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The Detroit of Mexico

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On a recent afternoon, Ana Freyer, a sociologist at the University of Guanajuato, sped down an industrial corridor in a swath of central Mexico that locals call the “new Detroit.” On one side of the highway, aging farmers crossed an alfalfa field in horse-drawn wagons, while massive Honda assembly and transmission plants stood in the background.

“You can literally see two worlds colliding,” yelled Freyer, as hot wind from the arid high-elevation plateau whipped through the car.

Further down the road, we passed a sprawling Mazda plant that went up several years ago on top of a defunct corn field.

Clusters of factories, some larger than New York City’s Central Park, spread across an agrarian landscape in Guanajuato and a cluster of neighboring states known as El Bajio, or “lowlands.” Leather tanneries making auto upholstery, once tucked away in the state’s largest city, Leon, have expanded and now dot the rural horizon.

Freyer studies the cultural effects the explosive growth of the auto industry have had here. She views the rapid influx as remarkable yet unnatural. Nearly every major automaker, and hundreds of suppliers that feed them, have altered a traditional way of life which was previously marooned from outside influence. The North American Free Trade Agreement helped trigger the region’s transformation roughly two decades ago.

Scores of factories continued by in a blur as Freyer drove, following an expressway that now serves as a straight-shot shipping route to the U.S. border 1,000 miles away. The thoroughfare has been dubbed “NAFTA Highway.” She pulled over on the outskirts of La Luz Texas, a small peasant community adjacent to the Honda plants. She spends a lot of time in small villages, just a stone’s throw away from enormous auto factories, because it’s these communities, she says, that have felt the auto boom most intensely. Many of the towns’ residents now work on factory floors, and migration patterns in the region have dramatically altered, with far fewer immigrants heading to the US border.

But El Bajio now faces an uncertain future.

The Trump Administration is in the midst of reworking NAFTA in hopes of restoring a chunk of the U.S. auto industry, once the heart and soul of the American Midwest. Trump’s tough talk on trade has rattled El Bajio, as this industrial region in central Mexico is known, to its core.

Ford last year scuttled plans to build a new manufacturing plant in El Bajio—even though the steel framing was already up. Toyota, after it was criticized by Trump on Twitter, downsized plans for a plant in the region, and Trump hailed the retreats as a sign that auto manufacturing was returning to the U.S.
In this new age of uncertainty in El Bajio, car makers are now trying to figure how to respond to Trump’s promise to “bring it all back.” Economists say that undoing NAFTA alone wouldn’t be enough to trigger an automotive exodus from El Bajio. “It’s not going to have enough bite,” said Wharton Business School professor Ann Harrison, adding that companies have invested billions in El Bajio.

But the possibility of protectionist policies — imposed by the U.S. or Mexico or both — has regional governments and automakers on edge. Some officials fear other countries, perhaps China, will exploit U.S.-Mexican tensions and lure carmakers overseas.

As Felipe Meza, an economics professor at Autonomous Technological Institute of Mexico, put it, “Scrapping NAFTA — that’s the rosy scenario.”

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It’s hard to overstate the metamorphosis unleashed by auto manufacturing in El Bajio, or the lowlands.

The automotive industry has generated more than 300,000 jobs in El Bajio, and Guanajuato’s public debt is now one of the lowest in the country, according to state financial records. Public services are far better than in other states, residents say.

With the recent arrival of Japanese automakers have come sushi restaurants and Japanese magazines and newspapers. Driving on the outskirts of the city of Celaya in Guanajuato, Freyer slowed and pointed out a gated community of town homes. She said they’re mostly inhabited by Japanese transplants. A nearby road sign was written in Japanese. Hotel construction to accommodate visiting corporate officials is also vigorous.

General Motors, the largest automaker in the U.S. by sales, was the first set up shop in the region after NAFTA took effect in 1994. The automaker built a 26.5-million-square-foot factory on the outskirts of Silao, a town in Guanajuato previously known for making milk and cheese.

Now, the town rakes in millions of tax dollars each year from dozens of auto companies. The GM plant alone accounts for the largest share of worldwide GM production, said Juan Maciel, Silao’s mayor. “With satisfaction, we say it was produced here,” Maciel said, noting that he drives a Chevy Suburban.

El Bajio is rife with nods to the original Motown: Detroit Tigers baseball caps are common in Leon, one of the region’s largest cities. A conference room down the hall from Maciel’s office has a placard: “The Detroit Room.” Romero, the economic secretary, keeps a copy of a Diego Rivera mural depicting the Ford River Rouge Complex in Detroit in his office.

