Mexico

RISK & COMPLIANCE REPORT

DATE: January 2017

KNOWYOURCOUNTRY

Executive Summary - Mexico	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	US Dept of State Money Laundering Assessment Corruption Index (Transparency International & W.G.I.) International Narcotics Control Majors List Not on EU White list equivalent jurisdictions
Medium Risk Areas:	World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)

Major Investment Areas:

Agriculture - products:

corn, wheat, soybeans, rice, beans, cotton, coffee, fruit, tomatoes; beef, poultry, dairy products; wood products

Industries:

food and beverages, tobacco, chemicals, iron and steel, petroleum, mining, textiles, clothing, motor vehicles, consumer durables, tourism

Exports - commodities:

manufactured goods, oil and oil products, silver, fruits, vegetables, coffee, cotton

Exports - partners:

US 78% (2012)

Imports - commodities:

metalworking machines, steel mill products, agricultural machinery, electrical equipment, car parts for assembly, repair parts for motor vehicles, aircraft, and aircraft parts

Imports - partners:

US 49.7%, China 14.9%, Japan 4.7% (2011)

Investment Restrictions:

There are 20 activities in which foreigners may only invest 49 percent; 13 in which Foreign Investment National Commission approval is required for a 100percent stake; five reserved only for Mexican nationals; and 10 reserved for the government of Mexico. Below is a summary of activities subject to investment restrictions:

Sectors Reserved for the State in Whole or in Part:

A. Petroleum and other hydrocarbons;

B. Basic petrochemicals;

C. Telegraphic and radio telegraphic services;

D. Radioactive materials;

E. Electric power generation, transmission, and distribution;

F. Nuclear energy;

G. Coinage and printing of money;

H. Postal service;

I. Control, supervision and surveillance of ports of entry

Sectors Reserved for Mexican Nationals:

A. Retail sales of gasoline and liquid petroleum gas;

B. Non-cable radio and television services;

C. Development Banks (law was modified in 2008);

D. Certain professional and technical services;

E. Domestic transportation for passengers, tourism and freight, except for messenger or package delivery services.

U.S. and Canadian investors generally receive national and most-favored-nation treatment in setting up operations or acquiring firms in Mexico.

Contents

Section 1 - Background

The site of several advanced Amerindian civilizations - including the Olmec, Toltec, Teotihuacan, Zapotec, Maya, and Aztec - Mexico was conquered and colonized by Spain in the early 16th century. Administered as the Viceroyalty of New Spain for three centuries, it achieved its independence early in the 19th century. The global financial crisis beginning in late 2008 caused a massive economic downturn the following year, although growth returned quickly in 2010. Ongoing economic and social concerns include low real wages, underemployment for a large segment of the population, inequitable income distribution, and few advancement opportunities for the largely indigenous population in the impoverished southern states. The elections held in 2000 marked the first time since the 1910 Mexican Revolution that an opposition candidate - Vicente FOX of the National Action Party (PAN) - defeated the party in government, the Institutional Revolutionary Party (PRI). He was succeeded in 2006 by another PAN candidate Felipe CALDERON, but the PRI regained the presidency in 2012. Since 2007, Mexico's powerful drug-trafficking organizations have engaged in bloody feuding, resulting in tens of thousands of drug-related homicides.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF Status

Mexico is not currently on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Mexico was undertaken by the Financial Action Task Force (FATF) in 2008. According to that Evaluation, Mexico was deemed Compliant for 7 and Largely Compliant for 17 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 5 of the 6 Core Recommendations.

Key Findings from latest Mutual Evaluation follow-up (2014)

US Department of State Money Laundering assessment (INCSR)

Mexico was deemed a Jurisdiction of Primary Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Mexico remains a major transit country for cocaine and heroin and source country for heroin, marijuana, and methamphetamine destined for the United States. Proceeds of the illicit drug trade leaving the United States are the principal source of funds laundered through the Mexican financial system. Other significant sources of laundered funds include corruption, tax-evasion, influence peddling, kidnapping, extortion, intellectual property rights violations, human trafficking, and trafficking in firearms. Sophisticated and well-organized drug trafficking organizations based in Mexico take advantage of the extensive U.S.-Mexico border, the large flow of legitimate remittances, Mexico's proximity to Central American countries, and the high volume of legal commerce, to conceal illicit financial transfers to Mexico. The smuggling of bulk U.S. currency into Mexico and the repatriation of the funds into the United States via couriers or armored vehicles remain commonly employed money laundering techniques. Additionally, the proceeds of Mexican drug trafficking organizations are laundered using variations of trade-based methods, particularly after Mexico placed restrictions in 2010 on amounts of U.S. dollar deposits. For example, checks and wires from so-called "funnel accounts" are used by Mexico-based money "brokers" to acquire goods, which are exchanged for pesos in Mexico, or to sell dollars to Mexican businesses. The combination in Mexico of a sophisticated financial sector and a large cash-based informal sector complicates money laundering countermeasures. According to Global Financial Integrity, Mexico had more than $77 billion in illicit financial outflows in 2013 due primarily to abusive trade misinvoicing.

Do financial institutions engage in currency transactions related to international narcotics trafficking that include significant amounts of US currency; currency derived from illegal sales in the U.S.; or illegal drug sales that otherwise significantly affect the U.S.: YES

Criminalization of money laundering:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Are legal persons covered: criminally: YES ***civilly:*** YES

Know-your-customer (KYC) rules:

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

KYC covered entities: Banks, mutual savings companies, insurance companies, securities brokers, retirement and investment funds, financial leasing and factoring entities, money exchangers, *centros cambiarios* (unlicensed foreign exchange centers), savings and loan institutions, money remitters, SOFOMES (multiple purpose corporate entity), SOFOLES (limited purpose corporate entity), general deposit warehouses, casinos, notaries, lawyers, accountants, jewelers, realtors, non-profit organizations (NPOs), armored car transport companies, armoring services, construction companies, art dealers and appraisers, credit card system operators, prepaid card services, and traveler's checks services

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 113,550: January 2015 - October 2015

Number of CTRs received and time frame: 5,200,000: January 2015 - October 2015

STR covered entities: Banks, mutual savings companies, insurance companies, securities brokers, retirement and investment funds, financial leasing and factoring entities, money exchangers, *centros cambiarios* (unlicensed foreign exchange centers), savings and loan institutions, money remitters, SOFOMES, SOFOLES, general deposit warehouses, casinos, notaries, lawyers, accountants, jewelers, realtors, NPOs, armored car transport companies, armoring services, construction companies, art dealers and appraisers, credit card system operators, prepaid card services, and traveler's checks services

money laundering criminal Prosecutions/convictions:

Prosecutions: Not available

Convictions: 14: September 2014 - June 2015

Records exchange mechanism:

With U.S.: MLAT: YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Mexico is a member of both the FATF and the Financial Action Task Force of Latin America (GAFILAT), a FATF-style regional body.

Enforcement and implementation issues and comments:

The Secretariat of Credit and Public Debt (SHCP), equivalent to the U.S. Department of Treasury, passed a new regulation in December 2014 allowing Mexican banks to share information with international banks, including U.S. banks. Prior to this rule, Mexican banks could not share any customer or related information with foreign banks because of strict provisions of Mexico's privacy laws. The new regulation will allow Mexican banks to answer questions from international banks regarding the nature, purpose, and origin of financial transactions. SHCP also changed the regulations governing *casas de cambio,* or foreign exchange houses, requiring individuals to present identification regardless of the amount of currency exchanged.

Also in 2014, in an effort to boost economic growth, the SHCP decided to revisit the 2010 regulation placing limits on the amount of U.S. dollar cash deposits that could be made into banks in border areas. The original intent of the 2010 regulation was to keep illicit cash proceeds smuggled from the United States out of the Mexican banking system. Modifications in 2014 loosen the restrictions on dollar deposits for border and tourist-area businesses that have been operating for at least three years, provide additional information to financial institutions justifying the need to conduct transactions in U.S. currency, and provide three years of financial statements and tax returns. Very few Mexican financial institutions have taken advantage of these new regulations. It is unclear whether this is due to the additional reporting requirements attached to the 2014 regulatory changes, or to a lack of interest in receiving larger U.S. dollar deposits. U.S. dollars are widely used to conduct day-to-day transactions on the Mexican side of the border area.

On March 5, 2014, the government enacted article 421 of the new National Code of Criminal Procedures that covers liability for legal persons. Mexico is condensing 32 codes into one federal code. Implementation of the new code is a major task and will continue beyond 2016.

According to documents produced in Mexico's Attorney General's Office (PGR), during 2013 – 2014 the amount of laundered money seized in Mexico was only $13 million. Considering that both Mexican and U.S. estimates for the amount of money laundered annually in Mexico is in the tens of billions of dollars, the low seizure rate is noteworthy.

The Government of Mexico should address the low money laundering seizure rate. Particular scrutiny should be placed on businesses involved in laundering drug money or other financial crimes and their relationship in financing political campaigns at the local, state and federal levels. Drug cartels have begun using front businesses to buy public debt in states with unusually high deficits, such as Coahuila and Chiapas, further exerting control over the political process. Corruption is an enabler of money laundering and its predicate offens

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Mexico does not conform with regard to the following government legislation: -

- **Ability to freeze assets without delay:** The government has an independent national system and mechanism for freezing terrorist assets in a timely manner (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and/or other property belonging to terrorists or terrorist organizations).

EU White list of Equivalent Jurisdictions

Mexico is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Mexico is not considered to be an Offshore Financial Centre

Key Findings from other US State Department Reports:

Narcotics - 2016

Mexico remains a major transit country for cocaine and heroin and a source country for heroin, marijuana, and methamphetamine destined for the United States. Narcotics trafficking and related violence in Mexico continue to pose significant problems to citizen security and economic development.

According to the most recently available statistics, published by Mexico's statistics agency (INEGI) in September 2015, reported homicides decreased by nearly 15 percent and kidnappings decreased by 22 percent from 2013 to 2014. However, an estimated 93 percent of all crimes went either unreported or uninvestigated in 2014.

Mexico actively combats drug trafficking organizations and U.S.-Mexico cooperation in this area is substantial. The Merida Initiative is a major component of these efforts; since 2008, nearly $1.5 billion in training, equipment, and technical assistance has been delivered to help strengthen Mexico's judicial and security institutions. U.S. and Mexican law enforcement counterparts cooperate on investigations and other criminal justice issues related to transnational criminal organizations. Such cooperation boosted efforts to capture leaders of these groups. These successes, however, have resulted in smaller, fractured groups that violently compete for power, terrain, and market share.

Mexican consumption of illicit drugs is lower than U.S. levels, although insufficient data exists to determine current consumption trends.

Corruption

As a matter of government policy, the Government of Mexico does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. Although federal anticorruption standards are improving, corruption continues to impede Mexican counternarcotics efforts. The Mexican government has taken steps to reduce corruption in law enforcement and has designated the National System for Public Security as the agency responsible for overseeing stronger vetting for law enforcement personnel.

In February 2015, President Peña Nieto announced an eight-point anti-corruption plan to enhance the government's commitment to eliminating corruption and increasing transparency. He appointed Virgilio Andrade as the head of the revived Secretariat of Public Administration, which will lead the government's anti-corruption efforts. In April, the Mexican Congress passed legislation to create a new anti-corruption system; however, implementing legislation has not yet been passed.

Mexican law enforcement officials remain poorly compensated, under-resourced, inadequately trained, and vulnerable to corruption. Each state and the Federal District have established centers responsible for vetting law enforcement officers. Progress has been uneven, but the centers have had some success identifying corrupt individuals, prompting the removal of officers, and the rejection of police recruits. The Mexican government and some state governors have conducted large-scale dismissals of corrupt police, but work remains to ensure only fully vetted officials remain in the ranks. Some Mexican law enforcement entities have also established, restructured, or augmented their internal affairs offices.

Trafficking in Persons

Mexico is classified a Tier 2 country - A country whose governments does not fully comply with the Trafficking Victims Protection Act's minimum standards, but are making significant efforts to bring themselves into compliance with those standards.

Mexico is a large source, transit, and destination country for men, women, and children subjected to sex trafficking and forced labor. Groups considered most vulnerable to human trafficking in Mexico include women, children, indigenous persons, persons with mental and physical disabilities, migrants, and LGBT Mexicans. Mexican women and children, and to a lesser extent men, are exploited in sex trafficking within Mexico and the United States, lured by fraudulent employment opportunities, deceptive offers of romantic relationships, or extortion, including through the retention of identification documents or threats to notify immigration officials of victims' immigration status. NGOs report that transgender Mexicans in prostitution are vulnerable to sex trafficking. Mexican men, women, and children are exploited in forced labor in agriculture, domestic service, manufacturing, food processing, construction, the informal economy, forced begging, and street vending in both the United States and Mexico. In 2013, Mexican authorities identified 275 Mexican workers and family members exploited in debt bondage at a tomato processing plant. Residents at some substance addiction rehabilitation centers, women's shelters, and state institutions for people with disabilities have been subjected to forced labor and forced prostitution by shelter staff or criminal groups.

