



# The Automotive Industry in Mexico and the Challenges Facing a New NAFTA Age

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# The automotive industry in Mexico and the challenges facing a new NAFTA age

## Subject:

- 1) USA, Canadian & Mexican Automotive Industry from NAFTA Signature to Date
- 2) NAFTA Renegotiation 2018
- 3) Sceneries analysis



NAFTA/TLCAN/ALENA: Began January the 1<sup>st</sup>. 1994

# OVERVIEW



Why these three countries signed a Free Trade Agreement?

# OVERVIEW



Japanese Threat (manufacturing)  
Working Structure (Toyota Model)  
R&D



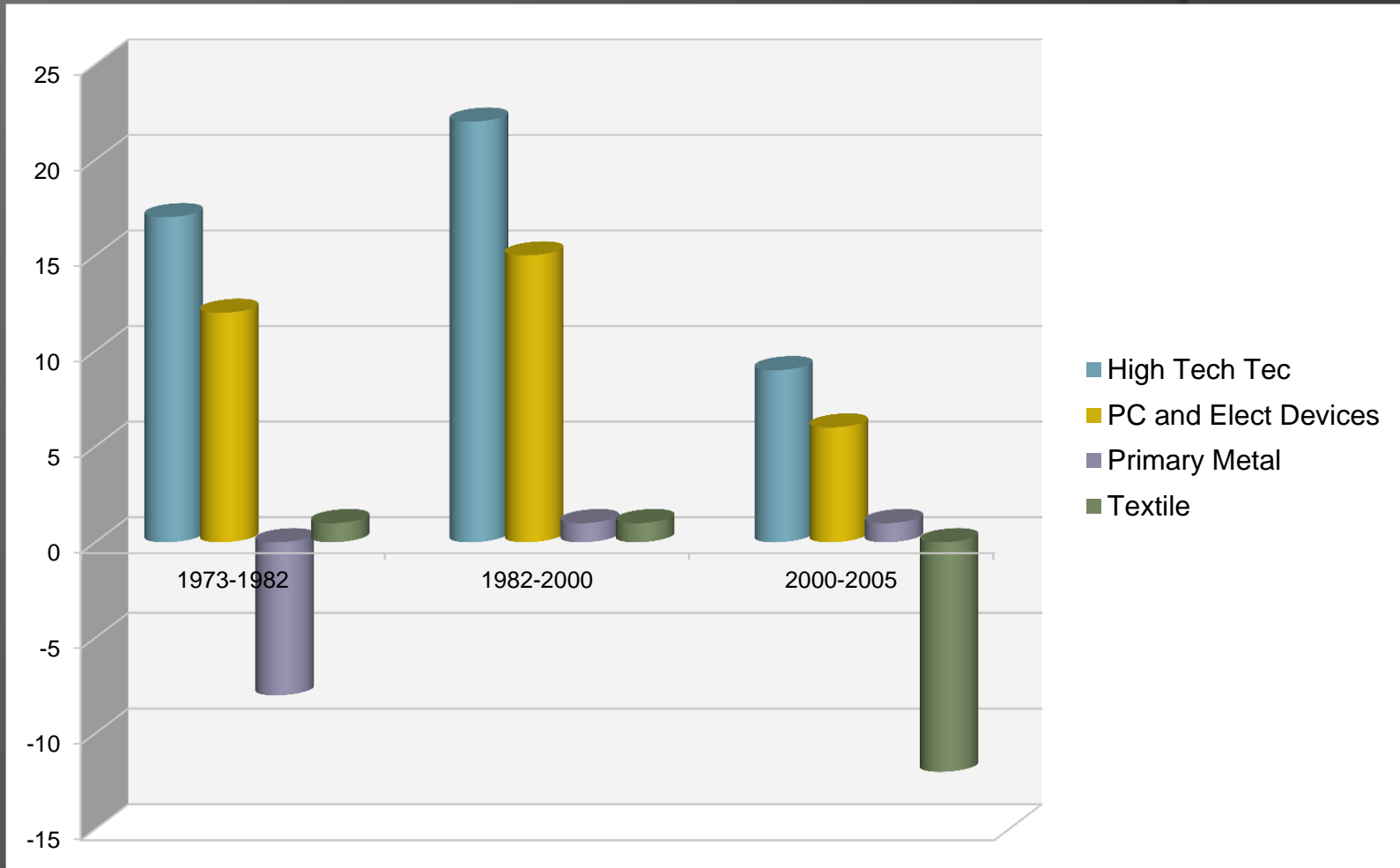
Union strength  
High Wages cost  
Manpower Unskilled



Asian giant's wake  
Intensive Manufacturing  
System of Government

# OVERVIEW

USA: Average Annual Growth (%)

