SUMMARY

Overview

1. The Mexican economy has successfully overcome the global financial crisis of 2008-2009 through the implementation of countercyclical fiscal and monetary policies, and supported both by a recovery in domestic demand and exports.

2. Since its last review in 2008, Mexico has launched a unilateral liberalization programme, to be implemented between 2009 and 2013, lowering tariffs on a wide range of manufactured goods. This is most noteworthy as Mexico was one of the few countries to carry out substantial tariff reductions in the aftermath of the global financial crisis, which hit the Mexican economy relatively hard. The most important change took place in 2010, when tariffs were eliminated on 3,852 lines. During the same period, Mexico simplified its tariff structure by reducing the number of tariff levels from 88 to 28.

3. Mexico has also adopted measures to simplify customs procedures and reduce import costs. Such measures include the elimination in 2008 of certain import requirements and the creation of a single window for trade, which became fully operational in September 2012. However, and despite these efforts, there is scope to reduce the incidence of non-tariff border measures, particularly sanitary and phytosanitary measures. In the area of customs valuation, Mexico eliminated "estimated prices" for glass, iron, toys, textiles, but maintained those on used cars. Mexico continues to require import permits for certain products including oil products, used tyres, and used cars.

4. Mexico continues to be a user of anti-dumping measures, although recourse to them has diminished considerably in recent years. During the period under review Mexico has strengthened its competition law, but limited competition persists in key sectors. Reforms in 2010 increased penalties for violations of the competition law and made unfair competition practices a criminal offence. Nevertheless, there is still scope to enhance competition in sectors such as hydrocarbons, electricity and telecommunications.

5. Mexico promotes its exports through different types of programmes, in particular the Programme for Industry, Manufacturing, Maquila and Export Services (IMMEX). During the period 2007-2011, 66.2% of Mexico's exports and 47.2% of its imports were made by companies under the IMMEX programme.

Economic Environment

6. The Mexican economy has successfully overcome the global financial crisis of 2008-2009, which led to a substantial contraction in GDP in 2009. Through the successful implementation of countercyclical fiscal and monetary policies, Mexico came out of recession in 2010 and since then has shown solid growth rates, of 5.6% in 2010, 3.9% in 2011, and 4.2% in the first three quarters of 2012. Per capita income declined as a result of the crisis, but it has been recovering since 2010, reaching a level of around US$10,000 in September 2012. Economic growth has been supported both by domestic demand and by a recovery of exports.

7. Although output has returned to pre-crisis levels, the unemployment rate, at some 5% in end-2012 remains higher than before the crisis. Inflation has been kept under control, with consumer prices increasing by 4.8% in the 12 months to September 2012; this has allowed the central bank to maintain low interest rates to support growth.

8. The Mexican Federal Government's finances showed a slight deterioration in 2007-2011, closing the last two years of this period with deficits of 2.7% and 2.5% of GDP. This deterioration partly reflects the fiscal stimulus implemented in 2009 as a response to the global economic slowdown. However, more recently, Mexico has returned to the path of fiscal consolidation. Public finances continue to show a high dependence on oil revenues. In this sense, the fiscal situation continues to present challenges in the long term, particularly taking into account the possible decrease in oil revenues and an increase in expenses related to the ageing of the population.

9. The deficit of the current account showed important fluctuations during the period under review, although it remained moderate in terms of share of GDP. In 2011, it amounted US$9.15 billion (0.8% of GDP), almost half its value in 2008.

10. Mexico's trade growth decelerated between 2007 and 2011. During this period, merchandise exports and imports, measured in US dollars, grew by 28.6% and by 24.4% respectively, while in 2002-2006 both imports and exports had expanded by over 50%. Manufactured products dominate Mexican exports (72.9% of the total) and imports (78.1% of the total). Mexico's export structure is highly concentrated in one market, namely the United States, on average 80.4% of Mexico's exports are destined to this market. Imports are relatively more diversified: on average 49% of its imports originate in the United States. Other important suppliers are China (13.1% of imports), and Japan (5.1% of imports). Trade with China has increased sharply in recent years.

