

1. BACKGROUND

Following Mexico's accession to GATT in 1986, the Mexican Government has undertaken a major trade liberalization program, which has already brought about the elimination of the very restrictive prior import permit requirement on all but 198 items and the reduction of import duties, and which will eventually lead to the Free Trade Agreement between Mexico the United States and Canada. This, coupled with a growing economy, makes the Mexican market very attractive to foreign exporters wishing to take advantage of new opportunities in Mexico.

The total market for materials handling equipment has been increasing steadily in the past three years in response to the growth experienced by the economy as a whole. Total apparent consumption grew from \$190.6 million in 1988 to \$222.3 million in 1989 and \$253.7 million in 1990. Demand is expected to continue increasing at an average annual rate of 4%, following the upward trend in the Mexican economy and, in particular, the estimated growth in the largest end user sectors. Total demand is expected to reach \$286 million in 1994. Imports, which now represent 51% of the total market, are expected to grow at a faster rate than local production and amount to \$190 million in 1994.

Materials handling equipment is used in a large variety of sectors. All industrial and commercial plants and establishments use one type or another of materials handling equipment. Based on trade interviews, the largest end user sectors identified were the following industries: petroleum, electric energy, telecommunications, transportation, mining, steel, construction, cement, automotive, food and beverages and commercial establishments.

2. ECONOMIC ENVIRONMENT

With the objective of reducing the inflation rate, the Mexican authorities implemented a stabilization program in 1988, called the Economic Solidarity Pact, which features traditional austerity measures, entailing tight fiscal and monetary policies and unorthodox measures, such as price, wage and exchange rate controls. This program has been the cornerstone of Mexico's economic policy over the past four years and has resulted in a drastic reduction of the inflation rate, from an annual rate of 159.2% in 1987 to 51.7% in 1988 and 19.7% in 1989. Inflation rebounded to 29.9% in 1990 but the Mexican government aims to achieve a 14% inflation rate in 1991, which seems a reasonable estimate based on an annual inflation rate of 13.3% as of October 1991. Along with the objective of consolidating the progress made in price stabilization, Mexico's macroeconomic policy in the short run aims to reaffirm gradual and sustained economic recuperation, basically by establishing the necessary conditions to encourage national and foreign investment and by stimulating local demand.