ACCESSION OF MEXICO

Memorandum on Foreign Trade Régime

The following communication, dated 4 February 1986, has been received from the Permanent Mission of Mexico.

I have the honour to refer to the negotiation process for the accession of Mexico to GATT, which was initiated in November 1985, when the Mexican delegation to the forty-first session of the CONTRACTING PARTIES expressed our Government's intention of becoming a member of that organization.

In this connection, I am forwarding herewith a memorandum describing Mexico's foreign trade régime, to serve as a basis for the discussions which are to take place in the working party to be established by the Council of Representatives at its meeting on 12 February next.
MEMORANDUM ON FOREIGN TRADE REGIME OF MEXICO

I. ECONOMIC POLICY AND OBJECTIVES OF TRADE POLICY

II. INSTRUMENTS OF TRADE POLICY

A. TARIFF SYSTEM

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Import duties</td>
</tr>
<tr>
<td></td>
<td>(a) General duty</td>
</tr>
<tr>
<td></td>
<td>(b) 2.5 per cent on base value of general duty</td>
</tr>
<tr>
<td></td>
<td>(c) Additional duties</td>
</tr>
<tr>
<td>2.</td>
<td>Structure of general import tariff</td>
</tr>
<tr>
<td>3.</td>
<td>Export duties</td>
</tr>
<tr>
<td></td>
<td>(a) General principles</td>
</tr>
<tr>
<td></td>
<td>(b) Export duties</td>
</tr>
<tr>
<td></td>
<td>(c) Structure of general export tariff</td>
</tr>
<tr>
<td>4.</td>
<td>Import subsidies</td>
</tr>
<tr>
<td>5.</td>
<td>Rule 8 system</td>
</tr>
<tr>
<td>6.</td>
<td>Protection rationalization policy</td>
</tr>
</tbody>
</table>

B. SYSTEM OF CONTROLS

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Foreign Trade Law</td>
</tr>
<tr>
<td>2.</td>
<td>Regulations on import and export permits</td>
</tr>
<tr>
<td>3.</td>
<td>Federal Law on Fees</td>
</tr>
</tbody>
</table>

C. CUSTOMS VALUATION

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Normal value of goods</td>
</tr>
<tr>
<td>2.</td>
<td>Official prices</td>
</tr>
</tbody>
</table>

D. MEASURES TO COUNTERACT UNFAIR PRACTICES

E. EXPORT AIDS

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Institutional aids</td>
</tr>
<tr>
<td>(b)</td>
<td>Financial aids</td>
</tr>
</tbody>
</table>
F. **GOVERNMENT PROCUREMENT**

G. **FREE ZONES AND FRONTIER AREAS**

III. **TRADE RELATIONS WITH OTHER AREAS AND COUNTRIES**

1. Regional trade relations
   
   (a) LAIA
   (b) Partial-scope agreements with Central America

2. Protocol relating to trade negotiations among developing countries

3. Bilateral agreements for economic and trade co-operation

4. Understanding between Mexico and the United States concerning subsidies and countervailing duties

IV. **INSTITUTIONAL STRUCTURE OF MEXICO'S FOREIGN TRADE**

ANNEX: **DEVELOPMENT OF MEXICO'S FOREIGN TRADE**
I. ECONOMIC POLICY AND OBJECTIVES OF TRADE POLICY

In February 1983 the Mexican State reformulated Article 25 of the Constitution of the United Mexican States, raising to constitutional level all government action in regard to planning, and establishing the National System of Democratic Planning. As a result, on 30 May 1983 the National Development Plan (NDP) covering the period 1983-1988 was published, establishing as a fundamental objective "to maintain and strengthen the independence of the nation, for the construction of a society which, in accordance with the principles of the state of law, guarantees individual and collective freedoms in an integral system of democracy and in conditions of social justice. For this, one must have greater internal strength - strength of the national economy, through recovery to sustained growth which can generate the work opportunities needed to ensure the population of a proper standard of living; and strength of society, through a better distribution of income as between families and regions, and continuing improvement of the democratic régime".

Four interrelated objectives stem from this basic aim:

- to maintain and strengthen democratic institutions
- to overcome the crisis
- to restore growth capacity, and
- to initiate the qualitative changes that the country needs in respect of its economic, political and social structures.

In the context of the most serious economic crisis that Mexico has encountered in its recent history, and of grave problems at world level, the National Development Plan emerged as an instrument that can ensure consistency of public-sector actions, create the framework to encourage and co-ordinate action by the social and private sectors, and co-ordinate government actions, with a view to organizing the effort of society as a whole, and restoring the bases for national development.

Within the framework of the NDP, planning instruments have been organized so that sector programmes can be drawn up and implemented on the basis of a national plan, and so as to ensure the adequacy of actions proposed for achieving structural change in four areas: imbalances in production and distribution; inadequacy of domestic savings; shortage of foreign exchange; and inequalities in distribution of the benefits of development.

Because of structural imbalances, priorities have been set that are reflected in the sector programmes and serve to guide economic policy. The NDP recognizes agriculture as being one of the most vulnerable sectors. Since 1965, there has been a slackening of growth rates in this sector and surpluses have gradually disappeared. These trends have weakened the rural
economy and have obliged the country to become an importer of foodstuffs. Notwithstanding action by the State, efforts to overcome these problems have proved inadequate. Accordingly, the NDP has revised the development strategy for this sector, within a long-term perspective based on the agrarian reform initiated with the Mexican Revolution of 1910, and on Article 27 of the Mexican Constitution. The NDP provides for a strengthening of measures affecting efficient use of production potential.

The energy sector has been closely linked with the country's historical process. Accordingly, the principle of the nation's exclusive and original ownership of its energy resources has been written into the Constitution. The Mexican State has consolidated its authority over this sector in the context of a mixed economy.

The NDP recognizes that long-standing external imbalance - shortage of foreign exchange - is associated with Mexico's past industrialization targets, and that recovery of the bases of economic and social development depends on industry's ability to contribute to meeting the basic needs of the population, to increase integration of production structures, and to establish efficient links with other countries.

The development strategy established in the Plan provides for broad restructuring of industrialization and foreign trade so that the latter can generate sufficient foreign exchange to meet the needs of the economy as a whole. To this end, foreign trade policy is to be reviewed with a view to ensuring efficient allocation of resources in line with national priorities, and macro-economic policies are recognized as being the appropriate means for dealing with balance-of-payments problems. To this end, protection policy is to be revised so as to replace the prior import permit by tariffs, ensure greater transparency of the effective protection structure, reduce tariff dispersion, promote selective import replacement, and achieve greater efficiency in the allocation of resources in the industrial development process.

Internal and external imbalances that were particularly acute in 1982 obliged the Government then in office to draw up an emergency programme for economic reorganization. This set of measures was designed to create conditions conducive to restoring stable, continuing and self-sustaining growth of the Mexican economy. This programme included measures to restore a sound situation in public finances, re-establish monetary sovereignty, and defend production structures and employment.

The present exchange policy is designed to reflect the cost of resources obtained from abroad, make Mexico's exports competitive and rationalize the use of foreign exchange. To this end, Mexico has adopted a dual exchange system, comprising a controlled market and a free market.

The controlled market covers exports and imports of goods and the various related costs such as freight and insurance; external credit operations, of both the public sector and the private sector; value added
in Mexico by processing undertakings, and other items of less significance, including payments for technology transfer and for the use and working of patents and trade marks.

The free market comprises tourism, what are termed frontier transactions, remittances from migrant workers, direct foreign investment and transfer of profits and interest, certain insurance services, international passenger transport, and port and airport services.

While this dual system has remained basically unchanged since its adoption in December 1982, some practical refinements have been made to improve its effectiveness in order to prevent evasion of the control system and to ensure that it does not operate as an unnecessary hindrance to development of relations with other countries.

