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Textiles Surveillance Body

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STATEMENT BY THE REPRESENTATIVE OF MEXICO AT THE MEETING OF THE TSB ON 25 JULY 1974

Mr. Chairman, distinguished members of the Textiles Surveillance Body, and members of the secretariat of GATT.

I have the honour, as representative of the Mexican Government, to transmit to you a cordial message from the supreme authorities in my country and their good wishes for the success of the work of the Textiles Body in its difficult task of ensuring the proper application of the Arrangement regarding International Trade in Textiles.

The Mexican Government is following the outcome of your deliberations with interest and is fully aware of the importance of the Textiles Surveillance Body as an essential tool for the satisfactory development, on a just and equitable basis, of trade relations in the textile field, on the basis of the principles and provisions of the Arrangement regarding International Trade in Textiles.

May I at the same time, Mr. Chairman, express my thanks for the cordial welcome you have just extended on behalf of the Textiles Surveillance Body, to the Mexican delegation accompanying me; we particularly appreciate the many efforts made, in conjunction with the members and secretariat of GATT, and the facilities you have placed at our disposal for the satisfactory achievement of our task.

The fact that Mexico is attending this meeting is convincing proof of the desire on the part of my Government to participate fully in the multilateral methods and mechanisms aimed at solving the problems of international trade on an equitable basis, above all, by applying sound principles designed to solve Mexico's problems satisfactorily in the light of its peculiar needs.

The above is particularly important in the case of developing countries like Mexico, since it enables them to give the proper priority to their development needs by applying general economic policies and specific instruments calculated to achieve, to their full satisfaction, the goal of progressive development of their economy.

It is on the basis of this principle, of achieving the progressive development of Mexico's economy, which incidentally is embodied in the text of the General Agreement on Tariffs and Trade, that Mexico is attending this meeting in accordance with the terms of the Textile Arrangement.

Pursuant to the decision of the Textiles Surveillance Body at its last meeting and its request to the Mexican authorities to submit a memorandum giving the pertinent information to enable the Body to access the justification for maintaining the restrictions applied by Mexico to textiles, I have come here personally to place the memorandum in question before you for your consideration and to offer any clarifications that may be necessary to enable you to make your assessment.

Our attendance at this meeting should therefore be taken as a reflection of a sincere spirit of co-operation in ensuring the proper application of the provisions of the Textile Arrangement and at the same time as a formal appeal by Mexico to the distinguished Surveillance Body to reach a conclusion and a decision on this matter bearing in mind constantly the new spirit of understanding, reflected in the Arrangement regarding International Textile Trade, towards the problems of the developing countries, while not losing sight of Mexico's goal, namely to work consistently and systematically in the field of domestic policy and in international relations to achieve the progressive development of its economy.

In the memorandum submitted by Mexico to the Textiles Surveillance Body and now in your possession, we explain the motives which have led us to maintain the system of requiring a prior licence to import, not only in the textile sector, but in respect of the economy in general, with a view to ensuring the economic development needed by the country.

Bearing in mind the views put forward and the hard facts of the process of development of Mexico's economy, we look forward to working with you to furnish any explanations that may be required; and I should like to outline for your benefit some general pointers to enable you to assess in a spirit of complete objectivity the situation with which Mexico is faced today.

At the present time, Mexico has 58 million inhabitants and is growing at an annual rate of 3.5 per cent. This makes it vitally necessary to create 800,000 new jobs each year and to provide all the indispensable services to go with them. Of the total population, 32 per cent, or approximately 18 million persons, make up the economically active population, and of these, 34.0 per cent are employed in the primary sector, 24.7 per cent in industry, 22.6 per cent in services, 10.2 per cent in trade, 3.1 per cent in transport, and 5.4 per cent in other activities.

But from the sectoral point of view, trade and services make up 52.2 per cent of the gross domestic product, manufactures 23.4 per cent, and agriculture, stock-rearing and fishing only 10.3 per cent.

