2021 Investment Climate Statements: Mexico

Executive Summary

In 2020, Mexico became the United States' third largest trading partner in goods and services and second largest in goods only. It remains one of our most important investment partners. Bilateral trade grew 482.2 percent from 1993-2020, and Mexico is the United States' second largest export market. The United States is Mexico's top source of foreign direct investment (FDI) with USD 100.9 billion (2019 total per the U.S. Bureau of Economic Analysis), or 39.1 percent of all inflows (stock) to Mexico, according to Mexico's Secretariat of Economy.

The Mexican economy averaged 2 percent GDP growth from 1994-2020, but contracted 8.5 percent in 2020. The economic downturn due to the world-wide COVID-19 pandemic was the major reason behind the contraction, with FDI decreasing 11.7 percent. The austere fiscal policy in Mexico resulted in primary surplus of 0.1 percent in 2020. The government has upheld the central bank's (Bank of Mexico) independence. Inflation remained at 3.4 percent in 2020, within the Bank of Mexico's target of 3 percent ± 1 percent. The administration maintained its commitment to reducing bureaucratic spending in order to fund an ambitious social spending agenda and priority infrastructure projects, including the Dos Bocas Refinery and Maya Train. President Lopez Obrador leaned on these initiatives as it devised a government response economic crisis caused by COVID-19.

Mexico approved the amended United States-Mexico-Canada Agreement (USMCA) protocol in December 2019, the United States in December 2019, and Canada in March 2020, providing a boost in confidence to investors hoping for continued and deepening regional economic integration. The USMCA entered into force July 1, 2020. President Lopez Obrador has expressed optimism it will buoy the Mexican economy.

Still, investors report sudden regulatory changes and policy reversals, the shaky financial health of the state oil company Pemex, and a perceived weak fiscal response to the COVID-19 economic crisis have contributed to ongoing uncertainties. In the first and second quarters of 2020, the three major ratings agencies (Fitch, Moody's, and Standard and Poor's) downgraded both Mexico's sovereign credit rating (by one notch to BBB-, Baa1, and BBB, respectively) and Pemex's credit rating (to junk status). The Bank of Mexico revised upward Mexico's GDP growth expectations for 2021, from 3.3 to 4.8 percent, as did the International Monetary Fund (IMF) to 5 percent from the previous 4.3 percent estimate in January. Still, IMF analysts anticipate an economic recovery to pre-pandemic levels could take five years. Moreover, uncertainty about contract enforcement, insecurity, informality, and corruption continue to hinder sustained Mexican economic growth. Recent efforts to reverse the 2014 energy reforms, including the March 2021 electricity reform law prioritizing generation from the state-owned electric utility CFE, further increase uncertainty. These factors raise the cost of doing business in Mexico.

Table 1: Key Metrics and Rankings

Measure	Year	Index/Rank	Website Address
TI Corruption Perceptions Index	2020	124 of 180	https://www.transparency.org/en/cpi#
World Bank's Doing Business Report	2020	60 of 190	http://www.doingbusiness.org/en/rankings
Global Innovation Index	2020	55 of 131	https://www.globalinnovationindex.org/analysis-indicator
U.S. FDI in partner country ($M USD, stock positions)	2019	$100,888	https://apps.bea.gov/international/di1usdbal
World Bank GNI per capita	2019	$9,480	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Policies Towards Foreign Direct Investment

Mexico is open to foreign direct investment (FDI) in the vast majority of economic sectors and has consistently been one of the largest emerging market recipients of FDI. Mexico's proximity to the United States and preferential access to the U.S. market, macroeconomic stability, large domestic market, growing consumer base, and increasingly skilled yet cheap labor combine to attract foreign investors. The COVID-19 economic crisis showed how linked North American supply chains are and highlighted new opportunities for partnership and investment. Still, recent policy and regulatory changes have created doubts about the investment climate, particularly in the energy and the formal employment pensions management sectors.

Historically, the United States has been one of the largest sources of FDI in Mexico. According to Mexico's Secretariat of Economy, FDI flows for 2020 totaled USD 29.1 billion, a decrease of 11.7 percent compared to the preliminary information for 2019 (USD 32.9 billion), and a 14.7 percent decline compared to revised numbers. The Secretariat cited COVID's impact on global ec activity as the main reason for the decline. From January to December 2020, 22 percent of came from new investment. New investment in 2020 (USD 6.4 billion) was only approximately half of the new investments received in 2019 (USD 12.8 billion), and 55.4 percent came from capital reinvestment while 24.9 percent from parent company accounts. The automotive, aerospace, telecommunications, financial services, and electronics sectors typically receive large amounts of FDI.

Most foreign investment flows to northern states near the U.S. border, where most maquiladoras (export-oriented manufacturing and assembly plants) are located, or to Mexico City and the nearby "El Bajio" (e.g. Guanajuato, Queretaro, etc.) region. In the past, foreign investors have overlooked Mexico's southern states, although the administration is focused on attracting investment to the region, including through large infrastructure projects such as the Maya Train, the Dos Bocas refinery, and the trans-isthmus rail project.

The 1993 Foreign Investment Law, last updated in March 2017, governs foreign investment in Mexico, including which business sectors are open to foreign investors and to what extent. It provides national treatment, eliminates performance requirements for most foreign investment projects, and liberalizes criteria for automatic approval of foreign investment. Mexico is also a party to several Organization for Economic Cooperation and Development (OECD) agreements covering foreign investment, notably the Codes of Liberalization of Capital Movements and the National Treatment Instrument.

The administration has integrated components of the government's investment agency into other ministries and offices.

Limits on Foreign Control and Right to Private Ownership and Establishment

Mexico reserves certain sectors, in whole or in part, for the State, including: petroleum and other hydrocarbons; control of the national electric system, radioactive materials, telegraphic and postal services; nuclear energy generation; coinage and printing of money; and control, supervision, and surveillance of ports of entry. Certain professional and technical services, development banks, and the land transportation of passengers, tourists, and cargo (not including courier and parcel services) are reserved entirely for Mexican nationals. See section six for restrictions on foreign ownership of certain real estate.

Reforms in the energy, power generation, telecommunications, and retail fuel sales sectors have liberalized access for foreign investors. While reforms have not led to the privatization of state-owned enterprises such as Pemex or the Federal Electricity Commission (CFE), they have allowed private firms to participate. Still, the Lopez Obrador administration has made significant regulatory and policy changes that favor Pemex and CFE over private participants. The changes have led private companies to file lawsuits in Mexican courts and several are considering international arbitration.

