

# Foreign Direct Investment In the Zedillo Administration

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Interest in foreign investment, particularly portfolio investment, is high today because it is extending the process of globalization. What is more, in this process, foreign direct investment (FDI) has taken a back seat to foreign portfolio investment (FPI), more characteristic of globalization, while the former is more fragmented. This is related to the very nature of both kinds of capital: FPI is more short term, rentier and absolutely mobile thanks to the technology of financial services; FDI is long term, aimed at infrastructure, which is more useful for development.

From the onset of Miguel de la Madrid's neoliberal economic policy in 1982 until 1988, foreign capital had completely complied with all these hypotheses. Even though some administrations had tried to attract more FDI than FPI in an effort to create jobs, modernize infrastructure, increase savings and, above all, continue Mexico's development, it has been a difficult, often even bloody, effort because of the adverse, contradictory effects like the great Mexican crisis of 1994-1995 and the first financial crisis of globalization, the "Tequila Effect."

From the Salinas de Gortari administration on, foreign investment in general began to have more weight in the nation's economy, so much so that by 1989 it had already surpassed early government predictions.

Financial and legal policy strategies were changed to attract foreign investment. For example, the December 1993 Law on Foreign Investment (replacing the May 1989 regulations) merely legalized what was already happening. This, in addition to a drastic trade opening, made Mexico the main magnet for foreign capital in Latin America, something which has changed under the current Zedillo administration.

Mexican FDI, in addition to being part of economic policy of the last three administrations, including Zedillo's, has been one of the main financial supports from abroad, second only to the foreign debt. The country, then, has gone through the two main financial ways of becoming part of the international economy: indirect capital (foreign debt) and direct capital (FDI). These two forms have also been determining factors in the economic history of the last 30 years with regard to the United States, given that since the 1970s, the U.S. has been Mexico's main creditor and trading partner, as well as its largest foreign investor. This situation has escalated since 1994 when the

North American Free Trade Agreement (NAFTA) went into effect.

## ACCUMULATED FDI IN MEXICO (1994-1997)

From January 1994 to December 1997, FDI in Mexico came to U.S.\$42.7199 billion, distributed as can be seen in Table 1. Compared to the Salinas administration, FDI in Mexico in this period is quite high and shorter term since during the entire previous administration, just over U.S.\$50 billion in FDI came into the country.

## DISTRIBUTION OF FDI BY SECTOR

In the 1994-1997 period, FDI was distributed by sector as shown in Table 2.

In those same years, the manufacturing, commercial and financial services sectors received the greatest amount of FDI, as is reflected in each year's results, since their performance was the most dynamic and important to the nation's economy.

In the subsectors of social and professional and financial services, communications and transportation, FDI went mainly into insurance and bonding, which captured 53.9 percent; restaurants and hotels attracted 20.2 percent; professional, tech-

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nical and specialized services, 10.1 percent; rented real estate, 5.8 percent and "others," 10 percent.<sup>1</sup> This means that in services, the financial subsector has acquired an important presence in Mexico's economy, particularly because of the consequences of the country's recurrent financial crises.

#### FDI BY COUNTRY AND ECONOMIC BLOC OF ORIGIN

From 1994 to 1997, "FDI came mainly from the United States, with 84.6 percent of the total; then came Canada, with 0.7 percent; followed by Great Britain, with 0.5 percent; Germany with 0.4 percent; and France, with 0.2 percent."<sup>2</sup>

Although Canada is a NAFTA partner, its direct investment in Mexico is not nearly as significant. This does not mean that Canadian FDI is not important, as in 1997 it reached 12.1 percent, -0.7 percent less than in 1996.<sup>3</sup>

If we review FDI in Mexico in the same period by economic bloc of origin, we find the following: total accumulated FDI was U.S.\$32.5078 billion; from North America (the United States and Canada) came U.S.\$19.5078 billion (see Table 3); from the European Union, U.S.\$6.9959 billion; and from "other selected countries," including Japan, South Korea, India, the Dutch Antilles, Panama, the Caiman Islands, etc. (some of which are in the Asian bloc, and others in Latin America or the Caribbean), U.S.\$5.3946 billion.<sup>4</sup>

