Automobile Industry Essay, Research Paper

The automobile industry right now is not as good as it used to be a couple of years ago, where big companies such as General Motors Corp., Ford Motor Co.and, DaimlerChrysler AG delighted themselves seeing how their sales and profits increased in their quarterly report. Now instead, is the flip side of the coin, where these big companies and many others endure slumping sales, not only nationwide also globally speaking. The big question now is why is this happening, but the answer is not clearly defined yet, although many blame it on weakening consumer confidence, winter weather, a tightening of consumer credit and a decrease in consumer sales incentives, all of this followed by a misguided marketing. Last month America’s auto industry declared a 10 percent drop in sales for the month of December 2000, making it the weakest nonstrike sales month in more than two years and matching the slowdown in other sectors of the economy, analysts said. But even worst if we see other numbers such as Ford Motor Co. car sales that mirrored those of GM at a 16 percent drop. However, light truck sales will fare a bit better at a 12 percent decline. The Burnham Securities analysts said these forecasts exclude Ford’s Jaguar, Volvo and Land Rover units. In other auto news affecting our shores, Japanese automobile exports fell 2.9 percent last month, from 1999, to make it the third consecutive year that the figures declined, said the Japan Automobile Manufacturers Association. Exports to the U.S. market have recently been falling due to a slower economy here and Japanese cars have been losing price competition in Europe because of currency fluctuations. Passenger car exports were down 5.6 percent to 315,075 units, and truck figures were down 14.5 percent to 52,370. Of the five top Japanese automakers, Toyota Motor Co. was off 0.7 percent; Honda Motor Company was down 7.5 percent; Nissan Motor Company got hit with a 12.7 percent decline, while Mazda Motor Corporation took the hardest blow and was down 28.5 percent. Mitsubishi Motors Corp. distinguished itself as the only Japanese motor company in positive export territory, however. Boosted by the popularity of the Montero Sport SUV and Galant sedan in the United States, exports rose 40.1 percent. (numbers as of December 2000). Whether the downward trend in exports from Japan will take a turn is uncertain. Earlier in January, officials in Tokyo declined to renew a 1996 Auto Trade Pact that increases the sales of American-made cars and auto parts in Japan. After talks ended in San Francisco, negotiators expressed their disappointment in Japan’s rejection, calling it a dangerous mistake. My fear would be for the Japanese frankly, said one U.S. trade official. “With the U.S. economy, and certainly the U.S. auto sector showing some signs of slowdown the focus of a new Congress and a new administration ought to be something of concern to the Japanese.”

Ford Motor Co. is now trying to reduce operating costs, and its doing so by cutting off plants in the U.S. and Europe. For example last Friday (01/26/2001) was known that General Motors Corp. and Ford Motor Co. would idle a combined seven North American assembly plants — three in Ohio — in hopes of winnowing bloated inventories. GM said it will temporary close five plants for the week, and these shutdowns, which GM said will affect about 14,400 workers, were previously announced. In the other hand Ford said the two van plants it will idle for next week are in Avon Lake, Ohio, where the Mercury Villager and Nissan Quest are made, and in Lorain, Ohio, where the Ford Econoline is produced. Those plants employ 4,150 hourly workers, Ford spokesman Ed Miller said. This is not only inside the U.S., Ford s Dagenham, U.K., body and assembly plant was closed and 1,400 jobs eliminated also as part of a massive restructuring effort to trim operating costs.

Ford Motor Co. is not only part of this entire holocaust, but also other situations such as the lawsuits pertaining their Ford Explorer and the whole story of the Bridgestone/Firestone tires causing several and severe car accidents, and not only that recently the government has upgraded its investigation of 926,000 Ford Windstar minivans after receiving reports that a spring in the suspension system can break and puncture a tire, Ford Motor Co. have collected 199 complaints of a front suspension coil spring suddenly breaking, collapsing the front suspension. In 42 cases the broken spring punctured the adjacent tire, sometimes while the vehicle was traveling at highway speed. Ford also performed 298 warranty repairs for spring failures, including 88 involving tire damage. There have been no reports of crashes, injuries or deaths because of the problem, the agency said, but it warned that it could cause a driver to lose control of the vehicle.