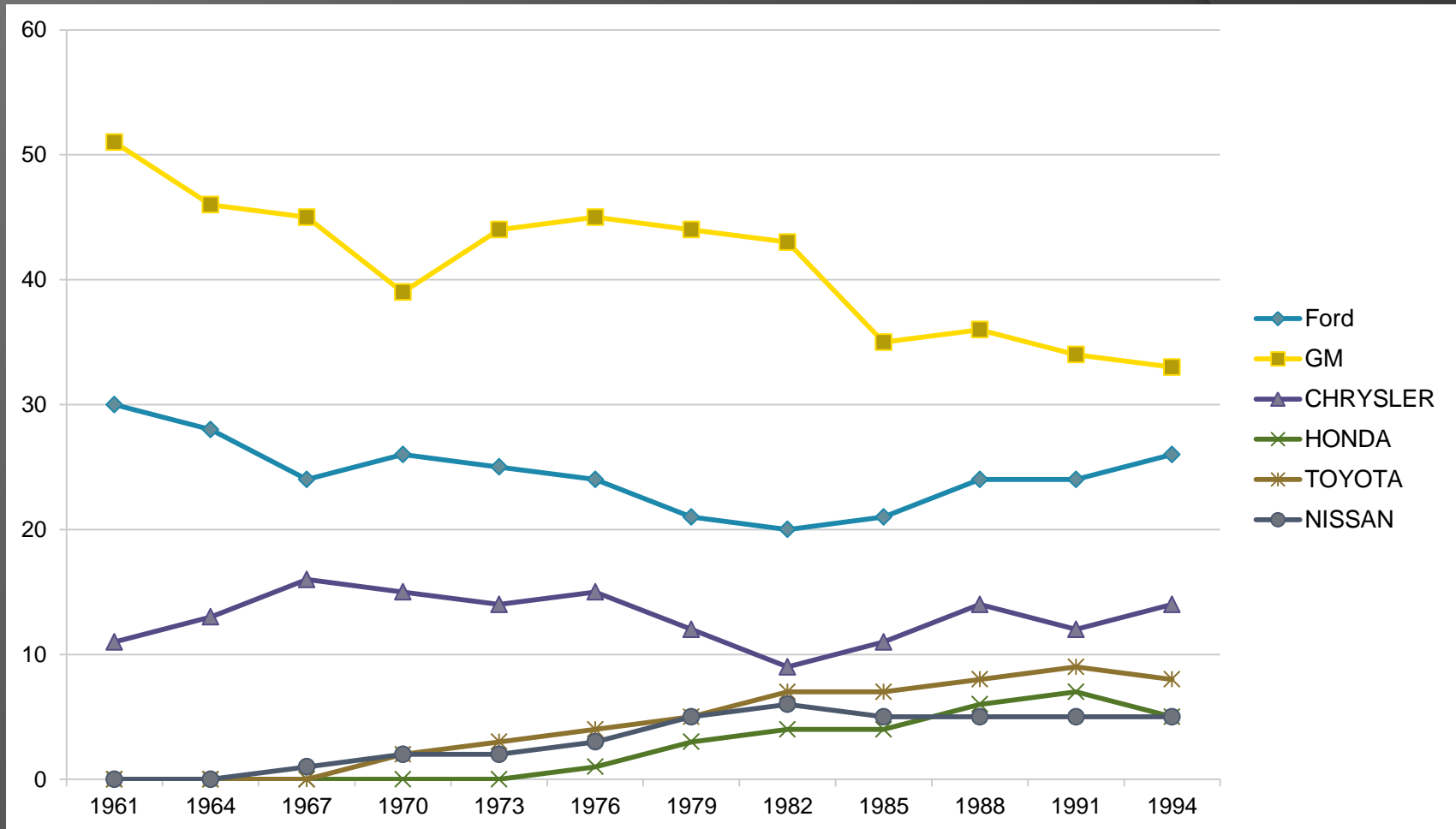


Source: Bureau of Economic Analysis. 2009



# OVERVIEW

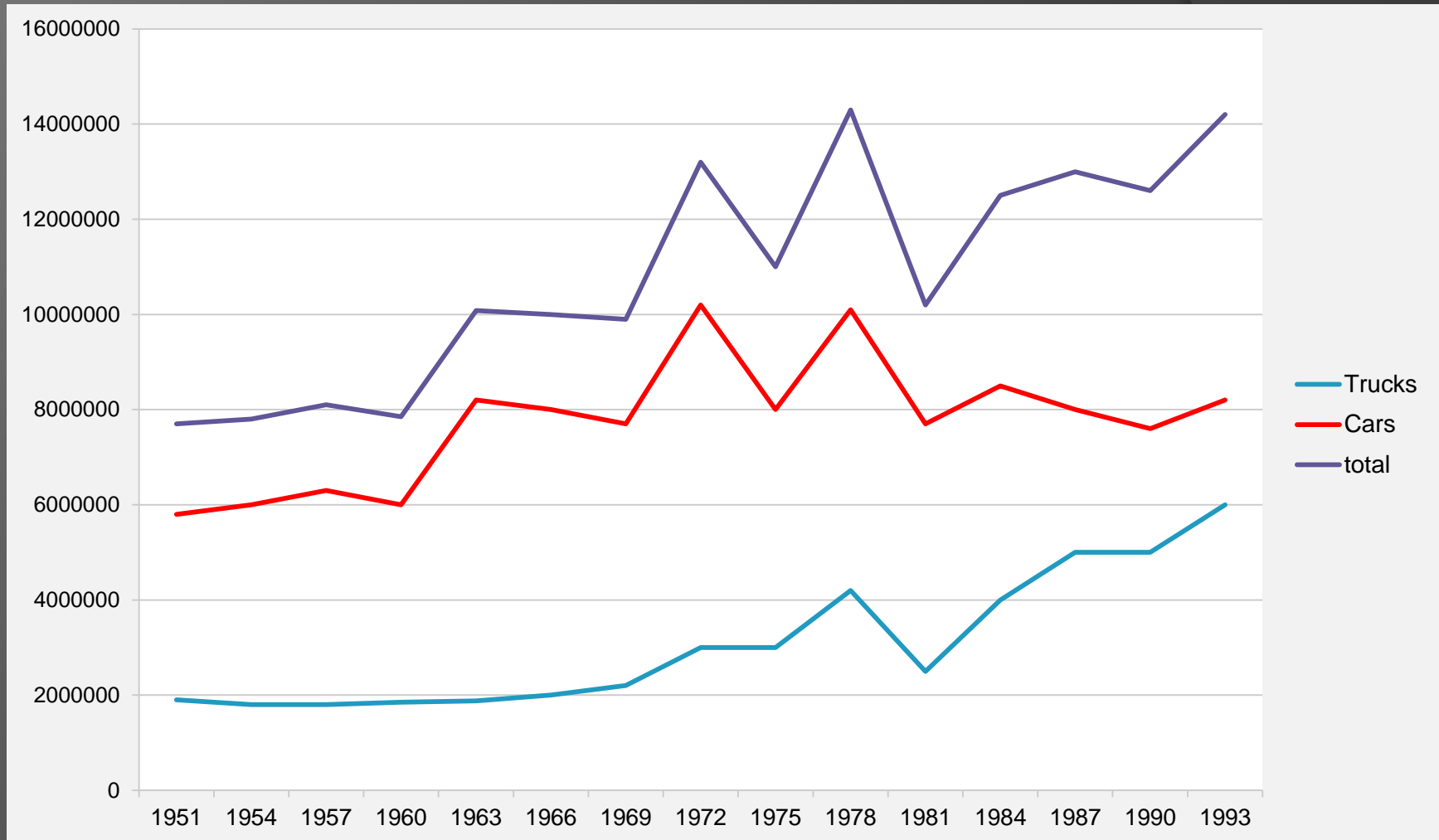
USA: Market Share Car Brands (%). 1951-1994



Source: Auto Wards & OICA 2010

# OVERVIEW

USA: Cars and Trucks Production 1951-1994



Source: Auto Wards & OICA 2010



# OVERVIEW



National deficit Budget  
Manufacturing Taxation



High Wage Cost  
Union strength



Legal and Ecological Problems of the  
Industry Technology Transfer

# OVERVIEW



Money Exchange ( Peso's Devaluation)



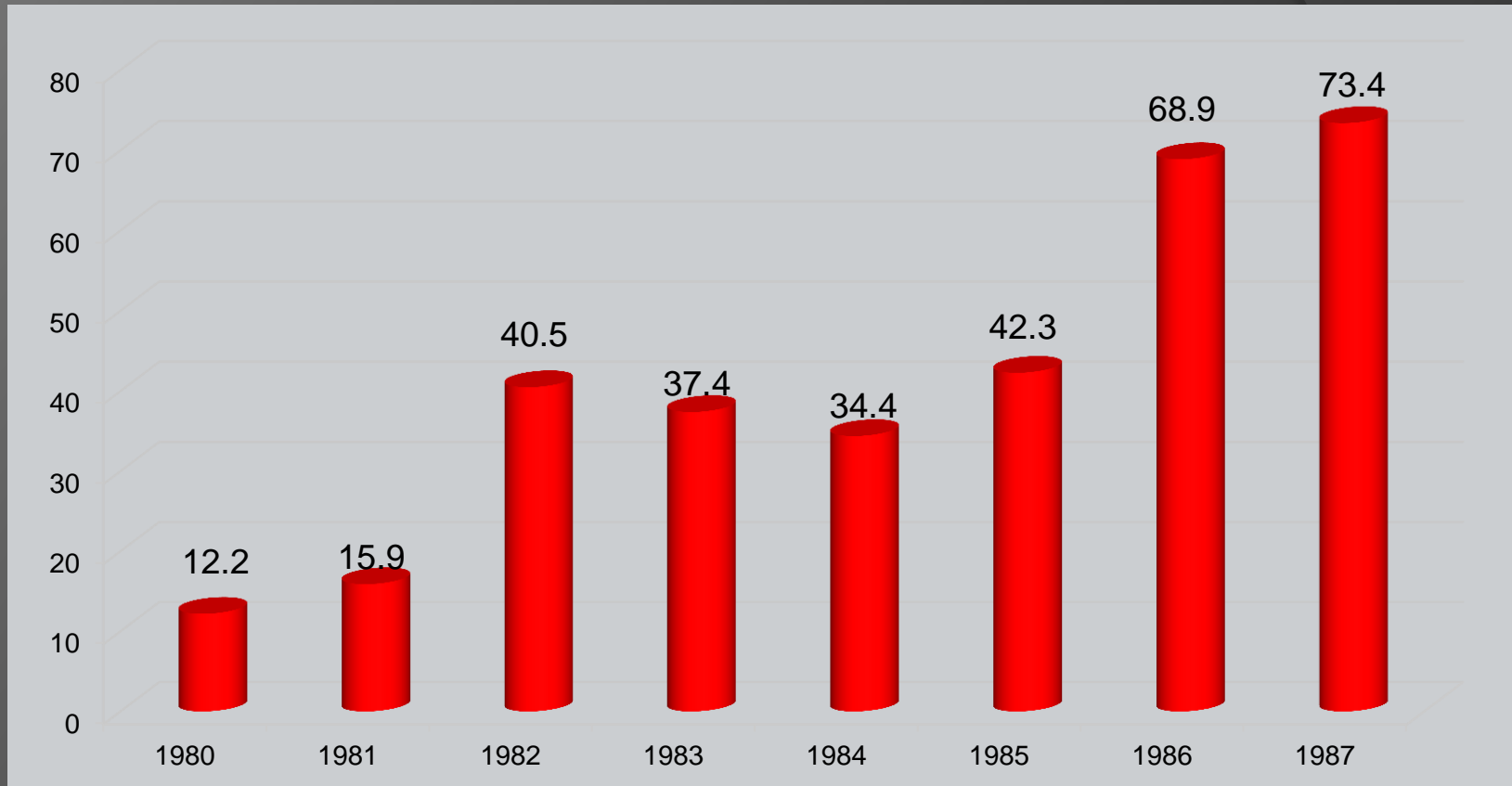
External Public Debt increased



Trade Protectionism  
(Imported Substitution)

# OVERVIEW

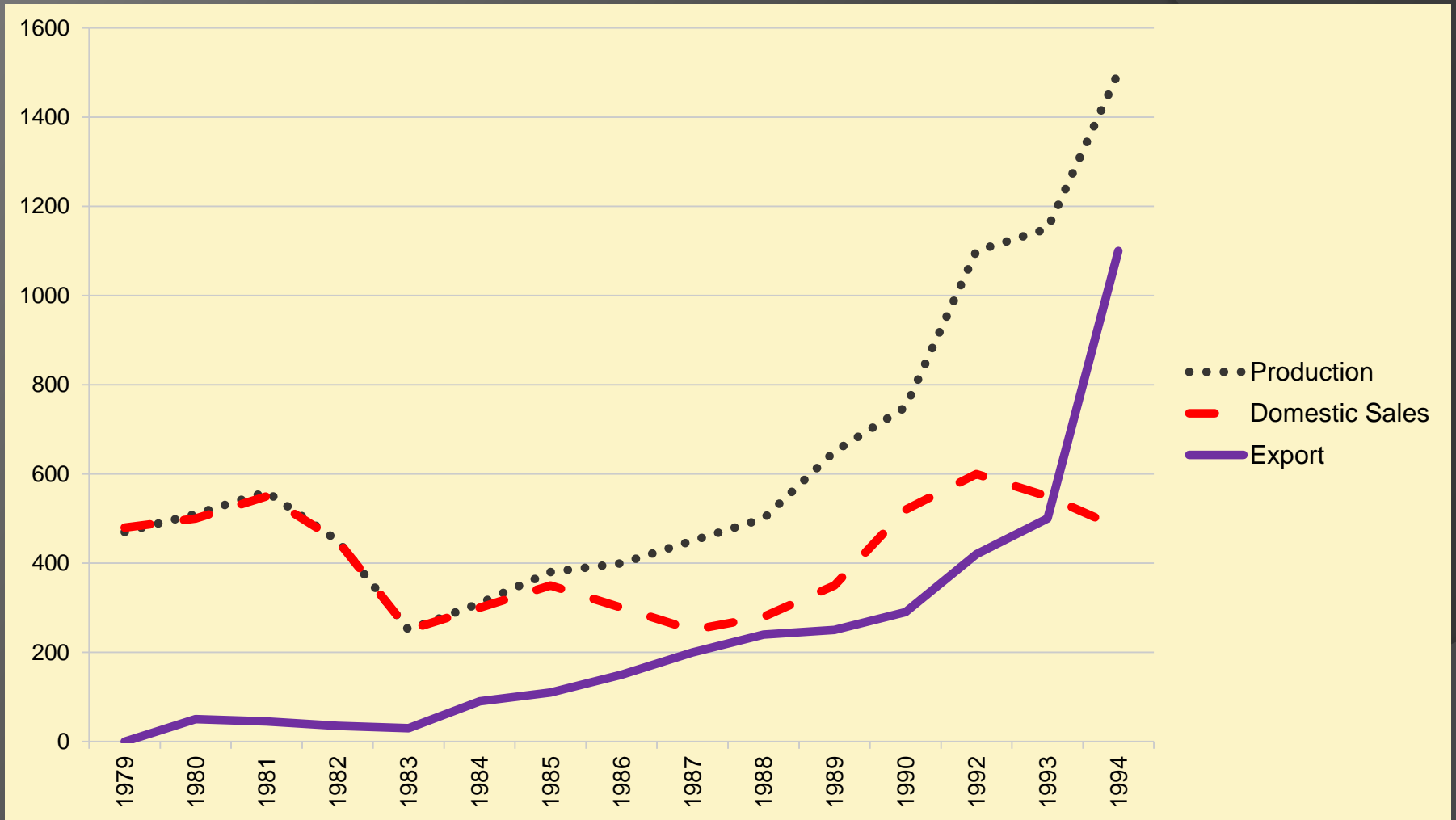
Mexico: Public External Debt as GDP %



Source: NAFINSA (!1988)

