SUMMARY

1. The Mexican economy experienced a severe downturn starting in mid-2018, followed by a slight contraction in real GDP in 2019 due in particular to a fall in gross capital formation, a reduction in public spending and a slowdown in private consumption. In 2020, the economy was badly affected by the COVID-19 pandemic, which caused GDP to shrink by 8.2% during the year. In 2021, the Mexican economy rebounded, with GDP growth of around 4.8%, thanks in large part to the measures adopted to deal with the pandemic, which were aimed primarily at assisting the hardest-hit families and businesses, particularly small and medium-sized enterprises. These measures include the opening of facilities to provide an adequate level of liquidity, incentives for the restructuring of bank loans and the implementation of social programmes and business support programmes, such as the Financial Support Programme for Family-Run Microenterprises.

2. With the exception of pandemic response measures, Mexican fiscal policy remained tight in order to keep the fiscal balance under control. In November 2019, the Federal Law on Republican Austerity was adopted. Its purpose is to contribute to the sound management of public resources, focusing mainly on reducing non-priority current expenditure. In 2020, the federal government introduced fiscal measures to attenuate the effects of the COVID-19 pandemic on health and the economy, in an amount estimated to be equivalent to 2% of GDP. Furthermore, measures were taken to cut spending, apart from on priority programmes. Overall, the Mexican federal government's finances improved between 2018 and 2019, when a deficit of around 2% of GDP was recorded. Through the Federal Law on Republican Austerity, an attempt was made to reduce the deficit; however, as a result of the economic recession caused by the pandemic, there was a decline in revenue collection and an increase in spending (albeit moderate). The federal government deficit rose to 2.5% and 3.1% of GDP in 2020 and 2021, respectively. The public sector's net total debt has remained modest; in December 2021, it amounted to 46.3% of GDP.

3. The Bank of Mexico operates an inflation targeting scheme to provide a framework for the implementation of monetary policy, with a permanent target of reaching an annual inflation rate of 3%, plus or minus 1 percentage point, as measured by the national consumer price index (INPC). This target has not changed during the review period. In 2019, in response to declining inflation, a series of cuts were made to the target interest rate, the main monetary policy instrument, as part of a trend that intensified during the pandemic. A number of additional measures were implemented to promote orderly functioning of the financial markets, strengthen credit channels and provide liquidity. Against a backdrop of growing inflation, June 2021 marked a turning point in monetary policy, with the target interest rate being raised six times between then and February 2022. On 30 September 2021, the additional measures expired, with the exception of those that remain available to the Bank of Mexico indefinitely. During the review period, the end-of-period INPC exceeded the inflation target in some years, while in others it was within the range of variability. Inflation accelerated in the last quarter of 2021, with the INPC increasing at an annual rate of 7%. The annual rate of change in the INPC in Mexico stood at 7.7% in May 2022.

4. The current account of Mexico's balance of payments recorded a modest shortfall during 2017-19, but experienced a sizeable surplus in 2020, before slipping back into a deficit, albeit a small one, in 2021. The COVID-19 pandemic caused a sharp contraction in exports and imports of goods and services in 2020. However, the decline in imports was greater, and resulted in a surplus in the balance-of-payments current account of USD 26,210 million, or 2.4% of GDP. In 2021, the trade balance posted a deficit of USD 14,491 million (0.9% of GDP) and there was a current account deficit of 0.4% of GDP. Developments in the financial account enabled reserves to be accumulated throughout most of the period. During most of the period under review, annual foreign direct investment (FDI) flows remained at around USD 30 billion. The main FDI-recipient sectors were manufacturing industries, financial and insurance services, trade, transportation, mining and energy.

5. During the period under review, trade in goods experienced a slowdown, followed by a contraction, as a consequence of the COVID-19 pandemic, and a recovery in 2021. Merchandise exports in 2021 amounted to USD 494,225 million (18.5% higher than in 2020), while imports totalled USD 505,716 million (32% above the 2020 level). Mexico's exports continue to be dominated by manufactured products, which accounted for more than 85% of the total in 2021, while agricultural products made up 5%, and mineral products (mainly oil products) and those of the extractive industries, 7.5%. Imports and exports have similar structures. The main import products are electrical machinery and appliances (35.7% of imports in 2021), and transport equipment (8.0% of total imports). Mexico's export markets remain highly concentrated. The

United States is still Mexico's main trading partner, with a share of total exports and imports in 2021 of 80.7% and 43.8%, respectively. Mexico's services trade continued to be in deficit during the review period, owing mainly to shortfalls in transport and insurance. Travel, traditionally in surplus, was heavily affected by the pandemic.

