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).

Contact at government agency

- Teresa Gomez del Campo Gurza
- Head of International Cooperation and Transparency Policy
- Secretariat of Public Administration
- Miguel Laurent 235, Mexico City
- 52-55-2000-1060
- tgomez@funcionpublica.gob.mx

Contact at "watchdog" organization

- Eduardo Bohorquez
- Executive Director
- Transparencia Mexicana
- Dulce Olivia 73, Mexico City
- 52-55-5659-4714
- info@tm.org.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.*	2012	$1,185,046	2012	$1,178,000	www.inegi.org.mx http://data.worldbank.org/

Dollars)					
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/

19. Contact Point at Post

Economic Counselor
U.S. Embassy, Mexico City
Paseo de la Reforma 305, Cuauhtémoc
06500 Ciudad de México, Distrito Federal
Mexico

+52-55-5080-2999
MexInvestmentClimate@state.gov