# OVERVIEW

Mexico: Cars Production 1979-1994 (Thousands)

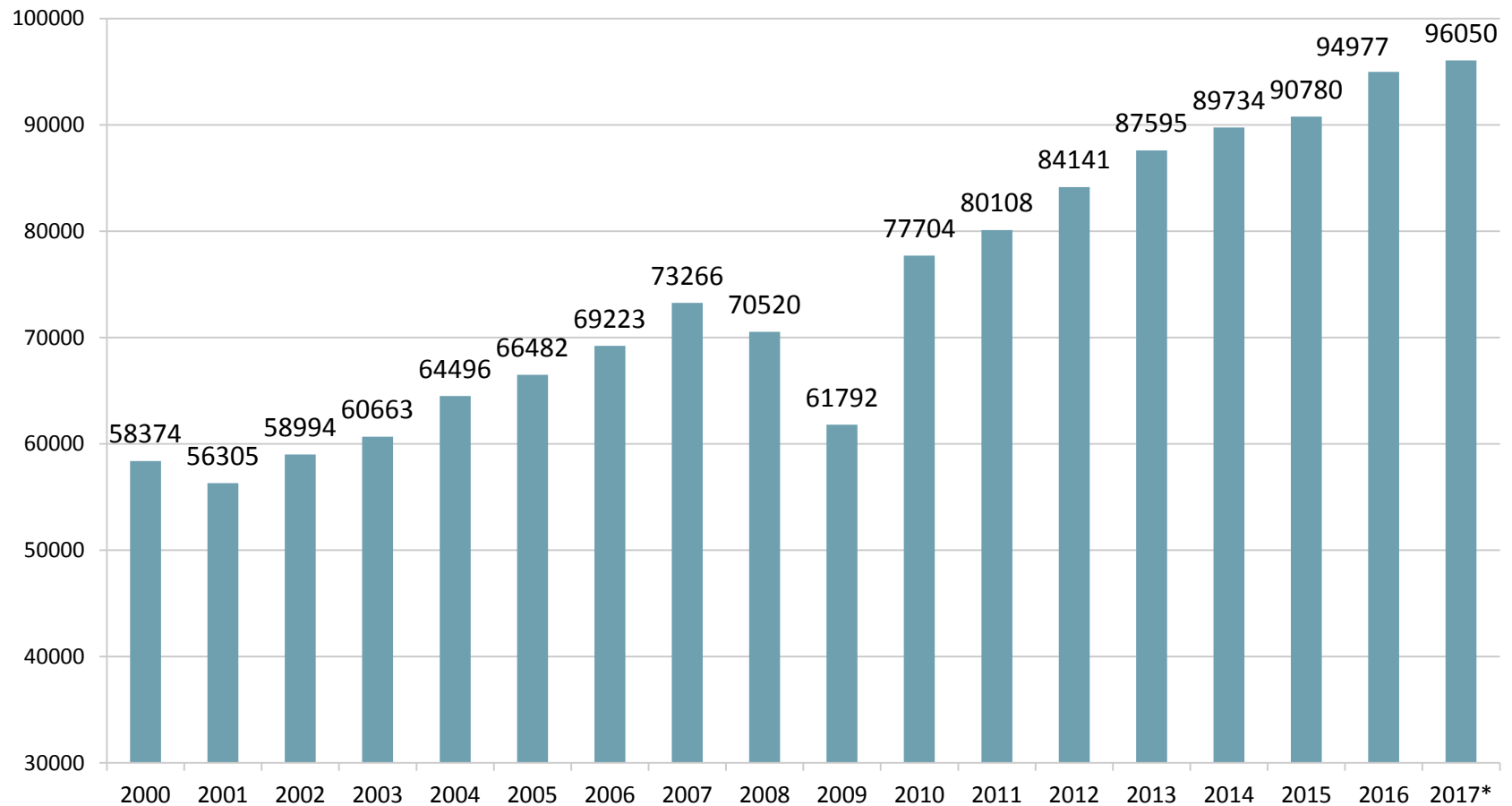


Source: AMIA, AMDA & INEGI

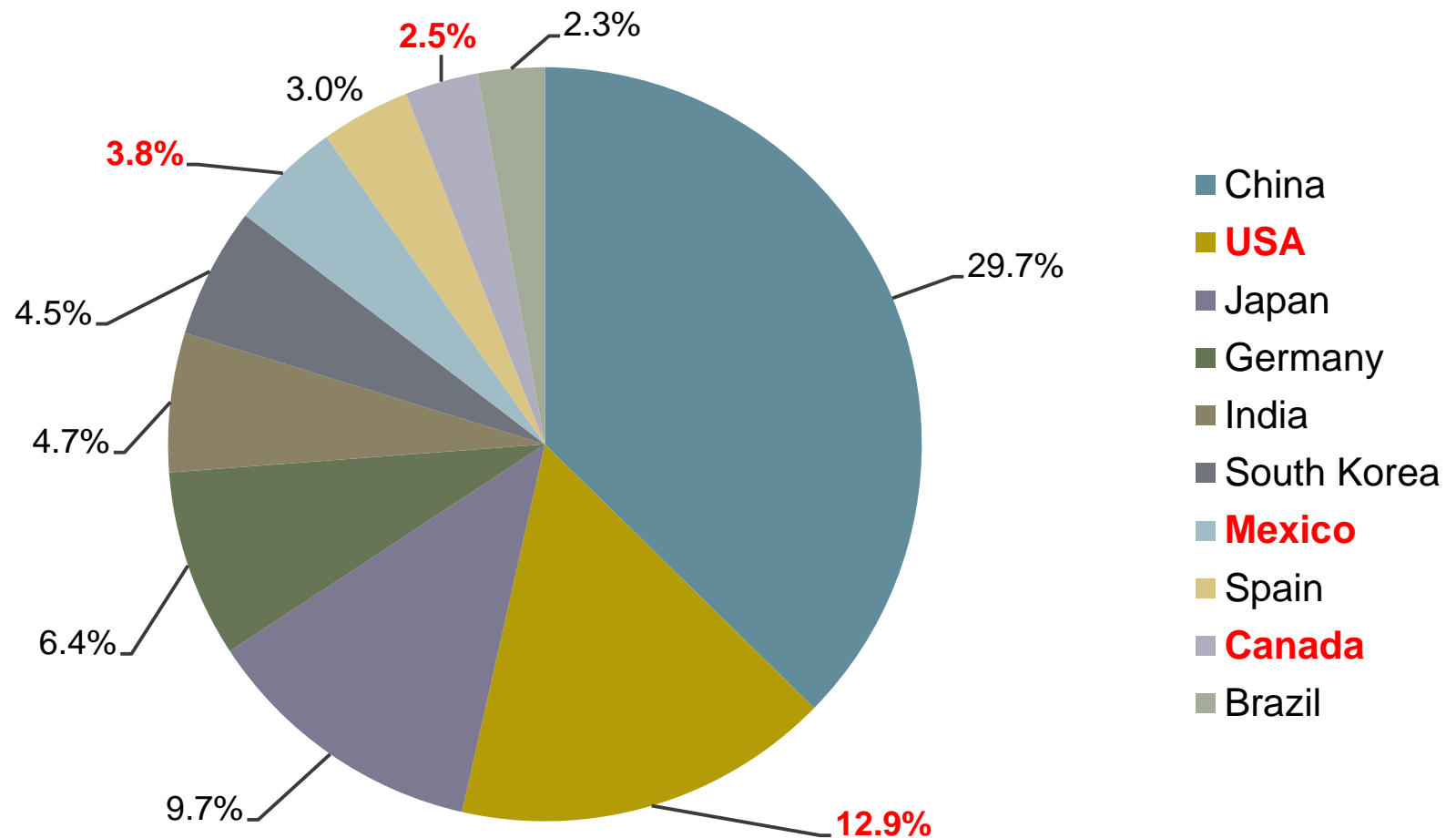
# AUTOMOTIVE INDUSTRY



# WORLD WIDE PRODUCTION (INCLUDED CARS & COMMERCIAL VEHICLES)

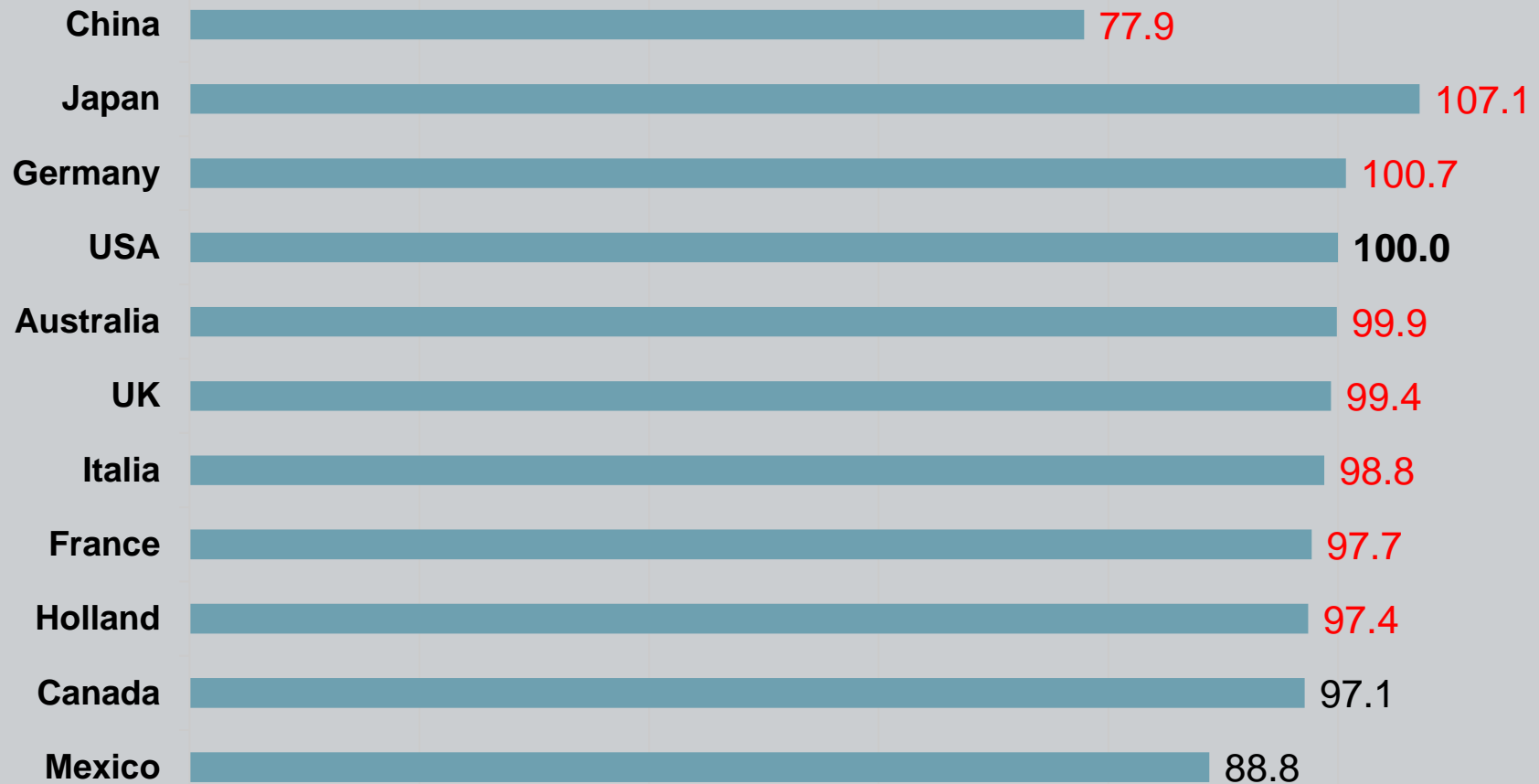


# MAIN COUNTRIES PRODUCERS 2016-2017





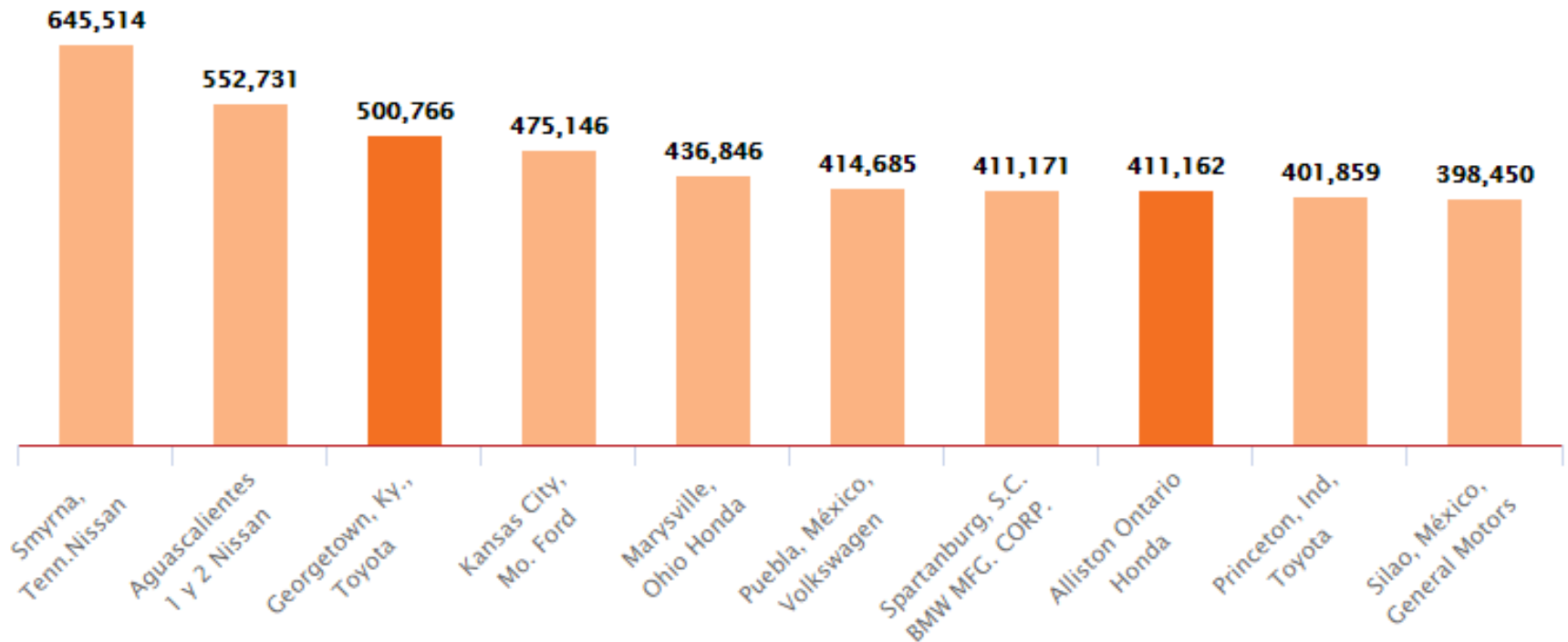
