Mexico

RISK & COMPLIANCE REPORT

DATE: March 2018

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) Non - Compliance with FATF 40 Recommendations

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 5

Section 2 - Anti – Money Laundering / Terrorist Financing 6

FATF Status 6

Compliance with FATF Recommendations 6

Key Findings from latest Mutual Evaluation follow-up (2014) .... **Error! Bookmark not defined.**

US Department of State Money Laundering assessment (INCSR) 8

Key Findings from other US State Department Reports: 12

International Sanctions 16

Bribery & Corruption 17

Section 3 - Economy 25

Section 4 - Investment Climate 28

Section 5 - Government 58

Section 6 - Tax 59

Methodology and Sources 61

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 2017. According to that Evaluation, Mexico was deemed Compliant for 5 and Largely Compliant for 19 of the FATF 40 Recommendations.

Key Findings

Mexico has a mature AML/CFT regime, with a correspondingly well-developed legal and institutional framework. There has been a significant improvement in some areas of the country's AML/CFT regime compared to that which existed when the country was last assessed in 2008. It is nonetheless confronted with a significant risk of money laundering (ML) stemming principally from activities most often associated with organised crime, such as drug trafficking, extortion, corruption and tax evasion.

Most of the key authorities have a good understanding of ML and terrorist financing (TF) risks, and there is generally good policy cooperation and coordination. Mexico finalized its national risk assessment (NRA) in June 2016 and has since taken some high-level actions to mitigate the risks identified in the NRA. These actions—although leading to some concrete results—have not been sufficiently comprehensive nor prioritized to have resulted in an appropriate allocation of resources at the federal, state, and community levels. A national strategy is being developed based on the NRA findings. The success of these measures will depend on their proper implementation.

The financial sector demonstrates a good understanding of the primary ML threats from organised crime groups and associated criminal activities as well as tax crimes, but the recognition of corruption as a main threat is uneven. While recognizing the general threat of organised crimes facing Mexico, designated non-financial businesses and professions' (DNFBPs) appreciation of the ML risks appears limited. Financial institutions' (FIs) and DNFBPs' understanding of more complex ML techniques, such as the misuse of legal persons, is limited.

Financial intelligence and other relevant information are made available by the financial intelligence unit (FIU) and accessed on a regular basis by competent authorities. Although the FIU functions well and is producing good financial intelligence, the volume of financial

intelligence disseminated to the Procuraduría General de la República (PGR) is limited in number resulting in a low number of financial investigations.

Until relatively recently, the PGR did not rank the identification and investigation of ML as one of its key priorities. ML is not investigated and prosecuted in a proactive and systematic fashion, but rather on a reactive, case-by-case basis, notwithstanding the fact that some high-profile investigations have recently been conducted. In view of the serious threats posed by the main predicate offences (e.g., organised crime or drug trafficking), the competent authorities seem to accord far more priority to the investigation of such offenses than to ML. Consequently, the number of prosecutions and convictions for ML are very low. Significant shortcomings were found in the way in which ML cases are investigated. Specifically, only very rarely are parallel financial investigations conducted and ML is seldom prosecuted as standalone offence. The level of corruption affecting law enforcement agencies (LEAs), in particular at the state level, undermines their capacity to investigate and prosecute serious offences.

Confiscation of proceeds and instrumentalities is not systematically pursued as a policy objective, and not commensurate with the ML/TF risks. The provisional measures available to the authorities are not being used properly and in timely manner, except for the use of FIU's blocked persons' list (BPL). Suspicious and falsely declared cash is not being adequately confiscated.

Overall, Mexico has a solid institutional and legal framework in place to investigate and prosecute TF and impose targeted financial sanctions (TFS). The authorities have provided FIs with red flags to detect potential TF cases, and the FIU has conducted some analysis related to TF. Nonetheless, Mexico could do more to ensure that the relevant authorities are better equipped with the right tools in terms of training, expertise, and priority setting to be able to effectively detect and disrupt TF.

A serious concern across all sectors is that beneficial owners are being identified only to a limited extent, systematically weighing on entities' effectiveness in assessing and managing ML/TF risks. Owing largely to shortcomings in the legal framework, FIs seek to identify beneficial owners in only limited circumstances (the authorities have promulgated amendments to regulations which they claim will address this gap but these were not in effect at the time of the on-site visit). Where FIs are required to identify beneficial owners (legal persons categorized as high risk and natural persons), FIs unduly rely on customers' self-declaration to identify beneficial owners. For the majority of legal persons that are not categorized as high risk, FIs need only obtain information on corporate customers' first layer of legal ownership without seeking to reach the natural persons who ultimately own or control the entity. DNFBPs generally believe it is not their role to identify beneficial owners.

The financial sector supervisors have a good understanding of the risks within the sectors for which they are responsible, and have implemented reasonable risk-based approaches to AML/CFT supervision. Oversight of the DNFBPs is less developed and is significantly underresourced. Generally, sanctions have not been applied, to date, in an effective, proportionate and dissuasive manner.

Mexico has a solid legal and institutional framework in place to seek and provide mutual legal assistance (MLA) and extradition. The authorities also frequently rely on other forms of

international cooperation to exchange information with other countries. In practice, Mexico has decided as a policy matter to strengthen and favour other forms of cooperation while only pursuing MLA when strictly necessary. It is clear that the use of other forms of cooperation is effective, fluid, and has produced tangible results with the U.S. The provision of MLA by Mexico is somewhat limited by the absence of a legal basis for certain investigation techniques. As regards seeking MLA, the authorities are neither proactive nor seem to accord a high priority to pursuing MLA when the offense has a transnational element, and where evidence or assets are located abroad which has a negative impact on the effectiveness of investigations and prosecutions.

Risks and General Situation

Based on the information provided in the NRA and other open source documents, the amount of proceeds generated by predicate crimes committed in and outside of Mexico is high. The main domestic proceeds-generating crimes can be divided into three tiers of magnitude: (i) domestic organised crimes, including drugs and human trafficking, (ii) corruption, and (iii) tax evasion. The country also faces particular risks related to the laundering of proceeds derived from foreign predicate crimes mostly related to Mexican transnational organised crime (e.g., in the U.S., and to a much lower degree South and Central America).

Banks are most at threat, but other sectors are vulnerable to ML activities. Banks dominate the financial sector, handle a high volume of transactions, and are well interconnected to the international financial system. Brokerage firms and DNFBPs notably notaries and real estate agents are involved in a high volume of transactions and are exposed to ML threats.

Typical ML methods include the use of shell and front companies to conceal beneficial ownership (BO), the purchase and sale of real estate and high-value goods, and cash smuggling on both directions of the U.S.–Mexico Border. The high use of cash and relatively large informal economy significantly increases the risk that illicit proceeds may be re-channeled into the regulated formal economy. Nevertheless, according to the Bank of Mexico's analysis, the restrictions on FIs for receiving cash in U.S. dollars (USD) has resulted in a significant decrease in the volume of USD cashin and cash-out of the financial system. However, use of Mexican pesos (MXN) as cash has increased.

The risk of TF appears to be relatively low, although some cases have been detected. The authorities and the private sector agree that the overall TF risk is low.

US Department of State Money Laundering assessment (INCSR)

Mexico is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

OVERVIEW

Mexico is a major source, distribution, and transit country for illegal narcotics destined for the United States. Billions of U.S. dollars of trafficking proceeds move to and from the United

States and are laundered through the Mexican financial system annually. Corruption, bulk cash smuggling, kidnapping, extortion, oil and fuel theft, intellectual property rights violations, fraud, human smuggling, and trafficking in persons and firearms are additional sources of funds laundered through Mexico. Mexican authorities have had modest success investigating and blocking accounts of suspected money launderers and other illicit actors, although an October 2017 Supreme Court ruling may impact the government's ability to freeze accounts tied to illicit activity. Money laundering offenses continue to be committed with relative impunity as the government struggles to prosecute financial crimes and seize known illicit property and assets. Money laundering prosecutions, of which there have been very few considering the volume of illicit finance in Mexico, have declined further in recent years. Improved coordination among prosecutors (particularly within Mexico's Attorney General's office), the FIU, banking regulators, and law enforcement agencies is needed to increase the number of money laundering convictions and discourage criminal activity. There has been limited progress in this area to date.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Illicit drug proceeds leaving the United States are the principal sources of funds laundered through the Mexican financial system. Mexican transnational criminal organizations (TCOs) launder funds using a variety of methods. TBML often involves the use of dollar-denominated illicit proceeds to purchase retail items in the United States for export to and re-sale in Mexico, with revenue from the sale of these goods ultimately going to TCOs. TBML, which requires complicity by businessmen, increasingly involves loosely-regulated cryptocurrency exchange. Two additional popular methods include bulk cash smuggling and the use of funnel accounts, whereby individuals structure deposits at various financial institution accounts in the United States to be "funneled" into a centralized account for eventual wiring to Mexico. Funnel accounts are an attractive method of moving funds since the informal standard for an individual to present identification when making a deposit into an account is not universally applied by financial institutions, and amounts deposited usually fall below reporting requirements. Unlicensed and complicit exchange houses are also used to launder narcotics-related proceeds, although Mexico's main banking regulator issued new regulations and set up a special regulatory unit to curtail the number of unlicensed exchange houses operating in the country.

KEY AML LAWS AND REGULATIONS

Mexican AML law criminalizes money laundering using an "all serious crimes" approach and covers legal persons criminally and civilly. CDD rules include both foreign and most domestic PEPs.

