

Mexican Investment in Tennessee: A Preliminary Study

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Introduction

Public discussions of Mexican influence in Tennessee most often center on immigration.⁴ Tennessee does have one of the fastest growing Mexican migrant populations in the country,⁵ and over the last several years this labor pool has become a significant factor in the economy of Tennessee and neighboring states.⁶ However, there are other substantial –and oftentimes overlooked—economic ties with Mexico that create jobs for over a thousand Tennesseans.

Based on a preliminary survey of Mexican companies operating in Tennessee, we estimate conservatively that Mexican owned manufacturing plants and other businesses directly employ over 1000 workers; the majority of these jobs are concentrated in the automotive sector in rural Middle Tennessee and the Upper Cumberland. As Mexico's economy has grown in recent years and its companies have become more globally competitive, capital investment has begun to flow from south to north. While daily press coverage has tended to focus on concerns over jobs lost to Mexico, the picture of post-NAFTA supply chain integration is more complex.⁷ Tennessee exports to Mexico have increased substantially. International companies with a significant presence in Tennessee have sizeable facilities in Mexico. Perhaps more surprisingly, Mexican companies have important, job generating investments in Tennessee.

U.S.-Mexico Integration

Mexico and the U.S. share 1,969 miles of border and 190 years of history as independent countries. There are over 10 million immigrants from Mexico living in the United States, according to the most recent US census and the Pew Hispanic Center, while tens of millions more trace some

family link to the country. Mexico has been one of the most important trading partners of the U.S. since at least 1998. From 1999 to 2004, Mexico ranked second in terms of trade importance to the U.S., just after Canada, and before Japan and China. Since 2005 Mexico has ranked third after Canada and China in terms of total trade in USD between the U.S. and the rest of the world.⁸

The relevance of Mexico in the U.S. economy goes beyond trade and labor mobility. Mexico is not only a major U.S. trading partner and a lender or exporter of labor, Mexican global companies contribute to industrial activity in the U.S. through foreign direct investment (FDI). We often think of FDI as going from North to South, and U.S. companies have invested substantially in Mexican manufacturing and assembly plants. Often overlooked, however, is the significant Mexican investment in the U.S. Mexican FDI in the U.S. has increased 10 fold since the start of NAFTA and more than doubled between 2005 and 2009 (see Table 1). Mexican FDI contributes to U.S. business activity through investment in plants, machinery, and related job creation.⁹

U.S.-Mexico: An Applied Case to Tennessee

Mexico is an active contributor to the Tennessee economy. Mexico is the second largest market for agricultural goods from TN in 2010. Tennessee exports totaled \$1.46 billion dollars in the first half of 2010, a 39% increase in comparison with the same period the year before. Since 1995 Tennessee's exports to Mexico have increased dramatically (405%), almost double the state's export growth rate for the rest of the world.⁹

Mexican capital investment in plants and equipment is noteworthy at the state level as well.

⁴ A relevant discussion of immigration in Tennessee and Southern states in the U.S. can be found <http://www.knoxnews.com/news/2010/jul/10/tennessee-wrestles-immigration-problem/>.

⁵ <http://pewhispanic.org/states/?stateid=TN>

⁶ <https://utextension.tennessee.edu/publications/Documents/PB1762.pdf>

⁷ <http://www.reuters.com/article/2011/01/20/us-usa-immigrants-employmentexclusive-idUSTRE70J37P20110120>

⁸ <http://www.census.gov/foreign-trade/top/>

⁹ *NAFTA Works for Tennessee-Mexico*, Secretaria de Economia, Mexico (2nd quarter 2010), and *Success Stories*, Secretaria de Economia, Mexico (2nd quarter 2010). Karen Antebi, Mexican officer, granted access to these documents through the recommendation of Luis de la Calle.

Table 1. U.S.-Mexican FDI 1994-2009 Historical Cost Basis
(U.S. \$ in millions)

Year	Mexican FDI in the U.S.	U.S. FDI in Mexico
1994	2,069	16,968
1995	1,850	16,873
1996	1,641	19,351
1997	3,100	24,050
1998	2,055	26,657
1999	1,999	37,151
2000	7,462	39,352
2001	6,645	53,544
2002	7,829	56,303
2003	9,022	56,851
2004	7,592	63,384
2005	3,595	73,687
2006	5,310	82,965
2007	7,688	91,046
2008	9,444	89,610
2009	11,361	97,897

Source: U.S. Department of Commerce, Bureau of Economic Analysis, nominal terms per year

Reproduced from U.S.-Mexico Economic Relations: Trends, Issues, and Implications, M. Angeles Villarreal, Congressional Research Service

Mexican FDI, according to the data. The actual figure is certainly much higher when the multiplicative effect of economic activity stemming from direct-job creation is taken into account. The vast majority of these positions are in manufacturing concentrated in the strategic automotive sector. The data indicate that Mexico was by far the Latin American country with the largest number of facilities in Tennessee: 14 of 19 Latin American operations in Tennessee as of 2010 correspond to different Mexican entities. In comparative terms, the amount of Mexican direct investment in Tennessee comprises about 0.04% of the total as of March 2011, about the same as China, while employing more than 5 times as many workers as Chinese firms.¹¹

Data gathered from the Department of Economic and Community Development of Tennessee and the Mexican Embassy¹² shed light on the depth of Mexico-Tennessee economic integration. In geo-economic terms, smaller Mexican entities are clustered in the economic regions around Memphis and Knoxville. Almost half of the Mexican companies (47.3%) operate in the service sector while the largest number of employees (755) is concentrated in automotive sector manufacturing in rural Middle Tennessee and the Cumberland Plateau.

