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MEXICO

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT.

AD HOC WORKING GROUP ON INVESTMENT AND FINANCIAL FLOWS; NON-DEBT-CREATING FINANCE FOR DEVELOPMENT; NEW MECHANISMS FOR INCREASING INVESTMENT AND FINANCIAL FLOWS.

SECRETARIAT OF COMMERCE
AND INDUSTRIAL DEVELOPMENT.

GENERAL DIRECTORATE
OF FOREIGN INVESTMENT.

SECRETARIAT OF FINANCE
AND PUBLIC CREDIT.

NATIONAL SECURITIES
COMMISSION.

GENERAL DIRECTORATE
OF INTERNATIONAL AFFAIRS.

APRIL, 1993.

INDEX. PAGE

PART I

FOREIGN DIRECT INVESTMENT

FOREIGN DIRECT INVESTMENT (FDI)

1 Developmental Contribution

1.1 Brief Overview of FDI in Mexico

1.1.1 Major Trends of FDI by Sector

The greatest cumulative concentration of FDI in Mexico is in the manufacturing sector; by 1989 it amounted 66.8% of total cumulative investment; services amounted to 24.5%; trade 7.1%; mining 1.5% and agriculture 0.1%.

Nevertheless, new investments carried out from 1989 to January 1993, showed the tendency to increase the volume of flows to the services sector and to the transport and communications sectors: the industrial sector received 27.43% of the total; transport and communications got 27.15%; financial services got 16.97%; community services, 15.32%; trade 9.44%; mining and agriculture, 0.86% and 0.74%, each.

1.1.2 Major Trends of FDI by Home Country

The accumulated FDI at the end of 1992 was as follows: the United States 61.6%; the United Kingdom 6.5%, Germany 5.7%, Japan 4.3% ; and, Switzerland 4.6%.

1.1.3 General Impact of FDI on the Economy of Mexico

Although growth figures for accumulated FDI in the 1979-1989 period are significant, the total has amounted to less than 10% of the gross fixed investment in Mexico and less than 5% of its GDP. Nevertheless, by 1991 the total FDI ammounted 17.7% of the gross fixed investment and 3.5% of its GDP.

One important index for measuring the impact of FDI on the Mexican economy is its generation of employment. The participation of jobs created by companies with direct foreign

investment has risen since 1986. Jobs generated by companies with FDI amounted to 12.55% of total employment and, by 1989, it had risen to 16.33%. Companies with FDI have made a significant contribution to the generation of employment in the country.

1.1.4 Contribution of FDI to the Promotion of Exports of Goods and Services

Since 1983, companies with FDI have shown a positive evolution in their foreign trade. In the period between 1983-1988 their foreign trade registered an annual average increase of 37.3%, totaling USD 28.407 billions. This kind of exports represented, in the same period, 22.6% of the total national exports, and 57.3% of manufactured exports alone. On the other side, the total value of imports of companies with FDI was USD 26.440 billions, representing 35.0% of total national imports and 40.8% of manufactured imports.

In the period of 1989-1991, from a sample of 250 main enterprises with FDI, there was a positive balance between exports and imports. The total value of exports was USD 27.731 billions, while the value of imports was USD 20.962 billions.

Companies with FDI have become an important source of hard currency for Mexico in recent years and continue to be a factor for increasing trade.

Special mechanisms such as the "Maquiladora" (or In-bond) industry, by which the investor imports all raw materials and then exports all or almost all of the production, have proven to be very effective. Today the Maquiladora industry represents the second largest earner of foreign investment for the country. In addition to the Maquiladora system, other mechanisms have been regulated such as franchises, subcontracting and licensing, among others, to meet investors needs and requirements.

1.2 Brief summary of the policies of Mexico to enhance the developmental contribution of FDI.

Mexico's policy is that of an open economy. In order to enhance economic development, policies concerning FDI are mainly directed towards the following basic objectives:

1) creation of more and better remunerated jobs;
2) allowance for the participation of fresh capital into the economy;
3) allowance for higher quality domestic production through increased competition;
4) aide in the transfer and the absorption of technology and human resources;
5) assistance to encourage international competitiveness;
6) allowance for an increment in non-oil exports;
7) contributes to the economy and social programs through the payment of taxes.

Under current legislation, FDI is welcomed in almost all sectors of the economy. Of 754 activities listed in the Catalogue of Economic and Productive Activities, approximately 670 are 100% open to FDI; 25 allow up to 49 % FDI; eight allow up to 40% FDI; and only 47 activities are prohibited to foreign ownership or control.

The policy of "openness" since 1989 is expressed in the new Regulations to the Foreign Investment Law; such Regulations promote investment through shorter authorization procedures (some even automatic), simplification of the information required by the investor and relaxation of the Foreign Investment Commission's criteria for approval of FDI projects.

The current administration's goal was to receive USD 24 billion in FDI accumulated over its six year term. By 1993, after only four years, FDI reached USD 26,123.9 billion.

Mexican private investment has also increased, among other aspects, the repatriation of capital.

Since the mid eighties, Mexico has reoriented its industrial and commercial development strategies towards an increasing participation in the international economy, in order to take advantage of the opportunities derived from the participation in the flows of technologies and capitals at world level and, likewise, in order to have access to international markets of goods and services in competitive conditions.

Finally, the Salinas Administration strongly believes that effective protection to intellectual property is essential for the modernization of industry and commerce.

2 Regulatory Framework

The current framework is comprised primarily of the 1973 Law to Promote Mexican Investment and Regulate Foreign Investment (the law), the 1989 Regulations to that Law, and the continuing General Resolutions of the National Commision for Foreign Investment .

2.1 The Law

2.1.1 Organization of the Law

The Law is divided into six chapters. The first two chapters establish the definition of FDI and the limits of its participation for different sectors of the economy. Chapters III and V create the agencies designed to review, approve and register foreign investment. Chapter IV establishes rules to acquire property on restricted areas under the Mexican Constitution and the final chapter constitutes the section on sanctions.

2.1.2 Basic subjects considered by the Law

2.1.2.1 Definition of FDI

The definition of FDI is wide and includes all types of investments carried out by individuals, corporations and other economic entities that are not Mexican nationals.

2.1.2.2 Authorities in Matters Concerning FDI

a) The National Commision of Foreign Investment

The Law designed the COMMISSION as an independent government agency to keep the pace with the rapidly developing international foreign investment policy. The COMMISSION is comprised of the Secretariats of Commerce and Industrial Development; Foreign Affairs; of the Interior; Finance and Public Credit; Labour; and Energy, Mines and State Industry.

The Commission analyses, approves and recommends the application of performance requirements based on specified criteria provided for in article 13 of the Law (e.g. employment, regionalization and descentralization, capital fleeing, and transfer of technology, among other points).

The Commission's approvals are passed on to the Secretariat of Commerce and Industrial Development which, through the General Directorate of Foreign Investment, gives legality to the final authorization indicating the terms of compliance of the recommended performance requirements.

The Commission also issues General Resolutions (GRs) which norm the criteria applicable in the approval of investment projects and consequently establish FDI policy (GRs will be further described later in this section).

b) The National Registry for Foreign Investment

The Registry, in which individuals, corporations and trusts are to be registered accordingly, not only records investment data, but also has a monitorial and analytical role over foreign capital in Mexico. With the financial information presented yearly by foreign investors, the Commission is able to establish its general policy towards FDI.

c) The General Directorate of Foreign Investment

The General Directorate of Foreign Investment of the Secretariat of Commerce and Industrial Development, is the authority that grants the final economic and legal review under the approvals and recommendations of the Commission. It provides authorizations with their official status.

2.1.2.3 Participation and Control of Productive Activities in Mexico by FDI

a) Activities reserved to the State

According to the Constitution of Mexico and to article 4 of the Law, the following sectors are reserved to the State:

1) *Petroleum and other hydrocarbons;*
2) *Basic petrochemicals;*
3) *Exploitation of radioactive minerals and generation of nuclear energy;*
4) *Mining in the cases established by the applicable legislation for that activity;*
5) *Electricity;*
6) *Railways; and,*
7) *Telegraphic and wireless communications.*

b) Activities Reserved to Mexican Nationals

According to article 5 of the Law, the following sectors are reserved to Mexican nationals:

1) *Radio and television;*
2) *Urban and interurban automotive transportation on federal highways;*
3) *Domestic air and maritime transportation;*
4) *Exploitation of forestry resources; and,*
5) *Gas distribution.*

c) Activities which allow a limited participation of FDI

Article 5 of the Law provides that only 40% foreign participation is allowed in the capital of a Mexican corporation which engages in the production of secondary petrochemicals and in the manufacture of automotive components.

All other activities may have 49% foreign participation freely.

2.1.2.4 The Approval of the Commission to FDI with Majority Interest in Mexican Corporations

With the approval of the Commission FDI may have a majority interest in corporations that carry out those economic activities which are not reserved to the State or to Mexican nationals.

The Commission may recommend compliance with performance requirements to these investments.

2.1.2.5 The Acquisition of Real Estate Located at Border and Coastal Areas

Because of historical and constitutional reasons, foreigners may not directly acquire real estate located within a strip of 100 kilometers wide along Mexico's borders and 50 kilometers wide inland from its coasts (restricted areas). Foreigners may only acquire property in these areas through an authorized land trust scheme.

2.2 The Regulations to the Law (Regulations)

2.2.1 Objectives of the Regulations

In Mexico, Regulations are norms designed to make compliance the guidelines of Laws clearer and more effective. The objective of the Regulations of 1989 is to simplify procedures for foreign investors in order to attract FDI.

The Regulations systematizes the Registry more efficiently and establishes faster authorization procedures. Investment applications under the Regulations require only basic investment data which, in some cases, may even be presented well after operations have commenced.

2.2.2 Basic Contents of the Regulations:

2.2.2.1 Expeditous Authorizations

The current 1989 Regulations to the Law, have relieved the Commission of having to approve investments that, given the nature of the investment, may exceed in the compliance of the basic performance requirements or conditions established therein.

a) To Incorporate a Mexican Corporation

In activities without a special reservation as indicated above, the Commission waives its right to approve a FDI that exceeds 49% of the capital stock of a Mexican corporation ***at***

the moment of incorporation, when said investment meets the following conditions:

1) ***The investment in fixed assets during the pre-operational period does not exceed the amount of approximately 100 million U.S. dollars in Mexican new pesos;***

2) ***The investment is entirely funded from abroad with fresh external resources and not through credits of Mexican banks.***

3) ***Factories and industrial activities deriving from the investment must locate outside the areas of highest concentration and regulated growth (Mexico City, Guadalajara and Monterrey);***

4) ***For the first three years of operation, the corporation shall maintain, as a minimum requirement, an equilibrium in the accumulated foreign currency balance (imports/exports);***

5) ***The investment aides in the creation of jobs and the corporation establishes adequate training programs;***

6) ***The corporation utilizes adequate technologies and enviromental regulations are complied with.***

The aforesaid conditions do not apply to the acquisition of shares or of fixed assets of already existing corporations.

b) To expand into new activities or products

The Commission waives its right to approve FDI projects that involve the expansion into activities or product lines not previously

authorized, when the investment meets the following conditions:

1) *The company expanding its activities is an active exporter or a "Maquiladora"industry;*

2) *The company is already controlled by foreigners, and an additional amount in fixed assets is invested (at least 10 %of the company's current assets).*

3) *The company merges with or acquires an existing authorized Mexican company.*

c) To Set Up a New Establishment

The Commission does not have to approve, and the Secretariat of Commerce and Industrial development will authorize, the opening and operation of new establishments if they:

1) *Are "Maquiladoras" enterprises or companies involved in exportation;*

2) *Invest at least 10% of the net value of the fixed assets in the new establishment;*

3) *Increase the corporate paid-in capital in an amount equivalent to 20% of the additional investment in fixed assets;*

4) *Contribute with at least a neutral (if not positive) balance of payments for the three subsequent years following the year of establishment.*

2.2.2.2 Expeditious Commission Approvals

The Commission must approve or dissaprove any request within 45 working days of the receipt of a complete

petition; if no response is forwarded, permission is deemed to be granted under the terms requested.

