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MEXICO

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP 2/	415.0	475.0	557.0
Real GDP Growth (pct) 3/	4.9	3.7	7.0
GDP by Sector:			
Agriculture	20.51	23.75	27.85
Manufacturing	83.26	100.22	117.53
Services	258.75	317.30	372.08
Per Capita GDP (US$)	4,294	4,974	5,223
Labor Force (Millions)	37.5	39.7	41.1
Unemployment Rate (pct)	3.2	2.5	2.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	24.1	14.4	-0.3
Consumer Price Inflation	18.6	12.3	8.7
Exchange Rate (Peso/US$)	9.1	9.5	9.6
Balance of Payments and Trade:			
Total Exports FOB 4/	117.5	136.4	167.6
Exports to U.S. 4/	103.1	120.4	138.5
Total Imports FOB 4/	125.4	142.0	174.9
Imports from U.S. 4/	93.3	105.3	123.2
Trade Balance 4/	-7.9	-5.6	-7.3
Balance with U.S. 4/	9.8	15.1	15.3
External Public Debt (net)	82.2	83.4	81.3
Fiscal Deficit/GDP (Pct)	1.2	1.1	1.0
Current Account Deficit/GDP (pct)	3.7	2.9	3.2
Debt Service Payments/GDP (pct)	21.3	23.7	23.2
Gold and Foreign Exchange Reserves	30.1	30.7	31.0
Aid from U.S.	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

1/ 2000 figures are estimates based on data available in October.
2/ GDP at factor cost.
3/ Percentage changes calculated in local currency.

4/ Merchandise trade, Mexican data.

1. General Policy Framework

Mexico has experienced uninterrupted economic growth since 1996. In the last four years, Mexico's real gross domestic product (GDP) rose at a 5.2 percent annual rate. Growth will reach approximately 7 percent in 2000. Mexico's economy may grow by about 4.5 percent next year.

Exports, led by the maquiladora industry, have remained Mexico's engine of growth. Mexico's exports totaled $136.4 billion in 1999 and may total $170 billion in 2000. Mexico's aggressive market opening through bilateral and multilateral trade agreements, including a Free Trade Agreement with the European Union, continues to create new markets for Mexican products, while allowing more foreign competition. Mexico's imports have been rising at an even faster rate than exports, and have reversed Mexico's trade surplus of earlier years. Mexico's trade deficit for 1999 totaled $5.6 billion and may rise to $7.3 billion by the end of 2000. Two-way trade with the United States, which has been growing 17.7 percent annually since 1994, totaled $225.7 billion dollars in 1999, and may reach $260 billion in 2000. (The trade data are from official Mexican sources).

In 1999 and 2000 the Bank of Mexico (Mexico's central bank) and the Mexican government adopted relatively tight and consistent monetary and fiscal policies, contributing to a decline in inflation without choking off real growth. The tight monetary policy was, in part, a response to concerns that Mexico's economy, which grew at an above-potential rate of 7.8 percent in the first half of 2000, was overheating and in danger of external imbalance. Specifically, the non-oil trade deficit was suggesting relatively high vulnerability to a downturn in the international price of oil or to a slowdown in U.S. growth. Real wage settlements were also very high, at about five percent, potentially putting pressure both on Mexico's international competitiveness and on domestic demand. It appears that the Bank of Mexico has tempered the imbalance for the moment and has successfully moved toward its inflation objectives of 9.0 percent in 2000 and 6.5 percent in 2001.

2. Exchange Rate Policy

Since December 1994, the peso has been floating freely, with only infrequent interventions by the Bank of Mexico. After losing about half of its value against the dollar in 1995, the peso was remarkably stable in 1996 and 1997. By the end of 1998, the peso had depreciated by about 20 percent, but strengthened in 1999 and by September 2000 had appreciated about 5 percent relative to the average of 1998. The central bank's restrictive monetary policy, coupled with a strong demand for Mexico's exports, largely explains the peso's real appreciation during the period. Mexico's oil exports took on added significance in 2000 because of high international oil prices throughout the year. The accumulated impact of these developments raised Mexico's perceived creditworthiness, which further bolstered the value of the peso.

