

Mexico, NAFTA, and the Future of the North American Economy



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World Economic Roundtable

in partnership with

Institute for
New Economic Thinking



SRE
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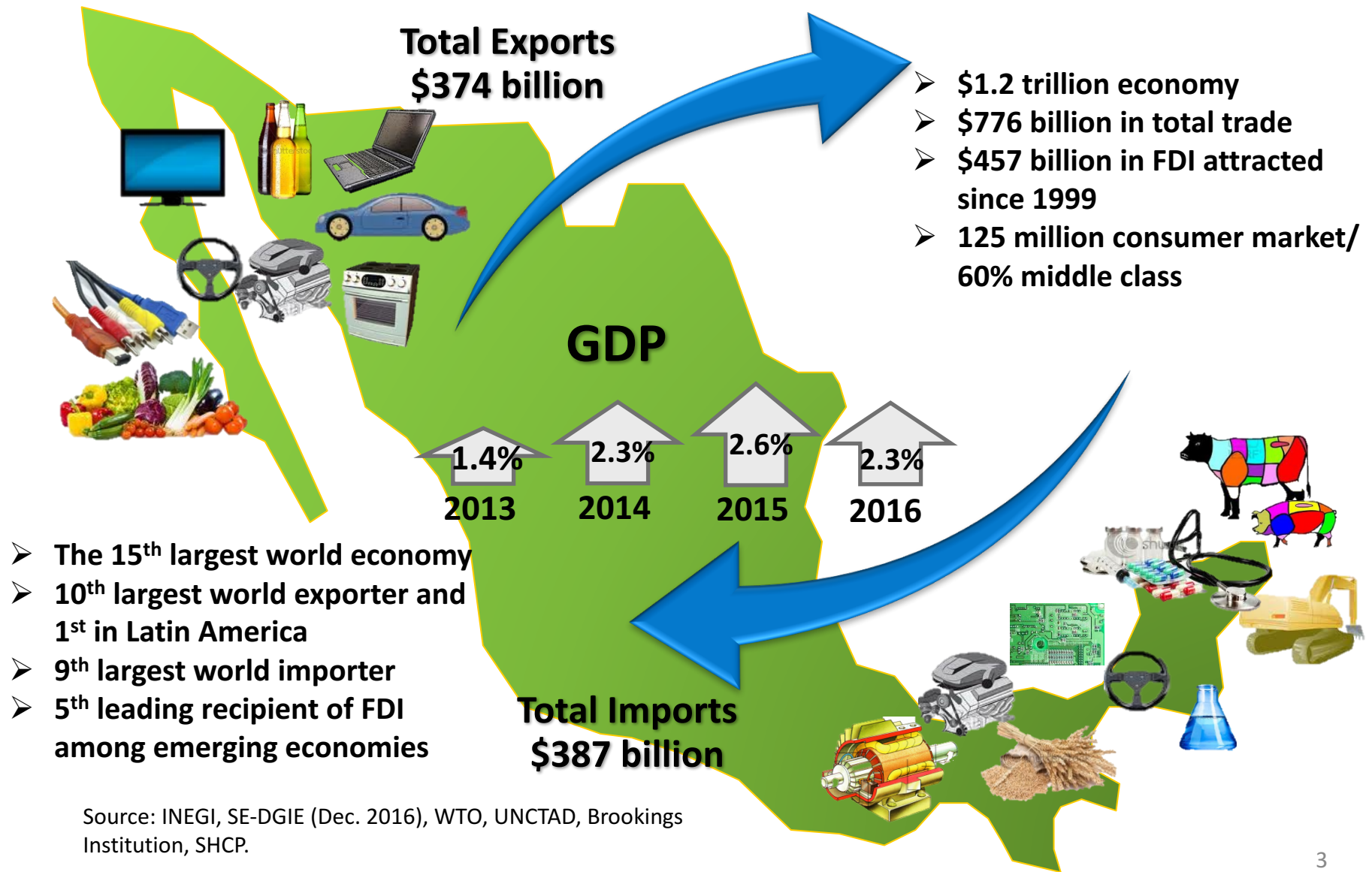
PRO MÉXICO
Trade and Investment

U.S. – Mexico Trade Relationship

May 2017

Mexico is a growing economy

✓ Mexico has built a solid framework for macroeconomic stability in the past two decades

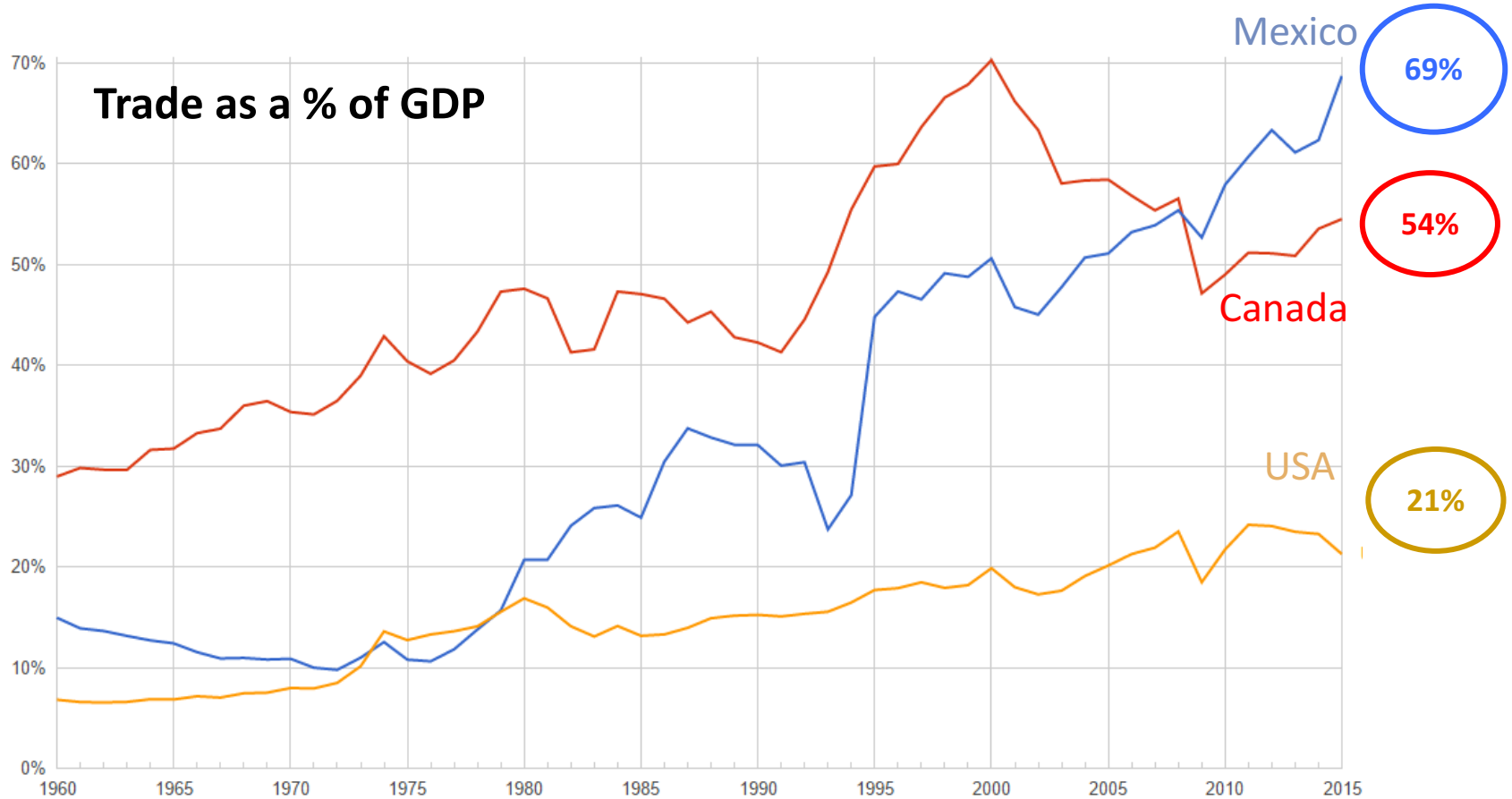


Source: INEGI, SE-DGIE (Dec. 2016), WTO, UNCTAD, Brookings Institution, SHCP.

Mexico is one of the most open economies

Mexico's trade policy has provided the backbone for growth in the economy and a rapid expansion in foreign trade.

- ✓ Trade to GDP ratio grew from 30% in the early 90's to nearly 70% currently, reflecting the relative importance of international trade to the economy.



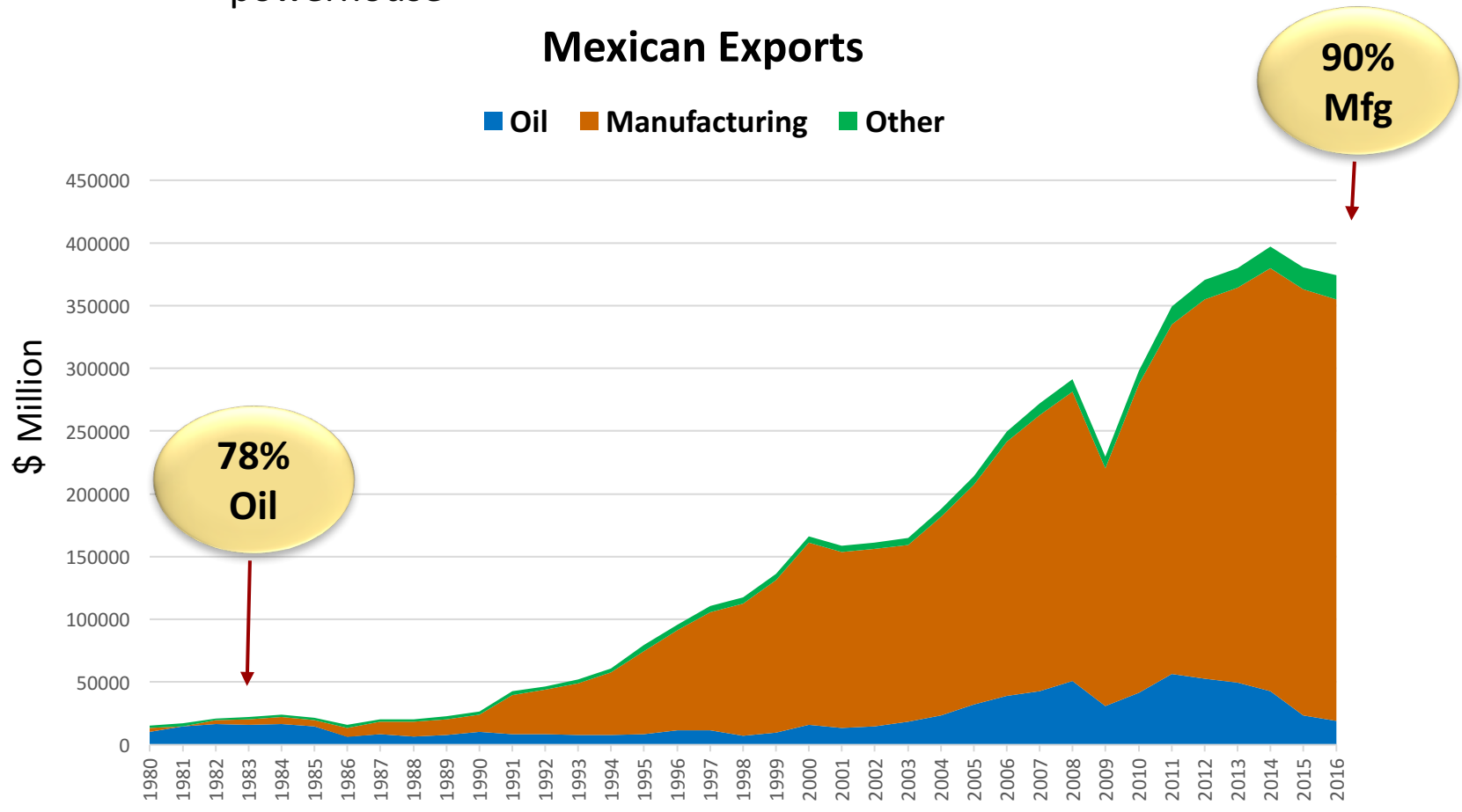
Mexico has also become a diversified export-oriented economy

