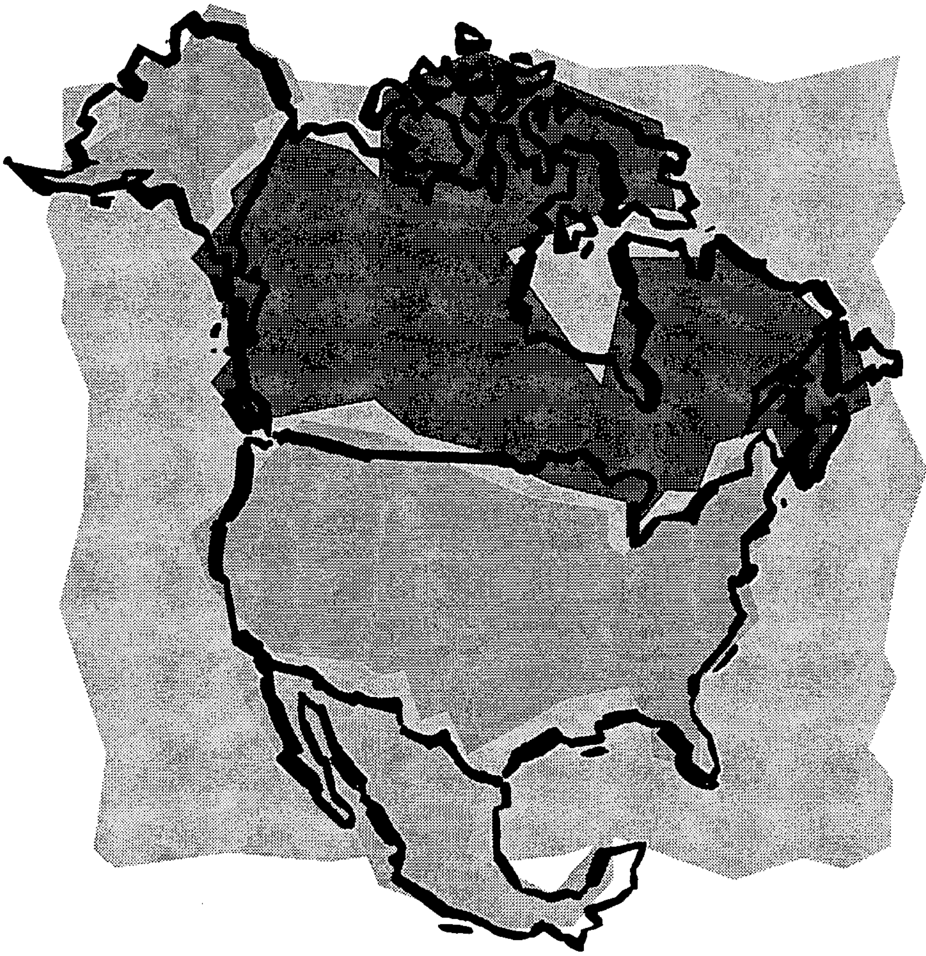
Mexico in Brief

ACCESS NORTH AMERICA
ACCÈS AMÉRIQUE DU NORD

MEXICO MARKET PROFILE

Canada



MEXICO IN BRIEF

Department of Foreign Affairs
and International Trade

January 1994

(Disponible également en français)

THE MEXICAN STATES

MEXICO IN BRIEF

Mexico is a country that is both a near neighbour and an unknown quantity. Perceptions of the largest Spanish-speaking country in the world are surprisingly dated, generally formed in literature and films of the 1940s, and it is hardly surprising that they do not have even the dubious accuracy they had then.