Although Ford is having some problems, nobody has said that they have given up; on the contrary Ford is making huge efforts to climb not only on their sales and profits, but also on their goodwill. Strategies such, as building a driving simulator to study how drivers can get distracted, a major concern for an industry hot on selling in-car Internet access and other similar services, is what Ford is working on. Ford said it will spend $10 million on the simulator, called VIRTTEX, and research to measure how drivers interact with cell-phones, in car Internet services and other electronic gadgets while behind the wheel. Also Ford is targeting a new, more innovative microvan off the next-generation Focus platform for 2003. It will be part of a product offensive that Mr. Scheele (Ford of Europe chairman) promises to include, on average, nine new models every year for the next five years. Among those are the facelifted Galaxy minivan and new Mondeo due this year, 2001 Fiesta and convertible and 2-door versions of the Focus set for 2003. New diesel engines also will be a big part of the recovery plan, Our diesel penetration is about 24% of sales, compared to about 30% for the market on average, says Mr. Scheele, who forecasts demand will climb to 45%-plus penetration industry-wide. Mr. Scheele aggressive targets also includes an increase in profit margin from less than 0.1% today to 5%, he says that it is not an overnight work, and he averages a time line of three years. Ford is also combining efforts with big companies to overcome this crisis that the auto industry is facing. Ford Motor, General Motors, and DaimlerChrysler announced plans to form an as-yet-unnamed e-commerce company in which all three will hold an equal equity stake. The auto giants said they would invite other major manufacturers to participate on an equity basis as well. Also Detroit s automakers joined forces to underwrite the expansion of the country s third largest dealership group, the finance arms of General Motors Corp., Ford Motor Co., and DaimlerChrysler AG will provide $1.3 billion in credit to Asbury Automotive Group LLC, a privately owned company based in Stamford, Conn., with about 90 dealerships nationwide. This deal will make it easier for large dealership holding companies to acquire more car and light truck franchises. GM, Ford and DCX see the unusual loan as a way to prevent smaller, independent dealers from selling to unwanted buyers. The automakers say they teamed because it’s becoming increasingly difficult for one automaker to provide inventory, mortgage and other financing for large dealership chains. This likely won’t be the only time. The consolidators have gotten so large that we had to form this syndicate for financing, says Rich Van Leeuwen, senior vice president of Ford Credit.

Another huge news popped off in February 2000, where the three biggest automakers, GM, Ford Co., and DaimlerChrysler, were to combine their efforts to form COVISINT, a single global portal providing an integrated business-to-business supplier exchange. By doing this, each company will bring together their individual e-business initiatives to avoid the burdens suppliers that would endure if asked to interact with redundant systems. Their goal is integration and collaboration, and that promises lower cost, easier business practices, and a marked increase in efficiencies for the entire industry. The name Covisint (pronounced KO-vis-int), is a combination of the primary concepts of why the exchange is being formed. The letters Co represent connectivity, collaboration and communication. Vis represents the visibility that the Internet provides, and the vision of the future of supply chain management. Int represents the integrated solutions the venture will provide as well as the international scope of the exchange. By using the Web, a manufacturer’s production schedule and any subsequent changes could be sent simultaneously and instantly throughout its entire supply chain, said Alan Turfe, Executive Director of the GM TradeXchange and a member of the executive team planning the exchange. The result is less need for costly inventory at all levels of the supply chain, and an increased ability to respond quickly to market changes . Covisint will provide the language for manufacturers and suppliers talk to each other in the future, said Alice Miles, President, Ford B2B ConsumerConnect and a member of the executive team planning the exchange. With complete confidence and security, buyers and sellers — regardless of their size and position in the supply chain — will soon have a way to communicate with each other in a real-time, virtual way .