Recent mergers and acquisitions evidence the dynamic interaction between Tennessee and Mexico. As noted by the Mexican Embassy, Memphis-based FedEx signed an agreement to acquire MultiPack, a Mexican domestic freight services company. Giant Mexican bakery company Bimbo’s has acquired Sara Lee bakeries—with sizable assets in Tennessee—uniting the largest baked goods companies in Mexico and the U.S.¹³

on investment by Mexican citizens in small businesses in Tennessee.

¹¹http://www.tn.gov/ecd/pdfs/FDI_Employment_11.pdf, The figure for China does not include Taiwan.

¹² *NAFTA Works for Tennessee-Mexico*, Secretaria de Economia, Mexico (2nd quarter 2010), and *Success Stories*, Secretaria de Economia, Mexico (2nd quarter 2010).

¹³ *Knoxville News-Sentinel*, November 9, 2010.

In fact, Tennessee is a relevant case study for this topic. The Department of Economic and Community Development of Tennessee has kept records on Mexican FDI in the state since 1999. While much of the data referenced in Table 2 is confidential (with dollar amounts of specific investments withheld), the number of employees generated by these investments and acquisitions is recorded.¹⁰ At least 1300 direct jobs are created by

¹⁰ The Department of Economic and Community Development does not have a formal definition of Foreign Direct Investment (FDI). In academic literature it is defined as the participation of capital from country X in the economic activity of country Y by the creation or acquisition of local assets as long term investments. Data is not readily available

Table 2 - Findings

Subsidiary	Activity	Employees (Ei)	Investment per Branch USD
Asarco	Mining	75	100,000*
Auma Engineered Products	Engine parts, distribution center	10	100,000*
Binswanger (1)	Wholesale glass	15	100,000*
Binswanger (2)	Wholesale glass	7	100,000*
Binswanger Glasscraft	Heavy Glass	N/A	100,000*
Cemex	Cement, manufacture	98	100,000*
FICOSA	Automobile manufacture	335	100,000*
Nemak	Aluminum castings	420**	100,000*
Stabilit America	Fiberglass paneling	80	100,000*
Vitro (1)	Glass store	7	100,000*
Vitro (2)	Glass store	30	100,000*
Vitro (3)	Wholesale flat glass	35	100,000*
Vitro (4)	HQ Wholesales Glass	9	100,000*
VP Consolidated Holdings	Prefabricated metal buildings	160	100,000*
Confidential (1)	Aluminum casting	N/A	106,000
Confidential (2)	Fiberglass reinforced paneling	50	8,000,000
Confidential (3)	Fiberglass reinforced paneling	18	400,000
Confidential (4)	Engine parts Wholesales	25	1,000,000
Confidential (5)	Heavy glass	N/A	100,000

Data from the ECD-TN, except where noted; all figures are in nominal terms and current as of October 2010

*No data available; \$100,000 was used as a conservative estimate, based on the lowest investment by a Mexican branch in Tennessee

**ECD data place the number of employees at 200 while the company website indicates 420 employees at the Dickson County facility, see www.nemak.com

Conclusions

Mexican investment in Tennessee plays a significant and potentially increasing role as a job creator in the state.¹⁴ The conclusions regarding direct FDI are conservative due to the fact that information regarding the amount of investment in specific facilities often is considered proprietary and not publicly available. As a consequence, it should be reasonable to conclude that actual Mexican direct investment in Tennessee goes far beyond the data in Table 2. For example, if the assumed investment per average branch were \$1 million USD as opposed to the assumed figure of \$100,000 USD, the estimate for accrued Mexican direct investment in Tennessee since 1999 would be about \$23 million USD, which still would not take into account further investments and inventory.¹⁵

The story of Tennessee-Mexico economic integration is more complex than commonly thought and goes far beyond trade statistics and the migratory labor market. The concentration of Mexican investment in the automotive sector suggests that there may be other opportunities for Mexican firms to invest in Tennessee in order to take advantage of a potential competitive advantage created by the regional integration of this sector. Over three quarters of the Mexican firms invested in Tennessee are based in Monterrey, Nuevo Leon (only 1,232 mi from Nashville). In addition, the two automakers with major assembly plants in Tennessee also have large facilities in Mexico along with extensive supplier networks. Such clustering is common in foreign investment and presents an opportunity for investors and government economic development agencies seeking to exploit geography and sector expertise. Further research should

explore the financial magnitude of Mexican FDI in Tennessee as well as opportunities to take advantage of sector concentrations and geography. In addition, while Canada, Japan, and the leading economies of Europe traditionally have been the largest sources of foreign investment in Tennessee, other sources of foreign investment from fast growing emerging economies in addition to Mexico merit further analysis.

¹⁴ Most observers would be surprised to learn that there is any significant level of Mexican business investment in Tennessee. Interview with Professor Jose Gonzalez at the Massey School of Business, Belmont University, Nashville, Tennessee. May 1, 2010.

¹⁵ This figure does include the \$9.3 million USD Mexican direct investment in Tennessee as of March 2011, per data from the TN-ECD.

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