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Mexico serves not only as a substantial local market with its 130 million population but also as a strategic base for exports

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Johannes Hauser, managing director of the German-Mexican Chamber of Commerce and Industry (AHK Mexico, or CAMEXA locally), shares the chamber's functions, which include representing the German private sector in Mexico, with a predominance in the pharmaceutical and medical device industries. In addition, he weighs in on the evolution of German companies' presence in the country, which has doubled in the last 15 years, and the factors that contribute to Mexico's attractiveness, including its free trade agreements and geographical proximity to the US.

Could you start by introducing AHK Mexico?

The German-Mexican Chamber of Commerce and Industry, located here in Mexico City with a subsidiary in Quer taro and various representative offices throughout the country, is celebrating its 95th anniversary this year, having been founded in 1929. We are a bilateral organization dedicated to promoting commercial and investment relations between Mexico and Germany. We currently have a little over 700 member companies, making us the second largest chamber of commerce in Mexico after the American Chamber of Commerce. This reflects the significance of German investment here, as we represent around 90-95 percent of German investment in Mexico.

Our chamber has three main functions, similar to all German chambers worldwide, known collectively as AHK. In Mexico, we are called CAMEXA. Firstly, we act as a club for our member

companies, providing services, information, and networking opportunities through various events and committees, including those focused on specific sectors like health.

Secondly, we offer services to both German companies interested in Mexico and Mexican companies interested in Germany. This includes assistance with commercial and investment activities, covering a wide range of needs such as finding representatives, customs advice, localization, and recruitment. These services are available to all companies, not just our members, and are an important source of our funding.

Lastly, we represent the German private sector in Mexico on behalf of the German government. This involves political lobbying and addressing general concerns and critical issues, such as the registration of new products in the health sector. We work closely with the German embassy to fulfill this role. So, in summary, we act as a member organization, a service provider, and a representative of German industry in Mexico.

You represent a variety of industries, and this varies by country. Could you tell us how this representation works here in Mexico, particularly in terms of the biggest industries and investments, including healthcare and pharmaceuticals?

According to the Ministry of Economy, there are currently 2,100 companies with German capital participation in Mexico. These companies span various sectors across the country. However, there are some key focus areas. The most prominent is the automotive industry, with major OEMs like Volkswagen, Audi, BMW, and Mercedes, as well as numerous automotive parts suppliers. This industry forms the backbone of German industrial and manufacturing activity in Mexico.

Following the automotive sector, the pharmaceutical and medical device industries are also significant. German companies like Bayer and B.Braun have a long-standing presence in Mexico, contributing to a well-established tradition in the health sector. Additionally, many German companies are involved in the distribution of capital goods and machinery, which are crucial for Mexico's manufacturing sector since the country does not have a substantial capital goods industry of its own.

Recently, Germany has been the second largest investor in Mexico, just after the US. There has been substantial reinvestment by German companies already established here, expanding their operations with additional factories and facilities. This ongoing reinvestment underscores the strong and growing presence of German businesses in Mexico.

Do you have some insights into the numbers regarding investments from Germany and how they have evolved over the years? Do you feel a push right now?

Having been here for 20 years, I've closely followed the developments. The number of German companies in Mexico has doubled in the last 15 years. It is crucial to note, especially when addressing a German audience, that while the large, well-known companies in sectors like automotive are present, the majority are actually small and medium-sized enterprises (SMEs). These SMEs are the true drivers of the German economy, even more so than the big ones. German companies are quite risk-averse, so it is essential to demonstrate that Mexico is a viable and successful market for SMEs. According to our biannual survey of member companies, which includes questions on commercial success, expectations, investment activities, and challenges, optimism has significantly increased post-pandemic and remains high. The companies know the

local landscape and potential, and are quite confident and optimistic about their prospects here.

What are the factors that contribute to the appeal of Mexico for investors, especially in comparison to Brazil? Why is Mexico attracting more foreign investment?

The appeal of Mexico to investors is multi-faceted. Firstly, Mexico has an open economy, which sets it apart from Brazil. This openness is demonstrated by the numerous free trade agreements Mexico has established over time, particularly the USMCA agreement with the US and Canada. This agreement is a significant driver for foreign companies to come, stay, and expand in Mexico.

