

DOING BUSINESS WITH THE CO-OPERATIVES OF MEXICO



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STATUS OF CO-OPERATIVES 1994-1995
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DESJARDINS

334

D657dm Doing business with the cooperatives of Mexico: a practical guide for investors, businessmen, cooperatives. -- 1. ed. -- San José, C. R. : Alianza Cooperativa Internacional, 1995. 58 p.

ISBN 9968-13-005-2

1. Cooperativas - México. 2. Inversiones - México. I. Título.

PRIMERA EDICIÓN, 1995

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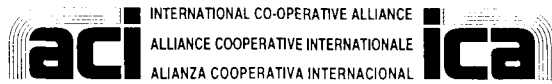
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1995



UTAN GRÄNSER
SWEDISH COOPERATIVE CENTRE

Supporting
Co-operative
Business
for a Sustainable
Development.



**Doing Business
with the Co-operatives
of Mexico**

A Practical Guide for:

- Investors
- Businessmen
- Co-operatives

November 1994

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I. Introduction

During these times in which most of the attention that is directed toward Mexico is focused on issues such as the achievements and benefits of the North American Free Trade Agreement, the growth of the Mexican economy, and the emergence of Mexico as an excellent option for foreign investment, it is crucial to stop and take a look at a sector which perhaps does not immediately catch the investor's eye, which is that of the Mexican Co-operatives. The level of integration of this sector, its achievements in socioeconomic development with diverse sections of the population, and its presence in a wide variety of economic activities all make it worthy of consideration for any foreign investor, businessperson or Co-operative organization that is seeking business opportunities in Mexico.

As it has done with other documents and other programs, and as a key element in its on-going efforts to encourage and promote the many opportunities for investment, trade, cooperation and exchange that the Co-operatives of the area offer, the **International Co-operative Alliance** is pleased to present this guide. This document is meant to create awareness of the fact that Co-operatives are worth considering as potential sources of investment projects, strategic alliances and other types of exchange and cooperation. The time is surely right: Mexico has opened its doors to foreign investment through fundamental legislative, tax, political and economic reforms that will insert it into the currents of globalization and modernization that are prevalent around the world today.

In order to reach its objective, this document begins

with an analysis of the main advantages that Mexican Co-operatives offer to any type of investor or interested party that has focused its attention on Mexico. Having provided this initial insight, the next step is an examination of general aspects of the Mexican economy through a review of tendencies and investment incentives in this country. This is complemented with an overview of some of the prominent sectors of the Mexican economy, emphasizing those in which Co-operatives, as well as opportunities with these groups, are present. Next, in the following chapter the different forms of doing business or investing are examined, looking not only at the different legal structures but also at the types of activities that foreigners are allowed to become involved in.

A document of this sort would not be complete without looking at some general characteristics of the country, including geography, climate, population, social and cultural issues, among others, which offer a general impression of the country and its people. The following chapters delve into different aspects concerning the banking/financial system, the tax system and labor policies of Mexico, in order to provide other key ingredients in a guide of this type, which aims at providing an initial orientation which undoubtedly must be complemented with site visits and appointments with the corresponding professionals and officials.

To finish up the main body of the document, a brief description of the North American Free Trade Agreement is provided, a treaty which has served as platform to many of the current and future achievements of this important Latin American country. The final chapter contains some key contacts for individuals, companies and other organizations that plan to



work in the Mexican market in some manner, providing names and numbers for government agencies, banks, other private and public entities, as well as Co-operative organizations.

In conclusion, the hope is that this guide may help orient those who have already identified Mexico as a target for future investments, research or operations, but also to motivate them to consider the Co-operatives as a viable alternative for investment and business ventures. Finally, for those who have not considered Mexico, nor its Co-operatives, the expectation is to arouse serious, well-informed interest in this «awakening giant» that is opening up its

borders to individual, corporate, and Co-operative initiatives from all over the world.

Last, but definitely not least, it would be inappropriate to end this introduction without thanking the sponsors that have made the creation and publication of this document possible, the **Swedish Co-operative Centre** and **The Desjardins Society for International Development**.

*Juan Diego Pacheco
Regional Director
International Co-operative Alliance*

II. Why Seek Business Opportunities with Mexico's Co-operative Sector?

One need not draw the attention of the most astute businessmen toward the attractiveness of doing business in Mexico. The political and economic reforms achieved in recent times speak for themselves, as do recent trade agreements that have converted this country into one of the world's primary centers of attention for investment and business purposes. As a result, in the last few years there has been a real explosion in foreign investment, as well as great economic dynamism that undoubtedly paved the way for the country's recent incorporation into the Organization for Economic Development and Cooperation (OECD).

However, while many have come and will continue to arrive thinking only of the benefits of the North American Free Trade Agreement (NAFTA) and of investing in newly liberalized activities, there is a danger of overlooking one of the most interesting and opportunity-filled sectors in the country: that

of the Mexican Co-operatives. Any businessperson with an interest in seeking out attractive opportunities for investment or coinvestment should be informed about the Co-operative sector, whose business and trade potential has just begun to be exploited.

Before entering into the details of the economic outlook and the incentives, procedures and other general factors which must be understood by investors interested in Mexico, first it is important to look at the most prominent advantages offered by the Co-operative sector of this country. Emphasis will be given to those advantages which are most relevant to potential investors, businesspeople, and other Co-operatives within and outside of Mexico. An examination of these aspects and consideration of possible trade relations, alliances, coinvestments, etc, will elucidate the strategic nature of the Co-operative sector in Mexico.

Table II.1 Main Advantages of Mexican Co-operatives

- Access to financing and loan-guarantee funds
- Benefitted by NAFTA
- Direct and speedy access to the most important regions and sectors of the country
- High demand for machinery, equipment and other capital goods
- Low production and intermediation costs
- Access to extensive resources in the country's key sectors
- Excess capacity
- Legal and political support
- Extremely positive ideals and objectives beneficial to economic democratization and distribution of wealth



Following is a brief explanation of each one of the advantages mentioned above.

Access to Financing and Loan Guarantee Funds

As part of its efforts toward improving the socioeconomical conditions of the rural areas and among small farmers, the Mexican government has created several special credit lines for small and middle-sized companies, the Co-operatives being of high priority. For example, Nacional Financiera offers loans for working capital, fixed investment, and the restructuring of debts, credits to which micro and small businesses will have access (PROMYP program). In addition, the new Co-operative law establishes the creation of loan-guarantee funds for Co-operative projects.

Benefitted by NAFTA

Co-operatives enjoy all the advantages offered by NAFTA. These include exporting of products to Mexico, the United States and Canada without tariffs and quotas, as long as rules of origin are observed.

Direct and speedy access to the most important regions and sectors of the country

Because they are spread out among the different states of the country, the Co-operatives have established networks and strategic distribution channels. That, plus the fact that they operate in diverse sectors like agriculture, agroindustry, fishing, cement, ports, transportation, finances, tourism, etc., makes the Co-operative sector an extremely attractive one for potential business endeavours.

High demand for Machinery, Equipment and other Capital Goods

The Co-operatives require new machinery and

equipment in order to modernize themselves and increase their productivity. This increases their potential demand for and interest in acquiring technology from foreign counterparts — and with the new tariff reductions set in motion by NAFTA, the possibility of entering into negotiations for the acquisition of capital goods has increased substantially.

Low Production and Intermediation Costs

By integrating and combining purchasing and production among its different members, the Co-operative movement often enjoys significant economies of scale in many areas. Additionally, because they don't operate under such stringent profit-generation policies (e.g: in the purchasing of goods and services for members, a key goal is to share the benefits of low costs among themselves, and not to inflate prices in order to maximize profits), Co-operatives present very favorable cost structures.

Access to Extensive Resources in the Country's Key Sectors

There are Co-operatives that possess large land holdings with high levels of forestry and agricultural resources. Many of these groups don't have the capital nor the technology to exploit these resources. Nonetheless, they are open to the possibility of receiving assistance from third parties, whether it be in the form of strategic alliances, coinvestment or other forms of cooperation.

Excess Capacity

Many Co-operatives have substantial assets which account for fixed costs, but in many cases they are not taking full advantage of their potential capacity. In other words, by identifying a new market and trying to increase production, they can offer prices that mostly reflect only marginal costs. The vast amounts of storage facilities Co-operatives possess

(silos, warehouses, buildings, etc) are also worth mentioning in this sense.

Legal and Political Support

From the political point of view, Co-operatives have a wide and strong support base. As evidence of this support, one can mention the recent approval of the «New General Law for Co-operatives». This new law, which received a consensus vote from all of the political parties in the country, creates important reforms and benefits for the Co-operative sector. As a result, projects that involve Co-operatives on their own or together with companies or private investors enjoy high levels of acceptance, promotion, image and stability, in addition to an adequate legal framework. Co-operatives are seen as positive models for achieving development goals, especially in regard to farmers and micro and small businesses. For this reason, Co-operatives will continue receiving direct attention and priority among

those programs promoted by current and future administrations.

Extremely positive ideals and objectives beneficial to economic democratization and distribution of wealth

The Co-operative model, by definition, has among its fundamental objectives a more just distribution of economical benefits, support for small producers, and the democratization of the economy. The success of this model will depend upon the modernization of Co-operatives and the formation of stronger ties with the international business community. As an example of the positive aspects of dealing with Co-operatives, it is worth noting that some Co-operatives have entered into new markets using labels that state «This product was elaborated by small Co-operative producers» on its packaging and thus reaching a market niche that allows for higher margins.



III. The Mexican Economy: Overview

Mexico's diversified economy has made great strides in the past few years. The reforms achieved during the presidency of Carlos Salinas were essential in setting the stage for the country's economic recovery, particularly the economic liberalization measures. But perhaps even more important, Mexico's inclusion into the North American Free Trade Agreement (NAFTA) has put the country into the international spotlight, attracting large amounts of foreign investment, and stimulating substantial increases in exports. Its membership to the General Agreement on Tariffs and Trade (GATT), and its recent incorporation into the Organization of Economic Cooperation and Development (OECD) reflect even further the dramatic changes occurring in this rapidly developing country.

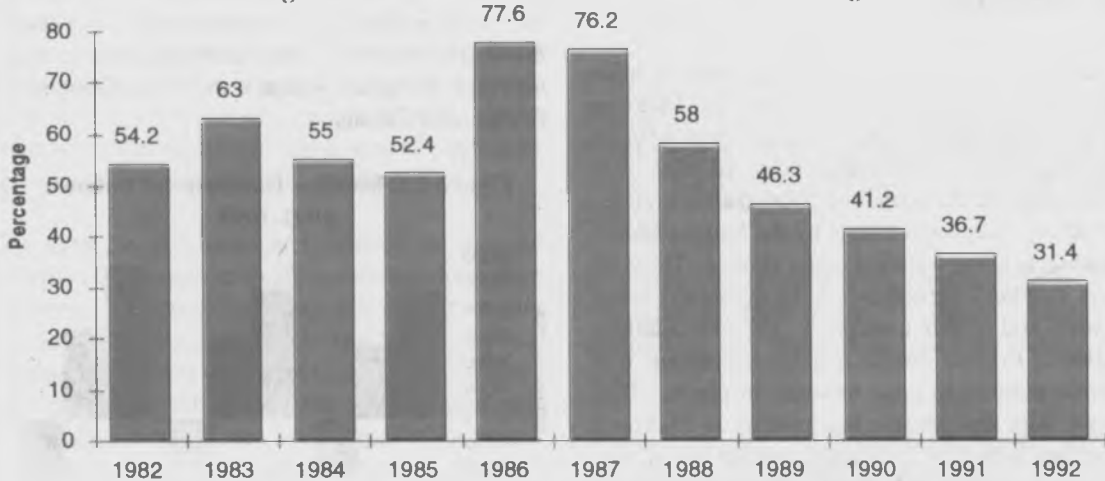
1. Privatization

Mexico has a mixed economy, but the trend is toward privatization and greater emphasis on private sector-led growth. The government, through its agencies and through companies which it owns or controls, continues to dominate in petroleum production activities, and in the area of public utilities. However, the private sector has become more active in areas previously controlled by the government, due to the privatization of industries determined as «non-strategic». These include telecommunications, commercial banking, two domestic airlines, and mining operations. Between 1985 and 1991, the private sector's share of fixed investment grew from 64% to 76.7%.

Table III.1.
General Trends in the Mexican Economy

- Increased participation of private investment in new projects, including innovative approaches in certain sectors such as telecommunications, highways, air transportation, and petrochemicals.
- Constant increases in the export of semifinished and manufactured goods as a percentage of total exports, including oil.
- Consistent growth of the in-bond processing industry.
- Growing demand for skilled workers and for trained managerial and professional people.
- A containment of inflation in agreement with major trading partner levels.

Figure 3.1. Mexico: External Debt as GNP Percentage



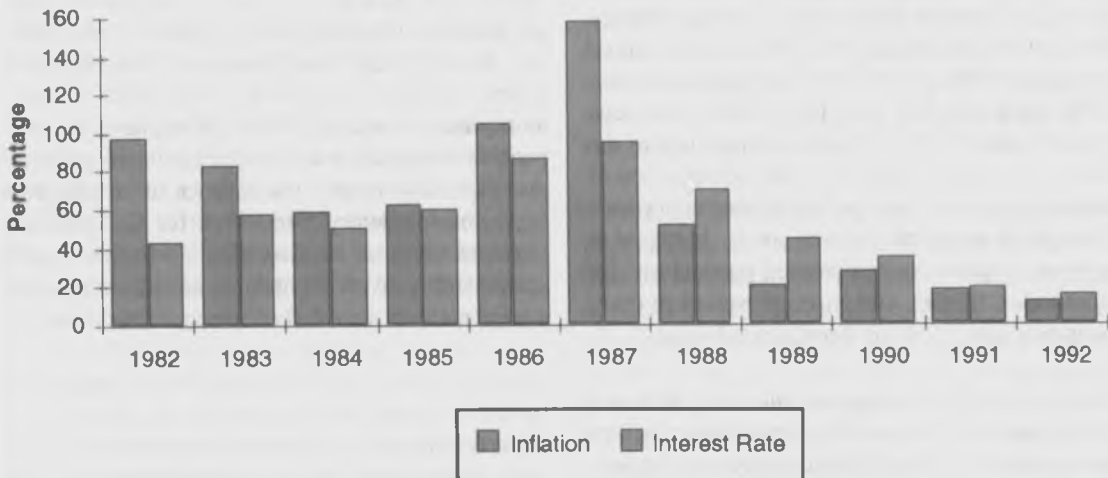
Source: Statistics From Bank of México.

2. Foreign Debt

Following the debt crisis of the 1980s, Mexico has achieved great improvements in its debt profile. Although it still has one of the largest foreign debts in the world (US \$105 billion at the end of 1992),

as a percentage of GNP this debt load has been reduced substantially— from 77.6% in 1986 to 31.4% in 1992 (see Figure III.1). Also, the public portion of the debt has been renegotiated several times, and the country is now current in terms of both interest and principal payments.

Figure 3.2. Inflation and Interest Rate, 1982-1992



Source: Figures from Bank of México.



