

## THE DRIVE TO MODERNIZE

Mexico became a member of the GATT in 1986, and beginning in the late 1980s, the government embarked on a sweeping program of economic transformation. Tariffs were lowered, and non-tariff trade barriers were dropped in an effort to foster modernization of Mexican industry. Policies of privatization and deregulation opened up more and more sectors of the economy to global competition.

As one of the principal providers of the technology needed for this modernization, the machinery and equipment industry in Mexico has grown substantially, consistently outperforming GDP. This trend is expected to continue as industry adapts to the newly-competitive environment, especially under the NAFTA.

The demand for custom tools is derived from the use of machine tools to fabricate product shapes. The volume of custom tools consumed by a manufacturing industry is a function of the type of machinery and materials used and the volume and variety of shapes involved.

As new machinery has been introduced, the demand for custom tools and custom toolmaking has risen accordingly. The two biggest users of custom tools are the metalworking and plastics industries. In metalworking, numerically controlled machinery is still in its infancy. The need to improve product quality and consistency has created a strong interest in numerical control, but capital costs have been an obstacle for many smaller companies. As a result, there is a promising market niche for products that adapt existing conventional machine tools to numeric control.

The plastics industry is also modernizing and at the same time adapting to demands for new products. Mexico is far behind the rest of North America in its per capita consumption of plastics, and this sub-sector therefore has considerable growth potential. New production

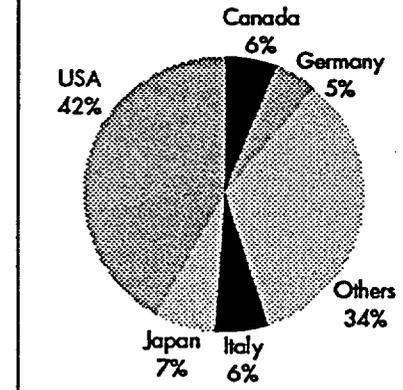
methods have been introduced as injection methods are gradually being replaced by extrusion and blowing. New plastic resins, technical plastics and engineering resins are rapidly growing in popularity. All of these developments lead to growing demands for custom tools.

## THE ROLE OF IMPORTS

Mexico is highly dependent on foreign suppliers for the custom tools needed to modernize its manufacturing sector. Domestic production grew rapidly from US \$17 million in 1991 to an estimated US \$39 million in 1994, but this was still less than 10 percent of consumption. Domestic production is divided among more than 600 establishments, and is limited, for the most part, to very basic products. Mexico exports only very small quantities of custom tools.

Canada's exports of custom tools to Mexico rose from US \$8.5 million in 1992 to almost US \$14 million in 1993. Canada's share of the import market fell slightly in 1993 to about six percent. The market has traditionally been dominated by the United States, Germany, Italy and Japan but their shares all fell in 1993, reflecting strong performances by new competitors entering the market.

## CUSTOM TOOLS IMPORT MARKET SHARES, 1993

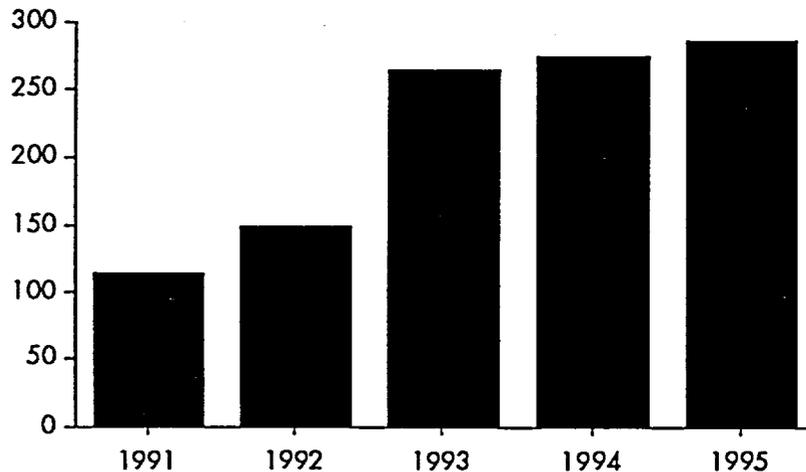


## CUSTOMERS IN THE METALWORKING INDUSTRY

The volume of production in the Mexican metalworking industry declined in 1992 and 1993 as a result of an overall deceleration in economic growth. As a consequence, purchases of machine tools fell by about 12 percent in 1993. This industry is highly sensitive to the health of the economy, especially the automotive and capital goods industries. GDP growth fell from 3.6 percent in 1991 to 2.5 percent in 1992, and 2.8 percent in 1993. GDP growth for 1994 is projected at 3.6 percent.

## THE MEXICAN CUSTOM TOOLS MARKET, 1991 TO 1995

US \$ millions



Source: Canadian Embassy in Mexico.

