

## **MEXICO**

### **1. What are the rough dimensions of the country in miles?**

Mexico is roughly 1,972,550 square kilometers. It is the third largest nation in Latin America (after Brazil and Argentina).<sup>1</sup>

### **2. What is the population? What percentage live in the 3 largest cities?**

As of July 2002, the population of Mexico was 103,400,165. The 3 largest cities of Mexico in terms of population (Mexico City, Guadalajara, Monterrey) have populations in 2000 of 17.787 million, 3.669 million, and 3.273, respectively. In 2000, this was 25% of population.<sup>2</sup>

### **3. What is the predominant language? How widely used is English in business?**

Spanish is the official language, spoken by nearly all. About 8 percent of population speaks an indigenous language; most of these people speak Spanish as second language. Knowledge of English is increasing rapidly, especially among business people, the middle class, returned emigrants, and the young.<sup>3</sup>

### **4. In the last three years have there been any instances of political instability?**

There have not been any major political instability issues in the last 3 years like the presidential candidate assassination in 1993 or the Zapatistas surge in 1994. Perhaps the most transcendental event in the last 3 years was the presidential transition in 2000 since not only it was a change of president, but also the first political party change in more than 70 years. Although there was not political instability (it was a smoother transition than expected), there was a lot of speculation and uncertainty about the new government.

### **5. What is the currency? What is the exchange rate to US dollars? How has it changed in the past two years?**

The Currency is the peso, and the exchange rate as of February 21, 2003 is 10.9825 pesos to one dollar (or 1 peso to \$.0911).<sup>4</sup>

In the past two years, the currency exchange started at around 9.7 in January 2001, then dipped in summer 2001 and then again for a two-year low March 2002 at 9.07, and then has steadily risen until now.

### **6. What time zones exist in this country? What time is it in the capital when it is noon in Cambridge, MA?**

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<sup>1</sup> <http://www.nphamigos.org/nphamigos/en/homes/mexico-statistics.shtml>

<sup>2</sup> <http://www.euromonitor.com>

<sup>3</sup> <http://www.du.edu/~kbarr/demographics.htm>

<sup>4</sup> <http://www.x-rates.com>

Most of Mexico is in the Central Time Zone, although there are small parts on Eastern and Mountain time. Note that Mountain Time in Mexico is called Pacific time because these areas border the Pacific Ocean. At noon the Cambridge, MA (EST), Mexico City is 11 am.

**7. What unique requirements exist for products sold in this country? (e.g. testing, packaging, language, safety, etc.)**

Products in Mexico often need to be customized for the local language (Spanish). Further, there are many issues with lack of clean water and deforestation. Issues include a scarcity of hazardous waste disposal facilities and natural fresh water resources; raw sewage and industrial effluents polluting rivers in urban areas; deforestation; widespread erosion; desertification; deteriorating agricultural lands; serious air and water pollution in the national capital and urban centers along US-Mexico border; and land subsidence in Valley of Mexico caused by groundwater depletion. The government considers the lack of clean water and deforestation national security issues. Finally, in 1992, the Mexican government established NOMS (Normas Oficiales Mexicanas), from which all mandatory standards are issued.<sup>5</sup> Some unique NOMs are:

- Where the size of the product permits, stickers stating NOM compliance (citing the NOM number) must be carried on all applicable products, both domestic and imported.
- Only laboratories approved by the National System of Testing Laboratories (SINALP) may certify NOM compliance, and since no foreign labs have yet been approved, all testing must be done in Mexico.
- Commercial information must be in Spanish in the same size font, format, and clarity as it appears in any other language on the same package.
- A comma must be used as a decimal point in the quantity declaration.

