"The performance of the Mexican economy in the last five years demonstrates how the liberalization of international trade and investment régimes and a comprehensive macroeconomic adjustment programme can be mutually supportive," says the GATT Secretariat's report on Mexico's trade policies and practices. Trade liberalization, cautious financial policies, prudent fiscal management, and a competitive exchange rate have been essential in sustaining structural reforms which have transformed Mexico from an inward-looking economy, with heavy government intervention, into a largely open economy driven by private sector initiative. Such conventional structural adjustment measures have combined with a system of macroeconomic pacts, involving government, business and labour, to generate a broad consensus in favour of the reform programme and reduce inflationary expectations. The programme has already borne fruit in a resumption of economic growth, rising incomes and reduced inflation. The privatization programme - one of the most extensive in the world - has reduced the number of public enterprises from 1239 to 221 in the last 10 years.

Trade liberalization is an important element in the structural adjustment programme, implemented by Mexico in 1983 and accelerated since 1989, and has changed the trade régime into one of the most open in the world. Tariffs have been reduced from 27 per cent in 1982 to an average of 13 per cent today, while the number of items affected by import licensing has fallen from 100 per cent in 1982 to under 2 per cent. Mexico is by far
the leading exporter and importer in Latin America, and foreign trade is seen as vital to its economy, providing both a means of increasing national income and welfare and a necessary source of funds for servicing Mexico's large foreign debt, which, despite Brady Plan restructuring, was still over US$96 billion in 1990. The structure of trade has been significantly diversified and Mexico's former dependence on petroleum exports has given way to a broader, industry-based export profile.

Mexico's present trade policy seeks, in principle, to maintain similar protective levels among all sectors. The report, however, points out that, within each sector, tariff escalation is common. While selective support for industry is being dismantled, effective tariff protection continues to be higher than average in automobiles, computers, iron and steel, metal manufactures, basic chemicals and electrical machinery. The main exception to the import liberalization programme is the motor vehicle industry, according to the report. Automobile imports are still subject to foreign exchange balancing requirements and the limitation of imports to a given share of domestic sales. The auto parts and components industry is also assisted through local content requirements and restrictions on foreign investments. "Such continued import protection," says the report, "seems incompatible with Mexico's overall policy of trade liberalization."

In the past, the "maquiladora" (free-trade zones) industry has been one of the most dynamic sectors in the Mexican economy. According to the Mexican Government's figures, in 1991 the maquiladora industry accounted for over 35 per cent of total exports, employed more than 15 per cent of the total workforce in the country's manufacturing sector, and currently stands second only to petroleum as Mexico's largest foreign exchange earner. Located mostly along the frontier with the United States, the maquiladora trade with the US has been of major and growing importance, enhancing the dominance of the US as Mexico's principal overall trading partner. The general liberalization of Mexico's economy has already, however, reduced the maquiladora sector's relative importance in the country's rapidly-growing industrial sector.

Looking to the future, the report notes, among other things, that Mexico's negotiation of free trade agreements with other Latin American countries should eventually bear dividends, particularly in the light of reforms in those countries. A further major evolution in Mexico's trade policy orientation is expected to derive from participation in the NAFTA - which is yet to be ratified by the three participants (Mexico, Canada and the United States). Direct benefits may accrue in the short run, according to the report, through the reduction of tariff and non-tariff barriers within a larger regional market. In the longer term, trade liberalization within North America should help reinforce a stable economic environment in Mexico. It has already stimulated investment flows, and is seen by the Mexican authorities as contributing to the consolidation of reforms undertaken unilaterally. "However," says the report, "the implementation of NAFTA may, at least initially, lead to some trade diversion by intensifying preferential trade. Mexico may also be exposed more critically to economic fluctuations in the US market."
Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Mexican Government, will be discussed by the GATT Council on 19-20 April 1993 under the Trade Policy Review Mechanism (TPRM). The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

2. The current reports cover all aspects of the trade policies of Mexico, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment. Attached are summary extracts from these reports. Full reports are available for journalists from the GATT Secretariat on request.

3. A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published in Summer 1993 as the complete trade policy review of Mexico and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

TRADE POLICY REVIEW

MEXICO

Report of the GATT Secretariat - Summary Observations

Since the debt crisis of 1982, Mexico, the 14th largest economy in the world, has moved from high inflation and recession to stabilization and growth under a programme combining tightly disciplined fiscal and monetary management with trade liberalization. The reforms have transformed Mexico from an inward-looking economy, with heavy government intervention, into a largely open economy driven by private sector initiative. A large measure of consensus within society was an important element in the process of breaking inflationary expectations and building a new agenda for Mexico's future. Under the National Development Plan, programmes are now under way to reduce social inequities and spread the benefits of the economic achievements; a number of social indicators - particularly in education - have already improved since the late 1980s.

