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## SUMMARY

1. Mexico's economic growth accelerated over the period 2012-2016: GDP grew at an annual average rate of 2.5%, higher than the 1.4% recorded over the period 2007-2011, while per capita GDP rose to approximately US\$10,000. Economic growth has been driven both by stronger domestic demand and increased exports of manufactures to the United States. Inflation remained under control, within a range of 2% to 4% annually, corresponding to the fluctuation band determined by the Bank of Mexico.

2. In 2013, Mexico introduced an ambitious programme of reform in 11 different sectors, including: competition policy, tax policy, energy, financial services and telecommunications. The implementation of some of these reforms (energy, competition, telecommunications) called for amendment of the Constitution. The tax reform programme provided for a review of taxation in order to improve tax collection. The measures adopted included an expansion of the base for calculating income tax, fewer exemptions from payment of valued added tax (VAT), revised taxation for the mining sector and the introduction of "green" taxes, leading to growth in tax revenue, from 9.7% of GDP in 2013 to 13.1% in 2015, while government finances became significantly less dependent on oil revenue. Despite these efforts, however, the public sector deficit rose from 2.3% of GDP in 2014 to 3.2% in 2015 and is forecast to be 3.5% in 2016. The efforts at reform have, nonetheless, managed to install a general climate of macroeconomic stability, although Mexico is still facing major challenges, particularly as regards the wide disparity in income, insecurity and shortcomings in governance, as well as high dependence on a single market.

3. Mexico recorded a moderate but growing current account deficit over the review period, amounting to 2.9% of GDP in 2015 and mainly caused by the deterioration in the oil balance. The trade deficit in goods is fairly modest (1.3% of GDP), but is worsening because of deficits in the services and income balances, the latter notwithstanding remittances from workers abroad, which amounted to US\$25,200 million in 2015.

4. Mexico's export markets remain highly concentrated; exports to the United States accounted for 81.2% of the total in 2015, four percentage points more than in 2012, while imports from the United States in 2015 accounted for 47.4% of the total, compared to 50.1% in 2012. The growth of merchandise trade slowed during the review period. Between 2012 and 2015, exports grew by just 2.7% in US dollar terms, reflecting the drop in oil exports in particular, while imports expanded by just 6.6%. Mexico's exports are dominated by manufactures, which represented 85% of the total in 2015, while agricultural products accounted for less than 8%, and products of the oil and extractive industries 7.2%, compared to 15.5% in 2012. This change mainly reflects the lower value of petroleum exports, owing to the fall in oil prices. The principal manufactures exported are still electrical machinery and appliances, and transport equipment, which jointly represented 57.6% of total exports in 2015.

5. Mexico receives a large amount of foreign direct investment (FDI). In 2015, FDI inflows amounted to US\$32,864 million, while for the first nine months of 2016 they totalled US\$19,773 million. The main FDI-recipient sectors in 2011-2015 were the manufacturing industries, which absorbed an average of 54.4% of all FDI flows, followed by mining (8.5%) and commerce (7.7%). FDI from the United States represented over 50% of the total in 2015, followed by flows from various European Union countries.

6. The foreign trade objectives are set out in the National Development Plan for 2013-2018. As pertains to international trade, the aim is to reaffirm Mexico's commitment to free trade, the mobility of capital and integrated production, for which two strategies have been formulated: furthering and deepening the policy of trade liberalization and promoting Mexico's integration in the region by establishing strategic economic partnerships and deepening existing ones. Emphasis is also placed on the importance of strengthening Mexico's presence in regional and multilateral forums and bodies, including the WTO. These goals and strategies are developed in the sectoral programme of the Ministry of the Economy for 2013-2018 as the Ministry is responsible for formulating and implementing the measures needed to meet the trade-related aims of the National Development Plan. Following the structural reforms introduced in 2013, Mexico set up new institutions for the Plan's implementation.