6. Mexico's trade policy objectives are to promote foreign trade, defend its trade interests, and negotiate, implement and administer trade agreements. The use of trade as a tool to reduce poverty and socio-economic inequalities has not yielded the expected results because of the export activities are predominantly focused on certain goods produced in a limited number of regions of the country. To promote export diversification, one of the trade policy objectives is to attract investment to sectors and regions that have historically had little export share and to continue to maximize the benefits granted under existing incentive programmes, specifically export promotion schemes. As part of its trade strategy, Mexico also promotes women's empowerment. The scope of trade policy will also depend on the development of an adequate transport and logistics infrastructure.

7. Mexico is a founding Member of the WTO and grants, as a minimum, most-favoured-nation (MFN) treatment to all its trading partners. Mexico participates actively in the regular activities of the WTO, negotiations and discussions on new trade-related topics, and, given its high degree of integration in international trade, attaches great importance to the smooth functioning of a rules-based multilateral trading system that contributes to inclusive and sustainable development. In 2016, Mexico ratified the Trade Facilitation Agreement and undertook to implement all the agreed provisions immediately. In 2021, it established its National Trade Facilitation Committee. Mexico is not a party to the Agreement on Government Procurement or the Agreement on Trade in Civil Aircraft, nor does it have observer status in the respective committees. Mexico is not a party to the Information Technology Agreement either. Since its last trade policy review in 2017, Mexico has submitted various notifications to the WTO, in compliance with the different Agreements, and has not made frequent use of the dispute settlement mechanism.

8. Regionalism is considered of utmost importance for Mexico's trade relations, as evidenced by the large number of preferential trade agreements signed. Since 2017, three new treaties have entered into force for Mexico: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP); the Mexico-United States-Canada Agreement (T-MEC), which replaced the North American Free Trade Agreement (NAFTA); and the Trade Continuity Agreement with the United Kingdom.

9. Mexico's investment regime is relatively open, although there are still some exceptions and restrictions with regard to FDI. Certain activities, mainly in the energy and services sectors, are still reserved to the State or to Mexican legal and natural persons, while in other sectors the share of FDI is limited (to 10%, 25% or 49%), or a majority share of FDI is subject to the authorization of the National Foreign Investment Commission (CNIE). Between 2017 and 2022, no changes were made either to FDI caps, except in the case of domestic airlines, or to the activities and companies in relation to which they are applied. Despite the restrictions, and to allow the capitalization of Mexican companies, Mexico continues to use the neutral investment mechanism, through which foreigners may invest in sectors reserved to Mexicans or beyond the ceilings imposed on FDI, without the investment being regarded as foreign. However, this mechanism gives foreign investors limited rights.

10. During the review period, the main change in the customs domain was the creation, in 2021, of the Mexican National Customs Agency (ANAM), which replaced the General Customs Administration (AGA). Since 2022, customs clearance for the import and export of goods has been carried out by ANAM. Despite the institutional change, the requirements for importing and exporting, and the procedures for determining the customs value of imported goods, have not changed substantially since the last review in 2017. However, since then, Mexico has continued to implement measures to facilitate trade, such as electronic customs clearance (paperless customs), the use of consolidated customs forms and the improvement of the Single Window for Mexican Foreign Trade (VUCEM).

11. There was a significant reduction in the number of tariff lines during the review period. In 2016, Mexico's tariff schedule contained 12,275 lines at the 8-digit level of HS 2012, while in 2021, this number fell to 7,802 lines at the HS 8-digit level of HS 2017. However, the MFN tariff structure has not changed substantially. Mexico uses mostly *ad valorem* tariffs, with the exception of 45 tariff lines for which it uses compound or specific tariffs; the two types of tariffs continue to apply to the

same category of products as in 2016. Mexico also uses seasonal tariffs for three tariff lines. The average applied MFN tariff rose during the review period, from 5.5% in 2016 to 6.7% in 2021. Despite the rise in the average tariff, the protection afforded to agricultural products (WTO definition) fell from 14.3% in 2016 to 13.2% in 2021. As in 2016, non-agricultural products are subject to a lower average tariff than agricultural products, although during the review period it increased from 4.6% to 5.9%.

