Cuauhtemoc Cárdenas of the PRD in Mexico City is part of the change currently taking place on the nation's political scene, but its impact on the city's residents is difficult to predict. The PRD will try to demonstrate to the voting public that it can govern Mexico City as a prelude to a three-way political battle for the presidency in 2000. Little change is expected in the treatment of foreign investment in Mexico's privatization policies or in the negotiation of free trade with global partners. The North American Free Trade Agreement (NAFTA), since it has already been passed through the Congress, should not be affected, and in any case is the purview of the Senate, where the PRI maintains a majority. Some measures may be introduced, such as the reduction of the value-added consumption tax, but all three of Mexico's parties support free competition and fair business practices. Since the elections, the stock and money markets have both reacted favourably to what foreign investors see as a positive new direction for Mexican democracy.

Investor confidence has returned to Mexico, at both the portfolio and direct levels. Mexican government and corporate entities have succeeded in raising international capital in the United States, Europe and Japan. Mexico repaid its debt to the U.S. government far ahead of schedule, and has been successful in restructuring and lowering its external public debt.

Direct investment since 1995 has focussed on export manufacturing and a handful of key sectors that are opening up to foreign investors. These include the automotive, energy, transportation, environmental and telecommunications industries. This investment is driving the growth of niche markets in the Mexican economy, which has evolved from a consumer market to an industrial and commercial market. Over the next three years, consumer markets, with the exception of the upper-class segment, will continue to grow slowly at approximately 3.5 percent per year. Much of Mexico's domestic growth and demand for imports will be driven by investment and exports, both of which will grow at 10 percent or more per annum to the end of the century.

Stabilization

Several political factors will contribute to an improved business climate in coming years. The Zedillo administration has embarked on an ambitious program of legislative reforms. The President is promoting a "new federalism," which will decentralize the government and give more power to the states. The opposition parties are already playing a larger role, after some 70 years of domination by the PRI. While continuing with economic reforms (privatization, deregulation, liberalized trade), President Zedillo has pressed ahead with political and electoral reforms, evidenced by the generally clean, successful manner in which mid-term elections were held in 1997. Mexico provides a generally positive example of progressive liberalization maintained over an extended period of serious macro-economic shocks. Its persistence in carrying through this process has begun to pay dividends, and the bases are now in place for achieving long-term, sustainable economic growth.

New Role for the Private Sector

The Zedillo government continues to streamline the bureaucracy. The sweeping privatization program launched by the previous government has been aggressively pursued. By 1994, the government had already sold more than 1000 public enterprises to the private sector. Recent announcements include privatization plans for telecommunications, ports and airports. Parts of the Ferrocarriles Nacionales de México (Mexican national railway) and the Comisión Federal de Electricidad (federal electricity commission) have already been opened to private sector activity. Several major projects have been put up for tender under build-operate-transfer and build-lease-transfer financing arrangements. The Zedillo administration is also pressing ahead with major reforms to the nation's antiquated land-tenure system.

Because of an increasingly open attitude towards foreign investment, by 1994 Mexico ranked among the world's top 10 recipients of foreign capital. Moreover, the economic crisis has made Mexican companies especially receptive to joint ventures and other forms of Canadian investment, and it has lowered the dollar cost of acquiring physical assets. On the other hand, some foreign investment regulations are still pending and certain areas of the law are not clear.

Technology Transfer

Obstacles to the import of specific technologies and services have also been removed. For example, in 1991, the government rescinded the decrees making imports of computers and related products subject to an import permit system. Although this system applied only to hardware, it had a chilling effect on the market for technological services. Another example is the strengthening of intellectual property laws, which have improved prospects for exporting items such as computer software and biotechnology products. Beginning in 1990, Mexico's franchising laws were reformed to recognize this form of technology transfer for the first time.

As these examples illustrate, the processes of trade liberalization, deregulation and privatization have facilitated the entry of Canadian capital and technology into Mexico. Mexico desperately needs new technology, both to modernize its manufacturing industry and to replace its deteriorating public infrastructure. Neither sector has the capital to do this on its own.

Awareness of Canadian Companies

The publicity surrounding the NAFTA and associated Canadian government trade-promotion efforts have increased Mexico's awareness in individual Canadian suppliers and investors. The higher profile of Canadian companies has enabled them to make new inroads into the Mexican market. For example, more than 100 Canadian mining companies are now active in Mexico.

Other factors contributing to growing awareness of Canadian suppliers include Mexico's rising imports from Canada, which increased about 9 percent in 1996; Mexico's continued dependence on imported technology, including Canadian technology, to meet domestic needs; and Mexico's export boom, which has Mexican manufacturers scrambling to modernize to meet international quality standards.

Most Canadian companies that have succeeded in Mexico have found that partnering with a Mexican firm is the best way to enter this market. In today's economic environment, Canadian companies may have to consider contributing capital as well as technology to such partnerships.