Looking more into the European sector of the industry, latest news said that higher interest rates and fuel prices, plus fluctuating currencies and partly empty factories overseas, make the auto slowdown a European and global problem. The U.S. slowdown alone wouldn’t be a great concern for the Big Six – General Motors, Ford, Toyota, Volkswagen, DaimlerChrysler and Renault-Nissan – and their affiliates if other parts of the world were doing well. But the other two largest markets are showing signs of weakness as well. Sales and profits from Western Europe and much of Asia, including Japan, have declined because of gasoline prices and currency fluctuations. As the large markets become more competitive, even the niche businesses that many automakers relied on for easy profits are getting tougher. Toyota has started selling a full-size pickup and sport utility vehicle in the United States to challenge the trucks and SUVs that accounted for much of the profit at Ford, GM and the Chrysler unit of DaimlerChrysler in the 1990s. The other concern for the industry is the amount of excess capacity around the world. While about 55 million cars and light trucks will be sold this year worldwide, the industry has a capacity to build about 75 million, according to PriceWaterhouseCoopers. Going into 2001, the world’s three largest automakers – GM, Ford and Toyota – have mixed prospects for improving their financial results of the past few years. At GM and Ford, the tough U.S. market has cut into profit, while European operations have slumped. Europe also has dragged Toyota down, and the strong yen has dimmed sales in the United States. The present and future for General Motors Corp. and Ford Motor Co., Detroit’s major players in Europe’s mass market, will be marked by losses, struggles to regain market share and promises that the good old times are just around the corner. Ford of Europe will cap 2000 far from its goal of delivering $1 billion in net profits each year to Ford’s bottom line. But with a restructuring plan in place, the all-new Mondeo mid-size hitting showrooms now and an all-new Fiesta subcompact coming by year-end, Ford may get more of a bounce this year than its archrival GM. We will lose money in the fourth quarter and we’ve indicated the loss will be larger than the third quarter, says Michael Burns, president of GM-Europe. Our target would be to be profitable in ‘01. But we have to be realistic about how large that might be. Burns, of course, refuses to field questions about how large GM’s fourth-quarter loss in Europe will be. But internal estimates peg the losses somewhere near $600 million — more than three times the $181 million the automaker bled in the third quarter.

Having this synopsis of how the automobile industry is behaving in both the U.S. and Europe, two of the biggest markets worldwide, there is a basis of comparison for the Latin America market. We have to take into consideration that Latin America cannot be compared on the basis of size nor population, therefore can be lots of difference in things like demand, supply or infrastructure. Also, knowing that in Latin America most of the countries are in development process, we cannot expect the same technology or globalization.

For automaker in Latin America, the next five years may feel like twenty. The region that initially held so much promise has seen a couple of years of slumping sales and production, although experts agree that South America has not lost its potential. Twenty years from now, the region could be soaked in boom times again. Meanwhile there is reason to worry in the short term. Latin America s vehicles sales in 1999 fell to their lowest level since 1992, production slipped 20% in Brazil and 43% in Argentina. 1999 was a year that everyone ants to forget. South American countries have also felt he adverse effects of the currency fluctuations, on part brought by Asian crisis.

For U.S. manufacturers, this turmoil hits closer to home than the Asian problems. The decline of the Latin American currencies lowers the value of investments in the region, and hurts consumer demand for autos in these markets. The act that operating expenses, such as labor and raw material costs, are lower in dollar terms partly offsets these woes. As expected, Latin America automotive demand in 1999 fell sharply to just 1 million vehicles, from the 1.6 million shipped in 1998 and the record-high 2.7 million of 1997. Among those affected, DaimlerChrysler s new A-Class plant in Brazil was scheduled to build 70,000 units annually, but produced significantly fewer than that in 1999. Also, in 1999, General Motors saw its second consecurive year of losses in its Latin America/Africa/Mideast operations. In 1999 and 1998, it saw an aggregate regional loss of $256 million, versus income of $667 million in 1997, primarily reflecting Latin America s economic downturn.