It seems appropriate to add that Mexico is maintaining the dual foreign exchange market on a temporary basis, in order to check sharp short-term capital movements without affecting production structures, while basic imbalances in the external sector are being eliminated and confidence is being reaffirmed. The exchange policy is designed to stabilize exchange rates, and maintain the country's international reserves at an adequate level.

The NDP provides for evaluation and analysis of the international situation and its possible impact on Mexico, in order to allow adjustments to any changes that occur. Mexico's external policy is recognized as being an inseparable element of national development and its main objectives are: "to preserve the sovereignty of the nation, strengthen our political and economic independence and support internal development efforts through efficacious linkage with the community of nations".

On the basis of these objectives the general strategy and guidelines are established for bilateral, regional and multilateral relations, with a global approach and in a medium- and long-term perspective. The aim is to strengthen trade relations with other countries; to develop non-oil exports more intensively; to open up new markets and replace imports; to increase the flow of technological administrative and financial resources from abroad, in line with strategic priorities, and to reorient financial relations with the external sector in order to obtain, on appropriate terms, the additional resources required for our development.

It is recognized that having regard to new conditions in the international market, characterized by proliferation of barriers and by inadequate financial resources, it is necessary to have legal and operational instruments to boost exports. For this reason, the Plan gives priority to international trade negotiations which it considers as the instrument through which the industrialized countries can implement special and more favourable treatment for the developing countries, of which Mexico is one.
In order to achieve the objectives set forth in the National Development Plan, the Mexican Government has brought into operation the following national programmes:

National Programme for Development Financing, 1984-1988
National Food Programme, 1983-1988
National Supply System
National Programme for Communications and Transport, 1984-1988
National Programme for Industrial Development and Foreign Trade, 1984-1988
National Health Programme, 1984-1988
National Energy Programme, 1984-1988
National Mining Programme, 1984-1988
National Programme for Education, Culture, Recreation and Sports, 1984-1988
National Programme for Fishery and Marine Resources, 1984-1988
National Programme for Tourism, 1984-1988
National Programme for Training and Productivity, 1984-1988
National Programme for Urban Development and Housing, 1984-1988
National Programme for Technological and Scientific Development, 1984-1988

With respect to industrial development and foreign trade, and in recognition of the link between these two areas, on 30 July 1984 the National Programme for Industrial Development and Foreign Trade - 1984-1988 (PRONAFICE) was published; it is an operative, flexible and dynamic instrument which co-ordinates the activity of producing sectors through open and resolute participation of them all. The aim is not to centralize decision-making on the objectives and means of industrial development, for this would restrict the freedom of economic agents, nor to predict the future of industry and foreign trade. Within a medium-term perspective and on the basis of ongoing review of achievements and limitations, the Programme provides for continual up-dating of industrial planning in agreement with all the parties involved.
In the area of foreign trade and taking into account the relevant international legislation, four policies have been implemented which have a direct impact: rationalization of protection, export promotion, frontier areas and free zones, and international trade negotiations. The objectives of these policies are written into the National Development Plan so that the country can expand and diversify its trade relations.

With respect to international trade relations, PRONAFICE mentions "the need for Mexico to negotiate with other countries and regions the opening of markets for its export products, and to adopt measures allowing productive complementarity with those areas". Provision is also made for "counteracting the effects of neoprotectionism through international trade negotiations and agreements in order to secure greater access to traditional and new markets by facilitating sustained export expansion".

As a strategy for the structural change that PRONAFICE is designed to achieve, the following actions have been defined:

- development of a new model for industrialization and specialization of foreign trade
- determination of a more autonomous technological system
- rationalization of industrial organization
- industrial location designed to allow full utilization of domestic resources
- optimum use of creative capacity of producing sectors by strengthening our mixed-economy system
- structural change directed toward a more egalitarian society.

In order to achieve adjustment targets in the producing structure with a view to improved competitive capacity and production efficiency, it has been considered essential to formulate and implement a global development policy to support priority projects and programmes from the pre-investment stage to the marketing stage, through whichever instrument is most appropriate at any given moment.

PRONAFICE provides for the establishment of global programmes for industrial and trade development (PIDIC), through which a strategy is determined for each particular branch of industry, so as to allow structural change at that level and contribute to transformation of the production structure as a whole.

The PIDIC for each industrial branch spells out short- and medium-term strategies and various measures for implementing them, together with the relationships and responsibilities of those programmes vis-à-vis other sector programmes.
These programmes are comprehensive in that: (1) they allow overall development programming of the sector concerned, with up-stream and down-stream linkages, by developing the sector in general and modular articulated projects in particular; (2) they allow co-ordinated and integrated application of the principal policies and instruments of regulation, protection and development, thus ensuring the success of programmes, and (3) they clearly define and encourage effective participation and co-ordination of economic agents.

In a first stage of implementation of PRONAFICE, the Mexican Government has brought programmes into operation in the motor-vehicle and pharmaceuticals sectors. It is currently preparing programmes for the following industries: capital goods; pulp and paper; foodstuffs; iron and steel; and electrical household goods. Provision is made for consulting all interested sectors in the course of this process.

In addition, the strategy envisaged by PRONAFICE in regard to foreign trade is being supplemented and implemented through the Export Promotion Programme (PROFIEX), published in April 1985. This programme provides for co-ordination of instruments and policies, concertation of targets, actions and aids; and evaluation and verification of results. In fact, this programme is designed to promote diversification of markets and products; to encourage adjustment of export lines; to organize export availabilities; to encourage the manufacture of goods that can replace imports and generate exports; to ensure regular supplies in the production chain of exportable goods; and to contribute to government efforts in regard to counselling, aid and financing of foreign sales. In brief, the aim is to make export activity profitable consistently with internationally accepted standards.

PROFIEX includes concrete actions to encourage production: financial and promotional aids; measures to simplify and facilitate administrative formalities; a set of institutional aids; definition of international trade negotiation strategy, and specific actions in regard to infrastructure.

In the institutional area, measures include aids for foreign-trade undertakings; fiscal treatment of exports consistently with the principle of observing international trade rules; temporary admission programmes for export trade; refund of import charges to exporters (drawback); foreign-trade information network; and facilities to promote prospection and sales abroad in regard to services and technology. In addition, provision is made for facilities to promote the processing industry.

Provision is made for financial aids on terms and conditions similar to those applied in other countries. "Financial engineering" schemes are provided to encourage participation by Mexican firms in international tenders, and financial aid is granted to indirect exporters through a mechanism termed the "domestic credit card".
Lastly, this programme recognizes international trade negotiations as a logistic support instrument for all the measures it comprises. Accordingly, within the strategy and instrumentation of PROFEX, trade negotiations have a major rôle for "achieving more stable and efficient insertion of our production structure in the world economy, so as to be competitive and flexible in facing up to external changes".

On the basis of this global approach to economic negotiations with other countries, a second requirement is co-ordination of action at multilateral and bilateral level, which must take the form of active presence of our country in the world economy.

In this perspective, Mexico is prepared to re-examine the world trade framework and to analyse the conditions that give rise to change; in the context of this re-examination, appropriate and prudent measures will be taken to ensure our competitiveness in the world market.

II. INSTRUMENTS OF TRADE POLICY

Since the start of the present Administration, the Mexican Government determined one of the highest national priorities to be the need to broaden Mexico's participation in international trade by exporting non-oil products, in order thus to achieve a new linkage of the national economy with the international economy as an important contribution to the economic development process of Mexico.

In this context, it was recognized that in order to attain those objectives, provision must be made for gradually and selectively opening the domestic market to imports, by relaxing the prior import permit requirement and simultaneously rationalizing the country's tariff structure. At the same time, it was considered that these new policies and measures constitute a substantial contribution by Mexico to the maintenance and strengthening of an open and free multilateral trading system, in the context of the critical situation of the international economy and the growing dangers of protectionism on the part of most developed countries.