**8. What regulations or limitations exist regarding freight transport?**

The lack of well-developed infrastructure in Mexico is the biggest constraint. Few large cities represent 40% to 60% of the market. Because of the lack of well-developed infrastructure, it is somewhat difficult to distribute products between cities.<sup>6</sup> Another issue is that no liability codes exist for cargo lost or damaged en route. The problem is that there is no uniform liability code for cross-border truck transport among the three members of the North American Free Trade Agreement. This means that freight is worth far less if it disappears in Mexico or Canada. Under Mexican law, in the absence of a higher declared value, a truck carrier's responsibility is limited to an amount equal to 15 days of minimum wages in Mexico's federal district for each metric ton. Mexican law does not recognize the concept of contract carriage. It also limits the time companies have for filing freight claims and lawsuits for cargo loss and damage.<sup>7</sup>

**9. Are there saltwater ports which can handle large ships? How far are the major population centers from those ports?**

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<sup>5</sup> <http://strategis.ic.gc.ca/SSG/da91248e.html>

<sup>6</sup> <http://www.atlantacim.org/mex.ppt>

<sup>7</sup> "Mexico Freight Laws Lacking" (<http://www.cbmu.com/mexico.html>)

There are no good natural harbors. On east coast, Veracruz is principal port for cargo; Tampico, Coatzacoalcos, and Progreso handle petroleum. Guaymas, Mazatlán, and Manzanillo are principal ports on Pacific.

**Sample distances between ports and major cities of Guadalajara and Mexico City (kilometers)**

	Guadalajara	Mexico City
Manzanillo	358	1091
Mazatlán	519	1166
Tampico	750	542
Veracruz	1014	433



**10. What business terms and financial instruments are typically used for import commercial transactions?**

The government does not require export-credit insurance for all companies that obtain credit through programs of the Banco Nacional de Comercio Exterior (Bancomext), Mexico's trade development bank. The bank began offering its own commercial insurance in June 2000 for up to 90% of export value. Rates are determined on a case-by-case basis and based on the financial standing of the company seeking insurance, destination of the goods and length of coverage. There is no minimum shipment, and the maximum is also determined on a case-by-case basis. Bancomext provides export and pre-export financing, as well as investment financing for exporters and temporary import financing. The bank's financing is obtained through commercial banks and other financial intermediaries as well as directly.

Any company established under Mexican law, regardless of size or origin of its capital, is eligible for Bancomext credits as long as it is an exporter, supplies exporters or has a strong

potential for exporting in the short term. Bancomext may also finance imports if they are inputs for the process of producing goods for export.

Working-capital finance is available for up to 100% of the fob price of goods with a local content (defined as the Mexican portion of direct production costs) of at least 30%. For goods with less than 30% local content, financing is available up to the level of this content. Rates offered by Bancomext to companies for working-capital dollar loans are about LIBOR plus 1 percentage point, again depending on the risk of the project in question, with terms ranging from 30 days to one year.

Bancomext also makes financing available to foreign companies that import Mexican goods with at least 30% local content. These must be deemed non- traditional exports going to non-traditional export markets, and they must generate net foreign-exchange earnings of 30% of the shipment's value. The rates and terms are the same as those from Bancomext to Mexican exporters. When credit is sought before production starts, the prospective exporter must support its application with copies of documents showing a firm order and a commitment to produce, as well as a description of the manufacturing process, giving the time required until the shipment is ready. Exporters' experiences with such arrangements have been favorable, especially since they are obtained through their regular banks, minimizing red tape. Although not widely publicized, individual-bank financing for export is also available, with rates based on the bank-client relationship. As with all commercial bank credit, availability is limited. Banks offer short- and medium-term export and import credits at rates similar to regular commercial loans. Although their rates are generally higher than Bancomext's, the official trade bank's limits on total credit extended to an individual firm often prompts large companies to turn to the commercial banks. Bancomext placed a total of US\$3.2bn in credit to 1,321 companies during January-June 2002.

