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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. Since its last trade policy review, Mexico has continued with its open trade policy combining unilateral liberalization, a broadening of benefits under Free Trade Agreements (FTAs), the conclusion of further trade agreements, a steady drive towards an environment which fosters trade and investment and determined support for the Doha Round negotiations at the World Trade Organization (WTO).

2. This presentation is divided into six sections. The first deals with Mexico's economic environment. The second explains how the opening up of trade has become one of the pivots both of Mexico's strategy of integration into the international economy and of its development. The third is concerned with the importance of the multilateral trading system for Mexico in an increasingly inter-dependent world. The fourth describes the most important elements of its trade policy. The fifth covers the trade agreements to which Mexico is party. The final section presents the conclusions.

I. ECONOMIC ENVIRONMENT

3. Over the last five years the Mexican economy has gradually returned to sustained growth. Between 2002 and 2005 annual growth in Gross Domestic Product (GDP) increased from 0.8 per cent to 2.8 per cent in real terms. In 2006, Mexican GDP grew by 4.8 per cent in real terms.

4. In 2006, as in 2004 and 2005, domestic expenditure, production and employment benefited considerably from the expansion in oil and non-oil exports and receipts from family remittances. However, the slowdown in the United States' economy in 2007 and similar projections for 2008 could result in a slowdown in Mexico's growth rate in the near future.

5. External trade has had an increasingly large impact on Mexico's growth. Between 2002 and 2006, total trade rose from 50.9 per cent to 60.3 per cent of GDP. During this period total exports rose from US$161 billion to US$250 billion, suggesting an average growth rate of 11.6 per cent.

6. Mexico's exports are widely spread over the various areas of economic activity.

7. On the one hand, exports of crude oil have been particularly robust over the last four years with an average annual growth of 27 per cent, boosted by high international prices for crude oil. Moreover, non-oil exports also performed well as a whole. Among the sectors where exports performed best the highlights are exports in the automotive sector (average annual growth of 15.6 per cent), steel and mineral-metallurgy industries (30.5 per cent) and the chemicals and plastics industries (14.7 per cent average annual growth). By contrast, exports in the textiles industry fell over the period from 11 billion dollars in 2002 to 9.3 billion dollars in 2006 (-4.2 per cent annual fall). The proportion of exports from Mexico represented by the maquiladora (in-bond) industry has remained steady at 48 per cent over the period 2002-2006.

8. The principal exporting sectors in 2006 were electrical and electronic equipment and devices (US$56.3 billion); the automotive industry (US$53.1 billion); exports of crude oil (US$34.7 billion); special equipment and machinery for various industries (US$27.8 billion); and the textile and footwear industry (US$89.3 billion).

9. Products imported by Mexico in 2006 comprised principally electrical and electronic equipment and devices (US$55.9 billion); special equipment and machinery for various industries (US$36.2 billion); products for the chemicals and plastics industry (US$32.4 billion); and products

for the automotive industry (US$31.3 billion). The composition of imports by target that year was 14.4 per cent final consumer goods, 73.6 per cent intermediate goods and 11.9 per cent capital goods.

10. The deficit in Mexico's trade balance experienced a slight reduction during the period 2002-2006 and fell from US$7.6 billion to US$6.1 billion. This deficit represents only 0.7 per cent of GDP and is due to the combination of the following factors:

i. A strong and growing surplus with trading partners in NAFTA (US$79.3 billion in 2006).

ii. A near balance in trade with the other countries of the American continent (a deficit of US$1.2 billion in 2006) and;

iii. A large deficit in the balance of trade with Europe (US$20.6 billion) and Asia (US$63.5 billion). Of note is the increase in the trade deficit with Asia, which in the main reflected trade with China (US$22.8 billion). It should be noted that China continues to be the second-ranking supplier of goods to our country and the country with which Mexico has the greatest bilateral trade deficit.

11. Where trade in services is concerned, receipts obtained from non-factor services[1] grew at an average annual rate of 6.4 per cent between 2002 and 2006, and stood at US$16.2 billion in 2006. At the same time expenditure under this heading grew at an average annual rate of 7.4 per cent to stand at US$22.3 billion in 2006. Thus, the deficit in trade in non-factor services fell to US$6.1 billion.

12. The Mexican economy attracted flows of Foreign Direct Investment (FDI) totalling US$21.7 billion in 2002, US$15.3 billion in 2003, US$22.3 billion in 2004, US$19.6 billion in 2005 and US$19.2 billion in 2006. The composition of FDI by target in 2002 was 41.0 per cent to the manufacturing sector, 31.9 per cent to financial services and 7.5 per cent to the transport and communications sector (the remainder went to other sectors, including trade). The corresponding figures for 2006 were 57.5 per cent to the manufacturing sector, 16.9 per cent to financial services and 2.5 per cent to transport and communications.