In August 2017, Mexico coordinated closely with the United States' Department of the Treasury OFAC on a designation of numerous Mexican individuals and entities affiliated with a drug trafficking organization. The Mexican Bankers Association's members voluntarily screen against OFAC's narcotics sanctions list. Pursuant to a recently-amended regulation, Mexican banks can share information on transactions and customers with U.S. and other financial institutions for AML purposes.

Mexico is a member of both the FATF and GAFILAT, a FATF-style regional body.

AML DEFICIENCIES

Mexico's FIU suffered a setback in October 2017, when the Supreme Court ruled that the FIU's administrative freezing of accounts violates due process rights and constitutional protections under Mexican law. To date, the ruling only impacts one entity's frozen accounts, but it is expected many similarly-affected entities will file appeals in Mexican federal court. Given how law enforcement and judicial authorities have struggled to investigate and prosecute financial crimes, additional rulings of this kind, which are likely, would leave Mexico vulnerable until a legislative fix can be implemented.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Illicit actors in Mexico invest in financial and real assets, such as property, businesses, and luxury items. Although authorities recognize the abuse of certain sectors by money launderers, law enforcement responses are limited by lack of judicial capacity, cumbersome asset forfeiture laws, and corruption. Prosecution of money laundering cases is problematic. Fewer than 20 percent of all 2016 money laundering investigations led to charges being filed. Figures for 2017 are not yet available. The relative lack of convictions on money laundering cases is representative of a wider problem of impunity in Mexico. The transition from an inquisitive to an accusatorial judicial system in mid-2016 should improve Mexico's prosecution rates over the medium to long term. Draft non-conviction-based forfeiture legislation, which would enable law enforcement agencies to more easily seize illicit proceeds, has been under consideration in the Mexican Congress of the Union for an extended period of time, with few signs of progress on the horizon. Corruption in the law enforcement and judicial systems, moreover, especially at the state and local level, impedes the government's ability to convict organizations and individuals involved in money laundering.

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 - 2017

Introduction

Mexico is a major source and transit country for heroin, marijuana, and synthetic drugs destined for the United States and a main transit country for cocaine from South America. Mexico is a source of illicit opium poppy and the primary supplier of heroin and opium derivatives to the
U.S. domestic market. Seizures of clandestine laboratories have significantly increased, suggesting continued access to precursor chemicals. Narcotics trafficking and related violence in Mexico pose considerable problems to citizen security and economic development. According to Mexico's Interior Ministry, murders increased by 20 percent over the first nine months of 2016 compared to the same period in 2015. Mexico's National Institute for Statistics and Geography (INEGI) reported that 72 percent of Mexicans believe their city is insecure and nearly 94 percent of crimes go unreported or uninvestigated.

The Merida Initiative is a major component of U.S.-Mexico counternarcotics cooperation. Since 2008, the program has delivered over $1.5 billion in equipment, training, and other support to build capacity and to assist Mexico with law enforcement professionalization, justice sector reform, crime and violence prevention, and anti-corruption efforts. Furthermore, since 2009 the United States has provided security assistance program funding specifically for counternarcotics equipment and training to military personnel and law enforcement, including aviator qualification, medical aid, leadership development, and equipment supporting improved regional interoperability, communications, and maintenance.

Conclusion

Narcotics trafficking and related violence remain a substantial challenge for citizen security. Nevertheless, Mexico continues its efforts to counter transnational criminal organizations, reform its judiciary and prisons, improve border security, and professionalize police. These efforts have strengthened Mexico's public institutions while helping to weaken organized crime. Illicit drug cultivation is a particular challenge, with data trends suggesting illicit opium poppy cultivation will continue to grow. The United States will continue bilateral cooperation to work towards achieving security goals shared by both nations.

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 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 LGBTI individuals. Mexican women and children, and to a lesser extent men and transgender individuals, are exploited in sex trafficking in Mexico and the United States. Mexican men, women, and children are exploited in forced labor in agriculture, domestic service, manufacturing, food processing, construction, forced begging, the informal economy, and street vending in Mexico and the United States. They are typically lured by fraudulent labor recruiters, deceptive offers of romantic relationships, or extortion, including through the retention of identity documents, threats to notify immigration officials of victims' immigration status, or threats to harm family members. NGOs report transgender Mexicans in prostitution are vulnerable to sex trafficking. Press reports state some Mexican citizens have wages systematically withheld, are held in debt bondage in agriculture, and are indebted to recruiters or to company stores. Residents at some substance addiction rehabilitation centers and women's shelters have been subjected to forced labor and sex trafficking. The vast majority of foreign victims of forced labor and sex trafficking in Mexico are from Central and South America. 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 remains a problem, especially in tourist areas and in northern border cities. Many child sex tourists are from the United States, Canada, and Western Europe, though Mexican citizens are among those exploiting child sex trafficking victims. Organized criminal groups profit from sex trafficking and force Mexican and foreign men, women, and children to engage in illicit activities, including as assassins; lookouts; and in the production, transportation, and sale of drugs. Trafficking-related corruption among public officials, especially local law enforcement, judicial, and immigration officials, is a significant concern. Some officials extort bribes and sexual services from adults in prostitution and child sex trafficking victims; extort irregular migrants, including trafficking victims; falsify victims' documents; threaten victims with prosecution to compel them to file official complaints against their traffickers; accept bribes from traffickers; facilitate movement of victims across borders; operate or patronize brothels where victims are exploited; or fail to respond to trafficking crimes, including in commercial sex locations.

The Government of Mexico does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government reported convicting 86 traffickers, including some for forced labor. Data on victim identification and law enforcement efforts were sometimes unreliable, and it was unclear how many of these convictions were for trafficking as defined by international law; however, data collection improved in 2015. Official complicity continued to be a serious and largely unaddressed problem. The government provided funding for services for crime victims, including trafficking victims, and opened the country's first public-private shelter funded by a state government and private entities. Shelters remained inadequate compared to the scale of the problem, and victim services were virtually nonexistent in much of the country, leaving many reported victims vulnerable to re-trafficking. Federal and state authorities engaged in a range of anti-trafficking prevention efforts, including new initiatives to prevent forced labor.

Terrorist Financing 2016

Overview: Counterterrorism cooperation between the Mexican and U.S. governments remained strong. There are no known international terrorist organizations operating in Mexico, no evidence that any terrorist group has targeted U.S. citizens in Mexican territory, and no credible information that any member of a terrorist group has traveled through Mexico to gain access to the United States. In December 2016, Mexican government officials observed on social media an increase in terrorist group sympathizers in its territory over the previous year. The Governments of Mexico and the United States are analyzing this information.

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, which pursues open terrorism cases. However, some challenges remain. For instance, joint investigations with the Government of Mexico involve violations under "material support to terrorism" laws, but there was no legal instrument in Mexico to charge individuals with that specific crime in 2016.

The Government of Mexico continued to work towards full implementation of an accusatorial justice system, with varying levels of application across Mexico's 32 states. All states transitioned to the new system before the June 18, 2016 national deadline; however, experts believe full implementation could take a decade or more as Mexico continues its efforts to change its legal culture, law school system, evidentiary standards, courtrooms, and police training. The United States continues to support the transition through the Merida Initiative.

Since 2014, Mexico's border security enforcement capabilities have increased in focus and effectiveness along its southern border to address the surge of migrants from Central America. There has also been an increase in migrants from beyond the region attempting to enter Mexico through its southern border. 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 irregular migrants. Corruption sometimes hinders the effectiveness of enforcement efforts.

Counterterrorism monitoring is carried out in airports and at migration stations through a constant review of regular and irregular people flows. Mexican authorities analyze passenger lists against name matches from international organizations and intelligence agencies. Whenever a profile coincides with risk lists, Mexico initiates the alert process. In the case of an INTERPOL Red Notice, the authorities are notified. In other cases they could be denied entry or returned to their country of origin.

The National Institute of Migration (INM) collects and disseminates passenger information for persons who raise terrorism concerns and incorporates INTERPOL watchlists into its database. INM collects limited biographic and biometric data at ports of entry and migration stations.

Mexican and U.S. law enforcement agencies coordinate closely regarding persons who raise terrorism concerns. This primarily involves individuals encountered at the immigration detention facility in Tapachula, Chiapas, and also at international airports. 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 frequent counternarcotic operations.

Mexican security agencies track open-source reports, and most recently investigated media reports that terrorist training camps existed in Mexico. In each instance, the media reports were found to be unsubstantiated.

Countering the Financing of Terrorism: Mexico is a member of the Financial Action Task Force (FATF), and the Financial Action Task force of Latin America, a FATF-style regional body (FSRB). Mexico has observer or cooperating status in the following FSRBs: the Caribbean Financial Action Task Force, and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures. Mexico's financial intelligence unit (FIU), Unidad de Inteligencia Financiera, is a member of the Egmont Group of Financial Intelligence Units and proactively shares financial intelligence on shared threats with its U.S. counterpart, the Financial Crimes Enforcement Network.

The Government of Mexico and financial services entities cooperate on terrorist financing legislation and regulations. For example, Mexico established an asset freezing regime that automatically and immediately incorporates listings under the UN Security Council ISIL (Da'esh) and al-Qa'ida sanctions regime into its domestic FIU-issued list.

