

On the other hand, since the late seventies, according to the changes that the automotive industry had already been experiencing in the world, the American firms used a new strategy in Mexico, creating the first plants that would help them face the new competitive conditions in the U.S. market itself. These manufacturing plants, located in the North of Mexico, started operating in 1981 with the export of Chrysler "K" model engines to the United States. The vast majority of these assembly plants had technologically very sophisticated production systems and brought about a new tendency in the industry, by integrating it to the American market.

The 1983 "Rationalization of the Car Industry" decree attempted to mend previous years failures by stimulating exports through a pro-effective approach. In order to encourage higher volumes per model, it restricted the number of lines and models for the domestic market (3 in 1984, 2 in 1985 and 1 in 1986 and 1987) to bring about economies of scale and lower prices; assemblers were permitted to produce another line for export but production had to meet a decreasing scale of local content requirements; additionally, it reinforced the requirement for a positive trade balance, that is, to hold export levels above their import levels plus other foreign costs. During the time the decree was operational, exports attained a strong dynamism, increasing from \$550 million to \$3.3 billion between 1982 and 1987., since substantial cost savings could be obtained by producing a large volume of cars to qualify for lower local content requirements and to increase exports to meet the foreign exchange requirements.

This exporting process also gave way to higher imports, while the low activity of the internal market produced a reduced use of Mexican components. The supply systems related to the exporting segment acquired a greater international dimension than that of the traditional segment.

The 1983 decree would be the last attempt to accomplish a fusion 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 direction ended with the 1989 decree. The new industrial policy for this industry was defined in the "Development and Modernization for the Automobile Industry" decree, issued on December 11, 1989. It allows firms who exhibit a positive trade balance to import automobiles. The total number of vehicles imported into Mexico may not exceed 15% of the total number of vehicles sold in the domestic market (this figure rises to 20% in 1993). Also, automobiles may be imported when the price of the equivalent car produced in Mexico is above its international price. Each vehicle manufacturer must maintain a positive trade balance to be eligible for these imports. (For every dollar of import, exports must be \$2.50 in 1991, \$2 in 1992-1993 and \$1.75 in 1994). Assuming the fact that trade with the United States has