The severity of the initial disequilibrium and the costs of adjustment may be gauged from key economic indicators. Real GDP declined in 1982 and did not reach its 1981 level again until 1989. In consequence, per capita income also fell sharply, overtaking the 1980 level only in 1991. However, since 1989, real GDP has grown at an average of 4 per cent per year, although it slowed to 2.7 per cent in 1992. Inflation has fallen to under 12 per cent in 1992 from an average of 86 per cent in the period 1981-88. One of the most significant changes was the improvement in the fiscal balance; the government operational deficit - around 15 per cent of GDP in the early and mid-1980s - has been turned into a surplus equal to 3 per cent of GDP in 1991. Restructuring of Mexico's foreign debt, still over US$96 billion in 1990, has increased confidence in the economy, and inward investment is now running at record levels.

Exchange rate policy, currently based on a gradual preannounced depreciation of the peso, has varied considerably during the decade in seeking a balance between strengthening the external sector and providing an anti-inflationary anchor. To bring inflation under control while avoiding a severe recession, the Mexican authorities have used a combination of orthodox fiscal and financial management with socio-economic Pacts on prices and wages agreed between the Government, labour unions, and the private sector. The Pacts have proved effective in reducing inflationary expectations while maintaining social cohesion.

Micro-economic reforms implemented by Mexico during the 1980s included trade liberalization, privatization and deregulation. Impressive results have been obtained in all these areas. Non-tariff barriers have been mostly eliminated, and tariffs substantially reduced and rationalized. Deregulation and reduced government intervention have also increased efficiency.

In reforming the public sector, the authorities have placed strong emphasis on divestiture of public enterprises in sectors such as transport, communications, petrochemicals, fisheries, and, most recently, agriculture. This is enabling market forces to play a more significant role in the development of these sectors. However, one of the most important sectors of the economy, petroleum, remains subject to State control; PEMEX, the state-owned oil company, retains its
constitutional monopoly on production, processing and distribution of petroleum and its products, including basic petrochemicals.

Mexico still faces a number of economic challenges. Inflation, though declining, still exceeds that of its major trading partners, and could weaken the country’s international competitiveness. Compensatory movements of the nominal exchange rate, such as the recent increase in the margin for the managed float against the U.S. dollar, could have an inflationary impact unless fiscal and monetary policies continue to be carefully controlled; the need to strike a balance between growth and financial stability is well recognized by the Mexican authorities. Capital inflows, some of which may be speculative, have tended to boost the money supply, although action has been taken to help sterilize such movements, partly by advance debt payments. Since 1982, domestic savings and investment have been well matched at around 20 per cent of GDP, but the recent surge of foreign investment has opened up a gap by pushing the investment/GDP ratio up to 25 per cent in 1991.

While export and import indicators reflect increasing outward-orientation in the Mexican economy, the growth of exports has not kept pace with that of imports. A strong merchandise trade deficit has emerged since 1989, and preliminary estimates indicate further widening of this imbalance in 1992. On the other hand, to the extent that recent imports are industrial goods which may contribute to future expansion of exports, the balance may be at least partially redressed in the medium term.

Membership of the North American Free Trade Agreement (NAFTA) is expected to bring a number of benefits to Mexico by enhancing access to markets in Canada and the United States and providing greater long-term certainty to Mexican producers. Inward investment flows, which were already growing in the wake of the reform programme, appear to have been further stimulated in anticipation of ratification of the agreement. NAFTA is also seen by the Mexican authorities as contributing to the consolidation of reforms undertaken unilaterally. A number of measures taken by Mexico in anticipation of the agreement are being applied on an m.f.n. basis. The agreement, which is still subject to ratification by the three member States, has been notified to the GATT and will, as with other free-trade areas, be subject to formal examination by the CONTRACTING PARTIES in due course.

The performance of the Mexican economy in the last five years demonstrates how the liberalization of international trade and investment régimes and a comprehensive macroeconomic adjustment programme can be mutually supportive. Trade liberalization, cautious financial policies, prudent fiscal management, and a competitive exchange rate have proven to be essential in sustaining structural reforms.