The region has enticed manufacturers with financial incentives, worker training programs and a large, cheap labor pool. Major rail routes lead here, and sea ports on the Pacific and Gulf coasts are not far. The boom in Guanajuato has the state’s business-friendly government to thank, a rarity in a country still clinging to socialist roots. Between stints as a Coca Cola CEO and
Mexico’s president, Vicente Fox served as governor of Guanajuato, where he wrenched the state from its inward-facing past.

But the boom has also brought problems. Worker wage suppression, and water and land use battles are aplenty. And environmental impacts have worsened: local hydrologists say the water-intensive process of painting vehicles has drawn down the ground water supply to the point of exposing toxic bedrock that has contaminated some communities’ water sources.

And while spiking demand for car upholstery has revived the region’s centuries-old leather industry, it has also ushered in environmental problems of a whole new magnitude.

Guanajuato was originally a leather state. Miners in the 19th century needed a way to carry silver back into town from the mountains. A handful of cattle ranching families began using the region’s abundance of cattle to make leather bags for the miners. The families made a fortune supplying the miners with bags, and then expanded into making belts and cowboy chaps for the region’s many farmers and other ranchers.

Large leather families such as the Collazo’s and the Placensia’s built Leon into one of the largest cities in the country second to Mexico City. And when tanning technology advanced in the mid 19th century, Leon’s leather industry grew to produce 70 percent of Mexico’s shoes during the industry’s height in the 1980’s and the majority of Guanajuato’s workforce worked in the industry.

At the same time, tanning leather was a toxic business and left a stain on the region. Leon’s soccer team is nicknamed “panza verdes,” or green bellies, because residents used to routinely fall ill when sulfur, one of the key ingredients in the tanning process, would contaminate the city’s water supply.

Still, leather was the region’s economic backbone until protectionist policies sheltering the leather industry dissolved in the late 1980’s, as new leadership tried to steer the country from its socialist past. All at once, the region’s leather industry was exposed to Chinese competition, which hit Guanajuato hard. The industry shrank to almost half of its former size by the late 90’s and unemployment soared.

With leather on the outs, Freyer said, the auto industry’s arrival was seen as the savior.

Quimba tannery, started by the Placensia family in 1832, was the first to capitalize on the auto industry. The company was contemplating bankruptcy in the early 90’s, said Salvador Salinas, who was a senior manager at the tannery.

A pivotal moment came when Salinas scored a meeting with General Motors officials just up the road to talk about supplying leather for steering wheels for its Oldsmobile model.

Doing business for GM, Quimba’s sales sky rocketed. In five years Quimba’s sales vaulted from $7 million to $164 million.
“It was a watershed moment,” Salinas said, while sitting in a conference room overlooking the tannery floor at Garden State Tannery, the massive multinational tannery that eventually bought Quimba for its lucrative GM ties.

But as the number of hides being processed has expanded in recent years, so has the environmental impact.

Hides are cleaned with toxic chemicals to remove hair, fat and grease. For shoes, tanners do this using drums not much larger than home washing machines. But to clean larger hides used to make automotive leather, tanners slosh chemicals and raw hides together in massive cylindrical drums the size of buses.

Last summer a worker fell into one of the tanning drums when a sudden whiff of sulfur, aluminum and chrome knocked him off balance. A nearby worker jumped in to save him. Both workers died from chemical poisoning.

Several years ago Leon banned the dirtiest parts of the tanning process from being done within city limits. But it’s unclear how much good that’s actually done, Salinas said. In many cases, the tanneries relocated next to rivers and streams to make dumping easier. Nearby villages that farm the surrounding land with that water were forced to move.

For better and worse, Salinas said, “The auto industry has changed everything here.”

Perhaps the most significant effect of the auto boom has been its effect on migration. El Bajio, particularly Guanajuato, had long been one of Mexico’s largest sources of migrants to the U.S.

In 2004, around the time that many of NAFTA’s effects began to be felt, Guanajuato alone accounted for nearly 20 percent of migrants heading to the U.S., according to the Migration Policy Institute. In Huanímaro, a small impoverished village in the area, roughly 30 percent of households had at least one member in the U.S. in 2000. By 2010, that was cut nearly in half, according to federal data collected by Freyer. Guanajuato is now one of the smallest senders of migrants to the U.S.

Tomas Gonzalez, who lives in Lo De Juarez, another tiny community with dirt roads and roaming roosters, remembers how small groups used to gather in the dusty town center almost daily to journey northward.