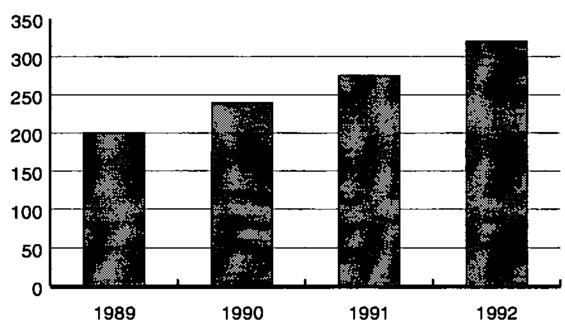
Mexico's economy was long closed and protectionist, which did not spur the sort of exploration that opened people's eyes. "Poor Mexico — so far from God, so close to the United States," in the words of Porfirio Diaz, was for many years a mantra for preventing what Mexicans saw as further encroachment on their sovereignty by their nearest neighbour.

Changes in Mexico's economy were dramatically forced by the oil price collapse in the early 1980s, which followed a brief boom that saw Mexico begin to achieve some real growth for the first time in decades. The recession of the period hit Mexico too, and the government of Carlos Salinas de Gortari, elected in 1986, was spurred into activity in order to recapture some of the prosperity that had seemed so close only a few years before.

The Salinas government negotiated Mexico's accession to the GATT, which meant accepting GATT disciplines. From there, Mexico introduced a sweeping series of economic reforms. The government renegotiated the foreign debt, created a National Development Plan to revitalize the nation's infrastructure, and secured broad popular support from business, labour and the general population for voluntary measures to restrain wages and prices in order to reduce inflation and stabilize the economy. Other key elements in reform have included privatization of state-controlled enterprises, deregulation, massive investment in infrastructure, and the encouragement of foreign participation in building a modern and efficient industrial capacity.

Mexico's debt reduction has been one of its signal achievements. In 1986, it was costing over 46% of GDP to service the debt; by 1994, it will be down to about 30%. Growth continues to be strong since reforms were begun, with about 4% in 1993 and stable patterns averaging around 2% predicted for the next few years. Most major forecasters see Mexico as sustaining a strong growth throughout the coming decade. About 85% of government-owned enterprises have been or are being divested. The process has brought the government about $20 billion in revenue, as well as removing its responsibility for running some unprofitable enterprises. Tariffs have been reduced on a wide range of products, with most now below 20%; the majority of Canadian goods enter Mexico at a tariff level of 13.5%.

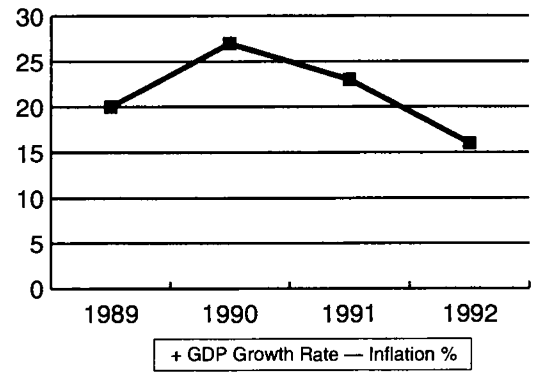
GDP in $U.S. billions – Mexico



Country Forecast figures

There have been some costs to Mexico in its fast turnaround: poverty is still very widespread, and environmental standards are not yet as good in practice as they are on paper. But the Solidarity program initiated by President Salinas and his ruling party has made some inroads in the quality of life of particularly rural Mexicans. Inflation has dropped substantially, the peso is fairly stable, public finances are improving. Consequently, foreign business representing a broad spectrum of industrial and commercial activity is investing in Mexico and developing new markets. Canadian firms there to explore the potential in recent years have been returning with reports of a vibrant economy and a welcoming attitude from their Mexican counterparts. Mexico has begun on a path toward progress from which it is not planning to turn back.

GDP Growth Rate & Inflation – Mexico

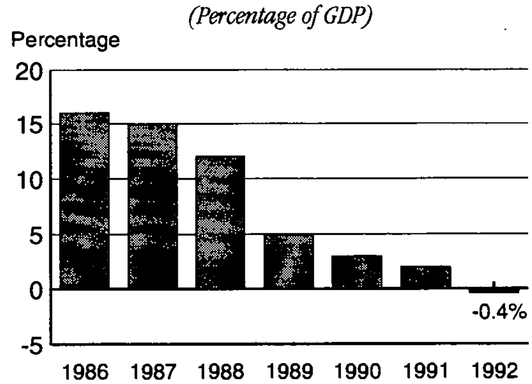


EIU & Country Forecast figures

Gross Domestic Product grew by 2.6 percent to reach $U.S. 320 billion in 1992, following a 3.6 percent increase in 1991. As a result, Mexico is now one of the 20 largest economies in the world. Commerce and the hospitality industries comprise the largest sector by percentage, with manufacturing a close second.

