

The Most Popular Passenger Cars in Mexico

1971-1992 Model Years

US \$ unit sales

Company	Model	Sales	Company	Model	Sales
VW	Beetle	979,454	AMC	American	142,467
Nissan	Tsuru	552,774	Chrysler	Volare	134,704
Nissan	Datsun	371,264	Chrysler	Shadow	132,706
VW	Caribe	301,351	Ford	Fairmont	124,664
Chrysler	Dart	219,455	Chrysler	Dart K	113,048
Ford	Topaz	203,674	VW	Jetta	111,367
Renault	Renault	173,491	Chrysler	Spirit	104,688
VW	Golf	148,547	VW	Atlantic	102,292

Source: Automotive Industries Association of Canada (AIAC).

a high priority. Second, since the vehicles are on average five years older than their Canadian counterparts, they need more maintenance and use more accessories. Rigorous emission inspections in urban areas are also increasing maintenance expenditures.

The average annual maintenance expenditure per vehicle is estimated at between US \$1,200 and US \$1,500. Mexico's low labour costs mean that a large proportion of this outlay is spent on parts and accessories.

Some other characteristics of the Mexican vehicle *parc* may work against Canadian suppliers. The model mix is much different than in Canada. For example, the most popular passenger cars are the Volkswagen Beetle and the Nissan Tsuru, which together captured more than 40 percent of the 1992 new car market. Another downside consideration is that do-it-yourself buyers, who are an important market segment in Canada, are unusual in Mexico.

THE AUTOMOTIVE PARTS SECTOR

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 had the dual effect of increasing exports of both

vehicles and components while ensuring substantial Mexican value-added. The local parts industry, now composed of about 540 firms, was established on the strength of this demand.

The parts producing companies supply both the multinational vehicle manufacturers and the *maquiladora* operations that export components. About one-third of the output of the domestic industry goes to the aftermarket. 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.

Efforts to overcome these problems have fostered the growth of technology alliances with foreign firms. This type of joint venture will become increasingly competitive to supply the Original Equipment Manufacturers (OEMs), which are actively encouraging technology alliances. Since the OEMs dominate the aftermarket for hard parts through their dealers, their suppliers enjoy a natural advantage in the aftermarket as well. Recently, several Canadian companies, including Magna, Woodbridge, ABC Plastics, and SKD, have entered into technology alliances with Mexican companies. In the future, Canada's recognized strengths in clean vehicle and alternative fuel technology will lead to additional opportunities.

FOREIGN TRADE

In 1983, the Mexican government issued the "Rationalization of the Car Industry Decree" which was designed to shift the industry to an export orientation. Three years later, another decree further liberalized the foreign trade rules. For the first time, qualifying manufacturers were allowed to import vehicles.

This liberalization increased parts imports dramatically over the ensuing years. Import penetration in auto parts now exceeds two-thirds of the market when the imports of the *maquiladora* producers are included, as they are in the charts below. The large majority of imports, about 86.5 percent, are for Original Equipment Manufacturer (OEM) vehicle manufacture. The aftermarket makes up 13.5 percent of imports. This segment has grown rapidly from US \$640 million in 1989 to an estimated US \$1 billion in 1992. The *Banco de México*, Mexico's Central Bank, which produced these estimates, uses a relatively narrow definition of the industry, and estimates of parts imports from other sources are somewhat larger.

Mexico is now the third-largest supplier of auto parts to the U.S., mainly because of exports of engines and other components from the *maquiladora* plants. Mexican-owned parts producers directly exported about US \$500 million worth of parts in 1990, but in general, they have difficulty meeting international quality standards.

AFTERMARKET SIZE AND COMPOSITION

Estimates by the Automotive Industries Association of Canada (AIAC) suggest that the total Mexican aftermarket parts sector at retail value was worth approximately US \$12 billion in 1992, with a growth rate of 12 percent per year. The market is projected to grow