In line with the preceding paragraphs, it must be established clearly that a fundamental premise for Mexico to be able to pursue these policies is, inter alia, the maintenance of positive and adequate conditions at the level of the international economy, including: progress that developed countries can make toward eliminating protectionism, particularly where it particularly affects in a discriminatory manner the exports of Mexico and other developing countries; stabilization and increase to equitable and remunerative levels of commodity prices in international markets; maintenance of stable and foreseeable conditions in world financial and energy markets; and, in general, recognition of the importance of the link existing between greater export possibilities, economic growth, and compliance with international financial obligations.
A. **TARIFF SYSTEM**

Under Section 36 of the Customs Law, foreign-trade charges have to be paid by natural and legal persons bringing goods into or taking them out of the national territory.

In addition, Section 1 of the Law establishing implementing provisions for Article 131 of the Constitution of the United Mexican States in regard to foreign trade (Foreign Trade Law), published in the Official Gazette on 13 January 1986, lays down the principle of non-discrimination, stipulating that duty rates different from the general ones established may not be applied except where justified by international commitments, such as the Montevideo Treaty of 1980 which set up the Latin American Integration Association, of which Mexico is a member, and whose scope and implications have already been examined in the GATT Council.

1. **Import duties**

The Customs Law, in force since 1 July 1982, lays down in Section 35 the duties applicable to foreign-trade operations, regardless of origin or destination. With respect to the import of goods, the following duties are applied:

(a) **General duty**

In accordance with the General Import Tariff, an ad valorem duty is applied on the normal value of the goods to be imported or, where appropriate and in exceptional cases, on the official price established by the authorities. Mexico's legislation does not provide for the application of specific duties.

(b) **2.5 per cent on the amount of the general duty**

This is applied on all tariff sub-divisions with the exception of 554 comprising essential imports. In addition, the following are exempt from this charge: imports in pursuance of concessions negotiated by Mexico under the Montevideo Treaty of 1980, goods imported temporarily, and those imported for consumption by the population of frontier areas and free zones.

It is not an additional charge, but a percentage based on the general duty applied on all dutiable goods. Accordingly, it is applied in a general way except on the sub-divisions mentioned, and is in no way discriminatory, since certain goods are exempt regardless of origin.

(c) **Additional duties**

(i) **3 per cent over the amount of the general duty, destined for the municipalities**;
(ii) 10 per cent over the amount of the general duty, on imports by post.

2. **Structure of the general import tariff**

Mexico's general import tariff is based on the nomenclature of the Brussels Customs Co-operation Council and in practice is amended to take account of trade-policy guidelines established in accordance with the objectives of economic policy. To this end, Section 1 of the Foreign Trade Law authorizes the Federal Executive to increase, reduce or eliminate duties on the import and export of goods.

Over the period 1979 to 1984 the Federal Executive made various changes to the general import tariff in order to adjust it to the various economic situations that the country encountered.

In 1984 and 1985, the objectives of foreign trade policy were mainly directed toward rationalization of protection by replacing prior permits by tariffs, reducing tariff dispersion and preventing unfair competition.

At 30 November 1985, the general import tariff comprised 8,793 consolidated sub-divisions, of which 8,067 were in operation and 726 were suspended. Of the total, 7,835 were dutiable and 223 were duty-free.

Under the tariff, only ten duty rates are applied, and the 10 per cent rate applies to 3,201 sub-divisions. The next largest group, 1,835 tariff sub-divisions, is dutiable at the rate of 40 per cent. The 25 per cent tariff applies to 1,137 sub-divisions, and the 50 per cent tariff to 966. For the rest, there are five duty rates of less than 50 per cent, and a very few sub-divisions dutiable at the rate of 100 per cent.

In brief, 98 per cent of all tariff sub-divisions are dutiable at rates of 0 to 50 per cent. The average tariff is 25 per cent, and the average tariff weighted by imports in 1984 is 12.4 per cent with a tariff dispersion of 18.1 per cent. 7,219 tariff sub-divisions are exempt from the prior permit requirement, i.e. 90 per cent of the total. The remainder (839) are subject to the prior permit system.

As regards the type of goods, the general import tariff comprises 709 sub-divisions corresponding to consumer goods (8.8 per cent of total sub-headings); 5,502 sub-divisions corresponding to intermediate goods (68.3 per cent) and 1,847 sub-divisions comprising capital goods (22.9 per cent of the total). Consumer goods comprise 300 sub-divisions subject to control and 409 which are liberalized. As regards intermediate goods, 427 sub-divisions are subject to control and 5,075 are exempt from prior permit; with respect to capital goods, 112 sub-divisions are subject to control and 1,735 are liberalized. The liberalized sub-divisions comprising intermediate goods account for 73 per cent of the import tariff.
When products are admitted to the country and import duties have been paid, they are considered to be domestic and accordingly receive the same treatment as domestic products. In particular, within Mexico there is free movement of persons and goods.

Under the Mexican tax system, value-added tax is chargeable in respect of natural and legal persons engaging in the following activities within the national territory: (a) transfer of goods; (b) furnishing of independent services; (c) grant of the use or temporary enjoyment of goods, and (d) import of goods or services. In this latter regard the following are exempt from this tax:

(a) Those which, in terms of the customs legislation, are not consumed, are temporary, correspond to the return of goods temporarily exported or those which are the subject of transit or trans-shipment. If goods imported temporarily are the subject of use or enjoyment within the country, they are subject to the provisions of Section IV of the Law.

(b) Those of luggage and furniture referred to in the customs legislation.

(c) Those of goods on whose transfer in the country, and those of services on whose furnishing in the national territory, value-added tax is not chargeable or is applied at the rate of 0 per cent. This sub-division does not include used goods and chattels.

(d) Those of goods donated by residents abroad to the Federation, federal or municipal entities or to any other person so authorized by the Department of the Treasury and Public Credit under general rules.

3. Export duties

(a) General rules

In order to facilitate exports, measures have been introduced to simplify export formalities so that at present out of 3,053 sub-divisions in the general export tariff, only 248 sub-divisions are under control.

Export control is maintained for strategic reasons such as to organize supply, pursuant to international agreements, to maintain single marketing channels, and to preserve species in danger of extinction.

(b) Export duties

Export duties are charged more by reason of domestic supply policy than in order to produce revenue for the State, and in general exports are duty free. It is stipulated that this duty, together with
the prior permit requirement, is only to be used in order to avoid domestic supply shortage, to encourage the export of products of greater value added, and to prevent evasion in the sale of foreign exchange on the controlled market, using duties which are generally low and affect only a small number of sub-divisions - at present 127 sub-divisions.

In addition, it should be noted that Section 35 of the Customs Law establishes the following duties on exports:

(i) The general duty, pursuant to the Law establishing the general export tariff (published in the Official Gazette of the Federation on 23 December 1974) applied at the rate indicated on the market value of goods at the point of sale, not including freight and insurance. In the case of goods for which there is an official price, the latter will be used if it is higher than the market price.

(ii) There are three classes of additional duty on exports: 3 per cent additional over the general duty on exports of crude petroleum and derived products; 2 per cent additional over the general duty, and 10 per cent over the general duty on exports by post.

(c) Structure of the general export tariff

The structure of the general export tariff is modelled on the nomenclature of the Customs Co-operation Council and comprises 3,053 tariff sub-divisions arranged in twenty-one sections and ninety-nine chapters. Of the total sub-divisions in the general export tariff, 2,886 are duty-free, 127 are dutiable and forty are prohibited.

The average duty rate is 9.8 per cent, and the average rate weighted by the value of exports is 0.18 per cent. In 1985, 248 sub-divisions are subject to control.

