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Mexico revamps regs to attract investors; Southland experts see overhaul to gear for trade pact - Southern California

Rick Dower

Eager to spur fresh foreign investment, the Mexican government has been overhauling its rules restricting foreign-owned businesses at a stunning clip. The main impetus for liberalizing foreign investment laws: the pending North American Free Trade Agreement, which President Carlos Salinas de Gortari is keen to sign with the United States and Canada.

Local Mexico-watchers describe the cumulative reforms as unprecedented.
"They've been drastic changes, unbelievable changes," said **Dennis John Peyton**, a San Diego-based attorney and consultant licensed to practice in Mexico. He advises clients on how to do business in that country. "The bigger picture is, they're trying to totally restructure Mexico to give it a much greater position in the international marketplace," he said.

Added Andrea Migdal, an attorney in the Mexico practice of San Diego law firm Gray, Cary, Ames & Frye: "They're all steps that have been taken to make Mexico more user-friendly. Because of that, there has been a tremendous amount of interest in business opportunities. People are starting to think maybe it's not so scary to invest in Mexico after all."

Salinas met briefly in San Diego earlier this month with President George Bush to discuss the progress of the free trade plan. They later announced that the two countries are close to agreement on remaining issues and, with Canadian Prime Minister Brian Mulroney, could sign the pact as early as this fall.

The controversial NAFTA would eliminate all barriers to trade and investment among the United States, Mexico and Canada, creating the world's largest unrestricted marketplace with 260 million consumers.

The meeting between Bush and Salinas was perhaps symbolic of San Diego's greater role in the trade debate. As the largest U.S. city on the border, the region is bound to feel considerable fallout from a steady increase in investment in Mexico, said Augie Bareno, director of the county's Office of Transborder Affairs.

"To go there, they go here, too," he said. "We as a region are probably more directly influenced (by what happens in Mexico), but are probably the least effective in exerting leadership. It's unfortunate."
Local businesses most likely to benefit from increased U.S. and foreign investment in Mexico are those in the service sector, analysts say: law firms (several of the largest have established specialized Mexico practices in recent years), accounting firms, banks and independent consultants.

Businesses poised to take advantage of Mexico's pressing infrastructure needs, especially along the U.S. border, will probably benefit first from the relaxed investment rules. Those include construction companies, tooling and machinery concerns, and environmental engineering and technology firms, consultants predict.

Most observers give Salinas, a Harvard-trained economist, the lion's share of credit for aggressively promoting the sweeping reforms. Since 1989, Salinas or his Ministry of Commerce and Industrial Development have:

* Toughened Mexico's laws protecting foreign industrial and intellectual property rights, franchises and technology transfer. These laws are designed to thwart third parties from stealing foreign products covered by trademark and patent laws:

* Greatly liberalized restrictions on use or ownership of land by non-Mexicans, including making it possible for foreign investors to rent or even purchase ejido lands controlled by peasant cooperatives.

The ejido system had been a cornerstone of Mexico's social development, and ownership of such lands had been virtually inviolable since shortly after the Mexican Revolution;

* Rewrote the 1973 Law on Foreign Investment, which required foreign companies operating in Mexico to have a majority Mexican partner. Now most business can be 100 percent foreign-owned, except for those in key industries such mining, petrochemicals and fishing;

* Enacted a new business incorporation law to allow only two parties to create a corporation instead of five, as previously required. Neither of the two has to be Mexican. The plan increased the amount required to incorporate from 25,000 pesos, or $8, to 50 million pesos, or $16,000, to discourage poorly capitalized or illegitimate businesses from starting up.

Earlier this month, the last government-owned Mexican bank was sold to private investors. The banking system was nationalized in 1982 by President Jose Lopez Portillo, a move that greatly dampened foreign companies' enthusiasm for investing in Mexico.

And, just this month, Mexican trade negotiators reportedly agreed to permit outright foreign ownership of banks and financial institutions, a major sticking point in the NAFTA talks.
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