Index Cost: Auto Parts International Manufacturing (2011)  
(USA=100.0)



# NAFTA : 24 YEARS LATER

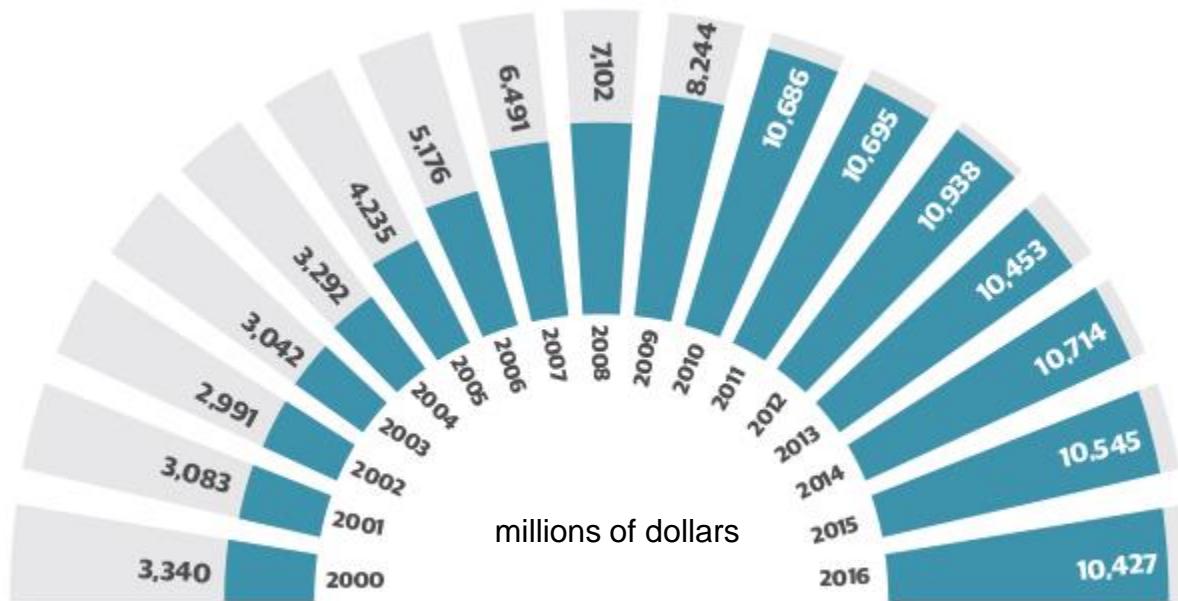


# TOP TEN NORTH AMERICAN MANUFACTURING FACILITIES 2016



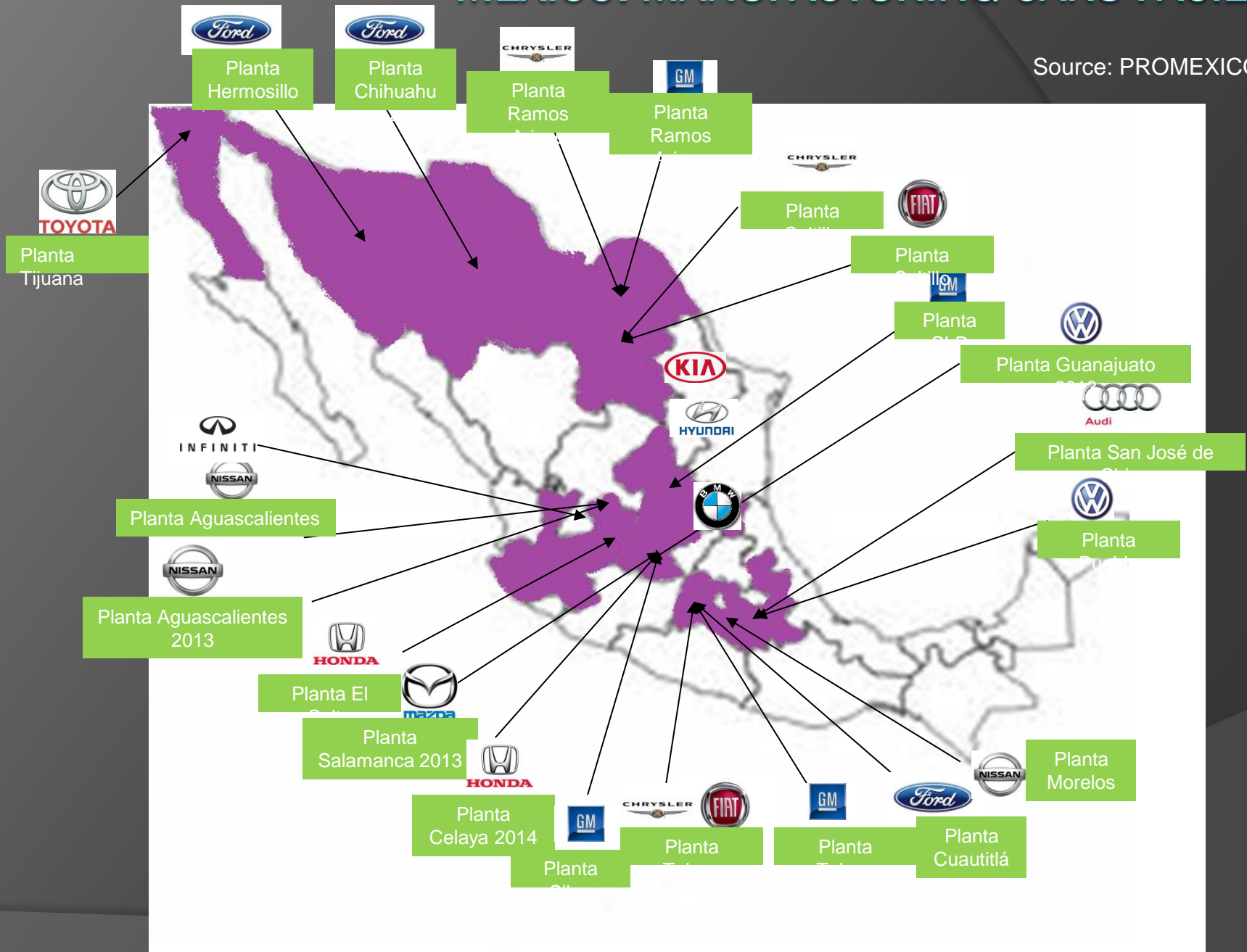
Source: PROMEXICO 2016

# NAFTA: AUTOMOTIVE SUPPLY CHAIN



Source: Asociación de Manufactureros de Partes Automotrices de Canadá (APMA) 2017

