related to the exporting segment acquired a greater international dimension than that of the additional segment.

The 1985 decree would be the last attempt to accomplish a taken of import substitution and export orientation. The industry's structure in 1990 is the evident result of the needs of the companies to link their strategy with the U.S. market.

The new industrial policy for this industry was defined in the "Development and Modernization for the Automobile Industry" decree, issued on December 11, 1989. Assuming the fact that trade with the United States has 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. Also, it grants complete freedom in decision-making to the companies as to the lines and models of production, and it allows firms who achieve a positive trade balance to import automobiles. Also, automobiles may be imported when the price of the equivalent car produced in Mexico is above its international price.

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 the investment and exporting performance of the locally manufacturing companies.

The new decree integrates Mexico to a general globalization process seen in the automotive industry worldwide, which embraces 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 scenary for the development of 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, called the Economic Solidarity Pact, which features traditional austerity measures, emphasizing 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 three years and has resulted in a drastic reduction of the inflation rate, from an annual rate of 159% in 1987 to 52% in 1989 and 19.7% in 1989. An 18% rate is expected in 1990. Along with the objective of consolidating the progress made in price stabilization, Mexico's macroeconomic policy in 1990 aims to realize gradual and sustained economic recuperation, basically by establishing the necessary conditions to encourage national and foreign investment. In 1991, the Mexican authorities expect to reach an inflation rate equivalent to international levels and to relax price controls.

Mexico's gross domestic product (GDP), after increasing 3.7% and 2.7% during 1984 and 1985 respectively, diminished by 3.5% in 1986. In 1987, it increased a modicum 1.5% and an additional 1.1% in 1988. Domestic economic activity recovered for the