Over two decades of sound macroeconomic policies and free trade policies are paying off:

- ✓ Mexico has transformed its export structure into a manufacturing global powerhouse

Mexican Exports

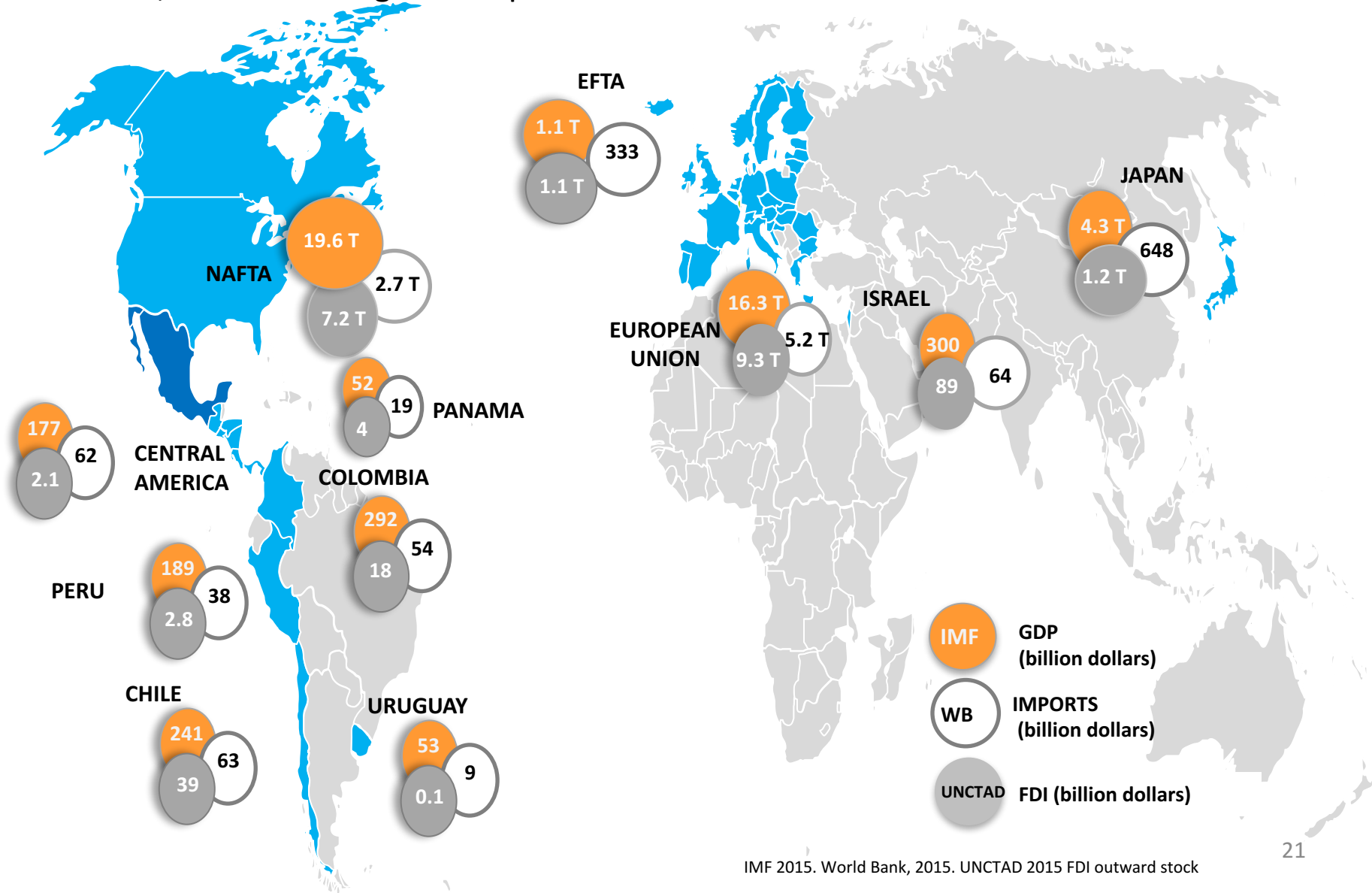
■ Oil ■ Manufacturing ■ Other



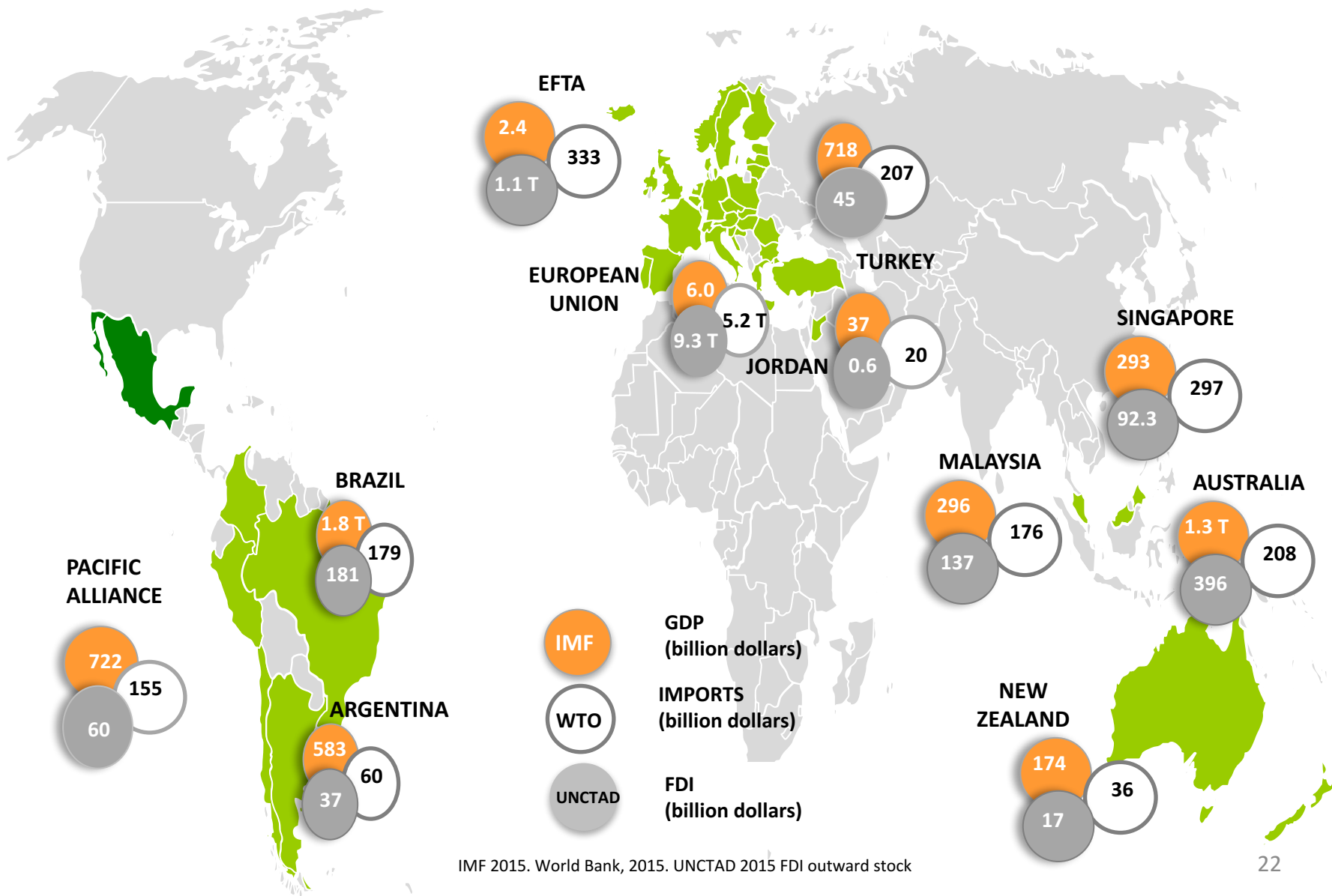
Source: SE-NAFTA with data from INEGI

Mexico is one of the most open economies

✓ Mexico's FTAs network includes 46 countries which account for 70% of world GDP, two-thirds of global imports and a billion consumers.