Although things haven t gone very well in Latin America in the past couple of years, there are hopeful signs for the future looking to this year s performance. The long term potential for the Brazil looks good, says Marnie Andrews, LatinAmerica analyst for the Economist Intelligence Unit. Small-cars sales will continue in the Brazilian market. Jos Carlos Pinheiro Neto, the generally good-humoured president of the Brazilian association of car manufacturers (Anfavea), sounded particularly upbeat as he announced the industry’s performance in 2000. Mr Pinheiro, who is also vice-president of General Motors in Brazil, even believes that there are better days ahead – as long as no major external crisis breaks out, The year was very positive. And 2001 will certainly be better than 2000, albeit probably worse than 2002, he said.

Manufacturers in the largest Latin American market have already invested twenty billion dollars in the automotive industry since 1996, and Mr Pinheiro says they are due to invest another three billion dollars this year. Compared to last year, overall production, which amounted to 1.67m vehicles last year (including 93,000 trucks and buses), has increased by 23.2% compared to the awful performance registered in 1999, according to preliminary figures released by Anfavea. By comparison, GDP growth is estimated to have been around 4% last year (growth was boosted by industrial production, as car manufacturing accounts for over 10% of industrial output). Wholesale totals (from the manufacturer to dealers) were up 17.8% to 1.5m units. Retail sales increased by nearly 15%, mainly due to falling interest rates and rising consumer confidence. Sales of domestic production have grown faster (more than 20%) than the average, while imports, which have become more expensive as a result of the devaluation, have registered a 2% decline. Exports picked up again to nearly Dollars 4bn (up 9.8 per cent against 1999). Such performance was achieved in spite of slack demand in Argentina, and thanks to a new trade agreement with Mexico. This trade agreement was a preliminary deal signed last spring between Brazil and Mexico that allows each country to import up to 40,000 vehicles with an 8% tariff, compared to the 35% tariff Brazil traditionally charges on Mexican-made vehicles and the 20% Mexico levies on Brazilian makes. There also is the promise of a customs union between Brazil and Mexico, similar to the Mercosur(Mercado Comun del Sur-Common Market of the South), formed in 1990 by Argentina, Brazil, Paraguay and Uruguay, Chile becoming and associate later in 1997 and negotiations continuing with Bolivia, plus the Free Trade Agreement for the Americas that the U.S. would like to see passed by 2005. As the largest member of Mercosur, Brazil prefers to strengthen that trading bloc and consolidate it with the Andean Pact, which includes Bolivia, Colombia, Ecuador, Peru and Venezuela, before entering an agreement with the North American free-trade community. Brazil, the world’s eighth largest economy, is Latin America’s giant and the biggest Mercosur partner, accounting for 71 percent of the bloc’s combined GDP, followed by Argentina, with 26 percent, Uruguay (two percent), and Paraguay (one percent). The Mercosur is South America’s leading trade bloc, representing nearly 80 percent of the region’s GDP.

Brazil’s domestic carmakers consist of the long-established Big Four General MotorsCorp., Ford Motor Co., Volkswagen AG and Fiat SpA. Relative newcomers include DaimlerChrysler AG, Toyota Motor Corp., Honda Motor Co. Ltd., Renault SA and PSA Peugeot- Citroen. Money continues to flow. Renault alliance partner Nissan Motor Co. Ltd. is investing $90 million to produce its Frontier pickup at two

Renault plants, with a goal of 50,000 sales annually. Mercedes-Benz will build 45,000 commercial vehicles and 25,000 A-Class cars this year, and spend an additional $40 million to produce the new C-Class at its new plant in Juiz de For a, Brazil, with

production that was calculated to begin last January. Ford is completing construction of

its new Amazon small-car plant in Bahia, Brazil, and Toyota will add the

Yaris at its factory in Indaiatuba, Brazil.

Volkswagen currently holds a 30.4% share of Brazil’s total car market, of which hatchbacks and their variants dominate. Fiat has 26.9%; GM 24.3%; and Ford 7.2%. A study of new-car buyers last year showed that Brazilians have a 48% loyalty to their car brand on the whole, with GM averaging 48%, while Volkswagen totals 52%. However, Pinheiro, expects Volkswagen s market share to fall to 23% in five years, while the new manufacturers will increase their share to 20% in the same period due to increased competition. Already Peugeot’s 206 is the top-selling hatchback in the 1.6L category, edging out the Volkswagen Gol. The segment includes the Fiat Palio, Renault Clio, GM Corsa and Ford Fiesta.

