

EU and U.S. Manufacturing Multinationals in Mexico¹

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Though the world's three great economic blocs —the European Union (EU), Asia, and the North American Free Trade Agreement (NAFTA)— have very different levels of integration and economic characteristics, they all include countries with relatively low wages. In 2004 and 2007, the European Union admitted 12 more countries, the so-called EU12, that offer highly-skilled labor at a much lower cost than in the so-called “old” Europe. Indeed, one factor that led to great interest in these countries joining the EU was precisely this wage differential. We need only note that in 2001, the average gross monthly wage in EU15 countries was €2 191, while in Romania it was €165, and in

the Czech Republic, €430. Although these wages have since increased, the differentials with old Europe remain considerable.

In the dynamic Asian region, despite China's booming economy, Japan is the country that stands out, given that it is the area's biggest developed economy and a leader in technology and capital goods production, both key for exercising economic leadership. In Asia, regional production networks interlace economies like Singapore, Hong Kong, Taiwan, South Korea, Malaysia, Thailand, Philippines, Laos, Vietnam, and China. Many of these countries are noted for cluster development, fostering the education of the work force, and developing infrastructure. Furthermore, many have dynamic internal markets that have become an important pull for foreign investment. Regional production in Asia takes

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advantage of the area's wage differentials to enjoy considerable international competitiveness, making it very attractive for multinational corporations in general.

Turning to the NAFTA region, it is well known that Mexico signed the agreement hoping to take its place as the low-wage-cost partner. No doubt this raised positive expectations among multinational corporations that it would attract foreign investment to the country, largely thanks to the possibility of producing or assembling goods at a low cost for export to the huge U.S. market.

The last few decades have seen a trend toward raising the technology level of what is manufactured and assembled in Mexico, which has led to the so-called second- and third-generation maquila plants.² It is important to differentiate, however, the technology content of the *product* from the technology used in the *process*. Mexico may well be exporting products with higher technology content, but this does not necessarily reflect greater economic development if they are merely assembled here. Nonetheless, some second- and third-generation assembly plants do make for a more highly-qualified work force, such as engineers and skilled technicians who participate in certain aspects of process and product innovation.³

For geo-economic and historical reasons, our northern neighbor has been the leading investor in the country, and much of the nation's industry developed in close relation to U.S. foreign direct investment (FDI). In Graph 1 we can see that for 1999-2008, the accumulated FDI from the U.S. accounted for 54.9 percent of the total, while the main European investors (Spain, Holland, the U.K., Germany, and Denmark)

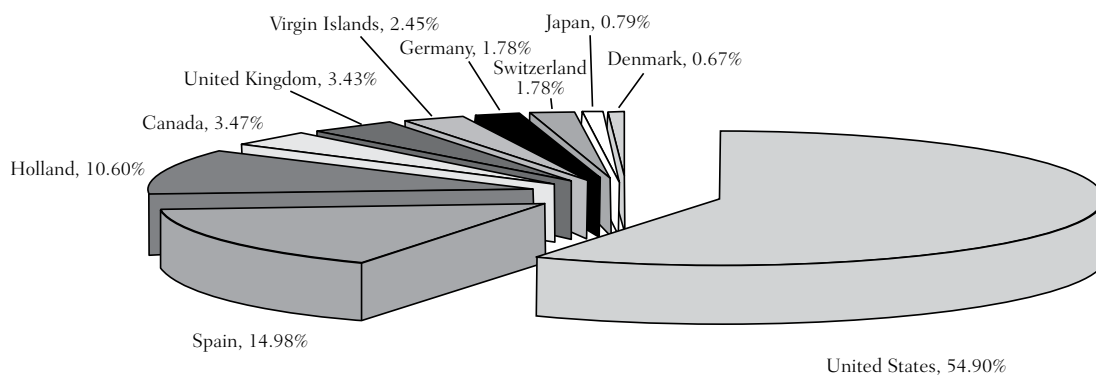
together represented 31.2 percent. Canada, meanwhile, contributed 3.47 percent of all investment (see Graph 1).