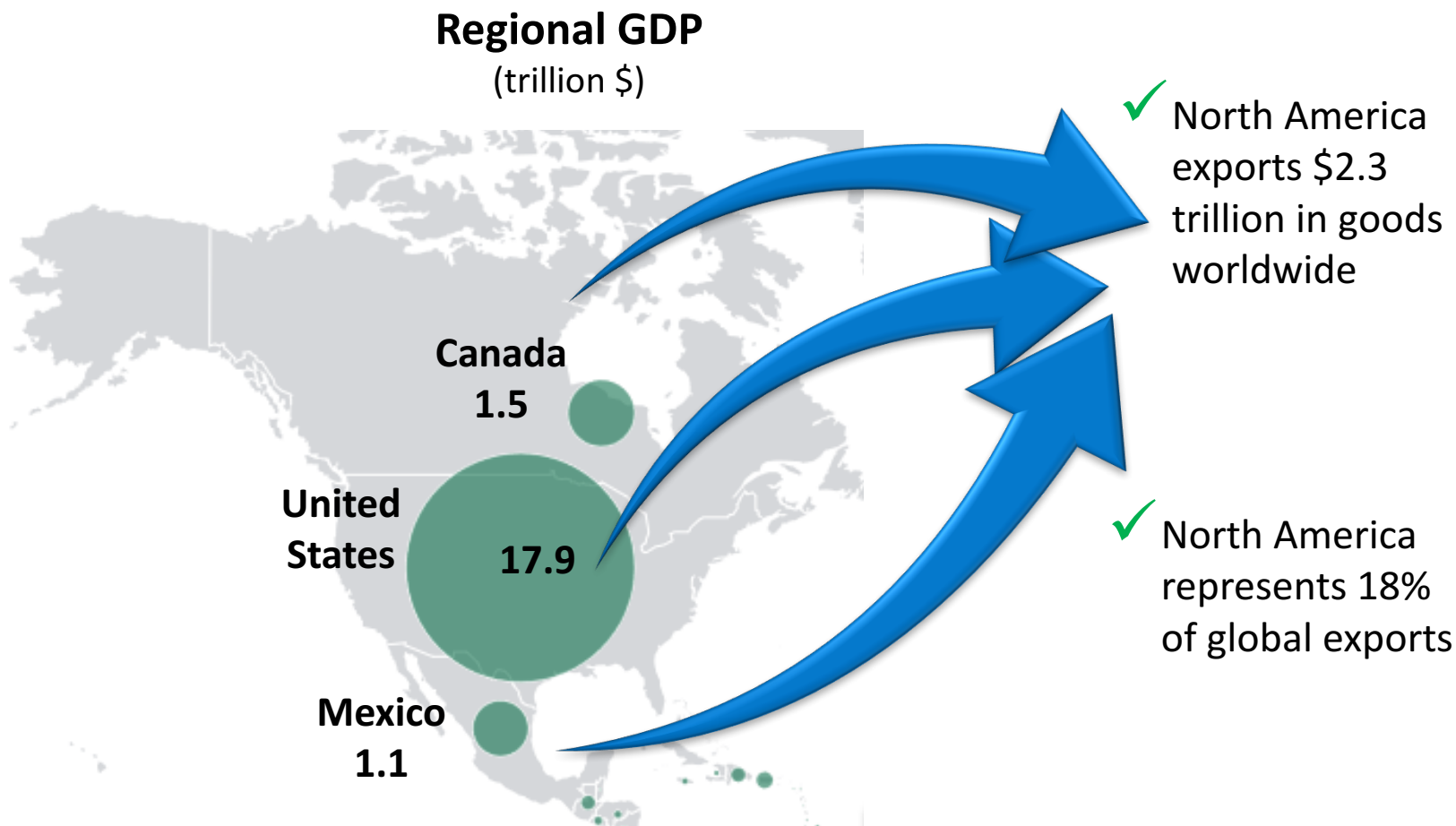
Mexico's ambitious ongoing trade negotiations



IMF 2015. World Bank, 2015. UNCTAD 2015 FDI outward stock

North America: a dynamic economic powerhouse

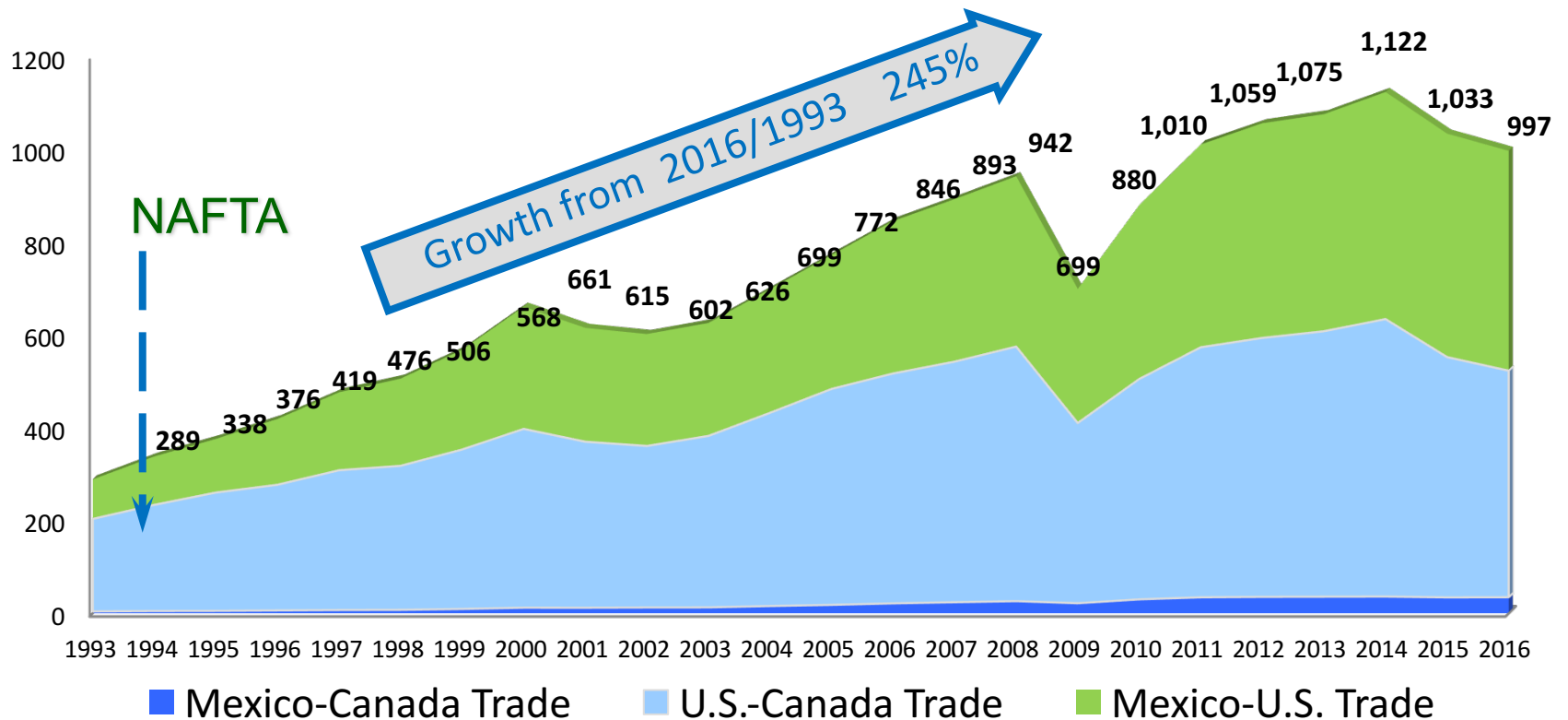
- ✓ NAFTA created a thriving regional market of 480 million people and a combined GDP of over \$20 trillion.



Recognizing the importance of NAFTA

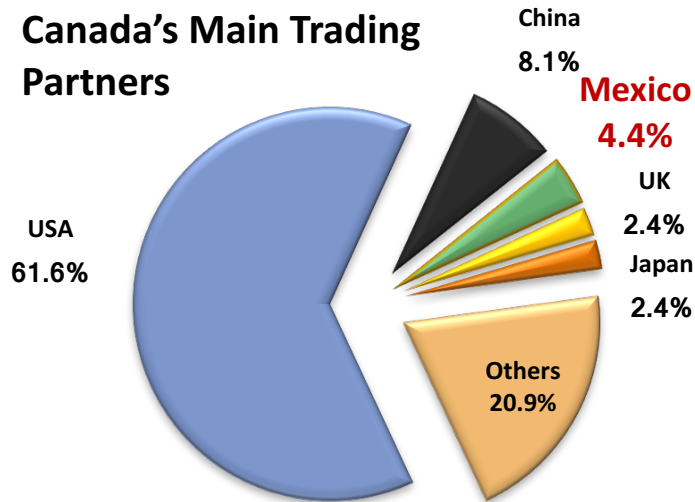
- ✓ Trilateral trade has more than tripled, reaching nearly \$1 trillion in 2016.

Trilateral Trade between the NAFTA Partners



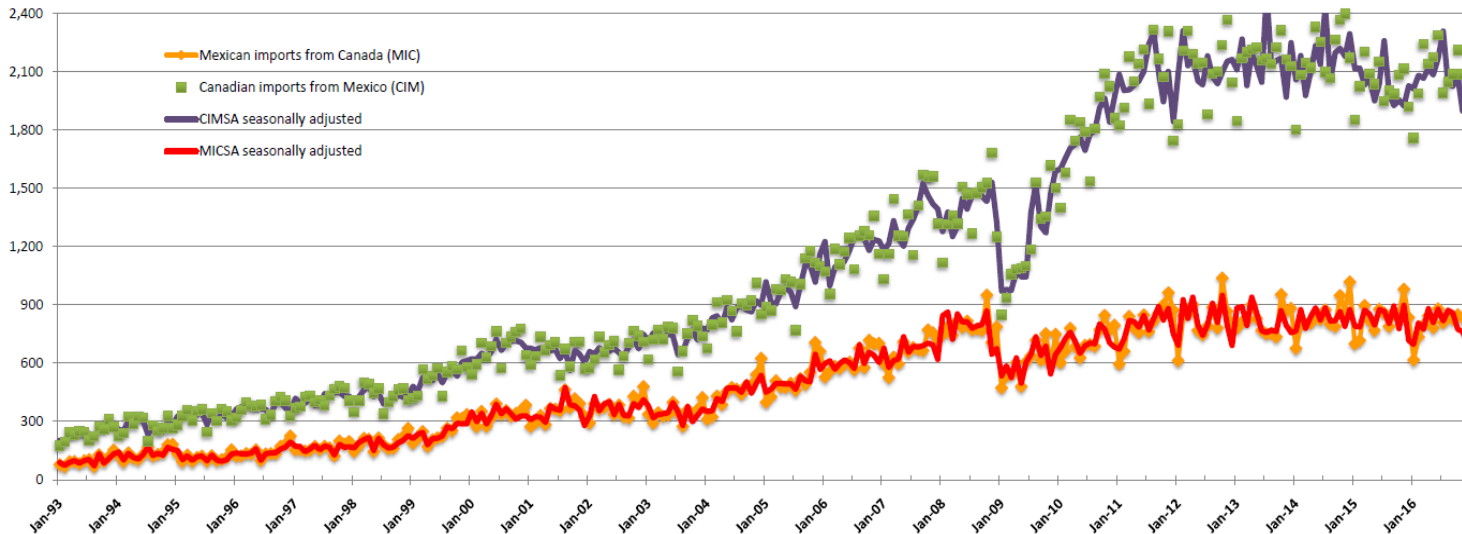
NAFTA boosted Mexico's trade with Canada

Canada's Main Trading Partners



- ✓ Mexico-Canada trade increased nine-fold, reaching \$34 billion in 2016
- ✓ Mexico is Canada's 3rd largest trading partner

Mexico-Canada Trade: Monthly trends from January 1993 to December 2016
(millions of US dollars)