Mexico in World Trade

Mexico’s share in world merchandise trade was close to 1.3 per cent in 1991. In that year, it ranked as the 20th largest exporting and 19th importing country (counting EC member States individually), making it by far the leading exporter and importer in Latin America. The importance of foreign trade in the economy is increasing; in 1990, merchandise trade was the equivalent of 18 per cent of GDP. In 1991, commercial services exports were around US$12.5 billion and imports around US$10.6 billion. Foreign trade is seen as vital to the Mexican economy: as a source of raw materials, industrial inputs, and capital equipment, and as
a means of increasing national income and welfare. It is also a necessary source of funds for servicing Mexico's large foreign debt.

The structure of Mexico's merchandise exports has changed markedly over the 1980s. In 1980, oil represented almost 67 per cent of the total and manufactures 12 per cent; by 1991, the corresponding figures were 32 and 59 per cent. The main items exported by Mexico are crude oil and petroleum products, motor vehicles, machinery, fresh vegetables, and organic chemicals. Diversification of the export base and hedging on the oil futures market have reduced the vulnerability of the balance of payments to changes in oil prices.

The structure of imports - which is highly diversified - shows a predominance of manufactures, although their share in the total has declined slowly but steadily over the last 25 years, from 80 per cent in 1970 to 71 per cent in 1990. Capital goods and industrial inputs are dominant, although imports of consumer goods have also increased. In 1990, the main items were machinery, telecommunications equipment, organic chemicals, petroleum products and motor vehicles. Trade liberalization is one of the factors (along with the revival of economic growth) explaining the considerable increase in Mexican imports over the past five years. As a result of a more appropriate incentive structure, growing imports of intermediate and capital goods have helped modernize Mexico's production and export bases.

In the last 25 years, there has been little change in the direction of exports or imports. Mexico's leading trading partners are the United States, the European Communities and Japan. The United States is the largest market and supplier, taking, according to Mexican figures, around 70 per cent of merchandise exports and supplying 65 per cent of imports in 1990; the EC as a group represented 13 per cent of exports and 15 per cent of imports, and Japan 6 per cent of exports and 4 per cent of imports.

However, the importance of the United States as an export market and import source for Mexico is even higher than suggested by the above figures. Mexican data exclude trade by in-bond processing (maquiladora) firms, predominantly involved in processing of manufacturing inputs, raw materials and components for re-export to the U.S. market. A comparison of Mexican and United States' trade figures suggests that exports from the maquiladoras to the United States may account for 60-70 per cent of United States' imports from Mexico and, hence, up to 50 per cent of Mexico's merchandise exports to all destinations.

Institutional Framework

Trade legislation in Mexico appears to be relatively streamlined. The basic trade law is the Foreign Trade Law, implementing Article 131 of the Constitution. Other main trade-related laws include the Import and Export General Tax Law and the Customs Law. The National Development Plan (1989-94), and the National Programme for Industrial and Foreign Trade Modernization establish overall guidelines and objectives in the area of trade. The Government is considering the introduction of a new, consolidated foreign trade law.

The Executive holds the main responsibility for formulating and implementing trade and industrial policies. All trade legislation and international agreements signed by the Executive are subject to approval by the Senate.
The principal Ministry responsible for formulation and implementation of trade policies, and for trade negotiations with foreign countries is the Ministry of Trade and Industrial Promotion (Secretaría de Comercio y Fomento Industrial, SECOFI). Its activities are closely coordinated with other Ministries involved in trade-related activities, such as the Ministries of Finance and Public Credit; Agriculture and Water Resources; and Energy, Mines and Parastatal Industries.

Close consultation with the business and other sectors has been a key factor in the re-orientation of Mexican trade policy. There is a high level of cooperation and interlinkage between Government and private business interests through entities such as the Coordinating Body for Foreign Trade Enterprises (COECE). The system of Pacts has also encouraged a consensus for reform among the government, labour unions and the private sector.

A number of private and public research institutes carry out studies on government policies. However, there is no independent statutory body with a formal mandate to carry out regular public, review and assessment of economic and trade policies.

Trade Policy Features and Trends

Mexico is a founder member of the Interim Commission for the International Trade Organization (ICITO), established in 1948, although it acceded to GATT only in August 1986. It has participated actively in the Uruguay Round. The General Agreement has the status of domestic law. Mexico has acceded to four Tokyo Round Agreements - Technical Barriers to Trade, Import Licensing Procedures, Anti-Dumping and Customs Valuation - and is an observer in three other MTN Codes. Mexico was also the first developing country to bind its entire tariff upon accession to GATT.

