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TRADE POLICY REVIEW

REPORT BY

MEXICO

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Mexico is attached.

Contents

INTRODUCTION

1. The Sixth Trade Policy Review of Mexico covers a period in the world economy marked by very low growth that has significantly affected developed economies and caused a sharp slow-down in the main emerging countries. This has occurred against a backdrop of factors that have generated great uncertainty and a substantial drop in oil prices[1], high volatility on global financial markets and a period of sluggish growth in some of our main export markets.

2. Mexico is among the world's most globally integrated economies and as such currently faces a complicated economic climate: the global outlook has become more complex as a result of recent political and electoral events both in Europe (the United Kingdom referendum on whether to remain part of the European Union) and in some areas of the Americas, where our main trading partners are located, triggering great volatility in international financial markets.

3. Although the world economic outlook is uncertain, Mexico has sound economic fundamentals to address the challenges raised by the current situation. These fundamentals include the projected and actual achievements in consolidating the public finances; the application of preventive monetary policy measures adopted during 2016; a well-capitalized, solvent financial system free of liquidity problems; and an important, unprecedented process of implementing structural reforms launched in 2012.

4. This report comprises five sections. The first explains how the Mexican economy has developed in a difficult economic environment and consequently is in a position to tackle new challenges; the second explains the 11 structural reforms that Mexico has been implementing with three main objectives in view: (a) raising productivity; (b) strengthening and broadening Mexicans' rights; and (c) bolstering democracy and fundamental freedoms. The third section describes the trade negotiations undertaken by Mexico in the form of the extension, convergence and negotiation of new agreements. The fourth section sets out the most important aspects of the country's trade policy. Finally, the fifth section presents the conclusions of the report.

[1] In 2012 the price per barrel of *West Texas Intermediate* (WTI) closed at US$109; in 2016 it was US$40/barrel.

1 ECONOMIC ENVIRONMENT

1.1. The period covered by this review began in expectation of an upturn in the global economy. However, the recovery was weak and resulted in lower-than-expected economic growth, owing first to the slow-down in the United States economy and the main emerging markets, and secondly to the latent threat that the United Kingdom might leave the European Union. Together with the rise in anti-free-trade rhetoric in some countries, the result was persistent volatility on international financial markets during the period.

1.2. The Mexican economy is highly integrated internationally, and therefore these events have had significant repercussions on our economic growth. Mexico's Gross Domestic Product (GDP) grew by 1.4% in 2013 (down from 4% in 2012) and by around 2.5% in 2014 and 2015. Nevertheless, during the period under review average GDP growth was close to 3%, approximately double the rate in the previous review period.

1.3. Despite the challenging economic environment, between 2011 and 2015 Mexico's total trade grew by 10.8% to US$776 billion at the end of the period, compared to the performance of the global economy, which shrank by 10.2%.[2] This means that trade between Mexico and the world averaged over US$2 billion every day. Over this period Mexican exports rose from US$349 billion to US$381 billion – a growth rate of 8.9%, whereas imports grew by more than 12.6%, from US$351 billion to US$395 billion.

1.4. Turning to trade in services, between 2011 and 2015 exports grew by 47%, an average annual growth rate of 10%, whereas imports rose by 5.5% over the same period, i.e. at an annual average rate of 1.4%. Despite this, the trade balance remained in deficit for the entire review period, although the deficit itself shrank.

1.5. From 2011 to 2015 foreign direct investment (FDI) rose by 33%, an annual average rate of 7.4%. Over this period, average annual receipts of FDI stood at US$30.7 billion. According to UNCTAD, in 2015 Mexico ranked 15th for inflows of FDI, attracting 1.7% of global flows.

1.6. Mexico is in a strong position to weather the challenges of the new international political and economic environment. Our country is undergoing an important process of structural reform and is enjoying macroeconomic stability achieved as a result of many years of responsible fiscal and monetary policies, a manageable level of debt, adequate international reserves and a solvent, well capitalized financial system free of liquidity problems. The salient features of the Mexican economy include the following:

- ***Fiscal strength***, as reflected in the increase in tax revenue of almost five GDP percentage points between 2008 and 2015, thus reducing dependence on oil revenues, which fell from 39.5% of budgetary revenue in 2008 to 13.5% in the first half of 2016. There are also plans for a fiscal consolidation programme that will produce a primary surplus from 2017 with a view to stabilizing the public debt.

- ***A primary surplus for Petróleos Mexicanos (PEMEX) in 2017***, through implementation of the PEMEX business plan containing measures to bolster the company's finances and those of the public sector.

- ***Prudent risk management***, through the Federal Government's oil insurance cover programme that aims to shield budgetary revenue from falling oil prices. Additionally, in the third quarter of 2016 the Budgetary Revenue Stabilization Fund had resources worth 108.8 billion Mexican pesos (MMP), to be used in the event that Federal Government revenue should fall below the approved level.

- ***Responsible debt management***, including the fact that all Federal Government foreign currency write-downs scheduled for 2017 were refinanced during 2016.

[2] Calculated using data from the Annual WTO World Trade Reports for 2012 and 2015.

- ***Net international reserves of US$174 billion at November 2016***, equivalent to just over five months of imports and sufficient to cover all foreign investors' domestic debt holdings in pesos. Moreover, the Mexican economy is backed by a Flexible Credit Line from the IMF for approximately US$88 billion[3] which, if necessary, can act with the reserves as a significant financial "buffer".

- ***Banking system with almost 15% capitalization*** and enough liquidity to withstand stress tests more stringent than those laid down in the regulations in force. It should be noted that Mexico's financial market has displayed greater resilience than other emerging markets, indicating that the country's macroeconomic framework is sound and able to absorb significant external shocks.

- In addition, ***Mexico has stable inflation*** ranging from 2% to 4%, close to the 3% target set by the Bank of Mexico.

- Moreover, its ***unemployment has been falling throughout the period covered by this review*** and was below 4% at end-2016.

1.7. However, the Mexican economy faces significant challenges, including a slow-down in the global economy; a potential rise in protectionism that could emerge as a result of some of our chief trading partners' changing approaches to trade liberalization; and financial market volatility.

[3] Source: International Monetary Fund, Press Release, May 2016. Viewed at: http://www.imf.org/external/np/sec/pr/2016/pr16250.htm.

2 STRUCTURAL REFORMS

2.1. In 2012 the Pact for Mexico broke the political stalemate following a meeting of the three main political parties at which a multidimensional reform package was agreed. This historic event allowed the government to promote legislative changes in key segments of the economy.

2.2. The result was a bold package of structural reforms that aims to foster economic growth, increase productivity, reduce informality in the labour market, cut income inequality and reduce poverty.

2.3. The reform package is being implemented in a period of external difficulties for Mexico, especially the slow recovery from the worst international financial crisis since the Great Depression, the fall in oil prices and the uncertainty associated with the process of monetary policy normalization in the United States.

2.4. The 11 structural reforms seek to achieve three major objectives: (a) raise our productivity in order to trigger economic growth and development in Mexico; (b) strengthen and broaden rights so that they become embedded in daily life; and (c) strengthen and enhance the rule of democracy and fundamental freedoms in our country.

2.1 Raising Mexico's productivity

2.1.1 Energy reform

2.5. The reform radically transformed the Mexican hydrocarbons market and the activities of the National Electricity System in order to raise productivity and improve service quality, resulting in both greater availability of oil, natural gas and their derivatives, and a better, more affordable public electricity service with greater coverage. Prior to the entry into force of the energy reform, Mexico's energy sector was almost totally closed to private investment. State enterprises, PEMEX and the Federal Electricity Commission (CFE) conducted all activities in the energy market value chain. The energy reform involved transitioning from a semi-public monopolistic system to a market where the semi-public entities could become production-oriented public enterprises and compete with private companies. The energy reform also strengthened the sector's regulatory bodies, namely the National Hydrocarbons Commission and the Regulatory Commission for Energy, and established a Mexican Oil Fund for Stabilization and Development, a National Industrial Safety and Environmental Protection Agency for the Hydrocarbons Sector, as well as two independent operators for the electricity and gas systems, namely the National Energy Control Centre (CENACE) and the National Natural Gas Control Centre (CENAGAS) respectively.