3. Inflation

After suffering from relatively high rates of inflation during the 1970s and 1980s, the Mexican economy has finally achieved single-digit inflation (see Figure III.2). The reduction of inflation owes itself greatly to the economic liberalization policies, but also to concerted efforts by the Salinas administration to bring inflation under control. These efforts included agreements with organized labor, farmers and private enterprise. The new administration of Ernesto Zedillo is likely to continue with similar policies to keep inflation in check. This, along with the greater integration of Mexico's economy with those of Canada and the U.S.A. suggests that inflation will not be as much of a problem as it has been in previous years.

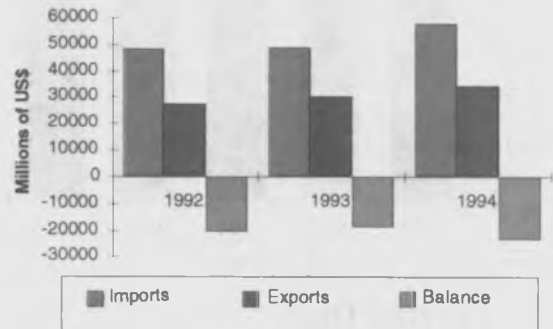
4. Commercial Trade Balance

Mexico's previously favorable commercial trade balance has recently experienced deficits, due largely to a somewhat overvalued currency, the worldwide reduction of petroleum prices, and the reduction of import tariffs and the general liberalization of import procedures. Mexico has a maximum tariff level of 20%, with a weighted average of 7% for goods imported from North American countries, and 13.5% for those from the rest of the world. As seen in Figure III.3, the composition of Mexican imports and exports reflects the importance of petroleum and manufactured goods. In regard to the latter, exports have increased particularly for automobiles, motors, and parts, as well as in other goods produced by the in-bond maquiladoras.

The U.S. continues to figure as Mexico's principal trading partner. This northern neighbor receives between 60 and 70 % of Mexican exports, and provides a similar percentage of imports. The U.S. also

provides large percentages of border transactions, tourist expenditures and income from the in-bond processing industry. Other principal trading partners include Japan, Germany, the United Kingdom, France, and Canada.

Figure 3.3. Mexico: Commercial Balance, 1992-1994



Source: "Notes about Economy and Development". CEPAL, 1994.

5. The Co-operative Sector

During the 1970s, government policies and broad political support stimulated the formation of thousands of Co-operatives in sectors ranging from agriculture and manufacturing to transport and banking. Subsidies, agrarian reform and assistance programs were directed toward Co-operative business enterprises. However, the lack of emphasis on competitive structures and free-market based policies, and most importantly, the absence of an adequate legal and regulatory framework for Co-operative business ventures limited their performance and sustainability. With the opening up of the economy, a large number were forced to cease operations.

In spite of these past difficulties, the Mexican Co-operative sector is now gearing up for a renewed position of importance within the economy of this nation. Based on the lessons learned during the Co-operative movement's history, today Co-operatives

recognize the importance of becoming competitive enterprises, and of seeking out strategic alliances with partners both within and outside the country. Most importantly, a new Co-operative law has been passed, establishing a series of reforms that allow Co-operative businesses significant advantages in conducting business and becoming more competitive.

For example, previous restrictions on the size and scope of Co-operative business activities have been removed. Co-operatives may now engage in joint ventures, strategic alliances, and seek financing through the selling of limited shares. Co-operatives that had received agricultural lands during past agrarian reform policies are now entitled to sell, transfer, or form co-investments. The vast holdings of such Co-operatives should be of particular interest to private businesses and investors interested in exploiting Mexico's vast agroindustry potential. Finally, a new superior council will coordinate activities designed to support Co-operative sector integration and modernization within the liberalized economic framework.

6. Investment Incentives

Mexico has eliminated most types of tax incentives, except for specific industries and special cases:

The publishing industry: 50% income tax reduction for all entities, and for entities with up to 40% foreign ownership, a reduction of up to 100 percent of tax liability is given when profits are reinvested in the acquisition of books and raw materials for their production, payments of royalties on new literary works and the acquisition of new equipment, including exemption from value added tax on the import thereof.

Agriculture, livestock breeding, fishing, and timber: 50% reduction of tax liability, or 25% if the taxpay-

ers industrializes their products or is also engaged in commercial or industrial activities.

Construction of low-income rental housing: Although currently suspended, the incentives provided for in a special decree of February 11, 1987 can be granted for the construction of low-income rental housing.

In general, the country is not considered a tax haven, as its tax rates compare to those of major industrialized and developing countries around the world.

However, a number of policies and non-tax incentives remain in place for the stimulation of foreign investment that generates employment, exports, and technological development. One of the most popular incentive programs is that created for the in-bond processing industries, more popularly known as the «maquiladoras».

Maquiladoras are companies that process or assemble temporarily imported materials and parts for subsequent re-exportation. Tariffs are not paid on the imported materials. Maquiladoras may be established in any part of the country, and may even obtain permission to sell part of their production on the local market, provided that customs are paid on the corresponding portion of imported materials incorporated into the product.

Companies wishing to operate as maquiladoras must register with the Department of Commerce and Industrial Development (SECOFI), which approves applications and operating programs. The operating program will specify, among other things, the machinery and equipment that will be temporarily imported; the types and quantities of materials, components, and other materials to be imported for processing or assembly during specified periods; and



the technical and other types of assistance to be provided by the foreign contractor.

Besides the maquiladora program, SECOFI offers other export incentive programs. These include:

- Duty free temporary imports of raw materials, packaging and capital equipment as well as duty free import of fuels, lubricants, spare parts, and other consumables, provided companies export the lesser of US \$500,000 or 10% of their production.
- Duty free temporary import of capital equipment, machinery, quality control, industrial security and employee training equipment for a renewable period up to 5 years, for those companies that export at least 30 % of their production.
- Zero-rate Value Added Tax (VAT) treatment for entities that export more than US \$3 million of their production, as well as the zero VAT treatment of sales made to these companies by local suppliers.
- Import duty drawback («devolución de impuestos») allows the refund of duties paid up to one year before on imported merchandise integrated into exported goods or sold to entities that subsequently export the product.

Special development programs for investments in capital goods, metal mechanic, chemical and consumer goods industries, including specific benefits negotiated with SECOFI, such as import duty reductions.

7. Trade Agreements

Although it has deservedly received the majority of attention, the North American Free Trade Agreement

is not the only favorable commercial alliance enjoyed by Mexico. The country has been a member of the General Agreement on Tariffs and Trade (GATT) since 1986. It also belongs to the Latin American Integration Association (LAIA), which provides reductions in duty rates on merchandise imports from all South American countries except Guyana, French Guiana and Suriname.

Since 1992, an Economic Complementation Agreement with Chile has been in effect. This agreement anticipates a wide and accelerated tariff elimination on 96% of all tariff items. Through gradual reductions, total tariff elimination will be achieved for these items by 1996.

Mexico also recently signed a free trade agreement with Costa Rica, beginning in January of 1995. Similar agreements are being negotiated with Colombia and Venezuela and other Central American countries besides Costa Rica.

Finally, Mexico benefits from tariff reductions afforded by the Generalized System of Preferences. Countries from the European Union, Japan, Scandinavia, and Switzerland allow access to a broad number of Mexican goods with lower tariffs than those applied to industrialized countries. As in most other trade agreements, local content and rules of origin apply.

Together, these trade agreements make Mexico a strategic country for commercial activities throughout the Americas, which is something that the Co-operatives of the region cannot afford to ignore. Parallel to modernization or restructuring, Co-operatives have to take advantage of all the liberalization in trade and establish relations with other Co-operatives and companies of the continent, seeking out those alliances that will allow them to increase their competitiveness, which will in turn guarantee long-term stability for their members.

IV. Key Sectors: Opportunities with Co-operatives

A wide variety of economic sectors present attractive business and investment opportunities for those interested in Mexico. From petroleum and mining, agriculture and fisheries, to manufacturing and service sector activities, the country offers a myriad of possibilities.

This chapter highlights several of these sectors, particularly those in which Co-operative businesses opportunities are prevalent. The large number of Co-operative business enterprises in Mexico, and their participation in many important sectors allude to the great potential afforded by seeking out business with Co-operatives. With the following introduction to key sectors and the opportunities presented by Co-operatives, businesses and investors will have a better idea of where to begin looking.

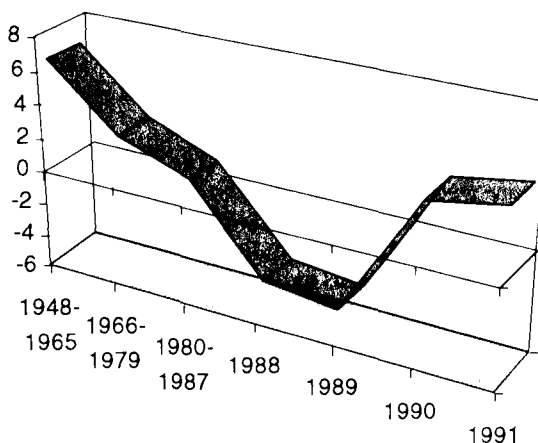
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1. Agriculture

Dramatic changes are taking place in Mexico's agriculture sector. After experiencing decades of decreasing growth rates (including negative growth

rates in 1988 and 1989), agricultural production is now growing steadily (see Figure IV.1.). Investment in new agricultural activities has increased substantially, unleashing the enormous potential of the country's arable land.

Figure 4.1. México: Growing of the GNP Sectors: Agriculture, Cattle and Forestry



Source: Statistics from Bank of México.

Economic reform and liberalization are fueling the recovery and current boom of Mexican agriculture. In a series of sweeping changes, the government has deregulated markets, lowered internal trade barriers, and streamlined procedures for foreign investment. Other changes and general policy trends include:

- Policies to make agriculture more competitive (training, subsidies for certain product exports, etc.)
- Foreign investment promotions in every step



of the agroindustrial production cycle, including certain tax incentives

- New programs for financing agriculture and capitalizing the sector
- Agricultural export promotion (trade fairs, conferences, technical assistance, etc.)
- Natural resource protection
- Diversification of economic alternatives in rural areas

Perhaps most importantly, in 1992 the Mexican government passed a new agrarian law, liberalizing the rules for land ownership. Private businesses and investors may now buy and sell agricultural land previously restricted due to common property regimes. Corporations may now own up to 2,500 hectares (6,175 acres) of farm, grazing, or timber land, creating an important stimulus for increasing farm size and thus taking fuller advantage of economies of scale. Other effects of the new agrarian law are summarized in Table IV.1.

Table IV.1. Summary of New Agrarian Law, Passed February 1992

- «Ejidatarios», farmers who merely had the right to use Co-operative farms («ejidos»), may now own the land outright, and it may be leased, sold, or otherwise disposed of.
- Ejidatarios and Co-operatives may enter into any kind of business association with other ejidatarios or third parties.
- Corporations may now own farm, grazing or timber land with a maximum area of 2,500 hectares (6,175 acres), subject to certain limitations.
- Foreign investment is permitted in these corporations up to 49 percent of series «T» shares, i.e., shares representing the contribution or acquisition of land.
- Expropriations to distribute land among the landless will no longer be decreed.

Fruits and Vegetables are Mexico's most important agricultural export items. In 1990, Mexico exported approximately US \$990 million worth of these products. Tomatoes contributed the largest amount to this total, accounting for some 48% of vegetable exports, and supplying some 80 % of U.S. tomato imports. Other important fruits and vegetables, along with a comparative chart of yield levels, are listed in Table IV.2.

Among other important agricultural products are sugar, tobacco, and coffee. Previously nationalized sugar mills have recently been privatized, permitting internationally competitive production at yields above the world average (65.5 metric tons per hectare, compared to 60.2 metric tons world average).

Table IV.2. Yields of Some Fruits and Vegetables (ton/hectare)

Product	Domestic	U.S.A.	World
Cucumber	18.5	12.3	15.3
Garlic	8.6	15.0	8.4
Avocado	6.8	5.5	5.5
Watermelon	13.6	14.4	13.2
Papaya	34.0	32.0	32.0
Mango	11.7	–	–
Cacao	0.92	–	–
Tomato	33.0	24.0	27.2
Potato	29.0	35.0	15.3
Eggplant	26.0	22.0	21.6
Grape	10.5	–	7.03

Tobacco production, distribution and marketing has also been privatized. Tobacco yield rates are 3.1 metric tons per hectare, compared to the world average of 1.5 metric tons p/ha. Finally, Mexico ranks fourth in world production of coffee, behind Brazil, Colombia, and Indonesia.

2. Livestock

Beef is by far the most important item in the livestock sector of the Mexican economy. Beef production in Mexico had a value of US \$2.0 billion in 1990, accounting for some 42 % of total meat production. Yield in beef production is 212 Kg of meat per head of cattle, compared to a world average equivalent yield of 206 Kg/head of cattle. Mexico exports a large amount of cattle for fattening to the U.S. market, which absorbs some 81 percent of total beef imports in North America.

While pork production is not as significant as beef (27.7 percent of total), pork remains number one in terms of meat consumption in the Mexican market. A full 94 percent of pork produced in Mexico is consumed by the domestic market. Of this amount,

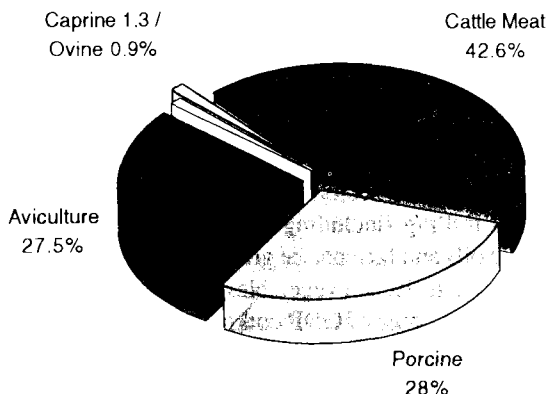
approximately 45% is consumed directly, while 55% goes to food processing industries.

Co-operatives: Ideal Targets for Agricultural/Livestock Business in Mexico

Opportunities with Co-operatives are particularly pronounced in agriculture and livestock production activities. This is due to the large amount of land allocated to Co-operative farms, or ejidos— as seen in Figure IV.3., some 25 percent of total Mexican agricultural, livestock and forestry lands are possessed by livestock-related ejidos, and another 9.4 % is owned by agribusiness ejidos. The recent liberalization of land ownership rules, including the ability of ejidos to sell, acquire, or co-invest with foreign counterparts, has created ideal conditions, which have only just begun to be exploited.

Foreign investors are encouraged to look into joint ventures with Co-operative ejidos. These small farmers can provide required land, labor and experience while the investor furnishes capital, technology, technical assistance and market connections. Since 1989, foreign investment has grown more than 50 percent as a result of such beneficial agribusiness relations.

Figure 4.2. México: Livestock Production, 1991



Source: Figures from Bank of México.

For more information concerning business and investment opportunities in the agricultural sector, please contact the Secretariat of Commerce and Industrial Development (SECOFI, listed in the final chapter of this guide). SECOFI manages a database of investment opportunities in the agricultural sector called SINPEX, which includes several agribusiness Co-operatives and rural farmers' unions with interesting proposals. Also, the Mexican National Confederation of Co-operatives (CONACOOP, listed in the final chapter of this guide as well) is a good reference point for those interested in making strategic contacts in the Mexican agribusiness sector.



