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Trade Facilitation

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Across Borders
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TRADE FACILITATION

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APEC Ease of Doing Bussines Workshop on
Trading Across the Border
Sendai, Japan,
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1



CONTENTS

- I. MOTIVATION
- II. TRADE FACILITATION: A STRUCTURAL REFORM
- III. TARIFF SIMPLIFICATION AND REDEFINITION OF EXCEPTION REGIMES
- IV. IMPACT OF TRADE POLICY IN THE DOMESTIC ECONOMY
- V. RETHINKING EXCEPTION REGIMES
- VI. CUSTOMS AND FOREIGN TRADE FACILITATION
- VII. INSTITUTIONAL STRENGTHENING: THE FOREIGN TRADE COMMISSION
(COCEX^{1/})
- VIII. FINAL REMARKS

^{1/} ACRONYMS IN SPANISH

2

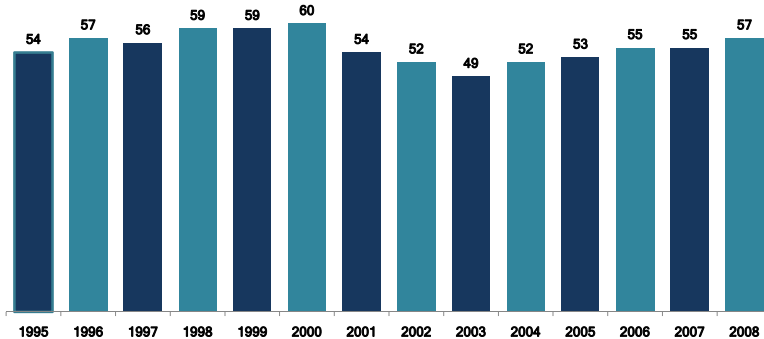
I. MOTIVATION



IMPORTANCE OF INTERNATIONAL TRADE

- Foreign trade is key to the economic development of Mexico accounts for 57% of GDP.

TRADE IN GOODS AS% OF GDP



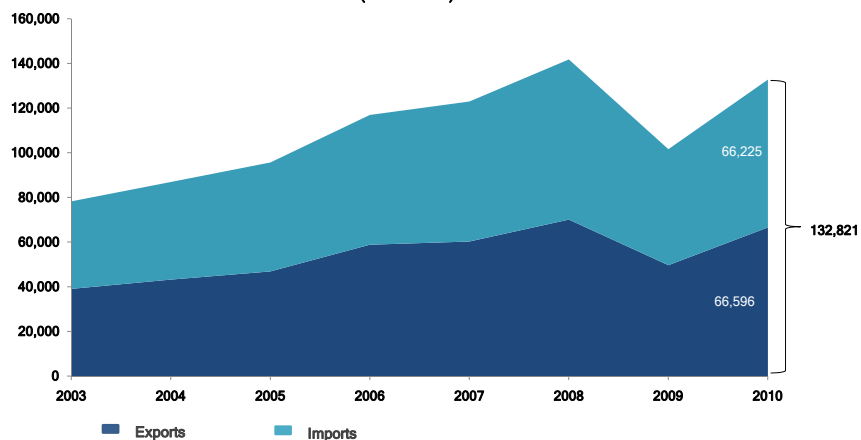
3

I. MOTIVATION



TRADE RECOVERY

INTERNATIONAL TRADE DEVELOPMENTS (2003-2010)*



Source: Working Group on Statistics of International Trade, composed of the Bank of Mexico, INEGI, the Tax Administration Service and the Department of Economics.
 * Annualized in the first quarter. In millions of dollars.