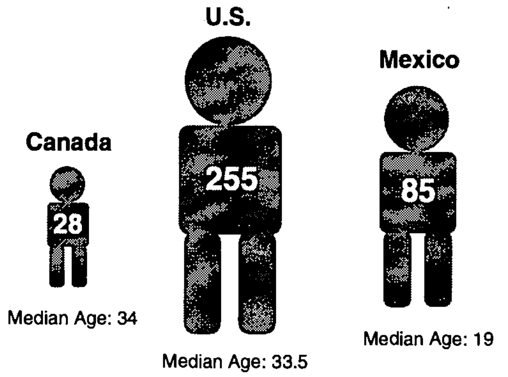
Mexico: Fiscal Deficit

(Percentage of GDP)



The Mexican government's Pact for Stability and Economic Growth (El Pacto) has persuaded labour and business to accept general

North America: 1992 Population/ Median Age Comparison

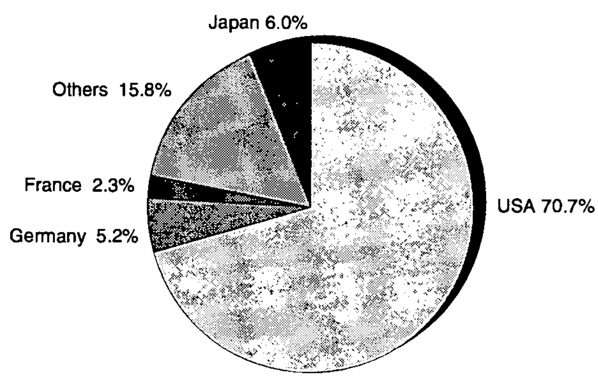


Compared to Canada and the United States, Mexico is a very young country. Last year, it was estimated that 57% of its population was under 29; by the year 2000, when the total Mexican population will exceed 100 million, it is anticipated that 41% will be under the age of 20.

Total exports from Mexico reached about $U.S. 27.5 billion in 1992, a 1.5 percent increase over 1991. Total imports in the same period were about $U.S. 48 billion, a 26 percent increase over the previous year. The trade deficit accordingly rose from $U.S. 11.182 billion in 1991 to $U.S. 20.6 billion in 1992.

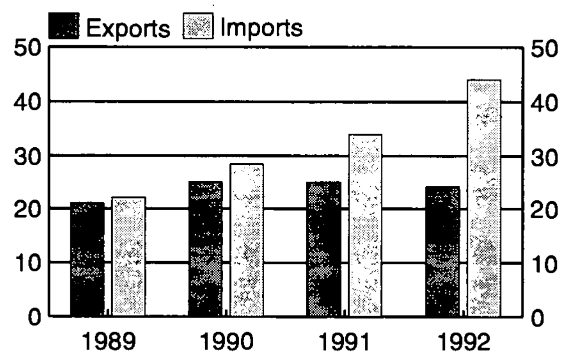
guidelines for increases in wages and prices, and negotiates exemptions with a Follow-Up and Evaluation Commission. In large part as a result of this approach, Mexico's inflation rate has dropped from 159 percent in 1987 to a projected estimate of 7.0 percent to 9.5 percent in 1993. Economic growth rates for 1993 are projected at 2.5 percent to 3.0 per cent, after a growth rate of 2.6 percent in 1992.