This imbalance is further reflected in the fact that a person occupied in agriculture generates only 13.4 per cent of the income produced by a service worker, and 21.3 per cent of that of a worker in industry. Independently of its distribution, the gross domestic product has been increasing annually over the decade 1963-1973 at the rate of 7.1 per cent (at constant prices). This has no doubt brought about an improvement in per capita income, although it has not been possible to distribute the benefits of development among wide sectors of the population - a situation further aggravated in those regions of the country which are outside the orbit of the progress being made.

There are zones or regions in Mexico which have not been incorporated into the development process. Hence one of the aims of the economic policy of the Mexican Government is to achieve a balanced economic development.

The economic structure of the Mexican population is as follows: 40 per cent are families in low income brackets, 30 per cent are "lower middle class", 20 per cent "middle class" and 10 per cent "upper class". This economic structure has meant that Mexico's development process is restricted for want of an extensive domestic market such as is indispensable if industrial growth is to be promoted.

For this reason, we have established a policy of redistributing income among economic activities, regions and social sectors in the light of the economic potentiality of each region so as to achieve minimum levels of well-being for the population.

The Mexican economy operates on the basis of a system of mixed economy in which both the public sector and the private sector play an important rôle in development. The State influences the level and nature of private investment, channelling it towards those sectors where investment is necessary and giving particular attention to the solution of problems of efficiency and costs as part of the planning of industry as a whole.

The instruments created to promote industrialization reflect the structure and the problems described above; thus there are various mechanisms, fiscal, administrative, financial, etc., including the so-called prior or advance import licence requirement, the administration of which, in conjunction with the application of the tariff, constitutes the essential instrument for regulating external trade with a view to achieving the objectives of economic development.

This instrument does not create a ban on imports. Its main feature is that it regulates imports in the light of the country's needs, and its application is subject to constant review, so that it is dynamic in character. At the same time, the prior licence system is not discriminatory as regards the countries from which products come, nor is its application aimed at protecting undertakings in particular.

Thus the goals to be pursued by industrialization in the interests of the economic development of the country are: to extend industrialization to all parts of the national territory so as to exploit the natural resources available and the capacity of the existing industrial plant; to generate the sources of employment required for Mexico's democratic growth; and to consolidate the domestic market and produce surpluses enabling our products to compete abroad, the ultimate object of all this being to provide a higher standard of living for the population.

As regards the textile industry, considered separately for the purpose of study only, here we have an industry providing employment for a considerable part of Mexico's labour force, which is concentrated in certain regions and presents a peculiar problem in the economic and social context.

As is pointed out in the document you have received, within the manufacturing industry in Mexico the textile sector (cotton, wool and man-made fibres) has pride of place at the present time. It comes second as regards the number of persons employed, namely, 225,000 workers (but it must be pointed out that this figure does not include 85,000 workers occupied in the clothing industry); third as regards wages and salaries (9,700 million pesos or \$776 million), and fourth as regards value of production and level of investment (21,500 million pesos and 28,000 million pesos, or \$1,720 million and \$2,240 million respectively).

Mexico's textile industry, which is one of the oldest industrial branches, has certain peculiarities from the point of view of its structure and its economic and social importance, which make the problems it has to face highly significant and important in the country's economy.

As regards its structure, while there are modern undertakings with great productive efficiency, there are others still operating which have antiquated or fairly antiquated equipment, even though it is in the process of being replaced. An important part has been played in this replacement process, by the system of import licences, which has made it possible to channel purchases of machinery and equipment towards the less competitive branches or sectors, thus encouraging their modernization and increasing their efficiency.

Independently of the structural aspect already mentioned, within the Mexican textile industry each sector which it contains has a distinct degree of competitiveness. That differing degree of competitiveness is basically determined by the cost and availability of the raw materials used by each sector. Thus three sectors can be distinguished, of which each particular situation is different: cotton, man-made fibres and wool.

As regards the cotton sector, the Mexican textile industry has an abundant sufficiency of raw material and at international prices, for its domestic production of cotton amounts to 1,700,000 bales, a figure which is approximately double the requirements of the industry (825,000 bales).