The vast majority of foreign victims in forced labor and sexual servitude in Mexico are from Central and South America, particularly Guatemala, Honduras, and El Salvador; some of these victims are exploited along Mexico's southern border. Victims from the Caribbean, Eastern Europe, Asia, and Africa have also been identified in Mexico, some en route to the United States. Child sex tourism persists in Mexico, especially in tourist areas such as Acapulco, Puerto Vallarta, and Cancun, and in northern border cities such as Tijuana and Ciudad Juarez. Many child sex tourists are from the United States, Canada, and Western Europe, though some are Mexican citizens.

Organized criminal groups profit from Mexican citizens and foreign migrants in sex trafficking and force some Mexican and foreign men, women, and children to engage in illicit activities, including work as hit men, lookouts, and in the production, transportation, and sale of drugs. Media reports indicate that criminal groups use forced labor in coal mines and for digging drug-smuggling tunnels under the border with the United States. Some criminal groups have kidnapped professionals, including architects and engineers, for forced labor. In

2013, Mexican officials identified a religious sect that allegedly forced members to engage in prostitution and forced labor.

The Government of Mexico does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government issued implementing regulations for the 2012 anti-trafficking law and continued to operate a high-security shelter in the capital for female sex trafficking victims participating in the legal process against their traffickers. Federal and state governments engaged in a range of prevention activities. The government reported increased trafficking convictions and sentences in comparison with the previous year. It was difficult to assess government efforts to identify and assist victims and to investigate and prosecute trafficking cases, as data collection on victim identification and law enforcement efforts was uneven. Official complicity continued to be a serious problem. Government funding for specialized victim services and shelters remained inadequate and these services were virtually nonexistent in much of the country. Victim identification and interagency coordination remained weak in many parts of the country.

Terrorist Financing 2015:

Overview: Cooperation between the Mexican and U.S. governments on counterterrorism remained strong in 2015. In the wake of the Paris attacks, Mexican officials reaffirmed their commitment to counterterrorism measures. There are no known international terrorist organizations operating in Mexico, and there is no evidence that any terrorist group has targeted U.S. citizens in Mexican territory.

Legislation, Law Enforcement, and Border Security: Mexico has a legal framework for the investigation and prosecution of terrorism and related crimes, including a special prosecutorial unit within the Office of the Attorney General dedicated to such investigations.

The Government of Mexico continued to work towards meeting its June 2016 deadline to transition from an inquisitorial to an accusatorial justice system. All of Mexico's 31 states and the Federal District have begun to transition to the accusatory criminal justice system. As of November 2015, eight states have transitioned to the new criminal justice system for crimes under federal jurisdiction and six have done so at the state level.

Mexican government agencies collaborated well with U.S. law enforcement agencies on legal action against persons who raise terrorism concerns. The Government of Mexico is receptive to counterterrorism training opportunities and equipment donations. Mexican officials have the investigative, operational, and tactical skills needed for counterterrorism work due in part to their frequent counter-narcotics operations.

In 2015, the U.S. Department of State's Antiterrorism Assistance (ATA) training program, and other U.S. counterterrorism efforts, trained Mexican Federal Police, the Attorney General's Office representatives, and Customs and Immigration officials, among other authorities.

Mexico's border security enforcement capabilities continued to be focused at the U.S.-Mexico border and have increased apprehensions of undocumented migrants along its southern border with Guatemala. Mexico's border enforcement efforts are shared among

Federal Police, military authorities, and Customs and Immigration agencies, the latter of which has primary authority to interdict migrants. Corruption sometimes hinders the effectiveness of enforcement efforts. The National Institute of Migration adequately collects and disseminates passenger information for persons of interest and incorporates INTERPOL watchlists into their database.

Mexican security agencies track open-source reports claiming that terrorist training camps existed in Mexico, most recently in April 2015. In each instance, the media reports have been found to be unsubstantiated.

Countering the Financing of Terrorism: Mexico belongs to the Financial Action Task Force (FATF), the Financial Action Task Force in Latin America, and is a supporting nation of the Caribbean Financial Action Task Force, a FATF-style regional body. Its Financial Intelligence Unit is a member of the Egmont Group. In 2014, Mexico passed several amendments to existing legislation to counter the financing of terrorism. The amendments criminalized terrorism financing, created an exception to rules governing the dissemination of third-party fiscal data to comply with new terrorism financing laws, and sanctioned the immediate freezing of terrorist accounts and the seizure of terrorist assets based on both Mexican and international intelligence.

Countering Violent Extremism: Interior Secretary Miguel Angel Osorio Chong represented the Government of Mexico at The White House Summit on Countering Violent Extremism in Washington, DC, in February. The Government of Mexico sent a representative to the July 2015 follow-on meeting in Rome.

International and Regional Cooperation: Mexico participates in the Organization of American States' Inter-American Committee against Terrorism. Additionally in 2015, the Government of Mexico expressed interest in hosting a Global Initiative to Combat Nuclear Terrorism multilateral training exercise in 2016.

International Sanctions

Mexico is not currently subject to any International Sanctions

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	30
World Governance Indicator – Control of Corruption	25

US State Department

Corruption is pervasive in almost all levels of Mexican government and society. President Calderon pledged that his government would fight against corruption in government agencies at the federal, state and municipal levels. Aggressive investigations and operations have exposed corruption at the highest levels of government. President Pena Nieto through PRI lawmakers submitted to the Mexican congress proposals to reorganize his cabinet, among which is the creation of a National Anti-Corruption Commission. The new commission will absorb the duties of the present Secretariat of Public Function/Administration, which currently has the government’s anti-corruption oversight role. The aim is to have an impartial and autonomous entity with full capacity to combat corruption.

Mexico’s Congress passed the Federal Anti-Corruption law in June 2012 and the Anti-Money Laundering Llaw (or the illicit finance law) in October 2012. The Anti-Money Laundering Law obligates Designated Non-Financial Businesses & Professions (DNFBP) to identify their clients and report suspicious operations or transactions above designated thresholds to the Secretariat of Finance (SHCP), establishes a Specialized Financial Analysis Unit (UEAF) in the Office of the Attorney General (PGR), restricts cash operations in Mexican pesos, foreign currencies and precious metals for a variety of “vulnerable” activities, and imposes criminal sanctions and administrative fines on violators of the new legislation. For more information on the anti-money laundering law, please consult: http://www.dof.gob.mx/nota_detalle.php?codigo=5273403&fecha=17/10/2012.

Mexico ratified the OECD Convention on Combating Bribery in May 1999. The Mexican Congress passed legislation implementing the convention that same month. The legislation includes provisions making it a criminal offense to bribe foreign officials. Mexico is a participating member of the OECD Working Group on Bribery. In the Working Group’s Phase 3 Review in October 2011, it acknowledged that Mexico has made progress but should further prioritize fighting foreign bribery. Mexico is also a party to the OAS Convention against Corruption and has signed and ratified the United Nations Convention against Corruption. The government has enacted or proposed strict laws attacking corruption and bribery, with average penalties of five to ten years in prison. The Transparency and Access to Public Government Information Act, the country's first freedom of information act, went into effect in June 2003 with the aim of increasing government accountability. Mexico's 31 states have passed similar freedom of information legislation that mirrors the federal law and meets international standards in this field. Transparency in public administration at the federal level has noticeably improved, but access to information at the state and local level has been slow.

According to Transparency International's 2013 Corruption Perceptions Index, Mexico scored 34 on a scale of 1 to 100 where lower numbers represent a greater perception of corruption. The tally places Mexico in 106th place out of 177 nations, a drop from 105th place out of 176 nations in 2012. Local civil society organizations focused on fighting corruption are still developing in Mexico. A handful of Mexican non-governmental organizations, including Mexico Without Corruption and the FUNDAR Center for Analysis and Investigation, work to study issues related to corruption and raise awareness in favor of transparency. The Mexican branch of Transparency International also operates in Mexico. The best source of Mexican government information on anti-corruption initiatives is the Secretariat of Public Administration (www.funcionpublica.gob.mx).

Bribery and Corruption - Global Advice Network

Political Climate

The National Action Party (PAN) was unable to bolster the country's economy or reduce violent drug wars, and as a result, was not able to secure power for another term, ending its 12 years rule in 2012. Enrique Peña Nieto of the Institutional Revolutionary Party (PRI) won the presidential election and assumed office in December 2012. However, many accused the PRI of buying votes, leading thousands to take to the streets in protest. Before 2000, the PRI governed the country for 71 years and was plagued by corruption, cronyism, and repression, according to a 2012 Bloomberg article. PRI candidate Peña Nieto was able to persuade voters that the party had learnt from their past transgressions and promised to reinvigorate the economy as well as reign in the drug violence terrorising the country, according to a July 2012 article by Reuters. During the campaign, Peña Nieto pledged to open the state-run oil industry to outside investment as well as overhaul tax and labour codes. However, according to the Bloomberg article, the newly elected president has instead been prioritising his anti-corruption agenda. When Congress reconvened in September 2012, Peña Nieto pushed as his first order of business for an anti-corruption panel, requirements for local authorities to increase transparency, and a citizen watchdog to keep a check on government spending on the media. According to the article, his decision to tackle corruption comes as an attempt to placate his opponents at the risk of postponing essential policies needed to boost the economy. Peña Nieto has, however, addressed this concern, stating that though his first three bills focus on reducing graft, it will not distract from his campaign promises of economic reform and competitiveness. As proof, the new president along with the leaders of the PRI, PAN and the Party of the Democratic Revolution (PRD) have signed an agreement detailing 95 priority commitments called the Pact for Mexico. The agreement aims for structural reforms in areas such as security, justice, the economy, and anticorruption, according to Freedom House 2013.

Mexico's anti-corruption strategy has focused on three areas: prisons, the police force, and customs. Former President Calderon once stated that cleaning up corruption in these sectors is of strategic importance for winning the fight against powerful drug cartels operating in the Northern States of Mexico. Using the army, some progress has actually been made in targeting smuggling activities, but a major scandal shook the campaign at the end of 2008 when top federal anti-drug officials were caught accepting bribes from drug cartels in return for information (see this profile's special page on drug trafficking and corruption in Mexico for more information). Collusion between public officials and drug criminals is not uncommon in Mexico. For example, according to a February 2012 article by Associated Press, nine prison guards admitted that they had accepted bribes in return for aiding drug-cartel criminals in escaping from prison. Another example, according to the US Department of State 2011, was the arrest of the former mayor of Cancun in May 2010 for money-laundering, drug trafficking and collaborating with drug traffickers. Between 1970 and 2010, Mexico lost an estimated USD 872 billion due to crime, corruption and tax evasion, according to a 2012 report by Global Financial Integrity. Many of the problems are fuelled by inadequate control systems in local state administrations, and some Mexican states suffer from notoriously poor governance. Sources report that local politicians are occasionally involved in corrupt activities and organised crime, but are nevertheless protected by local patronage networks and state power. The federal structure of the Mexican political system is thus frequently cited as contributing to the inefficiency of federal anti-corruption initiatives. High-profile cases are rarely prosecuted, but observes note that President Calderon's admission at the end of 2008 of the problem of corruption within the higher ranks of the public administration can potentially change the situation.

The US Department of State 2013 claims that corruption pervades nearly all levels of the Mexican government and society. Former President Calderon had promised to fight corruption in government agencies at the federal, state and municipal levels, and signed the federal anti-corruption law and the anti-money laundering law before the end of his term in 2012. Meanwhile, shortly after Peña Nieto's victory, the PRI drafted proposals for cabinet restructure to Congress, including the creation of a National an Anti-corruption Commission. The new commission will replace the Secretariat of Public Function/Administration, which is currently responsible for anti-corruption oversight. The goal is for an impartial and autonomous organisation with full capacity to fight corruption. The US Department of State 2013 mentions, however, that the Secretariat of Public Function/Administration has otherwise made significant progress in improving government transparency. For example, it had enhanced transparency and anti-corruption combat within government contracting and involvement of the private sector. Internet sites were developed to increase the transparency of government processes and to provide guidelines for government official conduct. Meanwhile, petty corruption is reportedly widespread and increasing in Mexico, with the average bribe climbing from USD 12 to USD 14 in 2010, according to the Transparencia Mexicana Índice Nacional de Corrupción y Buen Gobierno 2010. Latinobarómetro 2011 (see English version) reports that over half of the surveyed citizens believe that in order to improve the democracy in Mexico, corruption needs to be reduced, while more than a third of the respondents pointed to a need for an increase in transparency of the government.

Business and Corruption

According to the US Department of State 2013, the federal government has introduced several initiatives to reduce contact between companies and front-line officials, which have helped decrease the likelihood for extracting bribes in return for public services. Private companies form the backbone of the Mexican economy, and the federal government has introduced several measures to eliminate non-transparent practices in the public and private sectors in order to stimulate private sector growth. One such measure has been the establishment of the Federal Competition Commission (in Spanish), which is active in fighting monopolies in the Mexican economy. Furthermore, an approved tax reform came into effect in January 2008 that includes a much-debated corporate tax (IETU) and represents an attempt to stamp out tax fraud in the informal sector. Despite such initiatives, companies indicate in the World Economic Forum Global Competitiveness Report 2012-2013 that corruption and inefficient government bureaucracy continue to be the first and the third most problematic factors for doing business in Mexico, with crime and theft ranking second. Business bribery is not uncommon in Mexico and the use of bribes to expand business is often seen as the fastest way to obtain the legal necessities to allow expansion, regardless of the size of the company. The most recent business corruption scandal that hit headlines embroils Wal-Mart's Mexican subsidiary (Walmex) which allegedly paid more than USD 24 million in bribes to Mexican officials between 2003 and 2005 to facilitate approval of permits in order to expand its business (See 'Licences, Infrastructure and Public Utilities' in the Corruption Levels section for more information on this). Mexico is struggling with an enormous informal sector, and informal mechanisms are generally cited as a major problem by companies operating in Mexico. According to observers, small companies in Mexico are much more vulnerable to corrupt public officials and to the competition from the informal sector - estimated to constitute between 40 to 50% of the total economy.

