state to provide foreign investors with information on the opportunities available in each region.

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

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

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

III. MEXICO AND CANADA: THE OPPORTUNITY

Trade

Canada and Mexico have only just begun to develop their trading partnership to its full potential. In 1992, Mexico ranked fifth as a source of imports to Canada and fourteenth as a destination for Canadian exports. Less than 2 percent of Canada's 1992 imports came from Mexico while less than 1 percent of Canada's exports went there. Even so, Canada's trade relations with Mexico are broader and more substantial than with any other country in Latin America. Two-way trade totalled more than $3.5 billion in 1992 (see Figure 3.1), and recent trends suggest that it could easily double in the next few years.

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

	Exports to Mexico	Imports from Mexico	Total Two-Way Trade
1985	398,740	1,325,999	1,724,739
1986	403,583	1,163,433	1,567,016
1987	530,168	1,165,406	1,695,574
1988	500,800	1,327,729	1,828,529
1989	603,100	1,698,400	2,301,500
1990	643,400	1,729,800	2,373,200
1991	560,700	2,579,800	3,140,500
1992	770,600	2,751,100	3,521,700

Source: Statistics Canada.

Figure 3.2
Canadian Exports to Mexico
($ million)

	1990	1991	1992	Percentage change 92/91
Motor vehicle parts	109.4	127.1	157.6	24
Iron and steel products	67.7	46.3	87.8	90
Aircraft and parts	39.1	17.3	20.8	20
Bituminous coal	0	2.2	32.1	1359
Telecom equipment & parts	40.0	21.8	61.0	180
Newsprint	15.9	34.9	28.3	-19
Asbestos	13.4	16.0	12.7	-21
Milk powder	72.5	13.4	24.9	86
Sulphur	28.8	19.8	7.5	-62
Rape or colza seeds	0	0	13.0	—
Meat & livestock	23.6	31.6	49.9	58
Wood pulp	27.7	21.2	20.2	-5
Copper	0	0	12.2	—
Furniture and furnishings	0.9	2.4	7.0	192
Electrical boards and panels	0.6	0.1	7.2	—
Barley, oats and canary seed	0.7	5.1	9.4	84
Petroleum oils	5.1	16.1	6.9	-57
Wheat	8.4	25.0	108.7	335
Others	189.3	160.5	103.5	-36
Total	**643.4**	**560.7**	**770.6**	**37**

Source: Statistics Canada.

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

Canadian exports to Mexico have been slower in catching up, in part because Mexico only began reforming its trade rules after it joined the GATT in 1986. While this has now 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 North American Free Trade Agreement is fully implemented.

The asymmetrical nature of their respective trade regulations has made it easier for Mexicans to export to Canada than for Canadians to export to Mexico. Mexico's trade surplus with Canada declined slightly in 1992, but still remained stubbornly high at about $2 billion.

Canadian exports to Mexico increased 37 percent in 1992, recovering from a 13 percent drop one year earlier (see Figure 3.2). This export performance can be attributed to stronger Mexican demand for Canadian wheat, iron and steel products, coal products, copper, telecommunications equipment and parts, motor vehicle parts, milk products, and meat and livestock. Since 1985, Canada's exports to Mexico have almost doubled, rising by approximately 93 percent.

Meanwhile, imports from Mexico grew by nearly 7 percent in 1992. Most of this increase can be attributed to imports of radio, telephone and audio equipment, automotive parts, petroleum oils, and air filtering systems (see Figure 3.3). Since 1985, imports from Mexico have more than doubled, rising 107 percent.

Figure 3.3
Mexican Exports to Canada
($ million)

	1990	1991	1992	Percentage change 92/91
Automotive vehicles	127.7	716.2	602.1	-16
Automotive parts	436.3	538.2	688.4	28
Radio, telephone, audio equipment	146.6	143.5	199.4	39
Ignition wiring sets	89.2	105.0	118.8	13
Engines & engine parts	300.2	224.9	139.4	-38
Vegetables	79.3	48.6	43.1	-11
Petroleum oils	56.8	97.6	188.4	93
Air conditioners, fans, parts	32.0	57.0	73.1	28
Fruit, coffee & nuts	68.5	56.8	55.5	-2
Air filtering systems (industrial)	33.6	26.7	66.4	149
Kitchen appliances (small)	13.7	23.3	—	—
Carpets, fabrics & yarns	27.8	30.2	31.7	5
Springs (iron or steel)	10.4	15.4	14.3	-7
Furniture	33.6	21.2	14.9	-30
Toys	12.6	12.2	—	—
Clothing	9.1	11.5	13.5	17
Glass articles	12.8	15.7	—	—
Data processing machines & parts	—	127.8	105.7	-17
Electrical lighting and signalling equipment	—	27.5	34.1	24
Beer, wine and spirits	—	15.5	17.7	14
Others	239.6	265.1	344.8	30
Total	**1,729.8**	**2,579.8**	**2,751.1**	**7**

Source: Statistics Canada.

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

Market reforms: Mexico's desire to upgrade its technological capability and global competitiveness will create more opportunities for Canadian technologies, manufactured products and services. Canadian exporters in the telecommunications, plastics, automotive, machine tooling and metal working sectors have already been able to penetrate the Mexican market successfully, achieving significant sales from strong marketing efforts.

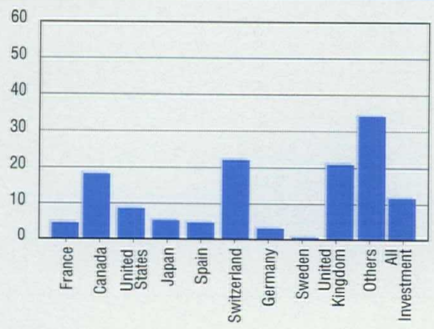
In March 1990, an Agreement on a Framework for Consultations on Trade and Investment was signed by Canada and Mexico. A similar framework agreement has been signed by the governments of the United States and Mexico. When the North American Free Trade Agreement is fully implemented in 1994, commercial opportunities will expand even further. Moreover, Canadian firms that have developed strategic positions in Mexico can expect to reap additional benefits from their experience in this Latin American market as they move to tackle the growing markets of South America.

Investment

Canada's economic relationship with Mexico goes beyond trade. It includes investment links developed by many Canadian companies as a way of enhancing and extending their trading activities. There is, for example, a market of close to 400 million people south of Mexico in Latin America.

By the end of 1992, accumulated Canadian direct investment in Mexico totalled U.S. $580 million. During 1992 alone, Canadians invested U.S. $88 million in Mexico, a substantial 18 percent increase over 1991. Canadian investment still comprises only 1.5 percent of total foreign direct investment in Mexico, with a ranking of ninth in 1992. However, it is growing more quickly than investment from all other countries except Switzerland and the United Kingdom (see Figure 3.4).

Figure 3.4
Fastest Growing Sources of Foreign Investment in Mexico, 1992
(increase over 1991 in percent)



Source: SECOFI.

Many investors remain cautious in their approach to Mexico. They are waiting to see if the country will continue along its current course of fundamental economic reform and transformation, and they want to be reassured that the Mexican economy will remain stable throughout this process. Even so, more Canadian companies are making inquiries, participating in trade missions and positioning themselves to profit from the new Mexican investment climate. The Canadian Embassy in Mexico City reports that over 4,500 Canadian firms visited its commercial division in 1992, up from 2,200 in 1991 and 193 in 1988. This trend is expected to continue after NAFTA is implemented on January 1, 1994.

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

Figure 3.5
Examples of Canadian Maquiladora Operations

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

Source: The Conference Board of Canada.

At present, there are more than 200 Mexican companies that have some capital participation by Canadians, concentrated primarily in the manufacturing and service sectors, in commerce and in the mining sectors. Canadians hold a majority of the shares in about a third of these firms and a minority position in the remainder. Among the most prominent Canadian companies investing in Mexico are Northern Telecom and Magna International Ltd. Northern Telecom has invested about U.S. $60 million in Mexico while Magna, an Ontario-based auto-parts manufacturer, has a U.S. $10 million investment in southern Mexico to produce bumpers for Volkswagen.

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 strict exchanges of merchandise. In many cases, trading relations can only be established on a viable footing if they are supplemented by some form of investment. Foreign investment, in effect, has become key to enhancing exports and thus expanding domestic economic activity.

It is no coincidence that most of Mexico's major trading partners are also its most significant sources of foreign direct investment (see Figure 3.6). In many cases, the Mexican market would have been inaccessible to exporters if it were not accompanied by some form of in-country investment, a condition which is set to change under NAFTA. Companies are using ventures in Mexico as a foundation upon which they can build a solid and expanding trade relationship. In the past, Canadian trade with Mexico was impeded by the absence of such developed, ongoing and substantive linkages between the two countries. Today, Canadian business people are showing a growing interest in Mexico's long-term potential and are looking for Mexican partners with whom they can develop mutually beneficial relationships.

Figure 3.6
Mexico's Leading Trade and Investment Partners: A Comparison, 1992
(in percent)

Top Two-Way Trade Partners and Share of Total Trade		Top Ten Foreign Investors and Share of Total FDI	
United States	75.2	United States	61.7
Japan	3.5	United Kingdom	6.4
Germany	2.8	Germany	5.7
Canada	**1.9**	Switzerland	4.6
Spain	1.9	Japan	4.3
France	1.7	France	4.0
Italy	1.0	Spain	2.1
Taiwan	0.6	**Canada**	**1.5**
Brazil	0.5	Sweden	1.0
Argentina	0.5	Italy	0.2

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

Sectoral Opportunities

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

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

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

The Mexican marketplace is in the midst of a 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 (see box). The Department of Foreign Affairs and International Trade has prepared market studies for many of the sectors that hold out the most promise of increased Canadian business in Mexico (see box on next page).

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 construction, transportation, telecommunications, tourism, and pollution control systems and equipment. It should be added, however, that Canadians should think beyond the simple export of products. The export of services, technology, and expertise is assuming an increasing importance in today's international economy. Here too, Canadians have developed a rich storehouse of know-how that can be of significant benefit in Mexico's drive toward modernization.

Sectoral Opportunities for Canadian Companies in Mexico

Detailed market studies in several promising sectors have been prepared by the Canadian Embassy in Mexico and are available from the Latin American and Caribbean Trade Division (LGT) at the Department of Foreign Affairs and International Trade in Ottawa. For more information, call InfoEx: 1 (800) 267-8376 or (613) 944-4000, or complete and return tear out sheet at the back of the book.

1992 Oilseed Survey, Mexico City
Agricultural Equipment, Seeds and Related Chemicals
Mexico: Agri-Food Export Market Assessment
Advanced Technology Sector
Agri-Food Opportunities, Mexico
Automotive Aftermarket Distribution
Automotive and Auto Parts Industry
Bottled Drinking Water
Building Products and Materials
Computers and Software
Mexican Construction Sector Review
Consumer Products Distribution System
Dried Pulses and Seeds
Documents and Regulations for Exporting to Mexico
Educational Systems
Electrical Distribution Equipment
Electronic Components
Environmental Industries
Environmental Sector
Mexican Food and Beverage Industry
Mexico: Guidelines for Canadian Fish and Processed Food Exporters
Food Processing and Packaging Equipment
Forestry Harvesting and Woodworking Equipment
Geographic Information Systems (GIS)
Government Procurement in Mexico
Home and Office Furniture
Industrial Process Control Instruments and Equipment
Instruments and Laboratory Equipment
Iron and Steel Industry
The Mexican Lobster Fishery, Market and Distribution System
Lumber and Wood Products
Machine Tools and Metalworking Equipment
Market and Distribution System for Fish and Fish Products
Market Opportunities for Fisheries Products
Materials Handling Equipment
Meat and Livestock Products
Medical Equipment and Supplies
Mining Industry
PEMEX: State Petroleum Agency
Petrochemical Industry
Plastics Production, Machinery, Equipment and Resins
Pollution and Environmental Control
Pulp and Paper Market
Report on the Construction Industry in Mexico
Safety and Security Related Products
Selling to CFE
Sporting Goods and Leisure Products
Telecommunication Equipment and Systems
Tourism, Hotel & Restaurant Equipment Supplies

Primary Sector

Agriculture: Agrarian reform continues to be high on the Mexican government's priority list. Several important steps have been taken by the Salinas government to introduce market-oriented policies and to modernize this sector. Much attention has been focused upon Mexico's *ejido* system — especially with respect to land tenure and property rights.

Reforms to the *ejido* system (see box on following page) 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 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; or

The Ejidos

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

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

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

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

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

- the limit shrinks to 100 hectares of irrigated land, or its equivalent, if it is used to grow products other than those designated for the higher limits.

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

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

Despite these gradual reforms, agricultural output declined by 4.2 percent in real terms during 1992 (mostly due to adverse weather conditions). Mexico's trade surplus in the agricultural sector was also negatively affected as imports increased and exports decreased in response to lower production levels.