## **11. How large is a typical supermarket or retail food store (square feet or meters)?**

Supermarket growth in Mexico has been explosive: the number of stores has leapt from less than 700 in 1993 to 3,850 in 1997.<sup>8</sup> Sizes depend on store type:

- Texas-based HEB crossed the border in 1997 and now operates 19 supermarkets in the country's northeast. Stores average about 95,000 square feet, with the company building an additional 30,000 square feet of small shop space around them.
- Comercial Mexicana stores generally range in size from approximately 43,000 to 107,000 square feet of selling area with an average of approximately 68,000 square feet. (73 Comercial Mexicana stores - Combination Supermarket/General Merchandise Stores). A typical Comercial Mexicana offers more than 55,000 products.
- Bodegas (36 stores) are warehouse stores which offer more than 30,000 products, mainly food items, pharmaceutical items and general merchandise of the type sold in Comercial Mexicana stores (but with less selection in terms of brands and sizes of items offered) at discount prices. Bodegas range in size from approximately 14,000 to

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<sup>8</sup> [www.ams.usda.gov/tmd/mta\\_reports/mexmark.htm](http://www.ams.usda.gov/tmd/mta_reports/mexmark.htm)

- 91,000 square feet of selling area, with an average of approximately 56,000 square feet.
- In June 1991, CCM and Price/Costco Inc. (today Costco Co.) formed a joint venture to develop the membership warehouse-style that are popular in the United States and Canada. Costco stores range in size from approximately 86,000 to 135,000 square feet of selling area, with an average of 106,000 square feet, and are designed with minimal amenities and decorations. (20 Costco stores)<sup>9</sup>

**12. Do any of the large US discount retailers (Wal-Mart, K-Mart, Toys 'R Us) have stores in this country?**

- Entering Mexico in 1991 through the acquisition of local chain Cifra, Wal-Mart now operates 569 stores under many banners. In addition to Wal-Mart Supercenter, it owns discounters Bodega Aurrera and Superama, restaurants Vips and El Porton, and apparel chains Ragazzi and Suburbia. Sales last year totaled \$9.6 billion. Over the next 18 months, the company plans to open 67 units under its various banners around the country, at a cost of 6 billion pesos.<sup>10</sup>
- Kmart used to have Kmart Mexico, but Kmart sold it to Controladora Comercial Mexicana, S.A. de C.V. (NYSE: MCM), (CCM), Mexico's second-largest retail chain.
- Toys R Us does not appear to have stores in Mexico.

**13. Describe the highway and rail infrastructure. Are the: extensive, moderate, or primitive nationwide?**

The transport infrastructure in Mexico is patchy; it is excellent in some areas but undeveloped and congested in others. The Mexican government has privatized most of the transport industry and left it to the private sector to raise the capital needed for improvements.<sup>11</sup>

**Highways:** A network of modern highways exists linking major centers. These highways were built largely by the private sector in the early 1990s, but have since encountered serious financing difficulties following the 1994 currency devaluation which upset the concession pay back timetables set by the federal government. The government is privatizing the operation of the toll highways, which are generally in excellent condition. Tolls are extremely high with the result that most traffic uses the congested, limited "libre" or free federal roads. About \$700,000 USD is spent annually on maintenance of roads in Mexico.

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<sup>9</sup> <http://www.icsc.org/srch/sct/sct0702/page35.html>

<sup>10</sup> Ibid.

<sup>11</sup> <http://www.tradepartners.gov.uk/transport/mexico/profile/overview.shtml>

**Railways:** Railways have been privatized successfully in Mexico. The railways have been sold in individual packages, mainly to US backed operators. Virtually all passenger traffic has ceased; railways instead concentrate on freight. Mexico's booming exports to the US and Canada provide a profitable market, and freight volumes are growing year on year.