4. Import subsidies

On 1 April 1985, a Decision was published in the Official Gazette granting a subsidy on the import of raw materials, parts and components required for priority activities in Mexico when domestic supplies are inadequate.

The subsidy granted under this Decision can amount to 100 per cent of the ad valorem duty fixed in the general import tariff, and is granted in respect of imports of raw materials, parts and components, for exclusive and direct use by the undertaking which carries out the import.
5. Rule 8 system

In pursuance of Section 2, supplementary Rule 8 of the General Import Tariff Law, special customs treatment is applied to goods imported in one or more consignments or through one or more customs-houses by undertakings registered as engaging in development programmes, and likewise when the products to be imported fall within specified tariff sub-divisions and correspond to parts of articles to be manufactured or assembled in Mexico.

The Rule 8 system likewise applies to disassembled or unassembled articles corresponding to complete or finished articles or considered as such.

6. Protection rationalization policy

Traditionally, protection of Mexico's industry has been based mainly on the import permit, and this has given rise to distortions in the production apparatus which are recognized in the National Development Plan. In order to correct these, the protection structure is to be revised, mainly through two measures: elimination of import permits, and restructuring of tariff levels. The objective of these measures is to avoid excessive protection and promote export capacity, by increasing the efficiency and competitiveness of Mexican industry.

Although a great effort in this direction was made in the period 1977-1981, the economic conditions then prevailing were different from present ones, so that a stage was reached where no further progress could be made.

By mid-1980, liberalized imports represented slightly less than 50 per cent, covering some 5,800 sub-divisions. Nevertheless, as this policy was applied in an economic climate of rapid growth with inflation, over-valuation of currency and free convertibility, a substantial trade deficit resulted. By the end of 1981, the liberalization process had to be reversed and controls were applied, first to sub-divisions comprising luxury goods, then to those with high import value, and eventually, toward the end of that year, by control on 80 per cent of that value.

The situation changed fundamentally in 1985 and in July of that year, in view of the outlook for the external sector of the economy and in order to avoid increased internal inflationary pressures and improve the export capacity of domestic industry, it was decided to step up implementation of the protection rationalization policy; by November 1985, the number of liberalized sub-divisions had increased to 7,219, representing 62 per cent of the value of imports and 90 per cent of all goods included in the General Import Tariff. This means that the greater part of foreign trade is already being regulated through tariffs.

Not all sub-divisions of the General Import Tariff have been liberalized, because a few products must remain subject to the prior permit requirement on a more or less permanent basis in order to ensure compliance with certain regulations and legal provisions.
In parallel with elimination of permits, tariff rates have been adjusted to take account of the degree of processing, type of product, sequence in the production chain, priority of use or destination, and coverage of internal demand by domestic production.

This adjustment process is in general designed to make domestic output more competitive and efficient; accordingly, although the general policy trend is gradually to reduce protection levels, changes will have to be made to take account of conditions prevailing both in the international economy and at national level in respect of specific industrial sectors and products.

B. SYSTEM OF CONTROLS

1. Foreign Trade Law

Sections 4 and 5 of the Foreign Trade Law stipulate, in a restrictive and mandatory manner, that the authorities will make the import and export of goods subject to prior permit in the following cases:

- Exports: (a) in order to ensure supply of products intended for basic consumption by the population and the supply of raw materials for industry, and likewise to regulate or control natural non-renewable resources; (b) in compliance with international treaties or agreements; (c) when it is necessary to ensure that international marketing operations are carried out consistently with the export procedures established by law or by the Federal Executive; (d) in order to preserve fauna and flora at risk or in danger of extinction, or to ensure the conservation or well-being of species; (e) in order to preserve goods of historic, artistic or archaeological value, or of value by reason of any other circumstance and (f) when necessary having regard to provisions concerning national security, public health, plant or animal health or any other provision regarding public order.

- Imports: (a) when required temporarily in order to correct disequilibrium in the trade balance or balance of payments; (b) when so required by conditions of the national economy or provisions of public order; (c) for purposes of compliance with international treaties or agreements; (d) by way of retaliation for restrictions applied unilaterally by third countries on Mexican exports; (e) when necessary to prevent competition on the domestic market in conditions implying unfair international trade practices; (f) when imports of any product increase at such a rate and under such conditions as to cause or threaten serious injury to domestic producers, and (g) when necessary for the purpose of compliance with provisions concerning national security, public health, plant and animal health or any other requirement regarding public order.
2. Regulations on import or export permits

The regulations on permits for the import or export of goods subject to restriction, published in the Official Gazette on 14 September 1977, are designed to ease administrative formalities and to adapt the prior permit system to the country's economic circumstances.

The regulations lay down detailed provisions regarding administrative formalities as well as the requirements to be fulfilled in order to apply for and obtain a permit for the import or export of goods subject to control.

These regulations are not designed to restrict imports from, or exports to, any particular country, but to regulate them in general, taking into account foreign exchange availabilities and the country's industrial and consumer needs.

3. Federal Law on Fees

The Federal Law on Fees entered into force on 1 January 1982; Article 74 stipulates that persons who apply for and obtain a permit for the import of goods must pay a fee to cover the cost of a service rendered by the State authorities.

In the particular case of imports of goods, a fee of Mex$2,000 is charged for processing the import permit application, and 0.6 per cent on the value of the goods authorized in the permit is charged for issue of the latter.

The fee for processing the import permit application and the charge on the value of the goods authorized for import are applied regardless of the origin of the goods, and are considered to correspond to the service rendered to the importer by the Department of Trade and Industrial Development.

C. CUSTOMS VALUATION

1. Normal value of goods

The Customs Law in force since 1 July 1982 defines the normal value of goods to be imported, on the basis of the definition of value of the Brussels Customs Co-operation Council. Article 48 of that Law provides that the normal value is deemed to be that of the goods on the date of arrival on Mexican territory in accordance with Article 38 of that same Law, as a consequence of a sale in conditions of free competition between a buyer and a seller independent of each other. That same provision stipulates that import duty is calculated on the basis of the normal value of goods to be imported.

For the purpose of determining the duty base, no account is taken of normal variations in prices if the goods reach Mexico within three months following purchase, the date of purchase being the date of the invoice or contract. Normal variations in prices are deemed to be those attributable to competitive market situations.
2. **Official prices**

Nevertheless, under Article 48:5 and 6 of the Customs Law, provision is made for an exception in regard to customs valuation of goods. The Department of Trade and Industrial Development may, having consulted the Department of Finance and Public Credit and in terms of the relevant legislation, fix and modify official prices of imported goods, provided that such official prices may be fixed or modified only in the case of imports that can cause injury to domestic industry or the national economy and are to constitute, where applicable, the minimum base for the application of import duty.

In relation with the provisions of the Customs Law regarding official prices, Articles 3 and 4 of the Law establishing the General Import Tariff are relevant.

Both of these instruments establish the bases for determining the official price of goods, stipulating that for imports the basis is the wholesale price in the market of the principal country exporting to Mexico, such base price not to be lower than the price that the same goods could obtain in a free market, accessible to any purchaser independent of sellers.

In addition, official prices are used as a preventive mechanism in regard to unfair practices in international trade, while the Foreign Trade Law only makes provision for measures to correct, not to prevent, such trade practices as dumping and export subsidies.

Article 4, second paragraph, of the General Import Tariff Law stipulates that in the event of unfair trade practices which cause or threaten to cause injury to the economy or to domestic industry, official prices are to be established, on bases other than those mentioned and which have already been commented upon. In such cases the official prices are to be in effect for ninety calendar days, after which further information must be obtained by SECOFI if they are to be maintained.

At the present time, official import prices are in effect for 1,207 tariff sub-divisions, i.e. 10.5 per cent less than the 1,348 recorded at the beginning of 1985, which covered only 8 per cent of total imports in 1984. This instrument is expected to remain in force until the end of 1987, when it will be replaced by the new Foreign Trade Law which will afford adequate protection to Mexico's industry against unfair practice.

