

# INSIGHT INTO INDUSTRY

News of Industrial Advances in British Columbia

FALL 1992

## Economic Trends

*Internationally*, the economic picture is one of transition. The ASEAN nations will continue to lead economic growth over the next couple of years--some in the 5-6% range, others in the 7-9% range annually--as they become more industrialized. But the risks to this scenario are both political (controlling conflicts over the distribution of wealth and over territory, ambition and power) and economic, such as the shortage of skilled mid-level manufacturing specialists.

Japan too is in transition, with growth rates expected at a much lower level, between 2 and 4% through 1994. One view, that of Ken Courtis, Senior Economist for Deutsche Bank Capital Markets in Asia, is: "Japan is shedding the excess fat accumulated over 6 years of record-smashing economic expansion; bringing the economy down to its rock-hard competitive core and re-positioning itself for the next leap ahead". It's significant that not once in an entire quarter of a century has Europe or the US invested, as a portion of GNP, as much as Japan and the gap is widening; in 1991 Japan invested 25.4% (\$725B) of GNP in plant and new capital equipment; the

US invested 11.2% (\$495B) of GNP. And where? Over 60% of Japanese capital investment over the past four years has gone into productivity and innovation--new products that didn't exist 10 years ago in addition to doing things better, faster and cheaper--which will maintain Japan's very competitive position.

And this global restructuring has reached North America too. Mexico's once ailing economy appears to be on the mend; inflation is under 10% and real GDP grew over 8% the last two years and is forecast between 4-6% this year. In the US, the consensus is that the economy is in recovery--economic growth has been positive for the last 3 quarters--but it is a joyless, jobless and painfully slow recovery. Very good productivity improvements have been made over the last 12 months, financial corrections are underway and structural deficiencies have largely been addressed. Strong gains in durable goods spending, house sales and consumer confidence are also evident.

*In Canada*, progress is just as painfully slow; as the US recovery gathers

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#### WHEN OPPORTUNITY KNOCKS:

- Alternatives to Court Battles
- Tips on Doing Business In Mexico
- Mexican Opportunities
- Inventing Our Future

steam it will act as a positive stimulus. Housing and industrial production are showing early signs of recovery and business and consumer confidence, although still shaky, are following suit. But here too, the road to recovery is jobless because restructuring and cost-cutting have enabled employers to boost productivity without increasing workers. So we'll see positive real GNP growth of between 1-1.5% in 1992 (increasing to a forecast 2.4-3% in 1993) but economists believe little improvement in employment.



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And in BC, the economy continues to perform better than the national average--at least on the surface. Economic growth is forecast at 1.5 to 2.5% this year and between 3 and 4% next year, the best in the country. In-migration will continue to be the driving force for growth next year, boosting incomes, housing and consumption. And a weaker dollar will help export revenues. But, unemployment is stuck in the double digits, inflation is the highest in the country, our trade deficit has grown and we haven't seen any productivity growth for three years. We cannot ignore the weaknesses which influence our productivity--innovation, research and development and investment in training and technology.

Which brings us back to the future, so to speak. The real question facing Canada and the US, is whether the recent structural changes and productivity improvements are indications of long run continuous improvement or simply short term efficiency gains, i.e., doing more faster and cheaper. Successful economies are ones which have long term vision and planning; market sensitivity and orientation; and, long term investment in research and development, capital equipment and human resources. The advice of the private sector Prosperity Steering Group bears heavily on this point. See the review on p.7.

## Alternative Dispute Resolution

Ever get into a legal battle over a business dispute? How did you feel after you'd been through:

- The wait for a court date?
- The years before a so-called solution was reached?
- Shovelling your professional time into a dead project that wasn't making you any more money?
- The feeling that you, an intelligent person, had no control over the choice of judge, and what was going to happen?
- The (choke...gasp) costs?

Let's talk costs for a moment. Consider a construction litigation over a \$100,000 claim. It'll cost \$140,000 for both sides' fees and disbursements alone (estimate from Fraser & Beatty, 1989). And that's before even valuing everyone's lost time.

The irony is, *the solution often doesn't even need a day in court.* For the claim above, the whole process of preparation and court appearance might be 12 days, but 11 of those (at a cost of \$100,000) go into preparation. And the upcoming court date and the mounting costs are what make the principals in the dispute really listen to one another for the first time. They finally start trading off and compromising, then

settle on the courthouse steps -- at a cost of \$100,000 for the solution!