Source: PROMEXICO 2017





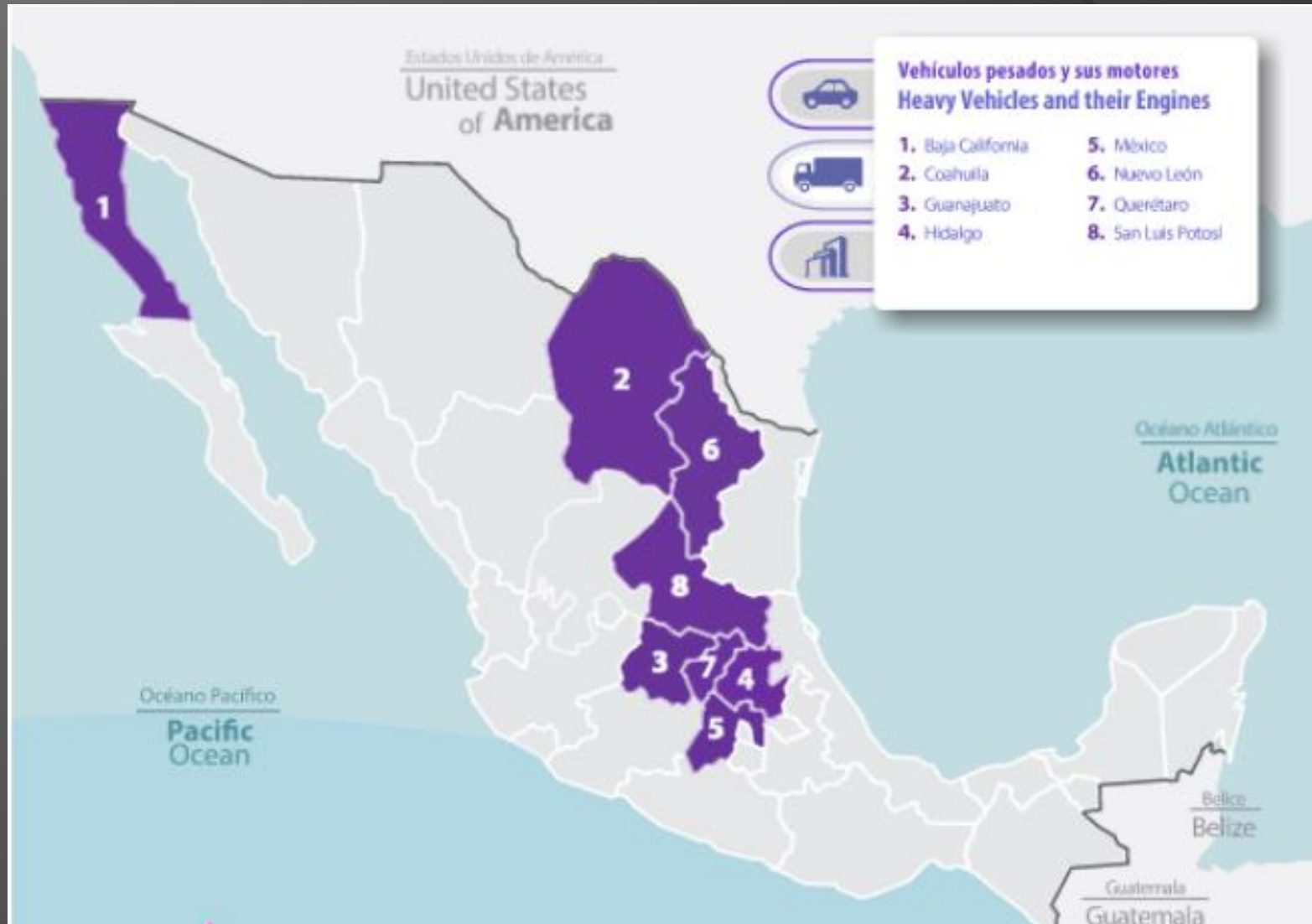
# MEXICO: COMMERCIAL VEHICLES FACILITIES



Fuente: Industria Terminal Automotriz. Unidad de Inteligencia de Negocios. Proméxico. Agosto de 2012.

# MEXICO: AUTOMOTIVE R&D

## 30 DESIGN CENTERS





# NAFTA: BUSINESS OPPORTUNITIES

## Major Components

Transmissions	Injectors	Sensors
Fuel Motors	Safety Systems	Dashboard

## Low Development Process

extrusion	Die Casting	High Strength Steel
Steel casting	External Plastic Chroming	“Body Parts”

## Lower Parts: Tier 1

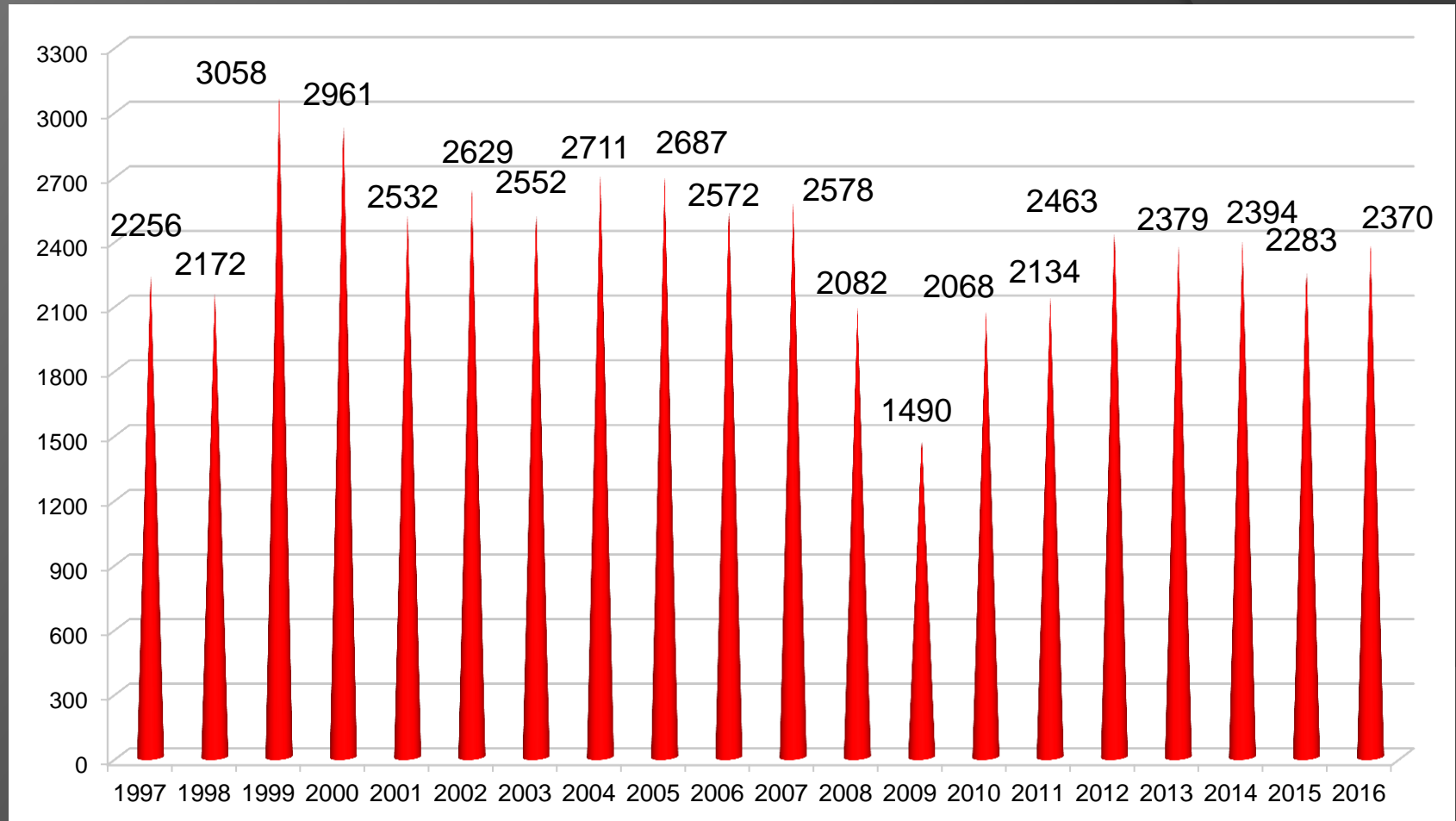
Pistons	Carter	Hoses
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## Low Parts: Tier 2

