

AUTOMOTIVE INDUSTRY AND THE INTEGRATION PROCESS WITHIN MERCOSUR: VISIBLE POTENTIAL AND CONCEALED PROBLEMS

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Abstract

The year 2011 has strengthened the positive trends in automotive industry led by market and also demonstrated production recovery after the world economic recession. High-technology motor industry is inseparably linked with such strategic sectors as oil, metallurgy and chemical industries, it generates significant part of GNP and hands on modernization of economies especially for developing countries now. The changed economic conditions and the alignment of world forces have influenced on industries geography and on emergence of new consumption centers. Ongoing world trends of globalization and regionalization have met this kind of changes by broadening issues on agenda of integration blocs and revision of trade agreements. Particularly, these trends are equally applied to south-american integration alliance Mercosur.

Thereby, the article examines the state and potential of development of automotive industry as a background of modernization of economies for developing Mercosur countries.

I. ABOUT MERCOSUR

Mercosur includes four full members – Brazil, Argentina, Uruguay, and Paraguay, and has celebrated its 20th anniversary in 2011. This remarkable date concurred with new economic issues, challenges and difficulties within bloc.

Let's examine some economic indicators of Mercosur countries and the alliance in general.

Currently the second largest Custom Union in the world (after European Union) and the third free trade area (after EU and NAFTA) Mercosur is known as an economic locomotive for whole Latin America. In addition, the regional leader of the bloc – Brazil is a 5th economy in the world.

The population of the bloc forms around 250 million and its territory covers almost 14 million km², and is the huge potential for automotive market.

In 2011, the growth performances of Mercosur countries were as follows: Argentina 9%, Uruguay 5,5%, Paraguay 4%, Brazil 2,9%. The total GDP of the bloc had continued its steady grow and reached US\$ 3,024 billion according to the preliminary data for 2011.

In the last year bloc trade grew up by to 30% to US\$ 140 million. 70% of internal trade consists of industry goods where 18% is vehicles. Generally, Mercosur is characterized by it's over regional trade which ratio in compare to intraregional was 65,75 by 34,25 in 2011.

According to 2010 data, automotive industry (including components production and etc.) contributed 5,4 % to the Brazil GDP (or 19,8 % to its industrial GDP) and provided 1,3 million places of employment. Argentina is a second car producer in the region, so its motor sector generated 1% to the GDP (or 6,6% to industrial GDP).

In 2011 the automobile industry due to new wave of business and people economic activity became truly dynamic and showed all signs of a full recovery after the global financial crisis. In Argentina the production growth increased on 50% above its 2010 performance. It is worth to notice that car industry presents an important component for Argentina export – about 13% of Argentina general export structure or to 37% of Argentina export of manufactured goods. So in 2011 Argentina produced 828771 units, around 61% of the cars were exported (506715 units). The 2010 production performance had been less by 15% just to 662772 units. First of all, such kind of industry growth was based on increase of internal demand of argentines by 29,5%, whereas the external demands made up 13,1%. The principal market for Argentina's automotive industry is its main trade partner Brazil where were exported 81% of produced cars. The second destination for Argentina is European market which is represented only by 8,1% in total car export structure.

In last year Brazil has manufactured 3406150 units of which 22% were exported. Look at table 2.

Meanwhile, investments of transnational companies to Brazilian automotive industry reaches the next performance: Fiat US\$ 5 billion (during 2005 – 2010), Ford US\$ 4,5 5 billion (2011 – 2015),

GM US\$ 5 billion (2012–2015), Honda US\$ 15 billion (by 2011), Hyundai US\$ 1,85 billion (by 2011), Peugeot US\$ 1,45 billion (2010–2012), Toyota US\$ 600 million (2012). Investment flows to Argentina and Brazil by VW will reach US\$ 6,2 billion by 2014. In general, investment plans of transnational company to Argentina are less than to Brazil: Ford US\$ 250 million (by 2012), Mercedes-BENZ US\$ 1,2 billion (by 2011), Peugeot 170 million (2010–2012) [4].

Below there are few notes about “small” Mercosur countries.