Brazil’s proliferation of automakers also is drawing top global suppliers and encouraging methods of innovative manufacturing that emphasize lean production and just-in-time delivery, plus greater financial commitment and responsibility on the part of suppliers. Volkswagen s commercial truck plant in Resende, for example, allows suppliers to attach their modules built up in the factory to vehicles on the assembly line. Automakers today are riding a wave of optimism, with vehicle sales in the first six months of 2000 up 18%, while production jumped 24%, Anfavea reports. Continued success depends on whether the country s push toward economic growth, predicted at 4% in 2000, can be sustained while stifling inflation and keeping interest rates low to allow consumers to buy on credit. If so, automakers believe the market will grow to 2 million units by 2005, enough to help take up the slack in unused capacity and entice even more industry warriors to the

battlefield.

Going into another big country in Latin America, we found out how in Argentina, automobile s sales fell by 19.2% in 2000 as a consequence of the strong reduction of the domestic demand, which was affected by a serious economic recession that the country has been going through for more than two years. Concerning the evolution of the industry last December, Adefa said that the national production embodied 25,403 vehicles in December 2000, a number 14,7% lower than in November and 22.5% inferior to the one of the same month in 1999. The exports in December 2000 registered a decrease by 0.9% with respect to November and a growth by 64% regarding the same month in 1999. Likewise, the automotive industry was hit by several conflicts held by Argentina and Brazil during last year. Although this numbers are not very good, Argentina s last year s presidential election added some stability, but like Brazil, growth is in the future. The economy is expected to pick up this year and continue improving at least through 2003, where vehicles sales should hit 500,000 by then. Argentina will also see many of the same vehicle trends as Brazil. Some foreign automakers, however, are taking a wait-and-see attitude, putting future investment in Argentina on hold. Volkswagen AG is delaying Passat production, while General Motors Corp. not only is delaying investment but also recently said it will shut down its truck plant in Cordoba, Argentina and move production to Rosario, Brazil.

Experts will continue to be concerned with Venezuela and Colombia, as well. The latter, which has only 18 people per vehicle will see gradual recovery after 2000, but the country’s macroeconomics does not support vehicle growth. Chile, where pricing is a disaster, continues to be a headache for OEMs (Original Equipment Manufacturers).

Now, taking a close look to other Mercosur members, we can see how these countries are linking with neighboring nations to create a South American Free Trade Agreement (SAFTA), which would bring positive results to all countries. Automakers must support the evolution of trade in the region. There is still a lot of opportunity in Mercosur to increase cross-border trade, says I. Martin Inglis, former president of Ford South American Operations and recently named president of Ford North America. Most importantly, Mercosur must continue and must work. Cristiano Rattazzi, president of Fiat SpA’s Argentina operations, says Mercosur will continue in some form but will see changes. Argentina does not want complete free trade with Brazil, which would like to see zero tariffs by 2003. But the lack of tariffs eventually could close all auto plants in Argentina. Also, The Uruguayan automotive industry registered in 2000 exports for an amount of US$ 180 million, a volume that placed the sector as the third general exporter of this country and with possibilities of ratifying its presence in Mercosur. That number included both the exports of cars and automobile parts, announced the Chamber of Automotive Industries from Uruguay (CIAU) and the Chamber of Manufacturers of Automobile Parts (CFAC). The exports amounts of the Uruguayan automotive sector in 2000 were only surpassed by the exports of meat and rice.