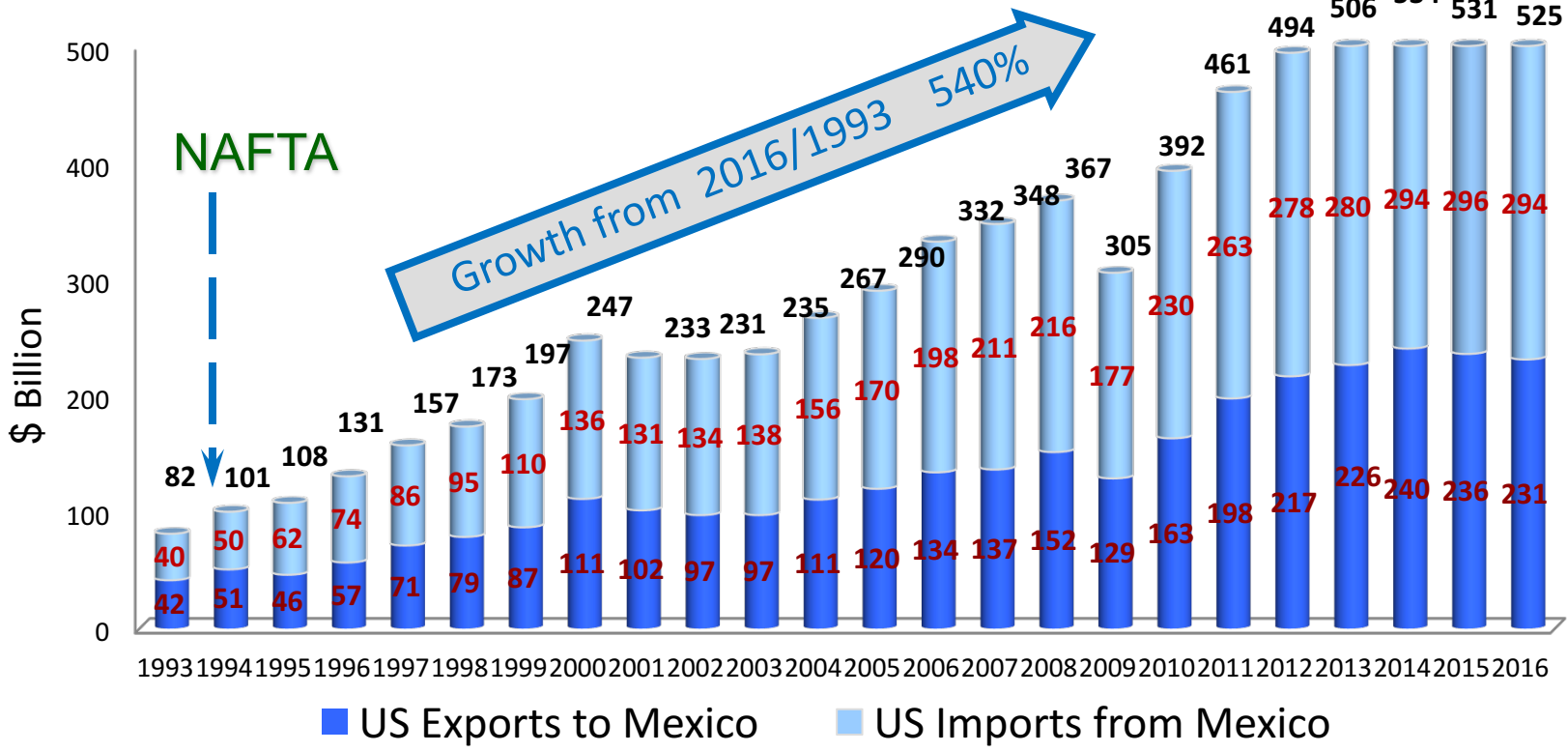


Since NAFTA, U.S.-Mexico trade has multiplied by six

- ✓ Mexico is the U.S.' third-largest trading partner
- ✓ \$1.5 billion dollars in products are bilaterally traded each day



U.S.-Mexico Trade



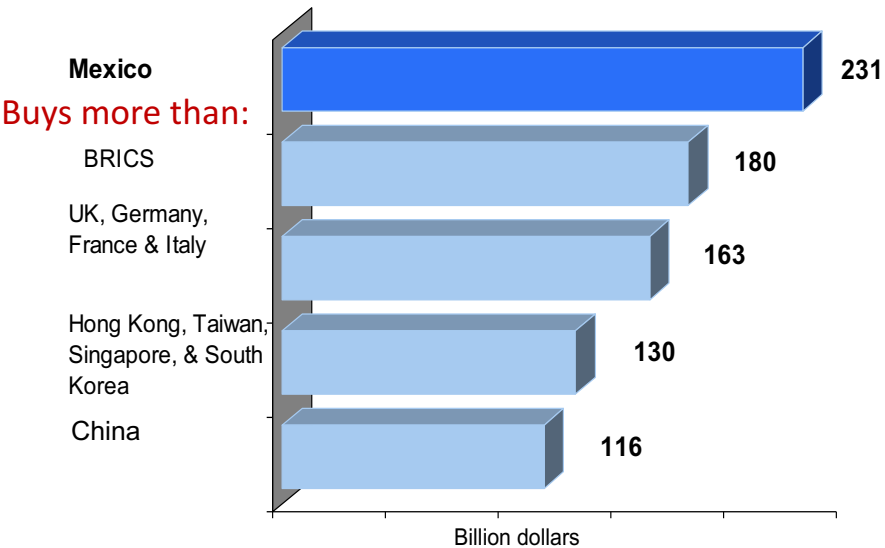
Source: USDOC.

Mexico is the U.S.'s second-largest export market and second-largest supplier of goods

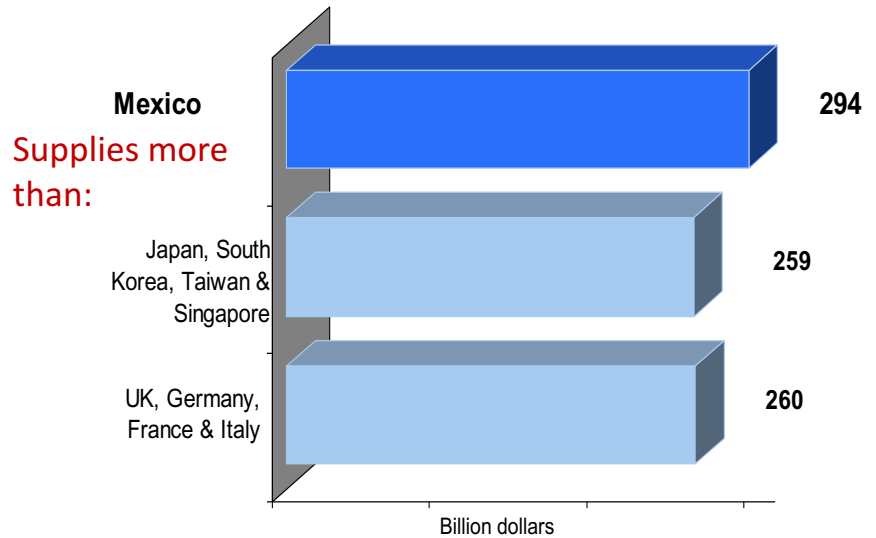
✓ U.S. exports to Mexico reached \$231 billion last year, which represents more than 16% of its sales worldwide.

✓ U.S. imports from Mexico reached \$294 billion. Mexico has a market share of 13% of US total imports.

U.S. Exports 2016



U.S. Imports 2016

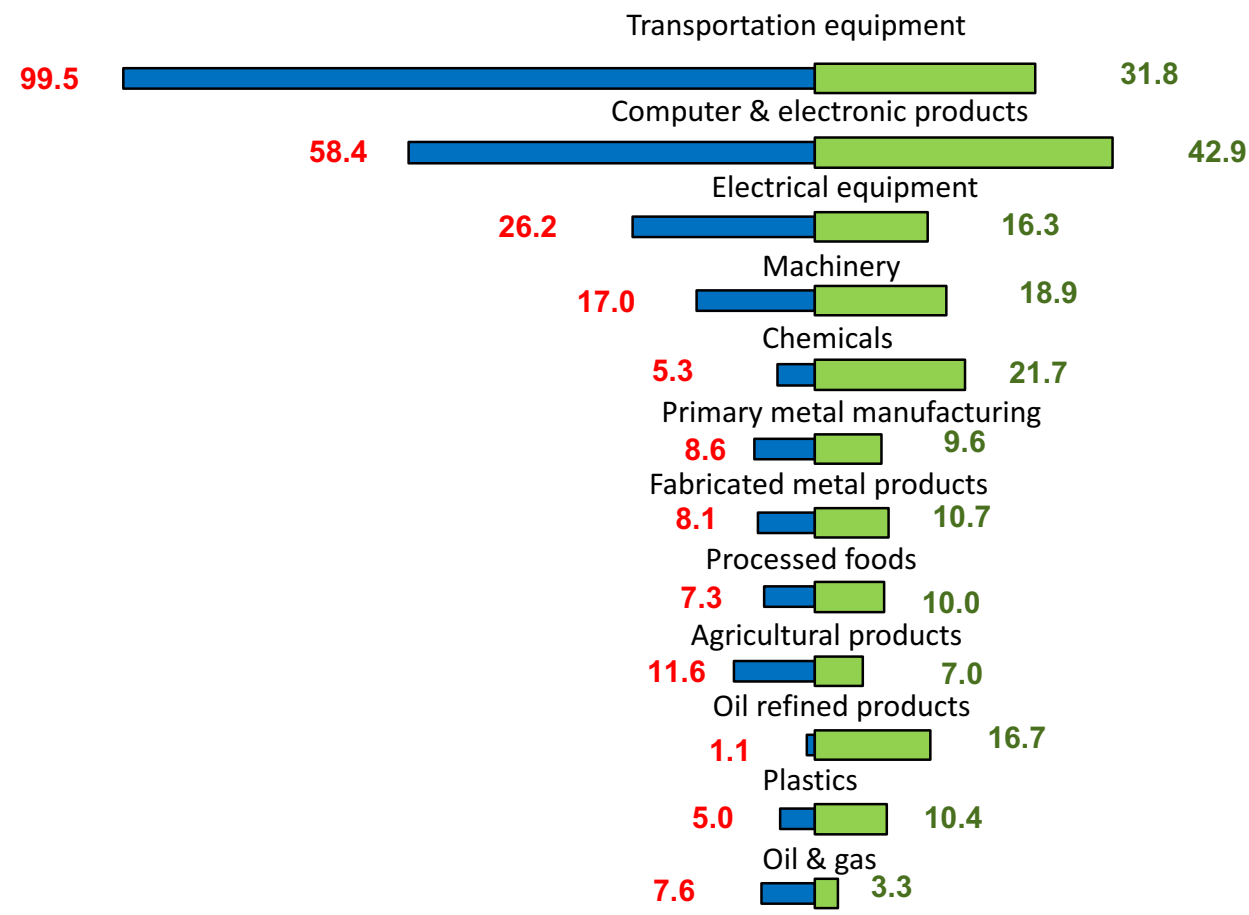


Source: USDOC . BRICS includes Brazil, Russia, India, China, and South Africa

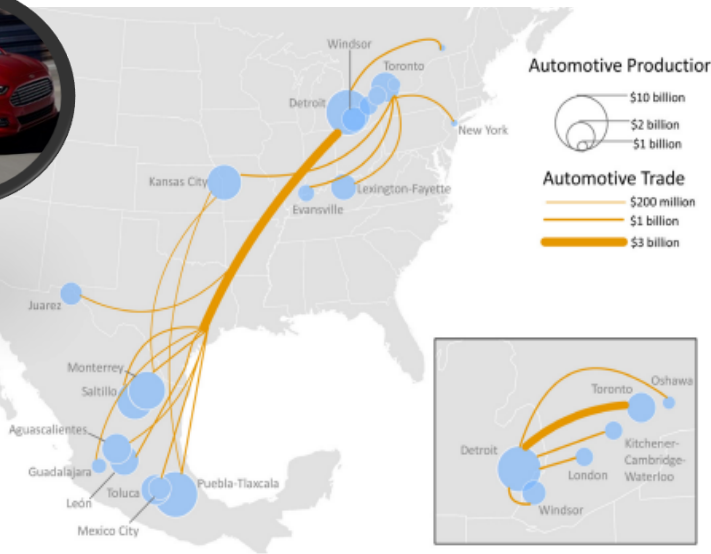
U.S. – Mexico trade is not only large, but also diversified...

