

average rate of almost 3 percent. This compares with 2 percent average growth for the economy as a whole, and 2.5 percent for the manufacturing sector. The industry contracted by only 3.2 percent during the 1995 economic crisis, compared with a 6.9 percent reduction in gross domestic product (GDP). Most observers believe that growth rates will return to pre-crisis levels soon.

These developments have created potential opportunities for Canadian companies. Small- to medium-sized Mexican companies need help to adapt to increased competition and to meet export standards. Some are buying inputs from Canada and manufacturing intermediate and final products in Mexico through joint ventures with Canadian firms. The opportunities are greatest in the area of specialty chemicals where service, flexibility and innovation are more important than price. The commodity chemicals market is dominated by multinational corporations, which tend to have their operations rationalized on a North American or world basis.

THE MEXICAN CHEMICAL SECTOR

As it is understood in Canada, the chemical sector includes two principal subsectors: commodity chemicals and specialty chemicals. Commodity chemicals are traded on a global basis in a market dominated by multinational corporations. The main competitive factor is the availability of inexpensive feedstocks. Specialty chemicals are usually high value-added products and suppliers compete by offering extensive service and support. Typically the product is made in small batches to the specifications of individual customers. Canadian companies in this subsector tend to be small- to medium-sized enterprises (SMEs), focussed on regional markets.

These distinctions between product categories are not widely recognized in Mexico. Many specialty chemicals are not produced in large quantities because their technical sophistication is often beyond the capabilities of smaller firms. The multinationals that dominate the industry import many of their specialized requirements from subsidiaries in other countries. The Mexican chemical sector is less vertically integrated than its counterparts in Canada and the United States. Because of a long history of government control of the petrochemicals sector, private sector producers tend to concentrate on intermediate chemicals.

INDUSTRY STRUCTURE

The Mexican chemical sector is dominated by a small number of large companies. About 4,000 companies are registered as chemical producers with the *Cámara Nacional de la Industria de la Transformación (Canacintra)*, National Chamber of Manufacturing Industries. Almost 90 percent are classified as small or micro enterprises. There are 180 large firms and 251 medium-sized companies. The medium and large companies account for more than three-quarters of production. However, this is based on a very broad definition of chemicals, and most studies have concluded that there are fewer than 1,000 companies producing "chemical substances" as defined by the *Instituto Nacional de Estadística, Geografía e Informática (INEGI)*, National Institute for Statistics, Geography and Informatics. About 300 of these companies are medium or large.

The larger companies tend to have a strong export orientation, especially since the devaluation of the peso in December 1994. The industry as a whole exports about 40 percent of production, and some companies export as much as 90 percent.

Chemical Industry Activity, 1994

Percent of chemical industry GDP

Activity	%
Basic petrochemicals	9.1
Chemical substances	59.2
Oil by-products	10.0
Rubber and plastic products	21.7
Total	100.0

Source: *Instituto Nacional de Estadística, Geografía e Informática (INEGI)*, National Institute for Statistics, Geography and Informatics.

GDP shares by Branch, 1994

Percent of chemical substances GDP

Branch	%
Dyes, tints and pigments	3.3
Industrial gases	4.6
Basic chemical products	10.9
Synthetic resins	12.2
Synthetic and cellulose fibres	12.3
Soap, detergents, and related products	11.6
Perfumes, cosmetics and related products	17.4
Insecticides and pesticides	2.4
Paints, varnishes and lacquers	7.2
Waterproofing and related products	5.2
Inks and polishes	2.1
Other chemical products	10.8
Total	100.0

Source: *Instituto Nacional de Estadística, Geografía e Informática (INEGI)*, National Institute for Statistics, Geography and Informatics.

Small companies generally sell only in the domestic market. They tend to use outdated equipment and many of them have been hard-pressed to meet increasingly rigorous environmental standards. The industry is concentrated in the Valley of Mexico, with 60 percent of all production coming from the Federal District and the State of Mexico.