Deregulation

The Mexican government started simplifying its economic regulations in 1983. Deregulation is intended to open up economic activity to private participation, promote competition, and make economic decision-making more flexible. It has encouraged more players to participate while reducing the degree of direct government intervention in production. Significant regulatory adjustments have been made in the automotive industry, transportation, petrochemicals, mining, telecommunications, aquaculture and financial services (see box). Other initiatives are under way in agriculture, manufacturing, tourism, as well as domestic and foreign trade.

Trade Liberalization

One of the most important areas of the Mexican economy to be affected by the reform effort has been foreign trade. Up to the early 1980s, Mexico pursued a protectionist industrial strategy based on import substitution. Since 1983, the government has radically liberalized the country's trade relationships in order to increase its international competitiveness. This significant change was marked by the accession of Mexico to full membership in the General Agreement on Tariffs and Trade (GATT) in July 1986. As part of its obligations under the GATT, Mexico has been moving to reform its tariff structure to bring it into line with practices in other countries. At the same time, it has been dismantling many traditional non-tariff barriers such as import licences (see Figure 1.6). As a result, what was once a closed economy has opened up significantly to commerce with the outside world.

Figure 1.6
The Liberalization of Mexican Trade
(in percent)

	1982	1989
Average tariff	27.0	13.1
Weighted average tariff	16.4	9.5
Number of rates (units)	16	5
Share of imports subject to licences (by value)	100	17.3

Source: EAITC.

Following along the path of integrating Mexico into a larger international economic community, the government has been pursuing various free trade agreements. The most significant of these initiatives is the North American Free Trade Agreement concluded with Canada and the United States. In addition, Mexico has entered into a free trade pact with Chile and it is negotiating similar arrangements with the countries of Central America and with Colombia and Venezuela.

Imports: Perhaps the most dramatic consequence of recent changes to Mexico's trading regime has been a surge in imports. Traditionally, low imports and large trade surpluses had been the rule and this continued up to 1987. As restrictions on imports were eased, Mexico began purchasing a larger volume of imported goods and services, especially from the United States. To take one example, once import controls were lifted, U.S. shipments of computer software and related programs grew from only $US0.5 million in 1987 to $US20.8 million in 1991. As a result of such trends, total imports in 1991 were 23.4 percent higher than they had been in 1990. The country's traditionally positive trade balance had evaporated by 1990 and in 1991 Mexico had a massive trade deficit of $US11 billion. The year also marked the first time in a decade that the United States had a trade surplus with Mexico.

The dramatic growth in imports coupled with a highly negative trade balance are not as problematic as they might seem at first glance. There are four reasons for this:

- Intermediate and capital goods constitute about 85 percent of all imports. This means that Mexico's import boom is not fuelled by consumption but by investments in infrastructure.
- The growth in imports slowed in the second half of 1991. Imports grew by 29.6 percent between January and June but only by 18.4 percent in the second half of the year.
- The growth rate for imports of consumer goods dropped dramatically from the 43 percent level of a few years ago to 12 percent in 1991. This was just half the growth rate for imports of capital and intermediate goods in the same year.
- Approximately 92.5 percent of imports in 1991 were made by private companies rather than the government.