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## Mexico Loses Assembly Operation for Ford Focus to China

by Carlos Navarro

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In a second major blow to the Mexican auto industry this year, Ford Motor Company announced in mid-June a plan to transfer assembly operations of the Ford Focus from its plant in Hermosillo, in Sonora state, to a new facility in Chongqing, China, effective in 2019. This is the second major shift that Ford has announced this year. In January, the company cancelled plans to build a US\$1.6 billion assembly plant in the community of Villa de Reyes, in San Luis Potosí state.

Ford had planned to assemble small vehicles at the San Luis Potosí facility, including the Focus. When plans for that plant were scrapped, the company offered reassurances that assembly of its Focus model would be transferred to Hermosillo. That will not happen, according to the latest announcement.

The move to cancel the San Luis Potosí plans was due in part to pressure from a recently elected Donald Trump, who in his campaign for the US presidency had threatened to impose high tariffs on imports of vehicles assembled in Mexico. At the time, Ford was already having second thoughts on constructing the new facility, as demand for small vehicles had declined in the US ([SourceMex, Jan. 11, 2017](#), and [Feb. 22, 2017](#)).

### *A business decision*

Economic observers said that Ford's move to China is rooted in same economic factors that forced the cancellation of the facility in San Luis Potosí. "Ford's plan to shift the Focus to China is a sign of the weak demand for small cars in the United States and of the growing importance of China, which is the largest auto market in the world. US sales of the Focus are down 20% so far this year," the online financial site CNNMoney reported.

China is considered a long-term threat to Mexico's auto industry, because the Chinese auto sector has made significant improvements to its manufacturing process over the past decade. "For a long time, the quality of vehicles coming out of China was not to global standards," auto industry analyst Philippe Houchois said in an interview with Reuters. "There was a gap in quality that [favored] Mexico, but that is closing. That is probably a threat to Mexico."

Reuters noted that Ford's decision "to shift Focus production for the United States market to China from Mexico shows automakers have increasing flexibility to choose between the two countries to supply niche vehicles to American consumers or other markets."

The changes in the Chinese auto industry are largely the result of major investments on the part of US, European, and Asian auto manufacturers in Chinese factories.

According to Jacob George, general manager of J.D. Power Asia Pacific Operations, Chinese car manufacturing could catch up with international standards by 2018 or 2019.

"Ford's announcement ... is part of a corporate strategy to recover profitability in the face of a decline in sales in the US, where consumers have shown an increased preference for sport utility vehicles and trucks following a decline in gasoline prices," said the daily newspaper El Financiero.

The assembly of Ford vehicles in China is certain to increase the cost of transporting the final product to the US. Ford officials noted, however, that the cost of labor in China is lower than in Mexico, which partly compensates for the increased transportation expenses.

Additionally, Ford officials said the move allows the company to retool only one facility instead of two to accommodate assembly of the Focus. By transferring operations to China, Ford would be saving the US\$500 million cost of also retooling the plant in Hermosillo, which currently accommodates two mid-sized models, the Fusion and the Lincoln MKZ.

According to the motor-vehicle industry publication *Today's Motor Vehicles*, Ford could have made the changes necessary to assemble both the Focus and the two mid-sized models in Hermosillo. "But it would also have meant running that plant at or beyond capacity, and most likely would have required large investments in new equipment," it said.

### *A lucrative market in China*

A more significant factor is the potential to sell Ford vehicles in China from a plant located in that country. According to Enrique Dussel Peters, director of the Centro de Estudios China-México (CECHIMEX), demand for automobiles is estimated at about 25 million units per year in China, compared with about 1 to 2 million in Mexico.

"China has become a more interesting market in the auto sector," Dussel Peters said. "That country has greater demand and a more dynamic consumer base.

Another factor, analysts said, is that the Chinese market offers greater certainty for investors. The Mexican market has lost some of its lure because of the possibility that changes to the North American Free Trade Agreement (NAFTA) might create more obstacles for investments there. The Trump administration has said it wants to renegotiate NAFTA to benefit the US economy, which might affect investments in Mexico and Canada ([SourceMex, March 8, 2017](#), [April 26, 2017](#), [May 10, 2017](#)).

#### Status quo in Hermosillo

While Ford is expanding operations in China, the company insists that no layoffs are imminent in Hermosillo or in any other of its facilities in Mexico. In addition to Hermosillo, Ford operates an assembly center in Cuautitlán, in México state; an engine factory in the city of Chihuahua; and a transmission manufacturing plant in Irapuato, in Guanajuato state.

"We expect no immediate impact on our levels of employment as a result of this decision," Ford de México said in a statement.

Ford officials said the Hermosillo plant, which employs 3,000 workers and accounts for 9,000 indirect jobs, would remain at current staffing levels. "We will continue producing the Fusion and the Lincoln MKZ and its hybrid version in Hermosillo," they said.

"Ford has operated in Mexico for 92 years, and our facilities in this country remain extremely important for our productive chain in North America," the company said in a note to *El Financiero*. Ford is expanding the transmission factory in Irapuato, scheduled to begin producing new items this summer, and to increase the production of engines in Chihuahua, it said.

Ford denied a rumor that it would stop manufacturing the Fiesta model at its Cuautitlán facility. "This model is an important part of our manufacturing portfolio," the company said.

However, Ford stopped short of promising that production of the Fiesta would continue in the long term. "We are not going to provide details of our future business plans," it said.

Union members representing Ford employees at the Hermosillo plant said they would not protest the transfer of assembly operations for the Focus to China, describing the move as entirely a business decision.

"The company confirmed the decision to stop manufacturing the Focus [in Hermosillo] due largely to investment and productivity factors," said Ricardo Martínez, secretary-general of the Sindicato de Trabajadores de Ford in Hermosillo.

Martínez said the union was happy with Ford's decision to maintain assembly of the Fusion and Lincoln MKZ at the Hermosillo facility. "As long as the number of cars assembled here is not reduced and our workforce remains intact, we support the company's right to make decisions that affect its economic viability," he added.

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