3. Structural Policies

Mexico has pursued substantial deregulation of the economy over the past decade. The government introduced legislation in 1993 to promote competition and prohibit practices that restrain trade. The Mexican Federal Competition Commission, a product of that legislation, has functioned successfully for more than five years. During that period, among other accomplishments, it has provided useful oversight of the telecommunications and aviation industries through various rulings affecting Telmex, Mexico's largest telecommunications company, and Cintra, the domestic airline monopoly. A change to the Foreign Trade Law in 1993 eliminated most nontariff trade restrictions and established remedies for unfair trade practices, such as export subsidies and dumping. The Mexican Customs Service has been modernized and automated. Mexican government efforts to reduce the number of government regulations continue apace. The Fox administration, which took office December 1, 2000, has indicated that it will pursue similar activities.

Mexican regulatory practices are not always sufficiently transparent, however. For example, the government sometimes distributes draft regulations for comment with little fanfare. Generally, such drafts are circulated informally to the major trade chambers and associations. While this practice allows large organizations with a local presence to submit comments, it does not provide the transparency associated with general publication, and hence can limit the ability of small and foreign entities to participate in the consultation process. Final regulations at times take effect the day after their publication. Such abrupt changes increase the burden of compliance for unsuspecting foreign entities and can cause confusion and delays at border crossing points.

The Government of Mexico has privatized or eliminated more than 1000 parastatal companies since 1986. It has privatized commercial banks, a telephone company, a television network, steel production plants, most railroads and ports, warehouses, and other major industrial facilities. Several firms, some of which are partly controlled by U.S. companies, now compete for the provision of long-distance telephone service in Mexico. Rearguard action by the dominant carrier, Telmex, has hindered the development of greater competition in this sector. A lack of strong regulatory control has led to legal struggles between Telmex and new market entrants in Mexico's telecommunications sector. These struggles have complicated the development of competition in this sector. (See "Telecommunications" in Section 5, below).

Mexico's airport privatization is nearly complete. Mexico's major airports have been divided into five geographic areas, including a separate private group for Mexico City's international airport. With the exception of Mexico City, each area is managed by a group of private investors. The Mexican government maintains control of a limited number of smaller airports in the interest of the public served by these regional facilities. In 1998 the government announced plans to sell up to 49 percent of its secondary petrochemical plants, despite opposition party resistance. Legislation to sell more than the currently authorized 49 percent equity share in such plants will probably be enacted in 2001. Throughout 1999 and 2000 multiple contracts were let for private sector construction of power plants and for the distribution of natural gas to strategically chosen communities. A proposed constitutional amendment that would allow more private sector participation in the generation and distribution of electricity has lingered in Congress since 1999, but the Fox administration has pledged to press for such legislation.

4. Debt Management Policies

Mexico has achieved the objectives of the emergency economic program developed to cope with the 1995 peso crisis. The maturity of Mexico's public debt was extended and its debt profile reconfigured. Mexico then returned successfully to the international capital market. In 2000 the oil revenue windfall from Mexico's oil exports reduced its recourse to the international capital market and allowed the Mexican government to pay off its debt to the International Monetary Fund and to liquidate some $7.9 billion in Brady bonds, ahead of time.

By the end of the third quarter of 2000, Mexico's net public external debt was $79.6 billion, a slight decrease from 1999. That year, amortization of public external debt totaled $22.1 billion. About $12.3 billion may be amortized in 2000.

5. Significant Barriers to U.S. Exports

Telecommunications: Foreign investment in most telecommunication services is limited to a 49 percent equity position. In cellular telephony and paging services foreign investors may participate up to 100 percent, subject to approval by the national foreign investment commission. Nevertheless, foreign investors may only participate through a Mexican corporation. Mexico modified its constitution in 1995 to allow for private participation and equity in Mexican telecommunication satellites, including ownership of transponders. The government's satellite firm was privatized in early 1998. Foreign investment is limited to a 49 percent equity position.