4

II. TRADE FACILITATION: A STRUCTURAL REFORM



- Foreign trade is a main key for economic development accounting for 57% of GDP.
- Several institutions point out the strong impact of foreign trade regulation on the country competitiveness (CFC, WEF, CIDE, IQOM) ^{1/}.
- The Trade Facilitation Program is based on three main aspects:



^{1/} The Federal Competition Commission. Opinion publication that promote the application of the principles of free competition in the design and implementation of policies and regulations of foreign trade of goods. May 19, 2008.
 World Economic Forum. *The Global Enabling Trade Report 2009*. Analysis of competitiveness in the international trade, developed by World Economic Forum by Sean Doherty, 2009.
 CIDE: Impact of foreign trade regulation on competitiveness and economic wellbeing; survey prepared by the Centro de Investigacion y Docencia Economicas (CIDE) to the Underministry office of Industry and Trade.

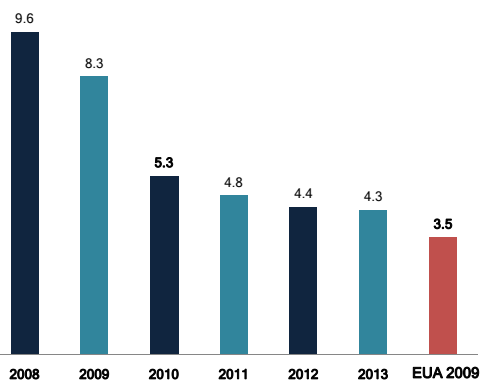
5

III. TARIFF SIMPLIFICATION 2009-2013

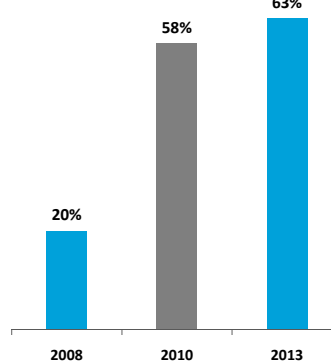


- Simplification decreed on December 2008
- Mexico was already open: The weighted average Tariff was 0.95% in 2008.

Average duty rate (Industry)



Zero-tariff rate (percentage of tariff items)

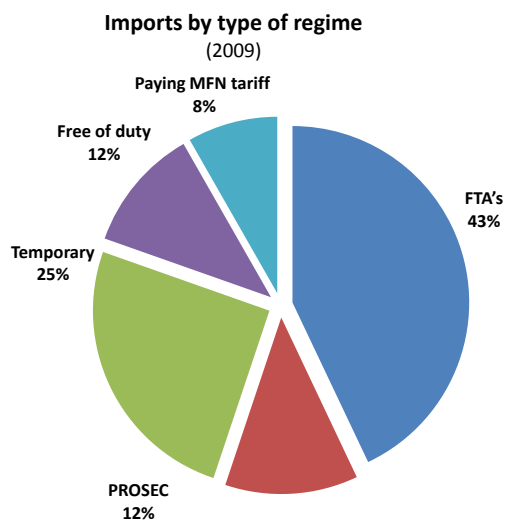


6

III. TARIFF SIMPLIFICATION 2009



- 91.7% of the total imports enter without import duties.



7

III. SIMPLIFICATION PLAN 2009-2013



Tariff of the industry	2008	2009	2010	2011	2012	2013
0	2,177	2,569	6,371	6,612	6,880	6,880
3	0	0	19	157	1	1
5	95	3,980	1,399	1,027	968	968
7	3,438	520	202	201	150	150
9	45	0	0	0	0	0
10	2,883	1,046	416	1,031	1,038	1,038
15	360	951	1,921	1,316	1,307	1,307
20	1,316	1,277	21	5	353	518
25	0	0	0	334	144	0
30	0	475	513	179	21	0
35	493	0	0	0	0	0
40	0	38	0	0	0	0
50	38	17	17	17	17	17
Special case*	20	18	18	18	18	18
Total	10,865	10,891	10,897	10,897	10,897	10,897

* 2 dls/pza, 2500/pza, 7% + AE and Forbidden

Source: Prepared with data from the Directorate General of Foreign Trade.