International Sanctions

Mexico is not currently subject to any International Sanctions

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	29
World Governance Indicator – Control of Corruption	23

Corruption is a significant risk for companies operating in Mexico. Bribery is widespread in the country's judiciary and police, and business registration processes, including getting construction permits and licenses, are negatively influenced by corruption. Organized crime continues to be a very problematic factor for business, imposing large costs on companies. Collusion between the police, judges and criminal groups is extensive, leading to widespread crime, theft, impunity and weak law enforcement. The petroleum industry is dominated by the state-owned oil company Pemex, which has been the subject of several high-profile corruption cases. Gifts and hospitality are not forbidden by law and may be permissible, depending on intent. Attempted bribery, extortion, abuse of office, bribery of foreign public officials and facilitation are criminalized under Mexico's Federal Penal Code (Código Penal Federal, in Spanish). However, Mexico's anti-corruption laws are almost never enforced, and public officials are rarely held liable for illegal acts. **Information provided by GAN Integrity.**

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 $2.2 trillion economy has become increasingly oriented toward manufacturing in the 22 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 US' second-largest export market and third-largest source of imports. In 2014, two-way trade in goods and services exceeded $590 billion. Mexico has free trade agreements with 46 countries, 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 two years in office, passing and implementing sweeping education, energy, financial, fiscal, and telecommunications reform legislation, among others, with the long-term aim to improve competitiveness and economic growth across the Mexican economy. Mexico began holding public auctions of exploration and development rights to select oil and gas resources in 2015 as a part of reforms that allow for private investment in the oil, gas, and electricity sectors. The second and third auctions demonstrated the capacity for the Mexican Government to adapt and improve the terms of the contracts to garner sufficient interest from investors amid low oil prices.

Although the economy experienced stronger growth in 2014-15 as a result of increased investment and stronger demand for Mexican exports, growth is predicted to remain below potential given falling oil production, weak oil prices, structural issues such as low productivity, high inequality, a large informal sector employing over half of the workforce, weak rule of law, and corruption. Over the medium-term, the economy is vulnerable to global economic pressures, such as lower external demand, rising interest rates, and low oil prices - approximately 20% of government revenue comes from the state-owned oil company, PEMEX. The increasing integration of supply chains, development of energy sectors, and government-to-government focus on trade facilitation will continue to make the North American region increasingly competitive and contribute to Mexican economic development and strength.

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 81.1% (2015)

Imports - commodities:

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

Imports - partners:

US 47.3%, China 17.7%, Japan 4.4% (2015)

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 is one of the United States' top strategic partners for trade and investment in the world.

Over the past three years, as part of a broad multiparty political pact, the government of Mexico (GoM) has undertaken significant reforms regarding financial regulations, taxation, anti-trust, energy, and telecommunications. In 2014 and 2015, the GoM implemented a number of constitutional amendments intended to encourage foreign investment, enhance competition, as well as increase the country's tax base. Despite the government's projections for economic growth exceeding 3 percent, according to the GoM's statistics, Mexico achieved GDP growth rates of 2.1 and 2.5 percent in 2014 and 2015 respectively.

The most significant recent changes in Mexico's investment outlook have taken place in the energy and telecommunications sectors. Prior to constitutional reform, the state-controlled oil company, Pemex, had a monopoly on all hydrocarbon activity in the country. New legislation has opened this sector by allowing Pemex to partner with domestic and international private sector firms, and some of the country's oil fields are now being 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. This regulator is empowered to order divestitures, enforce regulations, and apply targeted sanctions to companies it sees as dominant in the market.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	95 of 175	transparency.org/cpi2015/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	38 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	57 of 143	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country ($M USD, stock positions)	2015	15.078 Billion USD	Host government
World Bank GNI per capita	2014	9,870	data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude Toward Foreign Direct Investment

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, the United States, both help attract foreign investors.

Most FDI in Mexico flows to the northern states of Mexico close to the United States border, where most maquiladoras (export-oriented manufacturing and assembly plants) are located, and in the Mexico City region and surrounding states, where many foreign companies' 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. The financial services, automotive, and electronics sectors typically receive large amounts of FDI. Historically, the United States has been one of the largest sources of FDI in Mexico. In 2015, U.S. investors accounted for 53.1 percent of the USD $28.4 billion of FDI in Mexico.

Other Investment Policy Reviews

In 2013, the World Trade Organization (WTO) conducted a Trade Policy Review. Please find a link to the report here: https://www.wto.org/english/tratop_e/tpr_e/tp379_e.htm

Neither the Organization for Economic Cooperation and Development (OECD) nor UNCTAD have conducted investment policy reviews on Mexico in the past three years.

Laws/Regulations on Foreign Direct Investment

The 1993 Foreign Investment Law governs foreign investment in Mexico. The law is consistent with the foreign investment chapter of North American Free Trade Agreement-Agreement between the U.S, Canada, and Mexico (NAFTA). It provides national treatment, eliminates performance requirements for most foreign investment projects, and liberalizes criteria for automatic approval of foreign investment. The Foreign Investment Law provides details on which business sectors are open to foreign investors and to what extent. 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.

Business Registration

A. President Pena Nieto announced in March 2016 the passage of a law creating a new category of simplified businesses called *Sociedad for Acciones Simplificadas* (SAS). Owners of SASs will be able to register a new company online in 24 hours. The Government of Mexico maintains a business registration website: www.tuempresa.gob.mx (registration is required). Companies operating in Mexico must register with the tax authority (Servicio de Administration y Tributaria), the Economy Secretariat, and the Public Registry. This process can take between one and 60 days depending on the type of company.

B. ProMexico serves as the Government of Mexico's investment promotion agency. ProMexico requires companies to provide minimal amounts of information in order to access their services but does not limit beneficiaries by amount of investment or company size.

C. The Government of Mexico classifies companies as follows: micro (up to ten employees and annual revenue between USD $225,000 and $4 million), small (11 to 50 employees and

revenue between USD $225,000 and USD $5 million), and medium (51 to 250 employees and between USD $5 million to USD$14 million in annual revenue). Through the National Entrepreneurship Institute (INADEM), companies can access advisory services as well as subsidized credit. In addition to meeting size and revenue requirements, companies need to be registered in Mexico in order to access the services provided by INADEM.

Industrial Promotion

ProMexico aims to coordinate federal and state government efforts, as well as related private sector activities, with the goal of harmonizing programs, strategies, and resources while supporting 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 operation of bonded assembly plant, and sectoral promotion plans.

The Secretariat of the Economy (Economia) 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 enables companies to comply with all requirements of foreign trade by sending electronic information only once to a single entity. For more information on the Single Window please visit http://www.ventanillaunica.gob.mx/envucem/index.htm

Limits on Foreign Control and Right to Private Ownership and Establishment

Sectors Reserved for the State in whole or in part:

A. Petroleum and other hydrocarbons;

B. Basic petrochemicals;

C. Telegraphic services;

D. Radioactive materials;

E. Electric power 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 (this will change in 2017 – see section 10);

B. Development banks;

C. Certain professional and technical services;

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

U.S. and Canadian investors receive national and most-favored-nation treatment in setting up operations or acquiring firms in Mexico. Exceptions exist for investments restricted under NAFTA. The United States, Canada and Mexico have the right to settle any dispute or claim under NAFTA through international arbitration. NAFTA also eliminated some barriers to investment in Mexico, such as trade balancing and domestic content requirements. Local Mexican governments must also accord national treatment to investors from NAFTA countries.

Privatization Program

The reforms to the energy, power generation, and telecommunications sectors liberalized access to these sectors, but did not privatize any state owned enterprises.

The latest structural reforms focus on increasing competitiveness in several areas, such as telecommunications and energy, but do not entail the privatization of State owned companies such as Pemex or the Federal Electricity Commission (CFE). In the case of the energy reform, the government of Mexico has said that private companies will participate in hydrocarbon exploration and extraction activities through contracts with the government under four categories: services, shared profits, shared production, or licenses. All contracts must include a clause that states that subsoil hydrocarbons are owned by the Nation. The government has already held three separate bid sessions allowing private companies to bid on exploration and development of oil and gas resources in blocks around the country and has planned more such bidding sessions. In the case of the telecom sector, the law states telecommunications and broadcasting activities are public services, and that the government will at all times maintain the ownership of the radio spectrum.

Screening of FDI

Approximately 95 percent of all foreign investment transactions do not require government approval. Foreign investments that require government authorization and do not exceed USD 165 million are automatically approved, unless the proposed investment is in a legally reserved sector.

The National Foreign Investment Commission under the Secretariat of the Economy is the government authority that determines whether an investment in restricted sectors may move forward. The Commission has forty-five business days after submission of an investment request 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

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, please visit COFECE's bilingual website at: www.cofece.gob.mx.

2. Conversion and Transfer Policies

Foreign Exchange

Mexico maintains open conversion and transfer policies. In general, capital and investment transactions, remittance of profits, dividends, royalties, technical service fees, and travel expenses are handled at market-determined exchange rates. Mexican peso (MXN)/ USD exchange is available on same day, 24- and 48-hour settlement bases. 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 prevent money-laundering transactions, Mexico imposed limits on the amount that could be deposited in USD. This provision was effective; it reduced the amount of dollars repatriated to the United States by over 50 percent. The measure also affected legitimate dollar transfers by businesses along the border. 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. The 2010 regulation stated banks could not accept more than $4,000 per month from individual account holders or more than $14,000 from business entities operating in the U.S. border region or defined tourist areas. The 2014 modifications allow border–and tourist–area businesses to exceed the $14,000 per month U.S. dollar cash deposit limit, provided they 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. The limit on individual account holders remains unchanged.

To date, 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.