Hydrocarbons: Private companies participate in hydrocarbon exploration and extraction activities through contracts with the government under four categories: competitive contracts, joint ventures, profit sharing agreements, and license contracts. All contracts must include a clause stating subsoil hydrocarbons are owned by the State. The government has held nine auctions allowing private companies to bid on exploration and development rights to oil and gas resources in blocks around the country. Between 2015 and 2018, Mexico auctioned more than 100 land, shallow, and deep-water blocks with significant interest from international oil companies. The administration has since postponed further auctions but committed to respecting the existing contracts awarded under the previous administration. Still, foreign players were discouraged when Pemex sought to take operatorship of a major shallow water oil discovery made by a U.S. company-led consortium. The private consortium had invested more than USD 200 million in making the discovery and the outcome of this dispute has yet to be decided.

Telecommunications: Mexican law states telecommunications and broadcasting activities are public services and the government will at all times maintain ownership of the radio spectrum. In January 2021, President Lopez Obrador proposed incorporating the independent Federal Telecommunication Institute (IFT) into the Secretariat of Communications and Transportation (SCT), in an attempt to save government funds and avoid duplication. Non-governmental organizations and private sector companies said such a move would potentially violate the USMCA, which mandates signatories to maintain independent telecommunications regulators. As of March 2021, the proposal remains pending. Mexico’s Secretary of Economy Tatiana Clouthier underscored in public statements that President López Obrador is committed to respecting Mexico’s obligations under the USMCA, including maintaining an autonomous telecommunications regulator.

Aviation: The Foreign Investment Law limited foreign ownership of national air transportation to 25 percent until March 2017, when the limit was increased to 49 percent.

The USMCA, which entered into force July 1, 2020, maintained several NAFTA provisions, granting U.S. and Canadian investors national and most-favored-nation treatment in setting up operations or acquiring firms in Mexico. Exceptions exist for investments restricted under the USMCA. Currently, the United States, Canada, and Mexico have the right to settle any legacy disputes or claims under NAFTA through international arbitration for a sunset period of three years following the end of NAFTA. Only the United States and Mexico are party to an international arbitration agreement under the USMCA, though access is restricted as the USMCA distinguishes between investors with covered government contracts and those without. Most U.S. companies investing in Mexico will have access to fewer remedies under the USMCA than under NAFTA, as they will have to meet certain criteria to qualify for arbitration. Local Mexican governments must also accord national treatment to investors from USMCA countries.

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 45 business days after submission of an investment request to make a decision. Criteria for approval include employment and training considerations, and contributions to technology, 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.

Other Investment Policy Reviews

There has not been an update to the World Trade Organization's (WTO) trade policy review of Mexico since June 2017 covering the period to year-end 2016.

Business Facilitation

According to the World Bank, on average registering a foreign-owned company in Mexico requires 11 procedures and 31 days. Mexico ranked 60 out of 190 countries in the World Bank's ease of doing business report in 2020. In 2016, then-President Pena Nieto signed a law creating a new category of simplified businesses called Sociedad for Acciones Simplificadas (SAS). Owners of SASs are supposed to be able to register a new company online in 24 hours. Still, it can take between 66 and 90 days to start a new business in Mexico, according to the World Bank. The Government of Mexico maintains a business registration website: www.tuempresa.gob.mx. Companies operating in Mexico must register with the tax authority (Servicio de Administration y Tributaria or SAT), the Secretariat of the Economy, and the Public Registry. Additionally, companies engaging in international trade must register with the Registry of Importers, while foreign-owned companies must register with the National Registry of Foreign Investments.

Since October 2019, SAT has launched dozens of tax audits against major international and domestic corporations, resulting in hundreds of millions of dollars in new tax assessments, penalties, and late fees. Multinational and Mexican firms have reported audits based on diverse aspects of the tax code, including adjustments on tax payments made, waivers received, and deductions reported during the Enrique Peña Nieto administration.

Changes to ten-digit tariff lines conducted by the Secretariat of Economy in 2020 created trade disruptions with many shipments held at the border, stemming from lack of clear communication between government agencies that resulted in different interpretation by SAT.

Outward Investment

Various offices at the Secretariat of Economy and the Secretariat of Foreign Affairs handle promoting Mexican outward investment and assistance to Mexican firms acquiring or establishing joint ventures with foreign firms. Mexico does not restrict domestic investors from investing abroad.

2. Bilateral Investment Agreements and Taxation Treaties

Bilateral Investment Treaties

The USMCA entered into force on July 1, 2020, containing an investment chapter.

Mexico has signed 13 FTAs covering 50 countries and 32 Reciprocal Investment Promotion and Protection Agreements covering 33 countries. Mexico is a member of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which entered into force December 30, 2018. Mexico currently has 29 Bilateral Investment Treaties in force. Mexico and the European Union finalized a FTA in May 2020, but it still must undergo legal scrub and translation. Mexico and the United Kingdom (UK) also signed an agreement to continue trading under existing terms following the UK's exit from the European Union in December 2020.

Bilateral Taxation Treaties

The United States-Mexico Income Tax Convention, which came into effect January 1, 1994, governs bilateral taxation between the two nations. Mexico has negotiated double taxation agreements with 55 countries. Recent reductions in U.S. corporate tax rates may drive a future change to the Mexican fiscal code, but there is no formal legislation under consideration.

In 2019, the administration approved a value-added tax (VAT) on digital services. Since June 30, 2020, foreign digital companies are required to register with SAT and to collect VAT on the majority of goods and services customers purchase online and remit the VAT and sales reports to SAT. SAT is authorized to block a foreign digital company's internet protocol (IP) address in Mexico for non-compliance with tax requirements until the company complies. The administration also introduced a series of fiscal measures in 2019 to combat tax evasion and fraud.

3. Legal Regime

Transparency of the Regulatory System

The National Commission on Regulatory Improvement (CONAMER), within the Secretariat of Economy, is the agency responsible for streamlining federal and sub-national regulation and reducing the regulatory burden on business. Mexican law requires secretariats and regulatory agencies to conduct impact assessments of proposed regulations. Assessments are made available for public comment via CONAMER's website: https://www.gob.mx/conamer. The official gazette of state and federal laws currently in force in Mexico is publicly available via: http://www.ordenjuridico.gob.mx/. Mexican law provides for a 20-day public consultation for most proposed regulations. Any interested stakeholder has the opportunity to comment on draft regulations and the supporting justification, including regulatory impact assessments. Certain measures are not subject to a mandatory public consultation period. These include measures concerning taxation, responsibilities of public servants, the public prosecutor's office executing its constitutional functions, and the Secretariats of National Defense (SEDENA) and the Navy (SEMAR).