2.6. The energy reform was implemented through substantive amendment of Articles 25, 27 and 28 of the Political Constitution of the United Mexican States (Constitution), the issuance of 22 pieces of secondary legislation (10 new and 12 amended pieces) and the publication of 25 regulations. The distinguishing feature of the reform is the adoption of a new energy model in the hydrocarbons and electricity subsectors:

i. ***Exploration and extraction of hydrocarbons***. For almost 70 years hydrocarbons were in the hands of a single public company, with a declining level of oil and gas production, which was prevented from developing potential resources in unconventional fields and deep waters. The energy reform allows open participation in exploration and production activities through bidding rounds organized by the State; it incentivizes competitive, flexible contracts based on international best practices and provides greater security and certainty to investors through a Five-Year Plan for Hydrocarbons Exploration and Extraction.

2.7. In 2016 the first four calls for tenders in hydrocarbons were held, comprising Round One involving shallow waters, onshore fields and deep waters, which attracted 48 exploration and extraction enterprises from 14 countries (including 26 Mexican enterprises) and expected investment of approximately US$49 billion. That year also saw publication of the terms of the first three calls for tenders in Round Two, which will take place in 2017: the first will be for 15 shared production contracts in shallow waters, the second for 12 onshore licences (to extract wet and dry gas – valuable inputs for the petrochemicals industry) and the third will be for 14 contract areas, also onshore.

ii. ***Transportation, storage, refining and retailing of hydrocarbons***. Mexico is seeking to increase its capacity to supply natural gas to satisfy demand from industry and generate power from cleaner, more affordable sources. To that end the Government published a Five-Year Plan for the Expansion of the Natural Gas Transport and Storage Network 2015-2019. So far over 2,300 km of pipelines have been constructed and over 300 km are already firmly committed with the result that investment of US$12 billion is expected. In order to guarantee access to the existing gas pipe infrastructure, in October 2016 CENAGAS announced the start of the first "open season" when private enterprises would compete to reserve capacity in the 9,000 km of gas piping transferred to it by PEMEX in January that year.

2.8. Other major projects in which the private sector has shown interest in participating include construction of storage terminals and multi-product pipelines to import liquid fuels from the southern United States into the north of Mexico; infrastructure to transport and store petroleum products from the Gulf of Mexico to the centre of the country; and storage terminals in central and north-eastern Mexico.

2.9. The energy reform launched a strategy for the gradual liberalization of the gasoline (petrol) and diesel markets. The Hydrocarbons Law provides that import permits for gasoline and diesel may be awarded to any interested party who complies with the applicable legal provisions; as a result, since April 2016 the Ministry of Energy has awarded permits to various enterprises interested in participating in new projects in this field.

iii. ***Electricity reform***. Where the electricity sector is concerned, the energy reform offers investment opportunities across the entire electricity value chain. Prior to this reform, the CFE had sole responsibility for generating, transmitting, distributing and marketing electricity in Mexico. Now, however, these segments are open to direct or indirect participation by private investors.

2.10. Generation is open to competition from the private sector in a wholesale electricity market where the most cheaply generated electricity will go on sale first. Additionally, over the next 15 years the Ministry of Energy envisages the construction of a further 60 GW of installed capacity as set out in its National Programme to Develop the National Electricity System (PRODESEN).

2.11. The CFE will remain responsible for electricity transmission and distribution but it can have recourse to private-sector services and experience through tendering processes. In accordance with the PRODESEN, by 2030 a total of 28,000 km of transmission lines will be required. Additionally, the marketing of electricity to users who consume more than 1 MW can be taken on by third parties rather than remaining exclusively within the purview of the CFE as is currently the case. The CFE will continue to deal with domestic users.

2.12. In order to achieve a successful transition to the energy sources of the future, Mexico has minimum targets for cleaner energy sources for power generation: 25% by 2018, 30% in 2021 and 35% by 2024. In order to ensure those targets are met, the energy reform lays down provisions on the acquisition and marketing of Clean Energy Certificates on the wholesale electricity market. This year, Mexico invited bids for two long-term tenders that were noteworthy in securing globally competitive prices. The new solar and wind capacity to be installed following the two tenders is equivalent to around 170% of the capacity constructed over the previous 18 years. The invitation to bid for the third tender is scheduled for April 2017.

2.1.2 Competition policy reform

2.13. With a view to ensuring free competition and preventing, investigating and combating monopolies, monopolistic practices, concentrations and other restrictions on efficient market operation, the Government of Mexico drove forward significant changes to the competition regime through the amendment of Article 28 of the Constitution and a new Federal Law on Economic Competition.

2.14. The ***reforms to Article 28*** of the Constitution notably include:

- The establishment of two new national economic competition agencies, namely the Federal Economic Competition Commission (COFECE) and the Federal Telecommunications Institute (IFT) to replace the Federal Competition Commission and the Federal Telecommunications Commission respectively, as autonomous bodies that are independent of the Federal Executive in terms of their decision-making, operation and budget.

- Each of the seven Commissioners appointed to each authority must be highly regarded for their technical skills and professionalism and can be removed from office only for serious cause.

- An Internal Comptroller is appointed by the Chamber of Deputies for each of the autonomous bodies.

- Tribunals specializing in economic competition, broadcasting and telecommunications are provided for.

- New powers for the economic competition authorities are introduced, including powers to:

    - order measures to remove barriers to competition;

    - regulate access to essential inputs;

    - order the disposal of assets in concentrated markets as a measure of last resort.

- It provides for a division of powers between COFECE and the IFT, granting the IFT exclusive powers in competition in the telecommunications and broadcasting sectors.

2.15. The notable features of the new ***Federal Law on Economic Competition***, which repeals the 1992 Law, include:

- The publication of an annual work programme and quarterly activity reports.

- Guaranteed separation between the authority investigating potential anti-competitive practices and the plenary meeting of the competition authority that makes the decisions.

- Retention of the key concepts contained in the previous law with regard to absolute and relative monopolistic practices, relevant market, substantial power and concentrations.

- Development of the powers granted under the reformed Article 28 of the Constitution.

- New penalties and tougher criminal penalties.

- A mechanism for the separation of powers and coordination between the COFECE and the IFT.

2.1.3 Reform in telecommunications and broadcasting

2.16. Mindful of the need to reduce the high market concentration in the telecommunications and broadcasting sector that has affected users and the economy as a whole, resulting in low coverage, poor quality and high prices – a situation that has constrained both Mexicans' right to information and the country's economic, social and cultural development – the Government of Mexico took the decision to push through structural change that would substantially increase competition in the two sectors. The resultant telecommunications reform was based around six main planks as follows:

i. ***Enhancement of fundamental rights***. The reform underscores that telecommunications and broadcasting are public services that serve the general interest and that therefore the State must ensure that services in these sectors are provided on competitive terms, with guarantees of quality, plurality, universal coverage, interconnection, convergence, free access and continuity.

ii. ***Modernization of the legal framework governing the telecommunications and broadcasting sectors***. In order to increase legal certainty, Mexico enacted the Federal Telecommunications and Broadcasting Law regulating the use of the radio spectrum, telecommunications and broadcasting networks and services, laying down a single concession system for the provision of these services, and implementing asymmetric regulatory measures in respect of dominant economic operators in the sectors.

iii. ***A stronger institutional framework***. The IFT was established as an autonomous constitutional body with responsibility for the regulation, promotion and supervision of the radio spectrum, and for telecommunications and broadcasting networks and services; and to act as the competition authority in these sectors. Specialist tribunals have also been put in place to deal with matters in this area in order to provide greater certainty for investors.

iv. ***Promotion of competition***. Regulatory criteria were laid down for dominant economic operators in each sector, including the implementation of regulatory measures, oversight and the mechanism to annul them. At the same time, services were opened up to foreign investment of up to 100% in telecommunications and up to 49% in broadcasting, subject to reciprocity.

v. ***Introduction of a Universal Digital Inclusion Policy and a National Digital Strategy***. The aim is for at least 50% of households and 65% of the population to have high-speed internet at internationally competitive prices.

vi. ***Drive for greater infrastructure coverage***. The fibre optic backbone will be extended and strengthened using the CFE network, and a wholesale shared mobile network will be rolled out using the 700 MHz band.

