

sustain this policy. Over the Christmas holidays of 1994, the three-week-old government stopped supporting the peso. Within days, it had lost one-third of its value relative to the American dollar. Subsequent market adjustments have left it at less than half of its 1994 value.

These dramatic events triggered a serious economic crisis, as higher import prices cascaded through the economy. Mexico's gross domestic product (GDP) fell by about 6 percent during 1995. Inflation surged from 7 percent in 1994 to more than 50 percent in 1995. The market for imports was profoundly affected by their increased cost in terms of pesos.

The Mexican economy is now on the way to recovery. The devaluation shock has mostly worked its way through the system. In the view of most observers, the problems were caused by the mismanagement of a predictable devaluation, not by any fundamental weakness in the economy. Predictions for 1996 are for inflation in the 20 percent range and economic growth between 1 and 3 percent. Although this level of growth will not restore industrial output to 1994 levels, it indicates that the worst of the crisis is over. And from the foreign exporter's perspective, continuing internal inflation is a positive factor. The devaluation caused import prices to surge almost immediately. But it is taking time for the inflationary effects to work their way through the cost structures of domestic competitors. Imports are already regaining competitiveness in some sectors and this trend is expected to continue.

For the Canadian exporter with a medium-term strategy, Mexico continues to offer excellent opportunities. It has become one of the most open economies in Latin America. Competitive pressures are forcing Mexican manufacturers to simultaneously increase their efficiency and

product quality. Experience has shown that joint ventures with foreign companies are one of the best ways to accomplish those objectives. Moreover, Mexico continues to enjoy the advantages of a large domestic market, as well as a young population and an abundant and cost-competitive labour supply.

In the longer term, Mexico can provide an excellent base for Canadian companies interested in expanding into the rest of Latin America. In particular, Canada's bilateral negotiations with Chile, which began in late 1995, are likely to lead to new

opportunities there. Eventually, plans for liberalized trade on a hemispheric basis are likely to bear fruit. Companies with an established base in Mexico will be in an excellent position to move into these emerging markets.

## MEXICO: THE CHALLENGES

Canadian companies taking advantage of opportunities in Mexico face significant challenges. Although it is a large market, Mexico's population is mostly poor. Only about one-fifth of all Mexicans are considered poten-

### FACTS ABOUT MEXICO

<b>Land area:</b>	With a total area of just under two million square kilometres, Mexico is the thirteenth largest country in the world. About 19 percent of the total area is arable and 29 percent is forested.			
<b>Population:</b>	At the time of the last census in 1990, the population was 81.2 million. According to <i>Instituto Nacional de Estadística, Geografía e Informática (INEGI)</i> , National Institute for Statistics, Geography and Informatics estimates, it was about 92 million in 1995. About half the population is under the age of 20 and one million people enter the labour force every year. Population growth has moderated to about 2 percent annually, down from an annual average of 3.5 percent in the 1970s and 1980s.			
<b>Urbanization:</b>	Almost 60 percent of the population lives in cities of 15,000 or more. The largest cities are:			
	Mexico City	20,000,000	León	850,000
	Guadalajara	3,500,000	Ciudad Juárez	775,000
	Monterrey	3,400,000	Tijuana	650,000
	Puebla	1,200,000	Torreón	610,000
<b>Political structure:</b>	The Federal republic is comprised of 31 states and one federal district (Mexico City), which is the seat of the federal government. The legislative branch consists of two houses: the Senate (128 seats) and the Chamber of Deputies (500 members). The President serves as head of state and government.			
<b>Climate:</b>	The country is tropical in the south, temperate in the central highlands and dry to the north.			
<b>Official language:</b>	Spanish.			
<b>System of measurement:</b>	Metric.			
<b>Time:</b>	Mexico City is in the Central Standard Time Zone (GMT-6).			

Source: *Acerca De México, Instituto Nacional de Estadística, Geografía e Informática (INEGI)*, National Institute for Statistics, Geography and Informatics, <http://www.inegi.gob.mx/homepages/acerca/>.