In pursuance of the CONTRACTING PARTIES’ Decision of 12 April 1989 concerning the Trade Policies Review Mechanism (BISD 36S/403), the initial full report by Mexico for the review by the Council is attached.
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INTRODUCTION

In recent years, Mexico has implemented an economic and social strategy aimed at modernizing its economy and making it more competitive. The goal is to integrate Mexico into the international economy in order to exploit the country's comparative advantages and the growth potential generated by international trade.

The central elements of Mexico's economic strategy are the strengthening of public finances, economic deregulation, divestiture and restructuring of public sector enterprises, reform of the financial system and trade liberalization.

Open trade is one of the most important aspects of Mexico's economic policy. Practically all quantitative restrictions have been removed, and tariffs have been cut significantly across all sectors of the economy.

The trade liberalization process has gone hand in hand with legal and administrative reforms that simplify and streamline economic and trade activities, creating a climate of greater dependability for national and international investors, and thereby boosting the growth of output, employment and real wages.

Mexico is now one of the world's most open economies, and has been able to increase its efficiency and international competitiveness. As part of national economy policy, unilateral liberalization has been accompanied by negotiations aimed at gaining greater access for Mexican exports to international markets. Mexico's trade policy has expanded and diversified the country's trade relations by means of regional and multilateral negotiations that have opened new markets and increased national and foreign investment flows.

The unilateral liberalization programme was reaffirmed with Mexico's accession to GATT in 1986. Since then, Mexico has forged resolutely ahead with the opening of its economy, unilaterally and through active participation in all the areas of the Uruguay Round negotiations and in other forums. It hopes that the successful outcome of these negotiations will guarantee a fair and stable trading environment. Mexico also reaffirms its commitment to the multilateral system, by ensuring that the trade agreements to which it is a party and those in the process of negotiation or ratification are fully in line with the principles of the General Agreement.

The opening of the Mexican economy implies new challenges and opportunities. Challenges, because domestic producers will have to improve their competitiveness in order to cope with an increasingly competitive international environment. Opportunities, as it establishes favourable conditions for stimulating innovation and efficiency in production and marketing, by eliminating obstacles to economic activity, opening and diversifying markets and creating an environment of free competition and economic dependability.
I. ECONOMIC AND TRADE ENVIRONMENT

A. Macroeconomic context

At the outset of the 1980s, Mexico faced a profound economic crisis and therefore had to redefine economic development strategy in order to stabilize the economy and achieve international competitiveness. The country's new economic policy is characterized by the transformation of a highly regulated and protected economy into one that is geared towards external competition and the free play of market forces.

The stabilization and structural-change policies have brought Mexico growth rates that are higher than the population growth rate, despite the generalized world economic slowdown: average annual GDP growth over the last four years was 3.5 per cent. Inflation has been curbed, from 159.2 per cent in 1987 to 11.9 per cent in 1992, the lowest rate in the last twenty years.

The budget deficit has been eliminated, and the country ran a surplus of 0.6 per cent of GDP in 1992. Taking into account the exceptional income obtained in 1992 from the sale of public-sector enterprises, the surplus reached 3.5 per cent of GDP (see Table 1.1 - Main macroeconomic Indicators).
TABLE 1.1
Main Macro-Economic Indicators, 1982-1992

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross domestic product (TMD)</th>
<th>Annual variation in GDP (%)</th>
<th>Rate of inflation (Dec-Dec)(%)</th>
<th>External debt (TMD)</th>
<th>External debt (%GDP)</th>
<th>Trade balance (TMD)</th>
<th>Variation in international reserves (TMD)</th>
<th>Public sector financial balance (%GDP)</th>
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<td>1992 p/</td>
<td>338.1*</td>
<td>2.8*</td>
<td>11.9</td>
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<td>n.a.</td>
<td>-20.1</td>
<td>n.a</td>
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TMD: Thousand million dollars.

1Rise in consumer price index.

2Does not include maquiladora income.

3In 1990 includes the effect of the negotiated reduction in the external debt, and in 1991 and 1992 includes income from privatization of public-sector enterprises.

4January-September.

n.a. Not available.

p/ Preliminary figures.

Source: Banco de México (1992 GDP data: INEGI).
B. Trade policy objectives

From 1940 until the early 1980s, Mexico pursued an import substitution model, by protecting domestic industry with tariff and non-tariff measures, and through the use of subsidies and, in general, high public-sector participation in the economy.

In its early stages and until the 1960s the strategy was successful, providing high growth rates and allowing the creation of a sizeable industrial base, as well as skilled manpower and an entrepreneurial stratum that provided the foundations for future development. Nevertheless, this inward-looking strategy ultimately created severe structural problems that became clear in the 1970s and finally led to a serious financial crisis at the beginning of the next decade.

The consequences of this development model were, among other things, a lag in the competitiveness of Mexican manufactures, a decoupling of industry and foreign trade, and an anti-export tendency encouraged by over-regulation and by the uncompetitiveness of Mexican products.

The ability of Mexican industry to compete on international markets declined considerably. Manufacturing exports grew slowly, while a growing dependence on oil exports developed. The country therefore became extremely vulnerable to world oil price fluctuations.

With the goal of reversing the effects of this development model, as from 1983 Mexico set in place a programme of opening trade. The central goal has been the shaping of an efficient and competitive production system that will enable Mexican goods to obtain a better share of international markets.

Currently, in the framework of the economic stabilization and modernization programme, Mexico's trade policy is aimed at the consolidation of this opening process.

In future Mexico will continue cutting tariffs on inputs and machinery and modifying tariffs in sectors that still suffer from negative effective protection. Opening the economy has made it possible to shape a more competitive market. The challenge for trade policy is to consolidate the presence of Mexican goods and services on world markets, and diversify trade flows. Mexico remains committed to an open trade policy that is consistent with the multilateral trading system.

C. Trade policy (1985-1992)

The process of opening trade was launched in 1983 and strengthened in 1985. Quantitative restrictions, as a trade policy instrument, were replaced by tariffs in almost all economic sectors. At the end of 1982, all imports were subject to prior licensing, there were sixteen tariff rates, the maximum tariff was 100 per cent and the average tariff was around 27.0 per cent. Currently, only 11.0 per cent, by value, of imports are subject to licensing, there are only five tariff rates, the maximum tariff is 20 per cent (with a single exception), and in 1992 the average weighted tariff was reduced to 11.1 per cent.
Import licensing requirements were recently lifted for the following products: computer equipment (April 1990), newsprint (May 1990), oilseeds and certain animal and vegetable fats and oils (July 1990), some pharmaceuticals (January 1991) and apples (June 1991).

In January 1990, a programme for the gradual opening of the pharmaceutical-chemical industry was drawn up. By the end of 1991, only twenty-four tariff headings of the entire chemicals sector required import licences, so that the liberalized headings represent more than 80 per cent of the value of imports previously subject to controls. Complete liberalization of the sector is planned for the end of 1993.

In November 1990, a programme for the gradual liberalization of the automotive sector was introduced. It is planned to review the programme in October 1994. The "terminal" (assembly) industries were allowed to import motor-vehicles beginning with 1991 models, including buses and trucks, under more flexible conditions.

The liberalization process is reinforced and complemented by Mexico's participation in various international forums and multilateral and bilateral trade negotiations. Mexico's accession to GATT in 1986 consolidated the trade liberalization strategy. Since then, Mexico has participated actively in this multilateral body, particularly in the Uruguay Round negotiations, in order to contribute to the liberalization of trade flows of goods and services and the strengthening of the multilateral trading system.

At the same time, Mexico has conducted bilateral and regional negotiations in order to diversify its trade relations. In some cases, it has already concluded trade agreements providing the parties with better access to external markets and a fairer and more equitable framework for their trade relations.

D. Evolution of the trade balance

The performance of the trade balance has changed considerably in the last decade. After running a chronic deficit in the post-war period, in 1982 Mexico's foreign trade for the first time showed a surplus, which continued until 1988. The surplus in the 1980s was attributable to the need to make transfers abroad. (Table 1.2 - Foreign trade).
### TABLE 1.2

**Foreign Trade, 1980-1992**

(US$ millions)

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<td>405</td>
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p/ Preliminary figures.

Source: Banco de México.
Since 1989, the trade balance, excluding maquiladora income, has shown a deficit. This may be attributed to the various economic-policy and structural-change programmes and the slowdown of the world economy.

The growth of imports has enabled domestic industry to improve and expand production capacity and raise exports. The large amounts of capital that have flowed into the country in recent years have financed the trade deficit resulting primarily from imports of intermediate and capital goods. These imports represented 85 per cent of total imports in 1992. The import of these products was accompanied by vigorous growth of exports of manufactures and sales of the maquiladora (in-bond) sector, which grew at a faster pace than the national economy.

The trade balance including maquiladora exports showed a deficit of US$15.8 thousand million in 1992. Imports amounted to US$48.1 thousand million, while exports excluding the maquiladora sector amounted to US$27.5 thousand million, and net income from the maquiladora sector totalled US$4.8 thousand million. The capital account surplus, however, was sufficient not only to cover the trade deficit but also to increase the country’s international reserves. For the fourth year running, in 1992 international reserves of the Banco de México increased, reaching US$18.3 thousand million in November of that year. (Table 1.3 - Balance of Payments).
### Table 1.3

**Balance of Payments, 1980-1991**

(US$ millions)

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Table 1.3 (cont’d)
| Source: Banco de México. |

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<td>1,019</td>
<td>1,012</td>
<td>(3,185)</td>
<td>3,101</td>
<td>3,201</td>
<td>(2,328)</td>
<td>985</td>
<td>6,924</td>
<td>(7,127)</td>
<td>272</td>
<td>3,414</td>
<td>7,821</td>
</tr>
<tr>
<td>Changes in gold and silver valuation</td>
<td>(71)</td>
<td>263</td>
<td>(115)</td>
<td>17</td>
<td>152</td>
<td>(95)</td>
<td>(382)</td>
<td>(824)</td>
<td>393</td>
<td>124</td>
<td>(181)</td>
<td>316</td>
</tr>
</tbody>
</table>
The main features of the evolution of Mexico’s foreign trade in recent years are outlined below.

1. **Exports**

The composition of Mexican exports has altered substantially over the last ten years. In 1982 non-oil exports represented only 22 per cent of total foreign sales, whereas in 1992 they amounted to US$19.2 thousand million, or 70 per cent of the total, a figure which does not include maquiladora sector exports. This strong growth has kept up in recent years and is fundamentally due to the expansion of manufacturing exports. (Chart 1.1 - Exports by sector of origin).

![Chart 1.1: Exports by Sector of Origin](chart.png)

**Note:** Does not include exports of the in-bond industries

**Source:** Banco de México.

Between 1989 and 1992 Mexican exports maintained an annual average growth rate of 9.7 per cent. Manufactures stand out with an average share of 55 per cent of the total during this period. The export strength of petrochemicals, metal products, machinery and equipment (primarily cars and buses), wood products, plastics, rubber products, televisions, refrigerators and stoves is particularly striking.
In 1992 the main non-oil exports were motor vehicles, motor-vehicle engines and parts, parts for machinery, automatic data-processing machinery, fresh fruit and vegetables, coffee, beef, shrimps, iron bars and ingots, glass manufactures, plastic materials, textile fibres and (malt) beer.

Despite the significant softening of demand in the main international markets, the maquiladora industry has recorded high growth rates over the last three years. In 1992, the earnings generated by this industry grew at a rate of over 17 per cent over the previous year.

Primarily as a result of the sluggishness of the world economy, the terms of trade for prices of agricultural raw materials and minerals deteriorated, affecting Mexican exports. This is true of the prices of copper (9 per cent), zinc (20 per cent) and cotton (17 per cent). In addition, Mexican exports face other external factors hindering their growth, such as the unjustified application of anti-dumping measures and other restrictions that have been imposed on Mexican products in some of their major markets.

In 1992, export earnings from petroleum products grew by 1.2 per cent compared with the previous year, with a value equalling US$8.3 billion. The low growth of these products stemmed from the decline in world prices for crude and for petroleum products.