According to the KPMG Fraud and Corruption 2010 (in Spanish), a survey conducted among 286 companies operating in Mexico, USD 1,400 million was estimated to be lost in Mexico's private sector to internal fraud in 2010 alone. KPMG's corresponding survey from 2008 shows that 44% of the companies surveyed paid bribes to public officials and did so most frequently at the municipal level. These bribes cost them an average of 5% of their annual revenues. Of the companies surveyed, 43% reported that they paid bribes primarily in order to circumvent slow and confusing procedures, while 32% paid bribes to obtain licences or permits and 21% to avoid abuses from authorities. As a consequence of not paying bribes to public officials, 47% of companies experienced slower procedures, 27% were punished with fines, 21% lost a contract and 7% lost public surveillance or protection of their companies. Furthermore, the World Bank & IFC Enterprise Surveys 2010 reveals that half of the surveyed companies identify corruption as a major constraint.

Business-to-business corruption is reportedly also a major problem. Business executives surveyed in the Global Competitiveness Report 2012-2013 indicate that the ethical behaviour of companies in Mexico constitutes a competitive disadvantage. Mexican companies perform poorly according to the Transparency International Bribe Payers Index 2011, which ranks Mexico 16th out of 28 leading exporting countries based on the propensity of their companies to bribe when operating abroad. The KPMG 2010 survey mentioned above shows that 75% of surveyed companies suffered from fraud at least once in the preceding year. Of those incidences of fraud, 77% were perpetrated internally by an employee either alone or in cooperation with a customer or business partner. 85% of these cases of fraud were committed by employees with operational or management positions and incurred financial losses between MXN 200,000 and MXN 1.1 million, whereas 15% of the cases involved top management and amounted on average to MXN 3.3 million. Fraud was typically detected by individual whistle-blowers and to a lesser extent by internal audit systems; however, only 30% of the surveyed companies had an internal programme to prevent fraud and in the majority of cases and thus it took more than a year to detect the malpractice. Above and beyond the reputational risk they run if caught engaging in corrupt practices, companies should be aware that they are also liable for bribery and corruption carried out by agents on their behalf. For these reasons, companies are advised to develop, implement and strengthen integrity systems and to carry out extensive due diligence before investing in and while doing business in Mexico.

Regulatory Environment

The Federal Commission on Regulatory Improvement (COFEMER, in Spanish), operating under the Secretariat of Economy (SECON), is responsible for reducing the regulatory burden on business. The Quality Regulatory Agreement of 2006 allows for the creation of new regulations only when agencies are able to prove that these are needed because of emergencies, in order to comply with international commitments, or because of obligations established by law. Figures from the World Bank & IFC Doing Business 2013 show that starting a business and obtaining a construction permit in Mexico are quicker than in other countries in the region. According to Transparency International's Global Corruption Report 2009, the shortening of the time required to start a company has resulted in a rise in registered companies, thus reducing the informal sector in the country. Moreover, Mexico has made much needed reductions in the number of payments and time spend on filing and paying taxes, which has traditionally been a competitive disadvantage in the country. Despite this, companies still cite bureaucratic bottlenecks and lack of administrative transparency as obstacles to business operations. In the World Economic Forum Global Competitiveness Report 2012-2013, the surveyed companies cite inefficient government bureaucracy as the third most problematic factor for doing business in Mexico. In addition, surveyed business executives report that although it is relatively easy to get information on changes in government policy-making and regulatory changes, it can be extremely burdensome to comply with governmental administrative procedures. According to the World Bank & IFC Enterprise Surveys 2010, senior managers spend nearly 14% of their time dealing with requirements of government regulation in Mexico. However, it must be noted that several surveys indicate that the level and type of regulatory burden and related corruption differ widely between Mexican regions and states (see this profile's special page on regional differences in the Mexican regulatory environment).

Despite some regulatory constraints, Mexico has made progress in simplifying procedures in relation to foreign investment. The Ministry of Economy (SE) has established the ProMexico portal through which companies can access information and forms, links, import/export permit applications, online tax payments and advice on investment and trade-related questions. The portal also provides companies with links to the Rapid Business Start-Up System that reduces the number of formalities required to open a company in Mexico. Similar initiatives have been developed in some of the states. The Foreign Investment Law 2006 (in Spanish), which is consistent with the foreign investment chapter in the North Atlantic Free Trade Agreement (NAFTA), regulates investments, and there are only a few restrictions on foreign investment. To strengthen ties between Mexican and foreign companies, the government-owned development bank Nacional Financiera (in Spanish) promotes Mexican-foreign joint ventures for the production of capital goods. Nacional Financiera provides loans to companies in priority development areas and industries. Companies investing in export processing zones, such as the maquiladora industry, should follow the Ministry of Economy's

IMMEX guidelines from late 2006 closely, preferably in close consultation with locally-based legal advisors.

Business executives surveyed by the World Economic Forum Global Competitiveness Report 2011-2012 report that the legal framework for private companies to settle disputes and challenge the legality of government actions and/or regulations, be it in relation to property rights or contract enforcement, is relatively inefficient and may be subject to manipulation. In addition, the US Department of State 2013 reports that commercial disputes, especially in real estate transactions, often take years to resolve in Mexican courts. Dispute settlement is provided for in Chapter 11 of the NAFTA agreement which states that investors may initiate arbitration under both the New York Convention 1958 (UNCITRAL) and the International Centre for Settlement of Investment Disputes (ICSID) rules. The Mexican government and courts generally recognise and enforce arbitral awards. Companies should also note that Mexico struggles with issues of falsification, such as infringements of intellectual property rights (IPR), which are poorly protected in practice. Many efforts are put into improving the protection of IPR, but corruption among customs officials, police officers and in the judicial system blocks many well-intentioned initiatives in this field. Access the Lexadin World Law Guide for a collection of legislation in Mexico.

Differences in the Regulatory Environment

Regional Differences in Corruption and the Regulatory Environment

Surveys indicate that the federal structure in Mexico entails great regional variations in the level and impact of corruption. These horizontal variations are compounded by vertical variations. For example, the level and impact of corruption differs from state to state is confirmed by the Transparencia Mexicana Índice Nacional de Corrupción y Buen Gobierno 2010. The index reveals that corruption in public services is more prevalent in the states of Estado de Mexico, Distrito Federal (Mexico City), Guerrero, Oaxaca and Hidalgo, whereas the states of Baya California Sur, Durango, Nayarit, Agusascalientes and Yucatán are perceived to be the least affected by corruption in public services. The states of Distrito Federal and Durango are the two that improved the most since the first ranking in 2001. According to this survey, the national level of corruption has hardly changed since 2001.

Companies should also be prepared to meet substantial differences in the regulatory environment from state to state in Mexico. The World Bank & IFC Doing Business 2012 reveals that many states in Mexico are fully competitive in a range of procedures affecting the business climate. All states are subject to the same laws but the municipal and state requirements vary, which can affect the number of procedures, the costs of meeting regulations, and the time it takes to do business in some states. These are some of the findings of the study:

Drug Trafficking and Corruption

Collusion, Bribery, Money Laundering and Violence Related to Drug Trafficking in Mexico

Mexico has been plagued by problems with drug cartels for many years. According to Freedom House 2013 and the US Department of State 2013, the situation has worsened over the past several years with a death toll of over 12,000 in 2012 alone. The government has deployed over 45,000 military troops to assist in the civilian law enforcement forces. Business executives surveyed by the World Economic Forum Global Competitiveness Report 2012-2013 indicate crime and theft as a problematic factor to doing business in Mexico, specifically pointing to organised crime as imposing large costs on businesses. The US Department of State 2013 also substantiates that security issues remain a concern for interested investors who often choose to take extra precautions for the safety of company executives.

Business executives surveyed by the World Economic Forum Global Competitiveness Report 2011-2012 indicate that security issues, such as high levels of crime, extortion and kidnappings, are often related to drug trafficking, and are among the most significant problems facing businesses operating in Mexico today. Episodes of violence frequently involve citizens who have reported drug-related crimes, resulting in reluctance and genuine fear on behalf of civilians to report such crimes. Journalists exposing connections between the drug cartels and politics have also been harassed and even killed. Moreover, according to Freedom House 2013, official corruption is still a severe problem. It is believed that USD billions in illegal drug money enter Mexico each year from the US, which is perceived to fund and affect politics, especially on the state and local levels. Often times, any attempt to prosecute officials for alleged corruption or involvement in criminal activity fail due to weak cases presented by the state. Freedom House 2013 reports that most punishment has focused on low- and mid-level officials, hundreds of whom have been discharged or accused of associations to drug traffickers.

On the political agenda, the fight against narcotics is a special focus area. Under the Calderon administration, the government devoted much attention and resources to combating organised crime related to drug trafficking. Global Integrity 2007 reports that, upon his election in 2006, former President Calderon said that he would be drug traffickers 'worst enemy'. The Mexican government's strategy has focused on three areas: 1) destroying cultivation fields, 2) stopping the trafficking of narcotics and chemicals used in their production, and 3) combating the organised crime flourishing around drug smuggling. Above the obvious criminal and negative social effects accompanying drug smuggling, the cartels' enormous economic power has fuelled high levels of police corruption. Especially in the Northern States, where cartels smuggle drugs into the US, the police is believed to be on cartels' payroll. An investigation of the police forces of Monterrey actually resulted in the arrest of 141 police officers reportedly working for the Gulf Cartel, which controls smuggling into Texas. According to a January 2012 article by BBC News, drug cartels have massive resources and have repeatedly managed to infiltrate the underpaid police at all levels. Freedom House 2013 also reports that state and municipal cops are often bribed by the cartels in exchange for protection and information. While a majority of Mexicans citizens continue to support the government’s efforts to crackdown on organised crime, opinion polls cited by Freedom House 2013 show that citizens are sceptical about official claims that the campaign has been making progress.

Mexico collaborates with the US to combat drug smuggling. In April 2010, Benjamin Felix, the former drug lord of a Mexican drug cartel, was extradited to the US for prosecution. According to a 2012 article by The Wall Street Journal, Benjamin was sentenced to 25 years in prison and ordered to forfeit USD 100 million after pleading guilty to racketeering and money laundering. According to the US Department of State Background Note 2011, in June 2008, former US President George Bush signed the congressional appropriations bill assigning assistance to Mexico as part of the Merida Initiative. As of the end of 2010, appropriated funds for Mexico had reached USD 1.5 billion. President Calderon, however, has been very outspoken regarding the necessity to work against the corruption that plagues US customs control and on the demand for drugs. For example, he suggests that the US government should focus on diminishing the use of narcotics in the US and work to diminish money laundering that remains a problem; the Mexican Prosecutor office estimates that between USD 10 and 25 billion in drug money enters Mexico from the US each year. Figures from the US Drug Enforcement Administration range between USD 25 and 30 billion. It is believed that drug money is used to influence the political system, especially at the local level.

Section 3 - Economy

Mexico's $1.3 trillion economy has become increasingly oriented toward manufacturing in the 20 years since the North American Free Trade Agreement (NAFTA) entered into force. Per capita income is roughly one-third that of the US; income distribution remains highly unequal. Mexico has become the United States' second-largest export market and third-largest source of imports. In 2013, two-way merchandise trade reached nearly $507 billion. Mexico has free trade agreements with over 50 countries including Guatemala, Honduras, El Salvador, the European Free Trade Area, and Japan - putting more than 90% of trade under free trade agreements. In 2012 Mexico formally joined the Trans-Pacific Partnership negotiations and formed the Pacific Alliance with Peru, Colombia and Chile. Mexico's current government, led by President Enrique PENA NIETO, emphasized economic reforms during its first year in office, passing education, energy, financial, fiscal and telecommunications reform legislation. The three-party "Pact for Mexico" reform agenda aims to improve competitiveness and economic growth across the Mexican economy.

Agriculture - products:

corn, wheat, soybeans, rice, beans, cotton, coffee, fruit, tomatoes; beef, poultry, dairy products; wood products

Industries:

food and beverages, tobacco, chemicals, iron and steel, petroleum, mining, textiles, clothing, motor vehicles, consumer durables, tourism

Exports - commodities:

manufactured goods, oil and oil products, silver, fruits, vegetables, coffee, cotton

Exports - partners:

US 78% (2012)

Imports - commodities:

metalworking machines, steel mill products, agricultural machinery, electrical equipment, car parts for assembly, repair parts for motor vehicles, aircraft, and aircraft parts

Imports - partners:

US 49.7%, China 14.9%, Japan 4.7% (2011)

Banking

Mexico's commercial banks offer a full spectrum of services ranging from deposit accounts, consumer and commercial lending, corporate finance, trusts and mutual funds, to foreign exchange and money market trading. Currently, 41 banks are operating in Mexico; seven of them have 87% of the market share by total assets and four banks are linked with retail stores.