Indicators	2008	2009	2010	2011	2012	2013
Simple Average*	9.65	8.32	5.34	4.76	4.41	4.33
SD*	8.37	8.21	8.14	7.45	6.85	6.61
% free duty	20.0%	23.6%	58.5%	60.7%	63.1%	63.1%

* Excluding special case

Source: Prepared with data from the Directorate General of Foreign Trade.

8

IV. IMPACT OF THE SIMPLIFICATION IN THE GLOBAL ENABLING

TRADE INDEX (WEF)

- As a result of tariff simplification Mexico moved from position 43 through 22 of the WEF Subindex "Domestic and foreign market access".*

AÑO	WEIGHT TARIFF BY THE TOTAL IMPORTS	% OF THE IMPORTS DUTY FREE (NMF)	RANKING OF MEXICO SUBINDEX "DOMESTIC AND FOREIGN MARKET ACCESS" (WEF)
2008	11.1	ND	74
2009	9.8	27	43
2010	8.18	87.31	22

*Source: Subindex Domestic and foreign market access (Component of the Global Enabling Trade Index) of the World Economic Forum 2010.

9

IV. IMPACT OF THE SIMPLIFICATION IN THE ECONOMY

An internal study was conducted to identify the effects of tariff reduction on employment for the last quarter of 2009.

- The study included econometric models with fixed effects panel to study the period 2007-2009. Control variables are used to reduce the effects of the crisis.
- The analysis includes the effects of the tariff on final goods and the tariff on inputs.

$$\begin{array}{ccc}
 \downarrow(1\%) \text{ Output} = & + & \downarrow(1\%) \text{ Input} = \\
 \downarrow(0.54\%) \text{ emp} & & \uparrow(1.07\%) \text{ emp} \\
 & & = \\
 & & \text{O+I effect:} \\
 & & \uparrow(0.53\%) \text{ emp}
 \end{array}$$

- The general duty of the final good has negative effects on employment (international competition) and the general tariff on the input has positive effects (due to lower costs), and the final effect is positive for employment.

10

IV. IMPACT OF THE SIMPLIFICATION IN THE ECONOMY



Dependent Variable: Employment

	I	II	III	IV	V
Final Good Tariff(lag)	-1.88* [0.35]	0.48** [0.23]	0.32 [0.24]	0.46** [0.23]	0.29 [0.24]
Input tariff (lag)	4.44* [0.93]	-1.12* [0.41]	-0.83*** [0.44]	-0.91** [0.42]	-0.62 [0.47]
Real Wage	-0.40* [0.12]	-0.24* [0.08]	-0.25* [0.08]	-0.23* [0.08]	-0.24* [0.08]
Production	0.38* [0.06]	0.35* [0.02]	0.35* [0.03]	0.35* [0.02]	0.35* [0.03]
US Employment	0.35* [0.08]	0.41* [0.05]	0.41* [0.05]	0.42* [0.07]	0.41* [0.07]
Constante	59.89* [14.72]	42.80* [8.42]	43.59* [8.68]	40.64* [8.82]	41.71* [9.10]
Observations	189	189	189	189	189
R-squared	0.656	0.891		0.892	
Panel	Pool	Fixed	Random	Fixed	Random
Dummies de tiempo	No	No	No	Si	Si

