Figure 1.9
Major Exports
($US millions)

	1988	1989	1990
Crude oil	5,883	7,292	8,921
Automobiles	1,398	1,534	2,614
Automobiles, engines	1,367	1,366	1,274
Fresh vegetables	268	197	430
Tomatoes	243	199	429
Spare parts	443	397	393
Processing information machines	340	377	368
Cattle	203	212	349
Coffee grains	434	514	333
Iron bars	180	237	320
Gas, oil	50	91	309
Silver bars	318	347	301
Machinery spare parts	193	276	295
Manufactured iron or steel	233	254	273
Manufactured glass	235	237	258

Source: Bancomer, Economic Outlook of Mexico, 1991.

About two-thirds of Mexico's total exports go to the United States which supplies about three quarters of Mexico's imports. Despite efforts to diversify its trading relationships, Mexico's reliance on the U.S. has not decreased in recent years. The total value of two-way trade between the U.S. and Mexico for 1991 stood at $US 68 billion.

The Basis for North American Free Trade

The Canada-U.S. bilateral trading relationship is the largest in the world. Mexico follows Japan as the United States' third largest trading partner. Mexico is Canada's most important trading partner in Latin America. With the reform in Mexican tariffs and licencing regulations, and the removal of other non-tariff barriers, Canadian-Mexican trade grew by 88% in the first quarter of 1992.

Maquiladoras

A relatively new and highly significant element in the Mexican economy is the emergence of the *maquiladoras*, the in-bond manufacturing establishments that have sprung up to serve the needs of foreign companies. Conceived in 1965 as an element of Mexico's Border Industrialization Plan, *maquiladoras* were intended to create jobs along the U.S.-Mexican border. The government's aim was to absorb excess human resources left unemployed after the 1964 suspension of the Bracero program which had allowed Mexican workers to enter the U.S. on a seasonal basis.

The Spanish word *maquilla* refers to the portion of cornmeal a miller retains as payment for grinding a farmer's grains. The *maquiladoras*, or foreign in-bond processing plants, enjoy duty free import of the machinery, equipment, parts, raw materials and other components used in the assembly or manufacture of semi-finished or finished products. Finished products, once assembled or manufactured, are exported back to the country of origin or to a third country. Mexico's payoff or, *maquilla*, takes the form of critically needed skilled jobs and increasing industrialization.

The program has permitted foreign companies to take advantage of Mexico's highly competitive labour costs while enabling the Mexican economy to reap the benefits of the value-added involved in assembly and processing. U.S. companies became heavily involved in the 1970s when the combination of a devalued peso and increased competition from Asian-produced goods made low-cost manufacturing in Mexico an attractive means of remaining competitive. As a result, the program has blossomed. In just four years between 1986 and 1990, the contribution of the *maquiladoras* to Mexico's foreign exchange earnings has risen by about 50 percent (see Figure 1.10). In 1990, *maquiladoras* generated $US3.6 billion in value-added foreign exchange earnings.

Figure 1.10
Structure of Mexico's Foreign Exchange Earnings
(in percent)

	1986	1990
Exports	66.3	59.4
Oil	26.1	19.8
Manufactures	29.4	32.8
Others	10.8	6.8
Tourism	7.4	7.5
Border transactions	5.0	4.3
Maquiladoras	**5.4**	**8.1**
Others	15.9	20.7

Source: Banco de Mexico.