In January 2014, the head of the Secretary of Finance and Public Credit, Financial Intelligence Unit disseminated a resolution outlining its authority to freeze the assets of designated persons and entities, namely those involved in money laundering, terrorism, or terrorist financing.

Remittance Policies

According to the U.S. Treasury's 2015 Report to Congress on International Economic and Exchange Rate Policies, Mexico had foreign exchange reserves of USD 176.9 billion as of August 2015, representing about 15 percent of GDP and 5 months of import cover. Mexico's reserves continue to be backed by the availability of an additional USD 72 billion from a two-year Flexible Credit Line (FCL) with the International Monetary Fund (IMF). In response to the peso's sharp decline, Mexico implemented a rules-based program of foreign exchange intervention in 2015 with the stated goal of providing liquidity and dampening volatility. The Government of Mexico eliminated the rules-based regime in February of 2016, but pledged to intervene in the currency market if needed in the future.

3. Expropriation and Compensation

Under NAFTA, Mexico may not expropriate property, except for public purpose 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.

Since NAFTA's inception, there have been fourteen arbitration cases filed against Mexico by U.S. and Canadian investors who allege expropriation, and/or 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

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Mexico's legal system is based on civil law that is derived from Roman law and the Napoleonic Code. The Constitution is the fundamental legal document. Mexico utilizes a form of "jurisprudence constant," which means the decisions of the Supreme Court are binding on lower courts only upon five consecutive and uninterrupted decisions approved by at least eight justices when in plenary session or by at least four justices when in chambers. By June 18, 2016 Mexico is supposed to have fully implemented the Accusatory Trial System, a key part of the justice reform enacted on June 2008. The new trial system is meant to increase the transparency of the legal process and ensure that the fundamental rights of both the victim and the accused are respected. The new system has been gradually adopted by phases in some states. As of March 31, 2016, 24 of 32 Mexican states have already adopted this oral trial system.

Mexico's Commercial Code, which dates back to 1889, was most recently updated in 2014. All commercial activities must abide by this Code and other applicable mercantile laws, including commercial contracts and commercial dispute settlement measures, among others. Mexico has four specialized courts regarding fiscal law, labor law (two), and agrarian law. The Federal Court of Fiscal and Administrative Justice is an autonomous body that decides disputes governing fiscal entities, the interpretation and completion of contracts, the responsibilities of public servants, and administrative authority disputes. The Federal Conciliation and Arbitration Boards (CABS) are tripartite groups made up of workers,

employers and government representatives which rule on issues between workers and employers.

The Federal Court of Conciliation and Arbitration has jurisdiction over labor issues between the federal government or the Federal District and their contracted laborers. The Superior Agrarian Court and the Unitary Agrarian Courts are autonomous, with jurisdiction over land and water rights, agricultural legislation, and agricultural business. The judicial branch is nominally independent from the executive, although the CABs are run through local party systems, and there have been persistent allegations that they are corrupt and biased toward employers. Pending judicial reform will make the Attorney General's Office independent of the executive.

Mexico is a party to several international agreements related to the homologation of foreign court rulings, including the Inter-American Convention on Jurisdiction in the International Sphere for the Extraterritorial Validity of Foreign Judgements (La Paz Convention), the Inter-American Convention on the Taking of Evidence Abroad and its Additional Protocol, the Inter-American Convention on Extraterritorial Validity of Foreign Judgements and Arbitral Awards (Montevideo Convention), as well as the Inter-American Convention on Proof and Information on Foreign Law. In order to execute foreign court rulings, the originating court must send a letter rogatory to the Mexican court and must comply with all requirements stipulated by the Inter-American Convention on Letters Rogatory, to which both Mexico and the United States belong. If the country of the originating court ruling is not a part of such Convention, then it must abide by the rules contained in the Federal Code on Civil Procedures, which displays a variety of options that the originating court can opt for in order to send the letter rogatory to the Mexican court.

In terms of foreign investment, Mexico's Foreign Investment Law sets the rules to channel foreign investment into the country. The National Commission for Foreign Investments, formed by several cabinet-level ministries including the heads of the Ministries of the Interior (Segob), Foreign Relations (SRE), Finance (Hacienda), Economy (SE), and Social Development (Sedesol), aims to establish the criteria for the application of investment rules.

Bankruptcy

Mexico's bankruptcy and insolvency rules are contained in the Reorganization and Bankruptcy Law of 2000 (Ley de Concursos Mercantiles). In January 2014, Congress approved some modifications to the law as part of the Financial Reform, in order to shorten procedural filing times and convey a greater amount of juridical certainty to all parties– including creditors– among other resolutions. Declaring bankruptcy is legal in Mexico and it may be granted to a private citizen, a business, or an individual business partner. Bankruptcy lending reforms of 2000 and 2003 created Mexico's first effective legal framework for granting collateral. The 2014 law is focused on enabling cooperation and agreement among parties, and only if the conciliation process fails, does the debtor enter the liquidation phase. Debtors, creditors, or the Attorney General can file a bankruptcy claim. According to a report released by Chadbourne in 2009 almost half of all proceedings in Mexico are commenced by creditors. Mexico is ranked 28th out of 189 countries in the World Bank's category for Resolving Insolvency. The average bankruptcy filing takes 1.8 years to be resolved, recovering an average 68.9 cents per USD.

Investment Disputes

Due to Mexico's treaty commitments, domestic courts recognize and enforce arbitral awards. However, 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. Due to the legal complexities involved in this type of transaction, U.S. investors involved in commercial disputes are advised to hire competent Mexican legal counsel. The U.S investor may also wish to contact the local U.S. consulate to keep them apprised of the status of the case.

International Arbitration

Mexico is a signatory to the North American Free Trade Agreement (NAFTA). Under Chapters 11, 19, and 20, NAFTA lays out an international dispute resolution mechanism. Chapter Eleven allows a NAFTA Party investor to seek monetary damages for violations of its provisions. Investors may initiate arbitration against the NAFTA Party under the rules of the United Nations Commission on International Trade Law (UNCITRAL Model Law) or through the International Centre for Settlement of Investment Disputes (ICSID convention). A NAFTA investor may also choose to use the domestic court system to litigate their case. Since NAFTA's implementation in 1994, there have been fourteen claims made against Mexico. ICSID has resolved four of these cases, while ten are still pending.

The Commercial Code dictates that an arbitral award, regardless of the country where it originated, must be recognized as binding, and after a formal written petition is presented to a judge, the award must be enforced. The Arbitration Center of Mexico (CAM) is a specialized private institution focused on the administration of private commercial arbitration procedures in order to offer an alternative commercial dispute resolution mechanism. The average duration of an arbitrage process conducted by CAM is 14 months.

ICSID Convention and New York Convention

In 1971, Mexico ratified the convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention) and has codified this into domestic law.

Mexico is also a signatory to the Inter-American Convention on International Commercial Arbitration (1975 The Panama Convention) and the 1933 Montevideo Convention on the Rights and Duties of States. Mexico is not a member of the Convention on the Settlement of Investment Disputes between States and Nationals of other States (ICSID Convention, also known as the Washington Convention), even though many of the investment agreements signed by Mexico have ICSID arbitration as a dispute settlement option.

Mexico's Commercial Code contains all rules regarding arbitration, both domestic and international. The original Code of 1889 did not include any rules regarding the execution of commercial foreign arbitral awards. However, when Mexico ratified the New York and Panama Conventions, it incorporated a comprehensive and modern legal framework that addressed arbitral awards. The reforms to the Commercial Code in 1989 and 1993 enabled Mexico to have a complete set of rules on the matter, including recognition and enforcement of arbitral awards.

Duration of Dispute Resolution – Local Courts

Investment dispute timelines can vary, with some real estate transaction disputes taking years to resolve.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Mexico has been a member of the World Trade Organization (WTO) since 1995. Mexico has not notified the WTO of any measures that are inconsistent with Trade Related Investment Measures (TRIMs) requirements.

Investment Incentives

The 1993 Foreign Investment Law eliminated export requirements (except for maquiladora industries), capital controls, and domestic content percentages, to come more into line with their treaty obligations under NAFTA. Foreign investors already in Mexico at the time the law went into effect could apply for a modification to their prior export commitments. Foreign investors who failed to do this continued to remain 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 to make it the same as the rest of the country; and increased the income tax rate (ISR) to as high as 35 percent for individuals earning more than 3 million pesos (approximately USD $240,000 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. Following these changes, the process for the Government to refund VAT reimbursements for companies that had previously received them has significantly slowed, with companies reporting several months of delay. For more information on obtaining 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 can include discounted or even free access to land, employee training programs, and reductions of the 2 percent state payroll tax, as well as 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 standard corporate rate of 30 percent, rather than the reduced rate of 17.5 percent.

In order to maintain competitiveness and comply with NAFTA provisions, Mexico has developed Sectoral Promotion Programs (PROSEC) to oversee maquiladoras. 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 twenty three supported 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 percent, 5 percent, 7 percent, 10 percent, 15 percent, and 20 percent. (http://www.economia.gob.mx/industry/foreign-trade-instruments/prosec)

Research and Development

A number of companies have recently started investing in research and development in Mexico, instead of exclusively maquiladora type investments. The auto industry has led the way in these research and development investments, but other industries such as aerospace and medical devices have also begun to see Mexico as a destination for top engineering and research talent, and not just for comparatively low-wage labor.

Performance Requirements

Mexican labor law requires that at least 90 percent of a company's employees be Mexican nationals. In cases of specialized positions employers can hire foreign workers as long as the percent of foreigners in specialized positions does not exceed 10 percent of the workers in that particular category. The GoM encourages foreign companies to train local staff in specialized areas.

