1. BACKGROUND

Mexican imports of consumer products have increased dramatically in the past four years as a result of Mexico's trade liberalization policies, which in 1988 reduced all import duties and allowed the importation of many items previously protected by prior import permit requirements. These measures had a particularly strong effect on consumer products because these were protected by the highest duties and by more import permit requirements. Total imports of consumer goods increased by 82.1% in 1989, 44.4% in 1990 and another 10.6% in 1991. Consumer products, which in 1988 represented 10.2% of total imports, increased their participation to 14.9% in 1989, 16.3% in 1990 and then fell to 14.8% in 1991.

As can be seen, the upward trend is decreasing, as the first boom passed and is giving way to a more stable growth pattern. The Mexican consumer is very much influenced by the U.S. market, and many Mexicans have at least been to Mexico-U.S. border communities and are familiar with U.S. consumer products. This created an attraction towards imported products, which was further reinforced by the fact that these items were not available in Mexico, since their importation was either prohibited or non competitive. Therefore, when the importation was liberalized, this created a short term boom. Slowly this indiscriminate sale of imports has given way to more reasonable purchasing programs, mostly based on a close relationship between local chains and major foreign distributors or representatives. The consumer is no longer favoring imports over locally made items only because they are imported, but shops for a price and quality balance. Brand and company names are also now being recognized and related to particular features.

2. ECONOMIC ENVIRONMENT

With the objective of reducing the inflation rate, the Mexican authorities implemented a stabilization program in 1988, called the Economic Solidarity Pact, which features traditional austerity measures, entailing tight fiscal and monetary policies and unorthodox measures, such as price, wage and exchange rate controls. This program has been the cornerstone of Mexico's economic policy over the past four years, and has recently been extended to January 1993. It has resulted in a drastic reduction of the inflation rate, from an annual rate of 159% in 1987 to 19.7% in 1989. Inflation rebounded to 29.9% in 1990 but was brought down to 18.5% in 1991 and is expected to be of 10% to 12% in 1992. At the same time, interest rates have fallen substatially to the present 17%, and the peso-dollar devaluation rate has been set at Mex$0.2 pesos a day or 2.4% per annum.

Along with the objective of consolidating the progress made in price stabilization, Mexico's macroeconomic policy in 1992 aims to reaffirm gradual and sustained economic recuperation, basically by establishing the necessary conditions to encourage national and foreign investment and by stimulating local demand,