The National Quality Infrastructure Program (PNIC) is the official document used to plan, inform, and coordinate standardization activities, both public and private. The PNIC is published annually by the Secretariat of Economy in Mexico's Official Gazette. The PNIC describes Mexico's plans for new voluntary standards (*Normas Mexicanas;* NMXs) and mandatory technical regulations (*Normas Oficiales Mexicanas*; NOMs) as well as proposed changes to existing standards and technical regulations. Interested stakeholders have the opportunity to request the creation, modification, or cancelation of NMXs and NOMs as well as participate in the working groups that develop and modify these standards and technical regulations. Mexico's antitrust agency, the Federal Commission for Economic Competition (COFECE), plays a key role protecting, promoting, and ensuring a competitive free market in Mexico as well as protecting consumers. COFECE is responsible for eliminating barriers both to competition and free market entry across the economy (except for the telecommunications sector, which is governed by its own competition authority) and for identifying and regulating access to essential production inputs.

In addition to COFECE, the Energy Regulatory Commission (CRE) and National Hydrocarbon Commission (CNH) are both technical-oriented independent agencies that play important roles in regulating the energy and hydrocarbons sectors. CRE regulates national electricity generation, coverage, distribution, and commercialization, as well as the transportation, distribution, and storage of oil, gas, and biofuels. CNH supervises and regulates oil and gas exploration and production and issues oil and gas upstream (exploration/production) concessions.

Mexico has seen a shift in the public procurement process since the onset of the COVID-19 pandemic. Government entities are increasingly awarding contracts either as direct awards or by invitation-only procurements. In addition, there have been recent tenders that favor European standards over North American standards.

International Regulatory Considerations

Generally speaking, the Mexican government has established legal, regulatory, and accounting systems that are transparent and consistent with international norms. Still, the Lopez Obrador administration has eroded the autonomy and publicly questioned the value of specific antitrust and energy regulators and has proposed dissolving some of them in order to cut costs. Furthermore, corruption continues to affect equal enforcement of some regulations. The Lopez Obrador administration rolled out an ambitious plan to centralize government procurement in an effort to root out corruption and generate efficiencies. The administration estimated it could save up to USD 25 billion annually by consolidating government purchases in the Secretariat of Finance. Still, the expedited rollout and lack of planning for supply chain contingencies led to several sole-source purchases. The Mexican government's budget is published online and readily available. The Bank of Mexico also publishes and maintains data about the country's finances and debt obligations.

Investors are increasingly concerned the administration is undermining confidence in the "rules of the game," particularly in the energy sector, by weakening the political autonomy of COFECE, CNH, and CRE. Still, COFECE has successfully challenged regulatory changes in the electricity sector that favor state-owned enterprises over maintaining competitive prices for the consumer. The administration has appointed five of seven CRE commissioners over the Senate's objections, which voted twice to reject the nominees in part due to concerns their appointments would erode the CRE's autonomy. The administration's budget cuts resulted in significant layoffs, which has reportedly hampered agencies' ability to carry out their work, a key factor in investment decisions. The independence of the CRE and CNH was further undermined by a memo from the government to both bodies instructing them to use their regulatory powers to favor state-owned Pemex and CFE.

Legal System and Judicial Independence

Since the Spanish conquest in the 1500s, Mexico has had an inquisitorial system adopted from Europe in which proceedings were largely carried out in writing and sealed from public view. Mexico amended its Constitution in 2008 to facilitate change to an oral accusatorial criminal justice system to better combat corruption, encourage transparency and efficiency, while ensuring respect for the fundamental rights of both the victim and the accused. An ensuing National Code of Criminal Procedure passed in 2014 and is applicable to all 32 states. The national procedural code is coupled with each state's criminal code to provide the legal framework for the new accusatorial system, which allows for oral, public trials with the right of the defendant to face his/her accuser and challenge evidence presented against him/her, right to counsel, due process, and other guarantees. Mexico fully adopted the new accusatorial criminal justice system at the state and federal levels in June 2016.

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. Mexico has multiple specialized courts regarding fiscal, labor, economic competition, broadcasting, telecommunications, and agrarian law.

The judicial branch and Prosecutor General's office (FGR) are constitutionally independent from each other and the executive. The Prosecutor General is nominated by the president and approved by a two-thirds majority in the Senate for a nine-year term, effectively de-coupling the Prosecutor General from the political cycle of elections every six years. With the historic 2019 labor reform, Mexico also created an independent labor court system run by the judicial branch (formerly this was an executive branch function). The labor courts are being brought on line in a phased process by state with the final phase completed on May 1, 2022.

Laws and Regulations on Foreign Direct Investment

Mexico's Foreign Investment Law sets the rules governing foreign investment into the country. The National Commission for Foreign Investments, formed by several cabinet-level ministries including Interior (SEGOB), Foreign Relations (SRE), Finance (Hacienda), and Economy (SE) establishes the criteria for administering investment rules.

Competition and Antitrust Laws

Mexico has two constitutionally autonomous regulators to govern matters of competition – the Federal Telecommunications Institute (IFT) and the Federal Commission for Economic Competition (COFECE). IFT governs broadcasting and telecommunications, while COFECE regulates all other sectors. For more information on competition issues in Mexico, please visit COFECE's bilingual website at: **www.cofece.mx**. As mentioned above, Lopez Obrador has publicly questioned the value of COFECE and his party unsucessfully introduced a proposal last year which would have dramatically reduced its resources and merged COFECE and other regulators into a less-independent structure. COFECE requires a quorum of at least three commissioners in order to act and currently has four out of seven commissioner seats filled. The current chairwoman of the agency's term as chair will expire in September, which raises questions about whether leadership will change and whether, given the hostility to the agency, the president will nominate new commissioners.

Expropriation and Compensation

USMCA (and NAFTA) contain clauses stating Mexico may not directly nor indirectly 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. The USMCA contains an annex regarding U.S.-Mexico investment disputes and those related to covered government contracts.

Dispute Settlement

ICSID Convention and New York Convention

Mexico ratified the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention) in 1971 and has codified this into domestic law. Mexico is also a signatory to the Inter-American Convention on International Commercial Arbitration (1975 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), even though many of the investment agreements signed by Mexico include ICSID arbitration as a dispute settlement option.