Telmex's legal monopoly on long distance and international telephone service ended in August 1996, and competition was introduced in January 1997. There is competition in all major cities and much of the rest of Mexico. Eight firms are authorized to provide long distance service; five of these have U.S. partners. USTR cited Mexico in its March 2000 annual "1377" review for failure to meet its WTO Basic Telecommunication Agreement commitments. USTR's concerns include a lack of proper regulation of the dominant carrier, Telmex, and failure of the regulator to provide for cost-based interconnection at all technically feasible points on Mexico's network, including cross-border interconnection and International Simple Resale. Local, basic telephone service is technically open to competition, but practical competition in this area has not developed.

As a result of U.S. concerns with trade barriers to competition in Mexico's $12 billion telecommunications market, in July 2000 the United States requested formal WTO consultations. The U.S. government highlighted three main areas where it contends that Mexico is in violation of the Basic Telecom Agreement: 1) lack of effective disciplines over the former monopoly, Telmex; 2) failure to ensure timely, cost-oriented interconnection that would permit competing carriers to connect to Telmex customers; and 3) failure to permit alternatives to an outmoded system of charging U.S. carriers above-cost rates for completing international calls into Mexico. While Mexico has made changes to its telecommunications regime (reduction of interconnection rates and promulgation of dominant carrier regulations), these changes have not gone far enough. In an October 20, 2000 letter following up on the WTO consultations, the U.S. government offered Mexico a list of four concrete steps it could take to demonstrate its seriousness in enforcing its regulations, protecting competition and abiding by its WTO obligations. However, Mexico failed to take any additional action; therefore, on November 8 the U.S. government announced its decision to seek a dispute resolution panel. Although some progress has been made, the U.S. government continues to believe that Mexico has not gone far enough towards resolving the dispute. How Mexico addresses these issues under the Fox Administration will determine whether or not the dispute is actually placed on the agenda of the WTO dispute settlement body.

Market Access: Mexico's administration of its 1999 and 2000 tariff-rate quota (TRQ) obligations for U.S. edible dry beans resulted in lost market opportunities for U.S. exporters due to delays in the auctioning of import permits, the high cost of permits, and the short time in which permits are valid. The United States has requested NAFTA consultations with Mexico concerning its dry bean TRQ.

The United States has raised its concerns regarding the manner in which Mexico has applied antidumping measures on a number of U.S. exports. The United States challenged a 1998 antidumping order on high fructose corn syrup proceedings in the WTO, and a panel ruled in February 2000 in favor of the United States. Mexico stated it would comply with the panel report by September 22, 2000 and published a revised final determination on September 20. In response to a request by the United States, on October 23 the WTO Dispute Settlement Body (DSB) agreed to form a panel to review whether Mexico's September 20 redetermination is inconsistent with the recommendations and rulings of the DSB.

Other important U.S. agricultural products on which Mexico has recently imposed final antidumping measures include U.S. hogs for slaughter, and cattle, beef and beef offal. The United States has held WTO consultations on the hogs matter. On December 11, 2000, Mexico initiated an antidumping case against U.S. long-grain white rice.

The Secretariat of Commerce and Industrial Development (SECOFI) requires import licenses for a number of commercially sensitive products. In 1998 SECOFI expanded the import licensing system by establishing an "automatic" import license for certain Asian and European products because of concerns about dumping and under-invoicing. While NAFTA-originated goods are exempt from these requirements, U.S. companies that obtain goods from covered countries may be affected by the requirements. The Secretariat of Agriculture requires prior import authorization for fresh/chilled and frozen meat. In 1998 the Secretariat of Health announced new import license rules for certain food products. These rules call for either an "advance sanitary import authorization" or "notification of sanitary import" prior to import of the product. Obtaining these permits requires extensive documentation and certification by the exporter. In addition, Mexico requires import licenses for sensitive products such as endangered species and weapons.