2.17. As a result of this reform, between June 2013 and December 2015 prices for telecommunications services fell by 23.2%, pay-tv services grew by 30%, taking the percentage of households and businesses with either a cable or satellite service to approximately 60%; additionally there was 12.5% growth in household internet over the period and at March 2016 penetration stood at 47 subscriptions for every 100 households. This is currently one of the most buoyant sectors of the national economy and the removal of barriers to foreign investment has encouraged new competitors into the sector.

2.18. The average level of production in the telecommunications sector prior to the reform was Mex$366 billion; by December 2015, following the reform, it was Mex$427 billion. While average annual GDP growth over the past five years was 3%, the figure for telecommunications was 11%, almost four times higher. Additionally, prior to the reform, the proportion of FDI generated by telecommunications was less than 1%, but in 2015 it accounted for 9.6% of the total and was the third-highest pull factor for FDI to Mexico.

2.19. Two and a half years after the telecommunications reform, over half of Mexico's population enjoyed mobile broadband services whereas in mid-2013, only 23% of inhabitants had access to them; in the second quarter of 2016 there were 56 mobile broadband subscriptions for every 100 inhabitants.

2.20. The radio spectrum allocated to mobile telecommunications has increased by over 40% since the establishment of the IFT in 2013 and there are plans for invitations to tender over the next two years that will allow 604 MHz to be used for these services, almost triple the 222 MHz allocated prior to the reform; this will pave the way for faster, higher-quality services.

2.21. In terms of closing the digital gap, the Connected Mexico Programme increased national broadband internet connectivity coverage in public places, i.e. schools, libraries, health centres, community centres and public spaces. The programme was recognized at the World Summit on the Information Society 2015 held by the United Nations International Telecommunications Union and was awarded the prize for the best programme in its category in the world.[4]

2.22. Mexico is the first Latin American country to successfully turn off the analogue television signal and migrate to terrestrial digital television (TDT). The TDT policy makes it possible for audiences to view 676 digital TV channels compared to the 311 digital channels that were available before the constitutional reform.

2.23. It should be noted that Mexico is now the most advanced country in Latin America in terms of TDT and that it achieved digital migration in the shortest time-span the world has ever recorded.[5]

2.1.4 Tax reform

2.24. In the medium and long term, an economy's capacity for growth depends on the productivity of its production factors. For precisely that reason, at the start of the present Administration the Federal Government launched a package of structural reforms that aim to increase the productivity of the economy and thereby increase its potential for growth. The tax reform is part of that agenda.

2.25. The main objectives of the tax reform that entered into force in January 2014 were to:

i. expand the State's financial capacity by increasing the availability of resources so that it can meet the population's priority needs;

ii. reduce the dependence of the public finances on oil;

iii. improve fairness by removing tax breaks and ensuring that those who have more contribute more;

iv. reduce informality and tax evasion by simplifying tax payments and establishing formalization mechanisms that are accessible to all;

v. introduce socially responsible taxes to protect people's health and the environment; and

vi. strengthen fiscal federalism by establishing incentives to increase revenue collection by state governments and increasing transparency in the distribution of resources to the states and municipalities.

2.26. The breadth and depth of the reform's objectives meant that the entire tax system had to be overhauled. Accordingly changes were made to consumer and income taxes, including both personal income tax and corporation tax.

2.27. The aim of the VAT changes was to remove or limit the existing exceptions. In particular, the VAT rate in the border region was aligned with the rate prevailing in the rest of the country. In order to press ahead with streamlining tax payment, the reform abolished the special flat-rate business tax (IETU) and the tax on cash deposits (IDE), thus halving the number of calculations that companies have to make monthly to comply with their fiscal obligations. Additionally a new income tax (ISR) law was established that broadened the tax base and simplified payment by abolishing the bulk of the regimes conferring preferential or special treatment. As a result of the reform, Mexico now has a single corporation tax but generates the same revenue as it did under the three taxes that were in place in 2013 (the ISR, IETU and IDE).

2.28. The changes to personal ISR aimed to broaden the base for the tax and increase its progressivity. The marginal rates of the tax were raised for high annual incomes, affecting only the

[4] Online information from the Ministry of Communications and Transport. Viewed at: http://www.sct.gob.mx/fileadmin/Comunicaciones/avances-_telecomunicaciones-2015-octubre.pdf and http://www.itu.int/net/pressoffice/press_releases/2015/18-es.aspx#.WEnyLrLhCM8.

[5] Idem.

wealthiest 1% of the population. A tax was introduced on stock market capital gains and the distribution of dividends, which are sources of income held chiefly by the wealthiest households in the country.

2.29. The multi-faceted nature of the causes of informality means that a genuine solution to the problem of the informal sector requires the use of all available tools, including in particular tax instruments. In order to reduce informality, the reform established the Tax Inclusion Regime (RIF) to replace the Small Taxpayers Regime (REPECO); it acts as an entry point to the formal sector for the country's smallest businesses and their workers.

2.30. By introducing various special taxes, the reform also combined the use of new tax bases with the achievement of non-tax goals. Thus, the reform included new environmental and health taxes that place Mexico at the international forefront in the design of tax tools for environmental and health purposes. A tax was introduced on fossil fuel consumption in line with the carbon content of the fuel. On health, a 1 peso/L tax was placed on flavoured drinks that contain calorific sweeteners and an 8% tax on calorie-dense foods.

2.31. Although the benefits of the reform will emerge fully in the medium term, almost three years after its entry into force there is already information to evaluate some of the initial effects. The tax reform improved revenue collection, providing timely support for the public finances in a difficult environment of great uncertainty on international financial markets and plunging oil prices. In 2014, tax revenue was 11.0% higher than in 2013, rising as a percentage of GDP by 1.1% to a historic high of 10.5%. That growth continued in 2015 when it rose to 13.1% of GDP, a new record. Thus between 2008 and 2015 the rise in tax revenue was equivalent to five GDP percentage points.

2.32. Our reform has therefore reduced the dependence of the public finances on oil by two thirds. In 2012 oil revenue accounted for 39.5% of all public sector revenue: at end-2015 it accounted for 19.8%, and in the first half of 2016, 13.5%.

2.33. The strategy of modernizing and streamlining the tax framework and the concomitant effort to combat informality have broadened the taxpayer base. Between December 2013 and June 2016 the list of taxpayers grew by 11.6 million from 41.7 million to 53.3 million registrations, a rise of 27.8%. Additionally the RIF was successful in persuading the country's microbusinesses to formalize their operations. In the year when it was introduced (2014), 900,000 new microbusinesses joined the RIF and in 2015 and so far this year (2016) a further 320,000 have signed up, taking the number of new microbusinesses to join the RIF since its establishment to over one million.

2.34. The evidence shows that taxation for health purposes has succeeded in changing consumption patterns and redirecting them towards healthy products. In early 2016 the *British Medical Journal*[6] published a study measuring the effect of the tax on beverages on consumption patterns. The study found that compared to pre-tax trends, the tax resulted in a 6% fall in consumption of taxed beverages and a 3.9% rise in consumption of plain water.

2.35. The environmental measures contained in the tax reform have helped to reduce emissions of some of the main pollutants. It is estimated that in 2014 and 2015 taxes on polluting fuels led to a 11.8 Mt (6.5%) fall in emissions of carbon dioxide, the main cause of the greenhouse effect. That drop is equivalent to 20.4% of that agreed by Mexico for 2014 and 2015 as part of the international agreements promoted by the UN Climate Change Convention.

