ACCESSION OF MEXICO

Memorandum on Foreign Trade Régime

Revision

The following communication, dated 18 March 1986, has been received from the Permanent Mission of Mexico.

I am sending you herewith the revised annex on the Development of Mexico's Foreign Trade, which forms part of the Memorandum on the Foreign Trade Régime of Mexico and which I would ask you to forward to the GATT secretariat to replace the previous text.

This document incorporates changes made in the previous text; some of the figures had to be adjusted because the Bank of Mexico has brought them up to date; as you know, preliminary figures are still being used for 1983 and 1984.
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 expanded at a relatively rapid rate; between 1976 and 1981 they increased by 430 per cent, representing 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 million to US$43,349 million: i.e., at an average annual rate of 34.4 per cent.

During the first year of the period 1982-1984 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 rapid growth experienced in previous years. The economic policy measures adopted, which included the reduction of the fiscal deficit as a percentage of GDP, a more realistic foreign exchange policy and the more rational use of foreign currency, resulted in considerable balance-of-trade surpluses between 1982 and 1984, namely, US$6,792.7 million in 1982, US$13,761 million in 1983, and US$12,799.3 million in 1984. In 1984 Mexico's foreign trade amounted to US$35,307.9 million and its share in world trade rose to 0.9 per cent as against 0.5 per cent in 1977. The trade surplus for 1985 is calculated at US$8,396 million, reflecting an increase of 19.4 per cent in imports and a decline of 9.2 per cent in exports since 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 per cent recorded in the first period, the level of trade remained virtually unchanged, at US$35,666.7 million in 1982 and US$35,307.9 million in 1984. This was due to a sharp decline in imports, which fell by 11.7 per cent. At the same time exports increased at an average annual rate of 7.2 per cent.

\[1\] For 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, i.e. by 2,289 per cent; in other words, petroleum sales 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 largely due 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 product which accounted for three quarters of its exports was falling sharply in price and lacked 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 shrinking.

Exports and imports as a percentage of gross domestic product rose from 11.21 per cent in 1976 to 18.1 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 estimated 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 item; 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 period 1976-1981, income on current account rose from US$8,277 million to US$30,810 million, i.e. by a total of 272 per cent and at an average annual rate of 30 per cent. Meanwhile expenditure increased from US$11,961 million to US$43,354, i.e. by 262 per cent and of an annual average rate of 29.4 per cent.
During the period 1982-1984, income rose from US$28,002.7 million to US$32,727.7 million, i.e. by 16.9 per cent, representing an average annual increase of 8.1 per cent. Expenditure declined by 16 per cent, from US$34,223.7 million to US$28,760.4 million, i.e. at an annual average rate of 8.3 per cent. Mexico thus had a deficit of US$6,221 million in 1982, but the situation changed in 1983 when it had a surplus of US$5,323.8 million; in 1984 the surplus was US$3,967.4 million. It is estimated that in 1985 there will be a deficit of US$500 million.

C. TRADE BALANCE

As has already been indicated, Mexico's trade balance was in deficit throughout the period 1955-1981, the cumulative total for the period 1976-1981 amounting to US$16,925.6 million. The largest deficit during this period was recorded in 1981 and amounted to US$4,510 million.

The most important import item during the two periods under consideration was manufactures, and in particular capital goods, which in 1976 accounted for 30.6 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 of a decline in imports at an annual rate of 11.7 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$3,655.5 million in 1976 to US$19,419.6 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 71.6 per cent.

Between 1982 and 1984 the rate of expansion of exports declined to 6.4 per cent, as the annual total rose from US$21,230 million to US$24,054 million. It is estimated that exports will have declined by 10.6 per cent in 1985.

Intermediate products, which accounted for 70.6 per cent of total exports, constituted the principal export item 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, beekeeping, game and fishery products with 3.1 per cent.
During the period 1982-1984 the principal export item was petroleum, which in 1982 accounted for 73.6 per cent of total exports (US$15,623 million). In 1984 its share declined to 62.2 per cent (US$14,968 million), whereas that of the manufacturing sector increased to 22.7 per cent as against only 14.2 per cent in 1982.

The agricultural sector maintained its share of exports during this period. In 1982 agricultural exports amounted to US$1,233 million or 5.8 per cent of the total, whereas for 1984 the corresponding figures were US$1,461 million and 6 per cent.

As to manufactures, the main export items in 1982 were foodstuffs, beverages and tobacco, which accounted for 3.3 per cent of total exports with a value of US$707 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$390 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 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 that year.

E. IMPORTS

In the period 1976-1981 Mexico's imports almost quadrupled, from US$6,299.9 million to US$23,929.6 million, an increase of 263 per cent in five years; this reflects an annual average rate of growth of 30.6 per cent and reveals the rapid rate at which the Mexican economy expanded during that period.

Between 1982 and 1984, however, purchases abroad declined by 11.7 per cent annually, the value of imports dropping from US$14,437 million in 1982 to US$11,254 million in 1984. This decline was the result of the economic crisis which started to be felt at the beginning of 1982.
Manufactures constituted the principal import item in 1982, amounting to US$12,971 million or 90 per cent of total imports during that 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 7.6 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$1,878 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).
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I Current account</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>7,223.3</td>
<td>12,544.3</td>
<td>6,221.0</td>
<td>5,323.8</td>
<td>3,967.4</td>
</tr>
<tr>
<td>Expenditure</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>24,947.3</td>
<td>30,809.8</td>
<td>28,002.7</td>
<td>28,944.5</td>
<td>32,727.7</td>
</tr>
<tr>
<td></td>
<td>32,170.6</td>
<td>43,354.1</td>
<td>34,223.7</td>
<td>23,620.7</td>
<td>28,760.4</td>
</tr>
<tr>
<td>II Capital account (net)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>11,948.3</td>
<td>21,859.6</td>
<td>6,754.1</td>
<td>1,105.8</td>
<td>1,576.0</td>
</tr>
<tr>
<td>III Special Drawing Rights</td>
<td>73.5</td>
<td>69.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IV Errors &amp; omissions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-3,647.6</td>
<td>-8,372.7</td>
<td>-5,270.8</td>
<td>-917.1</td>
<td>-150.7</td>
</tr>
<tr>
<td>V Changes in the reserves of the Bank of Mexico</td>
<td>1,150.9</td>
<td>1,012.2</td>
<td>-4,737.8</td>
<td>3,300.9</td>
<td>2,240.7</td>
</tr>
</tbody>
</table>

Source: Indicadores Economicos
Bank of Mexico
June 1985