Mexico Proves a Resilient, Robust Market for U.S. Exports

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For centuries, Mexico and the United States have had strong social, political, cultural and economic bonds. Implementation of the North American Free Trade Agreement (NAFTA) and efforts toward a Free Trade Area of the Americas (FTAA) are important recent initiatives bringing the countries closer together.

But in addition to these agreements and other areas of cooperation between the governments, the two countries enjoy a free exchange of social and cultural influences, contributing to trade and economic growth.

U.S. agricultural, fish and forest product exports to Mexico reached a record $6.8 billion in 2000. Sales are estimated to have set another record, $7.4 billion, in 2001. And market analysts think Mexico holds further opportunities, particularly in its food processing and retail sectors.

The Economic Landscape

Mexico has a free-market economy increasingly dominated by the private sector. Its number of state-owned enterprises fell from more than 1,000 in 1982 to fewer than 200 in 2000. Seaports, railroads, telecommunications, electricity, natural gas distribution and airports have been privatized and expanded. The nation continues to make an impressive recovery from the recession that began in 1994. In 2000, its gross domestic product (GDP) totaled $915 billion, and GDP growth reached 6.9 percent.

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Mexico has a population of just over 100 million and a workforce of nearly 40 million. About 22 million Mexicans can regularly afford to purchase imported food products. The younger generation is especially receptive to international influences and willing to purchase imports. About 40 percent of the workforce is made up of women, spurring demand for prepared meals and eating out.

With its stable government and currency, Mexico has retained its attraction for foreign investors, who put over $4 billion into the country's food and beverage processing industries in the past several years.

A Burgeoning Processing Market

Mexico is a major producer of agricultural goods, from bulk commodities to processing ingredients to consumer-ready items. The country has nearly 13,000 food processing firms, from small family operations to large firms that are among the most efficient and mechanized in the world.

The Mexican market for processed foods has been growing rapidly since 1995, and its food processing industry output has been expanding 5-10 percent per year in recent years. But despite its impressive growth and production variety, the Mexican food processing industry cannot supply all of the products demanded by Mexican customers.

The United States is Mexico's number one source of food ingredient imports. The United States dominates Mexican imports

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of whey protein, food starches, tallow, edible lactose, seasonings, natural and artificial sweeteners, colorings, flavorings, dough conditioners and beverage bases. Thickeners, texturizers, preservatives and spices also represent strong prospects.

Retail Sales on an Upward Trend

Mexico's retail sector continues expanding, with domestic and foreign firms jockeying for position in a very competitive market. The retail market was characterized by moderate sales growth and strong competition in 2000, with total store sales up 10 percent from the year before.

In 2000, U.S. exports of consumer-oriented products to Mexico reached a record $2.7 billion–roughly 70 percent of it ($1.9 billion) in the retail sector.

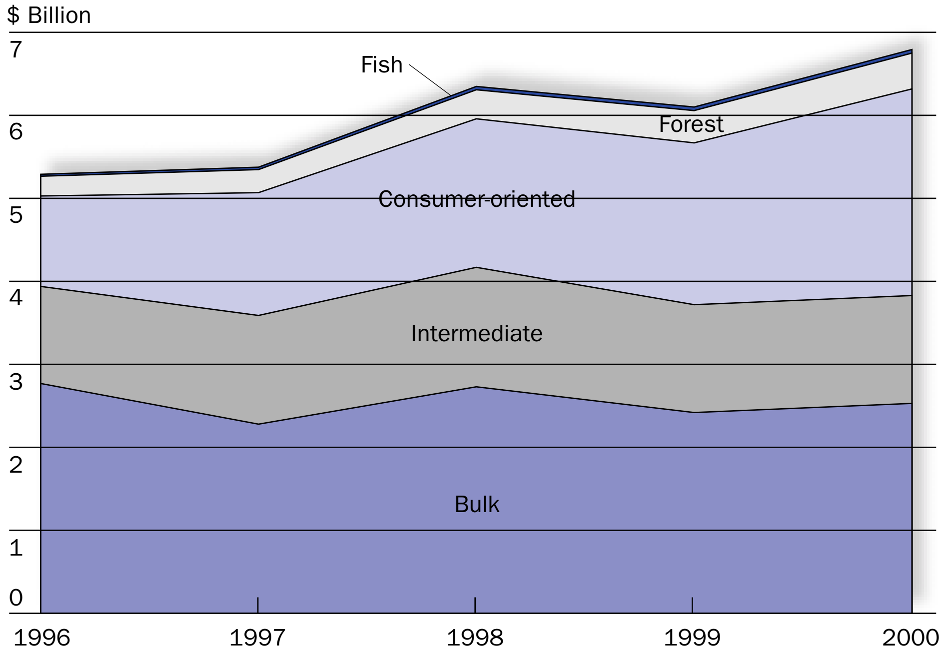
Large retailers and convenience stores represent the best sales venues for U.S. exporters. Importers, distributors and wholesalers continue to control the retail market, especially at the convenience and mom-'n'-pop store level.

