1. BACKGROUND

Mexican imports of consumer products have increased dramatically in the past four years as a result of Mexico's trade liberalization policies. In 1988, all import duties were reduced and many items which had been protected by permit requirements could now be imported.

This liberalization had a particularly strong effect on consumer products because these had been protected by the highest duties and by more import permit requirements. Total imports of consumer goods increased by 82.1 percent in 1989, 44.4 percent in 1990 and 10.6 percent in 1991. Consumer products, which in 1988 represented 10.2 percent of total imports, increased to 14.9 percent of the total in 1989, 16.3 percent in 1990 and then fell to 14.8 percent in 1991.

Mexican consumers are very much influenced by the U.S. market. Many have been to border communities and are familiar with U.S. products. This familiarity has created an attraction for imported products that has been further reinforced by the fact that these items were not available in Mexico because their import was either prohibited or non-competitive.

The trade liberalization resulted in a short-term boom that is giving way to a stabler growth pattern. More reasonable purchasing programs are developing that are mostly based on a close relationship between local chains and major foreign distributors or representatives. Consumers no longer favour imports over locally-made items only because they are imported. Rather, they shop for a price and quality balance. Brand and company names are also being recognized.

2. ECONOMIC ENVIRONMENT

In 1988, the Mexican government implemented the Economic Solidarity Pact with the objective of reducing the inflation rate. The Pact features traditional austerity measures, entailing tight fiscal and monetary policies, and unorthodox measures, such as price, wage and exchange rate controls. This program, which has been the cornerstone of Mexico's economic policy for the past four years and has recently been extended to January 1993, has resulted in a drastic reduction of the inflation rate from an annual rate of 159 percent in 1987 to 19.7 percent in 1989. Although inflation rebounded to 29.9 percent in 1990, it was brought down to 18.5 percent in 1991 and is expected to be 10 percent to 12 percent in 1992. At the same time, interest rates have fallen substantially to the present 17 percent (as of June 1992) and the peso-dollar devaluation rate has been set at Mex$0.2 pesos a day or 2.4 percent per annum.

Mexico's 1992 macroeconomic policy aims to consolidate the progress made with regard to price stabilization and to reaffirm gradual and sustained economic recuperation. This will be achieved by establishing the conditions necessary to encourage national and foreign investment and by stimulating local demand. The government also hopes to strengthen the improvement in living standards of the poorest segment of society by means of the Solidaridad program.

In 1989, domestic economic activity improved for the third consecutive year, following the 1986 recession, with a gross domestic product (GDP) growth rate of 3.1 percent. In 1990, the GDP increased by 3.9 percent and by another 3.6 percent in 1991 to reach $280.3 billion. In 1991, Mexico had a population of 82.8 million and per capita GDP was estimated at $3,385. Additionally, manufacturing output grew by 5.2 percent in 1990 and 3 percent in 1991 in real terms, private investment and consumption expanded by 13.6 percent and 5.2 percent respectively, and public investment was up by 12.8 percent. During the 1992-1994 period, the GDP is expected to maintain an average annual growth rate of 4 percent to 5 percent. Preliminary figures place the GDP growth at 4 percent for 1992.

In an effort to revitalize and open the Mexican economy, the Mexican government undertook a series of structural changes. These included the accession to the General Agreement on Tariffs and Trade (GATT) on August 24, 1986, which in turn led to an extensive trade liberalization process. Import permits were eliminated on all but 325 of the total 11,950 tariff items, as listed in the Harmonized System adopted in 1989. Official import prices and the 5 percent export development tax are no longer applicable. In addition, import duties were lowered from a maximum of 100 percent in 1982 to 20 percent in January 1988. The weighted average tariff rate is now 10.4 percent. The automotive and computer industries have also been liberalized through the elimination of prior import permits. The North American Free Trade Agreement will further