2.1.5 Financial reform

2.36. The aim of the financial reform is to provide more credit and make it more accessible, especially to Small and Medium-Sized Enterprises (SMEs). Accordingly the reform encourages competition in the financial sector in order to drive down costs, increase the supply of credit and improve the operations of financial entities and regulatory bodies, and consequently bolster the financial system on a stable, reliable footing. The reform lays down a legal framework that

[6] Colchero, A., Popkin, B., Rivera, J. and Wen, S. (2016). "Beverage purchases from stores in Mexico under the excise tax on sugar sweetened beverages". *British Medical Journal.* 2016-352:h6704.

promotes competition, stability and sound development in the sector in order to expand and improve credit options. There are four strategic pillars to the financial reform, as follows:

i. ***Increase competition and improve the quality of financial services***. The reform encourages greater competition and transparency throughout the financial system by suppressing anti-competitive practices (such as tied sales), enhancing the portability of operations and services between financial institutions and consumer choice. This will expand the supply of credit on better terms for users. Additionally, the reform strengthens the powers of the National Commission for the Protection and Defence of Financial Services Users (Condusef) in relation to user protection and as a promoter of financial education in Mexico.

ii. ***Encourage credit through the development banking system***. The reform boosts the mandate of development banks by prioritizing the provision of access to credit, technical assistance and training in order to drive economic development with special emphasis on Mexico's development priorities such as infrastructure development, and support both for SMEs and for small rural producers. The new mandate also supports innovation and the granting of patents, encourages environmental sustainability, promotes gender equality and fosters financial inclusion and the operations of the social banking system.

iii. ***Expand credit through private financial institutions***. The reform promotes growth of credit by strengthening the system for granting and enforcing guarantees, and speeds up commercial bankruptcy processes in order to provide greater legal certainty to credit providers. It also empowers the financial authorities to conduct a periodic evaluation of the performance of commercial banking institutions in relation to the levels of credit they actually give so that they can channel more resources into productive projects. The reform also modernizes the regime governing investment funds, the securities market and savings and loan institutions.

iv. ***Maintain a sound, prudent financial system***. The reform updates the regulatory framework governing the operations and activities of the various financial institutions, by strengthening the prudential framework for overseeing its solvency and sound development. It also provides the financial authorities with appropriate tools with which to regulate and control the sector properly, including better mechanisms for cross-authority coordination on stability, as well as a resolution scheme for commercial banking institutions facing solvency or liquidity issues that could affect the stability of the financial system.

2.37. The reform also incorporates improvements to the arrangements to enable the authorities to operate effectively, including the sanctions regime and the granting of legal status to specific coordinating bodies such as the Financial System Stability Council and the National Financial Inclusion Council.

2.38. The financial reform has already yielded definite results, with a rise in domestic finance to the private sector from 25.7% of GDP in 2012 to 32.7% in September 2016. Additionally it is now possible to re-mortgage at lower cost; unfair terms or "small print" have been abolished; and the obligation to buy unnecessary services has been eliminated. The new Financial Institutions Bureau has become an effective tool for users researching and assessing financial services providers. New participants have been encouraged to enter the sector; since the reform was published in 2014, eight new banks have been licensed.

2.39. The development banks have provided the largest share of direct and indirect credit finance. They have implemented credit and guarantee programmes to support SMEs, rural producers and home equity loans, and to support strategic sectors such as transport, aerospace, tourism, as well as the states and municipalities. Finally, education and training programmes for more vulnerable sectors, including women, have boosted financial literacy and awareness. Direct finance to the private sector from development banks as a proportion of GDP rose from 1.1% to 1.9% between December 2012 and September 2016.

2.1.6 Labour reform

2.40. The labour reform modernized the Mexican legal framework by introducing adjustments to help it address new labour market requirements and needs in line with three principles: promotion of access to formal employment; promotion of decent work; and more effective protection of labour rights and labour laws together with enhanced powers for the labour authorities.

2.41. The labour reform legalized new, more flexible methods of recruitment such as recruitment on a trial basis with compulsory initial training to help young people to access employment; in addition, specific forms of recruitment, such as outsourcing, hourly pay and teleworking, were made subject to detailed regulation.

2.42. Between December 2012 when it entered into force and June 2016, over two million new jobs insured under the Mexican Social Security Institute were created.

2.43. The growth in formal employment constitutes another positive result; it is greater than the growth in GDP owing in part to the rise in formal employment as reflected in the striking downward trend in the Informal Labour Rate (TIL). Between the fourth quarter of 2012 and the first quarter of 2016, the TIL fell by 2.3 percentage points from 59.63% to 57.36%, the lowest level since records began.

2.44. Although modernization has borne fruit, there are still some substantial hurdles to overcome in order to address fully one of the greatest, most deeply felt demands of workers, namely speed, quality, transparency and efficiency in the administration of justice in labour-related matters.

2.45. Accordingly on 28 April 2016, the head of the Federal Executive forwarded to the Senate of the Republic a Draft Decree to amend Articles 107 and 123 of the Constitution and introduce the most important labour reform since the promulgation of the Constitution of the United Mexican States of 1917.

2.46. The proposals in the Federal Executive Decree include:

- The administration of justice in labour-related matters henceforth by organs of the federal or local judicial authorities.
- Overhauling the conciliation system so that it becomes a preliminary level of jurisdiction to which workers and employers must have recourse.
- The establishment of specialist, impartial Conciliation Centres with full autonomy in technical, operational, budgetary, decision-making and managerial matters.
- The establishment of a decentralized body with the power to record all collective bargaining agreements and all trade union organizations.

2.47. These constitutional reforms were approved by both Houses of Congress of the Union. As constitutional amendments, they require the approval of the majority of local legislatures: at December 2016, ten States had approved the reform.

2.2 Strengthening and broadening the rights of Mexicans

2.2.1 Education reform

2.48. The reform guarantees the exercise by children and young people of their right to a comprehensive, inclusive, high-quality education that provides them with the tools needed to overcome the challenges of a globalized and increasingly digital world. That is the reason behind the distribution of over 700,000 tablet and 240,000 laptop computers. Additionally, more than 10,000 primary schools were eligible for assistance under the "decent school" programme and over 23,000 schools became full-time establishments, of which more than 12,000 supply a nutritious meal.

2.49. In order to achieve that target a Professional Teaching Service was established to ensure that entry, promotion, recognition and retention in the teaching profession is based on merit and performance, replacing dubious, arbitrary methods. Accordingly Mexicans who have the greatest calling and ability to teach will perform this key job.

2.50. The first admissions round for the teaching service was held in January 2015. The reform also introduced the Education Management Information System, and the results of the Survey on Schools, Teachers and Pupils in Elementary Education and Special Education were published.

2.2.2 New law on *amparo* (protection of civil rights)

2.51. This reform broadens the protection afforded to citizens under *amparo*; it now includes the human rights provided for in international treaties. The reform also improved the efficiency of Mexican justice by simplifying and modernizing procedures. An application for *amparo* may now be made online and signed electronically.

2.2.3 National Criminal Procedure Code

2.52. The Code provides a unified model of criminal justice and ensures that all Mexicans are tried using the same procedures, regardless of where they are in the country. The new code replaces the various sets of procedural rules that were previously in place in Mexico, thus reducing the leeway for impunity, facilitating coordination between authorities and improving the efficiency of investigations. It also paves the way for implementing an adversarial system and oral hearings in Mexico.

2.3 Bolstering democracy and freedoms

2.3.1 Political and electoral reform

2.53. The reform provides for the possibility of re-election to Congress, as appeared in the original draft of the 1917 Constitution: citizens may thus recognize the performance of Members of Congress and Senators and hold them accountable through re-election for the period immediately following the end of their term of office. It also changes the electoral institutions and the rules that govern democratic processes in Mexico by upgrading and improving them. The reform strengthens the electoral authority, now renamed the "National Electoral Institute", by endowing it with the capacity to organize elections in any state of the Republic where the circumstances so warrant, thus standardizing the quality of elections throughout the country. The reform merged the authorities responsible for organizing elections and regulating political parties at federal and state levels into a single national authority.

2.54. The reform ensures gender equality in candidate nominations for elections and lays down mechanisms whereby citizens who choose to seek public office by standing as independents can compete on an equal footing with candidates who have the backing of a political party.

2.3.2 Transparency reform

2.55. This reform provides Mexicans with access to information about the three tiers of government, the political parties and any person, including trade unions, that uses public money; at the same time it lays down effective mechanisms to protect information that must be handled with special care because of the personal data it contains.

2.56. This is achieved by conferring greater powers on the National Institute for Transparency, Access to Information and Personal Data Protection, including the power to bring unconstitutionality proceedings, and vesting the Institute with constitutional autonomy. The reform also lays the foundations for the establishment of independent bodies in this specific area in each of the states, thus consolidating a national system for transparency.

