

Mexico braces for influx of Japanese suppliers

2 key factors: Cheap labor, free-trade rules

TOKYO -- Flush with new-factory announcements from Mazda and Honda, Mexico is bracing for an influx of Japanese suppliers. About 40 Japanese parts makers are in talks to set up shop to feed assembly plants there, says Raul Urteaga, a trade minister at the Mexican Embassy in Tokyo. And Mexico expects 40 percent of overall investment in the auto sector to come from Japan in the next two years.

Japanese carmakers are rushing to Mexico, in part to tap low-cost labor. But with auto exports from Japan hammered by the yen's exchange rate, Mexico offers an even bigger plus: preferential trade access to 45 countries, including the United States, Latin American nations and members of the European Union.

Mexico gives Japanese carmakers an export base with one foot in North America and another in the booming markets of South America, where Japanese brands are racing to play catch-up and chip away at the Detroit 3's lead -- especially in Brazil, the region's biggest market.

Combined auto sales in the countries with which Mexico has free trade agreements totaled just under 40 million vehicles in 2009, Urteaga notes. Mexico is the world's ninth-biggest auto-producing nation. Chrysler Group, Ford Motor Co., General Motors, Honda Motor Co., Nissan Motor Co., Toyota Motor Corp. and Volkswagen AG built 2.26 million vehicles in 2010. About 82 percent of those were exported.

Since June, Mazda and Honda have announced plans to build assembly plants there. Mazda's is scheduled to open in 2013, with capacity for 140,000 vehicles. Honda's, which will be its second vehicle plant in Mexico, is scheduled to open in 2014 with output of 200,000 units, mostly small cars.

Others may join them. According to published reports, Toyota Motor Corp. and Suzuki Motor Corp. also are considering plants in Mexico. Toyota makes only 55,000 Tacoma pickups at its plant just south of the California border. And Suzuki abandoned North American production after pulling out of its CAMI joint venture with General Motors in Ingersoll, Ontario. Many carmakers will bring their suppliers from Japan, Urteaga said. That's because they need to fulfill local content levels to take advantage of free trade agreements. To export to the United States, for example, a Mexico-built car needs 62.5 percent local content. For the European Union and Brazil, half the parts need to be locally supplied.

Big in Mexico

Combined Honda, Nissan and Toyota vehicle production in Mexico

	Units	% total Mexican prod.
2011*	372,807	24.80%
2010	615,320	26.50%
2009	445,897	28.60%
2008	552,300	25.80%
2007	556,866	21.70%

*Jan.-July

Table Source: Automotive News Data Center

Source: *Automotive News*
August 29, 2011