13. The export sector and FDI continue to be among the main sources of new jobs and made a significant contribution to the growth in formal employment in 2006 (the number of members of the *Instituto Mexicano del Seguro Social* (Mexican Social Security Institute) rose by 6.24 per cent). Overall, jobs related to export activities pay 37 per cent more than the rest of the economy and maquiladora (in-bond assembly) plants pay 3.5 times the Mexican minimum wage.

14. Where the fight against poverty is concerned, note should be made of the "*Programa Oportunidades*" (Opportunities Programme) which has been operational since 1997; its purpose is to provide support for education, health, nutrition and income and thereby develop the capacity of families living in poverty and extreme poverty. The percentage of the population living in poverty fell from 39.4 per cent in 2002 to 31.7 per cent in 2006 while the population living below the "indigence" line fell from 12.6 per cent to 8.7 per cent over the same period.

15. Macroeconomic policy has been governed by the basic principles of fiscal discipline and price stability. In particular, monetary policy based on inflation objectives has been highly successful,

[1] Non-factor services include receipts and expenditure from the provision of various services which hold real and financial assets such as transport, accommodation, insurance and foodstuffs, among others. Receipts from factor services include receipts from ownership of real or financial assets which residents of Mexico hold abroad, as well as income held in Mexico by non-residents.

enabling inflation to fall from 5.7 per cent in December 2002 to 3.33 per cent by the close of 2005. Subsequently in 2006 inflation stood at 4.05 per cent and was influenced by significant increases in the prices of corn tortillas and sugar.

16. As regards exchange-rate policy, since 1995 the exchange rate has been determined freely by market forces and has fluctuated between 9.0 and 11.6 Mexican pesos per US dollar over the period 2002-2006. The balance of international reserves held by the Bank of Mexico has continued to increase, and rose from US$48 billion in 2002 to US$67.7 billion in 2006.

17. The prime objective of the Government of Mexico is to increase economic growth in a sustainable way and it is committed to promoting and implementing the structural reforms necessary to boost competitiveness in the production chains in the domestic market, reduce energy prices, increase the level of education of the workforce and, among other things, improve infrastructure.

18. With that in mind, in order to establish a modern structure of institutions which will make it possible to meet the country's needs in terms of public safety, regional development, combating poverty, education, health, housing and investment in infrastructure, on 12 September the Congress approved a reform of the public finances. The reform is based on four pillars:

i. Tax Administration: facilitate compliance and combat fiscal evasion more effectively.

ii. Public Spending: establish an institutional structure to ensure that expenditure is targeted at achieving more efficient and transparent outcomes in the three levels of government while at the same time encouraging efficiency and restraint.

iii. Fiscal Federalism: provide states and municipalities with better instruments and incentives for establishing a relationship based on joint responsibility between all levels of government, and

iv. Government Revenue: lay down the bases for a tax system whereby oil revenue can be replaced by more stable sources of income using natural schemes which foster investment, job creation and economic growth.

19. In mid-2007 the Mexican Government established the *Programa Nacional de Infraestructura* – National Infrastructure Programme 2007-2012 which lays down the objectives, targets and measures which the Federal Government will promote to increase coverage, quality and competitiveness in this sector, which is of strategic importance to national development. The programme takes up the challenge of constructing a sound, modern and extensive infrastructure, supporting increased investment and mapping out measures with an overall view and a long-term perspective.[2]

20. However, despite the stability of the macroeconomic figures, our country faces major challenges if it is to make its economy more competitive, and that is why efforts have been prioritized to complete structural reforms in various sectors such as education, energy and telecommunications.

21. By using a combination both of the above and a sound macroeconomic policy, Mexico is positioning itself to cope with a less favourable world environment in the coming years, the result of the projected slowdown in the economies of its principal trading partners and greater instability in world financial markets. To that end, Mexico is implementing a competitiveness agenda which

[2] http://www.infraestructura.gob.mx/.

among other things includes aspects relating to regulatory improvement, trade facilitation and competition policy.

II. AN OPEN TRADE POLICY: ONE OF THE CENTRAL ELEMENTS OF MEXICO'S DEVELOPMENT STRATEGY

22. It was over 20 years ago that Mexico began opening up its trade with the implementation of a number of unilateral policies and its accession to the General Agreement on Tariffs and Trade (GATT) in 1986. Since then it has been increasing its presence on international markets, and activities related to external trade have grown to the extent that they currently account for nearly two thirds of its GDP.

23. Bilateral, regional and multilateral negotiations have yielded preferential conditions for access to markets in goods and services over third countries. There is currently a network of 12 FTAs providing secure, preferential access to the markets of 44 countries, over one billion potential consumers and three-quarters of world GDP. There are also six Economic Complementarity Agreements (ECAs) and there are 23 Reciprocal Investment Promotion and Protection Agreements (APPRIs) in force, which provide legal certainty both for Mexican investments abroad and for foreign investment in Mexico.

24. This has promoted development in the export sector, one of the principal drivers of economic growth and better paid jobs in Mexico. Exports rose from US$26.7 billion in 1985 to US$250 billion in 2006.