The Commission policy of approval has been greatly relaxed. From 1989 to date *less* than 3% of all investment petitions to the Commission have been denied.

2.2.2.3 Land Trusts in Border and Coastal Areas

The Law establishes that foreigners may not directly acquire real estate located within the restricted areas. Foreigners may only acquire property in these areas through an authorized land trust scheme.

The Regulations establish the "Restricted Area Trust" under which a mexican bank is the direct real state title holder, but may only administer the property by order of the beneficiary, who is a foreign investor.

The trust has a termination period of 30 years. The trust may be easily renewed if the beneficiaries and the terms of the trust remain unchanged, and the renewal is filed 180 days before expiry of the original term.

2.2.2.4 Investment in the Stock Market. Series "N" or Neutral shares.

Under the "Neutral Trust" scheme, foreign investors may freely participate in the Mexican Stock Market.

Under said scheme Mexican corporations issue series "N" or neutral shares which are then acquired by fiduciary institutions as trustees. In turn, the fiduciary institutions issue Certificates of Ordinary Participation (CPOs) which are then placed on the Stock Market.

CPOS do not give recipient shareholders corporate rights but only pecuniary ones. For this reason, Neutral shares are not considered for purposes of determining the amount and participation of FDI in the capital stock of issuing corporations, which implies that the acquisition of these shares by foreigners is unlimited.

2.2.2.5 The "Temporary Investment Trust" for FDI in Activities with Special Reservation

Through a "Temporary Investment Trust" foreign investors may incorporate a Mexican corporation, or acquire control of an existing one, engaged in certain activities which according to articles 4 and 5 of the Law are totally or partially reserved to Mexican Nationals (e.g. domestic air and maritime transportation, gas distribution, exploitation and use of minerals, secondary petrochemicals, manufacture of automotive components, among others).

For the Commission to approve the creation of a "Temporary Investment Trust", the project of investment must comply with one of the following conditions:

1) ***That the investment allows for a substantial increase in exportation levels;***

2) ***That through the investment an established enterprise is saved from serious economic unbalance or bankruptcy.***

The Temporary Investment Trust has a termination period of 20 years.

2.2.3 Transfer of Technology

In 1991 the Technlogy Transfer law, by which contracts regarding the subject were approved and registered by the Secretariat of Commerce and Industrial Development, was abrogated. Presently, there is no regulation limiting the free entering into technology transfer agreements.

2.3 Protection of Intellectual Property Rights

2.3.1. Enactment of the New "Encouragement and Protection of Industrial Property Law" (LPIP).

The LPIP was published in the Official Gazzette of June 27, 1991. The fundamental purpose of this legislation is to offer in Mexico a legal regime for the protection of intellectual property rights in terms comparable to those existing in industrialized countries, allowing for national and foreign individuals and firms

to enjoy similar protection to that available to competitors in other countries.

The improved legislation on intellectual property rights provides FDI in Mexico with more legal certainty and security; exclusive rights for the industrial and commercial development of new processes and products are well protected. This legislation is expected to facilitate the transfer of technology and to stimulate local research and development efforts.

The new legislation follows the mainstream of international law on intellectual property protection, as reflected in the principal international treaties in this area. The work done in the World Intellectual Property Organization (WIPO) and in GATT in recent years has had an important influence in both the LPIP, and the Cpoyrights Law.

2.3.2 Basic Contents of the LPIP

The LPIP contains numerous elements which substantially improve the previous Mexican legislation on this matter. Among the improvements are the following:

a) Patents will have a term of 20 years from the filing date and will be available for all processes and products, including chemicals, alloys, pharmaceuticals, biotechnology and plant varieties.

b) Inventions already patented in other countries that have not yet been produced or imported into Mexico will qualify for a national patent. The patent will be granted to the original applicant of the patent abroad, provided he submits an application in Mexico in the year following the date the new act comes into effect. This patent protection will be available in the case of chemicals, pharmaceuticals and biotechnological processes and products.

c) Compulsory licenses due to lack of use of patented inventions are largely restricted to exceptional circumstances. Importation into Mexico of the patented product, or of the product obtained from the patented process, will constitute use and therefore prevent any compulsory licensing.

d) Industrial and trade secrets are protected. Their unauthorized divulgation by any person previously warned about the confidentiality of the corresponding information constitutes a criminal offense.

e) Small inventions which are not patentable due to insufficient inventive merit may qualify for legal protection under "utility models". The term of protection will be 10 years from filing. Similarly, industrial designs will enjoy protection against unauthorized imitation for 15 years.

f) Trademarks are registered for goods and services without any requirement of previous use in commerce. Registration of tridimensional and collective trademarks is also allowed. The term of protection is 10 years from filing. An affidavit regarding no interruption of use for periods exceeding 3 years must be submitted upon renewal of registration.

g) Commercial names can be protected in the entire national territory for a renewable term of 10 years from publication.

h) Franchising agreements comprising the licensing of trademarks and commercial names together with the transmission of technical and managerial "know-how", are subject to a simple registration procedure with minimal disclosure requirements to inform the franchisee. Neither these agreements nor common licensing or assignment agreements in general require any bureaucratic approval upon registration.

i) Names of origin are protected in accordance with the Treaty of Lisbon.

j) Administrative procedures are largely simplified so as to make the granting of patents and registration of trademarks expeditious and trasparent. Cooperation of the Mexican Patent and Trademark Office with its counterparts in foreign countries is foreseen in order to reduce the burden of local examinations which

have alredy been performed in other countries, as in the case of patents.

k) Judicial procedures are also improved, so that remedies and judicial orders can be provided rapidly and effectively. Sanctions and penalties for administrative and criminal offenses related to industrial property are strengthened to discourage illicit acts and unfair competition. Damages can be claimed regardless the application of these sanctions.

l) It foresees the creation of the Mexican Institute of Industrial Property, as a well financed institution to carry out technical tasks implied in the administration of the national system of industrial property.

2.3.3 Amendments to the Copyright Law.

In parallel to the legal changes pertaining to the matters of industrial property, several important ammendments have been made to improve the copyright law. Among the most significant ones are the following:

a) Producers of phonograms are granted neighbouring rights to those of the authors, so as to improve their legal capabilities to authorize or oppose to the reproduction or rental of phonograms.

b) Public performance is explicitly defined to avoid any confussion.

c) Sanctions and penalties against infringements and criminal offenses are increased to discourage illicit acts and unfair competition. Damages can be claimed regardless the application of these sanctions.

d) The use and exclusive exploitation of artistic names and group denominations may be reserved. Beforehand, only fictitious characters in literary work, comic strips or in any periodical publication were protected.

e) In order to prevent acts that can discourage intellectual creativity, economic sanctions were updated based on minimum wages current at the time of the infringement. With respect to sanctions depriving liberty (freedom), the minimum sentence is of 6 months instead of 30 days, and the maximum of 6 years. Moreover, the amendments specify that the economic sanctions in case of criminal conduct, will be applied with no detriment to the repair of the damage.

f) Besides, there are specific acts which are considered crimes. Thus, the reproduction of work without the previous approval or authorization of the author, is considered a crime. Also, any person that reproduces, with lucrative purposes, a computer program without the author's authorization, will be an active subject to criminal action.

g) With regard to actions against unfair competition or piracy concerning copyrights, it is important to notice, in the first place, the effort made by the General Public Prosecutor Office of the Mexican Republic. Recently, this instituion created a specialized district attorney. Likewise, as mentioned before, the legal reforms increased the sanctions against those who commit piracy. Moreover, for its nature and function, the Public Register of Copyrights is an invaluable instrument against piracy.

2.3.4. Enforcement of Intellectual Property Rights

Strong action is taken against violations of intellectual property rights and unfair competition.

Upon request of interested parties, inspections are performed in establishments where counterfeited goods are suspected to exist. All counterfeits are confiscated as a precautionary measure through an injunction. If counterfeits account for more 30% of the merchandise found in the inspected establishment, it shall be closed down.

Similar actions are performed also in the case of copyrights.

In depth investigations are also performed in suits regarding the infringements of intellectual property rights.

2.4 Federal Expropriation Law

In expropriation cases foreign investment is treated equally to national investment. The Constitution and the Federal Expropriation Law establish that expropriations may only take place if there is an existing public need. The State has up to ten years to provide full compensation which is to be set according to the property's fiscal value.

2.5 Mechanisms for the Settlement of Disputes

Local legislation is applicable for the settlement of disputes among foreign and nationals investors. Foreigners may not request diplomatic protection from their governments to settle a dispute. The Parties may submit to the arbitration procedure of their choice which must offer disputing Parties complete procedural rights. In the case of international arbitration, the procedure must have been previously ratified by Mexico. The judicial system will execute those arbitration judgements that comply with national legislation.

2.6 Investment Protection Agreements

Mexico has not suscribed any investment protection agreement (bilateral or multilateral investment treaty).

3 Other Domestic Measures to Attract FDI

3.1 FDI Promotion and Financial Organizations

3.1.1 The Secretariat of Commerce and Industrial Development (SECOFI)

SECOFI acts as investment advisor to foreign investors who want to set up businesses in Mexico, either on an individual basis, or under any business cooperation modality, such as a joint-venture.

Likewise, SECOFI helps design the promotion strategies and mechanisms and coordinates with public, private and financial institutions to carry out FDI promotion programs.

3.1.2 The Mexican Investment Board (MIB)

The MIB is a non-profit joint-venture between Mexico's government and the private financial community. The Secretary of Commerce and Industrial Development is Chairman, and the Presidents of the Bankers' and Brokers' Associations are members of the Board, among other people from the private sector. Thus, MIB is able to offer a wide variety of services to investors:

a) It informs on the whole range of issues affecting decisions about whether to invest and how to do it; the different regions of the country and what they have to offer; setting up operations; costs; markets; suppliers; labor availability and skills; transportation and communications; government incentives and taxation. They can provide investors with detailed briefings on opportunities in Mexico including profiles of markets and industries and details of relevant government policies and programs.

b) It advices foreign investors on their projects' viability; recommends them in obtaining professional services like banking, legal counsel and accounting. It guides foreign investors in dealing with authorities at the federal, state and local levels and in finding suppliers and potential partners.