Uruguay’s capacity of automotive and components production vastly differs from Argentina and Brazil ones. 85% produced cars in Uruguay were exported to its neighboring Brazil that brought to the country around US\$ 6,5 million in 2011. According to the Agreement between Uruguay and Brazil, the regional component of produced vehicles (or car parts) should be not less than 35%. The Uruguay’s government plans a further development of this high-technologic industry by mobilization of US\$ 15 million investments which helps to achieve goals of producing of 300000 units in a year. Also Chinese company Lifan has had a plan to invest US\$ 150 million in establishing new plant to produce car engines in Uruguay in recent future.

Regarding Paraguay, this member country has no specialization in automobile industry and it develops rapidly next industries: pharmaceuticals industry, dairy industry and etc.

The growth of internal demand in south-american countries and particularly in Brazil presents below in a table 1.

Table 1.
Internal demand in south-american countries

Country	1990 – 1999	2000 – 2008	2009	2010	2011	2012
South America	1,64	2,36	3,93	4,27	4,47	4,65
Brazil	0,94	1,46	2,53	2,69	2,64	2,74

Despite of trends of stable demand growth and the positive demand forecast for 2012 observed above, it is worth to examine new alteration in internal and foreign policies of leading country Brazil.

II. AUTOMOTIVE PRODUCTION IN THE WORLD SCALE

The comparison of indicators of key Mercosur countries with other world car producers in 2011 is represented below in table 2.

In 2011 global vehicle production jumped to 80 million units, with surplus 3,2% above a year earlier. The best results in car production of 40,6 million units were registered in Asia. The NAFTA automotive industry grew up by 9,7% to 13,5 million units that still less by 2% to the pre-crisis performance. In South America the sharply growth of

motor industry has continued from 2003. Regional vehicle sales since 2006 and up to 2010 soared by 50%. In 2011 in this region were produced 4,3 million units mainly by manufactured forces of Argentina and Brazil advancing 8% above a year earlier (the performance can be compared to India data, or it exceeds Russian, Canadian, Mexican figures). The South America accounts for 7% of world vehicle sales, ranking it to top-10 globally.

Table 2.
Car production statistics, 2011

Country	Cars	Commercial vehicles	Total	Change, %
Argentina	577,233	251,538	828,771	15.7
Brazil	2,534,534	871,616	3,406,150	0.7
Canada	990,483	1,144,410	2,134,893	3.2
China	14,485,326	3,933,550	18,418,876	0.8
Germany	5,871,918	439,400	6,311,318	6.9
India	3,053,871	882,577	3,936,448	10.7
Japan	7,158,525	1,240,129	8,398,654	-12.8
Mexico	1,657,080	1,022,957	2,680,037	14.4
Russia	1,738,163	249,873	1,988,036	41.7
USA	2,966,133	5,687,427	8,653,560	11.5
Total	59,932,155	20,132,013	80,064,168	3.2

According to the report made by OICA, the 2012 outlook for auto industry is stable. The world vehicle production will rise by 3.0 percent this year, in line with 2011, although carmakers warned that European demand would likely remain weak. So, over the next decade the main features of car industry as a whole and particularly the features of the region will significantly influence to development of car production.

III. THE INDUSTRY FEATURES

To examine Mercosur policy of automobile industry and to estimate its potential in recent future, let’s observe the features of the automobile sector, dramatically new global automotive landscape, development of integration within Mercosur and its leading member-countries.

The automotive industry features as a whole:

- high profitability;
- high demand;
- sufficient production capacity (sometimes and somewhere redundant);
- high technologic aspect of industry;
- a lot of relating industries;
- providing jobs.

The world situation peculiarity:

- the world economic crisis in 2009, sharp reduction of demand, the increase of government

attention to subsidies and special governments programs to support demand;

- the shift of production and demand to untraditional regions as Asia, India and South America;

- the growing power of China and its booming investing plans to Latin region;

- effect of aging population and the growth of welfare in the world;

- the high percentage of urbanization;

- gradual “washing-out” of average price segment;

- option a ecological model of car and its hybrid engines in future;

- distribution of new forms of financing.

The industry features within the integration bloc Mercosur:

- availability of natural resources as metals, oil, gas, including alternative type of bio-fuel;

- the low level of transport integration in the region together with its rapid development in recent years;

- enormous distance between the main cities, plants, manufactures, ports and etc.; condition of the roads and the high level of vehicle aging;

- motor transportation is the second important type of goods’ transportation within the region;

- the potential of development financial instruments for small-scale and medium-sized businesses by leasing, credits;

- the high cost of vehicles produced in the Mercosur territory jointly the significant expenses for insurance because of the criminal level, cars theft and the amount of day-to-day accidents;

- regional competition with Mexico;

- world Championship 2014 in Brazil;

There are 3 points from the *political aspect* of development and formation automotive industry within integration bloc:

- Brazil as a natural economic leader of the region;

- competition between Argentina and Brazil;

- competition between key Mercosur countries and small countries.

