1. BACKGROUND

When the Spaniards first visited the market of Tlaltelolco in the early 16th century, they were greatly surprised at the amount and variety of food products sold there, ranging from natural produce to semi-prepared items, such as chocolate and dried meat, and ready-to-serve dishes. The Aztecs processed their foods for the local market only. Although the Spaniards realized that, in order to endure the great distance between settlements in Mexico, foodstuffs would have to be cured or treated in some way and packaged, no organized food processing and packaging industry was ever developed in Mexico during colonial times. Food processing and packaging came to the country much later on, with imports of technology and equipment from Europe and the United States.

Mexico has since then been very dependent on the importation of capital goods and this market sector is not an exception. The participation of imports in total consumption has been increasing in response to more liberal trade regulations, general economic growth, reduced inflation and devaluation rates, and a demand backlog for new machinery that had built-up since the 1982 economic crisis. While imports represented 64% of total supply in 1987, or $104.5 million, by 1990, their share grew to 73.4% and they amounted to $267.3 million, reflecting an average annual growth rate of 37% during that three year period. Further, the import share of the market is expected to increase from the present 78% to 81% in 1992. Total apparent consumption of food processing and packaging machinery and equipment has also undergone a rapid growth, increasing from $159.1 million in 1986 to the present $368.1 million. Although such high growth patterns are not expected to continue in the years to come, an average 7% growth rate is estimated for the 1991-1994 period.

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% in 1987 to 51.7% in 1988 and 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. 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.