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Trade Policy Review Body

TRADE POLICY REVIEW

MEXICO

Report by the Secretariat

This report, prepared for the third Trade Policy Review of Mexico, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government of Mexico on its trade policies and practices.

Any technical questions arising from this report may be addressed to Mr. Javier Suárez 739 5453 and Mr. Raymundo Valdés 739 5346.

Document WT/TPR/G/97 contains the policy statement submitted by the Government of Mexico.

CONTENTS

CHARTS

TABLES

APPENDIX TABLES

GLOSSARY

(The translation into English should not be considered official)

Accord establishing the rules for determining the country of origin of imported goods and the provisions for their certification with regard to countervailing duties	*Acuerdo por el que se establecen las reglas para la determinación del país de origen de las mercancías importadas y las disposiciones para su certificación en materia de cuotas compensatorias*
Alliance for Agriculture	*Alianza para el Campo*
Animal and Plant Health National Commission	*Comisión Nacional de Sanidad Agropecuaria, CONASAG*
Capacity and Energy Purchase Contracts	*Contratos de Compra de Capacidad y Energía, CCCE*
Central Light and Power	*Luz y Fuerza del Centro, LFC*
Department of Agriculture, Rural Development, Fisheries and Food	*Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentos*
Department of Communications and Transportation	*Secretaría de Comunicaciones y Transportes*
Department of Energy	*Secretaría de Energía*
Department of Foreign Affairs	*Secretaría de Relaciones Exteriores*
Department of Health	*Secretaría de Salud*
Department of National Defense	*Secretaría de la Defensa Nacional*
Department of Public Education	*Secretaría de Educación Pública*
Department of Social Development	*Secretaría de Desarrollo Social*
Department of the Comptroller General and Administrative Development	*Secretaría de la Contraloría y Desarrollo Administrativo*
Department of the Economy	*Secretaría de Economía*
Department of the Environment and Natural Resources	*Secretaría de Medio Ambiente y Recursos Naturales*
Department of the Treasury and Public Credit	*Secretaría de Hacienda y Crédito Público*
Department of Tourism	*Secretaría de Turismo*
Federal Consumer Protection Agency	*Procuraduría Federal del Consumidor, PROFECO*
Federal Electricity Commission	*Comisión Federal de Electricidad, CFE*
Federal Telecommunications Commission	*Comisión Federal de Telecomunicaciones, COFETEL*
Foreign Trade Bank	*Banco de Comercio Exterior, BANCOMEXT*
General Bureau of Standards and Regulations	*Dirección General de Normas, DGN*
General Customs Administration	*Administración General de Aduanas*
Independent Power Producers	*Productores Independientes de Energía, IPPs*
International Trade Practices Unit	*Unidad de Prácticas Comerciales Internacionales, UPCI*
Law for Public Works	*Ley de Obras Públicas y Servicios Relacionados con las Mismas (LOPSRM)*
Mexican Popular Saving System	*Sistema de Ahorro Popular Mexicano*
Mexican Social Security Institute	*Instituto Mexicano del Seguro Social*
National Bank of Financial Services	*Banco Nacional de Servicios Financieros*
National Development Bank	*Nacional Financiera, NAFIN*
National Foreign Investments Commission	*Comisión Nacional de Inversiones Extranjeras, CNIE*
National Normalization Programme	*Programa Nacional de Normalización, PNN*
National Savings and Retirement System Commission	*Comisión Nacional del Sistema de Ahorro para el Retiro, CONSAR*
National Savings Patronage	*Patronato de Ahorro Nacional*
National Service of Health, Food Safety and Agro-food Quality	*Servicio Nacional de Sanidad, Inocuidad y Calidad Agroalimentaria, SENASICA*
National standardization advisory committees	*Comités consultivos nacionales de normalización*
National Tourism Promotion Fund	*Fondo Nacional de Fomento al Turismo*
National Water Commission	*Comisión Nacional del Agua*
Official Journal	*Diario Oficial*
PROCAMPO	*Programa de apoyos directos al campo, PROCAMPO*
Programme of Marketing Support and Regional Markets Development	*Programas de Apoyos a la Comercialización Agropecuaria y Desarrollo de Mercados Regionales*
Support Services for Agricultural Marketing	*Apoyos y Servicios a la Comercialización Agropecuaria, ASERCA*