**D. MEASURES TO COUNTERACT UNFAIR PRACTICES**

Articles 7 to 19 of the Foreign Trade Law lay down specific provisions in respect of the unfair practices in international trade termed dumping, and subsidies on the export of goods.

Dumping is defined as being the import of goods at a price less than the comparable price of the like product when destined for consumption in the country of origin or of consignment; an export subsidy is deemed to exist when in the country of origin or of consignment the goods have been
the subject, directly or indirectly, of incentives, bonuses, subventions or aids of any kind for their export, except in the case of practices accepted internationally.

In general, it is established that when the administrative authority (Department of Trade and Industrial Development) finds, on its own initiative or on request by a party, that any of the unfair practices defined in the Law exists, it must determine the appropriate countervailing duty which, in any case, must be equal to the price difference in the case of dumping, or to the amount of the subsidy received.

For determining the amount of countervailing duties where this is not done officially, an administrative procedure is established which begins with an application that may be made by producers of goods identical or similar to those in respect of which the investigation is requested, provided that those producers jointly or severally account for not less than 25 per cent of domestic production of the goods concerned. Legally constituted producer organizations likewise have the right to request the opening of an investigation. The request by producers must be accompanied by adequate information and documentation to allow the authority to determine, at least prima facie, the existence of any of the unfair practices provided for in the Law.

Once the administrative procedure has been launched for an investigation of unfair practices in international trade, the authority makes a provisional determination not later than the fifth working day after having received the request. That determination may establish, on a provisional basis, the countervailing duty which it deems appropriate, and will authorize import of the goods concerned without payment of that duty subject to a fiscal surety.

Thirty days after the provisional determination has been made, the authority will review it and decide to confirm or modify it, as appropriate, and, where relevant, to continue the administrative procedure, which must be completed within six months; thereafter, having heard the opinion of the Commission on Tariffs and Foreign Trade Controls, as well as the arguments and defence of the parties involved, the authority will make the appropriate final decision. If the provisional countervailing duty is confirmed in the final decision, the sureties lodged will be collected; on the other hand, if the final decision reduces the countervailing duty established on a provisional basis or finds it inappropriate, the sureties will be cancelled and, where applicable, the excess amounts paid by importers will be refunded to them.

Under Article 14 of the Law, the Federal Executive is empowered to reach agreement with the corresponding authorities of other States as to what is internationally termed "proof of injury"; in such cases, and where, for the purpose of settling such questions, reciprocity exists in those countries in respect of goods exported from Mexico, countervailing duties are applied only where, in addition to the existence of unfair practices provided for in the Law, the parties requesting application of
such duties can show conclusively that by reason of the import of goods in such conditions, injury is being caused or threatened to domestic production, or the establishment of industries is being hampered.

Certain elements have to be considered by the authority in its investigation of injury. These include the following: volume of the goods which are the subject of unfair practices in international trade; the effects on domestic prices of like goods, and the effect on domestic producers of like goods.

In addition, the conditions or assumptions for suspending countervailing duties are stipulated, and include the following: when prices of imported goods are adjusted, thereby eliminating the dumping; when the causes which resulted in subsidization of the imported goods are eliminated; when exporters of the goods despatched to Mexico undertake, with intervention by their governments, to limit their exports to agreed quantities, or when action is taken to eliminate the unfair practices concerned.

E. EXPORT AIDS

(a) Institutional aids

The Export Promotion Programme (PROFIEX) recognizes that the objective of developing an efficient export sector in Mexico is directly related with the rate of exchange and with the level of protection afforded to producing industry. This promotion model is based on two fundamental principles: further progress in simplifying administrative formalities in regard to exports, and the grant to export undertakings of aids equivalent to those granted by other countries and which are internationally accepted.

With a view to exporters being able to compete in conditions like those in other countries, it has been considered appropriate to strengthen the temporary admission system for goods to be used in the manufacture of export products. Accordingly, on 9 May 1985 a Decree was issued establishing temporary import programmes for the production of export articles; administrative facilities are granted to undertakings that export at least 10 per cent of their production or whose annual foreign sales have a value in excess of US$1 million.

For operations not covered by temporary import programmes, the Customs Law allows goods to be admitted into Mexico for six months for processing or putting up, or for use as packaging and subsequent despatch abroad. In addition, the most recent amendments to the Customs Law are designed to eliminate unnecessary charges for the exporter.

As regards adjustment of fiscal charges and in order not to pass on to export products taxes designed to be charged to the domestic consumer, value-added tax may be applied at zero rate in respect of foreign sales.
In this context and in order to permit the refund of import duties charged on inputs incorporated in export products (drawback), on 24 April 1985 a Decree was published setting the operating conditions of this mechanism which allows the refund to take account of exchange-rate variations.

In order to facilitate the purchase of goods needed by the exporter for his production process, exporters of goods comprising not less than 30 per cent of domestic content have the right to import goods for export (DIMEX). This right allows the manufacturer to import, without a prior permit, products whose value is equivalent to 30 per cent of his foreign sales. This treatment applies to 307 sub-divisions of the general import tariff which are at present subject to the prior permit system. Imports falling within these sub-divisions are dutiable at the rate of 10 per cent or at the rate set in the general import tariff if the latter is higher.

(b) Financial aids

The National Foreign Trade Bank (BANCOMEXT) acts as co-ordinator for financial programmes in regard to Mexico's foreign trade through its financing programmes for pre-export and export, for import, for import replacement, for processing industry and as financial agent for the Federal Government. In addition, the Export Promotion Fund for Manufactures (FOMEX), a Federal Government trust administered by the Bank, channels financing by rediscounting operations presented by national credit companies. This trust grants financial aids for pre-export, export, import replacement, processing industry and frontier areas, and offers guarantees to foreign trade undertakings.

Foreign trade financing is granted in accordance with the principles laid down in the National Programme for Development Financing, general policy guidelines for financial intervention, and the requirements of the Export Promotion Programme. The terms and conditions of financing are similar to those existing in other countries. The OECD guidelines are observed in long-term financing, while progressive adjustments are made in short-term financing to take account of international conditions.

In brief, BANCOMEXT-FOMEX are to undertake an aid programme for direct and indirect exporters through the mechanism termed the domestic credit card, which is designed to provide financing facilities for all undertakings which generate added-value for export. The mechanism has begun to operate on an experimental basis in a few undertakings.

Lastly, it is envisaged that both BANCOMEXT and the national credit companies will support the development of export undertakings through temporary participation with risk capital, that credits will be made available from the export funds of national credit companies for priority foreign-trade projects, and that contributions will be made to restructuring the indebtedness of undertakings involved in foreign trade.
F. GOVERNMENT PROCUREMENT

Under Article 134 of the Constitution of the United Mexican States, the Federal Administration and the Para-State Public Sector are required to issue public notices of invitation to tender with a view to the award of contracts for purchases, leases and the provision of services connected with goods and chattels.

The procedure to be followed in this respect is set out in detail in the Law on Purchases, Leases and the Provision of Services connected with Goods and Chattels which was promulgated in the Official Gazette of the Federation on 8 February 1985. This Law lays down the basic principles intended to guarantee unrestricted participation by any person wishing to do so in the national and international bidding organized by the subordinate departments, bodies and units of the Federal Public Administration. This system of public bidding ensures that the State obtains the best possible conditions as regards the price, quality, financing and suitability of purchases, leases and the provision of services connected with goods and chattels.

The principle underlying this specific law on the subject reflects a desire to guarantee the efficient and proper administration of the State's economic resources, and it accordingly makes it compulsory to plan, programme and budget any purchases, leases and the provision of services connected with goods and chattels and lays down regulations governing the acts and contracts implied by such operations.