Mexico accords m.f.n. treatment to GATT contracting parties and non-GATT countries. More than 95 per cent of its imports are currently recorded as coming from m.f.n. sources. However, this share does not take account of maquiladora trade; moreover, the share of m.f.n. trade will decline with the implementation of NAFTA.

Recent evolution

In the wake of the debt crisis in 1982, Mexico embarked on a comprehensive reform of its economy, including its trade and investment policies, aiming at promoting efficient allocation of resources, enhancing the competitiveness of the economy and integrating it into the world economy. The pace of structural reforms, including trade liberalization, deregulation and privatization, was increased in 1985. Accession to the GATT in 1986 added momentum to the process, particularly with respect to removal of import licensing, binding and reduction of tariffs and elimination of import reference prices. There was a shift from quantitative restrictions to tariffs, which were also lowered. In consequence, nominal and effective protection were reduced, and the transparency and stability of Mexico's structure of protection was enhanced.

Mexico's current trade policy objectives include the promotion of non-oil exports, uniformization in the levels of effective protection granted to different industries, and further elimination of non-tariff barriers.
Trade liberalization has increased efficiency and improved resource allocation, permitting access by Mexican producers to inputs at international prices, while moderating pressures on consumer prices through greater external competition. These changes have contributed to the establishment of a predictable and rational incentive structure for the private sector.

Foreign investment regulations have been also liberalized. The new regulations simplified the procedures for authorizing investment projects, relaxed limits on foreign ownership, and reduced some barriers to entry by foreigners into the Mexican stock market.

Type and incidence of trade-policy instruments

Ad valorem tariffs are the main instrument of border protection. Import duties range from zero to 20 per cent, with a simple average of 13 per cent. The tariff structure is relatively uniform, but escalation in most product categories provides domestic processing with higher effective protection than production of intermediate products and raw materials.

A trade régime based mainly on ad valorem tariff protection gives the advantage of greater transparency in the cost of protection to consumers and user industries, as well as reducing scope for discretion and rent seeking associated with quotas and prior import licences. However, higher effective protection on finished goods tends to draw resources away from activities which may be more economic, reducing potential overall welfare.

The predictability of the Mexican tariff is enhanced by full tariff bindings, generally at a rate of 50 per cent (with some exceptions), but there is a considerable gap between currently applied rates and bound rates.

Seasonal tariffs are applied on imports of grain sorghum, soybeans and safflower seeds. Variable levies are imposed on sugar imports, with the aim of compensating for distortions and high volatility of prices in international markets. However, such levies are less transparent instruments of border protection than ad valorem duties and have the potential of insulating the domestic sugar industry from international competition.

Tariff preferences are currently granted to imports from Latin American Integration Association (LAIA) countries under a number of bilateral and regional agreements. In the framework of LAIA, Mexico has also concluded a free trade agreement with Chile. This agreement was facilitated by the fact that both countries had already implemented comprehensive liberalization of their foreign trade régimes, had made considerable progress towards macroeconomic stability and moderate inflation, and maintained broadly comparable approaches to exchange rate management. Negotiations aiming at free-trade agreements are also in progress with several other countries of the region.

Internal taxes affecting both imports and domestically-produced goods include value-added and excise taxes. These taxes do not discriminate against imports or among foreign suppliers.

Non-tariff restrictions on imports, such as prior import licences, which in the past were among the most restrictive elements in Mexico's import régime, have been largely eliminated.
Currently, less than 2 per cent of tariff lines are subject to import licensing, compared to 100 per cent in 1982.

Import prohibitions affect seventeen items, mainly substances containing illegal drugs; however, imports of used cars are also generally prohibited. Mexico also applies trade prohibitions to certain countries according to U.N. Security Council resolutions.

Other remaining trade restrictions acting against the free flow of products include national content requirements, linked to certain incentive schemes such as export financing and applied in the motor vehicle sector to promote the use of locally produced parts and components.

Mexico does not apply specific rules of origin to imports from m.f.n. sources. However, preferential imports from LAIA members are subject to the rules established under LAIA, and special rules of origin are established under the proposed NAFTA.

There is no central government procurement office in Mexico. Purchases by public sector entities and enterprises are made through public tenders, in which suppliers from all countries, whether GATT members or not, may participate. Selective, single tendering is accepted under special circumstances such as for perishable products, or in case of danger to social order, the economy, public services, health or the environment. National suppliers may be preferred under equivalent bidding conditions. Procurement of medicines through public bidding is limited to suppliers established (but not necessarily manufacturing) in Mexico.