I want to emphasize the FDI in Mexico in the period from 1994 to 1995, in the framework of NAFTA. Analyzing it during the neoliberal period is quite complex because investments coincide with periods of the sharpest crisis stemming from

Sector	1994		1995		1996		1997 <sup>1</sup>		Accum. 1994-1997 <sup>2</sup>	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>Total</b>	14 703.5	100.0	9 270.5	100.0	8 168.8	100.0	10 015.0	100.0	42 719.9	100.0
RNIE** + Maquiladoras:	10 180.3	69.2	7 663.4	82.7	6 121.9	74.9	7 980.1	79.7	32 507.8	76.1
RNIE	9 403.3	64.0	6 564.8	70.8	5 174.3 <sup>3</sup>	63.3	6 858.1	68.5	28 562.6	66.9
Maquiladoras	777.0	5.2	1 098.6	11.9	947.6	11.6	1 122.0	11.2	3 945.2	9.2
Reinvestment of Profits	2 366.6	16.1	1 586.3	17.1	2 050.0	25.9	2 150.0	21.5	8 152.9	19.1
Internal Company Accounts	2 156.6	14.7	20.8	0.2	-3.1	0.0	-115.1	-1.2	2 059.2	4.8

\* Figures reported December 31, 1997.  
 \*\* National Foreign Investment Registry (RNIE).  
<sup>1</sup> Figures for January-December 1997.  
<sup>2</sup> From January 1, 1994, to December 31, 1997.  
<sup>3</sup> This figure will grow as investments made in 1996 continue to be reported to the National Foreign Investment Registry. Based on existing trends, once the reporting process is over, this amount is expected to be close to the U.S.\$6.6218 billion invested in 1995.

**Source:** Dirección General de Inversiones Extranjeras, SECOFI.

Period	Total FDI	All of North America	Canada	United States
1994	10209.6	5306.9	741.1	4565.8
1995	7720.4	5055.1	165.7	4889.4
1996	6597.7	4840.1	493.0	43473.1
1997	7980.1	4775.0	102.0	4673.0

**Source:** Dirección General de Inversión Extranjera, SECOFI (January-December 1997).

the inflow and outflow of speculative capital aimed at stock markets and portfolio investments, but not at production, and from soaring interest rates in Mexico which made it possible to compete for capital.

Three points should be taken into account here: a) Mexico's economic crisis began before NAFTA came into effect; b) what it meant for NAFTA to come into effect; and, c) the December 1994 to 1995 crisis.

Overall foreign investment closed in 1994 at U.S.\$16.1658 billion, of which U.S.\$7.9796 billion was FDI and U.S.\$8.1862 billion was portfolio investment.<sup>5</sup> As we can see, in that year, portfolio investment exceeded direct investment, which has been pointed to as one of the causes of the deficit of the crisis, in addition to the balance of payments deficit, which added to the deficit in the

**Table 2**  
**Foreign Direct Investment by Economic Sector<sup>1</sup>**  
 (Millions of Dollars)

Sector	1994	1995	1996	1997		1994-1997 <sup>2</sup>	
				Amount	%	Amount	%
Total	10 209.6	7 720.4	6 597.7	7 980.1	100.0	32 507.8	100.0
Agriculture	7.9	9.0	28.0	4.3	0.1	49.2	0.2
Mining	87.6	79.0	82.4	56.1	0.7	305.1	0.9
Manufacturing:	5 917.3	4 372.9	3 812.4	4 941.5	62.0	19 044.1	58.6
RNIE* +	5 140.3	3 274.3	2 864.8	3 819.5	47.9	15 098.9	46.4
Maquiladoras	777.0	1 098.6	947.6	1 122.0	14.1	3 945.2	12.1
Electricity & Water	15.2	2.1	1.1	1.0	0.0	19.4	0.1
Construction	258.1	25.3	23.3	49.8	0.6	356.5	1.1
Comercio	1 245.1	933.1	631.7	1 556.8	19.5	4 366.7	13.4
Retail & Wholesale	591.9	860.9	403.5	474.6	5.9	2 330.9	7.2
Financial Serv. <sup>3</sup>	950.8	1 060.4	1 180.2	532.1	6.0	3 723.5	11.5
Social & Prof. Serv. <sup>4</sup>	1 135.7	377.7	435.1	363.9	4.6	2 312.4	7.1

\* National Foreign Investment Registry (RNIE).