3.1.3 National Foreign Trade Bank (BANCOMEXT)

Through its agencies all over the world BANCOMEXT detects and promotes investment opportunities relating to Mexico. It helps in providing information, training and advice concerning all financial, commercial and legal areas, with the objective of facilitating business transactions and foreign investment.

Besides other banking activities BANCOMEXT provides comprehensive financing to exportation and importation activities and helps establish guarantees to protect against non-payment risks in foreign trade.

3.1.4 The National Finance Institution (NAFIN)

NAFIN is the corporate development bank of Mexico. Its primary objective is to promote the modernization of the nation's productive plant giving priority to micro, small and medium-sized businesses.

In this particular area, and with the help of an international network, NAFIN provides foreign business with credit negotiated with foreign banks for imported input and equipment; joint investment with FDI; foreign currency exchange operations; exchange rates and interest rates risk coverage; negotiable securities and interest rates; exchange of government bonds for investments; purchase and sale and safe keeping of securities, among other activities.

3.2 FDI Promotional Programs

3.2.1 Mexican Investment Opportunity Portfolio

SECOFI identifies concrete regional and State investment projects in diverse economic sectors which are supported by a pre-appraisal study and a Mexican entrepreneur who seeks a liason with a foreign investor to carry out the project.

3.2.2 Strategic Alliances Portfolio

The identification and promotion of interests of Mexican and foreign entrepreneurs seeking for joint-ventures, co-investment schemes, technology transfer, access to new markets, leasing contracts or any business cooperation.

3.2.3 Assistance and Service

In order to assist and facilitate business implementation in Mexico, the following services are offered:

a) Complete database information concerning the main features of potential industrial parks and locations.

b) Complete database information regarding different states and their main socio-economic aspects and statistics.

c) Identification of Mexican and/or foreign partners through a multisectorial national and international network linked to SECOFI.

d) Scheduling of entrepreneurial and/or governmental appointments.

e) Information regarding the legal framework of foreign investment in Mexico and related subjects.

f) Coordination of promotion activities with national and international private and public organizations including commercial and development banks and diplomatic representation.

4 Export Processing Programs

4.1 Maquiladora or In-Bond Industries

The "Maquiladora" Industry (In-Bond) operates in Mexico since 1965. Presently, this industry is regulated by the Federal Decree for the Promotion and Operation of the Maquiladora Industry (In-Bond), published in the Official Gazzette of December 22nd, 1989. Maquiladora plants are engaged generally in assembly activities, combining Mexican labor and materials with foreign technology, components and capital.

The term "maquiladora" refers to an assembly, manufacturing or service plant, operating in Mexican territory under special customs treatment and liberal foreign investment regulations. Specifically, "maquiladoras" import into Mexico - duty-free and on a temporary "in-bond" basis - machinery, equipment, parts, raw materials and other components used in the assembly or manufacture of semi-finished or finished goods.

Those products, once assembled or manufactured, are exported back to their country of origin or to a third country. However, under an approved program a "maquiladora" may sell in Mexico an amount equal to 50% of its total annual export sales, which effectively represents one third of its production.

"Maquiladoras" can be established in all activities, except those that are reserved for the State.

There are basically three ways for foreign investors to conduct a maquiladora operation in Mexico:

1) The first is to form a wholly-owned Mexican subsidiary and incorporate this company in Mexico. The "maquiladora" subsidiary is then subject to Mexican law in all respects. The government of Mexico also treats foreign-owned maquiladoras as cost centers for tax and accounting purposes, rather than profit centers.

2) The second approach is to subcontract the manufacturing process with an existing company in Mexico. Here the investor is buying manufacturing services from an already-existing operator. The investor, however, is still resposible for supplying the contractor with the necessary raw materials and inputs.

3) The third approach is a "shelter program", whereby a company exists solely to manufacture or assemble for investors under a series of very specific agreements. Through the shelter approach, the investor obtains total control over the "maquiladora" operation without having any exposure in Mexico. In this case, as opposed to subcontracting, there is generally a full-time client company representative in the plant.

The "maquiladora" program is administered by SECOFI. "Maquila" licenses are granted for an indefinite period. Foreigners may own up to a 100% of "Maquiladoras" or In- Bond Industries without the need for prior approval by the Commission.

Through this program, investors may operate with imported capital equipment such as tools, equipment, instruments for the production process, which may remain in the country while the "maquiladora" is authorized to operate. Imported raw materials and components used in the assembly of finished products may remain up to one year. There exists a list of duty-free imports, allowing the automatic replacement of machinery and equipment as well as telecommunications and computer equipment. The list also permits the duty-free import of trucks for trailers and containers, which may remain in the country for three months.

Rather than paying the normal customs duty on materials and components, the "maquiladora" is permitted to import them into Mexico, without requiring any particular guarantee, due to the fact that said importation is exempted on presentation of the company's endorsement letter.

4.1.1 Location

Previously the law limited the establishment of this maquiladora industry to the border region. More recent legislation allowed the establishment of this type of industry anywhere in Mexico.

Nevertheless, due basically to the proximity to the United States - its suppliers, sources, and market destination- "maquiladora" industries have mostly concentrated alongside the northern border states. Out of the 2,129 existing "maquiladora" industries in 1992, 73.3% were located in this region.

4.1.2 Sectorial Trends

The "maquiladora" Industry's competitiveness has been more reaching in industrial processes which require skilled intensive labor. Thus, a large number of "maquiladora" industries have oriented to the electronic, textile, furniture and automotive sectors. By 1992 the ***electronic industry*** included 531 establishements and generated 180,504 jobs; the ***textile sector*** encompassed 393 firms, giving employment to 58,042 persons; the ***furniture sector*** had 293 companies that generated 29,367 posts; the ***automotive sector,*** with 165 enterprises, generated 123,544 jobs.

4.1.3 Employment Distribution

4.1.3.1 By Region

In 1992, the "maquiladora" Industry generated 511,339 direct employments out of which 73.0% were generated by industries established in the northern border area, and the remaining 27% from enterprises located within the inner area of Mexico.

4.1.3.2 By Levels

In 1992, of the total working force, 410,478 were workers (80.3%), 61,047 were technicians (12.0%) and 39,814 made up the administrative personnel (7.7%).

4.1.4 Costs

The costs for land, services, rents or acquisitions of industrial aisles vary depending on the county. At a Federal level no special benefits are provided to foreign investors. States offer different incentives to attract FDI into the "maquiladora" sector.

The Federal Government has established an administrative simplification and deregulation policy regarding the establishment of "maquiladora" Industries. Under NAFTA, this sector will maintain a simplified and agile regulatory scheme.

4.1.5 Benefits

4.1.5.1 Exports

Exports in 1992 related to the "maquiladora" industry led to an approximate of USD 19.5 billion.

4.1.5.2 Aggregate Value

The aggregate value generated by this industry was of USD 4,8 billion, which represents 8.1% of the total income of the Current Account of the Balance of Payments. The border region generated 72.7% of said amount, and the inner part of the country the remaining 27.3%. The sectors that generated most of this aggregate value were the automotive sector and the electronic accesories and appliances sector.

4.1.5.3 Capital Structure

By 1992 the companies that had an approved program amounted to 2,822, of which 32.5% were totally owned by U.S. investors, 43.3% by mexicans, 3.3% by nationals of other countries (e.g. Canada, United Kingdom, Korea, Panama), and 1.9% by japanese nationals. 12.7% corresponds to companies with majority U.S. capital, 5.5% to companies with majority mexican capital, and 0.8% to

entreprises with 50% mexican capital, and 50% U.S. capital.

4.2 Program for Highly Exporting Enterprises (ALTEX)

ALTEX was designed to support those enterprises that highly contribute to the generation of foreign currency. Within the main instruments to support ALTEX, the program includes financial backing from BANCOMEXT, immediate devolution of Value Added Tax (IVA), favorable remnants, and swiftness in international trade related procedures.

In 1991, the decree that regulates the program was amended to flexibilize the corresponding procedures needed to join it. This late action allowed that 219 new entreprises were registered as ALTEX. Total ALTEX enterprises count 769, exporting in 1991 a total of 12,500 millions USD.

4.3 Temporary Importation for Exportation Program (PITEX)

PITEX was created to allow temporary importation, duty free, and with special facilities regarding customs procedures, of goods produced for exportation. In 1991 the total value of imports carried out under PITEX was of USD 1.8 billion, which motivated exports totaling USD 9.2 billion.

4.4 ECEX Program

This program was designed to increase the development of specialized enterprises which have the proper dimensions to commercialize and export goods that may not be exported by their original producers. ECEX grants financial backing, no Value Added Tax to national raw materials used in export production goods, free trade related information services. The decree that reduces requirements to join this program, was published on May 3, 1990. Presently, the total number of ECEX enterprises adds up to 79. In 1991 ECEX enterprises exported a total of 800 million USD, which represented more than 4% of all non-oil exports.

4.5 Drawbacks Program

This program authorizes the devolution of importation related taxes payed on raw materials or components used to produce export goods. Beneficiaries of this program are those that, on a sporadic basis, directly or indirectly, sell to outside markets their products, or those

whose total exports cannot reach access to the PITEX program. Indirect exporters are considered those that supply ECEX enterprises, "maquiladoras" or exporters that possess domestic bills of credit. The total amount of devolutions made through this program in 1991, adds up to USD 3.5 billion.

4.5 Commission for the Promotion of Exports (COMPEX)

COMPEX was created through the decree published in the Official Gazzette of July 27, 1989, as an instrument to unify government and exporters efforts to solve the problems that may rise.

The Commission works on three areas: the negotiation of specific problems; the "100 Days of Export Promotion Program", which came out with concrete solutions to solve the most frequent exportation related problems; and, finally, the promotion of concrete exportation projects.

5 Multilateral Measures

5.1 Investment Related Issues of the North American Free Trade Agreement (NAFTA)

The Governments of Canada, the United States of America and Mexico have concluded formal negotiations of the NAFTA, which is expected to come into force by 1st January 1994.

