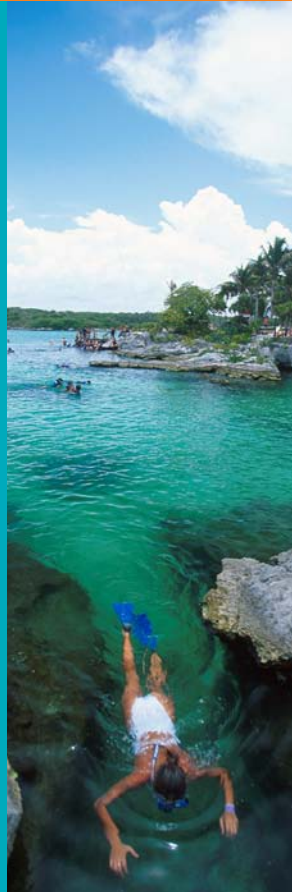


MEXICO AND CANADA: A STRONG PARTNERSHIP



There has never been a better time to do business in Mexico. Economic and fiscal reforms have created a booming economy and a burgeoning middle class with an appetite for consumption. The government of Mexico has embarked on a multi-billion-dollar plan for the construction and modernization of its infrastructure. All of this means opportunity for Canadian companies looking for new investment horizons.



Mexico's time is now

There are plenty of opportunities for Canadian exporters beyond the U.S., where economic difficulties are slowing down sales – and Mexico is an ideal place to start, says Fred Sheehy, area director responsible for Mexico for the Ontario Ministry of Economic Development and Trade.

“There’s no reason not to look at Mexico as an opportunity. The Mexican currency is more stable than the U.S. dollar and the economy is in a growth mode, unlike the rest of North America. It’s also a one- to three-year cycle to develop an export market, so I tell exporters, don’t wait until you’re in receivership before considering a new market.”

Sheehy conducts trade missions to Mexico and Latin America, where Ontario companies are introduced to potential customers and experts who can help them navigate the legal, financial and business cultures. “We do matchmaking with potential clients. We take six to eight Ontario companies on a trade mission and we visit three cities. Each company will have about 10 appointments per city,” he says. “It’s a lot of work, very formal, but there’s personal contact, which in Mexico is very important. Email does not replace face-to-face contact in Mexico.”

Idalia Obregon of Exito Trade Consulting in Toronto also works with Canadian companies to make inroads in Mexico and help them choose the right partner. She recently assisted the engineering firm Giffels and a Canadian law firm that is partnering on Mexican projects. She says there is plenty of opportunity for Canadian consulting services in Mexico, particularly in the legal, environmental, energy and engineering/design sectors. Her advice: “Make sure you have the right partner in Mexico – not necessarily someone in the same field because they could end up being your competitor.”

John Price, managing director of business intelligence for Kroll InfoAmericas, adds that the timing for a push into Mexico is perfect for companies seeking a vibrant new market. “We’re into the 13th year of stability in Mexico and the investment climate is positive. The fiscal policies are prudent and there’s been a gradual increase in the income and wealth of Mexicans – a growing middle class.”

In the past, much of the foreign investment in Mexico was done as a manufacturing platform for re-export to the U.S., says Price, author of *Can Latin America Compete? Confronting the Challenges of Globalization*. This type of investment took advantage of Mexico’s proximity to the U.S. and the abundance of cheap labour.

Today, Mexico is a market in its own right. There’s a thriving consumer market as well as a growing sector of small companies requiring goods and services. Per-capita annual income has jumped to \$7,800, the highest in Latin

Canada-Mexico trade facts

- Commercial trade between Canada and Mexico has increased 400% since NAFTA was signed in 1993.
- Canada’s third largest supplier in 2007 was Mexico at \$17.1 billion.
- In 2007, Mexico was Canada’s fifth largest export market at \$4.9 billion.
- Canadian exports to Mexico totalled US\$7.3 billion in 2006, an increase of almost 20% over the previous year.
- 75% of Canadian exporters to Mexico are small and medium-sized companies.
- 1,800 Canadian firms operate in Mexico.

America. If measured as Purchasing Power Parity GDP – an adjustment that accounts for differences in what that income can buy – Price notes that per-capita income rises to \$14,000. In fact, one-fifth of the population has a per-capita income of \$32,000 in PPP terms.

Investment opportunities abound, says Price. Not only is there room for investment in companies that serve the auto and aerospace industries, financial services is a natural fit for Canada. Says Price: “The higher incomes of the middle class will drive growth. There’s a burgeoning mortgage industry and an increasing demand for credit. The potential is great – outstanding consumer credit in Mexico is only 35% of GDP, compared to 150% in the U.S.”

