Mexico's industries falling like dominoes

by Carlos Cota Meza

Like an obituary column, Mexico's news media report day in and day out on the bankruptcy of one company after another, the so-called "corporations" whose stock is traded on the New York stock markets and which have access to the international capital markets.

On July 13, it was Bufete Industrial's turn. Bufete is one of the three largest construction and engineering firms in Mexico, along with ICA and Tribasa, which are also about to go under, as are the companies which supply them. On July 15, Bufete defaulted on the payment of a $100 million eurobond, joining Altos Hornos de México (AHMSA), the country's leading steel company, which defaulted on a $39 million payment last April, and whose debt burden is $1.8 billion.

On July 16, the Mexican Stock Exchange announced that for four hours it had suspended all trading on the stock of Dina, the country's leading producer of buses, after the rumor spread that it had defaulted on a $6.5 million payment in interest charges on a $165 million debt. Dina denied this, insisting that the payment doesn't come due until Aug. 14.

On that same day, trading of the stock of the country's largest construction firm, ICA, was also temporarily suspended, when the price of its stock plummeted after it was revealed that the company would announce considerable losses for the second quarter of 1999. Days earlier, ICA had announced the restructuring of its peso debt, equivalent to $110 million, as well as the sale of non-construction-related assets, to pay off the Eurobond whose amount and terms have not been made public.

Foreign credit is cut off

For 1998, the official figure given for Mexico's private foreign debt was $56.79 billion ($38.806 billion corresponding to non-financial firms, and $17.984 billion in foreign bank debt). Non-banking firms have already had to refinance $15.925 billion in 1999, and this is where they are really running into a roadblock. As everyone knows, the debt defaults of Bufete Industrial and of AHMSA have shut the door to any more foreign credit for Mexican companies, which has now triggered expectations of a domino effect of defaults throughout the economy.

Reports received by *EIR* indicate that the federal government is withdrawing concessions that had been granted by Pemex, Mexico's state oil company, and by the Federal Electricity Commission, to Bufete Industrial, and, bypassing the bidding process, handing them to ICA. This would give ICA the appearance of having a backlog of projects, which would presumably facilitate foreign refinancing.

At the same time, the main national creditor of Bufete Industrial is Banca Serfín, which has already declared bankruptcy and is now under government control. Further, the default by Bufete Industrial is having a ripple effect, both in terms of the amount and the impact on other companies. According to complaints from one of Bufete's main suppliers, the default could grow by another $140 million, stemming from a shutdown of the firm's operations in Chile. The supplier is now desperately seeking capitalization of $500 million. AHMSA, meanwhile, has announced the suspension of a mining project in Mexico, which represented an investment of $2 billion, and the direct creation of 15,000 jobs.

The Grupo Editorial Expansión, which specializes in business matters, recently released a study on the status of Mexico's 500 largest firms. The study concludes that these companies "will enter the 21st century in a fragile financial situation," but, the reality is, that the firms are sitting on a powderkeg whose fuse is far too short to reach the year 2000.

The 500 firms employ 1,316,024 people, and their assets are equivalent to 47% of Mexico's GNP. The debt portfolio of these firms in 1998 totalled $99.9 billion, exceeding the entirety of the public foreign debt for the same year, of $82.222 billion. (The companies' debt is made up of circulating debt, or bills to be paid, as well as both peso and dollar debt.) The analysis of the Grupo Editorial Expansión correctly points out that the difficulties of these companies in 1998 were caused by a combination of larger financial costs, collapse of internal market demand, reduction of exports and resulting decline in production, and increase in unemployment. The total net profit of these companies collapsed in 1998 by 58.4%, which put the finances of at least 25% of these firms into the red.

So, now, as Mexico moves into the third quarter of 1999, the economy is showing dramatic signs of economic depression, with private sector bankruptcies, layoffs by the thousands, depressed internal demand, collapse in exports, etc., while parts of the speculative debt burst like soap bubbles every day.

On top of the bankruptcies of non-banking firms, there is the growing scandal of the world-famous "Mexican bank rescue," which is now officially calculated at a cost of $80 billion. A similar figure is being attributed to Mexico's public foreign debt. Worst of all, Mexico's banks continue to go bankrupt, but these are being absorbed by the federal government, courtesy of the public coffers.

The irrationality of the Ernesto Zedillo government is so exuberant vis-à-vis banking (and other) matters, that some analysts are making comparisons: While there is talk that war damage to Yugoslavia following NATO's bombing war is $26 million, Mexico has already had to spend 3.3 times more than that on bank bailouts, without firing a single shot!

