1. BACKGROUND

The Mexican electronics industry represents 2.6% of the country's GDP with a total production of $ million in 1989. This industry has shown one of the highest growth rates in the last decade, averaging 5% annually since 1980, an average significantly above the country's total GDP growth rate of one percent in the same period. For many years, the Mexican electronics industry followed import substitution policies designed by the Government to foster local production. Many sectors were also bound to development plans imposing local content requirements, export to import ratios and other conditions in order to have access to preferential tariffs, import quotas and other incentives. These measures were very successfull in fostering local production of finished products, as well as certain parts and components. Mexico's recent trade liberalization policies have had a major impact on this industry, since they reduced import duties and also eliminated the prior import permit previously required to import components. Preferential tariffs, which had been available to national producers in some segments of the electronics industry, were reduced or completely withdrawn. Presently, the domestic electronics industry relies heavily on imported components. Total imports of components have increased from US$35.4 million dollars in 1977 to $154 million in 1989.

Additionally, the long expected opening of the computer industry was announced on April 3, 1990. These new measures eliminate the prior import permit required on the importation of computers. A 20% import duty was assessed on all automatic data processing machines, while all parts for the manufacture of computers, except modular circuits, pay a 5% duty and modular circuits for retail 15%.

Additionally, the decree for the establishment of fiscal incentives for the promotion of the computer industry was published on April 3, 1990. This program was designed within the new administration's policy of economic internationalization and deregultion in order to strengthen the local computer industry. In consists of a 100% waiver of all import taxes on imported components and equipment. The beneficiaries of these incentives are those companies manufacturing components or finished products in Mexico that are registerd as computer companies with the Secretariat of Commerce and Industrial Development (Secretaría de Comercio y Fomento Industrial - SECOFI). The total value of imports subject to tax incentives may not exceed 80% of the sum of the value incorporated domestically (locally produced sales minus imports) plus net investment in national fixed assets plus two times the investment in research and development made by these firms. Additionally, the value incorporated nationally should at least represent 30% of direct sales of locally manufactured products.

These incentives will continue benefitting the manufacturers previously within the Development plan and will attract some new