Data Storage

Mexico does not have any policy of forced localization for data storage, nor must foreign information technology (IT) providers turn over source code or provide backdoors into hardware or software.

6. Protection of Property Rights

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 above. 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 and limited liability partnerships. 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.

For a corporation (Sociedad Anonima):

A) Can be 100 percent foreign-owned;

B) Must have a minimum of MXN 50,000 in capital stock to start;

C) Must have minimum of two shareholders, with no maximum. A Board of Directors can run the administration of the company;

D) The enterprise has an indefinite life span;

E) Free transferability 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;

G) Limited liability to shareholders.

Limited Liability Company (Sociedad de Responsabilidad Limitada):

A) Can be 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. The partners must manage the company but 50 is the maximum number of shareholders;

D) Exists only when the business purpose and partners remain the same;

E) Restricted transferability of partnership shares. Any changes in the partnership composition may cause the partnership to be liquidated;

F) If structured properly, it may offer tax advantages by allowing operational losses incurred by the Mexican entity to be used by the U.S. parent company;

G) Limited liability is afforded the partners.

Real Property

According to the most recent World Bank Study "Doing Business in 2016", Mexico jumped four rankings in 2016 for ease of registering property, going to 106 on the list. Article 27 of the Mexican Constitution guarantees the inviolable right to private property. Expropriation can only occur for public use and with due compensation. Mexico has four categories of land tenure: private ownership, communal tenure (ejido), publicly owned, and ineligible for sale or transfer.

Under President Salinas de Gotari in 1992, Mexico amended article 27 of the Constitution, eliminating the constitutional right to form new ejidos or communal owned land. The 1992 reform also allowed ejido members to acquire full land rights or lease the land to non-ejido members; however the process, governed by Mexico's Agrarian Law, requires regulation of the land, division into parcels, and granting of individual titles before it can be offered for sale to non-ejido members. Mexico's 2001 census found that 50 percent of all land was held by ejidos.

Despite a proposal in 2013 and continuous pressure from real estate companies 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 (*fideicomiso*) arranged through a Mexican financial institution that acts as trustee.

Under this trust, 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. In some cases, Fideicomiso arrangements have led to legal challenges. 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

Intellectual Property Rights in Mexico are covered by the Industrial Property Law (Ley de Propiedad Industrial) and the Federal Copyright Law (Ley Federal del Derecho de Autor). Responsibility for the protection of IPR is spread across several government authorities. The Office of the Attorney General (Procuraduría General de la Republica, or PGR) oversees a specialized unit which prosecutes IPR crimes. The Mexican Institute of Industrial Property (IMPI) (the equivalent to the U.S. Patent and Trademark Office) administers patent and trademark registrations, and handles administrative enforcement cases of IPR infringement. The National Institute of Copyright (INDAUTOR) handles copyright registrations and mediates certain types of copyright disputes, while the Federal Commission for the Prevention from Sanitary Risks (COFEPRIS) regulates pharmaceuticals, medical devices and processed foods. The Mexican Customs Service's (Aduanas) mandate includes ensuring that illegal goods do not cross Mexico's borders.

After three full years in office, the administration of President Enrique Peña Nieto (EPN) has expended considerable time and political capital overhauling multiple industry sectors in Mexico, but has not focused on similar reforms on the intellectual property front. Legislative reform long identified by USG and others–such as granting customs effective ex-officio authority and providing the authority to seize suspected counterfeit and piratical merchandise in-transit–have been dormant, and there is reluctance on the part of the GOM to seriously address these issues.

On a positive note, the GOM is beginning to articulate a coherent strategy to deal with IP crimes in the digital environment. The Digital IP Crime Unit was created in October 2015 by the Specialized IP Unit of the Attorney General's Office to investigate and prosecute Internet-related IP crimes. Measures are underway to connect the Digital IP Crime Unit to the Scientific Police to more effectively investigate and prosecute IP crimes that occur online.

Mexico is plagued by widespread commercial-scale infringement that results in significant losses to Mexican, U.S., and other IPR owners. There are many issues that have made it difficult to improve IPR enforcement in Mexico, including legislative loopholes; lack of coordination between federal, state, and municipal authorities; a cumbersome and lengthy judicial process; and widespread cultural acceptance of piracy and counterfeiting. In addition, the involvement of Transnational Criminal Organizations (TCOs), which control the piracy and counterfeiting markets in parts of Mexico, continue to impede federal government efforts to improve IPR enforcement in Mexico. Their involvement has further illustrated the link between IPR crimes and illicit trafficking of other contraband, including arms and drugs.

Mexico still relies on arrests and prosecutions of counterfeiters and pirates *in flagranti,* as opposed to mounting proactive investigations that seek to dismantle pirating and counterfeiting networks. Seizure of counterfeit goods is tracked by PGR, IMPI and Customs. During 2015, Mexican Customs initiated 389 seizure cases comprised of 11,203,120 seized articles. The types of goods seized included apparel, toys, games, electronic devices, jewelry, watches, cell phones, cosmetics, pens, batteries, labels and shaving blades, among others. According to data received from PGR's Specialized IP Unit, it seized 8,969,929 counterfeit articles in 2015. In that same period, PGR dismantled 65 laboratories producing pirated movies, videogames and music, seized 9,215 disk burners, and dismantled two factories producing counterfeit clothes and shoes. PGR also commenced 1,513 preliminary investigations and made 80 arrests (40 *in flagranti delicto*, 40 through the prosecution of the investigations in the courts). In 2015, IMPI conducted 4,286 inspection visits (*ex officio* and *ex parte*) in which it seized 7,555,699 counterfeit and pirated goods worth USD $1,846,282. In addition, IMPI levied USD $1,920,103 in fines for IPR violations.

Mexico was listed on the Watch List in the 2015 Special 301 report. Obstacles to U.S. trade include the wide availability of pirated and counterfeit goods in both physical and virtual notorious markets. The 2015 USTR Out-Of Cycle-Review of Notorious Markets, listed two Mexican markets, Tepito in Mexico City, and San Juan de Dios in Guadalajara.

There have been some recent positive developments. For example, Mexico formally joined the Madrid Protocol in 2012, which provides a simple streamlined process for trademark owners to apply for trademark protection in multiple jurisdictions. Additionally, as mentioned above, the Attorney General's Specialized IP Unit formed a new subunit dedicated solely to the investigation and prosecution of Internet-based IP crimes. Moreover, as a result of the North America Competitiveness work plan, the United States, Canada, and Mexico entered into a Trilateral Patent Prosecution Highway (PPH) pilot program, which allows a patent holder in one country to fast track the examination of that same patent application in the other country in order obtain the corresponding patent faster and more efficiently. Finally, the TPP Agreement sets strong and balanced standards on IP protection and enforcement. Mexico was a willing partner in the IP chapter of the TPP negotiations, but outstanding

bilateral issues remain, specifically on illegal cam-cording. Although Mexico has not indicated a willingness to change the penal code to effectively sanction cam-cording (presently, cam-cording is only punishable if intent to profit is proven), it has indicated that it will reinforce administrative actions to punish cam-cording offenses. The United States continues to work with Mexico to address IP issues through TPP implementation, as well as through bilateral engagement.

Mexico is a signatory to numerous international IP treaties, including the Paris Convention for the Protection of Industrial Property, the Bern Convention for the Protection of Literary and Artistic Works, and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights. Although Mexico ratified the WIPO Internet Treaties (WCT and WPPT) in 2002, it has yet to implement them.

Resources for Rights Holders

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- E-mail: Todd.Reves@trade.gov
- American Chamber of Commerce Mexico
- Calle Blas Pascal 205, 3.er piso
- Col. Los Morales 11510 Mexico City
- Tel.: (52-55) 5141-380
- Fax: (52-55) 5141-3835/3836
- E-mail: amchammx@amcham.org.mx
- National Institute of Copyright (INDAUTOR)
- Puebla No. 143
- Col. Roma, Del. Cuauhtémoc
- 06700 México, D.F.
- Tel: (52) 55 3601 8270
- Fax: (52) 55 3601 8214
- E-mail: mguerra@sep.gob.mx

- Web: http://www.indautor.gob.mx/
- Mexican Institute of Industrial Property (IMPI)
- Periférico Sur No. 3106
- Piso 9, Col. Jardines del Pedregal
- Mexico, D.F., C.P. 01900
- Tel: (52 55) 56 24 04 01 / 04
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7. 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 over the past few years. On April 29, 2014, the Mexican Congress passed secondary legislation to implement the constitutional competition policy reform. This legislation's purpose is to limit the monopolistic practices that have affected the Mexican economy for decades. Mexico's antitrust agency, the Federal Commission for Economic Competition (COFECE), continues to be responsible for protecting, promoting, and guaranteeing a competitive free market in Mexico. The law provides the Commission with more power than previous years. For instance, it authorizes the Commission to eliminate barriers both to competition and free market entry anywhere in the economy (except in the telecom sector, which is governed by its own competition authority) and to identify and regulate access to essential production inputs. Moreover, new enforcement tools allow the Commission to ban specified individuals from holding positions in a sanctioned company and provide authority to impose fines for anticompetitive behavior.

In addition, 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, 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 the 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.

These improvements have had positive effects on foreign participation. Many local businesses and successful industrialists tend to prefer joint investments with foreign companies that can make modern technology available acting as technical partners. Also, organized labor sometimes prefers to deal with companies having substantial foreign capital since such companies tend to be more agreeable to the collective-bargaining process. 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, but with some state and municipal governments having more pro-business policies. However, the OECD and the government will continue working to improve the regulatory process at the subnational level.