© 1999 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

The Martin Frankel swindle: How high up does it go?

by Dean Andromidas and Jeffrey Steinberg

On May 5, the Greenwich, Connecticut fire department was called to a mansion at 889 Lake Avenue, after a private security company reported that the smoke alarms were ringing out of control in several parts of the building. When the emergency crews arrived, and broke into the house, they found large piles of documents burning in two fireplaces, and in a metal file cabinet. The documents that were salvaged from the fires referenced an elaborate money-laundering scheme. There was nobody in the building. Greenwich police later determined that, 24 hours before the fire was reported, the principal occupant of the mansion, Martin Frankel, had disappeared, along with several women who also lived on the grounds. A white van had removed enormous amounts of files, furniture, and so on, and the network of telephones inside the mansion had been programmed to forwarding numbers.

A May 25 "Verified Complaint of Forfeiture," signed by Deputy U.S. Attorney John H. Durham, and authenticated by FBI Special Agent Joseph P. Dooley, noted that Greenwich police found 80 computers, connected to fiber-optic lines and several satellite receivers at the mansion. "Paperwork recovered during the search," the complaint stated, "revealed that the house at 889 Lake Ave. had been operating as a brokerage office with an active trading floor, and that the computer and telecommunications equipment was used to provide a continual flow of financial and trading market information and to assist in the execution of securities and commodity trades."

In the two and a half months since Frankel's disappearance, the 44-year-old Toledo-born stock swindler, who had had his license permanently lifted by the Securities and Exchange Commission (SEC) in 1992, has been the subject of thousands of lines of news copy, particularly in the Wall Street and London financial press. Interpol has issued a "code red" all-points bulletin for his arrest. But, Frankel has so far managed to stay one step ahead of the international police dragnet, spending his way across continental Europe, purportedly using $10 million in diamonds to fund his flight. Frankel has been characterized as a world-class con-man who stole as much as $3 billion from a string of small U.S. burial insurance companies, and was able to fast-talk unsuspecting insurance executives, a Catholic priest, a Vatican bishop, a top Wall Street lawyer, a former high-powered U.S. ambassador, and Kroll Associates, the world's greatest private investigative firm, into his schemes. He also is aleged to have talked a bevy of women into sado-masochistic sex.

An extensive *EIR* investigation on two continents, however, has revealed a very different picture. While the financial press has characterized the Woody Allen look-alike Frankel as Hugh Hefner, Bernie Cornfeld, Robert Vesco, and Michael Milken all rolled into one, *EIR*'s investigation shows him to be a neurotic front-man for a fascinating collection of well-known New York-area political and financier figures, with high-level ties to Wall Street, to the far right wing of the Republican Party, and to organized crime. Several American sources interviewed for this story speculate that, if and when the full Frankel saga is unravelled, New York City Mayor and wanna-be U.S. Senator Rudolph Giuliani's political career will not be worth a plug nickel.

The boys from Greenwich

Greenwich and Stamford, Connecticut are upscale New York City suburbs, widely referred to as Wall Street's "offshore," as the result of the proliferation of hedge funds, commodity-trading companies, and other speculators who set up shop there over the past decades.

The region's first notorious fast-money operator, Marc Rich, is still a fugitive from American justice, after then-U.S. Attorney Giuliani let the metals trader escape prosecution for a variety of crimes, including "trading with the enemy" (he violated the U.S. trade embargo on Iran during the heyday of Khomeini). Rich now operates out of a luxury office building in Zug, Switzerland, and, despite his fugitive status, is the largest supplier of nickel to the U.S. Mint.

Long Term Capital Management (LTCM)—whose September 1998 losses on the Russian currency and bond markets nearly blew out the global financial system, until the Fed stepped in to organize a $4 billion bailout—operates to this day out of modest offices in Greenwich. Frankel hobnobbed with some other hedge-fund superstars who camped out in southern Connecticut, including Charles Davidson, former partner with Michael Steinhardt, in Steinhardt Partners, once the second-largest hedge fund in the world, behind George Soros's Quantum Fund.

A New York City law enforcement source explained to *EIR* the reasoning behind the swindlers' migration to southern Connecticut—and it wasn't to escape the crime on the streets of Manhattan.

The U.S. Attorney's Office for the Southern District of New York, one of the largest offices in the country, is stacked five levels deep with specialists in financial fraud and organized crime. Manhattan District Attorney Robert Morgenthau has earned the nickname, "The Sheriff of Wall Street," for his long-standing appetite for high-profile financial conspiracy prosecutions, typified by his 1980s tackling of the Bank of Credit and Commerce International (BCCI).