

Research paper on general motors in mexico

[Law](#), [Evidence](#)



WHY GENERAL MOTORS SHOULD EXPAND ITS AUTOMOBILE OPERATIONS IN MEXICO

BACKGROUND

Positive prospect for Mexico calls for greater attention. The recovery from the hard hit of 2009 global financial crises that affected the performance of the industrial sector of the economy has increased greater business prospects. This call for attention is in addition to the GM expansion plan \$420 million of investments in the states of Guanajuato and San Luis Potosi. The expansion suggestion is based on various factors highlighted in the underlying suggestion.

ASSESSMENT SCOPE

The proposed suggestion has been based on conducting assessment from the following perspectives:

- GM's proposed suggestion is based on the assessment of the Mexico's local business conditions with specific attention to the economic outlook as well as automotive industry prospects.
- GM's competitive position as car manufacturer in the Mexico.
- Mexico's competitive position as automobile manufacturing platform as compare to other markets.
- Risk assessment of Mexico as Investment Avenue.

ECONOMIC ASSESSMENT

With 114. 872 million populations and 1162. 891 US\$ billion GDP (see exhibit 1) is the recent key highlights of Mexico. The macro economic outlook for the country is promising as compared to previous years (see exhibit 2):

Though GDP growth is forecast is curtailed but at the same time the overall benefit is present in terms controlled inflation. Investment from other automobile manufacturers such as Nissan investing new \$2billion plant and Ford adding \$1.3billion new plant along with other automobile strengthening respective position capacities in Mexico will have positive impact on the GDP and current account balances. With controlled public finances Mexico has low external debt. Despite low external debt Mexico has IMF's credit line timeline till the year 2015. Export of oil and manufactured products being main sources of revenue had fluctuating year on year trend (see exhibit 3): Export of Mexico amounting to US \$30.6 billion as against US \$ 30.2 billion imports create surplus of US \$ 0.4 billion. Main constituents of the exports account durable goods sharing 87% of country's export with 25% share constituted by transportation equipment.

Further, the local economic growth is highly dependent on the level of employment. Though employment level is increasing low wage contributors are added benefit with respect to opportunity of expanded low wage employees (see exhibit 4):

Further for the availability of the low cost labor, BCG forecasts that by 2015 hiring cost of Chinese workers will be 25% higher than that of Mexico; therefore, providing long term prospect for investment (Morley, 2012).

In addition to the benefits vast trade agreements that Mexico have large number of countries (14 countries having 11 trade agreements; constant efforts from Mexican government to increase countries' competitiveness is also an important factor. To mention, Mexico has reduced import tariffs for importing products mainly from US as well as mainly from BRIC countries.

There has been consistency in mentioned efforts to continue in positive direction in current year (see exhibit 5)

Therefore, with already assessed business conditions, business environment of Mexico is overall positive as developed by Cofe. com (see exhibit 6).

GM's COMPETITORS ASSESSMENT

The proposed suggestion to expand investment is followed by the expansion by the consistent rise in investment by competitors in the region. The current production facilities concentration is presented in the exhibit 7.

With Nissan on the leading position with 607 units of cars followed by GM with 544 units in 2011 followed by Volks Wagen (510 units) Ford Motors (462 units), Chrysler (280 units), Toyota (50 units) and Honda (40 units). The competitiveness will be increasing with six manufacturers announced to increase production capacity in the country (Case, Ohnsman, and Trudell, 2012). Investment announcements include \$2billion plant in the Aguascalientes station; Audi also announced \$. 2. 0 billion Ford to invest \$1. 3billion in new plant in North Mexico with assembly plant Hermosillo; Honda investing in a new production plant an amount of \$800 million Celaya, Guanajuato; Daimler Trucks investing \$ 300 million while BMW has also announced investment in Mexico. Therefore, huge investments by major competitors planning to increase production facility in Mexico will affect the dominant producer position in the country, hence, affecting the supply chain strengths. Further, congestion of location presence will also affect the competitiveness.

Among the existing attractive opportunities, Monterrey Industrial Heartland is also an attractive venue for investment. Monterrey city of Mexico is

bilingual making placement of expatriates easy along for developing expanded subsidiary for new car designs in region. The considerably pro-business environment has not witnessed no single labor strike in whole 14 years period while industrial region has almost all sophisticated industries such home appliances, bio-technology, software, specialized medical industry etc. Multinational organizations already have existence in the region with Chrysler being among the dominated automaker. The locations is also supported for being located in NAFTA corridor Hence, Proposal along with the expansion in Mexico is also intended to propose expansion in some broader region to spread across the state; hence, reducing risk.

