

AN INDUSTRY IN TRANSITION

MEXICAN CONSUMERS

While an estimated 60 percent of Mexicans are still poor by Canadian standards, the country's small but growing middle class is estimated at about 19 million people. Some 70 percent of Mexicans now live in urban areas, and over half are under 20 years of age. With an annual growth rate of 2 percent, Mexico's population is expected to top 100 million by the year 2000.

Processed food markets are growing rapidly — but so is foreign competition. Processors will have to modernize and restructure to maintain their market share.

Mexico's transformation from protectionism to a free market system has not been easy on the country's food processors. The industry developed under an umbrella of protectionism, but the government intervention that provided this protection also brought about price controls and a prohibitively high cost of capital. The same trade barriers that protected the industry from competition also blocked imports of advanced processing equipment. Under these circumstances, companies had neither the incentive nor the means to modernize.

Beginning in 1986, when it entered the General Agreement on Tariffs and Trade (GATT), Mexico began a sweeping program of economic reforms. The Salinas government, which came to power in December 1988, aggressively pursued policies of trade liberalization, privatization and deregulation.

The reforms opened up the economy to foreign competition and at the same time increased the demand for convenience products. Mexican food processors were caught in a difficult situation with insufficient capital to modernize, just as highly-efficient foreign competitors gained access to their market. The result was a rapid increase in import penetration of the Mexican market.

The availability of new imported products, coupled with the demands of a well-travelled and sophisticated middle-class, has put pressure on food processors to develop new, attractively-packaged product lines to compete with these imports. Increasing demand for consumer-ready food products is forecast to continue well into the next century. Mexican food processors are now restructuring in an effort to respond to this rapidly growing and increasingly sophisticated market.

Increased competition and rising demand, coupled with a reduction in the government's role in the economy, has led to a wave of corporate mergers. The larger, better capitalized companies have been able to expand their markets and rationalize their production processes through acquisitions. Other companies are building greenfield plants, often using technology acquired from American or European joint-venture partners.

Some Mexican food and beverage companies are moving aggressively into foreign markets, particularly in Latin America. They are looking for new machinery and equipment capable of producing the volume and the quality needed to compete.