The Secretariat of Public Administration 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. Finally, there is need for greater coordination between federal and regional legislation and implementation. It is important to consolidate the private sector collective action in order to mandate greater compliance with the current legal framework, not only by government authorities but also by companies and businesses involved in the public procurement process.

Draft regulations are made available for public comment by COFEMER. Government agencies and other government bodies must send their draft bills to COFEMER in order for them to undergo a public consultation phase and obtain a final resolution by the Commission. While the draft bills and their respective Regulatory Impact Manifestation—a public policy tool used to ensure that regulations' benefits exceed their costs—are under review, any person can make comments on them, which will be taken into account by COFEMER in its resolutions. All regulations, except for those dealing with defense and navy issues, must be made available to the public.

8. Efficient Capital Markets and Portfolio Investment

Mexican 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 now 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 one of Mexico's six development banks. 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.

Regarding Private Equity and Venture funds, in 2006 Mexico established a new fiscally transparent trust structure known as the FICAP in order to allow venture funds to incorporate locally and Mexican government has also passed significant reforms to decrease legal impediments to Private Equity. The Securities Market Law (Ley de Mercado de Valores) established the creation of three special categories which can provide more corporate and economic rights to shareholders than a normal corporation. These categories are:

Sociedad Anonima de Promotora de Inversion-*SAPI (*Investment Promotion Corporation)
Sociedad Anonima Promotora de Inversion Bursatil-*SAPIB* (Stock Exchange Investment Promotion Corporation)

Sociedad Anonima Bursatil –*SAB (*Stock Exchange Corporation)

Money and Banking System, Hostile Takeovers

Since the 1994 Mexican peso crisis, the banking sector has strengthened considerably. The GoM 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. Bankruptcy and lending reforms passed by Congress in 2000 and 2003 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 allowed 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 several large banks controlling a significant market share, and the remainder comprised of regional and smaller 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, Scotiabank,

and Banorte)—the first five of which are foreign-owned and manage 74 percent of total financial assets. 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.

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. This reform facilitates commercial banks making more and lower interest loans, thus giving a more active role to the Mexican development banks, which have a more flexible mandate to focus on financial inclusion. It also boosts competition in the sector. Commercial banks are now subject to periodic lending reviews. The reform also made it easier for banks to collect on bad loans, one of the obstacles that was hindering more lending to the private sector. The reform has improved the bankruptcy process, fostered more expeditious resolution of cases through the creation specialized commercial courts, and strengthened protection for financial users with the creation of a Bureau of Financial Institutions.

The four goals of the financial reform are:

1) promote lending through the development banks;

2) expand credit from private financial institutions;

3) increase competition in the financial sector; and

4) ensure the security of the Mexican financial system.

Other important aspects of the 2013 reform are:

- Strengthening the role of the National Commission for the Protection of Users of Financial Services (CONDUSEF)
- Increasing the role of banking agents ("corresponsales bancarios")
- Strengthening and modernizing the operation of credit unions
- Promoting the investment funds market
- Establishing a new legal framework for financial entities
- Maintaining the optimal levels of capitalization under Basel III.

These modifications have freed the Mexican stock market (BMV) to establish linkages with foreign bourses, allowing it to proceed with the Integrated Latin American Market (MILA, the integrated stock market of Chile, Colombia, Mexico, and Peru).

9. Competition from State-Owned Enterprises

There are two main state-owned enterprises (SOEs) in Mexico, both of them in the energy sector. Petroleos Mexicanos (Pemex) is in charge of running the hydrocarbons (oil and gas) sector, which includes upstream, mid-stream, and downstream operations, and it has been the most important single fiscal contributor to the country. Pemex has historically contributed one-third of the Mexican government's budget, but declines in output and global oil price drops 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. With the latest constitutional reforms, the status for both companies changed to productive enterprises of the State. State productive enterprises have management and budget autonomy with greater flexibility to engage in private contracting, while maintaining state ownership.

In August 2014, a historic energy reform bill was signed, overhauling the entire system. This amended the constitution, allowing the private sector to enter into competitive contracts that include profit sharing, and license contracts with Pemex for the exploration and extraction of hydrocarbons. Mexico still retains full ownership of its hydrocarbon reserves, and the bill does not privatize Pemex or CFE; however, it allows private sector companies to participate both as investors and subcontractors in downstream operations, such as refining, transport, commercial supply, and electricity generation.

In September 2014, Mexico's Secretariat of Energy (SENER) and the National Hydrocarbons Commission (CNH) awarded, through a Round Zero tendering process, oil and gas fields to Pemex. Subsequent to this allocation, the remaining oil and gas fields as well as new offshore fields and land-based unconventional resources will be opened to private sector bidders for development rights during successive rounds each year through 2019. So far, there have been three auctions within Round One, two for exploration and production contracts in shallow waters and a third auction focused on production in onshore fields. The deep and ultra-deep water auction–in which Pemex has expressed interest in participating in association with other firms—is expected to be conducted in December 2016.

Changes to the Mexican constitution opened power generation and commercial supply to the private sector, allowing companies to compete with CFE. Mexico held its first long term power auction at the end of March 2016, in which eleven companies were awarded contracts for energy supply and clean energy certificates. Although private investment in electricity transmission and distribution is allowed by these reforms, CFE will remain the sole provider of transmission and distribution services and will own all transmission and distribution assets, but will no longer be the sole electricity provider. The reform pulled out the National Energy Control Center (CENACE) from CFE and established it as the independent system operation (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 to operate in 1992, but were required to sell their output to CFE or use it to 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.

Pemex reported total assets of over MXN$1.9 trillion pesos (USD $105 billion) as of December 31, 2015—a 7.6 percent reduction in relation to the same date of the previous year—and a total net income loss of MXN$168.8 billion (USD 9.4 billion) during the fourth quarter of 2015. According to Pemex's own financial results, the net income loss derives from a substantial decrease in operating income, the peso's depreciation against the dollar, and a sharp increase in costs associated with financial derivatives. These losses are mainly due to the appreciation of the U.S. dollar against currencies other than the Mexican peso in which Pemex has entered into cross currency swaps as well as a decrease in taxes and duties due to a decline in the price of the Mexican crude oil basket and a lower crude oil production.

In September 2015, Pemex reported it employed 142,976 workers, while in the previous year it had reported it employed 155,106 workers. The latest cut in Pemex's budget of MXN$100 billion (USD$5.7 billion), announced in February 2016, together with measures to ease retirement and pension pressures agreed upon last year will further reduce the company's total workforce.

The Federal Electricity Commission (CFE) reported total assets of almost MXN$1.3 trillion (USD$75.2 billion) as of December 31, 2015, a 9.8 percent increase in relation to what was reported a year earlier. CFE reported total income from energy sale of MXN$306.8 billion (USD$17.7 billion), an 8 percent reduction if compared to the previous year. According to the latest annual report available, CFE had a workforce of 93,942 employees of which 70 percent held permanent positions.

The recent cuts to Pemex's budget have forced the company to reduce spending and investments, as well as to restructure some of its corporate departments. Government sources expect Pemex will save up to MXN$13 billion (USD$752,000) per year by eliminating the departments of Research & Development and Human Resources, and placing those functions under Pemex Exploración y Producción and Management.

In the hydrocarbons sector, the energy reform gradually opened the oil market by allowing private companies to bid on the development of oil fields. The first round of bidding, known as Round Zero, was seen as a way to strengthen state owned companies and to encourage the participation of other firms in hydrocarbon production, thus increasing oil revenues for the State. Given Pemex's crumbling financial situation and the strategy of prioritizing profitable projects, the company has decided to return to the government many of the fields requested through Round Zero, in order to focus on the most profitable projects.

SOEs in Mexico purchase goods from private sector players through bidding processes or direct contract awarding. In 2014, CFE awarded over 94 percent of goods, services, and leasing contracts to domestic suppliers and only 6 percent to foreign providers. Although government procurement practices have been controversial in recent times, especially in the construction and infrastructure sectors, Mexico is not a party or observer to the Government Procurement Agreement (GPA), although the country is an active member of the World Trade Organization (WTO).

Both SOEs and private companies may obtain capital from Mexico's development banks. In 2014, Nacional Financiera (Nafin) and HSBC launched a MXN$26 billion (USD$1.5 billion) fund to finance Mexican companies from the whole productive chain of the energy sector. The fund is a product of the 'Impulso Energético' Program in which Nafin will contribute with

more than MXN$6 billion (close to USD$347 million) in guarantees. The fund is meant to finance more than 1000 companies—including suppliers of SOEs—with loans of between MXN$500,000 to MXN$500 million (USD$29,000-USD$29 million), carrying interest rates ranging between 4.5 and 6 percent.

The issue of tax burden and rebate policies for SOEs vis-à-vis private companies has been controversial as well, especially in the case of Pemex. Some legislators have said that the Law of Hydrocarbon Revenues will have a negative impact on the state owned company, since the fiscal burden imposed on Pemex will make it difficult for the company to compete with private industry. Even though since January 2015 Pemex has a fiscal regime similar to that in the rest of the industry, some Pemex officials have said that unlike private companies, Pemex cannot deduct the totality of its operation costs and expenses, since the maximum deductible cost is a percentage of the price. Pemex officials argue that since real production costs do not decrease in the same proportion as crude prices do, the measure is detrimental and leaves the state productive company in a disadvantaged position in relation to private competitors. In July 2015 Pemex's CFO explained that during the first quarter of 2015, expenses related to tax and rights payments reached 212 percent of returns on operation.