2016 US-Mexico Trade by Sector

■ US imports from Mexico ■ US exports to Mexico



... and highly integrated, strengthening supply chains in key industries

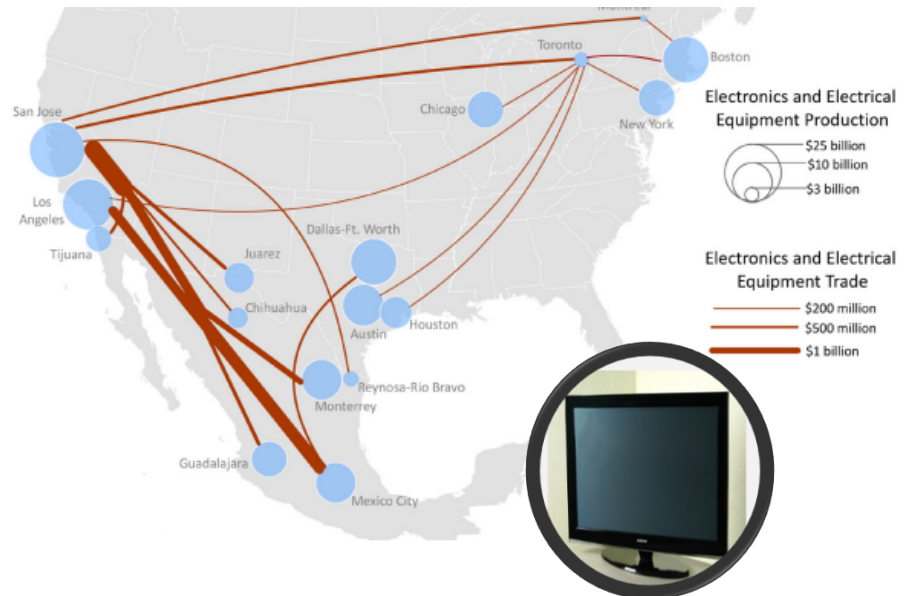


AUTO & AUTO-PARTS

- ✓ Mexico is the 7th largest producer and 4th exporter globally of new light vehicles in the world.
- ✓ \$123 billion dollars in cars and parts are traded between Mexico and the U.S. annually.
- ✓ 11% of light vehicles sold in the U.S. were produced in Mexico.
- ✓ Mexico is the main auto parts supplier to the U.S.
- ✓ The Mexican auto parts industry became the 5th largest in the world.

ELECTRIC-ELECTRONIC

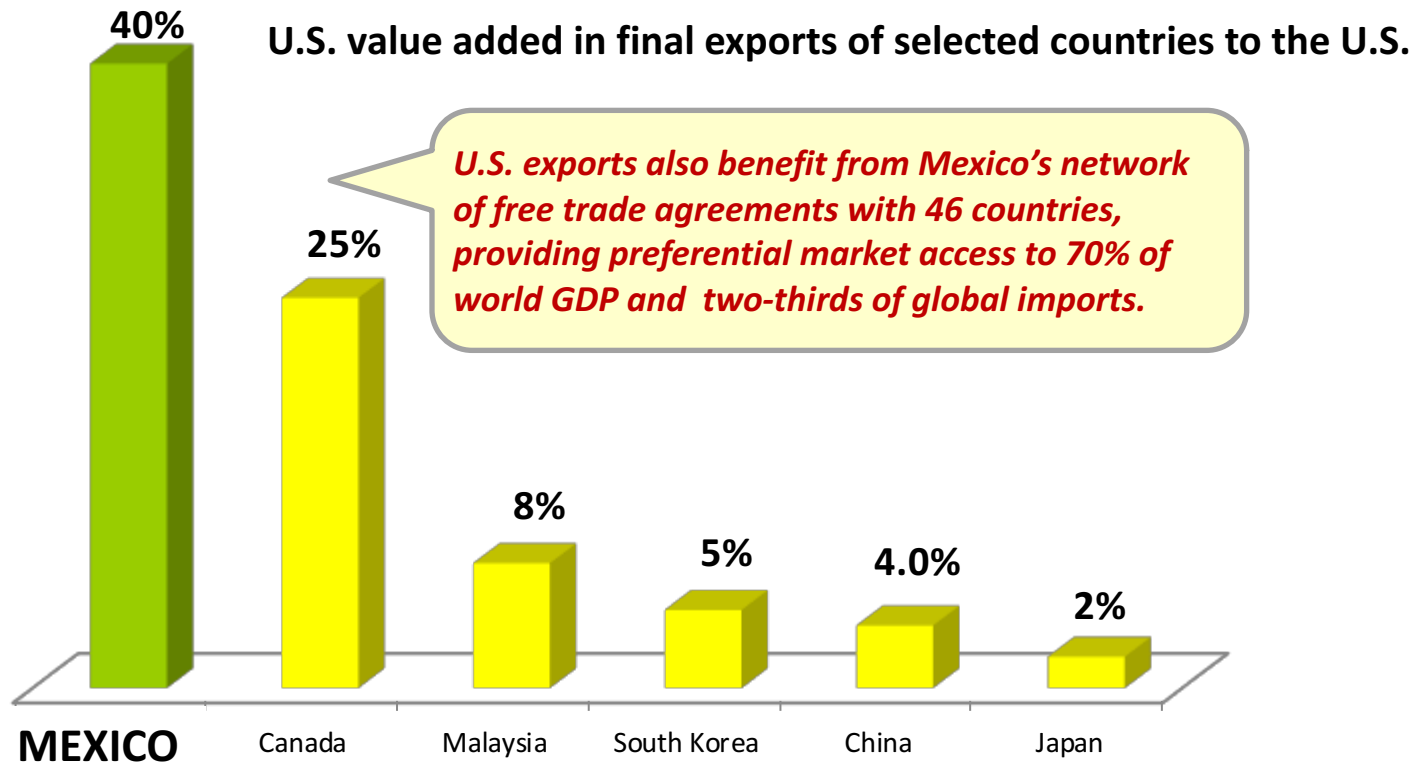
- ✓ \$143 billion dollars in electrical and electronic equipment are traded between Mexico and the U.S. per year.
- ✓ Mexico is the leading home appliance exporter in Latin America, and the 6th globally.
- ✓ Leading flat television screen exporter in the world.
- ✓ The second refrigerator exporter.



Mexico is a strategic production partner for U.S. goods and exports worldwide

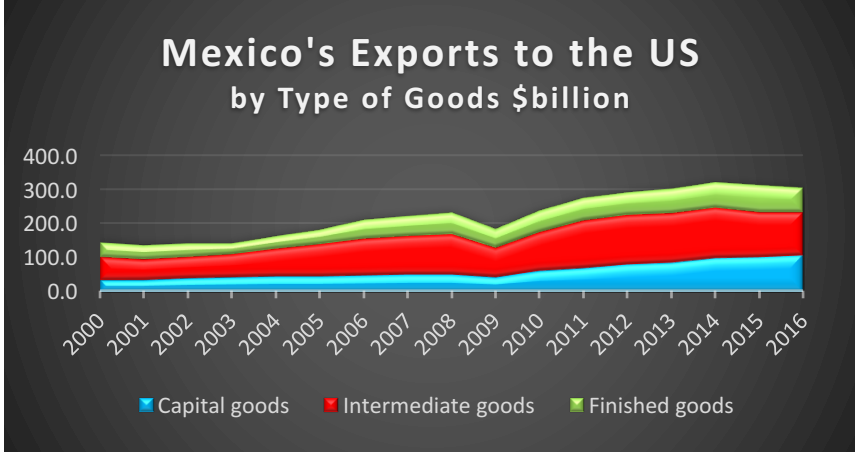
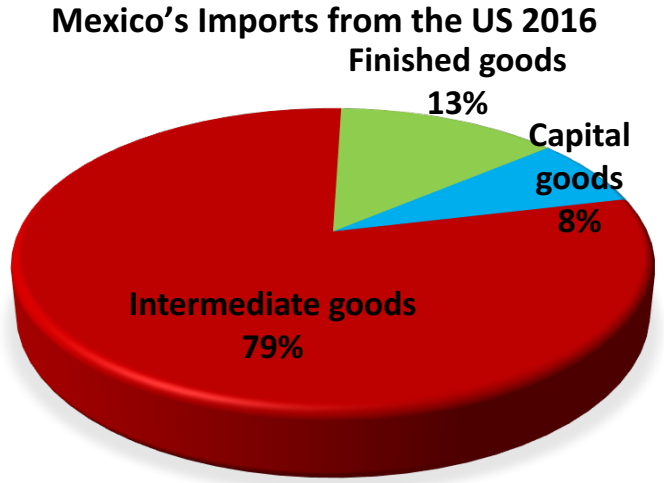
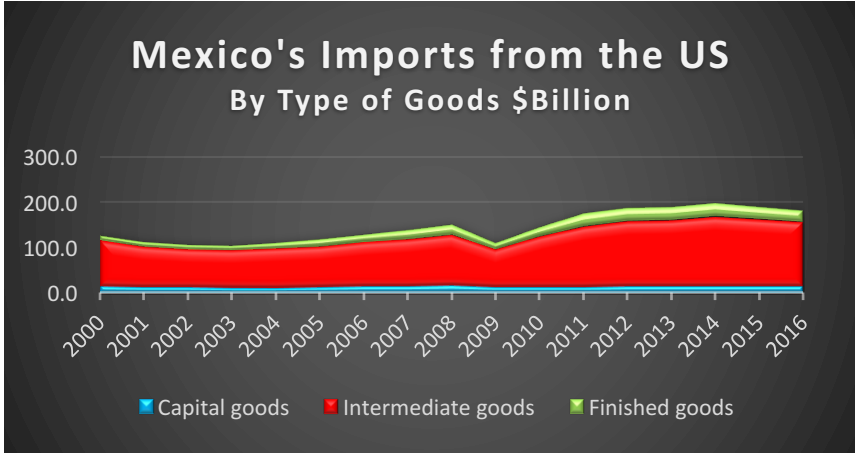
When Mexico exports, the United States exports.

