RESPONSIBLE BUSINESS CONDUCT

Responsible Business Conduct Country Fact Sheet

MEXICO

OECD

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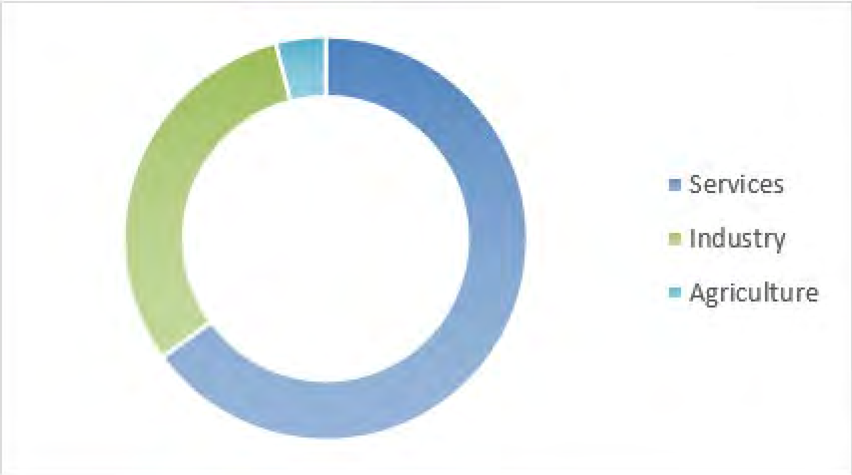
1. Country Overview

The OECD, in partnership with the International Labour Organisation (ILO), the Office of the United Nations High Commissioner for Human Rights (OHCHR), and the European Union (EU), has launched a four-year programme (2019-2022) to promote and enable Responsible Business Conduct in Latin America and the Caribbean (RBC LAC) in nine partner countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama and Peru). Under this programme, the OECD will contribute its expertise on Responsible Business Conduct to strengthen government policies for RBC, help business to conduct due diligence in priority sectors, and strengthen access to remedy by reinforcing National Contact Points for RBC (NCPs). This note provides background information and data on Mexico's trade and investment situation, with a focus on the agriculture and mining/extractives sectors.

Mexico is the 11th largest economy in the world and a member of the OECD since 1994 (OECD, 2018[1]). The Mexican economy, however, faces some challenges in reaching sustained growth and improving living standards. The gap in GDP per capita relative to the upper half of OECD countries remains large, due to low productivity levels (OECD, 2019[2]).

The economy is dominated by services (65% of GDP), industry with 31 % of the GDP and agriculture representing approximately 4% of GDP (Figure 1).

Figure 1. Value added by activity (2018)



Source: United Nations Statistics Division (UNSD) Mexico Economic Indicators, http://data.un.org/en/iso/mx.html

Mexico's GDP growth has been subdued, compared to other LAC countries, at 2.3% over the period 2006-2016 and is expected to remain close to 2% in the coming years (OECD, 2019[3]). The country has gone through major socio-economic changes in recent years, transforming from a protectionist and oil dependent country in the early 1990s to a major international manufacturing powerhouse, and gradually opening to foreign investment.

Table 1. GDP trends (2000-2017)

	2000	2005	2010	2015	2017
GDP (current bn USD)	707	877	1058	1171	1151
GDP (PPP) (current bn USD)	1098	1342	1743	2172	2360
GDP Growth (%)	4.9	2.3	5.1	3.2	2
GDP per capita (current USD)	6,959	8,089	9,016	9,298	8,910

Source: World Bank World Development Indicators, https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2017&locations=MX&start=2000

The latest OECD economic survey for Mexico shows that growth has not been strong enough to allow for convergence to higher living standards, reflecting low productivity due to largely structural factors: high informality influenced by complex regulations, resource misallocation, poorly functioning credit markets, low competition in key sectors, poor educational outcomes, and large infrastructure gaps (OECD, 2019[3]).

Recent INEGI data indicates that labour informality remains particularly high, at around 57% of total employment, in spite of the efforts made by the federal and state administrations to reduce it. Informality reaches a very high proportion of up to 80% of the workforce in the country's less developed states, but drops considerably in states with a significant manufacturing base (OECD/CAF, 2019[4]).