Meanwhile, the Mexican food and beverage market is booming. The output of manufactured food, beverage and tobacco products grew 3.7 percent in 1992. This follows several years of robust growth, i.e., 5.1 percent in 1991, 3.1 percent in 1990 and 7.7 percent in 1989. Indeed, growth in the food and beverage area is well ahead of growth in Mexico's manufacturing sector. Aggregate consumption in Mexico for food and beverages is some $25 to $26 billion. Mexican imports of food and beverage products total $5 to $6 billion annually. The potential opportunities for Canadian exporters — especially with NAFTA — are significant.

Mexico continues to maintain high import duties and restrictions on many food products, but will eliminate them on Canadian trade once NAFTA is implemented. Mexico is unable to produce all of the food that it needs because of limited arable land and water resources. As the country's standard of living improves, imports of a wide range of agricultural food products are likely to increase. Canada's exports to Mexico of agricultural products in 1991 were $67 million, rising to $162 million in 1992. Despite its relatively low current level, commerce in this sector has enormous potential for growth.

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 NAFTA, Mexican tariffs will be eliminated either immediately or over a ten-year period for several grains, vegetables and fruits and meat products. For instance, tariffs on Canadian barley and malt imports will be eliminated over the next ten years. As a result, Canada's exporters expect significant market opportunities to develop for barley and barley products from the reduction of these tariffs. A case in point is the Canadian Malt Co. Ltd., which is negotiating with two of Mexico's largest brewers to supply Canadian malt. In addition, the Canadian Wheat Board has been very active in Mexico. The Wheat Board has made at least two significant sales to CONASUPO — one in 1991 for $23 million and another in 1992 for an estimated $50 million. McCains, a major Canadian exporter, enjoyed more than $25 million in sales from its Mexican operations for 1992. Dare Foods of Kitchener has established a distribution centre in Mexico while Ault Foods has a dairy processing plant in Veracruz.

Forestry: Mexico imports almost U.S. $1 billion of forestry products annually and imports are expected to grow at a rate of 12 percent per year over the next five years. Mexican imports of Canadian forestry products exceed $60 million, excluding lumber. Demand for Canadian forest products will increase with Mexico's growing construction activities, particularly once NAFTA is implemented (the 10-15 percent duties on construction lumber will decline as a result). There is likely to be growing demand for chemical wood pulp, fine paper, sanitary paper products (including diapers), softwood lumber, newsprint, veneers, and plywood.

Dare Foods

Dare is a private company, founded in 1892 in the town of Berlin (Kitchener) by the grandfather of the current owner. It featured the same products then as it does today and up to the late 1940's was a regional bakery. In the 1950's the company expanded across Canada and by the 60's was a national company also selling to the United States. The firm is characterized by forward thinking. They were the first company to use the now popular stand-up bag for packaging cookies and the fact that the cookies were not visible prompted the use of professional photography to enhance the appearance of the product and emphasize its improved quality. In Canada, they use a direct salesforce to market their candies, crackers and cookies.

To enter the snack cracker market Dare developed unique items, Breton & Cabaret, which have stimulated Dare's entry into international markets and are the impetus for continued growth. Michael Thompson, VP International Markets, came from a background of representing seafood products and was familiar with a wide range of international markets. His original exploration of the Mexican market identified some opportunity, however, there were import restrictions in place that made it somewhat unattractive. When the border opened up with the signing of the GATT in 1986, the opportunities looked more favourable. Shortly thereafter, he met an export colleague and discovered they had a mutual client and a contact in Mexico was recommended.

Mr. Thompson began a dialogue based on this and over the next six months of faxes, letters, and conversations he eventually provided his contact with product samples which were well received and resulted in a first shipment in March of 1990. His Mexican distributor placed the product with Gigantes supermarkets (160 stores) for a promo sale. Five weeks after the shipment arrived Mr. Thompson went to Mexico prepared to do business the North American way with meetings, promos, and pricing. He discovered that his distributor was much more interested in the person "Michael Thompson". His distributor introduced Michael to his family and associates through breakfast and lunch meetings. These meetings were of prime importance to both as they provided new contacts and enhanced the distributor's image. Over time trust has been established and both sides of the partnership have benefited. Dare brings a quality product, experience in marketing their product internationally, training for sales people and offers advice when asked. The distributor has a knowledge of the market operation in Mexico, the consumers and also of how business is done in Mexico. For example it is a business practice to present an invoice in person and to again appear in person to receive payment. An invoice in the mail is not the way to go. Some flexibility was required by Dare in terms of finance as normal trade terms in Mexico are net 90 days.

Mr. 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 it's Mexican partner. Assisting them to increase their business, increases Dare's business.

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 to seven 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 accounts for almost a quarter of Mexico's GDP and employs 20 percent of its workforce. The expansion in manufacturing production has been steady for five consecutive years and reflects growing exports of several industries such as metallic goods and machinery and equipment.

To a significant degree, Mexico's imports of manufactured goods are directly a result of investments in infrastructure. Several Canadian manufacturers have benefited indirectly from this boom in investment, e.g., increased demands generated by construction activities and road and railway activities. Several Canadian machinery and equipment manufacturers have enjoyed success in Mexico, e.g., Martin's Foundry and Ironworks, Trench Electric, Pro-Eco, Champion Road Machinery and several others.

Aerospace and Defence Electronics Industries: Mexico's annual imports of products in this sector stand at about U.S. $1 billion and 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 NAFTA. In 1992, Canada exported aircraft and parts to Mexico worth some $21 million.

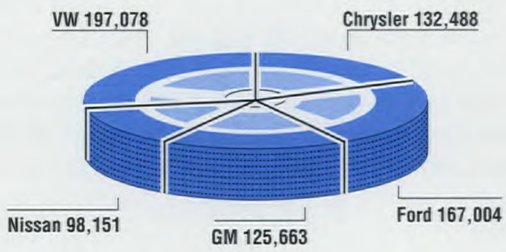
Automotive: Mexico imports more than U.S. $5 billion in automotive products from Canada and the United States. It is estimated that its demand for imported automotive parts will grow at more than 7 percent per year over the next ten years.

The Big Three North American car manufacturers, as well as Volkswagen and Nissan, have taken advantage of the *maquiladoras* to produce in Mexico (see Figure 3.7). Their investment was especially high during the late 1980s and collectively they have committed to investing an additional U.S. $3 billion between 1990 and 1993. Production is soaring, exports are exploding and so are sales. *Business Week*, March 16, 1992, stated that *the percentage change in light-vehicle sales from 1985 to 2000 is expected to be 0.7 percent in the U.S., 1 percent in Canada and 435.7 percent in Mexico.*

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.

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

Figure 3.7
Mexican vehicle output, 1991
Market share by manufacturer
(in units)



Source: DRI World Automotive Report.

Chemicals, Pharmaceuticals and Plastics: PEMEX, the state petroleum monopoly, used to control all aspects of the petrochemical industry but it is becoming more open to foreign suppliers and services. Imports in this sector are valued at more than U.S. $5 billion and include polyethylene, polypropylene, heterocyclic compounds, aluminum oxide and photographic paper.

Electrical Manufacturing Equipment: Mexican imports of electrical manufacturing equipment total about U.S. $2.5 billion annually. The leading imports include electrical apparatus for switching or protecting circuits. It is estimated that the market for imported electrical manufacturing equipment will grow by as much as 20-30 percent a year over the next five years.

Oil and Gas Products, Equipment and Services: Mexico has the fifth largest known reserves of oil and gas in the world. PEMEX, the state-owned oil monopoly, made minimal purchases and has done little updating or maintenance of its energy infrastructure over the past decade. However, the state energy monopoly has plans to spend $20 billion on energy equipment and services in the next few years. Canadian energy companies stand to benefit from procurement possibilities as a result of NAFTA and their leading-edge technology in this area. Canadian companies can take advantage of Export Development Corporation's $500 million line of credit for PEMEX.

Ferrous and Non-ferrous Metals and Fabricated Materials: In 1990, the Mexican market for ferrous and non-ferrous metals and fabricated materials was more than U.S. $4 billion. It is estimated that it will grow by as much as 14 percent a year to 1995. Mexico imports products worth almost U.S. $2 billion in this sector including flat-rolled metal products, tin-plated steel, aluminum alloy, plate, sheet or strip, refractory bricks, unwrought alloyed aluminum, asbestos, and iron or steel bars and rods. Several Canadian companies have developed export trade with Mexico, including: IPSCO, Stelco, Dofasco, Algoma Steel, Smoky River Coal, Cape Breton Development Corp, Sydney Steel, and Sidbec-Dosco.

Industrial Equipment: Mexico's demand for industrial products is expected to grow by as much as 35 percent over the next five years. Demand for machine tools, metalworking equipment, plastics production machinery and equipment, materials-handling equipment and similar production equipment could exceed $6 billion by 1994. Imports are expected to supply most of this increased demand. In 1992, Canada's exports to Mexico of electrical machinery and equipment reached $72 million, while exports of other machinery, appliances and engines totalled $51 million.

Information Technologies: Mexico imports about U.S. $11 billion worth of information-related products yearly. The Mexican market for imported technology products is expected to grow by as much as 20 percent over the next five years. Present Mexican imports are wide ranging and include television receivers, video monitors, projectors, telecommunications equipment and parts, as well as data input and output units.

Recreational, Household and Health-Care Products: In 1991, Mexico imported U.S. $6.3 billion worth of recreational, household and health-care products. The potential for growth is considerable given Mexico's expanding young urban population. It is estimated that the market for products in this sector could grow by more than 50 percent over the next five years. Mexico imports a wide range of consumer products including books, magazines, tapes, video games, newspapers, periodicals, cosmetics, and motorized toys.

Textiles, Apparel, Leather and Footwear: In 1990, the total Mexican market for textiles, apparel, leather and footwear reached U.S. $10.5 billion. Mexico currently imports U.S. $1.5 billion worth of these products.

Construction and Construction Engineering: Construction accounts for 5 percent of GDP and employs 10 percent of the Mexican labour force. This sector has recorded impressive growth in recent years. Capital works in the public sector alone, from now until the year 2000, are expected to cost in excess of U.S. $15 billion. One significant growth area is the construction of roads and ports. The government's emphasis on these projects reflects Mexico's need for new infrastructure to facilitate external trade. 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 for the foreseeable future.

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

Electricity, Gas and Water: The electricity, gas and water sector grew by 4.4 percent in 1992. Demand for electricity is growing by 5 percent a year, and about 26,000 MW of capacity will be needed by the year 2000. In addition, electricity supply is often problematic. Brown-outs have been a consistent problem facing businesses and individual users alike. Efforts are being made to correct the inefficiencies of the grids and to bring on new suppliers while servicing a growing clientele. Mexico now allows private enterprises to generate electricity for private use and for sale to the state. Canada's long-standing track record in the field of hydroelectric power generation may present opportunities for the sale of technology or expertise.

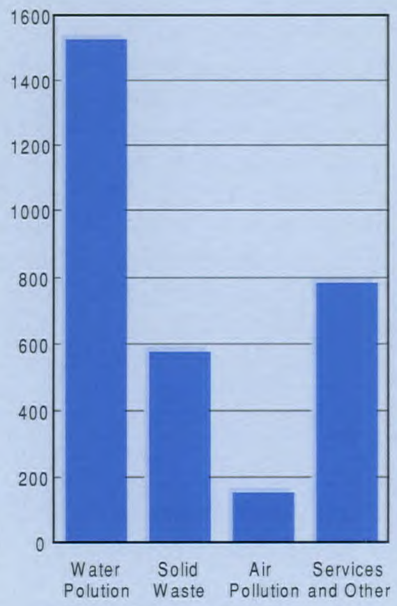
Environment Commitment

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

Key Environmental Sectors

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

Environmental Sector Mexico, 1991 ($ millions)



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 NAFTA, Canadian business visitors and professionals will find it easier to visit and 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 different sources of anti-pollution equipment and related services. Environmental issues are also addressed as part of NAFTA process itself and through the recently negotiated North American Agreement on Environmental Cooperation, the so-called "side agreement". The side agreement on the environment will lead to the creation of a Commission on Environmental Cooperation; strengthen environmental cooperation among Canada, the United States and Mexico; address and resolve disputes; promote sustainable development; and increase cooperation in the development and enforcement of environmental regulations. Mexico is eager to match the environmental standards of its North American trading partners as soon as possible.

In domestic environmental matters, Mexico has moved to a regulatory system with a supportive watchdog infrastructure. On May 25, 1992, the *Secretaría de Desarrollo Social* (SEDESOL) assumed responsibility for the previous environmental regulating secretariat, SEDUE. SEDUE's former regulatory powers are now divided between the *Instituto Nacional de Ecología* (INECO) and the federal Attorney General for Environmental Protection. INECO will act as the policy arm while the Attorney General for Environmental Protection will be responsible for enforcement and investigation of claims. Mexican states will assume more responsibility for environmental protection in the future. To date, 26 out of 32 Mexican states have adopted their own environmental laws which must be at least as stringent as the General Law of March 1, 1988. The General Law will conserve and protect natural resources; require authorization and demonstration of compliance to environmental standards and regulations for new or expanded facilities; allow SEDESOL to close plants for non-compliance; as well as an array of other enforcement mechanisms, e.g., fines, criminal penalties and administrative arrests.

