Special Report: Manufacturing in Mexico Mexico's Manufacturers Look For More Growth

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As the strongest sector of the Mexican economy, manufacturing is well-positioned to grow under the country's new, pro-business leadership. Forecasts suggest, however, that progress hinges on an upswing in the U.S. economy

In recent years, Mexico's manufacturing industry has made significant progress. In addition to the country's monetary stabilization policies, the 1994 signing of the free trade agreement with the United States and Canada (NAFTA) and, paradoxically, the peso's devaluation in that same year made it possible to boost exports.

To evaluate the importance of manufacturing in Mexico, it is worth examining the 1998 Economic Census. In that year, there were 3.13 million business operations, of which 361,579 (11.5%) were manufacturers. Compared with the previous census of 1993, the number of businesses in this sector increased 25.3% (up from 289,263.2). Additionally, the census revealed a total of 16.7 million persons employed, 27.6% more than in 1993. Of this total, some 4.2 million workers were in the Mexican manufacturing industry, a 29% increase from the earlier survey.

Since the number of manufacturing workers increased at a higher rate than the production units involved, this reflects an increase in the number of workers per plant, from 11.3 to 11.55, the highest variation per economic unit of all the sectors of the economy. It is important to note that this gain occurred in the manufacturing sector while the number of workers per unit was decreasing in other activities.

Manufacturing make-up

The baking industry leads Mexican manufacturing operations with the highest number of units: some 31,831 businesses, equivalent to 8.7% of the sector. The number of plants in this branch increased 31.5% since 1993, though the number of workers per unit dropped from an average of 5.5 to 4.9.

In terms of job creation, other industries lead the way. First, the garment industry, with a total of 453,414 workers, gained 118% between 1993 and 1998. Here the number of persons employed per economic unit jumped from 8.4 to an average of 16.7.

The electronic equipment, electric equipment and automotive industries followed in importance, where there was also high concentration of workers per business unit, with 249, 145 and 111, respectively. The maquiladora (in-bond assembly) branch predominates in the first two branches, and is the most dynamic segment during the years analyzed. In the case of the third branch, the automobile industry, the evolution has benefited from integration with the United States.

Regarding the manufacturing sector's contribution to the Gross Domestic Product (GDP), the figures furnished by Mexico's National Statistics, Geography and

Information Institute (INEGI) show that while the general GDP grew at an annual average rate of 3.5%, the manufacturing index increased at a rate of 5.7%. It was exceeded only by the communications and transport sector, which increased at the rate of 6.4%.

Within the manufacturing sector, metal products, machinery and equipment grew most rapidly. With an annual average growth rate of 10%, it rose from 25% to 32% of the manufacturing GDP. Some manufacturing divisions lost participation, such as foods, from 26.8% to 23.6%; lumber and timber products, from 3.2% to 2.6% and paper and paper products from 5.1% to 4.4%.

It is evident that the metal products, machinery and equipment division was the most dynamic from 1994 to 2000: Electronic equipment and apparatuses grew 182%, electrical machinery and apparatuses grew more than 120%, and household appliances grew more than 100%. It is important to stress, however, that most of the growth in manufacturing was due to the export maquiladora industry. According to INEGI, the manufacturing industry focused on the local market grew at a rate of 40%, while the maquiladora industry shot up 142%.

The importance of the maquiladora industry in the manufacturing segment is even more evident in foreign trade. For example, imports in this segment increased from $20.47 billion (U.S.) in 1994 to $61.71 billion in 2000, an increase of 202%. Exports climbed from $26.27 billion to $79.39 billion, an increase of 202% in the same period.

The non-maquiladora sector reported lower growth rates. Imports rose from $54.00 billion in 1994 to $85.83 billion in 2000, an increase of 50%. Exports climbed from $24.81 billion to $67.05 billion, an increase of 170%.

At the close of 2000, the export maquiladora industry included 3,590 establishments with accumulated growth of 72%. This activity provided jobs for 1.35 million workers, which equals 32% of the manufacturing workforce. The highest percentage of all the establishments, 30%, was in the textile and garment industry; most jobs, however, were created by the electric and electronic materials and accessories branches.

Outlook

Based on the characteristics and conditions that fostered the development of manufacturing between 1994 and 2000, it is undeniable that the Mexican industry will be affected by whatever happens to the U.S. economy. In this respect, everything seems to point to lower growth levels in economic activity than in previous years. This has already meant a gloomier outlook for high-tech companies, and has led to the closing of some plants that would have supported continued economic expansion.

It has yet to be seen whether the adjustment was sufficient. In the next few months, although there may be no economic downturn, it is likely that factory closures will be announced and economic activity will be sluggish. Under these suppositions, the possibility of the domestic industry recovering its growth rate will depend on the internal reconstruction of the production chains.

This path will be a difficult one due to the currently overvalued exchange rate. The new government has stressed its goal of curbing inflation, which is best accomplished with an almost fixed exchange rate and an increasingly overvalued peso. At the same time, fiscal reform must be promoted and more external financial backing is required, both of which could discourage local production and make imports more attractive.

This reality has already started to affect export companies, including the maquiladoras, which have begun to evaluate the cost/benefit of keeping their operations in Mexico. Although they can still assimilate the ever-increasing expense in terms of dollars for the labor and the services used, this could become a problem for the parameters of competitiveness.

Due to the above, it is estimated that the Mexican manufacturing sector is in for a period of slow growth, affecting both the companies focused on the domestic market and the maquiladoras.

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