Mexico's commercial banking sector has been opened to foreign competition. The North American Free Trade Agreement (NAFTA) permits U.S. and Canadian banks or any other foreign bank with a subsidiary in the United States or Canada to establish wholly owned subsidiaries in Mexico. Further, they are allowed to undertake financial inter-mediation or to solicit customers for their parent bank. Almost all major banks, with the exception of Banorte, are under the control of foreign banks.

Following the 1994 peso crisis, banks in Mexico have been very cautious in their lending, preferring to provide loans only to their most sound customers. However, now banks are beginning to implement programs for lending to a wider range of companies, although at relatively high rates. In general, small and medium enterprises (SMEs) have trouble accessing credit.

According to the Bank of Mexico (BANXICO), in the first quarter of 2010 only 21% of Mexican companies received financing from banks, while more than 84% obtained it through suppliers. Moreover, 95% of the Mexican private sector is comprised of micro companies, most of which, have limited access to credit.

The Mexican Government has enacted several incentives to encourage more lending to SMEs, but it remains to be seen whether the largest segment of the Mexican economy will gain better access to credit.

The Secretariat of Treasury & Public Credit (SHCP), the National Banking and Securities Commission (CNBV), and the Bank of Mexico (BANXICO) are the principal regulators of the banking system.

The Secretariat of Treasury & Public Credit is concerned with institutional issues such as licensing and sets credit and fiscal policies. The National Banking and Securities Commission, a semi-autonomous government agency, is responsible for supervision and vigilance. The Bank of Mexico (the Central Bank) implements these policies and also operates inter-bank check clearing and compensation systems.

The Institute for the Protection of Bank Savings (IPAB, replacing the former institution FOBAPROA) acts as a deposit insurance institution. The Mexican Banking Association (ABM) represents the interests of Mexico's banks.

Development Banks:

The mission of development banks is to fill financing shortfalls in the commercial banking sector. Mexico has seven government-owned development banks that provide services to specific areas of the economy. The dominant institutions are Nacional Financiera (Nafinsa) and the Foreign Trade Bank (Bancomext). These institutions have become primarily second-tier banks that lend through commercial banks and other financial intermediaries such as credit unions, savings and loans, and leasing and factoring companies. Nafinsa's primary program funds micro, small and medium-sized businesses. Nafinsa also undertakes strategic equity investments and contributes equity to joint ventures. Bancomext provides financing to Mexican exports and to small and medium-sized companies. It also offers working capital, project lending, and training to firms in several specific sectors that require support, such as textiles and footwear.

Stock Exchange

Founded in 1866, the Mexican Stock Exchange, or Bolsa Mexicana de Valores (BVM), is Mexico's only stock exchange. It is the second largest stock exchange by market capitalisation in Latin America. BMV is now itself is a public company which is listed on its own stock exchange following a 2008 IPO.

The Mexican Stock Exchange actively trades stocks, debentures, debt instruments (government and corporate bonds), and warrants and other derivatives. Trading is conducted on a fully electronic trading system, called the BMV-SENTRA Equities System.

Section 4 - Investment Climate

Executive Summary

Mexico has undertaken significant reforms over the past year in matters of financial regulation, taxation, anti-trust, energy, and telecommunications as part of the broad Pact for Mexico initiated by President Enrique Pena-Nieto. By the end of 2013, the government had passed a number of constitutional reforms intended to encourage foreign investment and more competition as well as increase the country's tax base. Despite the government's projections for economic growth exceeding 3 percent, Mexico closed 2013 at a more modest 1.1% and much lower than the 3.9% growth during the prior year. While economic growth in Mexico typically slows during the first year of a new administration, weakness in the U.S. economy – which consumes more than 80 percent of Mexico's exports – also contributed to the slowdown.

The most significant changes in Mexico's investment outlook have been in the energy and telecommunications sectors. Prior to the constitutional reform, the state-controlled oil company, Pemex, had a monopoly on all hydrocarbon activity in the country. New legislation will allow the company to partner with private sector firms, and some of the country's oil fields will be opened to outside exploration and development. In telecommunications, reforms are intended to improve competition and diminish concentration in the sector through the creation of a new, constitutionally autonomous regulator with the authority to order divestitures, enforce regulations, and apply targeted sanctions on companies it deems dominant in the market.

During the past year, Mexico also enacted changes in the treatment of maquiladora businesses, increased the value-added tax (VAT) in the border region from 11 percent to 16 percent, and imposed a number of new taxes including on junk food, mining activity, and on high-earning individuals. The country has the lowest level of tax revenue in the OECD – at 9.7% of GDP in 2012. The government hopes that changes to the tax code will increase revenue by approximately 1 percent of GDP in 2014.

In early 2014, secondary legislation – or so-called implementing legislation – is awaiting approval and will provide more specific regulations governing many of the reforms in energy, anti-trust, and telecommunications. The government predicts that the economy will improve in 2014 and the Ministry of Finance has estimated annual GDP growth of 3.9% for the year.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude Toward FDI

Mexico is open to foreign direct investment (FDI) in most economic sectors and has consistently been one of the largest recipients of FDI among emerging markets. Mexico's macroeconomic stability and its proximity to one of the largest markets in the world have attracted investors. Mexico's government, led by President Enrique Pena Nieto, has prioritized structural economic reforms and competitiveness. During 2013, Mexico's legislature passed several reforms including fiscal reform, energy reform, and telecommunications reform. Secondary legislation for these reforms has yet to be passed and many important specifics regarding their implementation are still unknown. The legislature is also considering a new anti-trust bill which would empower autonomous regulators with more tools for creating competition in Mexico's markets – particularly telecommunications and broadcasting. On October 6, 2012, Mexico formally joined the Trans-Pacific Partnership (TPP) negotiations and in July 2013 it formed the Pacific Alliance with Peru, Colombia, and Chile.

ProMexico is the country's federal entity charged with promoting Mexican exports around the world and attracting foreign direct investment to Mexico. Through ProMexico, federal and state government efforts, as well as related private sector activities, are coordinated with the goal of harmonizing programs, strategies, and resources to support the globalization of Mexico's economy. ProMexico maintains an extensive network of offices abroad as well as a multi-lingual website (http://www.investinmexico.com.mx) which provides local information on establishing a corporation, rules of origin, labor issues, owning real estate, the maquiladora industry, and sectoral promotion plans.

The Secretariat of the Economy also maintains a bilingual website (www.economia.gob.mx) offering an array of information, forms, links, and transactions. Among other options, interested parties can download import/export permit applications, make online tax payments, and chat with online advisors who can answer specific investment and trade-related questions. State governments have also passed small business facilitation measures to make it easier to open businesses. In 2012, the Secretariat of Economy opened its International Trade Single Window to simplify import, export, and transit-related operations, increase efficiency, and reduce costs and time for international traders. The mechanism allows companies to send electronic information only once to a single entity to comply with all requirements of foreign trade. More information on the Single Window is available at: http://www.ventanillaunica.gob.mx/envucem/index.htm.

According to the most recent World Bank Study "Doing Business 2013", Mexico improved its standing in enforcing contracts and in trading across borders while it lagged in registering property and in access to electricity. Overall, Mexico dropped two positions in the global ranking, from 51 to 53. It trails both Colombia and Peru in the Latin America region. More information on the ranking can be found at: http://www.doingbusiness.org/rankings.

Laws/Regulations of FDI

The 1993 Foreign Investment Law is the basic statute governing foreign investment in Mexico. The law is consistent with the foreign investment chapter of NAFTA (the North American Free Trade Agreement). It provides national (i.e. non-discriminatory) treatment for most foreign investment, eliminates performance requirements for most foreign investment projects, and liberalizes criteria for automatic approval of foreign investment. The Foreign Investment Law identifies which business activities are open to foreign investors and to what extent. Pending secondary legislation will amend the law to conform with the constitutional changes allowing greater foreign investment in particular sectors.

Limits on Foreign Control

A range of activities subject is to investment restrictions in Mexico. Sectors reserved for the state in whole or in part include: (A) petroleum and other hydrocarbons; (B) basic petrochemicals; (C) telegraphic and radio telegraphic services; (D) radioactive materials; (E) electric power generation, transmission, and distribution; (F) nuclear energy; (G) coinage and printing of money; (H) postal service; and (I) control, supervision and surveillance of ports of entry. Sectors reserved for Mexican nationals include: (A) retail sales of gasoline and liquid petroleum gas; (B) non-cable radio and television services; (C) development banks (law was modified in 2008); (D) certain professional and technical services; and (E) domestic transportation for passengers, tourism and freight, except for messenger or package delivery services.

Screening of FDI

U.S. and Canadian investors generally receive national and most-favored-nation treatment in setting up operations or acquiring firms in Mexico. Exceptions exist for investments in which the Government of Mexico recorded its intent in NAFTA to restrict certain industries to Mexican nationals. U.S. and Canadian companies have the right under NAFTA to international arbitration and the right to transfer funds without restrictions. NAFTA also eliminated some barriers to investment in Mexico, such as trade balancing and domestic content requirements. Local governments must also accord national treatment to investors from NAFTA countries.

Mexico is also a party to several OECD agreements covering foreign investment, notably the Codes of Liberalization of Capital Movements and the National Treatment Instrument.

Approximately 95 percent of all foreign investment transactions do not require government approval. Foreign investments requiring applications and not exceeding $165 million are automatically approved, unless the proposed investment is in a sector subject to restrictions by the Mexican constitution and the Foreign Investment Law that reserve certain sectors for the state and Mexican nationals. This provision is subject to change depending on the outcome of legislation governing anti-trust and merger review. The National Foreign Investment Commission under the Secretariat of Economy determines whether investments in restricted sectors may go forward, and has 45 working days to make a decision. Criteria for approval include employment and training considerations, technological contributions, and contributions to productivity and competitiveness. The Commission may reject applications to acquire Mexican companies for national security reasons. The Secretariat of Foreign Relations (SRE) must issue a permit for foreigners to establish or change the nature of Mexican companies.

Competition Law

Despite Mexico's relatively open economy, a number of key sectors in Mexico continue to be characterized by a high degree of market concentration. For example, telecommunications, electricity, television broadcasting, petroleum, beer, cement, and tortillas feature one or two or several dominant companies (some private, others public) with enough market power to restrict competition. In 2013, Mexico created two constitutionally autonomous regulators – the Federal Telecommunications Institute (IFT) and the Federal Commission for Economic Competition (COFECE) – to govern matters of competition. IFT is chartered with governing the broadcasting and telecommunications sectors while COFECE is chartered with all other sectors. For more information on competition issues in Mexico reference COFECE's bilingual website at: www.cfc.gob.mx.

Industrial Strategy and Structure

Energy: The Mexican constitution previously reserved hydrocarbon activities exclusively for the Mexican state. The constitutional energy reform approved by the Mexican Congress and Mexican states in December 2013 made significant changes to allow for private sector participation in hydrocarbon activities through a contractual framework that includes service, profit sharing, production sharing, and license contracts. The reform still reserves subsoil resource ownership to the Mexican state.

By September 2014, Mexico's Secretariat of Energy and National Hydrocarbons Commission will award through a "Round Zero" process, oil and gas fields to Mexico's state-owned petroleum company, Pemex. Subsequent to this allocation, the remaining oil and gas fields as well as new fields will be opened to private sector bidders for development rights during successive rounds each year through 2019.

Changes to the Mexican constitution will also open up power generation to the private sector and allow competition with the national public utility, the Federal Electricity Commission (CFE), to generate electricity. The constitutional reform transitions CFE from a state monopoly to a parastatal which, while still controlling transmission and distribution, will no longer be the sole electricity provider. The reform pulls out the National Energy Control Center (CENACE) from CFE and establishes it as the independent system operator (ISO) which will control the national wholesale electricity market and ensure non-discriminatory open access to the grid for competitors. Independent power generators were authorized for operation in 1992, but were required to sell all their output to CFE or use it for self-supply. Under the reform, private power generators may now install and manage interconnections with CFE's existing state-owned distribution infrastructure. The reform also requires the government to implement a National Program for the Sustainable Use of Energy as a transition strategy to encourage clean technology and fuel development and reduce pollutant emissions. Forthcoming secondary legislation is required to encourage the exploration and expansion of geothermal resources in the pursuit of cleaner energy.

With the energy reform's implementation, private investment will also be permitted in downstream operations to include oil and natural gas treatment and refining as well as transportation, storage, and distribution of natural gas, gasoline, and other oil products. The energy reform establishes a National Center for Natural Gas Control (Cenegas) which will administer and manage Mexico's natural gas pipeline network. Forthcoming legislation is also expected to establish national content percentages to promote the development and inclusion of Mexican suppliers to the industry.