Therefore, although a European Union-Mexico Free Trade Agreement has been signed, U.S. trade and investment flows still dominate to a considerable degree. This reflects the fact that trade agreements are really most dynamic when they formalize pre-existing levels of economic integration, as is the case with the Mexican and U.S. economies. The percentages of FDI from the United States directed at the principal recently-industrialized and relatively low-cost countries and areas is a reflection of this. In 2007, Mexico attracted 3.2 percent of total U.S. FDI; Brazil, 1.4 percent; Argentina, 0.5 percent; Singapore, 2.9 percent; Hong Kong, 1.6 percent; China, 1 percent; and South Korea, 0.9 percent.⁴

Another way of monitoring multinational corporations is through the behavior of their sub-divisions, as these are one of the most important modes FDI is delivered. They are used to establish companies abroad, and depending on the percentage of the division owned by the parent company, these may be classified as subsidiaries (a corporation of which a non-resident owns more than 50 percent), associates (a cor-

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GRAPH 1
TOP TEN COUNTRIES' FDI IN MEXICO (1999-2008)



Source: Dirección General de Inversión Extranjera, Reporteador de los Flujos de Inversión Extranjera, Secretaría de Economía, Mexico City.

poration of which a non-resident owns between 10 percent and 50 percent), and branches (a non-incorporated enterprise wholly or jointly owned by a non-resident investor).⁵

We shall now look at the behavior of sub-divisions of U.S. and EU multinational manufacturing corporations in Mexico. For greater clarity, we will compare them with other regions with low relative wage costs. Graph 2 shows employment by U.S. manufacturing sub-divisions in various geographic areas with low relative costs between 1999 and 2007. The most striking piece of data is the relative weight of Mexico: between 1999 and 2003 employment in U.S. sub-divisions remained equivalent to the entire recently-industrialized, dynamic Asia region. Undoubtedly, Mexico was the most significant low-cost zone for U.S. multinationals. Nonetheless, from 2003 a clear downward trend may be noted as the Asia region starts to grow. Meanwhile, the EU12 and South American regions remain well below Mexico and Asia.

This 2003 change has been linked in recent analyses to the loss of NAFTA's positive effects on the Mexican economy, which had attracted FDI. The advantages offered by geographic proximity, zero tariffs, and low wages seem no longer suffi-

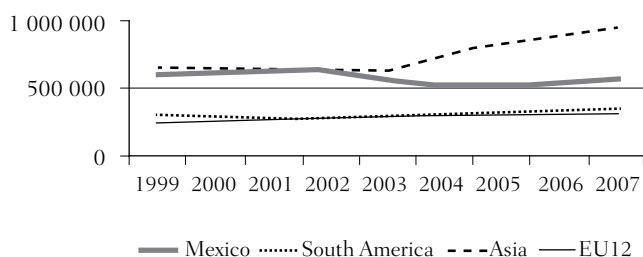
cient to attract U.S. sub-divisions to Mexico to the same extent as before. Even so, the variation from one industry to another is notable, depending on the cost structure of each: the automobile industry, for example, is characterized by high transport costs compared to the electronics industry, which produces smaller, more lightweight products. So, if we observe U.S. sub-divisions in these two industries, we find opposing forms of behavior: while Mexico remains the low-cost country with the highest employment in automotive sub-divisions, Asia comes out on top by far when it comes to the electronics industry. In fact, this region has become more competitive in this field worldwide.

Recent research has shown that in many cases the criteria of multinational corporations are based more on supra-national regional strategies—that is, from a geo-economic viewpoint they prioritize areas within the NAFTA, EU, or Asian economic blocs—than on truly global strategies, in terms of organizing their production and sales. Though some corporations have truly global strategies, such as Coca-Cola, and some industries are highly globalized, like electronics, this is not the rule. The reason is the high logistical, transport, and coordination costs of really globalizing corporations (see Graphs 3 and 4).⁶

Next, Graph 5 shows employment by EU corporation sub-divisions in the low-cost areas of the three economic blocs.