The Mexican economy, according to the 2013 Economic Census, hosted 5.6 million firms, 99.8% of which could be classified as SMEs if the definition used is based solely on employment. They employed 74% of workers. Microenterprises alone represent 94% of all firms and employ 39% of workers. (OECD/CAF, 2019[4]). Unemployment has remained low for most of the past decade (4.5% average), but the poverty reduction trend has not been as marked as in some of Mexico's regional peers. By 2012, the percentage of the population below the national poverty line remained above 50%, the same as two decades earlier (OECD, 2017[5]).

A key issue remains in terms of income disparity, as 20% of the population still earns 10 times as much as the 20% of the poorest population (OECD, 2018[6]). Inequalities are also visible in other dimensions: average hours worked are among the highest in the OECD, but low labour market participation of women hinder the contribution of labour to growth (OECD, 2019[2]). Regional disparities in Mexico are the sharpest among OECD members. In 2015, the richest federative entity (Campeche) had a GDP per capita 8.7 times higher than the poorest (Chiapas). Southern regions usually enjoy a lower wellbeing than northern ones (OECD, 2016[7]).

Mexico is a top performer in LAC in terms of the quality of its business environment, as per the World Bank 2020 Ease of Doing Business ranking. The country ranks at 60th in the world (out of 190), slightly below Chile's (59th). Two dimensions are particularly favourable: "Getting credit" (11th) and "Resolving insolvency" (33rd). Areas that are in need of improvement are "paying taxes", where Mexico ranks 120th and "registering property" (105th), the former because of a high tax rate and the latter because of the number of procedures required.

Similarly to other countries in the LAC region, the main obstacles perceived by businesses as reported in the World Bank Enterprise Survey (2016) are the practices of competitors in the informal sector, followed by tax rates and access to finance. While small firms share those views, medium-sized companies identify crime as the second obstacle (OECD, 2018[6]).

2. Investment

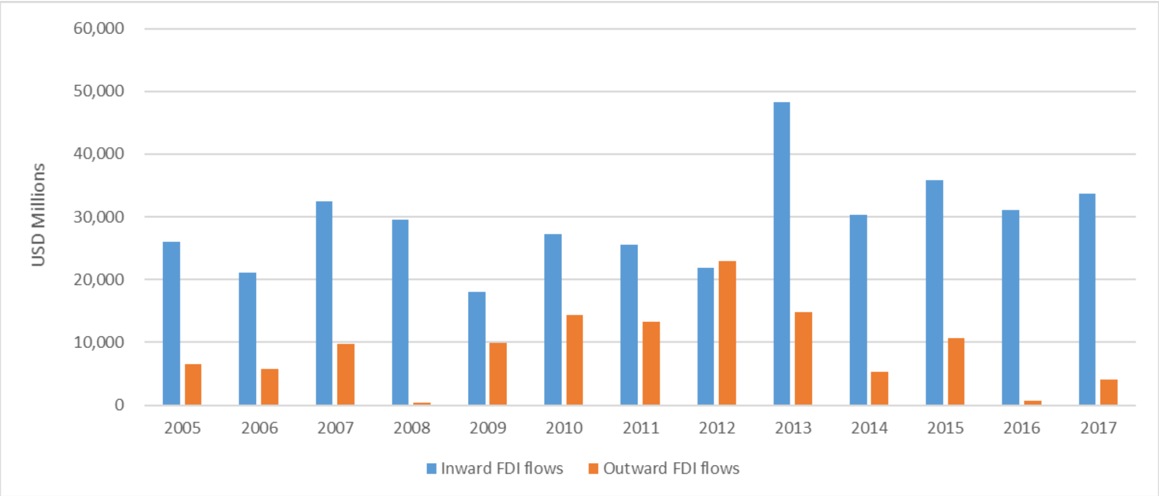
Mexico has made considerable efforts to open up to foreign investment since the 1990s. Statutory barriers to FDI, as measured by the OECD FDI Restrictiveness Index,[1] however, remain the highest within the LAC region and above the OECD average. The total stock of FDI stood at USD 490 Billion (42% of GDP) at the end of 2017 (OECD International Investment Statistics).

To date, Mexico has concluded around 35 bilateral treaties for the promotion and reciprocal promotion of investments (BITs) and 18 trade agreements with investment provisions (UNCTAD, 2020[8]).