25. The significant reduction in or elimination of tariffs and other barriers to trade in imported goods and services has encouraged a reduction in production costs for inputs, machinery and equipment, and this in turn acts a stimulus for technological exchange as well as providing consumers with a greater and more varied supply of high-quality goods and services at international prices.

26. This translates into comparative advantages for Mexican products which incorporate those inputs. Over 85 per cent of Mexican imports are intermediate and capital goods which are instrumental in the production and export of merchandise.

27. Legal certainty and security has been conducive to attracting greater flows of FDI and to increasing investment abroad by Mexicans. As noted above, in 2006 Mexico received US$19.2 billion in FDI while it made investments abroad of over US$35 billion. Between 2002 and 2006, FDI in Mexico increased by US$73.4 billion (47 per cent) while investment abroad by Mexico rose by US$22.8 billion (182 per cent).

28. Mexico is intent on involving more firms in export activities, since experience shows that this is a successful way to boost sales, create better-paid employment and modernize domestic industry. It also opens up possibilities of accessing new markets and quality inputs and creating strategic alliances which promote access to new technologies for the production industry. The 21,477 exporters in Mexico in 1993 had risen to 36,094 in 2006, an increase of 68.1 per cent. However, it is anticipated that there will have to be 80 thousand exporters by the end of 2012 if the goals of diversifying and boosting the country's penetration in international markets are to be achieved.

29. Accordingly, the economic policy of this government, in accordance with the National Development Plan 2007-2012, seeks to increase the productivity and competitiveness of the economy using a comprehensive strategy aimed at achieving sustained economic growth and stepping up job-creation in the form of an overarching public policy framework.

30. In view of this, a foreign trade policy aimed at further opening up trade policy will help increase the country's competitiveness, reduce costs of production and formalities for foreign trade transactions and will enable inputs to be obtained at lower prices, resulting in lower costs for Mexican exporters and consequently an increase in Mexico's competitiveness.

31. To be specific, under the framework of Mexico's external trade policy an agenda will be implemented with a view to deepening open trade practices through unilateral liberalization measures and participation in the multilateral trading system, new trade negotiations with strategic partners, greater promotion of exports and attraction of investment and defence of our country's commercial interests under bilateral and multilateral instruments. Mexico will also, where feasible, seek to implement an agenda for convergence between the trade agreements which Mexico has in place, with the aim of making it easier for economic operators to exploit them.

32. The external trade measures outlined above will aim to supplement the trade and industrial development policy framework being introduced by Mexico and to support Mexico's production structures sectorally. The broad outlines of the measures are summarized below:

i. Traditional Industries: We are seeking to reconvert and/or modernize traditional industries to improve conditions with a view to integrating them effectively in the globalization movement by drawing up sectoral agendas to increase their competitiveness.

ii. High-Technology Industries: Scaling of production towards activities with greater value-added associated with technological invention, design and development through the establishment of sectoral agendas to raise the competitiveness of the sectors involved.

iii. Services: Make Mexico a hub for services with special emphasis on information technologies and logistics.

iv. Trade deregulation. Greater reduction in operating costs and streamlining of administrative formalities for enterprises in Mexico via trade facilitation, regulatory improvements and competition policy.

33. Mexico's agenda for trade negotiations will therefore have to support the above measures, and to that end Mexico will continue to promote the Doha Round negotiations and to focus on partners which help it achieve those ends.

34. Measures to incorporate higher domestic value added per unit exported have been established so as to maximize the benefits of the penetration of Mexican products on international markets. The supply of inputs to export firms is one way of promoting the international integration of domestic firms.

35. A number of sectoral initiatives are worthy of note in that regard, among them the ITA-Plus Program which promotes greater local integration by establishing primary linkages within production chains in the computer and telecommunications sectors, since these include, in addition to subassemblies raw materials such as steel and other metals, plastics and chemicals.

III. MEXICO AND THE MULTILATERAL TRADING SYSTEM

36. Mexico is a founding Member of the WTO. We consider the WTO to be the main mechanism for both trade liberalization and the establishment of a legal framework based on world trade rules. The opening up of Mexico's trade and its participation in the multilateral trading system continue to play a very important role in boosting its exports, spurring the economy and stimulating employment.

37. With a view to achieving greater openness and opportunities for developing countries and to strengthening the multilateral trading system, Mexico has been a great promoter of the Doha Development Round, even before it was launched in November 2001. Mexico hosted the Fifth WTO Ministerial Conference in 2003; and it has actively sought to adopt conciliatory positions conducive to agreements on various negotiating fronts. Mexico's chairmanship of the negotiations on services and the role played by the country in the dispute settlement negotiations are clear examples of its commitment to the multilateral trading system.

38. Mexico also has a systemic interest in making the Doha Round a success. Despite its extensive network of FTAs, its external trade is likely to suffer if the multilateral trading system is weakened and subject to the tensions resulting from greater recourse to the dispute settlement mechanism. Mexico would not be immune to an increase in protectionist pressures among its main trading partners. This is due not only to the fact that Mexico is among the top ten exporting countries in a significant number of sectors, both agricultural and industrial, but also to the fact that protectionist measures would have a depressive effect on world revenue and may affect Mexico as the contractions in the main world economies did between 2001-2003.