Telecommunications: Mexico previously allowed up to 49 percent FDI in companies that provide fixed telecommunications networks and services. The reform of the telecommunication sector last year now allows for 100 percent foreign investment in telecommunications or satellite communications. FDI of up to 49 percent in the broadcast sector was approved on a reciprocal basis in the reform. Also as part of the reform, at least two new television networks with national coverage must be created. For companies providing cellular/wireless service, there is no limit on FDI. However, Telmex and Telcel (América Móvil) continue to reign as the dominant fixed and wireless telecom service providers and wield significant influence over key regulatory and government decision makers. In March, the IFT exercised its new authority by declaring the company a preponderant economic agent asserting that it wielded undue dominance in its market.

Several large U.S. and international telecom companies are active in Mexico, partnering with Mexican companies or holding minority shares. Following a 2004 WTO ruling, international resellers are authorized to operate in Mexico and some companies are also looking to sell wholesale minutes to resellers. Telcel (technically independent, but majority owned by Telmex owner's Grupo Carso - Carso Global Telecom) still retains a great majority share (over 70 percent) of the cellular market. However, Spain's Telefonica Movistar, among others, continues to grow and challenge the status quo, deploying extensive mobile infrastructure to increase coverage across the country. Telefonica has also expressed interest in purchasing Iusacell which could potentially create a true nationwide competitor for Telcel. Telmex continues to dominate the market in Long Distance (domestic and international), Internet access through digital subscriber line (DSL), and bundle services. The Convergence Accord, published in October 2006, allowed Telmex to offer broadcasting or TV services. However, the previous Federal Telecommunications Commission (Cofetel) ruled that Telmex must first comply with interconnection, interoperability, and number portability requirements before receiving permission to complete its triple-play offering. The accord has elicited strong concerns from the CATV industry, which fears that it will push CATV operators to consolidate. Under the accord, CATV operators (including TV duopolist Televisa's Cablevision) are allowed to independently offer Triple Play Service (VoIP-Telephony, Data-Internet and TV-Video), which might increase competition in the telephony market.

As in telecommunications, there are concerns that the two dominant television companies -- Televisa and TV Azteca, who share duopoly status in the sector -- continue to exercise influence over Mexican judicial, legislative, and regulatory bodies to prevent competition. In March, the IFT also declared Televisa a preponderant economic agent wielding undue influence over its market. At present, U.S. firms have not penetrated the Mexican television broadcast market, despite the fact that both Televisa and TV Azteca benefit from access to the U.S. market. Dish Mexico, jointly owned by MVS Communicaciones and EchoStar, also delivers broadcast service to Mexican subscribers via satellite.

In 2010, the Mexican government completed the much-awaited spectrum auction of the 1.7 GHz and 1.9 GHz bands. As part of recent reform legislation, the 700MHz and 2.5GHz bands will be reorganized including through a spectrum auction to assure their optimal use under the principles of universal, non-discriminatory, shared and continual usage.

Transportation: The Mexican government allows up to 49 percent foreign ownership of 50-year concessions to operate parts of the railroad system, renewable for a second 50-year period. The Mexican Foreign Investment Commission and COFECE must approve ownership above 49 percent. Consistent with NAFTA, foreign investors from the U.S. and Canada are now permitted to own up to 100 percent of local trucking and bus companies, however, several companies have encountered long wait times and legal tie-ups when trying to obtain permits.

On July 6, 2011, SCT Secretary Perez-Jacome and U.S Department of Transportation Secretary Ray LaHood signed an MOU creating the second Long-Haul Cross-Border Trucking Program. The program is an effort to end a bilateral dispute over the free access of U.S. trucks to Mexican roads and vice versa. The first Mexican truck crossed in October 2011 and currently 13 Mexican companies participate and have since made a total of over 20,000 crossings. The pilot program concludes in October 2014, and both the U.S. Department of

Transportation and its Mexican counterparts have commented positively about the success of the program.

CINTRA, the government holding company for the Mexican airline groups, Mexicana and Aeromexico, sold Grupo Mexicana to Grupo Posadas in December 2005. Grupo Aeromexico was sold to a consortium led by Citibank-owned Banamex in October 2007. In 2010, Mexicana filed for a bankruptcy process (the Mexican equivalent of a U.S. Chapter 11 filing) and suspended its flights. In April, 2014 the court accepted its petition and ordered the airline's assets liquidated. Mexicana's maintenance and repair operation (MRO) will continue to operate as a separate entity with proceeds funding a trust for former Mexicana employees. The emergence of low-cost domestic airlines such as Volaris and Interjet have increased competition and led to lower prices. However, foreign ownership of Mexican airlines remains capped at 25 percent and foreign ownership of airports is limited to 49 percent. The U.S. and Mexico governments are currently negotiating a revised civil aviation agreement intended to liberalize the sector.

Infrastructure: Mexican infrastructure investment, with certain previously noted exceptions, is open to foreign investment. The Mexican government has been actively seeking an increase in private involvement in infrastructure development in numerous sectors, including the transportation, communications, and environmental industries. Improving Mexico's infrastructure is one of President Pena Nieto's goals during his presidency. In 2011, the Public-Private Associations Law was approved by the lower house of Congress; the law had been approved by the Senate in October 2010. The Public-Private Partnership Law allows the government to enter into infrastructure and service provision contracts with private companies for up to 40 years. The law provides more legal certainty to private investors by equally distributing risks, facilitates access to bank loans, and harmonizes existing state public-partnership models under a single federal law. National and foreign investors alike will be allowed to participate in the bidding process, except in restricted sectors as set forth by the Foreign Direct Investment law. More information on infrastructure can be found here: www.export.gov/MEXICO/mexicoinfrastructureopportunities.

Investment Trends

Foreign investment in Mexico has largely been concentrated in the northern states close to the U.S. border where most maquiladoras are located, and in the Federal District (Mexico City) and surrounding states, where most corporate headquarters are located. According to Mexico's Secretariat of the Economy, Mexico has been the world's top destination for aerospace manufacturing investments in each of the last four years. Financial services, automotive, and electronics have typically also received large amounts of FDI. In the first quarter of 2014, Mexico's auto industry overtook Japan's as the second-biggest vehicle exporter to the United States and remains the world's eighth largest producer of vehicles. Historically, the United States has been one of the largest sources of FDI in Mexico. In 2013, U.S. investors accounted for 32 percent of the $35.2 billion of FDI in Mexico.

Mexico

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions Index	2013	(106 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom Index	2013	(55 of 178)	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	(53 of 189)	http://doingbusiness.org/rankings
Global Innovation Index	2013	(63 of 142)	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	$9,640	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Mexico has open conversion and transfer policies as a result of its membership in NAFTA and the OECD. In general, capital and investment transactions, remittance of profits, dividends, royalties, technical service fees, and travel expenses are handled at market-determined exchange rates. Peso/dollar foreign exchange is available on same day, 24-hour, and 48-hour settlement bases. Most large foreign exchange transactions are settled in 48 hours. The establishment of an automated clearinghouse for cross-border financial transactions between the U.S. Federal Reserve and the Bank of Mexico has facilitated payments between financial institutions in both countries. In 2010, in an effort to control money laundering activities related to bulk cash smuggling, Mexico imposed limits on the cash deposit of U.S. dollars. This was extremely effective, reducing by over 50 percent the quantity of bulk cash repatriated to the United States from the Mexican financial system. In a further effort to combat illicit finance, Congress passed a series of laws which would establish reporting requirements for cash purchases of certain types of goods over specific monetary limits. The laws would also require "gatekeeper" professions, such as lawyers and notaries, to report on suspicious transactions.

3. Expropriation and Compensation

Under NAFTA, Mexico may not expropriate property, except for public purposes and on a non-discriminatory basis. Expropriations are governed by international law, and require rapid fair market value compensation, including accrued interest. Investors have the right to international arbitration for violations of this or any other rights included in the investment chapter of NAFTA.

There have been thirteen arbitration cases filed against Mexico by U.S. and Canadian investors who allege expropriation, and other violations of Mexico's NAFTA obligations. Details of the cases can be found at the Department of State Website, Office of the Legal Advisor (www.state.gov/s/l).

4. Dispute Settlement

Chapter Eleven of NAFTA contains provisions designed to protect cross-border investors and facilitate the settlement of investment disputes. For example, each NAFTA Party must accord investors from the other NAFTA Parties national treatment and may not expropriate investments of those investors except in accordance with international law.

Chapter Eleven permits an investor of one NAFTA Party to seek money damages for measures of one of the other NAFTA Parties that allegedly violate those and other Chapter Eleven provisions. Investors may initiate arbitration against the NAFTA Party under the Arbitration Rules of the United Nations Commission on International Trade Law ("UNCITRAL Rules") or the Arbitration (Additional Facility) Rules of the International Center for Settlement of Investment Disputes ("ICSID Additional Facility Rules"). Alternatively, a NAFTA investor may choose to use the registering country's court system.

The Mexican government and courts recognize and enforce arbitral awards. The Embassy has heard of no actions taken in the Mexican courts for an alleged Chapter 11 violation on behalf of U.S. or Canadian firms. There have been numerous cases in which foreign investors, particularly in real estate transactions, have spent years dealing with Mexican courts trying to resolve their disputes. Often real estate disputes occur in popular tourist areas such as the Yucatan Peninsula. American investors should understand that under Mexican law many commercial disputes that would be treated as civil cases in the United States could also be treated as criminal proceedings in Mexico. Based upon the evidence presented, a judge may decide to issue arrest warrants. In such cases Mexican law also provides for a judicial official to issue an "amparo" (injunction) to shield defendants from arrest. U.S. investors involved in commercial disputes should therefore obtain competent Mexican legal counsel, and inform the U.S. Embassy if arrest warrants are issued.

5. Performance Requirements and Investment Incentives

The 1993 Foreign Investment Law eliminated export requirements (except for maquiladora industries), capital controls, and domestic content percentages, which are prohibited under NAFTA. Foreign investors already in Mexico at the time the law became effective can apply for cancellation of prior commitments. Foreign investors who failed to apply for the revocation of existing performance requirements remained subject to them.

The Mexican federal government passed a new fiscal reform package in 2013 which eliminated the Flat Rate Corporate Tax (IETU) and the cash deposit tax (IDE); raised the value-added tax (VAT) in the border region from a rate of 11 percent to 16 percent; and increased the income tax (ISR) to as high as 35 percent for individuals earning more than 3 million pesos annually. The government also imposed a 10 percent tax on capital gains from stock sales and eliminated consolidation for holding companies. Firms will now be authorized to deduct only 50 percent of expenses related to employee benefits. Other changes include the imposition of a 16 percent VAT on temporary imports except for certified maquiladoras. For more information on obtaining maquiladora certification, consult the Diario Oficial dated January 1, 2014.

Most taxes in Mexico are federal; therefore, states have limited opportunity to offer tax incentives. However, Mexican states have begun competing aggressively with each other for investments, and most have development programs for attracting industry. These include reduced price (or even free) real estate; employee training programs; reductions of the 2% state payroll tax; reductions of real estate, land transfer, and deed registration taxes; and even new infrastructure, such as roads. Four northern states --Nuevo Leon, Coahuila, Chihuahua and Tamaulipas -- have signed an agreement with the state of Texas to facilitate regional economic development and integration. Investors should consult the Finance, Economy, and Environment Secretariats, as well as state development agencies, for more information on fiscal incentives. Tax attorneys and industrial real estate firms can also be good sources of information. U.S. Consulates have reported that the states in their consular districts have had to modify their incentive packages due to government decentralization. Many states have also developed unique industrial development policies.

Mexico's maquiladora industry is governed by the Secretariat of Economy's, IMMEX program. Please refer to the Secretariat of Economy's IMMEX program website at www.economia.gob.mx/comunidad-negocios/industria-y-comercio/instrumentos-de-comercio-exterior/immex for more information. Companies interested in investing in industrial activity in Mexico need to follow the IMMEX guidelines closely, preferably in close consultation with locally based legal advisors. As part of the recent fiscal reform, maquiladoras must obtain a certification from Mexico's tax authority (SAT) to be exempted from duties on temporary imports. Additional information can be found on SAT's website at: www.sat.gob.mx/comext/certificacion_exportadoras/Paginas/default.aspx. The Mexican government's tax regime provides the industry with financial and operational benefits, such as development of Mexico's maquila-servicing and supply industries. Other recent changes include the elimination of the partial income tax exemption for maquiladoras which are now required to pay the normal corporate rate of 30 percent rather than the previously reduced rate of 17.5 percent.

In order to maintain the competitiveness of maquiladora companies and comply with NAFTA provisions, Mexico has developed "Sectoral Promotion Programs" (PROSEC). Under these programs, most favored nation import duties on listed inputs and components used to produce specific products are eliminated or reduced to a competitive level. These programs comply with NAFTA provisions because import duty reduction is available to all producers, whether the final product is sold domestically or is exported to a NAFTA country. PROSEC's supported 23 sectors include electronics, auto parts, textiles and apparel, footwear, and others. The gradual elimination and reduction of import duties concluded in 2013, and the tariff structure now has six basic rates: 0, 5%, 7%, 10%, 15% and 20%. For more information on PROSEC, refer to: http://www.economia.gob.mx/industry/foreign-trade-instruments/prosec.