Opportunity Profile: Joint Venture for Coffee Processing and Distribution

Co-operative Name: Agricultural Co-operative «La Pintada»

1993 Sales: Between US \$100,000 and US \$1 million

Brief Description of Project: This small coffee-producing Co-operative is seeking a foreign partner to co-invest in a venture to process and distribute high quality Mexican coffee. The ideal partner will be able to contribute up to 45 percent of the US \$1.1 to \$2.5 million needed to acquire high tech processing equipment from Germany, as well as providing distribution channels and/or market contacts. La Pintada is located in the state of Guerrero, in the mountains near the famous beach resort of Acapulco.

Contact Person: Julio Cesar Ocana Martinez, Legal Representative

Tel/Fax: 52-5-591804

Address: Colonia La Pintada, Atoyac de Alvarez, Guerrero, Mexico

3. Food and Beverages

One of the most attractive sectors for business and investment opportunities in Mexico is food and beverages and tobacco. It makes up the largest part of manufacturing, composing 26.6 % of manufacturing GDP (including tobacco) and a full 5.9 % of the country's total GDP. Growth in this sector has averaged 2.5 % in the 1980 - 1993 period, outperforming the 1.9 % average growth in the manufacturing sector and the 1.8 % average growth for total GDP for the same period. Forecasts for industry growth in 1994 were 2.4 % growth. Mexico's large population (82 million, growing at 2.3 percent annually) and growing average income rate are primary drivers behind this positive performance.

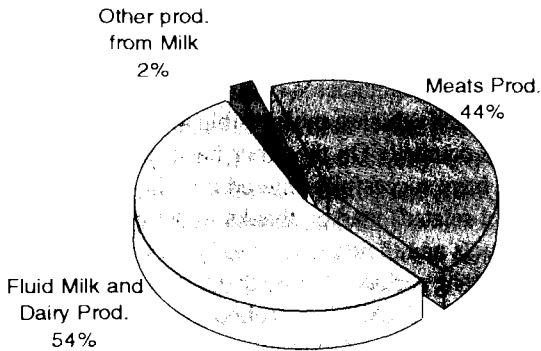
In terms of industry structure, several statistics are worth examining. In food production alone, Mexico has some 28,000 businesses, a full 22 percent of the total in the manufacturing sector. The vast majority of companies are micro-sized (87 %), small (11 %)

or mid-sized (1.6 %). Only one percent are large firms, although these employ a full 41% of the food industry's workers, the total of which exceeded 400,000 in 1994 (4% of total workers registered by the Mexican social security system).

The most important food products in terms of national production are shown in Figure IV.3. As seen in this figure, meat and dairy products compose the largest part of food production GDP, 25 %. This subsector also imports the most products, particularly cold cuts coming mainly from the U.S., and dry milk coming from the U.S., Germany, Ireland, and New Zealand. Following meat and dairy products are the sub-sectors of cornflour milling, sugar, wheat milling (including wheat flour and bread), edible oils and fats, coffee grinding and processing, processed fruits and vegetables, and animal feed, in decreasing order of GDP contribution.

In terms of food industry trade, Mexico has experienced growth of both imports and exports. In 1993

Figure 4.3. Mexico: Food Industry Production, 1992



Source: Bancomer Financial Group, Economic Researches, 1993.

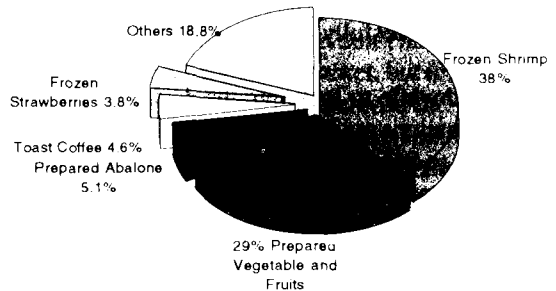
the balance was negative, with imports exceeding exports by approximately US \$1.55 billion. Principal imports include fresh or refrigerated meat, dry milk, other oils and fats, special processed foods, and prepared animal feed. Main exports include frozen shrimp, processed fruits and vegetables, canned abalone, roasted coffee, and frozen strawberries (see Figure IV.4.)

The relatively large gap between imports and exports developed during the last years, a reflection and result of Mexico's economic liberalization and tariff reduction. However, new foreign investment in the Mexican food and beverage industry, along with the reduction of U.S. tariffs on Mexican exports, are likely to permit exports to grow more rapidly in the medium to long term, facilitating a closing of the deficit.

Opportunities with Co-operatives

Since agricultural and livestock products are primary inputs for the food industry, food processing businesses should consider the advantages of joint ventures and other commercial relations with agricul-

Figure 4.4. Food Industry. Export Main Products, 1993



Source: Bancomer Financial Group, Economic Researches, 1993.

tural enterprises—particularly Co-operatives, which possess certain advantages, as described in the previous section concerning the agriculture and livestock sector. In fact, a recently passed amendment to article 27 of the Mexican Constitution will facilitate the creation of new alliances between Co-operative farm producers and food manufacturers, strengthening production chains, allowing greater vertical integration, and increasing productivity.

Case Study: The Pascual Workers Cooperative

There are undoubtedly a great number of Co-operatives that have had significant success and are therefore worthy of attention and examination by other Co-operatives of the continent. The case of the Pascual Workers Co-operative («Cooperativa de Trabajadores Pascual»), producers of the well-known Mexican brand names «BOING» and «LULU» of bottled refreshments and natural juices, deserves consideration for a number of reasons:

- It has managed to survive in a time of decreasing state support to Co-operatives and of increasing competition.



- It has achieved success by means of sound administrative policies that have allowed it to take advantage of its comparative advantages.
- It has successfully ventured into export markets.

It is worthwhile to look into the details of each of the affirmations made above. In first instance, it is important to briefly review how this Co-operative came to be and how this has helped it survive, first in the absence of state support and secondly in view of increasing competition and the opening up of markets.

The Pascual Workers Co-operative comes about in the early 80's as a result of a labor dispute between the «BOING» company and its workers. In fact, when the dispute ended the former owners took with them all formulas and other key elements needed for the elaboration of the BOING products. Although at first this would seem a disadvantage, in the long run it helped the new Co-operative because it forced the new owners (the Co-operative) to invest time and money in things like quality control and product development, elements that have allowed this Co-operative to maintain its competitive position in the market in spite of abundant competition and market expansion. However, although this required great sacrifice from the founding members, it has also been an ingredient for the later success of the group, since it has been able to maintain independence from indebtedness from both public and private lenders.

The second key element in the development and success of this Co-operative has been the prevalence of sound administrative policies during the different periods of the growth of the company, and the ability to respond to changing circumstances. Among other policy areas, the following may be mentioned:

Marketing: In this area the Co-operative has implemented well-planned and aggressive marketing strategies, and a program of direct sales, minimizing middlemen. It has been able to dominate one of the most important - deceptively so - markets which is that of the «chinameros», which are small, mobile retail sales vehicles, most visible in the urban areas of the country. On the other hand, the Co-operatives have successfully entered into the institutional (school-related) market, thanks to the quality of the products and their capacity to be stored over relatively long periods of time (thanks to vacuum-packaging —TETRAPAC— technology), and by offering discount programs and other incentives for schools.

Another important consideration in regard to marketing is that the Co-operative has been resourceful in constantly monitoring the market, determining crucial moments in which to launch new products or embark upon publicity campaigns, both aimed at maintaining or increasing market presence.

Human Resources: In this field, important for any company, the Co-operative has also known how to make the most of its human resources, which applies not only to Co-operative members but to all the workers in general. Perhaps the fact that the Co-operative was born as the direct result of a labor conflict made this area even more relevant for the founding members. Although the fact that labor rates are generally low in this industry in Mexico - giving the BOING products a comparative edge - it is a fact that Pascual has always paid its workers more than the established minimum wage, which has increased worker productivity. This last factor has also benefitted from the training programs and excellent working conditions that can be observed at all three of the organizations industrial plants.

Raw Material Sourcing: In this area, Pascual has

stood out for having «declared war» upon the ever-present middlemen. The Co-operative buys directly from the producers, which enables it to ascertain the quality of the fruit right from the source. The Co-operative occasionally even grants technical assistance to these producers in order to guarantee quality. Another obvious benefit is that price of the raw materials are kept reasonable by eliminating sometimes unscrupulous intermediaries. All of these factors, together with other planning policies, also allow Pascual to maintain stability in the supply of its products on the market. In relation to one of the other key ingredients of its products, water, the Co-operative runs its own treatment plants, thus assuring the purity and quality of this element.

These are only some of the areas in which sound, long-range policies have provided excellent results. Surely there are other important components, such as the ability to plan strategically, and the already-mentioned capacity to respond to different circumstances. This last aspect was touched upon specifically in the marketing area, but it can also be felt in other fields such as environmental issues, where the Co-operative built its newest facilities outside of the city in response to signals that the government will gradually be forcing industry out of the urban areas. In another field, Pascual has already began taking steps in relation to the obsolescence of some of its machinery and equipment.

The final ingredient which makes this a worthwhile case study is the Co-operative's export activities. Although currently exporting only 10% of its overall production, what is relevant in this case is that the company already exports to 10 states in the USA (including Texas, California and Illinois), to the Caribbean and to Central America. This demonstrates not only its ability to place its products beyond Mexican borders and succeed in little-known and highly competitive markets, but it also

attests to the quality of its products, that have to meet stringent sanitary requirements, particularly in the USA. In addition, the vision and versatility of the members of the Co-operative is once again proven, as they have not been content to simply be strong players on the local market, but instead have looked for opportunities to increase their per-unit income, which in turn brings more stability to the members and workers of the Co-operative. This vision is also demonstrated in the group's current plans to look for options to enter into the dairy-product market.

To summarize, in addition to demonstrating business savvy, even under adverse circumstances, the Pascual Workers Co-operative has shown that a Co-operative organization can, much more than simply compete with the traditional private sector, interact with this sector, as it has undoubtedly done with its suppliers and clients in Mexico and beyond. Surely the Co-operative's entrance into new markets and new geographic regions will bring opportunities to develop even further its ties with other sectors and with Co-operatives from other countries. For example, if Pascual begins working the dairy line, and also wishes to expand its presence in the United States, there should be interesting possibilities for joint ventures or strategic alliances with US dairy Co-operatives, or with producers of bottling, pasteurizing, etc, technology. In addition, surely this Mexican Co-operative would look favorably upon the possibility of buying raw materials (fruit pulp, fruit, concentrates) from Co-operatives or producers in other Central American, South American and Caribbean countries, where there are abundant tropical fruit plantations. Undeniably, these types of relations, as well as the well-planned and well-executed policies of the Pascual Co-operative are worthy of examination by Co-operatives around the world, a place where those entities that do not learn to interact with other sectors and other countries are destined to disappear.



Table IV.3. Summary: «Cooperativa de Trabajadores Pascual».

Main Products: Natural Fruit Juices and Bottled Soft Drinks

*Production Statistics *:* 2,400,000 cases per month - export markets
3,900,000 cases per month - local market

Assets and Advantages of the Co-operative:

Nearly 3,500 employees
Three production plants
Owners of the popular brand names «BOING» and «LULU»
Use of TETRA BRIK (vacuum-packaging) technology
More than 30 distribution agencies, and well-established distribution channels in the entire country
Seven wholly-owned branch offices
More than 500 delivery vehicles
Dominance of key market niches, such as schools and «chinchorros» (mobile sales vehicles)
Exports to ten states in USA, as well as Central and South America and the Caribbean

Needs, possibilities for joint ventures, alliances:

Assistance in developing market and distribution channels in USA and other countries
Improvements in technology and certain elements in production chain
Capital and know-how in order to diversify into dairy markets

Contacts: Valentín Bautista Rosas
(for exports: Zhoylo Balderas Balderas)

Address: Clavijero No. 75
Col. Tránsito C. P. 06820
México D.F.

Telephone: 552-1352 o 552-1137
Fax: 764-0015

* A case contains 24 units that vary between 250 y 1000 ml. each

4. Construction

The Construction sector provides one of Mexico's most important and attractive areas for business and investment. Together with cement production activities, construction has benefitted greatly from the decline in interest rates and its greater contribution to the country's GDP (this grew by 8 % in the second quarter of 1994, compared to a year earlier). Several companies of this sector are star performers on the Mexican stock exchange, reflecting the dynamism of construction in the economy.

The positive performance of construction activities owes itself to several factors. First, the country's growing population continues to place demands on a saturated housing market, particularly for lower income families. It is estimated that approximately one million new homes are needed on an annual basis, while current supply is not expected to keep pace. Secondly, the high influx of foreign capital in the tourism and industrial sectors creates demand for more extensive and complex building structures. Finally, growth in the commercial sector is fueling the development of new commercial centers (malls, shopping centers, etc.).

Co-operatives: Opportunities in the Construction Sector

One of Mexico's largest and most successful construction sector enterprises is Cruz Azul, a Co-operative of some 1450 members. Cruz Azul is dedicated to the large-scale production of cement and other construction materials. Some of the country's principal public works projects, office buildings and monuments have been built with materials produced by Cruz Azul's two production plants.

Like many other Co-operatives, Cruz Azul has been active in the search for strategic alliances and other

beneficial relationships with entities that have common or complementary interests. For example, this Co-operative has been distributing paint products manufactured by another Mexican company, using its well known «Cruz Azul» product label. This group has also been looking for partners for other such joint ventures in production/distribution, including international companies like Sherwin Williams. Cruz Azul's strong domestic market position, together with its successful insertion into the construction materials export market, point to the strategic nature of this dynamic Co-operative enterprise.

Another interesting business opportunity presents itself with Mexico's housing Co-operatives. Housing is one of the most important Co-operative sectors, with over 1,000 individual Co-operatives formed to help provide communities with the materials and financing necessary to construct buildings and homes. The housing commission of the National Confederation of Mexican Co-operatives estimates a 650,000 dwelling-per-year deficit, due to limited capacity to provide feasible low-cost alternatives. Certainly, housing Co-operatives would show a great interest in new technologies such as pre-fabricated panels. In addition, housing Co-operatives need to raise capital so that they might acquire land and necessary materials. In this sense, they could serve as potential partners for low-income housing projects, providing both laborers to build, and occupants to buy finished homes.

More information on Co-operative business opportunities in the construction/cement industries can be obtained by contacting the «Sección de Vivienda» (housing) or the «Sección Industrial» (for cement and other industries) of the Confederation of Mexican Co-operatives (CONACOOOP, see final chapter for list of contact telephone and fax).



5. Commercial Fishing/Seafood Production

Commercial fishing has rapidly become one of the most important sectors in the Mexican economy, in terms of exports. Two different seafood products—frozen shrimp and canned abalone figure among the top five export products in the category of food, beverages and tobacco. Frozen shrimp appears as the top product on this list, with over a quarter million US dollars in exports in 1993. Other seafood exports include frozen lobster, canned fish seafood, and frozen tuna.

Mexico has developed an extensive infrastructure for commercial fishing and other seafood production activities. A large fleet of fishing vessels, large and small, is in the process of trying to modernize itself and incorporate technological innovations. The government's commitment to this sector is reflected in the recent investment in shrimp and fish farms, docks and reception centers, together with labs and facilities for research and development.