<sup>1</sup> Includes investments reported to the National Foreign Investment Registry (RNIE) by December 31, 1997, plus imports of fixed assets by maquiladoras. It does not include reinvestment of profits or internal company accounts, since this information is not available disaggregated by sector.

<sup>2</sup> From January 1, 1994, to December 31, 1997.

<sup>3</sup> Financial services, management services and rentals of real estate and other goods.

<sup>4</sup> Social and professional services: hotels and restaurants, professional, technical and personal services.

Source: Dirección General de Inversión Extranjera, SECOFI.

**Table 4**  
**Distribution of FDI by State\* (1994-1997)<sup>1</sup>**  
 (Millions of Dollars)

State	Amount	Percentage
Federal District	21 083.9	64.9
Nuevo León	3 722.7	11.5
Chihuahua	1 471.0	4.5
Baja California	1 417.1	4.4
State of Mexico	1 318.0	4.1
Tamaulipas	756.5	2.3
Sonora	355.6	1.1

\* Includes investments reported to the National Foreign Investment Registry (RNIE) by December 31, 1997, plus imports of fixed assets by maquiladoras. It does not include reinvestment of profits or internal company accounts, since this information is not available disaggregated by state.

<sup>1</sup> Figures for January 1 to December 31, 1997.

Source: Dirección General de Inversión Extranjera, SECOFI.

capital account (especially foreign capital invested in portfolios, the stock market and government bonds which are short-term and volatile), all of which had a negative impact on hard currency reserves, sparking the devaluation of Mexico's peso.

By June 1995, foreign investment had dropped, particularly portfolio investment: in the first quarter of 1995, FDI was U.S.\$606.9 million, while portfolio invest-

ment had dropped to U.S.(-)\$7.6657 billion, which made for a negative total of U.S.(-)\$7.0588 billion. This is where we can see that portfolio investment had a severe effect on the capital account and, at the same time, on the foreign debt due to capital flight between December 1994 and June 1995 through interest payments and, above all, payments to holders—mostly non-Mexicans—of stocks and govern-

ment bonds. Almost 27 percent of the equity in the Mexican Stock Exchange is controlled by foreign investors and U.S.\$31 billion of a total of U.S.\$50 billion in FDI in Mexico (62 percent) comes from the United States.<sup>6</sup>

Accumulated foreign investment until 1999 went down U.S.\$9.547 billion, because although hard currency did come in directly, U.S.\$11.446 billion in portfolio investment left. Before the December 1994 crisis, the historic high of U.S. investment in Mexico had been U.S.\$28.6203 billion, or 62.6 percent of all foreign investments in the country. Canada's historic high had been U.S.\$670.1 million, 1.5 percent of the total. Until 1994, then, investment from North America in Mexico was 64.8 percent of the total.

If we look at the figures in absolute terms, we might think that investment by our North American partners in Mexico has been favorable, but the truth is that just when NAFTA came into effect in 1994, both countries' investment dropped. By contrast, investment by other countries like England, Germany or Japan increased. We can interpret this in several ways: a) the crisis attracted an increased direct capital investment from other parts of the world; b) Mexico's participation in NAFTA (1994) spurred an increased direct and indirect capital investment from the United States and Canada although a year before, in 1993, when investment was the highest, the United States participated with 71.5 percent; and c) credit-indirect investment capital increased, one example being the financial rescue package in the first months of 1995.