SUMMARY OBSERVATIONS

(1) INTRODUCTION

1. Since its previous Trade Policy Review in 1997, Mexico has become a prime example of trade and foreign investment as catalysts for economic modernization and growth. Using international engagements as anchors to move away from past inward-looking policies, policymakers have induced a virtuous circle of deregulation, structural change, growing productivity, and higher per capita income that has been making Mexico increasingly attractive as a trading partner and foreign investment destination. This process has been driven mainly by an aggressive policy of reciprocal liberalization, buttressed by unilateral initiatives and multilateral commitments. As a result, the lion's share of Mexican trade is now governed by the preferential rules of free-trade agreements (FTAs).

2. Mexico's liberalization strategy has opened a significant gap between the treatment offered to MFN and FTA partners, which in areas like tariffs has widened since 1997. This raises the possibility of net trade distortion. Moreover, despite the broad coverage of Mexico's FTAs, trade barriers still hinder the access of Mexican consumers to some of the world's most competitive products. Certain activities remain relatively inefficient, both sheltered from competition and handicapped by trade or investment barriers. Moving forward the reform agenda is thus essential to maintain the impetus in Mexico's restructuring efforts. This in turn is a precondition for Mexico to resume and sustain the fast rate of economic growth required to bring its living standards nearer to those of its closest trading partners.

(2) ECONOMIC DEVELOPMENTS

3. Mexico's economy performed very well between 1997 and 2000, when GDP expanded at an annual average rate of 5.2%; Mexican trade in goods grew at an annual average rate of 17.1%, the fastest among WTO's twenty largest single Members, with imports slightly outpacing exports. This has gone hand in hand with considerably increased investment: between 1997 and 2000, private investment grew at a annual average rate of 10.6%. During that period, Mexico attracted some US$44 billion in foreign direct investment.

4. Underpinning this good performance were sound macroeconomic policies, marked by a stable exchange rate, and falling inflation and unemployment. Fiscal deficits were moderate but a better outcome might have been desirable in view of the economy's strong performance. A compromise fiscal package adopted by the Congress for 2002 is expected to increase tax revenue, but by less than originally sought by the Government. Mexico's fiscal position thus remains exposed to fluctuations in petroleum revenues, and to significant contingent liabilities.

5. The majority of Mexico's trade now takes place under preferential rules, with the NAFTA remaining of paramount economic significance. In particular, Mexico's principal trade partner is by far the United States, which in 2000 supplied some 73% of Mexico's imports and attracted about 89% of its exports. That year, Canada was the second largest destination for Mexican products, accounting for some 2% of exports. Outside NAFTA, no individual country absorbed more than 1% of total Mexican exports.

6. Since late 2000, in the wake of falling U.S. demand, trade and GDP growth have slowed, accompanied by a contraction in employment. The policy options open to the authorities to address these trends appear limited with respect to both monetary and fiscal policies. Resuming and sustaining growth thus depends importantly on a turnaround in the world economy, particularly in the United States, and carrying out a number of important reforms that have been pending for years, notably in the hydrocarbons and electricity sectors.

(3) TRADE POLICY DEVELOPMENTS

7. Since its previous Review, Mexico has made no fundamental changes to its trade policy framework. The Department of the Economy (formerly SECOFI) still has main responsibility for formulating and implementing trade policy. A new administration is largely pursuing earlier trade policy objectives, which spell out formal links between industrial policy, economic deregulation and export promotion. A successor trade and investment programme for 2000-06 was to be released in early 2002. Significant improvements have been made since 1997 in terms of transparency, notably through various governmental bodies that disseminate key information, including through the internet.