39. As far as the exploitation of new markets is concerned, it should be noted that countries with which Mexico does not have an FTA are precisely the ones from which imports are increasing most quickly and whose economies are growing most rapidly at world level. Several of them have significant restrictions in place on imports of goods and services in respect of which Mexico has a comparative advantage. To that end the negotiations on trade liberalization and facilitation for our industrial and agricultural goods and our services under the Doha Round represent an opportunity to provide economic agents with the certainty that a specified level of openness will apply in their markets and that trade will be conducted in compliance with the rules agreed multilaterally.

40. There are in addition some matters not covered by the FTAs whose resolution during the negotiations is of vital importance, in particular internal aid and subsidies for agricultural exports, stricter antidumping disciplines and trade facilitation issues. Furthermore, a number of FTAs exclude products of interest to Mexican exporters from their scope, especially in the agricultural sector.

41. Furthermore, in the light of the proposal by the Government of President Felipe Calderón to continue the process of world integration in order to consolidate the country's competitive position in its principal markets and strengthen the search for new opportunities for trade and investment, the WTO is an appropriate forum for reducing bias against exports by way of greater openness as achieved through this round of negotiations.

42. The Doha Round is also an excellent opportunity to tackle systemic issues which, regardless of our current trade interests, will be extremely important when determining the validity of the multilateral trading system in the coming years.

43. Mexico's priority in this Round is for the "Development Dimension" to benefit all developing countries which are Members of the WTO without drawing distinctions between them and without creating a sub-category of membership.

44. Finally, the dispute settlement mechanism has proven to be an effective, essential tool for dealing with the concerns of the government and of our production and export sectors when other countries have adopted illegal measures which adversely affect our trade or systemic interests and it provides us with the opportunity to defend measures adopted by Mexico which are challenged by other Members of the Organization.

45. Mexico is the sixth most prolific user in the world of the dispute settlement mechanism and the second most prolific in Latin America. It is fighting to strengthen the system because the main beneficiaries of a stranger mechanism have been the developing countries.

IV. TRADE POLICY

A. Tariffs

46. The period 2002-2006 saw Mexico continuing to open up its trade both unilaterally and under regional agreements.

47. The challenges raised by a more competitive world environment brought a need to reassess trade policy so as to reduce the costs of inputs required by producers and exporters, particularly where those inputs are from countries with which Mexico does not have an FTA. As stated above, the WTO Member countries with which Mexico does not have an FTA are precisely the ones whose economies have grown the most and will continue to grow. For that reason Mexico regards it as essential to supplement its FTAs with a general policy to support trade openness at the multilateral level.

48. To that end, on 29 September 2006 Mexico unilaterally reduced its Most Favoured Nation (MFN) tariffs for 6,089 tariff headings, the aim being to reduce the cost of raw materials for the principal industries producing final goods, remove tariff discrepancies and reduce incentives to evade payment of tariffs. In the vast majority of cases the reduction in the tariff ranged from about 30 to 33 per cent.

49. Mexico has continued to promote its exports in a manner consistent with the WTO Agreements. The IMMEX Program, which entered into force on 1 November 2006 under the Decree for the Development of the Manufacturing, Maquiladora (In-Bond) and Export Services Industry, consolidates the pre-existing PITEX and Maquila Programs by streamlining procedures and reducing the administrative costs associated with them. Support consists in automatic repayment of value added tax (VAT) and of any tariff paid on imported goods which are incorporated into exports.

B. Customs procedures

50. The process of customs modernization embarked upon a number of years ago remains one of the main strategies for enabling Mexico to enhance its importance as a strategic centre for attracting investment and developing productive activities at the international level. Of note among the most recent steps forward is the implementation at the beginning of March 2007 of the Plan to Modernize Customs for Competitiveness under which efforts will be redoubled in several fields, including investment in infrastructure and technology; streamlining of the legal, regulatory and operating framework of external trade; cooperation with the private sector and national and foreign authorities; and contribution to strengthening national security.

51. As part of the drive to achieve an international trading system which satisfies economic operators' new needs for a more rapid flow of goods in an environment of greater certainty, Mexico is

in the process of implementing the standards to facilitate more efficient and reliable global trade which were adopted in 2005 in the framework of the World Customs Organization (WCO), along with initiatives to facilitate secure and efficient trade agreed under the Asia-Pacific Economic Cooperation (APEC) mechanism.

52. Mexico is working with the USA to implement the Bilateral Strategic Plan on Customs which was signed in August 2007. The Plan has seven strategic objectives covering issues such as cooperation to increase the integrity of customs staff, the automation of all customs dispatch processes, coordination of daily operations and infrastructure projects on the common border, the expansion of the two exclusive FAST/Exprés lanes programmes; strengthening of measures concerning the application of laws providing for joint, more effective action to combat smuggling, customs fraud and related offences; increased cooperation in security matters, especially for consignments of goods whose nature requires them to be subject to special checks; and the establishment of programmes to resume trading/customs activities in the event of disaster or emergency.