However, the cotton textile sector faces a problem resulting from the large number of undertakings it contains - more than 300 - of which only 25 per cent, that is to say 75 factories, are of a size which enables them to benefit from the savings resulting from large-scale production. Those are the very undertakings which are active in the field of exports, representing 50 per cent of the installed capacity in the sector. The remaining 225 undertakings are small and medium-sized factories, many of them operating on a marginal basis. Those 225 undertakings represent the remaining 50 per cent of the total installed capacity.

Another factor affecting the competitiveness of the cotton textile sector is that connected with the cost of labour, which, unlike that in most developing countries, is relatively high. In fact, according to an enquiry carried out by the IFCATI (International Federation of Cotton and Allied Textiles Industries), Mexico takes 13th place in the world as regards cost per man/hour in terms of wages and social benefits. That cost is US\$2.25 per man/hour.

As regards the man-made fibre sector, the situation is entirely different, as in that case domestic production of the raw materials for the production of the fibres is not sufficient. Furthermore, the prices of those national raw materials are higher than the international levels, by percentages which vary from 20 per cent to 70 per cent in some cases.

That situation results in the fact that the products which the textile industry manufactures using as raw materials man-made fibres cost appreciably more than similar products produced in other countries which rely on raw materials at international prices. It is estimated that the differences in cost vary from 10 per cent in the case of manufactures based on rayon to 50 per cent in the case of articles based on polyester. For that reason the man-made fibre textile sector does not have a degree of competitiveness making possible large exports of its products.

As regards the wool sector, its position can be regarded as intermediate between that of the cotton sector and that of the man-made fibre sector. The wool sector has to depend to the extent of almost 90 per cent on imports of raw material, as the national supply is not sufficient nor are its qualities adequate for that sector to attain a production of manufactured articles capable of competing on the international markets. That situation also results in costs which are comparatively higher than those in countries which are at the same time producers of the raw materials and thus are able to have supplies at lower prices in sufficient quantity and of adequate quality.

Taking into account the general situation which has been described, Mexico has found it very useful to use the machinery of import licences, in co-ordination with customs duties, to favour the development of those industrial activities. The flexible nature of its administration renders feasible the importation of those products, whether raw materials or manufactured articles, of which the domestic production is not adequate or does not combine the essential requirements regarding quality and price, without it being rendered more expensive by high customs duties which, if there were no import licence, would have to be established as a means of protecting the national producers.

Thanks to the existence of the system of advance licences, the levels of customs duties existing in Mexico in respect of textile products are at present 15 per cent for raw materials, 25 per cent for semi-finished articles and 35 per cent for nearly all manufactured goods.

As an instrument of industrial promotion it also makes it possible to regulate national production prices, preventing them from being more than 25 per cent higher than those prevailing on foreign markets. In some cases that percentage may be higher, depending on the characteristics or special situation of economic activity concerned, or for reasons of national interest, as is the case with raw materials of petro-chemical origin.

Further, the establishment of import licence machinery is conditional on the undertaking by the national producer to comply, amongst other things, with requirements as regards quality, prices and delivery dates; and that has to be supported by information concerning investments, aggregate value, production capacity or employment created, percentage of demand satisfied, and competition with foreign goods. All those factors have to be analyzed before adopting a decision on the setting-up of import licence machinery with the objective of ensuring true growth for the industry.

Mr. Chairman, and Members of the Surveillance Body, this has been a matter of making clear to you the essential and most outstanding features of the mechanics and operation of the system of advance licences for imports in force in Mexico and its underlying philosophy aimed at overcoming our problems of development, and of giving you a general description of the main significant facts relating to the Mexican economy.

This presentation of the facts is in accordance with our desire to provide authentic information concerning all the facts required by this body to enable it to arrive at the conclusion which Mexico has requested. It should be considered as supplementing the basic document which we have submitted for your consideration, and in the preparation of which we have endeavoured to deal with the matters raised by this body at its last session.

The Mexican delegation remains at your disposal to give any relevant explanation which may help you in your task.