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Nissan, Volkswagen Announce Major Expansion of Operations in Mexico

by LADB Staff

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In early October, the Mexican subsidiaries of German-based Volkswagen and Japan's Nissan announced plans to expand their motor-vehicle assembly operations in Mexico to boost sales in North America, primarily in the US market. Speaking to reporters from the company's headquarters in Germany, Volkswagen president Ferdinand Piech said the firm intends to invest about US\$1 billion through the year 2000 to expand its operations in Puebla and to construct new facilities in several other Mexican states.

In an interview with Mexico's official news service Notimex, Piech said that the expansion plans will create at least 1,500 new jobs in Mexico. He said it will also allow Volkswagen to greatly increase production of the Beetle and Jetta models. Piech said the company is particularly interested in expanding sales of Volkswagen's new Beetle.

Last December, Volkswagen announced that the Puebla plant would play a key role in producing the new Beetle, which will be marketed in the US in early 1998 and in European markets later in the year (see SourceMex, 12/18/96). "Mexico in general, and our Puebla plant in particular, has a very relevant position in Volkswagen's globalization strategy," Piech said.

Nissan to move production of Sentra model to Aguascalientes

In the case of Nissan, company officials said assembly of the Sentra model will be transferred from a plant in the US state of Tennessee to Nissan de Mexico's facility in Aguascalientes. According to Nissan Motors president Yoshikazu Hanawa, the company plans to spend about US\$250 million to upgrade and expand the Aguascalientes plant to accommodate the increased production of Sentras in North America, which is expected to double to about 330,000 units by the year 2000. In addition, Hanawa said the company anticipates other expenditures of US\$550 million in its Mexican operations through the year 2000.

The Sentras assembled in Aguascalientes, beginning in November 1999, are intended primarily for export to the US market. The Aguascalientes plant is also expected to supply motor vehicles for the domestic market. "We expect the market for compact automobiles to continue recovering in Mexico," said Hanawa. Notwithstanding Hanawa's optimism, however, industry statistics show that domestic demand for automobiles remains sluggish. According to the Asociacion Mexicana de Distribuidores de Automotores (AMDA), sales of passenger automobiles from January-August of this year are far below the same period in 1994, before the devaluation of the peso. In fact, AMDA said domestic sales have experienced a downturn this year compared with last year.

Domestic sales in January-August averaged 35,000 units per month, compared with 50,000 per month in the first eight months of 1996. Expansions to boost demand for domestic auto parts Nissan

and Volkswagen executives said their planned expansions include increased purchases of auto parts from Mexican suppliers. According to statistics compiled by the Banco de Mexico (central bank), 600 Mexican-based companies are involved in the production of auto parts. In comparison, the bank said, there were only 155 suppliers in 1995. Some motor-vehicle manufacturers, such as Ford Motor Co., have increased the percentage of domestically produced auto parts. According to Ford executives, the company now acquires 11% of its components for motor vehicles assembled at Mexican plants from domestic suppliers, at a cost of US\$3 million annually.

Trade Secretary Herminio Blanco said the government expects both the motor-vehicle and auto-parts industries to contribute to a strong recovery of the Mexican economy in coming years. According to Blanco, the motor-vehicle industry has grown by 20% so far in 1997, while the auto-parts sector has experienced growth of 15% during the same period. According to a study compiled by the daily newspaper El Economista, the eight major foreign motor-vehicle manufacturers with plants in Mexico are expected to expand their direct investments in the country through the end of the century. The report said Volkswagen, Ford, Chrysler, General Motors, Fiat, Nissan, Renault, and Hyundai are expected to spend a combined US\$6 billion through the year 2000 to enhance their facilities in Mexico. (Sources: Reuter, 10/08/97, 10/09/97; Notimex, 10/12/97; The News, 10/10/97, 10/13/97; Novedades, 10/13/97; Excelsior, 10/10/97, 10/14/97; El Economista, 09/25/97, 10/15/97; El Universal, 10/13/97, 10/15/97)

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