

Speech file

THE CONTINUING GROWTH OF MEXICO'S ECONOMY

For delivery by General Maxwell D. Taylor, Chairman of the Board,
of The Mexican Light and Power Company, Limited

After many years as a professional soldier, I have lived and worked in Mexico only a little more than six months. But in that comparatively short time, I have been most favorably impressed by the remarkable economic growth of that great country. I am glad to have this opportunity to tell you something of what I have learned about Mexico and about Mexlight, the country's largest private enterprise.

As a General in the United States Army, I have been primarily concerned in the past with military power. Power is still my prime concern, but a different kind of power - power for the progress of a rapidly growing country.

Mexico and the United States have much in common and their economies are closely linked, yet today they have greater need than ever for maintaining their close ties, both for mutual defense as well as for economic interdependence. Latin America is the best customer of the United States, and Mexico leads Latin America. Last year 73% of all Mexico's imports and 59% of all its exports were from or to the United States.

During the past decade Mexico has shown a degree of political and economic stability and growth equalled by few countries in the entire world, and there is good evidence that this will continue. Under the administration of former President Adolfo Ruiz Cortines, the Mexican economy expanded at an impressive pace. The steady increase in national production - at a rate twice the

population growth - has provided growing employment and has been gradually raising the individual standard of living, particularly in the large urban areas.

Under President Adolfo López Mateos, who took office for a six-year term in December, 1958, this steady progress has continued, as the new President has moved to carry out the promises of his inaugural address, in which he pledged his administration to improved educational facilities, a higher standard of living and continued economic development.

Mexico today has a solid background of expanding national production on which to continue to build. The average growth of total national production during the past few years has been over 6% per annum, which is considerably higher percentage-wise than has been experienced here in the United States. For the year 1959, according to official figures, the production of petroleum increased 16-1/2%, manufacturing, 7%; construction activity, 4-1/2%, and commerce, 4-1/2%.

Mexico's agriculture also is on the increase. Due to plentiful rains last year, the production of corn increased 14% and sugar production increased 13%. The production of wheat, which since 1937 has been sufficient to satisfy the nation's needs, was 5.3% higher than in 1958. Only cotton and coffee showed a decrease, the former due to world market conditions, and the latter due to the biennial cycle in this commodity. An improvement in both cotton and coffee production is expected for 1960.

One of the best measures of industrial progress is the rate of increase in the consumption of electric energy. In the central

area of Mexico, served by the Mexican Light and Power Company, the record power growth during the past decade has been striking.

In 1949, the Company's sales of electric energy were 1.3 billion kilowatt-hours. In 1959 sales reached nearly 4 billion kilowatt-hours, or three times those of ten years before. This means an average increase, taken on the 1949 base, of more than 15% annually, a rate of growth more than twice the world average. The bulk of this increased use has been in power needed for Mexico's expanding industrial production.

This production is now widely diversified. Products range from boiler tubes and pipes to lathes, electric motors, cables and transformers. Mexican plants are also assembling or producing automobiles, trucks, bicycles, diesel engines, and radio and television receivers. The expanding canning industry uses mostly locally-made tins.

The basic steel industry, which increased its capacity from 300,000 tons in 1946 to 1,115,000 tons in 1958, hopes to reach 1,500,000 tons annually by the end of this year.

Mexico is also developing a heavy chemical industry which provides raw materials for production of synthetic fibers, paper and pulp, plastics, fertilizers and pharmaceuticals. Similarly, growing availability of petroleum and natural gas should provide the raw materials for the country's petro-chemical industries, now in the early stages of development.

Sulphur production is growing rapidly. Last year, Mexico's sulphur exports exceeded 1,000,000 tons, while domestic consumption reached the record volume of more than 100,000 tons, making Mexico the second largest sulphur producer in the world.

Shoes and clothing, toilet articles and household appliances are all being produced in an increasing volume, and the output of consumer goods has been expanding faster than the increase in population.

At the same time, effective measures have been taken to check inflation. Last year the wholesale price index in Mexico City increased by only 1.2%.

