1. BACKGROUND

During the past decade, the Mexican automotive industry has undergone a major transformation, driven by an integration with the American market. The new competitive needs of the American market originated the creation of new plants on Mexican territory with an organizational and technological design linked to such conditions. Thus, since the early 80's, a new exporting specialization emerged in the local car assembly plants and in a great number of auto parts firms. Manufacturing and complex assembly plants coexist now in this new exporting system.

Traditionally, the strategies of Mexico's automotive firms were in conflict with governmental policies. The companies operated trying to obtain maximum benefits from the protected market and thereby hindering import substitution policies. On the other hand, the government had to protect the local market, it being the axis of the country's industrial growth and employment, but at the same time encouraging exports.

The conflict between the companies and the authorities' guidelines was mostly to be seen when, between the late 70's and early 80's, the oil boom generated a great demand which exceeded the possibilities of the existing short-range production structure, giving way to rising imports. This led to a dangerous situation in 1981 and 1982, when the automobile sector accounted for 43% and 32% respectively of the country's trade deficit. Between 1979 and 1981, imports of auto parts jumped from $5.16 million (1) to $2.4 billion, and in this process, the import substitution strategy was buried with the lack of a clear exporting orientation. In time, a liberal model was implemented and the relationship between the agents in the industry underwent a significant modification. In the 80's there was an inflection point, and in the 90's, a significant autonomy for the companies is expected.

On the other hand, since the late seventies, according to the changes that the automotive industry had already been experiencing in the world, the American firms used a new strategy in Mexico, creating the first plants that would help them face the new competitive conditions in the U.S. market itself. These manufacturing plants located in the North of Mexico, started operating in 1981 with the export of Chrysler "K" model engines to the United States. The vast majority of these assembly plants had technologically very sophisticated production systems and brought about a new tendency in the industry, by integrating it to the American market.

The 1983 "Rationalization of the Car Industry" decree attempted to mend previous years failures by allowing exports. It determined that the companies had to reduce their number of lines and different models and thus tried to create a specialized supply to follow the cycles of scale economies. Together with this important change, it reinforced the requirement for each individual firm to have a positive trade balance, that is, to hold export levels above their import levels. During the time the decree was operational, exports attained a strong dynamism, increasing from $650 million to $3.3 billion between 1982 and 1987.

This exporting process also gave way to higher imports, while the low activity of the internal market produced a reduced use of Mexican components. The supply systems

---

1. When All values in this report, unless otherwise stated (i.e. Mexican pesos, US $, etc.), are quoted in United States dollar equivalents.