The relationship between Mexico and the United States is important for both direct investment and trade as both countries are economically and geographically linked. According to the World Investment Report 2018, in 2016 Mexico ranked 16th place as foreign direct investment recipient with most of foreign investment directed to activities located close to the US border.

In 2018, inflows to Mexico remained stable at approximately USD 29 Billion, supported by record-high investments into the automotive industry (UN, 2018[9]). Mexican companies continue to invest internationally, with outflows totalling USD 4 Billion in 2017.

Figure 2. FDI flows, 2005-2017



Source: OECD International Investment Statistics Database

[1] The FDI Regulatory Restrictiveness Index (FDI Index) measures statutory restrictions on foreign direct investment in 22 economic sectors across 69 countries, including all OECD and G20 countries.

In 2017, the United States was the largest investor in the country comprising 42% of inward FDI stock, followed by the Netherlands with 11% and Spain with 5%. In 2017, the sectors that saw the highest inflows of foreign direct investments were manufacturing (42%), specifically in motor vehicles (23%), and services (35%), specifically transportation (10%) and finance (8%), and construction activities (10%).[2]

Table 2. Major foreign direct investors (2017)

	USD million	As a share of total inward stock %
Total inward FDI stock	490,574	100
United States	215,899	42%
Netherlands	83,214	11%
Spain	53,483	5%
United Kingdom	23,845	4%
Canada	18,034	3%
Germany	15,488	3%
Luxembourg	14,922	3%
Japan	12,634	2%
Switzerland	9,617	1%
France	5,870	1%

Source: OECD International Investment Statistics Database

[2] Data and calculations based on the OECD International Investment Statistics Database, available at: https://stats.oecd.org/

3. Trade

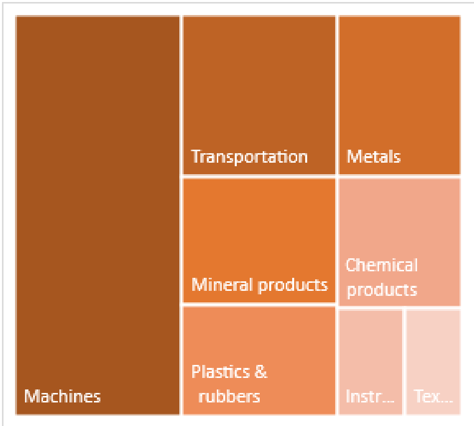
Trade in Mexico (exports plus imports) accounted for 80% of GDP in 2018 (OECD National Accounts statistics).

Mexico's export mix in gross terms is mainly represented by manufacturing products (81%) like machinery, transportation equipment (both for goods and passengers) as well as vehicle parts. Agricultural products such as dates and avocados represent approximately 8% and the rest are fuels and mining products in similar amounts. Imports (in gross terms) reflect a very similar pattern, with manufactures representing 81%, fuels and mining products 9%, and agricultural products such as corn accounting for 7% (WTO, 2019[10]).

Figure 3. Composition of exports (2017)

Source: The Observatory of Economic Complexity: An Analytical Tool for Understanding the Dynamics of Economic Development (2019), based on UN Comtrade, https://atlas.media.mit.edu/en/profile/country/mex/

Figure 4. Composition of imports (2017)



Source: The Observatory of Economic Complexity: An Analytical Tool for Understanding the Dynamics of Economic Development (2019), based on UN Comtrade, https://atlas.media.mit.edu/en/profile/country/mex/

To date, Mexico has concluded 10 Economic Complementation Agreements of Partial Scope in the framework of the Latin American Integration Association (ALADI) (ALADI, 2020[11]) and around 15 Free Trade Agreements (FTAs) with a wide range of countries (OAS, 2020[12]). In particular, the country recently concluded two important comprehensive regional trade agreements: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership Agreement (CPTPP), which was signed on 8 March 2018 (Government of Mexico, 2018[13]) and entered into force for Mexico and five other countries on 30 December 2018 (Government of Mexico, 2018[14]), and the Agreement between the United States, Mexico, and Canada (USMCA), which was signed on 30 November 2018 and should enter into force in 2020 (Government of Mexico, 2018[15]).