12. The duty-free status granted under all the free trade agreements (FTAs), except that with Panama and under the CPTPP, covers over 90% of the total tariff schedule, and in some cases even reaches 99% or 100%. Despite the large number of trade agreements signed by Mexico, the low rates of preferential tariffs negotiated and the high degree of trade liberalization provided for in these agreements, the percentage of imports receiving preferential treatment remained at around 36% in both 2020 and 2021. The low take-up of preferential tariff could be attributed to the existence of other preferential regimes to promote production and exports, or to tariff concessions granted, for example, to some of the goods imported into the border region and the northern border zone. In addition, nearly 50% of the tariff lines in Mexico's MFN schedule already have a tariff of 0%, which could have eroded the preferences granted under the FTAs. As a result of tariff concessions and preferential trade, the share of tariffs as a percentage of Mexico's total tax revenues has remained steady at around 2% during the period under review.

13. The use of anti-dumping, countervailing and safeguard measures is central to Mexico's trade policy. Nevertheless, during the period 2017-21, Mexico reduced recourse to these measures. For example, in the period in question, it initiated 28 anti-dumping investigations, which is fewer than in the previous review period (2012-16), when it initiated 34 investigations. Most of the investigations initiated concern products from China (39.3%), the EU (14.3%), the United States (10.7%), Japan and the Republic of Korea (both 7.1%). During the review period, Mexico imposed 28 final measures. As of December 2021, Mexico had 78 anti-dumping duties and two price undertakings. With regard to countervailing measures, Mexico did not initiate any investigations and has only three measures in force, with an average duration of eight years and two months. Moreover, Mexico did not initiate any safeguard investigations and has no measures in force, nor did it use the special safeguard provisions of the Agreement on Agriculture.

14. The federal government can prohibit imports (or exports) or impose non-tariff regulations and restrictions (RRNAs) when it sees a pressing need to do so. RRNAs may consist of: prior permits, maximum quotas, Mexican Official Standards (NOMs), compensatory quotas, certifications, marking of the country of origin or other instruments considered appropriate for the purpose of achieving national trade policy objectives. The reasons why this type of measure is imposed have not changed since 2017. For example, Mexico continues to prohibit the import of certain products, in particular chemicals and drugs, to protect human life and health. Mexico uses both automatic licensing (automatic permits) and non-automatic licensing (prior permits). In principle, the use of one type of licence does not exclude the other, i.e. both licences may be required to import the same good, since they serve different purposes. Mexico continues to require the use of both licences for textiles, footwear and metals.

15. In 2021 (as in 2017), the general export tax (IGE) was levied on just two tariff lines (two types of petroleum products). It is levied in order to guarantee supplies to the domestic market or to protect human health, the environment, fauna, flora and cultural heritage. To these same ends, Mexico regulates exports of certain products through automatic licensing (automatic permits) and non-automatic licensing (prior permits). Other types of permit may be required in addition to licensing, such as plant or animal health certificates, the health certificate for food or a certificate issued by the regulatory councils for exports of tequila, mezcal and coffee.

16. Mexico has continued to implement, without substantial changes, export promotion programmes, through which it offers tariff and tax concessions, particularly to the manufacturing sector. The purpose is to promote productivity and increase competitiveness, thereby enabling Mexican products to be further incorporated into the global market. The main programmes remain the programme for manufacturing, maquila and export services industry (IMMEX) and the import duty drawback programme for exporters. During the period under review, Mexico notified the WTO of various export subsidy programmes. Under the IMMEX programme, producers of goods for export or companies providing services for export may import, on a temporary basis, various goods free of general import tax and, where applicable, of anti-dumping or countervailing duties, so that these goods may be used in the production of export products. They may also obtain a 100% tax credit

for VAT and/or the special tax on production and services (IEPS). This programme continues to be of great importance for Mexican trade. Over the period 2016-21, firms benefiting from the IMMEX programme were on average responsible for 55.8% of exports and 43.3% of imports. The main imports and exports were machinery, mechanical appliances or electrical goods under HS chapters 84 and 85.