The United States is the main market of destination for Mexican exports: in 1992 these amounted to US$19.5 thousand million, while sales to Canada amounted to US$886 million. In the European Community, exports went primarily to Spain, US$1.2 thousand million, France, US$550 million, and Germany, US$491 million. In Asia, exports to Japan are the most significant, with a value of US$907 million. In Latin America, the highest exports went to Brazil, Colombia and Venezuela, amounting to US$710 million for the three countries together.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total **</th>
<th>USA</th>
<th>Spain</th>
<th>Japan</th>
<th>Canada</th>
<th>France</th>
<th>Brazil</th>
<th>United Kingdom</th>
<th>Venezuela</th>
<th>Netherlands</th>
<th>Italy</th>
<th>Switzerland</th>
<th>Other</th>
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<td>10,024</td>
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<td>739</td>
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<td>2,011</td>
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<td>1,056</td>
<td>253</td>
<td>825</td>
<td>380</td>
<td>69</td>
<td>65</td>
<td>106</td>
<td>68</td>
</tr>
<tr>
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<td>1,687</td>
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<td>532</td>
<td>790</td>
<td>249</td>
<td>639</td>
<td>894</td>
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<td>19</td>
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<td>1,535</td>
<td>480</td>
<td>845</td>
<td>298</td>
<td>664</td>
<td>918</td>
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<td>43</td>
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<td>387</td>
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<td>1,231</td>
<td>277</td>
<td>562</td>
<td>440</td>
<td>116</td>
<td>195</td>
<td>89</td>
<td>101</td>
<td>109</td>
<td>71</td>
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<td>481</td>
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<td>182</td>
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<td>152</td>
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<td>69</td>
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<td>1990</td>
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<td>1,457</td>
<td>1,506</td>
<td>458</td>
<td>552</td>
<td>453</td>
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<td>187</td>
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<td>211</td>
<td>206</td>
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<tr>
<td>1991</td>
<td>27,120</td>
<td>18,345</td>
<td>1,150</td>
<td>1,241</td>
<td>1,125</td>
<td>600</td>
<td>529</td>
<td>187</td>
<td>219</td>
<td>127</td>
<td>183</td>
<td>172</td>
<td>121</td>
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<tr>
<td>1992 p/</td>
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<td>19,518</td>
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<td>907</td>
<td>866</td>
<td>550</td>
<td>491</td>
<td>431</td>
<td>249</td>
<td>199</td>
<td>149</td>
<td>146</td>
<td>130</td>
</tr>
</tbody>
</table>

*Includes revaluation, excludes in-bond industries.

**The sum of the partial data may not coincide with the total owing to rounding of figures.

p/ Preliminary figures.

Source: Banco de México.
2. Imports


In 1992, purchases of capital goods had the strongest growth, reaching US$11.5 thousand million. Imports of intermediate products, which accounted for almost two-thirds of the total, amounted to US$29.0 thousand million in 1991. Both categories grew at a rate of about 25 per cent over the previous year. Imports of consumer goods totalled US$7.6 thousand million in 1992, 24 per cent above the 1991 level. (Chart 1.2 - Imports by type of good).

CHART 1.2
IMPORTS BY TYPE OF GOOD
(Percentages)

<table>
<thead>
<tr>
<th>Year</th>
<th>CAPITAL (30%)</th>
<th>INTERMEDIATE (60%)</th>
<th>CONSUMER (10%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Banco de México

In 1992, the main imports were petrol (gasoline) and fuel oil, soybeans and grain sorghum, aircraft, motor-vehicle assembly material, data-processing equipment and parts, parts for electrical installations, radio and television receivers and transmitters, radiophonic and telegraphic apparatus and equipment, fresh or chilled meat, sheet steel and metal-working machinery.

The principal origin of imports in 1992 was the United States, for a total value of US$30.2 thousand million, while imports from Canada amounted to US$1.0 thousand million. The main European countries for Mexico were France (US$1.3 thousand million), Italy (US$984 million), Spain (US$875 million) and the United Kingdom (US$619 million). In the case of Latin America, the largest sources of imports were Brazil and Argentina with US$1,116 and US$241 million, respectively. In the case of imports from Asia, Japan stands out with US$3 thousand million.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total **</th>
<th>USA</th>
<th>Japan</th>
<th>Germany</th>
<th>France</th>
<th>Brazil</th>
<th>Canada</th>
<th>Italy</th>
<th>Spain</th>
<th>United Kingdom</th>
<th>Switzerland</th>
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<td>174</td>
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<td>926</td>
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<tr>
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<td>314</td>
<td>222</td>
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<td>619</td>
<td>496</td>
<td>333</td>
<td>241</td>
<td>5,364</td>
</tr>
</tbody>
</table>

*Includes revaluation, excludes in-bond industries.

**The sum of the partial data may not coincide with the total owing to rounding of figures.

p/ Preliminary figures.

Source: Banco de México.
E. Exchange régime

As a result of the foreign-exchange crisis which the country faced at the beginning of the 1980s, the Government introduced a dual-exchange-rate system, with a controlled market and a free market. The controlled market covered some 70 per cent of external transactions, including imports and exports of goods (with some exceptions), and interest and capital payments on foreign debt.

During 1989, a moderate slide of the peso was introduced. The exchange rates of the free market and the controlled market converged until they were virtually unified, and therefore exchange controls were completely removed in November 1991.

At the same time a mechanism was introduced to reconcile the objective of stability and dependability in the foreign-exchange market over the medium and long terms with that of responding flexibly to short-term market situations. This formula consisted in gradually widening the fluctuation band of the exchange rate. The gradual widening of the band was carried out by allowing the ceiling (selling rate) to depreciate by 20 centavos a day while the floor (buying rate) remained fixed at the level of that date.

In October 1992, the Government announced that it would maintain the widening of the fluctuation band in 1993, with the depreciation of the ceiling rate increasing from 20 to 40 centavos daily. This enables the exchange rate to fluctuate more widely.

**CHART 1.3**

**EXCHANGE SYSTEM**

![Chart showing exchange rates and fluctuations over time](chart.png)

Source: Criterios Generales de Política Económica (1993), Presidencia de la República.
The present exchange policy is characterized by a gradual, preannounced rate of depreciation of the upper limit of the fluctuation band, which has been fundamental in curbing inflation. The public financial surplus and prudent management of monetary policy provide a strong underpinning for this exchange strategy.
II. STRUCTURAL REFORMS

In recent years, Mexico has undertaken an ambitious programme of structural reforms focused on the efficiency and competitiveness of the domestic production system. This chapter describes the most important reforms carried out by the Government in the last four years.

A. Strengthening of public finances

One of the reasons for the success of the stabilization programme in Mexico is the Government’s determination to maintain strict fiscal discipline. In the past, the high levels of the budget deficit had hampered the Government’s capability to stabilize the economy and carry out orderly structural change.

The financial results obtained by the public sector in recent years have been decisive for advancing with the country’s macro-economic stabilization process. In 1992, public finances showed a surplus without precedent in Mexico’s economic history, amounting to 0.6 per cent of the gross domestic product (GDP). If non-recurring revenue from the privatization of public enterprises in 1992 is included, the financial surplus was 3.5 per cent of the product. Thus, strict fiscal discipline enabled the public sector to swing from a deficit of 16.9 per cent of GDP in 1982 to the above-mentioned financial surplus (see Chart 2.1 - financial situation of the public sector).

CHART 2.1
FINANCIAL SITUATION OF THE PUBLIC SECTOR
(Percentage of GDP)

Source: Criterios Generales de Política Económica (1993), Presidencia de la República.
In recent years, the gradual elimination of indirect supports to various sectors of the economy by the adjustment of official prices that were lagging behind inflation made a significant contribution to the improvement of public finances. The number of government-controlled prices was reduced and timetables were drawn up for the adjustment of prices of goods and services still under government control.

The reduction in debt interest payment also helped to reduce budgetary spending. In particular, net public sector spending in 1992 was 3.1 per cent down in real terms from the previous year. This is attributable to lower external and internal debt amortization and also lower domestic and external interest rates. In 1993 a further reduction of 0.2 per cent in public expenditure under this item is expected, which will produce a financial surplus of 1.7 per cent of the GDP.

Despite cuts in current spending, the Government is devoting a growing proportion of its budget to social expenditure. In 1992 alone such spending increased by 12 per cent over the previous year, or nearly 70 per cent of the Federal budget for that year, and should rise by a further 14 per cent in 1993.

With regard to tax revenue, the Government set itself the task of administering an efficient tax system. Modernization of the system involved expanding the tax base, reducing marginal rates and ensuring compliance with tax obligations.

The consolidation of public finances has been and will remain the key factor for achieving and maintaining economic stabilization.

B. Economic consistency and concerted social action

Mexico’s economic stabilization is based on a comprehensive programme that includes two essential elements: consistency over time of fiscal, monetary and exchange policies, and concerted conciliation of the wishes and interests of the various productive sectors within a Pact. Thanks to these factors, confidence in the stabilization programme has increased, which has in turn increased certainty in the domestic productive sector.

Concerted action of the various social sectors is an efficient consensus-building instrument that allows them to be involved in the economic policy decisions affecting them. Hence, inflation has been curbed without increasing unemployment.

As from 1987, the Mexican Government adopted a model of concerted social action to carry out its stabilization programme. Producers made specific commitments, sector by sector, in order to absorb part of the increase in costs by reducing profit margins. Meanwhile, trade unions offered to adopt overall guidelines for wage moderation. The original agreement, known as the "Economic Solidarity Pact", has been renewed in order to maintain its effectiveness.
The main elements of this policy of concerted social action are:

(a) open discussion of cost-sharing among the various sectors;
(b) clear mechanisms for evaluating compliance with commitments; and
(c) adjustment of commitments when, and only when, shown to be essential.

More recently, the system of concerted action used in the Pact has gone beyond the sphere of economic stabilization. The Mexican Government is successfully using such a model in international trade negotiations, in which the entrepreneurial, labour, agricultural and academic sectors actively participate, thus providing close co-operation between the official negotiating team and the other productive sectors of the country.

In addition, concerted action is an essential instrument of the export promotion programmes carried out by the Government through the Export Promotion Joint Commission. Through this Commission, domestic industry and the Federal Government identify and overcome obstacles hindering exports.

C. Restructuring of external debt

The renegotiation of the country’s external debt reversed the net transfer of resources abroad. The Government not only had the resources to finance economic growth internally, but also restored the conditions for confidence in the country in international markets.

The net transfer of resources abroad in the period 1982-1988 amounted to an annual average of 5.4 per cent of GDP, as a result of the excessive burden of the country’s external debt service and a serious deterioration in the terms of trade. This flow of resources abroad represented the biggest obstacle to economic growth, as it prevented domestic saving from being channelled to consumption and investment.

In order to reverse this situation, the Mexican Government drew up a strategy to reduce permanently both the total external debt as well as its service, and regain access to international risk capital and debt markets.

In 1990, Mexico concluded an agreement for the restructuring of its external debt with commercial banks. As a result of the negotiation, the total external debt with commercial banks was reduced by about US$7.2 thousand million in nominal terms. In addition, the Federal Government was covered against future increases in international interest rates by having US$22.4 thousand million worth of debt at a fixed annual rate of 6.25 per cent.

In order to continue reducing the total external debt and stimulate domestic and foreign investment, the Mexican Government launched a public debt-equity swap programme. To avoid inflationary pressures that might stem from this programme, it was confined solely to the financing of infrastructure projects, acquisition of public sector assets subject to divestiture, and the financing of social projects (education, environment, social welfare and health).
At the end of 1991, the contractual amount of total external public debt was 24.5 per cent of GDP. Mexico's total external debt (public and private) fell from an average of 62.5 per cent of GDP during 1982-1988 to 36.8 per cent at the end of 1991. In addition, in June 1992, US$7.2 thousand million of public sector external debt were cancelled, which is the equivalent of 8.9 per cent of the contractual total debt and 2.3 per cent of GDP of that year. At the end of 1992, external public debt totalled US$75 thousand million, while internal debt totalled 123 thousand million new pesos. In sum, total gross public debt represented 35.9 per cent of GDP in 1992.

As a result of the external debt renegotiation, the net transfer of resources abroad was greatly reduced. Over the last three years Mexico has even been a net recipient of transfers.

D. Modernization of the financial system

The recent financial reforms in Mexico comprise three components: liberalization of financial markets, institutional reforms and divestiture (privatization) of commercial banks.

Until 1989, banking activity was controlled by a broad system of regulations, based essentially on four instruments: legal reserve requirements, controls on credit to the private sector, selective credit and setting of maximum lending interest rates. In 1989 the Mexican Government took various measures to overhaul the financial system:

(a) Banks and other financial intermediaries were free to establish their rates for loans and deposits;

(b) Reserve requirements, which had in some cases amounted to 90 per cent of deposits, were replaced by a 30-per-cent liquidity ratio requirement;

(c) Compulsory lending at preferential rates for priority activities was abolished;

(d) Capital requirements were updated, in accordance with the exposure and vulnerability of financial intermediaries; and

(e) Insurance companies and other financial intermediaries were deregulated.

In addition, some of the banking regulation and control processes were replaced by a system of supervision which, in accordance with the Basel Agreement guidelines, is based on two fundamental aspects: strict capitalization (as from January 1993 banks must maintain a capitalization of 8 per cent); and creation of adequate precautionary reserves, according to the quality of their assets and risk operations.

As from 1989, open market operations began to be used to control financial system liquidity and encourage a more efficient market. In April 1990, banks were allowed to participate in the money market and invest in assets of other banks, which facilitated the trading of bank paper on the stock market. In 1991, the liquidity ratio for marginal deposit-taking was eliminated.

The Government of Mexico has promoted legal and institutional reforms to supplement the financial liberalization process. Under the new regulatory framework, banks and stockbrokers were allowed to form financial groups. These new opportunities for forming groups are aimed at promoting efficient financial intermediation, taking advantage of economies of scale and diversifying services offered to users.
The Retirement Savings System (SAR) was introduced in May 1992 as an effective instrument for promoting saving as well as social justice. Its main goal is to expand domestic saving. This system allows every worker to have control over his savings, as the contributions are deposited in individual bank accounts.

Action to modernize the financial system includes in particular the completion of the process of bank privatization. Through public auctions, eighteen banks were sold off by a streamlined and transparent process. The funds obtained from bank privatization made it possible to use resources tied up in the equity of the loan institutions and devote them to reducing internal debt.

