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Asian automobile manufacturers Hyundai and Toyota are planning to invest in new facilities in Mexico in the near future, primarily to assemble vehicles for the export market. South Korean-based Hyundai has proposed constructing a new facility in the port city of Veracruz to assemble trucks and buses for export to Central and South America. Toyota is considering several sites in Mexico to place a new automobile assembly plant, with Queretaro state a possible location. The Toyota plant would complement the Japanese company's new facility in Tijuana, which assembles automobiles and trucks for the US market.

A third Asian company, China's Geely, is considering the long-term possibility of setting up shop in Mexico following its failure to gain import-tariff concessions from the Mexican government, said the Mexico City daily newspaper El Financiero. Because China does not have a free-trade agreement with Mexico, Geely would have to pay a tariff of 50% on exports to the Mexican market, making such exports economically unfeasible.

Under Mexican trade laws, the company also has the option of investing at least US$50 million to construct a plant in Mexico that would produce a minimum of 50,000 units per year. This has some appeal to Chinese motor-vehicle manufacturers, who discussed the possibility at the annual auto show in Detroit. "They talked about entering the Mexican market by constructing a plant in Ciudad Sahagun, Hidalgo state," said El Financiero. The Hidalgo plant would also be used to manufacture motor vehicles for export to the US market, the newspaper noted.

Hyundai to build plant in Veracruz

Hyundai was considering other locations in Mexico for its new plant, but chose Veracruz because of the port facilities, which would make export shipments easier. "The states of Hidalgo, Puebla, and Morelos asked us to locate the plant within their borders," said Julio Cesar Bartheli, Hyundai's representative in Mexico. "But the main attractions of Veracruz are its port facilities and its large customs clearing area." Bartheli said Veracruz has the infrastructure to handle exports of motor vehicles assembled in Mexico by Volkswagen, Mercedes, BMW, and Volvo.

The Hyundai representative said the company received orders for 15,000 trucks and buses from buyers in Peru, Panama, and Costa Rica this year, with the vehicles scheduled to be shipped directly to those countries from South Korea. "As soon as we finish this plant, these types of orders would be filled from Mexico," said Bartheli.

Economic-development officials for Veracruz state said they would be willing to offer tax incentives worth about 2% of the estimated US$750 million cost of the project. "We have the necessary infrastructure in place at the Bruno Pagliai industrial park, including water, drainage, high-voltage

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electricity, gas pipes, and easy access to Mexico City and the port facilities," said a spokesperson for the Secretaria de Desarrollo Economico y Portuario (SEDECOP) of Veracruz.

Company and state officials estimate that the new plant would employ 1,500 workers, producing 500 to 800 units per day.

Toyota looking very closely at Queretaro

The decision to place the new Toyota plant in Queretaro has not been finalized, but the Japanese company is looking at a new facility in Mexico to complement production at its plant in Tijuana. The decision on the location will be made by the middle of 2007, said Queretaro's economic-development secretary Renato Lopez Otamendi.

In addition to the Toyota plant, Queretaro is talking to four manufacturers of automobile parts about establishing operations in the state. "This would give our state a lead role in the auto-parts and automobile industries," said Lopez Otamendi.

General Motors (GM) was also considering Queretaro for a new facility, but the US company instead opted for San Luis Potosi state, said Lopez Otamendi. The new GM plant would be designed to manufacture vehicles that would allow it to compete with Toyota, which has gained an increasing share of the US market in recent years. Some Toyota vehicles sold in the US are assembled in the Tijuana plant, which has moved to increase its capacity to produce pickup trucks for the US market (see SourceMex, 2006-02-01).

The strong competition from Toyota and other Asian manufacturers has taken its toll on US companies. In mid-August, Ford announced plans to temporarily halt production at 10 facilities in the US and Canada by year-end 2006, reducing global production by as much as 21%. The decision was attributed to a slump in the sales of pickups and sports utility vehicles (SUVs), which have declined primarily because of high gasoline prices, the company said.

Consumers have instead turned to energy-efficient alternatives sold by Toyota, Nissan, and Hyundai. "The fundamental problem for Ford, as well as GM and Chrysler, is to persuade US consumers to buy their vehicles," said the Mexico City daily newspaper El Universal. "Toyota surpassed Ford as the second-ranking company in monthly sales this year, and other major Japanese manufacturers and South Korea's Hyundai also registered an increase."

Ford cuts back output in US and Canada but not Mexico

There was concern that the Ford cutbacks would also affect its plants in Cuautitlan in Mexico state and Hermosillo in Sonora state. There was special concern about the plant in Cuautitlan, which also produces large pickup trucks. Union officials said, however, that the company assured them that the facility would remain open. "Ford Motor Company will not shut down its plant in Cuautitlan," said Juan Jose Sosa, secretary general for the Sindicato de Trabajadores de Ford Motor Company. The union is affiliated with the Confederacion de Trabajadores de Mexico (CTM). There was never any question that the Hermosillo facility would close because the plant assembles motor vehicles that continue to sell relatively well in the US market, including the Ford Fusion, Mercury Milan, and Lincoln MKZ models.

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Some automobile-industry sources noted that the two Mexican facilities might actually benefit from the reduced activity at plants in the US and Canada. "Because of these reductions, other [Ford] plants will either continue working at their current capacity or even add some overtime," the company said.

Still, some analysts note that Ford and other US manufacturers were losing market share even before the sharp increase in gasoline prices the last couple of years. Ford Motor Co., DaimlerChrysler, and General Motors controlled 71% of the US market as recently as the mid-1990s, but the proportion has fallen to 57% and is expected to drop to about 53.9% by 2011, analyst Nick Galambos of AT Kearny said in a study published in mid-September. During the same period, Asian manufacturers have boosted their share of the US market, with Nissan increasing by 9.1%, Hyundai by 5.8%, and Toyota by 5.6%.

The sales slump by the three major US manufacturers has translated to lower production at most plants, including those in Mexico, said the study. Ford's production at its Mexican facilities declined by about 130,000 units annually between 2000 and 2005, Galambos told the Mexico City daily newspaper Excelsior. The trend was similar for DaimlerChrysler, whose production during the five-year period fell by 64,000 units annually. For General Motors, output dropped by 16,000 vehicles per year between 2000 and 2005.

The expansion of the Asian companies in the Mexican market to accommodate increased sales to the US has helped offset some of the decline in domestic production, with Nissan boosting output at its plant in Aguascalientes by about 36,000 units annually. Galambos said Mexico has to become more aggressive in promoting increased production by Asian companies in Mexico to compensate for the lost output from US companies. "

All three countries in the North American Free Trade Agreement (NAFTA) have suffered because of the production slump," said the analyst. "[Mexico's] strategy should be to develop links to Asian companies that are seeking new markets." (Sources: Tiempo-La Noticia Digital, Notimex, Associated Press, Milenio Diario, 08/18/06; La Jornada, 09/05/06; El Economista, 09/11/06; El Universal, 08/22/06, 09/13/06; Excelsior, 09/13/06; Reforma, El Financiero, 09/15/06)

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