The biggest recipients of Mexico's total exports are the United States (80%), the EU (5.7%) and Canada (2.8%) (Table 3). Mexico's largest import partners are the United States (46.4%) followed by China (17.6%) and the EU (11.6%) (WTO, 2019[10]).

Box 1. EU-Mexico Trade Relationship

Trade between the EU and Mexico operates under the 2000 FTA but in April 2018, the EU and Mexico reached a new agreement on trade, part of a broader, modernised EU-Mexico Global Agreement for a duty-free trade relationship. With EUR 38 billion worth of EU goods exported to Mexico and EUR 24 billion of goods from Mexico to the EU in 2017, the EU is Mexico's second biggest trading partner after the United States. The majority of EU products into Mexico are industrial products such as machinery and transport equipment (16%), whereas exports from Mexico to the EU cover fuels and mining products, as well as office and telecommunication equipment.

Information drawn from: https://ec.europa.eu/trade/policy/countries-and-regions/countries/mexico/

Table 3. Top 10 export partners (2017)

Ranking	Country	Exports USD (2017) USD billion	% total exports
1	United States	327	80
2	Canada	11	2.7
3	Germany	6,9	1.70
4	China	6,7	1.64
5	Spain	4.2	1.04
6	Japan	4	0.99
7	Brazil	3.6	0.90
8	R. of Korea	3.4	0.84
9	India	3.3	0.82
10	Colombia	3.1	0.77

Source: World Bank (n;d), WITS, Mexico https://wits.worldbank.org/CountryProfile/en/Country/MEX/Year/2017/TradeFlow/Import/Partner/by-country/Show/Partner%20Name;MPRT-SHR-TTL-PRDCT;MPRT-TRD-VL;MPRT-PRTNR-SHR;AHS-WGHTD-AVRG;MFN-WGHTD-AVRG;TRF-NMBR-AGGRMNT;/Sort/MPRT-TRD-VL/Chart/top10

Table 3. Top 10 import partners (2017)

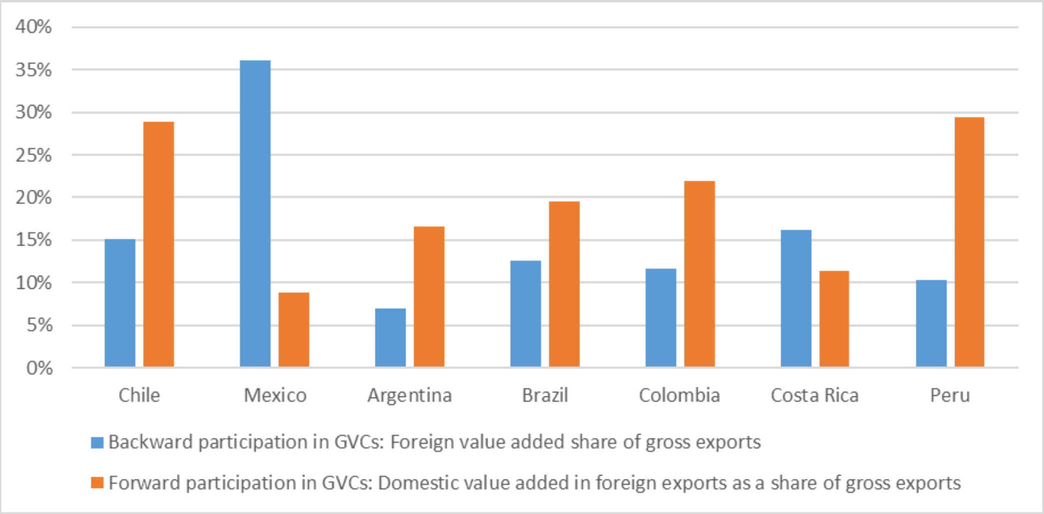
Ranking	Country	Imports USD (2017) USD billion	% total imports
1	United States	194	46.39
2	China	74	17.64
3	Japan	18	4.33
4	Germany	16	3.91
5	R. of Korea	15	3.75
6	Canada	9.7	2.33
7	Malaysia	7.8	1.88
8	Italy	6.1	1.47
9	Thailand	5.9	1.41
10	Brazil	5.4	1.29

