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Scotiabank Inverlat

Mexico, sí!

What you need to know about doing business in Mexico today.

As NAFTA celebrates its tenth anniversary, Canadian companies are increasingly doing business in Mexico — for very good reasons.

The Mexican economy has proved to be the most solid and reliable in Latin America as well as the best performer of any emerging country in the world. In spite of the world economic slowdown, GDP growth has been constant and inflation rates in Mexico have been reduced to single digits. In 2003, Mexico's GDP growth was 1.3 percent and is expected to be 3.1 percent in 2004, which will help increase demand for imports.

Trade between Canada and Mexico is now over \$12 billion US, with Mexico ranked as Canada's third largest export market behind the United States and Japan. As of 2002, 1,259 Canadian companies were registered in Mexico, 59% in the manufacturing sector.

The maquiladora manufacturing plants have continued to gain importance under NAFTA. The word maquiladora comes from colonial Mexico, where millers charged a “maquila” for processing other people's grain. Today the term is used to describe companies that process (assemble and/or transform in some way) components imported into Mexico that are, in turn, exported. Since NAFTA's implementation in 1994, maquiladora exports have almost quadrupled, going from \$21.8 million to \$76.8 million in 2003.

A different banking and business environment

As businesses enter the global marketplace, there are a number of challenges they face when adjusting to a new culture, banking procedures and legal requirements.

Whether the plan is to export directly, establish distribution facilities, acquire a Mexican company or build a new plant in Mexico, there are a number of differences finance professionals should understand.

The language difference is the most obvious hurdle to overcome. Business in Mexico is done in Spanish, and legal documents must be filed in that language.

There are also subtle and not-so-subtle differences in the way business and banking is done in Mexico. For instance, in Canada and the U.S., we refer to invoices as “receivables” and the onus is on the company that purchased your goods or services to pay. In Mexico, invoices are referred to as “collectibles”, and it's up to the seller to collect the money.



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Most invoices in Mexico are not paid by cheque through the mail. The mail system is unreliable and fraud is prevalent. As a result, many Canadian companies operating in Mexico have implemented an electronic payment system offered through their Mexican bank.

Managing your funds in Mexico

Mexico is moving closer to the North American way of doing business. As more North American-based companies move toward centralized treasury operations, those in Mexico are similarly being affected.

There is a definite trend towards Internet banking and electronic cash management services in Mexico today. The services are as sophisticated as any in the world, making it possible for head office staff to remotely monitor their Mexican operation's cash position in real time.

Over the last five years, ACH debits and credits have become more automated and funds can now settle with same-day value. And while EDI files are not compatible with Mexican banking systems, Scotiabank has a process to take an EDI file and map it to a payment layout for delivery into the Mexican clearing system.

This process was utilized by Delphi, a global leader in mobile electronics and transportation components. Delphi was looking for a financial institution with local experience and global perspective to help improve their payments process.

As a multinational company that utilizes EDI on a large scale, Delphi had a need to send payments into Mexico. "Our client needed new and innovative solutions to streamline their former processes," notes Fay Deevy, Scotiabank's Director of Global Banking. "We worked with them to develop a unique solution."

"Scotiabank has been one of the leading banks in helping Delphi generate payment files in an EDI format, allowing for straight-through processing (STP), to support our Mexican operations," comments Hubert J. Noel-Morgan, Delphi's Director of Treasury Operations.

STP is beneficial in a number of ways – it eliminates manual processing of payments, reduces risk and provides finality of payment for the recipient.

Payroll presents other challenges. The vast majority of Mexican workers prefer to be paid in cash; most don't have, or want, a bank account. Paying in cash doesn't present a problem when you have a handful of employees, but with hundreds or thousands, it's a challenge.

Increasingly, the trend in Mexican plants is to install a dedicated ATM onsite and give each employee an ATM/debit card. Scotiabank has developed a system based on smart-card technology that enables clients to establish a withdrawal limit for each card as well as activate or deactivate a card online via the Internet. Since many Mexican workers frequently move from one maquiladora to another and lack banking sophistication, this is a useful feature for human resources and finance departments.

"This is just another example of the way we listen to our global banking clients, assess their unique needs, and provide innovative and efficient options and solutions to their cash management challenges," notes Deevy.

On the ground in Mexico

Customers like Delphi are turning to the Scotiabank Group and Scotiabank Inverlat for corporate services, including Peso and U.S. dollar business accounts, receivables and payables solutions, electronic payroll disbursement, zero-balance concentration systems, and outbound electronic reporting, supported through a nationwide network of commercial banking centers and branches.

The bottom line? Taking the time to implement the right cash management solutions can make a world of difference when doing business in Mexico.



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