

GOVERNMENT MARKETS

THE POLITICAL SITUATION

One factor driving foreign investment in Jalisco is the *Partido Acción Nacional (PAN)*, National Action Party, government, which came to power both in the state and in the Guadalajara municipal government in 1994. Mexican politics, dominated by the *Partido Revolucionario Institucional (PRI)*, Institutional Revolutionary Party, for close to 70 years, is comprised mostly of professional politicians. In contrast, the *PAN* governments are made up mainly of business people. The elimination of corruption and the establishment of transparent regulations are two key *PAN* goals. These will be major issues in the 1997 state elections and the federal elections of the year 2000.

PAN has made sweeping changes in Jalisco and Guadalajara. Some investment permits that used to take up to three months can now be processed in a few hours. The party has also broken traditional ties between government and family elites, and has switched emphasis towards supporting small- to medium-sized business. This has reduced favouritism and created an environment where foreign companies can compete fairly for government procurements. And mid-size foreign investment projects are no longer bogged down by government bureaucracy.

It is too soon to judge whether *PAN* will expand its power base to other parts of the region. Modern elements of the *PRI* are working hard to clean up their own party. The *PRI* and its bureaucracy are burdened with old-style politicians who gained power in an era of protectionism and state-ownership. But this has not stopped modern *PRI* technocrats from making major reforms, as they have in Aguascalientes and Nuevo León. Whichever party prevails, conditions for foreign investors are likely to improve.

Procurements by the states are open to foreign companies even though this is not a requirement under the North American Free Trade Agreement (NAFTA). Jalisco is a good potential market because of the new government of the *Partido Acción Nacional (PAN)*, National Action Party. Patronage has become much less pronounced, creating better opportunities for foreigners than under previous governments. The new government sees a transparent procurement process as a means of getting the most competitive prices possible.

Procurements of less than \$6,000 Mexican pesos are discretionary and no bids are required. But those between \$6,000 and \$400,000 Mexican pesos result in direct invitations to bid to the companies. Foreign companies may be invited, but this is not usual. Purchases of more than \$400,000 and up to \$4 million Mexican pesos are scrutinized by a procurement board, and there is a much greater likelihood that foreigners will be invited, especially for specialized products. Procurements of more than \$4 million Mexican pesos must be signed by the state governor, and these are handled by public tenders that are open to foreigners. The state allocates 20 percent of its procurements to small- to medium-sized enterprises (SMEs) located in Jalisco.

MOVING INTO THE GUADALAJARA REGION

Most Canadian companies that have succeeded in Mexico have entered the market by forming partnerships or joint ventures with local firms.

According to local observers, there are many potential opportunities for Canadian companies to play a role in developing the Guadalajara region.

Sergio A. García de Alba Zepeda, Jalisco's secretary of economic promotion, says that the best opportunities for Canadians are in agri-food, mining, and environmental technologies. "Canadian companies are the right size for joint ventures with Jalisco companies," he says. "US firms are often too large and intimidate mid-size local companies. Jalisco will invest in 80 water treatment plants over the next 4 years. There is a specific opportunity for Canadian participation."

Hans E. Neufeld, the vice president of Guadalajara's Chamber of Commerce, adds that there is an especially good fit between the region's needs and Ontario's capabilities. "Guadalajara's future is in light industry. Ontario is a leader in light industry. I see an excellent fit between Ontario and Jalisco."

To take advantage of these opportunities, Canadian companies must establish a higher profile in the region. The perception of Canada in Jalisco is very positive but generally uninformed. Mr. Neufeld says, "Canada must make a greater effort to promote itself as a high-tech provider and not simply a vast land of wilderness and raw materials." Mr. García added, "There is still a lot of mutual ignorance on the part of both Mexicans and Canadians."

The new Canadian consulate has already helped to overcome this perception. In 1996, eight out of ten North American trade missions have come from Canada, a