Mexico is not just paying lip service to environmental issues. In March 1991, President Salinas closed Mexico's biggest oil refineries, the country's worst polluters. The action cost Mexico U.S. $500 million and a net loss of 5,000 jobs. Major steps have been taken to improve air emissions in Mexico City. New, cleaner-burning diesel engines have been installed in public buses. Taxis, vans, minibuses and other vehicles licensed for public transport must be 1989 or newer models. Older vehicles must be replaced with 1991 or newer models. All vehicles produced from 1991 onwards must be equipped with catalytic converters. Mexico City's subway system is being expanded by nearly 30 kilometres, and the city has adopted a Day Without a Car Program.

Mexican demand for private sector pollution control equipment and services should expand significantly over the next decade (expected growth rate of 15 percent annually to the year 2000). From 1991 to 1994, the Mexican government has indicated it will spend U.S. $4.6 billion on the environment. Imports will provide much of the required expertise, especially for industrial and municipal waste water 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 has 3-5 percent of the Mexican environmental equipment market ($10-20 million in sales annually).

Mexico was the first country to sign the 1989 Montreal Protocol which limits the amounts of certain ozone-depleting substances that can be produced and consumed. Under the Protocol, Mexico is committed to phasing out the use of CFCs by the year 2000. In 1991, SEDUE entered into an environmental technology transfer agreement with Northern Telecom, the Industry Cooperative on Ozone Protection and the U.S. Environmental Protection Agency. The parties have agreed to exchange information on strategies and technologies to reduce CFCs and solvents used by the electronics industry in Mexico.

Instrumentation and Equipment: The total pollution control market can be divided into two categories. The instrumentation market, valued at under U.S. $20 million, accounts for approximately 2 percent of the total market, all spent on imported instruments. The equipment market amounted to U.S. $691 million in 1992, of which U.S. $484 million is manufactured domestically, with the remainder imported. Demand for pollution control equipment and instruments is expected to grow by an average 20 percent from 1992 to 1994. Promising sub-sectors include: waste water treatment equipment, incinerator plants, trucks for garbage collection, organic and inorganic waste treatment plants, water purification equipment, dust control equipment and components, automatic auto emission control analyzers and catalytic converters.

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

Financial Services: As Mexico increasingly enters the international economy, there will be a strong and growing demand for sophisticated financial services. This is reflected in the rapid capitalization of the Mexican stock market which grew from U.S. $41 billion to U.S. $102 billion during 1991 and then to over U.S. $140 billion in 1992. NAFTA has opened up the Mexican market for Canadian banks. Banks, insurance companies and securities dealers will be able to set up wholly-owned subsidiaries in Mexico and acquire existing firms, beginning in 1994. 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, with some (like Scotiabank) having made significant investments there over the past three years.

Mexico also offers business opportunities to Canadian banks which enjoy world-class expertise in the development and implementation of financial services technology. Nor should Canadian insurance companies overlook Mexico. Mexico's market for insurance-related services is the largest in Latin America, with annual premiums for life and non-life insurance in the area of U.S. $3.5 billion. As Mexico's economy grows and modernizes, demand for insurance products and services is expected to grow steadily.

Telecommunications: NAFTA will establish 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. In the interim, preferential tariff rates will be given to Canada and the United States over non-NAFTA suppliers. Mexico will be required to improve the transparency of its telecommunications regulations and procedures. On July 1, 1995, Canadian companies will be able to establish themselves in Mexico (or on a cross-border basis) to provide enhanced telecommunications and computer services.

Between 1992 and 1994, Mexico's telecommunications equipment market is expected to grow by 10 percent annually and the market for computer and computer software is expected to grow at a faster pace. Currently, Mexico has 10 million phone lines for a total population of 85 million people. To double the number of phone lines in the next five years will require at least $10 billion in expenditures. 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 with 1991 sales at about U.S. $100 million. Excellent prospects also exist in the development of rural telephone networks, data transmission, local area networks, packet switching, and similar product areas in which Canada is a recognized world leader.

Transportation Services and Equipment: Mexico's domestic land transport regulations were dramatically liberalized in January 1990. Foreign transportation providers are now increasingly able to offer their services inside Mexico, which currently imports transportation equipment worth about U.S. $150 million annually. It is estimated that the market for imported urban transit and rail equipment will grow by as much as 10 to 18 percent over the next five years. The rehabilitation of Mexico's aging railway system could present an opportunity to Canadian suppliers of locomotive repair services, railway communications systems, and specialized managerial services. The bus and trolley systems in Mexico City are similar to those in Canada and offer additional opportunities for the supply of parts and service.

Several Canadian firms have made sales and developed linkages to take advantage of Mexican government plans to upgrade elements of its national railway, and other urban transit systems, e.g., Mexico City's subway system. 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. The current level of six million tourists a year is expected to rise to ten million by 1995, creating new 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

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 guarantee certain turnaround times. The manufacturer may also have to enter into certain undertakings regarding advertising, packaging, pricing, and financing.

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

Brokers: Finally, there are independent import-export brokers who specialize in particular products or commodities. They act as independent middle-men who receive commissions based on the value of the transactions they handle. In some cases, they may provide documentation, 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 into a particular market, they prefer to do it themselves. That is because there are several significant advantages to exporting directly. Above all, the company exercises at least partial if not full control over the way the product is positioned and sold. Direct exporters decide on pricing, distribution channels, promotion, and after-sales service. Because they can enter into direct contact with buyers or end users in Mexico, they can better understand customer needs and preferences and use this feedback to modify the product. In effect, they are more in touch with market signals. At the same time, the market presence associated with direct exporting means that a company can protect and exercise better control over its trademarks, patents and good will. Finally, with fewer intermediaries involved, there will be fewer people with whom to share profits.

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

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

Generally, distribution channels are less well defined in Mexico than in Canada or the United States. Consequently, as a Canadian firm you are well advised to take the time to select a good distributor or agent/representative that suits your business style. If you are using the services of a distributor, make sure that proper attention is being paid to your product and that the distributor is not treating it as an add-on to fill out a particular product line. In choosing a distributor, consider issues such as: the regions covered; product specialization; specific lines handled; the size of the firm; knowledge of your product; the distributor's track record; the size and quality of sales staff; relations with local governments; the condition of facilities; the distributor's willingness and ability to keep an inventory of your product; the possibility of offering after-sales service; and the company's reputation and its relationships with financial institutions. Ultimately, you have to decide on how much interaction and cooperation will be required to make the relationship work and be comfortable with it. Above all else, you should keep an eye on the percentage that the distributor proposes to add to the final price to cover their services.

If you are selling consumer goods, one solution to the challenge of distribution is to enter into a direct relationship with a retail chain. Larger retail chains and discount stores are playing an increasing role in distribution of products to consumers in Mexico. Using marketing techniques similar to those found in the rest of North America, they are also introducing tools such as bar coding to speed up customer service. CIFRA, the largest retail chain, operates approximately 200 supermarkets, cafeterias and department stores in Mexico and does about U.S. $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 Secretariat of Budget and Programming. The requirements for registration include filing copies of the company's charter of incorporation, recent financial statements as evidence of solvency, and proof that the company can deliver the goods or services that it is offering to the Mexican government. Every year, the Secretariat of Budget and Programming publishes a list of approved government suppliers.

The Role of Agents

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

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

Tips on Selecting an Agent or Distributor

- Experienced distributors and agents are difficult to find, especially outside the three main commercial centres.
- Some agents are former manufacturers with established networks. Their networks may, however, be limited to former purchasers.
- Establish the agent's responsibilities clearly and ensure that the agent does not go beyond them. These responsibilities should mesh with your long-term corporate goals.
- The agent may want to use a Canadian business card but it is preferable, initially anyway, for the agent to use his/her own card, bearing the designation "Agent Representative for XYZ". This way, if the agent makes a mistake, the company's reputation is not irreparably damaged.
- Agents are usually hired on a retainer basis, at least initially. Percentages are negotiated later and tend to be based on varying percentages of transaction values. Do not relinquish access to the client.
- Some companies spend up to a year visiting Mexico to find an agent. A good place to start is the Commercial Division of the Embassy of Canada which may be able to direct you. Industry contacts may also be of assistance.

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

In Mexico, contracts between exporters and their agents are not subject to government regulation. However, be careful to define your relationship with your agent clearly so that it is not construed as an employer-employee relationship which is subject to tax and labor regulations. If the agent has the power to bind the Canadian exporter legally, this may be construed as an employer-employee relationship. In that case, the exporter would be obliged to provide the agent with a series of statutory benefits and pay taxes on the agent's income to the Mexican government.

Transportation

There are four ways of getting your goods to Mexico: road, rail, ship and air. Of these, road transport is the most popular. In 1992, about 45 percent of Canada's exports to Mexico went by road, 14 percent by rail, 32 percent by water and 9 percent by air. 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.

Trucking: Trucking to and from Mexico has grown in importance in recent years. It is both well-developed and adaptable. For example, refrigerated cargo moves almost entirely by truck. Trucking times from southern Ontario to the Mexican border average around 40 hours. In the past, trucking goods to Mexico suffered from two basic impediments: customs procedures at the U.S.-Mexico border were excessively complex, and Mexican regulations required that all trucking within Mexico be performed by Mexican companies. As a result, there were significant delays at the border as goods were first cleared through customs and then transferred to Mexican carriers. Both of these impediments, however, are being overcome. Mexico has recently reformed its customs procedures as it seeks to encourage trade with the outside world. In addition, the regulations protecting domestic transportation are being changed, particularly with the conclusion of NAFTA.

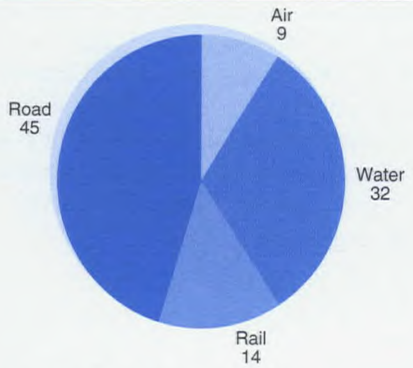
Railways: Recent changes have been made in the way cargo shipped by rail is cleared through customs. A new customs pre-clearing system through the San Antonio corridor to Nuevo Laredo has improved efficiency and shortened the time it takes to cross the border. U.S. rolling stock can now cross into Mexico,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

Marine: 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. One operator offers a regularly scheduled containerized cargo service from Saint John, New Brunswick to Veracruz, Mexico. Marine transport is currently quite competitive with both truck and rail freight rates. The disadvantage is that marine transport requires at least ten days of transit time and at least four to five days of delays 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 services between Canada and Mexico continue to improve as the number of direct scheduled flights increases. Montreal, Toronto and Vancouver are the originating points for direct commercial services to Mexico City. Much of the passenger service, however, is still based on chartered flights that do not have room for much additional cargo. Air transport remains best suited to the movement of people or compact merchandise that requires timely delivery.

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

Figure 4.1
Exports to Mexico, 1992
(in percent)



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

Freight Forwarding: Freight forwarders are independent companies that handle export shipments for a fee. Freight forwarders can arrange shipments for Canadian exporters using any mode of transportation. They offer a complete service package and are indispensable for first-time exporters since they can simplify the challenges involved and take care of various details and problems. Because of their professional experience, they are an excellent source of information on regulations, documentation and shipping methods. The freight forwarder can consolidate shipments to save on costs, advise on the mode of transportation that best meets the needs of the exporter, arrange for customs documents, engage the services of a Mexican customs broker, and arrange for transport, warehousing and distribution within Mexico. While individual transport companies can sometimes make similar arrangements, they are geared toward exporters with large frequent shipments and will not always offer the full range of services of a freight forwarder.

Freight Forwarding: New Linkages

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

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

Documentation

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

- a commercial invoice;
- a packing list specifying contents;
- a bill of lading or air waybill;
- special artifacts;
- import permits; and
- a certificate of origin.

Mexican customs officials insist on the *absolute accuracy and completeness of these documents*. Any discrepancies can lead to delays, penalties or even confiscation. For further information and assistance, contact the nearest Mexican Trade Commission or call InfoEx for the publication "Documents and Regulations for Exporting to Mexico".

The commercial invoice must be signed by the exporter, showing the marks, numbers, types, and quantities of products being shipped. The document must be presented in its original form with up to 11 copies. A Spanish translation must accompany the English original. The invoice must also show all costs including an itemization of the freight charges and insurance since Mexican tariffs are calculated on the basis of the value of the goods plus the cost of insurance and freight.

