10-21-1998

Mexico Expects to Meet Target of US$10 Billion for Foreign Investment in 1999

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LADB Article Id: 54552
ISSN: 1054-8890

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Category/Department: Mexico
Published: 1998-10-21

Mexico is on track to meet its target for direct investment for this year, but the global financial crisis appears to have reduced indirect investments during the first seven months of this year. According to statistics released by the Secretaria de Comercio y Fomento Industrial (SECOFI), foreign direct investment in Mexico totaled US$5.2 billion in January-June, which is more than half the US$10 billion forecast for all of 1998.

SECOFI's optimism regarding direct investment is in sharp contrast to statistics showing a flight of indirect investment this year. A report produced by the Institute of International Finance (IIF) says that foreign investors withdrew about US$9.1 billion from Mexico in January-July of this year. The IIF, an international organization that supports the world's 250 largest banks, said foreign investment in Mexican stocks, government bonds, and bank instruments declined to US$38.7 billion by July 1998, compared with US$47.8 billion in December 1997.

Speaking to reporters at a trade conference in Mexico City in early October, Trade Secretary Herminio Blanco said foreign companies opened 300 new manufacturing facilities in Mexico during the first half of the year and in the process created more than 100,000 new jobs. Blanco said foreign companies, particularly US and Canadian firms, continue to pour capital into industries such as textiles. As examples, Blanco cited new textile factories that were opened in Altamira, Tamaulipas state, and Cuernavaca, Morelos state, during October.

Blanco also raised concerns that the global economic crisis may limit the ability of domestic and foreign companies to borrow capital, which in the end could have an impact on direct foreign investment levels. "We are not certain how the high interest rates will affect each sector of the economy," said Blanco.

Motor vehicle manufacturers expect to meet commitments

One of the most closely watched barometers for direct investment is the motor vehicle industry. According to SECOFI, automobile, bus, and truck manufacturers will invest a total of US$18 billion during 1997-2000 to expand their existing assembly plants in Mexico or to open up new facilities in the country. The impact of the global economic crisis has varied from company to company. In mid-October, Nissan de Mexico temporarily suspended operations at its Aguascalientes plant because of a sharp decline in domestic and export sales.

Still, despite the slow sales, Nissan has not postponed plans to invest US$800 million to expand its capability to produce its Sentra model in Mexico. Spokespersons for Ford de Mexico, General Motors de Mexico, and Chrysler de Mexico said they plan to follow through with their targeted investments of at least US$1 billion each in the next five years. Another company, Volkswagen de

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Mexico, has postponed plans to either expand its plant in Puebla or open a new assembly site in northern Mexico. "Frozen is the word rather than cancelled," Volkswagen's public relations director Michael Mijers told Reuters news agency.

Truck manufacturers are facing a more difficult situation than automobile producers. In a report published in early October, the Asociacion Nacional de Productores de Autobuses, Camiones y Tractocamiones (ANPACT) said high global interest rates were partially responsible for a major slowdown in domestic and export sales this year. The organization said sales have fallen to only 22 units per day, compared with 250 units a year ago. In early October, Mexican truck manufacturer Dina announced plans to transfer its headquarters to Chicago and seek a listing in the New York Stock Exchange (NYSE).

Company officials said these changes are part of an effort to convert Dina officially into a US-based company, which would allow the firm to negotiate better interest rates. Dina accounts for 98% of the sales of passenger buses in Mexico. The change in the location of the headquarters will not change Dina's manufacturing operations in Mexico, although the company has postponed any expansion plans until January 1999.

Some of Dina's competitors are proceeding with expansion plans, however. For example, German motor vehicle manufacture Daimler Benz recently announced plans to invest US$4 million to increase capacity at its plant in Santiago Tianguistenco, Mexico state. The company recently transferred production of its chassis manufacturing operations from Mexico state to its Thomas Built Buses subsidiary in Monterrey. The Monterrey plant will primarily manufacture vehicles for export to the US and other markets.

Similarly, the Swedish motor vehicle manufacturer AB Volvo recently entered the Mexican truck manufacturing sector by acquiring Mexicana de Autobuses (MASA) for US$70 million. Volvo pledged to invest US$80 million to upgrade and expand the newly acquired MASA facilities, which will be operated in conjunction with its British partner Henlys Plc.

While US and European companies remain committed to investing in Mexico, some Mexican companies are expanding their operations overseas. In late September, Mexico's CEMEX acquired a 14% share of Indonesia's state-run cement manufacturer Semen Gresik for US$114.6 million. The transaction follows the purchase of a 30% share in Rizal Cement of the Philippines in October 1997, allowing CEMEX to continue to expand its presence in Southeast Asia. (Sources: Excelsior, 09/30/98; El Universal, 10/02/98; El Financiero International, 10/05/98; La Jornada, 10/06/98; Novedades, 10/07/98; El Economista, 10/01/98, 10/09/98, 10/12/98; Reuters, 10/07/98, 10/08/98, 10/13/98; The News, 10/13/98)

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