Nevertheless, some major retailers (Wal-Mart, Gigante, Soriana and Casa Ley) have implemented direct purchasing for some of their departments, and so deal directly with foreign suppliers. Other retail chains will likely adopt this strategy in the next five years.

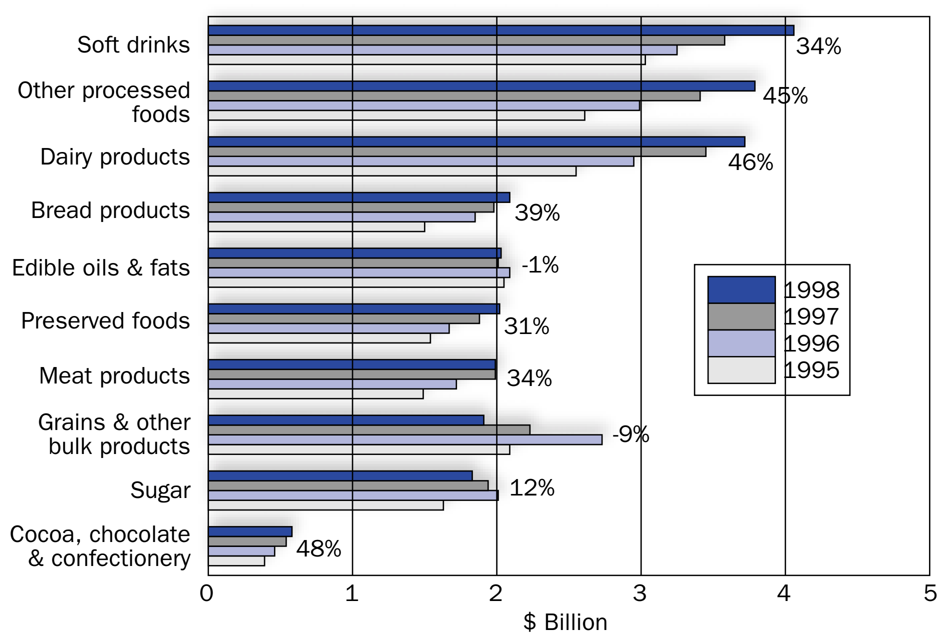
Net sales growth figures in 2000 for the four leading retailers in Mexico were: Wal-Mart, with 11.7 percent; Gigante, 8.8 percent; Soriana, also 8.8 percent; and Comercial Mexicana, 6.8 percent. All figures exceed 1999 data.

In the next year or so, Wal-Mart plans to spend $464 million to open 62 new outlets. HEB, another large U.S. retailer, will build 35 outlets in northern Mexico. Comercial Mexicana will invest $140 million in its stores.