In addition, Mexico has more than 12 billion barrels of proven oil reserves and more than 14.5 trillion cubic feet of proven natural gas reserves. Recent moves to reform the energy sector in Mexico have opened up new possibilities in this sector, as underlined by an agreement between Nexen Inc. of Calgary and Pemex, Mexico’s state-run energy company. Nexen and Pemex will collaborate on exploration and production while sharing technology, research and expertise. In all, at least 25 Alberta companies are operating in Mexico in diverse fields such as pipelines, gas and oil drilling, the service sector and the electrical industry.

Guillermo Rishchynski, Canada’s ambassador to Mexico, lauds NAFTA as “beneficial in providing Canada with an opening to the Mexican market.” He says Canada is seen as an ideal source of technology, goods and services that allow Mexico to invest in its own productivity. Canada’s new global commerce strategy has also developed a market plan for Mexico that builds awareness among Canadian investors.

At the same time, efforts by the Mexican government to improve its competitiveness have paid off, says Emilio Goicoechea, Mexico’s ambassador to Canada. “In KPMG’s 2008 Competitive Alternatives report, Mexico had the best business cost advantage – 20.5% lower than the U.S.

We are also developing an economic structure based on high-value manufacturing industries and services. Some of our priority sectors offer a great opportunity for Canadian businesses – aeronautics, agri-food, automotive, biotechnology, chemicals, electronics, mining, footwear and textiles, furniture, information technology, mechatronics – a combination of mechanical, electronic and software engineering – and nanotechnology.”

The government’s national infrastructure plan will also present a wealth of opportunities for Canadian companies, he says. “More than 300 specific projects have been identified in the areas of transportation, energy and hydraulic infrastructure.”

In May, the ambassador will make his first official visit to Nova Scotia to discuss trade and business opportunities between Canada and Mexico and to commemorate the tenth anniversary of the twinning agreement between the cities of Campeche and Halifax.

Strategic supply-chain decisions

In the manufacturing world, just-in-time inventory is a fact of life. So suppliers who set up their operations near their customers are making a smart business decision.

Samuel Manu-Tech Inc., a publicly-traded Canadian metals and plastics manufacturer, is a case in point. In 2006, the company opened a sister plant to its Associated Tube Industries (ATI) division in Saltillo, Mexico (known as ‘Little Detroit’ for its plethora of auto and auto parts companies). The new company, Tubos Samuel de Mexico, began with six skilled employees and has grown to 60. All of the workers are Mexican, but trained at ATI’s Markham, Ont., plant. The Saltillo plant will not only enhance ATI’s partnerships with key regional customers, but will expand the company’s geographic reach.

“We needed to optimize the supply chain by being close to our customers,” says John Amodeo, Samuel Manu-Tech’s vice-president and CFO. “The Mexico facility has been a huge success. ATI has the skilled labour force it needs to work with stainless steel and now has the proximity to its automotive customers, which has resulted in a significant drop in freight costs.”

There has even been an unexpected bonus for ATI, says Amodeo. As the Saltillo area grows, ATI is attracting business from the area’s expanding food and beverage and heating and cooling sectors.

Another company with an understanding of supply chain efficiencies is Giffels Associates Ltd., a full-service engineering and architecture firm and member of the Toronto-based Ingenium Group of Companies.

Akzo Nobel, a multinational that supplies paint to the automotive industry, needed a satellite paint plant to support its customers near Monterrey, Mexico. Two of its main concerns, however, were to meet tight just-in-

time schedules and maintain high customer satisfaction levels. Giffels was enlisted to provide a complete design-build solution that met Akzo Nobel’s aggressive schedule and budget. The firm also provided design and program management services, and partnered with Construx Industrial S.A. de C.V. of Monterrey on the construction phase, acting as overall project manager. “We weren’t there to replace our construction and design partners in Mexico,” says Don Ferguson, Giffels senior vice-president, “but to provide expertise.”

Giffels has had a presence in Mexico for 15 years, but in 2005 stepped this up by incorporating a Mexican company – Giffels S. de R.L. de C.V. “Having a Mexican company gives us an advantage in doing business in Mexico,” says Ferguson. “Ford and GM’s Mexican companies like to do business with other Mexican companies.”

Mexico is currently a more lucrative market than the U.S. or Canada for automotive and manufacturing, he adds. “Economic growth is projected at three to four percent for the coming year. We want to be able to take advantage of this upsurge.”

Both ATI and Giffels found the Mexican government and state governments helpful in setting up an infrastructure and learning to navigate cultural differences. They also placed a premium on using Mexican advisors. Says Ferguson: “There are differences in banking and financing in Mexico, so you need good advice to overcome the hurdles.”

Canadian aerospace giant Bombardier Inc. recently invested \$200 million in two sites at Querétaro, 220 kilometres north of Mexico City. Manufacturing in Mexico has allowed Bombardier to save between 25% and 30% on production costs and is helping it better compete in the Latin America’s aerospace market. Mexico’s aerospace industry grew by 20% in 2006, and 34 companies opened there in 2007.

10 states to watch

Mexico consists of 31 states and one federal district. Some of these states are becoming economic powerhouses thanks to industry clusters that have attracted investment from around the world.