To this end, supply committees which arrange negotiations between the public sector and its suppliers are set up in the subordinate departments and units. The names of such suppliers must be recorded in a register or log-book, in which they are verified and classified. This register of suppliers is kept indefinitely in order to simplify administrative formalities. Suppliers are also placed under a duty to guarantee the reliability of their offers and the proper use of the advance payments they receive, as well as the fulfilment of orders and performance of contracts.

The Law recommends that subordinate departments and units should give preference to the use of goods or services of national origin and include inputs, material, equipment, systems and services incorporating Mexican technology. The purpose of this recommendation is to promote the development of the various economic sectors of the country, in accordance with the National Development Plan.

The subordinate departments and units must, before drawing up agreements for the acquisition of goods and chattels of foreign origin, regardless whether imported directly or purchased within the country, obtain the authorization of the Department of Trade and Industrial Development. The latter may exempt subordinate departments and units from this requirement in the case of goods and chattels which are not produced in the country or which are produced in insufficient quantities to meet their requirements.
With a view to bringing the procurement policy of the public sector into line with the new trade directives, this authorization is granted in a general and automatic manner in respect of purchases of goods for which import permits are not required, with the exception of capital goods of considerable value (US$50,000).

Examples of government procurement operations are the purchases made by Petróleos Mexicanos (PEMEX), the Comisión Federal de Electricidad (CFE) and the Siderúrgica Lázaro Cárdenas las Truchas (SICARTSA), to mention only the most important. Those made by the Compañía Nacional de Subsistencias Populares (CONASUPO) are of an exceptional nature, since this body purchases perishable goods, cereals and basic or semi-processed foodstuffs (Article 37, Sub-division I).

In 1983 foreign procurement by the Mexican Government totalled US$4,306 million and in 1984 US$4,790 million, i.e. an increase of 11 per cent.

G. FREE ZONES AND FRONTIER AREAS

The Executive Decrees promulgated in the Official Gazette of the Federation of 1 July 1971 and 30 June 1972 amended the régime governing the free zones in the State of Baja California Norte and the partial free zone of Sonora in the State of Baja California Sur and in the State of Quintana Roo, whose validity in these three cases will expire on 30 June 1991.

Under Articles 106 to 113 of the Customs Law, the foreign trade régime governing these zones is applied in a different manner to the rest of the country, since foreign goods imported into the free zones are exempt from import duties and import permits are not required for them. Items constituting an exception to this general principle are alcoholic beverages, tobacco made up into cigarettes or cigars, and racehorses imported into the free zones which are subject to import duties and for which prior import permits, as specified by the authorities, must be obtained.

Under Article 116, Sub-division VIII of the Customs Law, goods imported by the inhabitants of frontier areas for their own consumption, of the kind and value and in the amount laid down by the authorities are exempt from the payment of duties. Similar relief may be granted to commercial centres, co-operatives and businesses with offices in the frontier areas on condition that, in the opinion of the authorities, such relief is required to satisfy the needs of the inhabitants of these areas which cannot be met by national products.

III. TRADE RELATIONS WITH OTHER AREAS AND COUNTRIES

1. Regional trade relations

(a) LAIA

The Latin American Free Trade Association, which initiated the integration process, was replaced in 1980 by a new body, namely, the Latin American Integration Association (LAIA), and the concessions negotiated during the 1962-1980 period were consolidated in Partial-Scope Agreements.
Mexico has signed Partial-Scope Agreements with its ten counterparts within the framework of LAIA. These agreements are as follows: No. 36 Mexico-Argentina; No. 31 Mexico-Bolivia; No. 9 Mexico-Brazil; No. 40 Mexico-Colombia; No. 37 Mexico-Chile; No. 29 Mexico-Ecuador; No. 38 Mexico-Paraguay; No. 32 Mexico-Peru; No. 39 Mexico-Uruguay and No. 30 Mexico-Venezuela.

The Market Opening Schedules in favour of the Association's relatively less-developed countries, namely, Bolivia, Ecuador and Paraguay, constitute another mechanism within the framework of this new integration process. The concessions granted under these agreements are not extended to the other member countries and are granted without reciprocity.

On the other hand, the old Industrial Complementarity Agreements have been incorporated under the integration process initiated by the LAIA into Partial-Scope Trade Agreements. As in the previous ones, concessions are not extended to the other member countries so that only the signatories to each agreement benefit from them. There are twenty-six of these agreements and Mexico is a party to twenty-one of them.

Mexico has granted 6,192 concessions and received 7,387 within the framework of these ten Partial-Scope Agreements.

Under the Market Opening Schedules, Mexico has granted concessions in respect of twenty-six products to Bolivia, twenty-three products to Ecuador and sixteen products to Paraguay.

The twenty-one Partial-Scope Trade Agreements to which Mexico is a party cover 3,011 concessions, of which Mexico receives 1,890 and grants 1,121.

Mexico's imports from the LAIA countries amounted to 3.8 per cent and 3.7 per cent of its total imports in 1981 and 1982 respectively; this level was maintained in 1984. As regards exports, these countries accounted for 4.3 per cent and 4.8 per cent of Mexico's total exports in 1981 and 1982 respectively but only 3.4 per cent in 1984.
(b) Partial-Scope agreements with Central America and the Caribbean

In accordance with Article 25 of the Montevideo Treaty of 1980, the countries members of LAIA may sign Partial-Scope Agreements with other countries or integration areas. On this basis, Mexico has signed Partial-Scope Agreements with Costa Rica, Guatemala, Honduras, Nicaragua, Cuba and Panama.

Under these Agreements, Mexico has granted 471 concessions without reciprocity except in the case of Cuba, which granted six concessions to Mexico.

2. Protocol relating to trade negotiations among developing countries

Mexico has been a party to the Protocol relating to trade negotiations among developing countries since its entry into force on 8 December 1971. Under this Protocol, Mexico has granted concessions covering 16 products and in return receives concessions granted by the other 15 member countries.

3. Bilateral agreements for economic and trade co-operation

The economic and trade co-operation agreements signed by Mexico with other countries provide for the reciprocal granting of most-favoured-nation treatment. These agreements are concerted and revised from time to time by Mixed Commissions that Mexico has established with various countries and blocs of countries.

Mexico has so far signed Economic and Trade Co-operation Agreements with Guatemala, Costa Rica, Nicaragua, the Republic of Korea, Sri Lanka, Algeria, Brazil, Yugoslavia, the European Economic Community and some of its member countries, Japan, Canada, Spain, the Nordic countries, Switzerland, the Council of Mutual Economic Assistance and some of its member countries.

4. Understanding between Mexico and the United States concerning subsidies and countervailing duties

On 23 April 1985, the Government of Mexico signed an Understanding with the United States concerning subsidies and countervailing duties. This Understanding is valid for a period of three years and its salient features are as follows:

- The United States recognizes that Mexico is a developing country and that subsidies other than export subsidies may be used extensively as instruments to promote the achievement of social and economic policy objectives, and has no intention of restricting the right of the Government of the United Mexican States to use such subsidies in order to achieve these and other major objectives of its policy which it considers desirable.
It is agreed that, as a developing country, Mexico should endeavor to reduce or abolish export subsidies where the application of such subsidies is incompatible with its requirements from the standpoint of competition and development.

It is decided that the Government of Mexico will not grant export subsidies under the Tax Refund Certificates Programme (CEDIS) in respect of any product or replace them by similar subsidies; however, it is understood that import duty refunds in respect of products incorporated in export items do not constitute an export subsidy.

The Government of Mexico agreed not to introduce or maintain any price practices in the energy or basic petrochemical products sector, including the preferential price programme for basic petrochemical products, which constitute an export subsidy or have the intention or effect of promoting exports. In this connection, the time-limit laid down for requesting preferential prices for energy and basic petrochemical products came to an end in November 1982.