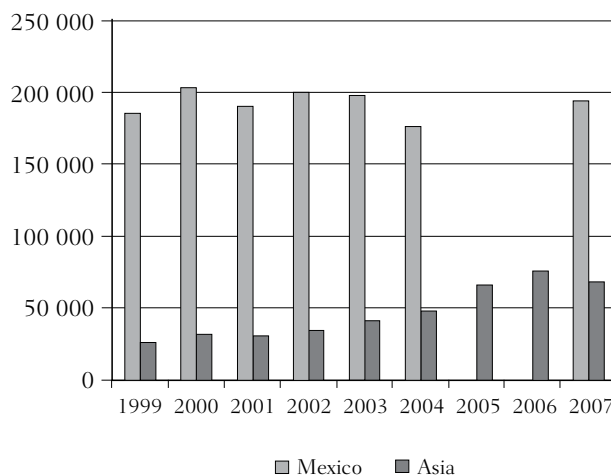
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GRAPH 2
EMPLOYEES OF U.S. MANUFACTURING SUB-DIVISIONS IN MEXICO, SOUTH AMERICA, EU12, AND DYNAMIC ASIA (WITHOUT JAPAN) IN ALL SECTORS (1999-2007)



Source: Department of Commerce, *Survey of Current Business*, several issues.
Note: The EU12 are the countries that entered the European Union between 2004 and 2007.

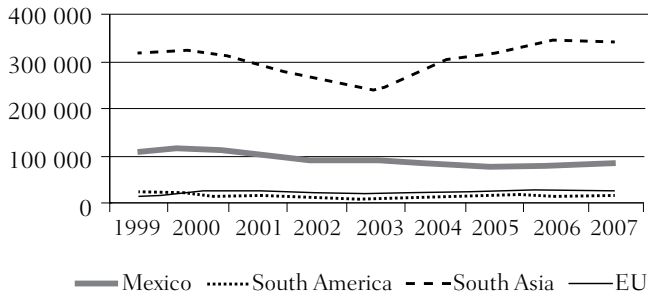
GRAPH 3
EMPLOYEES OF U.S. SUB-DIVISIONS IN MEXICO AND THE DYNAMIC ASIAN COUNTRIES IN THE TRANSPORT INDUSTRY (1999-2007)



Source: Developed using information from several issues of the *Survey of Current Business*.

GRAPH 4

EMPLOYEES OF U.S. SUB-DIVISIONS IN MEXICO, SOUTH AMERICA, EU12, AND DYNAMIC ASIA (WITHOUT JAPAN) IN THE ELECTRONICS INDUSTRY (1999-2007)



Source: Department of Commerce, Survey of Current Business, several issues.

Note: The EU12 are the countries that entered the European Union between 2004 and 2007. Asia does not include Japan and does include all the dynamic, recently industrialized countries.

We can immediately see that there are more jobs in the lower-wage-cost EU countries, and a large gap between these and Latin America (including Mexico) as well as the dynamic Asian countries. The latter show a relative decrease from 1997 to 2006, when employment in each bloc is equal to around

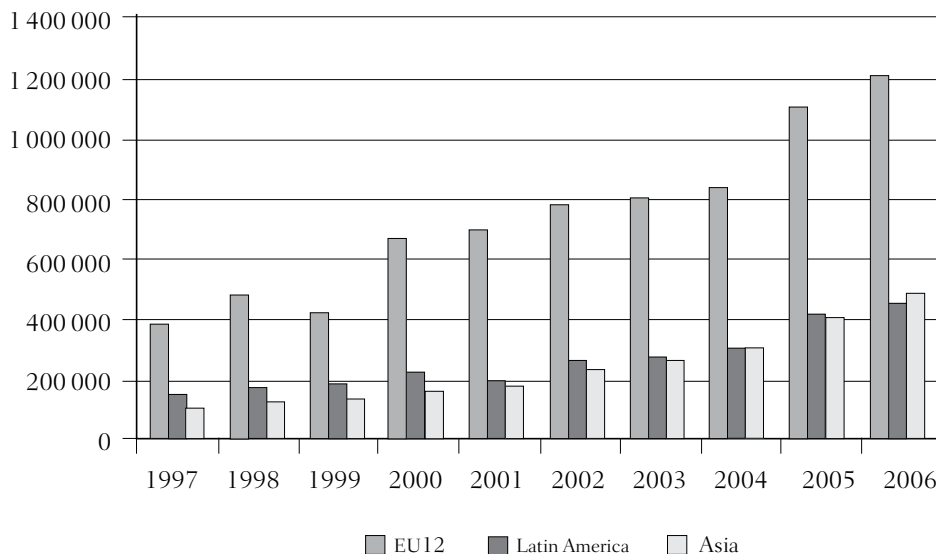
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one-third of that in these Central and Eastern Europe countries. There can be no doubt that EU-based manufacturing sub-divisions prioritize the EU12 region (see Graph 5).