Mexico has thoroughly overhauled its financial system so as to ensure that bank and non-bank intermediaries function efficiently and promote a more open and competitive system.

E. Economic deregulation

The consolidation of macro-economic stability has clearly revealed the existence of obstacles to competitiveness in production and marketing, in both the domestic and international markets. Deregulation of economic activity has helped to remove these obstacles, promoted the modernization of the productive infrastructure and contributed to making producers more competitive.

The reform of the regulatory framework for economic activity is one of the key elements of the change launched in Mexico in the mid-1980s. The process of deregulation has enabled enterprises to operate more efficiently and competitively.

The obsolescence of many laws and regulations in the economic sphere gave rise to inefficiency and inhibited the entrepreneurial spirit. The Mexican Government therefore decided to encourage economic deregulation as one of its main instruments.

Since 1989, the Deregulation Unit of the Ministry of Trade and Industrial Promotion has drawn up more than forty proposals to reform laws and regulations, and has contributed other legislative proposals.

The main sectors that have been deregulated or whose regulatory framework has been updated include: construction of highways, roads and bridges; port and airport services; freight and passenger transport; telecommunications; petrochemicals; textiles and saltworks; trade; customs services; metrology and standardization; transfer of technology and use of patents; mining concessions; fishery activities; land-tenure system and deregulation of financial activities.

Deregulation is more than a mere process of debureaucratization, as it focuses on the rules governing economic activities. It involves the elimination of unnecessary administrative procedures and obsolete regulations, both to scale down the Government's administrative structure and also to remove cost pressures and economic inefficiency. Deregulation has also played a major rôle as an anti-monopoly instrument.

The elimination of obsolete regulations has opened new markets and encouraged investment. In some sectors, the existing legal framework has been strengthened in order to channel competition suitably. This is true of the sectors where the former public monopolies
indirectly carried out regulatory functions. In December 1992, Congress adopted a new regulatory framework for economic competition in order to foster efficiency. This new legislation will prevent anti-competitive practices and the formation of cartels.

Moreover, in December 1992, a new Federal Law on Consumer Protection was also adopted. The law is designed to improve consumer information and protection mechanisms, as well as reducing direct State control over economic activity.

F. Divestiture of public enterprises

Public sector participation in the economy expanded considerably over past decades. This greater participation of the State in the economy had adverse repercussions on public finances, to the extent that expenditure was not accompanied by similar rises in the earnings of the enterprises concerned.

In 1983, the public sector share of GDP amounted to 26 per cent. However, the enormous financial and administrative resources dedicated to public-sector enterprises limited the State's ability to carry out its fundamental responsibilities.

The Mexican Government has reviewed its priorities in the allocation of public resources and redefined the State's rôle in the economy. Investment requirements, together with the need to strengthen public finances, led to a far-reaching process of divestiture of parastatal enterprises, by means of liquidation, merger, sale and transfer to State and local authorities.

The privatization of State-owned enterprises has two basic aims: (a) to increase economic efficiency; and (b) strengthening public finances through the resources obtained from such sales or the elimination of the subsidies previously granted to these enterprises.

Between 1983 and 1988 a large number of Government-controlled enterprises and agencies were privatized. As from 1989, divestiture efforts shifted to more important sectors and enterprises. The principal sectors privatized in this period include airlines, sugar mills, mining and fisheries, telecommunications, iron and steel, fertilizers and commercial banks.

The completion of the process of privatization of eighteen banks in 1992 is noteworthy by its scale. The total amount received from the sale of the banks was equivalent to 4.2 per cent of GDP in 1991.

The divestiture process has greatly reduced the number of State enterprises: whereas there were over 1,200 public-sector entities in 1982, there are now only 221. (Chart 2.2 - Evolution of the parastatal sector).
Privatization has been carried out in a transparent legal framework: with clear technical and financial procedures and broad public information through auction notices and publication of procedures and timetables for sales (Chart 2.3 - Process of divestiture of parastatal enterprises by sale).
CHART 2.3
PROCESS OF DIVESTITURE OF PARASTATAL ENTERPRISES BY SALE

START OF PROCESS

↓

RECEPTION OF WHITE BOOK BY RELEVANT AGENCIES: SECOGEF (TREASURY) AND ACCOUNTING OFFICE OF CHAMBER OF DEPUTIES FINANCE COMMISSION

↓

PROPOSAL BY COORDINATING AGENCY

↓

PREPARATION OF WHITE BOOK

↓

OPINION OF INTERMINISTERIAL COMMISSION ON EXPENDITURE AND FINANCE

↓

DIVESTITURE

↓

PREPARATION OF FORMAL SALE DOCUMENTS

↓

DIVESTITURE DECISION

↓

SALE AUTHORIZATION AND RESOLUTION

↓

DESIGNATION OF AGENT BANK

↓

RECEIPT AND APPROVAL OF BIDS

↓

PREPARATION OF FORMAL SALE DOCUMENTS

↓

SALE GUIDELINES

↓

TECHNICAL FINANCIAL EVALUATION

↓

BASIC PROFILE OF ENTERPRISE

→

SALE PROSPECTUSES

Source: Secretaría de Hacienda y Crédito Público.
The extraordinary income obtained from the sale of privatized entities has been channelled primarily to reducing the total internal debt. The savings made by reducing the internal debt and its service enabled the Government to devote increasing resources to productive infrastructure and social welfare programmes.

G. Liberalization of foreign investment

Foreign investment is an important factor in financing, technology transfer, job creation and export capacity. The changes made in 1989 in the regulatory framework, macroeconomic stability, economic deregulation measures and the upturn in the Mexican economy, have significantly increased inflows of foreign investment. As a result, investment recorded average real growth rates of 12 per cent between 1989 and 1991.

This new regulatory framework provides greater legal security for investors, and opens up new sectors of the economy that were previously partially or entirely reserved for Mexicans. As a result of these reforms, foreign investors may now set up enterprises with foreign majority shareholders in many economic sectors, which represent 66 per cent of GDP.

In most cases, investment projects do not need to be authorized by the Mexican Government and are automatically approved upon registration in the National Register of Foreign Investment. For other cases, authorization must be obtained from the National Commission on Foreign Investment. The Commission has forty-five days in which to issue a formal decision on the investment project, failing which the request is automatically considered granted.

In addition, the reforms permit participation by foreign investors under two new mechanisms: temporary investment trust funds and neutral investment trust funds. In the former case, foreign investment is authorized indirectly in activities in which it would otherwise be impossible (e.g. national air and maritime transport, gas distribution, motor-vehicle parts, secondary petrochemicals and mining). The maximum duration of such trust funds is twenty years.

In the case of neutral investment trust funds, the Government may authorize any enterprise, provided it is quoted on the Stock Exchange, to issue special series of shares that do not confer corporate (voting) rights. Such certificates enable foreign investors to participate freely in the Mexican stock markets.
III TRADE POLICY FRAMEWORK

A. Legal framework

Trade policy is governed by the Political Constitution of the United Mexican States and the applicable international treaties, laws, regulations, decrees, decisions and resolutions.

1. Political Constitution of the United Mexican States

The highest ranking legal provisions governing foreign trade are to be found in Articles 49, 73 and 131 of the Mexican Constitution:

(a) Article 73, indent XXIX, establishes among other things the exclusive authority of the Mexican Congress to impose foreign trade taxes;

(b) Article 131 gives Congress the authority to empower the Executive to increase, reduce or eliminate import or export tariffs and to establish other foreign trade duties, as well as to restrict or prohibit imports, exports or the transit of products when it sees a pressing need to do so; every year, the Executive submits the exercise of this power to Congress for approval; and

(c) Article 49 grants the Executive extraordinary legislative powers in the field of foreign trade.

2. Laws

The laws governing foreign trade are the Law Implementing Article 131 of the Constitution, or Foreign Trade Law, the Organic Law of the Federal Public Administration, the Customs Law, the General Import and Export Tariff Laws and the Law on the Conclusion of Treaties.

(a) The Foreign Trade Law grants the Federal Executive powers to modify tariffs, impose non-tariff barriers, and administer the Mexican Rules against Unfair Practices in International Trade, and establishes the Commission on Tariffs and Foreign Trade Controls;

(b) The Organic Law of the Federal Public Administration delegates to the Ministry of Trade and Industrial Promotion the formulation and operation of the country's foreign trade;

(c) The Customs Law empowers the Ministry of Finance and Public Credit to carry out the valuation of internationally-traded goods and impose penalties for non-compliance with provisions relating to customs operations;

(d) The General Import and Export Tariff Laws establish rules and procedures applicable to the international trading of goods; these laws include the import and export tariffs as well as supplementary rules for the classification of goods; and
(e) The Law on the Conclusion of Treaties regulates the Executive’s power to conclude international treaties which acquire force of law on the national territory after they have been approved by the Senate of the Republic.

The regulations spell out the details of the provisions set forth in the laws, and therefore cannot conflict with or go beyond the latter. The regulations in force include: Rules against Unfair Practices in International Trade, and Rules of Procedure of the Ministry of Trade and Industrial Promotion:

(a) The Rules against Unfair Practices in International Trade lay down the procedures applicable to dumping and subsidy investigations;

(b) The Rules of Procedure of the Ministry of Trade and Industrial Promotion establish the field of competence and organization of the Ministry and the responsibilities of its officials.

3. Decrees, decisions and administrative resolutions

The Ministry of Trade and Industrial Promotion carries out many of its functions by means of decrees, decisions and administrative resolutions.

The main foreign trade decrees are those establishing the Programme of Temporary Importation for the Production of Exportable Goods; the Export Promotion Joint Commission; the decrees on the issue of export permits, free zones and border areas, and sanitary, plant and animal health and environmental regulations; and the decrees establishing how the Commission on Tariffs and Foreign Trade Controls operates and on matters relating to the maquiladora industry.

There are decisions (acuerdos) subjecting foreign trade operations to the obtention of a prior import or export licence, and resolutions relating to unfair practices in international trade and tax refund applications.

In order to maintain a predictable and transparent regulatory framework, all legal provisions, including laws, regulations, decrees, decisions and resolutions governing trade policy in Mexico are published in the Official Journal (Diario Oficial de la Federación).

B. Trade policy formulation

The Organic Law of the Federal Public Administration empowers the Ministry of Trade and Industrial Promotion to formulate and conduct the country’s general foreign trade policy. It is responsible for proposing amendments to trade policy instruments.
The main powers exercised by the Ministry of Trade and Industrial Promotion in the trade field are to:

(a) study, draft and determine tariff modifications, taking into account the opinion of the Ministry of Finance and Public Credit;

(b) study and determine restrictions on import and export articles, including certification of technical regulations;

(c) establish rules for and register industrial and business ownership;

(d) regulate, guide and promote foreign investment;

(e) promote the export activity and international competitiveness of domestic industry; and

(f) participate in the trade negotiations conducted by the country in multilateral, regional and bilateral forums.

The Commission on Tariffs and Foreign Trade Controls also participates in the formulation of trade policy in Mexico. The Commission is an interministerial body headed by the Ministry of Trade and Industrial Promotion, the other members being the Ministry of Finance and Public Credit and the Central Bank. It is responsible for studying and proposing general criteria and such modifications as may be required in the sphere of foreign trade. It hears, assesses and decides on applications for changes in foreign trade policy submitted by enterprises or private individuals, other Federal Government Ministries or State Governments, or the Executive itself.

Other Executive agencies also participate in the formulation of trade policy. Their participation is governed by the Organic Law of the Federal Public Administration, which establishes their responsibilities:

(a) **The Ministry of Finance and Public Credit** is responsible for fiscal aspects of the country's trade policy, and is empowered to levy federal taxes, which include tariffs, and direct the customs and inspection services;

(b) **The Ministry of Health** carries out hygienic control and inspection of imported and exported foodstuffs and beverages, as well as control of biological products, drugs and medicinal products, with the exception of those intended for veterinary use;

(c) **The Ministry of Communications and Transport** sets technical standards for the functioning and operation of public communications and transport services and the tariffs and charges for them; it grants concessions and permits and sets charges and implementing rules for maritime, port, auxiliary and related handling operations and services connected with transport and communications;
The Ministry of Foreign Affairs promotes the co-ordination of the actions of agencies and entities of the Federal Public Administration in foreign policy matters, and therefore controls and supervises the implementation of the treaties, agreements and conventions of all kinds to which the country is a party;

The Ministry of Social Development formulates, conducts and evaluates general policy on ecological matters and environmental health, and establishes ecological rules and criteria governing the rational use of forest, sea, river and lake flora and fauna;

The Ministry of Agriculture and Water Resources advocates to the Ministry of Trade and Industrial Promotion the establishment of regulations or restrictions on imports or exports of wild flora and fauna species for their conservation or use; and

The Foreign Trade Bank (Banco Nacional de Comercio Exterior), a decentralized public sector entity, acts as a centre for the co-ordination and promotion of foreign trade through the provision of advisory services and organization of fairs and exhibitions, and also as a foreign-trade information centre.

C. International trade agreements

The negotiation and signing of international trade agreements has enabled the country to face up in better conditions to the fierce competition for capital, technology and markets, and to link up successfully with the new dynamics of the international economy.