*** significant at 10%; ** significant at 5%; * significant at 1%

Robust standard errors in brackets

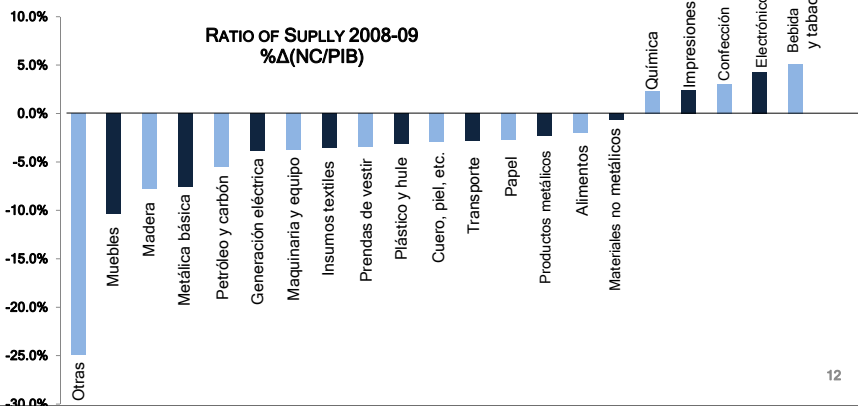
- It uses data from the DGCE, INEGI and Banco de Mexico to build the data.
- The specification (II) and (IV) is a panel with fixed effects. **The effect of input tariff is significant at conventional levels of confidence**
- **The net effect of tariff reduction in employment is always positive.**

11

IV. IMPACT OF THE SIMPLIFICATION IN THE ECONOMY



- We questioned whether the tariff reduction had an adverse effect on the supply of domestic inputs for various sectors of the economy.
- For this purpose we calculated an indicator that measures the Ratio of Supply (NC / GDP). If this indicator rises, which increased domestic consumption of imports relative to domestic production.
- As shown in the chart, in most cases, this indicator fell, so the tariff reduction did not affect the national supply of productive sectors.



12

IV. IMPACT OF THE SIMPLIFICATION IN THE ECONOMY



The effective protection rate is an indicator that measures the level of real protection of an industry, taking into account the tariffs for intermediate goods and final goods.

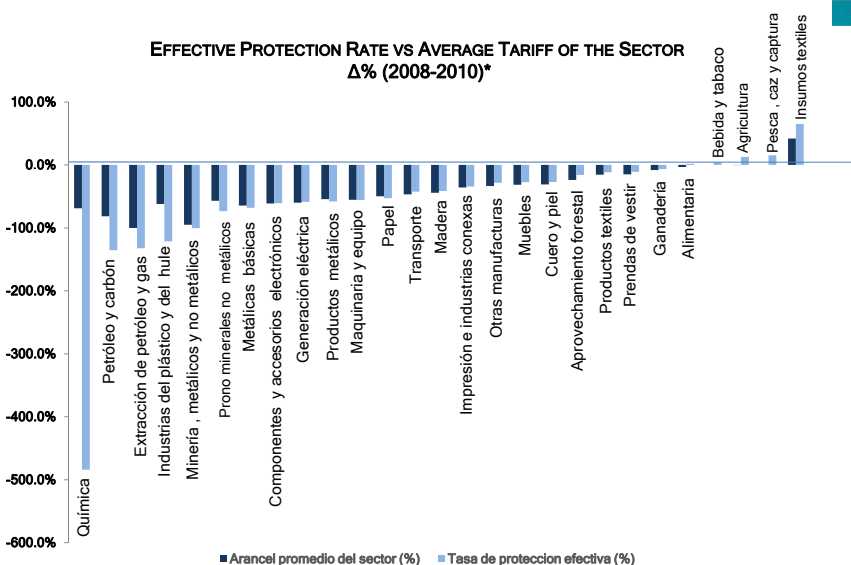
- Thus, an industry where the tariff reduction on the inputs is greater than the reduction in its final good, have an improvement in their effective protection.
- As shown in the graph below, due to tariff reduction that occurred between 2008 and 2010, both the average tariff as the rate of effective protection has decreased significantly.
- It is important to note that there are industries whose current rate is negative, as is the case of the chemical industry, so it is being revised tariff inconsistencies exist.
- Moreover, the textile sector input has significantly increased its rate of effective protection, it could also involve an inconsistency, which could affect other industries.
- Although the rate of effective protection has fallen, but remains positive for most sectors.

