Southern Auto Industry Wary Of Mexican Competition

Erik Schelzig, Associated Press

CHATTANOOGA, Tenn. (AP) — Southern states accustomed to luring investments away from the Midwest are casting a wary eye to competition from Mexico.

Tennessee Gov. Bill Haslam was asked at the Southern Automotive Conference on Thursday about what steps are being taken to keep investments from moving abroad, especially in light of a recent decision by German automaker Audi to build its first North American plant in Mexico.

Haslam said Southern governors need to work toward a more regional approach to attracting investment, rather than playing off of each other. "People realize that the strength of the region is really as important as what happens in each one of those states," he said.

A recent speech by Jonathan Browning, the president and CEO of the Volkswagen Group of America, apparently weighed heavily on attendees at the conference. Audi is a Volkswagen subsidiary.

Browning's speech last week at the Brookings Institution criticized U.S. economic policies and cited Mexico's trade agreements in Audi's decision to build its $1.3 billion plant there.

"It simply doesn't make sense to build in the U.S. if exporting is central to that investment decision," Browning said, according to a Brookings transcript. "By choosing Mexico for the new plant, Audi can afford a 10 percent tariff on cars shipped to a host of countries that have trade agreements with Mexico, but not with the U.S.

"So the decision from an economic point of view is fairly clear today. In the auto sector, at the very least, if the North American market can assume the vast majority of production then you can afford to build in the U.S."

U.S. Sen. Lamar Alexander, R-Tenn., said at the conference that those comments indicate a need for a change in U.S. policies.

"We need a president who's in favor of free trade, that would help," he said. "Otherwise we're going to have more examples of Volkswagen plants going to Mexico."

Volkswagen AG, the world's second-largest car company, began building Passat sedans at the $1 billion plant last year. Most of the Passat sedans made in Chattanooga are destined for the U.S. market, though VW also has expanded

exports to Mexico, Canada, South Korea and the Middle East.

Haslam told reporters after his speech that the state "tried real hard" to persuade Volkswagen to choose the Chattanooga site for the Audi expansion.

"But I do know that other VW lines always seemed like something that was a better potential for Chattanooga," he said.

Former Toyota Motor Corp. executive Dennis Cuneo, now a partner with the law firm Fisher and Phillips LLP, said U.S. manufacturing can't match Mexican labor costs, but can seek to overcome that disadvantage by stressing education and improving infrastructure.

He also argued that attracting auto parts suppliers should become a greater priority domestically.

"The average Southern automotive plant gets 30 percent of their supplies within 450 miles, the average Northern one is just the opposite," he said. "You have an opportunity in the South with the supply base — you should go after it more aggressively."

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