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

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

Under NAFTA, goods will only qualify for preferential access to any of the three markets if they meet the rules of origin laid down in the Agreement. Stated briefly, NAFTA rules of origin require that a good will only receive preferential access if it: i) is wholly produced within the NAFTA free trade area; ii) incorporates inputs sourced from outside North America, but undergoes a change of tariff classification as outlined in annex 401 of the Agreement; or iii) meets certain other specified North American value-added calculations. Canadian exporters shipping goods to Mexico will need to satisfy the certification procedures and record-keeping requirements spelled out in NAFTA's rules of origin (chapters 4 and 5 of the Agreement). Certificate of origin documentation is required for all goods valued at more than U.S. $1,000; for goods valued at less than U.S. $1,000, shippers may be required to produce invoices attesting that the goods qualify under NAFTA rules of origin. Canadian companies unfamiliar with exporting or with the Mexican market can find assistance in completing the necessary documentation through a freight forwarder.

Standards

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

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

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

Secretaría de Comercio y Fomento Industrial
Dirección General de Normas
Av. Puente de Tecamachalco No. 6
Col. Fuentes de Tecamachalco
Estado de México
México
Tel: 589-9877/9592/9589

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
Estado de México
México
Tel: 589-9877/9592/9589, ext. 2076

Customs

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

With the negotiation of NAFTA, tariffs will decrease according to a specific and negotiated timetable. The new rules of origin provisions in the Agreement will be the determining factors as to whether a given Canadian export to Mexico will qualify for eventual free trade treatment.

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

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

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

As noted, the valuation of merchandise for the sake of collecting duties is usually based on the price cited in the commercial invoice. If there is a financial, commercial or other type of relationship between the foreign supplier and the Mexican importer, it will be presumed that free competitive conditions are not present and a preferred price has been charged. At that point, the importer is required to determine the normal price level by increasing the sales price to eliminate any preferential or uncompetititve 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 adequate and secure. Customs clearances should be made by the importer within two months of the arrival of the goods, extendible by one additional month. If merchandise is still unclaimed after this maximum period, the goods are listed in the Official Newspaper and a 15 working-day grace period is given for their customs clearance. Once this period ends, the property is automatically transferred to the government.

In 1988, Mexico converted to the Harmonized System for Merchandise Classification and Codification, the same system used in Canada. 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.

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

Bonded Warehouses

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

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

Re-export

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

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

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

Selling

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

The *Consejo Nacional de Publicidad* (the National Advertising Council), a private organization funded through its 125 member-associations and companies, coordinates public service campaigns and is the media's biggest customer in Mexico. Mexico has a well-developed advertising infrastructure focusing on the press, magazines and broadcast publicity. About 320 newspapers and 200 major magazines are published in Mexico. Total newspaper circulation is close to 10 million copies a day.

Approximately 10 million households have television sets. Seven TV networks operate throughout the Republic. Some areas of the country receive transmissions from the U.S. via cable or satellite dish. Over 900 radio stations operate throughout the country and most are commercial. Estimates put the number of radios in Mexico at 22 million. Of the U.S. $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 U.S. $10,000. A one-page ad in El Universal, a large daily with a circulation of 1.2 million, costs up to U.S. $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 basis. Many suppliers advance credit to better known clients to become more competitive, but extreme caution should be exercised when exploring the option. A firm's ability to investigate credit worthiness, collect accounts, or retrieve unpaid debts is limited. Mexican banks are in a position to assist with credit checks, and there are private companies, such as Dun & Bradstreet, which specialize in that area. Lines of credit and export insurance may also be available through Canada's Export Development Corporation in the case of sales of particular types of goods and services.

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 a 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 sales campaigns and does not interfere in their decisions. Moore's sales representatives are also hired locally so that it is easy for them to gain the confidence of the firm's 10,000 - 15,000 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. For example, Mexicans prefer to meet face-to-face when they pay their debts. Thus, when it comes 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. Overall, the economy is speeding up. Albert Taylor, Moore's representative 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 which they will review an 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 U.S. $820 million to Mexican financial institutions for which sales of Canadian capital goods or services in excess of $100,000 may qualify. This financing mechanism has proven especially important in supporting market entry by new exporters who have been able to direct their customers to the Mexican banks that have access to EDC credit facilities.

Lines of credit may be acted on with relative ease and transactions may be finalized in a matter of weeks. EDC will finance up to 85 percent of the value of a commercial contract under a line of credit. An exporter who believes that an anticipated transaction may be eligible for financing should approach EDC when the transaction is first being negotiated. Before committing itself, however, EDC will need the following documentation:

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

The Export Development Corporation has also established a new, $500 million line of credit specifically for Canadian exporters selling goods/services to PEMEX, the Mexican state petroleum 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 LIBOR (London Inter-Bank Offered Rate), or a fixed rate based on "Consensus Terms". The Consensus Terms are established by the Secretariat of the Organization for Economic Cooperation and Development (OECD) in Geneva. EDC uses these in determining interest on its lines of credit. Repayment terms for the Mexican borrower will range between two and ten years. The Mexican bank will establish appropriate similar repayment terms for the Mexican importer.

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

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 up of the Mexican market have attracted Canadian firms.
- Mexico is seen as a launching pad from which to penetrate emerging markets throughout Latin America.
- Mexico complements Canada's economy in many ways. Mexican partners enhance the comparative advantage already enjoyed by Canadian companies in the Mexican market.

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

Partnerships can help to overcome the many challenges of doing business abroad. Barriers impeding entry into foreign markets may include cultural factors, corporate concentration, unfamiliarity with consumer tastes, or government regulation of foreign ownership. A local partner can complement a company's capabilities, 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.

- 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.

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 handbook favoured the formation of some kind of partnership. They noted that a Mexican partner can provide valuable advice on how to modify a product to meet local regulations and satisfy Mexican market preferences. In this way, partnering improves the Canadian company's responsiveness and flexibility, as well as enhancing its chances for success in the Mexican marketplace.

Selecting An Approach

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 rights 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 license for export to lucrative markets other Latin American countries.

Cross-licensing is a strategic alliance between two firms in which each licences products or services to the other. Today, many companies are exchanging the rights to use their products or services with each other. Both 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

Clearwater Fine Foods

Clearwater is a seafood company based in Nova Scotia that operates a fleet of offshore vessels and nine processing plants. They export live lobster, scallops, shrimp, groundfish, and surf clams (a new product targeting the Japanese Sushi market).

Clearwater's strategy in Mexico is based on partnering. They already have one partner in Mexico, the Grupo Industria Urbi Mexico, and are looking for more. In looking for Mexican partners, company executives participated in a trade mission, travelled to Mexico and met with wholesalers. After they had identified Urbi as a potential partner, two of Urbi's principals were invited to visit Clearwater's Head Office and two processing plants.

Clearwater likes to develop long-term relationships with several partners situated in key regions of the country to which it exports. Its objective in Mexico was to find responsible partners that would represent their products there, expanding their markets while maintaining and promoting the company's reputation for quality. In return, Clearwater offers quality, prompt delivery, honesty, reliability and fair market prices.

Once an arrangement was struck between the two companies, Clearwater found Urbi's help invaluable in navigating through Mexican customs regulations and documentation requirements as well as in negotiating with appropriate government departments. This has allowed the company to become more familiar with Mexican rules on food imports and has made doing business there somewhat easier.

To maintain its reputation for quality, Clearwater ships its seafood to Mexico by air after which Urbi keeps products such as live lobsters in holding tanks to maintain freshness. As a result, Clearwater has developed a vertical relationship with the U.S. company that supplies the holding tanks.

When it first contemplated establishing ongoing ties with Urbi, Clearwater did have some concerns about financing. It was difficult to find out much about Urbi or to check its credit references. In addition, Urbi's bank was unfamiliar with letters of credit, reflecting a general need for Mexican financial institutions to develop better trade-related capabilities. All of this slowed down, but did not stop the deal, underlining the importance of patience when negotiating in Mexico.

Now Clearwater is contemplating working with Urbi to develop new product lines for the Mexican market. As Geoff Irvine, Account Manager for Mexico says, "Clearwater's approach focuses not only on price points, but also on helping their partners work to improve product exposure and grow the business. A key to success is understanding Mexico's culture and how business is done there."

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 auto and telecommunications industries, competing firms often form an alliance to make components used by all the competitors.

The ***franchise*** is a more specific form of 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 U.S.-owned development are rarely used. Most franchises are in the hotel and fast-food industries. The protection offered by the new law on intellectual property is expected to encourage significant growth in the service and product franchise areas.

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

The minimum share capital for an S.A. de C.V. is 25 new pesos, equivalent to approximately U.S. $8.50. The corporation must have at least five share-holders. 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 Secretariat of Foreign Affairs *(Secretaría de Relaciones Exteriores)* is required to form a corporation or business entity. Authorization from the same source is also required to amend the by-laws of a business.

Developing a Plan

While there are many reasons why companies pursue partnering arrangements, 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 time frame, then a partner is unnecessary. If the problem is financial, you may be better off looking for investors instead of partners. But if, after going through all of these options, there is still something missing — special expertise, synergy in product development, a local market presence — then partnering should be given a closer look.

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

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

Establishing a Joint Venture in Mexico

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

1. Conduct a thorough analysis of the market for your product in México, including the positioning necessary for your firm to gain a foothold in the market. Carry out a preliminary study, either on your own or through market specialists. A good place to start is your nearest International Trade Centre and/or the Department of Foreign Affairs and International Trade 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 handbook. 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 previous steps, reflect on your best approach. Then return within a relatively short time to negotiate the terms of a joint venture best suited to your needs. At this point you may need assistance from professionals with a good knowledge of the market.
5. Draft the terms of the agreement with the assistance of a Mexican lawyer and a Mexican tax accountant.
6. Secure necessary project funding and guarantees.
7. Open a Mexican bank account and deposit initial capitalization.
8. Submit a registration form, or an application for approval if required, to the National Registry of Foreign Investment at the CNIE (Comisión Nacional para Inversión Extranjera).
9. Notarize the company's charter and begin operations.

Some types of partnerships such as outright mergers, might affect the Canadian company's core business. If this is a concern, be careful about the form of partnering you pursue and make sure you limit the relationship to non-core areas. Occasionally partnerships can lead to dependence on another firm. 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

Waste Water Treatment
Zenon Environment Inc.

Zenon is a 12-year-old company which 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 water treatment process, which can not only recycle water, but some of the contaminants as well. Corporate V.P., Ron Clifton points out that 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, and Industry Canada has been instrumental in the efforts of Zenon Environment Inc. of Burlington, Ontario to enter the Mexican market. Zenon has used the services of DFAIT and IC to 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, U.S. companies with operations in Mexico. These automotive companies were aware of what Zenon had to offer and could readily integrate the offerings into their existing operations.

Zenon's objective is to form a longer-term corporate relationship with a Mexican partner. They are now looking at partnerships that may involve any or all of pure product representation, joint ventures, an interest in a Mexican company or the establishment of an office in Mexico. They feel they bring leading edge technology, experience, and knowledge to a partnership and are looking for their partner to provide an understanding of the culture, the way to do business, the markets for their products and customer-oriented service.

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

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

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

Giving the Project a Leader

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

Many of the same people who were involved in negotiating the partnership will be charged with its implementation. They must have enough power and authority to make things happen. A thorough understanding of the respective cultures and practices of both partner companies will be critical to the overall success of the venture. They should be competent in their normal managerial or technical roles and they will also need strong interpersonal skills. They must be active listeners, able to sense the unspoken and hidden dynamics of the other side and find reasonable compromises. Entering the Mexican market involves learning a whole new set of skills. The Canadian firm should carefully assess the linguistic skills of its key managers, their familiarity with and 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 see joint ventures and other forms of partnering as the best way to introduce state-of-the-art technology, R&D and managerial know-how. They also look to alliances to give them access to foreign markets. However, the wise foreign investor will learn to distinguish between genuine potential and mere enthusiasm in the many suitors who come forward.

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

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

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

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

Stiff International Competition

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

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

The Right Partner

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

According to an 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.

Too Compatible

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

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

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

Michèle Duclos, Délégation générale du Québec México, D.F.

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

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

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

Screen all prospects carefully, no matter how many are under consideration. In the final analysis, the overriding consideration must be the compatibility, commitment and credibility of the potential partner. If none of the prospects are compatible, reconsider alternatives such as 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.

Once negotiations have been initiated, personnel with a superior grasp of technical, operational and legal details should be used. Senior executives have been known to avoid raising thorny issues to maintain a pleasant, collegial atmosphere. They may also lack detailed knowledge of issues that affect lower levels of management and they may simply assume that difficult details will be ironed out later.

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

Once the negotiation process is under way, it is common to prepare an interim agreement such as a memorandum of understanding. This may be only a brief statement that signals the intentions of the negotiating parties, lays out the ground rules for the rest of the negotiation and sets a time frame within which results are expected. A memorandum of understanding can also protect the confidentiality of any information brought to the negotiating table and prevent either company from entering into parallel negotiations with competitors.

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

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

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

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

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

Gathering Information During the Negotiation Stages

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

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

Composition of the Negotiating Team

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

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

Clearly Canadian

Clearly Canadian of Vancouver produces fruit-flavoured soft drinks. The company has been growing extremely rapidly, increasing sales of 1.5 million cases in 1988 to 23.5 million cases in 1992. The Mexican market was a logical extension of the firm's strategy since there is a growing class of well-to-do consumers in Mexico who are willing to try unusual products. At the same time, on a per capita basis, Mexicans drink more soft drinks than any other people in the world.