Mexico enjoys extensive fishing grounds within its territorial waters. Fishing and production activities take place on the coast along the Gulf of Mexico, as well as on the Pacific coast, from Baja California all the way down to the Southern border with Guatemala. The most important Mexican states for commercial fish production include (on the Gulf Coast) Campeche, Tamaulipas, and Veracruz, and (on the Pacific Coast) Sonora, Sinaloa, Oaxaca and Chiapas.

Co-operatives: Strategic Partners for Seafood Business Opportunities

Some of the most profitable business opportunities in Mexico's commercial fishing and seafood sector are to be found with the numerous Co-operatives - in 1991 there were more than 1,500¹. Mexican fish-

ing Co-operatives make up some of the country's largest and most important business enterprises.

For example, as of 1988 some 534 Co-operatives were engaged in the harvesting and processing of shrimp, one of Mexico's most important export items. Operating on the coasts of both the Pacific Ocean and the Gulf of Mexico, shrimp Co-operatives manage approximately 2,300 large-sized vessels, and more than 16,000 small boats. The shrimp Co-operatives produce the vast majority of Mexico's shrimp, including the over US\$ 250 million exported in 1993.²

More than 1,000 other Co-operatives capture and process several fish species, along with Abalone, clams, oysters, and other species of shellfish.

A recently passed fisheries law has significantly liberalized the commercial fishing sector of Mexico, making it much easier for private, foreign businesses and investors to participate in activities that previously had been restricted to national Co-operatives. For this reason, many Co-operatives are seeking partners for joint ventures and other commercial relations. Those that take advantage of this timely opportunity are sure to establish important new business operations in a market with high potential.

For more information on business and investment opportunities with commercial fishing Co-operatives in Mexico, interested parties may contact the Fishing Section of the Confederation of Mexican Co-operatives (see final chapter of this guide for contact list).

1. *Source:* Research document published by the International Co-operative Alliance, «Co-operatives in Rural Development», November, 1991.
2. Figures cited from a document published by the Mexican Secretariat of Fishing, «Current Situation of Principal Mexican Commercial Fishing», 1988.

Opportunity Profile: Expansion and Modernization of Shrimp Farm

Co-operative Name: SCCPA Maricultivos de la Costa de Chiapas, SCL

Product: White shrimp «Vanmei»

1993 Sales: Approximately US\$ 1 million

Brief Description of Project: This Pacific-based Co-operative is seeking counterparts for the expansion of a shrimp farm. It needs approximately US\$ 1 million dollars of capital to invest in the construction of 16 new ponds and associated equipment. The ideal partner will possess market contacts and distribution capabilities to facilitate exports to other markets. Partner will have majority ownership and control of the venture.

Contact person: Manuel or Jesus Martinez, Administrative Council Representatives.

Telephone: 962-62451 or 962-52780

Fax: 962-52780.

Opportunity Profile: Joint Venture , Seafood Commercialization

Co-operative Name: SCPP Ribereña «Leyes de Reforma»

Product: Clams, Lobster, Abalone, Shrimp

Range of Sales, Annual: US\$ 2.6 to 10 million

Brief Description of Project: Located in the city of Ensenada, Baja California, this Co-operative is seeking a partner who might help contribute capital and distribute its seafood production to various markets. It is willing to grant majority ownership and control of the marketing and distribution to potential partners with distribution channels and marketing know-how.

Contact person: Santiago Villavicencio Peralta, CEO

Telephone: (617) 713-61 or (617) 713-65

Fax: (617) 713-61

Address: Espinoza 778, Obrera Ensenada, Baja Califorina, Mexico



6. Television, Movies and Written Media

Mexico's entertainment and news media industries may be somewhat unfamiliar to many from other countries, but in Latin America, Mexico ranks as one of the premier providers of these services in the large and rapidly expanding Spanish-speaking media market. Movies from Mexico consistently win awards in international film festivals and become multi-million dollar blockbuster hits, particularly in Central and South America. Mexican publishers are among the most competitive and successful in Latin America, producing best-selling novels from famous national authors, journals, etc. Media giant Televisa controls a diverse and powerful conglomerate of television, soap opera, international news (ECO, which could be considered the CNN of Latin America) and other media services.

In other words, those interested in making inroads into one of the most dynamic and modern markets for entertainment and news media - Latin America - need look no further than Mexico. The country itself provides a strong enough incentive, due to the large population and the steadily increasing income level. This, together with its well-established experience and distribution channels into the rest of Latin America and other countries, imply the strategic nature of Mexico to forward-looking businesses and investors.

Mexican Video and Film Production Co-operatives

Co-operatives represent a very interesting and potentially attractive group within the Mexican video and film sector. As of publication of this guide, six Mexican Co-operatives are actively involved in various types of video and film media activities, with at least four more in the process of forming. Together,

they encompass some 150 video and film production personnel, engaged in the full range of activities, including:

- Directing and Producing
- Acting
- Camera Operators, Photographers
- Light, Sound, Set Design
- Editing

Cinematographic Co-operatives have also been involved in the production of more than 27 full-length feature films, several of which have won prizes in both national and international film festivals. Table IV.4. provides a summary of those produced by 5 different Co-operatives.

For more information regarding video and film production Co-operatives, interested parties should contact the Federation of Cinematographic and Video Co-operatives (FECINE, see contact list in final chapter of this guide)

Graphic Arts and Publishing: Co-operatives at the Forefront

In the subsector of graphic arts and publishing, Co-operatives are among the most competitive and important business enterprises on the scene. Over 20 Co-operatives, both large and small, operate in a wide range of activities including the editing and publication of newspapers, magazines, journals, novels, etc., as well as graphic art design and advertising, to mention a few.

As was mentioned in the previous chapter, the publishing sector enjoys significant tax shields, that may range from 50 to 100 % of income tax obligations. A larger percentage is usually applied when profits are re-invested in books, raw materials for books, payment of royalties or copyright fees or the purchase of new equipment, for example.

Table IV.4. Movies Produced or Co-produced by Mexican Co-operatives

Co-operative	Movies
Río Mixcoac	Nuevo Mundo Bandera Rota La viuda de Montiel Mujeres Salvajes Los náufragos de Liguria Los piratas La rebelión de los colgados La ciudad al desnudo El bulto Bienvenido
José Revueltas	Cabeza de vaca Tango Bar La vispera Días difíciles El costo de la vida Retorno a Aztlán Una moneda en el aire Goitúa, un dios para sí mismo Intimidades en un cuarto de baño Lola Morir en el Golfo Nocturno a Rosario Bartolomé de las Casas (la leyenda negra)
Conexión	Un año perdido La ley de las mujeres
Séptimo Arte	El jinete de la divina providencia Dulces compañías
Ollin Yol	Me permites matarte? Hoy no circula

The attractiveness of seeking business with Co-operatives is evidenced by the fact that Mexico's largest and most important newspaper, «Excelsior», is in fact a Co-operative. Excelsior employs about 2000 workers and has a daily circulation of 170,000. It subscribes to a wide variety of international news information services, including Associated Press, International Press Service, UPI, etc.

Another Mexican newspaper, «La Prensa», has its roots in the Co-operative movement. It is now a successfully competing, private enterprise.

For more information on potential business opportunities with graphic art and publishing Co-operatives, contact the Graphic Arts Section of the Confederation of Mexican Co-operatives (CONACCOOP, see contact list in final chapter of this guide).

7. Transportation

The transportation sector is another area in which noteworthy opportunities exist for investment or for trading alliances, once again due to the increased legal flexibility toward private investment in these sectors. The relative importance of this sector may be appreciated by observing its percentage of the GNP of Mexico, which in 1991 was 6.8%, a relatively high percentage among Latin American countries.

It should be emphasized that since Mexico is a large country, and that with the economic and trade «awakening» it is experiencing, attractive opportunities arise to work with Co-operatives, private companies, and government sectors active in the administration and development of the different fields of the transportation sector.

In looking at just one sub-sector as an example, port and airport services present an interesting case, since they are key ingredients for any country that has



commercial opening and economic growth goals. Investment legislation permits up to 49% participation in this area, and with corresponding permits, this percentage may even be increased to 100% for some specific activities, like towing and mooring services. There are undoubtedly opportunities worth studying in these types of activities, given the tendency of growth in the transportation, storage and handling of merchandise, a tendency that will surely continue as a result of the NAFTA agreement and other trade treaties.

There are Co-operative groups that have been involved in these activities, and an example is the «Sociedad Cooperativa de Alijadores», a group dedicated to port services in the Tampico-Altamira port complex since 1911, when the organization began its activities in the port of Tampico. Among other activities, the «Grupo Alijadores» provides handling services that include loading and unloading of ships, mooring, fueling, reception and custody of merchandise, consolidation and de-consolidation of containers, and many other related services. In regards to storage facilities, the Grupo has more than 90,000 m² of private space, located strategically for convenient access to docks and to land transport services.

In addition to handling and storage services, this group has verticalized its operations in order to pro-

vide combined («multimodal») transportation between Tampico and Altamira, thus offering a more complete service to its clients. This aspect leads to the conclusion that as the ports continue to expand and improve their connections with the main production and consumption centers of Mexico and its trading partners, new opportunities worthy of consideration will continue to arise with other Co-operatives and companies participating in the different sub-sectors of the transportation sector.

This has been a simple glance at a very small portion of the transportation sector that is meant to serve as an illustration, but undoubtedly options for investment and/or business ventures exist in most of the branches of this sector, including transportation of cargo and passengers, manufacturing of transportation equipment, construction and repair of infrastructure, etc. Surely there are Co-operatives involved in these different areas that would be interested in proposals for investment or joint ventures that will allow them to expand and/or improve their services, or integrate these to other productive and trading activities, which seems to reaffirm that this sector should be considered carefully when looking at investment or business possibilities in Mexico.

For more information regarding Co-operatives in the transportation sector, please refer to the final chapter of this guide (Contact List).

V. Forms of Investment and Business

1. General Considerations:

As in many other countries, in Mexico there are diverse ways to conduct business or invest, and in this chapter we will examine these different forms and make pertinent observations about each, with special emphasis on those aspects relating to investment by foreign individuals or companies. Before getting into the details, it is important to point out that due to its growing presence on the international market, and due to the country's own need to attract investment in order to increase labor, production and export possibilities, Mexico has been opening its borders to foreign investment, as long as it is legally and environmentally agreeable. Legislation in Mexico has been liberalized in recent years, especially since 1988, in order to allow more participation of the private sector, more foreign investment in general, and even the formation of companies composed of 100% foreign capital, with a few restrictions and conditions that will be discussed later on.

In regards to Co-operatives, it is worthwhile to point out the recent publication of the «New General Law for Co-operative Enterprises» in August of 1994, which among other things has made a fundamental change in that Co-operatives may now compete without hindrance in the new commercial order. As will also be discussed below, cooperatives may now participate in any legal economic activity, they may have foreign participation, and they can participate in lucrative activities with regard to third parties.

2. Regulatory Framework:

In regards to the institutional regulatory framework, the National Commission on Foreign Investment should be mentioned, because it is the authority in charge of approving foreign investment in new and existing companies. The commission is also responsible for supervising the use of foreign investment in new economic activities or in new production lines. This entity operates with an Executive Secretary and its support personnel.

On the other hand, the National Registry for Foreign Investment, a department of the Secretariat of Commerce and Industry, must also be mentioned. Before beginning operations, any corporation including foreign investment must register before this institution, which registers and handles the following information:

- Foreign corporations or individuals that conduct business in this country.
- Mexican companies whose shareholder's capital includes foreigners.
- Investment trusts in which there is foreign participation.

Finally, before moving on, it is important to point out that recent investment laws have established maximum periods of time during which requests related to investment must be processed - 45 working days. Those requests not processed within this time period are considered automatically approved.



3. Legal/Organizational Structures for Conducting Business:

The different legal structures for conducting business in Mexico are regulated by the General Law on Mercantile Companies. Hereafter listed are the commercial instruments that can be used to carry out operations in Mexico.

- A) Incorporation as a «Sociedad Anónima» (S.A.) or as a «Sociedad Anónima de Capital Variable» (S.A. de C.V.): These are the two most common forms of incorporation used by local businesses as well as foreign ones to create shareholding memberships to conduct business. They are the most flexible options, and they require at least five shareholders or partners, where each shareholder must have at least one share. The minimum initial capital stock is NS 25,000, and the responsibility of the shareholder does not exceed his/her contribution of capital. The incorporation deed must be granted before a public notary and registered in the Mercantile Register.
- B) Limited Liability Company: As the name indicates, these types of companies are those in which the responsibility or liability of each partner is limited. They function in similar fashion to a «Sociedad Anónima», but in practice are used on a very limited basis by foreign investors
- C) «Sociedad en Nombre Colectivo»: This mode is also rarely used, but most often in those cases in which a foreign investor wishes the Mexican company to classify as a foreign company in his country of origin.
- D) «Sociedad Civil»: Used typically by educational or administrative service institutions, it is of a non-commercial nature. These companies are subject to the same tax norms as a commercial company.
- E) «Asociaciones en Participación» (Joint Venture Contracts): This is the form which refers to a Joint Venture Contract, and usually involves an individual (the «asociante») who allows the participation of other people or companies (the «asociados») in the profits or losses of a specific business venture. The participation of the «asociados» may be in the form of land or services rendered, and these individuals are only responsible in proportion to their contributions. The «asociante» has full responsibility for managing the venture for which the contract is subscribed. This form of organization does not require a new legal entity, nor does it require registration before any registry. However, there must be a contract that identifies the parties, specifying also the contributions and obligations of each of these, detailing the purposes and term of the joint venture, and establishing mechanisms for distributing profits or losses. There are no minimum levels of capital stock and no shares issued. It is considered that foreign associates may receive a maximum of 49% of the profits of the project, and if this percentage is to be exceeded there should be previous approval from the National Commission on Foreign Investment.
- F) Branches of Foreign Companies: A foreign company may operate in Mexico by means of a «Branch of a Foreign Company», with the appropriate permit from the Mexican authorities, including the National Commission on Foreign Investment. This commission has even shown signs of consenting to permitting the

temporary establishment of foreign companies to execute specific contracts with the Mexican government, as long as the operations of said companies are limited to such contracts.

- G) «Natural Person» companies: This is the type of company that belongs to one individual and is typically established to manage a small, family-type operation. In the case of foreigners, they must be permanent residents in order to conduct business under this form of enterprise, which is not really recommended for operations that will handle considerable volumes of products, services or money, given the unlimited responsibility of a «natural person».
- H) Civil Associations: This is the organizational structure that includes charities or non-profit organizations, and therefore profits cannot be distributed to members or participants.

4. Importing and Exporting of Goods:

The immense variety of goods, both agricultural and industrial, that Mexico produces allows this country to offer an abundance of opportunities for those foreign companies or organizations that look to introduce Mexican goods to other markets. On the other hand, its vast and diverse population provides ample trading perspectives for those groups that seek to place their products on the Mexican market. These types of commercial exchanges can be carried out via one of the legal structures described above in this chapter. Some basic concepts concerning importing of goods into Mexico are discussed below.