3 MEXICO'S TRADE NEGOTIATIONS POLICY

3.1. Mexico has continued to boost its competitiveness and integration in global value chains by negotiating, formalizing and administering many international trade and investment agreements.

3.2. In conformity with the Sectoral Programme for the Economy 2013-2018, the objective of trade policy is to strengthen and invigorate the export platform through a five-plank international trade negotiation strategy, as follows:

3.1 Strengthening the multilateral trading system

3.3. In Mexico's view, the positive relationship between international trade and development has been demonstrated time and again and put to the test during various economic crises. There can be no doubt that more trade means more economic growth and therefore a greater reduction in poverty. However, trade is just one cog, albeit a very important one, in the economic machinery. In order to make the benefits of trade visible, we must supplement it with policies on social assistance, infrastructure, retraining and restructuring.

3.4. The certainty that businesses have had in their international operations as a result of a sound multilateral trading system, as provided by the General Agreement on Tariffs and Trade (GATT) and its successor the World Trade Organization (WTO) for more than 60 years, has contributed significantly to the fact that the volume of world trade has risen 50-fold since 1950.

3.5. That is why Mexico promotes a stronger multilateral trading system within the WTO on various fronts.

3.6. Firstly, Mexico was one of the main actors and proponents in the WTO Doha Development Round; it participated in various proposals in search of consensus and in various negotiating groups in order to try to build bridges between the most polarized positions.

3.7. Secondly, through implementation of the agreements reached as part of the Bali package at the 9th Ministerial Conference, and the Nairobi package at the 10th Ministerial Conference. Accordingly, the Trade Facilitation Agreement (TFA) was approved by the Senate of the Republic in April 2016, and in July that year Mexico notified its ratification of that Agreement to the WTO. It should be noted that in accordance with the notification made by Mexico to the WTO Preparatory Committee on Trade Facilitation (notification on Category A commitments[7]) our country will implement all provisions of the TFA upon its entry into force. Additionally, Mexico will comply promptly with the commitment to eliminate export subsidies for agricultural products; in fact the notifications made by Mexico between 2012 and 2015 on export subsidies for agricultural products show that no subsidies were granted.

3.8. Thirdly, Mexico is up to date in terms of compliance with its transparency obligations and notifications for all regular WTO committees and bodies.

3.9. Finally, Mexico remains committed to a stable, balanced, predictable and inclusive multilateral trading system. The Government of Mexico held the Presidency of the General Council in 2015.

3.2 Optimization of the existing network of trade agreements

3.2.1 North American Free Trade Agreement (NAFTA)

3.10. It is crucial for Mexico to maintain a close, fruitful relationship with the United States and Canada as strategic members of the NAFTA, an agreement that has without question been a pillar and engine of growth not only for Mexico but for the region as a whole.

[7] WTO document WT/PCTF/N/MEX/1 of 14 May 2014.

3.11. The NAFTA agenda has been developed through:

- ***Summits of North American Leaders***, held in Washington (2012), Toluca (2014) and Ottawa (2016) in order to restate their commitment to continue to develop the trade alliance in North America through a strategic long-term vision embracing various areas covered in the treaty. Various trade-related deliverables arose in 2016, including the Cluster Map, the internationalization of SMEs, Women's Entrepreneurship, the establishment of Stakeholder Dialogue on North American Competitiveness, the launch of single portals and continuation of the initiative to speed up patent processing.

3.12. In recent years our work to bolster economic integration bilaterally and trilaterally in North America has focused on the following areas:

  - reducing non-tariff barriers to trade and cross-border transaction costs;
  - improving supply chain logistics in the region;
  - improving infrastructure and border optimization in North America; and
  - strengthening innovation and entrepreneurship in our societies.

- ***High Level Economic Dialogue with the United States***, the first four meetings in this dialogue were held in 2013, 2014, 2015, and 2016; the objective was to achieve greater cooperation in: (i) economic competitiveness; (ii) links between the societies of the two countries; (iii) leadership in regional and global matters; and (iv) public safety, with a view to promoting economic growth, job-creation and competitiveness in Mexico and the United States. The priority areas of work identified in 2016 included energy, modern borders, regulatory cooperation, partnership for regional and global leadership; and linkages with private-sector and civil-society stakeholders.

- ***Adoption of the Third Mexico-Canada Joint Action Plan***, this plan was adopted in February 2014 and outlined the following four priority areas: (i) fostering competitive and sustainable economies; (ii) protecting our citizens; (iii) enhancing people-to-people contacts; and (iv) projecting the Mexico–Canada partnership globally and regionally.

- ***High Level Strategic Dialogue (HLSD) between Mexico and Canada, established on 12 October 2016***. The HLSD will provide guidance through a Ministerial Statement on functional cooperation mechanisms identifying the priority areas for future bilateral action. Actions taken as part of the Dialogue will focus on four themes:

  - **Shared and inclusive prosperity** (includes areas that fall within the remit of the Mexico-Canada Alliance working groups – agribusiness, environment, energy, forestry, human capital, education, science and technology, etc.)
  - **The safety and security of our people** (includes areas such as cooperation on security matters, management of emergencies and responses to consular crises, etc.)
  - **Strengthening the ties between Canadians and Mexicans and facilitating their mobility** (includes movement, cultural cooperation on indigenous matters, etc.)
  - **Regional and global leadership** (including cooperation in regional and multilateral forums, etc.)

3.2.2 Mexico – European Union Free Trade Agreement (EUMFTA)

3.13. In order to promote greater integration of production with the European Union and bring the agreement into line with the current international economic environment, both parties agreed to modernize and develop the Agreement and extend it to areas that it had not previously covered.

3.14. In modernizing the EUMFTA based on the Joint Vision Report, Mexico is seeking to:

- Improve and extend access for Mexican agri-food and fisheries products and services to the European Union market and have a better legal framework for the promotion and protection of reciprocal investments.
- Develop the area of free trade in goods, services and investment, to include areas of mutual interest such as trade facilitation, regulatory coherence, electronic commerce, energy and raw materials, trade and sustainable development, and cooperation on SMEs.
- Develop potential regional cumulation schemes in sectors of mutual interest given that the European Union and Mexico have a network of trade agreements and shared partners in Latin America.

3.2.3 Mexico – European Free Trade Association (EFTA) Free Trade Agreement

3.15. In order to promote new opportunities for international trade in goods, services and investment with Iceland, Liechtenstein, Norway and Switzerland, in January 2016 an agreement was reached to open negotiations based on the General Framework in order to modernize and develop the Mexico–EFTA FTA.

3.16. The aim of modernizing the FTA is to extend access for agri-food products; eliminate unnecessary non-tariff barriers; update the chapters covered by the existing FTA and incorporate new areas such as trade facilitation, telecommunications, electronic commerce, competition policy, regulatory coherence, sustainable development, SMEs, cooperation on energy matters, and the negotiation of sectoral and cross-sectoral annexes to reduce technical barriers to trade.

3.17. A further objective of this updating process is to strengthen investment flows.

3.2.4 Mexico – Brazil Economic Complementarity Agreement

3.18. The two parties agreed to extend and develop Economic Complementarity Agreement (ECA) No. 53 in respect of market access for goods and will incorporate new chapters to develop trade in services, electronic commerce, and trade facilitation, among other areas.

3.2.5 Mexico – Argentina Economic Complementarity Agreement

3.19. Mexico and Argentina have decided to prioritize the extension and development of Economic Complementarity Agreement No. 6 in the aim of increasing trade flows in both directions in order to consolidate regional integration, and thus further deepen and diversify bilateral trade. It also seeks to stimulate investment that will strengthen value chains between the two countries.

3.2.6 Mexico – Cuba Economic Complementarity Agreement

3.20. Mexico and Cuba signed Economic Complementarity Agreement ECA-51 in the framework of the 1980 Treaty of Montevideo. Under the Agreement, Mexico granted Cuba tariff preferences in respect of 746 headings while Cuba granted preferences for 152 headings. In 2013 the two countries developed ECA-51 through two protocols:

- The Third Protocol, on market access, which entered into force in November 2014: the negotiations covered 3,839 Mexican headings; preferences were included for 3,625 headings and deepened for 214. The Protocol also covers disciplines such as technical barriers to trade and sanitary and phytosanitary measures.
- The Fourth Protocol to ECA No. 51 on the dispute settlement regime, which entered into force on 4 April 2015.