It is stipulated that the financing made available by the Government of Mexico or any government agency will not comprise, from 31 December 1986, subsidies of any kind. Subsidies will be reduced in stages as from 1 September 1985.

The United States also declares that, on the date of the signature of the Understanding, it has not found any element in Mexico's development programme, apart from those referred to in the Understanding, which constitutes an export subsidy.

The Government of the United States offers the assurance that no countervailing duty will be applied to any Mexican product unless it is found that subsidized imports are, as a result of the effects of the subsidy, causing or likely to cause injury to an established national production sector or considerably delay its establishment. In other words, Mexico is required to produce "proof of injury" in investigations of subsidies and countervailing duties since, under United States Legislation, it is considered as being a "country under the Agreement". Although Mexico by signing the Understanding with the United States undertook to abolish subsidies for exports to the United States, it would be difficult to interpret the Understanding as eliminating subsidies for exports to that country alone, since a system of that kind, apart from being costly, would introduce an element of discrimination in respect of Mexico's other trading partners, so that it may be considered that the agreement on the elimination of subsidies is of a general nature.
IV. INSTITUTIONAL STRUCTURE OF MEXICO'S FOREIGN TRADE

Under the Organic Law governing the Federal Public Administration, the Department of Trade and Industrial Development is responsible for the formulation of trade policy, and within this framework it is the specific responsibility of the Foreign Trade Division to formulate Mexico's foreign trade policy and supervise its implementation, mainly in four areas, namely, tariff matters, foreign trade controls, frontier matters as well as economic negotiations and international affairs.

In addition, under the various decrees and other instruments issued by the Executive, provision has been made for institutions responsible for supporting Mexico's foreign trade activities. Among these institutions the principal ones are: the National Foreign Trade Bank whose function is to finance the country's foreign trade and to assist in the promotion of such financing; the Commission on Tariffs and Foreign Trade Control established by Article 3 of the Foreign Trade Law which acts as an advisory body of the Federal Executive in examining, planning and proposing general criteria and changes affecting foreign trade matters and also assists in the application of the above-mentioned Law; and finally the Cabinet-level Foreign Trade Unit which co-ordinates the activities of the various public sector bodies which have dealings with the external sector.

It may be mentioned that all the legal provisions adopted by the Mexican Government are promulgated in the Official Gazette of the Federation, through which they are not only brought into force but also brought to the attention of the public, since it is accessible to all, made available to the public or can be consulted without restriction.

If such provisions are not promulgated in the Official Gazette they do not have the force of law, for it is this publication which indicates the date on which they come into effect.

No law in Mexico may be brought into force with retroactive effect if the interests of the citizens are prejudiced thereby.

Mexico has attached the following texts to the Memorandum on Foreign Trade for the information of interested delegations:

- The National Development Plan
- The National Programme of Industrial Development and Foreign Trade, 1984-1988
- The Motor Vehicle Programme
- The Pharmaceuticals Programme
- The Export Promotion Programme (PROFIEX)
- The Customs Law
- The Foreign Trade Law
The Agreement on Import Subsidies of 1 April 1985

The Understanding between Mexico and the United States concerning subsidies and countervailing duties (23 April 1985)

The Regulation governing import or export permits for goods subject to restrictions of 14 September 1977

The Federal Law on Fees of 1982

The Decree of 9 May 1985 setting up programmes of temporary imports for the manufacture of export goods

The Drawback Decree of 24 April 1985

The Export Promotion Fund for Manufactures (FOMEX)

The Law of 8 February 1985 concerning purchases, leases and services connected with goods and chattels

The General Import Tariff (TIGI)

The General Export Tariff (TIGE)

The following lists have also been enclosed:

554 sub-divisions which are exempt from the 2.5 per cent on the general duty

1,207 sub-divisions with official prices

839 sub-divisions subject to a prior import permit

248 sub-divisions subject to a prior export permit

127 export sub-divisions subject to duty

40 sub-divisions of prohibited exports

307 sub-divisions for which prior permits are not required under the DIMEX Programme

Trade data on sub-divisions for which prior import permits are required

Tables of the balance of payments in terms of absolute value.
ANNEX

THE DEVELOPMENT OF MEXICO'S FOREIGN TRADE

Between 1955 and 1981 Mexico's foreign trade deficits increased steadily and reached a peak at the end of the 1970s. Beginning in 1976, however, its exports began to expand at a relatively rapid rate, and between 1976 and 1981 they increased by 430 per cent, namely, at an average annual rate of 39.6 per cent. Imports quadrupled during this period, at an average annual rate of 30.6 per cent. The value of imports also rose, mainly as a result of purchases of foodstuffs, raw materials, semi-manufactures and capital goods.

Between 1976 and 1981 Mexico's foreign trade expanded by 335 per cent, from US$9,955 to US$43,572, i.e. at an average annual rate of 34.4 per cent.

During the first year of the 1982-1984 period the country's economy experienced one of its worst crises, for inflation increased to 98.8 per cent and the gross domestic product declined by 0.2 per cent in contrast to the steady growth experienced in previous years. The economic policy measures adopted, which included the reduction of the fiscal deficit as a percentage of the GDP, a more realistic foreign exchange policy and the more rational use of foreign exchange, resulted in considerable balance-of-trade surpluses between 1982 and 1984, namely, US$5,888 million in 1982, US$13,306 million in 1983, and US$12,265 million in 1984. In 1984 Mexico's foreign trade amounted to US$35,842 million and its share in world trade rose to 0.9 per cent as against 0.5 per cent in 1977. It is anticipated that in 1985 its trade surplus will amount to US$7,200 million, reflecting an increase of 27.1 per cent in imports and a decline of 10.6 per cent in exports in comparison with the previous year.

A. TOTAL TRADE (EXPORTS PLUS IMPORTS)

The annual rate of growth of Mexico's foreign trade declined slightly between 1982 and 1984 because, as compared with an annual growth rate of 34.4 per cent recorded in the first period, the level of trade remained virtually unchanged, amounting to US$35,970 million in 1982 and US$35,842 million in 1984. This was due to a sharp decline in imports, which fell by 11.5 per cent. At the same time exports increased at an average annual rate of 7.2 per cent.

1For technical reasons, this analysis makes a distinction between two periods: the first (1976-1981) was one in which the balance of trade recorded a series of deficits which reached their peak in 1981, and the second period (1982-1984) was one of surpluses.
An important factor that contributed to the expansion of exports was the steady increase in petroleum sales abroad which rose from US$557 million in 1976 to US$13,305 million in 1981, namely, by 2,289 per cent; in other words, petroleum exports increased at an average annual rate of 88.7 per cent during this period. Between 1982 and 1984 they continued at a high level, amounting to US$15,623 million in 1982, and US$14,968 million in 1984.

It will be noted that the most critical point in the crisis was reached in 1982, when Mexico's growth rates recorded their lowest level in modern times. This was due to a large extent to the international crisis prevailing at that time, high and unstable interest rates, a sharp drop in oil prices, the protectionist measures adopted by many countries, etc.

Mexico's domestic economy contracted because it had to service a debt of US$80 billion, which implied the payment of fluctuating and high interest rates at a time when the price of the product which accounted for three-quarters of its exports was falling sharply for want of reliable and stable markets. Moreover, Mexico was unable to sell any other type of products to alleviate its situation in any way because international markets were drying up.

Exports and imports as a percentage of the gross domestic product rose from 11.21 per cent in 1976 to 18.18 per cent in 1981. Greater efforts were made by Mexico to overcome the situation described above, and during the 1982-1984 period, had the effect of increasing this percentage which, in 1982 was 21.6 per cent and in 1984 21.1 per cent; this clearly demonstrates the importance of the external sector to the Mexican economy. It is anticipated that the corresponding figure for 1985 will be 19 per cent.