III. THE INDUSTRY FEATURES IN KEY COUNTRIES OF THE BLOC

The case of Argentina

Automotive industry of Argentina are represented by such transnational companies as General Motors (its share in total production is 18%), Peugeot Citroen (18%), Ford (13%), Fiat (13%), Renault (12%), Volkswagen (11%), Toyota (10%), Mercedes-Benz (2%) and Iveco (1%). Present capacity of plants enables to produce around 800 thousand vehicles per a year.

Since 2003 sales of new cars always was growing up, the most significant surge in sales advancing 39% above a year earlier was registered in 2011. By ADEFA estimation, in Argentina there were 7,1 million cars in 2010 (4,8 million of private automobiles and 1,7 million of commercial vehicles and trucks). Anyway, the average age of 50% vehicles are more than 8 years.

It’s interesting that in Argentina the price for a car is much more than in USA. For example, the argentine worker can buy a small 3-doors car for 15 salaries, when the American worker can do it just for 5 ones.

The Argentine government is an active car industry player. The regulation is implemented by next aggressive measure:

- there is a special Agreement in force of the acceptable increase in car price between the government and car producers;

- there are government investments in the industry though emergency loans and incentive packages and etc.;

- a strategic trade partner is Brazil. 40% of total trade between them consists of vehicles and components. Of course, Brazil is also a source of investments to manufactures, especially to components producers. In order to harmonize bilateral trade, there are regular consultations about export and import volume of cars and components.

There is an Agreement of trade of car components between Argentine and Mexico, in force since 2006.

The same year Argentina and another Mercosur country Uruguay signed an Agreement of free trade of automobiles and its parts. However, the Agreement established a year quota of 20 thousand small cars and trucks for bilateral trade.

So, Argentina applies different kind of tariff and non-tariff regulation for the protection of its market, which is used even for Mercosur member countries. (Import tariff duty for private cars and trucks is 35%, automobile parts – 18% and spares -14% from CIF price). Since 2000 there is in force an Argentine Law which defines the 3-step order of registration for imported cars: get a license – submit translated documents – achieve a patent for the imported car.

Also the import of used cars (or components) is prohibited.

The case of Brazil

Brazil as innovative car industry player proposes different types of producing automobiles. For example, there are gasoline, diesel, neat ethanol

and flex fuel cars. The sustained trends to adoption cars worked on flex-fuel (in general, in gasoline and ethanol) began in the country since 2009.

The Brazilian policy related to automobile industry has next points:

- The emphasis on creation its own center of design the automobile technologies and transformation the industry where the present structure of car producers mostly consists of transnational companies. The Brazilian company called “Obvio!” presents perfectly this approach. Obvio’s car is small, ecological, with extravagant design. A model Obvio 828 can has just 2 doors, 3 wheels and bright color varied from sky-blue to acid-green. Nevertheless, these “baby” cars boast the different kind of engines such as traditional gasoline engine, or innovative bio-fuel engine. Also there are some models which are able to charge by electric power receptacle. Average price of a standard model of Obvio begins from US\$ 14 000. So, the innovation approach to the own automobile industries is entirely government policy in industry issue.

- Totally, in Brazil there are 14 big car producers and 49 plants which are placed in 31 cities. The most part of cars and its components are produced by transnational companies but it is worth to notice that the regional component in it is around 90%. Industrial plants have a good cooperation and use an integration model of assembling.

- Regarding native producers, there are 13 companies formed by Brazilian capital, most of them are particular specializes in light truck and trailer for agricultural works (for example, Agrale, Busscar, Ciferal, Comil, Caio, Induscar, Irizar, Marcopolo, Mascarello, Metalbus, Neobus, San marino, Volare).

- The regional component is maintained in high level by Brazilian government policy aimed at design new products by their own specialists, production promotion, creation modular manufacturing chains and development innovative car models with ethanol engines.

