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 forein 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 mucho more open to foreign competition under the Mexican government's increasingly liberalized economic and trade policy.

Mexico's accession to GATT in 1986 and the ensuing liberalization policies have brought about important changes in import policy, benefitting foreign exporters and opening new doors and opportunities for suppliers of machine tools, metalworking equipment and accessories. Tariffs have been lowered to a maximum 20%, the official price system has been totally eliminated and import permits are now required on only 325 of the total 11,950 items on the recently adopted Harmonized System of Tariff Nomenclature, none of which are applicable to this industry.