Financial Services: The financial services sector is generally open and liberalized. Rules adopted in 1995 allow foreign banks to acquire up to 100 percent ownership in existing banks that have less than six percent of the total capital in the banking system (effectively excluding Mexico's three largest banks). Legislation passed in December 1998 removed the 6 percent cap, allowing 100 percent ownership of any bank, although foreigners may not own more than 25 percent of the total net capital of the banking system. A single Mexican or foreign individual may own up to 20 percent of a given Mexican financial institution. As a group, foreigners may, in most cases, own up to 49 percent of a bank, stock brokerage house, or financial group.

Standards, Testing, and Certification: The extensive use of mandatory standards, testing and labeling is a potential barrier to trade and can raise the cost of exporting to Mexico. The Government of Mexico has displayed an increased willingness to work with U.S. industry to address U.S. concerns.

The government has been the primary actor in determining product standards, and labeling and certification policy, with input from the private sector. Mexican law requires that Mexican standards be based on "international standards." In rare cases Mexican standards will incorporate U.S. and Canadian standards when they differ from the international benchmark. The official Mexican government position is that only standards issued by ISO/IEC are international standards.

With increased transparency as one of its objectives, the Government of Mexico revised the Federal Law on Metrology and Standardization in May 1997. While the changes provided for privatization of the accreditation program and greater transparency, some Mexican ministries consider particular regulations to be executive orders that need not be published for comment. In some cases the Mexican government has refused to provide copies of draft regulations for U.S. industry review, as in the case of revised regulations under Mexico's health law. U.S. exporters of certain vitamins, nutritional supplements, and herbal remedies have reported that the revised regulations impede their supply to the Mexican market. These products are now classified as medicines or pharmaceuticals, which require inspection and approval of manufacturing facilities by the Mexican Ministry of Health in order to obtain a sanitary license. Mexican government officials have advised U.S. industry and government officials that their law does not allow them to conduct the required inspections and approvals for foreign-based facilities.

The Federal Law on Metrology and Standardization provides for the adoption of emergency mandatory standards to deal with exceptional and unforeseen circumstances that might result in irreversible situations. However, the emergency nature of some of these standards is questionable. In certain instances, Mexico has been less than diligent in providing opportunity for comment by its trading partners.

U.S. exporters have complained that standards are enforced more strictly for imports than for domestically produced products. Imports are inspected at the border, while domestic products are inspected randomly at the retail level. U.S. exporters have also complained of inconsistencies among ports of entry.

Mexico has more than 715 mandatory standards (NOMs), and the number increases weekly. Only 81 have been issued by SECOFI. The rest are from 8 other government agencies. Each agency has its own NOM compliance certification procedures. Only SECOFI and the Secretariat of Agriculture (for a limited subsector of its NOMs) have published their certification procedures. On February 29, 2000 SECOFI published new procedures to certify NOM compliance. They became effective on May 1, 2000. The new procedures apply only to SECOFI-issued NOMs, and allow foreign manufacturers from countries having trade agreements with Mexico to hold title to NOM certificates. The procedures allow expansion of the ownership of a NOM certificate to more than one importer. Prior practice required each importer to pay for a separate certificate, even if importing a product identical to that imported by another importer (this remains true for NOMs issued by government agencies other than SECOFI). In theory, the new procedures were designed to reduce the cost of export to Mexico, by eliminating redundant testing and certification. In practice, the product certification bodies have increased the cost of certification and are charging for expansion of ownership of a certificate. U.S. companies are thus not benefiting from the new procedures. U.S. companies have also reported that the certification laboratories are requiring that the products being tested and certified meet the rules of origin from a country with which Mexico has a free trade agreement, basically tying rules of origin to conformity assessment.

Under NAFTA, Mexico was required, starting January 1, 1998, to recognize conformity assessment bodies in the United States and Canada on terms no less favorable than those applied in Mexico. To date, no U.S. body has been recognized. The current Mexican government position to recognize additional certification bodies only on a "needs basis" raises serious concerns and is a strong indication that the existing product certification bodies will continue to monopolize the market.

