Dateline Mexico by Carlos Cota Meza

'Big 3' automakers make market grab

With the auto sector first up on the NAFTA agenda, Mexican auto-parts producers are panicking . . . and rightly so.

On Sept. 9, the "Big Three" U.S. auto companies (Ford, General Motors, and Chrysler), presented U.S. Trade Representative Carla Hills with a monograph regarding what should be negotiated in the automotive section of the North American Free Trade Agreement (NAFTA). According to Mexican auto-parts producers represented in the National Auto-parts Industry (INA), the Big Three's proposal is not a trade plan, but a blueprint for taking over the entire Mexican auto industry.

Their plan "does not contemplate increases in [Mexican] export capacity to the United States and Canada, but rather a concentration on the domestic market," INA complained. The U.S. car makers propose "converting the [Mexican] auto industry into assembly plants vertically integrated with branches in the United States and Canada, using Mexico for the production of low-cost, labor-intensive models, with [pre-set] fixed exports."

The fight over the auto sector, which will probably be the first NAFTA agenda item, is centering on the issue of so-called *rules of origin,* that is, what percentage of the final product has to be components produced in the region, in order to consider the final product "North American," and thus saleable in Mexico, the United States, and Canada.

To understand why this is a central issue, we must briefly explain the structure of the Mexican auto sector.

The final product is assembled in Mexico by the U.S. Big Three, and by German and Japanese companies (Volkswagen and Nissan, in particular). The intermediate auto-parts which go into this final assembly originate in one of three places: 1) the Mexican auto-parts industry, as represented in INA; 2) the *maquiladoras,* or in-bond border assembly plants, which are owned mainly by the U.S. Big Three, and which ship part of their production back to the U.S. for assembly and part into Mexico proper for the same; and 3) foreign auto-parts factories, in Detroit, Japan, Germany, or elsewhere, which export their production to Mexico for final assembly.

The proposal of the Big Three car makers is that the *rules of origin* be 70%—in other words, that 70% of the value of the final autos assembled in Mexico would have to originate within the NAFTA zone (Mexico, Canada, and the U.S.). If adopted, this would wipe German and Japanese auto assemblers off the map in Mexico, because they cannot possibly produce 70% of their inputs within the NAFTA zone, given their heavy dependency on their own technology and engineering.

A second Big Three proposal, is that Mexico's Foreign Investment Law and Statute for the Development and Modernization of the Automotive Industry, which today governs auto production in Mexico, be altered to allow up to 100% foreign investment in the Mexican auto sector. Under the current law, a maximum 49% foreign ownership is permitted. Mexico's INA is lobbying for it to stay at 49%, arguing that otherwise foreigners will totally take over the auto industry in the country.

The INA also points to the fact that the Big Three's assembly in Mexico is already largely geared for the domestic Mexican market, and not for export. For example, according to the Automotive Industry Association (AMIA) of Mexico, sales and production of Ford, Chrysler, and GM inside Mexico in the first quarter of 1991 were 281,000 units, approximately 60% of total Mexican output. Of these 281,000 units, 59% were sold domestically and 41% were exported. Yet during this same period, auto industry imports doubled—i.e., the assemblers were getting their inputs less and less from Mexican producers, and more and more from plants abroad. As a result, for the first time since 1983, the auto sector showed a negative trade balance of $368 million.

INA has responded to the Big Three drive by presenting its own monograph to the Mexican government's NAFTA negotiating team. But the INA is fighting a totally unequal battle against the Big Three, for against it is arrayed not only the power of the U.S. car makers and the U.S. government, but of the Mexican negotiating team as well. For example, Mexico President Carlos Salinas de Gortari is threatening the automotive industry with the argument that "our country does not wish to become a trampoline for exports from other countries"—precisely the Big Three's argument for high *rules of origin* percentages.

Indeed, it would appear that the Big Three have already won the battle. In October, Chrysler began to promote its 1992 models with television commercials featuring company president Lee Iacocca. Although the commercials were presented on Mexican television, Iacocca's lines were delivered . . . in English!