It is important to point out that the majority of prod-

ucts entering Mexico do not currently require prior import licenses, as most of them did some years ago. Today, only the following types of products must have prior import licenses, permits that can be obtained at the corresponding institution (institution in parentheses):

- Automobiles, trucks and buses, new or used (Commerce)
- Weapons and explosives (Defense)
- Poultry (Agriculture)
- Some types of heavy industrial or construction equipment (Commerce)
- Molluscs (Agriculture)
- Some agricultural products (like wheat and corn, among others)(Agriculture)
- Some types of pharmaceuticals (Health)
- Potentially hazardous substances (Health)

In regards to import tariffs, in general these vary between 0 and 20 %, although most do not exceed 10 %. Of course for commerce between those countries affiliated to the North American Free Trade Agreement, there is another set of rules that will be explored in more depth in Chapter X, which is dedicated to this topic. Mexico is also a member of GATT, and thus must abide by the terms of that agreement as refers to imports and exports.

When a foreign supplier provides products to a Mexican client within Mexico, the former cannot remove his products from customs without a local agent, as well as a customs broker in Mexico. For those companies who import regularly, it is important to take into account the definition, for tax purposes, of a «permanent establishment». Current legislation establishes that an establishment is considered permanent when it carries out activities by means of a representative that works according to orders from the foreign company or receives guaranteed pay, and also when this representative has the authority to execute contracts or deliver mer-



chandise in Mexico according to orders from the foreign supplier.

Another strategic consideration the importer may take into account is the possibility to work via in-bond warehouses, which allows the postponing of tariff payment until the merchandise is removed from such warehouses. This allows the client to avoid having to tie up large amount of working capital in large inventories.

Those suppliers who provide to the government and its agencies must register in the Secretariat of Budgets and Planning, in a registry that must include data like the incorporation deed of the supplier, as well as financial reports and evidence of financial solvency.

5. Activities restricted to foreigners:

Foreign investment in shares or assets of companies operating in Mexico is regulated by the Foreign Investment Law, adopted in 1989. This law and its reglamentation indicate in which activities foreign investors may or may not participate, and in what proportion they may do so in those cases where it is allowed. This is done for the most part in a document known as «Classification of Economic Activities and Products», where the percentage of foreign investment allowed in six categories of activities and products is outlined. Before looking at the details of these categories, it is important to clarify that in accordance with its efforts to open its borders and comply with the requisites that led to the signing of the NAFTA treaty, the Mexican government has allowed injection of foreign capital into many areas that used to be completely off-limits to foreigners, such as banking and insurance. In addition, it is notable that approximately 72.5 % of the 754 economic activities in which the Mexican

economy has been classified are open to 100 % foreign ownership.¹ Having made this point, it is convenient to briefly describe each of the «classified» activities.

Category 1:

This category include those activities that are considered strategic by the State and are therefore reserved to the government, like the production of gas and oil, the basic petrochemical industry, the mining and refining of uranium or radioactive materials, among a few others.

Category 2:

In this group one can find activities that are reserved exclusively for Mexican citizens, as is the case with most transportation services.

Categoría 3:

In this category, foreign participation is limited to 34 %. Examples include coal, sulphur and iron mining.

Category 4:

This category establishes an upper limit of 40% of shares in the hands of foreigners, and examples include the secondary petrochemical industry and that of automotive parts.

Category 5:

In this group, no more than 49% of foreign capital is allowed, and among other examples one can cite mining and refining of precious metals, acuaculture in some cases, and the insurance business.

Categoría 6:

In this category, prior approval is necessary in cases where foreign capital will exceed 49 %, and it includes the construction industry, as well as private educational services. In cases where the Commission on Foreign Investment allows the participation of more 49% foreign investment where it would usu-

ally be restricted, this entity considers the following criteria:

- a) The degree to which local investment is complemented
- b) That the company demonstrates a favorable foreign currency balance and that the company contributes to exports
- c) That the creation of new jobs and improvement of salaries are promoted
- d) That transfer of technology occurs and that a contribution is made to local research and development
- e) That a contribution is made to the growth of areas where socioeconomic development is a high priority

6. Activities that are not restricted to foreigners:

When an activity is not classified in any of the above categories, a company may be formed to participate in this activity with up to 100 % of foreign capital without prior approval, as long as the following requisites are met:

- The investment must consist of funds that come from outside of Mexico, with the exception of investment made by those foreigners already residing in Mexico. The equity of the shareholders must be equivalent to 20 % of the investment in fixed assets by the end of the pre-operational stage.
- The initial investment in fixed assets cannot exceed US\$ 100 million, and if it does it must have prior approval, this to ensure the establishment of adequate infrastructure.
- To avoid overpopulation in areas that are already highly populated, the Mexican govern-

ment requires that investment in industrial installations or manufacturing complexes be made only outside of the Federal District or the cities of Guadalajara and Monterrey.

- Companies must maintain a favorable foreign currency balance during the first three years of operation.
- The investment must contemplate the use of adequate technologies that do not adversely affect the environment.
- Permanent jobs and continuous training programs must be created to encourage learning and human development.

7. Acquisitions and Expansions:

In accordance with policy relaxation in other areas, in this field it has been established that prior authorization is only necessary when as a result of the acquisition, foreign participation will exceed 49%. Furthermore, authorization is not required for foreign investment in additional shares if there is already foreign participation above 49%.

There has also been liberalization in matters concerning the opening of new establishments, moving to new establishments, and the opening of new production lines or new activities on the part of already existing companies. In this sense, authorization is not needed in the following cases:

- When the additional investment made is done so by a «maquila» industry or other types of export-oriented industries
- When there is a merger
- Any other case of companies where there is a majority of foreign ownership, as long as there is commitment to investing, in fixed assets, a



sum equivalent to the net value of the current fixed assets, as well as a commitment to comply with the requirements already mentioned that apply in the case of non-restricted activities.

8. Trusts, Temporary Investments:

- A. 20-year trusts in certain sectors: In very specific cases, the law permits foreign-majority investment in activities typically reserved to locals or restricted to certain percentages of foreign involvement, by means of 20-year trusts. This applies to gas distribution and air and sea transportation, activities normally restricted to locals; to mining, commonly restricted to 34% foreign participation; to the secondary petrochemical industry and the automotive parts industry, normally restricted to 40% foreign investment; and to a few other activities that include telecommunications, insurance, some types of fishing, financial leasing, undertakings typically restricted to a 49% maximum in regards to investment by non-Mexicans. It is important to note that these investments can be made by injecting new capital or by capitalizing existing liabilities, but in any case the following types of conditions must be present:
- That the companies already active in these fields require new investment in order to diversify, increase or modernize their production
 - That the company receiving the investment be in precarious financial conditions due to a drastic reduction in sales or considerable foreign debt
- B. «Neutral» Investment Trusts: In some cases, those companies participating in the Mexican

Stock Exchange are allowed to issue shares via «participation certificates» which correspond to a 30-year trust. The investor, who participates in the venture indirectly, has «economic rights» over the shares but no voting rights. This type of shares are known in Mexico as «Series N» shares.

- C. Real Estate Trusts in restricted areas: The establishment of 30-year trust funds is permitted with the goal of allowing foreigners to make industrial or touristic use of areas that are within 100 kilometers of the borders or 50 kilometers of the coastlines. In practice, there are mechanisms which provide for additional 30-year extensions of these trusts, as long as a few basic requirements are met.
- D. Temporary Investments by International Development Agencies: These types of organizations can now invest directly in shares of new or existing companies that are involved in restricted activities for 20-year periods, whereas before they could only do so for a maximum of 10 years.
- E. «Maquiladoras»: «Maquila» companies (those that process goods destined for exportation using temporarily-imported raw materials and components) with up to 100% of foreign participation can set up operations without prior authorization. Also, those companies that are dedicated exclusively to supplying maquila operations can easily obtain permission to have more than 49% foreign ownership.

9. Co-operatives:

This form of conducting business has been left until the end of this chapter not because it lacks relative importance, but on the contrary, because it de-

serves special attention for our purposes. As mentioned before, the «New General Law of Co-operatives» has radically altered the reach and range of action of Co-operatives, entities that before the approval of this new law in mid-1994 were confined by a series of restrictions that did not allow their full participation in the Mexican economy. It is significant that the previous law that regulated the activities of the Co-operative sector dated back to 1938, sufficient evidence in itself of obsolescence in this day and age of unceasing and often dizzying change.

The foreign investor can now look at Co-operatives from a different viewpoint when considering investments or joint ventures, since these organizations can now function in most ways in the same manner as any corporation. Among the most significant and relevant changes as far as their relevance to foreign investment, the following should be mentioned. Co-operatives can now:

- distribute profits proportionately among members
- develop any legal economic activity
- conform itself with either limited or pro-rated liability
- revalue assets each year
- sell its products to third parties (non-members)
- associate freely with other Co-operatives or natural persons
- form credit unions and development banks
- hire workers, in some cases
- issue voluntary or excess contribution certificates and risk capital certificates for limited periods of time
- receive contributions from foreign members (although foreign members cannot hold leadership or administrative positions)

In addition to these important legal modifications to Co-operatives, the new law also put into practice

a significant administrative simplification of the procedures required for the formation of a Co-operative, which are now registered in the Public Commercial Register of the region corresponding to their legal residence, which leads to significant savings in terms of time and money, especially for those groups established far from the Federal District (Mexico City). Another crucial modification is that Co-operatives can now come to exist with five founding members (instead of ten), which puts them on more equal footing with other forms of incorporation. It is also important to mention that Co-operatives now acquire their legal personality from the moment in which the «constitutive minutes» are signed.

The issues outlined above are only a few of the elements that make Co-operatives a viable and attractive alternative for foreign investment or coinvestment. For additional details concerning these types of organizations, direct referral to the «New General Law on Co-operatives» is recommended. This law was published in the Official Gazette on August 3, 1994. There is also a congressional commission on promotion of Co-operatives.

10. Cooperation between Co-operatives from different countries:

In addition to considering the formation of new Co-operatives, investing or coinvesting in Co-operatives, it is important to mention another area of great potential in terms of these organizations, which is the idea of forming strategic alliances between Co-operatives dedicated to similar or complementary activities in different countries. In these times of globalization and market expansions, and in which distances are being constantly reduced by innovations in the transportation and communication me-



dia, the Co-operative movement cannot forsake the chance to take advantage of one of its prime attributes, which is its level of integration on the international scene. The idea of establishing agreements between groups from different regions for the benefit of all is a concept that is right for the times, especially in view of the fact that Mexico in particular is very active in the field of commercial agreements directed at opening its markets to other countries and vice-versa.

In terms of Mexican legislation, both Co-operative and otherwise, it would seem that the legal format of the Joint Venture Contract would be very appropriate for these types of agreements or alliances between groups from different countries, especially

for those projects to be carried out on Mexican soil. However, there are myriad opportunities for more traditional types of operations involving import/export of products, production, trading, etc, where the particular resources of one or another group can best be put to use, resources that might include products, distribution channels, technical know-how, experience, physical facilities, equipment, and many others.

Through existing coordination and integration entities, such as the International Co-operative Alliance and regional and sectorial confederations of Co-operatives, the concept outlined here is not out of reach. Quite the contrary, it is a tool that is at hand and should definitely be exploited.

VI. Estados Unidos Mexicanos:

General Information

1. History:

Mexico achieved its independence in the year 1821, after more than 300 years of being a colony under strict control of Spain, the country that conquered this land where the impressive Maya and Azteca civilizations, among others, had developed. The decades that followed its independence were marked mostly by internal power struggles, accompanied by slow economic expansion. This pattern prevailed until the last three decades of the 19th century, when there was a period of relative stability under the rule of Porfirio Diaz. Although his period indeed demonstrated more stability than the previous ones and exhibited the development of the large land holdings dedicated to agriculture and cattle farming, it wasn't necessarily a time of great economic growth and well-being for the majority of the population. The progress in agriculture and other areas was destroyed for the most part in the Revolution of 1910 and the more that 10 years of civil war that followed. The democratic republic and modern economy we know today is really more the result of the last 70 or so years, dating back to the 1920's.

2. Political-Legal System:

Mexico is a federal, democratic republic, divided into 31 states and a Federal District (Mexico City). The government of this country, as established by the political constitution, is divided into three powers, the executive, the legislative and the judicial. The principal executive is the President, who is

electd by popular vote every six years and cannot be re-elected. The president is assisted by a cabinet that he himself appoints. The legislature is composed of two chambers, the superior chamber (Senate), which include two representatives from each state and the Federal District, and a lower chamber made up of 300 members elected by district in proportion to the population of each district. Both the senators and the representatives remain in their positions for three years. The highest federal judicial authority is the Supreme Court, and there are also district and circuit courts.

The federal government has fairly ample powers, especially in those matters relating to taxes, as will be seen in the chapter concerning this system, and it is also interesting that even though the states remain independent in many ways, the federal government has the power, for example, to remove a state governor if it has sufficient reasons to do so. As far as the state governments, these are directed by governors that are also elected by popular vote and govern for six years. Each state has its own legislature and judicial system, which function independently.

In the Federal District, an Assembly of Representatives is elected every three years, a body which has the power to enact ordinances for the day to day administration of the Federal District. The mayor of this district is appointed by the President of Mexico and is considered a member of the Presidential Cabinet. Due to its size and economic influence, the budget of the Federal District is superior to that of any of the states.



In relation to Mexico's legal system, it is based on the Napoleonic Code, with separate civil (and other) codes for the federal government and those of the states, and with laws and particular decrees that address specific subjects. The federal government enacts the common law, as well as those laws pertaining to foreign investment, intellectual property, the transfer of technology, and others.

3. Geography and Climate:

Mexico has a total land area of 1,958,201 square kilometers (about 760,000 square miles) and as such is the twelfth largest country in the world (the third largest of Latin America). Its northern limit borders with the United States of America, to the south it borders with Guatemala and Belize, while to the west and east it meets the Pacific and Atlantic Oceans (Caribbean Sea), respectively. Mexico has a total of about 4,000 kilometers of borders. This country features three main mountain ranges, which are the Western Sierra Madre, the Eastern Sierra Madre, and the Southern Sierra Madre. In general, Mexico has high plateaus in combination with valleys, with the exception of the area of Baja California and the Peninsula of Yucatan.

As far as climate goes, a significant part of the Mexican territory is located in the tropical zone. Despite this fact, due to the high altitudes the weather is generally temperate. The regions to the extreme north and the far west are arid and semi-arid, which is demonstrated by its large deserts, while the coastal regions tend to exhibit a humid, tropical climate. In Mexico City, which is located at 2,240 meters (about 7,350 ft.) above sea level, the average minimum and maximum temperatures during the rainy season, which goes from June to September, are 12 degrees Centigrade (54 degrees Fahrenheit) and 23 degrees Centigrade (74 degrees Fahrenheit), and

during the rest of the year are 6 degrees C (42 degrees F) and 19 degrees C (66 degrees F). Average annual rainfall is 506 mm (23 inches).

4. Population:

According to the 1990 census, Mexico has a population of 82,000,000 inhabitants, making it the tenth most populated country in the world, and it has an annual growth rate of 2.3%. The population of this country has tripled since 1940, and the last decades have been marked by a noticeable growth of the urban areas, due mainly to the migration of many rural inhabitants to the cities in search of jobs.