As I have indicated, the development of Mexico's agriculture has to a large degree paralleled the rapid strides made in industrializing large areas of the country. Mexico today is practically feeding herself and saving millions of dollars in foreign exchange formerly spent for food imports.

The tourist industry represents Mexico's largest single earning of foreign exchange. Last year tourists, mostly from the United States, spent more than a half-billion dollars in Mexico. The tourist trade, together with new foreign investment, has for years been largely balancing the gap between exports and the larger annual imports.

Last year Mexico's balance of international payments was favorable, reversing the trend in 1957 and 1958. This balance changed from a deficit of 67.4 million dollars on October 31, 1958 to a surplus of 24.3 million on the corresponding date in 1959. The gain of 91.7 million was the result of the improved balance of trade, including tourist expenditures and long-term credits granted Mexico.

At the end of 1959, the Bank of Mexico's gold and foreign exchange reserves stood at 408 million dollars, a gain of 52 million over 1958. In addition, Mexico had an open credit of 100 million

dollars in the International Monetary Fund and 75 million in the U. S. Treasury peso stabilization fund. This made a total of nearly 600 million dollars available to the Mexican Government.

American and other foreign capital has played an increasing important role in Mexico's industrial expansion. United States direct investments in the manufacturing industries, which in 1943 were only 22 million dollars, were built up by both new investment and reinvested earnings to around 500 million dollars at the end of 1959.

Total foreign private investment in Mexico was last reported at well over 1.3 billion dollars. Three quarters of this large capital investment originated in the United States.

Foreign investment in Mexico is, however, complementary to Mexican investment and in 1959 represented only about 7% of the total public and private investment.

Mexico welcomes foreign investment, and the law provides for limitation of foreign capital in only seven fields - radio broadcasting, motion pictures, advertising and publishing, inland transport, fisheries, bottling works and the rubber industry. Entry into these fields is restricted solely to companies with 51% Mexican ownership and a majority of Mexican directors or partners.

Some of the older Mexican subsidiaries of U. S. companies, formed many years ago, have all or a majority of their ownership abroad. The trend today, however, is for Mexican private capital to work in friendly partnership with foreign private investment, and the Government encourages such joint participation. Generally

the rate of return is higher than that offered in the United States, and as a result U. S. private investment in Mexico is steadily increasing.

In March of this year, the Prudential Life Insurance Company made a loan of 100 million dollars to Nacional Financiera, the Mexican Government finance agency, the largest single private investment in Mexico since before the Revolution of 1910. The loan is for 15 years at a rate of 6-7/8% interest, with no strings whatever tied to the manner in which it will be used. This is a demonstration of great faith in the country's continued **stability** and growth.

In addition to private investment, nearly 200 million dollars have been loaned to Mexico by the World Bank and close to half a billion dollars by the Export-Import Bank during the past fifteen years to develop its railroads, its highways and its electric power.

The World Bank loans have included a total of 137 million dollars to the Mexican Light and Power Company. Our Company was one of the earliest foreign investments in Mexico, is one of the largest at present, and in the future will require large and growing amounts of both Mexican and foreign capital if it is to keep pace with the steadily growing demand for electric energy.

The Company's expansion during the past ten years actually has surpassed the growth of the previous half-century. Mexlight's total assets of 139 million Canadian dollars only a decade ago have now increased to more than 263 million dollars.

Mexlight was incorporated in Canada in 1902. Its founder was Frederick Stark Pearson, an enterprising young American engineer. Pearson had built electric plants in the United States, Canada and Brazil, and had heard of good sites for hydroelectric development in the Necaxa area, 100 miles northeast of Mexico City.

He went to Mexico City, took the railroad to the end of the line, and then rode a burro through the mountains to Necaxa. He found the waterfalls, where three rivers converge, returned to Canada and raised the necessary capital in Toronto, New York and London.

Back in Mexico, Pearson built what was then the world's largest earth dam, its longest transmission line and the Necaxa hydroelectric plant. Energy from the first 5,000-kilowatt unit started flowing into Mexico City in 1905.

Today Mexlight is the largest supplier of electricity in Mexico, with 10,000 employees and 748,000 customers. In 1959 the Company sold about 40% of the nation's total consumption of electricity.

