

1. BACKGROUND

Mexico entered the age of telecommunications in 1851, with the inauguration of the first telegraph circuit. Local telephone service began in 1882 with the foundation of the Mexican Telephone Company. By the end of the 19th century, the first long distance telephone conference was held between Mexico and the United States, while submarine telegraphic cables reached Mexican coasts. The first Mexican radio station was inaugurated in 1923. In the 1930s, Mexico was linked to Europe, Orient and South America through radio-telegraphic systems. For many years, telephone services were supplied by two private companies, subsidiaries of Ericsson (Sweden) and ITT (U.S.A.). Between 1963 and 1972, the Mexican government gradually purchased stock held by these two companies and became majority (51%) owner of the new Telefonos de Mexico. By the end of the Second World War, Mexico initiated a second phase in its telecommunications infrastructure with the installation of the microwave system and spatial communications began in 1957. In 1963, the first microwave route was inaugurated between Mexico City, Monterrey and the U.S. border. The national system was completed in 1966 for the 1968 Olympic Games. Telex service began in 1957 using the existing long distance network and by 1971 it was linked to the world network. The first television channel in Latin America was inaugurated in Mexico in 1950 by the company Televisión de México. The following year, Televisión was born, now the Televisa corporation.

Since then, Mexican telecommunications have come a long way and have grown significantly, to be among the world's most advanced. During the last decade, telegraphic channels have duplicated, ionospheric radiocommunications have grown 57%, satellite communications have boomed through the installation of the Morelos satellite System and its 237 local stations, telex lines have grown 150%, data communications systems grew over 500%, television stations multiplied by seven and 220 radio stations were concessioned, the number of telephone apparatus more than doubled, as well as the number of lines, telephone density increased from 6.7 to 11.4 per 100 inhabitants and the number of locations with telephone service grew from 4,200 to 7,200.

The Mexican telecommunications sector is undergoing fundamental changes. New policy initiatives are opening opportunities for Canadian and other foreign companies wishing to enter the market. As a result of Mexico's accession to GATT, tariffs have been lowered to a maximum 20%, down from 100% in 1982, and prior import licenses are no longer required to import telecommunications equipment. This enables foreign companies to export their products more easily to Mexico. Additionally, the Mexican government gradually has been changing its policies regarding the telecommunications sector, which has repeatedly been stressed as a crucial factor for Mexico's sustained economic development and growth. Deregulation and privatization are the crucial factors changing the face of Mexico's telecommunications sector.

2. ECONOMIC ENVIRONMENT

During 1988 and 1989, the Mexican authorities adopted a tough anti-inflationary program, entailing tight fiscal and monetary policies complemented by price and wage controls, which brought about a reduction in Mexico's inflation rate from 159.2% in 1987 to 51.7% in 1988 and 14% in 1989. At the same time, Mexico's Gross Domestic Product (GDP) increased again 1.3% in 1989, for the third consecutive year, after the economic