5. Infrastructure:

As far as transportation is concerned, Mexico has about 240,000 kilometers of roads, of which about 90,000 kilometers correspond to paved highways and roads. The railway has approximately 26,500 kilometers of track, served by about 1,700 locomotives and about 45,000 wagons for cargo and about 1,000 for passengers. In regards to ports, this country has 76 sea ports and another 9 located on rivers. The total extension of the docks of said ports is 76,000 meters, and there is capacity to store about 392,000 square meters in warehouses, while there are another 2,142,000 square meters of capacity in the yards. The main seaports are Manzanillo and Lázaro Cárdenas on the Pacific coast, and Tampico-Altamira and Veracruz on the Gulf of Mexico. In terms of air transportation infrastructure, Mexico has airports in the surroundings of all the state capitals, and in some of the larger states there are more than one major international airport. In 1991, this infrastructure accounted for the transportation of 22,840,000 passengers and 162,000 metric tons of cargo. The airports with the largest volumes are

those of the Federal District, Guadalajara and Monterrey. Finally, speaking about telecommunications, Mexico has approximately 8 million phone lines installed and has two satellites of its own.

6. Other Social and Cultural Considerations:

A. *Education:* In Mexico there is free public education until the end of secondary school, and the state universities are accessible to the general population in terms of cost. Education is mandatory until ninth grade. There is private education at all levels, and the private and public universities offer careers in a wide variety of professional fields. The federal government spends approximately 10% of its budget on education, but even so there are considerable levels of illiteracy, especially in the rural areas of the country.

B. *Religion:* There is full religious freedom in this country since the 1860's, but a majority of the population professes to be active members of

the Roman Catholic Church.

- C. *Language:* The official language is Spanish, although there are regions where a significant portion of the population speaks native indian tongues. In the business environment, most people speak English to varying degrees, as well as in those geographical areas closest to the United States border.
- D. *Schedules:* Mexico has territories in three different time zones, although the majority of the country is located in the same zone as the Federal District, which is six hours behind Meridian Greenwich Time. Generally speaking, working hours for Mexicans go from 9:00 a.m. to 6:00 p.m., from Monday to Friday. Stores open their doors from 10:00 a.m. to 7:00 p.m. on Mondays, Tuesdays, Thursdays and Fridays, while this schedule goes from 11:00 a.m. to 8:00 p.m. on Wednesdays and Saturdays. Banks generally work from 9:00 a.m. to 1:30 p.m. from Monday to Friday. Mexicans typically take their lunch hour from 1:30 p.m. to 2:30 p.m.



VII. Financial/Banking System

1. Introduction

Since the end of 1988, the Mexican banking system has been under a process of transformation, in accordance with the tendencies of liberalization, de-regulation and privatization that the government of this country has been promoting. In fact recent legislative reforms allow private sectors to own a majority of shares in commercial banks that had been expropriated in 1982. Furthermore, foreign investment is now permitted in minor proportions, whereas before it was completely forbidden. In addition to these important global reforms, there have been other complementary changes that provide for a more dynamic banking sector, and one that is more in keeping with the commercial opening and the general economic growth. Among other variations, there are some that should be pointed out, such as the relaxation of the regulations pertaining to interest rates and the maturity dates of certificates. More flexibility has also been allowed in the choosing of credit subjects and in the levels of reserves that banks must maintain in «CETES», the deposit certificates issued by the «Banco de México», modifications that have permitted the banking system to channel more funds towards loans.

The reforms of the last few years have also yielded a wider variety of financial instruments, while they have also led to higher levels of competition which favor the user. For example, financial institutions may now establish diversified «Financial Groups» (thanks to the legislation that regulates financial groups, approved in 1990), which are consolidations

of financial activities «under one roof» that promote competition among the different types of intermediaries that undoubtedly benefit the client by offering better margins, greater diversity and more convenience. This opening up of the system, in addition to bringing significant dynamism to this field, also implies a change in the composition of the financial instruments, which is demonstrated, for example, by the fact that today there are more resources dedicated to investment funds or to «Master Accounts» (combination of savings and checking accounts).

2. Financial Institutions:

A. *Ministry of Treasury and Public Credit:*

This is the highest entity in terms of the financial market, and it is the only one that may authorize the creation and operation of the aforementioned Financial Groups, commercial banks, financial intermediaries, stock brokerages, and insurance companies. In addition, this entity exercises direct control over the National Securities Commission, an organization described later on in this chapter.

B. *The Central Bank:*

The Mexican banking system operates with a central bank, known as the Bank of Mexico. This bank is the only entity entitled to issue currency, and it is also the one in charge of establishing policies related to interest rates and stabilizing reserve requirements for all other banks. This institution enjoys

independence in relation to its operations and in relation to the setting of monetary policies. As the only federal government agency present in the financial market of the country, the Bank of Mexico is the one that negotiates financial instruments of the state, such as the already mentioned CETES, the «Tesobonos», the «Bondes» and the «Ajustabonos», instruments that have considerable weight in the securities market and the financial market in general.

C. National Banking Commission:

It is the National Banking Commission that is responsible for monitoring and regulating the banks, as well as supervising the operating and accounting rules of these institutions.

D. Banks:

In Mexico there are two types of banks, the commercial banks and the development banks. The former receive that vast majority of checking and savings accounts and provide most of the short-term credit, although they are also authorized to offer longer term loans, especially those destined for mortgages or for the acquisition of capital goods. The development banks, including those created by the state to promote the growth of certain sectors (like «Nacional Financiera», which channels most of the credits received by the government in foreign currency), provide specialized services which aim at stimulating development and economic growth.

E. National Securities Commission:

Created in 1946, this institution was established with the sole purpose of supervising, regulating and promoting the stock market in Mexico. The Commission is responsible for assuring the smooth func-

tioning of the securities system, carrying out tasks that include the supervision of the investment instruments (and their proper placement) and the direction of the information systems and other related mechanisms that facilitate stock market transactions. This entity must also manage and update the National Registry of Stocks and Stockbrokers, and it has the authority to publish or amend the regulations that affect the Brokers, the Mexican Stock Market, and entities that issue security titles.

F. Other Financial Institutions:

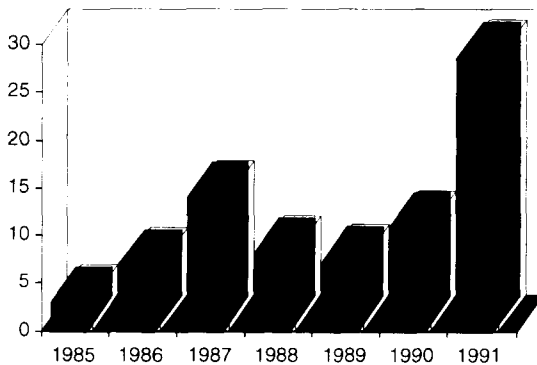
Among other financial institutions, it is important to mention those that are dedicated to investment, especially the mutual investment funds and the capital investment funds, which have created opportunities for smaller investors. Some of the most notable are those dedicated to fixed income funds, which invest mainly in the government CETES (Treasury Bonds); the variable income funds, which may invest in corporate stock from those companies authorized by the Mexican Stock Market; and finally the currency fluctuation protection funds, which typically invest in foreign currency, precious metals, or «petrobonos».

3. The Stock Market

In conformity with the changes and opening up of other areas, the Stock Market has been gaining strength and diversifying in recent years. The capital market incorporates fixed and variable rate instruments, issued by the government and by private entities. This market is dominated by the government, which issues instruments that vary from 30 days to 5 years, most of them of great liquidity. There are stocks that are indexed to inflationary growth, others issued in US dollars, as well as investments in precious metals (gold and silver). As

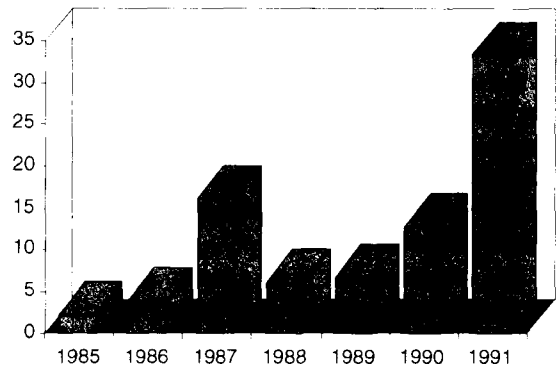


Figure 7.1. Mexican Stock Market
Volume in Million of Shares



Source: Mexican Stock Market.

Figure 7.2. Mexican Stock Market
Value in Millions of US\$



Source: Mexican Stock Market.

mentioned, there is a growing market for mutual funds of varying natures.

Generally speaking the Mexican Stock Market is considered strong and active, surpassed only by the Brazilian market in terms of volume of transactions, rotation value of stock and capitalization of the market. More than 200 companies constitute the Mexican Stock Market, without including in this amount the mutual investment funds. Figures VII.1. and VII.2. offer a picture of the growth of this market.

In respect to the participation of foreigners in the stocks and bonds market in Mexico, attention should be given to the measures adopted by the government in recent years, which have allowed wide access to foreigners, although some limitations still exist, mainly in regard to the percentage of foreign capital in Mexican companies. The outside investor has freedom to invest in the majority of the existing securities on the market, including all of the government instruments. It is interesting to note that innovative mechanisms have been created in order to permit access to foreign inflow without losing domestic control, like the Neutral — series «N»

— shares, which permit foreign ownership without voting rights. Another mechanism for obtaining foreign investment in restricted sectors is the use of neutral trust funds, which are described in the chapter of this guide entitled «Forms of Investment».

For more information on the multiple and varied investment tools, contact with an authorized Mexican Stockbroker or an investment specialist is recommended, or one may recur to the «Asociación Mexicana de Casas de Bolsa», the pertinent association (please refer to Chapter X of this guide for phone numbers, etc.).

4. Co-operatives in the Finance Sector

In this field, the changes have brought with them opportunities and good signs for the Co-operative financial sector, since the new General Law on Cooperatives has finally granted official legitimacy to all of the organizations that have developed savings and loan activities among its members. That is, there is a formal recognition of the legal existence of Savings and Loan Co-operatives. Furthermore,

the door is left open to form credit unions, federations, and even development banks, institutions that will benefit not only the financial sector of Co-operatives, but the entire movement.

In regard to perspectives for investment, alliances or other forms of cooperation with Mexican institutions in this sector, there are opportunities for groups or individuals who wish to establish links in Mexico, whether it be for strategic medium or long-term reasons or for more commercial short-term goals. For example, for financial institutions from other countries, and especially for those of Co-operative origins, there could be opportunities for consulting services or technical assistance for programs that have been promoted by Mexican and international entities with aim at the development of second-tier organizations among the existing savings and loan Co-operatives, as well as the workers' credit institutions known as «Cajas Solidarias» and «Cajas Populares».

It is important to observe that the Cajas Solidarias represent efforts of the Salinas administration to develop a noteworthy social project by which groups of small farmers and producers benefit from favorable loans for investment and development. What is of special interest is that when these loans are repaid, the proceeds go toward social projects in the same communities, in coordination with local governments. In 1994 there were already 114 of these organizations throughout the country, with around 84,000 member producers, with a total of more than NS 75,000,000 in equity.

As for the «Cajas Populares», these are also institutions dedicated to the promotion of savings and mutual assistance among their members, mainly individuals from the middle and lower levels of the income scale, together with «micro» and small enterprises, to which the «Cajas» offer financial services. In 1994, the 132 branches of the Mexican

Confederation of Cajas Populares already had 342,000 members and equity close to US\$ 40 million, and its assets totaled close to US\$ 294 million.

According to the new Co-operative law, both of the organizations mentioned above will have the option to formally become savings and loan cooperatives, or according to Article 33 of said law they may at least handle savings and loan funds as a «complementary» activity for the benefit of their members, logically in accordance with the corresponding regulations imposed by the Treasury department. This is precisely a niche where Co-operative (or even non-Co-operative) entities may step in and offer their consulting or assistance services, given their higher level of integration, development and experience. There is also the possibility of establishing strategic alliances where technical know-how and market channels may be exchanged or negotiated.

Another very relevant element, for the effects of this guide, is that the law goes on to include the possibility that:

«Consumer Co-operatives may develop activities of supply and distribution, savings and loans, as well as the lending of services related to education and housing.»¹

This last possibility would seem to open up doors for many types of interaction among entities within and outside of the Co-operative movement and the financial sector. That is, the possibility is established for alliances between those entities that often most need financing and transfer of technology, as might be the small-producer Co-operatives mentioned above, for example, and other organizations that need to open up new markets for their products

1. Chapter II, Article 26, New General Law on Co-operatives, 1994.



or services, such as distributors of fertilizers, agrochemicals, and transportation and marketing services for their products, to cite a few.

In conclusion, it is important to stress that all of this assumes even more relevance in light of the North American Free Trade Agreement and other commer-

cial treaties that have been or will be signed, which will open up the Mexican market more and more and facilitate the exchange of products and services. In any case, the intention here is to suggest just a few of the new niches that have been created and leave the idea in the hands of those who have the foresight to take advantage of these opportunities.

VIII. Tax System

1. Introduction - General considerations:

Before examining the Mexican tax system, it is worthwhile to underline the fact that since the end of the 80's, this country has been under a process of tax reform aimed at modernizing this system and making it more compatible with and transparent for its main trading partners. As far as Co-operatives are concerned, although some are exempt from paying income tax, they still must present annual income reports.

In regard to the the origin of the federal tax laws, these are enacted by Congress, the legislative body of the government. Generally speaking, these laws are proposed by the President (executive branch), based on studies made by the Treasury, and they frequently have private sector support. The president can also publish regulations to ease the correct interpretation and application of tax legislation, and it is common for the tax authorities to occasionally publish regulations in the Official Gazette to clarify the application of the law or to provide the official interpretation of tax laws.

In Mexico, the tax year coincides with the calendar year, and the majority of taxes are decreed and collected by the federal government, such as:

- INCOME TAXES
- VALUE ADDED TAXES («IVA»)
- IMPORT AND EXPORT TAXES
- PAYROLL TAXES
- ASSETS TAXES

- CONSUMER TAXES

Local governments usually collect the following taxes:

- PROPERTY TAXES
- REAL ESTATE TRANSFER TAXES
- PAYROLL TAXES
- PUBLIC PERFORMANCE TAXES

There are four types of entities subject to tax legislation:

a) Resident Corporations

This includes all local or foreign companies that have permanent operations in Mexican territory, including local branch offices of foreign companies.

b) Resident Individuals

Any person who lives in Mexico, whether local or foreign, is subject to income taxes for those earnings made anywhere in the world. Each individual must submit an annual declaration.

c) Non-resident Corporations or individuals

These are those entities that do not have permanent operations in the country, and they only pay taxes on that income that is generated in Mexican territory.

d) Non-profit organizations

This group includes certain charity organizations, some Co-operatives and other associations created for non-profit purposes. However, these groups



must also submit an annual declaration where they declare the results of the operation.

2. Corporate Taxes:

A. General Conditions:

Income taxes are only paid to the federal government, and there is a fixed rate of 35%. After having paid this percentage, companies have no further obligation to pay additional taxes on dividends that they may distribute to shareholders. There is another tax of 2% on the total assets of the company, but this is only paid in those cases where this amount exceeds the total 35% income tax of the net profit of the period. That is, the assets tax functions as a sort of «minimum tax».

In Mexico, taxable income is defined as the gross income of the period minus the deductions of said period and those losses from previous periods that have not already been applied. When calculating income and expenses, adjustments for inflation must be made, using the National Consumer Price Index as the reference for monthly balances. This process is known as «monetary correction».