Investor-State Dispute Settlement

The USMCA covers investor-state dispute settlement (ISDS) between the United States and Mexico in chapter 31. Canada is not party to USMCA ISDS provisions as access to dispute resolution will be possible under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (the "CPTPP"). U.S. and Mexican investors will have access to a very similar regime under the USMCA available under NAFTA. Foreign investors who are "part[ies] to a covered government contract" *and* belong to five "covered sectors": (i) oil and gas; (ii) powe generation; (iii) telecommunications; (iv) transportation; and (v) infrastructure will have ac ISDS per USMCA provisions but only after first defending their claims in local courts before initiating arbitration. A less favorable regime will apply to all other foreign investors under the USMCA, who can only access the USMCA's ISDS system to enforce a limited number of claims and must first defend their claims in local courts before initiating arbitration. Investors will be able to file new NAFTA claims before July 1, 2023, provided that the dispute arises out of investments made when NAFTA was still in force and remained "in existence" on July 1, 2020.

Since NAFTA's inception, there have been 13 cases filed against Mexico by U.S. and Canadian investors who allege expropriation and/or other violations of Mexico's NAFTA obligations. For more details on the cases, please visit:
https://icsid.worldbank.org/en/Pages/cases/searchcases.aspx

International Commercial Arbitration and Foreign Courts

The Arbitration Center of Mexico (CAM) is a specialized, private institution administering commercial arbitration as an alternative dispute resolution mechanism. The average duration of a CAM-conducted arbitration process conducted is 14 months. The Commercial Code dictates an arbitral award, regardless of the country where it originated, must be recognized as binding. The award must be enforced after presenting a formal written petition to a judge.

The internal laws of both Pemex and CFE state all national disputes of any nature will have to be resolved by federal courts. State-owned Enterprises (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 follow procedures governed by non-Mexican law, to use foreign courts, or to participate in arbitration.

Bankruptcy Regulations

Mexico's Reorganization and Bankruptcy Law (Ley de Concursos Mercantiles) governs bankruptcy and insolvency. Congress approved modifications in 2014 to shorten procedural filing times and convey greater juridical certainty to all parties, including creditors. Declaring bankruptcy is legal in Mexico and it may be granted to a private citizen, a business, or an individual business partner. Debtors, creditors, or the Attorney General can file a bankruptcy claim. Mexico ranked 33 out of 190 countries for resolving insolvency in the World Bank's 2020 Doing Business r
The average bankruptcy filing takes 1.8 years to be resolved and recovers 63.9 cents per U

which compares favorably to average recovery in Latin America and the Caribbean of just 31.2 cents per USD. The "Buró de Crédito" is Mexico's main credit bureau. More information on credit reports and ratings can be found at: http://www.burodecredito.com.mx/ .

4. Industrial Policies

Investment Incentives

Land grants or discounts, tax deductions, and technology, innovation, and workforce development funding are commonly used incentives. Additional federal foreign trade incentives include: (1) IMMEX: a promotion which allows manufacturing sector companies to temporarily import inputs without paying general import tax and value added tax; (2) Import tax rebates on goods incorporated into products destined for export; and (3) Sectoral promotion programs allowing for preferential ad-valorem tariffs on imports of selected inputs. Industries typically receiving sectoral promotion benefits are footwear, mining, chemicals, steel, textiles, apparel, and electronics. Manufacturing and other companies report it is becoming increasingly difficult to request and receive reimbursements of value-added tax (VAT) paid on inputs for the export sector.

Foreign Trade Zones/Free Ports/Trade Facilitation

The administration renewed until December 31, 2024 a program launched in January 2019 that established a border economic zone (BEZ) in 43 municipalities in six northern border states within 15.5 miles from the U.S. border. The BEZ program entails: 1) a fiscal stimulus decree reducing the Value Added Tax (VAT) from 16 percent to 8 percent and the Income Tax (ISR) from 30 percent to 20 percent; 2) a minimum wage increase to MXN 176.72 (USD 8.75) per day; and 3) the gradual harmonization of gasoline, diesel, natural gas, and electricity rates with neighboring U.S. states. The purpose of the BEZ program was to boost investment, promote productivity, and create more jobs in the region. Sectors excluded from the preferential ISR rate include financial institutions, the agricultural sector, and export manufacturing companies (maquilas).

On December 30, 2020, President Lopez Obrador launched a similar program for 22 municipalities in Mexico's southern states of Campeche, Tabasco, and Chiapas, reducing the VAT from 16 to 8 percent and ISR from 30 to 20 percent and harmonizing excise taxes on fuel neighboring states in Central America. Chetumal in Quintana Roo will also enjoy duty-free status. The benefits extend from January 1, 2021 to December 31, 2024.

Performance and Data Localization Requirements

Mexican labor law requires at least 90 percent of a company's employees be Mexican nationals. Employers can hire foreign workers in specialized positions as long as foreigners do not exceed 10 percent of all workers in that specialized category. Mexico does not follow a "forced localization" policy—foreign investors are not required by law to use domestic content in goods or technology. However, investors intending to produce goods in Mexico for export to the United States should take note of the rules of origin prescriptions contained within USMCA if they wish to benefit from USMCA treatment. Chapter four of the USMCA introduce new rules of origin and labor content rules, which entered into force on July 1, 2020.

In 2020, the Mexican central bank (Bank of Mexico or Banxico) and the National Banking and Securities Commissions (CNBV – Mexico's principal bank regulator) drafted regulations mandating the largest financial technology companies operating in Mexico to either host data on a back-up server outside of the United States—if their primary is in the United States—or in physical servers in Mexico. The draft regulations remain pending public comment and the financial services industry is concerned they could violate provisions of the USMCA financial services chapter prohibiting data localization.

Other Industrial Policy Aspects

Mexico's government is increasingly choosing its military for the construction and management of economic infrastructure. In the past two years, the government entrusted the Army (SEDENA) with building the new airport in Mexico City, and sections 6, 7, and part of section 5 of the Maya Train railway project in Yucatan state. The government announced plans to give to the Navy (SEMAR) the rights for construction, management, and operations of the Trans-Isthmic Train project to connect the ports of Coatzacoalcos in Veracruz state with the Salina Cruz port in Oaxaca state. The government is also in the process of transferring responsibilities for managing land and sea ports from the Secretariat of Communications and Transportation (SCT) to SEDENA and SEMAR respectively.

5. Protection of Property Rights

Real Property

Mexico ranked 105 out of 190 countries for ease of registering property in the World Bank's 2020 Doing Business report, falling two places from its 2019 report. 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.

Mexico prohibits foreigners 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. "Restricted zones" cover roughly 40 percent of Mexico's territory. Foreigners may acquire the effective use of residential property in "restricted zones" through the establishment of an extendable trust (fideicomiso) arranged through a Mexican financial institution. 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 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 U.S. title insurers operate here.