1. GATT

Mindful of the need to ensure a multilateral trading framework establishing universal principles, rules and bodies that are fully accepted and respected by all nations, the Mexican Government decided to begin its process of accession to GATT in 1985. Mexico’s accession to the General Agreement was ratified by the Senate in September 1986 and came into force in November 1986.

On the basis of the guiding principles of the GATT and its Protocol of Accession, Mexico entered into a series of commitments towards its trading partners, which it has thoroughly fulfilled:

(a) binding of the entire General Import Tariff at a rate of 50 per cent ad valorem. Tariff bindings were also agreed at less than 50 per cent for 577 items of the present tariff classification;

(b) total elimination of the official prices used as the tax base for calculating import taxes;

(c) action to remove prior import licensing to the extent possible;

(d) adoption of the Harmonized System for the tariff classification of goods; and
(e) accession by Mexico to four of the Tokyo Round Codes (antidumping, customs valuation, import licensing and technical barriers to trade).

Mexico attaches crucial importance to the strengthening of GATT and the success of the Uruguay Round of multilateral trade negotiations. The success of the Round is vital to boost world trade in goods and services, facilitate capital flows and technology transfer, and reverse the new protectionist tendencies.

The existence of a strengthened multilateral system provides a firmer foundation for countries wishing to unite their efforts to achieve higher levels of competitiveness to do so without becoming impenetrable fortresses. The multilateral trading system complements the negotiations Mexico has recently undertaken with its main trading partners at the regional level.

2. Latin America

LAIA

The Treaty of Montevideo was signed in 1980 by eleven countries (Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela), thus establishing the Latin American Integration Association (LAIA). The Treaty establishes a system of preferences consisting of regional mechanisms: the Regional Tariff Preference, Trade Recovery and Expansion Programme and Market-Opening Lists. It also provides the possibility of establishing sub-regional preferences by means of Partial-Scope Agreements and Sectoral Agreements. In other words, bilateral or regional preferences may be established for LAIA members without extending them to all the other parties. The Montevideo Treaty and its supplementary mechanisms are consistent with the GATT Enabling Clause.

Mexico has signed bilateral partial-scope agreements with each of the LAIA countries, and has concluded eighteen sectoral agreements. Despite Mexico’s broad participation in the LAIA preference arrangements, these may be said to have made little contribution to developing its trade with other member countries. Over the last ten years, the LAIA countries’ share of Mexican trade was about 3.7 per cent annually.

In order to speed up Latin American economic integration, Mexico proposed in the LAIA a strategy for strengthening the Association and overcoming the limitations of earlier agreements. The strategy is based on ten fundamental points:

(a) conclusion of trade agreements with broad product coverage;

(b) tariff-cutting from an agreed maximum tariff;

(c) removal of non-tariff barriers to trade, with exceptions for highly sensitive products;

(d) transparent application of mechanisms against unfair trade practices and elimination of export subsidies;

(e) elimination of transport barriers and negotiation of transparent criteria for the application of technical standards;

(f) agreement of clear rules of origin;
(g) definition of transparent, transitional safeguards;

(h) agreement on streamlined and effective dispute-settlement mechanisms;

(i) creation of concrete, permanent programmes to promote trade and investment; and

(j) formation of economic sub-regions that are compatible with the multilateral trading system.

Economic Complementarity Agreement with Chile

In the framework of LAIA, and with the firm purpose of stepping up economic and trade relations with Latin America, Mexico signed a Free-Trade Treaty with Chile, officially entitled the Economic Complementarity Agreement between Mexico and Chile, which entered into force on 1 January 1992.

Its main features include:

(a) a common maximum tariff of 10 per cent and immediate removal of non-tariff barriers upon entry into force of the Agreement;

(b) total elimination of tariffs over four years for most goods and six years for a small number of products, including some agricultural, forestry, chemical, petrochemical, textiles and glass products;

(c) establishment of a set of rules to promote suitable development of bilateral trade relations, and various provisions to facilitate co-operation between the two countries; and

(d) coverage of all goods of both countries, with the exception of petroleum and petroleum products, some sea products, some agricultural products such as vegetable oils and milk powder, and used clothing.

The Agreement has increased and developed bilateral economic and trade relations between Mexico and Chile. The following may be mentioned in particular:

(a) a 35-per-cent increase in bilateral trade in 1992 compared with the previous year;

(b) appearance of new products in trade between the two countries;

(c) joint investment and burgeoning opportunities for increasing such joint investment; and

(d) interest of the Mexican business sector in speeding up tariff-cutting on various products of the two countries.
Other agreements

In August 1992, Mexico and the five Central American republics (Guatemala, El Salvador, Honduras, Costa Rica and Nicaragua) signed a Framework Agreement for Trade Co-operation as part of the regional agreements aimed at consolidating a free trade area. The Agreement contains the basic principles that bilateral treaties signed with countries of the region should include.

In the LAIA framework, and with a view to strengthening trade and capital flows with Latin America, during 1993 the Government of Mexico intends to conclude free trade agreements with other countries of the region. Negotiations are underway for the establishment of a free trade area with Colombia and Venezuela, and a proposal for a framework agreement to facilitate bilateral negotiations has been submitted to the Andean Pact countries; these negotiations have progressed very positively, particularly with Bolivia.

3. North America

For reasons of geographical proximity and intensity of economic activity, relations between Mexico and Canada and United States are particularly important. Over 70 per cent of Mexico’s foreign trade is conducted with these two countries.

Mexico’s main challenge is to achieve greater and more stable access to the markets of these two countries, eliminating discretionary and unilateral decisions that affect Mexican exports and create investor uncertainty.

On 17 December 1992, the Presidents of Mexico and the United States and the Prime Minister of Canada signed the North American Free Trade Agreement. In so doing, they brought to a close the trade negotiations between the governments of the three countries, after two-and-a-half years of talks and negotiations. This process has produced an Agreement that is consistent with the GATT rules and respects the Mexican Constitution. It is now up to the legislative bodies of each country to examine the Agreement and, as the case may be, approve it. The Agreement is supposed to enter into force on 1 January 1994.

An Interministerial Commission was set up for the purposes of the negotiations, together with an Advisory Council consisting of representatives of the agricultural, labour, business and academic sectors. Representatives of the private sector grouped together in the Foreign-Trade Business Organizations’ Co-ordinating Body (COECE) were also consulted throughout the negotiations.

The scope of the Agreement goes beyond the elimination of tariff and non-tariff barriers. It also includes provisions relating to intellectual property, investment flows, trade in services, including financial services, government procurement and dispute-settlement machinery.

The North American Free Trade Agreement will open up opportunities but also require Mexicans to produce better, cheaper and higher-quality goods. With the Agreement, producers will be able to obtain various inputs and machinery duty-free. The existence of clear and stable rules will in turn provide security for investors and exporters.
The Agreement is an important instrument, among others, of the country's economic modernization programme. It responds to Mexico's geographical situation and level of development and the new dynamics of the international economy. The greater competitiveness brought on by the Agreement will lead to higher investment and increased output and exports. This will also mean creation of stable, productive and well-paid jobs.

4. Europe

Rapid and radical changes have taken place in Europe. The European Community is trying to consolidate its single market, while the Eastern European countries are quickly changing into market economies and attempting to attract foreign investment and open up export markets.

In view of the increasing significance for Mexico of the Community market, second in order of importance for Mexican products, in May 1991 the two parties signed a Framework Agreement to govern economic relations between them. This Agreement includes co-operation measures in trade, investment, technology transfer, intellectual property, quality rules and standards, agroindustry, pig-farming and fisheries, energy planning, environmental conservation and services.

The Agreement has led to the establishment of consultation machinery to promote trade with Italy and France. Similar instruments are being negotiated with Spain and Germany. These bilateral agreements contain specific measures to raise flows of trade and investment and also to foster industrial co-operation.

5. Eastern Pacific Basin

At present, the Eastern Pacific Basin is the third largest market for Mexican products: Mexico's total trade with this region exceeds US$3,000 million. It is also an important source of foreign investment: Japan, for example, is the fourth biggest investor in Mexico.

In view of the increasing importance of the Pacific Basin for Mexico's economy, and in order to strengthen the Mexican presence in the region, negotiations with the countries of the area have been stepped up in recent years. In 1989, Mexico joined the Pacific Basin Economic Council (PBEC) and in 1991 formally joined the Pacific Economic Co-operation Council (PECC). Mexican membership of the Asia-Pacific Economic Co-operation Mechanism (APEC) is at an advanced stage of negotiation.

6. Other multilateral agreements

Mexico has been a member of the Committee of Participating Countries of the Protocol Relating to Trade Negotiations Among Developing Countries since it was set up. Nevertheless, it considers that the Protocol has lost importance as a negotiating instrument among developing countries, as it has been overtaken by the Global System of Trade Preferences among developing countries (GSTP) which has greater country and product coverage.

Mexico has been a member of the GSTP since April 1989. Mexican imports under GSTP preferences in 1991 represented 0.1 per cent of its total imports. Mexico is currently assessing the desirability of participating in the second round of negotiations to expand the coverage of this agreement.
Mexico is also a party to the international sugar, cocoa and coffee agreements. Negotiations are under way to conclude new agreements on the latter two products. In addition, Mexico has been a member of the UNCTAD Common Fund for Commodities since 1980.

Finally, the Government of Mexico has stepped up its links with the Organization for Economic Co-operation and Development (OECD). Mexico is an official member of the OECD Steel Trade Committee and participates as an observer in various other committees.

D. Participation of the production sector

International trade negotiations require broad and constant participation by Mexican society. In this spirit, the Government keeps up a constant dialogue with the various sectors of the country through consultation and co-ordination mechanisms. A clear example of these mechanisms concerns co-operation with the country’s production sectors in connection with the negotiation of the North American Free Trade Agreement.

From the moment that it was considered desirable to begin negotiations to create a free trade area with Canada and the United States, all sectors were invited to participate actively in the process. Mexican business circles, under the auspices of the country’s industrial and commercial organizations, set up a body to organize their participation. For this purpose, private organizations connected with foreign trade grouped together in the COECE (co-ordinating body of foreign trade business organizations).

The COECE groups the leaders of national business organizations and trade associations. Its members include corporations of different sizes and in different fields, from the industrial and services sectors to agricultural representatives. It comprises seven co-ordinating committees: trade/sectoral matters, manufacturing industries, agriculture and agroindustry, non-financial services, banking services, securities services, and insurance services.

These seven co-ordinating committees in turn have 140 sectoral committees, which during the preparatory stage of the negotiations studied the situation of each sector in the Mexican economy and the obstacles to entry in the Canadian and United States markets.

During the negotiations on the Agreement, the COECE and the social sector participated actively as an advisory group for the Mexican Government. Its contributions made it possible to set clear objectives, draft strategies and undertake the negotiations with a detailed knowledge of each industry.

On account of these activities, the COECE continues to carry out an important function in all Mexico’s ongoing negotiations, especially those with Latin American countries.
IV. IMPLEMENTATION OF TRADE POLICIES

A. Tariffs

Up to 1982, all imports were subject to prior licensing, there were sixteen tariff rates, the highest rate was 100 per cent, and the average import-weighted tariff was 16.4 per cent. In 1983, the Federal Government began a gradual opening which basically entailed reducing tariffs and eliminating import permits.

In mid-1985, foreign trade liberalization accelerated and import permits were replaced by tariffs for 4,408 items. Tariffs became the principal tool of trade policy. This measure substantially reduced the value of imports subject to quantitative restrictions, from 83.4 to 35.1 per cent, bringing the weighted tariff average to 13.3 per cent during that year.

Upon acceding to the General Agreement in 1986, Mexico bound its whole Import Tariff, being the first country to assume such a commitment upon entry into GATT. Practically the whole Tariff was bound at a 50 per cent ceiling, excepting some products bound at lower levels.

The General Import Tariff (TIGI), comprising 11,828 Harmonized System items in 1992, has been geared towards the following objectives:

(a) maintaining low tariff rates;
(b) reducing tariff dispersion; and
(c) the continued replacement of quantitative restrictions by tariffs.