17. In addition to the export promotion programmes, Mexico has other programmes to attract investment and create jobs, a number of which have been notified to the WTO. Most of these programmes were already in place and had been notified when the previous review was carried out in 2017. These include the sectoral promotion (PROSEC) programmes, under which inputs and machinery needed to produce specific goods can be imported under a preferential tariff, irrespective of whether the final good is consumed on the domestic market or exported. The only change since the previous review was the introduction of a programme for the fertilizer sector. As of May 2021, a total of 2,487 tariff lines were covered by PROSEC programmes. The most common preferential tariff rates in 2021 were 0% and 5%, which were applied to 76.2% and 19.1% of the tariff lines covered, respectively.

18. In 2020, the Federal Law on Metrology and Standardization (LFMN), which regulated the national quality system, was repealed and replaced by the Law on Quality Infrastructure (LIC). However, the regulations implementing the LIC have not yet been finalized, and those implementing the LFMN continue to be used, unless they conflict with the LIC. Since the previous review, there has been no change to the procedure for preparing, issuing or revising Mexican Official Standards (NOMs) (technical regulations) and Mexican Standards (NMXs) (specifications or standards). In 2017-21, certain Members posed questions about NOMs in the WTO TBT Committee on four occasions. The procedures for preparing sanitary and phytosanitary (SPS) measures are also stipulated in the 2020 LIC and in specific laws on the matter. Between 2017 and 2021, six specific trade concerns on measures adopted by Mexico were submitted to the WTO SPS Committee.

19. Mexico continues to have two bodies that promote and protect competition: the Federal Economic Competition Commission (COFECE) and the Federal Telecommunications Institute (IFT). Although the law clearly sets out the powers of each of the bodies, conflicts between the COFECE and the IFT have arisen in recent years in relation to their remits, mainly concerning the analysis of concentrations in the digital markets. Medicine and electricity prices are still regulated. Retail price controls on liquefied petroleum gas (LPG), which had been eliminated in 2017, were reintroduced in 2021.

20. During the review period, the federal government procurement regime has sought to promote the use of the consolidated procurement process and framework agreements, with the aim of rationalizing public spending and fostering efficiency and transparency. However, government procurement through the direct awarding of contracts increased substantially in 2020 and 2021 due to the pandemic. In 2018, the tasks of formulating and implementing government procurement policy and administering the online procurement platform, which had until then been the responsibility of the Ministry of Public Administration, were transferred to the Ministry of Finance and Public Credit (SHCP). In general, government procurement procedures remain decentralized. However, consolidated procurement may be carried out by the SHCP. State-owned production enterprises (EPEs), Petróleos Mexicanos (PEMEX) and the Federal Electricity Commission (CFE) have their own procurement regimes.

21. The Federal Law on Industrial Property Protection (LFPPI) was promulgated in 2020, which strengthened the industrial property rights regime. Few patents were granted to residents during the review period. The registration of utility models continues to be the method most commonly used by residents to protect their inventions; in 2020 the protection period for utility models was extended from 10 to 15 years. With regard to enforcement, new preventive measures were introduced and administrative dispute proceedings streamlined during the period under review. Moreover, the protection of copyright and related rights in the digital sphere was strengthened through the implementation of new anti-piracy tools. However, the purchase of products that infringe intellectual property rights is not penalized, which means that this practice continues to be commonplace and incurs economic and tax losses.

22. The agricultural sector is of great importance to Mexico, not so much because of its contribution to GDP (3.8% in 2021), but because around 28 million inhabitants in rural areas rely on agricultural activities. It is thus important for social, economic and environmental equity. Mexico

is also a net importer of agricultural products. The country therefore has a series of support programmes for the sector, as well as tariff protection levels that are above both the overall tariff average (6.7%) and the tariff average for non-agricultural products (5.9%); the protection granted to agricultural products (WTO definition) was 13.2% in 2021. On average, the highest tariffs by WTO category continue to be applied to sugar and confectionery, and to dairy products, with tariffs of 30% and 22.1% respectively.