7. Mexico participates actively in the multilateral trading system, both in the regular work of the WTO and in the Doha Development Agenda negotiations, and in July 2016 ratified the Agreement on Trade Facilitation. As regards participation in the WTO plurilateral agreements, Mexico is not a party to the Agreement on Trade in Civil Aircraft or the Agreement on Government Procurement, nor does it have observer status in the committees that administer those Agreements. Mexico is not party to the Information Technology Agreement (ITA) either. In August 2015, Mexico notified the Council for Trade in Services of the granting of preferential treatment for services and service suppliers of least developed countries in accordance with the services waiver adopted by the Eighth WTO Ministerial Conference. Mexico submitted numerous notifications to the WTO during the review period, not only those required on a regular basis (agriculture, anti-dumping, subsidies) but also ad hoc notifications (technical regulations, sanitary and phytosanitary measures, regional agreements, rules of origin, etc.). Mexico has not been a defendant in any dispute since the previous review, but has been a complainant in two disputes and a third party in 11.

8. Mexico has signed a large number of preferential agreements, which play an increasingly important role in its trade policy. In addition to the NAFTA, the CAFTA-DR and the Association Agreement with the European Union, Mexico has also signed free trade agreements with Chile, Colombia, EFTA, Israel, Japan, Panama, Peru and Uruguay. It also belongs to the Pacific Alliance with Chile, Colombia and Peru.

9. In order to increase investment flows and boost the country's competitiveness, Mexico adopted a series of reforms to the FDI regime during the review period, mainly affecting telecommunications and broadcasting, as well as the financial and energy sectors. Both FDI registration formalities and statistical reporting requirements were simplified and permission is not required to invest. FDI in unrestricted fields receives national treatment, subject to the permanent residency requirement. There are three types of FDI restriction: activities reserved exclusively for the State, activities reserved exclusively for Mexicans and activities subject to specific regulation, in other words, to a maximum FDI percentage. Following the reforms effected during the period under review, the activities reserved exclusively to the State are currently the following *inter alia*: exploration for and extraction of hydrocarbons; electricity transmission and distribution; generation of nuclear energy; radioactive minerals; telegraph and radio telegraph services; postal services; and control, supervision and surveillance of ports, airports and heliports.

10. During the period under review, Mexico continued the reform efforts of previous years to simplify customs procedures and promote trade. The key reforms were: establishment of the Mexican Digital Window for Foreign Trade (Digital Window) and abolition of the requirement to use the services of a customs broker. The use of new technologies for inspecting goods has been boosted and it is now possible to rectify the import declaration at any stage of customs clearance. In order to avoid undervaluation as well as tax evasion, Mexico still uses estimated prices as a reference for the customs valuation of certain goods and these are currently used for imports of used vehicles, textiles and clothing, and footwear, regardless of the origin of the imports. Mexico uses preferential and non-preferential rules of origin, with non-preferential rules being used to determine the origin of imports subject to anti-dumping or countervailing duties in order to prevent circumvention by means of reshipment of goods through third countries.

11. Mexico substantially and unilaterally reduced applied tariffs during the review period; the average MFN tariff fell from 6.2% in 2012 to 5.5% in 2016. This reduction is principally due to the lower protection afforded to agricultural products (WTO definition), which decreased from 20.9% in 2012 to 14.3% in 2016. Non-agricultural products are subject to a lower average tariff of 4.6%, which did not vary during the review period. The zero rate is the most frequent tariff rate and is applied to 58.1% of tariff lines (58.3% in 2012). Even though the vast majority of tariffs are *ad valorem*, Mexico still applies compound tariffs on 44 eight-digit tariff lines in the HS 2012. Mexico bound all its tariff lines in the Uruguay Round, with bound rates ranging from 0 to 254%. About 77% of the total were bound at 35%, 9% at levels below 35%, and the remainder at levels above 35%.

12. Mexico still uses three types of tariff quota: those negotiated in the WTO, unilateral quotas and preferential quotas. Unilateral quotas are determined by the Ministry of the Economy in order to provide better access to the Mexican market for imported products, when necessary; to cope with higher international prices; to provide better access for imported inputs; or to meet domestic demand when there is a shortfall in supply. Some products are subject both to quotas negotiated

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in the WTO and to unilateral quotas, although the unilateral quota usually gives better access terms so the WTO-negotiated quotas are not used.

