

## 2. ECONOMIC ENVIRONMENT

Over the past two years, Mexican economic policy has featured a tough anti-inflationary program called the Economic Solidarity Pact, combining traditional austerity measures (tight fiscal and monetary policies) and unorthodox measures (price, wage and exchange rate controls). The program has been successful in reducing inflation from an annual 18.2% in 1987 to 5.7% in 1988 and 19.7% in 1989. An 18% rate is expected for 1990. The general criteria for Mexico's macroeconomic policy in 1990 are to consolidate and finally the progress made in price stabilization, to reaffirm gradual and sustained economic reorganization, to increase investment, both national and foreign, and to improve living standards.

Mexico's gross domestic product (GDP) after increasing 5.7% and 2.7% during 1984 and 1985 respectively, diminished by 2.5% in 1986. In 1987, it increased a moderate 1.5% and an additional 1.1% in 1988. Domestic economic activity recovered for the third consecutive year in 1989 with an estimated growth rate of 3.0% to reach \$200 billion (-). With an 84.8 million population per capita GDP is estimated at Cdn\$2,550. During the 1980-1994 period GDP is expected to maintain an average annual growth rate of 2.7-3.7%.

In an effort to revitalize and open the Mexican economy, the Mexican Government undertook a series of structural changes, including the accession to the General Agreement on Tariffs and Trade (GATT) on August 24, 1986 leading to an extensive trade liberalization process. Import barriers were eliminated on all but 32% of the total 11,900 tariff lines based on the Harmonized System adopted as of July 1, 1988. Official import prices are no longer applicable, nor the 5% export development tax and import duties were lowered from a maximum of 100% in 1983 to 20% in 1988. The automotive and computer industries are also being opened up to allow free entry.

According to official data from the Mexican Secretariat of Commerce and Industrial Development (SECOFI) Mexico's trade balance in 1989 dropped to a \$44.8 million deficit, down from a surplus of \$1.75 billion in 1988 and \$8.4 billion in 1987. Total exports increased 10.7% in 1989, from \$20.3 billion in 1988 to \$22.8 billion. Imports increased \$3.9% from \$18.9 billion to \$22.8 billion, having steady increase 4.8% from \$12.2 billion in 1988. During 1989, imports of consumer products grew 8.2%, while those of intermediate goods increased by 17% and capital goods by 18%.

Total Mexican imports from Canada increased 5% in 1989 and amounted to Cdn\$2,503 million, with total Mexican exports to Canada valued at Cdn\$1,688 million. Mexico and Canada have traditionally been strong trading partners. According to Mexican figures, in 1988, 1.9% of Mexico's exports came from Canada, while 1.2% of its exports were to Canada. This makes Canada Mexico's fifth largest exporter and sixth largest importer.

1. NOTE: All values in this report, unless otherwise stated, in Mexican pesos. Canadian dollar (Cdn.) are quoted in United States dollar equivalents.