Source: World Bank (n;d), WITS, Mexico https://wits.worldbank.org/CountryProfile/en/Country/MEX/Year/2017/TradeFlow/Import/Partner/by-country/Show/Partner%20Name;MPRT-SHR-TTL-PRDCT;MPRT-TRD-VL;MPRT-PRTNR-SHR;AHS-WGHTD-AVRG;MFN-WGHTD-AVRG;TRF-NMBR-AGGRMNT;/Sort/MPRT-TRD-VL/Chart/top10

Looking at trade in value added terms, TiVA statistics[3] convey that Mexico is well integrated into Global Value Chains (GVCs) through backwards participation[4] thanks to its manufacturing industry with medium-high to high technology in transport and electronics, but remains under the level of neighbouring countries in terms of forward participation, which are mostly integrated through mining.

More recent estimates show that in 2016, foreign value-added of Mexican exports was 36.4%, up from 32.3% in 2011, above the OECD average of 25.3% (OECD, 2018[17]), which shows a strong and increased integration into GVCs.

Figure 5. Backward and forward participation in GVCs, 2015



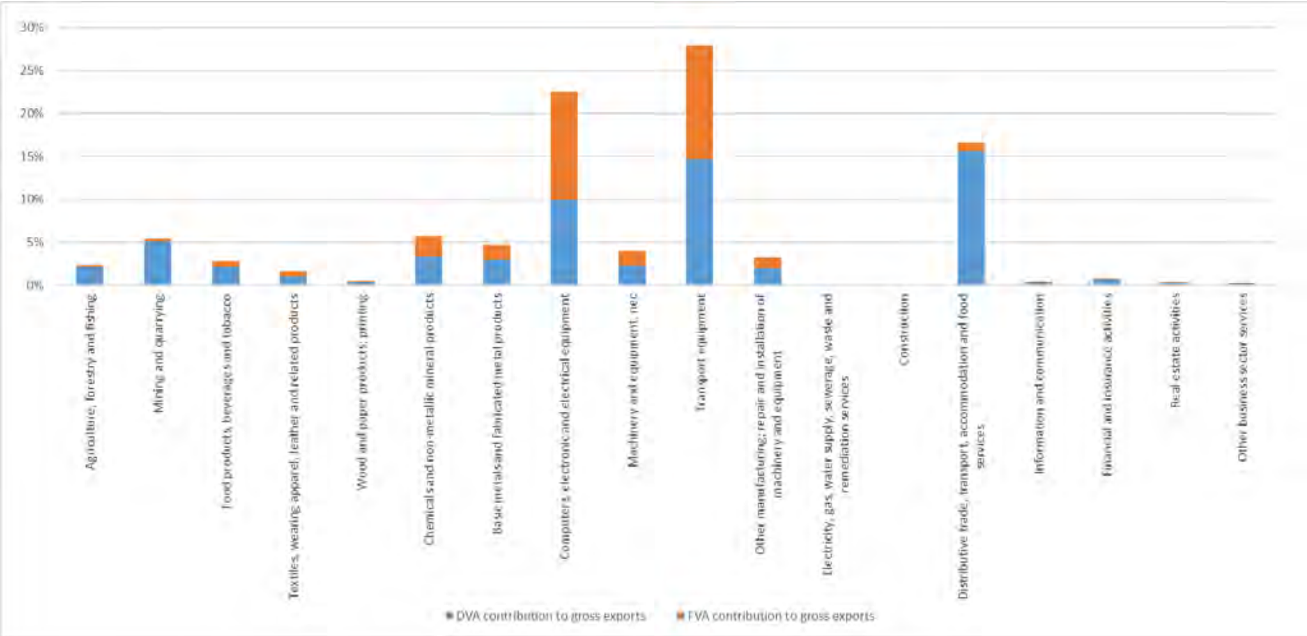
Note: Data for Ecuador and Panama are not available.
Source: OECD TiVA 2018

[3] The 2018 update of OECD's Trade in Value Added (TiVA) database provides a new suite of indicators to better understand complex trade relations and global supply chains that create value throughout the production and distribution process.

[4] Economies can contribute to global value chains by importing foreign inputs for producing the goods and services they export (backward GVC participation) and also by exporting domestically produced inputs to partners in charge of downstream production stages (forward GVC participation). These degrees of participation are measured empirically through ratios. Forward GVC participation corresponds to the ratio of 'domestic value added sent to third economies' to the economy's total gross exports. It captures the domestic value added contained in inputs sent to third economies for further processing and export through value chains. Backward GVC participation refers to the ratio of the 'Foreign value added content of exports' to the economy's total gross exports.