“They would say, ‘Let’s go! Let’s go!’” 30-year-old Gonzalez said.

Gonzalez lives in a small one room concrete house down a narrow dirt alleyway with his wife and young daughter. Prior to the arrival of the auto industry, most of the work near Lo De Juarez was in the surrounding farm land, growing corn or alfalfa. But the jobs were scarce and seasonal. And owning a car to work in one of the nearby cities wasn’t an option.
With a child on the way, Gonzalez eventually joined the groups heading to the U.S. in 2007, encouraged by a cousin who was reportedly making good money working on a dairy farm in Kansas. He spent weeks traveling by car and bus and foot to the U.S. border. He was turned back at the border twice, and each time he contemplated returning to Lo De Juarez. But on his third try he succeeded, and several weeks later arrived at the Kansas farm.

The work on the dairy farm was grueling. He worked from sunup to sundown, oftentimes with only one or two breaks. He missed his family, but wanted to keep sending them money. One day, Gonzalez said he arrived at work and the sky looked ominous. Dark clouds loomed in the distance and a warm breeze was picking up. By afternoon a swirling black cloud formed on the flat horizon. Within hours a massive tornado gathered and tore through the dairy farm. Gonzalez and his cousin jumped in the back of the farmer’s pickup truck and as they drove off down a long straight road through farms they watched as the barn and main house were torn to pieces.

“It was incredible. I watched cows fly into the air,” Gonzalez said.

After the dairy farm was destroyed, Gonzalez got a job nearby making wooded pallets. But with his wife and aging father alone taking care of his newborn daughter, Gonzalez decided to return to Lo De Juarez.

When he got back, things had changed.

Cars with blaring megaphones strapped to their roofs drove through the village announcing the need for workers. As it has in many villages and cities in El Bajio, the state began running buses through its narrow streets to collect workers and deliver them to the auto factories. A Ford transmission plant soon went up on surrounding farmland just a stone’s throw away that created about 2,000 jobs. The groups gathering to journey northward had disappeared.

These days, Gonzalez works in a factory, where he melts rubber that’s used to seal car windows and doors. He walks to the factory on a path through corn fields that were abandoned when the auto factories moved in.

His experience is emblematic of the changes that NAFTA has wrought: thanks to the agreement, immigration has slowed or even reversed in recent years, with more people returning to Mexico than leaving for the U.S., according to the Pew Research Center. But some fear that trend could change if NAFTA is scrapped or a trade war breaks out.

“If Mexico’s economy craters, all of a sudden we’re going to have more immigration pressure,” said Ohio State University economist Ned Hill.

Of particular concern is a 25% U.S. import tax on trucks that would kick in should NAFTA be dissolved. Guanajuato’s secretary of economic development, Guillermo Romero, estimates this would cost companies in the state alone nearly $4.8 billion.
Already, Fiat Chrysler Automobiles announced in January it would move production of its Ram pickup truck from a Mexico plant to a facility in Michigan. Under Trump twitter fire, Ford nixed plans to move production of its lucrative Lincoln SUV to Mexico.

Maciel maintains that the region exports vehicles to a wide enough array of countries that it no longer needs the U.S. market. Romero calls this idea “utopic” and says souring trade relations with the U.S. could absolutely bring tangible change to El Bajio.

“The companies are working on a plan B,” said Romero, who regularly meets with company executives.

Alejandro Hernandez, director of investment promotion for Guanajuato, the predominant state in El Bajio, says that while the majority of Japanese companies are holding off on further investment, American companies are moving forward but being “extremely cautious.” German companies, meanwhile, are taking a longer view, weighing the possibility that Trump could be out of office in a few years.

Hernandez also said that far fewer international companies than usual are visiting Guanajuato to explore business opportunities. This year, only one auto company, a German firm, has announced investment in Guanajuato, he said. In comparison, last year, the state trumpeted investments by 40 companies, most of them automotive, totaling $1.7 billion and expected to create 14,426 jobs.

Still, even amid the flurry of trade moves and NAFTA renegotiation that is coming to a head this year, many companies are forging ahead. General Motors is hiring hundreds of workers and expanding operations at a truck factory. BMW is on track to finish building an assembly plant next year. Just last month, Canadian parts manufacturer Linamar announced it would pour $50 million into expanding operations at two of its Mexican plants. Sakthi, an Indian parts builder, will begin construction of a plant in May in Durango state, which will create 600 jobs, according to the state government. Volkswagen is doubling production at its engine plant in Guanajuato.