Last December, between the 14th and 16th, the 19th Mercosur Summit was celebrated in the Brazilian city of Florianopolis, where the member countries signed an automobile industry accord which will come into effect this April. The most important points in the accord were that the nations of Mercosur, as well as associate members Bolivia and Chile, cannot surpass an annual inflation rate of five percent in the 2002-2005 period. In 2006, inflation must not exceed four percent, and the limit will be three percent in the following years, according to the pact agreed by the six presidents. Meanwhile, Mercosur member nations fiscal deficit may not be more than three percent of GDP beginning in 2002, and they will make an effort to reduce the net public debt to less than 40 percent by 2010. In the automobile section, the document also defines the nationalization level of vehicles and auto parts produced, particularly in Argentina. And finally, the accord also talked about the creation of a committee to work on a permanent basis to solve problems arising in the course of the implementation of the document. Another latest news from the Mercosur aroused over associate member, Chile, deciding to negotiate a bilateral free trade agreement with the United States. This latest challenge poses a new risk to the unity of the bloc, despite the accomplishments of the Dec. 14-15 summit in Florianopolis. The rest of the members, especially Brazil, didn t like this idea, Mercosur will negotiate in bloc with the United States, Brazilian President Fernando Henrique Cardoso and his Argentine opposite number Fernando de la Rua affirmed. Cardoso was even more emphatic when he underlined that the members would also act as a bloc in the negotiations for the creation of the Free Trade Area of the Americas (FTAA). That is the political option chosen by the bloc, simply because it bolsters our capacity to win advantages. The leaders of the two biggest members of Mercosur thus attempted to lay to rest the controversy that broke out on the eve of the summit, when it was reported from Washington that the United States had begun to negotiate a bilateral trade deal with Chile, which had previously committed to discussing its admission as a full member of Mercosur during the summit. Spokespersons for the Chilean government also said the Mercosur’s staggered arrangement of tariffs, which range from zero to 35 percent, was incompatible with Chile’s single duty of nine percent, which is set to be gradually scaled down. Uruguay applauded the idea of a Chilean-U.S. trade deal, because it is tired of what it sees as constant neglect and discourtesies from its large neighbors, explained former Argentine foreign and defence minister Oscar Camilion, in a column published this month in the Buenos Aires daily La Nacin .

Camilion added that Paraguay very likely thinks the same, but its heavy dependence on Brazil means its spokespersons are more cautious.

Throughout the whole paper, we have discussed the automobile market industry to all its extend, starting with two of the biggest markets which are U.S. and Europe, and then continuing the discussion through Latin America. I wanted to describe the U.S. and Europe markets first, in order to have a global idea of the industry, and to see how big markets can handle such an industry. By doing this, I could have a broad idea of the industry in its biggest dimension, and therefore I could make a much better judgment of the Latin America market, although is not as big.

We saw how U.S and Europe are the worlds biggest market, not only for their huge population, but also for their great development. It is not a secret that U.S. is one of the biggest powers worldwide, and therefore its development goes far beyond other countries, something that helps being a really good market for everything, and mostly for cars. Europe has a great development too, mostly now when 12 of its countries have come together to create the Euro currency, which is improving more everyday compared to the dollar, and which is making Europe more united and powerful.

Knowing this, we continued our discussion over Latin America, which is not as developed as U.S. or Europe, but it is certainly in a huge development progress. Latin America didn t have a very good past couple of years, but since last year is trying to get over it, and gain some stability. We could see how the biggest market in South America is Brazil, and how this country is a constant leader for the rest. Brazil is not only the biggest in population, but also in development and technology, were the majority of the assemble factories are placed. Finally I would like to say that Latin America, specially South America has always been a really good market, and although it is not as developed as the powerful countries in the world, it will remain a good place for manufacturers and services providers to continue in business. Latin America has been through a lot of economy crisis, but not even that has turn them around and they are still in the fight, and I think that some years from now, it would be a huge market to invest in.

REFERENCES

Zoia, David. (2000, June). Bogged Down Abroad . WARD S Auto World, pp. 34-41

Elridge, Earle. (2001, January 23). Big Three Automakers Back Dealer Group .