Other trade-related measures affecting imports into Mexico include technical regulations, standards, health regulations and sanitary and phytosanitary controls. Standards may be either voluntary or mandatory, and are applied uniformly to domestic and imported goods. Around 5 per cent of standards are mandatory regulations, mainly in areas with a major impact on life, safety and health. Mexico’s system for setting standards provides for consultation with producers and consumers. The Secretariat has no evidence of standards-related barriers to entry into Mexico, although the time needed for testing and approval has been a subject of concern to certain trading partners.

Mexico has five free-trade zones located in different regions of the country to encourage their economic development and promote trade. Imports into these zones are allowed without payment of customs tariffs. The maquiladora system is, however, the most important trade régime allowing for duty-free imports of inputs, parts and components used in export-manufacturing processing or assembly. Maquiladora industry - mainly electronic products and automotive parts - is now a major foreign exchange earner; its overall impact on the economy appears to be positive in terms of employment generation, regional development and technology transfer. Over time, maquiladora operations have moved from cheap labour-based assembly to more skilled-labour activities.

Mexico’s export régime has also been streamlined. The incidence of export taxes has been considerably reduced; now they affect only 24 items. Most export licence requirements have been eliminated; remaining licences mainly affect agricultural products, but are also required for certain textile and clothing exports, to ensure compliance with export quotas under the Multifibre Arrangement (MFA).
Direct export subsidies and fiscal incentives have been eliminated. Remaining measures, aimed at encouraging non-petroleum exports, include a drawback system, export financing facilities, insurance, and export promotion and marketing assistance. Such support measures are, in principle, general rather than sectoral.

Until recently, voluntary export restraints were applied on exports of steel products to the U.S. market. These are now subject to provisional anti-dumping duties in the United States. Voluntary restraints are applied under the MFA on certain textile and clothing products exported to the United States. In this connection, export licences are allocated among Mexican firms according to past export performance and the level of domestic value added. In practice, only those firms that have made use of their export rights in the past are allowed an opportunity to use them again, whether or not they are efficient; new exporters can obtain only limited quotas.

Sectoral policies

Mexico’s present trade policy seeks, in principle, to maintain similar protective levels among all sectors. However, within each sector, tariff escalation by degree of processing is common. Selective support for industry is being dismantled, with the main exception of the motor vehicle industry programme, but effective tariff protection continues to be higher than average in automobiles, computers, iron and steel, metal manufactures, basic chemicals and electrical machinery. In the past, the pattern of protection discriminated against agriculture, but this has changed and maize, in particular, now seems to enjoy higher protection than the industrial sector.

Agricultural subsidies are being generally reduced. For example, subsidized credit for production has been eliminated and credit for irrigation facilities is given on the basis of operational cost recovery. Direct payments to farmers were introduced in March 1991 for selected products such as wheat, soybeans, sorghum and rice. The state trading company (CONASUPO) has divested some of its activities, mainly in the fields of marketing and milling, but it is still the sole importer of powdered milk; increased competition in this area would benefit Mexican consumers. Government support for agriculture includes technical assistance, research and development, seed improvement, training and phytosanitary facilities. Private investment in the sector, as well as farm productivity, should benefit from recent changes to the land tenure system which aim to clarify and consolidate land-ownership rights.

Guaranteed prices are established for certain crops, including maize and kidney beans. The most protected crop is maize, considered as the staple food; Mexican consumers, especially the rural poor, may suffer a net income loss from the protection afforded to maize producers. Higher domestic prices may also harm other sectors, such as the livestock industry.

Before 1980, Mexico’s industrial policy was largely based on a strategy of selective promotion of priority sectors, aiming at import substitution and development of national firms, with widespread government participation in key sectors. Specific sectoral policy objectives, established in National Development Plans, covered the automotive, computer and pharmaceutical industries; protection was extended through import licences and domestic content requirements, the use of "foreign exchange balances", and other regulatory measures. The highly-regulated nature of the industrial sector may have reduced Mexico’s ability to adapt to international price
developments and to changes in demand, as well as diminishing pressures to introduce new technologies; at the same time, wide disparities in effective protection across sectors meant that resource allocation was significantly distorted.

