

The automotive industry in Mexico opportunities for SME's

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The purpose of this article is to familiarize Swiss companies with the automotive industry in Mexico and present the trade and investment opportunities that exist in this sector.

During the last decade, the Mexican automotive industry, which is comprised by the automakers and autoparts manufacturers, has become **one of the most competitive in the world**. All the major multinational companies of the sector have invested in Mexico and installed production and assembly plants. For them, it is a way to enter new markets and strengthen their presence in America. Furthermore, the industry is preparing itself for a new generation of environmentally-friendly cars and commercial vehicles, which is a positive sign since the demand of those products is increasing.

Mexico has a **strong experience in the production and manufacture of vehicles, as well as in supplying parts and providing specialized services**. According to ProMéxico, this is an advantage for company seeking to open spaces within the local market and to exploit the conditions of the country as an export platform. For example, it has recently attracted the Chinese industry, whose companies seek new niches within international markets.

In the recent years, it is possible to observe a tendency from the major car assemblers and auto parts producers to move parts of their production in emerging countries, and Mexico is one of the most important of them. Furthermore, according to analyses of the Compound Annual Growth Rate, developed countries have reported negative growth within the sector.

Between 1999 and 2011, vehicle production in Mexico has increased of about 65%, from 1.5 million units per year to 2.5 million, while foreign direct investments (FDI) have reached 10.3 billion USD between 2005 and 2011. Also, despite the international economic downturn, exports and domestic sales have grown significantly. The United States remain the main export destination, while Canada and Latin America are becoming more important as trading partners.

Mexico produces each year more cars. In 2009, it was the tenth largest producer in the world, the ninth in 2010, and the eighth in 2011. Furthermore, the industry is expected to continue increasing in the future, forecasts indicating that the production will reach 3.7 million units per year by 2015 and 4 million by 2017, which will make Mexico as the seventh largest producer globally. In 2012 it was the fourth largest exporter of automobiles and light commercial vehicles, coming only after Germany, Japan and South Korea. One out of every nine cars and light trucks sold in the United States, and one out of every four imported to that country, were produced in Mexico.

Vehicle production costs in Mexico are 12% lower than in the United States. This competitive advantage is explained by the following factors:

- A **great access to markets** with free trade agreements with 44 countries.
- A **strategic geographical position**, close to the US market and many other key ones, which allow to reduce transportation costs and delivery times.
- The **19 major car companies in the world have assembly plants in the country**.
- The **presence of 300 major Tier 1 global suppliers**, with a well-structured value chain organized in dynamic and competitive clusters.
- A **growing domestic market** and a demographic structure that focuses on age groups with greater purchasing power.

Many companies are planning to invest in Mexico:

- Ford, 1.3 billion USD in Sonora;
- Nissan, 2 billion USD over the country;
- Honda, 800 million USD to open a new plant;
- Mazda, 500 million USD;
- Audi, 2 billion USD.

These investments confirm that the Mexican automotive industry is growing and has the confidence of the market. From the part of the companies, it is recognition that **Mexico has excellent infrastructure, competitive costs, world-class manufacturing and a long tradition and experience within the sector**.

The sector is very **important for the Mexican economy**. During 2011, it represented **6% of FDI, 3.6% of the GDP, 20.3% of manufacturing GDP and 28.4% of the country's manufacturing exports**. In total, the sector employs more than 600'000 people, which makes the automotive industry one of the largest employers in the country. The expectation is that by 2015 the industry will double the number of direct and indirect jobs it currently generates.

More than 84% of those cars produced locally are destined to be exported. During the first months of 2012, exports grew by 89.1% to Africa, by 43.7% to Latin America, by 6.7% to Canada and by 3.9 to the US. If Mexico as a great potential for making trade networks, it is not only because of its FTAs and strategic geographic position. It has also excellent communication routes and infrastructures:

- 74 airports (11 domestic and 63 international).
- 116 sea-ports (116 coastal and 67 deep-sea).
- 27'000km of railroads.