6. Right to Private Ownership and Establishment

Foreign and domestic private entities are permitted to establish and own business enterprises and engage in all forms of remunerative activity in Mexico, except those mentioned in Section One. Private enterprises are able to freely establish, acquire and dispose of interests in business enterprises. The two most common types of business entities are corporations (Sociedad Anonima) and limited partnerships (Sociedad de Responsibilidad Limitada). Under these legal entities a foreign company may operate an independent company, a branch, affiliate, or subsidiary company in Mexico. The rules and regulations for starting an enterprise differ for each structure.

A corporation (Sociedad Anonima): (A) can be up to 100 percent foreign-owned; (B) must have a minimum of 50,000 Mexican pesos in capital stock to start; (C) must have minimum of two shareholders, with no maximum, and the board of directors can run the administration of the company; (D) the enterprise has an indefinite life span; (E) free transfer of stock ownership is permitted; (F) operational losses incurred by the Mexican entity or subsidiary may not be used by the U.S. parent company; and (G) limited liability is afforded the shareholders.

A limited liability company (Sociedad de Responsabilidad Limitada): (A) can be up to 100 percent foreign-owned; (B) must have a minimum of 3,000 Mexican pesos in capital stock to start; (C) must have a minimum of two partners to incorporate a corporation with limited liability and the partners must manage the company, but the maximum number of shareholders is 50; (D) exists only when the business purpose and partners remain the same; (E) transfer of partnership shares is restricted and any changes in the partnership composition may cause the partnership to be liquidated; (F) if structured properly, may offer tax advantages by allowing operational losses incurred by the Mexican entity to be used by the U.S. parent company; and (G) limited liability is afforded the partners.

7. Protection of Property Rights

Mexico has four legal categories of land tenure which are private ownership, communal tenure (known as ejido), publicly owned and ineligible for sale or transfer, and publicly owned and eligible for sale or transfer. In 1992, Mexico eliminated the constitutional right to form ejidos which had historically been a common mechanism for villages to accumulate agricultural land. As part of the reform, ejido members could lease land to non-ejido members or acquire full rights to the land including the right to sell. A 2001 census by Mexico’s National Institute of Statistics, Geography, and Information (INEGI), found that 50 percent of all land in Mexico was held by ejidos.

There have been numerous disputes over the transfer, ownership, and use of ejido land. Purchases of ejido land by non-ejido members can occur only after the property has been regularized, parceled, and titled to individuals who may then offer it for sale. Another complication with ejidos is the fact that they are governed by Mexico’s Agrarian Law rather than its property code.

Despite a proposal in 2013 to do away with the restriction, foreigners are still prohibited from acquiring title to residential real estate in so-called "restricted zones" within 50 kilometers (approximately 30 miles) of the nation's coast and 100 kilometers (approximately 60 miles) of the borders. In all, the restricted zones total about 40 percent of Mexico's territory.

Nevertheless, foreigners may acquire the effective use of residential property in the restricted zones through the establishment of a 50-year extendable trust (called a fideicomiso) arranged through a Mexican financial institution that acts as trustee.

Under a fideicomiso, the foreign investor obtains all property use rights, including the right to develop, sell, and transfer the property. Real estate investors should, however, be careful in performing due diligence to ensure that there are no other claimants to the property being purchased. Fideicomiso arrangements have led to legal challenges in some cases. U.S. issued title insurance is available in Mexico and a few major U.S. title insurers have begun operations here. Additionally, U.S. lending institutions have begun issuing mortgages to U.S. citizens purchasing real estate in Mexico.

Intellectual Property Rights

Two different laws provide the core legal basis for protection of intellectual property rights (IPR) in Mexico -- the Industrial Property Law (Ley de Propiedad Industrial) and the Federal Copyright Law (Ley Federal del Derecho de Autor). Multiple federal agencies are responsible for various aspects of IPR protection in Mexico. The Office of the Attorney General (Procuraduría General de la Republica, or PGR) has a specialized unit that pursues criminal IPR investigations. The Mexican Institute of Industrial Property (Instituto Mexicano de la Propiedad Industrial, or IMPI) administers Mexico's trademark and patent registries and is responsible for handling administrative cases of IPR infringement. The National Institute of Author Rights (Instituto Nacional del Derecho de Autor) administers Mexico's copyright register and also provides legal advice and mediation services to copyright owners who believe their rights have been infringed. The Mexican Customs Service (Aduanas México) plays a key role in ensuring that illegal goods do not cross Mexico's borders.

Despite strengthened enforcement efforts by Mexico's federal authorities over the past several years, weak penalties and other obstacles to effective IPR protection have failed to deter the rampant piracy and counterfeiting found throughout the country. The U.S. Government continues to work with its Mexican counterparts to improve the business climate for owners of intellectual property.

Mexico is a signatory to at least sixteen international treaties that deal with IPR, including the Paris Convention for the Protection of Industrial Property, the NAFTA, and the WTO Agreement on Trade-related Aspects of Intellectual Property Rights. Though Mexico signed the Patent Cooperation Treaty in Geneva, Switzerland in 1994, which allows for simplified patent registration procedure when applying for patents in more than one country at the same time, it is necessary to register any patent or trademark in Mexico in order to receive protection under local law and claim an exclusive right to any given product based on intellectual property. The U.S. Patent and Trademark Office and IMPI have work sharing agreement in place to help applicants expedite the examination of patents in each country. The Patent Prosecution Highway agreement allows a patent holder in one country to fast track the examination of that same patent in the other country in order obtain the corresponding patents faster and more efficiently. Mexico also signed the Anti-Counterfeit Trade Agreement (ACTA) on July 12, 2012. It is still pending ratification by the Mexican congress.

Although a firm or individual may apply directly, most foreign firms hire local law firms specializing in intellectual property. The U.S. Embassy's Commercial Section maintains a list of such law firms in Mexico at: http://export.gov/mexico/businessserviceproviders/index.asp.

For additional information about treaty obligations and points of contact at local IP offices, please see the World Intellectual Property Organization (WIPO) country profiles at http://www.wipo.int/directory/en/.

The U.S. Embassy point of contact for IPR issues is Michael Lerwis (michael.lewis@trade.gov).

A list of local lawyers is available at: http://mexico.usembassy.gov/eng/eacs_attorneys.html

8. Transparency of the Regulatory System

The Federal Commission on Regulatory Improvement (COFEMER), within the Secretariat of Economy, is the agency responsible for reducing the regulatory burden on business. The Mexican government has been making steady progress on this issue in the last few years. On a quarterly basis, these agencies must report to the President on progress achieved toward reducing the regulatory burden. In December 2006, the government replaced the Regulatory Moratorium Agreement to ensure agencies streamline their regulatory promulgation processes, with the Quality Regulatory Agreement. The new agreement intends to allow the creation of new regulations only when agencies prove that they are needed because of an emergency, the need to comply with international commitments, or obligations established by law.

The federal law on administrative procedures has been a significant investment policy accomplishment. The law requires all regulatory agencies to prepare an impact statement for new regulations, which must include detailed information on the problem being addressed, the proposed solutions, the alternatives considered, and the quantitative and qualitative costs and benefits and any changes in the amount of paperwork businesses would face if a proposed regulation is to be implemented.

The Mexican government, with the OECD, the private sector and several think tanks, has worked to streamline bureaucracy and procedures, with a particular focus on several Mexican states. Mexico made significant improvements in business registration and registration of new firms, such as the elimination of the requirement to have minimum capital to create a new business and the creation of a collateral registry. Although Mexico still needs to approve some legal reforms to make this registry stronger, it was a step in the right direction to unify information on collateral under some sort of centralized registry. Despite these measures, many difficulties remain. Foreign firms continue to list bureaucracy, slow government decision-making, lack of transparency, and a heavy tax burden among the principal negative factors inhibiting investment in Mexico, particularly in states and municipalities. However, the OECD and the Pena-Nieto administration will continue working to improve the regulatory process at the subnational level. The Secretariat of Public Administration, which was eliminated under the Pena-Nieto administration to make room to a new National Anti-Corruption Agency, made considerable strides in improving transparency in government, including government contracting and involvement of the private sector in enhancing transparency and fighting corruption. The Mexican government has established several Internet sites to increase transparency of government processes and establish guidelines for the conduct of government officials. "Normateca" provides information on government regulations; "Compranet" allows for on-line federal government procurement; "Tramitanet" permits electronic processing of transactions within the bureaucracy thereby reducing the chances for bribes; and "Declaranet" allows for online filing of income taxes for federal employees.

9. Efficient Capital Markets and Portfolio Investment

The Mexican banking sector has strengthened considerably since the 1994 Peso Crisis left it virtually insolvent. Since the crisis, Mexico has introduced reforms to buttress the banking system and to consolidate financial stability. These reforms include creating a more favorable economic and regulatory environment to foster banking sector growth by reforming bankruptcy and lending laws, moving pension fund administration to the private sector, and raising the maximum foreign bank participation allowance. The bankruptcy and lending reforms passed by Congress in 2000 and 2003 effectively made it somewhat easier for creditors to collect debts in cases of insolvency by creating Mexico's first effective legal framework for the granting of collateral. Pension reform allows employees to choose their own pension plan. Allowing banks or their holding companies to manage these funds provides additional capital to the banking sector, while the increased competition permits fund managers to focus on investment returns. Mexico’s fiscal reform, passed in 2013, consisted of 34 financial and banking laws which strengthened banking regulations and the legal framework with the intention of increasing competition and transparency in the sector.

The banking sector remains highly concentrated, with a handful of large banks controlling a significant market share, and the remainder comprised of regional players and niche banks. The Mexican Tax Authority has approved the opening of several new banks since 2006, including Wal-Mart Bank and Prudential Bank, but the sector's competitive dynamics and credit quality are still being driven by six large banks (Banamex, Bancomer, Santander, HSBC, Banorte and Scotiabank)—five of which are foreign-owned with a total market share of 74 percent. As part of the 2013 fiscal reform, Mexico became one of the first countries to implement the Basel III accord which establishes standards for bank capital and liquidity. Other aspects of the law establish clearer procedures for the support and liquidation of troubled banks, and also provide more certainty to the process by which banks can recover collateral in cases of default. Despite having high levels of liquidity, banks in Mexico have historically been reluctant to provide credit in part due to limited consequences for nonpayment and lengthy legal processes for collection. For the period 2009 to 2013, Mexico’s banks had an average core capital ratio of 10.4 percent.

Businesses still complain of a lack of access to credit despite year-over-year credit growth of 6.7 percent through April, 2013. Overall commercial lending to the private sector remains low at 15 percent of GDP, compared to almost 50 percent in Brazil. Commercial loans to established companies with well-documented accounts are available in Mexico, but many large companies instead utilize retained earnings to fund growth. Supplier credit is the main source of financing for many businesses. The largest companies are able to issue debt for their financing needs on domestic markets, tapping into a growing pool of pension funds looking for investment options. The Secretariat of Finance and Public Credit sets regulatory policy and oversees the CNBV. Mexico's central bank, the Bank of Mexico (Banxico), also has a regulatory role in addition to setting monetary policy. The Institute for the Protection of Bank Savings (IPAB) handles deposit insurance for up to 400,000 Mexican pesos.

In 2013, Congress approved a financial reform to increase bank lending to priority areas and projects such as to small and medium size enterprises, infrastructure projects, technology innovation and patent development. The reform will facilitate that commercial banks make more and lower interest loans, thus giving a more active role to the Mexican development banks, which will have a more flexible mandate to focus on financial inclusion. It will also boost competition in the sector. Commercial banks would be subject to periodic lending reviews and the banking regulator would have the powers to punish those lenders that offer credits below the required levels. The bill also makes it easier for banks to collect on bad loans, one of the obstacles that was hindering more lending to the private sector. The reform will streamline the bankruptcy process, foster more expeditious resolution of cases through the creation specialized commercial courts, and strengthen protection for financial users with the creation of a Bureau of Financial Institutions. The modifications free the Mexican stock market (BMV) to establish linkages with foreign bourses, including the Integrated Latin American Market (MILA) of Mexico's Pacific Alliance partners.

Reforms creating better regulation and supervision of financial intermediaries and fostering greater competition have helped strengthen the financial sector and capital markets. These reforms, coupled with sound macroeconomic fundamentals, have created a positive environment for the financial sector and capital markets, which have responded accordingly. The implementation of NAFTA opened the Mexican financial services market to U.S. and Canadian firms. Foreign institutions hold more than 70 percent of banking assets and banking institutions from the U.S. and Canada have a strong market presence. Under NAFTA's national treatment guarantee, U.S. securities firms and investment funds, acting through local subsidiaries, have the right to engage in the full range of activities permitted in Mexico.

Foreign entities may freely invest in government securities. The Foreign Investment Law establishes, as a general rule, that foreign investors may hold 100 percent of the capital stock of any Mexican corporation or partnership, except in those few areas expressly subject to limitations under that law. Regarding restricted activities, foreign investors may also purchase non-voting shares through mutual funds, trusts, offshore funds, and American Depositary Receipts. They also have the right to buy directly limited or nonvoting shares as well as free subscription shares, or "B" shares, which carry voting rights. Foreigners may purchase an interest in "A" shares, which are normally reserved for Mexican citizens, through a neutral fund operated by a Mexican Development Bank. Finally, state and local governments, and other entities such as water district authorities, now issue peso-denominated bonds to finance infrastructure projects. These securities are rated by international credit rating agencies. This market is growing rapidly and represents an emerging opportunity for U.S. investors.