In the spring of 2000, the Mexican government published changes to the Federal Administrative Procedure Law. The changes created a regulatory reform commission that must review all proposed regulations, amendments to laws, new laws, and standards, as well as regulatory impact statements for the same. The commission publishes a monthly list of documents received. The Mexican government touts the new commission as the guarantor of transparency in all regulatory matters. It is unclear, however, whether the commission will make proposed regulations available for comment, and whether government dependencies will respond to comments received.

On June 12, 2000 the Government of Mexico published an amendment to its animal health law, which generally sets sanitary inspection parameters for domestic meat production and meat imports. The new law did not change sanitary requirements, but did change the physical requirements for border inspection points. The new requirements were so strict that when the new law was implemented on August 10, 2000, only 8 of 28 points of inspection were in compliance, resulting in the closure of several border-crossing points to meat imports. Since then, a number of inspection points have reopened under court injunctions, resulting in 17 currently operating points of inspection. While there have been some delays in border crossings, meat imports continue to flow into Mexico. However, if the Government of Mexico does not adjust its resources to provide more inspectors at the authorized points of inspection, or to open additional points, there could be significant disruption of trade. Mexican importers have proposed changes to the law, but no action is expected before the new administration takes office on December 1, 2000.

Investment Barriers: A national foreign investment commission decides questions of foreign investment in Mexico. The country's constitution and Foreign Investment Law of 1992 reserve certain sectors to the state, such as oil and gas extraction and electric power transmission, and other activities to Mexican nationals (for example, forestry exploitation, and domestic air and maritime transportation.) Only Mexican nationals may own gasoline stations. Gasoline is supplied by PEMEX, the state-owned petroleum monopoly. These gasoline stations sell only PEMEX lubricants, although other lubricants are manufactured and sold in Mexico.

Despite the restrictions mentioned above, the Foreign Investment Law of 1992 eliminated the requirement of government approval of much foreign investment. Mexico allows private ownership and operation of electric power generating plants. The government is encouraging private sector participation in the transportation, distribution, and storage of natural gas. But the government's effort to privatize the country's secondary petrochemical complexes has not succeeded because it limits foreign investors to 49 percent ownership of existing facilities. Foreign investors may hold all of the equity of newly built petrochemical plants. Foreigners may invest in railroads and telecommunications, including satellite transmission.

NAFTA also opened Mexico to greater U.S. and Canadian investment by assuring U.S. and Canadian companies national treatment, the right to international arbitration, and the right to repatriate funds without restrictions. NAFTA eliminated barriers to investment in Mexico, such as trade balancing and domestic content requirements. Such barriers are being phased out in key sectors such as automobile manufacturing.

Investment restrictions still prohibit foreigners from owning residential real property within 50 kilometers of the nation's coasts and 100 kilometers of its borders. Foreigners may acquire the effective use of residential property in the restricted zones via a trust through a Mexican bank. Foreigners and Mexican nationals encounter problems at times with the lack of enforcement of property rights. American citizen residents of a Baja California beach resort were forced to evacuate their homes when the Mexican Supreme Court ruled the sale of the property had not been handled properly.

Government Procurement Practices: There is no central government procurement office in Mexico. Government agencies and public enterprises use their own purchasing offices to buy from qualified domestic or foreign suppliers, subject to two procurement laws that became effective in March 2000. Both laws acknowledge Mexico's procurement obligations under NAFTA and other international agreements. Regulations under the two new laws were to have been in place by July but had not been issued by November. Mexico abandoned in 1991 the requirement that state-owned enterprises give preference in procurement to national suppliers. Suppliers from all countries may bid on most government tenders, and requirements for participation are the same for foreign and domestic suppliers. Because NAFTA allows some smaller contracts for goods, services or construction to be let without requiring them to be open to suppliers from all NAFTA countries, the procurement laws continue to distinguish between procurement open to national versus international suppliers. Some companies have complained that Mexican government agencies do not always follow the procedural procurement requirements established by NAFTA. For example, a number of bid requests have required bid submission in less than the 40 days established by NAFTA.