3.3 Negotiation of new agreements

3.3.1 Mexico – Panama Free Trade Agreement

3.21. The aim of this FTA is to strengthen trade relations between Mexico and Panama by laying down rules that govern trade in goods, services and investment between both countries, protect intellectual property rights and provide legal certainty. It also seeks to reinforce both countries' positions as production and distribution platforms for goods and services serving both the north and the south of the American continent as well as other international markets.

3.3.2 The Trans-Pacific Partnership Agreement (TPP)

3.22. The negotiation of the TPP is of prime importance because of its level of ambition, the extensive range of disciplines it covers, the high standards it lays down in each of those disciplines and the number of participating countries from four geographical regions (North America, South America, Oceania and Asia). The 12 countries that are part of the TPP are: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Viet Nam.

3.23. The TPP has 30 chapters covering traditional disciplines including trade in goods, rules of origin, sanitary and phytosanitary measures, technical barriers to trade, services, investment, and next-generation areas such as disciplines for state-owned enterprises, trade and employment, trade and environment, intellectual property, regulatory coherence, treatment of SMEs and electronic commerce.

3.24. The TPP bolsters Mexico's presence in its traditional markets, expands opportunities through access to new, growing markets, and positions Mexico as a strategic place for investment. The Agreement will enable Mexico to increase its synergies with North America and the Asia-Pacific region by generating more business opportunities.

3.25. The TPP is intended to boost the competitiveness of national businesses on global markets, and in turn support the growth and development of SMEs to enable them to participate in and enjoy the opportunities that arise by virtue of the Agreement.

3.26. The TPP negotiations concluded on 5 October 2015 in the city of Atlanta, United States; on 4 February 2016 the Agreement was signed in Auckland, New Zealand, by the Trade Ministers of the 12 countries that are party to it. The signature of the TPP by the parties marked the start of the domestic legal formalities required in order for the Agreement to enter into force.

3.27. On 27 April 2016 the Federal Executive forwarded the TPP to the Senate of the Republic for consideration. Between 7 and 23 November 2016 the Senate held public hearings to scrutinize the Agreement including presentations by specialists from academia, the public and private sectors, and civil society. The Senate should complete the review phase once the TPP has been scrutinized by the nine committees to which it was forwarded for consideration.

3.3.3 Agreement on Trade in Services (TiSA)

3.28. The aim of the Agreement on Trade in Services negotiated by 23 countries, all Members of the WTO, is to achieve an ambitious degree of liberalization in trade in services and to develop disciplines related *inter alia* to financial services, electronic commerce and telecommunications, among other important areas, in order to give impetus to this most buoyant of economic sectors at world level.

3.3.4 Mexico – Jordan Free Trade Agreement

3.29. Jordan is a leading liberal economy in the Middle East and is recognized for the economic reforms it has carried out in recent years. Owing to its strategic location, an FTA with Jordan would facilitate Mexican exports both to Middle Eastern countries and to North Africa and would be the first such agreement signed by Jordan with a Latin American country.

3.3.5 Mexico – Turkey Free Trade Agreement

3.30. The negotiation of an FTA with Turkey is a key plank in Mexico's trade diversification strategy. Turkey's market has rising purchasing power and a similar economic profile to Mexico's in terms of production and trade. Its geostrategic location is also a gateway to Eurasian markets.

3.31. The scope of the agreement under negotiation includes trade in goods, rules of origin, technical barriers to trade, sanitary and phytosanitary measures, trade remedies and safeguards, cross-border trade in services, telecommunications, financial services, electronic commerce, temporary admission of business people, investment and intellectual property.

3.4 Convergence of agreements

3.32. In order to respond to the changes in the economy and global trade, Mexico is seeking to improve its existing trade agreements by bolstering free transit of goods, services, capital and persons.

3.4.1 Mexico – Central America FTA

3.33. This Agreement, which entered into force for all Parties from September 2013, will increase and facilitate trade by harmonizing the disciplines contained in the three free trade agreements between Mexico and Costa Rica, Mexico and El Salvador, Guatemala and Honduras, and Mexico and Nicaragua. There will be a single set of rules, a single certificate of origin and a single focal point for dialogue. This will reduce administrative costs for businesses importing and exporting to the region.

3.34. Given the network of trade agreements and the partners that Mexico and the Central American countries share, the single FTA will allow the development of regional cumulation of origin schemes.

3.35. The FTA will also be conducive to Mexican and Central American businesses strengthening their supply linkages, generating economies of scale and improving their efficiency and productivity, thus encouraging regional supply and promoting SMEs in particular.

3.4.2 Pacific Alliance

3.36. This pioneering regional integration initiative involves Chile, Colombia, Peru and Mexico, which together account for 37% of Latin America's GDP and 52% of its trade, and attract 41% of its FDI. The chief aim is to make progress towards free movement of goods, services, capital and persons. During the five years of its life thus far it has taken the following steps towards achieving that goal:

- A Trade Agreement and signature of an Amending Protocol that includes a chapter on regulatory improvement, an annex on cosmetics and new provisions on electronic commerce and telecommunications.

- Mexican membership of the Integrated Latin American Market (MILA) and work on tax alignment, fiscal transparency, infrastructure and catastrophic risk.

- Elimination of visas, a Consular Agreement and the working holidays programme.

- A number of cooperation projects such as academic exchange scholarships, or shared embassies and promotion agencies.

3.37. On 1 May 2016 the Additional Protocol to the Pacific Alliance Framework Agreement entered into force, immediately abolishing duties on 92% of all goods between the four partner countries and heralding the abolition by 2030 of duties on all other goods except sugar in line with various timescales. It also covers disciplines that allow economic agents to act under a set of clear rules to attract FDI effectively, reduce obstacles to trade, cut transaction costs and facilitate trade in services.

3.38. The Pacific Alliance integration process is more extensive than that of an FTA because it also involves liberalization of capital, persons and cooperative work with a view to promoting the four countries' competitiveness and development. Accordingly the Pacific Alliance also addresses areas such as SMEs, innovation, education, employment, intellectual property, tourism, mining, culture, movement of persons, gender, and the environment.

3.39. The initiative has generated international interest in the Pacific Alliance. There are currently 49 observer countries and other regional integration bodies have made approaches, including the Association of Southeast Asian Nations (ASEAN), the Asia-Pacific Economic Cooperation forum (APEC), the European Union and the Southern Common Market (MERCOSUR).

3.40. A number of trade deliverables were presented at the 11th Summit of the Pacific Alliance, held in Chile in 2016, including:

i. Interoperability of foreign trade single windows, starting with phytosanitary certificates.

ii. Consolidation of the Venture Capital Fund through the selection of a general manager to continue to support SMEs as they internationalize and become part of regional value chains.

iii. Launch of the Observatory for Small and Medium-Sized Enterprises.

iv. Signature of a public-private agenda incorporating the establishment of a Business Accelerator and an Investors' Network.

3.5 Legal defence of Mexico's trade interests

3.41. Mexico remains firmly committed to defending the interests of its producers and exporters within the framework of the multilateral trading system and the various trade agreements it has signed.

3.42. Support for sectors that have been affected by trade-distorting policies has been crucial because it contributes to the settlement of disputes and shows that the legal defence of our trade interests contributes to the growth and development of our country.

3.43. Since the creation of the WTO, Mexico has participated actively in the dispute settlement system, as shown by the rankings below[8]:

- 5th as a complainant (23 requests for consultations submitted);
- 9th as a respondent (14 requests for consultations received).

3.44. Mexico has also participated as a third party before WTO panels and the Appellate Body, and ranks 9th in this category (78 cases).

3.45. Between January 2013 and 1 December 2016, Mexico participated in 5 dispute settlement procedures as a complainant at various stages and in 16 as a third party. Even more importantly, no action was brought against Mexico as a respondent – a clear demonstration of our commitment to fulfil the multilateral trade obligations incumbent upon us.

