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Mexico: Notes On Capital Flows, Foreign Investment

by John Neagle

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July 31: El Inversionista Mexicano (The Mexican Investor), reported that more than 40 foreign companies are competing for expansion and modernization contracts with the state-owned telecommunications company, Telmex. The magazine said that foreign companies find investment potential with Telmex attractive since new legislation permit the companies to operate as monopolies until the year 2000. According to El Inversionista, the most interested bidders include the US-based American Telephone and Telegraph (AT&T), Siemens of West Germany, Canada’s Northern Telcom, and Japan's Nipon Electric Co., Teleindustria Ericson of Sweden, and the US-French Alcatel-Indetel. Telmex's five-year expansion program will require the expenditure of between $10 billion and $14 billion. Telmex sales increased by 151% in the past four years, and 47% of its earnings are in dollars. In 1988, Telmex earnings totaled $1.5 billion, of which $340 million were obtained from local service; $449 million, domestic long distance; and, $710 million, international long distance. Aug. 3: The Secretariat of Commerce and Industrial Development (SECOFIN) reported that 90 foreign investment projects had been approved during the previous two months. According to SECOFIN official Fernando Sanchez-Ugarte, the investment projects total $1.2 billion. He predicted that new foreign investment in 1989 will surpass last year's $3.1 billion total. President of Multibanco Comercial Mexicano, Guillermo Prieto Fortun, told reporters that the reopening of dollar bank accounts is necessary as part of the government's program to encourage the return of flight capital. Antonio Ortiz Mena, former president of the Inter-American Development Bank, said that in recent weeks flight capital has been returning to Mexico. He pointed out that dollar purchases have surpassed sales. On the eve of a meeting of Mexican bankers in Monterrey, spokespersons for the Banco de Mexico and commercial banks said foreign reserves in the first half of 1989 totaled $6.588 billion. Aug. 6: A Washington Post report points out that prior to 1986, AT&T did not consider doing business in Mexico. As a result of a series of changes in legislation affecting foreign investment and imports, AT&T now sells telecommunications equipment in Mexico, and is considering opening manufacturing plants in the country. Mexico’s maximum tariff on imports is now 20% compared with 100% in 1983. Over the past two weeks, US and Mexican sources reported an inflow of $2.5 billion of private capital, and domestic interest rates have declined. Foreign investment is equivalent to less than 5% of GDP, and new investments dropped by 18% last year, to $3.1 billion. The Mexican government hopes to halt the decline in 1989, and see foreign investment rise to $4.5 billion per year by the mid-1990s. An unidentified Mexican official cited by the Post said the government would like to reduce the US share of foreign investment from 62% at present to around 50% in the 1990s. At present, Japan ranks number four (5.5%) on Mexico's list of foreign investors, and has been on the upswing in recent years. Japanese electronics companies have set up plants in Tijuana, where they employ more than 10,000 workers and export 3.75 million television sets per year into the US. At present, there are about 160 Japanese manufacturing companies and 15 banks in Mexico, led by Nissan Motor Co., with an investment of more than $500 million. Japanese companies are also investing heavily in tourism facilities in the Baja peninsula. Beachfront property in the area can be owned by foreigners under new investment rules. Tourism Minister Carlos Hank Gonzalez has predicted that foreign investment in tourism will total as much as $4 billion after the six years of President Carlos Salinas de Gortari's term.
1988, US exports to Mexico rose 42% to $8.1 billion as a result of trade liberalization. (Basic data from Notimex, 07/31/89, 08/03/89; Washington Post, 08/06/89)

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