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Detroit, Far South

By [ELISABETH MALKIN](#)



MEXICO CITY, July 20 — For [Mexico](#), the recent groundbreaking of a new \$650 million auto factory was worth celebrating. President Vicente Fox and other dignitaries attended the event. Local executives from [General Motors](#), the investor, flew in to the central state of San Luis Potosí, where the assembly plant now under construction is expected to eventually employ up to 1,800 people and churn out as many as 160,000 compact cars a year.

During the last dozen years, many foreign manufacturers rushed to build factories in states like Alabama, Mississippi and Tennessee, inspiring the sobriquet Detroit South. Now Mexico is eyeing that nickname.

G.M., struggling with its own problems, did little to publicize the new factory outside Mexico. But while any talk of increasing production elsewhere or adding low-wage jobs in Mexico risks creating animosity in the United States, there is no hiding the relentless advance of the auto industry here.

Automotive production in Mexico is expected to hit record levels this year, surpassing two million cars, as automakers pour billions of dollars of new investment into their Mexican factories.

The expansion, being fueled by Mexico's top five automakers — General Motors, [Ford Motor](#), [DaimlerChrysler](#), [Nissan](#) and [Volkswagen](#) — stands in contrast to the plans by G.M. and Ford to cut 60,000 jobs in the United States and close two dozen North American plants through 2012.

The reason for Mexico's new wave of growth is twofold. First, it is next to the world's largest auto market, allowing greater production integration because auto companies can easily ship cars and parts by truck and rail.

And second, it is still cheap to operate here compared with the United States, where unionized workers earn at least \$27 an hour and benefits can double or even triple the total cost. By comparison, Mexico's typical auto industry wage of about \$3.50 an hour for an experienced worker — which doubles with benefits — looks like a bargain.

Changing tastes are also starting to work in Mexico's favor. As Americans' love affair with fuel-thirsty S.U.V.'s wanes, some analysts believe that Mexico's low costs make the country the natural place for automakers to assemble the next generation of smaller, cheaper cars.

"In the big picture," asked Greg Gardner, an analyst with Harbour Consulting in Troy, Mich., "can Ford, G.M. and Chrysler build medium and small cars in the United States and survive?"

Other forces are also at play: Mexico's long track record of producing cars and trucks for the American market; a trained and experienced work force; a critical mass of auto parts suppliers who have migrated here and now produce \$24 billion worth of parts annually with 430,000 workers. And more auto parts investments are coming, threatening jobs in the United States.

Automakers have spent \$4 billion in Mexico since the beginning of 2005, the government says. They are introducing new models — from mega-trucks to sporty compacts — assembled in factories retooled to match the sophisticated plants north of the border.

New investments could raise Mexico's production to three million cars by 2012, depending on growth in the United States, Mexico's main market, according to Emilio Mosso, an official at the Economy Ministry. In part, the boom is a rebound after sales slumped for aging models made in Mexico, and automakers halted production to prepare for new models. Exports are up 50 percent in the first six months of the year from the same period last year. About three-quarters of production goes abroad, mostly to the United States. And analysts say that figure could rise.

"When companies look at where to put a new plant, Mexico is starting to compete a lot more with Detroit South," said Gabriel Renero, a consultant at Deloitte in Mexico City. "They are finding a very attractive work force in this country."

In the last year, American automakers have all introduced a variety of new models from their Mexican assembly plants. “Being able to produce any kind of vehicle looks good in the global market,” said Mr. Renero.

George Magliano, director of automotive research for the Americas at Global Insight, a consulting firm, said more models were probable.

“There’s been a conscious effort to put them here to begin with and that has accelerated in the last six months,” said Mr. Magliano. The automakers, he predicted, “will expand their thinking in Mexico.”

Mr. Denero of Deloitte said, “We would expect that some other companies will replace production plants in Mexico in the medium term” to sell to the nation’s growing domestic market as well as to American car buyers.