#### 14. How bad is the traffic congestion in the major cities?

All of the large Mexican cities have grown very rapidly because people have moved there from the rural areas to find jobs and a better life. As a result, many cities suffer from serious social and environmental problems. The large number of cars and trucks cause frequent traffic jams. In Mexico City, air pollution is so bad that it causes many people to suffer from respiratory and eye diseases.<sup>12</sup> Economic development in border communities spurred by NAFTA has also caused population growth and increased traffic congestion, which impedes commercial and non commercial traffic in the border communities and on border ports of entry. As a result, attention has been focused on determining how the federal and state regulation of commerce and law enforcement mesh at the border.<sup>13</sup>

#### 15. Which countries are the primary trading partners? For each partner, in which direction is the balance of trade (import or export)?

**Major Trading Partners, 1993 and 1994 (in millions of United States dollars)<sup>14</sup>**

Country	1993				1994			
	Export	Import	Difference	Direction	Export	Import	Difference	Direction
US	42,838	45,317	-2,479	Import	52,787	55,468	-2,681	Import
Canada	1,558	1,175	383	Export	1,534	1,627	-93	Import
Spain	877	1,115	-238	Import	858	1,389	-531	Import
Japan	704	3,929	-3,225	Import	997	4,805	-3,808	Import
France	446	1,106	-660	Import	519	1,530	-1,011	Import
Germany	426	2,852	-2,426	Import	406	3,210	-2,804	Import
Brazil	291	1,201	-910	Import	380	1,207	-827	Import

The US is Mexico's primary trading partner. In 1994, Mexico exported \$53 Billion to the US and imported \$56 Billion from the US. US imports provided 69 % of Mexico's imports. Japan accounted for 6%, Germany 4 %, Canada 2%, and France 2%.

Spain, Germany, and France: together accounted for nearly \$2 billion USD, or 3 percent, of Mexico's export revenue in 1994. Mexico's sales to other Latin American countries (mostly Argentina and Brazil) totaled \$2.9 billion in 1993. Nevertheless, these sales constituted only some 10 percent of Mexico's total exports by value.<sup>15</sup>

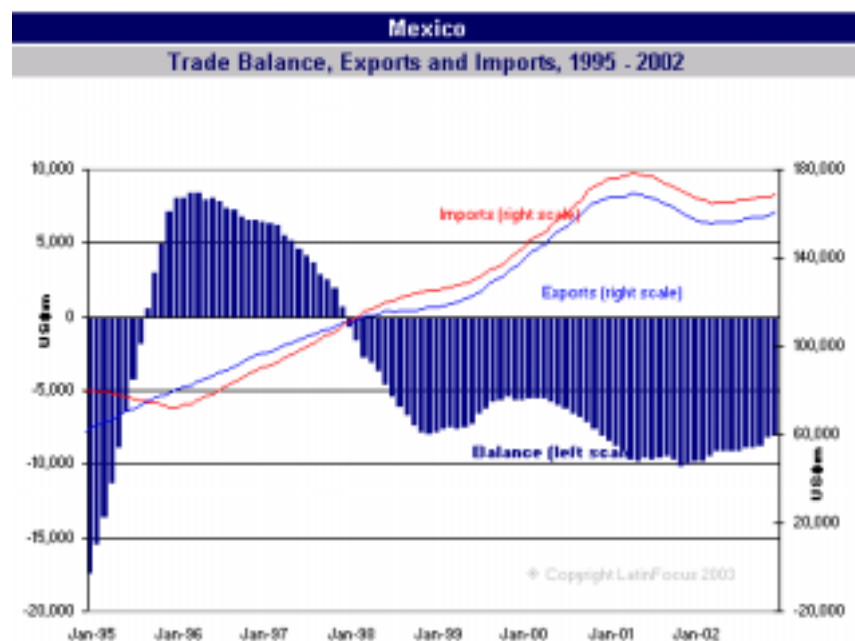
<sup>12</sup> <http://www2.worldbook.com/features/cinco/html/wayoflife.htm>

<sup>13</sup> <http://www.window.state.tx.us/specialrpt/border/sfatb1.html>

<sup>14</sup> <http://www.geocities.com/heartland/valley/8920/mexico/mextradepart.htm>

