FOREWORD

It is difficult to overstate the economic importance of the automobile, particularly in North America. The automobile is at once the most important consumer good and the largest component of international trade. The industry is an oligopoly dominated by large multinational corporations. These characteristics have made the automobile industry the target of aggressive industrial and trade policies—even in the United States which is normally not as prone to intervene as are Canada and Mexico. Mexican policy has been especially intrusive. In exchange for specific economic benefits, Mexico has made its automotive industry a special preserve for the five multinational car producers who operate there.

As a result of the Canada-U.S. Auto Pact, and the access afforded to Mexican producers under that agreement, the North American auto industry is already highly integrated. Under the North American Free Trade Agreement (NAFTA), it will continue to function in a *managed trade* environment.

For aftermarket parts, however, the situation differs markedly. Although they were not covered by the Auto Pact, the Canada-U.S. Free Trade Agreement (FTA) created almost unhindered trade in aftermarket parts between the U.S. and Canada. The NAFTA will extend these FTA conditions to Mexican markets. The result will be enormous opportunities for Canadian parts manufacturers, especially Canadian-owned firms, free to sell and invest in Mexico.

This profile describes the Mexican auto parts market, and the industry and distribution systems that presently serve it. Specific opportunities for Canadian companies are highlighted throughout the report. They have been identified by the Automotive Industries Association of Canada (AIAC), based on interviews conducted by the AIAC in Mexico.

1. THE MOTOR VEHICLE PARTS INDUSTRY IN MEXICO

The Mexican motor vehicle parts industry was established through a series of industrial policies beginning with the presidential automotive decree of 1962. Subsequent decrees in 1973, 1977, 1983 and 1989 (see Section 5), had the dual effect of increasing exports of both vehicles and components, while ensuring substantial Mexican value-added. A local parts industry, now composed of about 540 firms, established itself on the strength of this demand. It is clustered around the major cities. About 60 percent of all auto parts firms are located around Mexico City and 12 percent around Monterrey. Other significant parts-producing areas are Puebla, Toluca and Querétaro.

The parts-producing companies supply both the multinational vehicle manufacturers and the *maquiladora* operations that export components. The Mexican-owned parts plants generally lack the technology and facilities to meet the quality standards required by export markets. Protection has allowed them to survive, but the assemblers have often had difficulties meeting domestic content requirements. The largest parts firms produce for Original Equipment Manufacturers (OEMs), for *maquiladora* plants and for export. In 1990, Mexican companies directly exported parts worth about US $0.5 billion.

Note: Unless otherwise specified, currency used is in Canadian dollars.