- The traditional strategic partner in the automobile industry is Mexico with whom there were signed an Agreement of FTA for vehicles and component since 2002. In 2012 this Agreement has been rewritten by Brazilian initiative with the purpose of the protection its internal market. New edition of the Agreement implies the limits of free trade flow up the sum of US\$ 1450 million in the first year, US\$ 1560 million in the 2nd year, US\$ 1640 million in the 3rd year.

IV. THE MERCOSUR REGULATION OF AUTOMOBILE INDUSTRY. DECISIONS AND ARRANGEMENTS

The evolution of integration deepness between member-countries and the key issues of automobile production on the Mercosur agenda are presented in the table.

Table 1.

Year	Characteristics
1991	<ul style="list-style-type: none"> – A gradual liberalization of trade between member-countries. – Setting the sectors of sensitive goods for applying a special custom tariff (automotive industry, sugar industry, toys, dairy products, clothes, shoes)
1994	<ul style="list-style-type: none"> – Creation of the bloc organization structure. – The goal-setting is to advance toward Custom union. – Dec. #29/94 about elaboration of The Common Regime for Automobile Industry in Mercosur, which main targets were free good circulation within the bloc, common external tariff, The Regime of import cars and components, the absence of national initiative being contradictory for competitiveness of the region, harmonization of national regimes for this industry. – Bilateral Agreement of Recognition the national regimes in automobile industry between Brazil and Argentina till the ends of 1996 and 1999 respectively.
1996 – 1998	Deceleration of harmonization of national regimes through application one-way measures
1998	Extension of application present nation regimes till the ends of 2003 under condition of the setting a mechanism for production monitoring, flows of investments and the state of trade.
2000	Dec. # 70/00 Common Policy for the automotive sector in Mercosur.
2001	Dec. # 04/01 – further elaboration of Common Policy for the automotive sector in Mercosur with the object of creation an integrated competitive production platform for cars and the components for development trade with non-regional partners.
2002 – 2003	The Free Trade Agreement for produced cars and components between Argentina and Brazil by 2006. Creation common external tariff for vehicles and components imported from non-members countries.
2003	Trends of diversification integration issues (the issues of production complementation, transport integration and etc.)
2004	The Project IIRSA (The Initiative for the Integration of Regional Infrastructure) which object is to accomplish physical integration of the region.
2006	Further development of the manufacturing chains integration within countries. Free Trade Area for vehicles and components in force.
2010	Adoption the Custom Code
2011	The first Meeting between Mercosur Ministries of Industry purposed to draft a common industry policy. Elaborating new common Mercosur Policy in vehicle sector by 2013 as a main challenge and goal-setting to the alliance.
2012	The surge of tariff and non-tariff barrier between key countries, implementation of non-automatic license, the rise of regional component level for cars produced in the bloc (Brazilian initiative).

Overall, Mercosur since its start didn't opened new market possibilities for member-countries (as NAFTA did for Mexico), but the bloc has intensified the trade turnover between these 4 Mercosur countries and led to transformation of automobiles markets and to development a production cooperation in the region.

Regarding to Mercosur policy, it is worth to emphasize that the automobile industry were a stumbling block to all discussions of the implement any Common Policy within the alliance. Because of the industrial slump in Brazil, increased trade deficit, a deterioration of industrial competitiveness through the recent strengthening of peso against the US\$ dollar, the positive trends of harmonization noticed since 2006 and strengthened by declarations of Ministries of Industry in 2011 have totally disappeared.

V. CONCLUSION

The trend like import substitution and close of the home markets even for the countries being in the alliance in short-term outlook will lead to: a political coolness within the alliance, a falling off in relations with the out-of-region strategic partners, a disturbance among the European investors, ceasing of political harmonization in the automobile industry, a declarative effect and conflicting views on the industrial integration, Chinese investments.

In short-term outlook the close of the home markets and rise in local components content rule for Argentina and Uruguay exporting to Brazil should be minimized at most. The unfavourable tendency of protectionism is connected with the policy of the

heads of the states, which might be solved in medium-term outlook.

The positive trends and harmonization of automobile industry within Mercosur would be possible by development of logistic chain and due to World Championship in 2014. But the stable common policy is expected just in medium-term outlook. For this purpose Mercosur countries should increase industry competitiveness, elaborate a medium-term policy for whole region, define and develop the current industry specialization, create a better environment for industry investments and finally have the willpower to implement adopted common policies.

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