5.1.1 Definition of Investment

The investment definition is very wide. Investment means:

a) *an enterprise;*

b) *an equity security of an enterprise;*

c) *a debt security of an enterprise that is an affiliate of the investor, or where the original maturity of the debt security is at least three years. It does not include a debt security, regardless of original maturity, of a state enterprise;*

d) *a loan to an enterprise that is an affiliate of the investor, or where the original maturity of the loan is at least three years. It does not include a*

loan,regardless of original maturity, to a state enterprise;

e) *an interest in an enterprise that entitles the owner to share in the income or profits;*

f) *an interest in an enterprise that entitles the owner to share in the assets on dissolution, other than debt security or a loan excluded from paragraph c) or d);*

g) *real estate or other property (tangible and intangible) acquired in the expectation or used for the purpose of economic benefit or other business purposes;*

h) *interests arising from the commitment of capital or other resources in the territory of a Party to economic activity in such territory.*

Investment does not mean:

a) *claims to money that arise solely fromcommercial contracts for the sale of goods or services by a national or enterprise in the territory of one Party to an enterprise in the territory of another Party, or the extension of credit in connection with commercial transaction, such as trade financing, other than a loan covered by paragraph d) above;*

b) *any other claims to money which do not involve the kindof interests set out in fromparagraphs a) to h).*

NAFTA basically applies to measures adopted or maintained by a Party relating to: investors of another Party; investment of investors of another Party; all investments in the territory of the Party existing at the date of entry into force of NAFTA, as well as to investments made or acquired thereafter.

5.1.2 Principles Governing the Agreement

5.1.2.1 National Treatment

Each Party shall treat investors and their investments no less favorable than to investments of its own investors .

5.1.2.2 Most Favored Nation Treatment

In addition, the Parties shall accord to investors and investments of another Party treatment no less favorable than the Parties in question accord, in similar circumstances, to investors of another Party or of non-Parties.

In both cases, the countries have established reservations described in the annexes to NAFTA.

5.1.2.3 Non-discrimination Treatment

Each Party shall accord to investors and investments of another Party the better of the treatment required by articles 1102 and 1103 which refer to National Treatment and Most Favored Nation Treatment, respectively.

On the other hand, the signing countries are bind to give the investors and investments of another Party a treatment in accordance with International Law, including fair and equitable treatment and full protection and security.

All these principles apply to general aspects of investment, as establishment, acquisition, expansion, management, conduct or operation of an investment.

5.1.3 Performance Requirements

No NAFTA Party may impose specified performance requirements associated with the establishment of an investment, such as export levels, minimum domestic content, trade balancing, technology transfer and, in general, requirements which are adverse to international trade.

Nevertheless, the Parties may impose measures in the use of technology regarding health, national security and the enviroment. NAFTA provides that no Party should lower its enviromental standards in order to attract investment.

Likewise, the Parties may establish requirements with regard to residence and organization of the investment according to the laws and regulations of the receiving Party. Also, the Parties

may request information from the investor concerning his investment, only for statistic and informative purposes.

5.1.4 Transfers

Each Party shall permit all transfers relating to an investment of another Party to be realized freely and without delay. NAFTA investors will be able to exchange local currency into foreign currency at the prevailing market rate of exchange for transactions in connection with an investment.

Such transfers include profits, dividends, interests, capital gains, royalty payments, management fees, technical assistence and other fees, as well as proceeds from the sale of all or any part of the investment or from the partial or complete liquidation of the investment; payments in case of expropriation, and payments arising from arbitral awards.

5.1.5 Expropriations

Expropriations should proceed in cases of public purposes, under a non discriminatory basis, in accordance with international law, and through a compensation which should be payed without delay, fully realizable and transferable, and equivalent to a fair market value plus applicable interests. The criteria to determine the market value of the expropriated good include going concern value, asset value and declared tax value of tangible property.

5.1.6 Intellectual Property

In regard to intellectual property, the Parties set out specific commitments to protect intellectual property rights, according to international standards.

The foregoing commitments enforce the protection of: copyrights, patents, trademarks, plant breeders' rights, industrial designs, trade secrets, integrated circuits and geographical indications.

5.1.7 Mechanism for the Settlement of Disputes

This special mechanism is applicable upon infringement of Chapter Eleven. After the claim arose, a period of six months must elapse before the arbitration process may begin. An effort

to reach an amicable settlement through consultation or negotiation should be exercised in this period.

A disputing investor may submit the claim to a three member panel arbitration under: the ICSID Convention, the additional facility rules of the ICSID, and the UNCITRAL arbitration rules.

In Mexico, the investor must choose between submitting the dispute either to the aforesaid arbitration rules, or to the local judicial process.

The final decision of the Tribunal may award only pecuniary damages and applicable interests, or the restitution of property, in which case the award shall provide that the disputing Party may pay monetary damages and any applicable interests, in lieu of restitution.

The mechanism is not applied to resolutions emitted for reasons of national security and, in the case of Mexico, to resolutions emitted by the National Commission of Foreign Investment regarding the acquisitions regime.

5.2 Investment Related Issues of the Mexico-Chile Economic Complementation Agreement

The Economic Complementation Agreement signed between Mexico and Chile, came into effect on January 1st, 1992.

5.2.1 Investment Measures

Regarding investment, the signatory countries will promote investment between them, and the establishment of enterprises, formed with capital from both countries, and also with capital from third parties. With this objective in mind, attaching strictly to domestic legislation in this matter, the Parties will grant the better of the treatment to the investments of the other Party.

5.2.2 Dispute Settlement Mechanism

In order to easily solve differences that may rise on the interpretation and application of the agreement, a neutral mechanism was designed that includes consultations between the parties; the mediation of the Administrative Committee of the Agreement, and, as a last measure, arbitration through panels.

STATISTICAL APPENDIX

TABLE 1	FOREIGN DIRECT INVESTMENT
TABLE 2	FOREIGN DIRECT INVESTMENT (ANNUAL)
TABLE 3	FOREIGN DIRECT INVESTMENT BY ECONOMIC SECTOR
TABLE 4	FOREIGN DIRECT INVESTMENT BY ECONOMIC GROUPS AND COUNTRIES
TABLE 5	FOREIGN INVESTMENT BY TYPE OF APPLICATION
TABLE 6	SHARE OF FDI IN GROSS FIXED INVESTMENT
TABLE 7	SHARE OF FDI IN GROSS DOMESTIC PRODUCT
TABLE 8	EMPLOYMENT IN ENTERPRISES WITH FOREIGN INVESTMENT

TABLE 1

FOREIGN DIRECT INVESTMENT
(US MILLION DOLLARS)

	ANNUAL	CUMULATIVE PRESIDENTIAL ADMINISTRATION	CUMULATIVE BALANCE
1971	168,0	168,0	3.882,4
1972	189,8	357,8	4.072,2
1973	287,3	645,1	4.359,5
1974	362,2	1.007,3	4.721,7
1975	295,0	1.302,3	5.016,7
1976	299,1	1.601,4	5.315,8
1977	327,1	327,1	5.642,9
1978	383,3	710,4	6.026,2
1979	810,0	1.520,4	6.836,2
1980	1.622,6	3.143,0	8.458,8
1981	1.701,1	4.844,1	10.159,9
1982	626,5	5.470,6	10.786,4
1983	683,7	683,7	11.470,1
1984	1.442,2	2.125,9	12.899,9
1985	1.871,0	3.996,9	14.628,9
1986	2.424,2	6.421,1	17.053,1
1987	3.877,2	10.298,3	20.930,3
1988	3.157,1	13.455,4	24.087,4
1989*/	2.913,7	2.913,7	27.001,1
1990	4.978,4	7.892,1	31.979,5
1991	9.897,0	17.789,1	41.876,5
1992	8.334,8	26.123,9	50.211,3
1993 P/			
JANUARY	581,3	26.705,2	50.792,6

*/ SINCE 1989 PORTFOLIO INVESTMENT IS INCLUDED
P/ PRELIMINARY.
SOURCE: SECOFI. DIRECTORATE GENERAL OF FOREIGN INVESTMENT.

TABLE 2
FOREIGN DIRECT INVESTMENT
(US MILLION DOLLARS)
ANNUAL

	TOTAL	%	F.I.C.	%	N.R.F.I.	%	PORTFOLIO	%
1973	287,3	100,0	18,6	6,5	268,7	93,5	-------	0,0
1974	362,2	100,0	28,1	7,8	334,1	92,2	-------	0,0
1975	295,0	100,0	99,5	33,7	195,5	66,3	-------	0,0
1976	299,1	100,0	86,5	28,9	212,6	71,1	-------	0,0
1977	327,1	100,0	50,4	15,4	276,7	84,6	-------	0,0
1978	383,3	100,0	114,3	29,8	269,0	70,2	-------	0,0
1979	810,0	100,0	311,2	38,4	498,8	61,6	-------	0,0
1980	1.622,6	100,0	1.055,9	65,1	566,7	34,9	-------	0,0
1981	1.701,1	100,0	794,4	46,7	906,7	53,3	-------	0,0
1982	626,5	100,0	271,9	43,4	354,6	56,6	-------	0,0
1983	683,7	100,0	393,7	57,6	290,0	42,4	-------	0,0
1984	1.442,2	100,0	796,6	55,2	645,6	44,8	-------	0,0
1985	1.871,0	100,0	1.337,6	71,5	533,4	28,5	-------	0,0
1986	2.424,2	100,0	1.563,1	64,5	861,1	35,5	-------	0,0
1987	3.877,2	100,0	3.260,7	84,1	616,5	15,9	-------	0,0
1988	3.157,1	100,0	2.448,3	77,5	708,8	22,5	-------	0,0
1989	2.913,7	100,0	1.231,5	42,3	1.268,2	43,5	414,0	14,2
1990	4.978,4	100,0	2.118,6	42,6	1.603,8	32,2	1.256,0	25,2
1991	9.897,0	100,0	4.871,7	49,2	2.143,5	21,7	2.881,8	29,1
1992	8.334,8	100,0	4.298,5	51,6	1.406,6	16,9	2.629,7	31,5
1993 P/								
JANUARY	581,3	100,0	109,2	18,8	213,0	36,6	259,1	44,6

P/ PRELIMINARY
SOURCE: SECOFI. DIRECTORATE GENERAL OF FOREIGN INVESTMENT.

TABLE 3

FOREIGN DIRECT INVESTMENT BY ECONOMIC SECTOR 1/
(US MILLION DOLLARS)

SECTOR	CUMULATIVE 1989-1992		1993 */	PART. %	CUMULATIVE 1989-1993	
TOTAL	18.942,5	100,0	322,24	100,00	19.264,74	100,00
AGRICULTURE	164,7	0,9	0,02	0,01	164,72	0,86
EXTRACTIVE	143,0	0,8	0,01	0,00	143,01	0,74
MANUFACTURES	5.064,3	26,7	219,14	68,01	5.283,44	27,43
CONSTRUCTION	394,7	2,1	10,96	3,40	405,66	2,11
TRADE	1.805,0	9,5	13,95	4,33	1.818,95	9,44
TRANSP. & COMMUNIC.	5.229,6	27,6	0,09	0,03	5.229,69	27,15
FINANCIAL SERVICES	3.267,3	17,2	1,04	0,32	3.268,34	16,97
COMMUNITY SERVICES	2.873,9	15,2	77,03	23,90	2.950,93	15,32

*/ PRELIMINARY

1/ PORTFOLIO INVESTMENT NOT INCLUDED

SOURCE: SECOFI. DIRECTORATE GENERAL OF FOREIGN INVESTMENT.