Additionally, U.S. lending institutions have begun issuing mortgages to U.S. citizens purchasing real estate in Mexico. The Public Register for Business and Property (Registro Publico de la Propiedad y de Comercio) maintains publicly available information online regarding land ownership, liens, mortgages, restrictions, etc.

Tenants and squatters are protected under Mexican law. Property owners who encounter problems with tenants or squatters are advised to seek professional legal advice, as the legal process of eviction is complex.

Mexico has a nascent but growing financial securitization market for real estate and infrastructure investments, which investors can access via the purchase/sale of Fideicomisos de Infraestructura y Bienes Raíces (FIBRAs) and Certificates of Capital Development (CKDs) listed on Mexico's BMV stock exchange.

Intellectual Property Rights

Intellectual Property Rights (IPR) in Mexico are covered by the the Mexican Federal Law for Protection of Industrial Property (Ley Federal de Protección a la 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 Prosecutor General's Office (Fiscalia General de la Republica or FGR) oversees a specialized unit that prosecutes intellectual property (IP) 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 mandate includes ensuring illegal goods do not cross Mexico's borders.

The process for trademark registration in Mexico normally takes six to eight months. The registration process begins by filing an application with IMPI, which is published in the Official Gazette. IMPI first undertakes a formalities examination, followed by a substantive examination to determine if the application and supporting documentation fulfills the requirements established by law and regulation to grant the trademark registration. Once the determination is made, IMPI then publishes the registration in the Official Gazette. A trademark registration in Mexico is valid for 10 years from the date of registration and is renewable for 10-year periods. Any party can challenge a trademark registration through an opposition system, or post-grant through a cancellation proceeding. IMPI employs the following administrative procedures: nullity, expiration, opposition, cancellation, trademark, patent and copyright infringement. Once IMPI issues a decision, the affected party may challenge it through an internal reconsideration process or go directly to the Specialized IP Court for a nullity trial. An aggrieved party can then file an appeal with a Federal Appeal Court based on the Specialized IP Court's decision. In cases with an identifiable constitutional challenge, the plaintiff may file an appeal before the Supreme Court.

To improve efficiency, in 2020 IMPI partnered with the United States Patent and Trademark Office (USPTO) to launch the Parallel Patent Grant (PPG) initiative. Under this new work-sharing arrangement, IMPI will expedite the grant of a Mexican patent for businesses and individuals already granted a corresponding U.S. patent. This arrangement allows for the efficient reutilization of USPTO work by IMPI. The USPTO also has a Patent Prosecution Highway (agreement with IMPI. Under the PPH, an applicant receiving a ruling from either IMPI or the

USPTO that at least one claim in an application is patentable may request that the other office expedite examination of the corresponding application. The PPH leverages fast-track patent examination procedures already available in both offices to allow applicants in both countries to obtain corresponding patents faster and more efficiently.

Mexico has undertaken significant legislative reform over the past year to comply with the USMCA. The Mexican Federal Law for Protection of Industrial Property (Ley Federal de Protección a la Propiedad Industrial) went into effect November 5, 2020. The decree issuing this law was published in the Official Gazette on July 1, 2020, in response to the USMCA and the CPTPP. This new law replaced the Mexican Industrial Property Law *(*Ley de la Propiedad Industrial), substantially strengthening IPR across a variety of disciplines. Mexico amended its Federal Copyright Law and its Federal Criminal Code to comply with the USMCA. The amendments went into effect July 2, 2020. These amendments should significantly strengthen copyright law in Mexico. Still, there are concerns that constitutional challenges filed against notice and takedown provisions as well as TPMs in the amendments may weaken these. provisions.

Still, Mexico has 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; relatively widespread acceptance of piracy and counterfeiting, and lack of resources dedicated to enforcement. In addition, the involvement of transnational criminal organizations (TCOs), which control the piracy and counterfeiting markets in parts of Mexico and engage in trade-based money laundering by importing counterfeit goods, continue to impede federal government efforts to improve IPR enforcement. TCO involvement has further illustrated the link between IPR crimes and illicit trafficking of other contraband, including arms and drugs.

Mexico remained on the Watch List in the 2021 Special 301 report published by the U.S. Trade Representative (USTR). Obstacles to U.S. trade include the wide availability of pirated and counterfeit goods in both physical and virtual notorious markets. The for Piracy and Counterfeiting listed several Mexican markets: Tepito in Mexico City, La Pulga Rio in Monterrey, and Mercado San Juan de Dios in Guadalajara. Mexico is a signatory to numerous international IP treaties, including the Paris Convention for the Protection of Industrial Property, the Be

Convention for the Protection of Literary and Artistic Works, and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.

Resources for Rights Holders

Intellectual Property Rights Attaché for Mexico, Central America and the Caribbean
U.S. Trade Center Liverpool No. 31 Col. Juárez
C.P. 06600 Mexico City
Tel: (52) 55 5080 2189

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
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
(52 55) 53 34 07 00
Fax: (52 55) 56 24 04 06
Web: http://www.impi.gob.mx/

For additional information about national laws and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/ .

6. Financial Sector

Capital Markets and Portfolio Investment

The Mexican government is generally open to foreign portfolio investments, and foreign investors trade actively in various public and private asset classes. Foreign entities may freely invest in federal government securities. The Foreign Investment Law establishes 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. 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, Mexico offers federal, state, and local governments bonds that are rated by international credit rating agencies. The market for these securities has expanded rapidly in past years and foreign investors hold a significant stake of total federal issuances. However, foreigners are limited in their ability to purchase sub-sovereign state and municipal debt. Liquidity across asset classes is relatively deep.

Mexico established a fiscally transparent trust structure known as a FICAP in 2006 to allow venture and private equity funds to incorporate locally. The Securities Market Law (Ley de Mercado de Valores) established the creation of three special investment vehicles which can provide more corporate and economic rights to shareholders than a normal corporation. These categories are: (1) Investment Promotion Corporation (Sociedad Anonima de Promotora de Inversion or SAPI); (2) Stock Exchange Investment Promotion Corporation (Sociedad Anonima Promotora de Inversion Bursatil or SAPIB); and (3) Stock Exchange Corporation (Sociedad Anonima Bursatil or SAB). Mexico also has a growing real estate investment trust market, locally referred to as Fideicomisos de Infraestructura y Bienes Raíces (FIBRAS) as well as FIBRAS-E, which allow for investment in non-real estate investment projects. FIBRAS are regulated under Articles 187 and 188 of Mexican Federal Income Tax Law.