- 138'000km of paved roads (126'000 kilometers of two-lane roads and 13'000km of four or more lane highways).

Mexico counts also with many Research and Development (R&D), design and engineering Centers that strengthen the sector's existing capacities and the quality of products manufactured in the country. It confirms that Mexico is more than just a cheap location to produce vehicles, but a key element of the global supply chain of the automotive industry. To mention only a few of these centers: General Motor's Regional Engineering Center, Nissan's Technology Design Center (CDT Nistec), Chrysler's Automotive Research, Development and Engineering Testing Center, Center for Research and Technical Assistance of the State of Queretaro (CIATEQ), etc.

Strategy of Automotive companies installed in Mexico

Daimler: the truck company is present in Mexico since 1985 and actually employs about 4'600 workers and has a growing rate of about 43% per year. It has plants in the State of Mexico and in Coahuila, and its headquarters are located in the capital. Why Mexico? "Mexico is a wonderful place to do business because of its close proximity to the US, the quality of its workforce, low labor costs and its wide network of free trade agreements" said the CEO of Daimler Trucks Mexico. Furthermore, the average age of the Mexican truck fleet is 17.7 years, which will have to be replaced in the following years. Thus, it represents a really interesting market.

Navistar: it is the oldest truck company in North America (170 years) and has been selling its products in Mexico for more than 80 years. In 1998, it decided to settle in the country with the construction of its first plant in Nuevo Leon with a 300 million USD investment. The firm believes in the Mexican's skilled workforce and quality manufactures. It plans to produce between 55'000 and 60'000 trucks per year in the coming years.

Volkswagen: the firm is the major actor of the Mexican automotive industry, whose famous model "Bug" is still very common on the Mexican roads. Its main plant is the Puebla one, where a production record was hit en 2011 with a production of 500'000 units. In 2012 it confirmed the investment of 840 million USD to build in Guanajuato a plant that will produce new generation motors, with a capacity of 330'000 units per year.

Ford: the American company has invested during the last decade about 3 billion USD in its Cuautitlan , Guanajuato and Chihuahua plants. The reason why Ford chose Mexico as an important production location is because of its excellent quality suppliers and technology development, as well as its high-skilled workforce. Finally, it announces last year an investment project of 1.3 billion USD in Sonora.

Honda: the enterprise is present in Mexico since 1984. Its interests in Mexico are that the country represents an excellent export platform to the US and Latin America markets, and also wanted to take advantage of the quality of the Mexican manpower. Honda just invested nearly 800'000 million USD in the State of Guanajuato that will generate about 3'200 direct jobs. In total, the firm's production will reach 1.87 million units in 2013.

Bosch: this company is one of the leading auto parts manufacturers and installed itself in Mexico in 1955. It has nine plants and employs 8'500 workers across the country. It invested 78 million USD in manufacturing in 2011 and 114'000 million in 2012. As the other companies, it chose Mexico because of its strategic geographical position and the quality of its workforce.

W. Voit Automotive: the German company is specialized in the production of metal parts for the automotive, electronics and home appliance industries. Its sales of its Mexican plants reach to 40 million USD annually.

Nemak: the company is a leader in the Mexican auto parts industry and produces high-tech aluminum components. The main proportion of its production is destined to exportation around the globe. Nemak installed itself in Mexico in 1979, as a result of a joint venture between Grupo Industrial Alfa and Ford Motor Company. The country is a key element of its expansion strategy, taking advantage of its geographical location and of its numerous free trade agreements. The firm counts with 10 plants in Mexico, employing 10'000 people.

Jacto: the Japanese firm is specialized in the production of transmission systems, best known as the continual variable transmissions (CVTs). Its plant is located in Aguascalientes, where it started production in 2005, and manufactures 420'000 CVT units per year. It recently confirmed an investment of 200'000 million USD to produce a new generation of vehicles with high ecological efficiency. Nowadays, the company produces about 800'000 units per year and employs more than 2'000 workers. 90% of the production is directly or indirectly exported. Its goal is to provide the world with 1.8 million CVTs annually by 2016.

