

1. BACKGROUND

Mexico has a high propensity to import capital goods, to the point that their importation tends to accelerate at 10 times the rate of increases in GDP. The origin of this behavior can be found in the import substitution policies adopted during the 1950's. These consisted in closing the borders to all imports of industrial raw materials and consumer goods in order to encourage their domestic production. On the other hand, the importation of machinery, equipment, their parts and components was permitted. This has resulted in a very high dependency on imported machinery and equipment, in particular of machine tools.

During 1982, the total market for machine tools and metalworking equipment in Mexico grew by almost 71% reflecting the accelerated rate of industrial development of the Mexican economy. Imports of machine tools reached their all time high of close to \$700 million. The following year, however, the market contracted significantly and imports decreased by 60% dropping to \$284 million. This decline was due to the general reduction in economic activity and to the virtual impossibility of obtaining dollars for private sector imports. Starting in 1984, as the economy began growing again and foreign exchange was made more readily available, imports resumed a halting but upward trend. Purchases of foreign made equipment increased 35% between 1983 and 1988.

Mexico is the 13th largest consumer of machine tools in the world but only the 33rd world producer. Imports have therefore played a very important role in this market, supplying an average 90% of total apparent consumption, estimated at \$450 million in 1989. This market is expected to grow eight percent per annum during the next five years as a result of government priorities in the petroleum, automotive and steel sectors and because modern machine tools and equipment will be needed, if Mexican manufacturers are to compete successfully with foreign goods both in the domestic and international markets. This market, as many others, will be much more open to foreign competition under the Mexican government's increasingly liberalized economic and trade policy.

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 heterodox 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 an 20.3% 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 an estimated growth rate of 2.9% in 1989 to reach \$200 billion (1). With an 84.5

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