Mexico becoming a world paradise for financial speculation and fraud

by Carlos Cota Meza and Dennis Small

This magazine has charged that one of the essential purposes of the much-touted North American Free Trade Agreement (NAFTA) of the U.S., Canada, and Mexico is to ensure that Mexico generates enough foreign exchange earnings to be able to continue paying its foreign debt of over $100 billion. We have explained that this will be achieved through a gigantic growth of the slave labor shops across the border in Mexico, known as *maquiladoras*. And we have argued that the Bush administration is lying when it projects a growth in U.S. jobs based on increasing American exports to Mexico, for the simple reason that Mexico's creditor banks and the International Monetary Fund will not allow it to continue importing more than it is exporting: a balance of trade *surplus* is the *sine qua non* of debt repayment.

Almost before the ink was dry on Bush's "fast track" victory in Congress, the City of London's *Financial Times* was quick to admit what *EIR* has been charging all along. In its June 3 issue, the *Financial Times* stated matter of factly that, with NAFTA, "the whole country would eventually have duty-free status . . . [a] transformation of Mexico into one big *maquiladora*." And in its May 21 issue, the London-based international daily had warned that, except for the *maquiladora* sector, Mexico was running an increasing trade deficit, and that this should not be allowed to continue, since it was "overheating" the economy.

So, the obvious question is, how is Mexico going to keep current on its over $9 billion in yearly interest payments?

The answer is simple: Hand over to the creditors title to more and more chunks of the Mexican economy, and use the Mexican stock market to do this. The head of the Mexican Institute of Finance Executives, Ernesto Marcos Giacoman, even came up with a fancy technical name for it: "the stock market-ization" of credit. As the Mexico City daily *El Universal* reported on May 24, Mexico "will increasingly finance itself more through the issuance of stocks and bonds on the capital markets, and less through banking credits. In other words, he [Marcos] said, there is a clear tendency toward the stock market-ization of credit, which has grown as the international financial markets have become more integrated and less regulated."

A fools' paradise

Mexican financial officials have formally recognized that there is an excess of liquidity, over and above what is required for the movement of goods and services through the economy. Primarily, this monetary surplus is due to the growing influx of foreign capital, by various means. The main refuge for this volatile capital, for the moment, is the Mexican Stock Exchange, whose index has registered dramatic rises not seen on any other stock exchange. On May 10, the stock index passed 990,000 points, and by May 13, it would have surpassed 1 million, had authorities not decided to drop three zeroes, turning the 1 million into 1,000. Once at 1,000, the index again began to climb. The profits are stratospheric, and specialists say that statistical analysis of the stock market is now impossible.

Nonetheless, statistics do exist that suggest how this speculative orgy came about. According to the Mexican Stock Market Institute, there is on the Mexican market a total of $7.784 billion in what has been categorized as foreign investment. The instrument that has captured the bulk of these funds is the mysterious ADR (American Depositary Receipt), with a total of $4.256 billion invested. Public stock has captured $2.104 billion. The investment fund of the government holding company Nacional Financiera has $1.9 billion, and the Mexico Fund $413 million. Foreign investment has undergone significant changes. In 1989, total direct foreign investment in Mexico was $3.036 billion, while foreign investment in financial paper was $493 million. In other words, for every $6 in direct foreign investment, there was $1 in a portfolio investment.

In 1990, the amount of foreign portfolio investment was $2 billion, as compared to $2.633 billion in direct foreign investment. For each foreign dollar channeled into the stock market, there was now $1.36 in direct investment. The tendency for 1991 is that foreign investment in the financial sector will significantly surpass traditional direct investment. According to the apologists of speculation, this is because approval of "fast track" negotiation of NAFTA "will be interpreted by the market as confidence in the Mexican economy."

Who runs 'the market,' anyway?

Of the total number of stocks which make up the Mexico stock market index, five (Telmex, Cemex, Vitro, Cifra and Femsa) represent 60% of the index, and they jointly make up 74% of daily volume on the exchange. By and large, the busiest days on the exchange are controlled by six brokerage houses, which account for 62% of the traded shares.