11. One of the challenges facing Mexico is to achieve an increase in labour productivity and in overall economic competitiveness and ensure sustained growth. Real GDP growth over 2007-2011 was just 1% on average per year, which translates into a stagnation of annual average GDP per capita over the period. Also, although Mexico is a medium-income country, with GDP per capita of just over US$10,000, income distribution is skewed and poverty reduction remains a challenge. Overdue reforms are needed to accelerate growth. In response to this, the Government has introduced policies aimed at improving the business environment, mainly by cutting red tape and fostering competition. Also, measures have been introduced to address these issues, such as a significant reduction in applied tariffs on manufactured products, and the launching of a process of regulatory reform and improvements to competition policy regulations and implementation. However, further reforms, including changes in the petroleum industry in order to increase output, fiscal reform to widen the tax base, and changes in labour market legislation, are needed to enhance competitiveness and support sustained growth.

Trade and Investment Policy

12. During the period under review, there was no substantial change to Mexico's trade policy or its underlying legal framework. The objective of Mexico's trade policy remains to strengthen and increase Mexico's participation in world trade through the multilateral trade system and preferential trade agreements.

13. As a WTO Member, Mexico grants MFN treatment to all its trading partners, including non-WTO Members. Mexico recognizes the importance of the conclusion of the Doha negotiations and of improving WTO disciplines to ensure the effectiveness of the multilateral trading system.

14. Mexico is one of the countries in Latin America with the largest number of trade agreements. During the period under review, Mexico continued to expand its network of preferential trade agreements by signing three new trade agreements. As of September 2012, it had 12 FTAs and eight partial scope agreements under the framework of the Latin American Integration Association (ALADI). The bulk of Mexico's trade is conducted with FTA partner countries and mainly with the United States, a member of the North American Free Trade Agreement (NAFTA).

15. Foreign investment is authorized up to 100% in the capital of Mexican companies, except for a list of activities which are reserved for the State, for Mexican nationals or subject to capital restrictions (10%, 25% and 49%) or approvals. Registration of foreign investment is still required. Since the last review, there were some changes in the legislation on foreign direct investment. As of 2008, Mexico authorized foreign investment up to 10% of the capital of a credit union.

16. In order to promote and increase FDI, Mexico has continued to sign agreements for the Promotion and Reciprocal Protection of Investments. As of June 2012, Mexico had 28 investment agreements in force.

Trade Policies by Measure

17. During the period under review, Mexico undertook different actions to increase its competitiveness and reduce firm's trade costs. With this aim, Mexico implemented measures to streamline customs procedures and reduce import costs under the Trade Facilitation Decree

of 2008 and the Custom Modernization Programme 2007-2012. In 2008, Mexico removed some import requirements and established a single window for foreign trade operations, which became fully operational in September 2012.

18. In 2009, Mexico implemented a unilateral liberalization programme, which covered manufactured goods only and is scheduled to be completed in 2013. As a result of this programme, by January 2012, 58.3% of Mexico's tariff lines were duty free and the average MFN tariff was 6.2%, down from 11.2% in 2007. The average tariff for manufactured goods (WTO definition) declined from 9.9% in 2007 to 4.6% in 2012, while the average tariff for agricultural products (WTO definition) fell only from 23% to 20.9%. Following these tariff reductions, the difference between MFN and preferential duties has also declined. In addition, Mexico simplified its tariff structure by reducing the number of tariff levels from 88 to 28. However, a few tariff peaks remain; tariff levels ranged between 3% and 254% in 2012.

19. Besides tariffs, imports are subject to: a customs processing fee (DTA), a storage fee, the value added tax (VAT) and a tax on production and services (IEPS). New vehicles are also subject to a tax (ISAN). The DTA rate remains at 8 per thousand of the customs value of the good.

20. Mexico applies tariff-rate quotas (TRQs) to agricultural products under the WTO framework, as well as unilateral and preferential TRQs to agricultural and industrial products.

21. In the area of customs valuation, Mexico no longer applies "estimated prices" (reference prices), except for used cars. Import authorizations are required for a limited number of products. During the review period, the list of products subject to this requirement changed: in 2008 rough diamonds were added to this list, while in 2009 certain types of used vehicles were removed from it.

22. Mexico has reduced the use of anti-dumping measures during the review period, but continues to be an active user of this type of measure. Between 2007 and 2012, 15 anti-dumping investigations were initiated (42 in 2002-2006) and five definitive anti-dumping measures implemented (31 in 2002-2006). By June 2012, Mexico had 38 anti-dumping measures in force, but no countervailing measure was in place.