<sup>15</sup> <http://www.1upinfo.com/country-guide-study/mexico/mexico81.html>

The following charts show aggregate trade balance in Mexico:<sup>16</sup>



**Mexico**  
**Economic Indicators External Sector, 1998 - 2003**

[Summary](#) - [Real Sector](#) - [Monetary Sector](#) - [Markets](#) - [External Sector](#) - [Ratings](#)

	1998	1999	2000	2001	2002	2003	
<a href="#">Current Account (US\$ m)</a>	-15,786	-14,000	-18,160	-18,002	-15,663	-	Q3 2002
<a href="#">Current Account (% of GDP)</a>	-3.7	-2.9	-3.3	-3.1	-2.6	-	Q3 2002
<a href="#">Capital Account Balance (US\$ m)</a>	18,419	13,480	17,194	24,522	23,039	-	Q3 2002
<a href="#">Trade Balance (US\$ m)</a>	-7,914	-5,584	-8,003	-9,729	-7,997	-	Dec-02
<a href="#">Exports (US\$ m)</a>	117,459	136,391	166,455	158,547	160,682	-	Dec-02
<a href="#">Imports (US\$ m)</a>	125,373	141,975	174,458	168,276	168,679	-	Dec-02
Exports (annual growth in %)	6.4	16.1	22.0	-4.8	1.4	-	Dec-02
Imports (annual growth in %)	14.2	13.2	22.9	-3.5	0.2	-	Dec-02
<a href="#">Int. Reserves (US\$ m)</a>	30,140	30,733	33,555	40,091	46,099	48,537	24-Jan-03
Int. Reserves (months of imports)	2.9	2.6	2.3	2.9	3.3	3.5	24-Jan-03
<a href="#">External Debt (US\$ m)</a>	151,878	161,912	148,652	144,548	144,634	-	31-Mar-02
External Debt (% of GDP)	36.1	33.7	25.6	23.4	21.7	-	31-Mar-02

## 16. Is security an issue in logistics? Why?

<sup>16</sup> Ibid.

Yes, security is an issue. Often companies hire security escorts to protect valuable goods in transport. As mentioned previously, no liability codes exist for cargo that is lost or damaged en route.

Cargo crime is multinational and exists throughout the logistics process. The intent of borderless markets from the Free Trade Movement was to be trade zones in which business and enterprise can flourish. However, alongside the fast-paced world of rapid replenishment, outsourced logistics and flexible distribution strategies, cargo crime has become a growth industry aided by borderless markets and a freight industry that has not kept pace with the new questions of security raised by free trade. Containerization as a method for shipping high-value cargo has been cited as the major contributor to increasing cargo theft. Containers can now be stolen as a whole, opened and made subject to pilferage, or serve as a conduit for drug smuggling.

To compound the problem, cargo theft is a moving target. As shippers improve security at their facilities, cargo thieves move on to freight forwarders or trucking company warehouses. As those become more tightly protected, cargo in transit is targeted more aggressively. Security efforts can migrate the problem rather than eliminate it. It is becoming a necessity to concentrate just as much effort on security during transit as manufacturers do in their plants and warehouses.<sup>17</sup>

**17. How reliable is the phone system? How long for a consumer to get a phone line installed? How extensive is the mobile phone network?**

	1996	1997	1998	1999	2000	2001	2002
Fixed Line Telephone Equipment (000 units)	467.51	482.83	461.4	579.51	695.5	715.99	752.28
Mobile Telephones (Digital) (000 units)	329.35	373.62	432.23	472.22	481.34	503.04	540.61
Mobile Telephones (Analogue) (000 units)	218.94	290.62	307.18	336.38	383.11	398.89	390.38

Data Source: euromonitor.com

Domestically, the phone system is reliable and adequate for business and government, but in general the population is poorly served. There is a low telephone density (about 11 main lines per 100 persons); but the privatization in 1990 and then increased competition in January 1997 has brightened prospects for development. Internationally, satellite earth stations give Mexico improved access to South America, Central America, and much of the US. Further, a high capacity Columbus-2 fiber-optic submarine cable with access to the US, Virgin Islands, Canary Islands, Morocco, Spain, and Italy (1997). Currently, it takes about one week to get a new phone line installed, due to company planning and scheduling with the customer. Note that for a company who may wish to set up multiple phone lines, a bribe may accelerate the process.