8. Mexico considers the multilateral trading system as the main instrument for the liberalization of world trade. Its support for this system has been recently very visible, for example through Mexico's strong backing for the launch of the Doha Development Agenda and its offer to host the WTO's Fifth Ministerial Conference. Mexico accepted new multilateral commitments within the context of the Fourth and Fifth Protocols to the GATS, on basic telecommunications and financial services, which entered into force in February 1998 and March 1999, respectively.

9. Awaiting the outcome of broader liberalization initiatives, Mexico's main avenue to open its trade and investment regimes has been the negotiation of FTAs. Mexico acknowledges that the advantages implicit in FTAs are of a temporary nature, and hence no substitute for improving the competitiveness of its economy. As is the case for other Members following similar strategies, the large and growing number of Mexico's preferential agreements can raise concerns about complexities resulting from the application of differing regimes, and their effect on trade patterns.

10. Since 1997, Mexico has entered into new FTAs with Chile, the European Free Trade Association, the European Union, Israel, Nicaragua, and the Northern Triangle (El Salvador, Guatemala, and Honduras), raising to more than 30 the number of countries with which it has FTAs. In late 2001, Mexico was considering the negotiation of FTAs, or was already doing so, with Japan and Singapore, among others.

11. Mexico's trade policy remains closely associated with the promotion of foreign investment, rules for which have been part of both its multilateral and preferential initiatives. With the exception of the agreement with Israel, all of Mexico's FTAs contain investment provisions that grant investors additional protection. Since 1997, Mexico has also undertaken important unilateral steps to open up to foreign investment various service activities, notably financial services and telecommunications. However, a limited number of areas remain off-limits to all private capital, are either entirely reserved for Mexican capital, or require majority Mexican capital, or are subject to prior approval for foreign investment to exceed 49% of total capital.

12. Mexico has been involved in only a few disputes before the WTO. Most complaints against Mexico have related to Mexican anti-dumping practices; a complaint was also lodged against Mexican practices in telecommunication services. With Mexico as complainant, all but one case has also been related to anti-dumping.

(4) MARKET ACCESS FOR GOODS

13. Since its previous Review, Mexico has implemented MFN tariff increases that raised the simple average applied rate by some three percentage points, to 16.5% in 2001. As a result, and in contrast with the situation prevailing in 1997, Mexico's tariff structure for 2001 showed clear tariff escalation. The increase in MFN rates, and reductions in preferential tariffs, has also widened the gap between the treatment granted to imports from MFN and preferential sources. Tariff protection for agricultural products is substantially higher than for other products, *with applied MFN rates on a small number of products slightly exceeding bound rates. Mexico grants at least MFN treatment to all its trading partners.*

14. The number of different tariff-quota schemes adds complexity to Mexico's import regime. Mexico applies tariff quotas on several agricultural products, with most quotas reserved for specific countries. In addition, other products may carry a reduced MFN tariff provided they have a quota certificate; this is aimed at guaranteeing supply when domestic production is insufficient. Mexico also maintains tariff quotas for certain imports from preferential partners, and for some agricultural products imported under a special border tariff regime.

15. The basis for customs valuation varies according to the origin of imports: f.o.b. for imports from NAFTA partners, and c.i.f. for other imports. All of Mexico's FTAs contain specific rules of origin. Non-preferential rules of origin apply to products subject to anti-dumping and countervailing duties to prevent circumvention of such duties; the procedures to apply these rules vary by product and originating country.

16. Mexico maintains import permits for sensitive products for reasons of national security, public health, and protection of domestic industries. In 2001, imports from MFN sources subject to permit included petrochemicals; vehicles; and used tyres, machines, clothing, and office machines. For used vehicles and machines, permits are issued only when the foreign product has no domestically produced substitute. Since 1998, Mexico has used an import licensing mechanism to collect statistics on the price of specific goods from certain countries before the importation takes place.