As far as a companies' capital gains, taxes are levied on those transactions involving shares, real estate, or machinery and equipment, according to specific norms for each type of good. In general terms, these types of earnings are calculated as the difference between the sales price and the original cost, subject to certain inflationary adjustments and depreciation. The counsel of an accredited accountant is recommended in order to examine the fine print related to this subject.

As far as value added (or sales tax) are concerned, companies must pay 10% on all their sales, and may deduce all payments made for the same reason on

their purchases. Historically, certain goods considered as strategic have been exempt from this tax, such as didactic materials, medicine and medical services, construction materials and basic foodstuffs, among a few others.

In relation to corporate declarations, these must be presented in the three months following the end of the corresponding tax year (that is, no later than March 31st). However, companies must submit monthly advances on the 17th day of each month, based on an estimate of the previous month's income. In addition, companies must pay any adjustment perceived in the first semester during the seventh month, based on real income earned during those first six months of the year, applying the corporate 35% rate.

For those companies that had income above NS 5,850,000 during the previous period, or assets above NS 11,700,000, or more than 300 employees during each month of the previous year, an audit must be submitted along with the annual tax declaration.

B. Deductions:

Companies that operate in Mexico may make the following income tax deductions:

- Expressly uncollectable debts
- Cost of goods sold: Inventories are not controlled for income tax purposes, so that companies may deduce immediately all inventory purchases made (as well as related expenses).
- Interest payments: Interest paid on loans related to the operation may be deducted, but only after having made the aforementioned monetary correction.

- **Depreciation:** In relation to this element, straight-line depreciation is used, according to those rates established by law. When a good is discarded or reaches the end of its useful life, the salvage value of this good may also be deducted. In the case of the acquisition of new fixed assets, there is an option to choose one global deduction, also established by law (and calculated according to the present value of future depreciation
- using a rate of 6%), but this may not be applied to office equipment (except computer equipment), cars, trucks, or airplanes. Also excluded from this option are fixed assets purchased in the metropolitan areas of the Federal District, Guadalajara and Monterrey. If this option is exercised, the rest of the cost of the good may never be deducted as depreciation.
- **Net losses of the operation:** In most cases, losses incurred may be carried forward during the five years subsequent to the loss.
- Local or state taxes paid

C. *Branch Offices:*

Mexican branches of foreign companies are subject to the same rates and norms as other resident companies. The branch does not have to pay additional taxes on remittances to other countries once the corporate 35% tax rate has been paid. It is important to note that Mexican tax laws consider as «permanent establishment» any activity developed by non-residents in the form of agencies, offices, exploration or exploitation sites, etc. Only specific cases are excluded, such as inventories kept at in-bond warehouses or in maquila processes, scientific research services, as well as other very short-term services, exhibitions, and other similar cases.

3. Individual Taxes:

A. *General Conditions:*

Any individual living in Mexico, regardless of nationality, is subject to pay taxes earned on income anywhere in the world. Those who reside in another country only pay taxes on those earnings generated in Mexico. The definition of «resident» is applied to any individual who established his home in Mexico, unless said individual has been in another country at least 183 calendar days, and can prove his residence in that other country.

The individual income tax rate is progressive from 3% until a maximum marginal rate of 35%. There are special allowances that benefit individuals in the lowest income brackets.

Individuals must pay taxes on income generated through personal services, salaries, commissions or retributions of any sort, including housing subsidies, educational subsidies, travel expenses, or any other benefit that is not a deductible expense for the employer.

In regard to income generated by investments, these must include any income that is not directly related to investment in the Mexican banking system, dividends of Mexican companies, or capital gains obtained with public shares through the Mexican stock system, which are exempt.

In reference to capital gains, income originating from the sale of real estate or capital stock are benefitted from a tax point of view in that costs may be increased historically according to the period of time of ownership of the good before selling it. In addition, the sale of the principal residence of the individual is exempt provided that the owner lived there the two years prior to the sale.



Individuals must submit tax declarations no later than April 30th, and at that moment they must pay any amount not deducted by the employer. As for self-employed individuals, these must make advance payments each quarter, as must those individuals who obtain income through real estate rentals.

B. Deductions:

Employees cannot claim work-related expenses. The resident individual can deduce medical expenses, dental or funeral expenses (that have not been reimbursed) for themselves and their dependents, as well as certain donations made to charity organizations. Furthermore, individuals may deduce the equivalent of 30 days of income or minimum salary if they receive an annual bonus from their employer. Finally, individuals that receive rental income may deduct 50% of these earnings (instead of deducting real expenses and the depreciation of the property).

4. Other taxes:

A. Payroll Taxes:

In addition to income taxes, the employee has to make contributions to the Mexican Social Security Institute, which normally are withheld by the employer. For more information regarding these contributions, please refer to the next chapter of this guide, where labor issues are discussed. Some local state governments levy a payroll tax, but these

are usually paid by the employer, such as the case of the Federal District, where this tax amounts to 2%.

B. Profit-sharing:

All Mexican companies that have employees are obligated by law to distribute 10% of their adjusted income (before taxes) among all the workers of the company, with the exception of the general manager and the board members. This amount is divided into two equal parts, one of which is distributed in proportion to salaries, and the other in proportion to the number of days worked by each employee. These funds must be distributed to employees during the first five months of the year following the period in which they were earned. There are some exceptions to this obligation, such as those companies in their first year of operation, mining ventures during the exploratory stages, public and private social welfare organizations, among a few others.

C. Value-Added (Sales) Taxes:

With very few exceptions, sales tax must be paid in Mexico, and these are usually absorbed by the end user or buyer. This tax amount to 10% of the value of the good, and as mentioned before, only a few products and services are exempt.

D. Real Estate Transfer Taxes:

These apply to the transfer of real estate, and typically amount to 4% of the transfer price.

IX. Labor Policies

1. General Considerations:

Mexico offers great quantity and quality of labor, due mainly to its young and growing population. The youth of the labor force makes it easier to improve its quality through training programs and incentives.

Labor issues are influenced by three main factors in this country: Labor legislation and authorities; health legislation and authorities; and the unions, which include the majority of the workers. As far as the first two, there is legislation in both fields that protects both employer and employee but tends to favor the latter if the issue is uncertain. Both labor and health authorities impose requirements and may make inspections when they consider it necessary or opportune.

As for the third influencing factor, the unions, Mexican laws provide that where there are 20 or more employees in a company, these may form unions that negotiate members' working conditions members as a group via collective agreements with the employer. These contracts typically elaborate or clarify those rights established by law, and are subject to re-negotiation every two years. Unions are especially strong in oil and mining exploitation, education, energy, textiles and communications. The Labor Secretariat is authorized to intervene and impose sanctions on those who break labor laws. It is important to point out that the Mexican government has made efforts to limit the power of unions so that these effectively watch over the interests and rights of employees but do not become obstacles to

company operations through abuses of authority and influence.

Another significant aspect on the Mexican labor scene is that all ventures, whether individual or as a company, have the obligation of sharing profits with their employees. Concretely, employees have the right to 10% of the adjusted taxable income of the company, and these sums must be paid during the first five months of the following year. There are some exceptions and special rules that apply to this obligation, for which the counsel of an accredited accountant and/or lawyer is recommended.

It is also noteworthy that Mexican labor laws provide for the establishment of mandatory training programs for employees, for which committees must be formed, groups that assure that adequate and opportune training is offered in order to allow for personal improvement of employees. These committees and the training programs are supervised by the Labor Secretariat.

2. Working Hours:

Mexican labor law establishes a 48-hour work week, divided into six 8-hour days for day shifts. For night shifts, the work week is 42 hours, divided into six 7-hour shifts. In case of additional hours, these must be paid double up to 9 additional hours, and triple if they exceed this number or if legal holidays are worked. For Sunday labor, the worker receives a 25% premium for that day, even if he has another day off during the week. Many companies actually work 40, 42, or 44-hour work weeks due to union



or labor movement agreements.

3. Salaries:

Salaries in Mexico are established and revised by the National Salaries Committee, which fixes the level of minimum wages for the different regions of the country, working together with regional committees that are constituted by representatives from the government, labor organizations and the private sector. Typically, salaries are revised once a year, although occasionally with more frequency. In 1993, the minimum wage ranged between NS 12.05 and NS 14.27, this last figure applicable in the Federal District, an amount that works out to about NS 2.50 (approximately US\$ 0.77) per hour for a 40-hour work week. The National Committee has also begun to fix minimum wage levels for professional groups, semi-qualified workers and qualified workers. In the Federal District, for example, the Committee established minimum wage levels for 86 categories of workers.

4. Holidays, Vacations, and Dismissals:

Mexican legislation provides for seven legal holidays, which are the following: January 1st, February 5th, March 21st, September 16th, November 20th and December 25th. In addition, every six years for the presidential inauguration, December 1st becomes a legal holiday. It is common for another four or five additional holidays, including religious ones, to be negotiated as part of collective bargaining agreements.

As far as vacation pay, current legislation establishes that for employees who have worked for at least one year, six working days off must be granted, and two additional days for each additional year worked,

up to three more years. After this, two additional days must be granted for every five years worked. During vacation time, employees receive 25% more than their normal salary.

In matters related to dismissals of personnel, Mexican laws establish that firings and their cause must be communicated to the employee in writing. It is also true that employees with more than 20 years of service may only be fired for very serious causes, which in practice makes it almost impossible to fire these workers. In general, however, employees may be fired without compensation (except for seniority premiums) if justifiable causes are demonstrated. In these cases the employee has the right to receive a seniority premium equivalent to 12 paid working days for each year of service. If an employee is fired without cause, this individual has a right to three months' salary plus 12 days of salary for each year worked. As is true for an employer working in any country with modern labor legislation, the counsel of professionals (preferably a lawyer with knowledge and experience in labor issues) is always recommendable in the case of firing employees.

5. Social Security and other Employee Benefits:

Generally speaking, social and other benefits received by employees are quite significant in relation to the overall cost of the payroll, normally representing from 70 to 100 % of the basic salary.

As pertains to social security programs, by law all employers (except government workers, covered by a different set of rules) must contribute premiums to the Mexican Social Security Institute (IMSS, as per its initials in Spanish). The employer must pay between 15 and 18% of the employee's salary to the IMSS, and the employer also has the obligation to withhold the contributions of the employee, which

it must then remit to the IMSS every two months.

The contributions to the IMSS can be broken down as follows for 1994:

	Employee	Employer.
Sickness and Maternity:	3.125	8.750
Old age, Disability and Death	2.025	5.670
Infant Daycare Centers	0.0	1.000
Retirement System («SAR»)	0.0	2.000
Other mandatory contributions:		
«INFONAVIT « *	0.0	5.000

* National Workers' Housing Fund

Over and above these contributions, the employer must pay what pertains to work hazards, but this percentage varies according to the risk classification and to the type of company, and these premiums can be adjusted in accordance with safety measures and hazard history of each particular company. These premiums normally vary between 0.55 and 7.6 %.

Among other observations that refer to social security benefits, it is important to clarify that the sums corresponding to the retirement program (SAR) are deposited in bank accounts in the employee's name. These sums can only be withdrawn, tax-free, when the employee retires or loses his job due to a perma-

nent disability. In regard to the INFONAVIT contributions, these are also deposited in a bank account in the employee's name, and may be used by the same to purchase, build, repair, expand or remodel housing or to pay loans acquired for any of these purposes. If the employee never uses these funds, he may withdraw them (tax-free) when he retires.

It is also important to point out that withholding does not apply for those employees who earn minimum wage. In these cases, the employer covers these sums and may then deduct them from income tax payments.

Finally, the employee also receives an annual bonus from the employer equivalent to 15 days of salary during the first 20 days of December.

6. Disabilities and Sickness:

The IMSS provides medical care, hospitalization and medicine to its members in the entire country. For employees who must miss work for more than three days due to sickness or accidents, the IMSS will cover 60 to 80 % of normal salary during this absence. The employer does not have to cover the difference during this period, although some do it as a work incentive or as a result of collective bargaining agreements. In the case of permanent disabilities, the IMSS guarantees at least 50% of normal salary, and in case of work-related deaths, benefits are provided to heirs.



X. North American Free Trade Agreement

1. Background:

Since the mid 1980's, Mexico has been converting its economic structure by means of fundamental legislative changes (privatization, de-regulation, flexibilization, etc) and more openness toward the outside world. All this aims at increasing its level of competitiveness on the global market - an indispensable ingredient for the countries of the continent in a new trading milieu that demands efficiency, agility and transparency among those countries that wish to conform economic blocs.

Undoubtedly the North American Free Trade Agreement (NAFTA) has had the most impact - economically and socially - on Mexico, but it is important to point out that this is only the latest achievement in a sustained effort that has also produced agreements with Chile, Colombia, Costa Rica and Venezuela. Also, Mexico has been a member of the GATT since 1986, recently joined the Asian Pacific Economic Cooperation group, and in 1994 became a member of the Organization for Economic Cooperation and Development.

According to an analysis made by the current Secretary of Trade and Industry, Dr. Jaime Serra Puche, the NAFTA includes five key elements that are shared by all countries and regions with high levels of economic competition:¹

- The agreement provides a framework that guarantees the investor continuity of sound market policies that lead to an environment of stability and security when making investment-related decisions. The NAFTA clearly defines the rules for the exchange of goods, for investment and for the offering of services among the signatory countries. The agreement also includes well-defined procedures for resolving disputes.
- With NAFTA, companies may take advantage of one of the largest markets of the world, integrated by 370 million consumers, a volume which will surely allow for economies of scale.
- Third, the consolidated market of the region is quite heterogeneous, which leads to greater competitiveness for the entire bloc. The number and diversity of market niches are effectively increased, due to the variety of income levels, cultures and tastes.
- The fourth elementary factor is the possibility that exists under NAFTA of choosing among a number of technologies, according to the specific needs of each company or businessperson. Companies can minimize costs by selecting the technology that best suits their particular situation.
- Finally, it should be underlined that NAFTA will tend to lower transportation costs, telecommunications costs, and the costs of other services that are crucial to international trade.

¹ Mexican Investment Board, México and NAFTA: The North American Partnership - A guide to its essential elements., 1994

2. Summary of the Contents of the NAFTA Treaty:

The NAFTA treaty, which became effective on January 1, 1994, regulates exchange in five fundamental areas, which are trade, services, investment, intellectual property and dispute settlement, areas which will now be discussed in more detail.

A. Trade: In this area, NAFTA establishes that during the first 15 years, tariffs, non-tariff barriers, licenses, quotas and other restrictive mechanisms will be eliminated in the region covered by the agreement. The United States of America eliminated 80% of tariffs on non-petroleum products from Mexico, while Canada did so for 78% of these type of products. As a corresponding measure (although asymmetric), Mexico eliminated at once tariffs on 43% of products coming from the USA and 41% of goods coming from Canada. Gradual elimination of the remaining percentages is foreseen, until total tariff elimination is reached in year 15. It is significant to point out that the reductions and eventual elimination of tariffs only applies to those goods which comply with the so-called «rules of origin». These rules establish that only those goods that have been «substantially transformed» in the NAFTA territories will benefit from reductions or elimination of tariffs, so that products must carry origin certificates. The mechanisms for inspection and verification of these rules will be the responsibility of customs officials in each country.