Figure 6. Industry shares of domestic and foreign value-added content of gross exports

As a percent of total gross exports, 2015



Source: OECD TiVA 2018

4. Responsible Business Conduct

Mexico adhered to the OECD Declaration on International Investment and Multinational Enterprises (Investment Declaration) upon its accession to the OECD in 1994. The National Contact Point (NCP) was established through Ordinance No. 92/2003. Currently, the Mexican NCP is attached to the General Directorate of Foreign Investment of the Ministry of Economy (see Box 2). Mexico also adhered to the Council Recommendations on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (2012); the Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector (2016); the OECD-FAO Guidance for Responsible Agricultural Supply Chains (2016); the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (2017), and the OECD Due Diligence Guidance for Responsible Business Conduct (2018).

Box 2. Mexico's National Contact Point at a glance

National Contact Points for Responsible Business Conduct (NCPs for RBC) are agencies established by governments. Their mandate is twofold: to promote the OECD Guidelines for Multinational Enterprises, and the related due diligence guidance, and to handle cases (referred to as "specific instances") as a non-judicial grievance mechanism.

The Mexican NCP was established in 1997 and is attached to the General Directorate of Foreign Investment of the Ministry of Economy. Currently the NCP is represented by one part time staff member.

The NCP has so far handled five specific instances. The Mexican NCP website is available here.

After its visit to Mexico in 2016, the UN Working Group on Business and Human Rights (UNWGBHR), noted that over the past years, international and national organisations and human rights mechanisms have drawn attention to serious human rights challenges facing Mexico. The Working Group also pointed out that one main concern relates to inadequate human rights due diligence on the part of the Government and business enterprises in the design and implementation of large-scale projects (mainly in the mining, energy, construction and tourism sectors), and in providing adequate reparation for harm caused, often to indigenous communities. In this regard, the UNWGBHR pointed to the OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector, which underlines the role of companies in avoiding and addressing adverse human rights impacts (OHCHR, 2016[18]).

Table 4. Adherence / ratification of international instruments

Instrument	Ratification or adherence
OECD Guidelines for Multinational Enterprises	Y
9 Core UN Conventions on Human Rights	9/9
UN Convention against Corruption	Y
Fundamental ILO Conventions	8/8
Extractives Industries Transparency Initiative (EITI) Member	N (The Government had confirmed its intention to join the EITI in January 2015)
Voluntary Principles on Security and Human Rights	N

Table 5. Rankings in global indices

Indicator	Country ranking	Number of countries
WEF Global Competitiveness Index (2019)	48	141
World Bank Doing Business (2020)	60	190
ITUC-CSI Global Rights Index (2019)	Rating 4	145
Yale Environmental Performance (2018)	72	180
Freedom House Freedom of the Press Index (2017)	139	198
RSF World Press Freedom (2019)	144	180
Global Slavery Index (2018)	114	167
WEF Global Gender Gap Index (2020)	25	153
Transparency International Corruption Perception Index (2019)	130	180
World Justice Rule of Law Index (2019)	99	126

Box 3. National policy and/or legal frameworks enabling RBC

Mexico’s commitment to develop a National Action Plan in Business and Human Rights (NAP) stems from the 2014-2018 National Human Rights Program (PNDH), which established the need to promote a human rights approach within the private sector, as well as in business policies and activities. In 2016, the Government started the process to develop a baseline for the NAP, while seven CSOs in parallel conformed the Mexican Focal Group on BHR to advocate for the NAP adoption, and to elaborate the Mexican National Baseline Assessment (NBA), which was presented in October 2016 (CSFG, 2016[19]), as a starting input for the NAP. This document was adopted by the Government as the official baseline. However, after the Government presented the second draft of the NAP in July 2017 (Government of Mexico, 2017[20]), the civil society Focal Group decided to leave the process, citing concerns over the lack of alignment of the draft with recommendations made by civil society, including improvement of access to justice and remediation for the affected communities (among others) (CSFG, 2017[21]). The Mexican Government is currently working -through the Ministry of the Interior (SEGOB)- on the preparation of the 2019-2024 National Human Rights Program (PNDH), which is expected to include actions related to business and human rights. As at March 2020, this Plan is still in a public consultation stage. Likewise, the Ministry of Economy works in coordination with the National Human Rights Commission (CNDH), the Ministry of Foreign Affairs, and the Ministry of Public Administration to strengthen the agenda on business and human rights, and develop a strategy to promote Responsible Business Conduct (RBC).