COMPARITIVE POSITION OF MEXICO WITH OTHER COUNTRIES

Investment in Mexico has taken the position of leading preferences among investors. Or more appropriate to state would be fact that among capital intensive investments that already accounts for the 3% of GDP. Currently Mexico rank on the fourth position on world auto makers (Casey, 2012). Intense growth in the auto- manufacturing sector of Mexico has following dominant reasons as mentioned and discussed below:

- The cost competitiveness of Mexico is much attractive for auto makers worldwide in contrast to the local production. The cost index as in 2010 for different countries with US as base refers to lowest cost structure (see exhibit 8).
- Further, the strengthening of Yen as against US dollar is also forcing Japanese automakers to shift manufacturing in other countries as also evident from the cost index (see exhibit 8). Mexico offering lowest relative

cost condition hence becomes preferred priority.

- The growth of Mexico in contrast to other emerging markets is also facilitated by the doing business index. In accordance with doing business index Mexico ranks lowest from BRIC countries; further, the difference from BRIC countries is in multiples (see exhibit 9).
- Therefore, close location proximity as well as doing business proximity (as against other countries doing business with US) has increased the US trade with Mexico to increase than combined trade with all BRIC countries (Alley, n. d). These factors have increased US transaction with Mexico. For instance, Exports from Mexico to US accounts content approximately 10 times than export from China to US. Similarly, location as well as trade proximities have increased the content export ratio of Mexico to US in contrast to Russia and China by 20 times (Alley, n. d). However, the position of Mexico is a rank behind than seventh position of India that has also witnessed almost three times growth over 2010-2011.
- Growth of Mexico has resulted in much faster pace than Brazil; among the fastest growing countries of world. GDP of Brazil remained at 2. 7% in year 2011 in contrast to 3. 8% of Mexico for the same period. Further, the exceeding trend of the GDP is expected to be witnessed in 2012 (2). Though Automaker have been investing in Brazil along with extensive investment in Mexico such as BMW has recently announced an investment of 200 million Euros (\$254 million) Brazil for establishing factory to be operational by 2014 (8). In addition, Brazil is still ahead in position as automaker and holds sixth position on the world automakers with year on year growth of 5. 5% (similar to that of Mexico over same period).

Apart from the above mentioned factors, the financial condition of Mexico and its debt burden as percentage of GDP is much lower than other countries as referred in the comparison developed in exhibit 10.

On the basis of this assessment Mexico is preferred location of investment as general government debt also forms the key determinants of interest and tax rate. Therefore, it is also expected to remain feasible in the coming years based on the above assessment

RISKS IN EXPANDING IN MEXICO

- Mexico developing strong relations with US has become extra ordinarily dependent on US; therefore, a moderation in US economy is expected to have multitude impact on the Mexico. US, according to an estimate, form almost 80% of export destination for Mexican products being almost 25% of GDP. High dependency increases high risk.
- Though giving the benefit of low wage cost country increases the risk of increased tax burden as 40% of workers constitute informal economy.
- Government and economy is highly dependent on the oil reserves for revenue constituting 30% of government revenue (2). Can lead to increased crises as over seven years time the Mexican production has become has stagnant due to exhausting oil reserves. Fiscal deficit can stand at the rate of eight percent of GDP without oil revenue
- Mexico is a country with high level of organized crime. Capital crimes such as illegal Mexican transportation to US, drugs trafficking, trafficking of arms to the south and of oil towards north are conducted with strong network are high threat to investments. These crimes have also led to corruptions, monopolies and cartelization hence position serious questions to government

administrative power and capability. This results in high cost incurred in the safeguarding the shipments from sea, train and other modes of transportation affecting business supply chain. It also affects the profitability of investments specific to the cost saved from low wages labor availability. Therefore, investment is required to pay attention to this factor.

CONCLUSION

Pro-business environment of Mexico has already attracted large number of investors while GM also ranks as second major Auto maker in Mexico; the summarized assessment of Mexico suggests additional investment to other region of Mexico. Proposal is supported by various reasons with position as dominant manufacturer to be retained. Further, along with recommendation of the state of investment it has also highlighted the risks that need to be well considered before undertaking investment.

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Exhibit 1

(Alley, n. d)

Exhibit 2

(Coface, 2013)

Exhibit 3

(BBVA, 2012)

Exhibit 4

(BBVA, 2012)

Exhibit 5

(Tani, 2012)

Exhibit 6

(Coface, 2013)

Exhibit 7

(Morley, 2012)

Exhibit 8

(KPMG, 2012)

Exhibit 9

(Alley, n. d)

Exhibit 10

(Alley, n. d)