13

IV. IMPACT OF THE SIMPLIFICATION IN THE ECONOMY



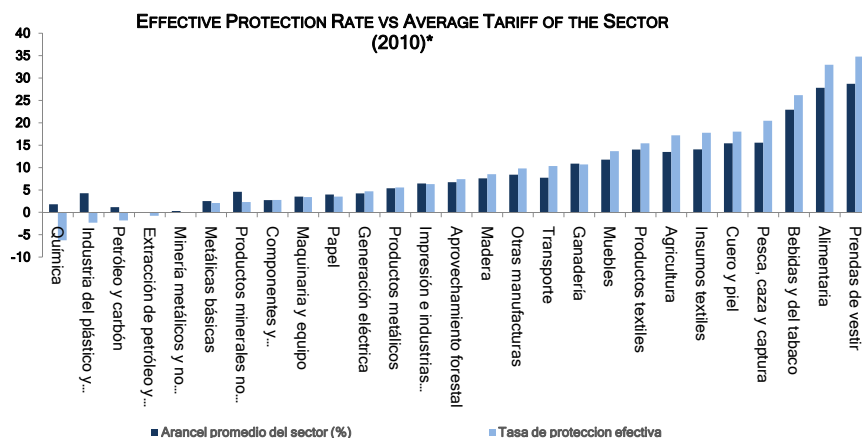
EFFECTIVE PROTECTION RATE VS AVERAGE TARIFF OF THE SECTOR
Δ% (2008-2010)*



Fuente: Elaboración propia con datos de la DGCE, INEGI, cuentas nacionales. Se utiliza la matriz –insumo producto.
*Datos al primer trimestre de cada año.

14

IV. IMPACT OF THE SIMPLIFICATION IN THE ECONOMY



Fuente: Elaboración propia con datos de la DGCE, INEGI, cuentas nacionales. Se utiliza la matriz –insumo producto.
*Datos al primer trimestre de cada año.

15

V. RETHINKING EXCEPTION REGIMES



- There are several regimes which allow importers to avoid payment of duty established in the general customs tariff:

- PROSEC
- Rule Eight^{1/}
- IMMEX (Altex y Ecex)
 - Quotas
 - Drawback

- Exception schemes involve administrative costs for the government and the importers.
- The only way to eliminate those schemes without affecting producers is by generalize their benefits.

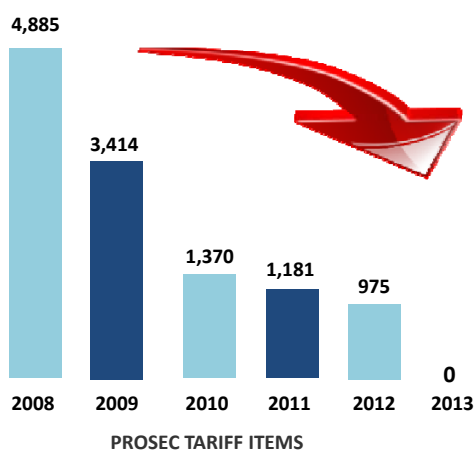
^{1/} Rule eight is a special preferential program which allows imports of industrial inputs under one single tariff item specially provided for maquila operation.

16

V. EXCEPTION REGIMES: THE ELIMINATION OF PROSEC S



Since 2009, the tariff items in PROSEC have been reduced as a result of a program based on criteria such as low cost impact, low tariff rates or when the tariff item has non commerce, etc.).



ELIMINATION OF PROSEC

The tariff items contained in PROSECs will be reduced from 4.885 in 2008 to zero in 2013.

RULE EIGHT REDUCTION

The items contained in the rule eighth will disappear along with the PROSEC

17

V. EXCEPTION REGIMES : IMMEX CONTROLLABLE AND DEVELOPMENT OF ALTERNATIVES



- IMMEX is an important program that benefits 6,300 manufacturing companies, but ...
 - Involves risks of tax evasion, and
 - The traditional maquila regime is becoming less relevant. The current manufacturing, includes processes which deviate from the patterns of temporary import regime.
- In response to these challenges:
 - An IMMEX Reform Decree is being prepared, to strengthen controls on IMMEX programs, and
 - A financial alternative with benefits similar to those obtained through IMMEX but without the risks of tax evasion, will be generated.

