4-11-2007

Foreign Direct Investment Totals US$18.9 Billion in 2006; Approaches Record

LADB Staff

LADB Article Id: 51459
ISSN: 1054-8890

Foreign Direct Investment Totals US$18.9 Billion in 2006; Approaches Record

by LADB Staff
Category/Department: Mexico
Published: 2017-04-11

Foreign direct investment (FDI) in Mexico amounted to US$18.9 billion in 2006, falling just short of the record of US$20 billion set in 2001. The Secretaria de Economia (SE) said investment in manufacturing accounted for more than 60% of total capital inflows, which increased by almost 6.5% from 2005. Investment in tourism projects also helped boost the total.

Investment levels set a record in 2001 because of the sale of Grupo Financiero Banamex to Citigroup for US$12.5 billion. "If you exclude that transaction from the total for 2001, then we would have set a record in direct investment last year," said Economy Secretary Eduardo Sojo.

Furthermore, Sojo noted that foreign investors were not dissuaded by political uncertainties last year, including a very contentious election and unrest in Oaxaca. "The fact that such an important flow of foreign direct investment came to our country in 2006, a year of very close elections, reflects the confidence that investors have in our institutions and in the future development of the country," Sojo said. Mexico's proximity to the US, a stable currency, and a relatively low annual inflation rate of 4.05% in 2006 were also credited with helping attract foreign investment.

Election affected investment

Some analysts countered that political uncertainties did have a role in investment levels, as many analysts had projected capital inflows totaling US$20 billion in 2006. Sergio Garcilazo, director of the business school at Universidad Panamericana in Mexico City, said the delay in announcing a winner of the 2006 presidential election led many would-be foreign investors to postpone investment decisions in Mexico.

Because of a very close election and challenges from the center-left coalition, the electoral court (Tribunal Electoral del Poder Judical de la Federacion, TEPJF) took two months to declare a winner in the presidential election (see SourceMex, 2006-09-06). "Investors normally look at macroeconomic figures to guide their decisions," said Garcilazo. "But the delay in announcing the winner was a factor in the reduction in total investment expectations." With the political uncertainty gone, Sojo projects that direct investment could total between US$21 billion and US$22 billion in 2007.

The SE said the US accounted for almost two-thirds of the direct investment in Mexico last year, with the three major US automobile manufacturers responsible for a large share of capital flows into the country. The SE said other countries that invested notable amounts of capital in Mexico last year included the Netherlands, France, Britain, Spain, Canada, and Switzerland.

The SE statistics indicated that direct investment continued to flow into the richest areas of the country rather than the poorer southern states. Mexico City accounted for almost 45% of the

LADB Article Id: 51459
ISSN: 1054-8890

total investment, followed by Nuevo Leon, Chihuahua, Mexico state, Baja California, Jalisco, and Tamaulipas. Despite the SE's optimism, some analysts said last year's investment levels were not overly impressive. "It's an OK number. Not spectacular," said Alberto Ramos, emerging-markets analyst at Goldman Sachs in New York. Ramos said the rate of direct investment would continue to grow very slowly unless the Mexican Congress enacts major changes to its tax code, labor laws, and the energy sector. And even with the increase in direct investment, some analysts noted that the total was still below the nearly US$23 billion in remittances sent by expatriates to Mexico. Ramos and other analysts said Mexico's strong reliance on remittances could be construed as a sign of structural weakness in the economy.

-- End --