The move into Mexico was suggested by Clearly Canadian's Texan partners who observed that cases of its products were being shipped illicitly into Mexico. It took about 18 months for the company to familiarize itself with Mexican business practices and to satisfy all local regulatory requirements. During this time, it also established an appropriate distribution mechanism. The company realized that it needed a strong local partner to market to independent distributors since existing distribution channels are complex and skewed toward traditional soft-drink brands. Once a partner was found, however, Clearly Canadian left it with most of the local management and marketing decisions.

S. Ewing, Clearly Canadian's Vice President of Business Development, says that Canadian firms hoping to do business in Mexico should visit the country frequently and familiarize themselves with it. "Train your staff to have an open mind and only send people who really enjoy the local culture and are prepared to live and breathe it. Success depends on your ability to build an excellent relationship with the Mexicans and to work on their terms."

Despite the company's decision to use local partners to give it strong local dimension, Canada is well regarded by Mexicans and the company has received positive reaction to the product name. This favourable attitude can be an important advantage to all Canadians doing business in Mexico.

Clearly Canadian found that Mexicans are more open to trying new products and that the company's marketing campaigns are therefore far more successful. The company's products are five times more expensive than Coke or Pepsi and yet they are well established in their specialty niche. If Clearly Canadian has any regrets at all, it is that it did not enter the Mexican market sooner with far greater resources.

Shaping the Relationship

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

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

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

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

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

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

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

- land and the rights to land;
- facilities and equipment;
- personnel, managerial expertise;
- technology and technological expertise, proprietary technology or processes;
- name brands, trade marks, copyrights 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; and
- corporate identity, reputation and good will.

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

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

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

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

Temprano Associates Inc. — Architects

Temprano Associates is an established Ottawa-based architectural firm that has been successfully marketing 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 NAFTA by virtue of his position on the Canadian Architectural Council.

A key advantage was Temprano's fluent Spanish, which surprised and pleased the Mexican architects, who noted that very few U.S. 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 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. For example, the company is currently designing an office and exhibition facility in Mexico City. His Mexican colleagues have also honoured him with the FCARM National Architects Award, and made him an honorary architect in Mexico City.

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 does counsel 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.

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 its 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 Spanish speakers. 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.

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 PEMEX, but the process accelerates appreciably when they let their representative do the negotiating.

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

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

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

Structure of the Partnership: The type of partnership being contemplated will influence the nature of the financial commitment by the partners. For instance, a joint venture based on equal shares for the partners will have different financing implications than would a 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 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 1.0 to 2.5 percent more than capital in Canada. The specific rate charged, however, will depend on the quality of the borrower and the nature of the investment. Part of the difference in the rate is due to the perceived risk still associated with Mexican ventures. That perception is expected to linger for a while. Part of the additional cost of Mexican capital, however, arises from the large bureaucracies of the Mexican banks themselves. The effects of bank privatization should overcome this problem in the medium term. State governments and various incentive programmes established in Mexico may be helpful in providing access to local sources of financing or incentives. Private sector financial specialists may also be instrumental in sourcing financing or guarantees. The strength and reputation of either party may make a stock issue possible in Mexico, depending on the nature of the project and prevailing market conditions.

Risks and Rewards: The willingness of either party to make a financial commitment to the partnership will also depend on what other investment opportunities are available. If participation in the relationship promises one of the sides greater rewards for less risk 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 at that time.

Tax Considerations

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

The 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

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

Two Tax Incentives

Mexico offers two tax incentives to encourage foreign investment:

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

Recent Tax Changes

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

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

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

The corporate income tax rate has been reduced from 42 percent in 1989 to 35 percent in 1991, making it fully competitive with rates in both developing and developed countries. With a few exceptions, 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 and are normally applicable only in cases of minority foreign participation.

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

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

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

Summary

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

- know the market and do your research;
- adopt a clear set of market objectives and a well-defined corporate strategy suited to the Mexican market;
- choose complementary partners to avoid feelings of perceived competition later on;
- be prepared for major delays and costs due to bureaucratic procedures which are different from those encountered in Canada;
- assign a world-class manager who is flexible and knowledgeable in the languages required (English and Spanish) and 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; and
- negotiate, wherever possible, the appointment of a Canadian manager to the project in Mexico for the first few years of operation. This will ease the adjustment and facilitate communication and problem-solving.

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

VI. Doing Business in Mexico

Working in a Different Culture

Meetings

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

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

Effort vs. Results

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

Canadians will find Mexico to be as diverse, complex and sophisticated as our own society. Doing business there may seem like a daunting task, especially for a company with limited international experience. The time needed to research market information, to analyze the opportunities in Mexico, to locate an agent or other type of partner, to negotiate an understanding, and to battle through red tape may seem insurmountable. For those who persevere, however, the rewards 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 and being aware of Mexican values will help cement a solid and harmonious business relationship. Mexicans are inclined to be more formal than their Canadian and American counterparts. In meeting with Mexican business people, bring business cards and be on time, even if those with whom you are meeting are late. At the beginning and the end of a meeting, they will take the time to shake hands with all those in attendance. They will make small talk about current events or the interests of their Canadian guests. For Mexicans, personal relationships are very important, and developing them is the key to success. Mexicans do not like doing business over the telephone. They prefer to meet in person as a way of developing a closer and more trusting relationship. The time spent developing such relationships will be well repaid.

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

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

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

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

Canadian business people with extensive experience, in Mexico have commented on the reluctance of Mexicans to say no. It can take a while for the Canadian newcomer to understand how to interpret the yes which has been given in response to a question. Saying that one does not have the answer is difficult for Mexicans to do and they tend to be very polite and solicitous at all times. It is better to provide no answer at all than to deliver bad news. Sensitivity is essential and there is no substitute for experience.

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

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

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

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

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

Alfonso Salazar, Director, Bancomext Toronto

Language

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

David Adam, Minister Counsellor, Embassy of Canada

A Note on Mexican Names

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

Management Issues

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

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

Mexico, like Canada, also benefits from a large and growing number of small- and medium-sized enterprises. These businesses include traditional family-owned food stands, small retail outlets and manufacturing operations. They also include a growing number of enterprises specializing in trade and commercial services, marketing and consulting. Many of these businesses are characterized by an entrepreneurial energy that 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.

- Workplace hierarchies and traditions may make it difficult to encourage decision-making at lower levels.

- Mexican managers need special encouragement and training to instil a sense of responsibility for cost-efficiency in the operations they manage.

- Hiring is usually done through professional recruitment offices, through word of mouth and through family and other connections. Statistics point to a continuing shortage of middle management skills.

- Foreign companies that have set up operations in Mexico have found that it is tremendously important to put a Mexican face on the management of their enterprises.

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

Source: *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 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 which directly employ Mexican citizens.

Social-Security Benefits: The Mexican social-security system was first set up in 1942 and then broadened in both scope and coverage through many years of refinement and modification. The most recent and profound changes to the system were made in 1973. Social-security laws guarantee medical and social services to workers and their families. Social security is required for all employees and covers accidents and occupational hazards, illness and maternity, nursery care, old-age pensions, and death benefits. Additional insurance coverage is not required.

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

Coverage under social security is compulsory for practically all those who are privately employed. It can amount to as much as 15 percent of the total payroll. Separate systems cover federal government employees and workers in the petroleum and electricity industries. Benefits and contributions are determined on the basis of daily salary levels. The federal government has established a minimum salary for social-security calculations, on which both contributions and benefits are based.

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

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

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

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

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

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

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

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

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

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

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 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, Ps $ is used before the amount. If the documents are for internal use only, the Ps is often dropped. Coins are in denominations of 100, 500, 1,000 and 5,000 pesos while banknotes start at 2,000 pesos. As of January 1993, new bills and coins are circulating with nominal values identical to the old units minus 000, and they will bear the same name.

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

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

Shopping: Mexico has a value-added tax (IVA) similar to the Canadian GST. As in Canada, some establishments include this tax in their prices, others do not, but it will appear as a separate item on your final bill. Occasionally, all prices in a list such as a menu, may be reduced by a certain percentage to conform to anti-inflation regulations. In some cases, prices are not listed on items such as souvenirs. This is an invitation to bargain and you may be able to negotiate your way down to about half of the original asking price. It is customary to tip waiters (5 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, and its eccentric street names and numbering plan, the capital presents a challenge to Mexican drivers, let alone newcomers. Taxis are generally available and can be hailed on the street. The cheapest taxis are coloured yellow or green. The meter should be switched on but if it is not, settle the fare to the destination in advance. The more expensive taxis tend to gather in front of the hotels and do not have meters. Their fares should be negotiated in advance. You may find that the ride back to a hotel in a regular taxi costs far less than it did from the hotel out. Fares rise by at least 10 percent and in some cases double after dark. The complexity of Mexico City's street plan can foil even its taxidrivers. To avoid excessive fares, consult a map before you get into a cab.

Time Zones: Most of the country is on Eastern Standard Time minus one hour. The far northwest of Mexico is on Pacific Time. Some northern border states have adopted Daylight Savings Time which advances the clocks by an hour between April and November.

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

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

Statutory Holidays: Mexicans celebrate nation-wide holidays on January 1 and 6, February 5, March 21, May 1 and 5, September 16, November 20, and December 25. December 1 is an obligatory holiday for the inauguration of a new president every six years, the last inauguration occurring in 1988. Religious holidays are frequently observed in private industry although not always in government offices. Such holidays include the Thursday and Friday of Easter week, All Saints' Day *(Día 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 became effective on June 28, 1991, provide increased protection for trade and industrial secrets. Tough penalties are established for their unauthorized use. Some of the regulations interpreting the new laws have not yet been released, and one should consult a Mexican lawyer for up-to-date advice on this issue.

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

About eighteen 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 licenced by the patent holder to another party for use in Mexico based on privately negotiated terms. No government restrictions are imposed on royalties, assistance fees or the like. A licensing agreement must, however, be registered with SECOFI.

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

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

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

Impact of NAFTA: The intellectual property provisions of NAFTA (chapter 17 of the Agreement) are far-reaching and go beyond those contained in any other major international trade agreement to date. 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, 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 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 focused on improving the availability of high quality Mexican-made products. Emphasis is also being placed on reliable delivery. Until a company develops its supply channels, however, problems may be encountered in terms of both the quality and the timely delivery of raw materials or components.

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

Trade Fairs and Missions

Trade fairs are numerous in Mexico, and Canadian participation in them is increasing. Several Canadian trade missions are also in the works. Missions are organized by the Latin America and Caribbean Trade Division (LGT) at the Department of Foreign Affairs and International Trade, 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.

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 the Department of Foreign Affairs and International Trade after the trade fair revealed that participating firms concluded over $2.9 million in sales on the site in Monterrey. Further projected sales for the ensuing 18 months exceed $80 million.

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

Mexican Trade Fairs and Missions – 1994-1995

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

AGRO-INDUSTRIAL '94 (Guadalajara; Info Booth)
Show features agricultural equipment. Arranged in cooperation with PIMA. Individual participants expected.
January 94

PLASTIMAGEN (Mexico City)
Major show for plastics and machinery in Mexico. Follows highly successful previous participation.
7-11 Feb 94

OEM AUTO PARTS MISSION
Mission to major auto plants. Co-sponsored by the APMA, AIA and Mexican Investment Board. More than 20 members.
February 1994

EXPOCOMM '94 (Mexico City)
Largest annual telecom show in Latin America. Canada has been represented each year for the last six.
15-18 Feb 94

ANTAD EXPO '94 (Guadalajara)
Canada's second major participation. Show features food, store fixture and consumer products sectors (hardware/housewares).
26-28 Feb 94

COMDEX MEXICO (Mexico City; Info Booth)
Canada will have an info booth/catalogue exhibit at this first-ever COMDEX in Mexico, similar to events in the USA and Canada.
08-11 Mar 94

PROCESS CONTROL & ROBOTICS MISSION
(Monterrey; Mexico City)
Meetings planned with key industrial process technology officials, followed by participation in Canada Expo. Up to 20 participating companies.
16-24 Mar 94

CANADA EXPO '94 (Mexico City)
Planned to be Canada's largest ever commercial trade show. This week long event will showcase Canadian expertise in a wide number of sectors. 450-500 participants expected.
21-24 Mar 94

MAQUINAMEX '94 (Mexico City)
Mexico City's only machine tool show. Up to 20 companies expected to attend.
15-18 June 94

INFORMATICA EXPO '94 (Monterrey)
Principal computer software show for Northern Mexico.
10-12 July 94

CANADA EXPO '94 (Monterrey)
Repeat of highly successful '92 Expo, featuring industrial equipment.
February 1994

Section Two: Tools

VII. Preparing Your Export Strategy

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

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

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

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

Why Mexico?