It is worthwhile to take a brief look at how NAFTA has affected certain key sectors in trade matters. In the textiles sector, NAFTA only does away with tariffs for those products made using North American fabrics or fabrics made from North American fibers. The former quotas applied to textiles or clothing will be immediately eliminated for those goods that comply with these rules of origin. In the same fashion,

the USA and Canada will immediately do away with tariffs on 45% of textile imports and will lower the highest barriers so that none exceed 20%. Mexico, correspondingly, will discard tariffs on 20% of textiles coming from the other two treaty members, but will maintain its restrictions on used clothing.

In the automotive sector, gradual reductions will take effect in those cases where a certain percentage of the cost of the vehicle represents North American materials or labor. This required percentage starts at 50% during the first four years of the treaty, climbs to 56% during the following four years, and reaches 62.5% after the ninth year. The USA and Canada will eliminate at once all tariffs on automobiles made in Mexico, while the tariff applicable to light trucks will be immediately reduced from 25 to 10% (and will disappear after five years). In regard to heavy vehicles produced in Mexico, the other two nations will gradually get rid of all tariffs over a ten-year period. Mexico, in turn, will reduce tariffs from 20 to 10% at once on the import of vehicles from Canada and the USA and will eliminate them all together in ten years. NAFTA also provides for greater de-regulation of the Mexican automotive sector, and will require Canada and the USA to revise and reform legislation pertaining to fuel efficiency.

Finally, in the agriculture sector, the USA and Canada will immediately suppress 61% and 88%, respectively, of tariffs that apply to agricultural products from Mexico that enter their territories. Meanwhile, Mexico will eliminate tariffs on 36% of these type of goods coming from the USA and on 4% of this category of products coming from Canada. In this extremely sensitive sector for the Mexican society and economy, this country will be permitted between 10 and 15 years to reduce the remaining barriers, and even longer for some very sensitive products such as corn, beans, dried milk and some wood products. In addition, Mexico has the right to aid



its farmers with technical assistance programs, infrastructure development, and in a very few cases, subsidies.

B. **Services:** Generally speaking, NAFTA establishes that in the area of services, each country will have the condition of «most favored nation», and service companies will not have the obligation to maintain a permanent establishment to conduct business in one of the three countries. As an example of the gradual nature of the implementation of the NAFTA provisions pertaining to services, the example of land transportation may be used, where a ten-year transition period is established to open up these services among the three signatories. After three years, Mexican trucks will be able to freely enter USA border states. As of the seventh year, trucks from all three nations may freely move about in all of North America. The treaty also regulates the gradual access of citizens from the three countries to the ownership of companies involved in land transport in the different territories.

In the important telecommunications sector, the agreement provides that basic telecommunication services in Mexico must remain in the hands of Mexicans, but telecommunication ventures from all three nations may have access to networks and public service communication media in any of the countries.

As was explained in chapter VII, which describes the financial/banking system of Mexico, the access to the Mexican banking market will only be permitted through US or Canadian subsidiaries, and the banks of these two countries may only own between

8 and 15% of this market. After year seven and until year fifteen, Mexico may take protective measures if this participation exceeds 25%. Meanwhile, the USA will wait five years before taking any restrictive measures against Mexican companies that already offer financial services in the USA. As far as the stock market goes, foreign company participation in Mexico will have an upper limit of 10% until the sixth year of the treaty and will then increase to 20% afterwards. In the insurance business, the agreement allows for the formation of joint ventures between Mexican, Canadian and US companies, with gradual access to the shares of Mexican companies by citizens of the latter two nations. After the year 2000, insurance companies in Mexico may have up to 100% foreign ownership.

C. **Investment:** Briefly, NAFTA allows free currency exchange and other foreign transactions without barriers (except in cases of bankruptcy or criminal actions), and protection in the case of government expropriations, to assure that fair market prices are paid for expropriated goods. Conflict resolution mechanisms are also foreseen in this area.

D. **Intellectual Property:** The agreement provides total protection of intellectual property and copyrights.

E. *Settlement of Disputes:* Conflicts related to investment or trade will be settled by groups of five private-sector experts in trade and law, individuals that will be appointed by the North American Trade Commission. Arbitration will also be used when appropriate.

XI. México: List of Key Contacts

Co-operative Institutions:

Confederación Mexicana de Cooperativas (CONACOOB)

Phone / Fax: (525) 535-7784
Fishing Section: (525) 592-7592
Transport Sect: (525) 592-3633. Ext 211, 212, o
224

Confederación Mexicana de Cajas Populares C.M.C.P.

San Luis Potosí, México
Phone: (481) 11-6410
(481) 11-6400
Fax: (481) 13-4550

Cajas Solidarias - Empresas de Solidaridad
Phone: (525) 272-7286

MEXICAN INVESTMENT BOARD (MIB)

Paseo de la Reforma 915
Lomas de Chapultepec
11000 México, D.F.
Phone: (525) 202-7804
Fax: (525) 202-7925

Banks:

BANCOMEXT

Camino de Santa Teresa 1679
Col. Jardines del Pedregal
01900, México, D.F.
Phone: (525) 652-8821 / 652-8620/652-8422

Fax: (525) 652-9408

NAFIN:

Insurgentes Sur 1971, Piso 10
Torre Sur
Col. Guadalupe Inn
01020, México, D.F.
Phone: (525) 550-1616 / 550-6911
Fax: (525) 550-3132

BANCA CONFIA:

Paseo de la Reforma 450, P.H.
México, D.F.
Phone: (525) 514-6945 / 5114-6785
Fax: (525) 208-5821 / 208-5881

BANCA CREMI:

Paseo de la Reforma 93, Piso 15
México, D.F.
Phone: (525) 535-2419 / 546-0232 / 546-0721
Fax: (525) 592-7854 / 592-6728

BANCO DEL ATLANTICO:

Hidalgo 128
Col. del Carmen, Coyoacán
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Phone: (525) 544-5312 / 544-5396 / 689-8066
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BANCO BCH:

Paseo de la Reforma 364, Piso 2
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Phone: (525) 533-0434 / 533-0435
Fax: (525) 207-0708



BANCO DE CREDITO Y SERVICIO:

Paseo de la Reforma 116, Piso 18
México, D.F.
Phone: (525) 535-2685 / 535-4699 / 535-9949
Fax: (525) 703-0605

BANCO INTERNACIONAL:

Paseo de la Reforma 156, Piso 3
México, D.F.
Phone: (525) 535-2571 / 566-9193
Fax: (525) 566-6044

BANCO MEXICANO SOMEX:

Paseo de la Reforma 211, Piso 17
México, D.F.
Phone: (525) 535-6179 / 546-2090
Fax: (525) 566-8493

BANCO NACIONAL DE MEXICO:

Isabel La Católica 44, Piso 1
México, D.F.
Phone: (525) 709-0920 / 518-9020
Fax: (525) 512-2594

BANCOMER:

Av. Universidad No. 1200
México, D.F.
Phone: (525) 534-0034
Fax: (525) 621-3200 / 621-3201 / 621-3202

MULTIBANCO COMERMEX:

Bldv. M. Avila Camacho 620, Piso 3
México, D.F.
Phone: (525) 395-5032 / 395-5051 / 395-5089 / 520-5317
Fax: (525) 202-6226

MULTIBANCO MERCANTIL DE MEXICO:

Montes Urales 620, Piso 3
Lomas de Chapultepec
México, D.F.
Phone: (525) 596-6805 / 520-3643

Fax: (525) 259-1514

BANCA PROMEX:

Avenida La Paz 875
Guadalajara, Jalisco
Phone: (36) 13-49-16/11-88/0779
Fax: (36) 13-09-37

IN THE CITY OF MEXICO:

Paseo de la Reforma 199, Piso 1
Phone: (525) 566-0910
Fax: (525) 592-1804

BANCA SERFIN:

Padre Mier Oriente 134, Piso 9
Monterrey, Nuevo León
Phone: (528) 342-7944 / 340-1760
Fax: (528) 343-4844

IN THE CITY OF MEXICO:

Insurgentes Sur 1931, Piso 8
Tel: (525) 548-4313 / 548-3747 / 548-4893
Fax: (525) 550-0688

BANCO DEL CENTRO:

Vesustiano Carranza 235
San Luis Potosí, San Luis Potosí
Tel: (481) 2-2603 / 2-4609 / 2-7353
Fax: (481) 4-3094

EN LA CIUDAD DE MEXICO:

Paseo de la Reforma 195, Piso 1
Phone: (525) 566-7259 / 535-9316
Fax: (525) 703-3502

BANCO MERCANTIL DEL NORTE:

Zaragoza Sur 920
Monterrey, Nuevo León
Phone: (528) 340-5670 / 345-1030
Fax: (528) 344-8322

IN THE CITY OF MEXICO:

Madero 22, Mezzanine
Phone: (525) 510-1877/ 512-7440
Fax: (525) 512-3685

BANORO:

Obregón y Angel Flores
Culiacán, Sinaloa
Phone: (671) 3-4062 / 3-8030
Fax: (671) 5-3871

IN THE CITY OF MEXICO:

Insurgentes Sur 819, Piso 5
Phone: (525) 543-2134 / 543-3467
Fax: (525) 543-0473

BANCO DEL ORIENTE:

Avenida Dos Oriente 10
Puebla, Puebla
Phone: (522) 41-67-52 / 41-42-51
Fax: (522) 42-04-13

IN THE CITY OF MEXICO:

Paseo de la Reforma 506, Piso 20
Phone: (525) 286-8625 / 286-8176 / 286-8530
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BANPAIS:

Hidalgo 250 Poniente
Monterrey, Nuevo León
Phone: (528) 342-8383 / 343-6030
Fax: (528) 344-3978

IN THE CITY OF MEXICO:

Insurgentes Sur 1443 Piso 1
Phone: (525) 563-4438 / 563-7459 / 598-6649
Fax: (525) 554-0473

STOCK MARKET ORGANIZATIONS:

Asociación Mexicana de Casas de Bolsa, A.C.
Paseo de la Reforma 255
Col. Cuauhtémoc

06500, México, D.F.
México
Phone: (525) 705-0277 / (525) 705-4288
Fax: (525) 703-0863

ABACO:

Montes Rocallosos 505 Sur
Col. Residencial San Agustín
Garza García
66260, Monterrey, Nuevo León
Phone: (528) 335-2911 / 335-3586
Fax: (528) 335-0451

ACCIONES BURSATILES:

Hamburgo No. 190
Col. Juárez
06600 México, D.F.
Phone: (525) 533-0625 to 34
Fax: (525) 207-3944

ACCIONES Y VALORES DE MEXICO:

Paseo de la Reforma 398
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Phone: (525) 584-2977
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AFIN:

Periférico Sur 4355
Col. Jardines de la Montaña
01900 México, D.F.
Phone: (525) 652-9244 / 652-9488
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Emilio Castelar No. 75
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BURSAMEX:

Fuente de Pirámides 1 Pisos 6 y 7
Lomas de Tercamachalco
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C.B.I.:

Insurgentes Sur 1886
Col. Florida
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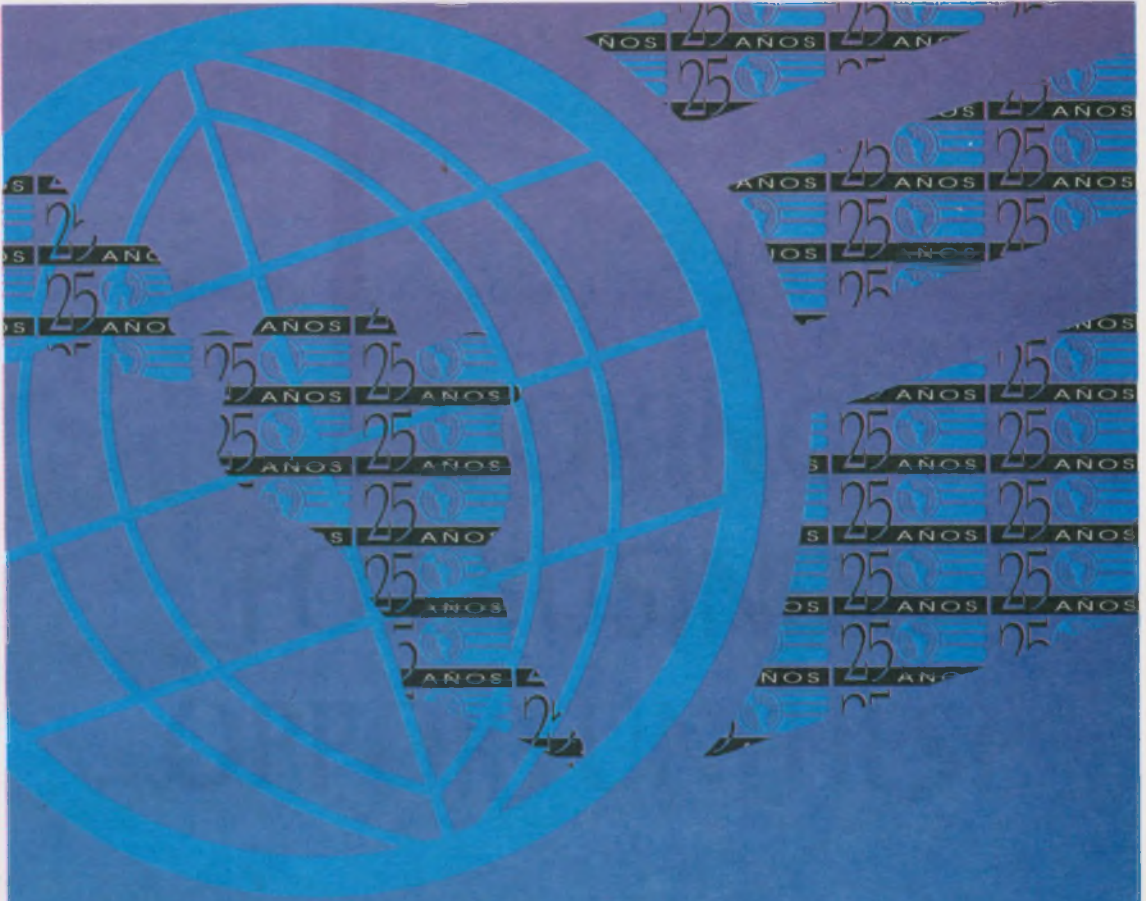
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DOING BUSINESS WITH THE CO-OPERATIVES OF MEXICO



The document that you have in your hands is intended to be a practical guide for investors, businessmen and co-operatives interested in learning more about investment options in Mexico, especially the numerous opportunities found in the co-operative sector of this country.

Among the topics and information included in this manual of opportunities:

- * The most important advantages of beginning relations with Mexican co-operatives.
- * An overview of the economy, incentives and benefits oriented towards the promotion of investment and exportation, as well as the most relevant commercial accords.
- * Profiles of the most dynamic sectors and the opportunities with related co-operatives.
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- * A summary of the financial/banking system, and the opportunities with related co-operatives.
- * A summary of the tax system, including the fiscal advantages of co-operatives.
- * A summary of Mexican labor law.
- * A summary of the political and legal systems of Mexico.
- * A list of key contacts for doing business with the co-operatives in Mexico.

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