

The troubled future of the auto industry in North America*

MEXICO'S AUTO INDUSTRY

The auto industry has been a key sector of the North American Free Trade Agreement (NAFTA) since it came into effect in 1994. The industry is highly integrated throughout the region. The plants in Mexico have grown, become sophisticated, and, above all, become important platforms for exports, especially to the US market. Mexican auto exports were nearly US\$15 billion in 1994 and reached US\$50 billion in 2008, making up more than 20 percent of all the country's exports. In addition, this sector accounts for 6 percent of all the country's foreign investment. The entire sector creates a total of 1 million direct and indirect jobs, representing 7 percent of the country's workforce. One million automobiles are sold on the Mexican market every year, and, all together, the industry exports 1.4 million units. Mexico's automobile market has become very sophisticated: between domestically produced and imported cars, almost 400 different models are available.

The introduction of NAFTA resulted in the industry's internationalization because it forced companies like Nissan and Volkswagen to restructure their production strategies, mainly to limit the advantages the treaty gives the United States' Big Three automakers—GM, Chrysler, and Ford. For example, Nissan relocated production of some of its models to plants in Mexico and, together with Volkswagen, attracted auto parts suppliers in order to improve the quality of its vehicles. This enabled it to compete against US manufacturers in the Mexican market and at the same time export to external markets, mainly the United States.

Several recent trends have emerged. Exports to the United States have begun to decline. In 2001, almost 95 percent of all Mexican auto exports went to the United States, but today that figure has dropped to a little over 70 percent. US-

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owned companies, especially Ford, GM, and Chrysler, traditionally have concentrated on exports to the US market, although recently they have begun exporting to Europe and Latin America also. Nissan's and Volkswagen's exports have diversified—for example, VW sends a considerable number of units to Europe, more in fact than it sends to the United States.

Another trend in the domestic market is Nissan's and VW's increasingly intense competition with US companies. This is a period of transition in which GM, Ford, and Chrysler are losing their hegemony in Mexico. Nissan will be the biggest seller of automobiles in the domestic market in 2009. The shape of the industry is changing for the better, particularly because the increase in gas prices in Mexico makes the use of Japanese cars

more attractive due to their higher fuel mileage.

THE BIG THREE CRISIS

How will the crisis of the Big Three automakers in the United States affect the automobile market in Mexico? The Big Three have ten plants in Mexico, which produce 54 percent of total national output. So, a crisis in these companies is a big crisis for the entire industry in Mexico because of their influence in many branches of the economy. However, the impression one gets when analyzing the situation of the Big Three in Mexico is that their performance has been better in the Mexican plants and the signs of declining competitiveness in the Mexican market are weaker than in the United States.

This can be shown with a few figures. For example, Ford and GM have committed investments to restructure their businesses in the Mexican market. This restructuring is focused on emphasizing their compact cars like the Ford Fiesta and those made by GM's Chevrolet brand. In addition, Mexican car production was the only one in all of North America that increased slightly from January to November 2008 (4.5 percent), while Canada and the United States experienced important drops in production (−19.3 percent and −18.7 percent, respectively). In addition, in US light vehicle sales, cars from Mexico experienced the smallest drop of any country of origin in the world (−1.7 percent). Production costs in Mexico will be a factor that will encourage continued investment. It is becoming clear that it will be very difficult for US companies to stay on their feet vis-à-vis their Asian and European competitors, and it is unlikely that they can survive in the long run.

The only way for US auto manufacturers to strengthen their position is to make profound changes. First, continental integration will have to be much deeper,

and Mexico could have an important position because of its cost advantages and the level of production it has achieved. Second, technology will have to improve, even in the segments of inexpensive compacts, to be able to compete in terms of efficiency. Finally, technology and quality policies will have to improve in distribution and administration to make both production processes and sales more efficient, thus reducing costs. North America faces a great challenge in the auto industry, and we will see how it meets it—it will either recover or disappear altogether.

UNCERTAIN FUTURE

The loss of the Big Three in Mexico could give rise to a new situation in which foreign investors—Asian or European—already operating in Mexico could fill the vacuum left by the United States. Mexico has signed trade agreements with practically the entire world, and this could also be an advantage for producing in Mexico. Mexican production has already begun to internationalize and depend less on the US market.


North American Vehicle Total Production, January to November 2008

	January 2008	November 2008	Change
United States	10,072,186	8,192,433	-18.7%
Canada	2,443,381	1,971,978	-19.3%
Mexico	1,963,316	2,051,231	4.5%

Source: *Ward's Automotive Reports: Key Automotive Data; North American Production Summary, November 2008.*

However, in the short run, a worsening of the Big Three's crisis could be catastrophic for the Mexican economy if it means plant closings. A collapse of any of these companies, like GM or Chrysler, would have very negative effects. The sector requires time to adapt to the new conditions and to search for and consolidate new markets. On the other hand, any restructuring centred on the US market and workforce would also have a severe impact. It is probable that in either case, Mexico's government would be forced to promote its own bailout package and put in place a more active policy to reconfigure the industry without the Big Three or with companies more limited in their market power.

Clearly, we are on the verge of great changes and unprecedented situations for North America.

It is important to remember that the auto industry, worldwide, has suffered from overcapacity. Sharp competition has forced many companies to merge in recent years and seek new ways to survive. Under NAFTA, Canada and Mexico remained very dependent on the policies of the Big Three in the United States, and today they pay a very high price for that dependency. 

* The information for this article comes mainly from the Mexican Auto Industry Association (AMIA) and from *Ward's Automotive Reports*.

Security certificates

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approved as a special advocate one needed to be granted top-secret national security clearance and be experienced in immigration law matters, criminal law matters, national security law matters, or a combination of all three. Twenty-six people were approved by the government as special advocates. The security certificate legislation requires the judge in the case to appoint as special advocate the lawyer chosen by the person concerned, unless there is a conflict of interest that prevents that lawyer from acting as a special advocate.

It was the view of the special advocates that two special advocates should be chosen for each case, and the government and the court agreed with that view. There are now a total of seven lawyers acting as special advocates in the five cases. Three of the special advocates are each doing two cases; the other four

special advocates are just dealing with one case.

I am a special advocate in the *Harkat* and in the *Almrei* cases. Because of the non-communication provisions set out in the security certificate legislation, without the consent of the judge in those cases I am unable to comment on how those cases are proceeding and whether the special advocate process set out in the legislation will ultimately be found to meet the fundamental justice requirements under s. 7 of the Charter.

FIVE FEDERAL COURT JUDGES WILL DECIDE THE FATE OF THE SECURITY CERTIFICATE MEN

It is expected that over the course of 2009 the five Federal Court judges dealing with these cases will reach their decisions on whether the security certificates filed in these cases are reason-

able. Their decisions will likely include rulings on whether the new security certificate procedures, with the use of special advocates, comply with the requirements of fundamental justice under s. 7 of the Charter.

And then the appeals will start. 

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