

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

**LATIN AMERICAN AND CARIBBEAN COMPETITION FORUM - Session III:
Industrial Policy and the Promotion of Domestic Industry**

– Contribution from Mexico –

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The attached document from Mexico (COFECE) is circulated to the Latin American and Caribbean Competition Forum FOR DISCUSSION under Session III at its forthcoming meeting to be held on 18-19 September 2018 in Argentina.

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Session III: Industrial Policy and the Promotion of Domestic Industry

- Contribution from Mexico (COFECE)* –

1. Executive summary

1. The implementation of an industrial policy in any country necessarily entails support for domestic industry in what are regarded as key economic sectors. While such policies are closely connected with economic growth, they may also give rise to inefficient resource allocation.
2. The industrialisation process in Mexico began in the 1940s, when the Government began to set quantitative restrictions on imports and replace specific existing tariffs with *ad valorem* tariffs.¹
3. In the 1980s, Mexican industrial policy changed from a tool for state intervention in the markets designed to promote local industry to a horizontal policy designed to eliminate trade barriers (trade liberalisation) and encourage new market competitors.² This was achieved, firstly, by joining the GATT (1986) and, subsequently, by negotiating free-trade treaties and agreements.
4. The commitment both of the former Federal Competition Commission (CFC) and the Federal Economic Competition Commission (COFECE) has always been to prevent and eliminate restrictions on the efficient functioning of national markets as part of an integrated policy to contribute to economic and industrial development and therefore to the welfare of the population.
5. Mexico's competition authority has consistently worked very hard in priority sectors and areas – including research, rulings, market studies, publications and recommendations for other government bodies – to promote a culture of competition, both in industries within national territory and in society as a whole.
6. Industrial policy in Mexico is currently based on improving competitiveness and eliminating barriers to competition.

* This contribution was prepared by the *Comisión Federal de Competencia Económica* (COFECE), [Mexican Competition Authority].

¹ Refers to tax calculated as a percentage of import value.

² National Programme for Industrial Modernisation and Foreign Trade (PRONAMICE 1990-1994), Programme for Industrial Policy and Foreign Trade (PROPICE, 1996-2000) and Business Development Programme (PDE, 2001-2006).

2. Industrial policy in Mexico: historical context

7. Industrial policy in the first half of the 20th century was used as a state intervention instrument which sought to strengthen the national production apparatus, replace imports and protect domestic industry against competition.³

8. Industrial policy based on state intervention in the national production apparatus by means of protection, heavy regulation and direct involvement gradually intensified, and by 1980 was reflected in an almost total lack of competitive pressure and thus less freedom of consumer choice.⁴ Some of these measures ended up by displacing, discouraging and eliminating private initiative in the supply and importation of goods and services.⁵

9. In the mid-1980s, Mexico began a shift towards international openness by drawing up cross-cutting policies to eliminate trade barriers, strengthen intellectual and industrial property and promote investment by normalising, standardising and promoting entrepreneurship and innovation.

10. To find a productive balance between promoting the industrial sector and a policy and culture of economic competition, it is essential to ensure institutional redesign by creating and strengthening effective regulatory agencies in order to implement guidelines that benefit both industrial development and improvements in the general welfare of the population.⁶

11. The former Federal Competition Commission (CFC) was set up in 1992 as the first regulatory body responsible for overseeing economic competition in Mexico. Its main challenges were to eliminate shortcomings in regulated markets which restricted access to products and services, principally in telecommunications, power and transport.

12. A number of regulatory shortcomings were identified in the regulated sectors referred to above that had to be addressed to ensure that the markets concerned functioned correctly:

³ Banco Nacional de Comercio Exterior, Revista de Comercio Exterior, Vol. 63, No. 4, *México: de la sustitución de importaciones al nuevo modelo económico* [Mexico: from import substitution to the new economic model], August 2013. Available at: <https://goo.gl/a2YGtZ>.

⁴ By way of example, 100% of imports required an import licence in 1980.

⁵ Journal of the Economic Commission for Latin America, *Aprendizaje tecnológico ayer y hoy* [Technological know-how yesterday and today], 2007. Available at: <https://goo.gl/2iPtay>.

⁶ Eduardo Pérez-Motta, *Industrial and Competition Policies in Mexico*, Chicago-Kent Law Review, Volume 83, Issue 1, Symposium “Law and Economic Development in Latin America: A Comparative Approach to Legal Reform.” Available in English at: <https://goo.gl/rtqHct>.

Table 1. Diagnosis and proposals to improve the institutional framework in regulated markets⁷

Sector	Inefficiency indicators	Government shortcomings
Power	The cost of natural gas for Mexican enterprises (as part of the North American region) was the highest in the world, even though Mexico is a producer country.	<ul style="list-style-type: none"> Constitutional monopoly in basic petrochemicals allows market power to be used in related markets. Artificial barriers were damaging to potential productive investment.
Financial	The financial sector covers a mere 26% of the financing needs of Mexican enterprises. The remaining 74% is financed by reinvestment of earnings, supplier credit and other funds.	<ul style="list-style-type: none"> Regulatory barriers to entry prevent dissemination of the provision and diversification of services. The common payment system platform may increase the possibility of collusion.
Transport	Mexico spends up to 3.8% of its GDP on transport, compared to 1.8% in the United States.	<ul style="list-style-type: none"> Road: regulatory barriers create empty journeys. Rail: regulation of inter-line fares is damaging to interconnection processes. Port: Port authority inefficiencies create barriers to the entry of service providers.