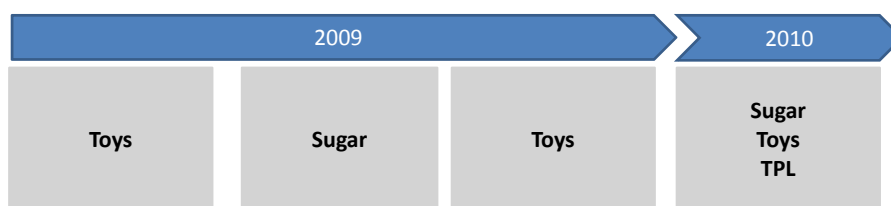
18

V. EXCEPTION REGIMES: QUOTAS



- Two strategies to simplify and/or transparent the benefits derived from the granting of quotas:
 - Change the quotas into tariff reductions (eg., Textile quota), and
 - Tendering of quotas (begun in 2009 in electronic form for those quotas which demand exceeds the available supply).

Tenders 2009 - 2010



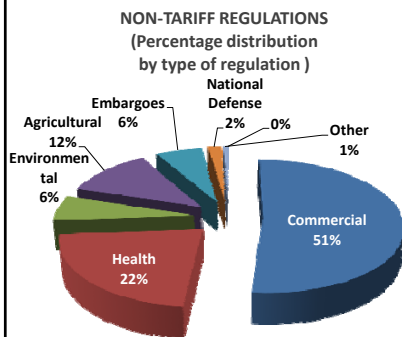
19

VI. SIMPLIFICATION OF CUSTOMS AND FOREIGN TRADE:



REVIEW OF NON-TARIFF REGULATION

A comprehensive review of non-tariff regulation accords (RNA's), is being made with other government agencies, to simplify the operation, and achieve greater transparency and fairness.



Source: General Direction of Foreign Trade

REGULATORY ACCORD	NUM OF CASES GOODS COVERED
TRADE REGULATIONS (SE)	3,995
STANDARS ACCORD	3,718
IMPORT7EXPORT LICENCES ACCORD	178
COMPENSATORY DUTIES ACCORD	99
OTHER REGULATORY AGENCIES	3,747
HEALTH ACCORD	1,246
AGRICULTURAL ACCORD	902
ENVIROMENTAL ACCORD	482
EMBARGOES ACCORD	471
FERTILIZERS AND PLAGUICIDES ACCORD	444
NATIONAL DEFENSE ACCORD	133
ENERGY ACCORD	26
ESSENTIAL CHEMICAL ACCORD	22
MEXICAN COFFEE ASSOCIATION	11
EDUCATION ACCORD	10
TOTAL OF CASES COVERED BY THE ACCORDS	7,742*

* / The total number of tariff items subject to RNA's is 5.269. There are cases in which the same good may be regulated in more than one Accord. .
Source: General Direction of Foreign Trade

20

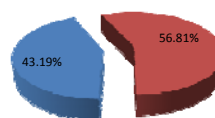
VI. SIMPLIFICATION OF CUSTOMS AND FOREIGN TRADE: REVIEW OF NON-TARIFF REGULATION



- 43% of imports are subject to any non-tariff regulation.

	Number of tariff items	Value of the imports (USD) ^{/a}	%
Regulated Goods	5,269	72,045,513,025	43.2%
Non regulated Goods	6,878	94,780,641,837	56.8%
Total	12,147	166,826,154,862	100.0%

Imports subject to a Non Tariff Regulation (2009 value imports share)



■ Regulated ■ Non regulated

Source: General Direction of Foreign Trade ; Ministry of Economy.
/a January-September 2009.

