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Construction Companies sat Government Policies Contribute to Slump in Sector

by LADB Staff

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The Mexican construction industry, which continues in a prolonged slump, has renewed its complaints that the government is impeding its recovery. Construction-company executives say the lack of credit and the government's awarding too many contracts for large construction projects to foreign interests have kept the industry in a slump.

In a recent case, some construction-company executives complained about the decision of state-run oil company PEMEX to award a contract to expand and upgrade the Tula and Salamanca oil refineries in Hidalgo and Guanajuato states to South Korean enterprise Samsung. Government, industry at odds over contracts to foreign firms PEMEX and other agencies defend their decisions to award contracts to foreign companies saying they offer the most competitive price.

In the Tula and Salamanca concessions, Samsung offered to perform the job for US\$150 million or less. In March, PEMEX was forced to suspend a bid for these same projects when costs presented by bidders were too high (see SourceMex, 1999-03-17).

Bernardo Quintana, president of construction giant Empresas ICA, said Mexican companies cannot match the prices offered by foreign competitors. "It would be impossible to generate even a minimum profit if our bids come down to the level of those presented by the South Korean company for the two petrochemical projects," Quintana said at a recent construction industry convention.

"If these conditions remain, we will always be left out of the large infrastructure projects." But the concession to a lone foreign company for the Tula and Salamanca refineries appears to be the exception and not the rule. In most other cases, contracts for large infrastructure have been won by consortia that have included a Mexican partner.

For example, Mexican engineering company Grupo Tribasa is one of three participants in a venture to revamp the Cadereyta refinery in Nuevo Leon state and the Francisco I. Madero refinery in Tamaulipas state. The other partners are German-based Siemens and South Korea's Sunkyong.

The construction industry's complaints about the government's favoritism toward foreign companies are accompanied by a general reduction in government expenditures for infrastructure in the last two years. In June of this year, business organizations complained that the US\$5 billion allocated for infrastructure projects in the 1998 and 1999 budgets was too small (see SourceMex, 1999-06-02).

But President Ernesto Zedillo's administration defends the low spending because of tight finances. The government reduced the 1998 budget three times because of a severe slump in oil-export

revenues (see SourceMex, 1998-07-15). The reductions forced the government to delay planned expenditures on roads, bridges, and other large projects. Grupo Financiero Bancomer (GFB), in a report published in mid-October, said the reduced government expenditures have had a severe impact on the construction companies. GFB projected the GDP growth for the construction industry at only 3.5% this year, compared with 4.5% in 1998. In contrast, the sector achieved growth rates of 9% or higher in 1996 and 1997.

Furthermore, the GFB report said the slump in the construction sector's GDP in 1998 came despite an overall 10% GDP growth for the Mexican economy that year. Mexico's four large construction companies ICA, Tribasa, Bufete Industrial, and Grupo Mexicano de Desarrollo (GMD) all reported earnings declines in the third quarter of this year, relative to the same period in 1998.

The companies attributed their slump in part to reduced business but also to lingering debt problems. Bufete Industrial, which is facing liquidity problems, failed to make a timely payment on maturing debt in July of this year (see SourceMex, 1999-07-21).

In early November, Bufete Industrial officials said the company would need as much as US\$200 million to correct its liquidity problems. The company has launched a search for new financing and a partner that would be willing to inject capital into the company.

Pedro Strassburger Frias, president of the Camara Mexicana de la Industria de la Construccion (CMIC), said the construction industry is also hampered by its inability to obtain low-interest, long-term loans. He said his business chamber is working with government lender Nacional Financiera (NAFINSA) and several other agencies to correct the problem.

Industry sees potential in housing construction

The only growth for the industry has been in the construction of private homes and apartment buildings, which has increased by 25% in recent months. But the potential in this area has been limited because of the crisis in Mexico's banking sector, which has limited the amount of money available for construction and home-purchase loans.

Strassburger said housing-related loans have declined by about 70% during President Zedillo's administration. He said demand for housing loans is four times as high as loans awarded by the government's three major housing lenders. If this trend can be reversed, it could help a recovery in the construction sector, since Mexico faces a deficit of 4 million homes, the CMIC said.

Meanwhile, the recovery in global oil prices since March should allow the government to proceed with some major projects, which would benefit construction companies. Strassburger said pending projects include a new airport for Mexico City and modernizing the railway connecting the Pacific Ocean and the Gulf of Mexico. (Sources: Novedades, 08/27/99, 10/15/99; Notimex, 10/17/99; Excelsior, 09/20/99, 10/18/99; Reuters, 09/21/99, 10/15/99, 10/18/99; El Universal, 10/18/99, 10/19/99; Associated Press-Dow Jones news service, 10/19/99; El Economista, 08/27/99, 09/21/99, 09/22/99, 10/11/99, 10/18/99, 10/29/99, 11/01/99)

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