- There is a 40% U.S. value-added in Mexico's exports to the U.S.



**Mexico and the United States do not simply trade goods;
we work together to manufacture them**

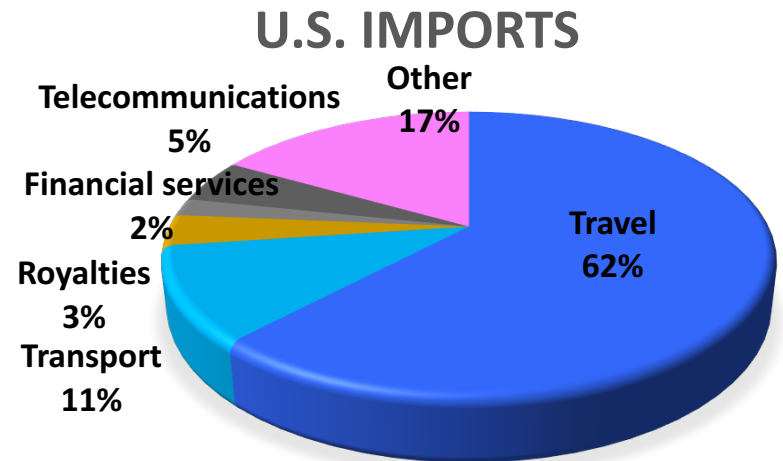
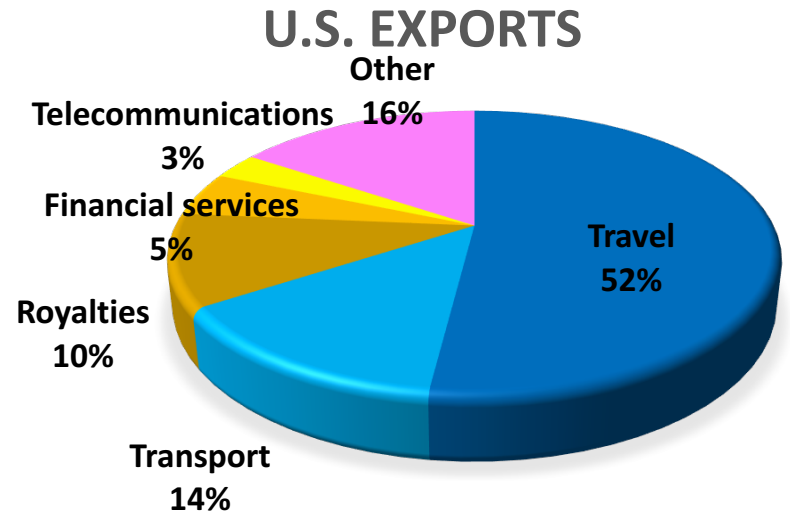
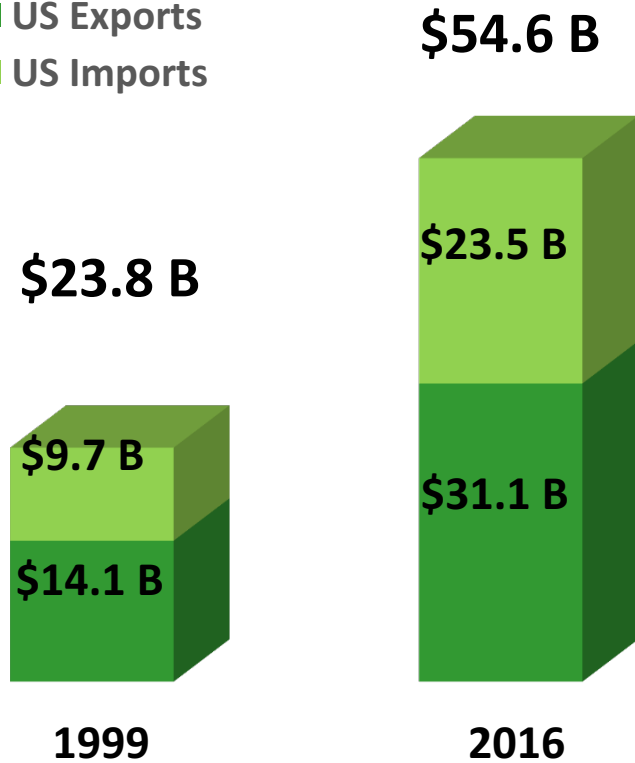
Most of the products bilaterally traded are intermediate products



U.S.-Mexico trade in services has doubled since 1999

U.S.-Mexico Trade in Services

- US Exports
- US Imports



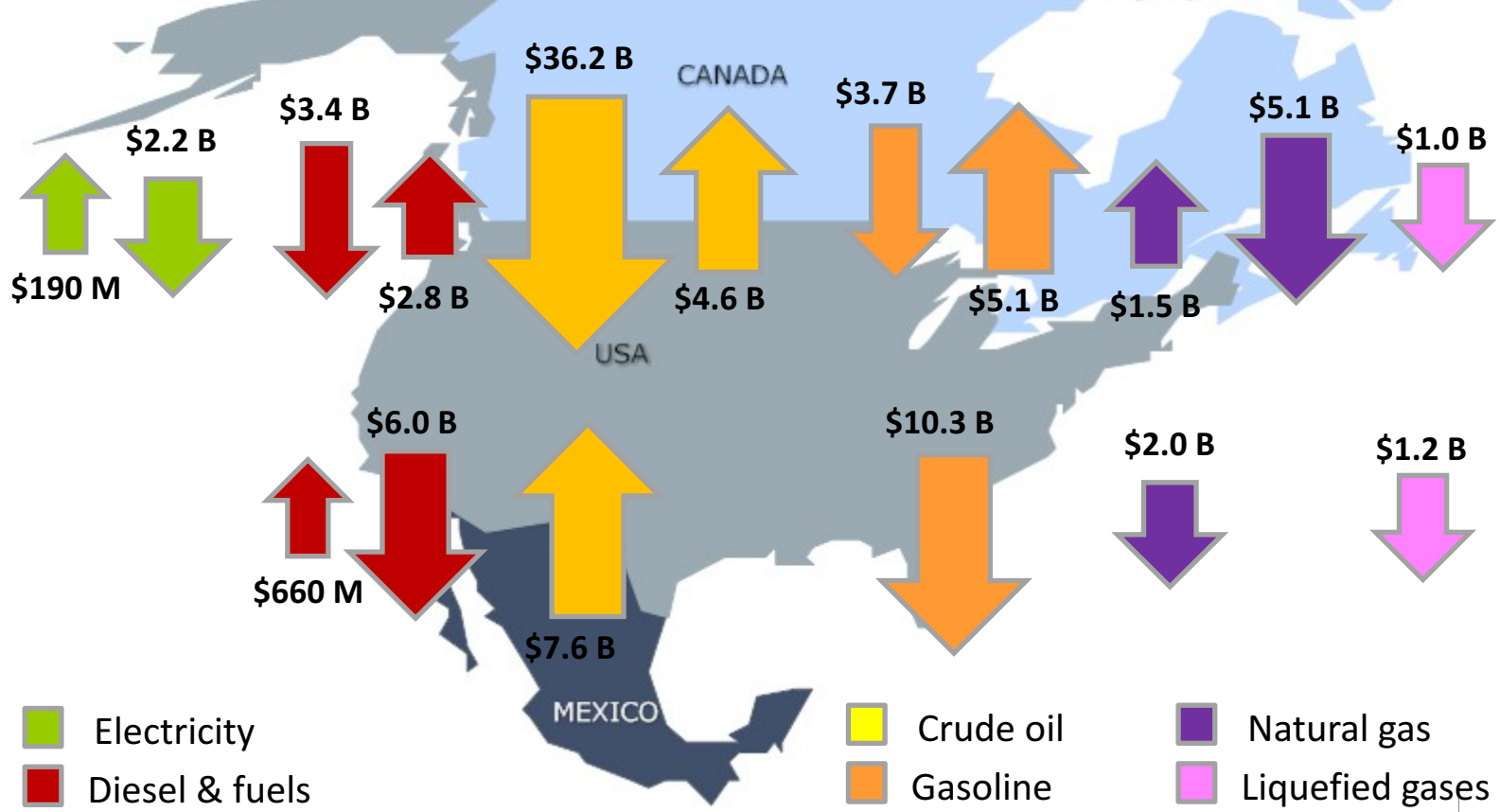
Source: USDOC with data from BEA. Trade in services by sector with 2015 data. Financial services include financial and insurance services, telecommunications include IT services, royalties include charges for the use of intellectual property.

North America is emerging as a global energy power

- ✓ Mexico is the US' largest energy market, consuming over \$20 billion in energy goods
- ✓ Canada is the US' biggest energy supplier, providing over \$54 billion in commodities