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

- ❑ sales of goods and services into the Mexican domestic market
  - selling intermediate goods to Mexican industry
  - selling consumer goods to Mexican end-users
  - selling to the Mexican government or state-owned enterprises
- ❑ licensing of your technology, know-how (or other intellectual property) to Mexican firms
- ❑ improved access to the U.S. market *through the back door*
- ❑ expanded access into the markets of Latin America
- ❑ financial contributions (an investment in your company or its operations)
- ❑ access to complementary capabilities (such as Mexican marketing experience in Latin America)
- ❑ enhancing Canadian exports by accessing Mexican resources, R&D capabilities, or manufacturing facilities

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

Are You Ready for Mexico?

If you enter the Mexican market, you will have to learn the details of the Mexican market, 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 challenges. Ask yourself the following questions:

1. Do you know what the Mexican market can do for your product or service? Do you know how to find out?

2. Do you understand the Mexican market for your product or service well enough to feel comfortable doing business there?

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? Would you need additional financing? Are there any immediate or obvious sources of financing available?

7. Are there any people in your company who speak Spanish? Are there any who have had some experience in Mexico or in Latin America? Does anyone have specific knowledge of the Mexican economy? Does anyone have personal contacts in Mexico?

8. Can you afford to assign an employee to focus on pursuing business opportunities in Mexico? Does that person have the authority to act as a leader and make things happen?

9. Do you know anyone who has done business in Mexico? Have you any business acquaintances or have you met anyone at conferences or seminars who may know about this market?

10. Do you have access to any sources of help outside your company who might assist you in entering the Mexican market?

Market Research

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

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

Ault Foods

Ault foods is Canada's largest fully-integrated dairy processor with sales last year of $1.2 billion. It has 16 plants, 40 depots and distribution centres in Ontario and Quebec, and employs 3,000 people. Ault is a publicly-owned company which markets its products through owned and licensed brand names such as Sealtest, Black Diamond Cheese, Lactantia, Parlour and Häagen Dazs.

They have been doing business in Mexico for more than 20 years with varying degrees of success. Their initial venture was in product sales such as butter, milk powder and infant formula. Over the years, Ault has given advice and shared technologies with the Mexican Government to develop infant formulas. In the privatization move by the Mexican government, several milk processing facilities were sold off and Ault was approached by a purchaser of one of these facilities to consider investing in the company. Ault went to Mexico to investigate the opportunity and ultimately bought a 25 percent interest in La Llanura which produced whole powdered milk and UHT milk (evaporated milk of double concentration to which water needs to be added before use).

Under their initial arrangement with La Llanura, Ault was to offer technical assistance and La Llanura was to provide sales and distribution expertise. After a short period of time it became apparent that more was required from Ault to make the venture work. A Canadian became General Manager of the Mexican company to assist in improved production efficiency. The market for double concentrate UHT milk declined largely due to the challenge of finding potable water to add to the milk. The company then developed a single concentrate UHT product. La Llanura, however, was slow to make this change and several other companies made inroads to their market.

Andrew Schell, V.P. International Development, who has been to Mexico many times and finds the country and people fascinating, feels that to be successful in Mexico, "you need to know the market very well; have an acceptable brand name; and understand your partner extremely well before entering an equity situation. You should make sure that your partner is very well-placed and has good contacts. It may take years of personal development, as Mexicans do business with the individual not just the company."

Mexico is close to Canada and its growing population offers good potential for market development. In following one of the corporate aims of targeting international business, Ault is continuing to search the Mexican marketplace for business opportunities. The company believes that there is growth in the licensed products, new technologies and consulting services which Ault provides.

Sources of Information

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

- ❑ your local International Trade Centre located in major cities across Canada
- ❑ Mexican specialists in the Latin America and Caribbean Trade Division at DFAIT
- ❑ the Trade Commissioner at the Canadian Embassy in Mexico City
- ❑ private intermediaries (banks, consultants, lawyers, accountants) specializing in Mexico
- ❑ a business association such as the Canadian Chamber of Commerce in Mexico, the Canadian Manufacturers' Association, the Canadian Exporters' Associations, the Canadian Council for the Americas
- ❑ the Conference Board of Canada, which has recently prepared a statistical analysis of Canada's export opportunities in the Mexican market
- ❑ a local Mexican or Hispanic ethnocultural business association
- ❑ the Mexican Embassy or the Mexican Trade Commissioner's Service (known as Bancomext) located in Vancouver, Toronto and Montreal
- ❑ various DFAIT publications on exporting
- ❑ DFAIT profiles on sectors of opportunity in Mexico (see Chapter III for a listing)
- ❑ 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 (where you sell directly to the end user)
- ❑ export through an agent or distributor who sells to a retailer or end user
- ❑ sale of a licence (eg. for technology, a process, a patent, a copyright) to a Mexican firm
- ❑ sale of a franchise that permits a Mexican to use your processes, techniques, logos, corporate identity, and marketing approach
- ❑ co-marketing (by which a Mexican firm agrees to market your products in Mexico and you undertake to market their products in Canada)
- ❑ co-production (by which a Mexican firm offers you the use of their manufacturing facilities in exchange for similar use of your facilities)
- ❑ joint venture with a Mexican partner, creating a separate and distinct corporate entity that can export goods from Canada into Mexico (or other markets), or engage in other types of business
- ❑ greenfield investment in a Mexican facility

Agricultural Joint Ventures

There are many successful joint ventures involving private landowners, *ejidatarios*, foreign firms and domestic corporations. An example is the investment made by Trasgo, a vertically integrated firm which invested U.S. $60 million in a poultry project. It is currently expanding operations with a venture of U.S. $100 million. The project includes domestic, Japanese and U.S. capital. C. Itoh of Japan contributes knowledge and experience in the Japanese market. Tyson Foods Co., a U.S. firm, provides technology and technical assistance. Trasgo contributes its strong experience in the Mexican market. Fifty percent of production goes to Japan in the form of consumer products, specially packaged for supermarkets and restaurants. Trasgo currently represents 14 percent of domestic poultry production. Trasgo has also established an association scheme with both small private producers and *ejido* members.

Another example is the Gamesa-Pepsico project. Gamesa is a large Mexican corporation which makes cookies, crackers and pasta. The Gamesa-Pepsico joint venture was formed in 1989, with an initial investment of U.S. $12 million. The project produces wheat and beans on more than 9,000 hectares of land. It has optimized available natural, human and capital resources. Now two good crops are harvested each year where one was barely possible previously.

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 broker's or agent's fees, distributor's fees or any sales commissions. You should include any costs associated with modifications to the packaging (i.e. Spanish labels) or even to the product itself. Many goods are delivered CIF to Laredo, Texas and the local client importer handles the import of the goods into Mexico and all associated fees and documentation.

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

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

If you are contemplating production in Mexico, your calculations will be more complicated. If you are pursuing a greenfield investment, the cost of the investment (land, building, employees, machinery, product development, raw materials and inputs, operations, advertising, distribution, and sales) will have to be set against expected volume, sales price, and margins. Ultimately, the whole calculation should yield an expected rate of return (and a risk factor) that you can compare with other potential investments to determine your best opportunity.

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

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

What Kind of Linkages?

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

- ❑ an agent or representative who will sell your products to Mexican customers;
- ❑ a professional distributor for your products;
- ❑ a retailer with outlets for direct sales to end users;
- ❑ a marketer/advertiser (for promotion of your product);
- ❑ a manufacturer (for a joint venture);
- ❑ a researcher (for product development or modification);
- ❑ an investor (as a source of funding) ;
- ❑ a franchisee to purchase your franchise;
- ❑ a buyer of a licence to use your technology; and/or
- ❑ 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	Prospective Agent
Annual Sales	________	________
Nature of Business	________	________
Product Lines	________	________
Competitive Advantages	________	________
Experience in the Industry	________	________
Value of Existing Relationships	________	________
Weaknesses	________	________
Capabilities	________	________
Technical Skills and Resources	________	________
Financial Resources	________	________
Proposed Role	________	________
No. of Employees	________	________

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

Strategic Considerations

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

1. What are my strategic objectives? What do I want out of this relationship?
2. What am I prepared to offer or to put on the table?
3. What am I not prepared to offer or expose to my prospective agent/distributor?
4. What do I want my prospective partner to do? What value does that have to me?
5. What am I prepared to give up?
6. Will the agent present himself as part of my company (carry my company's card) or act as an independent representative?
7. Will our relationship include provisions for exclusivity on one or both sides?
8. What does my prospective partner want to get out of this deal? What are his or her strategic objectives, both stated and unstated?
9. What are my strengths and weaknesses going into this negotiation? What are those of my prospective agent/ distributor?

10. What skills and expertise do I need (translation services, legal or tax advice) to get the best deal for my company?

11. What are possible dangers arising from this negotiation (such as leaks of proprietary information)? What can I do to protect myself against them?

Protect Yourself

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

1. Are there measures in place in the agreement you have drawn up with your partner to protect your technology, ideas, patents, processes, etc?

2. Are you familiar with Mexican intellectual property laws? Do you know how to apply them to protect yourself?

3. What practical measures can you take to preserve confidentiality or to guard against unfair appropriation of your know-how?

4. What do people who have already done business in Mexico have to say about their experiences there?

5. What are the various legal risks involved in competing in Mexico? How can you minimize those risks to your company?

Financing the Venture

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

1. Which of the following expenses would be involved in pursuing the business opportunity you have in mind? How much would each item cost?

   - ❑ market research;
   - ❑ travel to Mexico;
   - ❑ hiring professional assistance (translators, lawyers, tax specialists) in Mexico;
   - ❑ production of items for export into the Mexican market;
   - ❑ product modifications for the Mexican market;
   - ❑ transportation costs;
   - ❑ agent's and distributor's fees;
   - ❑ sales commissions; and
   - ❑ marketing in Mexico.

2. How much of this cost can you cover from available resources or from operations? How much additional financing does the transaction require? How much of it is one-time only (up-front) expenditure? How much is ongoing?

3. When do you need the financing? Do you need it all at once? Can it come in stages?

4. Which of the following external sources of financing are available to you?

- ❑ commercial banks;
- ❑ programs offered by the Canadian federal government (see Chapter VIII);
- ❑ provincial programs;
- ❑ investors (if so, who and on what terms);
- ❑ a Mexican partner;
- ❑ the Mexican government; and/or
- ❑ international agencies (such as the World Bank or agencies of the United Nations).

5. If conventional financing is unavailable, can you arrange for a commercial factoring house to purchase your receivables (at a discount) and thus pay you faster than you could expect to be paid by your Mexican partners?

Implementation

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

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

Global Hustle

The potential customers are certainly there. Drop in on Monterrey, in northern Mexico. The parched residents of this arid, desert-like region guzzle 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, this spring, 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 was PepsiCo's acquisition, in December, of 49 percent — as well as management control — of its local bottler, 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, 2 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 markets.

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 600 pesos, or about 20 cents. Pepsi introduced a half-litre bottle, roughly 16 ounces, at 700 pesos, or 23 cents — a 13 percent reduction in the price per ounce — and a 2-litre bottle at 2,500 pesos, or 80 cents, a 23 percent discount from Coke's price.

Rubiralta, a man much in Enrico's image, plans similar investment and assault tactics for 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

The Department of Foreign Affairs and International Trade (DFAIT) is the Canadian federal government department most directly responsible for trade development. The **InfoEx Centre** is the first contact point for advice on how to start exporting; it provides information on export-related programs and services; helps find fast answers to export problems; acts as the entry point to DFAIT's trade information network; and can provide interested companies with copies of specialized export publications.

InfoEx Centre
Tel: 1-800-267-8376 or (613) 944-4000
Fax: (613) 996-9709

Latin America and Caribbean Trade Division promotes trade with Mexico. There are several trade commissioners at the Embassy of Canada in Mexico City, and there is a satellite office in Monterrey. Trade commissioners can provide a range of services including introducing Canadian companies to potential customers in Mexico, advising on marketing channels, assisting those wishing to participate in trade fairs, helping identify suitable Mexican firms to act as agents, and compiling credit and business information on potential foreign customers.