Trade liberalization and reduction of direct subsidies have moved Mexico away from its previous selective approach to industrial policy. Restrictions in the pharmaceutical industry were eliminated in 1989, while the sectoral programme for the computer industry is scheduled to be phased out in March 1993. The motor vehicle industry is still highly regulated, although a number of restrictions have been relaxed. Automobile imports are still subject to foreign exchange balancing requirements and the limitation of imports to a given share of domestic sales. The auto parts and components industry is also assisted through local content requirements and restrictions on foreign investment, which may affect the competitiveness of the automotive assembly industry as a whole. Such continued import protection in the industry seems incompatible with Mexico's overall policy of trade liberalization.

Temporary measures

Mexico has never taken emergency measures under the provisions of Article XIX of the GATT. Safeguard actions can also be taken by Mexico under provisions established in the LAIA or in the proposed NAFTA.

By contrast, since 1987, anti-dumping measures have been used relatively frequently by Mexico, with the United States and Brazil as the main targets. By January 1993, 20 definitive anti-dumping duties were in force. On 8 February 1993, Mexico also announced anti-dumping duties against imports of some U.S. steel products.

Mexican anti-dumping and countervailing procedures are relatively clear and transparent. Complaints about dumping or subsidization can be filed by entities which account jointly for at least 25 per cent of domestic production; SECOFI can also decide to initiate investigations on its own initiative. All findings and proceedings are published in the Official Gazette. Concern has been raised by some trading partners regarding the possibility of application of provisional duties at the beginning of an investigation; however, this provision has not been applied since 1989. To impose definitive duties, SECOFI has to establish the existence of dumping or subsidization, material injury and a causal link between these two. It is understood that the wider public interest may be taken into account before an affirmative decision is reached, although there is no such explicit legislative obligation. Although no specific sunset clause is included in the legislation, the administration carries out annual reviews of definitive duties and eliminates them if a number of successive reviews determine that there is no dumping or subsidization. Appeal procedures are available to aggrieved parties.

The current Mexican administration is firmly committed to avoiding the use of anti-dumping and countervailing measures as disguised protective devices. The challenge is thus to transform this intention into clearly defined legal procedures which will endure beyond future changes of administration.
New initiatives

Mexico has eliminated almost all non-tariff barriers to imports and moved to a mostly tariff-based trade policy. Trade liberalization has played a key role in removing domestic distortions and in changing the incentive structure to ensure that resources are allocated efficiently. The current administration sees deregulation as a cornerstone of its economic modernization programme.

Within the process of deregulation, old legislation, such as on standards and competition, is being modernized and modified to adapt it to the new orientation of economic policy. Major improvements have been made to customs procedures, with the introduction of a random checking system. Simplification of customs regulations, reduction in the discretionary power of customs agents and more transparent procedures have resulted in an increase in customs revenues, a reduction in the waiting time for customs clearance, and, in general, improved customs efficiency.

Trade Policies and Foreign Trading Partners

Currently, Mexico’s trade policies are generally transparent and non-discriminatory; the process of liberalization is continuing. Most imports enter on an m.f.n. basis, with preferences extended only to LAIA members or Central American trading partners.

In the near future, a major change in Mexico’s trade policy orientation is expected to derive from participation in the NAFTA. Direct benefits may accrue in the short run, through the reduction of tariff and non-tariff barriers within a larger regional market; Mexican productivity should gain through economies of scale and specialization. In addition, trade liberalization within North America may help reinforce a stable economic environment in Mexico. However, the implementation of NAFTA may, at least initially, lead to some trade diversion, by intensifying preferential trade with the United States (already Mexico’s largest trading partner) and Canada. Mexico may also be exposed more critically to economic fluctuations in the U.S. market.

As an active participant in GATT, with a strong interest in a successful outcome of the Uruguay Round, Mexico has used its participation in, and commitment to, the multilateral trading system as a key element in consolidating the trade and economic reforms of the past decade, including autonomous liberalization on an m.f.n. basis. This has benefited both the Mexican economy and its trading partners. Mexico’s drive for regional integration should also be placed firmly within this framework.
TRADE POLICY REVIEW

MEXICO

Report by the Government of Mexico - Summary Extracts

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.

II. STRUCTURAL REFORMS

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.

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.

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 MORE
sector, selective credit and setting of maximum lending interest rates. In 1989 the Mexican Government took various measures to overhaul the financial system.

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.

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

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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.
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

A. 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.

B. 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.

C. 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.

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.

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.

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 productsstemmed 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.

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.

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.

IV. 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.

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.