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Direct Foreign Investment Down Significantly in January-June

by LADB Staff

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In a report released in mid-September, the Banco de Mexico (central bank) said the amount of new direct foreign investment in Mexico during January-June totaled a disappointing US\$1.89 billion, or roughly 45% of the total entering the country in the same six-month period last year. The report said the slowdown in investment was especially disappointing in light of the announcement that key sectors of the economy would be opened to private capital, including the telecommunications industry, transportation, banking, and others.

The Central Bank said that because of the economic crisis that followed the devaluation of the peso in December, 1994, many potential foreign investors opted to take a wait-and-see attitude before committing their capital. In fact, the report noted that in 1994 before the peso devaluation foreigners had registered intentions with the Trade Secretariat (Secofi) to spend about US\$5 billion in direct projects in Mexico in the first half of 1995, but only about US\$1.89 billion of that total was actually spent.

In addition to a smaller-than-expected rate of direct foreign investment, the pace of indirect foreign investment remained very slow in the first half of the year, and in fact was surpassed by the amount of portfolio investments that left the country after financial instruments had matured. Indeed, in his state-of-the-union address on Sep 1, President Ernesto Zedillo reported that the level of indirect foreign investment in Mexico for the first half of the year declined by US\$11.4 billion. This was a sharp contrast to January-June of 1994, when the level of indirect foreign investment increased by more than US\$10 billion.

The Banco de Mexico report noted the uncertainty about the Mexican economy also contributed heavily to the reduction in indirect investment flowing into Mexico. According to *El Financiero* weekly business newspaper, however, an increase in foreign flows to the Mexican Stock Exchange (BMV) during August indicated that foreigners were beginning to regain confidence in the Mexican economy. Foreign investment in the BMV in August was US\$27.2 billion, an increase of 1.3% from July. Meantime, the Banco de Mexico report said accumulated direct and indirect foreign investment in Mexico as of June was US\$56.6 billion, including US\$33.3 billion from the US, US\$3.8 billion from Britain, US\$2.8 billion from Germany, and US\$2.4 billion from Japan. Other major sources of foreign investment are Switzerland, Canada, France, and Spain. Of the total, about US\$29.9 billion had been channeled into the manufacturing sector, and US\$20 billion into services.

Smaller amounts were invested in the retail sector, extractive industries such as mining, and agriculture. The report noted that the amount of money invested in the service industries has increased significantly in recent years, thanks in part to the opening of sectors such as banking, insurance, and other finance-related areas. On the other hand, the Central Bank noted that the agriculture industry remains very unattractive to potential foreign investors. Foreign spending in the

agriculture sector has remained stagnant over the past four years. The Central Bank said a total of US\$8 billion in new investment was expected in Mexico this year, but roughly half of that amount represented funds that companies in previous years had committed to spend in Mexico this year. In 1994, the total amount of new foreign capital entering Mexico reached US\$12.1 billion, of which 34% was indirect investment. (Sources: Notimex, 09/03/95; Excelsior, 09/11/95, 09/14/95; La Jornada, 09/14/95; El Financiero International, 09/18/95)

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