TABLE 4

FOREIGN DIRECT INVESTMENT BY ECONOMIC GROUPS AND COUNTRIES 1989-1993*/

(US MILLION DOLLARS)

GROUPS & COUNTRIES	CUMULATIVE 1989-1992	PART. %	1993 1/	PART %	TOTAL CUMULATIVE 1989-1993	%
TOTAL	**13.386.869,1**	**100,0**	**322.273,8**	**100,0**	**13.709.142,9**	**100,0**
NORTH AMERICA	**8.416.286,3**	**62,9**	**123.751,1**	**38,4**	**8.540.037,4**	**62,3**
CANADA	256.235,7	1,9	1.037,4	0,3	257.273,1	1,9
UNITED STATES	8.160.050,6	61,0	122.713,7	38,1	8.282.764,3	60,4
OTHER AMER. COUNTRIES	**940.211,9**	**7,0**	**5.958,6**	**1,8**	**946.170,5**	**6,9**
EUROPEAN COMMUNITY	**2.792.979,8**	**20,9**	**159.709,1**	**49,6**	**2.952.688,9**	**21,5**
GERMANY	542.597,6	4,1	501,8	0,2	543.099,4	4,0
BELGIUM	186.895,5	1,4			186.895,5	1,4
DENMARK	43.161,4	0,3	235,6	0,1	43.397,0	0,3
SPAIN	135.903,7	1,0	10.902,8	3,4	146.806,5	1,1
GREECE						
FRANCE	766.957,5	5,7	9.942,4	3,1	776.899,9	5,7
IRLAND	7.831,2	0,1			7.831,2	0,1
ITALY	20.656,0	0,2	822,3	0,3	21.478,3	0,2
HOLLAND	376.514,2	2,8	15.082,9	4,7	391.597,1	2,9
PORTUGAL	1.105,5	0,0			1.105,5	0,0
UNITED KINGDOM	660.141,9	4,9	120.033,2	37,2	780.175,1	5,7
LUXEMBURG	51.215,3	0,4	2.188,1	0,7	53.403,4	0,4
EUROPEAN FREE TRADE ASSOCIATION	**764.447,2**	5,7	**1.014,6**	**0,3**	**765.461,8**	**5,6**
SWEDEN	36.050,9	0,3	0,0	0,0	36.050,9	0,3
SWITZERLAND	725.063,9	5,4	1.008,2	0,3	726.072,1	5,3
OTHER	3.332,4	0,0	6,4	0,0	3.338,8	0,0
EAST EUROPE	**5.223,3**	0,0	**0,0**	**0,0**	**5.223,3**	**0,0**
ASIATIC COUNTRIES	**305.095,8**	**2,3**	**32.688,3**	**10,1**	**337.784,1**	**2,5**
JAPAN	296.901,1	2,2	32.672,3	10,1	329.573,4	2,4
OTHER	8.194,7	0,1	16,0	0,0	8.210,7	0,1
OTHER COUNTRIES	**162.624,8**	1,2	**-847,9**	**(0,3)**	**161.776,9**	**1,2**

*/ PORTFOLIO INVESTMENT AND ISSUING OF SHARES APPROVED BY FI.C. IN THE STOCK MARKET ARE EXCLUDED.

1/ JANUARY.

SOURCE: SECOFI. DIRECTORATE GENERAL OF FOREIGN INVESTMENT.

TABLE 5

FOREIGN INVESTMENT BY TYPE OF APPLICATION

(NUMBER OF APPLICATION AND VALUE IN US MILLION DOLLARS)

CONCEPT	CUMULATIVE 1989-1992		1993		CUMULATIVE 1989-1993	
	APPLICATION	AMOUNT	APPLICATION	AMOUNT	APPLICATION	AMOUNT
TOTAL	9.865,0	13.386,7	183	322,2	10.048	13.708,9
I. F.I.C.	1.147,0	6.964,6	39	109,2	1.186	7.073,8
NEW CORPORATIONS	319,0	2.575,9	18	27,9	337	2.603,8
NEW ESTABLISHMENTS	107,0	1.162,2	0	0	107	1.162,2
NEW ACTIVITIES	97,0	273,5	1	0,1	98	273,6
NEW LINES OF PRODUCTS	6,0	90,1	0	0	6	90,1
TRUSTS	74,0	540,9	2	9,0	76	549,9
SHARES ACQUISITION	234,0	2.199,8	12	70,4	246	2.270,2
RECONSIDERATIONS	293,0	121,3	6	1,8	299	123,1
MERGERS	3,0	0,8	0	0	3	0,8
DENIED APPLICATIONS	14,0	0,0	0	0	14	0,0
II. N.R.F.I.	8.718,0	6.422,1	144	213,0	8.862	6.635,1
FIRST SECTION	22,0	71,3	0	0	22	71,3
SECOND SECTION	0,0	0,0	0	0	0	0,0
REGISTRY OF NEW CORPORATIONS						
ARTICLE 5	1.145,0	257,3	26	0,6	1.171	257,9
ARTICLE 6	457,0	220,6	7	0,1	464	220,7
JOINT VENTURES	1.013,0	805,6	29	17,7	1.042	823,3
TAKE OVERS	109,0	377,9	2	0,3	111	378,2
CAPITAL STOCK INCREASES						
IN EXISTING CORPORATIONS	2.500,0	3.401,9	45	192,8	2.545	3.594,7
HOLDINGS	32,0	43,9	5	0,2	37	44,1
THIRD SECTION						
TRUSTS	3.440,0	1.243,6	30	1,3	3.470	1.244,9

SOURCE: SECOFI. DIRECTORATE GENERAL OF FOREIGN INVESTMENT.

TABLE 6

SHARE OF FDI IN GROSS FIXED INVESTMENT
(US MILLION DOLLARS)

YEAR	AMOUNT	% OF FDI
1977	327.0	2.0
1978	383.0	1.8
1979	810.0	2.6
1980	1,623.0	3.4
1981	1,701.0	2.6
1982	626.0	1.6
1983	684.0	2.6
1984	1,442.0	4.6
1985	1,871.0	5.3
1986	2,424.0	9.6
1987	3,877.0	14.9
1988	3,157.0	9.4
1989	2,914.0	7.7
1990	4,978.0	10.8
1991	9,897.0	17.7

SOURCE: SECOFI. DIRECTORATE OF FOREIGN INVESTMENT WITH DATA OF BANK OF MEXICO, ECONOMIC INDICATORS. ANNUAL REPORT 1991. INEGI. NATIONAL ACCOUNT SYSTEM.

TABLE 7

SHARE OF FDI IN GROSS DOMESTIC PRODUCT
(US MILLION DOLLARS)

YEAR	AMOUNT	% GDP
1980	1,623.0	0.8
1981	1,701.0	O.7
1982	626.0	0.4
1983	684.0	0.5
1984	1,442.0	0.8
1985	1,871.0	1.0
1986	2,424.0	1.9
1987	3,877.0	2.7
1988	3,157.0	1.8
1989	2,914.0	1.4
1990	4,978.0	2.1
1991	9,897.0	3.5

SOURCE: SECOFI. DIRECTORATE OF FOREIGN INVESTMENT WITH DATA FROM BANK OF MEXICO, ECONOMIC INDICATORS. ANNUAL REPORT 1991. INEGI. NATIONAL ACCOUNT SYSTEM.

TABLE 8

EMPLOYMENT IN ENTERPRISES WITH FOREIGN INVESTMENT BY SIZE OF ESTABLISHMENT.

1986 - 1991

ENTERPRISE SIZE	WORKING PERSONNEL IN 1986			WORKING PERSONNEL IN 1991*/		
	REGISTERED IN IMSS**/	ENTERPRISES WITH FDI	PART. %	REGISTERED IN IMSS	ENTERPRISES WITH FDI	PART. %
TOTAL	6,432,331.0	788,716.0	12.3	8,451,059.0	1,102,423.0	13.0
SMALL ENTERPRISE	3,079,801.0	544,214.0	17.7	3,497,404.0	102,208.0	2.9
MEDIUM ENTERPRISE	1,081,918.0	129,349.0	12.0	1,398,650.0	125,464.0	9.0 24.6
BIG & MACRO ENTERPRISE	2,270,612.0	114,651.0	5.0	3,555,005.0	874751.0	

NOTE: IN-BOND INDUSTRY WITH FOREIGN INVESTMENT NOT INCLUDED.

*/ PRELIMINARY STATICTICS

**/ MEXICAN INSTITUTE OF SOCIAL SECURITY

SOURCE: ST AND PS. DIRECTORATE GENERAL OF EMPLOYMENT.
SECOFI. DIRECTORATE GENERAL OF FOREIGN INVESTMENT.

PART II

FOREIGN PORTFOLIO EQUITY FLOWS

The role of foreign portfolio equity flows in the mobilization of resources for development, in the context of domestic policies with regard to capital market development and financial liberalization.

International financial markets are an important source of funds for countries whose domestic savings need to be complemented to match investment requirements and growth potential. In this regard, continuos access to world markets require a strong commitment towards economic development and macroeconomic stability.

This has been precisely the strategy followed by Mexico under the leadership of President Carlos Salinas, in order to face its domestic economic challenges and the international environment. Under a deep economic reform, domestic strength has proven to be the appropriate strategy for development and internationalization.

The basic framework of the reform has been marked by the implementation of sound macroeconomic policies and the 1989 restructuring of the external debt, which inhibited growth during the 1980's. Coherent monetary and exchange rate policies have also contributed to reduce uncertainty and induce investment flows.

A deep fiscal reform has been the cornerstone of the price stabilization policies. On the income side, we have broaden the tax base and reduce personal and corporate rates, with a very favorable effect on public sector revenues. On the expenditure side, we have attained a more selective allocation of public resources, based on a redefined and strengthened role of the state in the economy. The structural change has dealt not only with a more rational use of public funds, but also with the government's withdrawn from non-strategic activities.

After years of macroeconomic stabilization, the public sector's fiscal adjustment has enabled economic growth with further reduction in inflation rates. It is worth mentioning that the ongoing negotiation on prices among social sectors, within several "Economic Pacts", has also been useful in minimizing the cost of a purely orthodox economic adjustment.

Macroeconomic stability is not sufficient to promote growth. Once the process of capital formation is reactivated, there is a set of policies with large macroeconomic impact, in which the Government has also been focusing its attention. An all encompassing structural reform, including trade, deregulation, the divestiture of government enterprises and the modernization of the financial

sector, is the mean to ensure economic growth and development in the medium and long term.

Because there is an important linkage between economic growth, capital formation and the financial system, the enhancement of domestic savings and their efficient allocation, may well depend on the characteristics of the financial sector. In this context, Mexico's financial reform of 1989 was designed to liberalize and update the regulatory framework of banking and non-banking activities. At the same time, much importance has been given to induce healthy financial practices and stability through prudential regulation, supervision, surveillance networks, enforcement, and self regulatory practices.

In the banking system, the liberalization of interest rates and maturities, the establishment of a flexible liquidity coefficient to substitute the previous legal reserve regime, and the abandonment of credit controls have freed investment resources and set the foundations for higher competitiveness and efficiency in the industry. The elimination of the liquidity coefficient requirement for the marginal bank deposits and liabilities has contributed to increase the availability of resources in the system and alleviate short term pressures on the money market.