NAFTA gradually increases U.S. suppliers' access to the Mexican government procurement market, including PEMEX and the Federal Electricity Commission (CFE), which are the two largest purchasing entities in the Mexican government. Under NAFTA, Mexico immediately opened 50 percent of PEMEX and CFE bids to competition by suppliers from NAFTA parties. Each year, that percentage will increase until all PEMEX and CFE bids that are above the NAFTA value threshold are open to goods and suppliers from NAFTA Parties. PEMEX and CFE procurement will be fully open by 2004. However, specific preferential treatment in public procurement is granted to domestic pharmaceutical suppliers, including foreign companies established in Mexico.

Customs Procedures: In 1996 Mexico enacted a new Customs Law that simplified procedures. The law transferred some operations to private sector customs brokers, who are subject to sanctions if they violate customs procedures. As a result, some brokers have been very restrictive in their interpretation of Mexican regulations and standards. In an attempt to combat under-invoicing and other forms of customs fraud, Mexican Customs maintains (and in some cases has significantly expanded) measures that can impede legitimate imports, including an industry sector registry and estimated prices.

To be eligible to import well over 400 different items, including agricultural products, textiles, chemicals, electronics and auto parts, Mexican importers must apply to the Secretariat of Finance and Public Credit (Hacienda) and be listed on a special industry sector registry. U.S. exporters complain that the registry requirement sometimes causes costly customs clearance delays when new products are suddenly added to the list of subject items, with no grace period for new applicants. They also report that certain importers have been summarily dropped from the registry without prior notice or subsequent explanation, effectively preventing them from shipping goods to Mexico.

Mexico uses estimated prices for customs valuation of a wide range of products imported from the United States and other countries, including agricultural products, beer, chemicals, wood, paper, textiles, apparel, toys, tools and appliances. On October 1, 2000 the Mexican government implemented a burdensome new surety system for goods subject to these prices. Since that date, importers can no longer post a bond to guarantee the difference in duties and taxes if the declared value of an entering good is less than the official estimated price. Instead, they must deposit the difference in cash at a designated Mexican financial institution or arrange one of two alternative sureties (a trust or line of credit). The cash is not returned for six months, and then only if the Mexican government has not initiated an investigation and if the supplier in the country of exportation has provided an invoice certified by its local chamber of commerce. U.S. exporters have long complained that estimated pricing under Mexico's old surety system unfairly restricted trade, but implementation of the cash deposit requirement has created significant additional costs. Indeed, Mexican banks charge as much as $1,500 to open cash accounts and $250 for each transaction.

6. Export Subsidies Policies

The government does not have an export subsidy program. Provisions for promoting exports in the Foreign Trade Law have been limited to training and assistance in finding foreign sales leads, project financing (at market rates) for export oriented business ventures, and special tax treatment for companies that have significant export sales.

7. Protection of U.S. Intellectual Property

Mexico is a member of the major international organizations regulating the protection of Intellectual Property Rights (IPR): the World Intellectual Property Organization (WIPO), the Geneva Convention for the Protection of Producers of Phonograms against Unauthorized Duplication of their Phonograms; the Bern Convention for the Protection of Literary and Artistic Works (1971); the Paris Convention for the Protection of Industrial Property (1967); the International Convention for the Protection of New Varieties of Plants; the Universal Copyright Convention; and the Brussels Satellite Convention.

Mexico has implemented NAFTA obligations providing for nondiscriminatory national treatment of IPR, by establishing minimum standards for protection of sound recordings, computer programs, and proprietary data, and by providing express protection for trade secrets and proprietary information. The term of patent protection is 20 years from the date of filing. Trademarks are granted for 10-year renewable periods. The government continues to strengthen its domestic legal framework for protecting intellectual property. In 1997 it implemented a new copyright law and amended its penal code to strengthen penalties against copyright piracy. In 1999 it again modified its penal code for copyright and trademark piracy, classifying them as felonies and increasing penalties. Mexico passed a law in 1996 providing protection to plant species, and in 1998 provided protection for integrated circuits. Mexico is also a signatory to the WIPO treaty on copyright, which the United States considers positive, especially because of the additional protection afforded for digital works.