Plastic Injection	Stamping	Machining
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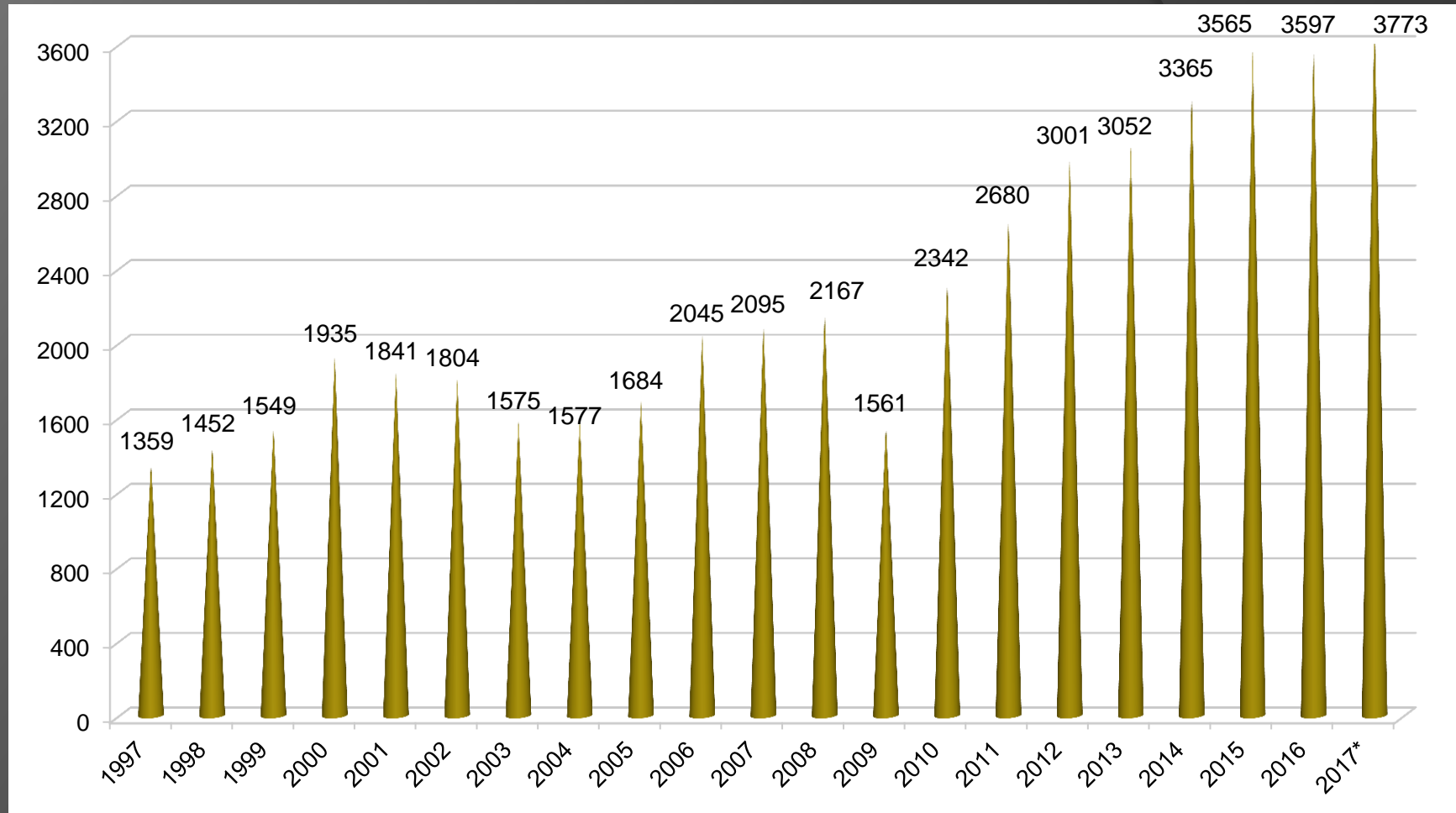
# CANADA: CARS AND COMMERCIAL VEHICLES PRODUCTION

(THOUSANDS)

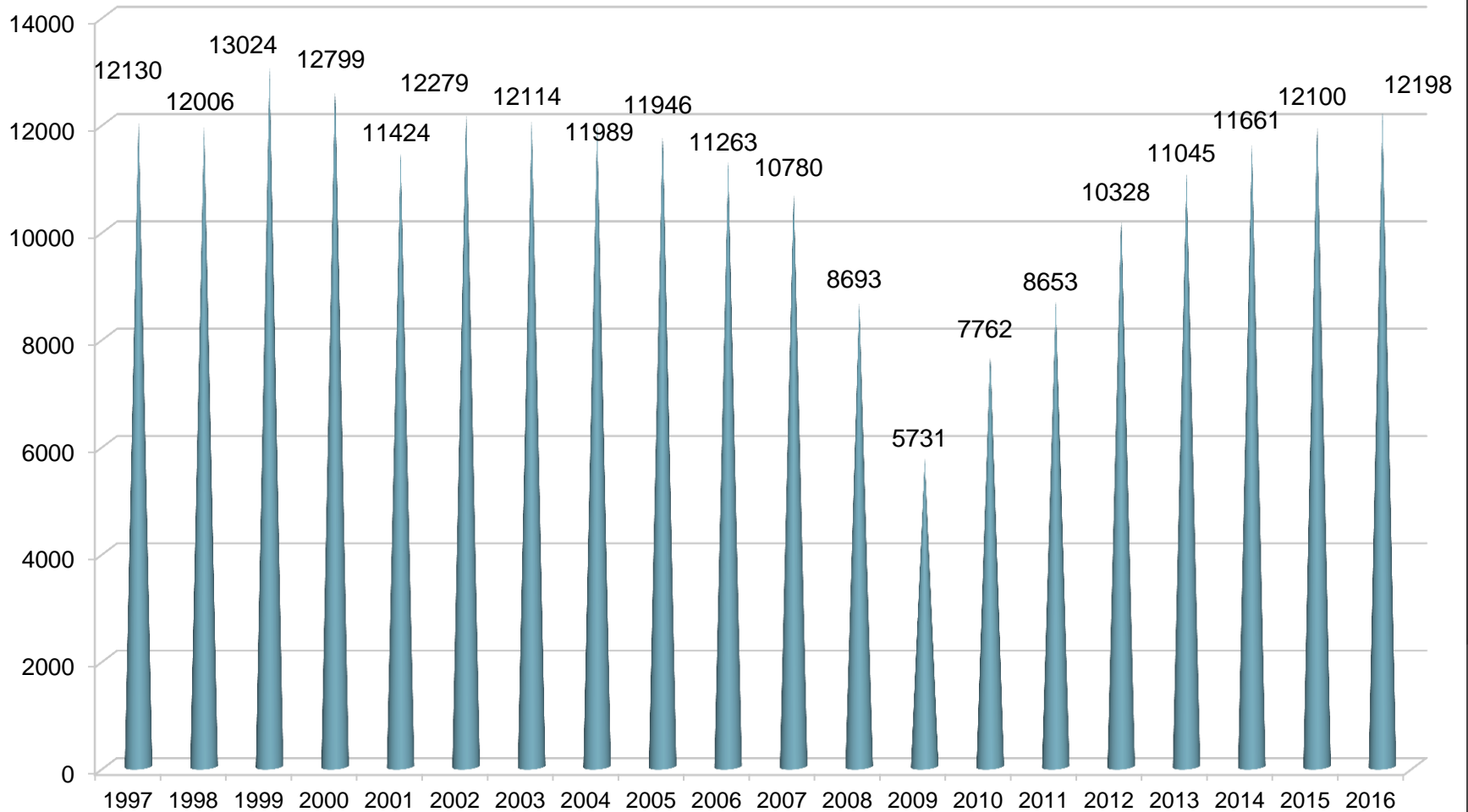


# MEXICO: CARS AND COMMERCIAL VEHICLES PRODUCTION

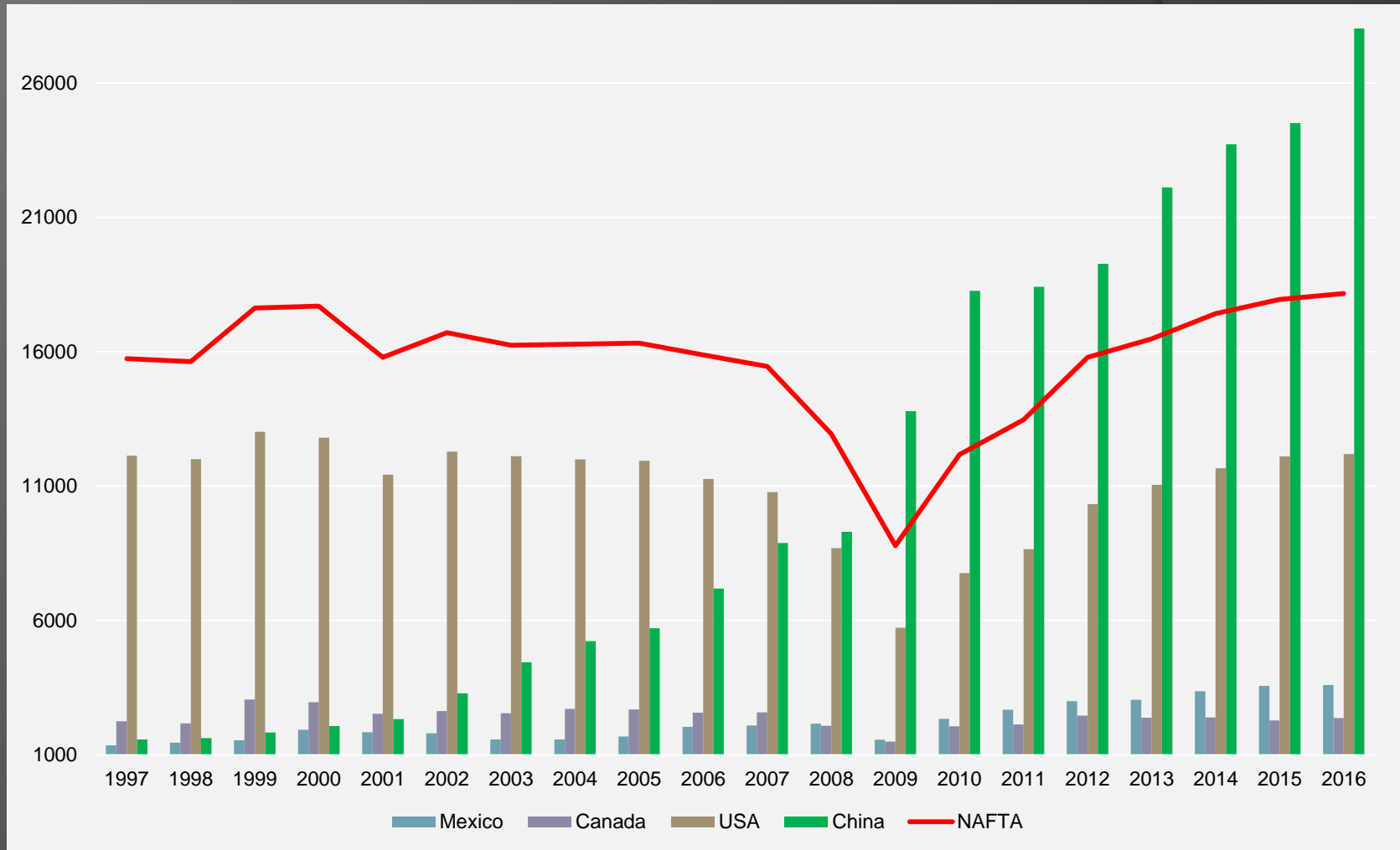
(THOUSANDS)