UsaToday.com, p.1

Howes, Daniel. (2001, January 16). Automakers European Units Won t Help Recoup

Stateside Losses . Detroit News, p.1-2

Bradsher, Keith. (2001, January 13). What Sales Slump? Foreign Makers Ask . The

New York Times, p.1-5

The Associated Press. (2001, January 24). Ford to Test Driving Distractions Simulator

to Measure Effect of Using Gadgets . Times-Picayune, p.1

Miller Joe. (2001, January 19). Automakers Join to Bolster Dealer . Detroit News, p.1

Drozdiak, William. (2001, January 14). Europe Looks to Outgrow America; Old World

Confident of Immunity to U.S. Economic Downturn for a Change . The

Washington Post, p.1-3

(2000, December 28). Fall expected in December auto sales .HoustonChronicle.com, p.1

(Copyright 2001 The Financial Times Limited

Financial Times (London)

January 17, 2001, Wednesday London Edition 1

Copyright 2001 The Financial Times Limited

Financial Times (London)

January 9, 2001, Tuesday USA Edition 1

Copyright 2000 Intertec Publishing Corporation,

a PRIMEDIA Company

Ward’s Auto World

November 2000

SECTION: NEWS & OPINION; ISSN: 0043-0315

LENGTH: 878 words

HEADLINE: Brazil’s Automakers Wage War in a Land of Promise and Crisis

BYLINE: BARBARA McCLELLAN

Copyright 2000 Gale Group, Inc.

Business and Industry

Copyright 2000 Global Information Network

Interpress Service

December 15, 2000

HEADLINE: TRADE-LATAM: TOWARD A COMMON MARKET, DESPITE EXISTING PROBLEMS

BYLINE: Mario Osava

Copyright 2000 Inter Press Service

Inter Press Service

December 20, 2000, Wednesday

HEADLINE: REVIEW 2000-MERCOSUR: DEFINING A JOINT STRATEGY ON INTEGRATION

BYLINE: By Marcela Valente

COPYRIGHT 2000 XINHUA NEWS AGENCY

XINHUA GENERAL NEWS SERVICE

December 16, 2000, Saturday

SECTION: WORLD NEWS; ECONOMIC

LENGTH: 127 words

HEADLINE: Mercosur Countries Sign Automobile Accord

DATELINE: BRASILIA, December 15

INTERNATIONAL MARKETING

RESEARCH PAPER ON FORD MOTOR Co.

PROFESSOR NAKRA

DIEGO TOVAR

FEBRUARY 1st 2001

The automobiles sales fell in Argentina by 19.2% in 2000 as a consequence of the strong reduction of the domestic demand, which was affected by a serious economic recession that the country has been going through for more than two years.

The decrease continues the slow rhythm of the sales of cars in the international market, above all, in the United States.

In 2000, 306,946 vehicles were sold to the cars agencies, informed the Automotive Manufacturers’ Association (Adefa).

In December ‘00 the sale of cars fell by 46.3% if it is compared with the same month in 1999 and 1.5% with respect to November.

But, in spite of the strong decrease of the sales, the production and the exports of vehicles grew in 2000, indicated Adefa.

With 339,632 units, the cars manufacturing grew by 11.4% if it is compared with 1999; while the exports rose by 38% reaching 135,760 automobiles.

Concerning the evolution of the industry last December, Adefa said that the national production embodied 25,403 vehicles, a number 14,7% lower than in November and 22.5% inferior to the one of the same month in 1999.

The exports registered a decrease by 0.9% with respect to November and a growth by 64% regarding the same month in 1999.

Likewise, the automotive industry was hit by several conflicts held by Argentina and Brazil during last year.

The Mercado Comun del Sur (Mercosur) (Common Market of the South) trade group of Brazil, Argentina, Paraguay and Uruguay agreed to become a customs union at the start of 1995 (Chile became an associate member in 1997 and negotiations continue with Bolivia). Despite being on the way to becoming a full member of Mercosur, President Lagos is insisting that Chile retains its trade autonomy and be allowed to make economic accords of its own outside Mercosur. This sharply contrasts with Brazil’s view that Mercosur should negotiate trade agreements as a unified block. Lagos is also critical of the lack of institutions to deal with trade conflicts, maintaining that Mercosur should follow the example of the European Union (EU). The economic downturn in Latin America during 1999 put strains on Mercosur throughout 2000, with governments turning to trade protectionism to shield their fragile economies. In July 1999 Brazil suspended talks with Argentina in protest at new restrictions on its exports, and relations between member countries remain strained as the effects of the economic slowdown in Latin America continued to be felt in 2000

32e