The reform also built a better environment for the development of non banking financial intermediaries. These institutions not only provide a broad set of services, but also represent an important source of long term financing to productive investment.

In the securities market, efforts have been made to build effective mechanisms for regulation, as a condition to develop the money and equity markets. The weight of this segment of the market in the economic system has been increasingly important as an attractive alternative for saving and diversifying borrowing, as receptor of foreign investment, and as a vehicle to maintain an adequate equilibrium between equity and debt.

The 1989 reform to the securities market legal framework addressed issues of great relevance such as investor's protection, arbitration in the securities conflicts, insider trading, price manipulation, conflicts of interest, external legal auditing for brokerage houses, automated order collection in securities transactions, self regulation and mutual funds regulation.

Nevertheless, the above needs to be complemented with a strong and active authority. Consequently, surveillance of market operations, the flow of financial information, fair disclosure standards, financial soundness of brokerage houses, and timely enforcement, are the daily endeavor of the National Securities Commission. These activities aim to promote good financial habits and to assure

fair treatment and an orderly operation, which are the basic conditions to encourage investor's participation and market efficiency.

The institutional framework of the securities industry in Mexico has also been strengthened with the establishment of rating agencies and independent research firms. Risk analysis and professional research provide important elements for better investment decisions and greater market efficiency.

The internationalization of the securities market was also the aim of the legal reform. In this sense, brokerage houses were authorized to open foreign subsidiaries, and the authority has allowed international arbitrage operations, and trading eligible Mexican securities abroad. Regarding foreign investment, international investors have new vehicles to access the securities market and are authorized to acquire up to 30% of the capital of brokerage houses.

1. Equity Markets

1.1 *Analysis of the role of equity markets in the domestic financial system:*

- *As a source of risk capital;* the equity market in Mexico has provided financing for the private sector through debt instruments and capital stock. The market has provided resources to approximately 21 issuers with a total amount of 4,516.7 million dollars in 1992. The stock market also represents an excellent investment alternative for institutional investors and the general public. It has shown positive gains for several years; the index has grew 32% in real terms in 1988, 65.4% in 1989, 15.5% in 1990, 91.6% in 1991 and 9.9% in 1992 .

Trading activity indicators through February 1993 shows that out of 252 companies (excluding mutual funds) listed in the stock exchange, 21 are highly traded, 46 are medium traded and the remaining lowly traded.

Trading volume at the Mexican stock exchange has also registered an increasing trend. While in 1988 and 1989, average daily volume was around 30 million shares, in 1990 it increased to 43 million shares, 97 million shares in 1991 and 99 million shares in the following year.

Due the above mentioned, International institutional investors consider the Mexican capital market as a means for reducing the risk exposure in their portfolio.

With regard to risk capital, venture capital funds (SINCAS) have been an additional investment alternative. Currently, eighty six SINCAS are in operation with assets of 145 million dollars.

- As a factor contributing to improved management of domestic companies; After the problems incurred by the securities market in 1987, Price/earnings and price/net worth market ratios were in many cases below the unit. This situation led companies to obtain financial resources through short term debt instruments. The companies growing participation in market operations has been influenced by the macroeconomic achievements of the Mexican economy between 1988 and 1993, as well as by policies adopted to accelerate the process of restructuring and modernizing the financial system. This environment allowed companies to start new productive investment projects, and to consider the securities market as a complementary source of finance.

Corporations, in order to be able to access the securities market have had to improve their accounting standards and management. Also the growth and soundness of a more developed stock market has increased the competitiveness of the productive sector.

- As an instrument for the implementation of privatization programs; the stock market has also shown the ability to serve as means to accomplish the privatization of public entities, as was the case of "Teléfonos de México," the largest telecommunications company in Latin-America. A simultaneous offering in Mexico, the United States, Canada, Europe and Japan successfully carried out in mid May 1991, amounting to 375 million dollars in Mexico and 1.8 billion dollars in world markets. Additionally, eight commercial banks were privatized from mid 1991 to 1992, and the stock market played a very important role in transferring the stock ownership of 15 banks, therefore contributing to these important policies.

- As a mean to attract foreign portfolio investment (especially by institutional sources); the securities market has played a vital role in channeling foreign capital into the country. The elimination of specific legal restrictions to foreign portfolio investment, and the creation of new mechanisms and instruments, have paved the way to the in-flow of external resources.

In the capital market, a mechanism for "neutral foreign investment" was designed in order to open to international investors the alternative to acquire series "A" shares which traditionally have been restricted only to Mexicans. By means of a trust, and the issuance of certificates, the economic and corporate rights are separated. As of February 1993, the Nafinsa Trust registered an outstanding value of 1.7 billion dollars.

The above mentioned opened the number of investment alternatives for foreign participants, and additionally, Mexican authorities have supported the international recognition of specific Mexican securities. The stock exchange and

placements were made through ADR'S amounting to 3,418 million dollars, while in 1992, 11 ADR'S programs issued for 3,054 million dollars. Listings of Mexican country and regional funds with national securities have also multiplied in recent years, as can be seen in Annex table 4.

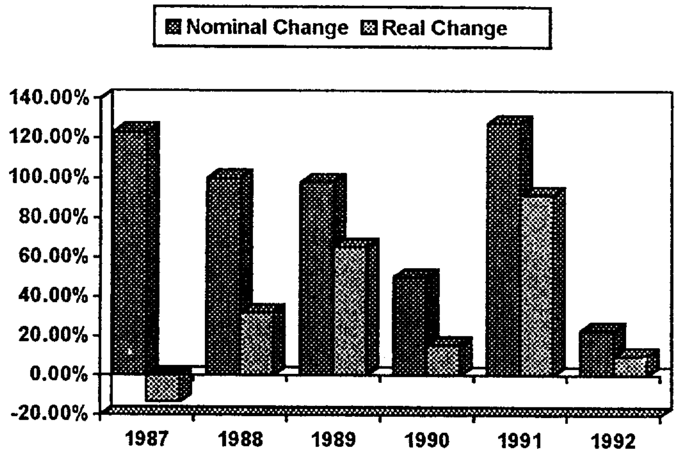
- *As a means to attract FDI (Foreign Direct Investment through, for example, joint ventures);* several joint ventures have been conducted between Mexican and foreign companies. Some examples of these cases are:

Titan	Stone Container (Paper)	1988
Alfa	Ford Teskid (Aluminum)	1988
Alfa	Himont Inc. (Chemicals)	1989
Alum	Famsa (Buses)	1989
Novum	Cabot International (Pneumatic rubber)	1989
Stouffer	Hoteles Presidente (6 Hotels)	1991
Banco Bilbao Vizcaya	Probursa (10%)	1991
Vitro	Anchor Glass	1991
Modelo	Anheuser Bush	1993
Femsa	Coca cola	1993

1.2 *Overview of the development of domestic equity markets, including:*

- *Trends in market performance (Price trends, volatility, liquidity);* The Mexican Stock Exchange index "IPC" closed at 1,759 points on December 1992, representing a 22.9% nominal increase or a real growth of 9.9% during the year.

IPC, INDEX PERFORMANCE 1987-1992



NOMINAL	124.3%	100.1%	98.04%	50.1%	127.6%	22.9%
REAL	-13.4%	32%	65.4%	15.5%	91.6%	9.9%

A new industrial average index, the INMEX, was introduced during October of 1992, having a nominal increase of 18.5% and a real change of 5.9%, calculated on a yearly basis. This index is complementary to the IPC, and is a reference for the issuance of derivative products.

The capital market's performance during 1992 can be separated into four stages: the first, from January to March, where an accelerated up-trend was observed, influenced by foreign investment in-flows and an increase in price quotations, ending with a nominal change of 31%..

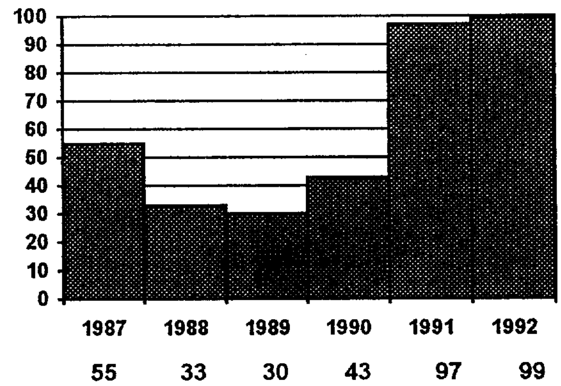
From April to May, important volumes and stock offerings were registered, as well as a lateral tendency in quotations, and the IPC index appreciated in 0.8%.

Between June and September, a declining trend in stock prices was observed. The international markets, general uncertainty and high volatility, influenced domestic quotations. The IPC index achieved its low of the year, declining to 1,252 points. During this period, the market daily average volume of shares traded, measured by its main indicators, decreased considerably, influenced by investors return expectations from the money market.

The last stage, from October to December, observed a recovery in the IPC index, gaining 40.5%, There was also an increment in the daily average volume traded, due to positive expectations regarding the country's economic evolution, and companies' favorable financial statement results.

The daily average volume of shares traded rose over the year to 99 million shares, a figure that compares favorably with the 97 million traded in 1991. This represents an increase of 2.1% and an advance of 130% to the volume registered in 1990.

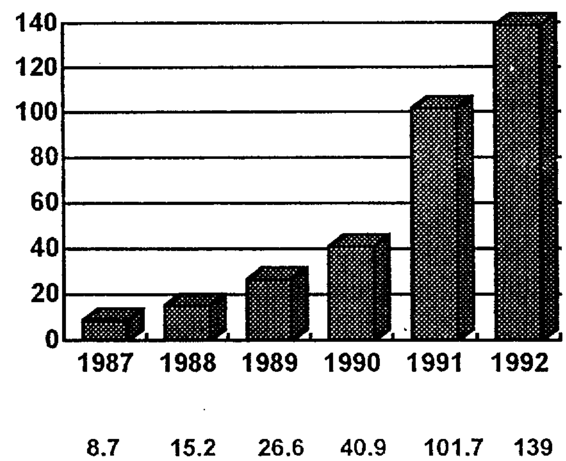
DAILY AVERAGE VOLUME OF SHARES TRADED
(Millions of Shares)



During 1992 the daily average number of transactions was 1,769, compared to 1,348 in 1991.