Money and Banking System

Financial sector reforms signed into law in 2014 have improved regulation and supervision of financial intermediaries and have fostered greater competition between financial services providers. While access to financial services – particularly personal credit for formal sectc workers – has expanded in the past four years, bank and credit penetration in Mexico rem low compared to OECD and emerging market peers. Coupled with sound macroeconomic fundamentals, reforms have created a positive environment for the financial sector and capital markets. According to the National Banking and Stock Commission (CNBV), the banking system remains healthy and well capitalized. Non-performing loans have fallen 60 percent since 2001 and now account for 2.1 percent of all loans.

Mexico's banking sector is heavily concentrated and majority foreign-owned: the seven largest banks control 85 percent of system assets and foreign-owned institutions control 70 percent of total assets. The USMCA maintains national treatment guarantees. 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.

The Bank of Mexico (Banxico), Mexico's central bank, maintains independence in operations and management by constitutional mandate. Its main function is to provide domestic currency to the Mexican economy and to safeguard the Mexican Peso's purchasing power by gearing monetary policy toward meeting a 3 percent inflation target over the medium term.

Mexico's Financial Technology (FinTech) law came into effect in March 2018 and administration released secondary regulations in 2019, creating a broad rubric for the development and regulation of innovative financial technologies. The law covers both cryptocurrencies and a regulatory "sandbox" for start-ups to test the viability of products, placing Mexico among the FinTech policy vanguard. The reforms have already attracted significant investment to lending fintech companies and mobile payment companies. Six fintechs have been authorized to operate in the Mexican market and CNBV is reviewing other applications.

Foreign Exchange and Remittances

Foreign Exchange

The Government of Mexico maintains a free-floating exchange rate.

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. In order to preven money-laundering transactions, Mexico imposes limits on USD cash deposits. Businesses in designated border and tourism zones may deposit more than USD 14,000 per month subject to reporting rules and providing justification for their need to conduct USD cash transactions. Individual account holders are subject to a USD 4,000 per month USD cash deposit limit. In 2016, Banxico launched a central clearing house to allow for USD clearing services wholly within Mexico to improve clearing services for domestic companies with USD income.

Remittance Policies

There have been no recent changes in Mexico's remittance policies. Mexico continues to maintain open conversion and transfer policies.

Sovereign Wealth Funds

The Mexican Petroleum Fund for Stability and Development (FMP) was created as part of 2013 budgetary reforms. Housed in Banxico, the fund distributes oil revenues to the national budget and a long-term savings account. The FMP incorporates the Santiago Principles for transparency, placing it among the most transparent Sovereign Wealth Funds in the world. Both Banxico and Mexico's Supreme Federal Auditor regularly audit the fund. Mexico is also a member of the International Working Group of Sovereign Wealth Funds. The Fund received MXN 197.3 billion (approximately USD 9.9 billion) in income in 2020. The FMP is required to publish quarterly and annual reports, which can be found at www.fmped.org.mx .

7. State-Owned Enterprises

There are two main SOEs in Mexico, both in the energy sector. Pemex operates the hydrocarbons (oil and gas) sector, which includes upstream, mid-stream, and downstream operations. Pemex historically contributed one-third of the Mexican government's budget but falling output and global oil prices alongside improved revenue collection from other sources have diminished this amount over the past decade to about 8 percent. The Federal Electricity Commission (CFE) operates the electricity sector. While the Mexican government maintains state ownership, the latest constitutional reforms granted Pemex and CFE management and budget autonomy and greater flexibility to engage in private contracting.

Pemex

As a result of Mexico's historic energy reform, the private sector is now able to compete with Pemex or enter into competitive contracts, joint ventures, profit sharing agreements, and license contracts with Pemex for hydrocarbon exploration and extraction. Liberalization of the retail fuel sales market, which Mexico completed in 2017, created significant opportunities for foreign businesses. Given Pemex frequently raises debt in international markets, its financial statements are regularly audited. The Natural Resource Governance Institute considers Pemex to be the second most transparent state-owned oil company after Norway's Statoil. Pemex's ten-person Board of Directors contains five government ministers and five independent councilors. The administration has identified increasing Pemex's oil, natural gas, and refined fuels production as its chief priority for Mexico's hydrocarbon sector.

CFE

Changes to the Mexican constitution in 2013 and 2014 opened power generation and commercial supply to the private sector, allowing companies to compete with CFE. Mexico has held three long-term power auctions since the reforms, in which over 40 contracts were awarded for 7,451 megawatts of energy supply and clean energy certificates. CFE will remain the sole provider of distribution services and will own all distribution assets. The 2014 energy reform separated CFE from the National Energy Control Center (CENACE), which now controls the national wholesale electricity market and ensures non-discriminatory access to the grid for competitors. Still, legal and regulatory changes adopted by the Mexican government attempt to modify the rules governing the electricity dispatch order to favor CFE. Dozens of private companies and non-governmental organizations have successfully sought injunctions against the measures, which they argue discriminate against private participants in the electricity sector. Independent power generators were authorized to operate in 1992 but were required to sell their output to CFE or use it to self-supply. Those legacy self-supply contracts have recently come under criticism with an electricity reform law giving the government the ability to cancel contracts it deems fraudulent. 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. The administration has identified increasing CFE-owned power generation as its top priority for the utility, breaking from the firm's recent practice of contracting private firms to build, own, and operate generation facilities. CFE forced several foreign and domestic co to renegotiate previously executed gas supply contracts, which raised significant concerns among investors about contract sanctity.

The main non-market-based advantage CFE and Pemex receive vis-a-vis private businesses in Mexico is related to access to capital. In addition to receiving direct budget support from the Secretariat of Finance, both entities also receive implicit credit guarantees from the federal government. As such, both are able to borrow funds on public markets at below the market rate their corporate risk profiles would normally suggest. In addition to budgetary support, the CRE and SENER have delayed or halted necessary permits for new private sector gas stations, fuel terminals, and power plants, providing an additional non-market-based advantage to CFE and Pemex.

Privatization Program

Mexico's 2014 energy reforms liberalized access to these sectors but did not privatize state-owned enterprises.

8. Responsible Business Conduct

Mexico's private and public sectors have worked to promote and develop corporate social responsibility (CSR) during the past decade. CSR in Mexico began as a philanthropic effort. It has evolved gradually to a more holistic approach, trying to match international standards such as the OECD Guidelines for Multinational Enterprises and the United Nations Global Compact.

