THE MEXICAN BUSINESS ENVIRONMENT

Mexico is heavily dependent on imported technology. And "la crisis" has forced buyers to consider alternative technologies, products and services.

Mexico entered 1995 in a state of economic crisis. The country is undergoing profound political and economic change. President Carlos Salinas (1988 to 1994) implemented sweeping economic reforms and took Mexico into the Asia Pacific Economic Cooperation Council (APEC), the Organization for Economic Cooperation and Development (OECD) and the North American Free Trade Agreement (NAFTA). However, 1994 brought with it a dramatic series of events, most notably the January uprising in impoverished Chiapas State and two high-level assassinations. The new government of President Ernesto Zedillo came to power in December 1994 in an atmosphere of political and economic instability.

The Peso Crisis

The atmosphere deteriorated in the early days of the Zedillo administration. These political events exacerbated Mexico's economic problems. Trade liberalization and an over-valued peso had already led to a steep rise in the merchandise trade deficit. The atmosphere of political uncertainty compounded the problem by accelerating capital outflows. Foreign currency reserves fell to dangerously-low levels. Over the Christmas holidays of 1994, the government abruptly stopped supporting the peso. Within a few days, the currency had lost half of its value relative to the American dollar. The annual rate of inflation soared to more than 50 percent as higher import prices rippled through the economy. This in turn precipitated a sharp drop in industrial production and employment. The finance secretary was forced to resign. The government set in place a recessionary policy to stem burgeoning inflation. Within the first weeks of 1995, these events had become known in Mexico as *la crisis*.

Wealthy Mexicans and foreign portfolio investors accelerated the flight of capital as they tried to cut their losses. But for the most part, foreign direct investors and exporters adopted a wait-and-see attitude. By the beginning of 1996, the situation had begun to stabilize. Although overall gross domestic product (GDP) fell by 6.9 percent in 1995, exporting industries were booming, and Mexico posted a merchandise trade surplus of US $7.4 billion. This is compared to a trade deficit of US $18.5 billion in 1994. The current account balance improved to a surplus US $502 million in the third quarter of 1995, and a small surplus is predicted for the year as a whole. Estimates of GDP growth for 1996 range from about 1 percent to 3 percent. The inflation rate is targetted by the government to fall to 20.5 percent in 1996, although private sector forecasts are closer to 30 percent.