Want something more cost-effective? Consider "*Alternative Dispute Resolution*" (ADR) -- *techniques of solving disputes out of court.* Their use in BC business is on the rise, with everything from the old stand-bys of arbitration and mediation, to the use of "referees", mini-trials, etc. being tried. *Not only are ADR techniques mostly cheaper and quicker than litigation, but they offer total privacy and confidentiality.* No newspaper stories about your court fight. No competitors, hired to serve as "experts", nosing into your files.

We can't go into all the ADR techniques, but we'll talk briefly about *arbitration and mediation.*

*Arbitration* is a formal, adversarial procedure. You and the other side pick your arbitrator (who needn't be a judge at all) so you can know that he/she has expertise in your business sector. You schedule the arbitration at a time and place you want, and it can move relatively quickly. And the *awards are binding and enforceable.* Recent changes in the BC law make them very hard to overturn, so your opponent won't be able to slide out of one and go back to court. It's not the cheapest ADR method -- in particular, international arbitration can be very

# Management Practices

costly -- but it can sure beat litigation.

**Mediation** -- isn't that just used in labour disputes? No. This powerful applied method of problem-solving suits all sorts of situations. It can lever people (even lawyers) off fixed combative positions and focus them on solving a problem. *It's low risk, cheap, allows for creative solutions, and is a great tool in big wrangles involving numerous parties.* And while it's not binding, any signed

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agreement which results from it is. Some sample stories:

There were ugly installation problems with a huge transport project in the US. With multi-millions at stake, all 20-plus factions, most of them lawyers for the various contractors, sub-contractors, suppliers, local government, etc. went into a room with a mediator -- and came out three days later with a solution and a signed agreement. Another story: a Canadian and a Japanese company in partnership on a construction project in Egypt (yikes!) got into a multi-million dollar dispute. International

arbitration would have cost too much. But a couple of days and a mediator later...solution at a cost of under \$3,000.

Sound incredible? But often a mediator's time might only cost \$150 an hour, and since he/she focuses intelligent people (you!) on solving a problem, it won't take forever. It could be cost-effective even if the amount in dispute is as small as a couple of thousand dollars.

Want to learn more? *Try the BC Arbitration and Mediation Institute at 736-6614, the Justice Institute at 222-7287 or the BC International Commercial Arbitration Centre at 684-2821.* Through such contacts you can find courses, lists of arbitrators and mediators with their fields of specialization, and sample clauses to put into your future contracts, stipulating ADR in case of disputes.

And if you're already into a dispute, don't despair. An ADR practitioner might be able to discreetly contact all the principals and offer his/her services, without even mentioning who got them involved. Often the other parties will go for it. Even if you have to pick up the whole tab for the ADR just to bring them in, what the heck? It might still be a lot cheaper than litigation.

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## The "Right" Approach to Business in Mexico

So you're going to do business in Mexico, you've got a plan, you've checked out the market, you've made a few contacts--another Canadian success story in the making. Well, before you go, you might be interested in these tips on business practices in Mexico.

**Typical Canadian approach:** Your company president agrees to an exploratory foray into Mexico for say, 6-12 months but after that, if there's no profit, you pull out and go somewhere else. In Mexico, one year isn't enough. Be prepared to spend *at least 2 years of intense effort* before you will see real profits. If business comes faster, well and good. The potential is enormous, Mexico's needs and our services complement each other splendidly, but expect things to take time.

**Typical Canadian approach:** An important business contact misses a meeting you have set-up---you take it as an indication they aren't interested in your proposal. Understand that Mexico is a truly aristocratic and hierarchical country. Business and social culture take their tone from this elite tradition. An aristocrat's identity and self-esteem are not derived from their business or work position, which would be crass. Social graces, poetic language, family connection, hospitable living and *knowing which fork to use sometimes take precedence over bottom line issues*, deadlines and often a

“ **Mexicans prefer to do business with "family" or persons who feel like family.** ”

commitment to a meeting with you.

**Typical Canadian approach:** in meetings you call people by their first name and get right down to business. In Mexico, the process is much more formal. **Call business contacts by their professional title, e.g.: Doctor, Ingeniero (engineer), Licenciado (legal or arts education), not by their first name.** Make a formal greeting and take formal leave. Exchange pleasantries. Don't jump straight to the point, just keep working towards it.