10. Competition from State-Owned Enterprises

There are two main state-owned companies in the energy sector. Mexican Petroleum (Pemex) is in charge of running the hydrocarbons (oil and gas) sector, which includes upstream, mid-stream, and downstream operations, and is the most important fiscal contributor to the country. Pemex has historically contributed over one-third of the Mexican government's budget, but declines in productivity have diminished this amount over the past decade. The Federal Electricity Commission (CFE) is the other main state-owned company and is in charge of the electricity sector. As stated in the 2013 constitutional reform, CFE remains a state-owned entity contributing a significant proportion of power generation and controlling most of the country's installed distribution and transmission network. Mexico's national transmission grid consists of 27,000 miles of high voltage lines, 28,000 miles of medium voltage lines, and 370,000 miles of low voltage distribution lines. It generates electric power for 33.8 million customers (or 100 million people) for a resulting electrification rate of 97.9 percent of the population. Access is particularly limited in some Mexican states such as Oaxaca and Guerrero where electricity still fails to reach at least five percent of the population and almost half of all communities. Nationally, there are still nearly 130,000 small communities without access to electricity reflecting the disparity in both population density and living standards between urban and rural living standards. As of October, 2013 Mexico has an installed capacity of approximately 62 gigawatts of which 53 gigawatts is allocated to public service. Approximately 70 percent of Mexico's capacity is from conventional thermal sources with another 20 percent generated by hydro. The National Energy Strategy outlines Mexico's goal to increase the generating capacity of clean energy (renewables and nuclear) to 35 percent by 2024.

The President of the United Mexican States appoints the Director General or Chief Executive Officer (CEO) of PEMEX. The Mexican Government closely regulates and supervises the operations of PEMEX through three Ministries and one Commission: The Secretary of Energy (Sener) monitors the company's activities, and serves as the chairman of Pemex's Board of Directors; the National Hydrocarbons Commission (CNH), which is independent but report to Sener's Secretary of Energy, evaluates Pemex's reserve estimates and provides regulations for Pemex's operations in all areas, including deep-water exploration and drilling and gas flaring; the Secretary of Finance and Public Credit (SHCP) reviews and incorporates the annual budget and financing program of Pemex and its subsidiaries; and the Secretary of Environment and Natural Resources (Semarnat), in coordination with other federal and state authorities, regulates Pemex's activities that affect the environment.

Pemex has a board of directors, which includes government representatives from the Secretary of Energy, Secretary of Finance, the Secretary of Public Function, and the Office of the President; four professional members; five representatives from the union; one commissioner; and one independent auditor, which in this case is the private consulting group, KPMG. Pemex's accounting and balance sheets are subject to internal and external audits. The Audit and Performance Evaluation Committee of PEMEX's Board of Directors appoints PEMEX's external auditors. Pemex's financial reports are issued in accordance with Mexico's Generally Accepted Accounting Principles (GAAP), which differ somewhat from U.S. GAAP. PEMEX has registered bond issuances in the Securities and Exchange Commission (SEC). Thus, in order to maintain its registration with the SEC, PEMEX has the obligation to file several international standard forms, such as the Form 20-F, on an annual basis. Pemex has also issued bonds in the domestic market, and in accordance with the Stock Market Law, it also has to submit audited quarterly and annual reports to the National Banking and Securities Commission. These reports, along with the annual Hydrocarbons Reserves Report and the Primary and Financial Balance, are published on Pemex's webpage. The state-owned oil company has moved forward in incorporating best corporate and social responsibility practices.

The Federal Electricity Commission (CFE) is a decentralized government agency, duly incorporated, and controls its own assets. Like Pemex, CFE has a Board of Directors, which includes representatives from the Secretariats of Energy, Environment, Social Development, Economy, Finance; Pemex's CEO; and three representatives from the union. CFE's books are also subject to domestic general accounting rules and are reviewed by independent auditors. The Energy and Finance Secretariats approve and submit Pemex's and CFE's budgets to the lower house for approval.

The Servicio Postal Mexicano (Sepomex), or Correos de Mexico, is the national postal service of Mexico and officially retains a monopoly on all mail items under one kilogram. The mail is regulated under Mexico's Communications and Transport Secretariat, and postal service is reserved to the state under Mexico's Constitution. Private delivery under one kilogram is officially illegal, but loopholes in the law have allowed some domestic and foreign privately-owned shippers to provide some delivery services through certified delivery and other advanced-service options to differentiate their business from that of a standard postal delivery. In the past, there were calls for legal reforms that would give Correos de Mexico a strictly enforced monopoly on packages weighing 350 grams or less and require private couriers to charge up to seven times Correos de Mexico's prices, but the government has not moved ahead on this front.

Technically, Correos de Mexico is responsible for financing itself, but the government does subsidize the agency if there is insufficient revenue. Liberalization and privatization of postal markets are not currently on the agenda in Mexico. Correos de Mexico has a Board of Directors presided over by the Secretariat of Communications and Transportation. Other members of the Board are: the Secretary of Foreign Affairs, the Secretary of the Economy, the Secretary of Finance, and the Under Secretary of Communications. The Director General is appointed by the President.

11. Corporate Social Responsibility

Both the private and public sector have taken several actions to promote and develop Corporate Social Responsibility (CSR) in Mexico during the past decade. CSR in Mexico began more as a philanthropic effort, but it has gradually evolved to a more holistic approach, trying to match international standards, such as the OECD Guidelines for Multinational Enterprises and the United Nations Global Compact. The Mexican Center of Philanthropy (CEMEFI), a well-respected NGO for the promotion of CSR and philanthropy, was created in 1998, and among its achievements has been the creation of the CSR distinctive award in 2001 to those companies that comply with CSR best practices in Mexico and Latin America. Other awards that recognize companies' CSR work in Mexico are the Great Place to Work rank and Expansion magazine's Super Empresas list. Some of the domestic and foreign companies, of the more than one hundred that have received awards, are: Bimbo, Nestlé, Coca Cola, WalMart, Hewlett Packard, General Electric, Pfizer, and Plantronics.

In 2005, the Mexican Standards Institute (IMNC) officially issued the CSR standard NMX-SAST-004-IMNC. On November 26, 2010, Mexico officially launched the ISO 26000 Guidance on Social Responsibility, an international standard that offers guidance on socially responsible behavior and possible actions; it does not contain requirements and, therefore, in contrast to ISO management system standards, is not certifiable. Corporate social responsibility reporting has made progress in the last few years with more companies developing a corporate responsibility performance strategy. The government has also made an effort to implement

CSR in state-owned companies such as PEMEX, which has published corporate responsibility reports since 1999.

12. Political Violence

Peaceful mass demonstrations are common in the larger metropolitan areas such as Mexico City, Guadalajara, and Monterrey. While political violence is rare, narcotics- and organized-crime-related violence has skyrocketed since 2006. Transnational criminal organizations (TCOs) fighting each other and the government for control of drug smuggling routes have carried out violent acts unprecedented both in number and nature. According to Mexico's statistics agency (INEGI) the country suffered 26,037 intentional homicides in 2012, down by 4.3 percent from the 2011 record high of 27,213 murders. The homicide rate fell to 21 per 100,000 residents, a slight decline from 22 per 100,000 in 2011. Cartels use torture and the public dumping of bodies to intimidate their rivals. As the Mexican government increases the pressure, TCOs continue to expand their operations into any available money-making venture, including kidnappings, extortion, human trafficking, and hijacking cargo shipments, often targeting business owners and others innocent of any involvement in narcotics trafficking.

The United States is working with Mexico to combat organized crime and enhance rule of law through the Merida Initiative. This initiative is a three year-old program to provide equipment and training to support law enforcement operations and technical assistance for long-term reform and oversight of security agencies, as well as to build a 21st century border and help rebuild communities torn apart by violence. So far the U.S. Congress has appropriated over $1.5 billion for this initiative, which has provided, among other things, helicopters and surveillance aircraft, non-intrusive inspection equipment, technical assistance, and training to strengthen investigative techniques, prison systems, border management, and judicial practices. In addition, the Merida Initiative has supported Mexican investments in job creation programs, engaging youth in their communities, expanding social safety nets, and building community confidence in public institutions to create a culture of lawfulness and undercut the allure of the cartels. Though the violence is not political in nature, U.S. Embassy Mexico notes that general security concerns remain an issue for companies looking to invest in the country. Many companies choose to take extra precautions for the protection of their executives. They also report increasing security costs for shipments of goods. The Overseas Security Advisory Council (OSAC) monitors and reports on regional security for American businesses operating overseas. OSAC constituency is available to any American-owned, not-for-profit organization, or any enterprise incorporated in the U.S. (parent company, not subsidiaries or divisions) doing business overseas (https://www.osac.gov/Pages/Home.aspx).

The Department of State maintains a Travel Warning for U.S. citizens traveling and living in Mexico, available at http://travel.state.gov/content/passports/english/alertswarnings/mexico-travel-warning.html.

13. Corruption

Corruption is pervasive in almost all levels of Mexican government and society. President Calderon pledged that his government would fight against corruption in government agencies at the federal, state and municipal levels. Aggressive investigations and operations have exposed corruption at the highest levels of government. President Pena Nieto through PRI lawmakers submitted to the Mexican congress proposals to reorganize his cabinet, among which is the creation of a National Anti-Corruption Commission. The new commission will absorb the duties of the present Secretariat of Public Function/Administration, which currently has the government's anti-corruption oversight role. The aim is to have an impartial and autonomous entity with full capacity to combat corruption.

Mexico's Congress passed the Federal Anti-Corruption law in June 2012 and the Anti-Money Laundering Llaw (or the illicit finance law) in October 2012. The Anti-Money Laundering Law obligates Designated Non-Financial Businesses & Professions (DNFBP) to identify their clients and report suspicious operations or transactions above designated thresholds to the Secretariat of Finance (SHCP), establishes a Specialized Financial Analysis Unit (UEAF) in the Office of the Attorney General (PGR), restricts cash operations in Mexican pesos, foreign currencies and precious metals for a variety of "vulnerable" activities, and imposes criminal sanctions and administrative fines on violators of the new legislation. For more information on the anti-money laundering law, please consult: http://www.dof.gob.mx/nota_detalle.php?codigo=5273403&fecha=17/10/2012.

Mexico ratified the OECD Convention on Combating Bribery in May 1999. The Mexican Congress passed legislation implementing the convention that same month. The legislation includes provisions making it a criminal offense to bribe foreign officials. Mexico is a participating member of the OECD Working Group on Bribery. In the Working Group's Phase 3 Review in October 2011, it acknowledged that Mexico has made progress but should further prioritize fighting foreign bribery. Mexico is also a party to the OAS Convention against Corruption and has signed and ratified the United Nations Convention against Corruption. The government has enacted or proposed strict laws attacking corruption and bribery, with average penalties of five to ten years in prison. The Transparency and Access to Public Government Information Act, the country's first freedom of information act, went into effect in June 2003 with the aim of increasing government accountability. Mexico's 31 states have passed similar freedom of information legislation that mirrors the federal law and meets international standards in this field. Transparency in public administration at the federal level has noticeably improved, but access to information at the state and local level has been slow.

According to Transparency International's 2013 Corruption Perceptions Index, Mexico scored 34 on a scale of 1 to 100 where lower numbers represent a greater perception of corruption. The tally places Mexico in 106th place out of 177 nations, a drop from 105th place out of 176 nations in 2012. Local civil society organizations focused on fighting corruption are still developing in Mexico. A handful of Mexican non-governmental organizations, including Mexico Without Corruption and the FUNDAR Center for Analysis and Investigation, work to study issues related to corruption and raise awareness in favor of transparency. The Mexican branch of Transparency International also operates in Mexico. The best source of Mexican government information on anti-corruption initiatives is the Secretariat of Public Administration (www.funcionpublica.gob.mx).

14. Bilateral Investment Agreements

NAFTA governs U.S. and Canadian investment in Mexico. In addition to NAFTA, most of Mexico's other free trade agreements (FTAs) cover investment protection, with a notable exception being the Mexico-European Union FTA. The network of Mexico's FTAs containing investment clauses include agreements with Bolivia, Chile, Costa Rica, Colombia, El Salvador, Guatemala, Honduras, Japan, and Nicaragua. A Free Trade Agreement with Peru and a combined agreement with Central America passed Mexico's Congress in December 2011 and in April 2014 Mexico signed a free trade pact with Panama.

Mexico has enacted formal bilateral investment protection agreements with 29 countries: 16 European Union countries (Austria, Belgium-Luxembourg, Czech Republic, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Portugal, Slovakia, Spain, Sweden, and the United Kingdom), as well as Australia, Argentina, Belarus, China, Cuba, Iceland, India, Panama, Slovakia, South Korea, Switzerland, Trinidad and Tobago, and Uruguay. Mexico continues to negotiate bilateral investment treaties with Russia, Saudi Arabia, Malaysia, Singapore, Brazil and the Dominican Republic.