23. Mexico provides support to the agriculture, livestock and fishery sector through a series of programmes. Since 2019, Mexico's agricultural policy has focused even more heavily on achieving food self-sufficiency and supporting small producers. To that end, various support programmes were merged, others were abolished and new one created. In general, the programmes have components and subcomponents that change from year to year, as provided for in their rules of operation. Some of these programmes have been notified as domestic support to the WTO Committee on Agriculture and others to the Committee on Subsidies and Countervailing Measures. Mexico also notified the WTO that it had granted subsidies to agricultural exports in 2017 and 2018, but did not grant them over the remainder of the review period.

24. Competition in all energy sector activities has been permitted since 2013, except in those reserved to the State: the exploration and extraction of hydrocarbons, the use of nuclear energy to produce electricity, and the transmission and distribution of electricity. However, the energy policy since 2017 has sought to further boost the participation of State-owned enterprises in the sector by adopting measures to encourage PEMEX and the CFE to participate in the various activities in which the private sector is engaged. PEMEX is still the main operator in the hydrocarbons sector and the biggest contributor to Mexico's public purse. However, the company is facing financial and operational challenges, which has led the State to take steps to guarantee the profitability and ensure the sustainability of the company. Mexico is a major producer of crude oil, but its limited capacity to refine the crude oil it extracts means that it exports much of its production and imports refined products. One of the main objectives of the sectoral policy is therefore to improve refining capacity in order to become self-sufficient.

25. Since the previous review in 2017, the Mexican financial system has continued to perform well. As of 30 March 2022, the financial system in Mexico was composed of 4,973 entities. The main financial system intermediary is the commercial (multiple) banking system, whose assets represent 42.3% of GDP. Non-bank financial intermediaries accounted for 34% of assets. Subject to a favourable opinion from the Bank of Mexico, the commercial presence of foreign banks is permitted through the establishment of subsidiaries, under conditions of reciprocity, in accordance with the provisions of the free trade agreements signed by Mexico and other agreements. No restrictions are imposed on the operations of a subsidiary, which may offer the same services and products as a domestic commercial bank. Foreign banks are also permitted to establish representative offices. The commercial banking system remains highly concentrated. As of December 2021, the five largest banks (three of which were foreign-owned) held 67% of assets. As in the commercial banking system, Mexico allows for the commercial presence of foreign insurance companies through subsidiaries and representative offices. In July 2018, a second stock exchange began to operate in Mexico: the Bolsa Institucional de Valores, S.A. de C.V. (BIVA). Companies have the option of listing their debt or equity securities on either exchange and their securities are traded on both.

26. The telecommunications market in Mexico is highly concentrated; there is still a dominant economic operator, the operations of which are subject to asymmetric regulatory measures in order to foster competition among all operators. During the review period, the implementation of these measures led to a certain level of competition being achieved in fixed services. However, the same outcome was not seen in the mobile services market.

27. In the area of transport, Mexico wishes to establish itself as a new gateway for multimodal traffic between Asia and the east coast of the United States, and has therefore begun work on the creation of a multimodal transport corridor in the isthmus of Tehuantepec. In the air transport sector, between 2017 and 2022, Mexico allowed greater foreign participation in domestic airlines (raising the FDI limit from 25% to 49%) and competition in the jet fuel market. Mexico has also continued to expand international air connectivity to encourage tourism and trade; the degree of openness of services has been increased in new air services agreements and certain existing agreements have been revised. The metropolitan area of Mexico City (CDMX) has been served by three international airports since 2022. However, the original project for a new international airport in Mexico City was abandoned and, instead, a military base was converted into one. In the maritime-port sector, since

2021, all ports have been managed and operated by the State. Prior to this, a private operator held the concession for the port of Acapulco, but this concession was not renewed. Moreover, foreign participation in the provision of certain port services is still limited or subject to conditions. Despite this, the majority of Mexico's foreign trade and cabotage freight is usually transported by foreign vessels.

28. Tourism is a highly important sector for the Mexican economy. It has traditionally been one of Mexico's main sources of foreign exchange. During the pandemic, Mexico did not restrict the entry of foreign tourists, thereby becoming one of the world's top tourist destinations in 2020. The sector did not receive any governmental support to deal with the effects of the health crisis, although it is the biggest recipient of financial aid granted by the federal development bank