In addition to the duty-free items, Mexico's TIGI currently contains four ad valorem tariff rates, which are 5, 10, 15 and 20 per cent (with the exception of frozen bovine carcasses, for which the tariff is 25 per cent). The most important rate in terms of value of imports and number of items is the 10 per cent tariff, which covers 49.0 per cent of items and 35.0 per cent of final annual imports. Next in importance are the 15 and 20 per cent rates, which cover 28.0 and 20.0 per cent of the total number of items, respectively. (Chart 4.1 - Tariff levels in Mexico).
The tariff structure is now much more uniform. The average tariff is 13.1 per cent, merchandise import the weighted tariff is 11.1 per cent, with a tariff dispersion of only 4.5 per cent (Table 4.1 - TIGI tariff structure).
TABLE 4.1
TIGI Tariff Structure, Main Tariff Indicators, 1984-1992

<table>
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<tbody>
<tr>
<td>Total items</td>
<td>8,063</td>
<td>8,091</td>
<td>8,206</td>
<td>8,445</td>
<td>8,472</td>
<td>11,932</td>
<td>11,838</td>
<td>11,815</td>
<td>11,828</td>
</tr>
<tr>
<td>Dutiable items</td>
<td>5,219</td>
<td>839</td>
<td>638</td>
<td>329</td>
<td>285</td>
<td>324</td>
<td>243</td>
<td>204</td>
<td>192</td>
</tr>
<tr>
<td>Duty-free items</td>
<td>2,844</td>
<td>7,252</td>
<td>7,568</td>
<td>8,116</td>
<td>8,187</td>
<td>11,608</td>
<td>11,595</td>
<td>11,461</td>
<td>11,636</td>
</tr>
<tr>
<td>Tariff average</td>
<td>23.3</td>
<td>25.4</td>
<td>22.6</td>
<td>10</td>
<td>9.7</td>
<td>10.4</td>
<td>13.1</td>
<td>13.1</td>
<td>13.1</td>
</tr>
<tr>
<td>Tariff dispersion</td>
<td>22.5</td>
<td>18.8</td>
<td>14.1</td>
<td>6.8</td>
<td>6.9</td>
<td>7.1</td>
<td>4.4</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Weighted tariff</td>
<td>8.5</td>
<td>13.3</td>
<td>13.1</td>
<td>5.6</td>
<td>6.2</td>
<td>6.2</td>
<td>9.7</td>
<td>10.5</td>
<td>11.1</td>
</tr>
<tr>
<td>Weighted dispersion</td>
<td>11.9</td>
<td>10.1</td>
<td>13.2</td>
<td>6.9</td>
<td>7.4</td>
<td>7.7</td>
<td>6.9</td>
<td>6.8</td>
<td>6.7</td>
</tr>
<tr>
<td>Number of rates</td>
<td>10</td>
<td>10</td>
<td>11</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
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</tr>
</tbody>
</table>

Source: Secretaría de Comercio y Fomento Industrial.

Since 1988, the Mexican tariff structure has been based on the Harmonized Commodity Description and Coding System. The whole Mexican tariff is composed of ad valorem duties, with the exception of eight items in the sugar sector. The tariffs for these items are calculated on a monthly basis using national reference prices and a monthly average of spot prices on the New York and London exchanges. Mexico also levies seasonal tariffs on three products only: grain sorghum and soya beans (duty-free and 15 per cent) and safflower oil (duty-free and 10 per cent).

The General Export Tariff (TIGE) is applied minimally, only for the purpose of discouraging the exploitation of some animal species, and to some petroleum products and for products deemed to be part of the nation's historical heritage. At present, in addition to the free items, there are three tariff levels, 5, 25 and 50 per cent; only 26 of the 5,184 items in the Export Tariff are subject to duty. Thus, almost 99.0 per cent of the value of exports is exempted from the payment of this duty.
In the framework of the LAIA, the tariff preferences agreed by Mexico consist of percentage reductions in the current most-favoured-nation duty.

Mexico has signed Partial-Scope Agreements with the countries of the Central American Common Market and Panama to which it grants unilateral preferences. It also has Partial-Scope Agreements with the member countries of the LAIA and Cuba, under which reciprocal tariff preferences are granted.

In the case of the Regional Tariff Preference, with the exception of the products contained in the list of exceptions by country, Mexico, Argentina and Brazil grant a reciprocal preference of 20 per cent for the whole tariff schedule. A 28 per cent preference is accorded to the intermediate-developed countries, namely Colombia, Peru, Uruguay and Venezuela. The relatively less-developed countries (Ecuador) are granted a 40 per cent preference and the land-locked less-developed countries, Bolivia and Paraguay, enjoy a 48 per cent preference.

Under the Regional Programme for the Recovery and Expansion of Trade, each country grants preferences to the products involved according to the level of development of the LAIA member countries. Mexico grants Argentina and Brazil a 60 per cent tariff preference; Colombia, Peru, Uruguay and Venezuela, 70 per cent; Ecuador, 80 per cent; and Bolivia and Paraguay, 90 per cent.

In the coming years, the Government of Mexico intends to modify its tariff structure in order to establish greater clarity and precision in the classification of merchandise and to reduce the scope for discretion in the interpretation of the texts. Mexico’s tariff policy will also be reviewed so that, if necessary, it may be adjusted in order to make it competitive with the tariff structures of its principal trading partners.

B. Quantitative restrictions

Until 1982, Mexico’s import régime included, inter alia, a complicated system of quantitative restrictions and import licensing covering all products.

At present, quantitative restrictions have been replaced by tariffs for almost the entire Import Tariff. While in 1988, 28.0 per cent of the value of imports was subject to prior licensing, in 1991 that percentage was down to 10.0 per cent. For example, permits for meat imports have been eliminated. Currently, only 192, or 1.6 per cent, of the 11,828 Import Tariff items, are subject to import licensing, representing only 11.0 per cent of the value of total imports for 1992. (Chart 4.2, Imports subject to quantitative restrictions). Mexico applies import quotas to only 3 tariff headings: milk powder or granules, evaporated milk and processed cheese, with the exception of grated cheese.
While these measures are applied on a very limited basis in Mexico, they are used when:

(a) the international market for agricultural products (e.g. wheat, maize, barley, eggs and poultry) is distorted by protection, internal support and export subsidies practised by different countries;

(b) adjustment costs are high in some sectors, since sometimes the land can be put to no alternative use in the short term (e.g. beans);

(c) the Government wishes to reinforce the close season imposed in order to preserve what are considered to be endangered species, to comply with commitments assumed under the Convention on the International Trade of Endangered Species, CITES (e.g. borrego cimarrón (wild sheep), bear, wolf, rattlesnake, flamingo, turtle, quetzal and song-birds); and

(d) control over the products concerned is reserved for the State under the Mexican Constitution (e.g. for reasons of national security or public health, or in the case of hydrocarbons).

Import permits are still in force for crude petroleum, gas, some petroleum products, some basic agricultural and agro-industrial commodities, and the automotive industry; and temporarily for some pharmaceutical items.

As regards the allocation and distribution of permits, progress has been made in
establishing a transparent regulatory framework. The Government of Mexico has laid down
general criteria for allocating import permits based on clear rules and procedures, thus avoiding
arbitrariness in decision-making. Procedures have also been further automated, enabling the
authorities to give a reply within a maximum period of four days.

In respect of agricultural products, the Committee for the Analysis, Authorization and
Follow-up of Commodity Import Permits is responsible for studying and, as the case may be,
approving applications to import commodities that are subject to prior licensing. In this way the
Committee brings greater flexibility and transparency to the formalities for importing these
products.

Mexico is a signatory to the Code on Import Licensing Procedures.

C. Customs administration and valuation

Customs operations are one of the areas where change has been greatest under the
economic modernization programme. Over the last five years, the major changes have been
focused on establishing a regulatory framework and competitive customs procedures that facilitate
foreign trade.

In 1987, Mexico adopted the Harmonized System, at the same time as joining the Customs
Co-operation Council and signing the GATT Customs Valuation Code.

A computer system for automatic compilation of import declaration data was installed in
1989 as the first step towards introducing a fully computerized customs clearance system. In the
three principal customs posts, Nuevo Laredo, Mexico City Airport and Veracruz, progress has
been made towards fully computerized customs clearance.

As of 1990, the Government of Mexico established a system of random selection by
means of computers installed in all customs offices throughout the country which singles out about
10 per cent of import consignments for checking. This system has also been adopted for checking
the luggage of international travellers by means of the so-called "customs inspection traffic-light".

In order to enhance the control and operation of the Mexican customs system, the
Customs Law was amended in July 1992 to bring national legislation into line with the
requirements of the GATT Customs Valuation Code. Recent reforms also include the adoption of
the various methods of customs valuation, with the exception of the "computed value" method.

In the past, customs administration was the exclusive province of government, with no
participation by private parties. Recently, however, the private sector has been entrusted with
activities such as warehousing, handling and custody of goods involved in foreign trade which are
deposited in customs. In the near future, the private sector will also take over the handling of the
computer equipment and the electronic processing of customs clearance data. Furthermore, the
Law provides that private parties will be authorized to provide services to facilitate customs
inspection of goods, based on the opinions of experts.
D. Standards and other technical regulations

The Mexican Government carries out metrology, standardization, testing and certification activities in the country. In previous years these activities were marked by a high degree of centralization and discretion, negligible private-sector participation and lack of the resources needed to ensure transparency in standardization, testing and certification.

Mexico's trade liberalization and its insertion in the world economy brought out the need to review the existing standardization policy. Internationally competitive systems for quality and marketing of goods and services had to be adopted in order to enhance the quality of Mexican exports.

The Federal Law on Metrology and Standardization was enacted in 1988. The Law placed greater emphasis on the development, drafting and observance of Mexican Official Standards (NOM), which are equivalent to the technical regulations laid down in the GATT Code on Technical Barriers to Trade, of which Mexico is a signatory. The Law guaranteed consumers a minimum quality of goods and sought to improve export competitiveness.

That Law was repealed and a new one enacted in July 1992, creating a regulatory framework making for greater transparency in the setting of standards and encouraging direct participation by producers and consumers in their elaboration. The chief reforms introduced under the new Law are:

(a) it confirms the obligation to verify compliance with mandatory standards for both domestic and imported products;

(b) it decentralizes the setting of NOMs from the Ministry of Commerce and Industry Promotion to other public regulatory bodies;

(c) it creates the National Advisory Committees on Standardization, with the participation of government agencies and producers;

(d) it authorizes the setting of voluntary standards by the private sector, known as Mexican Standards;

(e) it authorizes private laboratories to certify quality, in respect of both NOMs and Mexican Standards; and

(f) it creates the National Metrology Centre.

The aim of these changes is to establish rules enabling industry to operate on a more secure legal basis and with lower information costs. The Law does not discriminate between imported and domestic products in the treatment accorded.

At present NOM testing is done in government laboratories and by means of a network of over 115 laboratories accredited for this purpose. Moreover, in order to streamline import trade flows, provision is made for certification of technical standards by manufacturers abroad. The Law envisages the possibility of promoting "Mutual Recognition Protocols" between Mexico and any other country interested in obtaining NOM certification.
Standards-related activities in Mexico are geared towards the needs of an open economy. With the recent reform introduced by the new Law, the National Standardization Commission will be set up and recognition given to standardization activities carried out by government-accredited private bodies. Incentives will also be provided for private-sector investment in testing laboratories, which will be given the corresponding recognition.

Private-sector bodies will be empowered to carry out certification and testing for compliance with standards, based on internationally-accepted criteria. International recognition of the Mexican system of national standards and certification will also be promoted.

Existing government laboratories will be privatized and encouragement will be given to the creation of private laboratories to meet the needs of small and medium-sized enterprises in particular. Greater efforts will also be made to link private industrial laboratories more closely with the country's technological institutes and universities in order to maximize the use of existing facilities.

Under phytosanitary, sanitary and public health regulations, compliance with standards and, in some cases, product registration (especially in the case of perishable goods and foodstuffs) are mandatory. The competent authorities are the Ministry of Agriculture and Water Resources and the Ministry of Health.

Mexico has greatly simplified administrative formalities for obtaining sanitary and phytosanitary permits for agricultural products, fertilizers and agro-chemicals. Whereas in 1986 all agricultural and forestry products needed sanitary or phytosanitary authorization, this is currently required only for products with a high quarantine risk. The Law establishes a maximum period of three days for obtaining a reply to applications for phytosanitary import or export permits.

All standards-related regulations, including sanitary and phytosanitary provisions, are published in the Official Journal, thus ensuring transparency for exporters and importers.

E. In-bond (maquiladora) industry

The term "maquiladora" refers to an assembly plant operating on Mexican territory under a special customs and foreign investment régime. The maquiladora programme is based on duty-free temporary import of materials used to produce goods for re-exportation.

The present legal bases for maquiladora operations were laid down in the Decree for the Encouragement and Operation of the Maquiladora Export Industry, published in the Official Journal on 22 December 1989. The Decree defines the activities of maquiladoras as industrial or service operations for the processing, manufacture or repair of foreign merchandise imported temporarily for subsequent re-exportation. These operations may be carried out by companies devoted exclusively to exportation or by already established companies that are geared towards the domestic market but wish to utilize their spare installed capacity.

The maquiladora régime permits the temporary duty-free importation of, inter alia, inputs, machinery and equipment directly related to the production process.
Maquiladoras can direct part of their output to the domestic market: a maquiladora plant is allowed to sell 50 per cent of the value of its annual exports on the domestic market. Nevertheless, such domestic sales are subject to the payment of the corresponding duties based on the foreign content incorporated in the finished product.

Maquiladora plants may be set up anywhere on the national territory that is designated for industrial development. Furthermore, the current foreign investment régime allows 100-per-cent foreign stock-holding in maquiladora operations.

The maquiladora programme has been an important instrument for promoting Mexican exports. The number of maquiladora plants has grown at an annual rate of 16 per cent. At present there are over 2,000 enterprises, of which 549 are located in non-border regions. The maquiladora industry employs almost half-a-million workers, representing 15 per cent of the total labour force of manufacturing industry. The electricity and electronics, automotive and textiles industries account for over half of the maquiladora plants. In 1991, the maquiladora programme accounted for more than 35 per cent of the country's total exports.

F. Government procurement

Government procurement in Mexico is subject to specific rules governing the different stages of tendering. With a view to guaranteeing that the Government gets optimum conditions of price, quality and financing, Article 134 of the Constitution stipulates the holding of open (public) tenders.