Mexico serves not only as a substantial local market with its 130 million population but also as a strategic base for exports, especially in sectors like automotive, which are heavily export-oriented. The pharmaceutical and healthcare sectors, while focused on the local market, also benefit from these trade agreements.

The geographical proximity to the US is another crucial factor. It minimizes transport delays and costs, a lesson underscored by the pandemic. This proximity supports the trend of reshoring, with companies seeking to be closer to their primary markets.

Additionally, the cost level in Mexico remains competitive compared to the US and other countries. Compared to countries like Vietnam or China, Mexico offers the advantage of being in the Western Hemisphere, sharing similar cultural and democratic values with countries like Germany. This overall favorable framework makes Mexico an attractive destination for foreign investment.

These factors collectively explain why Mexico, rather than Brazil, is attracting substantial foreign investment, not just from Germany but globally.

One notable figure I came across is that Germany is the second largest country for Mexican imports of pharmaceutical products. Together with France and the US, they account for 46 percent of the total pharma imports in Mexico, which is quite impressive. Given this dynamic, what do you see as the specific opportunities and challenges for the pharmaceutical industry in Mexico?

The primary challenge for the pharmaceutical industry, which has persisted through multiple administrations, is the regulatory process managed by COFEPRIS. The registration process for new products has been a constant issue. Despite some improvements, it remains a significant barrier for companies entering the market or introducing new products.

This challenge is frequently highlighted by our member companies in the sector, who often urge us to help push for meetings with COFEPRIS officials to address the bureaucratic bottlenecks.

On the opportunity side, Mexico remains a growing and promising market. Despite the disparities within the country, there is considerable potential to enhance health supply across the nation. The deficiencies in certain areas point to untapped opportunities for growth and development in the healthcare sector.

Could you share your insights on the direction you see Mexico taking right now?

There have certainly been significant changes in recent years, particularly in the relationship between the government and the private sector. The atmosphere has notably shifted, and it is no surprise that the relationship between the private sector and the government has been somewhat strained. However, what's important to highlight is that Mexico distinguishes itself from many other Latin American countries in how its private sector operates independently from the political landscape.

Thirty or forty years ago, there was a much closer relationship between politics and the private sector, with a lot of public companies and government influence. Today, many companies, especially those focused on exports, are more concerned with the economic development of their major clients, like the United States, rather than internal political issues.

Despite some exceptions, such as recent energy policies, the last five years have been quite successful for the private sector in Mexico. This success demonstrates that political changes do not necessarily hinder private sector growth. The private sector can adapt and thrive regardless of who is in office, which is a significant difference compared to other emerging markets where political developments heavily impact business operations.

In the past, election years would freeze investments, with everyone waiting to see the outcome. Now, investments continue, breaking records even during election years, proving that businesses are less dependent on political outcomes. German companies, for instance, continue to reinvest in Mexico, undeterred by election cycles. This resilience shows that while the transformation within the government is notable, it doesn't significantly disrupt private sector activities, at least for our companies.

To finalize the interview, looking forward to the next three to five years, what are the strategic priorities for the chamber?

At the moment, we have two important topics we are focusing on. First, vocational training, known as "Formación Dual" in Spanish or "Duale Berufsausbildung" in German. Given the high demand for skilled workers in Mexico, especially in the manufacturing sector, we are working to integrate a system similar to that in Germany, which balances theoretical knowledge and practical experience. We have been collaborating with Mexican private sector organizations and the Secretary of Public Education to develop this system over the past 12 years. This effort not only benefits German companies but also a growing number of Mexican companies.

Initially, we were concerned about the continuity of this program under the current government. However, they recognized the benefits, such as providing skilled labor and keeping workers in the formal sector, which benefits everyone. This understanding has allowed the program to continue and expand.

The second major focus is on sustainability and energy transformation. We are working to raise awareness about the importance of green energy and sustainable practices. This involves practical advice and training for companies on becoming more energy efficient and sustainable. For instance, we offer a course called "European Energy Manager," which helps companies identify and address energy inefficiencies.

Additionally, we are also involved in the digitalization process, which is a more technical aspect of our work but equally important. These initiatives, alongside our basic services, form the core of our strategic priorities moving forward.

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