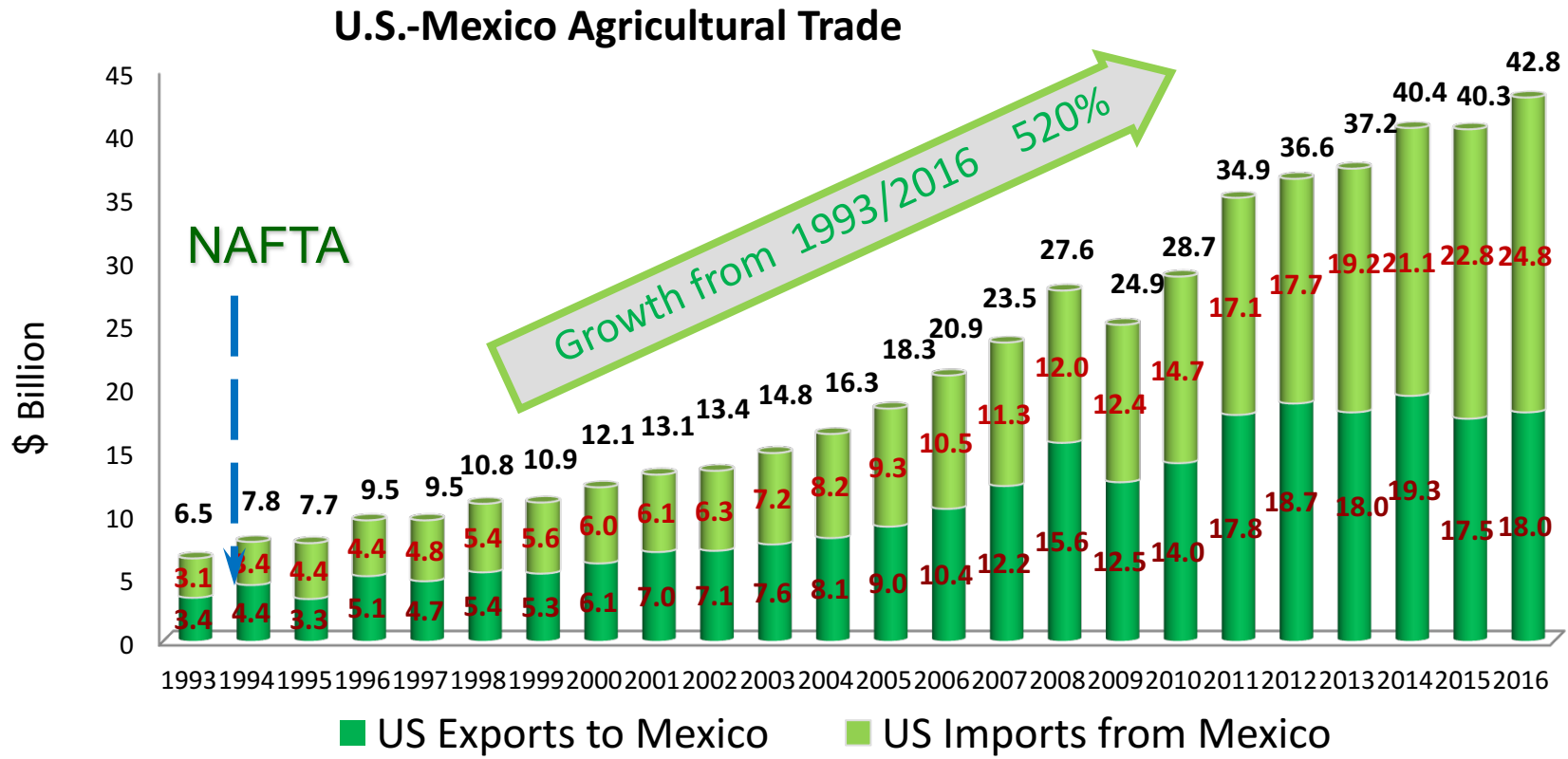
2016 US trade in energy with Mexico and Canada totals \$100 billion, accounting for 40% of its total trade

Source: SE-Washington with data from USDOC



US – Mexico agricultural trade has multiplied by five since NAFTA

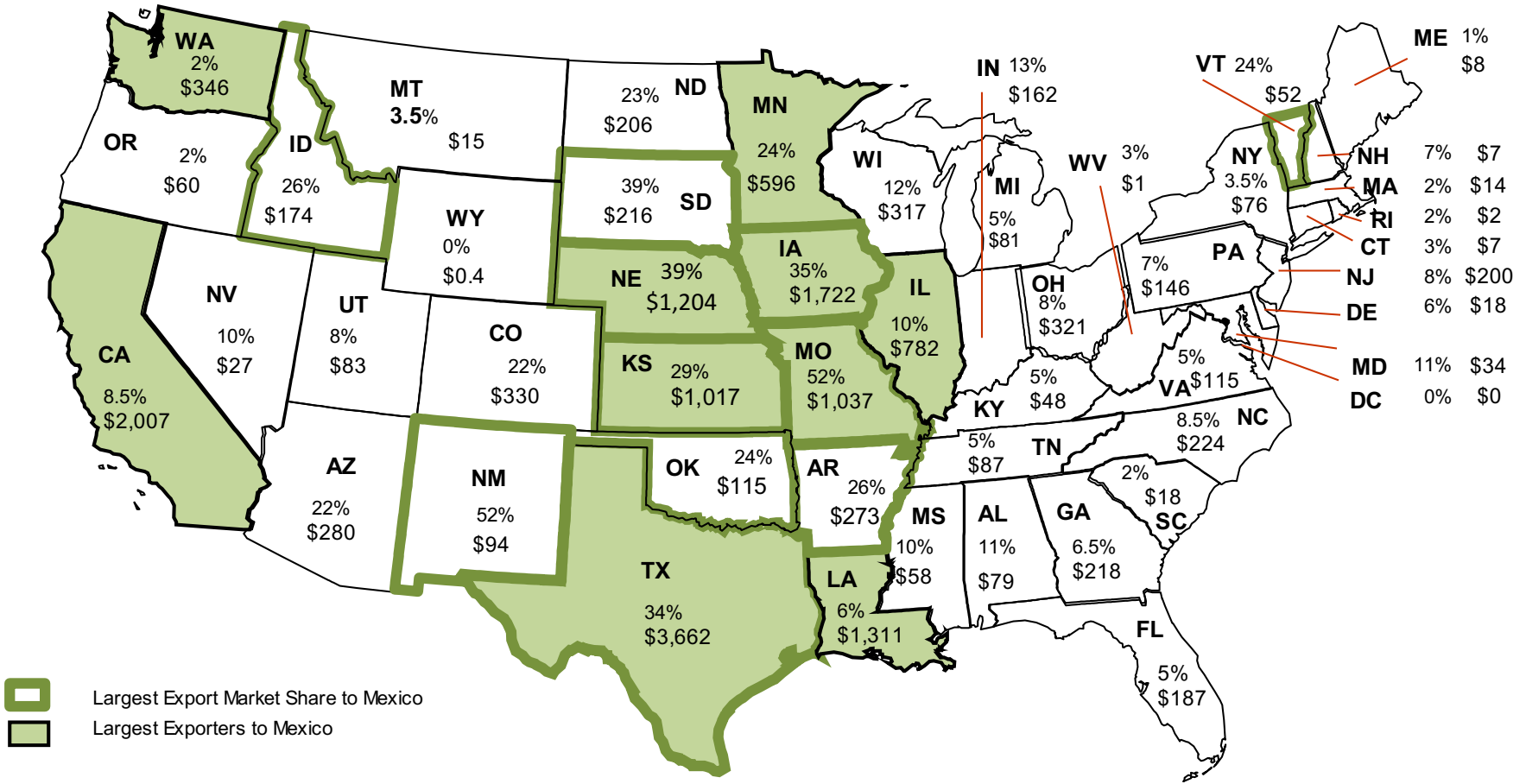
- ✓ Mexico is the 3rd destination for US agricultural products and its 2nd largest source of imports



Source: USDOC. Agricultural products include chapters 1 – 24 HS

US agricultural exports to Mexico by state

Mexico's Share in U.S. Agricultural Exports and Largest Exporters to Mexico (\$ million) 2016

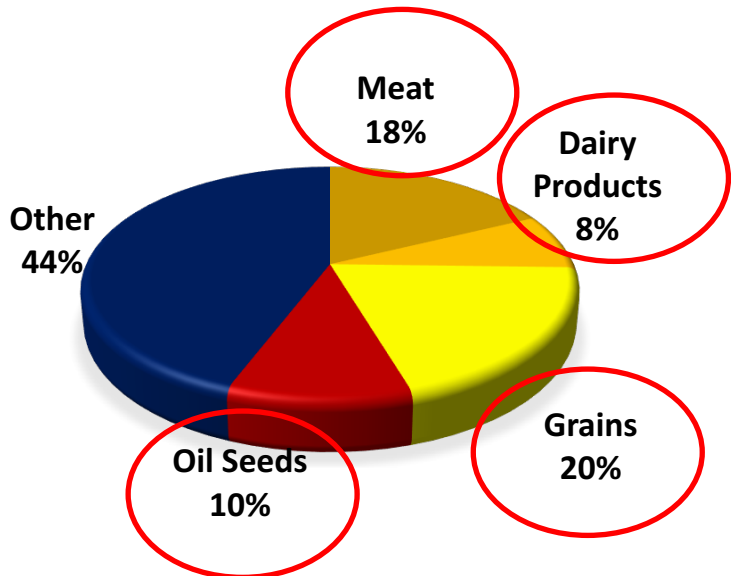


Source: SE- NAFTA with data from Wisertrade.

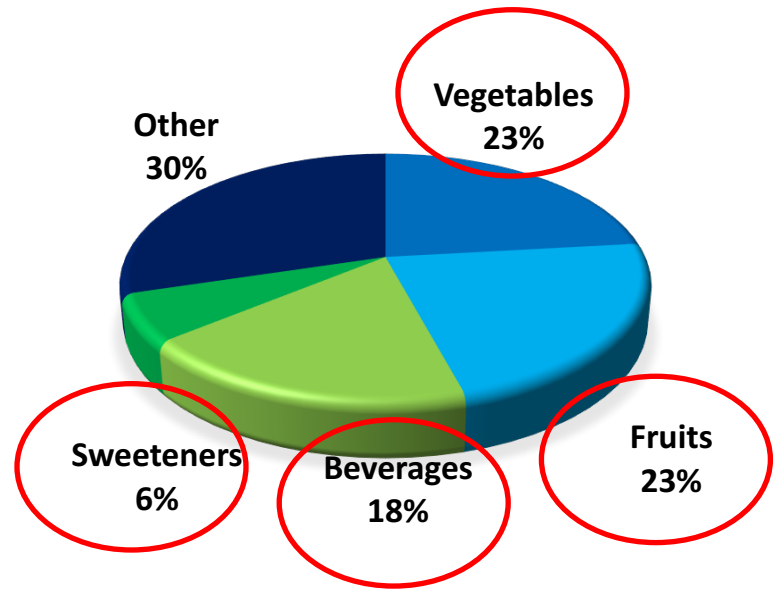
NAFTA promotes trade specialization

- ✓ US exports are concentrated in grains, meat and oilseeds, accounting for 50% of agricultural exports to Mexico.
- ✓ Nearly 50% of Mexico's agricultural exports to the US are fruits and vegetables.

US agricultural exports to Mexico 2016
\$18 billion



US agricultural imports from Mexico 2016
\$24.8 billion













Source: USDOC. Agricultural products include chapters 1 – 24 HS

Trade of agricultural products allows a wider supply of quality products and better prices

For certain fruits and vegetables where the U.S. production is unable to meet domestic demand, imports from Mexico help to prevent a sharp rise in prices and keep a stable supply all year round.