To implement this constitutional provision, the Laws on Procurement and on Public Works were enacted to regulate the award of contracts for goods and related services, and for public works, respectively. These laws furnish the legal bases for the participation of suppliers in tenders for procurement by the Federal Government and parastatal entities.

Both laws recommend that preference should be given to domestic goods and services. To that end, the public sector issues calls for national and international tenders. National tenders are those open strictly to suppliers established in the country, irrespective of the origin of their capital stock. There is no discrimination between national and foreign suppliers in international tenders. The purchasing entity is empowered to decide whether a call for tenders will be national or international. The current legal framework provides for the use of neither price margins of preference nor offsets.

There is no central government procurement office in Mexico. Each entity may conduct its own purchasing.

The Mexican procurement system is based on public bidding open to any interested supplier who meets the requirements established in the calls for tenders and in the bidding terms and conditions. Only in specific cases which are clearly indicated in the law may direct awards be made or tenders invited from at least three suppliers. The Budget Law establishes annual thresholds for contracts that may be awarded directly or by invitation, based on the budget of each entity (Table 4.2 - Thresholds for direct awards and tenders by invitation).
### TABLE 4.2
Threshold Values for Direct Awards and Tenders by Invitation, 1992
(Thousand dollars)

<table>
<thead>
<tr>
<th>Entity’s budget</th>
<th>Direct awards</th>
<th>Tenders by invitation (3 suppliers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over</td>
<td>Up to</td>
<td></td>
</tr>
<tr>
<td>340</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>1,019</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td>2,547</td>
<td>1</td>
<td>29</td>
</tr>
<tr>
<td>5,093</td>
<td>2</td>
<td>39</td>
</tr>
<tr>
<td>10,187</td>
<td>2</td>
<td>49</td>
</tr>
<tr>
<td>16,978</td>
<td>3</td>
<td>60</td>
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<tr>
<td>33,956</td>
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<td>71</td>
</tr>
<tr>
<td>67,912</td>
<td>3</td>
<td>86</td>
</tr>
<tr>
<td>101,868</td>
<td>3</td>
<td>105</td>
</tr>
<tr>
<td>152,801</td>
<td>4</td>
<td>125</td>
</tr>
<tr>
<td>203,735</td>
<td>4</td>
<td>149</td>
</tr>
<tr>
<td>271,647</td>
<td>4</td>
<td>176</td>
</tr>
<tr>
<td>339,559</td>
<td>5</td>
<td>207</td>
</tr>
</tbody>
</table>

### Public Works, 1992
(Thousand dollars)

<table>
<thead>
<tr>
<th>Entity’s budget</th>
<th>Direct awards</th>
<th>Tenders by invitation (3 suppliers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over</td>
<td>Up to</td>
<td></td>
</tr>
<tr>
<td>1,358</td>
<td>5</td>
<td>42</td>
</tr>
<tr>
<td>3,396</td>
<td>6</td>
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<td>5,942</td>
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<td>65</td>
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<td>8,489</td>
<td>9</td>
<td>80</td>
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<td>11,885</td>
<td>11</td>
<td>99</td>
</tr>
<tr>
<td>16,978</td>
<td>13</td>
<td>117</td>
</tr>
<tr>
<td>42,445</td>
<td>15</td>
<td>139</td>
</tr>
<tr>
<td>71,307</td>
<td>18</td>
<td>159</td>
</tr>
<tr>
<td>101,868</td>
<td>21</td>
<td>186</td>
</tr>
<tr>
<td>152,801</td>
<td>24</td>
<td>212</td>
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<tr>
<td>212,224</td>
<td>28</td>
<td>254</td>
</tr>
<tr>
<td>271,647</td>
<td>31</td>
<td>280</td>
</tr>
<tr>
<td>339,559</td>
<td>34</td>
<td>309</td>
</tr>
<tr>
<td>Or over</td>
<td>38</td>
<td>344</td>
</tr>
</tbody>
</table>

Source: Secretaría de Hacienda y Crédito Público.
Contracts are also awarded directly in order to safeguard national security, social order, health and the environment and, in cases of emergency, for the purchase of staple foods or to promote the welfare of disadvantaged groups.

Under the Mexican system of government procurement, administrative remedies exist for challenging contracts through the Office of the Auditor General, which supervises and controls activities concerned with government procurement. Both national and foreign suppliers have access to this recourse.

To expedite procurement procedures, amendments were made to the existing regulatory framework in 1988 and 1991. Chief among these are:

(a) elimination of tenders by invitation to eight suppliers;
(b) elimination of formalities for the granting of permits and licences for foreign goods; and
(c) elimination of lists of suppliers and/or contractors as a pre-requisite for participation in bidding.

Although Mexico is not a signatory to the GATT Government Procurement Code, foreign suppliers now participate in public-sector procurement tenders in Mexico. In 1988, the Government imported more than 20 per cent of its overall purchases.

The total value of government procurement for 1990 was US$18.4 thousand million, of which 84.7 per cent was for parastatals, mainly the Federal Electricity Commission and Petróleos Mexicanos (Table 4.3 - Total value of government procurement).

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Goods</th>
<th>Services</th>
<th>Public works</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>18,440</td>
<td>8,715</td>
<td>4,879</td>
<td>4,846</td>
</tr>
<tr>
<td>Federal Government</td>
<td>2,818</td>
<td>1,038</td>
<td>1,058</td>
<td>722</td>
</tr>
<tr>
<td>Parastatals</td>
<td>15,622</td>
<td>7,677</td>
<td>3,821</td>
<td>4,124</td>
</tr>
<tr>
<td>Pemex</td>
<td>4,752</td>
<td>1,652</td>
<td>1,282</td>
<td>1,818</td>
</tr>
<tr>
<td>CFE</td>
<td>3,481</td>
<td>1,786</td>
<td>164</td>
<td>1,531</td>
</tr>
<tr>
<td>Other</td>
<td>7,389</td>
<td>4,239</td>
<td>2,375</td>
<td>775</td>
</tr>
</tbody>
</table>

Source: Secretaría de Hacienda y Crédito Público.
G. Anti-dumping and countervailing measures

The system to combat unfair foreign trade practices was set up in 1986. Its aim is to neutralize import-price distortions stemming from dumping or subsidies that cause or threaten injury to domestic industry. The current legal framework is geared towards affording timely and objective protection to national industry against unfair international trade practices.

Three instruments exist in Mexico for protection against unfair practices. They are the Foreign Trade Regulatory Act Implementing Article 131 of the Constitution of the United Mexican States (the Foreign Trade Law), the Rules Against Unfair International Trade Practices and the GATT Anti-Dumping Code. While Mexico is not a signatory to the Subsidies Code, the "Illustrative List" attached to this Code forms part of the Rules.

The Ministry of Trade and Industrial Promotion (SECOFI) is responsible for operating both aspects of the system against unfair practices, i.e. investigation of dumping/subsidies and investigation of injury. It is also responsible for examining applications for the establishment of safeguards (Article 5(vi) of the Foreign Trade Law), under the conditions of GATT Article XIX.

As of January 1993, the Mexican Government had initiated a review of eighty-three anti-dumping cases. They are classified by product/country, regardless of the number of tariff items or exporters involved. Currently, eighteen cases are "active", pending final determination, while sixty-five have been "closed", as they have reached the stage of final determination or review of a final determination. In Mexico, cases "closed" with a definitive anti-dumping duty are reviewed regularly each year.

On current figures, only 27 per cent of anti-dumping investigations have a trade-restrictive effect. In the remaining cases, no anti-dumping duties are applied, or if they are, only to certain exporters while the others face no constraints. Only two subsidy investigations have been initiated in Mexico, these being against Venezuela and Malaysia.

Mexican legislation provides for two procedures for dealing with unfair practices: ordinary and de officio. In principle de officio investigations arise only in exceptional cases. Normally, investigations are initiated upon receipt of a complaint.

The investigation procedure has three stages: provisional determination, review of the provisional determination and final determination. Notice of these stages is published in the Official Journal. SECOFI also publishes in the Official Journal case rejections, initiations of reviews, and reviews of final determinations.

Based on SECOFI practice for the last two years, the average timeframes for anti-dumping 25/3/1993 investigations are:

(a) nine months (one year maximum) for reaching a final determination, once the initiation of investigation (provisional determination) has been published in the Official Journal;

(b) four to five months for a review of the provisional determination;
(c) four to five months for reaching a final determination, once the provisional determination has been published; and

(d) where countervailing duties have been imposed, reviews are conducted at the end of one year following the publication of the final determination.

Before levying anti-dumping/countervailing duties, the authority must ascertain the existence of three elements: unfair practice (dumping or subsidies), material injury or the threat thereof and a causal link between them. Before making a final determination, SECOFI consults the Commission on Tariffs and Foreign Trade Controls (CACCE), an interministerial body composed of the Ministry of Finance, the Bank of Mexico and SECOFI itself. CACCE works to ensure that there is consistency between anti-dumping/countervailing determinations and national trade and economic policy. The participation of CACCE in anti-dumping procedures also ensures that due consideration is given to the public interest.

SECOFI always estimates margins of dumping by comparing two average prices which are computed for a representative period, usually six months. Under the current Law, prices are adjusted for physical differences, differences in quantity, terms and conditions of sale and for variations in tax burdens. In most anti-dumping cases initiated, the normal value is the actual price. Cases in which the normal value is a constructed price are exceptional.

Exporters are given a minimum period of one and a half months in which to submit the completed investigation form. To facilitate the submission of replies and for the sake of transparency, SECOFI also sends them a copy of the form in English. Once a provisional anti-dumping duty has been established, exporters may request the holding of disclosure meetings at which SECOFI make an oral and written presentation of computed margins of dumping.

Since 1991, the Government of Mexico has been conducting investigations of exporters abroad. SECOFI consults in advance with the accountants of the company to be investigated and forwards a detailed work schedule two or three weeks ahead of the visit. This procedure contributes to the seriousness and professionalism of the system.

In Mexico, allegations of a causal link between dumping and injury are investigated upon receipt of the complaint. This approach has resulted in the formal or informal rejection of many cases.

The margin of dumping plays a crucial rôle in determining injury under the Mexican system. The method used follows the so-called "unitary" approach, which means that a direct link is established between dumping and injury throughout the entire process. Specifically, the "unitary" approach entails demonstrating a causal relationship between the prices of dumped imports and prices of the domestic product.

In analysing injury, SECOFI takes special care to ensure that the effects of factors other than dumping, or spurious factors, are not attributed to dumping. It also applies the "lesser duty rule". SECOFI assesses whether, in the absence of dumping, domestic prices would correspond to the normal value in the exporting country, to the export price or to a price falling between the two. To solve this problem, an international price is determined as a reference for situating domestic prices in the absence of dumping.
In the case of raw materials quoted on international exchanges, it is relatively easy to identify the international price. For manufactures, the international price is estimated based on the average export price of countries not involved in the investigation. Investigations sometimes concern highly differentiated manufactures produced by only one producer worldwide. In such cases, the only solution is to use the normal value as the international price.

Import prices can affect domestic prices either by driving them downwards or by restraining them. The result is that prevailing domestic prices are lower than they ought to be. The first case is known as "price depression" and the second as "price compression". Once a causal relationship has been established, SECOFI gauges the impact of the depression or compression of domestic prices on the other variables prescribed by law for assessing injury. These are output, sales, stocks, employment and wages, among others. If the existence of "material injury", is determined, an anti-dumping duty is then levied.

Naturally, international reference prices are useful only on markets where there are no significant distortions. SECOFI would not take world sugar or dairy prices, for example, as an "efficiency" price.

For the sake of maintaining balance between the parties involved in an investigation, the Government of Mexico also investigates local companies. The standards used for investigating complainants are just as rigorous as those applied to exporters. SECOFI has therefore closed investigations when it has been unable to substantiate claims of price depression after reviewing the books of the company lodging the complaint.

According to trade flow data for 1991, existing anti-dumping duties affected less than 0.5 per cent of the value of that year's imports.

The Federal Government will promote an initiative to establish a specific judicial instance (trade courts) for the expeditious and non-burdensome resolution of such foreign trade problems as unfair trade practices. Its aim is that the rules of law and the courts concerned with foreign trade should match an open economy.

H. Free zones

These are specific geographical areas that come under a foreign-trade system different from that of the remainder of the country. The policy for the establishment of free zones dates back to the early 1930s, and was designed to facilitate the supply to relatively inaccessible areas of consumer and producer goods through the incentive of liberalized foreign trade.

At present, Mexico’s free zones are the States of Baja California del Norte and Baja California del Sur, some municipalities of the States of Sonora and Quintana Roo, the southern area bordering on Guatemala, as well as the City of Salina Cruz, in Oaxaca State. This system permits the duty-free importation of about 75 per cent of all the items in the General Import Tariff.
In the northern frontier area there is also preferential tax and foreign-trade treatment for industry and organized trade covered by the Decree on Border Industry and the Decree on Trading Companies, published on 31 October 1989. This area is defined as the twenty-kilometre strip running parallel to the frontier with the United States. The most important cities in that region are Tijuana and Mexicali, in Baja California; Matamoros, Reynosa, Miguel Alemán and Nuevo Laredo, in Tamaulipas; Ciudad Acuña and Piedras Negras, in Coahuila; Ciudad Juárez, in Chihuahua; and Agua Prieta and Nogales, in Sonora.