13. Mexico imposes non-tariff measures to protect national security, public health, plant and animal health or the environment and for balance-of-payments reasons. Mexico therefore prohibits the import of certain chemicals and drugs (22 products of the HS 2012 at eight-digit level). The list has not changed since the previous review. Mexico also has an import licensing system. In 2013, it resumed using automatic import licences (automatic permits or notices), which had been abolished in 2005. Thus, Mexico currently uses both automatic licensing and non-automatic licensing (prior permits). The purpose of these licences is not to restrict the quantity or value of the imports. Automatic licensing is used to monitor trade flows and concerns products such as iron, textiles and footwear; whereas the purpose of non-automatic licensing is to regulate trade in specific products.

14. The regulatory framework governing anti-dumping, countervailing and safeguard measures has not changed since the previous review. Mexico is an active user of anti-dumping (AD) measures and had 64 definitive AD measures in force at 30 November 2016, representing a 68.4% increase over the number reported for the previous review at December 2011, when there were 38 measures. This number is, however, below that recorded in previous periods. At 30 November 2016, Mexico applied definitive AD measures on imports of various products coming from 17 countries or territories. Approximately 60% of the definitive AD duties in force at November 2016 were imposed on steel products or steel manufacturing materials, machinery and equipment. Other imports subject to AD measures in November 2016 included in particular food, chemicals, plastics, paper, household products and textiles. During the period 2012 to November 2016, Mexico initiated 34 new AD investigations, as well as 35 sunset reviews of AD measures, 20 of which were completed during this period. In 80% of the cases, the investigations led to renewal of the duties. Mexico had three definitive countervailing measures in force at 30 November 2016, which concerned imports of medicaments from India. Mexico did not have recourse to global safeguard measures during the review period.

15. There have been no major changes to the regulatory framework or the procedure for preparing, issuing or revising standards, technical regulations and sanitary and phytosanitary measures since the previous review. Such measures are prepared in accordance with the principles of consensus and transparency and in general follow international regulations. The main change as regards standardization during the review period was the result of the reforms in the hydrocarbons, energy and telecommunications sectors. Previously, *Petróleos Mexicanos* (PEMEX) and the Federal Electricity Commission (CFE) issued Reference Standards (NRFs) (industrial or sectoral standards); these ceased to be issued as of 2012 and are currently being reviewed with a view to converting them into Mexican Official Standards (NOMs) (technical regulations) or Mexican Standards (NMXs). Likewise, since 2013, the Federal Telecommunications Institute (IFT), set up following the constitutional reform, has issued "technical provisions" that are mandatory for the telecommunications and broadcasting sector.

16. The most important development since the previous review in respect of export requirements has been the computerization of customs procedures using the Digital Window. Customs clearance can be effected directly by the exporter or a customs broker. Exporters certified as "authorized economic operators" (OEA) may use the "FAST" tracks available in certain customs offices.

17. Mexico regulates exports and imposes export duties in order to guarantee supplies or to protect human health, the environment, fauna, flora and the cultural heritage. During the review period, the number of tariff lines (at the eight-digit level in the HS 2012) subject to export taxes fell sharply, from 25 in 2012 to just two in 2016 (bitumen and asphalt and bituminous mixtures). Moreover, the rate applied was lowered from 50% to 25%. As was the case in 2012, Mexico still bans the export of certain chemical products and drugs and also makes use of automatic licensing (automatic permits) and non-automatic licensing (prior permits) for exports. Automatic licensing (automatic permits) is used for the purpose of keeping a record of foreign trade transactions. Non-automatic licensing (prior permits) is used for the purpose of regulating trade in specific products. In 2016, non-automatic export licensing applied mostly to chemical products.