The United States and Mexico review progress on IPR issues in biannual consultative meetings. During 2000 the United States and Mexico consulted on IPR in April in Dallas, and in October in Guadalajara. As a result of the progress Mexico has made on IPR matters, Mexico no longer appears on the “Special 301” Watch List. However, the United States is still concerned about and monitors closely the continuing high level of piracy and counterfeiting in Mexico. Mexican law enforcement agencies have conducted hundreds of raids on pirates. The government showed its commitment to combating piracy on August 25, 2000, when 1,200 police officers raided Tepito, a notorious Mexico City haven for pirates, and arrested over 30 individuals. However, all were released the next day, highlighting the lack of IPR judicial enforcement. According to the Mexican Federal Prosecutor’s Office, as of October 10, 2000, 109 individuals were in custody on IPR charges. The U.S. government is aware of one piracy conviction in 1998, but none since then.

Besides combating the continuing high piracy levels in Mexico, the United States wants Mexico to improve its protection of test data held by patent holders from use by "second comer" companies seeking permission to market drugs. The United States is also concerned that the Mexican Copyright Law is not fully compliant with NAFTA and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights and is consulting with Mexico on how to address the deficiencies.

Mexico's major IPR concern with the United States is protection of the trademark name "Tequila" from inappropriate use.

8. Worker Rights

a. *The Right of Association:* The constitution and the Federal Labor Law (FLL) give workers the right to form and join trade unions of their own choosing. Mexican trade unionism is well developed; about 25 percent of the work force are unionized. Although no prior approval is required to form unions, they must register with the Federal Labor Secretariat or state labor boards to gain legal status. Federal or state authorities use this administrative procedure to withhold registration from groups considered disruptive to government policies, employers, or unions. Union registration was the subject of follow-up activities in 1996, 1997, 1998, 1999, and 2000, pursuant to a 1995 agreement reached in ministerial consultations under the North American Agreement on Labor Cooperation (the NAFTA labor side agreement).

Unions, federations, and labor centrals freely affiliate with international trade union organizations. The FLL protects labor organizations from government interference in their internal affairs. The law permits closed shop and exclusion clauses, allowing union leaders to vet and veto new hires and force dismissal of individuals the union expels. Such clauses are common in collective bargaining agreements. Again in 1999 the committee of experts of the International Labor Organization (ILO) found that such restrictions violate freedom of association, and asked the Mexican government to amend these provisions. A 1996 Mexican Supreme Court decision invalidated similar restrictions in the laws of two states, and in 1999 the same court ruled that public sector entities could not require that only one union represent workers.

Most labor confederations, federations and separate national unions are still allied with the Institutional Revolutionary Party (PRI), which governed Mexico for 71 years, until December 2000. Union officers help select, run as, and campaign for PRI candidates in federal and state elections, and have supported PRI government policies at crucial moments. This generally gave the unions some influence on government policies, but limited their freedom of action. Rivalries within and between PRI-allied organizations have been strong. Although the benefits of labor's special relationship with the PRI and the government have been decreasing in recent years, the PRI's loss of the presidency in July 2000 will be the real test of the relationship. A smaller number of labor federations and independent unions are not allied to the PRI.

b. *The Right to Organize and Bargain Collectively:* The FLL strongly upholds this right. The public sector is almost totally organized. Industrial areas are also heavily organized. The law protects workers from antiunion discrimination, but enforcement is uneven. As many as 90 percent of contracts registered are signed without the knowledge or approval of the workers. Independent unions have often encountered obstacles to recognition, especially by local labor boards. Industry or sectoral agreements carry the weight of law in some sectors and apply to all sector firms, unionized or not, though this practice is becoming less common. The FLL guarantees the right to strike. On the basis of interest by a few employees, or a strike notice by a union, an employer must negotiate a collective bargaining agreement or request a union recognition election. In 1995, at union insistence, annual national pacts negotiated by the government and major trade union, employer, and rural organizations ceased to limit free collective bargaining, as had been the case for the previous decade. The government, major employers, and unions meet periodically to discuss labor relations under the "new labor culture" mechanism. The government remains committed to free collective bargaining without guidelines or interference.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor, and none has been reported for many years.

