2. ECONOMIC ENVIRONMENT

Over the past two years, Mexican economic policy has featured a tough anti-inflationary program called the Economic Solidarity Pact, combining traditional austerity measures (tight fiscal and monetary policies) and non orthodox measures (price, wage and exchange rate controls). The program has been successful in reducing inflation, from an annual 159.2% in 1987 to 51.7% in 1988 and 19.7% by 1989. The general criteria for Mexico's macroeconomic policy in 1990, are to consolidate and fortify the progress made in price stabilization, to reaffirm gradual and sustained economic recuperation, to increase investment, both national and foreign, and to improve living standards.

Mexico's gross domestic product (GDP), after increasing 3.7% and 2.7% during 1984 and 1985 respectively, diminished by 3.6% in 1986. In 1987, it increased a moderate 1.6% and an additional 1.4% in 1988. Domestic economic activity recovered for the third consecutive year in 1989 with a growth rate of 2.9% in 1989 to reach $200 billion (1). With an 84.5 million population, per capita GDP is estimated at $2,375. During the 1990-1994 period GDP is expected to maintain an average annual growth rate of 2%-3%.

In an effort to revitalize and open the Mexican economy, the Mexican Government undertook a series of structural changes, including the accession to the General Agreement on Tariffs and Trade (GATT) on August 24, 1986 leading to an extensive trade liberalization process: import permits were eliminated on all but 325 of the total 11,960 tariff items on the recently adopted Harmonized System. Official import prices are no longer applicable, nor the 5% export development tax, and the maximum import duty has been lowered from a maximum 100% in 1982 to 20% in January 1988. The automotive and computer industries have also been liberated.

Major changes were made in the Foreign Investment Law, which now allows direct foreign investment of up to 100% in several sectors of the economy, previuosly restricted to a minimum 51% Mexican ownership.

According to official data from the Mexican Secretariat of Commerce and Industrial Development (SECOFI), Mexico's previous trade surplus changed to a deficit of $1.7 billion in 1989. Total exports increased 10.7% totalling $22.7 billion, while imports increased 24% from $18.9 billion to $23.4 billion. Imports of consumer products increased 82%, while those of intermediate goods grew by 17% and capital goods by 18% in 1989. Total Mexican imports from Canada increased 24% in 1989 to Cdn$603 million. In 1989, total trade between Mexico and Canada was valued at Cdn$2,301 million: Cdn$603 million in the sale of Canadian goods and services to Mexico and Cdn$1,698 million in Canadian purchases from Mexico. Mexico and Canada have traditionally been strong trading partners. According to Mexican figures, in 1989, 1.9% of Mexico's imports came from Canada, while 1.3% of its exports were to Canada. This makes Canada Mexico's fifth largest exporter and sixth largest importer.

---

1. NOTE: All values in this report, unless otherwise stated ($Mexican pesos, Canadian dollars Cdn$, etc.) are quoted in United States dollar equivalents.