18. Mexico has two export promotion programmes: the programme for the promotion of the manufacturing, *maquila* and export services industry (IMMEX) and the import duty drawback

programme, which were already operating at the time of the previous review and have not changed to any great extent. The IMMEX programme is extremely important for Mexico's trade. Over the period 2012-2015, some 69.7% of Mexico's exports and 50.5% of its imports on average were attributable to firms benefiting from the IMMEX programme. During the first nine months of 2016, firms benefiting from the IMMEX programme were responsible for 58% of exports and 44% of imports. Mexico also has a number of support programmes to promote productivity, attract investment and create jobs and implements some sectoral programmes, mostly aimed at micro, small and medium-sized enterprises, which provide financial assistance, tax incentives and technical training. In this regard, mention should be made of the sectoral promotion programmes (PROSEC) and of some tax concessions for payment of income tax (ISR) and the special tax on production and services (IEPS), consumption of diesel fuel and the import of environmentally friendly machinery, *inter alia*. Mexico has notified several of these programmes to the WTO.

19. During the review period (2012-2016), the legal framework for Mexico's competition policy underwent far-reaching changes. Amendments to the Constitution were introduced and the new Federal Law on Economic Competition was published, repealing the 1992 Federal Economic Competition Law, which had governed this area up to 2014. Furthermore, in 2014, the Federal Telecommunications and Broadcasting Law was published, repealing the specific laws that had applied to these sectors and affecting competition therein. Following these reforms, there are now two authorities responsible for implementing the Federal Law on Economic Competition, one of which – the Federal Telecommunications Institute – is solely responsible for regulating competition in this sector. During the review period, the competition authorities initiated 57 investigations into violations of the competition law, of which eight led to sanctions. Mexico imposes regulations or controls on the price of natural gas, liquefied petroleum gas, gasoline (petrol), diesel fuel, electricity and medicines.

20. The State continues to play an important role in Mexico's economy, and the State sector consists of both financial and non-financial enterprises. The latter may receive transfers, allocations and/or subsidies from the Government if their income fails to cover their production costs or to allow them to invest in facilities or make financial investments. PEMEX is still the largest State-owned enterprise.

21. The regulatory framework for government procurement was amended during the review period in order to exclude totally from application of the legislation regulating government procurement in general acquisitions, leases and services contracts entered into by State-owned production enterprises (PEMEX and the Federal Electricity Commission (CFE)) and their subsidiaries. Previously, this exclusion only applied partially to these two enterprises. In open international bidding, Mexico still gives preferences to Mexican bidders over bidders from countries with which it has no trade agreement on government procurement. The margin of preference is 15% of the lowest price in the domestic market for goods of Mexican origin in comparison with imported goods. Moreover, since 2014, a margin of preference has also been given to Mexican companies which implement policies for gender equality or for disabled persons or companies employing disabled workers, and to micro, small or medium-sized enterprises producing goods incorporating technological innovation. Mexico has not signed the WTO Agreement on Government Procurement and does not participate as an observer in the WTO Committee on Government Procurement.

22. The main change to the legal framework of the regime protecting intellectual property rights during the review period concerned the registration of trademarks. Since 2016, the Mexican Industrial Property Institute (IMPI) has published both registrations granted and applications, whereas previously it only published registrations granted. Moreover, in August 2016, a system came into force allowing registration of a trademark to be opposed prior to its registration. There have been no other major amendments to other industrial property rights, copyright or related rights. Mexico continues to make efforts to strengthen enforcement of intellectual property rights, both at the border and within Mexico.

23. Mexico regards the agricultural and fishery sector as strategic because of its contribution to poverty reduction and economic development. One of the most important objectives of Mexico's agricultural policy is guaranteeing food security by increasing productivity. The authorities therefore consider it necessary to protect and support this sector. Even though the average tariff on agricultural products (WTO definition) fell from 20.9% in 2012 to 14.3% in 2016, it is still higher than the average tariff (5.5%). On average, the highest duties by WTO category continue

to be applied to agricultural products, specifically sugar and confectionery, and to animals and animal products, with tariffs of 40.9% (63.3% in 2012) and 24.8% (48.2% in 2012), respectively. Some agricultural products are subject to seasonal tariffs and others to compound tariffs which vary depending on the sugar content. Mexico continues to provide the sector with support through a series of programmes drawn up each year, the majority of which are nationwide in scope and cover any kind of agricultural activity. However, there are some specific programmes, whose sole beneficiaries are small coffee, bean and maize producers or people living in extreme poverty.

