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## **Auto Industry Projects Strong Exports in 1994**

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According to government and automobile industry forecasts, Mexican exports of motor vehicles are expected to grow again in 1994, continuing the pattern of steady growth during the past 13 years. On the other hand, the prospects for the domestic market appear uncertain this year, especially with enactment of the North American Free Trade Agreement (NAFTA) on Jan. 1, 1994. In fact, the impact of NAFTA was already apparent in the pattern of domestic sales and exports during January, the first month in which the accord was in effect. In late February, *La Jornada* reported that domestic automobile sales during January of this year were down 18% compared to January of 1993.

On the other hand, the newspaper said Mexican automobile exports that month, mostly to the US and Canada, were 64% higher than in January of 1993. Under NAFTA, Mexico has reduced its tariff on imports of US and Canadian passenger vehicles by 50%, while the US and Canada have cut their tariffs on Mexican imports by 100%. In fact, automobile and export industry executives are projecting total exports of motor vehicles this year will increase by 15% to 20% from last year, to between 518,000 and 540,000 units.

The increase in exports would continue the pattern set in 1993, when shipments of motor vehicles rose by almost 20% from 1992 to about 450,000 units. Exports this year could represent as much as 45% of the production total of 1.2 million units forecast by the Trade Secretariat (Secretaria de Comercio y Fomento Industrial, SECOFI) for the year. This is a similar percentage to 1993, but much higher than the 36% share reported in 1992.

According to a report released by the private Banco Nacional de Mexico (Banamex-Accival) in January, the increase in motor vehicle exports last year mostly passenger automobiles was a direct response to slow domestic demand, which resulted from last year's decline in the national economy. According to Banamex-Accival, four of the five largest companies with automobile assembly plants in Mexico reported increased exports for January-October of 1993. The exception was Ford de Mexico, which reported a decline of 18.4%. Shipments rose by 26% for Chrysler, 17.9% for General Motors, 85.7% for Volkswagen, and 16.1% for Nissan.

The report said other factors also contributed to increased exports, such as an economic recovery in the US the main destination for Mexican automobile exports and Nissan's decision to start assembling its Tsubame model in Aguascalientes for shipment to the Japanese market.

The Banamex-Accival report noted that Mexican automobile exports have risen from a low of 14,000 units in 1981 to 382,000 in 1992. The report attributed the steady growth over the past decade in part to the legal requirement that individual automobile companies maintain a stable trade balance. In other words, the total value of imported auto parts must equal or be lower than the export value of the final assembled product. Additionally, the report noted that the quality of vehicles produced at Mexican assembly plants has improved steadily, which has helped in marketing efforts in the US

and Canada. For example, in an interview with the German newspaper Autogramm in mid-March, Volkswagen spokesman Jens Neumann said Volkswagen de Mexico had increased exports at the end of last year and early this year after correcting delivery and quality problems at its Puebla plant. Neumann reported that sales in the US (mostly originating from the Puebla plant) reached 16,000 units in January and February of this year, an increase of 124% from the same two-month period last year.

### *Domestic market uncertain*

Despite the overall favorable export picture and the slow start in domestic sales this year, opinions vary on whether domestic demand for motor vehicles will pick from last year's very slow levels. In January, the Mexican Automobile Distributors Association (Asociacion Mexicana de Distribuidores de Automotores, AMDA) reported sales of motor vehicles during 1993 declined by 12% from 1992 due to sluggish national economic conditions.

Analysts at Banamex-Accival predict only limited economic recovery during 1994, and thus little if any improvement in terms of automobile sales on the domestic market. "In domestic sales, no sign of short-term recovery can be gleaned," the Banamex-Accival report in January said. "This industry is a reflection of the economy as a whole." On the other hand, some automobile industry executives are predicting that domestic sales will begin to improve this year.

In an interview with a magazine published by the Mexican Financial Executives Institute (Instituto Mexicano de Ejecutivos de Finanzas, IMEF) in late February, Volkswagen de Mexico's financial director Gerhard Rieder predicted that domestic sales of motor vehicles will double over the next several years, although he did not provide a specific timetable. He said Mexican manufacturers will adjust and successfully compete against imports from the US and Canada.

For his part, Fausto Cuevas Mesa director of the Mexican Automobile Industry Association (Asociacion Mexicana de la Industria Automotriz, AMIA) predicted that domestic sales will grow by an average 10% per year through the end of the century, including this year. Taking into account total sales of 600,000 vehicles last year, this would translate to 660,000 units in 1994, or roughly the same level as sales in 1992.

According to an IMEF report in March, Mexican automobile assembly plants have indeed been placing a major emphasis on the export market, even forging partnerships with industry competitors in order to improve the quality of their product. The companies that have formed partnerships include: General Motors de Mexico and Japanese manufacturers Toyota and Nissan; Chrysler and Japan's Mitsubishi; and Volkswagen and Ford.

For its part, Grupo Dina which mainly produces trucks, buses and other commercial vehicles is also studying the possibility of forming a partnership with a Japanese or South Korean automobile manufacturer to assemble compact passenger cars in Mexico for the export market. Dina executive Martin Josephi, a former Volkswagen de Mexico executive, did not name the potential partner. But he told La Jornada that under the plan, the partnership would produce vehicles for shipment to Latin America and the US.

On the other hand, Japan's Honda Motor Co. has launched a feasibility study to explore the possibility of installing an assembly plant in Mexico, primarily to produce such models as Civic and Accord for sale on the domestic market. A Honda spokesman said the company had not yet drafted a timetable to start production. Honda would not only compete with the five largest companies, but with German manufacturer Mercedes Benz, which produces a small number of passenger vehicles for sale in Mexico.

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