5. Target Sectors

5.1. Agriculture

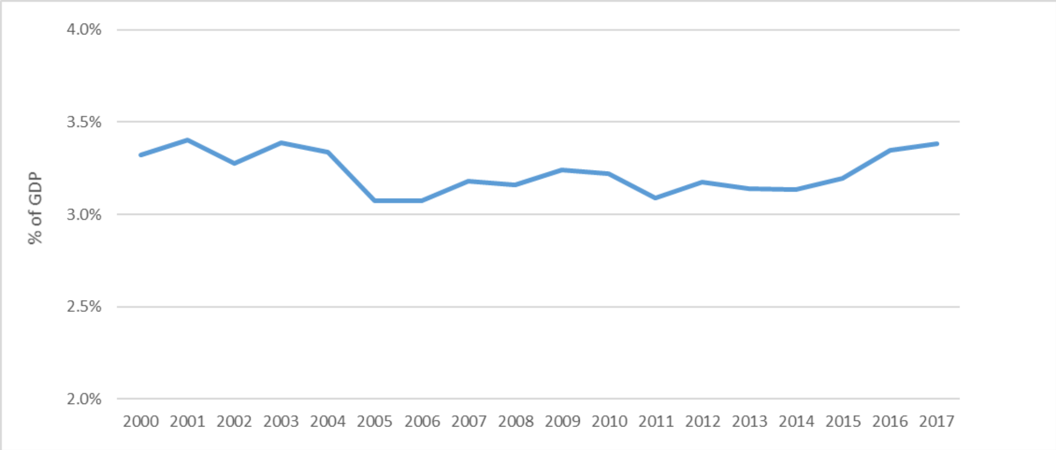
Mexico is a biodiverse country encompassing 10% of the world’s biological diversity. It benefits from a wide range of diversity of ecosystems and between 30-35% of the country is covered by forest and jungle and more than half of the world’s known species can be found on the territory (TEEB, 2019[19]). Mexico produces 200 different products and the agriculture sector remains today of importance accounting for 3.6% of GDP in 2018, up from 3.2% in 2005, and employs 13% of the population (UNSD, 2019[20]).

Agriculture remains crucial for the significant share of exports that it represents (after the dominant share of manufacturing) and especially for Mexico’s efforts in poverty alleviation. According to the 2018 OECD Latin American Economic Outlook , 7 out of 10 Mexicans are still living in poverty (OECD, 2018[6]) and rural populations, especially indigenous groups who represent about 20% of the overall population encompass two thirds of the extremely poor population who relies on agriculture as their main source of income (IFAD, 2017[21]). The agricultural sector is also one particularly supported by informal employment, with 6 million informal workers (OECD/CAF, 2019[4])

Since 2013, Mexico has experienced a strong increase in exports, driven by demand for avocado and high-value berry products (Oxford Business Group, 2019[22]). In the first semester of 2018, Mexico beat a new record, reaching USD 35 Billion in agricultural exports sent to 160 countries around the world (Seminis, 2018[23]). According to the World Trade Organisation, the top agricultural products exported in 2017 were corn, beer made from malt, dates, figs, pineapples and avocados (WTO, 2019[10])

In terms of production, small farms represent the majority of total production, making them vulnerable to external shocks such as climate change, competition from neighbouring countries or unfavourable labour and land policies (UNCTAD, 2013[24]). Other issues linked to smallholder production are the difficulty in accessing finance, as many farmers face challenges in accessing credit, and the limited investment in technology, infrastructure and technical assistance (IFAD, 2017[21]).