d. *Minimum Age for Employment of Children:* The FLL sets 14 as the minimum age for employment, and children under 16 may work only six hours a day, with prohibitions against overtime, night labor, and performing hazardous tasks. Enforcement is reasonably good at medium and large companies but is inadequate at small companies and in agriculture and is nearly absent in the informal sector. The ILO reports 18 percent of children aged 12 to 14 work, often for parents or relatives. Most child labor takes place in the informal sector (for myriad street vendors and in thousands of family workshops) and in agriculture. Although enforcement is spotty, the government formally requires that children attend a minimum of nine years of school and may hold parents legally liable for their children's nonattendance. The government has a cooperative program with UNICEF to increase educational opportunities for youth.

e. *Acceptable Conditions of Work:* The FLL provides for a daily minimum wage set annually, usually effective January 1, by the tripartite (government/labor/employers) National Minimum Wage Commission. Any party may ask the commission to reconvene to consider a special increase. In December 1999 the commission adopted a 10 percent increase. In Mexico City and nearby industrial areas, Acapulco, southeast Veracruz state's refining and petrochemical zone, and most border areas, the daily minimum wage has been 37.90 pesos ($4.10 in late September 2000). However, daily minimum wage earners actually are paid 43.21 pesos, due to a 14 percent supplemental fiscal subsidy (tax credit to employers). Approximately 16 percent of the labor force earn the daily minimum wage or less. Industrial workers, under collective bargaining contracts, tend to average three to four times the daily minimum wage.

The law and collective agreements also provide extensive additional benefits. Legally required benefits include social security, medical care and pensions, individual worker housing and retirement accounts, substantial Christmas bonuses, paid vacations, profit sharing, maternity leave, and generous severance packages. Employer costs for these benefits run from 27 percent of payroll at small enterprises to over 100 percent at major firms with strong union contracts. Eight hours is the legal workday and six days the legal workweek. Workers who are asked to exceed three hours of overtime per day or work overtime on three consecutive days receive triple the normal wage for the overtime. For most industrial workers, especially under union contract, the true workweek is 42 hours with seven days' pay. This is why unions jealously defend the legal ban on hiring and paying wages by the hour.

Mexico's Occupational Safety and Health (OSH) laws and rules are relatively advanced. Completely revised regulations were published in 1997. Employers must observe "general regulations on safety and health in the work place" (which reflects close NAFTA consultation and cooperation) issued jointly by the Labor Secretariat (STPS) and the Social Security Institute (IMSS). FLL-mandated joint labor-management OSH committees at each plant and office meet at least monthly to review workplace safety and health needs. Individual employees or unions may complain directly to STPS/OSH officials; workers may remove themselves from hazardous situations without reprisal and bring complaints before the Federal Labor Board at no cost. STPS and IMSS officials report compliance is reasonably good at most large companies, though federal and state inspectors (fewer than 700 nationwide) are stretched too thin for effective comprehensive enforcement. There are special problems in construction, where unskilled, untrained, and poorly educated transient labor is common.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ from those in other industrialized sectors of the Mexican economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		188
Total Manufacturing		18,861
Food & Kindred Products	5,257	
Chemicals & Allied Products	3,037	
Primary & Fabricated Metals	511	
Industrial Machinery and Equipment	(1)	
Electronic & Other Electric Equipment	(1)	
Transportation Equipment	4,278	
Other Manufacturing	4,198	
Wholesale Trade		1,167
Banking		1,182
Finance/Insurance/Real Estate		6,308
Services		1,303
Other Industries		5,257
TOTAL ALL INDUSTRIES		34,265

(1) Suppressed to avoid disclosure of data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.