24. In 2013, Mexico adopted a constitutional amendment which concerned the energy and telecommunications sectors. As regards energy, the constitutional reform is aimed, *inter alia*, at encouraging investment in the sector. Accordingly, some restrictions on private investment (domestic and foreign) were lifted, except in "strategic" activities. Despite the reform, whose aim was to increase competition in the sector, both PEMEX and the CFE still have a large share of the market. Nevertheless, the State may give contracts to private enterprises to participate in such activities if the State-owned companies have neither the technology nor the resources required.

25. Following reform of the energy sector, basic petrochemicals and electricity generation and sale are no longer regarded as strategic areas, in other words, they are no longer reserved exclusively to the State. Likewise, FDI may now be as much as 100% in the marketing of petrol and distribution of liquefied petroleum gas, previously reserved to Mexican nationals and Mexican firms, with a foreigners exclusion clause. The same applies to the construction of pipelines to transport oil and its derivatives, as well as the drilling of oil and gas wells, which previously required a favourable decision for FDI to be able to exceed 49%. Mexico has also established a fund to manage, invest and distribute the income derived from hydrocarbon exploration and exploitation and to build up a long-term savings reserve. The reserve has not yet been set up as income has not reached the minimum necessary to activate it (4.7% of GDP).

26. Conditions of access to Mexico's banking market have not changed since 2012. In 2014, Mexico undertook a financial reform aimed at greater expansion and inclusion of financial services. Measures were introduced to increase competition, raise the levels of lending by development and multiple (commercial) banks, and strengthen the financial system's prudential rules in order to make the institutions' performance more efficient. In the short term, the reform was followed by an increase in credit and its penetration index, lower interest rates and an improvement in financial inclusion indicators. Despite the reform, there is still a high degree of concentration in the banking market. As regards the insurance market, in 2014, following the reform, a new law was introduced in order to make the operations of insurance institutions more transparent, and the restriction on foreign investment was lifted. Nevertheless, as in the banking market, there is a high degree of concentration despite the large number of companies active in the insurance market.

27. By virtue of the financial sector reform, FDI may now be as much as 100% in insurance institutions, bonding institutions, currency exchange houses, general bonded warehouses, pension fund management firms, credit information companies, securities rating institutions and insurance agents. Prior to the reform, there had been a 49% ceiling on the share of FDI in those activities, which could be surpassed only in the case of credit information companies, securities rating institutions and insurance agents, with authorization.

28. During the review period, Mexico undertook a major reform of its telecommunications and broadcasting sector in order to boost its competitiveness so as to reduce prices and improve service quality. A new telecommunications law was enacted to implement the reform and the Federal Telecommunications Institute (IFT) was created as the regulatory body. Following the reform, restrictions on FDI were lifted; previously subject to a 49% ceiling, it can now be as much as 100% in fixed telephony and satellite communications. In the broadcasting sector, the reservation to Mexican nationals and to Mexican firms with a foreigners exclusion clause was eliminated; FDI of up to 49% is currently permitted (subject to the principle of reciprocity). A new concessions regime was also introduced, giving the right to provide any type of public telecommunications service; previously, a concession was required for each type of service.

29. During the review period there were no changes to the FDI regime for the air transport sector. Foreign investment is permitted, but foreigners may only invest a maximum of 25% in airline companies and 49% in airports and the supply of aviation fuel, although higher amounts may be authorized in airports under certain circumstances. Cabotage is prohibited. The operation

of private flights in Mexican territory is authorized under the multiple entry procedure. To build, manage and operate airports, a concession, awarded for 50 years (renewable), is required. As regards maritime transport, foreign investment is permitted but is limited to 49% in some services, such as port operators, shipping companies engaged in maritime transport in territorial waters and cabotage, and port and related services. Harbour pilots must be Mexican nationals and cabotage is reserved for Mexican shipping companies with Mexican vessels, although foreign vessels may be given temporary permission to provide cabotage services.

30. Mexico was among the world's top ten tourist destinations in 2015 and the sector makes an important contribution to GDP, both directly and indirectly. The National Tourism Development Fund (FONATUR) contributes to the promotion and development of tourism and tourism resources and helps to promote the financing of private investment through agreements with development banking.