driven growth in the industry, it reduces the national value requirement significantly, from 75% to 36%. It eliminates the constraint to include specific nationally produced parts that were considered strategic for integration. At the same time, auto parts firms must maintain a 30% level of local content. Also, it grants complete freedom in decision-making to the companies as to the lines and models of production. In the case of buse and truck manufacture, producers can also decide which vehicles to make and the import-export balance is $1 to $1 and local value added must be 40%. The transition period for buses is in 1990, for tractor trailers 1990-1992 and for heavy trucks 1993. After that, local value requirements will be dropped and foreign producers may qualify for imports. This will bring about strong comptetition from large foreign, in particular U.S., manufacturers such as General Motors.

It is worth mentioning that to allow imports of automobiles is the most innovative measure and, even though it certainly implies an opening, it also maintains certain restrictions related to minimum local content requirements, the partial ban on import of used cars, which are presently only alowed along the Mexico-U.S. boreder, and certain investment and exporting performance requirements of the locally manufacturing companies.

The new decree integrates Mexico to a general globalization process seen in the automotive industry worldwide, which stresses liberal trade policies and the need for an increased competitiveness of the domestic automobile industry. In order to achieve this, imports of auto parts are allowed in larger quantities, as national integration requirements are reduced. This, in turn, is expected to foster exports of Mexican products at competitive prices and to attract foreign investors into the Mexican market to take advantage of these new conditions. These events create a very favorable scenery for the developmentof the auto parts industry in Mexico. The export orientation of the automotive industry as a whole and that of auto parts in particular, will certainly bring about a persistent growth both in production and imports.

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 159.2% in 1987 to 51.7% in 1988 and 19.7% in 1989. Inflation rebounded to 29.9% in 1990 but the Mexican government aims to achieve a 14% inflation rate in 1991, which seems a reasonable estimate based on an annual inflation rate of 13.3% as of October