Responsible business conduct reporting has made progress in the last few years with more companies developing a corporate responsibility 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. Recognizing the importance of CSR issues, the Mexican Stock Exchange (Bolsa Mexicana de Valores) launched a sustainable companies index, which allows investors to specifically invest in those companies deemed to meet internationally accepted criteria for good corporate governance.

In October 2017, Mexico became the 53rd member of the Extractive Industries Transparency Initiative (EITI), which represents an important milestone in its Pemex effort to establish transparency and public trust in its energy sector.

Additional Resources

Department of State

- Country Reports on Human Rights Practices (**https://www.state.gov/reports-bureau-of-democracy-human-rights-and-labor/country-reports-on-human-rights-practices/**);
- Trafficking in Persons Report (**https://www.state.gov/trafficking-in-persons-report/**);
- Guidance on Implementing the "UN Guiding Principles" for Transactions Linked to Foreign Government End-Users for Products or Services with Surveillance Capabilities (**https://www.state.gov/key-topics-bureau-of-democracy-human-rights-and-labor/due-diligence-guidance/**) and;
- North Korea Sanctions & Enforcement Actions Advisory (**https://home.treasury.gov/system/files/126/dprk_supplychain_advisory_07232018.pdf**).

Department of Labor

- Findings on the Worst forms of Child Labor Report (**https://www.dol.gov/agencies/ilab/resources/reports/child-labor/findings**);
- List of Goods Produced by Child Labor or Forced Labor (**https://www.dol.gov/agencies/ilab/reports/child-labor/list-of-goods**);
- Sweat & Toil: Child Labor, Forced Labor, and Human Trafficking Around the World (**https://www.dol.gov/general/apps/ilab**) and;
- Comply Chain (**https://www.dol.gov/ilab/complychain/**).

9. 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.

Complicity of government and law enforcement officials with criminal elements is a significant concern. Collaboration of government actors with criminal organizations (often due to intimidation and threats) poses serious challenges for the rule of law. Some of the most common reports of official corruption involve government officials stealing from public coffers or demanding bribes in exchange for awarding public contracts. The current administration supported anti-corruption reforms (detailed below) and judicial proceedings in several high-profile corruption cases, including former governors. However, Mexican civil society asserts that the government must take more effective and frequent action to address corruption.

Mexico adopted a constitutional reform in 2014 to transform the current Office of the Attorney General into an Independent Prosecutor General's office in order to shore up its independence. President Lopez Obrador's choice for Prosecutor General was confirmed by the Mexican Senate January 18, 2019. In 2015, Mexico passed a constitutional reform creating the National Anti-Corruption System (SNA) with an anti-corruption prosecutor and a citizens' participation committee to oversee efforts. The system is designed to provide a comprehensive framework for the prevention, investigation, and prosecution of corruption cases, including delineating acts of corruption considered criminal acts under the law. The legal framework establishes a basis for holding private actors and private firms legally liable for acts of corruption involving public officials and encourages private firms to develop internal codes of conduct. The implementation status of the mandatory state-level anti-corruption legislation varies.

The new laws mandate a redesign of the Secretariat of Public Administration to give it additional auditing and investigative functions and capacities in combatting public sector corruption. Congress approved legislation to change economic institutions, assigning new responsibilities and in some instances creating new entities. Reforms to the federal government's structure included the creation of a General Coordination of Development Programs to manage the newly created federal state coordinators ("superdelegates") in charge of federal programs in each state. The law also created the Secretariat of Public Security and Citizen Protection, and significantly expanded the power of the president's Legal Advisory Office (Consejería Jurídica) to name and remove each federal agency's legal advisor and clear all executive branch legal reforms before their submission to Congress. The law eliminated financial units from ministries, with the exception of the Secretariat of Finance, the army (SEDENA), and the navy (SEMAR), and transferred control of contracting offices in other ministries to the Hacienda. Separately, the law replaced the previous Secretariat of Social Development (SEDESOL) with a Welfare Secret charge of coordinating social policies, including those developed by other agencies such as health, education, and culture. The Labor Secretariat gained additional tools to foster collective bargaining, union democracy, and to meet International Labor Organization (ILO) obligations.

Mexico ratified the OECD Convention on Combating Bribery and passed its implementing legislation in May 1999. The legislation includes provisions making it a criminal offense to bribe foreign officials. Mexico is also a party to the Organization of American States (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 10 years in prison.

Mexico is a member of the Open Government Partnership and enacted a Transparency and Access to Public Information Act in 2015, which revised the existing legal framework to expand national access to information. Transparency in public administration at the federal level improved noticeably but expanding access to information at the state and local level has been slow. According to Transparency International's 2020 Corruption Perception Index, Mexico ranked 124 of 180 nations. Civil society organizations focused on fighting corruption are increasingly influential at the federal level but are few in number and less powerful at the state and local levels.

Business representatives, including from U.S. firms, believe public funds are often diverted to private companies and individuals due to corruption and perceive favoritism to be widespread among government procurement officials. The GAN Business Anti-Corruption Portal states compliance with procurement regulations by state bodies in Mexico is unreliable and that corruption is extensive, despite laws covering conflicts of interest, competitive bidding, and company blacklisting procedures.

The U.S. Embassy has engaged in a broad-based effort to work with Mexican agencies and civil society organizations in developing mechanisms to fight corruption and increase transparency and fair play in government procurement. Efforts with specific business impact include government procurement best practices training and technical assistance under the U.S. Trade and Development Agency's Global Procurement Initiative.

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:

Secretariat of Public Administration
Miguel Laurent 235, Mexico City
52-55-2000-1060

Contact at "watchdog" organization:

Transparencia Mexicana
Dulce Olivia 73, Mexico City
52-55-5659-4714
Email: **info@tm.org.mx**

10. Political and Security Environment

Mass demonstrations are common in the larger metropolitan areas and in the southern Mexican states of Guerrero and Oaxaca. While political violence is rare, drug and organized crime-related violence has increased significantly in recent years. Political violence is also likely to accelerate in the run-up to the June 2021 elections as criminal actors seek to promote election of their preferred candidates. The national homicide rate remained stable at 29 homicides per 100,000 residents, although the number of homicides fell slightly from 35,618 to 35,498. For complete security information, please see the Safety and Security section in the Consular Country Information page at https://travel.state.gov/content/travel/en/international-travel/International-Travel-Country-Information-Pages/Mexico.html. Conditions vary widely by state. For a state-by-state assessment please see the Consular Travel Advisory at https://travel.state.gov/content/travel/en/traveladvisories/traveladvisories/mexico-travel-advisory.html.