The United States and Mexico have a bilateral tax treaty to avoid double taxation and prevent tax evasion. Important provisions of the treaty establish ceilings for Mexican withholding taxes on interest payments and U.S. withholding taxes on dividend payments. The implementation of the flat tax on January 1, 2008, has led to questions as to whether the new tax meets the requirements of the bilateral tax treaty. The U.S. Internal Revenue Service presently allows businesses to credit flat tax against their U.S. taxes and has stated that it will issue a ruling at some future date. Businesses should continue to monitor this issue.

Mexico and the United States also have a tax information exchange agreement to assist the two countries in enforcing their tax laws. The Financial Information Exchange Agreement (FIEA) was enacted in 1995, pursuant to the Mutual Legal Assistance Treaty. The agreements cover information that may affect the determination, assessment, and collection of taxes, and investigation and prosecution of tax crimes. The FIEA permits the exchange of information with respect to large-value or suspicious currency transactions to combat illegal activities, particularly money laundering. Mexico is a member of the financial action task force (FATF) of the OECD and has made progress in strengthening its financial system through specific anti-money-laundering legislation enacted in 2000 and 2004. In 2010, Mexico implemented restrictions on U.S. dollar deposits which reduced by 50 percent the amount of bulk cash repatriated to the United States from the Mexican financial system. However, Mexico's congress still needs to approve the proposed Law for the Prevention of Illicit Finance Operations, which will limit peso cash purchases, give the Attorney General's office sole jurisdiction over the investigation and prosecution of money laundering cases, and oblige more economic agents, such as notaries, consultants, and attorneys to report suspicious operations.

15. OPIC and Other Investment Insurance Programs

In August of 2004, Mexico and the U.S. Overseas Private Investment Corporation (OPIC) finalized an agreement that enables OPIC to offer all its programs and services in the country. Since then, OPIC has pursued potential investment projects in Mexico, and the country rapidly became one of the top destinations for projects with OPIC support. OPIC has provided over $750 million in financing and political risk insurance support to 22 projects in Mexico. In addition, OPIC-supported funds are among the largest providers of private equity capital to emerging markets. For more information on OPIC's projects in Mexico, please consult OPIC's website at www.opic.gov.

16. Labor

The Mexican Congress enacted a sweeping labor reform bill into law on November 29, 2012. The law encompasses major changes to make Mexico's labor market flexible and incorporate modern statutes such as non-discrimination. Included in the 300 articles are provisions for the easing of hiring-and-firing of workers, establishing an apprenticeship system, establishing an hourly wage system, and regulating outsourcing. The labor reform also prohibits job discrimination based on sex, health, sexual preference, age, and disability. It makes it illegal for employers to require pregnancy tests of their female workers and job candidates. The reform also restructures Mexico's labor courts and incorporates the International Labor Organization's (ILO) concept of decent work. The full text of the new law can be found at: http://www.stps.gob.mx/bp/micrositios/reforma_laboral/ref_lab.html.

In 2014, Mexico's Congress approved constitutional changes to raise the minimum work age from 14 to 15 which will allow Mexico to ratify Convention 138 of the International Labor Organization. State legislatures will need to approve the reform before it is enacted into law.

There is a large surplus of labor in the formal economy, largely composed of low-skilled or unskilled workers. On the other hand, there is a shortage of technically skilled workers and engineers. Labor-management relations are uneven and union issues can be complex in Mexico. Mexican law allows only one union to operate in any business establishment. Many actors also note that the Mexican government wields veto power in the supposedly neutral and balanced tripartite arrangement of labor-business-government relations. Mexican manufacturing operations in the textile and garment sectors are experiencing stiff wage competition from Central America and India, but gaining relative wage competition with China in high technology sectors. Mexico's minimum wage averages around $5 per day and is less than a living wage in this OECD country. It is set by the tripartite National Commission for Minimum Wage each year.

17. Foreign Trade Zones/Free Ports

In addition to the IMMEX programs that operate as quasi-free trade zones, in 2002 Mexico approved the operation of more traditional free trade zones (FTZ). Unlike the previous "bonded" areas that only allowed for warehousing of product for short periods, the new FTZ regime allows for manufacturing, repair, distribution, and sale of merchandise. There is no export requirement for companies operating within the zone to avail themselves of tax benefits. Regulatory guidance for FTZs can be found under Mexico's Customs Law, article 14-D. Most major ports in Mexico have bonded areas ("recinto fiscalizados") or customs agents ("recintos fiscal") within them. Mexico currently has four approved FTZ's, located in San Luis Potosi, Mexico City, Monterrey, and Guanajuato.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic Data, U.S. FDI in Mexico

	Mexican Statistical Source	USG or International Statistical Source	Source of Data:

Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (*Millions U.S. Dollars)*	2012	$1,185,046	2012	$1,178,000	www.inegi.org.mx http://data.worldbank.org/
Foreign Direct Investment	Secretary of Economy www.economia.gob.mx		USG or international statistical source		Source of data:
U.S. FDI in partner country (*Millions U.S. Dollars, stock positions)*	2012	N/A	2012	$101,030	Bureau of Economic Analysis
Host country's FDI in the United States (*Millions U.S. Dollars, stock positions)*	2012	N/A	2012	$14,883	Bureau of Economic Analysis
Total inbound stock of FDI as % host GDP (***calculate)***	2012	N/A	2012	8.58%	

TABLE 3: Sources and Destination of FDI

Mexico, 2012

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	361,234	100%	Total Outward	131,106	100%
United States	198,833	55%	United States	43,773	33%

Spain	42,543	12%	Brazil	22,377	17%
Netherlands	36,482	10%	Spain	17,457	13%
Canada	14,789	4%	Netherlands	13,665	10%
United Kingdom	12,808	4%	Switzerland	4,909	4%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: http://cdis.imf.org/

TABLE 4: Sources of Portfolio Investment

Mexico, June 2013

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
World	49,469	100%	World	1,310	100%	World	48,159	100%
United States	41,921	85%	Luxembourg	687	52%	United States	41,455	86%
Luxembourg	687	1%	United States	467	36%	Cayman Islands	435	1%
Cayman Islands	435	1%	Brazil	59	4%	Brazil	242	1%
Brazil	301	1%	United Kingdom	33	2%	Spain	207	0.43%
Spain	211	0.43%	Ireland	25	2%	United Kingdom	69	0.14%

Source: http://cpis.imf.org/

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments

International organization participation:

APEC, BCIE, BIS, CAN (observer), Caricom (observer), CD, CDB, CE (observer), CELAC, CSN (observer), EBRD, FAO, FATF, G-20, G-3, G-15, G-24, IADB, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), LAES, LAIA, MIGA, NAFTA, NAM (observer), NEA, OAS, OECD, OPANAL, OPCW, Paris Club (associate), PCA, SICA (observer), UN, UNASUR (observer), UNCTAD, UNESCO, UNHCR, UNIDO, Union Latina (observer), UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Legal system:

Civil law system with US constitutional law theory influence; judicial review of legislative acts

Exchange control

.
There are no exchange restrictions in Mexico. Foreign currencies can be freely bought, sold and sent or transferred abroad, however, since the year 2010 there are limitations to USD cash transactions.

Treaty and non-treaty withholding tax rates

Mexico has signed **70 agreements** (**54 DTC** and **16 TIEA** agreements) providing for the exchange of information.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5
Aruba	TIEA	18 Jul 2013	not yet in force	Unreviewed	Yes
Australia	DTC	9 Sep 2002	31 Dec 2003	Yes	No
Austria	DTC	13 Apr 2004	1 Jan 2005	No	Yes
Bahamas, The	TIEA	23 Feb 2010	30 Dec 2010	Yes	Yes
Bahrain	DTC	10 Oct 2010	22 Feb 2012	Yes	Yes
Barbados	DTC	7 Apr 2008	16 Jan 2009	Yes	Yes
Belgium	DTC	24 Nov 1992	1 Feb 1997	Yes	No
Belize	TIEA	17 Nov 2011	9 Aug 2012	Yes	Yes
Bermuda	TIEA	15 Sep 2009	9 Sep 2010	Yes	Yes
Brazil	DTC	25 Sep 2003	30 Nov 2006	Yes	No
Canada	DTC	12 Sep 2006	12 Apr 2007	Yes	Yes
Cayman Islands	TIEA	28 Aug 2010	9 Mar 2012	Yes	Yes
Chile	DTC	17 Apr 1998	12 Nov 1999	Yes	No
China	DTC	12 Sep 2005	1 Mar 2006	Yes	No
Colombia	DTC	13 Aug 2009	11 Jul 2013	Unreviewed	Yes
Cook Islands	TIEA	22 Nov 2010	3 Mar 2012	Yes	Yes
Costa Rica	TIEA	25 Apr 2011	26 Jun 2012	Yes	Yes
Curaçao	TIEA	1 Sep 2009	4 Feb 2011	Yes	Yes
Czech Republic	DTC	4 Apr 2002	27 Dec 2002	Yes	No
Denmark	DTC	11 Jun 1997	22 Dec 1997	Yes	No
Ecuador	DTC	30 Jul 1992	13 Dec 2000	Yes	No
Estonia	DTC	19 Oct 2012	not yet in force	Yes	Yes
Finland	DTC	12 Feb 1997	14 Jul 1998	Yes	No
France	DTC	7 Nov 1991	31 Dec 1992	Yes	No
Germany	DTC	9 Jul 2008	15 Oct 2009	Yes	Yes
Gibraltar	TIEA	29 Nov 2012	not yet in force	Yes	Yes
Greece	DTC	13 Apr 2004	7 Dec 2005	Yes	No
Guernsey	TIEA	27 Jun 2011	24 Mar 2012	Yes	Yes
Hong Kong, China	DTC	18 Jun 2012	7 Mar 2013	Yes	Yes
Hungary	DTC	24 Jul 2011	31 Dec 2011	Yes	Yes

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5
Iceland	DTC	11 Mar 2008	10 Dec 2008	Yes	Yes
India	DTC	10 Sep 2007	1 Feb 2010	Yes	Yes
Indonesia	DTC	6 Sep 2002	28 Oct 2004	Yes	No
Ireland	DTC	22 Oct 1998	13 Dec 1998	Yes	No
Isle of Man	TIEA	11 Apr 2011	4 Mar 2012	Yes	Yes
Israel	DTC	19 Jul 1999	1 Jan 2000	Yes	No
Italy	DTC	8 Jul 1991	12 Mar 1995	Yes	No
Italy	DTC Protocol	23 Jun 2011	not yet in force	Yes	Yes
Japan	DTC	9 Apr 1996	6 Nov 1996	Yes	No
Jersey	TIEA	8 Nov 2010	22 Mar 2012	Yes	Yes
Korea, Republic of	DTC	6 Oct 1994	13 Feb 1995	Yes	No
Kuwait	DTC	27 Oct 2009	15 May 2013	Unreviewed	Yes
Latvia	DTC	20 Apr 2012	not yet in force	Unreviewed	No
Liechtenstein	TIEA	8 Apr 2013	not yet in force	Unreviewed	Yes
Lithuania	DTC	23 Feb 2012	29 Nov 2012	Yes	Yes
Luxembourg	DTC	7 Feb 2001	27 Dec 2001	Yes	Yes
Malta	DTC	17 Dec 2012	not yet in force	Yes	Yes
Netherlands	DTC	27 Sep 1993	13 Oct 1994	Yes	Yes
New Zealand	DTC	16 Nov 2006	16 Jun 2007	Yes	Yes
Norway	DTC	23 Mar 1995	23 Jan 2006	Yes	No
Panama	DTC	24 Mar 2010	30 Dec 2010	Unreviewed	Yes
Peru	DTC	27 Apr 2011	not yet in force	Unreviewed	Yes
Poland	DTC	30 Nov 1998	1 Jan 2003	Yes	No
Portugal	DTC	11 Nov 1999	1 Sep 2001	Yes	No
Qatar	DTC	14 May 2012	9 Mar 2013	Yes	Yes
Romania	DTC	20 Jul 2000	15 Aug 2001	Unreviewed	No
Russian Federation	DTC	7 Jun 2004	2 Apr 2008	Yes	No
Samoa	TIEA	30 Nov 2011	18 Jul 2012	Yes	Yes
Singapore	DTC	9 Nov 1994	8 Sep 1995	Yes	Yes
Sint Maarten	TIEA	1 Sep 2009	4 Feb 2011	Yes	Yes
Slovakia	DTC	13 May 2006	28 Sep 2007	Yes	No
South Africa	DTC	19 Feb 2009	22 Jul 2010	Yes	Yes
Spain	DTC	24 Jul 1992	6 Oct 1994	Yes	No
Sweden	DTC	21 Sep 1992	18 Dec 1992	Yes	No
Switzerland	DTC	3 Aug 1993	8 Sep 1994	No	Yes
Ukraine	DTC	23 Jan 2012	6 Dec 2012	Unreviewed	Yes
United Kingdom	DTC	2 Jun 1994	15 Dec 1994	Yes	Yes
United States	DTC	18 Sep 1992	1 Jan 1994	Yes	No
United States	TIEA	9 Nov 1989	18 Jan 1990	Yes	No
Uruguay	DTC	14 Aug 2009	29 Dec 2010	Yes	Yes
Venezuela	DTC	6 Feb 1997	not yet in force	Unreviewed	No

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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