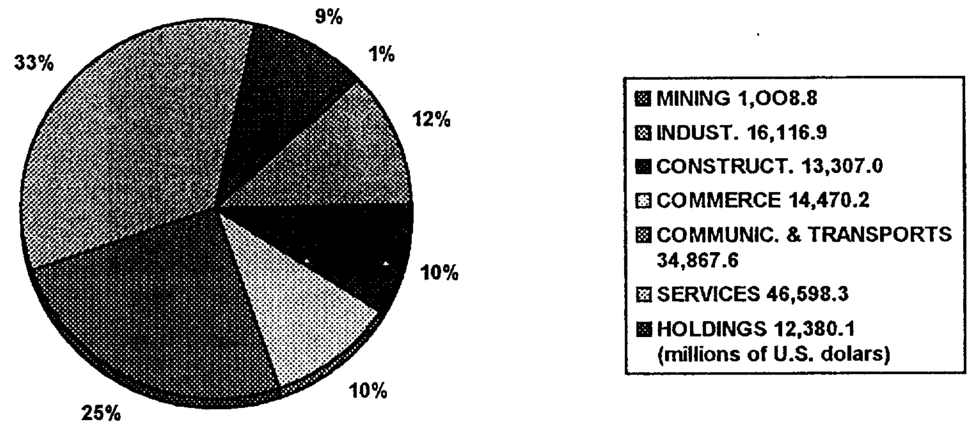
-Trends in market capitalization, number of companies listed, sectorial distribution; The market capitalization value, measured from December 1991 to the same month in 1992, shows a nominal appreciation of 39% and a real increase of 24%, having grown from 101.7 billion dollars to 139 billion dollars.

PERFORMANCE OF THE MARKET CAPITALIZATION VALUE OF THE MEXICAN STOCK EXCHANGE
(US. billions)



By the End of 1992, 200 corporations were listed on the stock exchange. There were 31 share offerings representing $4.8 billion dollars. Of these offerings, ten were done in foreign exchanges through ADR's and GDR's, amounting to $3 billion dollars.

The Sectorial Distribution of the companies listed on the Mexican Stock Exchange is the following:



- *Positive factors and obstacles to such development, on both the demand and the supply side;* the main objective of the modernization and development of the securities market is to increase savings and transfer them to productive investment as an efficient mechanism of economic policy. A healthy securities market is capable of providing investment alternatives that meet the needs of investors seeking instruments with a diversity of characteristics, while supplying an efficient vehicle for allocating resources to productive activities.

The positive factors to such development, among others, are the excellent performance of market trends, helping to attract the foreign investors attention. The market has experimented a constant and accelerated growth which is evidenced by real annual growth rates of the market capitalization value within the Mexican Stock Exchange.

The modernization process of the market has been supported by dynamic regulation and surveillance, the development of new instruments and mechanisms, and the stronger linkage between the Mexican Stock Exchange and foreign financial places, has brought a greater flow of foreign investment and has allowed Mexican firms to obtain resources from international capital markets. In this context, the policies implemented to modernize the Mexican securities market focused on the following:

1) To increase a balanced demand and supply of securities through the creation of new investment instruments and mechanisms, that provide the market with higher turnover levels, increased depth and efficiency, as well as promote the participation of a larger number of investors and encourage a broader set of enterprises to obtain resources through the securities market.

2) To increase the confidence of investors in the market. This important task implies not just the reinforcement of regulatory activities by the National Securities Commission of Mexico, but also the fostering of a market culture that encourages participants to enhance orderly operations and protect investors interest.

3) To encourage the levels of efficiency and competitiveness of financial intermediaries.

4) To create new channels of foreign investment in the securities market and participation of Mexican firms in foreign capital markets.

The obstacles to such development are:

1) Low trading activity of listed companies. In order to cope with this obstacle, the National Securities Commission of Mexico has implemented a marketability program which includes requirements for listing and maintaining stocks on the exchange, as well as the creation of a second section which will allow the trading of medium sized companies, subject to less stringent requirements. It has also recognized different schemes of market making mechanisms in order to enhance the liquidity of stocks traded in the market.

2) General market culture is low, although it has increased through the years in line with market developments. The National Securities Commission, the stock exchange, and other institutions have contributed in different programs and forums to correct this problem.

3) The concentration of stock ownership and it's impact over price discovery and volatility is present in several stocks. The above mentioned program has been confronting these issues.

- *Impact of government policies, such as tax incentives and financial liberalization;* in 1989 foreign investment regulations were modified allowing further participation of foreign portfolio investment. In this regard a neutral investment mechanism was introduced to allow the purchase of securities previously reserved only to Mexicans, this measures include the authorization to foreigners to invest in CETES (the equivalent of the Treasury bills); in financial intermediaries, financial group holding companies and banks up to 30%; and up to 49% in the case of insurance companies.

Deregulation in aspects such as fees charged by intermediaries in providing their services has increased competition allowing investors to benefit by lower transaction costs.

Capital gains are tax exempt for individuals and foreigners in the Mexican stock exchange. Also, dividends paid by Mexican companies, coming from the after tax profit account, are not considered as a taxable income for shareholders.

The securities market has also become a mechanism to ease capital repatriation. From 1990 to 1992, 7.3 billion dollars have been accounted for possible repatriation to Mexico through a favorable tax treatment called "timbre fiscal" (fiscal stamp).

-Influence of external factors, such as developments in foreign stock markets; international offerings of Mexican securities have generated a secondary market abroad in the form of ADR's or GDR's. Prices of stocks, such as Telmex, at the Mexican Stock Exchange are influenced by those quoted at the NYSE, through international arbitrage.

Considering the increasing demand for capital in the world, Mexico, has provided foreign investment with the necessary incentives to attract this resources, both in the equity and money markets.

Experience has shown that it is the best interest of emerging markets to share their experience among themselves. Mexico has established technical assistance and cooperation agreements with the authorities of Argentina, Brazil, Chile and Costa Rica.

Mexico has taken certain steps to accomplish a successful integration with markets in the same region by establishing ties with their neighbors. Such is the case of the memorandum of understanding between the US. Securities and Exchange Commission and the Mexican National Securities Commission (CNV) to share technical assistance as well to exchange information concerning matters of mutual interest.

1.3 *Overview of the regulatory framework for equity market including;*

- The role of a comprehensive capital market law and/or specific regulatory requirements for the functioning of stock exchanges; the regulatory framework consists of the Securities Market Act, the Mutual Funds Act and secondary regulation issued by the CNV (Circulars), as well as dispositions from the Ministry of Finance (Secretaría de Hacienda y Crédito Público) and the Bank of Mexico. The Securities Market Act includes the following eight chapters:

Chapter One	Preliminary Provisions
Chapter Two	The National Registry of Securities and Intermediaries
Chapter Three	Brokerage Firms and Securities Specialist
Chapter Four	Stock Exchanges
Chapter Five	The National Securities Commission
Chapter Six	Securities Depository Institutions
Chapter Seven	Procedures to Protect the Interest of the General Public in their Investments
Chapter Eight	Stock Exchange Contracting

And within the Mexican National Securities Commission regulatory dispositions (Circulares de la Comision Nacional de Valores) considering 31 different topics (source: Thematic index of "Circulares of the Comisión Nacional de Valores"):

I.- Bank Acceptances
II.- Complementary and Analog Activities
III.- Tariffs
IV. International Arbitrage
V.- Intermediaries Authorizations
VI.- Bonds
VII.- Capital Requirements
VIII.- Brokerage Houses
IX.- Accounting and Reporting Standards
X.- Treasury Certificates
XI.- Contingency Fund
XII.- Margin Credits
XIII.- Funds Rules
XIV.- Brokerage Firms Personnel
XV.- Disclosure and Financial Information
XVI.- Reporting Information to the CNV.
XVII.- Book for Trading Registration
XVIII.- Trading limits for Brokerage Firms
XIX.- Metal Mint
XX.- Contracts
XXI.- Futures
XXII.- Commercial Paper
XXIII.- Treasury Promissory Notes
XXIV.- Proprietary Trading
XXV.- General Prohibitions
XXVI.- Repurchases Agreements
XXVII.- Securities Transactions
XXVIII.- Mutual Funds
XXIX.- Stocks Issuers
XXX.- Stock Exchanges
XXXI.- Depository Institutions.

The Mexican Stock Exchange is regulated under the Securities Market Act and the CNV Circulars. These norms contained in the Act and Circulars provide the exchange with authority to enact regulation that contains the requirements that the participants (i.e. brokerage firms, mutual funds, intermediaries, listed companies and investors) must satisfy to participate and to operate in the exchange. These requirements are contained in the General Internal Rules of the Mexican Stock Exchange (Reglamento General Interior de la Bolsa Mexicana de Valores) which must be approved by the CNV.

Over the last 4 years, the CNV has worked closely with the exchange and the Broker Dealers Association to foster the introduction of new instruments and mechanisms that provide the market with greater liquidity and flexible investment schemes, including the following:

1) The official criteria of stock marketability was established as a previous step to shortselling, limited to highly traded stocks, and the prudential re-establishment of margin credits.
2) The introduction shelf registration, repurchase of stocks and non voting stocks, enhance the desires balance between supply and demand of equity instruments.
3) The creation of rating agencies in the market.
4) The simplification of the registration procedures.
5) The introduction of shortsales.
6) The liberalization of fixed brokerage commissions.
7) The introduction of medium term promissory notes, I.N.P.C. (Consumer Price Index) indexed instruments, options operations realized by Mexican Brokerage Houses in foreign markets, international arbitrage, as well as other international operations.
8) The introduction of warrants in the capital market.

It should be mentioned that a thorough reform to the Securities Market Act will be sent to Congress in May of this year, including dispositions to foster the competitiveness of intermediaries, allow the trading of foreign securities, recognize the figure of the independent investment adviser, and in general provide the necessary elements for the continuing development and internationalization of the Mexican market.

- *The role of Regulatory Agencies;* The institutions that regulate and carry out the surveillance of the market are the Ministry of Finance, the Mexican National Securities Commission (Comisión Nacional de Valores, CNV), and the Central Bank of Mexico. The first two establish the policies and norms that guide and follow the performance of the market, while the Central Bank is responsible of the country's monetary policy, of the issuing, purchase and sales of government securities, and the determination of the general criteria and framework under which the participants in the money market may operate.

Specifically, the CNV, established in 1946, was empowered pursuant to the Ley del Mercado de Valores ("securities Market Act") in 1975 to supervise the Mexican Stock Exchange, brokers and companies and other entities selling securities to the public, and to ensure compliance with the securities Market Law. In addition, under the Securities Market Act, the CNV has the authority to regulate the processes of offering and trading of securities and the use of non-public information in connection with the purchase and sale of securities. Under its broad grant of powers, the CNV has established guidelines and requirements which must be met before an issuer may list securities in the Mexican Stock Exchange and offer securities to the public in Mexico.

These standards include: minimum asset requirements, an established operating history and management structure. In addition, the CNV requires all registered issuers to publish and furnish to the CNV on a timely basis financial and operating information such as annual audited financial statements and unaudited quarterly financial statements and established rules for the preparation of such statements and unaudited quarterly financial statements and established rules for preparation of such statements.

The CNV also is responsible for certifying the registration of all debt and equity issues in the Registro Nacional de Valores e Intermediarios (National Securities and Intermediaries Register), and for promulgating general dispositions regulating market operations, limitations on brokers´ activities and establishing reporting requirements regarding the operations of the Stock Exchange. The CNV is empowered to investigate possible infractions of the Securities Market Act or any of its own Rules and Prudential Regulation, suspend trading in particular securities, consult with the Government or Government entities in securities matters, intervene in the management in brokerage firms and resolve disputes relating to the Mexican securities market.