**Typical Canadian approach:** in differences of opinion we assume a smile and a nod or no answer at all, actually means "yes". **But Mexicans will not refuse a request for fear of hurting your feelings and offending you.** They would rather not reply and hope you'll eventually go away without forcing a confrontation over a date and time, or they will happily accept so as to express their honour at receiving your attention. That honour expressed, they have fulfilled what they consider the most important part of their social obligation to you and will not consider it rude not to fulfil that commitment.

**Typical Canadian approach:** the background or cultural heritage of the people we do business with is irrelevant. In Mexico, if you take this approach you'll miss out. Mexicans know their history and care intensely about it. Read up on it.

**Typical Canadian approach:** English

spoken loud enough is understood anywhere. No ifs, ands or buts--learn some Spanish. Many Mexicans do speak English, although naturally they're more comfortable in Spanish. **But most of the initial contact persons you need to deal with (such as telephone receptionists, building guards, taxi drivers) do not speak English.** Spanish is not that difficult a language and can be used in your next target markets in Central and South America. With half an ear for languages, a two-week course at a school in one of the charming resort cities of Cuemavaca or San Miguel de Allende in Mexico will be enough to get you by in many of your meetings. And you'll be surprised how pleased Mexicans are to see you making an effort, even if it is limited to nine words of tourist Spanish.

**Typical Canadian approach:** business is business, if it leads to friendship great but it's not a necessity. Al contrario. Mexican culture is "relationship focused". **They prefer to do business with "family" or persons who feel like family.** Qualities like loyalty, seniority, and social networks are more important than task efficiency. As we said earlier, there's a greater degree of formality in business relations (though it is a mix of personal warmth and formality) and more focus on family or organizational rather than individual achievements.

**Typical Canadian approach:** hire a good agent and leave them to it. Result? Nada. Elizabeth Gammell, Canadian Trade Commissioner in Mexico says the most common complaint she hears from Canadian companies is "they can't understand why they're not getting an appointment or why they're not getting any business." You can't do business from Canada, even with an agent, because **Mexicans need to see you face to face** and perhaps have a convivial lunch. We can't say it enough--Mexicans do business with friends and family whom they know and trust, no matter how good a stranger's proposal is or who the agent is working for them.

Another thing about agents is **check references carefully.** Get several references, go slow and make sure you know who you're dealing with. Don't assume that an expat is your best bet, either. One BC firm hooked up with an ex-Canadian they met casually at an official function; the person hasn't brought them any business and now the company is in an expensive wrangle with him.

**Typical Canadian approach:** operate through usual banks, wait for payment and assume the usual methods of invoicing will be alright. Big Mistake. **Talk to your bank and the Export Development Corporation so you don't bankrupt yourself waiting for Mexican bureaucracies and international financial systems to get your payment to you.** Get confirmed

letters of credit. Good legal and financial advice--a lawyer who knows the ins and outs of Mexican law and a banker who understands financial transactions in both countries--are well worth the cost. Traditionally, many Mexican clients wait until the bill collector is at the door before paying their accounts. In the words of one Canadian company, *"You need a collection staff if you want to get paid. You could mail statements out forever, but the company will only pay when someone comes and stands there with their hand out."*

**Typical Canadian approach:** set a deadline and assume everyone works to it. Hah! Don't assume anything. **Be patient and persistent:** build slippage into your deadlines, assume nothing, confirm everything and always be the one ready to follow-up.

Many thanks to Elizabeth Gammell in Mexico and Henry Pellicer from BC Trade for their input.

## Mexican Opportunities

Calling all entrepreneurs.....The next wave of economic opportunity has washed up on the shores of Mexico. Canadian companies tend

The Mexico of today operates under an aggressive economic renewal plan involving extensive deregulation, privatization, public spending restraint and serious commitment to sound environmental practices. Take a look at these facts and related opportunities concerning Mexico offered in a recent study by SRI International:

North American 1989 Trade Flows  
(\$ CDN)



to be reluctant exporters: slow to move into the US, Europe and Asia. Will they be quicker into Mexico?

The Mexico of yesterday was one of soaring foreign debt, accelerating inflation, a deteriorating infrastructure and serious degradation of the environment.