53. Mexico has likewise made significant progress in transparency, the implementation of schemes for businesses issuing certification, the application of information technologies for import and export formalities, the establishment of facilities for temporary import, and the development of more sophisticated risk management systems, clearance of urgent shipments, integrity, advance rulings and appeal procedures. However, efforts must be ongoing in order to deepen and expand trade facilitation activities nationally and internationally to ensure that the benefits of facilitation result in more and better business opportunities for national industry, and that is why Mexico is participating in and has a great deal of interest in the conclusion of the trade facilitation negotiations currently under way in the framework of the Doha Round.

C. Standards

54. During the period covered by the review, a number of amendments were made to technical regulations and standards.

55. July 2006 saw reforms of the Federal Law on Metrology and Standardization (LFMN) which made the Ministry of the Economy the body responsible for the Law's implementation (Article 1) and laid down the composition of the Governing Board of the National Metrology Centre (Article 32), its assets structure (Article 37), and the structure of the National Standardization Commission (Article 59).

56. The web-page of the Ministry of the Economy's General Directorate of Standards (DGN), which was established in 1997, sets out information related to activities in the areas of metrology, national and international standardization, conformity assessment (approval and certification), quality and promotion. Additionally, notifications of WTO draft standards and FTAs entered into with Mexico can be accessed, national standardization (catalogue of Standards) can be consulted and the official designations "*calidad suprema*" (supreme quality) and "*hecho en México*" (made in Mexico) studied, as can the requirements for obtaining the *Código de Identificación del Fabricante Internacional* (International Manufacturer Identity Code).

57. In 2001, with a view to enhancing transparency, the DGN established a legal framework for the creation and operation of National Consultative Committees for Standardization (responsible for developing official Mexican standards or NOMs) and National Technical Committees for Standardization (responsible for developing voluntary Mexican standards or NMXs) and the involvement of Mexican committees in international organizations. There are currently 24 National

Consultative Committees for Standardization responsible for developing NOMs, 34 National Technical Committees for Standardization responsible for developing NMXs and two Standardization Committees responsible for developing benchmark standards (NRFs).

58. To facilitate international trade and boost consumer confidence, the DGN intends to review some 300 NOMs and 1,000 NMXs to examine how consistent they are with the relevant international standards.

D. Services

59. Mexico recognizes the huge importance of services to GDP and employment; indeed, they represent 70 per cent of total GDP and 63 per cent of employment. Mexico is also aware of their vast potential as a spur to the national manufacturing sector.

60. Any development strategy in the information economy must be solidly based in a dynamic, efficient services sector which complements the national strategy. Accordingly, trade policy in the sector has been targeted at strengthening the internal legal framework and integrating services in the world economy. During the period 2000-2006, Mexico supported openness in the sector at international level.

61. Since the opening of the Doha Round, Mexico has been an actively involved in the negotiations of the Special Session of the Council for Trade in Services, which it currently chairs, and in the bilateral and the ongoing plurilateral negotiations at the WTO. As regards the subsidiary bodies of the General Agreement on Trade in Services (GATS), of note are the proposals it submitted to the Working Party on Domestic Regulation and the Working Party on GATS Rules, specifically in discussions on subsidies.

62. At bilateral and regional level, Mexico continues to support the full implementation and administration of commitments relating to cross-border trade in services set out in its FTAs.

63. The services sector in Mexico has recently been highlighted as part of a strategy to increase national competitiveness. Accordingly, Mexico is seeking greater market openness in dynamic sectors such as information technology services, movement of physical persons, distribution, construction, maritime transport services and trade in services generally. Similarly, Mexico is continuing its efforts to increase the competitiveness of financial services and services related to telecommunications infrastructure. Both sectors have experienced a surge during the last decade.

64. Changes in the regulatory framework aimed at improving competition have been adopted and implemented in the telecommunications services sector over recent years. In the light of the National Development Plan (2001-2006) and the Sectoral Program for Communications and Transport (2001-2006) and in compliance with the Federal Telecommunications Law, the Federal Telecommunications Commission (COFETEL) has carried out a wholesale review of the regulatory framework governing the exchange of international traffic in order to bring it into line with the new technological environment and to satisfy users' needs. In that regard, on 15 June 2004 the plenary meeting of COFETEL decided to repeal the International Long Distance Rules and to issue the International Telecommunications Rules which, among other things, introduced greater streamlining in formalities for international long distance services, abolished the proportional return system and uniform settlement rates. Furthermore, with a view to guaranteeing user satisfaction, COFETEL issued the Basic Technical Quality Plan for Mobile Local Service Networks.