The Company serves an area of about 12,000 square miles including Mexico City, the Federal District and parts of six surrounding states, with a total population of more than 5,000,000.

In 1959, 68% of sales were to industrial and commercial consumers and about 16% to residential customers, reflecting the high speed at which Mexico is industrializing.

The Company's operations are entirely in Mexico, but its securities are widely held in Canada, the United States, England, Belgium and Mexico. More than one-third of the Company's preferred shares are now in the hands of Mexican investors. The

Company's stock is listed on the Toronto, London, Brussels and Mexico City stock exchanges, and is traded over the counter in New York.

The Company now draws on a total generating capacity of nearly 1,000,000 kilowatts, of which one-third is provided by the Federal Electricity Commission, whose power the Company buys wholesale and distributes. By the end of 1961, the interconnected system will have a total capacity of nearly 1,200,000 kilowatts.

Mexico City is one of the few major cities of Latin America which, despite its rapid growth, has had no restrictions on the use of electricity during the past decade. The fact that sufficient electric energy has continuously been available has had an important and favorable effect on the growth of industry throughout the Mexico City area.

The foundation for this steady power development was laid ten years ago when a three-way agreement was worked out between the Mexican Government, the World Bank and Mexlight. To modernize its corporate structure and to get rid of its old closed mortgage indenture, the Company underwent a financial reorganization worked out by the First Boston Corporation.

The World Bank loaned the Company 26 million dollars. The Government made large long-term peso loans available, and enlarged the Federal hydroelectric generating system to supply additional wholesale power to the Company. For its part the Company undertook and carried out a huge construction program, including new hydro and steam generating plants, transmission lines and distribution facilities. Before this construction program was even completed a new and larger program had to be undertaken.

Since 1950 gross operating revenues have more than doubled. Net earnings of \$1,119,000 in 1950 rose steadily year by year, except for a temporary drop in 1954 when the peso was devalued, to \$5,109,000 last year, as reported in the 1959 Annual Report, and represented an earning of \$1.88 per common share outstanding at the year end, as compared with \$1.66 in 1958.

The Company's principal problems during this period have been first, the necessity for adequate rates and earnings, and second, the finding of sufficient new money to finance the growing construction program. Real progress has been made on both of these important problems, but both problems will still press for solution in the future as the Company's growth continues.

During the past five years some 17 million dollars of reinvested earnings, in addition to available depreciation monies, have been plowed back into the property. During this period stock dividends of 5% per year were distributed to the common stockholders, in addition to the cash dividends declared, which last year were at the rate of \$1.00 per share. Other financing arranged included new peso loans granted by the Mexican Government, and an additional 11 million dollar loan from the World Bank.

In 1958 Mexlight passed an important and perhaps historic milestone. For at least a decade the Company had looked forward to the time when its rapidly growing requirements for new capital could be satisfied in the private financial market, without recourse to loans from international or governmental lending institutions. In August 1958, the first step toward this objective was successfully taken with the private sale to a group of institutional and other investors of \$4,500,000 of a new issue of the Company's first mortgage dollar bonds at 25 years and 6% interest.

Among the purchasers were seven United States life insurance companies, located in five states. It was the first time that any of these companies had purchased securities of companies operating in Mexico, and this transaction demonstrated confidence in the future of Mexico and of the Company itself.

To provide the facilities needed in the future to meet the growing demand for light and power in the area served by Mexlight, large amounts of new investment will be required far in excess of earnings which might be reinvested. Based on a continued increase in demand of 10% per annum, the Company's construction program for the next five years will require new investments of approximately 140 million dollars. Some of this we may obtain in Mexico, but much of it will have to come from abroad to supplement funds obtained from governmental and international lending sources.

For that reason I am grateful for this chance to speak to this knowledgeable audience, in order to acquaint you with the past record of our Company and with its possibilities for the future. While we have no present plans for an immediate offering of new securities, the continued growth of Mexico and its need for more and more power make it almost inevitable that our Company will be seeking new private capital in the future.

In the meantime, I trust that my remarks on the continuing growth of Mexico's economy may have added something to your understanding of your nearest good neighbor to the south.