Romero, Guanajuato’s economic secretary, has made a point to visit factories to preach the importance of NAFTA and to tell workers that their jobs rely on the agreement. Local newspapers have run op-eds about the region’s lack of foresight, warning that the state too quickly put all its eggs in one basket.

After each round of talks, Romero said he’s inundated with Japanese journalists at his office, all asking him the same question—“What will happen with Guanajuato and NAFTA?”

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In many ways, El Bajio is in better shape than the old Detroit, where entire neighborhoods have been gutted, looted or burned out, and the auto industry has shrunk to a fraction of its former size.
Trump drew on this along the campaign trail and slammed automakers for producing vehicles in Mexico. He threatened tariffs and said he’d pull out of NAFTA. His surprise win sent tremors through El Bajio. As Guanajuato’s Director of Investment Promotion Alejandro Hernandez put it, “It was one of the worst days of my life.”

But for Trump to actually deliver on his promise to restore a chunk of the auto industry, he would need to do a whole lot more, experts say. Automobile tariffs in the range of 50 percent might only begin to reshape the landscape, Harrison, the Wharton professor, said.

Harrison noted that, as early as the 70’s, Japanese cars began making an appearance on American roads. Had GM, Ford and Chrysler not been able to move south of the border to take advantage of lower costs, she added, it’s entirely possible those companies could be out of business. In other words, the trade deal that Trump now seeks to undo may actually have saved Detroit’s largest and most iconic automakers as foreign competition grew.

“It depends how far you’re willing to go,” Harrison said, noting quickly that the extreme protectionist measures necessary to force companies back to the U.S. would be “terrible” for both economies.

Nor is it clear that forcing factories to return would do much good. Automation has played a large role in job loss, so even if factories returned to the U.S. they’d likely be accompanied by fewer jobs. The auto supply chain snakes across multiple borders. Forcing every step into one country with high labor costs wouldn’t allow American firms to compete in the global market, Harrison added – potentially forcing the industry out of North America altogether.

“He diagnosed a real problem. A lot of people are suffering, but what [Trump’s] proposing is going to make things worse,” Harrison said.

In recent weeks, U.S. trade officials have reportedly eased demands to raise the requirement dictating what percentage of parts must originate in North America, including dropping demands that half of that North American content be sourced from the U.S. At the same time, proposals have been floated to mandate that some automotive production occur in areas paying higher salaries.

Mexico would rather have NAFTA disappear than accept U.S. proposals that erode too much of its attractiveness as a production site, said Hector Marquez, an official in Mexico’s Ministry of Economy and the country’s lead negotiator on auto issues in NAFTA in the 1990s. Without NAFTA, passenger cars would carry a 2.5 percent duty, according to World Trade Organization rules.

Mexico’s July presidential election is also injecting tumult into the talks, said Marquez. Current front-runner Andres Manuel Lopez Obrador is a NAFTA skeptic whose ambitions include halting efforts to liberalize the country’s energy sector.
And pressure is mounting on both sides of the boarder: Trump recently fired his chief economic advisor Gary Cohn, one of the last bastions of free trade on his economic team. Trump has also introduced thorny issues into the talks, such as DACA and the border wall.

“The uncertainty is outside the negotiating table. It’s Trump,” Marquez said. “So we don’t know what the end will be.”

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On a recent afternoon, Freyer drove down Highway 45, El Bajio’s main industrial corridor. The highway is kept in pristine condition to serve the hundreds of companies set up along it. Freeway signs point to exits for companies from all over the world.

“You can see globalization just by driving around,” she said. The names of scores of obscure auto parts companies posted on the outside of strings of factories passed by in a blur.

A soaring flyover bridge was built specifically for Honda when the company announced it’d build two plants on a defunct alfalfa farm. The overpass bridges over an impoverished village with dirt roads so trucks loaded with finished cars can deliver them to a nearby rail yard.

When the state government announced it would build the overpass the village was outraged and nearly stormed the groundbreaking ceremony in protest. They had been pleading to the state for years to get their dirt roads paved.

State officials simply ignored them, Freyer said while parked on the side of a dusty dirt road. On one side of the road was an entranceway to the state-of-the-art nearly billion dollar Honda plants. On the other side of the road was the peasant community which still didn’t have paved roads.

Freyer calls the explosive growth of the auto sector here a “sociological experiment.” Although the industry has changed migration patterns, roiled community relations and even brought sushi to a previously monoculture region.

Still, there’s an ephemeral nature to it, she said.

“I don’t think people realize,” Freyer said, “as easy as [the companies] came in, they could leave.”
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