Privatization draws foreign capital to Mexico

Don Knowland
16 December 2013

Mexican President Enrique Peña Nieto has stressed throughout that ending of the state oil company PEMEX's monopoly over oil and gas production was the key to investment in Mexico not just by foreign energy conglomerates, but also by the giant foreign banks and hedge funds. The titans of international finance agree.

Laurence D. Fink, who oversees $3.86 trillion as the chief executive officer of BlackRock Inc., told an investment conference in Beverly Hills, California on October 3, that the oil legislation will turn Mexico into one of the world's biggest energy producers and unleash an investment boom—making the nation his favorite international destination to put money. He concluded, "Mexico is at the beginning of a real revolution. You're going to have a tremendous opportunity."

Overseas debt investors, including Bill Gross's Pacific Investment Management Co. (PIMCO), the world's biggest bond fund manager, agree with Fink. PIMCO's purchases of Mexico's peso-denominated debt soared 75 percent in September to $4 billion in October. Its $250 billion Total Return Fund is the biggest holder of Mexico's 2024 bonds. This effort to seek foreign investment outlets has been fueled by the cheap money the US Federal Reserve has poured into financial markets under its quantitative easing program.

Mexico's central bank has done its part to stoke this investment boom by its reduction of interest rates in September for the second time this year.

The investment flood surges despite the tepid pace of Mexican economic growth this year, and even in the wake of a debacle for foreign investors who purchased bonds issued by the three largest Mexican housing developers under the government's housing subsidy program. For example, PIMCO itself reported in June that its holdings in Mexican home builders were substantially to blame for an unprecedented $1.6 billion loss it suffered in the second quarter this year.

The scandal surrounding the government's housing construction program vividly illustrates how such investment schemes inevitably benefit a minuscule layer of the wealthy rather than the Mexican working class.

Mortgages were historically very hard to obtain for Mexican workers, and even for the middle class. In 2000, Vicente Fox of the National Action Party (PAN) took office as president with a free-market agenda that included boosting lending through the National Workers' Housing Fund Institute, or Infonavit, a government-sponsored mortgage bank that now controls about 70 percent of Mexico's market. The government's plan was to replace swathes of the vast slums that extend for miles beyond the center of Mexico City and ring other large Mexican cities with housing farther out in the agricultural periphery.

For this purpose two million Infonavit mortgages were issued under Fox and another three million under his PAN successor Felipe Calderón. Calderón added to the house-buying frenzy with a federal subsidy called "This Is Your Home," which provided 590,000 homebuyers with down payments.

Bloomberg reports that Calderón went so far as to appear by video at annual investor presentations in New York and London that encouraged foreign investment in Mexican developers building the housing. During one such event at New York's Waldorf Astoria hotel, Calderón told attendees, "There has never been a better time to invest in Mexico."

Three giant Mexican builders, Desarrolladora Homex SAB, Corp. Geo SAB and Urbi Desarrollos Urbanos SAB, their profits assured by government guarantees, unleashed construction of tens of thousands of homes. The housing boom stoked a 294 percent rise in Mexico's IPC stock index between 2002 and April

2007, when the Mexico Habita Index, a gauge of home builder stocks, hit a record. Homex Chairman Eustaquio de Nicolás and Urbi's founder Cuauhtémoc Pérez Román both became billionaires virtually overnight.

But the companies built houses faster than municipalities could connect them to water systems and power grids. Schools they promised to build were never constructed. Buying tanked and waves of Mexicans who had purchased homes were forced to abandon these developments. Eventually the developers halted construction on what became rural slums.

The industry's collapse wiped out $1.69 billion in the combined market value of the three builders and Geo and Urbi shares were suspended from the Mexican stock exchange. All three builders defaulted on their bonds; according to Bloomberg, total losses in stocks and the face value of bonds added up to about $3.95 billion as of December 4. A number of giant European banks that helped finance the developers are now suing them.

This development reveals the real dynamic of the economic measures pursued by Mexico's ruling class. Mexico and its resources must be playthings for the speculative forays of foreign capital, with the Mexican bourgeoisie taking their cut. The Mexican working class is expected to scrabble through the resulting carnage.