3.46. Over the same period Mexico continued to secure decisions in its favour in compliance matters, e.g. *US – Tuna II (Mexico) (Recourse to Article 21.5 of the DSU by Mexico)* and *United States – Certain Country of Origin Labelling (COOL) Requirements (Recourse to Article 21.5 of the DSU by Canada and Mexico).*

[8] A "DS" number is allocated to each request for the holding of consultations. In early disputes, the same "DS" number was allocated if there was more than one complainant, but current practice is to allocate a DS number for each request for the holding of consultations. Source: online information from the WTO. Viewed at: https://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm (22 November 2016).

3.47. Mexico also obtained a ruling on the level of nullification or impairment of benefits in the amount of US$227 million in *United States – COOL (Recourse to Article 22.6 of the DSU by the United States)* and authorization in that regard from the Dispute Settlement Body to suspend tariff concessions or other obligations.[9] This decision is one of the two cases in which Mexico has participated out of a total 20 arbitrations conducted in this field.

[9] Paragraph 1.32 of document WT/DSB/M/372.

4 TRADE POLICY

4.1 Customs procedures

4.1. During the review period Mexico introduced a number of important changes to the Customs Law with a view to increasing the efficiency of customs procedures for external trade operators. Some of those changes are as follows:

4.1.1 Changes in respect of customs brokers

4.2. Importers may directly carry out customs clearance formalities through their legal representative without having to employ a customs broker; the use of a custom broker's services is now optional.

4.1.2 Changes to the strategic in-bond facility procedure

4.3. Under the strategic in-bond facility procedure, set out in the Customs Law, businesses operating within the facility may admit foreign, domestic or inward cleared goods into these facilities for a limited time for the purpose of handling, storage, safekeeping, exhibition, sale, distribution, processing, transformation or repair. Previously the facilities had to be within the boundaries of an authorized customs or in-bond area (whether located within the country, at the border, in a port or an airport), now (2016) they may be established throughout the national territory.

4.1.3 Customs clearance

4.4. The Second Customs Inspection has been formally abolished in order to speed up clearance of goods; at the same time customs inspection using non-intrusive technology has been stepped up.

4.1.4 Implementation of the Digital Window

4.5. Since becoming operational in 2011, the Digital Window has provided access to the procedures required by nine federal government agencies and two regulatory bodies. The regulators' work to simplify, streamline and automate various external trade processes has yielded benefits in the following areas, among others:

4.6. In terms of costs, the shift to paperless procedures for the various import and export formalities has resulted in:

- Savings equivalent to the cost of felling 27,000 trees per year.
- Savings from no longer having to forward documents from the 49 customs posts to the central offices, at an annual cost of Mex$7 million.

4.7. In terms of time:

- Import clearance time was cut by 40%, from 5 to 3 days.
- Time is no longer spent waiting for validation of permits annexed to the declaration because they are available for consultation at the Digital Window.
- The capacity of customs and other agencies within the system to deal with users was expanded by 900%.

4.2 Tariffs

4.8. During the period under review, the average Most Favoured Nation (MFN) tariff applied by Mexico was reduced considerably, from 6.2% in 2012 to 5.6% in 2016. The greatest impact was on agricultural products where the average tariff fell significantly, from 20.9% to 14.8% over the period. Rates for some products were slashed by more than 50%: thus bacon and vegetable fats and oils (254% in 2012), along with meat and edible offal of poultry (234% in 2012), are now subject to a tariff of 100%. The tariff for other products such as fresh cheese and beans, which in 2012 was 125%, has now been cut to 45%. Consequently, the maximum applied tariff fell from 254% to 100%.

4.3 Sanitary and Phytosanitary Measures (SPS)

4.9. With the aim of making the agri-food regulatory process more effective, in November 2012 the Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) established the National Advisory Committee on Agri-food Standardization (CCNNA). The Committee's role is to propose, develop, review, approve, amend, annul, publish and publicize Mexican Official Standards (NOMs) in the areas of plant health, animal health, aquaculture and fisheries, organic farming, biosafety of genetically modified organisms, quality and safety and other areas within the competence of SAGARPA and the sector it coordinates.

4.10. In order to do its work efficiently, the Committee comprises at least four specialist sub-committees that are responsible for proposing, scrutinizing and developing draft NOMs in their own areas of competence.

i. **The Animal Health Protection Sub-Committee**: its remit includes the prevention, control and eradication of animal pests and diseases.

ii. **The Plant Health Protection Sub-Committee**: its remit includes the prevention, control and eradication of plant pests and diseases; systems for the reduction of contamination risks in the primary production of plants; any phytosanitary campaigns and quarantines.

iii. **The Responsible Fisheries Sub-Committee**: its remit covers regulations on the exploitation of fishery and aquaculture resources; catching systems, methods and techniques; control of fishing for sport and leisure, and responsible fishing in reservoirs.

iv. **The Organic and Bioenergy Products Sub-Committee**: its remit covers the biosafety of genetically modified organisms, organic and bioenergy products; the Sub-Committee must bring them before the Committee for discussion, a vote and where appropriate, approval.

v. ***Ad hoc* specialized sub-committees** will be established where the technical complexity of a matter under consideration so requires. They will be temporary in nature and will be dissolved once they have achieved their intended objective.

4.11. The Plant and Animal Health Control System has also strengthened animal health, plant health and agri-food safety to protect the public health, raise the competitiveness of the sector and promote exports of our agricultural products by enforcing the requirements of the most exacting countries. Accordingly new export markets have opened up for products such as tequila, pigmeat, strawberries and berries to China; grapefruit to Japan; pomegranates, pitaya and figs to the United States; and Persian limes to Korea. Moreover, there was an unprecedented increase in exports of beef, avocados, watermelons, melons, mangoes and papayas to the United States and Canada.

4.12. A series of campaigns and visits was launched in Arab countries to publicize Mexican agri-food products and promote our country's potential to seize the opportunity afforded by liberalization of trade in agricultural products to Arab countries; additionally, the possibility opened up to export pigmeat to Canada.

4.13. Also during the review period, the National Standardization Commission (CNN) approved the establishment of National Committees on Sanitary and Phytosanitary Measures and on Technical Barriers to Trade (TBT). The purpose of both National Committees is to act as consultative reporting structures; they are not decision-making bodies but the chief technical bodies overseeing the administration of specific forums in their respective areas (including identifying and monitoring specific trade concerns) and determining Mexico's negotiating position in SPS and TBT matters.

4.14. The objectives of the Committees are to:

- Establish a single channel for interaction with all regulatory authorities, standard-setting bodies, industry and other relevant sectors.
- Determine Mexico's position in international negotiations on SPS and TBT matters and report on progress in such negotiations.
- To promote the defence of Mexico's exporters' interests (by identifying, raising and monitoring specific trade concerns presented at the relevant WTO Committees).
- Respond better to the concerns or questions of trading partners about measures taken by Mexico in terms of standards, technical regulations, conformity assessment procedures and sanitary and phytosanitary measures.

4.4 Intellectual property

4.15. At the international level, Mexico ratified the Marrakesh Treaty to Facilitate Access to Published Works for Persons who are Blind, Visually Impaired, or otherwise Print Disabled (2015), which entered into force on 30 September 2016. The Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, to which Mexico acceded in 2012, came into force in 2013.

4.16. Mexico has fulfilled its obligation to notify laws and regulations in this area to the Council for Trade-Related Aspects of Intellectual Property Rights (TRIPS Council).

4.17. Two legislative reforms on industrial property are worthy of note. The first concerned trademarks. On 31 August 2016 an amendment to the Industrial Property Law entered into force establishing a system for opposing trademark registration. Since that date any interested party has had a period of two months from the publication of an application for a trademark to oppose the granting of the mark. Opposition does not have the effect of suspending the registration procedure.

4.18. The other reform relates to the Federal Administrative Accountability Law, which entered into force on 9 December 2015. Prior to the amendment, there were no financial incentives for researchers working in public centres to perform innovative activities because they were unable to derive any economic benefit from them, such as royalties. In order to encourage the commercialization of intellectual property rights, the amendment allows researchers, academics and specialist staff who have developed an invention in a public-sector centre to receive up to 70% of any royalties that the invention generates.

4.19. Additionally, on 29 August 2016, "Cacao Grijalva" became a protected appellation of origin pursuant to domestic legislation, joining the 14 other Mexican products that enjoy that status, namely: Ámbar de Chiapas, Arroz del Estado de Morelos, Bacanora, Café Chiapas, Café Veracruz, Charanda, Chile Habanero de la península de Yucatán, Mango Ataulfo del Soconusco de Chiapas, Mezcal, Olinalá, Sotol, Talavera, Tequila and Vainilla de Papantla.

