peso, creating an enormous opportunity. Many Mexican firms cannot meet the quality standards demanded by export markets. They will have to modernize in order to take advantage of the surge in export opportunities. As a result, Canadian expertise with short, flexible production runs of fashion-oriented clothing is likely to lead to growing opportunities for joint ventures. In the current environment, however, the Canadian partner should be prepared to provide its own source of financing.

Canadian exports of apparel products to Mexico totalled only about US $2.5 million in 1993, a tiny fraction of Mexico's total apparel imports of US $1.3 billion. Nonetheless, exports have risen sharply over the past few years, and recent developments point to new opportunities for Canadian producers, especially in niche markets such as private labels. While the devaluation of the peso has cut consumer spending power, it has also opened up opportunities for companies that can provide a lower-cost alternative for high-priced European fashion goods.

INDUSTRY STRUCTURE

At the end of 1992, the Mexican apparel industry consisted of just over 13,000 firms which employed about 260,000 people. The 200 largest firms employ an average of about 500 workers each. Roughly 3,000 firms are classified as small or medium in size and they employ about half of the workers in the industry. The rest of the industry is made up of micro-enterprises typically employing three or four workers. These data exclude approximately 300 plants operating in the *maquiladora* zones.

Mexican textile firms are mostly family-owned, and traditionally, there has been very little vertical integration in the industry. Mexico's employment laws are partially responsible for this fragmented structure. The laws impose onerous burdens on employers when an employee is laid off or terminated. As a result, many larger firms subcontract work to small producers. These firms will often cut prices rather than lay off family members during economic downturns.

Nonetheless, increased competition is motivating trends towards both vertical integration and foreign ownership. Textile production is much more capital intensive than apparel manufacturing, so textile producers face greater challenges from open competition. They need to modernize and improve product quality, but are hard-pressed to find the capital they need. One solution is to initiate joint ventures with apparel manufacturers. Such integration moves the textile producer closer to the market, and the wider margins enjoyed by clothing products create a source of financing for modernization.

For their part, apparel manufacturers, faced with poor-quality domestic supplies, are increasingly entering into joint ventures with textile firms. Many of the textiles companies that have integrated downstream are those which specialize in cotton knits and which now make T-shirts and underwear. This includes *Avante Textil, Omnitex, Yasbek, Rovitex, Textiles Santa Julia*, and Sara Lee.

Much of the technology in use in the Mexican textile sector is considered obsolete. Internal capital is scarce as a result of the economic crisis instigated by the devaluation of the peso, and because foreign competition has kept earnings low. External capital is hard to obtain, especially for firms with no export earnings. Annual interest on peso loans was more than 40 percent in mid-1995.

The fragmented industrial structure and a perception that cheap labour is a substitute for modem technology have also been impediments to modernization. Many companies, especially the smaller ones, have difficulty obtaining modem equipment which is hard to find in Mexico.

IMPORTS

Estimates of Mexico's apparel production and imports vary widely. According to the Statistics Canada World Trade Database, imports of all apparel reached US $1.3 billion in 1993, which was about one-quarter of the market. Between 1990 and 1993, apparel imports increased by an average of 30 percent per year. The United States dominates the market for imported apparel, followed by Korea.

Canada's apparel exports to Mexico increased from less than US $500,000 in 1990 to about US $2.5 million in 1993. This is roughly two-tenths of 1 percent of the import market. Undergarments and outerwear were the fastest-growing products.

COMPETITION

MEXICAN APPAREL PRODUCERS

Most Mexican apparel firms are family-owned. *Avante Textil* is the only publicly-traded producer in Mexico. Recent trends are towards greater foreign investment in the form of joint ventures, especially partnerships with textile manufacturers. Examples include Sara Lee's acquisition of *Rinbros, Estelar* and *Mayorca*, as well as joint ventures involving Jantzen/*CYDSA* and *Cone Mills/Parras*.

FOREIGN COMPETITORS

The principal competitors for Mexican apparel imports are the United States, Korea and Japan. However, Hong Kong, Italy and China also export significant quantities of clothing to Mexico.