65. Opening up services such as long distance and public telephony to competition and investment in the telephony infrastructure led to an increase in the number of fixed lines[3] over the period 1997-2006. Mobile telephony saw greater growth in that period. Despite changes in the density of fixed and mobile telephony, figures are lower than in other countries with a similar level of economic development. There has also been considerable growth in Internet access in Mexico.[4] Nonetheless, levels of Internet penetration are lower than in other developing countries. Given that access to telecommunications services is a key aspect of social and economic development, the Government is continuing its efforts to establish public policies encouraging access to them.

66. Specific measures have been implemented since 2007 to achieve greater competitiveness in the sector. In October that year the program on frequency bands which will be the subject of tenders in 2008 was published. Additionally, to promote the efficient use of existing networks and encourage the competitiveness of inter-urban transport, the Federal Electricity Commission (CFE), the State body responsible for supplying electricity, will supply wholesale telecommunications services through its fibre optic network.[5]

67. The objective of Mexico's policy in this sector is currently to increase access to telecommunications services to a greater proportion of the population and to supply a greater diversity of better quality services for better prices in a framework of competition and free market participation. The Government is promoting strategies to (a) increase competition among suppliers of services; (b) encourage tariffs to enable a greater number of users to access the service; (c) develop the mechanisms and conditions necessary to encourage greater investment in telecommunications services infrastructure and foster efficient use of the existing infrastructure; (d) propose methods of funding and self-sustainability with a view to encouraging development and execution of projects using information technology (IT); and (e) participate alongside society in the design and development of strategies to facilitate the use of information and communication technologies (ICT).

68. The Government has also embarked upon work to review the regulatory framework governing telecommunications and the structure of COFETEL, with a view to improving competition.

E. Investment

69. The Foreign Investment Law (LIE) establishes that activities not expressly mentioned therein are fully open to FDI, and FDI may therefore be up to 100 per cent. The LIE was amended on 18 July 2006 to reduce the number of restricted activities and thereby achieve further liberalization.

70. As a result of that amendment it has been possible since 18 July 2006 to invest up to 100 per cent in the capital of financial leasing companies, financial factoring houses and limited scope financial companies.

71. Moreover, between 2002 and 2007 Mexico signed two FTAs containing a chapter on investment: with Uruguay (entered into force on 15 July 2004) and Japan (in force since 1 April 2005). The two chapters on investment are modelled on Chapter XI of the North American Free Trade Agreement (NAFTA).

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[3] The number of lines went from 9.2 million to nearly 20 million, and per capita density rose from 9.8 to 18.9.

[4] In 2001 Mexico had approximately 2 million subscribers; at the end of 2006 there were over 5 million.

[5] The CFE's national fibre optic network measures 21,400 km., making it the second largest inter-urban transport network in the country; the largest extends over some 30 thousand kilometres and is owned by Teléfonos de México (Mexico Telephones – TELMEX).

72. Ten APPRIs were negotiated during the period under review. As of September 2007 Mexico had 23 APPRIs in force and two in the process of being implemented.

73. Free trade agreements and investment agreements establish a framework of clear, transparent rules which provide legal protection on a reciprocal basis for capital flows to the production sector and promote diversification in investment flows.

F. Intellectual property

74. Although Mexico already has a sound legal and institutional basis as regards intellectual property, during the period under review significant progress continued to be made in the protection of intellectual property rights in the form of various adjustments and amendments which were approved with a view to furthering the protection of intellectual property rights in the country; the legislative instruments concerned were notified to the WTO in 2006.

75. Nationally, the *Instituto Mexicano de la Propiedad Industrial* (Mexican Industrial Property Institute – IMPI) opened regional offices in strategic locations in the Mexican Republic to make its services more local and deal with individuals in person; the offices cover the Northern, Western, El Bajío and South-Eastern regions and serve 24 of the 32 States of the Republic.

76. At the multilateral level, in 2001 Mexico acceded to six industrial property treaties administered by the World Intellectual Property Organization (WIPO). In 2004 it published reforms to the Patent Cooperation Treaty (PCT) and its Regulations.

77. At the bilateral level, all the FTAs signed by Mexico in this period contain a chapter on intellectual property and worth of note among them are the agreements concluded with Japan and Uruguay; in addition, Mexico has concluded several cooperation agreements with authorities and bodies in this field.

78. Also of note is the deepening of relations with the European Communities (EC) through the European Patent Office, with which it concluded Memoranda of Understanding on Bilateral Cooperation for the periods 2004-2006 and 2006-2009.

79. With a view to strengthening the protection of intellectual property rights and addressing the international commitments established under the Security and Prosperity Partnership of North America (SPP), the Divisional Office of Well-Known Marks (Investigation, Control and Document Processing) was established within IMPI in 2006; its task will be to strengthen measures being drawn up by the Institute to combat piracy and unfair competition.

G. Competition policy

80. The central objective of Mexico's competition policy is to protect the competition process and free market participation of the type which fosters market efficiency, thereby contributing to the welfare of society. During the first 13 years of the life of the Federal Law on Economic Competition (LFCE) significant progress was made in competition matters. However, problems with loopholes in the Law persisted and stood in the way of effective implementation.