VI. SIMPLIFICATION OF CUSTOMS AND FOREIGN TRADE: FOREIGN TRADE SINGLE WINDOW

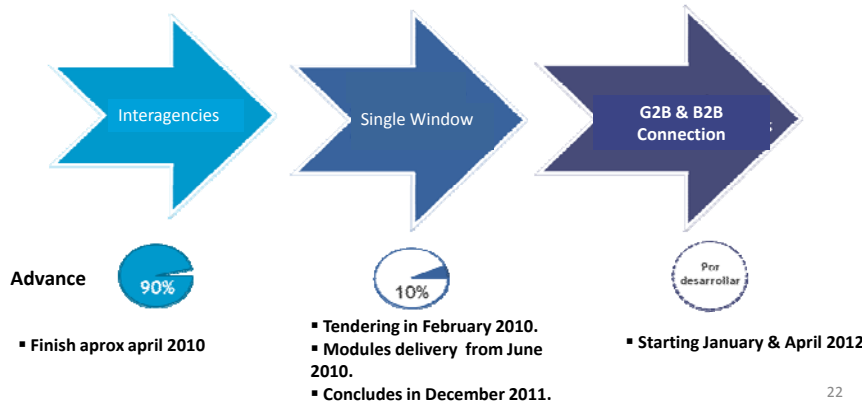


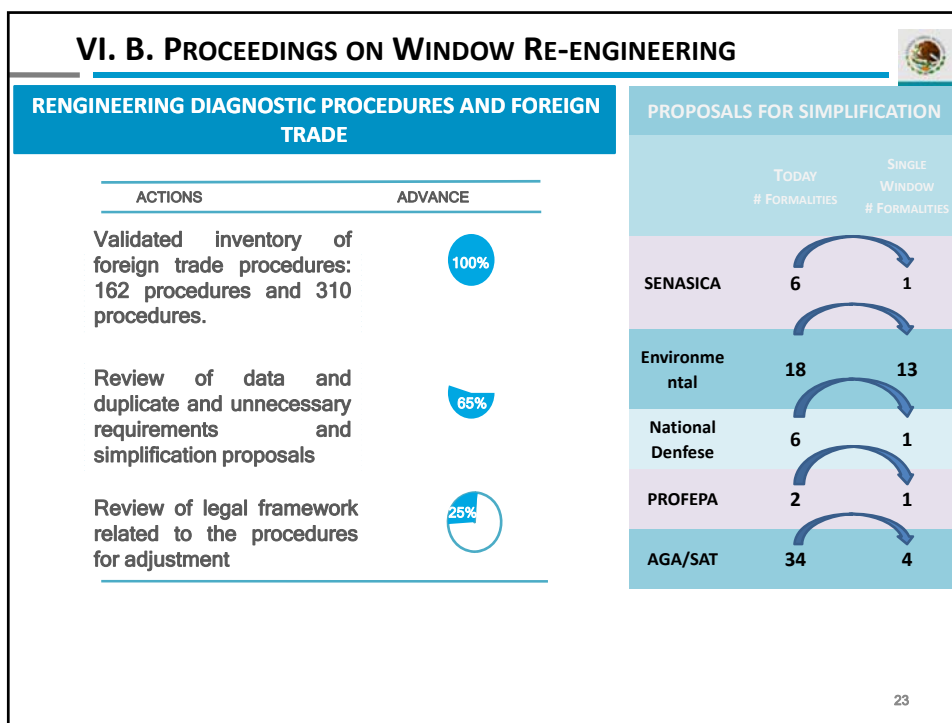
The project is being developed in three phases:

1. Electronic link between Government Agencies and Customs for Trade Regulation Compliance

2. Unique Government Electronic Portal for Foreign Trade Tramits

3. G2B & B2B Connection (Customs, Agencies, Business, Transportation and Foreign Trade Financing)






VI. B. FACILITATION: IMPLEMENTATION OF SINGLE WINDOW

- The complexity of implementing the Single Window project lies in:
 - coordination problems of organizations and agencies, and
 - natural resistance of staff within each agency and entity who refuse to abandon obsolete procedures.