<sup>17</sup> <http://www.aircargoworld.com/archives>



In 1998, there were 9.6 million main lines in use and 2.02 million cell phone users.<sup>18</sup> This number has been increasing; 960,000 mobile phones were sold in 2002. Mobile phone service is available in all main cities (but not in rural areas).

**18. How many people have internet access?**

In 2000, Mexico had 51 ISPs and approximately 2.712 million Internet users. This rose to 3.65 million in 2001 and 4.616 million in 2002.<sup>19</sup>

**19. What is the price of regular gasoline, \$ per gallon?**

At the end of 2002 the Mexican government decided to homologate the price of gas between the US and Mexico. This went into effect in 2003 in the northern part of Mexico. Along the border, as of December 2, 2002, Tijuana sold gas at \$1.62/gallon, Mexicali \$1.70/gallon, Puerto Penasco \$1.70/gallon.<sup>20</sup>

**20. What trade restrictions exist? What are the highest import duties – which products and countries of origin? What embargoes exist, if any?**

(FROM THE ECONOMIST INTELLIGENCE UNIT)

Since Mexico's entry into the World Trade Organization, the government has sought to reduce the list of imports requiring licenses in order to control domestic prices through increased competition. In mid-2000, 337 products required either import permits obtainable from the Secretariat of the Economy or import licenses from other ministries such as the Secretariat of the Environment and Natural Resources, the Secretariat of Health, or the Secretariat of Defense. But imports from NAFTA countries and Chile are exempt from 22 of the permits.

Import controls, including quotas, still apply to many key imports, such as basic agricultural products, petroleum and its derivatives, cars, some raw materials for the pharmaceuticals industry and a few manufacturing inputs (like car parts for assembly). Further liberalization is expected under the Fox administration and the growing interdependence of the Mexican and US economies.

Imports to Mexico are subject to an ad valorem duty tariff. The highest duty is 20% and is assessed on luxury consumer goods. Duties on industrial machinery and capital goods generally fall between 10% and 15%, although some capital and intermediate goods have lower rates. The average tariff is currently 7% for goods coming from NAFTA countries and 13.5% for the rest of the world.<sup>21</sup>

The allotment for goods subject to quotas varies from year to year and reflects the level of national production of many grains, season by season. Imports subject to quotas include basic grains (except sorghum), oil-seeds, milk products and coffee. Although most imports into the free zones are exempt from the licensing rules, a few goods -- mainly locally manufactured

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<sup>18</sup> <http://www.euromonitor.com>

<sup>19</sup> <http://www.infoplease.com/ipa/A0107779.html>

<sup>20</sup> <http://www.sanfelipe.com.mx/news/default.html>

<sup>21</sup> <http://www.sefome.gob.mx/ingles/basiclegal/costum.html>

mechanical components, packaging material and some chemical substances -- require an import license. Temporary imports that are used to manufacture exports are exempt from import-license requirements, and regulations have been liberalized.

Non-tariff barriers consist mainly of import licensing and permits, as well as quotas. All branded patent medicines, toiletries, foodstuffs and drinks must be registered with the Department of Health, and all electrical equipment must meet Mexican safety rules.