81. The unanimous approval by the Congress of the Union in 2006 of reforms to the LFCE confirmed the importance of economic competition in Mexico as State policy.

82. Broadly speaking, the reform of the LFCE strengthens the powers of the *Comisión Federal de Competencia* (Federal Competition Commission – CFC), to prevent and investigate anti-competitive practices, it brings its procedures into line with the guidance given by the courts (over the twelve years when the previous LFCE was in force) and increases the level of fines which may be imposed. Additionally, the reforms broaden and enhance the CFC's power to act as an advocate in various matters.

83. Bilateral cooperation in competition matters is carried on under four cooperation agreements and eight chapters on competition which are included in the FTAs signed by the Government of Mexico. These mechanisms enhance cooperation between the Commission and the foreign competition authorities in the exchange of information and technical assistance, the aim being to strengthen the application of competition laws in the jurisdictions concerned.

84. The FTAs with the United States and Canada (NAFTA); Colombia; Israel; the European Union; and Uruguay, and the Economic Association Agreement with Japan contain specific provisions on competition policy. Moreover, Mexico has signed bilateral agreements on competition with the United States, Canada, Chile and Korea; a Declaration of Intent with the Russian Federation on Anti-Monopoly Policy and Support for Business; and a Memorandum of Understanding on Technical Assistance with El Salvador.

85. Despite the recent reforms of the law, Mexico still lags behind in the efficiency of its implementation of competition law; this is due in part firstly to the fact that it does not have a pro-competition legal and regulatory framework but also secondly to the fact that the measures available to it to implement the law lack effectiveness. This in turn is because the amounts of fines imposed do not have enough of a deterrent effect on businesses which can earn considerable profits if they break competition law.

86. The 2006 reforms of the Competition Law left a few very important matters unresolved. It is essential that discussion on some of those matters is resumed to provide a sound competition policy, namely: (i) the LFCE should incorporate aspects such as the concept of substantial power, precautionary measures in procedure and an increase in the amount of fines; and (ii) Article 253 of the Criminal Code could be implemented so that absolute monopoly practices can be subject to criminal penalties in line with international best practice on the matter.

87. As part of a broader competitiveness strategy, the CFC promotes public policies and adjustments to the regulatory framework which foster the development of competition to the benefit of the competitiveness of the national economy.

H. Regulatory improvement

88. Regulatory improvement has been an integral part of the modernization and structural reform of the Mexican economy since 1989 and has reinforced its process of economic opening. Regulatory improvement implies making changes to improve the quality of the legal system as a whole, and legal instruments in particular, in order to protect the country's social interests at the lowest possible cost to citizens and businesses, thereby improving the efficiency of the economy. Accordingly, the role of the *Comisión Federal de Mejora Regulatoria* (Federal Regulatory Improvement Commission – COFEMER) which has been active in Mexico since 2000 is in part to carry out reviews of preliminary

draft regulations submitted to it by decentralized Federal Government[6] agencies and bodies and to make the relevant recommendations to improve them.

89. COFEMER's work has been acknowledged in several forums. The World Bank study *Doing Business 2007: How to Reform* (presented in 2006), recognizes that Mexico moved up 19 places in terms of the ease of doing business compared to the previous year's study.

90. A significant part of COFEMER's work during the period under review has been to maintain the availability of the regulatory improvement programs for the periods 2001-2003, 2003-2005 and 2005-2006, which can be consulted on its Internet portal; the portal also provides easy, direct access to information on regulations proposed by decentralized agencies and bodies and on the formalities and services offered by the Federal Government through it (www.cofemer.gob.mx).

91. COFEMER's most notable achievements include:

i. The introduction of 133 Sistemas de Apertura Rápida de Empresas (Rapid Business Start-Up Systems - SAREs) in 133 municipalities in the country. They account for 191 new businesses, 348,353 jobs and Mex$19,494,900,000 million of investment. The SARE is a regulatory improvement tool which generates significant benefits in terms of investment and job creation by enabling a business to start up in less than 72 hours;

ii. Rolling back regulatory inflation by reducing the volume of new proposals for regulations which entail compliance costs for citizens and businesses. The Regulatory Moratorium Agreement issued by the President of the Republic on 12 May 2004 reduced the number of proposals by 23.5 per cent;

The Regulatory Quality Agreement issued by President Felipe Calderón on 2 February 2007 led to a 15.6 per cent drop in acceptance of drafts with compliance costs in the period February-October 2007 in comparison with the same period in 2003 (the last year before the Regulatory Moratorium Agreement applied);

iii. The establishment and maintenance of the Federal Registry of Formalities and Services (RFTS). The requirements, costs, officials, formats, legal bases, time-limits for receipt and criteria for completing federal formalities and services can be consulted through the RFTS. It provides citizens and businesses with transparency and legal certainty;

iv. Greater planning and transparency in government measures taken by the decentralized Federal Government agencies and bodies by making them subject to a legal requirement to submit biennial programs for regulatory improvement to COFEMER; those programs must set out the measures which the bodies concerned intend to carry out to eliminate or streamline formalities, reform legal provisions currently in force and even introduce new proposals for regulation. It should be noted that in consultation with the private sector, the regulatory improvement programs 2005-2006 incorporated 36 specific measures on competitiveness and regulatory improvement in various areas such as: external trade and Customs, standardization, health, finance, transport, telecommunications, energy, work and social insurance,