One of the main premises of the energy reform was to engineer the reduction of Pemex's fiscal burden, to allow the company to be in a better position to obtain enough resources to develop its investments under similar conditions to those of private companies.

In the past months both energy-related SOEs have been subjected to budget cuts that have forced them to prioritize spending and investment, and lead them to implement major organizational restructuring actions. As a result of the latest budget cuts, Pemex decided to focus on profitable investments and save resources by eliminating some departments.

Research and Development activities (R&D) for Pemex have historically been conducted by the Mexican Petroleum Institute (IMP), which provides solutions to the hydrocarbons sector through R&D, technological services, and workforce development. Given Pemex's financial difficulties, the IMP reported as of September 2015 that its revenues from services provided to Pemex had dropped 25 percent, which translated into MXN$2.2 billion (USD 122 million) less for R&D activities in the energy sector. Currently 208 of the 211 R&D projects IMP has are directly linked to Pemex. The Institute's authorized budget linked to overall R&D activities, as well as other technological innovation projects reached MXN$6.7 billion (USD$393 million).

CFE has established alliances with several institutions to promote research and technological innovation. In March 2015, CFE and Mexico's leading technological university, Monterrey Technological Institute (Tec de Monterrey), signed a collaboration agreement to conduct applied scientific research and technological development projects. CFE also collaborates with Mexico's National Science and Technology Council (Conacyt) to fund projects related to sustainable development, efficient energy use, alternate sources, and asset optimization for generation, transmission and distribution. As of December 31, 2015, the Conacyt-CFE Fund had MXN$53 million (USD $3 million) in available resources.

OECD Guidelines on Corporate Governance of SOEs

Corporate governance in Mexico's SOEs is included in the laws that regulate the internal structure and functioning of each SOE. In the case of Pemex, the Law of Petróleos Mexicanos stipulates that the company will be administered by a Management Board and a Chief Executive Officer. The Board has 10 members: the Secretary of Energy–who is the chairman of the board—the Secretary of Finance (Hacienda), three members from the Federal Government appointed by the President, and five independent members also appointed by the President that need to be ratified by the Senate. The Chief Executive Officer, who is directly appointed by the President, is in charge of overseeing and managing the operation, functioning and execution of Pemex's core objectives, abiding by the political strategies and guidelines approved by the Board.

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. The company's financial reports are issued in accordance with Mexico's Generally Accepted Accounting Principles (GAAP), which differ somewhat from U.S. GAAP.

The Government of Mexico closely regulates and supervises the operations of Pemex through three Ministries and one Commission:

- The Secretariat of Energy (SENER), which monitors the company's activities, and its head serves as the chairman of Pemex's Board of Directors;
- The National Hydrocarbons Commission (CNH), which evaluates Pemex's reserve estimates and provides regulations for Pemex operations in all areas, including deep-water exploration and drilling and gas flaring;
- The Secretariat of Finance and Public Credit (Hacienda), which reviews and incorporates the annual budget and financing program of Pemex and its subsidiaries;
- The Safety, Energy, and Environmental Agency (ASEA)—part of the Secretariat of the Environment and Natural Resources (SEMARNAT)—which regulates Pemex's activities affecting the environment, in coordination with other federal and state authorities.

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 moved forward in incorporating best corporate and social responsibility practices.

The Federal Electricity Commission (CFE) is another SOE operating in Mexico's energy sector as a productive enterprise of the state.

The law of CFE states that the company is managed by a Board and a Chief Executive Officer. The Board is composed of ten members, two of whom are part of the executive branch of government: the Secretary of Energy–who is the chairman of the Board–and the Secretary of Finance (Hacienda). The Board is also composed of three members of the federal government appointed by the President, four independent members appointed by the President who need to be ratified by the Senate, and one member appointed by CFE workers and its productive subsidiaries. As in the case of Pemex, the law establishes that the

composition of the board will have to be diversified in accordance with the individuals' preparedness, experience, and abilities.

After the 2013 constitutional reform, CFE remains a SOE contributing a significant proportion of power generation and controlling most of the country's installed distribution and transmission network. Mexico had an effective generation capacity of 54.5 gigawatts in 2014, generating an estimated 258 billion kilowatt-hours (kWh) of electric power. Access is particularly limited in some Mexican states, where electricity still fails to reach at least 5 percent of the population in almost half of all communities. Nationally, there are still nearly 130,000 small communities without access to electricity. Approximately 78 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 energy reform has turned Pemex and CFE, who were once monopolies, into competitors in a wider market. The Government of Mexico has launched the new wholesale electricity market in which CFE will compete for market share. However, CFE is still the dominant player in the generation sector, controlling close to three quarters of the country's installed generating capacity. Since 2014, the Federal Law on Parastatal Companies stopped regulating both SOEs, as their status shifted to productive enterprises of the state.

The way in which the Government of Mexico exercises its ownership of CFE and Pemex is described in the Laws of the Federal Electricity Commission and Petróleos Mexicanos, which in Article Two of both laws state that CFE and Pemex are productive enterprises of the state exclusively owned by the Mexican government, with their own legal nature and patrimony and will have technical, managerial, and operative autonomy. Senior management both at CFE and Pemex need to report to their respective Boards, both of which are chaired by the Secretary of Energy. In 2014, several opposition lawmakers argued that the way in which rules regarding Pemex's management board were designed, was incompatible with the best international practices and with OECD's Guidelines on Corporate Governance for SOEs, given that such guidelines establish that the government must entrust the company's administration to a Management Board, and avoid interfering in the conduct of business and the appointment of key members.

Third party market analysts have recently addressed the relation between the government and SOEs, mainly Pemex. On March 14, 2016 Moody's warned that the government's recent push to aid Pemex with loans worth MXN$15 billion (USD$) to finance Pemex's liabilities with suppliers and service providers could end up increasing risk exposure for Mexico's development banks acting as creditors.

In case of dispute settlement procedures, the internal laws of both Pemex and CFE state that all national disputes of any nature will have to be resolved by federal courts. The SOEs and their productive subsidiaries may opt for alternative dispute settlement mechanisms under applicable commercial legislation and international treaties of which Mexico is a signatory. When contracts are executed in a foreign country, Pemex and CFE have the option to use procedures governed by non-Mexican law and the jurisdiction of foreign courts, as well as agree to participate in arbitration.

Sovereign Wealth Funds

The 2013 budgetary reform created the Mexican Petroleum Fund for Stability and Development (FMP), which began operations early 2015. The FMP's transparency requirements place it among the most transparent Sovereign Wealth Funds (SWF) in the world. The fund is required to publish a quarterly report on the basis of three separate laws. The Fund's last quarterly report (Oct-Dec 2015) can be found at www.fmped.org.mx.

The fund distributes oil revenues to the national budget and a long-term savings account, acting as a fund and a budget stabilization tool managed by the Central Bank. The FMP must transfer funds up to 4.7 percent of GDP to the national budget. Any money remaining after this transfer of funds goes to the SWF. Once the fund reaches 3 percent of GDP, up to 60 percent of the remaining revenue can be directed to a universal pension fund, science investment, and scholarships and development projects. Due to the decline in oil prices and Pemex's operating losses, the fund has not reached 3 percent of GDP and has therefore not disbursed any money to these additional projects.

The FMP is a public trust where the Mexican Central Bank acts as a trustee on behalf of the Ministry of Finance. Its corporate governance includes a Technical Committee which appoints the FMP Executive Coordinator, determines investment and risk-management policies, proposes addition on all transfers when funds exceed 3 percent GDP, and directs government transfers. It is made up of three members of the state—the Secretaries of Energy, Finance (Hacienda), and the Governor of the Bank of Mexico–as well as four independent members appointed by the Federal Executive and approved by the Senate. The four independent members serve staggered terms of eight years and cannot have conflicting public or private interests.

According to its latest Statement of Financial Position, the Fund's total assets reached MXN$9.3 million (around USD$542,000), while total liabilities reached MXN$4.8 million (USD$283,000) as of February 29, 2016. In terms of best international practices for sovereign wealth funds, FMP's law incorporates the Santiago Principles in order to increase the transparency of Fund operations. Mexico is also a member of the International Working Group of Sovereign Wealth Funds.

The Law of the Mexican Petroleum Fund for Stabilization and Development clearly establishes the government-designated funds to which the resources received by the FMP should be transferred, such as the Budgetary Revenue Stabilization Fund, the Stabilization Fund for States' Revenue, the Hydrocarbon Extraction Fund, and the CONACYT-Secretariat of Energy Sectoral Funds (both for hydrocarbons and energy sustainability.)

The FMP plays an active role in the collection, management, and distribution of the oil revenues it receives from contracts awarded for the exploration and extraction of hydrocarbons. It also administers financial aspects of these contracts that contribute to the stabilization and development of Mexico.

10. Responsible Business Conduct

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 in 2001 of the Socially Responsible Business of Distinction award, which is given 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" ranking and Expansion magazine's "Great Businesses" list. More than 100 domestic and foreign companies have received CSR awards, such as: Bimbo, Nestlé, Coca Cola, Walmart, Hewlett Packard, General Electric, Pfizer, and Plantronics.

In 2005, the Mexican Standards Institute (IMNC) officially issued the CSR standard NMXSAST-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. Responsible business conduct 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.