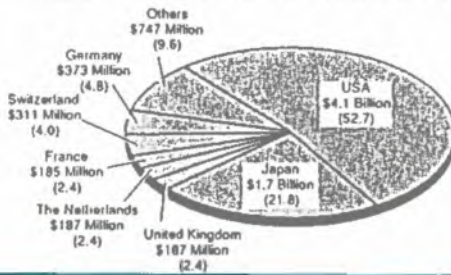
### FACT - GROWTH

- Mexico's growth in GDP should average around 4-6% annually with inflation less than 10% per year for the next few years.
- Restructuring started in the 1980s will continue to the late 1990s.
- Economic growth depends on foreign capital. Savings rates are low and the banks have limited ability to raise capital domestically.

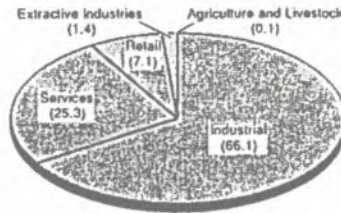
### OPPORTUNITIES

- Capital: *Businesses built around long-term capital investments*, such as petrochemicals, steel and other metals.
- Investment: Foreigners can own shares of most Mexican or joint-venture companies directly or via the stock market (the Bolsa).
- Business Services: Merchant banks, venture capital, and financial services companies will continue to import capital, but they need *information-systems support services*.
- Management: National and private *pension funds and other savings vehicles* need better management.

Sources of Foreign Direct Investment (FDI) in Mexico, 1988-90



FDI by Industry Type\*



**FACT - MARKET SIZE**

- Mexico has 85 million people, half of whom are less than 21 years old.
- Per capita income is about \$US 1,820 and growing fast. Mexicans spend more of their personal income on consumer goods than many other middle-income countries.

**OPPORTUNITIES**

- Durable Goods: Cars, light trucks, and auto-related services. Small convenience appliances and more sophisticated prepared foods.
- Services: Social services for the middle-income and working classes, such as higher-quality health, dental, disability, and retirement care. Telephone services, personal-care products, personal computers, and personal home security devices.
- Foreign and domestic leisure and tourism industry.

**FACT - INVESTMENT**

- Mexico's private and public infrastructure requires replacement or its deficiencies will stall economic growth by the mid-1990s.

**OPPORTUNITIES**

- Capital: Some **\$30 billion of foreign capital is needed to finance infrastructure development** before mid-decade.
- Consulting and Management: **Roads, railroads, ports and airports require more than \$5 billion** of investment before mid-decade.
- **Electrical generation and distribution systems require more**

*than \$18.5 billion of investment before mid-decade.*

What else might be useful to know about Mexican opportunities?

*How the Mexican market compares with that of the Asian tigers?* Mexico's population is 20% larger than the combined population of Korea, Taiwan, Hong Kong and Singapore. Mexico has five cities with populations of 2 million or more, one commercial code, one language and one set of market dynamics.

*Privatization and foreign investment?* Privatization and cooperation with foreign businesses are key principles of the Mexican government's National Development Plan. Between 1982 and 1991 over 1,000 state enterprises were privatized; as of 1989, foreign investors can hold majority shares in areas such as steel, cement, construction, investment dealerships, legal and accounting services, publishing, cattle farming, international maritime transportation and metallurgy.

*Maquiladoras.* These are foreign in-bond processing plants which enjoy duty free import of machinery, equipment, parts, raw materials and

**Top Ten Commodity Areas Where Canadian Export Capability = Mexican Import Demand**

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

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

other components used to assemble or manufacture semi-finished or finished products, which are then exported back to the country of origin or to a third country. Maquiladoras allow foreign companies to take advantage of Mexico's low labour costs and in return generate critically needed jobs and foreign exchange; they operate mostly in labour-intensive sectors such as textiles, consumer electronics and transportation equipment. In 1990, maquiladoras contributed \$US 3.6 billion in value-added foreign exchange earnings.

*Who's already there?* In 1991, **Canadians invested over \$US 74 million in Mexico**, bringing total

# Special Feature



Canadian direct investment to \$US 491 million. Over 200 Mexican companies have some capital participation from Canadians, mostly in the manufacturing, service, commerce and mining sectors. And, companies that have been particularly successful, are ones who have Mexican partners--be it an agent, a distributor, a broker or a retailer (see our article on The "Right" Approach to Business in Mexico). Northern Telecom has invested about \$US 60 million in Mexico and Magna, an Ontario-based auto-parts manufacturer has invested \$US 10 million in southern Mexico to produce bumpers for Volkswagen.

