THE NEW REALITY FOR MEXICAN MANUFACTURERS

With the cost of imported machinery nearly doubling by the devaluation of the peso, and with interest rates exceeding 80 percent, "export or perish" is the new reality for many Mexican manufacturers.

Beginning in the late 1980s, the government of Mexico launched a sweeping series of economic reforms including new policies of trade liberalization, deregulation and privatization. As the industrial transformation took hold, Mexican manufacturers scrambled to modernize. Larger firms took over small family-owned enterprises as industry rationalized to meet the influx of foreign competition. Imports of industrial automation equipment doubled in the two years ending in 1993, even though an economic recession cut demand for conventional machine tools. The modernization process continued throughout 1994.

The new government of Ernesto Zedillo came to power on December 1, 1994, and within a few weeks, the administration stopped supporting Mexico's overvalued peso. The market reaction was much more severe than the government had anticipated. Within days, the peso had lost almost half its value. This triggered a major economic crisis, and it ultimately required more than US $40 billion in foreign loans to prevent the collapse of the financial system.

The devaluation of the peso has had a predictable effect on foreign trade. During the first eight months of 1995, non-petroleum exports surged by 34.2 percent. Total imports fell by less than 8 percent, but imports of capital goods plunged by 32 percent. As a result, Mexico's merchandise trade balance was transformed into a US $4.5 billion surplus, in contrast to the deficit of US $12.1 billion in the same period the year before.

As a result of these dramatic changes, Mexican manufacturers now face a new reality. The gross domestic product (GDP) is expected to fall by 4 percent or more during 1995, and this has undermined most domestic product markets. This leaves manufacturers with little choice but to export if they expect to survive and prosper.

In many industries the cheap peso has offset the low productivity that is the legacy of decades of protectionism. But price is not the only factor driving exports. Many Mexican manufacturers cannot take advantage of the export boom because they cannot meet international quality standards. This has added quality and consistency to productivity as motivations for modernization. But nearly all industrial automation machinery is imported, and its cost has nearly doubled in terms of pesos. To make matters worse, interest rates on peso loans now exceed 80 percent per year.