11. Political Violence

Peaceful mass demonstrations are common in the larger metropolitan areas such as Mexico City, Guadalajara, and Monterrey, as well as in the southwestern Mexican states of Guerrero and Oaxaca. While political violence is rare, drug and organized crime-related violence has increased significantly since 2006. Cartels use torture and the public dumping of bodies to intimidate rival gangs.

The United States is working with Mexico to combat organized crime and enhance rule of law through the USD 2.4 billion Merida Initiative, an unprecedented partnership based on the principles of shared responsibility and mutual trust. The Merida Initiative has expanded significantly at the state and municipal level, with programs aimed at strengthening Mexico's security institutions, promoting rule of law, advancing the protection of human rights, and preventing crime and violence. Whereas Merida assistance initially focused on training and equipping Mexican security forces, it has now shifted toward strengthening institutions and rule of law. Merida Initiative priorities moving forward include preparing Mexico's judicial system for the transition to the accusatorial criminal justice system; training of state and local law enforcement entities aimed at adopting and implementing internationally-accepted standards for law enforcement officials; creating stronger oversight mechanisms that can deter corruption and misconduct; and deepening our bilateral cooperation on combatting heroin, including enhanced cooperation on opium poppy eradication.

Though the violence is not political in nature, companies have reported 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/).

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.

12. Corruption

Corruption exists in many forms in Mexican government and society, including corruption in the public sector (e.g., demand for bribes or kickbacks by government officials) and private sector (e.g., fraud, falsifying claims, etc.), as well as conflict of interest issues, which are not well defined in the Mexican legal framework. A growing concern is the apparent complicity of elected and government officials and law enforcement officials with criminal elements, either well-organized transnational criminal organizations or more fragmented local criminal groups, in certain areas of Mexico. While public and private sector corruption is found in most countries, the collaboration of government actors (often due to intimidation and threats) with criminal organizations poses serious challenges for the rule of law in the affected areas. Examples of the several categories of corrupt practices can be found at all levels of government. The response of the administration to recent scandals in several categories has been criticized as slow and ineffective.

Some of the most common forms of official corruption involve government officials stealing from public coffers or demanding bribes in exchange for doing their work. The New York Times recently carried a report of properties owned by the former governor of Oaxaca in Manhattan and at Utah ski resorts. Two former governors of the state of Tamaulipas have been accused of corruption and embezzlement–one of them has fled the jurisdiction. Other prominent cases–for example alleged improprieties of the former mayor of Mexico City in relation to a subway infrastructure project–continue to make newspaper headlines.

Conflict of interest is often seen as a form of corruption distinct from private sector fraud or public sector theft. The OECD says a "conflict of interest occurs when an individual or a corporation (either private or governmental) is in a position to exploit his or their own professional or official capacity in some way for personal or corporate benefit". It may be a conflict of interest, for example, when an official receives goods or services from a person or organization that benefits from government contracts or contacts. In October 2014, media disclosed that President Peña Nieto's wife purchased a home (dubbed the "casa blanca" or white house) on favorable terms from a contractor who had been awarded government contracts during the President's tenure as the governor of the State of Mexico. The President and his wife denied that they had broken any law. Later, reports emerged that the Finance Minister had purchased a home on a golf course from the same contractor, allegedly at a price below market value and after receiving a below-market interest rate. In fact, current Mexican laws and regulations may not explicitly prohibit such "conflict of interest."

Mexico's Congress passed the first Federal Anti-corruption law in June 2012 and its anti-money laundering law (or the illicit finance law) in October 2012. A new anti-corruption law was passed by the lower house and, as of the time of this report, is under review by the Senate. The anti-money laundering law obligated Designated Non-Financial Businesses & Professions (DNFBP) to identify their clients and report suspicious operations or transactions

about designated thresholds to the Secretariat of Finance (SHCP), established a Specialized Financial Analysis Unit (UEAF) in the Office of the Attorney General (PGR), restricted cash operations in Mexican pesos, foreign currencies and precious metals for a variety of "vulnerable" activities, and imposed 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

In perhaps corruption's most dangerous form, government officials allegedly work with drug cartels and other criminal organizations, sharing information and shielding the criminals from law enforcement activity or prosecution. In exchange, corrupt officials receive money or—in the case of those officials who are intimidated—guarantees of safety for themselves and their families. One high-profile case that exposed the linkage between drug cartels and city government officials occurred in September 2014 when 43 students in Iguala, Guerrero, disappeared (and are presumed dead) after they were detained by local authorities linked to drug cartels.

In the wake of the disappearance of the 43 students, President Peña Nieto announced a ten-point security plan, including a pledge to push anti-corruption laws through Congress, and eight points to address corruption and conflict of interest. Civil society leaders have indicated that the new anti-corruption law pending in the Senate, which aims to strengthen Mexico's ministries with oversight and sanction authority for corruption issues, is a good step in the right direction. The Constitutional reform, pending approval by the Senate after passing through the lower house in February, will require ratification by Mexico's states and secondary legislation before it is implemented. Legislation geared toward increasing transparency by expanding Mexicans' right to information and requiring Mexico's 31 states and the Federal District to implement federal standards for access to information is pending in the lower house after having passed in the Senate in March. Mexico is in the middle of a constitutionally mandated transition to a new oral accusatory criminal justice system that is expected to increase transparency and reduce corruption.

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 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. Legislation geared toward increasing transparency by expanding Mexicans' right to information and requiring Mexico's 31 states and the Federal District to implement federal standards for access to information is pending in the lower house after having passed in the Senate in March 2016. Transparency in public administration at the federal level has noticeably improved, but access to information at the state and local level has been slow. In February 2015, the Mexican President appointed a new Secretariat of Public Administration charged with investigating corruption and conflict of interest among public officials. The position had been effectively vacant. Under the Anti-Corruption law pending in the Senate, that secretary's appointment would require congressional confirmation and a term of seven years would allow one secretary's work to span more than one six-year presidential term.

According to Transparency International's 201 Index of Corruption Perception, Mexico scored 35 out of 100. This score places Mexico in 95th place out of 168 nations. Local civil society organizations focused on fighting corruption exist but are few in number. 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. Transparency International maintains operations in Mexico. The best source of Mexican government information on anti-corruption initiatives is the Secretariat of Public Administration (www.funcionpublica.gob.mx).

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Mexico ratified the UN Convention Against Corruption in 2004. It ratified the OECD Anti-Bribery Convention in 1999.

Resources to Report Corruption

Contact at government agency

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- Head of International Cooperation and Transparency Policy
- Secretariat of Public Administration
- Miguel Laurent 235, Mexico City
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- • Eduardo Bohorquez
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13. Bilateral Investment Agreements

Bilateral Taxation Treaties

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.

Mexico's FTAs with investment clauses include: Bolivia, Chile, Costa Rica, Colombia, El Salvador, Guatemala, Honduras, Japan, and Nicaragua. A Free Trade Agreement with Peru

and also 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, Czech Republic, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Portugal, Slovakia, Spain, Sweden, and the United Kingdom), as well as Argentina, Australia, Belarus, China, Cuba, Iceland, India, Panama, Slovakia, South Korea, Switzerland, Trinidad and Tobago, and Uruguay. Mexico continues to negotiate bilateral investment treaties with Brazil, the Dominican Republic, Malaysia, Russia, Saudi Arabia, and Singapore.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

Mexico continues to work on port efficiency, customs environment, regulatory proficiency and e-commerce use in order to increase its trade facilitation. As mentioned, the country benefits from having an extensive network of Free Trade Agreements (FTA), which offers preferential access to markets in North America, the European Union, the countries of the European Free Trade Association (EFTA), Israel and ten partner countries in Latin America. It also has 39 commercial agreements that grant the application of preferential rates on the import of goods that are considered as originating goods from the FTA member nations.

In addition to the Industrial, Manufacturing, Maquiladora, and Service Export (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. Regulatory guidance for FTZs can be found under Mexico's Customs Law, article 14-D. Most major ports in Mexico have bonded areas (recintos fiscalizados) or customs areas (recintos fiscales) within them. Mexico currently has four approved FTZs, located in San Luis Potosi, Mexico City, Monterrey, and Guanajuato.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) ($Bil USD)	2015	$1,264	2014	1,295	www.worldbank.org/en/country/mexico
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other

U.S. FDI in partner country ($Mil USD, stock position)	2015	196,262	2014	107,825	Bureau of Economic Analysis
Host country's FDI in the United States ($Mil USD, stock positions)	NA		2014	17,710	Bureau of Economic Analysis
Total inbound stock of FDI as % host GDP	2015	32.9%	2011	26%	UNCTAD

**Local Source: Economy Secretariat*

Table 3: Sources and Destination of FDI

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	389,672	100%	Total Outward	143,852	100%
United States	186,652	48%	United States	48,228	34%
Spain	41,988	11%	Netherlands	24,888	17%
Belgium	36,134	9%	Brazil	18,837	13%
Netherlands	35,836	9%	Spain	15,450	11%
Canada	16,914	4%	United Kingdom	4,271	3%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: IMF Coordinated Direct Investment Survey

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	55,486	100%	All Countries	3,318	100%	All Countries	52,168	100%
United States	49,244	89%	United States	1,121	34%	United States	48,123	92%

Brazil	2,551	5%	Luxembourg	1,036	31%	Brazil	2,506	5%
Luxembourg	1,036	2%	U.K.	261	8%	Spain	175	0%
Spain	412	1%	Spain	238	7%	U.K.	87	0%
U.K.	347	1%	France	110	3%	Japan	83	0%

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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