Major Markets – Origin of Imports



EIU figures *Mexico 1993*

Total Foreign Trade in $U.S. billions

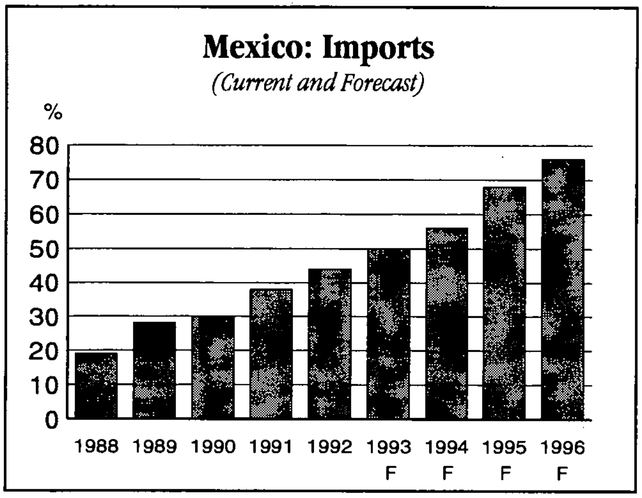


EIU figures *Mexico 1993*

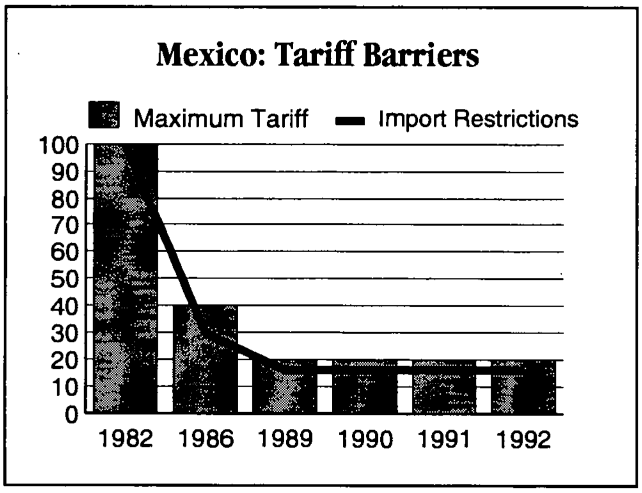
The United States was far and away the largest receptor of Mexican exports, at 74.5 percent estimated for 1993. Japan and Spain share the next places, well behind. Exports to Canada are reckoned differently by Mexican and Canadian methods of calculation, with about a 10% differential in their statistical estimates, Mexico's being the lower.

By broadening the tax base, the government of Mexico has been able to reduce tax rates while increasing total income. Spending cuts and fiscal reform have also been put in place by government, and the result has been that the public sector actually ran a surplus in 1992.

The United States is Mexico's principal supplier of imported goods, with just over 70 percent of 1993 sales. Japan and Germany are closest, though far behind. Again there is a discrepancy in Mexican and Canadian calculations of Canada's import share in Mexico, with the Mexican figures one and one-half times higher than Canada's estimation.



With its economy projected to enjoy stable growth over the coming years, with its liberalized market conditions, with a young and growing population, Mexico will steadily increase its volume of imports over the foreseeable future. From $19 billion to about $50 billion in five years has been a remarkable leap, making it one of the fastest-growing economies in the world in this period.



Tariff barriers in Mexico have been decreasing since 1982, with a distinct drop since Mexico's accession to the GATT in 1986. The average is now below 20% for most products and services. At the same time, many import restrictions have been removed. The average tariff currently applied to 80% of Canadian goods entering Mexico is 13.1%.

Canada and Mexico have only just begun to develop their trading partnership to its full potential. In 1992, Mexico ranked fifth as a

source of imports to Canada, and fourteenth as a destination for Canadian exports. Less that 2 percent of Canada's 1992 imports came from Mexico, and less than 1 percent of Canada's exports went there. Two-way trade totalled about $3.5 billion, and trends suggest it could double in the next five years. The liberalized trade climate is already taking effect, with exports virtually doubled in six years. The trucking image was chosen to illustrate how close the market is to Canada. After 1997, Canada will be able to truck directly into Mexico and will be able to remove goods for drop-off in the U.S., or pick up U.S. products for delivery in Mexico.