

II. Economy and Foreign Trade

Economy in Transition

In recent years, the Mexican economy has undergone unprecedented changes. Started under the presidency of Miguel de la Madrid, the economic policy of openness was pursued and accelerated under the Salinas de Gortari government. The protectionist policy and the strong hold of the state on the economy have now been replaced by policies of modernization, liberalization and deregulation.

The Mexican government has implemented a series of measures to stimulate the economy and carry out structural adjustment. Through its Pact for Stability and Economic Growth (PECE, or *El Pacto*), it has brought inflation under control. Mexico's inflation rate dropped from 160 percent in 1987 to 10 percent in 1993. In 1986, Mexico joined the General Agreement on Tariffs and Trade (GATT), reducing trade barriers and opening the economy to international competition. The government has liberated foreign investment regulations to encourage the inflow of investment capital, opening up many sectors previously limited to domestic participation. In 1993, US\$30 billion in new foreign investment flowed into Mexico.

The Government of Mexico has also been very active with its policy of privatization. A large number of previously state-owned enterprises have been sold to private investors, reducing the government's participation in many strategic areas. The number of public companies has fallen from 1155 in 1982 to 210 at the end of 1993. Still, government ownership of companies in key areas of national interest including oil and gas (PEMEX) and electricity (CFE) make it an influential purchaser of goods and services in these sectors.

Mexico joined with Canada and the United States in the North American Free Trade Agreement (NAFTA) in 1994. The country has also formulated trade agreements with a number of Latin American countries. The G-3 trade group was formed in 1990 to develop a broad agreement on trade and investment among Mexico, Colombia and Venezuela. A Free Trade Agreement with Costa Rica was finalized in April 1994.