Companies have reported general security concerns remain an issue for those looking to in the country. The American Chamber of Commerce in Mexico estimates in a biannual re that security expenses cost business as much as 5 percent of their operating budgets. 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 U.S. businesses operating overseas. OSAC constituency is available to any U.S.-owned, not-for-profit organization, or any enterprise incorporated in the United States (parent company, not subsidiaries or divisions) doing business overseas (https://www.osac.gov/Country/Mexico/Detail).

11. Labor Policies and Practices

Mexico's 54.1. percent rate of informality remains higher than countries with similar GDP per capita levels. High informality, defined as those working in unregistered firms or without social security protection, distorts labor market dynamics, contributes to persistent wage depression, drags overall productivity, and slows economic growth. In the formal economy, there exist large labor shortages due to a system that incentivizes informality. Manufacturing companies, particularly along the U.S.-Mexico border and in the states of Aguascalientes, Guanajuato, Jalisco, and Querétaro, report labor shortages and an inability to retain staff due to wages sometimes being less that what can be earned in the informal economy. These shortages are particularly acute for skilled workers and engineers.

On May 1, 2019, Lopez Obrador signed into law a sweeping reform of Mexico's labor law, implementing a constitutional change and focusing on the labor justice system. The reform replaces tripartite dispute resolution entities (Conciliation and Arbitration Boards) with independent judicial bodies and conciliation centers. In terms of labor dispute resolution mechanisms, the Conciliation and Arbitration Boards (CABs) previously adjudicated all individual and collective labor conflicts. Under the reform, collective bargaining agreements will now be adjudicated by federal labor conciliation centers and federal labor courts.

Labor experts predict the labor reform will result in a greater level of labor action stemming from more inter-union and intra-union competition. The Secretariat of Labor, working closely with Mexico's federal judiciary, as well as state governments and courts, created an ambitious state-by-state implementation agenda for the reforms, which started November 18, 2020, and will end May 1, 2022. On November 18, 2020 the first phase of the labor reform implementation b
in eight states: Durango, State of Mexico, San Luis Potosi, Zacatecas, Campeche, Chiapas, Tabasco, and Hidalgo. On December 11, 2020 the Secretariat of Labor commenced preparations

for the second phase in 14 additional states beginning in October 2021. Further details on labor reform implementation can be found at: www.reformalaboral.stps.gob.mx

Mexico's labor relations system has been widely criticized as skewed to represent the interests of employers and the government at the expense of workers. Mexico's legal framework governing collective bargaining created the possibility of negotiation and registration of initial collective bargaining agreements without the support or knowledge of the covered workers. These agreements are commonly known as protection contracts and constitute a gap in practice with international labor standards regarding freedom of association. The percentage of the economy covered by collective bargaining agreements is between five and 10 percent, of which more than half are believed to be protection contracts. As of March 23, 2021, 600 collective bargaining contracts have been legitimized, according to the Secretariat of Labor.

The reform requires all collective bargaining agreements must now be submitted to a free, fair, and secret vote every two years with the objective of getting existing protectionist contracts voted out. The increasingly permissive political and legal environment for independent unions is already changing the way established unions manage disputes with employers, prompting more authentic collective bargaining. As independent unions compete with corporatist unions to represent worker interests, workers are likely to be further emboldened in demanding higher wages.

According to the International Labor Organization (ILO), government enforcement was reasonably effective in enforcing labor laws in large and medium-sized companies, especially in factories run by U.S. companies and in other industries under federal jurisdiction. Enforcement was inadequate in many small companies and in the agriculture and construction sectors, and it was nearly absent in the informal sector. Workers organizations have made numerous complaints of poor working conditions in maquiladoras and in the agricultural production industry. Low wages, poor labor conditions, long work hours, unjustified dismissals, lack of social security benefits and safety in the workplace, and lack of freedom of association were among the most common complaints.

12. U.S. International Development Finance Corporation (DFC) and Other Investment Insurance Programs

Since 2018 the U.S. International Development Finance Corporation (DFC) has pursued potential investment projects in Mexico, and the country rapidly became one of the top destinations for projects with DFC support. Still, Mexico and the DFC do not have a formal agreement in place. Separately, the U.S. Trade Development Agency (USTDA), in coordination with the U.S. Department of Commerce's Foreign Commercial Service, is planning a roadshow with Mexican state governments to discuss opportunities for collaboration.

13. 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) ($M USD)	2020	MXN 23,122 billion	2019	USD 18,465 billion	https://www.inegi.org.mx/ https://www.imf.org/en/Publications/WEO
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($billion USD, stock positions)	N/A	N/A	2019	USD 100.9 billion	BEA data available at https://apps.bea.gov/international/factsheet/
Host country's FDI in the United States ($M USD, stock positions)	N/A	N/A	2019	USD 21.5 billion	BEA data available at https://www.bea.gov/international/direct-investment-and-multinational-enterprises-comprehensive-data
Total inbound stock of FDI as % host GDP	2020	2.7%	2019	2.6%	https://www.inegi.org.mx/ UNCTAD data available at https://stats.unctad.org/handbook/EconomicTrends/Fdi.html

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data* 2019					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			Outward Direct Investment		
Total Inward	567,747	100%	Total Outward	172,419	100%
United States	190,505	34%	United States	74,854	43%
Netherlands	115,224	20%	Netherlands	25,219	15%
Spain	96,146	17%	Spain	13,171	8%
Canada	39,025	7%	United	12,729	7%

			Kingdom		
United Kingdom	23,648	4%	Brazil	8,064	5%

"0" reflects amounts rounded to +/- USD 500,000.

* data from the IMF's Coordinated Direct Investment Survey

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets, as of June 2020*								
Top Five Partners (Millions, current US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	61,361	100%	All Countries	42,877	100%	All Countries	18,484	100%
United States	19,356	32%	Ireland	8,256	19%	United States	12,829	69%
Ireland	8,263	13%	United States	6,528	15	Brazil	1,506	8%
Brazil	1,514	2%	Luxembourg	781	2%	Chile	65	0.4%
Luxembourg	793	0.5%	Spain	266	0.6%	Netherlands	62	0.3%
United Kingdom	109	0.2%	China	91	0.2%	United Kingdom	55	0.3%

* data from the IMF's Coordinated Portfolio Investment Survey (CPIS)

14. Contact for More Information

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Economic Officer

AyalaWM@State.gov

U.S. Embassy Mexico City

TAGS

Bureau of Economic and Business Affairs | Bureau of Western Hemisphere Affairs | Mexico