Closing the Mexican flight-capital spigot

by Renée Sigerson

The Mexican government's determination to permanently shut off flight-capital outflows will have several broadscale effects on United States financial institutions. So long as the private U.S. business ventures which have been involved in Mexican flight capital flows over recent years keep a "cool head," no unmanageable problems should result from these Mexican measures. However, the internal effects on the United States cannot be ignored.

U.S. intelligence sources have indicated that a substantial portion of the $8.5 billion already invested from Mexican sources in U.S. real estate was organized and deployed by Southwestern insurance companies in the United States known to be running many other kinds of financial scams. These funds largely constituted downpayments on continuing projects, whose total value is reported by Mexico to be $30 billion.

The Mexican government has given its citizens until the end of September to repatriate the exported flight capital. The government argues that this hard-earned portion of the nation's capital stock—worth 50 percent of Mexico's total foreign debt obligations—must be available for domestic industrialization.

Since the announcement on Sept. 1 of the full exchange controls which made private capital export illegal, handfuls of Mexican citizens have begun the process of putting up U.S. real-estate holdings for sale, and in some cases have even repatriated these liquidated holdings. On Sept. 13, Mexico took further measures and outlawed the private jewelry market, which has been widely used for smuggling smaller denominations abroad.

At this point, it is possible to identify two specific ways in which the Mexican measures directly affect U.S. financial institutions by denying them flight-capital investment.

Real-estate problems

Although Texas banks have vehemently denied that Mexican capital ever played an important role in Texas real-estate development, there are many indications the matter is not that simple. These indications include the hysterical tone of assertions this reporter received from Texas real-estate groups that despite the exchange controls Mexican flight capital will continue to flow unabated over the border.

No figures exist in any official agency on either side of the border as to how much of the $20 billion committed to real-estate development was targeted for Texas, nor how much of the $8.5 billion is already placed there. Recently, the *Houston Business Journal* attempted, on the basis of dozens of area interviews, to determine what percent of investment in Houston real estate was foreign-originated. To the extent that these funds are largely placed with "syndicates" in which U.S. citizens front for foreign investors, they discovered, it was virtually impossible for them to quantify the presence of foreign funds.

As *EIR* first reported on July 20, the Houston and Dallas real-estate bubble is heading for a collapse by no later than early 1983. These markets alone are valued at $50 billion. Most of the committed Mexican funds, Texas bankers report, are placed in ranches and condominiums. However, considering that a further $20 billion investment commitment was in progress at the point the Mexican government intervened, it is by no means a wild assumption to say that $2 to $5 billion was headed for the Houston-Dallas markets. This means that an additional 5 to 10 percent investment inflow there has been cut off, a margin which cannot be sneezed at.

Another way to view this is that an expected inflow on the order of $5 to $100 million weekly was cut off before it got going. Instead, Mexicans are now trying to sell out (admittedly, many will do so at a discount). The collapse of the Texas real-estate bubble, foreseeable prior to Mexico's moves, is thus now even more likely.

Organized crime

Texas bankers report that large, single-sum investments that come in from Mexico have often arrived in the form of trust placements from the Cayman Islands. The Caymans trusts are dominated by insurance companies and Canadian banks (Canadian investors are the largest single group of foreign investors in Texas).

The "syndication" of these investments behind private investor trusts does indeed make them difficult to trace. If indeed, as U.S. intelligence circuits assert, the camouflaging of these investments is a service made available by organized-crime networks in the Southwest, this has further implications for the United States.

In demanding full transparency of their national capital flows, the Mexican government is opening the gateways to cracking these organized-crime operations further. Hundreds of investigations by U.S. state-level insurance regulators have revealed that organized crime has been responsible for a deluge of fleecing operations and bankruptcies throughout the Southwest, including looting operations against pension funds. If U.S. agencies and elected officials react intelligently, Mexico's efforts should serve to bring to light new information on how such illegal operations work.