General Motors: the American company started up its business in Mexico in 1935, and currently employs 14'000 workers in 4 plants across the country. It recently concluded an expansion plan of its industrial complex in San Luis Potosi, where it will invest 120 million USD to build new facilities and purchase machinery and tools, and 100 million USD in a new plant which will produce Dual-Clutch Transmissions.

Mazda: the company invested 500 million in Mexico to build its first plant. Construction, which takes place in the State of Guanajuato, started in 2011 and will be done in 2014. The plant will produce 140'000 vehicles per year and will be destined to the domestic market as well as exportation to North, Central and South America. It will create 3'000 direct jobs. Mazda is present in the country since 2005 and count actually with 34 agencies in 25 States and the Federal District (Mexico City) and employs 1'600 people in headquarters and distribution centers.

Nissan: the firm is present in Mexico since 1959, first as a distributor of Datsun automobiles. It has two plants, in Cuernavaca and Aguascalientes. It recently made a new investment of 2 billion USD to build a new plant in Aguascalientes, Mexico winning the considerations over Brazil, China and India.

The new complex will produce 175'000 vehicles per year and the production will be launched in 2013, and will create 3'000 direct jobs and 9'000 indirect ones.

Pirelli: the tire manufacturer set up its first plant in 2012 in Guanajuato, which will have a production capacity of 3.5 million units by 2015, and 5.5 million units by 2017. 70% of the production will be destined to this US and Canadian markets, while 30% will be distributed to the domestic market. 1'000 will be created in 2013 with this new plant.

Relevant data of the Mexican automotive industry:

Table 1. Exportations of Light Vehicles (2011)

Destination	Light vehicle units, 2011	% share, 2011
North America	1'521'865	71.0%
USA	1'362'425	63.5%
Canada	159'440	7.4%
Latin America	321'863	15.0%
Europe	220'788	10.3%
Asia	25'538	1.2%
Africa	8'012	0.4%
Others	45'813	2.1%
<i>Total</i>	<i>2'143'879</i>	<i>100%</i>

Source: AMIA (Asociacion Mexicana de la Industria Automotriz)

Heavy vehicles production (2011): 136'678 units

Heavy vehicles exports (2011): 95'175 units

Table 2. Announced multinational investments (thousands of USD, 2007-2012)

Company	2007-09	2010	2011	2012	Accumulated
Daimler Trucks	871				871
General Motors	3'780	435	540	420	5'265
Volkswagen	1'053	1'020			2'073
Ford	3'000			1'300	4'300
Fiat/Chrysler		550	620		1'170
Nissan		600		2'000	2'600
Honda			800		800
Mazda			500		500
Audi				1'300	1'300
<i>Total</i>	<i>8'794</i>	<i>2'605</i>	<i>2'460</i>	<i>5'020</i>	<i>18'879</i>

Source: The Automotive Industry, ProMéxico (2012)

Conclusion

Mexico is recently seen and presented in the media as the economy of the moment, expected to attract a lot of FDI and becoming one of the major economist in the world by 2015. The new Peña Nieto administration that just took office in December 2012 has strengthened this perception and the country has actually strong macroeconomics basis to sustain all these expectations.

As a matter of fact, the Mexican Minister of Economy Idelfonso Guajardo recently said that he objective of this new administration is to increase FDI in Mexico by 50% each year and to reach at least 30 billion UDS. Since the automotive industry is one the most important in Mexico, the sector will be at the center of those FDI inflows.

The strategic geographic position of Mexico, next-door to the United States (the world's largest market) and close to many growing economies, as well as its membership in NAFTA and many other free trade agreements with a total of 44 countries, good infrastructures and well-trained workforce make the country an excellent choice for foreign company being involved in the automotive industry.

On the basis of all this information, there is no doubt that Swiss firms that have interest in the automotive industry will take advantage of all the benefits that presents Mexico as a production location and a export platform.

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