CANADEXPORT

Focus on Mexico

Mexico — On the Road to Recovery

Mexico has become one of the most open economies in Latin America. Its strategic geographic location with the United States and coastlines facing Europe and Asia is a natural gateway into Latin America, a region that is expected to become one of the largest markets in the world in the next quarter-century.

A series of reforms in Mexico has seen trade barriers dismantled, state subsidies cut, regulatory controls abandoned, foreign investment encouraged and state enterprises eliminated or turned over to the private sector.

The 1994 North American Free Trade Agreement (NAFTA), which put Canada on a special trade footing with Mexico, was a high point of that economic transformation.

Unfortunately, the ensuing expansion and modernization also had its negative effects — as a rising current account deficit and large short-term debt put the Mexican peso under heavy pressure.

The Peso Crisis
As 1994 closed, Mexico's new President, Ernesto Zedillo, confronted a major crisis. When the new government attempted to peg its overvalued peso at a slightly lower rate, foreign investors quickly dumped it. Making matters worse, investors could suddenly see that nearly US$30 billion in dollar-denominated short-term loans would soon come due, and Mexico was short on money. The government let the peso float, and it plunged downward.

These events triggered a serious economic crisis. Mexico's gross domestic product (GDP) fell by about 7 per cent during 1995. Consumer spending was slashed, with imports of consumer products declining by 50 per cent. Inflation, for a time, surged past the 50-per-cent rate. Interest rates hit 60 per cent and more. Over a million jobs vanished.

The Zedillo administration reined in spending, raised taxes and hastened the privatization process. Its tough action produced a fiscal surplus, an easing of interest rates and a speedy resumption of borrowing abroad. It paid off 94 per cent of its worrisome debt, and obtained more manageable loans.

The economy, however, is recovering. In 1995, Mexico posted a merchandise trade surplus of US$7.4 billion — compared to a trade deficit of US$8.5 billion in 1994. Growth of between 1 per cent and 3 per cent is forecast for 1996, with inflation rates in the 20-per-cent range. Imports are now regaining their competitiveness in the economy, and the federal budget for 1996 is directing more public funds toward capital spending.

Modernizing and Restructuring the Economy
Mexico's modernization and restructuring effort is moving ahead despite present economic difficulties. The bulk of the required investment comes from the private sector, as business presses to position itself with new equipment, new infrastructure and, above all, new technology, to compete in the domestic marketplace and abroad.

Much of the investment is occurring in areas where Canada has a special, or growing expertise: in telecommunications, transport, advanced manufacturing equipment, environmental technology, agricultural systems. Much more will come, too, in petroleum-related fields such as pipelines or petrochemicals, as the government looks to sell off some subsidiary operations of PEMEX, Mexico's state-owned oil and gas colossus.

THE LATIN AMERICA SERIES

February 19	*Brazil, Argentina, Colombia, Peru*
March 4	*Caribbean*
March 18	*Chile*
April 15	**Mexico**