

THE APPAREL MARKET IN MEXICO

The Mexican apparel sector produces more than US \$5 billion worth of clothing annually. Until 1988, the industry was protected by formidable trade barriers and import penetration was relatively low. Traditionally, wealthy Mexicans have purchased designer clothing on trips abroad, while most consumers have been satisfied with domestic goods.

Due to rising incomes (at least up until the December, 1994 devaluation of the peso) and greater exposure to the international fashion scene, the demand for high-quality, fashion-oriented clothing has grown rapidly. This is especially true for young people, who are influenced by European and American media.

At the same time, Mexico's liberalized trade environment, especially since the North American Free Trade Agreement (NAFTA), has exposed domestic producers to intense competition. Many have not survived the challenge: both the number of companies and the number of people they employ has fallen. Imports have risen sharply as a result. Many Mexican apparel manufacturers have discovered that their low-wage, low-productivity configuration is no match for modern technology and skilled technical workers. Indeed, the most successful, large-scale Mexican producers are those which have modernized all facets of their operations.

As a result of this more competitive climate, Mexico's relative advantages are shifting. Its strengths are increasingly in the production of goods which enjoy economies of scale, such as jeans and underwear, and in products with a large component of high-quality hand-work, such as children's wear.

Mexican apparel and textile manufacturers have been scrambling to form partnerships with foreign companies to help them compete. Because of the devaluation of the peso, the demand for Mexican apparel exports has increased sharply. Many Mexican firms, however, cannot meet the quality standards demanded by export markets. They must modernize in order to take advantage of the surge in export opportunities. Canadian expertise with its short, flexible production runs of fashion-oriented clothing will probably develop into opportunities for joint ventures in Mexico. In the current environment, however, the Canadian partner should be prepared to provide its own sources of financing.