B. BALANCE ON CURRENT ACCOUNT

Mexico's balance on current account showed a series of deficits from 1976 to 1982, recording a cumulative total of US$38,831 million during this period; the largest deficit of all was shown in 1981, namely, US$12,544 million.

Goods have invariably constituted the most important import items; however, financial outflows increased steadily, from US$2,070 million in 1976 to US$12,364 million in 1984, i.e. by 497 per cent, reflecting an average annual rate of increase of 22 per cent.

The year in which this item attained its peak value was 1982, when foreign payments under this heading amounted to US$13,765 million.

During the 1976-1981 period, income on current account rose from US$8,277 million to US$30,810 million, or by 272 per cent. This reflects an average annual increase of 43,354 or 262 per cent, and an annual average rate of increase of 29.4 per cent.
During the period 1982-1984, income rose from US$28,003 million to US$32,728 million, or by 16.9 per cent, i.e. an average annual increase of 8.1 per cent. Expenditure declined by 16 per cent, from US$34,224 million to US$28,760 million, or at an annual average rate of 8.3 per cent. Although Mexico's deficit in 1982 was US$6,221 million, the situation changed in 1983 when it had a surplus of US$1,273 million; in 1984 the surplus was US$3,032 million. It is anticipated that in 1985 there will be a deficit of US$500 million.

C. TRADE BALANCE

As has already been indicated, Mexico's trade balance showed a deficit throughout the period 1955 to 1981, the cumulative total for the 1976-1981 period amounting to US$16,856 million. The largest deficit during this period was recorded in 1981, and amounted to US$4,511 million.

The most important import items during the two periods under consideration were manufactures, and in particular capital goods which, in 1976, accounted for 87.2 per cent of total imports. However, imports by the agricultural sector also rose, from 6.2 per cent in 1976 to 10.3 per cent in 1981. The countries or geographical areas with which Mexico had a trade deficit in 1976 were the United States, the European Economic Community and Japan, which accounted for 87.7 per cent of the total. Beginning in 1982, Mexico's trade balance showed a surplus as a result not only of the 7.2 per cent annual growth of exports between 1982 and 1984, but also a decline in imports at an annual rate of 11.5 per cent during that period.

D. EXPORTS

As has already been stated, Mexico's exports of goods increased by 430 per cent between 1976 and 1981, from US$3,655 million in 1976 to US$19,379 million in 1981, reflecting an annual rate of growth of 39.6 per cent; the highest increase was recorded in 1980, when exports rose by 74 per cent.

Between 1982 and 1984 the rate of expansion of exports declined to 7.2 per cent, from US$20,929 million to US$24,054 million. It is anticipated that exports will decline 10.6 per cent in 1985.

Intermediate products, which accounted for 70.6 per cent of total exports, constituted the principal export items in 1976; consumer goods (26.4 per cent) occupied second place, whereas capital goods accounted for only 3 per cent. During the same year, exports of manufactures accounted for 47.3 per cent, followed by agricultural and forestry products with 29 per cent, products of the extractive industries with 20.5 per cent, and livestock, bee-keeping, game and fisheries products with 3.1 per cent.
During the 1982-1984 period the principal export item was petroleum, which in 1982 accounted for 76.8 per cent of total exports (US$16,101 million). In 1984 its share declined to 63.2 per cent (US$15,196 million), whereas that of the manufacturing sector increased to 28.5 per cent as against only 15 per cent in 1982.

The agricultural sector maintained its share of exports during this period. In 1982 agricultural exports amounted to US$1,230 million or 5.8 per cent of the total, whereas for 1984 the corresponding figures were US$1,456 million and 6 per cent.

As for manufactures, the main export items in 1982 were foodstuffs, beverages and tobacco, which accounted for 8.3 per cent of total exports with a value of US$791 million; the corresponding figures for transport vehicles were 2.5 per cent and US$534 million, chemical products 2.1 per cent and US$442 million and metal products, machinery and industrial equipment US$190 million and 1.8 per cent.

In 1984, exports of foodstuffs, beverages and tobacco accounted for 3.4 per cent of total exports (US$822 million), transport vehicles 6 per cent (US$1,438 million), chemical products 3.1 per cent (US$756 million) and metal products, machinery and industrial equipment 3 per cent (US$711 million). In addition, exports of petroleum by-products amounted to US$1,244 million (5.2 per cent) and mining and metallurgical products US$510 million (2.1 per cent).

Mexico's main customers in 1984 were the United States, US$13,962 million (58 per cent), Japan, US$1,868 million (7.8 per cent), Spain, US$1,703 million (7 per cent), the United Kingdom, US$1,019 million (4.2 per cent), France, US$928 million (3.9 per cent), Brazil, US$561 million (2.3 per cent), and Israel, US$486 million (2 per cent).

These countries as a whole accounted for 85.2 per cent of Mexico's total exports during this year.

**E. IMPORTS**

In the 1976-1981 period, Mexico's imports almost quadrupled, from US$6,299 million to US$24,193 million, an increase of 284 per cent in five years; this reflected an annual average rate of growth of 30.6 per cent and reveals the rapid rate at which the Mexican economy expanded during this period.

Between 1982 and 1984, however, purchases abroad declined by 11.5 per cent annually, the value of imports dropping from US$15,041 million in 1982 to US$11,788 million in 1984. This decline was the result of the economic crisis which began to be felt at the beginning of 1982.
Manufactures constituted the principal import item in 1982, amounting to US$12,956 million or 90 per cent of total imports during this year. Under this general heading, the most important items were metal products, machinery and industrial equipment, which accounted for 39.7 per cent of total imports (US$5,707 million), transport vehicles, components and spare parts, 13.7 per cent (US$1,978 million), chemical products, 8.7 per cent (US$1,251 million) and iron and steel products, 7.4 per cent (US$1,071 million). The agricultural sector's share was 7.5 per cent (US$1,096 million).

Although manufactures accounted for 81.1 per cent (US$9,122 million) of imports in 1984, the agricultural sector's share was 16.7 per cent (US$1,877 million), the main items being sorghum, maize and soybeans.

The principal import items were metal products, machinery and industrial equipment, whose share in the total amounted to 29.6 per cent (US$3,337 million), transport vehicles, components and spare parts, 12.4 per cent (US$1,404 million), chemical products, 10.6 per cent (US$1,193 million) and iron and steel products, 6.7 per cent (US$756 million).

Mexico's main suppliers in 1984 were the United States, 62.5 per cent (US$7,365 million), Japan, 4.3 per cent (US$503 million), the Federal Republic of Germany, 4.1 per cent (US$484 million), France, 2.2 per cent (US$253 million), Brazil, 2 per cent (US$230 million) and Italy, 1.9 per cent (US$224 million).
MEXICO

Balance of Payments

(millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>24,947.3</td>
<td>30,809.8</td>
<td>28,919.4</td>
<td>28,944.3</td>
<td>32,727.7</td>
</tr>
<tr>
<td>Expenditure</td>
<td>32,170.6</td>
<td>43,354.1</td>
<td>33,797.1</td>
<td>23,620.7</td>
<td>28,760.4</td>
</tr>
<tr>
<td>(net)</td>
<td>-7,223.3</td>
<td>-12,544.3</td>
<td>-4,878.5</td>
<td>5,323.8</td>
<td>3,967.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11,948.3</td>
<td>21,859.6</td>
<td>8,573.9</td>
<td>1,105.8</td>
<td>1,576.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>73.5</td>
<td>69.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-3,647.6</td>
<td>-8,372.7</td>
<td>-8,361.6</td>
<td>917.1</td>
<td>150.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,150.9</td>
<td>1,012.2</td>
<td>-3,184.7</td>
<td>3,100.9</td>
<td>3,200.9</td>
</tr>
</tbody>
</table>