

Accelerated migration of Japanese autoparts companies located in U.S.A. and Canada to Mexico

As a result of the restructuring process of the automotive industry in North America and with the objective to reduce production cost, automotive companies and their suppliers are intensifying the migration of their production to Mexico. Until a few years ago, China and other low cost countries had attracted investments for the production of auto parts. However, this trend changed radically from 2008, when the oil price hiked significantly and the U.S. dollar depreciated against foreign currencies. At the same time, Mexico came back to be an attractive place for production because of the competitiveness of its manufacturing sector with low shipping cost and stable currency exchange of peso-dollar. According to the "Manufacturing-Outsourcing Cost Index" report published by a U.S. consulting firm, AlixPartners, in May, 2009, Mexico has turned out to be the most competitive country in the cost of manufacturing outsourcing for U.S. clients, surpassing China and India.

When the automotive production in the United States fell drastically at the end of 2008 and during 2009, some of the Japanese autoparts suppliers which were actively investing in the establishment and expansion of their manufacturing plants in Mexico revised their plans and even decided to close their facilities. However, all in all, most of the autoparts companies closed their factories in the United States and increased the production in Mexico in order to reinforce cost competitiveness, improve profitability, and to provide cheaper products to the automotive manufacturers.

Referring to the automakers that opened factories in Mexico in recent years, GM started the production of Chevrolet Aveo at its plant in San Luis Potosi which was newly established in 2008, and Ford Motor will start to manufacture Fiesta, a global strategic model, for the North American market in early 2010. It is expected that the production capacity of automobiles in Mexico, especially of subcompact models whose production requires cost down as much as possible, is expanded in the near future. Furthermore, the opening of the assembly plants of KIA (West Point, Georgia) and VW (Chattanooga, Tennessee) in the Southern part of the United States may lead to the increase in the demand for supply from Mexico. In addition, within the process of restructuring of the production of commercial vehicle manufacturers such as Daimler Truck, transferring the U.S. and Canadian production to Mexico is becoming a common practice.

On the government side, Mexico's Ministry of Economy increased incentives for the development of the autoparts industry by implementing amendments to the Automotive Decree in November. In the new framework, the regulations applied to the automakers with operation in Mexico has been made more flexible and the allocation of the duty free import quota for vehicles from outside the NAFTA area may be increased under certain conditions. The new scheme encourages the automotive manufacturers to invest in projects that may help the development of Mexican suppliers and the purchase of components made in Mexico to be used at their factories outside Mexico. As a result of these measures, the demand for Mexican supply by automakers such as Toyota, Honda, and Nissan is expected to increase.

Expansion and transfer of operations of auto parts suppliers from U.S.A. to Mexico

Company	Activity
AKT (Germany)	March 2009, production outsourcing with Offshore Group, Saltillo
American Axle Manufacturing (U.S.A.)	Transfer of production from Detroit to Guanajuato in July 2009
Faurecia (France)	As of September 2009, possible plan to open a new production facility in Mexico
Getrag (Germany)	At the beginning of 2010, will start the production of a new model of DCT at its plant in Guanajuato
Hella (Switzerland)	Opened a new plant in Guanajuato in October 2008
Hydro (Norway)	Transfer of production from Michigan to Reynosa
JK Tyre (India)	November 2009, plans to double its export from Mexico
Kongsberg (Norway)	Transfer of production from Ohio to Nuevo Laredo, and from Kansas to Matamoros
Leoni (Germany)	December 2008, opened a new plant in Durango
Preh (Germany)	Will export air conditioning systems from Monterrey to the factories of Ford in U.S.A., Canada and Mexico
Posco (Korea)	August 2009, opened a new plant in Altamira
Schaeffler (Germany)	November 2008, opened the second plant in Irapuato
Mitsuba (Japan)	November 2009, possible transfer of production from Michigan, Indiana and Kentucky to Nuevo Leon
Kinugawa Rubber (Japan)	November 2009, plans to open its first plant in Mexico in 2011-2012, possibly in the central-west region
Tokai Rubber (Japan)	December 2009, transfer of production from Ohio and Tennessee to Chihuahua
Piolax (Japan)	October 2009, a former U.S. subsidiary in Mexico was transformed into a Japanese subsidiary as a process of capacity reinforcement
Nippon Kayaku (Japan)	Transfer of production from U.S.A. to Mexico
Hitachi Chemical (Japan)	Transfer of production from Kentucky to Montemorelos, Nuevo Leon with the production starting in April, 2010

Reduction of operations of auto parts suppliers

Company	Activity
Tachi-S (Japan)	June 2009, the number of its plants in Saltillo was reduced from three to two
Takata (Japan)	Closed a plant in FY2008 and two in FY2009. Transfer of operation from Guadalajara to Acuna, Torreon, Monclova, and Frontera (Coahuila)
NGK Insulator (Japan)	April 2009, suspension for two years of its plan to open a new plant in Mexico

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