

pany operates design centres in Mexico City, Guadalajara, Ciudad Juárez and Monterrey. In addition, Vexon continues to represent foreign furniture manufacturers, including Networks Modular, Guildord, Trendway, Allsteel Hardwood House and Executive Furniture.

Many smaller furniture manufacturers have not been able to take advantage of Mexico's export boom because they lack the technology and the capital to modernize and expand. Some of them are potential joint venture partners for Canadian manufacturers. With Canadian expertise, they could move quickly to take advantage of the opportunities. In return, they can provide Canadian companies with access to a substantial domestic market.

## TRENDS AND OPPORTUNITIES

The description of the structure of Mexico's furniture manufacturing industry is based on the most recent industrial census, which is referred to as the 1994 census, but which is actually based on 1993 data. Important structural changes have occurred since then. Many manufacturers have adapted to increased foreign competition and have increased their export orientation. This is driving a trend towards vertical integration and modernization.

The Mexican furniture industry developed in a protected environment. For many decades, government policies were geared to import displacement and employment creation. The industry was protected by tariffs of up to 100 percent and import permits were required for some products. These policies fostered the use of labour-intensive techniques and created considerable employment, but they also led to the development of a very inefficient domestic industry.

In the mid-1980s, the government reversed these policies and initiated a sweeping program of economic reforms. The maximum tariff was reduced to 20 percent, import licences were eliminated, and Mexico became a member of the General Agreement on Tariffs and Trade (GATT) in 1986. With the advent of the North American Free Trade Agreement (NAFTA) in 1994, tariffs within North America fell even further and will be entirely phased out over the next few years.

According to an official of the Furniture Council of *Cámara Nacional de la Industria de la Transformación (Canacintra)*, National Chamber of the Manufacturing Industry, the *apertura*, as the reforms were called, had a devastating effect on the furniture industry because tariffs were lower on finished products than on furniture components. Thus, he says, there was a larger incentive to market than to manufacture and many domestic manufacturers went out of business.

Other companies survived by modernizing and gearing up for export production. Some of the larger companies bought out smaller ones as the industry rationalized itself for the new environment. New, modern manufacturing facilities were built. Exports rose steadily, from US \$79 million in 1991 to US \$841 million in 1994. In addition, many Mexican manufacturers rounded out their product lines with exclusive representation deals for American manufacturers.

The situation changed drastically in the last days of 1994, when the government of President Ernesto Zedillo, in office for only about three weeks, abruptly stopped supporting the peso. Within a few weeks the currency fell to half its former value. The effect on the domestic market was devastating. National gross domestic product (GDP) fell by

7 percent in 1995. For the most part, furniture is a postponable expenditure and some large furniture manufacturers reported sales drops of 50 percent or more.

Unlike many other industries, the furniture sector did not substantially increase its export sales as a result of the devaluation. While total non-petroleum exports rose by more than one-third in 1995, furniture exports grew by only about 5 percent. One reason was that the modern manufacturers were already exporting a large proportion of their output. And for the most part, smaller companies lacked the technology and capital to meet export demands.

This situation is creating opportunities for joint ventures with Canadian companies. Medium-sized Mexican companies could take advantage of strong export markets as well as recovering domestic markets if they could acquire modern technology. Mexican furniture manufacturers also have established channels of distribution, which could be used to market Canadian furniture through partnership agreements.

## REGULATORY ENVIRONMENT

The Mexican furniture industry is not subject to any special forms of government regulation. As a retail product, residential furniture is subject to Mexico's system of consumer protection regulations. These include labelling regulations as well as quality and safety standards for some specific products.

Both the labelling and quality standards are issued in the form of *Normas Oficiales Mexicanas (NOMs)*, official standards. They are issued mainly by the *Secretaría de Comercio y Fomento Industrial (Secofi)*, Secretariat of Commerce and Industrial Development. Within Secofi, official