There is no question that beginning with the crisis, from December 1994 to mid-1995, most of the capital which

flowed into the country went into portfolios, and not direct investments: in the first half of 1995, U.S.\$899 million was channeled into direct investment, only 36.5 percent of all flows the federal government registered in the period, and only 45 percent of the total reported in the first quarter of 1994. The Banco de México (Mexico's central bank) reported that during the first six months of the year, foreign investors shipped U.S.\$1.077 billion out of the country to pay royalties, remittances, interest and other items.<sup>7</sup> Generally speaking, in this period, investors took more money out of the country than they brought in.

During the Salinas administration, FDI was given certain privileges. The Zedillo administration continued this policy, and even obsessively sought to attract more foreign capital, despite momentary difficulties because of the international financial crises of the last few years, which have been not only recurring, but of great impact.

#### FDI DISTRIBUTION BY STATE

Mexico has 31 states and a Federal District, all with different levels of development and geographic, economic and political specificities. And the amount of FDI that each receives should be analyzed with this in mind (see Table 4).

#### CONCLUSIONS

Mexico's main economic problems in 1994 did not derive from the Chiapas conflict, nor from the death of Luis Donaldo Colosio (then-PRI candidate for the presidency), nor from the kidnap-

ping of Mexican business magnates, etc., but from the neoliberal model. It was incapable of creating conditions for economic growth in any nation. The success stories of some countries' economies have not been based either on this model or on a selective economic opening to the outside. They have been based on broad intervention by the state, together with the private sector, in the economy, and on regulatory mechanisms that ensured the necessary macroeconomic and productive conditions. Neoliberal policies are part of the economic model of market-oriented structural reforms through which the Mexican government has attempted to insert Mexico in the world economy, reach the status of a First World country and maintain low inflation and sustained economic growth rates.<sup>8</sup> However, an unparalleled recession and the devaluation of the peso at the end of 1994 meant that the crisis deepened in 1995, manifested mainly in increased unemployment, inflation, indebtedness, etc.

Foreign investment in general dropped, with a particularly severe plunge in direct investment. Portfolio investment (as we noted in the period studied), however, did not decline, propitiating a wave of uncontrolled speculation which had a negative effect on national output.

1995 marked a new, sharper, stage in Mexico's crisis; since 1994, economic and legal policy has tended to give favored treatment to foreign investment, in accordance with the Mexican government's idea of not putting any obstacles or padlocks on short-term investment. Changes in the law in December 1993 made for more flexibility and increased possibilities for foreign investment in some still-protected sectors, like petrochemicals.

NAFTA rules are important points in any legal analysis, particularly given that: a) investors from signer countries can sue for damages for violations of treaty provisions; b) there is a commitment to give foreign investors from NAFTA countries established in Mexico local treatment; c) international transfers and payments made by investors may not be slowed or restricted.

The internal weakness of the Mexican economy makes it more susceptible to external problems such as the mobility of foreign capital, above all when no attempt is made to restrict or tax it, since U.S.\$31 billion could leave the country at any time.<sup>9</sup> Even in this context, President Zedillo has said that Mexico has the capacity to deal with economic globalization.<sup>10</sup> **MM**

#### NOTES

<sup>1</sup> SECOFI, *Informe estadístico sobre el comportamiento de la inversión extranjera directa en México* (January-December 1997) (Mexico City: Dirección General de Inversión Extranjera, SECOFI, 1997).

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

<sup>4</sup> SECOFI, Dirección de Inversión Extranjera, 1-31 December 1997.

<sup>5</sup> Banco de México, "Indicadores del sector externo del Banco de México," *Balanza de pagos* (Internet publication originated in Mexico City) (1995), p. 74.

<sup>6</sup> "De los extranjeros, 60% de los valores gubernamentales," *La Jornada* (Mexico City), 14 September 1995.

<sup>7</sup> See *La Jornada* (Mexico City), 14 September 1995, p. 48.

<sup>8</sup> Arturo Huerta G., *La política neoliberal de estabilización económica de México. Límites y alternativas* (Mexico City: Diana, 1994), p. 14.

<sup>9</sup> *Bolsa Mexicana de Valores* (September 1998).

<sup>10</sup> Isabel Becerril, "Hay capacidad para enfrentar la globalización económica: Zedillo," *El Financiero* (Mexico City), 1 October 1998, p. 9.