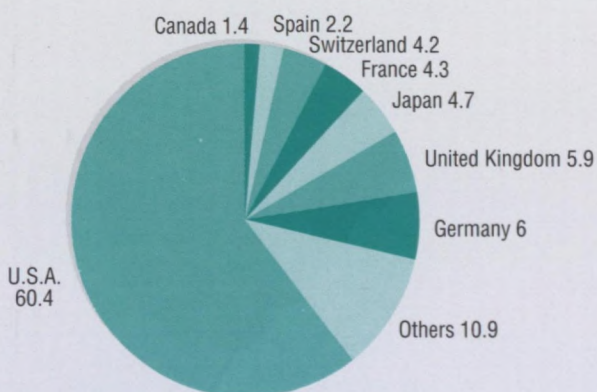


The liberalization of Mexico's investment regime has resulted in strong and rising inflows of foreign investment (see Figure 1.14). During 1991, it increased by 11.8 percent bringing total accumulated investment to an impressive \$US33.9 billion. A significant part of this inflow has taken the form of portfolio investment in Mexico's securities and equity markets. This has been coupled with the repatriation of capital that had left the country during the crisis of the early 1980s and that is now being encouraged to return. These strong capital inflows have more than compensated for the growing trade deficit. In fact, foreign monetary reserves increased to a record high of \$US17.5 billion during 1991; up from \$US6.9 billion at the end of 1989. The high level in foreign reserves has helped to keep inflation in check and even to edge it downward.

The key challenge for Mexico in the immediate future is to continue attracting large amounts of foreign direct investment. Its recent economic reforms have encouraged such investment both from the Mexican private sector and from foreigners. Ongoing reforms in the financial sector are improving market efficiency and have also been critical to promoting investment growth.

The United States is by far the single largest source of foreign investment in Mexico. By 1991 it accounted for more than 60 percent of the accumulated total (see Figure 1.15). Germany and the United Kingdom were virtually even in second place and Japan was fourth. Canadian investment accounts for about 1.4 percent of the total.

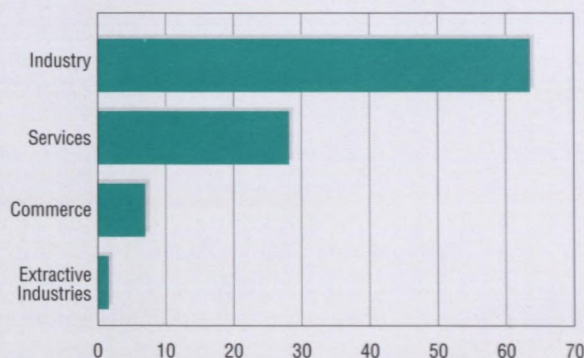
Figure 1.15  
**Direct Foreign Investment, 1991**  
 (Total: \$US33.9 Billion)



Source: EAITC.

Perhaps unsurprisingly almost two thirds of foreign direct investment in Mexico is destined for the industrial sector (see Figure 1.16). Services attract slightly less than a third and the share directed toward commerce and the extractive industries is relatively insignificant.

Figure 1.16  
**Sectoral Shares of Accumulated Foreign Direct Investment in Mexico, as of 1990**  
 (in percent)



Source: SECOFI.