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The Secretaria de Economia (SE) expects foreign investment to remain steady at about US$18 billion this year despite the economic uncertainties caused by a volatile presidential campaign. There have been some concerns that foreign investors would adopt a wait-and-see stance during an electoral year, thereby reducing investments.

SE officials are confident, however, that the flow of capital into various projects will not slow down in 2006. "[The election] will in no way affect the growth of foreign investment," said deputy economy minister Alejandro Gomez.

Foreign direct investment (FDI) amounted to US$17.8 billion in 2005, a slight decline from US$18.2 billion in 2004, the SE said in a report published in mid-February. The SE said the 2005 figures are only preliminary and could be revised upward. "There were investments last year that we know took place but were not yet reported," the SE report said. "Therefore, we are certain that foreign-investment levels will surpass those registered in 2004."

Manufacturing attracted largest share

The SE said more than half the total FDI, about US$10.3 billion, was destined to the manufacturing sector. Another US$3.1 billion went to commercial projects, US$1.9 billion to services, and US$1.7 billion was channeled into communications and transportation.

The report said direct investments represented the third-most-important source of foreign exchange for Mexico, surpassed only by oil-export revenues and remittances from Mexicans residing in other countries. Mexico obtained US$28.3 billion from oil exports in 2005, with a large share of those sales destined for the US, the Mexico City daily newspaper La Cronica de Hoy reported in early February, based on data supplied by the state-run oil company PEMEX.

Remittances amounted to a record US$19 billion in 2005, the Banco de Mexico (central bank) reported in late January. La Cronica de Hoy said revised figures could put the total at more than US$20 billion. Foreign tourism, traditionally a major source of revenue, amounted to only US$11.5 billion in 2005, short of the government's target of US$12 billion (see SourceMex, 2006-02-08).

The SE was quick to point out that FDI during President Vicente Fox's term has been significantly higher than during the preceding administration. FDI approached US$93.8 billion between 2001 and 2005, compared with US$59.8 billion between 1995 and 1999, the first five years of former President Ernesto Zedillo's administration. "The dynamism of the foreign investment flows in 2005 are directly linked to the confidence that international investors have in the performance of the Mexican economy," the SE said.
While Mexico remains an attractive destination for direct investments, the situation is different for indirect investments. A recent report by the accounting firm KPMG said Brazil has surpassed Mexico as the preferred destination for capital funds. Other countries are also capturing an increasing share of indirect investments. "Investors are going to countries like China, India, and Russia, where growth prospects are strong," said KPMG. (Sources: La Crisis, 02/13/06; El Economista, La Jornada, El Universal, 02/20/06; Reforma, 01/25/06, 02/21/06; La Cronica de Hoy, 01/25/06, 02/20/06, 02/21/06; El Financiero, 02/20/06, 02/21/06)

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