- So successful cases worldwide (pj, Korea, Colombia, etc..) And international best practices underscore the usefulness of having a strong regulatory framework to implement the Single Window.
 - In this regard it provides for a Presidential statement:
 - **Requiring all departments and agencies to incorporate their foreign trade procedures in the Single Window within a stone.**

 - **Create an Interdepartmental Group to oversee the development of Single Window project.**



24

VI. B. FACILITATION: CONTENT OF THE DECREE



- ▶ **The Desk, and its functionality.**
 - Definition: All procedures and payments of foreign trade in the same web site.
 - Reengineering of paperwork.
 - Advanced Electronic Signature.
- ▶ **Implementation Schedule with immovable deadlines.**

Stage 1	Stage 2	Stage 3
Economy and Customs	National Defense, Environment and Health	Energy, INBAL, Cultural, CMC and CRT
At September 30, 2011	At January 30, 2012	At June 30, 2012
- ▶ **Outline of Government Interministerial Commission responsible for:**
 - Strategic decisions and supervision of project implementation.
 - Convene the private sector when necessary.
- ▶ **Operation Window.**
 - Once implemented, the operation of the Single Window would be in charge of the Ministry of Finance.

25


VI. B. FACILITATION: ORDER STATUS WINDOW



- ▶ **The draft decree was prepared jointly by the Ministry of Finance and Economy, and it was signed by the Secretary of Economy.**
- ▶ **It is currently under review by Attorney General for signature of the holder of The Ministry of Finance.**
- ▶ **Then continue:**
 - Review of the Presidential Legal Counsel,
 - With support from the Ministry collected the signatures of the Secretaries missing: Civil Service, Agriculture, Environment, National Defense, Education, Energy, and
 - Once signed by all the Secretaries would be subject to the decree signed by the President.
- ▶ **It is estimated that the decree be published later this year.**

26

VI. B. FACILITATION: TENDER STATUS WINDOW




► **The status of the bidding process Single Window, to date, is as follows:**




- ❶ Publication of "Project Call for Public Bidding" (Pre-Bases) in the Portal SAT: May 21.
- ❷ Publication of Call for obtaining authorization FACL Titles: June 15
- ❸ Signature FACL Committee Act: Week 21 to June 25
- ❹ Call the sub-committee reviewing the Pre-Bases: Week 28 to July 2.
- ❺ Social Witness: 8 weeks after signing the Act of FACL
- ❻ TENDER BASES Publication: August 2
- ❼ Estimated Decision: October 1

27

VI. B. FACILITATION: WINDOW PROJECT DEADLINES



DEVELOPMENT PROJECT OF SINGLE WINDOW

INSTITUTE / MINISTRY	ACCIONES		
	Analysis and Design	Construction and Testing	Startup Application (% Of regulated trade in VU)
	FECHA LIMITE		
	2010	2010-2011	September 2011 (64%)
	2011	2011-2012	2012 (98%)
	2012	2012	2012 (100%)

28

VII. INSTITUTIONAL STRENGTHENING: FOREIGN TRADE COMMISSION (COCEX)



- Mexican foreign trade regulatory commission (COCEX) strengths:
 - A collegiate group which includes the participation of Ministries of: Economy, Treasure (SHCP), Foreign Affairs, Agriculture, Environment, Health, the Central Bank and The Federal Competition Commission, and
 - It's opinion is legally binding for implementing foreign trade measures (tariff and non-tariff regulation).
- To ensure continuity and technical soundness of the foreign trade regulation, the Ministry of Economy will empower the Commission to allow wider dissemination of its work by publishing their decisions, opinions and reports, and –eventually– providing [enforcement powers].

29 **3**

VIII. FINAL REMARKS



- There has been progress in the three major aspects of Trade Facilitation Program since 2008, and there are ongoing projects which will be concluded by the end of this administration.

A

**Tariff simplification and
reorganization
exception regimes**

B

**Customs and foreign
trade facilitation**

C

**Institutional
strengthening of the
COCEX**

30



END OF PRESENTATION

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31