[6] Except for the acts, procedures or resolutions of the Ministry of National Defence and Ministry of Naval Affairs.

migration, social security and regulatory improvement in States and municipalities so as to provide "Systemic View" solutions; and

v. The decision of August 2006 to make public-private dialogue part of the institutional fabric. On that basis an Executive Committee and Technical Working Groups were established under the Federal Regulatory Improvement Council, and their task is to propose and monitor measures in the field of competitiveness regardless of changes in government.

I. Government procurement

92. Nine of the FTAs signed by Mexico have chapters on government procurement; these agreements cover 39 countries. Of those countries, 35 are party to the WTO Plurilateral Agreement on Government Procurement and two are observers. Additionally, in March 2007, Mexico and Chile concluded a chapter on public procurement under their FTA and are awaiting approval of the same by their respective legislative bodies. Moreover, Mexico is also in the process of negotiating a chapter on this subject with Uruguay and is close to embarking upon negotiations on the same subject with Korea.

93. Significant progress has been made over the last few years in developing and improving the electronic government procurement system COMPRANET, with a view to making it easier for firms to participate in government tendering processes and to provide a transparent mechanism for informing the public about government procurement processes. This system provides public information concerning federal government demand for goods, services, leasing and public works.

V. BILATERAL AND REGIONAL AGREEMENTS

94. Bilateral and regional agreements have been a mainstay of Mexican trade policy in recent years. They complement and promote greater multilateral liberalization and are consistent with the WTO provisions.

95. Mexico is one of the WTO Members with the greatest number of FTAs: it has a network of 12 which afford it preferential access to over a billion consumers in 44 countries, representing about 75 per cent of world GDP. Thanks to these agreements, Mexico now ranks as the tenth largest exporter in the world in terms of value of exports and the largest in Latin America and the Caribbean, and is one of the main developing country recipients of FDI, with all attendant benefits that this brings for economic growth, job creation and wages.

96. In 2002, Mexico had FTAs with the following Members: United States and Canada (1994); Colombia and Venezuela (1995); Bolivia (1995); Costa Rica (1995); Nicaragua (1998); Chile (1999), Israel (2000); the European Union (2000); the "Northern Triangle" with Guatemala, Honduras and El Salvador (2001); the European Free Trade Association (EFTA) with Iceland, Norway, Liechtenstein and Switzerland (2001).

97. Between 2002 and 2006 two new FTAs entered into force: with Uruguay (2004), and Japan (2005). Venezuela gave notice of termination of its FTA with Mexico on 22 May 2006 and that notice took effect 180 days following its communication (on 19 November 2006). Mexico is currently in negotiations to adjust and extend an FTA with Colombia and to develop FTAs with Korea and Peru.

98. The trade agreements which have been negotiated have opened up markets for Mexican exports and have increased Mexico's attractiveness for investment, by affording greater certainty for

economic agents, including exporters, investors and consumers. These agreements and the multilateral trading system are complementary mechanisms for moving towards liberalization of the economy and maintaining consistency between the instruments.

99. Mexico is also involved in other regional initiatives such as the Asia-Pacific Economic Cooperation (APEC) mechanism, the goal of which is to achieve a free-trade and investment regime by 2020 at the latest. Mexico is the seat of the Secretariat of the Free Trade Area of the Americas (FTAA). Furthermore, Mexico has been a member of the Organization for Economic Cooperation and Development (OECD) since 1994, and it is in that capacity that it is taking part in discussions to draw up an international trade agenda.

CONCLUSIONS

100. Since its previous trade policy review, Mexico has continued to favour trade liberalization and the establishment of standards which provide certainty and predictability for its external trade flows, principally through efforts to conclude the Doha Round successfully. These efforts have been supplemented by approaches to other countries with a view to seeking greater integration either through the negotiation or extension of FTAs and investment promotion and protection agreements, as well as unilateral initiatives to reduce tariff and non-tariff barriers. This has had positive effects on the economy and therefore on growth in trade and improvements in wages and employment.

101. Regardless of its extensive network of preferential agreements, as one of the world's principal exporters and importers of goods and services Mexico needs a multilateral system which facilitates substantial growth in world trade. There lies the importance of the WTO negotiations on the Doha Development Agenda. To that end Mexico has reaffirmed its commitment to a sound, predictable, and valid multilateral trading system and the successful conclusion of the Doha Agenda negotiations.

102. Despite progress having been made in some of the issues which our country views as priorities, Mexico is facing significant challenges ahead which will be addressed by moving forward with a series of structural reforms and implementing precise measures as described above, allowing us to increase the competitiveness of our economy and thereby create better conditions to give more of Mexico to the world and more of the world to Mexico.