Cummulative direct foreign investment in Mexico as of 1990 totalled: the US - \$20B, Japan - \$1.7B, Switzerland - \$1.5B, France - \$900M, the Netherlands - \$900M and the United Kingdom - \$900M.

If you want more of this type of information, you might want to take a look at Mexico-Canada: Partnering for Success, available from Prospectus Publications Ltd., (613) 236-8504.

## *Inventing Our Future -*

### *At A Rate of 48 Pages Per Second*

The Steering Group on Prosperity issued its anxiously awaited Action Plan on October 29 under the short title "Inventing our Future". The Plan was authored by a private sector group whose 20 members included Lucille Pacey, a VP with the Open Learning Agency, and Jack Munro, the chairman of the Forest Alliance of BC. It followed one of the most intensive consultations ever on our economic future reaching people everywhere in the country and all walks of life. The title is intended to signal a plan which is constructive and aggressive, engaging the competition rather than running from it - not much to debate in that general logic.

The wisdom of the Canadian people shows through in the Plan. There is no tendency toward "magic bullets". *The Plan reflects the reality that no one step will radiate improvements of 100%; rather, a thousand small steps may radiate improvement of 1%!* The challenge of sustaining prosperity in Canada should not be underestimated. And time is of the essence. If you have read the 63 page Action Plan, you need not read further here. If you haven't seen it (call us for a copy) or if you faltered

amongst its 54 recommendations, here is a brief digest of the Plan: its key themes, actions and instruments. This may encourage you to take an interest in the details and perhaps take action in your company, community or organization.

The principal themes in the Plan are these:

1. *Action to vastly improve collaboration - enthusiastic partnerships - between and amongst the public and private sector, labour and management, all levels of government, and educators and business. Finding new ways of working together, to innovate, to increase productivity, to reach new markets, to overhaul training and education - is the product of leadership and attitude. The Plan would have the public sector show leadership by example, by helping to establish important institutions which would nurture cooperative attitudes. Institutions like a Centre of Excellence for Sustainable Development; and a National Quality Institute to build the networks and programs and establish the standards needed to make Canadian companies world leaders in quality. But none of*

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***The Plan reflects the reality that no one step will radiate improvements of 100%; rather, a thousand small steps may radiate improvement of 1%!***

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these would survive without their “ownership” being taken up by the private sector.

2. ***Action to revamp our education and training system*** to make it results or competence - based. The Plan recommends ***more flexible and portable learning systems***, a nation-wide retraining strategy, more information technology in education, better consumer education (to make us more demanding) and ***greater involvement of the private sector throughout education***. These dramatic and complex changes would be among the most difficult of all the Plan's recommendations to implement. The Steering Group would like to see a Canadian Forum on Education established to provide a common focus on goals and to break down the isolation between providers and users of education.
3. ***Action to encourage innovation***, greater use of technology, and in the

process to accelerate the pace of technology diffusion throughout industry. The Plan would revamp technology support measures, would insist on a regulatory environment which embraced innovation, would link S&T with innovation. Among the key instruments would be the “***high speed broad-based electronic information highway***” which would allow transmission of data at a rate of 48 pages per-second! To some, such a fibre optic network offers similar benefits (in unity and growth terms) to the CPR infrastructure of last century. Other nations are further advanced in building these super fast information highways.

4. ***Action to build an inclusive society***, which is one allowing everyone in society to participate and contribute to the best of their ability. This leads to recommendations on more flexible

work arrangements, a campaign on illiteracy, more investment in technology, trade and training for aboriginal people and an emphasis on hiring of under-represented groups in society.

5. ***Action to lessen the burden of government*** through program consolidation a re-orientation to investment rather than consumption - especially investment in infrastructure, tax harmonization, removal of internal barriers to trade and reducing deficits (which the Plan describes as “addictive”).

The Action Plan is specific, it offers a challenge to every member of every group of our society - working to sustain our prosperity will need that level of committed action. The consensus of Canadians is captured in the Plan, Canadians who are concerned about our long-term ability to provide high value jobs, to protect our environment, to “invent our future”.

### **Are you exporting food products to Mexico? Or thinking of it?**

Attend a one-day seminar on the “how tos” of selling into the Mexican market. Sponsored by BC Trade, this seminar will be held in late January 1993. If you're interested, call Heather Schofield at 844-1964.

This newsletter is published quarterly. For more information contact:

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