Source: COFECE

13. By 2013, constitutional reforms led to the establishment of an autonomous competition authority with a functional separation between the investigation stage and decision-making procedures, allowing the authority to carry out objective substantiated investigations promoting correct market functioning for the general good.⁸

3. COFECE's general approach to industrial policy and "national champions"

14. COFECE has supported the cross-cutting national economic development policy by favouring efficient market functioning based on a policy of *national champions*. To achieve this, COFECE established a methodology to prioritise the implementation of its actions from 2014 to 2017 and 2018 to 2021.⁹

15. The sectors and areas of the economy regarded by COFECE as priority were finance, agri-food, power, transport, health and procurement.

⁷ Mexican Institute for Competitiveness, *Hacia un pacto de competitividad* [Towards a Competitiveness Pact], 2005, and Adalberto García Rocha, *La competencia en los mercados financieros* [Competition in financial markets], in *Competencia Económica en México* [Economic Competition in Mexico], published by the CFC.

⁸ Alejandra Palacios, Prieto, and José Nery Pérez Trujillo. *Reforma en materia de competencia económica* [Economic Competition Reform]. Fondo de Cultura Económica, 2018. Available at: <https://goo.gl/H8sxQa>.

⁹ Federal Economic Competition Commission, *Strategic Plan 2014-2018*, available at <https://goo.gl/xdhNYW>. *Strategic Plan 2018-2021*, available at <https://goo.gl/Mrww4Y>.

16. These were defined according to their contribution to economic growth, general consumption, how cross-cutting they were, their impact on lower income sectors of the population, whether they were regulated or not and the prevalence of anti-competitive practices.¹⁰

17. Some actions the Commission has taken in priority sectors and areas are shown in Table 2.

Table 2. Examples of COFECE actions in priority sectors and areas¹¹

Sector	Investigations/Rulings	Publications/Opinions
Power	<ul style="list-style-type: none"> 2017: Recommendation to state executives, congresses and municipalities to revise and reform their regulatory frameworks to avoid requirements such as minimum distances or areas that can prevent the entry of new economic agents 2018: Investigation into petrol and diesel marketing 	<ul style="list-style-type: none"> 2017: Transition towards competitive petrol and diesel markets 2018: Transition towards competitive power markets: LP gas
Financial	<ul style="list-style-type: none"> 2017: Fines levied on economic operators involved in retirement savings funds (Afores) 2017: Investigation into possible absolute monopoly practices in the government debt securities market 	<ul style="list-style-type: none"> 2015: Investigation and recommendations regarding the financial sector and its markets 2018: Pro-competition considerations regarding the legal initiative to regulate financial technology institutions
Transport	<ul style="list-style-type: none"> 2017: Fine levied on taxi service providers at Mexico City International Airport by agreement, and co-ordination to raise charges 2017: Notification of measures to regulate the allocation of take-off and landing slots at Mexico City International Airport 	<ul style="list-style-type: none"> 2016: Opinion on road transport enterprises 2017: Recognition of traffic regulations and municipalities in the Monterrey metropolitan area, and second place in the "Award for identifying the most absurd regulatory obstacle to competition and entrepreneurship"

Source: COFECE

¹⁰ *Idem.*

¹¹ For the purposes of this table, two actions per heading are shown in three priority sectors and areas. Links with actions for 2017 can be found in *15 Acciones Relevantes de 2017* [15 relevant actions in 2017], available at: <https://goo.gl/cJoVwE>. The report *Transición hacia Mercados Competidos de Gasolina y Diésel* [Transition towards Competitive Petrol and Diesel Markets] is available at: <https://goo.gl/LbwFC1>, while *Transición hacia Mercados Competidos de Energía: Gas LP* [Transition towards Competitive Power Markets: LP Gas] is available at: <https://goo.gl/oJuHzh>. References and links to 2018 investigations can be found in the Commission's quarterly reports, available at: <https://goo.gl/AsXtbo> and <https://goo.gl/kqtU1m>.

18. Along the same lines and in the framework of the federal elections scheduled for July 2018, in January 2018 COFECE published *Competencia Económica, Plataforma para el Crecimiento 2018-2024* [Economic Competition, a Platform for Growth 2018-2024],¹² a document proposing specific measures concerning economic competition in sectors and areas which, because of their potential impact, the various political stakeholders should take into consideration when drawing up their public policies.

4. Conclusions

19. In order to promote integrated economic development, it is important to find an adequate balance between promoting productive sectors by means of industrial policies and developing an effective environment for competition. Regulators therefore play a key role in establishing clear rules that help to prevent and penalise conduct which is contrary to the general interest.¹³

20. On the basis of its powers, COFECE will continue to work with other government agencies and areas, economic operators and the public in general to remove unnecessary barriers to correct market functioning, entrepreneurship and innovation. A policy that is conducive to the general interest both of economic operators and consumers tends to promote investment, trade and the welfare of the population.¹⁴

¹² Federal Economic Competition Commission, *Competencia Económica, Plataforma para el Crecimiento 2018-2024* [Economic Competition, a Platform for Growth 2018-2024], 2018. Available at: <https://goo.gl/Suc3QG>.

¹³ Dani Rodrik, *Industrial Policy for the Twenty-First Century*, 2004, available in English at: <https://goo.gl/igcDC9>.

¹⁴ According to Andrés Aradillas-López, in *El impacto del poder de mercado en el bienestar de las familias mexicanas* [The impact of market power on Mexican family welfare], “La pérdida de bienestar en presencia de poder de mercado es cuatro veces mayor en el 10% de la población con menor ingreso, que en el 10% de la población con mayor ingreso.” [The loss of welfare in the presence of market power is four times greater in the 10% of the lowest income population than in the 10% of the highest income population.] Document to be published at: www.cofece.mx.