4.20. Finally, as a demonstration of our commitment to cooperation and technical assistance, during the TRIPS Council session in November 2016 Mexico presented to the WTO information on technical cooperation activities[10], including the "Support System for Patent Applications Management for the Central American countries and the Dominican Republic" (CADOPAT), a service provided by the Mexican Industrial Property Institute (IMPI) to help various national industrial property offices in Latin America, the Caribbean and English-speaking Africa to carry out the patentability examinations for which they are responsible. The support is provided through electronic means.

[10] Document IP/C/W/615 of 22 September 2016.

4.21. Support is currently being provided to offices in Belize, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama and Paraguay, as well as to the African Regional Intellectual Property Organization (ARIPO).

4.5 Foreign investment

4.22. Another aspect of the structural reforms introduced in order to boost the competitiveness of various sectors is that the Government of Mexico now allows up to 100% FDI in activities such as:

- marketing of gasoline (petrol) and distribution of liquefied petroleum gas;
- construction of pipelines for petroleum and petroleum products;
- drilling of petroleum and gas wells;
- telecommunications and satellite communications; and
- insurance institutions, bonding institutions, credit information companies, securities rating institutions and insurance agents.

4.23. Prior to the reforms, foreign participation in these activities was restricted to a maximum of 49%.

4.24. During the review period, Mexico concluded Agreements on the Reciprocal Promotion and Protection of Investments with Bahrein, Haiti, Kuwait Turkey and United Arab Emirates, bringing the total number of such agreements in force to 30. Additionally, in May 2015 Mexico and Brazil signed an Agreement on Cooperation and Facilitation of Investment (ACFI).

4.25. In 2012 investment flows fell sharply to US$21.0 billion as a result of the global financial crisis. However they have grown substantially since 2013, to US$47.5 billion. From 2012 to 2015, the stock of FDI stood at US$128.8 billion, with an annual average of US$32.2 billion. In 2015 the country attracted FDI amounting to US$32.9 billion. The UNCTAD Business Survey 2016-2018 ranks Mexico as the eighth most attractive economy for investment for the next three years.

4.6 Maritime transport

4.26. The most extensive National Infrastructure Programme (PNI) of recent decades has been implemented over the last four years. To 30 November 2016, over Mex$42,271 million has been invested, of which 55% consisted of private investment: a clear example of the confidence and long-term certainty that investors place in Mexico.

4.27. In order to continue to expand its trade network, the Government of Mexico has set the target of doubling the installed capacity of the National Port System (SPN) compared to 2012 to over 530 million tonnes of installed capacity by 2018. Accordingly, 25 major projects set out in the PNI are under way, including 5 new ports, 5 port expansions, 12 specialized terminals, and development of the Economic Corridor of the Isthmus. The works will consolidate the two port systems in the Pacific and the Gulf of Mexico through three multimodal, inter-ocean economic corridors: (i) the Northern Corridor, from Mazatlán to Matamoros and Altamira; (ii) the Central Corridor, that connects Manzanillo and Lázaro Cárdenas to Tuxpan and Veracruz; and (iii) the Tehuantepec Isthmus Inter-Oceanic Corridor between Salina Cruz and Coatzacoalcos.

4.28. On the Pacific side the following works are worthy of note: modernization of Guaymas Port; construction of the Passenger Terminal in Puerto Vallarta; modernization, expansion and construction of Specialized Terminals for Containers and Cars in Lázaro Cárdenas Port; and the extension of the port area and construction of the Multipurpose Terminal in Manzanillo Port.

4.29. In the Gulf of Mexico and the Caribbean, the major works include the construction of the new ports in Matamoros, Tuxpan, Veracruz, Seybaplaya and Ciudad del Carmen; and the modernization of Progreso and Altamira ports. Another important project is the construction of the new port in Veracruz, the most important national port project in 100 years. It represents investment of over Mex$31.0 billion, of which 80% is private investment. When construction is complete, Veracruz port will have a capacity of over 95 million tonnes, a fourfold increase in its previous size.

4.30. In addition to these major targets we should also note the ports' involvement in delivering energy reform. Implementation of that reform requires a new port development strategy that includes investment and finance to fund the expansion and modernization of the port infrastructure and bring new players into the national energy market.

4.31. Mexico certifies that all the country's ports will be Green Ports. The Government of Mexico is redoubling is efforts to ensure that the country continues to be a safe, reliable destination for investment and the development of sustainable projects.

4.7 Tourism

4.32. In September 2014 Mexico hosted the celebrations for World Tourism Day under the theme "Tourism and Community Development". The day is the world's most important tourism event and this time was conducted in the presence of the Secretary-General of the World Tourism Organization (UNWTO) and various Ministers for Tourism from around the world.

4.33. In 2015 the UNWTO ranked Mexico ninth in the list of top destinations for international tourists.[11] That year Mexico had 32.1 million arrivals, 37% more than in 2012. The growth of tourism in Mexico is more than twice the level recorded worldwide between 2012 and 2015, and is the highest of all ten of the world's most visited countries. In 2015 Mexico continued to be the most visited Latin American country and the second most visited country in the American continent.

4.34. According to the World Economic Forum Travel and Tourism Competiveness Report 2015[12], Mexico was the fourth most competitive tourist destination in terms of natural resources and is home to the sixth highest number of sites that make up the Cultural Heritage of Mankind.

4.8 Regulatory improvement

4.35. Developing regulatory improvement policy into a State policy. In line with one of the national targets, namely to make Mexico prosperous, as set out in the National Development Plan 2013-2018, on 28 April 2016 the President of the Republic forwarded to the Chamber of Deputies a Draft Decree supplementing Articles 25 and 73 of the Constitution[13] and proposing to make it compulsory for the three tiers of government to implement a public policy of regulatory improvement in the aim of embedding it into the institutional fabric and developing it into a State policy.

4.36. That approach involves implementing a comprehensive blueprint for regulatory improvement that includes policies to review, simplify and streamline national and subnational laws to ensure that they encourage greater competition in markets and progress towards comprehensive regulatory improvement; optimization of external trade transactions within a framework for trade facilitation; and transparency and accountability.

4.37. In taking this approach, Mexico is developing its policy to deregulate and simplify external trade programmes as part of a trade facilitation framework.

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[11] Online information from the UNWTO (2016). Viewed at: http://www.e-unwto.org/doi/pdf/10.18111/9789284418152

[12] Online information from the WEF. Viewed at: http://www3.weforum.org/docs/TT15/WEF_Global_Travel&Tourism_Report_2015.pdf

[13] The Draft Decree is undergoing the approval process in the Congress and may be approved at end December 2016.

5 CONCLUSIONS

5.1. The review period has been overshadowed by the uncertainty in international financial markets arising from latent threats to regional integration and trade liberalization. There has been no economic recovery in the period following the global financial crisis and economic growth has not returned to pre-crisis levels.

5.2. Despite the challenging international economic environment, Mexico's economy has been supported by the sound macroeconomic variables produced by the responsible, disciplined application of its fiscal and monetary policies. Additionally, in order to foster competitiveness and economic growth, Mexico is undergoing an ambitious, far-reaching process of structural reforms in key sectors of its economy including energy, telecommunications and broadcasting, economic competition, taxation and finance.

5.3. Mexico is a staunch supporter of the multilateral trading system and played an important role in the Doha Round, seeking consensus that would bridge the gap between the most polarized positions; it also had a hand to play in the achievements of the Bali and Nairobi Ministerial Conferences, leading to high expectations for the meeting scheduled for Buenos Aires in December 2017.

5.4. Additionally, our country has sought greater integration with its chief trading partners through various bilateral or regional initiatives and in the review period participated in negotiations that seek to develop and extend its existing agreements, while also negotiating new trade agreements.

5.5. Mexico is convinced that the best tool for addressing the challenges of the uncertain international economic future that lies ahead is to use trade as an engine to drive growth. We must therefore keep our markets open and our channels for dialogue working. Mexico is committed to doing exactly that.

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