

1. BACKGROUND

Forestry is an old tradition in Mexico. Since before the Spanish conquest, the Indian population has relied on Mexico's vast forests for their food, protection and clothing.

During the 16th century, the first regulatory measures were taken to avoid the destruction of forests. These included limitations on wood-cutting and primitive reforestation measures.

During the 17th century, the exploitation of mahogany, cedar and oak was reserved to the Spanish Crown. British and Dutch invasions of tropical forests, however, were not uncommon.

The massive destruction of Mexico's forests began with the flourishing mining industry, led by the Spanish conquerors. The mines were built and reinforced with wood and wood fueled the processing of the ore. The indigenous population, deprived of their lands, increasingly moved into the wooded areas, cutting them down to grow crops.

After independence, regulatory measures were taken to protect the forests and to control the manufacture of wood products. During the 19th century, the use of fine woods was subject to permits. In order to avoid the excessive exploitation of local forests, wood was freely imported. In addition, a number of measures were taken to further protect the forests: the first inventory of existing resources was made, the cutting and conservation of forests was regulated, and national parks were created.

Efforts have continued into the 20th century to regulate forestry and to preserve existing resources. In 1926, the first *Forestry Law* was passed by President Plutarco Elías Calles. Its purpose was to officially regulate Mexican forestry. The law was reformed in 1942 and again during the administration of President Miguel Alemán (1945-1950). In 1960, President Adolfo López Mateos authorized a new forestry law to meet the requirements of the times. In April 1986, a new *Forestry Law* came into effect, followed, in July 1988, by the Regulations to the *Forestry Law*.

Although Mexico's forests have been commercially exploited during the last 70 years, the industry is still considered in its infancy. Despite the country's rich resources in this sector, low yields and investment insecurity have often made imports

of lumber and cellulose easier and cheaper than local products. At the same time, at the margin of existing regulations, deforestation is progressing at a fast pace.

The National Development Plan, which outlines President Salinas de Gortari's 1989-1994 policy, calls for an increased supply of forestry products to meet local demand while maintaining sustainable development. This implies the reforestation of damaged areas and the thorough application of existing regulations. The policy also calls for the modernization of the forestry-related industry, the creation of a new road infrastructure to reach the forests, the preparation of a new inventory of existing resources and the decentralization of technical services.

The forestry sector has the potential of becoming an important contributor to Mexico's economy. Considerable financial and technical assistance, however, will be required to improve efficiency and administration, and in the manufacture and marketing of wood products. This translates into increased opportunities for Canadian firms.

2. MEXICAN ECONOMY

With the objective of reducing the inflation rate, the Mexican authorities implemented a stabilization program in 1988, called the Economic Solidarity Pact. The Pact featured traditional austerity measures, entailing tight fiscal and monetary policies, and unorthodox measures, such as price, wage and exchange rate controls. This program, the cornerstone of Mexico's economic policy, has resulted in a drastic reduction of the inflation rate, from an annual rate of 159.2 percent in 1987 to 51.7 percent in 1988 and 19.7 percent in 1989. Inflation rebounded to 29.9 percent in 1990 but the Mexican government aims to achieve a 14 percent inflation rate in 1991. This seems a reasonable estimate based on an annual inflation rate of 13.3 percent as of October 1991.

Mexico's macroeconomic policy in the short run aims to reaffirm gradual and sustained economic recuperation by establishing the conditions necessary to encourage national and foreign investment, and by stimulating local demand.

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