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

International Trade Centres

International Trade Centres have been established across the country as a first point of contact to support the exporting efforts of Canadian firms. Co-located with the regional offices of Industry Canada (IC), 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 marketing research and market planning; provide access to government programs designed to promote exports; and arrange for assistance from the Trade Development Division in Ottawa and trade officers abroad. Contact the International Trade Centre nearest you:

British Columbia:
Scotia Tower
900-650 West Georgia Street
P.O. Box 11610
Vancouver, BC V6B 5H8
Tel: (604) 666-0434
Fax: (604) 666-8330

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

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

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

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

Saskatchewan:
Suite 401
119-4th Avenue South
Saskatoon, SK S7K 5X2
Tel: (306) 975-5315
Fax: (306) 975-5334

4th Floor
1955 Smith Street
Regina, SK S4P 2N8
Tel: (306) 780-7520
Fax: (306) 780-6679

Manitoba:	7th Floor 330 Portage Avenue P.O. Box 981 Winnipeg, MB R3C 2V2 Tel: (204) 983-8036 Fax: (204) 983-2187
Ontario:	Dominion Public Building 4th Floor 1 Front Street West Toronto, ON M5J 1A4 Tel: (416) 973-5053 Fax: (416) 973-8714
Quebec:	Stock Exchange Tower Suite 3800 800 Victoria Square P.O. Box 247 Montreal, PQ H4Z 1E8 Tel: (514) 283-8185 Fax: (514) 283-8794
New Brunswick:	Assumption Place 770 Main Street P.O. Box 1210 Moncton, NB E1C 8P9 Tel: (506) 857-6452 Fax: (506) 851-6429
Prince Edward Island:	Confederation Court Mall Suite 400 134 Kent Street P.O. Box 1115 Charlottetown, PE C1A 7M8 Tel: (902) 566-7400 Fax: (902) 566-7450
Nova Scotia:	Central Guarantee Trust Tower 5th Floor 1801 Hollis Street P.O. Box 940, Stn M Halifax, NS B3J 2V9 Tel: (902) 426-7540 Fax: (902) 426-2624
Newfoundland:	Atlantic Place Suite 504 215 Water Street P.O. Box 8950 St. John's, NF A1B 3R9 Tel: (709) 772-5511 Fax: (709) 772-5093

World Information Network for Exports

The World Information Network for Exports (WIN Exports) is a computer-based information system designed by 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 30,000 Canadian exporters. To be registered on WIN Exports, call: (613) 996-5701.

Program for Export Market Development (PEMD)

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

- participation in recognized foreign trade fairs outside of Canada;
- trips to identify export markets and visits by foreign buyers to Canada;
- project bidding or proposal preparation at the pre-contractual stage for projects outside Canada;
- the establishment of permanent sales offices abroad in order to undertake sustained marketing efforts;
- special activities for non-profit, non-sales food, agriculture and fish organizations, marketing boards and agencies, trade fairs, technical trials, and product demonstrations (for example); and
- new eligible costs include: product testing for market certification, legal fees for marketing agreement abroad, transportation costs for offshore company trainees, product demonstration costs and other costs necessary to execute the marketing plan.

Support is also provided for certain types of government-planned activities, such as outgoing trade missions of Canadian business representatives and incoming missions to Canada of foreign business and government officials who can influence export sales. For information, call: (613) 954-2858.

International Financing

DFAIT helps Canadian exporters interested in pursuing multilateral business opportunities financed by international financing institutions (IFI). Canadian exporters and trade associations can access market data, obtain a better understanding of the competition, and determine if an IFI-funded market opportunity is practical and worth pursuing. 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 Finance Division
Department of Foreign Affairs and International Trade
Tel: (613) 995-7251
Fax: (613) 943-1100

Technology Inflow Program

Managed by DFAIT and delivered domestically by the National Research Council, this program is designed to help Canadian companies locate, acquire and adopt foreign technologies by promoting international collaboration. Industry Canada also helps in program promotion. The program officers respond to requests to identify technology sources and opportunities for cooperation between Canadian and foreign firms. The program will also help Canadian firms make exploratory visits abroad to identify and gain first-hand knowledge of relevant foreign technologies as well as to negotiate to acquire them. For information, call: (613) 993-3996.

Investment Development Program

This program helps Canadian companies find the investment they need. It actively promotes investments that take the form of new plant and equipment, joint ventures or strategic partnerships. It is especially interested in attracting investment that introduces new technology into Canada, a key to creating new jobs and economic opportunities. Investment officers make contact with foreign investors and bring them together with Canadian companies. For information, call: (613) 996-8625.

Industry Canada

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

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

IC Regional Offices

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

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

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

The Business Opportunities Sourcing System (BOSS)

BOSS is a computerized databank that profiles over 26,000 Canadian companies. It lists basic information on products, services and operations that is useful to potential customers. The system was established in 1980 by IC 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 information, call: (613) 954-5031.

Market Intelligence Service

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

Canadian International Development Agency

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

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

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

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

Atlantic Canada Opportunities Agency

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

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

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

Newfoundland and Labrador:
Suite 801, Atlantic Place
215 Water Street
P.O. Box 1060, Station C
St. John's, NF A1C 5M5
Tel: (709) 772-2751
Fax: (709) 772-2712
Toll free within the province:
1-800-563-5766

Nova Scotia:

Suite 600
1801 Hollis Street
P.O. Box 2284, Station M
Halifax, NS B3J 3M5
Tel: (902) 426-8361
Fax: (902) 426-2054

Toll free within the province:
1-800-565-1228

Prince Edward Island:

75 Fitzroy Street
3rd Floor
Charlottetown, PE C1A 1R6
Tel: (902) 566-7492
Fax: (902) 566-7098

Toll free within the province:
1-800-565-0228

New Brunswick:

570 Queen Street
P.O. Box 578
Fredericton, N.B. E3B 5A6
Tel: (506) 452-3184
Fax: (506) 452-3285

Toll free within the province:
1-800-561-4030

Western Economic Diversification Canada

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

Manitoba:

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

Saskatchewan:

P.O. Box 2025
Suite 601
S.J. Cohen Building
119-4th Avenue South
Saskatoon, SK S7K 5X2
Tel: (306) 975-4373
Fax: (306) 975-5484

Toll free within Regina city limits:
Tel: (306) 780-6725

Alberta:

Suite 1500
Canada Place
9700 Jasper Avenue
Edmonton, AB T5J 4H7
Tel: (403) 495-4164
Fax: (403) 495-7725

Toll free within Calgary city limits:
Tel: (403) 292-5382

British Columbia:

P.O. Box 49276
Bentall Tower 4
1200-1055 Dunsmuir Street
Vancouver, BC V7X 1L3
Tel: (604) 666-6256
Fax: (604) 666-2353

Toll free within the province:
Tel: 1-800-663-2008

EDC is a unique financial institution that helps Canadian business compete internationally. EDC facilitates export trade and foreign investment by providing risk management services, including insurance and financing, to Canadian companies and their global customers.

EDC's programs fall into four major 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 new Canadian investments abroad.
- Export financing, providing medium- and long-term export financing to foreign buyers of Canadian goods and services.

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

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

Public information: (613) 598-2739

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

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

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

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

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

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

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

Canadian Commercial Corporation

Companies seeking to do business in Mexico may be daunted by certain concerns. The Canadian Commercial Corporation (CCC) helps to reduce the risks associated with international trade. It reassures foreign purchasers of Canadian goods and services by guaranteeing the performance of Canadian suppliers.

CCC's guarantees will in some cases reduce, or even eliminate, the need for financial securities and expand the financing options available to both sides. In addition, CCC helps foreign buyers identify Canadian suppliers best able to respond to their requirements. It serves as a focal point of contact where more than one supplier is needed to fulfill an order. And CCC assists the Canadian supplier through all phases leading to the conclusion of a transaction. In addition to analyzing the risks involved, CCC participates in negotiations and signs the contract with the customer. It then follows through on all aspects leading to the implementation of the contract, including payment to suppliers and collection from customers. For more information, contact:

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

National Research Council

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

The IRAP network supports the process of developing, accessing, acquiring, implanting, and using technology throughout Canadian industry. IRAP has been in existence for 40 years and has acquired a reputation as one of the more flexible and effective federal programs. IRAP takes advantage of an extensive network that includes more than 120 regional and local offices, 20 provincial technology centres, the Council's own laboratories and research institutes, federal government departments, and technology transfer offices in Canadian universities. The IRAP network also extends abroad through the technology counselors attached to Canadian posts in some 18 foreign countries. For more information or the name of the IRAP officer nearest you, contact the following:

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

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

In Canada

Business Associations

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

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

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

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

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

Forum for International Trade Training (FITT)
155 Queen Street
6th Floor
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

Bank of Montreal, International Offices in Canada

Trade Finance Offices:

129 St. James Street West, 12th Floor
Montreal, PQ H2Y 1L6
Tel: (514) 877-9465
Fax: (514) 877-6933

First Canadian Place, 23rd Floor
Toronto, ON M5X 1A1
Tel: (416) 867-5584
Fax: (416) 867-7635

959 Burrard Street, 6th Floor
P.O. Box 49350
Vancouver, B.C. V7X 1L5
Tel: (604) 665-2740
Fax: (604) 665-7283

International Operations Offices:

959 Burrard Street, 7th floor
P.O. Box 49500
Vancouver, B.C. V7X 1L5
Tel: (604) 665-3705
Fax: (604) 665-7120

B1 Level, FCC, 340-7th Avenue South West
Calgary, AB T2P 0X4
Tel: (403) 234-3775
Fax: (403) 234-3777

335 Main Street, P.O. Box 844
Winnipeg, MB R3C 2R6
Tel: (204) 985-2202
Fax: (204) 985-2739

234 Simcoe Street, 3rd Floor
Toronto, ON M5T 1T1
Tel: (416) 867-6567
Fax: (416) 867-7162

288 St. James St. West
Montreal, PQ H2Y 1N1
Tel: (514) 877-7317
Fax: (514) 877-7155

Baker & McKenzie Offices in Canada

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.

Baker & McKenzie
Barristers & Solicitors
112 Adelaide Street East
Toronto, ON M5C 1K9
Tel: (416) 865-6910/6903
Fax: (416) 863-6275

Mexican Government Offices in Canada

The Embassy of Mexico, Mexican Trade Commissioners in Canada, and Mexican consulates can provide assistance and guidance to Canadian companies in need of information about doing business in Mexico.

Embassy of Mexico
130 Albert Street, Suite 1800
Ottawa, ON K1P 5G4
Tel: (613) 233-8988
Fax: (613) 235-9123

Mexican Consulate in Ottawa
Tel: (613) 235-7782

SECOFI
130 Albert Street, Suite 1700
Ottawa, ON K1P 5G4
Tel: (613) 235-7782
Fax: (613) 235-1129

Other Mexican Consulates General in Canada

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

Consulate General of Mexico
60 Bloor Street West
Suite 203
Toronto, ON M4W 3B8
Tel: (416) 922-2718/3196
Fax: (416) 922-8867

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
No. 1407
Quebec, PQ G1S 4M1
Tel: (418) 681-3192

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

For the Mexican Trade Commission offices in Montreal, Toronto and Vancouver see the following listing for Bancomext.

Mexican Banks with Offices in Canada

Bancomext offers credits, export guarantees and counselling services for those seeking to do business in Mexico. Credits are available for export, import and project financing. Counselling covers fiscal, financial, marketing and legal aspects of commercial transactions. Bancomext also sponsors trade fairs, international exhibitions and trade missions.

Bancomext
Trade Commission of Mexico
P.O. Box 32, Suite 2712
TD Bank Tower
66 Wellington Street
Toronto, ON M5K 1A1
Tel: (416) 867-9292
Fax: (416) 867-1847

Bancomext
Trade Commission of Mexico
200 Granville Street
Suite 1365
Vancouver, BC V6C 1S4
Tel: (604) 682-3648
Fax: (604) 682-1355

Bancomext
Trade Commission of Mexico
1501 McGill College
Suite 1540
Montreal, PQ H3A 3M8
Tel: (514) 287-1669
Fax: (514) 287-1844

Banamex and Banca Serfin are private sector banks which offer specialized services through their international trade information centres. The centres participate in a computerized communications network with access to numerous economic, governmental and financial data bases throughout the world. These banks are located throughout Mexico, and maintain offices in Toronto.

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

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

In Mexico

Canadian Government Offices in Mexico

The Commercial Division of the Canadian Embassy in Mexico can provide vital assistance to Canadians venturing into the Mexican market. The trade commissioners are well informed about the market and will respond in whatever measure possible to support a Canadian firm's presence in Mexico.

***Note:** to telephone México, D.F. dial: 011-52-5 before the number shown below, 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
Col. Polanco
Apartado Postal 105-05
11560 México, D.F.
México
Tel: 724-7900
Fax: 724-7982

Canadian Consulate
Edificio Kalos, Piso C-1
Local 108A
Zaragoza y Constitucion
64000 Monterrey
México
Tel: 443-200
Fax: 443-048

Quebec House

Representing the Government of Quebec, the office deals with a wide range of issues. On the commercial side, it promotes Mexican business opportunities with Quebec firms and helps to prepare them for the Mexican marketplace.

Quebec House
Av. Taine 411
Col. Bosques de Chapultepec
11580 México, D.F.
México
Tel: 250-8208
Fax: 254-4282

The Canadian Chamber of Commerce in Mexico

The Canadian Chamber of Commerce in Mexico — *La Cámara de Comercio 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 Royal Bank
Hamburgo 172, Piso 5
06600 México, D.F.
México
Tel: 207-2400
Fax: 208-1592

Bank of Montreal

The Bank of Montreal is the longest-serving Canadian bank in Mexico. It offers a wide range of international banking services and trade financing.