U.S. Exports to Mexico Have Shown a Steady Upward Trend Overall

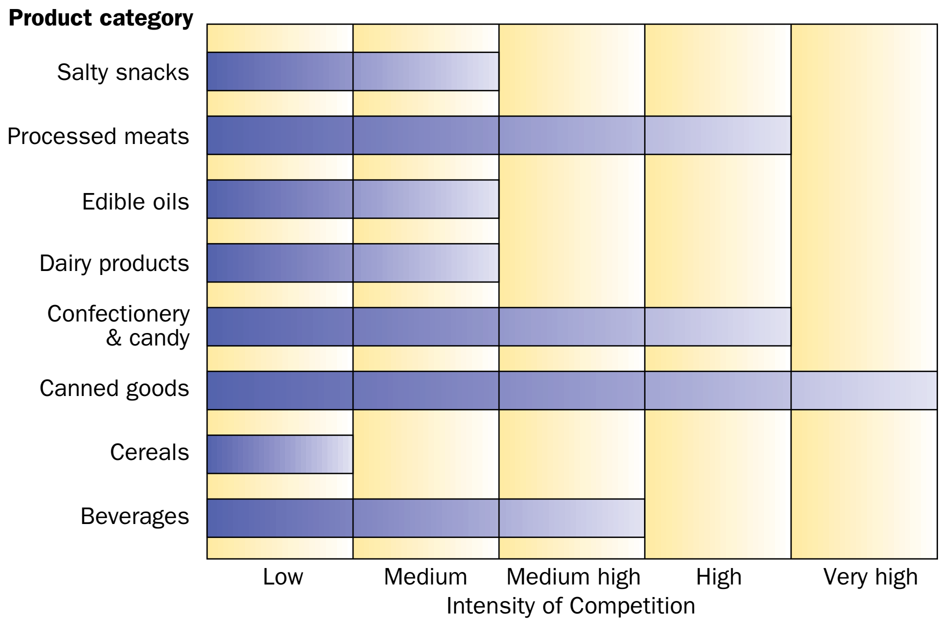


Most Segments of Mexico's Food Industry Have Shown Double-Digit Growth*



*From 1995 to 1998.

The Intensity of Competition for Mexico's Food Processing Industry Varies By Product Category–Creating Opportunities U.S. Suppliers Can Target



Traditional retail stores (such as grocery stores and mom-'n'-pop shops), although a large market segment, are not yet a viable option for imported products because of their comparatively small size and limited refrigeration. Operators often have only limited knowledge of imports, restricting their outlets' potential for U.S. products.

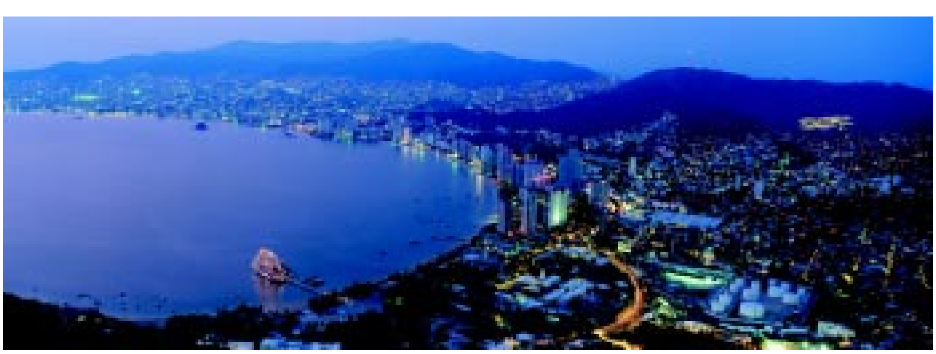
With their large numbers of customers, convenience stores comprise the fastest-growing segment of the retail sector. These outlets tend to be located in large and medium-size cities, usually in middle-income neighborhoods and business districts. Convenience stores typically offer longer hours and good service. The number of imported products they offer is growing, and has great potential for increased sales.

Market Advice and Words to the Wise

Despite its many advantages, Mexico also presents considerable challenges as a market for U.S. agricultural exports. For example, the number of consumers who can afford imports remains constrained by unequal income distribution, low wages, underemployment and limited advancement opportunities.

Moreover, the United States is not the only nation with which Mexico has strong trade and treaty ties. In 2000, Mexico completed free trade agreements with the European Union (EU), Israel, El Salvador, Guatemala and Honduras. Mexico also has a preferential trade agreement with Colombia, and is pursuing agreements with other countries in Latin America and Asia.

NAFTA secured preferential import duties for many U.S. products. However, now that Mexico has a free trade agreement with the EU, many products from that region also enjoy advantages. The number of EU products on Mexican store shelves is consequently climbing.