Also, during April 1992, the Mexican Financial System Surveillance Coordination Committee (COSSIF, Coordinadora de Supervisiones del Sistema Financiero Mexicano) was established, formed by the CNV, the National Banking Commission and the National Insurance and Bonding Commission. It's objective is to consolidate the inspection, surveillance and sanctions of the financial groups. The activities of COSSIF have concentrated on unifying criteria between the three commissions, regarding the following: definition of responsibilities among authorities, conflicts of interests, establishment and implementation of policies, accounting rules, orderly marketing of financial services and regulation to protect investors.

- *The evolution of accounting and reporting standards and regulation aimed at investors protection (financial information, disclosure, inside trading);* the National Securities Commission has issued several circulars for the listed companies on the subject of financial disclosure and requires them to report all relevant information to market participants on a timely basis.

Effective, January 1, 1990 the Securities Market Law was amended to regulate the use of non-public information in the context of purchases and sales of securities. Directors and certain individuals involved in management of a listed company, shareholders holding more than 10% of the company's ordinary share capital, independent advisers to the company, owners and management employees of the brokerage houses and any other individual deemed to have inside information have a limit of three months to not trade in company

securities. Shareholders must also report to the CNV purchases or sales by reason of which their holdings exceed or fall bellow the 10% ownership floor.

On the other hand, the Law prohibits the use of non- public information and limits the purchases and sales of securities through trust securities and CP's or mutual funds to: 1) public servants from the Ministry of Finance and the public entities coordinated by it, whose activities are directly releted with promotion, regulation and stock market control; 2) Vocals and Secretary from the Board of Governments of the CNV and it's personel; 3) Brokerage firms chairmen, managers, employees and account executives; 4) Stock market and Depositary Institution's Chairmen, managers and employess.

Mexican generally accepted accounting principles are determinated by the Accounting Principles Board of the Mexican Institute of Public Accountants, which issues formal statements on accounting principles, supplemented by CNV circulars.

The National Securities Commission issues specific accounting rules for companies listed in the stock exchange, usually to ensure greater comparatibility among the financial statements of listed companies, either by eliminating certain options available under generally accepted accounting principles or by requiring that all listed companies adopt the newly promulgated accounting principle in the same calendar year.

20 circulars in this matter have been issued, establishing the quantity and quality of information needed, the financial, accountable, legal and managerial information that companies need to report quarterly and annually to the National Securities Commission and the stock market. The accounting principles described below are specifically those applicable to listed companies.

Mexican accounting principles are in substance, generally similar to those followed in the United States of America, except in the areas of restatement for inflation and deferred taxes, both of which are discussed bellow. Generally speaking, the Mexican statements on accounting principles are less specific and detailed than their US. counterparts, and some significant areas have not been addressed yet (for example earnings per share, segment information, interest on receivables and payables, translation of foreign currency financial statements, specialized industry practices, etc.).[1]

- *Regulation of securities firms, including participation of foreign firms;* securities firms in Mexico are corporations registered on the National Registry of Securities and Intermediaries, that provide services required by investors and issuers.

[1]Mexican Acccounting Principles and Practices, study prepared by Price Waterhouse, Mexico Company Handbook 1992, page 51.

- *Convertible Bonds,* Nafin issued by December 1991, one hundred million Dollars, with an interest rate of 6% and a Moody's Ba2 rating at Luxembourg with a maturity of 6 years and as warrantor the Mexican Government. the lead manager was Bankers Trust (warrants: convertible bonds related to the IPC of BMV). Several other Mexican companies have also issued convertible bonds.

- *Issues in foreign equity markets, such as foreign depository receipts of an equity trust;* Numerous stock offerings were made abroad in 1991; there were 14 share offerings through ADR's and ADS's for a total of US $3.4 billion.

STOCK OFFERINGS ABROAD IN 1991

INTERCERAMIC		12.8	MARCH 25 th
VITRO	*(1)	36.5	APRIL 18 th
FEMSA		87.5	APRIL 25 th
TELMEX	*(1)	1907.5	MAY 15 th
GRUPO GIGANTE		50.0	JULY 16 th
PONDER		32.7	SEPTEMBER 24 th
GRUPO CARSO	*(1)	213.7	SEPTEMBER 25 th
TMM	*(1)	30.5	OCTOBER 30 th
TAMSA		41.0	OCTOBER 31 st
GRUPO VIDEOVISA		45.0	OCTOBER 31 st
AEROMEXICO	*(1)	95.4	NOVEMEBER 13 th
VITRO	*(1)	164.9	NOVEMBER 19 th
GRUPO SITUR		50.5	DECEMBER 3 th
TELEVISA		650.0	DECEMBER 10 th
TOTAL		*3418.0 Million Dollars*	

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During 1992, there were 11 stock offerings through ADR's and GDR's

STOCK OFFERINGS ABROAD IN 1992

G.CHIHUAHUA		11.9	FEBRUARY 27 th
SEARS		88.0	MARCH 17 th
GFB		554.2	MARCH 17 th
POSADAS		28.1	MARCH 24 th
CEMEX		455.1	APRIL 3 th
ICA		280.3	APRIL 9 th
FDO.MEXICO		126.0	APRIL 8 th
TELMEX	*(1)	1241.8	MAY 12 th
LIVERPOOL		54.8	JUNE 11 th
TMM	*(1)	75.5	JUNE 10 th
GGEMEX		138.5	DECEMBER 11 th
TOTAL		*3054.2 Million Dollars*	

*(1) Issues are foreign American Depository Receipts from the Nafin equity trust.

- Foreign investment in domestic equity markets, including through access limited non-voting shares; Foreign investors may purchase securities of Mexican companies through four different mechanisms: a) American Depository Receipts (ADR's), b) Free subscription shares (series "B"); c) CPO's of the neutral fund representing series "A" shares; and indirectly d) by acquiring shares of Mexican country funds.

The major in-flows are related with ADR's and GDR's listed in foreign exchanges, from January 1991 to February 1993, $9,515.4 million dollars have entered the country through this mechanism.

Free subscription shares offer the foreign investor the same ownership and corporate rights allowed to Mexican citizens, subject to certain limits, depending on the bylaws of the company and sector. The In-flow for this mechanism from January 1991 to February 1993, rises to $1,553.2

On the other hand, investment through the neutral fund take away the voting rights of the company and retain all the patrimonial rights. This mechanism for "neutral foreign investment" was designed in order to open to international investors the alternative to acquire series "A" shares which traditionally have

been restricted only to Mexicans. By means of a trust, and the issuance of certificates, which separates the economic and corporate rights. In the same period $817.4 million dollars have entered the country through this mechanism.

Since 1981, when the Mexico Fund was launched, 40 new funds with Mexican securities have been launched in international markets.

To February 1993, foreign investment in Mexican equities amounted $25,275 million Dollars, representing 19.9% of the market capitalization. It is important to mention that, from December 1990 to February 1993, the net flow of foreign investment through the equity market reached $12,012 million Dollars.

The foreign participants are basically American and European institutional investors. Ongoing efforts towards further internationalization will be related to the Free Trade Agreement (NAFTA).

- *The role of institutional investors in the flows described above;* American and European and Asian institutional investors are related to the foreign investment flows in Mexican equities, but it does not exist an exact record of this because, the mayor in-flows are related with ADR's and GDR's listed in foreign exchanges and depository banks keep confidential information about who their clients are. Even though, many Mexican stock placements have been done through the Rule 144-A of the SEC, were the clients are institutional investors.

Unfortunately, we do not have enough data in order to comment the role of institutional investors concerning the flows registered in free subscription shares and the Nafin trust.

2.3 *Analysis of the impact of portfolio equity investment on the domestic equity markets, in terms of;*

-Deepening and widening of such markets; International offerings of Mexican securities have a secondary market abroad, where local intermediaries have loss trading to their foreign counterparts. Foreign investment represented 4% of the market capitalization value in 1991, and in 1993 it represents about 20%.

Experience has shown that foreign investment in the Mexican securities market has taken advantage of long term strategies, complementing domestic savings increasing foreign exchange reserves, expanding the secondary market and contributing towards the appreciation of stock multiples.

-*Improved standards;* Mexican companies listed abroad in form of ADR's must submit periodic information to the foreign authorities according to their regulation.

The simultaneous public offerings in Mexico and the US. have required the standardization of certain regulatory practices, among the authorities of Mexico and the United States, with the objective to provide equal opportunities to all participants.

2.4 ***Assessment of the economic and financial impact of portfolio investment on the domestic economy, in terms of its:***

- *Contribution to private capital flows, domestic investment and exports;* Portfolio investment has played a vital role channeling competitive resources to Mexican companies, contributing to support their industrial development, modernization and internationalization.

The economic impact stands by complementing domestic savings, and the confidence developed in the market helped to increase domestic investment in the equity market.

The analysis of the external flows in the balance of payments, help to understand their macroeconomics impact. During the last years, the capital account of the balance of payments has been able to sustain the accumulation of international reserves, and to finance the current account deficit, mainly driven by private investment and growth trends.

- *Influence on the exchange rate and interest rates;* Within the framework of Mexico's program stabilization program and structural change, real exchange rate and interest rates play a critical role due to their influence over the balance of payments and public finance.

Presently, with a fixed exchange rate, monetary policy is endogenous and the central bank is able to control money supply, though in a limited way, only through sterilization. Under this exchange rate policy, monetary policy is more adequately reflected in the exchange rate's behavior, domestic credit, the accumulation of international reserves and interest rates, rather than in monetary aggregates.

A study regarding the behavior and the determinants of the real exchange rate and of interest rates concluded that the significant appreciation by the real exchange rate is a result of an adjustment process towards equilibrium and not

of macroeconomic inconsistencies. The elevated in-flows of capital into the country registered from 1989 to 1992, reinforce this statement.

Part of this in-flows come from foreign direct investment, from foreign portfolio equity flows, and from foreign investment in government debt instruments.

Regarding interest rates, these are determined by internal and external factors, such as the high level of openness and integration with the rest of the world, and the monetary desequilibria that alter the determination of interest rates.[2]

- *Volatility and measures to deal with it;* the widening of financial resources for the Mexican companies, and the developing of more and better alternatives for foreign portfolio investors, has expanded the secondary market, broaden the investors base, and increased liquidity of stocks traded at the Mexican Stock Exchange.

Even though, the deepness and widening of the Mexican stock market needs to be additionally expanded, volatility in stocks presents various ranges as can be seen in annex table 3. Some of the measures introduced to cope with it, have been listing and maintenance requirements designed to increase the floating of stocks, the introduction of short sales, the different marketability mechanisms, and the introduction of warrants as the first step to introduce other derivatives, as well as the implementation of a second tier market for medium sized companies supported by a computerized trading system (SATO).

[2] Informe Mensual Sobre la Economía Mexicana, Centro de Análisis e Investigación Economica (CAIE), Marzo 1993, Pag. 35