Under the North American Free Trade Agreement, Mexican-made cars enter the United States market without duties, essentially erasing the border for the auto industry. Free trade agreements with other countries, including the [European Union](#), most of Latin America and Japan, mean that cars from a plant in Mexico can be shipped to much of the world with low tariffs or none.

Mexico’s share of North American production is still fairly modest, about 11.8 percent this year based on earlier forecasts, up from 10 percent last year, said Tina Jantzi, manager of North American forecasting at JD Power Automotive Forecasting in Troy, Mich. She expects that figure to reach 14 percent by 2012.

Much of the industry expects a pickup in sales of smaller cars. The question is how sharp that rise will be and how much of that production will come to Mexico. “This is the difference between two and three million units” in Mexico, said Mr. Magliano of Global Insight. Any decision to move assembly plant jobs to Mexico raises awkward questions in the United States, which explains why automakers are all quick to point to their far larger investments back home.

G.M., for example, is building a new plant in Lansing, Mich.; Ford underscored last month that Mexico accounted for just 5 percent of its North American investment, about the same as Canada. A Chrysler spokesman said that of \$9.9 billion the company had spent in North America since 2003, Mexico received just \$1.2 billion.

As for G.M., it sought to play down the opening of its new plant, not even issuing a news release on its Web site, which is packed with company news. The factory will sell its cars mostly in Mexico, according to Stefan Weinmann, a G.M. spokesman in Detroit. The car will probably be a compact, because compacts account for about half of Mexico’s 1.13 million-vehicle annual market.

Mr. Weinmann said that Mexico’s expanding local market, where G.M. has a 20 percent share, was the main reason for building the plant.

Still, the plant sits on the main rail line to the United States, and the question remains how much of its production will find its way to American consumers at some point. The company says exports will be limited but declines to say where they will go.

DaimlerChrysler and its suppliers are spending \$1 billion at its plant in Toluca, outside Mexico City, which now assembles the PT Cruiser for 60 countries. The new flexible manufacturing scheme, an approach that Chrysler uses throughout its North American plants, means the plant will be able to add new models quite easily to the existing assembly line.

If demand warrants it, the plant could increase output by a third, said its manager, José Luis Chaparro.

Already, the plant is designed so that each PT Cruiser rolls off the line made to order for the customer, down to details like fog lights, leather seats and chrome hub caps. Nearby parts suppliers deliver pieces only hours before they go into the car.

Ford's plans are less clear. Last month, Detroit newspapers published articles based on what appeared to be a leaked internal memo suggesting that Ford was planning extensive investments in Mexico. In an e-mail statement, Said Deep, a Ford spokesman, wrote that reports saying the investment would reach \$9 billion were inaccurate. A few days after those reports, Ford announced it would invest in its two Mexican assembly plants and its engine plant to strengthen its manufacturing presence in Mexico, though it did not say how much it would spend.

One of those plants, at Cuautitlán outside of Mexico City, is operating at less than half its capacity. Mr. Deep would not comment on Ford's plans for the operation. Most analysts predict that Ford will eventually put another low-cost plant in Mexico.

Nissan's new compact model, the Versa, rolled off the assembly line last month at its Mexico plant after a \$1.3 million investment from the automaker and its suppliers. The car, one of a wave of new small cars in the United States, will be in American dealer lots later this summer.

Volkswagen, which produces Jettas for the global market at its plant in Puebla, some 60 miles west of Mexico City, will begin production of the Jetta station wagon there in January, according to a spokesman, Thomas Karig.

And analysts expect that [Toyota](#) may also decide to put a second plant in Mexico, where its share of the local market has been growing.

Despite the forecasts, Mexico's position is far from assured. Mr. Magliano of Global Insight said that the Mexican government needed to upgrade its

infrastructure, cut bureaucracy and invest more in technology if it expected to compete successfully in a global auto market.

Mexico “has got to be a better place to operate,” Mr. Magliano said. “And we’ve seen some of it, but not a lot of it.”

Micheline Maynard contributed reporting from Detroit for this article.