# USA: CARS AND COMMERCIAL VEHICLES PRODUCTION (THOUSANDS)



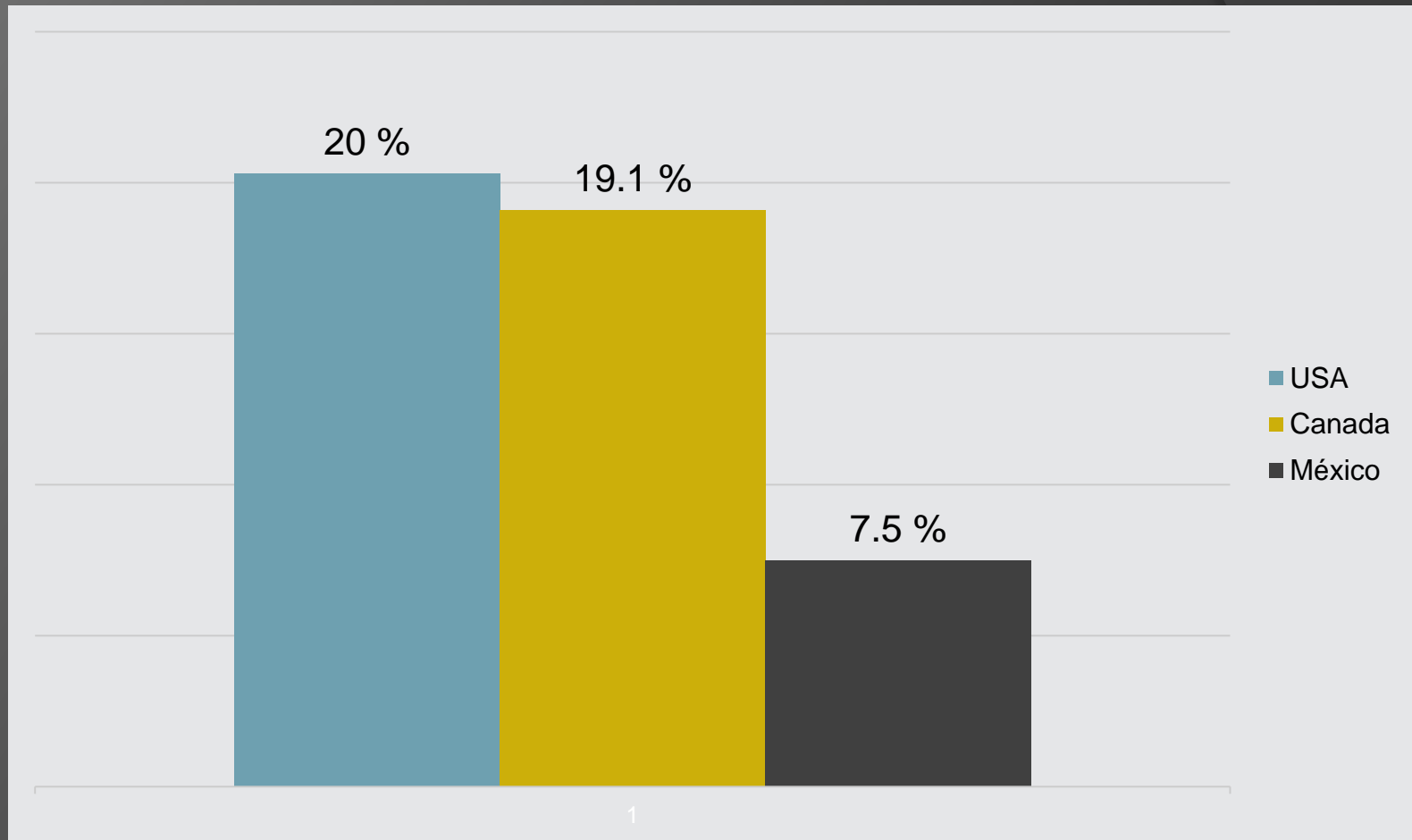
# NAFTA: 1997-2017 PRODUCTION & CHINA



## World Wide Automobile Volume Production Placed Comparison: 2000-2016

COUNTRY	2000 PLACED	2016 PLACED
USA	1 <sup>ST</sup> .	2 <sup>nd</sup> .
JAPAN	3 <sup>RD</sup> .	3 <sup>rd</sup> .
CANADA	5 <sup>TH</sup> .	11 <sup>TH</sup> .
CHINA	8 <sup>TH</sup> .	1 <sup>ST</sup> .
MEXICO	9 <sup>TH</sup> .	7 <sup>TH</sup> .
BRASIL	12 <sup>TH</sup> .	10 <sup>TH</sup> .
INDIA	14 <sup>TH</sup> .	5 <sup>TH</sup> .

