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China, long considered a thorn in the side of Mexican industry, is planning to enter a sector that has helped sustain the Mexican economy in recent decades, the motor-vehicle sector. The Chinese company Zhongxing Automobile, also known as ZX Auto, has announced a two-pronged approach to establish a foothold in Mexico.

As a first step, Zhongxing and its US subsidiary China America Cooperative Automotive (Chamco Auto) are planning to begin exporting sports utility vehicles (SUVs) and small trucks to Mexico in September. The company eventually plans to construct a plant in Tijuana to assemble vehicles to sell in the Mexican, US, and Canadian markets.

China seeks to gain a foothold in the Mexican motor-vehicle market by selling its products at lower prices. Many products of Chinese origin are being sold in Mexico at very low prices, undermining the local markets (see SourceMex, 2002-11-13, 2003-05-14, 2004-12-08, 2007-03-07). The latest complaint is that low-cost Chinese medicines are being imported into Mexico. Zhongxing to begin exports to Mexico in September Zhongxing's decision to enter the Mexican market comes at a time when China's domestic car industry is thriving.

The SUVs and small trucks that Zhongxing will begin exporting to Mexico in September will be similar to popular models manufactured by US and international automakers, but their costs will be lower. The Chinese company said it would sell its vehicles about 20% below the cost of its competitors, or at an average of 140,000 pesos (US$12,506).

In Mexico, Zhongxing will be competing with established industry giants Ford, DaimlerChrysler, General Motors, Nissan, and Volkswagen. Other Asian companies like Toyota and Hyundai have recently made inroads in the Mexican automobile and truck market, joining other smaller manufacturers like BMW, Mercedes Benz, and Volvo (see SourceMex, 2006-09-27).

Zhongxing plans to hit the ground running once imports begin to roll into Mexico in September. The company has set up 25 distributors in Mexico City, Monterrey, Guadalajara, and Tijuana, with a goal of selling 15,000 units in the first year. The targets for the second and third years are 22,000 and 28,000 vehicles, company officials said. The distributors have been promised relatively high commissions of US$1,650 for every unit sold, said the Asociacion Mexicana de Distribuidores de Automotores (AMDA).

In return, the dealers will offer two-year warranties and other incentives related to service. As an incentive to attract buyers, the company plans to give away a limited number of Chanlin TJ motorcycles, valued at between US$2,900 and US$3,200.

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Company to build plant in Tijuana in 2009

Zhongxing's medium-range plans include constructing a plant in Tijuana through its Chamco subsidiary, which would allow the Chinese company to enjoy tariff benefits available through the North American Free Trade Agreement (NAFTA).

Constructing the plant would follow a trend by which Chinese companies have been taking advantage of NAFTA to build maquiladora plants along the US-Mexico border (see SourceMex, 2005-08-04). Company officials said they plan to invest about US$300 million in the plant, whose construction is planned sometime in 2009. The facility, which will have the capability to assemble about 150,000 vehicles per year, is expected to be operational in 2010, employing about 5,000 workers, officials said. "We want to bring this type of project to Mexico because we see a real future in [that country]," Oscar Margain, head of Chamco's Mexican operations, told Reuters.

The Chinese company expects to export about 25% of the vehicles assembled at the Tijuana plant to the US. China's decision to enter Mexico's automobile market comes as the Mexican motor-vehicle sector is experiencing slower-than-expected growth because of a slump in sales to the US, Mexico's largest market for motor vehicles.

Except for May and July, Mexican auto exports have fallen every month since December. The Asociacion Mexicana de la Industria Automotriz (AMIA) estimates a growth in production and exports of 10% to 15% this year, compared with earlier projections of 20% to 25%. In particular, exports have been disappointing for the subsidiaries of the US-based companies Ford, DaimlerChrysler, and General Motors.

Chinese pharmaceuticals flooding Mexico

While China's entry into the Mexican auto market has received mixed reactions, that country's incursion into the pharmaceutical industry has drawn strong complaints from the manufacturing industry chamber (Camara Nacional de la Industria de Transformacion (CANACINTRA). The complaint came up at a forum reviewing the competitive position of the Mexican pharmaceutical industry. Alejandro Alvarado, who chairs the medications and pharmaceuticals committee of CANACINTRA, said the Mexican government is partly at fault because it favors the lower-priced imports.

The Mexican public has been generally unaware that imports of lower-cost Chinese pharmaceuticals have been flowing into the country in recent years. But the issue recently made headlines when the owner of a Mexican pharmaceutical company was charged with using his firm to conduct illegal imports of massive quantities of a chemical used to produce methamphetamines (see SourceMex, 2007-07-25). Alvarado said government social-service agencies such as the Instituto Mexicano del Seguro Social (IMSS) and the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (ISSSTE) violate procurement norms by acquiring medications imported from China, and to a lesser extent India and Malaysia, rather than giving their business to Mexican pharmaceutical companies.

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The problem, said Alvarado, is that the imports are sold at a much lower price than what it costs to produce the same pharmaceutical products in Mexico. "The IMSS is conducting these purchases in a manner that puts our industry at a disadvantage," he said. "We cannot offer these prices because we have a heavy tax burden and have to comply with a set of laws that create additional costs." Another concern, said Alvarado, is the uncertainty about the safety of the medications imported from China, some of which have been proven to be of poor quality. In addition to the tests conducted by Mexico's pharmaceutical-testing commission (Comision Federal para la Proteccion contra Riesgos Sanitarios, COFEPRIS), Mexican inspectors should be allowed to visit Chinese laboratories to ensure that the certification process complies with international standards, said Alvarado. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug. 15, reported at 11.19 pesos per US$1.00]

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