23. Procedures for the adoption of technical regulations are clearly established. Technical regulations are subject to a sunset review after five years; if the review is not conducted, the measures automatically expire. In 2008, Mexico gradually eliminated the "establishment" requirement to obtain the health registration, needed to import drugs. Since then, foreign manufacturers can obtain the health registration if they have a document certifying that the company has a licence to manufacture drugs, issued by the competent authority of their country of origin. In January 2011, Mexico also amended the information required on labels of food and soft drinks.

24. In the area of sanitary and phytosanitary measures, obtaining a certificate and inquiring about the import requirements varies by product and measure. In order to ease the diffusion of information, in 2010 and 2012, Mexico implemented online databases containing the phytosanitary, animal health and aquaculture requirements.

25. Mexico strongly promotes its manufacturing export sector through financial support programmes, tax incentives and training programmes. The main programmes offering tax benefits are: the programme of import tax refund (drawback) and the Programme for Industry, Manufacturing, Maquila and Export Services (IMMEX), amended in 2010. During the period 2007-2011, 66.2% of Mexico's exports and 47.2% of its imports were made by companies under the IMMEX programme.

26. To support national production, Mexico operates since 2002 several sectoral promotion programmes (PROSEC). During the period under review, Mexico included two more programmes (food and fertilizers), thus totalling 24 programmes in 2012. In addition to these programmes, Mexico runs other programmes at the firm and sector level, offering financial support, tax incentives or technical assistance.

27. Exports are subject to a customs processing fee (DTA), except when goods are exported under certain trade agreements. This rate is fixed and applies for each transaction. Some products are subject to export taxes, while others require registration. Rough diamonds, iron minerals and some petroleum products are subject to export permits. Of these products, only petroleum products required a permit at the time of last review.

28. In the area of competition policy, Mexico has strengthened the role of the Federal Competition Commission and its system of penalties and fines during the review period. Despite this progress, some sectors are still characterized by limited competition, such as the hydrocarbon sector, telecommunications and electricity. Mexico continues to apply price controls on several products such as gasoline, electricity, and patented drugs.

29. During the review period, Mexico made some changes in its legislation regarding the process of obtaining a patent, as well as regarding trademark registration and licensing.

Trade Policies by Sector

30. Mexico maintains several incentives programmes for agriculture and fisheries. The rules of operation of these programmes are determined annually. Further reforms in the agricultural sector are required to achieve greater productivity and improve resource allocation. Although there has been a reduction in the most distorting interventions, market-price support and output-based payments still account for over half the support given to producers.

31. Mexico continues to be one of the main petroleum producers in the world; however the production of crude petroleum declined by 17% between 2007 and 2011, despite an increase in investment in the sector. Also, Mexico is currently a net importer of refined petroleum products.

32. In 2008, Mexico launched a new petroleum law, which confirmed the State-owned Petróleos Mexicanos (PEMEX) exclusive role in certain strategic areas. The State retains ownership and control over hydrocarbons, but PEMEX may enter into contracts with the private sector for the provision of services related to the activities of exploration and production of hydrocarbons. The supply of electricity is also a State quasi-monopoly; the whole transmission network and most generating plants are operated by the State-owned Comisión Federal de Electricidad (CFE).

33. Services have undergone substantial liberalization but this has not always been consolidated in GATS. Mexican market access is in practice much more favourable than Mexico's GATS commitments, which currently comprise 77 subsectors. Increased competition and foreign participation have led to major market structure adjustments in some sectors. However, more needs to be done to enhance competition, including foreign participation, in key areas such as telecommunications and air transport.

34. The provision of financial services requires establishment in Mexico and the existence of a trade agreement on financial services with the institution's originating country. Once established, financial institutions are granted national treatment and foreign investors may own up to 100% of the capital.

35. The telecommunications sector remains highly concentrated; the main operator controls 80% of the market for fixed telephony and 70% of the cell phone market. Mexican legislation does not oblige operators to unbundle services, and costs are still relatively high in international terms.

36. The provision of regular air transport services requires a concession that is reserved to companies with at least 75% Mexican capital.