1. BACKGROUND

Three events have been determinant in the recent growth in sales of industrial process control instruments and equipment: On the one hand, Mexico's trade liberalization policies, which have made the importation easier and relatively cheaper through the reduction in import tariffs and the elimination of prior import permits; secondly, the negotiations for a North American Free Trade Agreement, which will require the local industry to be more efficient in order to lower costs and improve the quality of its products, to be able to compete with suppliers of industrial products from abroad, both domestically and internationally; and finally, the growth of domestic consumption as a result of Mexico's economic recovery. These three factors, in particular the last two, will continue to be influential in shaping the Mexican market for process controls, and translate into future growth.

Imports have traditionally played an important role in this market. In 1986, they represented approximately 75% of total apparent consumption. At present, they are estimated to cover 83% of the market. This has been the result of a trend towards an increasing preference for electronic or high technology instruments, replacing manual instruments and equipment, together with a decrease in the use of non-specific process controls in favor of more integrated and readily identifiable systems. This again, will represent increased sales for foreign companies based in Mexico or wishing to enter or expand their participation in the Mexican market.

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 resulted in a drastic reduction of the inflation rate, from an annual rate of 159.2% in 1987 to 51.7% in 1988 and 19.7% in 1989. Inflation rebounded to 29.9% in 1990 but the Mexican government aims to achieve a 14% inflation rate in 1991, which seems a reasonable estimate based on an annual inflation rate of 13.3% as of October 1991. Along with the objective of consolidating the progress made in price stabilization, Mexico's macroeconomic policy in the short run 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.

After the 1986 recession, Mexico's gross domestic product (GDP) increased a moderate 1.7% in 1987 and an additional 1.3% in 1988.