Taking this into account, if we compare a number of low-cost countries outside the European region—specifically the cases of Mexico, China and Brazil—we see that for the European multinational manufacturing corporations it has proved more attractive to invest in Brazil and China than in Mexico. As Graph 6 shows, between 1997 and 2005 Brazil was in front, only to be overtaken by China in 2010, with over 350 000 jobs, while Mexico attracted only 125 000 jobs from sub-divisions (see Graph 6).

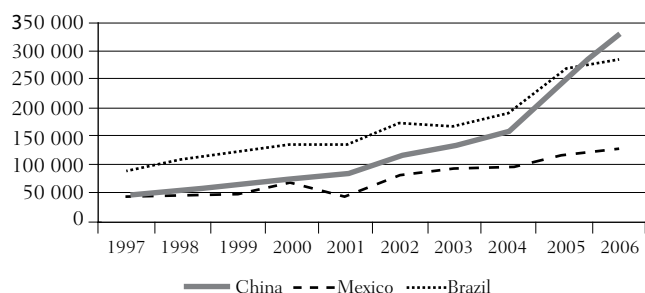
The EU clearly prioritizes the EU12 region for FDI. According to the European Commission, the entry of the EU12

GRAPH 5
EMPLOYMENT AT EU SUB-DIVISIONS IN THE RELATIVELY LOW-COST REGIONS OF THE THREE BLOCS



Source: Developed using Eurostat.

GRAPH 6
EMPLOYMENT IN EU SUB-DIVISIONS
IN SELECTED COUNTRIES



Source: Developed using Eurostat.

led to a deepening of production restructuring processes in the EU through the development of integrated production networks, as well as the availability of a highly-skilled, low-cost work force. The EU12 have boosted the creation of integrated production networks, particularly in the automobile and information/electronics sectors. However, we may also note that European investments in Asia and Latin America have grown considerably.

For its part, while it has been and continues to be a major investor in Mexico, the United States has also deepened its relationship with Asian regional production networks, depending on the type of manufacturing industry involved. Despite Mexico having increased exports from lower rungs of

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the value chain in high-tech industries such as aeronautics, it still retains the structure of an enclave economy. This means that profound productive, institutional, and social changes are required to make it more attractive to multinational corporations and to propel it to participate more actively in global production networks. ■■

NOTES

- ¹ The author wishes to thank CISAN research assistant Alejandrina Ortega for her support in writing this article.
- ² Jorge Carrillo, "Transnational Strategies and Regional Development: The Case of GM and Delphi in México." *Industry and Innovation* vol. 11, nos. 1-2 (March-June 2004), pp. 127-153.
- ³ Enrique Dussel, "Ser maquila o no ser maquila, ¿Es ésa la pregunta?" *Comercio Exterior* vol. 53, no. 4 (April 2003), pp. 328-337.
- ⁴ Calculated based on the UN *World Investment Report 2009*, http://unctad.org/en/docs/wir2009_en.pdf.
- ⁵ See the UN *World Investment Report 2007*, http://unctad.org/en/docs/wir2007_en.pdf.
- ⁶ Alan Rugman. *Regional Multinationals. MNEs and "Global" Strategic Management* (Cambridge: Cambridge University Press, 2008).

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