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Mexican consumers are very price-conscious, so U.S. suppliers should first consider marketing their less expensive product lines and presentations. Imports can be anywhere from 15 to 40 percent more expensive than similar local products.

The Mexican peso has been very stable in its parity with the strong U.S. dollar, helping to keep U.S. products competitive. This equilibrium must continue if U.S. companies are to increase their market presence and sales.

Retailers are awaiting the outcome of a Mexican government proposal to implement a value-added tax of 15 percent on food products and pharmaceuticals. Many retailers fear such a tax would seriously restrict consumer spending. However, in the long run, the measure could have a positive effect on the economy, by providing the government with needed additional revenue.

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As is the case in shipping to any country, exporters must make sure their products meet Mexican quality standards and labeling requirements. Regulations and controls for imported products sometimes change without advance notice, causing problems and delays for exporters.

Mexico requires that all labels for imported processed products be in Spanish, although they may be in another language as well. If the label is in two languages, the Spanish print must be the same size as that of the other language.

Tips for Traders

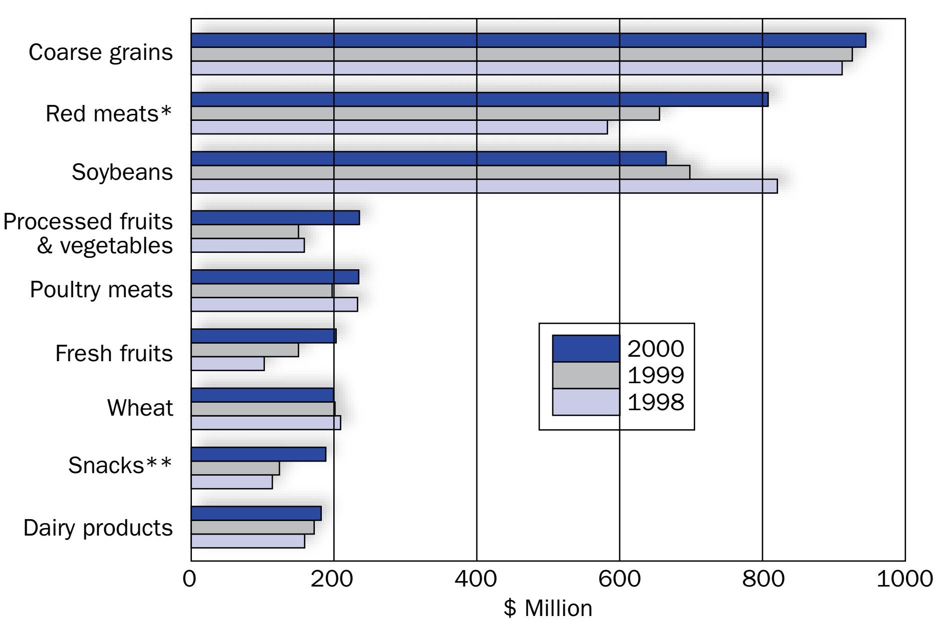
The best way to understand the Mexican market is to visit it to assess both opportunities and competition. Consult buyers, retailers, wholesalers, distributors and other players to prepare an effective entry strategy.

Local representation is essential to exporting success. U.S. suppliers should attend or participate in trade shows and missions to find potential representatives–importers, sales agents, distributors or buyers. Contacting a local distributor can be a useful first step toward market entry.

U.S. companies should take normal business precautions whenever dealing with potential representatives, including checking references. An effective representative must be able to ensure products are available at points of sale, assist with paperwork preparation and provide timely, thorough information on changes in import procedures and documentation.

U.S. suppliers should provide support for in-store and media promotions to familiarize customers with products. If possible, develop supplemental informational materials (such as promotional pamphlets) in Spanish. ■

Top U.S. Earners in the Mexican Market



*Fresh, chilled and frozen. **Excluding nuts.

For general market and retail sector information, or for assistance in identifying trade contacts and developing marketing strategies for Mexico, contact:

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This story is based on FAS Reports MX1080 and MX1099. To find them on the Web, start at **www.fas.usda.gov**, select **Attaché Reports** and follow the prompts.

For details on promotion and marketing opportunities for the Mexican market in the next year or so, see MX1127.