## **21. What customs documents are required for an import shipment? For export?**

Importers will use a customs broker (a private-sector provider of services) of choice to obtain release of the merchandise. The customs agent will provide to importers all necessary information relating to applicable duties and non-tariff regulations. The customs entry will be accompanied by:

- the commercial invoice, when the customs value of the merchandise is determined in accordance with transaction value and exceeds US\$300, or the equivalent in another foreign currency (the invoice will be prepared in Spanish -- in cases where it is not, a translation may be prepared on the reverse or in the body of the invoice);
- the bill of lading or airway bill of lading, endorsed by the transport company;
- documents evidencing compliance with requirements relating to restrictions and non-tariff regulations that apply to the importation;
- proof of the country of origin, and country of export, as appropriate; and
- the document demonstrating guarantee for the payment of additional amounts that may arise if the declared value is less than the estimated price established by the Secretary of the Treasury and Public Credit for the merchandise which has been undervalued.

Commercial invoices are not required for imports and exports made by foreign embassies and consulates or by their officials and employees, relating to electric energy, crude petroleum, natural gas, and their derivatives when made by pipeline, or for personal effects. The importer will present a declaration in writing and under oath for the customs officials, with those elements that permit determination of the customs value of the merchandise. A copy of this declaration will be given to the customs broker or attorney to use in determining the customs value on the entry.

The customs agent prepares the import entry using information provided by the importer and pays monies owed to the private bank located within customs. The customs broker then presents the merchandise, accompanied by the previously paid customs entry, to the mechanism for random selection for examination.

The customs official activates the mechanism for random selection, which determines whether or not the shipment will be examined. If the shipment is designated for review, the examination will be made within a period not to exceed three hours. This period may be longer when discrepancies are discovered. If the shipment is not designated for review, it will be released immediately so it can proceed to its destination.

Importers will retain documentation that proves the legal importation of the merchandise, in case the fiscal authorities require clarification after customs clearance.<sup>22</sup>

**22. How common is "bribery" (US definition) in trade transactions? (normal, infrequent, very rare). What are the legal ramifications?**

People in this vast nation of roughly 100 million people long have grown accustomed to paying a little extra to get things done: Obtain a driver's license, fix a traffic ticket, win a government contract or sail through Mexican customs. The main reason bribery is so widespread in Mexico is that there are virtually no "real" consequences to bribe or to accept a bribe when dealing with the government. Although, like in most Latin-American countries, there are laws that set to prevent and punish bribery, they are simply not enforced.

With estimates that corruption costs Mexico as much as \$50 billion a year, President Vicente Fox has made wiping out *mordida* - literally, the "little bite" - a top priority.

**23. How strong are the unions? In what industries are they an important factor? Are they predominantly national or local? What impact do they have on logistics?**

In Mexico, Labor unions are mostly representative of workers in urban areas, and they are predominantly national.<sup>23</sup> They are powerful in telecommunications and automobile manufacturing, but do not seem to impact logistics. However, the recent toppling of the long-ruling Institutional Revolutionary Party brings the future of the Mexican labor movement into question. Previously, the PRI dominated the official labor unions, and laws were in place to protect the official labor bureaucracy in exchange for cooperation with Mexican policy. Politicians essentially picked union bosses, and paternalism and corruption ran rampant. Independent unions not linked to the PRI were weak. However, with Fox's election, the old system is changing, and the labor movement is less political. Independent unions are growing in strength. For example, last year workers at the Mex Mode garment factory, formerly Kukdong, in the small town of Atlixco, Puebla recently won a precedent-setting victory in achieving the only independent union with a signed collective agreement in Mexico's over 3,500 maquiladora factories. The factory produces sweatshirts for Nike and Reebok, and licensed Nike sweatshirts for a number of US universities.

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<sup>22</sup> North American Free Trade Agreement: A Guide to Customs Procedures., Jointly produced by Customs Administrations of the United States, Canada and Mexico, January 1994.

<sup>23</sup> <http://www.lupinfo.com/country-guide-study/mexico/mexico94.html>