But the biggest hoax of all is Teléfonos de México. In 1988 the company had a market value of $1.7 billion, and the state owned 55.89% of assets. As of the end of 1990, with zero investment for two years, the government sold the presidency of the board of directors to the group of Carlos Slim, in association with Western Bell and France Telecom, for a little more than $2 billion. In May of 1991, the government concluded the sale of 15.7% of its "L" stocks (which carry limited voting rights inside the company) on 20 different world exchanges, especially those of Tokyo, Amsterdam, London and Wall Street. Significantly, more than $2.166 billion stayed on deposit in the coffers of the New York Federal Reserve. In exchange, the Mexican government received a Voucher of Deposit from Gerald Corrigan, president of the New York Federal Reserve Bank. It was a great deal. Through the sale of all the most important seats on the board of directors to Carlos Slim, plus the minuscule participation of the telephone workers, plus the sale of the "L" stocks on the international markets, the Mexican government garnered more than $4.2 billion. The sale of the "L" stocks on the national exchange garnered another $1 billion, which went directly into the pockets of Slim and company. Now, the market value of Teléfonos de México is $14.4 billion, more than eight times what it was worth in 1988.

The only problem is that the company isn't worth it. According to Roberto Fernández, one of the bidders defeated by Slim, in the Valley of Mexico alone, Telmex's operations are a total disaster. Underground cables are perpetually flooded during the rainy season, and drainage is a multimillion-dollar operation. Rural telephone service has virtually disappeared in reality, but it remains there on the books. The problem of company retirees and pensioners is also unresolved. Company operations nationwide are in total chaos.

The last real investment in Telmex was in 1985, and it was to repair damage from the earthquakes that hit Mexico City. The company is incapable of responding to the demand for new telephone lines, which is the main reason why a cellular telephone concession was just granted.

The stock exchange transactions of Telmex are similar to the great frauds committed on the London market in the 19th century, when British tricksters created paper companies to sell stocks in the name of Simón Bolívar for building railroads in South America, or in the name of Alexander von Humboldt, for major mining projects in Mexico. The fraud was discovered in 1829, the same year of the crash of the London market.

To be sure, Telmex is no paper company, but its physical condition is as deplorable as that of the Mexican economy as a whole.

More bubbles

Perhaps the most significant development at this moment of national euphoria—due to the victory of the fast track, the Telmex negotiations, President Salinas's receipt of the United Earth Award by the U.N., and even by the victory of the Mexican Lupita Jones as the new Miss Universe—is the bankruptcy of the airlines Aeroméxico and Mexicana de Aviacíon. Both of these companies were just privatized two years ago, and, for a good period of time, their stocks led the Mexican exchange.

Aeroméxico announced that it was canceling its purchase order for various Boeing planes "due to lack of funds," but spokesmen for that company say that there never was a real plan to buy: It was all a propaganda operation designed to drive up the value of its stock on the Mexican exchange. Meanwhile, Mexicana has announced that the results of its 1990 operations "are below the point of financial breakeven."

The regional airlines which were created under the deregulation scheme are also bankrupt. Aerocalifornia was rescued with an almost clandestine credit from the Banco de Comercio Exterior, scarcely two years after it was created. Aviacsa, which covers the southeast region of the country, has had to drop certain routes. Aeromar has suspended almost all its operations and is about to disappear.

But the Mexican government's privatizers are like nymphomaniacs. They are scarcely finished with one company when they are already thinking of how to take on the next one. With the privatization of the airlines, more than $2 billion entered the financial system. With Telmex, the numbers are already over $4 billion, and rising. And the talk is that $8 billion could come in from the reprivatization of Mexico's banks. Thus far, such operations have resulted in the entry of over $7 billion into the Mexican stock market, which explains why the country's international reserves are at $13 billion, even though Mexico is now running a foreign trade deficit.

What is the source of these maniacs' success? Rudiger Dornbusch, the MIT professor who is also the mentor of various Mexican government officials, including Finance Minister Pedro Aspe, put it bluntly in an interview with the daily *El Financiero:* "Mexico is about to experience a boom. . . . There are lines of institutional investors and pension fund managers who want to come to Mexico."

In Dornbusch's view, the success of the Mexican model is based on a foreign variable: "George Bush's enormous commitment to Mexico. . . . Bush will be re-elected, such that investors should analyze the next six years of Mexico's economic future in light of the personal interest of the man in the White House. . . ."

Thus, Mexico's economic future seems to depend not only on Bush's political future, but also on his personal health. And what if his thyroid problem worsens?