Neuvo León: Know for advanced manufacturing. Research in Motion, manufacturers of the BlackBerry, and Celestica, a provider of electronic manufacturing services, have operations in Monterrey. Other clusters include aerospace, automotive, food products, metalworking, medical equipment, petrochemicals and plastics, pharmaceuticals, textiles and mining.

Estado de México: A strong player in automotive, electronics, food products, medical equipment, petrochemicals and plastics, textiles and mining.

Chihuahua: Active in aerospace, automotive, electronics, food products, medical equipment, petrochemicals and plastics, pharmaceuticals, textiles and mining.

Baja California: Attracts industry in the aerospace, automotive, electronics, food products, medical equipment, petrochemicals and plastics, and mining sectors.

Jalisco: A popular location for aerospace, automotive, electronics, food products, medical equipment, pharmaceuticals and mining companies.

Sonora: A major centre for automotive, electronics, food products, metalworking, petrochemicals and plastics, textiles and mining.

Michoacán: A destination for electronics, metalworking, textiles and mining companies.

Coahuila: A world-class centre for the aerospace, automotive, electronics, food products, petrochemicals and plastics, pharmaceuticals, textiles and mining industries.

Guanajuato: Renowned as an automotive, electronics, food products and textiles centre.

Querétaro: The capital city – also called Querétaro – attracts companies from the aerospace, automotive, electronics, food products, medical equipment, petrochemicals and plastics, pharmaceuticals, and textiles industries.

Other opportunities for Canadian investors include:

- **Infrastructure:** By 2030, Mexico wants to be in the top 20% of the World Economic Forum’s Infrastructure Competitiveness Index. Its plan for infrastructure modernization will help achieve this goal.
- **Telecommunications:** The Mexican government is increasing its investment in telecommunications infrastructure and expanding broadband Internet coverage.
- **Education and training:** As Mexico moves toward a knowledge-based economy, there will be an emphasis on technical and distance education, an area in which Canada excels.
- **Energy:** Privatization of oil and gas means opportunities for foreign investors as Mexico strives to become more self-sufficient.
- **Agri-food:** Opportunities include canola seed, wheat, barley malt and pork.
- **Environmental products and consulting services:** Mexico is modernizing irrigation and improving water and wastewater treatment systems.



Mexico – a top business destination

Think of Mexico and natural beauty and sunshine come to mind. From beaches to luxury resorts with sporting activities, culture and fine cuisine, Mexico is a destination with plenty to boast about. Such fine attractions make a good foundation for Mexico's impressive congress and conference facilities.

With its close proximity to the U.S. and Canada (no more than a five-hour flight), Mexico is a heavyweight contender for meetings, conventions and incentive travel.

Facilities are top-notch and the quality of A/V services, lighting and Internet capabilities can support the most sophisticated of requests. Labour costs are highly competitive. And there are significant tax breaks. There is no VAT (value-added tax) applied to foreign companies organizing events in Mexico. This includes expenses paid for lodging and event services such as registration, translation, food and beverage and A/V costs. Participants benefit as well, as there is no VAT applied to any local shopping they do provided they present receipts to customs.

Conference planners can look forward to plenty of assistance with their events. The Mexico Tourism Board offers a national convention bureau and there are 55 convention and visitor bureaus offering expert advice and service.

Mexico is also attractive for snowbirds craving milder weather for their retirement years. Canadians who want to make Mexico their winter home are purchasing or timesharing condos and villas in sunny places such as San Miguel de Allende, Mazatlan, Oaxaca, Guadalajara and Lake Chapala. The surge in popularity is understandable. Mexico offers affordable living expenses, good infrastructure for communications and transportation, excellent cuisine and, of course, a friendly, easy-going lifestyle.

For those whose ideal holiday involves some fun in the sun,

Did you know?

- More than 22 million people visited Mexico in 2007 and about 950,000 were Canadian.
- Mexico has 59 international airports and 28 national airports.
- Mexico is home to 22 UNESCO World Heritage sites, including the Mayan ruins at Chichén Itza, named one of the Wonders of the World in 2007.
- There are 38 convention centres with over 3.6 million square feet of exhibit space and 2.1 million square feet of convention space.
- Hotel rooms are plentiful, with more than 245,000 rooms in 3,100 luxury hotels.
- Mexico is investing \$20 billion in its tourism industry between now and 2012.

Mexico has always been top of mind. Whether it's the Mayan Riviera's famous shoreline and nearby archaeological wonders, the vibrant resorts and natural beauty of Baja California, or the spectacular Pacific coast, Mexico has all of the elements that make it an ideal destination. But that's not to overlook picturesque inland venues such as Oaxaca and San Miguel de Allende, both known for their regional cuisines and culture; Morelia, the winter home of the Monarch butterfly; or Taxco, famed for its handcrafted silver jewelry.