# LABOR COST AS % TOTAL COST



Source: KPMG 2013



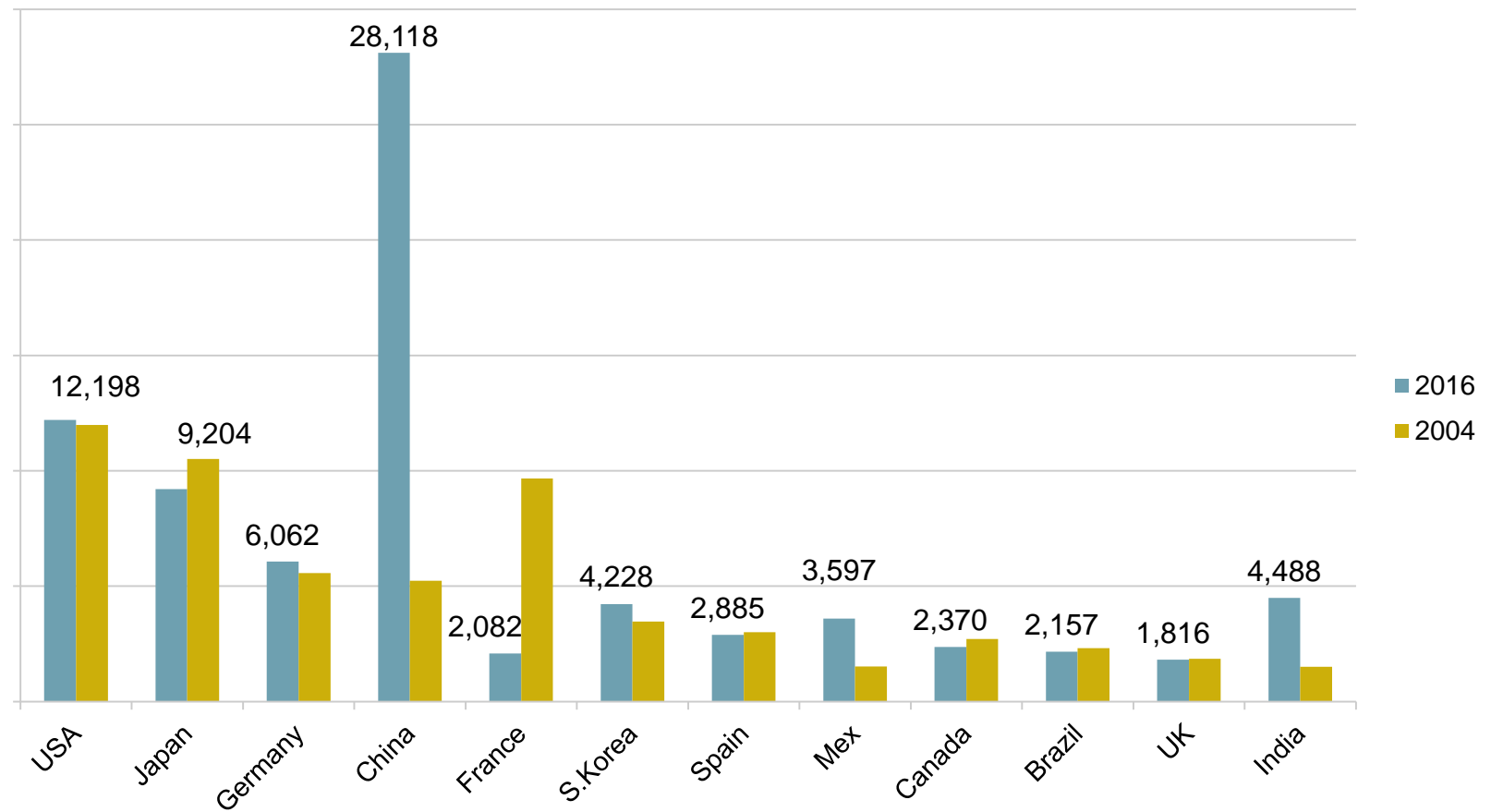
# NAFTA Renegotiation 2018



# NAFTA Renegotiation 2018

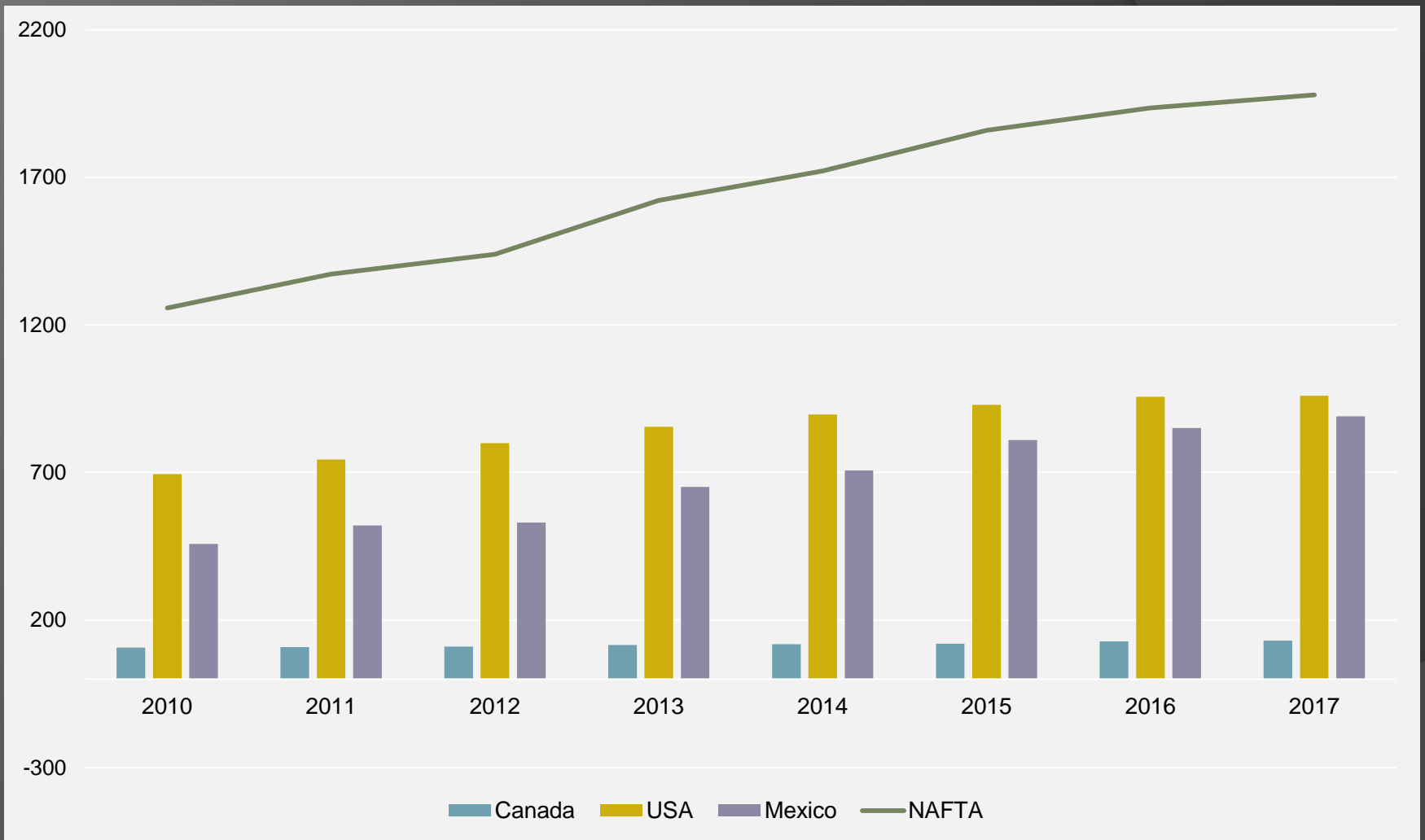


# WORLD WIDE AUTOMOBILE VOLUME PRODUCTION: 2004-2016



Source: AMIA & OICA 2017

# NAFTA: AUTOMOTIVE INDUSTRY EMPLOYMENT



Source: USA Bureau, Statistics Canada & INEGI 2017

# USA: CAR TRADE

Country	Import	Export
Mexico	57,400	3,683
Canada	44,634	27,878
Japan	40,388	550
Germany	20,634	5,752
S. Korea	15,732	1,531
UK	8,594	1,624
Italy	4,778	163
Sweden	2,026	132
Slovakia	1,996	2
China	1,610	10,071



# NAFTA: RENEGOTIATION 2017-2018



**Donald J. Trump**   
@realDonaldTrump



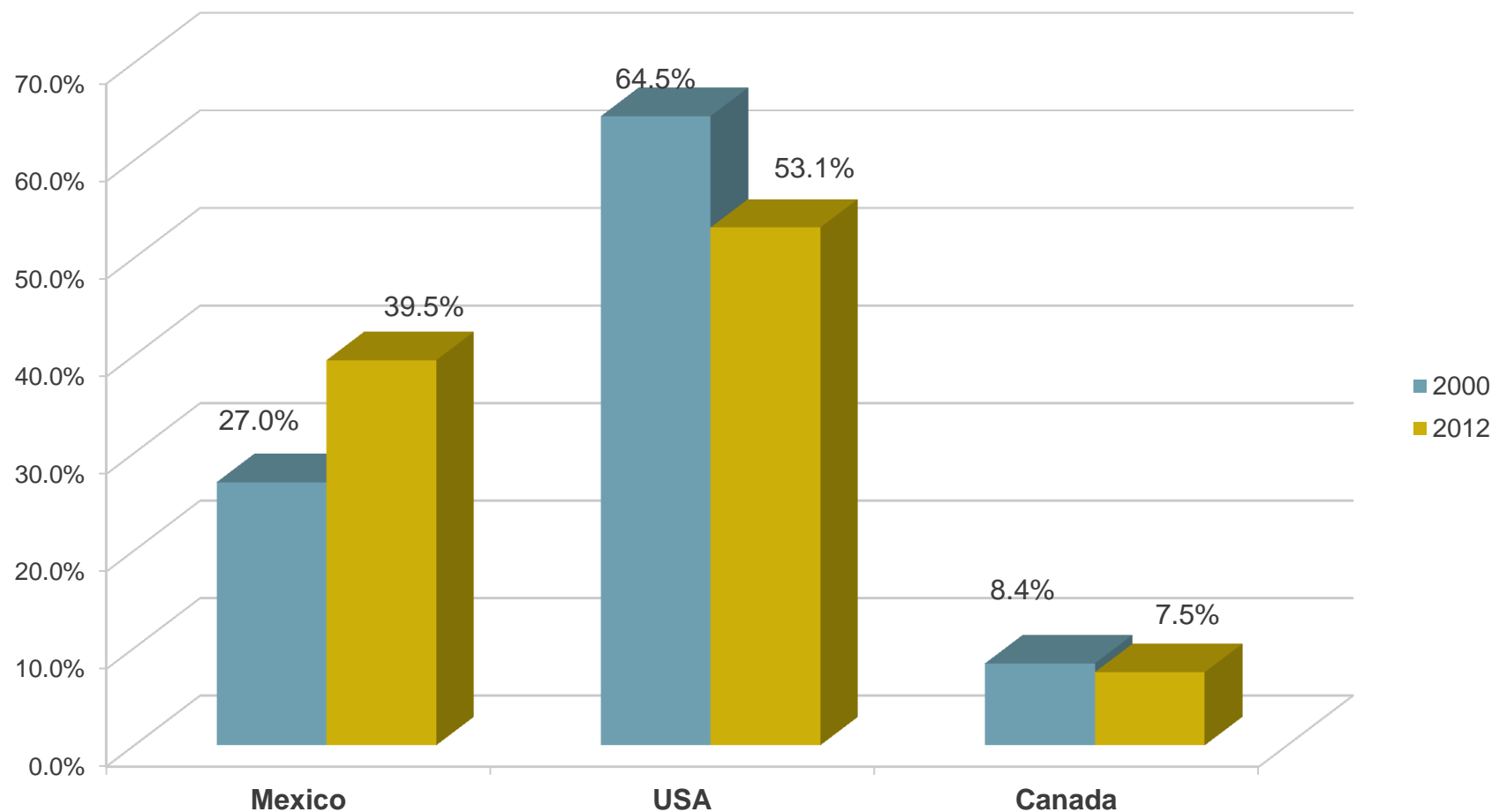
....The Wall will be paid for, directly or indirectly, or through longer term reimbursement, by Mexico, which has a ridiculous \$71 billion dollar trade surplus with the U.S. The \$20 billion dollar Wall is “peanuts” compared to what Mexico makes from the U.S. NAFTA is a bad joke!

5:25 AM - Jan 18, 2018

 112K  51.2K people are talking about this



# NAFTA: (%) AUTOMOTIVE INDUSTRY EMPLOYMENT



Country	2010-2012
Mexico	132K
USA	108K
Canada	2K

Generation of  
new jobs

Source: ILO & INEGI 2013



# NAFTA: RENEGOTIATION 2017-2018

- ❑ About 14 million U.S. jobs depend on trade with Canada and Mexico
- ❑ Business: usd\$1.2 trillion a year
- ❑ Under the current NAFTA, 62.5% of the parts in a car sold in North America must come from the region. And with 50% required from the United States
- ❑ It doesn't matter if the parts come from Canada, Mexico or the United States. They just need to be sourced from within the continent
- ❑ Trump's trade team wants to raise that threshold up to 85%
- ❑ The caveat: Trump's negotiators are proposing that half of auto parts sourced from North America come specifically from the United States. The rest would go to Mexico and Canada.
- ❑ **Sunset Clause:** Mexico's answer: that a U.S.-specific rule would be unacceptable.
- ❑ Canada's answer: "extreme proposals" that "we simply cannot agree to."
- ❑ Canada's proposal: including **the Software Development** as part of the 85%.

# NAFTA2018: SCENARIOS

1

What if.....

- ☐ About 14 million American jobs depend on trade with Mexico and Canada
- ☐ Killing NAFTA would cost 300,000 American jobs
- ☐ Killing NAFTA would cost 500,000 Mexican jobs
- ☐ Killing NAFTA would cost 100,000 Canadian jobs
- ☐ U.S. economic growth would be slower in 2019 - 1.5% (today is around 2.5%)
- ☐ Business investment growth would also slow
- ☐ Mexican peso would drop 8%
- ☐ Canadian dollar would decline 2.5%
- ☐ The ending NAFTA would push more Mexicans to seek work illegally in the United States
- ☐ Pick Up would pay 25% taxation tariff to United States

# NAFTA2018: SCENARIOS



What if.....

- ☐ Mexico can export vehicles within 2%-3% taxation tariff
- ☐ Due Mexico is 40% cheaper than the United States, the plants would continue in Mexico
- ☐ The Mexican Wage is 12 times cheaper, therefore the plants would remain in Mexico
- ☐ The Mexican Manpower is considered as High Standard
- ☐ The US and Canada plants would be competitive too
- ☐ Pick Up would pay 25% taxation tariff to United States



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## MUCHAS GRACIAS!

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