Bank of Montreal
Horacio No. 1855-301
Col. Polanco
11510 México, D.F.
México
Tel: 203-8211
Fax: 203-8542

Mexican Federal Government Departments

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 for Commerce and Industrial Promotion — *Secretaría de Comercio y Fomento Industrial (SECOFI)*
Alfonso Reyes No. 30, Piso 10
Col. Hipódromo de la Condesa
06170 México, D.F.
México
Tel: 286-1757
Fax: 286-1543

Other Government Departments

Secretariat of Agrarian Reform — *Secretaría de la Reforma Agraria*
Calz. de la Viga No. 1174, Piso 15
Torre B
Col. Apatlaco
09430 México, D.F.
México
Tel: 650-5001/6077
Fax: 650-6100

Secretariat of Agriculture and Hydrological Resources — *Secretaría de Agricultura y Recursos Hidráulicos*
Insurgentes sur No. 476, Piso 13
Col. Roma Sur
06760 México, D.F.
México
Tel: 584-0010/0808
Fax: 584-1887

Secretariat of Communications and Transportation — *Secretaría de Comunicaciones y Transportes*
Av. Universidad y Xola, Cuerpo C, Piso 1
Col. Narvarte
03028 México, D.F.
México
Tel: 538-5148/0450
Fax: 519-9748

Secretariat of Defense — *Secretaría de la Defensa*
Blvd. Manuel Avita Camacho y
Av. Industria Militar s/n, Piso 2
Col. Lomas de Sotelo
11640 México, D.F.
México
Tel: 395-6766/3347
Fax: 557-1370

Secretariat of Energy, Mining and State-Owned Industry — *Secretaría de Energía, Minas e Industria Paraestatal*
Insurgentes Sur No. 552, Piso 3
Col. Roma Sur
06769 México, D.F.
México
Tel: 584-4304/2962
Fax: 574-3396

Ministry of the Federal District — *Departamento del Distrito Federal*
Plaza de la Constitución esq., Pino Suárez, Piso 1
Col. Centro
06068 México, D.F.
México
Tel: 518-1100/4511
Fax: 510-2275

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

Secretariat of Fishing — *Secretaría de Pesca*
Av. Alvaro Obregón No. 269, Piso 6
Col. Roma Sur
06995 México, D.F.
México
Tel: 208-9970, 211-0053
Fax: 208-1834

Secretariat of Foreign Affairs — *Secretaría de Relaciones Exteriores*
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*
Lieja No. 7, Piso 1
Col. Juárez
06600 México, D.F.
México
Tel: 553-7670/7940
Fax: 286-5497

Secretariat of the Interior — *Secretaría de Gobernación*
Abraham Gónzales, No. 48, Piso 1
Col. Juárez
06699 México, D.F.
México
Tel: 566-8188
Fax: 591-0892

Secretariat of Labour and Social Welfare — *Secretaría del Trabajo y Previsión Social*
Periférico Sur No. 4271, Edificio "A"
Col. Fuentes del Pedregal
14140 México, D.F.
México
Tel: 568-1720, 645-3969/5466
Fax: 645-5466

Secretariat of the Navy — *Secretaría de la Marina*
Eje 2 Oriente Tramo H.
Escuela Naval Militar No. 861
Col. Los Cipreses
04830 México, D.F.
México
Tel: 684-8188 Ext. 4334/4328
Fax: 679-6411

Secretariat of Public Education — *Secretaría de Educación Pública*
Argentina No. 28, Piso 2
Col. Centro
06020 México, D.F.
México
Tel: 521-9574, 510-4767
Fax: 510-4075

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
Col. Belén de las Flores
01110 México, D.F.
México
Tel: 271-8481/8521
Fax: 271-8217

Office of the Federal Controller — *Secretaría de la Contraloría General*
Av. Insurgentes Sur No. 1735, Piso 10
Col. Guadalupe Inn.
01028 México, D.F.
México
Tel: 534-7086, 682-4580
Fax: 524-8306

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*
Reforma 915,
Col. Lomas de Chapultepec
11000 México, D.F.
México
Tel: 202-7804
Fax: 202-7925

National Chamber of Transformation Industry — *Cámara Nacional de la Industria de la Transformación (CANACINTRA)* offers a wide range of services to companies wishing to do business in Mexico. It offers information on government regulations and procedures as well as advice on trade, financial incentives, industrial parks, and joint ventures. A separate division of the Chamber prepares studies of Mexico's economic situation while the international affairs division focuses on trade promotion.

National Chamber of Transformation Industry — *Cámara Nacional de la Industria de la Transformación*
Av. San Antonio 256
Col. Nápoles
03849 México, D.F.
México
Tel: 563-3400 ext. 163
Fax: 598-6988

Financial Institutions

Central Bank of Mexico — *Banco Nacional de México, S.A.*
Av. 5 de Mayo No. 2, Piso 5
Col. Centro
06059 México, D.F.
México
Tel: 512-2266/5817
Fax: 510-9337

Foreign Trade Bank — *Banco Nacional de Comercio Exterior (Bancomext)*
Periférico Sur No. 4333
Col. Jardínes de la Montaña
14210 México, D.F.
México
Tel: 227-9008/9009
Fax: 227-9070

National Financing — *Nacional Financiera (Nafinsa)* provides financing for small- and medium-sized enterprises and promotes economic and regional development. To support business development in Mexico, it will offer venture capital to foreign entrepreneurs involved in joint ventures as well as domestic businesses.

National Financing — *Nacional Financiera*
Insurgentes Sur No. 1971
Col. Guadalupe Inn.
01020 México, D.F.
México
Tel: 550-6911
Fax: 550-3132

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.

Bancomer — *Banco de Comercio*
Av. Universidad No. 1200
Col. Xoco
03339 México, D.F.
México
Tel: 621-3653/5922
Fax: 621-3265, 604-1111

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

National Securities Commission — *Comisión Nacional de Seguros y Valores*
Barranca del Muerto No. 275, Piso 2
01020 México, D.F.
México
Tel: 593-9855

Major Business and Professional Organizations

Mexico has a number of Chambers of Commerce and professional organizations that can provide assistance and guidance to Canadian companies in Mexico. Their standards of service vary widely and you should consult with Canadian officials to determine which organization would best suit your needs.

Mexican Automotive Industry Association — *Asociación Mexicana de la Industria Automotriz*
Ensenada No. 90
Col. Condesa
06140 México, D.F.
México
Tel: 272-1144, 515-2542
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: 564-9379, 584-9522
Fax: 584-5317

National Association of Maritime Agents — *Asociación Nacional de Agentes Marítimos*
Homero No. 1425, Piso 3
Col. Chapultepec Morales
11510 México, D.F.
México
Tel: 395-8931
Fax: 520-7165

Mexican Business Council for International Affairs — *Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI)*
Homero No. 527, Piso 7
Col. Polanco Chapultepec
11560 México, D.F.
México
Tel: 250-7033/7539
Fax: 531-1590

Chamber of the Restaurant Industry — *Cámara de la Industria Restaurantera*
Aniceto Ortege No. 1009
Col. del Valle
03100 México, D.F.
México
Tel: 604-0418

Management Coordination Council — *Consejo Coordinador Empresarial*
Homero No. 527, Piso 5
Chapultepec Morales
11570 México, D.F.
México
Tel: 250-6977/7750
Fax: 250-6995

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

National Chamber of Commerce — *Cámara Nacional de Comercio (CANACO)*
Paseo de la Reforma No. 42, Piso 3
Col. Juárez
06600 México, D.F.
México
Tel: 592-2677
Fax: 592-3403

National Chamber of the Construction Industry — *Cámara Nacional de la Industria de la Construcción*
Periférico Sur No. 4839
Col. Parques del Pedregal
14010 México, D.F.
México
Tel: 665-0424/6440
Fax: 606-8329

National Chamber of the Garment Industry — *Cámara Nacional de la Industria del Vestido*
Manuel Tolsá No. 54
Col. Centro
06740 México, D.F.
México
Tel: 588-3934/7822
Fax: 578-6210

National Institute for Statistics, Geography and Information — *Instituto Nacional de Estadística, Geografía e Informática (INEGI)*
Av. Heroe de Nacozari No. 2301
Fracc. Jardínes del Parque
20290 Aguascalientes, Ags.
México
Tel: (49)-18.00.34

X. Glossary of Terms

Glossary

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

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

ASERCA — agency to promote agricultural commerce and information

Asociación de Industriales de Transporte y Comercio Internacional — Transportation and Foreign Trade Industries.

Asociación Mexicana de la Industria Automotriz — Mexican Automotive Industry Association

Asociación Nacional de Agentes Marítimos — National Association of Maritime Agents

Bancomext (Banco Nacional de Comercio Exterior) — is the National Bank for Foreign Trade in Mexico but its role in Canada is to promote investment in Mexico by acting as a Trade Commission

Banco Nacional de México, S.A. — Central Bank of Mexico

Bancomer (Banco de Comercio) — Bank of Commerce

Bolsa Mexicana de Valores — Mexican Stock Exchange

BOT — build-operate-transfer plan

Cámara de la Industria Restaurantera — Chamber of the Restaurant Industry

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

Cámara Nacional de la Industria del Vestido — National Chamber of the Garment Industry

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

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

Casa de Cambio — financial exchange house

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

CFE (*Comisión Federal de Electricidad*) — federal electricity commission

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

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

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

Comisión General de Seguros y Valores — National Securities Commission

CONASUPO (*Compañía Nacional de Subsistencias Populares*) — state-run system of agricultural marketing boards.

Confederación Patronal de la República Mexicana — Confederation of Mexican Employers

Consejo Coordinador Empresarial — Management Coordination Council

Consejo Nacional de Publicidad — National Advertising Council

CTM (*Confederación de Trabajadores de México*) — Mexican Confederation of Workers

Departamento del Distrito Federal — Ministry of the Federal District

DFAIT — Department Foreign Affairs and International Trade

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

DGN (*Dirección General de Normas*) — Mexican Bureau of Standards

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

EIU — Economist Intelligence Unit

ejidatarios — independent farmers holding an ejido

ejido — independent tenant landholding

EPA — US Environmental Protection Agency

FAO — Food and Agricultural Organization, a United Nations agency

Ferrocarriles Nacionales de México — the national railroad commission

GATT — General Agreement on Tariffs and Trade

GDP — Gross Domestic Product

GMT — Greenwich Mean Time

GNP — Gross National Product

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

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

IVA — (*Impuesto al Valor Agregado*) — value added tax in Mexico (10%)

La Cámara de Comercio 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 but used to mean value added from processing that remains in Mexico

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

MR (*Marca Registrada*) — trademark symbol

Nafinsa (*Nacional Financiera*) — an agency providing financing for small- and medium-sized enterprises in Mexico

NAFTA — North America Free Trade Agreement, known in Mexico as the TLC or *Tratado de Libre Comercio.*

NOM — a quality and standard authorization from the DGN

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

PEMEX (*Petróleos Mexicanos*) — the state-owned oil and gas enterprise

Plan Nacional de Desarrollo — National Development Plan

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

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

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

SECOFI (*Secretaría de Comercio y Fomento Industrial*) — Secretariat for Commerce and Industrial Promotion

Secretaría de Comunicaciones y Transportes — Secretariat of Communications and Transportation

Secretaría de Educación Pública — Secretariat of Public Education

Secretaría de Gobernación — Secretariat of the Interior

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

Secretaría de la Defensa — Secretariat of Defense

Secretaría de Pesca — Secretariat of Fishing

Secretaría de Relaciones Exteriores — Secretariat of Foreign Affairs

Secretaría de Salud — Secretariat of Health

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

Secretaría General de la Contraloría — Office of the Federal Controller

Secretaría de Energía, Minas e Industria Paraestatal — Secretariat of Energy, Mining and State-owned Industry

Secretaría de la Marina — Secretariat of the Navy

Secretaría de Agricultura y Recursos Hidráulicas — Secretariat of Agriculture and Hydrological Resources

SECTUR (*Secretaría de Turismo*) — Secretariat of Tourism

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

SNI (*Sociedad Nacional de Investigaciónes*) — National System for Researchers

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

WD — Western Economic Diversification

Reader Survey

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   - ☐ **very useful**
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   - ☐ **poor**

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   - ☐ **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?
   - ☐ **clear and easy to follow**
   - ☐ **confusing and difficult to follow**

5 For your purposes, did this publication provide a sufficiently complete treatment of the subject(s) reviewed?
   - ☐ **yes, definitely**
   - ☐ **to some extent**
   - ☐ **no**
   - ☐ **can't say/don't know**

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**

7. In your opinion, was there important information missing from this publication?
   - ☐ **yes — please specify:**

   ____

   ____

   ____

8. Are there any issues relevant to the subject of this publication that you would like to have seen covered in more detail?

   ____

   ____

   ____

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?
   - ☐ **Yes, go to 11 b)**
   - ☐ **No, go to 11 c)**

   b) If yes, to which foreign markets?
   - ☐ **U.S.A.** ☐ **Europe** ☐ **Japan**
   - ☐ **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**

Please return the completed survey by fax to (613) 943–8806 or to the address below:

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