17. Mexico is an active user of contingency measures, mainly anti-dumping. As at March 2001, there were 90 anti-dumping duties applied on a wide range of products, mainly of Chinese origin. Particularly since 2001, the number of anti-dumping cases initiated has dropped significantly, thus lessening earlier concerns that these measures could become major trade barriers in Mexico.

(5) OTHER MEASURES AFFECTING TRADE

18. In part to offset the anti-export bias resulting from trade barriers on imports, Mexico promotes exports through various duty and tax concessions, one of which has been notified to the WTO as an export subsidy. Under these schemes, unless otherwise specified by an FTA, imported inputs incorporated into export goods are not subject to tariffs; in addition, Mexico promotes exports through various administrative tax facilitation schemes. More than 90% of Mexican exports are undertaken by firms benefiting from such schemes. Since Mexico's previous Review, substantial changes have been made to restrict their use for exports covered by the NAFTA. Under the FTAs negotiated with the EFTA countries and the European Union, Mexico should amend in 2003 its promotion programmes covering exports to those regions.

19. Mexico also operates numerous programmes in support of selected activities. In general, support is provided through financing facilities, mostly channelled through development banks or public trust funds, or in the form of tax concessions. Certain tax concessions are contingent on meeting national-content requirements, or are granted only if no domestic substitute is available. In 2001, Mexico requested and obtained an extension for the elimination of its WTO-inconsistent TRIMs in the automotive sector.

20. Mexico has not signed the Plurilateral Agreement on Government Procurement and it uses public procurement to support domestic activities, particularly through price preference margins and local-content requirements.

21. From 1 January 2000, the TRIPS Agreement applies fully to Mexico, which had taken steps in advance to implement most of *the Agreement's provisions. Mexico's efforts to improve IPR protection appear to have paid off in the form of considerable technology transfers. Mexico also has an active and growing trade in IPR-intensive goods such as information technology products, pharmaceuticals, beverages, and "cultural goods".*

(6) SECTORAL POLICIES

22. In agriculture, while many activities in Mexico have modernized and benefited from increased access to foreign markets, notably in the United States, others remain small-scale and mainly oriented to self-consumption. Overall, labour productivity in the sector is well behind the national average. Largely to increase the participation of the private sector in the commercialization of agricultural products, Mexico has introduced important institutional changes since 1997, including the elimination of the state firm previously responsible for milk imports. Mexico maintains various programmes designed to provide direct income support to farmers and to promote their productivity and competitiveness. Indicators of assistance to agriculture have increased substantially since 1997, mainly as a result of low international prices.

23. The energy sector remains largely under state control, as constitutional provisions restrict private participation in strategic areas such as the exploitation of hydrocarbons and the supply of electricity to the public. The capital-intensive nature of petroleum and electricity projects means that these two industries alone draw close to 57% of public sector investment. In view of Mexico's fiscal constraints and to bring in the investment required to meet rapidly rising domestic demand, the Government is seeking to increase private participation in the energy sector while retaining its control of the state-owned companies that dominate the sector. Addressing the long-standing structural problems of the electricity and hydrocarbons industries is of vital economic importance but has faced strong resistance from entrenched interest groups.

24. The manufacturing sector has confirmed its crucial role as a key catalyst for economic growth, its expansion having been closely tied to its ability to compete in foreign markets. It has also benefited from strong government support through special trade and investment regimes. The close interlocking of the Mexican manufacturing sector with production chains in the United States has brought about considerable benefits; it has, though, exposed the sector to U.S. cyclical downturns, as evidenced by the significant contraction of manufacturing activity since late 2000.

25. In the services sector, important changes have been made to the legal and institutional framework, often secured or otherwise linked to Mexico's multilateral and preferential liberalization initiatives. The degree of state involvement has continued to decline in recent years. Increased competition and growing foreign participation have gone hand-in-hand with major adjustments to the market structure of key activities, notably financial and telecommunications services. However, competition policy concerns have arisen in recent years in the telecommunications market, and in domestic transport, which remains largely closed to foreign participation.