I. Export promotion

Within the context of an open trading environment and deregulation of the economy, export promotion programmes are geared towards boosting the competitiveness of national industry both locally and internationally. The two bodies currently responsible for carrying out government export promotion are the Export Promotion Joint Commission (COMPEX) and the National Foreign Trade Bank (BANCOMEXT).

1. Export Promotion Joint Commission (COMPEX)

The purpose of this Commission is to remove technical and administrative obstacles to the export of manufactures. As such, it serves to bring to the attention of the relevant authorities any obstacles to exports detected, so that they can be dealt with. COMPEX operates mainly by co-ordinating actions between government and the private sector in order to promote Mexican exports.

The Commission is a joint co-ordination mechanism for drawing up criteria, guidelines and policies for promoting the export of non-petroleum goods and services. Its joint character derives from its composition, which includes representatives of private sector export bodies and of government agencies involved in foreign trade.

COMPEX takes stock of and follows up projects that are generated by the export sector and in turn proposes and implements programmes to promote specific industries or regions. It also deals with problems facing exporters on international markets.

Companies make their submissions at COMPEX meetings, which are held to evaluate and decide on the measures to remove regulatory or administrative obstacles facing the exporting sector. To comply fully with its terms of reference and ensure co-ordinated action on all fronts, COMPEX meetings are held at three levels:

(a) State - the Commission meets monthly;

(b) regional - these meetings are bimonthly and they further examine cases that were not settled at the State level; if within a period of thirty days no solution is found at either of these two levels, the cases are referred to the national COMPEX; and

(c) national - this is composed of senior civil servants and heads of private sector entities members of the Commission; should a matter remain unresolved by this body, it is referred to the President of the Republic.
Following this mechanism, and with a view to resolving infrastructural problems, sectoral COMPEXes were set up for railways, ports, electricity, customs and transport equipment. There are also international COMPEXes to foster closer ties with importers of Mexican goods, resolve problems relating to the import of those goods and to promote exportable Mexican supply. Considerable success has been achieved in Germany, Belgium, Spain, France, Italy, the United Kingdom, Canada and Chile by this mechanism.

COMPEX assists in solving problems hindering exports and establishes direct contact between exporters from all over the country and civil servants responsible for dealing with their problems. In short, this co-ordination mechanism has helped to develop a new export philosophy in the public and private sectors which stresses the need to eliminate obstacles promptly and to stimulate greater export activity.

2. National Foreign Trade Bank (Bancomext)

Bancomext is the financial institution that supports Mexico’s foreign trade by channelling credit, guarantees and promotional services. Although it is a State development bank that operates as a "second tier" bank, it does not receive government transfers. Its main purpose is to foster the involvement of Mexican producers in international trade.

Bancomext ensures financing for Mexican producers on terms similar to those of their principal international competitors. It thus encourages investment and helps to modernize production facilities, stimulating diversification of export products and markets.

Bancomext’s promotional programme follows a selective approach. Its activities focus on the holding of trade fairs, the development of export projects and of information services, advisory services and training.

Bancomext’s promotional policy was given a boost with the creation of the Centre for Services to Foreign Trade in September 1991. Both Bancomext and the Ministry of Trade and Industrial Promotion participate in the new strategy, furnishing all companies with timely information concerning products, markets, importers, exporters and other aspects of international trade. A priority for Bancomext under this programme has been the development of foreign-trade databases.

The Centre for Services to Foreign Trade also offers a consulting service covering all aspects of foreign trade operations, and renders assistance and other services needed by the export sector to gain access to international markets. The Centre also provides technical training for the various participants in Mexico’s export sector by means of training courses in its Technical Training Institute.
V. OTHER MEASURES RELATED TO FOREIGN TRADE

In order to achieve sustained competitiveness the Government has implemented a number of macroeconomic policies to reduce costs and improve supplies. These measures supplement the progress achieved in the management of the country's macroeconomic policy. This chapter describes the most recent changes in some sectors of the economy that have enhanced the competitiveness of national industry and foreign trade. The reforms are geared towards stimulating economic initiative and innovation, which are indispensable to an open economy.

A. Industrial policy

1. Objectives

Industrial policy is designed to remove obstacles to competitiveness, expand the production base, encourage investment and promote new technologies.

In order to eliminate unnecessary administrative and regulatory obstacles to production, the Federal Government is encouraging co-operation agreements with industries that have demonstrated substantial production potential. These agreements are aimed at:

(a) carrying out training programmes for entrepreneurs and workers, encouraging access to new technologies and promoting the development of domestic and foreign trade activities;

(b) instituting mechanisms to improve and check product quality, and forging strategic alliances between Mexican and foreign companies;

(c) drawing up financing programmes, deregulation measures and mechanisms to improve the environmental impact of industry; and

(d) matching the supply and demand for production infrastructure projects.

The Government and the production sectors assume specific commitments on human resource development and the integration of production lines. These programmes are primarily promotional, and seek to avoid distortions or anti-export biases, while bringing down costs, eliminating inconsistencies and boosting competitiveness.

Special attention has been paid to modernizing micro, small and medium-sized business on account of its importance as a source of employment and its contribution to manufacturing output. At present, programmes are being elaborated to organize micro industries and sub-contracting exchanges. Efforts will continue to be made to bring small and medium-sized businesses together so that they can share costs, add new technologies, engage in joint marketing and distribution, forge strategic alliances and participate in trade fairs and missions.
The automotive industry is one of the most dynamic in Mexico’s industrial development and economic growth. In its infancy, it concentrated mainly on the assembly of certain auto parts and vehicles. Subsequently it started manufacturing auto parts, engines and vehicles. In recent years, the industry as a whole achieved its highest production level since its establishment, with average sales surpassing 826,000 vehicles annually.

In the past it was subject to a regulatory framework with inherent problems and contradictions. Together with the goals of import-substitution and export promotion, restrictions were imposed on foreign investment and the industry was unable to achieve efficient scales of operation, as it used costly and inefficient components.

In 1989, the Decree for the Development and Modernization of the Automotive Industry and the Decree for the Development and Modernization of the Transportation Vehicles Manufacturing Industry eliminated the previous constraints on production. The principal changes to the regulatory framework have made the following possible:

(a) companies are free to determine the vehicles and models that they will produce;
(b) the local-content requirement in the manufacture of vehicles has been eliminated; nevertheless, the motor cars and light trucks industry is still required to incorporate 36 per cent of national valued-added in their products;
(c) the share of foreign investment can be as much as 40 per cent in national auto-parts companies that sell at least 60 per cent of their output to Mexican assembly plants; while, majority foreign stockholding of up to 100 per cent of national auto-parts supplier firms is permitted, provided that in both cases the product contain 30 per cent of national value added;
(d) foreign investors can hold up to 100 per cent of the equity of assembly plants in the terminal industry;
(e) restrictions on the establishment of new assembly plants have been eliminated; and
(f) domestic and international prices of products of this industry can be brought into line.

Mexico’s automotive industry is its second largest after the petrochemicals industry. Mexico is now among the 12 leading motor-vehicle manufacturers worldwide. National sales amounted to 550,000 vehicles, while more than 276,000 units were exported.

In 1990 the automotive industry generated 2.3 per cent of GDP and 9 per cent of manufacturing output. It employs some 400,000 workers, or 10 per cent of the work-force in manufacturing industry.
The Mexican auto-parts industry comprises over 500 firms, many of which are internationally competitive in quality and price. This branch has undertaken joint investment with foreign producers to obtain state-of-the-art technology. Since 1987, the industry has displayed remarkable buoyancy, posting an average annual growth rate of 26.3 per cent. This strong growth was the result of a surge in domestic sales of finished vehicles, exports of assembled vehicles, engines, in-bond assembly products and direct exports.

3. Chemical and petrochemical industries

The development of the petrochemical industry in Mexico is of the highest priority for the Government, in the light of its importance as a supplier of essential inputs for domestic industry and its rôle as a major source of foreign exchange.

The legal framework reserves to the Mexican State the production of basic petrochemicals, as stipulated under the Constitution. Nevertheless, it allows national and foreign private participation in the secondary petrochemicals industry. The percentage of foreign stockholding permitted is 40 per cent.

Under the current classification of petrochemicals, the number of secondary petrochemicals that may be produced by the private sector has increased, and the State now reserves for itself only the production and marketing of basic petrochemicals: ethane, propane, butane, pentane, heptane, hexane, naphta and the raw materials for producing carbon black.

Import and export licenses are used to reserve to the State the right to market basic petrochemicals. Secondary petrochemicals are exempt from prior import or export licensing requirements.

This sector has registered high production growth rates in recent years. Between 1982 and 1992, the volume of output grew at an annual average rate of 9.1 per cent. This buoyancy is due principally to the rising world market share of Mexican petrochemicals. The industry accounted directly for 1.2 per cent of national income in 1991 and contributed 5.4 per cent of manufacturing output. The industry’s plant capacity is currently 25.3 million tonnes. A third of this capacity came on stream over the last eight years.

4. Pharmaceutical industry

The promotion of the pharmaceutical industry has been based on the following:

(a) eliminating price controls for some products;

(b) simplifying the administrative requirements that firms must meet in order to be registered in the national pharmaceutical register; and

(c) eliminating prior import licensing requirements for inputs for the pharmaceutical industry and pharmaceuticals produced in Mexico; over the last four years, import licensing requirements have been removed for more than 70 per cent of the pharmaceuticals that were controlled in 1989; in March 1993, import licensing requirements will be removed in respect of the remaining pharmaceutical products.
Mexico’s national medical care system is State-run. In the past, public sector procurement represented a sizeable market for pharmaceutical products. That purchasing power was used to foster the development of the national pharmaceutical industry.

This situation has changed considerably, however, in recent years. The public sector holds international tenders for the purchase of material and medical equipment with a view to optimizing price and quality. National tenders are reserved for a limited number of generic drugs. Greater competition and the reduced volume of purchases by various government health agencies meant a 6 per cent drop in public procurement between 1990 and 1991, while the private market expanded by 20 and 30 per cent, respectively, during those two years.

The pharmaceutical industry turned in total sales of approximately 2.4 thousand million dollars for 1991, of which 83.4 per cent went to the private market and the remaining 16.6 per cent to public medical care institutions.

B. Protection of intellectual property

With the enactment of the new Law on Development and Protection of Industrial Property in June 1991, the Federal Government bolstered intellectual property protection by strengthening the regulatory framework in order to make the industrial property system more dependable and by protecting Mexican industrial property interests abroad, by seeking to eliminate infringements of Mexican trademarks and patents in other countries.

The principal changes introduced by it were:

(a) the granting of patents for chemical, pharmaceutical, agrochemical and metal alloy products, as well as biotechnological inventions;

(b) extending the term of patent protection to 20 years, from the date of filing;

(c) restricting the grant of compulsory patents to specific cases;

(d) defining trade secrets and protecting them against unauthorized use by those privy to them;

(e) extending the term of protection for registration of industrial designs, trade marks, indications and trade names,

(f) ensuring the provision of the requisite information in the conclusion of franchise agreements;

(g) simplifying administrative procedures in respect of patents and trade marks, as well as those aimed against unfair competition; and

(h) empowering the Mexican Industrial Property Institute to carry out the technical work.

In July 1991, the Federal Copyright Law was amended, providing legal protection for audiovisual material and computer software.
As a result, the number of new patent applications in Mexico has increased greatly since the enactment of the new law, in particular applications from abroad. In 1992, approximately 6,700 patent applications were received. Of these, 6,000 were of foreign origin, twice the number filed in 1986.

The reforms of the legal framework for the licensing system has led to a rapid increase in activity in this area. At present some 120 franchises have been registered in Mexico, or 300 per cent more than three years ago.

In the coming years the Mexican Government will continue to improve the legal framework of its intellectual property régime, by means of the following measures:

(a) issuing implementing regulations for the Law on Development and Protection of Industrial Property;

(b) creating a specialized industrial property court;

(c) setting up the Mexican Industrial Property Institute; and

(d) acceding to the Patent Co-operation Treaty.

C. Agrarian, forestry and fishery reform

1. Agricultural sector

Landholding in Mexico is governed by Article 27 of the Constitution. Together with other forms of ownership, the traditional system of land tenure is the communal "ejido" system. In the past, the ejidatario worked the land but was not permitted to dispose of or use it as collateral for obtaining loans. Land division under the ejido system led to the minifundios (small plots) which were the typical unit of agricultural production in Mexico, especially of basic foodstuffs.

In January 1992, the legal and institutional framework for agriculture underwent substantial modification in order to encourage the development of personal initiative and the efficient use of rural productive resources. To that end, Article 27 of the Constitution was amended and a new Agrarian Law enacted.

To attract investment and financing for production projects, the reform of the legal framework for agriculture provides security of land tenure. A start was made by eliminating the land distribution system and removing restrictions on the acquisition of ejido lands.

At present the ejidatario has the option of becoming the owner of the land that he cultivates or of remaining under the ejido system, as it is now possible to purchase or rent the land, to hire labourers to work it or even to engage in joint operations with domestic or foreign producers. This allows various possible forms of association, without implying restrictions on participation by commercial companies in agricultural production with up to 49 per cent of foreign capital.