Figure 7. Agriculture, forestry and fishing value added (% GDP)



Source: World Bank Data, Mexico:
https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?end=2017&locations=MX&start=1995

Mexico's agriculture sector has taken significant steps in tackling environmental challenges, as the Government has been decided to reduce greenhouse gas emissions by 22% and black carbon by 51% by 2030 (Government of Mexico, 2016[25]). Demographic pressure, however, will be considerable: population is projected to increase by 36 million during the next two decades and therefore enough drinking water for this increase is needed. At the moment, Mexico still has the lowest rate of connection to public wastewater treatments plants of the OECD countries and needs to improve its water use efficiency in the upcoming years (OECD, 2018[1]).

Due to Mexico's geographical location and its coastal access, the country is prone to storms and floods. Climate change is already affecting the agricultural sector including the productivity of staple foods, due to the lack precipitations, the proliferation of pests and overall pollution (IPS News, 2017[26]). Biodiversity is endangered partly due to the conversion of ecosystems into crop and livestock production as well as overfishing. Other reasons for the loss of biodiversity include the use of fertilisers and pesticides as well as the construction of large infrastructures for transport, telecommunications, energy and tourism (OECD, 2018[1])

Relevant Initiatives

The Good Agricultural Practices Guide (*Manual de Buenas Prácticas Agrícolas)* is a voluntary guideline developed by the National Service of Health, Safety and Agrifood Quality (Government of Mexico, 2018[27]). The guide provides recommendations for governance, production and packaging. The government also provides accreditation for organically-produced agricultural products (Orgánico SAGARPA) after a verification process that covers environmental issues, including the use of specific agrochemicals and genetically-modified materials (Controlunion Certifications, 2020[28]).

Alongside government-led initiatives, several industry associations and CSOs implement relevant initiatives that are commodity-specific. The Association of Exporting Producers and Packers of Avocado of Mexico (*Asociación de Productores y Empacadores*

Exportadores de Aguacate de México, APEAM) works with actors in the supply chain and stakeholders to promote responsible production and processing of avocados (APEAM, 2020[29]). Among other certifications, the Fairtrade Foundation has certified roughly 100 Mexican companies that improve working conditions, strengthen environmental protection, and promote gender equality in the fruit and vegetables, coffee, and cocoa sectors.

5.2. Extractives/Minerals

The extractives sector remains an important, albeit not dominant, sector of the Mexican economy. Mexico's economy has become increasingly oriented towards manufacturing, but extractives still account for 4% of GDP (Government of Mexico, 2019[30]). In 2017, Mexico saw an increase in exploration investment after four years of decrease as investment in the mining sector rose to USD 5.5 billion in 2017 from USD 3.7 billion the previous year. In 2017, Mexico remained the sixth-largest recipient of investment for exploration globally after Canada, Australia, United States, Chile and Peru, according to S&P Market Intelligence (Mexico Business, 2018[31]).

Around 70% of Mexico's territory contains outstanding geological potential for mining (Government of Australia, 2019[32]). Silver is the most important product as Mexico is the world's largest producer, followed by copper, 7th in the world, petroleum placed as 12th (ProMexico, 2019[33]) and gold as 9th (Holmes, 2018[34]). Mexico has the largest number of exploration projects per km^2 in Latin America, with 290 foreign mining companies operating 988 projects and employing a total of 370,000 jobs directly and over 1.7 million jobs indirectly (Government of Australia, 2018[35]).

The fast development and economic success of extractives and minerals has also led to a rise in social concerns (Reuters, 2018[36]). In the last decade, the country has seen a movement of popular opposition to mining projects with tensions over land and water resources especially in indigenous communities. Cases of security risks such as extortion, harassment of mining staff or kidnapping have also accentuated tensions between local communities and mining companies (Flannery, 2018[37]).

Local communities have shown concern as to the mining industry's impact on their health and on the environment following cases of chemical spill overs (Flannery, 2014[38]) or environmental degradation of local biodiversity (Observer, 2017[39]).

Relevant Initiatives

There are several national and regional initiatives that aim to enhance the extractive sector's conduct in terms of both sustainability and good governance. For example, various gold mines in Mexico use the Towards Sustainable Mining (TSM) protocol, a standard developed by the Mining Association of Canada that includes community engagement, sustainable environmental practices, and fostering work safety and health of employees and neighbouring communities (Government of Canada, 2020[40]). Various mining companies in Mexico are further certified by the Conflict-Free Gold Standard. The Natural Resource Governance Institute also provides technical assistance on improving transparency and good governance in the hydrocarbon sector and transparent contract management.

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