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Economic Crisis has not Slowed Down Direct Foreign Investment in Mexico

by LADB Staff

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The devaluation of the peso and the downturn in the Mexican economy has caused some concern among direct foreign investors, but it has not discouraged some companies from proceeding with plans to open new operations or expand existing operations in Mexico. Among those companies that either opened new facilities or announced plans to do so in the near future are motor vehicle and auto parts manufacturers from Sweden, Italy, and Germany; a French food manufacturer; two US financial service providers; a Japanese bank; a US telephone company; and a US retailer. In all cases, company executives and spokespersons expressed confidence that the Mexican economy would recover in the medium to long term, thereby making investments in Mexico profitable.

A handful of these companies will manufacture or assemble all or some of their products for the overseas markets, since exports from Mexico have become more attractive due to the devaluation of the peso. For example, the Italian-based automobile manufacturer Fiat and Mexican partner Quimmco announced a joint venture on March 2 to produce cast iron parts. The joint company dubbed Teksid de Mexico will sell some of its production automobile assembly operations in Mexico, but will export a large percentage of its production to the US and Mexico. In a similar situation, in mid-February Victor Company of Japan, which manufactures electronic products under the JVC brand, announced plans to construct a factory in Mexico to produce television parts. A high percentage of the plant's monthly output of 30,000 units will go to the export market.

The devaluation of the peso also has created advantages for some companies to manufacture parts or products in Mexico, rather than having to import from a plant overseas. For example, the German automobile parts company Siemens Automotive Systems expects output from a new plant in Aguascalientes state, which is due to open in April, will replace about 15% of the company's production in Zweicken, Germany. The plant will supply 40% of its domestic output to Mercedes Benz and Volkswagen, which originally had to import those parts from Germany. Siemens plans to export the other 60% of its production in Aguascalientes.

For its part, in mid-March the Swedish motor vehicle manufacturer Scania inaugurated an assembly plant in San Luis Potosi state. The plant will produce 600 heavy trucks, passenger buses, and other commercial vehicles annually. Instead of importing the same models from Brazil and Argentina, the company will now be able to assemble those trucks and buses in Mexico for sale in the Mexican market. Regardless of the devaluation, however, Scania director Leif Osting said that the company was already planning the facility in Mexico, due to the lower costs of producing the product in the country where it will be sold. Some foreign companies have established operations principally to supply the Mexican domestic market. In early February, the French agricultural and food products company Danone announced the purchase of a 50% share of Mexican bottled water company Grupo Bonafont. A Danone spokesperson said the purchase allowed the French company to gain access to the Mexican company's "modern and efficient" production units and its ample distribution network,

since Bonafont controls a 25% share in the bottled water market. The spokesperson said the sales potential is strong in Mexico once the economy recovers, since the market for bottled water has grown by 30% in the last two years.

One US company announced new investments in the retail sector, even though that sector is expected to suffer the most from the devaluation of the peso and the strict economic measures imposed by President Ernesto Zedillo's administration. In an announcement made on March 10, Sears de Mexico chief executive Warren Flick said the company plans to open 29 new stores throughout Mexico by the year 2000. "This expansion confirms the confidence our corporation has in the economic future of Mexico," Flick told the official news agency Notimex. During February and March, financial service providers also announced plans to expand operations in Mexico. Among others, the US insurance company Chubb Corporation, which until now owned a majority of stock in the insurance company Central de Fianzas, bought the company out entirely. Chubb also increased its shares in another company, Seguros Equitativa, from 27% to 30%. Chubb had originally acquired shares in the two Mexican companies in 1991 under the initial opening of the insurance market to US and Canadian companies.

For its part, on March 9, US telephone company AT&T announced plans to invest US\$100 million to establish a financial leasing company. The company will be set up to provide financing to corporations and companies to purchase AT&T telephone equipment and systems. AT&T which operates four telephone equipment assembly plants in Mexico reported sales of US\$1 billion in equipment in the Mexican market in 1994. The four plants are located in Guadalajara, Reynosa, Matamoros, and Monterrey. Another financial services company that announced the start of operations is Fuji Bank after receiving final approval from the Finance Secretariat (SHCP) in mid-March. Fuji Bank was one of the original 18 banks to receive operating permits in Mexico in mid-February (see SourceMex, 10/26/95). Before initiating operations, however, the company had to receive final approval from the SHCP. According to bank officials, Fuji will target loans to Mexican and Japanese corporations, with start-up capital of 85 million nuevo pesos (US\$11.8 million).

Finally, on March 9, the US telephone company MCI and Grupo Financiero Banamex revealed plans to invest US\$1.7 billion over the next four years to develop their long- distance operations through a joint venture dubbed Avantel. The two companies established the joint venture last year to bid for concessions to provide long-distance telephone service (see SourceMex, 11/02/94). According to MCI officials, the first phase of the project, which will involve investments of US\$650 million over 15 months, will be to establish operation centers in Mexico City, Monterrey, Guadalajara, and a fourth city, probably Puebla. Despite the entry and expansion by the US, European, and Japanese companies in the Mexican market, the impact of the devaluation has created a generally cautious environment for most companies. Economist Kathleen Stephansen of the New York-based brokerage firm Donaldson, Lufkin & Jenrette Securities Corporation, said many US and other foreign companies are in the process of evaluating their short-term strategies for the Mexican economy, including the possibility of temporarily pulling out of Mexico or redirecting investments elsewhere. Stephansen said the general consensus among US investors is that the Mexican economy will recover in the long term.

Most analysts agree that the success or failure of President Ernesto Zedillo's administration in stabilizing the peso and restoring growth to the Mexican economy this year will determine the

extent of direct investment in the Mexican economy in the long term. At least one foreign company, Canadian real estate developer Reichmann International, has postponed plans to build the Santa Fe Center, a huge real estate, entertainment, office, and educational complex in Mexico City. The project, which is being constructed in partnership with Empresas ICA was originally targeted for completion by 1998 or 1999 (see SourceMex, 03/02/94). According to a spokesman for the company, Toronto-based Reichmann International, the project has been put on hold for several months "until economic stability returns to Mexico." (Sources: La Jornada, 03/05/95, 03/08/95; Associated Press, 03/02/95, 03/10/95; El Financiero International, 03/13/95; Agence France-Presse, 02/07/95, 02/15/95, 03/08/95, 03/16/95; Notimex, 02/23/95, 03/09/95, 03/10/95, 03/16/95)

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