The new Agrarian Law also updates the limits on small landholdings, making it possible to own larger plots with a view to crop diversification and to reaping the benefits of economies of scale in production, joint operations, financing and technological investment.
With the adjustments to the regulatory framework, capital has begun to flow towards the countryside and credit and investment have risen. Thanks to the new forms of association permitted under the Law, 1992 saw the formation of some 400 associations and current estimates are that some 700 additional associations are in gestation, all of which together represent an investment of over one thousand million dollars.

The Government is encouraging private sector participation. To that end, many State enterprises that were involved in the production and distribution of agricultural products have been privatized, liquidated or restructured, or have become exclusively engaged in research, technical assistance and information services.

Other companies that held virtual exclusivity in the marketing of fertilizers and seeds are now exposed to private sector and foreign competition. CONASUPO, the government commodity marketing company has ceased to market all agricultural products except maize and kidney beans. It is the sole importer of powdered milk, purchasing abroad mostly on behalf of third parties.

The aim of Mexico’s agricultural policy is to replace subsidies with programmes of direct production aids. In 1989, subsidies represented 1.4 per cent of GDP, while in 1991 they had declined to a mere 0.6 per cent.

Without prejudice to the duties that Mexico negotiated in the course of acceding to GATT, which are included in its Protocol of Accession, and in order to help liberalize agricultural markets, prior import licensing requirements were eased for groups of specific projects. Guaranteed prices for maize and kidney beans, as well as import/export licences for some other products still exist. This has been multilaterally recognized as a sensitive sector in Mexico.

Under Mexico’s rural modernization programme, the factors that adversely affected the growth of agricultural production in previous years have been reversed. The redefinition of the role of Government in the agricultural sector and the legal reforms of the institutional framework for land-ownership rights are measures geared towards modernizing rural Mexico. The main goal is to enable the population to find viable alternatives for economic activity in rural areas.

2. Forestry

The reform of the Forestry Law, effected in January 1992, seeks to halt the decline of forests and to stimulate investment and the rational use of forest areas. The main reforms were:

(a) eliminating the blanket prohibition against real estate ownership or administration by civil corporations;
(b) extending to 800 hectares the permitted size of small forest holdings, thereby recognizing that the modern forest unit requires sufficient area to be economically viable;
(c) avoiding the accumulation of idle land for speculative purposes; and,
(d) instituting specific penalties for cattle ranchers who engage in land clearance by large-scale deforestation.

Increased agricultural and forestry production are bound up with the construction and improvement of hydro-agricultural infrastructure and the conservation and replenishment of
renewable natural resources. The Mexican Government recently initiated reforms to the Water Law in order to bring about more rational and equitable use of water and ensure sound management and conservation.

By strengthening property rights and authorizing long-term contracts, forestry reforms are fostering greater care of the environment and the renewal of natural resources. Between 1989 and 1992, 300,000 hectares were reforested, 74 per cent more than in the preceding five-year period, while this year a further 100,000 hectares will be added.

3. Fisheries

The reforms to the new Fisheries Law and its implementing regulations took effect in June 1992. These new legal provisions ensure balance between the development of the fishery sector and the need to conserve fishery resources. The new Law provides investors with security and legal transparency and allows for greater private-sector participation in fisheries.

The main reforms to the legal framework introduced by the new Law are:

(a) eliminating the system of reserved species which led to irrational exploitation and hindered capitalization of co-operatives (fishermen's associations);

(b) allowing the grant of transferable concessions and permits to private entrepreneurs;

(c) extending the duration of fishing concessions to twenty years and concessions for fish-farming to fifty years; and

(d) investing the fisheries authority with the powers and means of monitoring and surveillance in order to prevent the disappearance of species and preserve the ecological balance.

The central objective of the new Law is to stimulate investment and financing for production projects, in conjunction with the deregulation of the fisheries industry. This necessitates investment for modernizing the industrial processing facilities and increasing the value added to the product. Specifically, the additional investment in the sector is aimed at increasing the output of rural aquaculture, repopulation and farming of species for the domestic and export markets.

The six focal points for foreign trade are: organizing producers to engage in exportation; creating suitable conditions for investment in exclusively export-oriented industrial units; training in export techniques, processing and standards for marketing products abroad; publicizing Mexico's fishery resources internationally; and providing systems of basic export information; and protecting dolphins, turtles and other species.

The Mexican fleet conducts thorough surveillance and inspection of national coastal waters; the programmes to protect dolphins during tuna fishing, agreed within the framework of the Inter-American Tropical Tuna Commission (IATTC), are particularly noteworthy. The sea turtle is under permanent protection, and shrimp boats operating in the Gulf of Mexico and the Caribbean utilize fishing methods that do not harm turtles.
The future prospects of the fishing industry are centred on the development of export-oriented fish farms and the modernization of port facilities under schemes to promote areas with the greatest export potential.

D. Energy and mining policy

1. Regulatory framework

The energy sector plays a key rôle in Mexico's industrialization process. In its Protocol of Accession to GATT, Mexico explicitly reserved the right to exercise sovereignty over its natural resources, and in particular its energy resources. This sector comprises primarily the hydrocarbon and electricity industries, but other energy sources such as biomass, solar and wind energy and micro-hydroelectricity generation are also exploited.

Article 27 of the Mexican Constitution reserves to the State exclusive ownership of solid mineral fuels and petroleum, all hydrocarbons and radioactive minerals. The State also reserves for itself the exclusive right to operate in certain strategic areas such as the oil and other hydrocarbons industry, basic petrochemicals, radioactive minerals and the generation of nuclear and electrical energy, among others.

Prices and rates in Mexico's energy sector are set on competitive terms. International market prices are used as the reference for setting prices of traded goods, while non-tradables are sold on the basis of marginal production cost, taking into account the value of inputs at international or market prices. At present the prices of diesel fuel, liquid gas, petrol (gasoline), pentanes, jet fuel and natural gas reflect international prices.

Average annual growth of primary energy production was 2.4 per cent between 1980 and 1990. Primary energy comprises 89.9 per cent hydrocarbons, 1.7 per cent coal, 2.9 per cent hydroelectricity, 0.6 per cent geothermal energy, 0.4 per cent nuclear energy, and 4.5 per cent biomass energy.

2. Petróleos Mexicanos (Pemex)

The hydrocarbon industry has three main branches: extraction of petroleum and gas, refining and basic petrochemicals, and related activities such as exploration and domestic and foreign marketing.

Under the Constitution of Mexico, the State undertakes exploration and exploitation of petroleum and other petroleum-related activities through Pemex. Pemex is a parastatal set up by decree in 1938 as a decentralized agency of the Federal Government. It is technical, industrial and commercial in character and has its own legal personality and equity.
In order to modernize Pemex, Congress approved a new Organic Law governing the agency in July 1992. Pemex was organized as a holding company responsible for maintaining unity of strategy planning, and its activities were restructured into four subsidiary companies whose functions are:

(a) Pemex-Exploration and Production: exploration and exploitation of petroleum and natural gas, their transportation, storage in terminals and marketing;

(b) Pemex-Refining: industrial refining processes; processing and distribution of petroleum products and derivatives that can be used as basic industrial raw materials;

(c) Pemex-Gas and Basic Petrochemicals: processing and distribution of natural, liquid and producer gas for use as basic industrial raw materials; and

(d) Pemex-Petrochemicals: non-basic petrochemical industrial processes, distribution, storage and marketing.

This structure retains the principle of State ownership and control of hydrocarbons. The Government also updated the classification of primary and secondary petrochemicals in order to take account of technological changes, and speed up the integration of production lines to facilitate industrial development. Pemex is currently implementing a large-scale environmental protection programme.

Pemex investments have aimed at intensifying exploration and primary production. In 1992, national crude production exceeded 2.5 million barrels per day, a figure comparable to that for 1991. Petroleum exports amounted to almost 1.4 million barrels per day, slightly above the preceding year's performance; but 1992 revenue from petroleum exports shrank by almost 9 per cent owing to lower international crude petroleum prices.

Total proven reserves of liquid hydrocarbons (crude petroleum or oil, liquid gas or condensates and dry natural gas, crude petroleum equivalent) are 65,000 million barrels which, at present rates of production and exportation, represent another fifty years' supply. During 1992, for the first time in almost a decade, new reserves were added to the those mentioned above.

3. Federal Electricity Commission (CFE)

The Constitution confers on the State the exclusive right to generate, transmit, transform and supply electric power as a public service.

The CFE is a decentralized public agency with its own legal personality and equity. It is responsible for providing electrical power as a public service, including its generation, transmission, transformation, distribution and sale, as well as for planning works for the running and maintenance of Mexico's electricity system.

The present legal framework allows for the possibility of self-supply, subject to prior authorization from the Ministry of Energy, Mines and Parastatal Industries, should the CFE electricity supply be interrupted or inadequate. In such a case, excess power must be channelled through CFE.
In strict adherence to the Constitution, the Federal Government decided to increase electricity generation in two ways:

(a) the use of supplementary resources for the funding of the construction of new units, by means of "turnkey" projects; and

(b) authorization to industry to establish its own electricity generation plants; co-generation schemes or projects; and independent and small-scale generation.

In this way it has been possible to use primary sources more efficiently, thereby expanding this industry. In 1992, electricity generation increased 2.6 per cent on the preceding year. Three major hydroelectric plants (Aguaprieta, Aguamilpa and Zimapán) and eight thermal power plants are currently under construction, while considerable funding is being allocated for maintaining existing plants.

CFE has taken steps to eliminate existing lags in electricity rates. Under this policy, the remaining subsidies to the trade and services sectors were removed.

The outlook for the electricity industry is bright. Under the existing legal framework, efforts will continue to encourage private co-generation projects, independent generation and self-supply, by means of amendments to the Law on the Electric Power Public Service. CFE will therefore conclude long-term contracts for the purchase of surplus electricity from private producers.

4. Mining

Mexico possesses enormous mineral wealth and a long mining tradition. To modernize this sector, Congress approved a new Mining Law in May 1992. Under the Law, the private sector may play a larger rôle, as the State has privatized its companies, and is divesting its mining reserves and encouraging domestic investment and foreign participation in two ways:

(a) directly, and with up to 100 per cent ownership of the capital stock, in the case of exploration works and activities;

(b) through a thirty-year trust, and with up to 100 per cent of the capital stock renewable indefinitely, in the case of mining works and activities.

The new Mining Law provides greater legal security and sufficient time for suitable economic working of deposits by extending the term from twenty-five to fifty years, renewable for a similar period, while exploration concessions will be for non-renewable six-year periods. The Law brings greater flexibility to the management of mining affairs, stimulates small and medium-scale mining production, and promotes private-sector investment in exploration and mining activities.

It further allows private-sector participation in the exploitation of mineral deposits previously considered as priority and strategic (e.g. sulphur, coal, iron, phosphorus and potassium), including Mexican marine areas.

As a result of the grant of new concessions, the elimination of the mining tax and increased financial support, large-scale projects have been launched with the participation of national and international private capital. During 1990 and 1991, almost $1,000 million were
invested in the Mexican mining sector, twice the amount in 1989. To date, 3.9 million hectares of national mining reserves have been divested. In addition, to encourage the exploitation of mineral deposits, the number of mining titles issued has doubled from 2,000 annually to over 4,200, and the area covered by concessions has increased from 2.8 million to 7.1 million hectares.
VI. PROBLEMS ON EXTERNAL MARKETS

Mexico’s substantial opening of its economy in recent years has taken place in an international environment that is still marked by protectionist trends. While Mexico has become one of the world’s most open economies, its exports are still facing problems of access to the markets of its trading partners. These problems include the unjustified imposition of anti-dumping and countervailing measures and the use of sanitary and phytosanitary measures that are not always based on scientific considerations. The following is an account, by no means exhaustive, of the major obstacles to Mexican foreign trade.

As far as dumping duties are concerned, the initiation of investigations and application of unfounded anti-dumping measures can become trade harassment. Investigations are often initiated and carried out with virtually no real underpinning in terms of the existence of dumping, injury or a causal link between the two. Mexico therefore views with concern the growing number of new users who in some cases have unjustifiably resorted to the use of anti-dumping measures.

Anti-dumping measures have affected important branches of the Mexican economy that have become internationally competitive, as in the cases of cement and iron and steel (steel pipes, kitchen utensils, iron or steel sheet and plate, steel coil, etc). Other affected industries are cut flowers, synthetic and acrylic fibres, and sisal twine.

In the case of cement, Mexico requested the creation of a panel in the Anti-Dumping Committee. The panel found in favour of Mexico. As regards steel, Mexico, like eighteen other countries, has been affected by the imposition of preliminary anti-dumping measures by the United States since February 1993. These are in addition to the countervailing measures previously applied by the United States in the same sector.

Countervailing measures have also been applied against Mexico in respect of various export products including tiles, leather apparel and kitchen utensils.

Mexican exports are frequently affected by sanitary and phytosanitary standards that have no strictly scientific basis. This is the case of barriers against some agricultural products such as poultry meat, and avocados. Other products facing problems arising from phytosanitary measures are chili peppers, squashes and strawberries.

Finally, Mexico is facing a ban on exports of tuna, one of its principal fishery products, with the result that the potential growth of this industry has been inhibited. As Mexico considered the ban unjustified, in January 1991 it requested the establishment of a GATT panel, which ruled in its favour.