Did you know that in 2015 U.S. families consumed:

- | | | | | | |
|---|----------------------|---|---|-------------------------|---|
| ✓ | 8 out of 10 avocados |  | ✓ | 1 out of 2 squashes |  |
| ✓ | 9 out of 10 papayas |  | ✓ | 3 out of 5 cucumbers |  |
| ✓ | 9 out of 10 limes |  | ✓ | 3 out of 5 berries* |  |
| ✓ | 1 out of 2 tomatoes |  | ✓ | 3 out of 5 mangoes |  |
| ✓ | 1 out of 2 asparagus |  | ✓ | 1 out of 5 bell peppers |  |

Harvested in the Mexican countryside

NAFTA also promotes a more integrated North American agricultural market

- The United States exports \$5.6 billion in grains, oilseeds and animal feed to Mexico, and Mexico produces cattle, hogs and poultry (2016).
- Mexico exports \$590 million of bovine calves to the U.S. and imports \$3 billion in meat and poultry from the U.S. (2016)

Mexico contributes with 35% of the U.S. total bovine animals imports

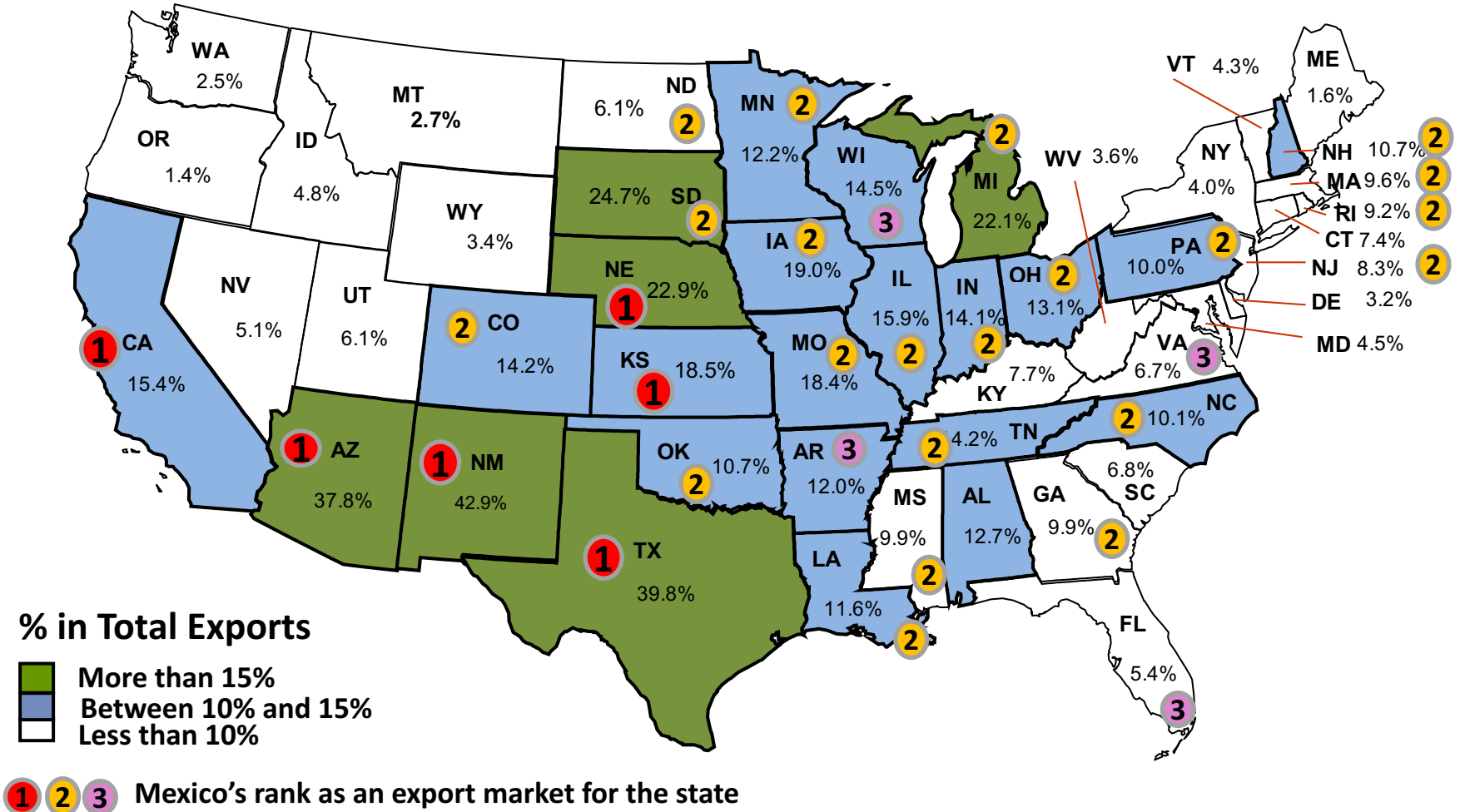


Mexico accounts for 20% of the U.S. total meat exports

Mexico is an important export destination for each U.S. state

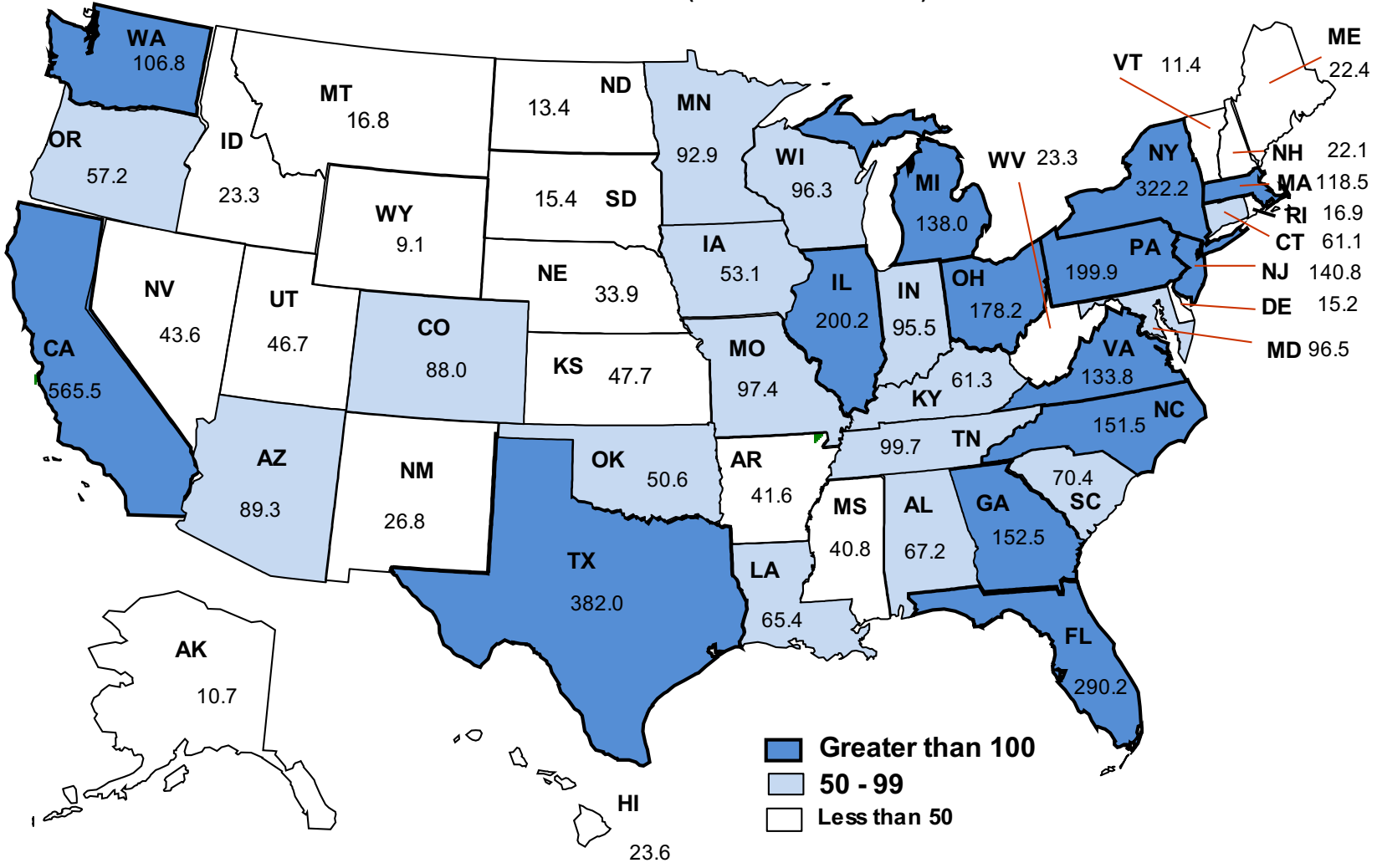
Mexico ranks among the top 3 export markets for 31 states

Mexico's Share in U.S. Exports by State 2016



Nearly 5 million U.S. jobs depend on trade in goods and services with Mexico

U.S. Employment Related to Trade in Goods and Services with Mexico
(Jobs in thousands)



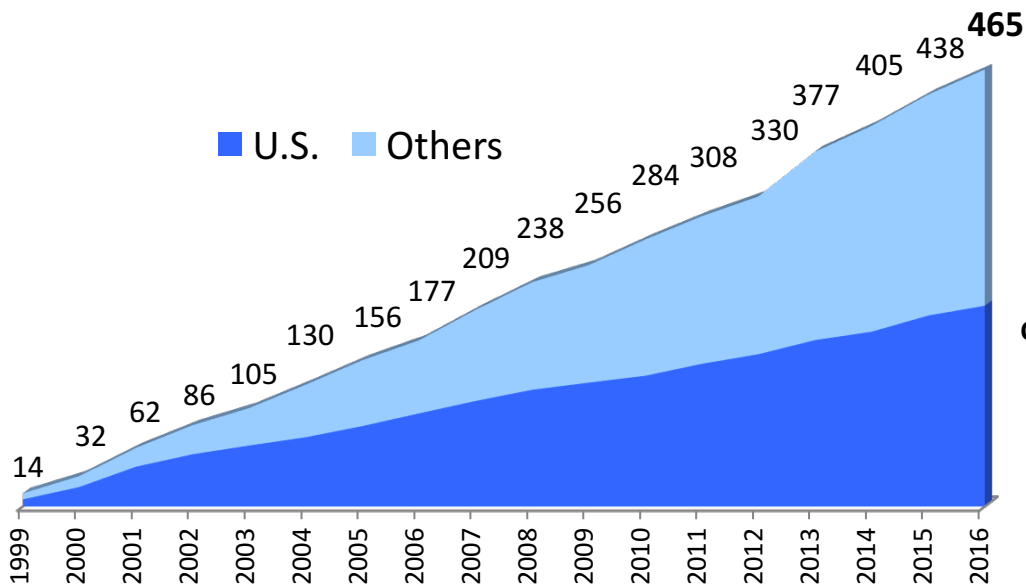
Source: Jobs figures are from 2014, according to *Growing Together: Economic Ties between the United States and Mexico*, Mexico Institute, Woodrow Wilson International Center for Scholars, 2016.

Mexico has become a magnet for investment

- ✓ The U.S. is Mexico's #1 source of foreign direct investment, accounting for 46% of total FDI.
- ✓ More than 66,000 companies in Mexico have FDI.

Accumulated FDI in Mexico

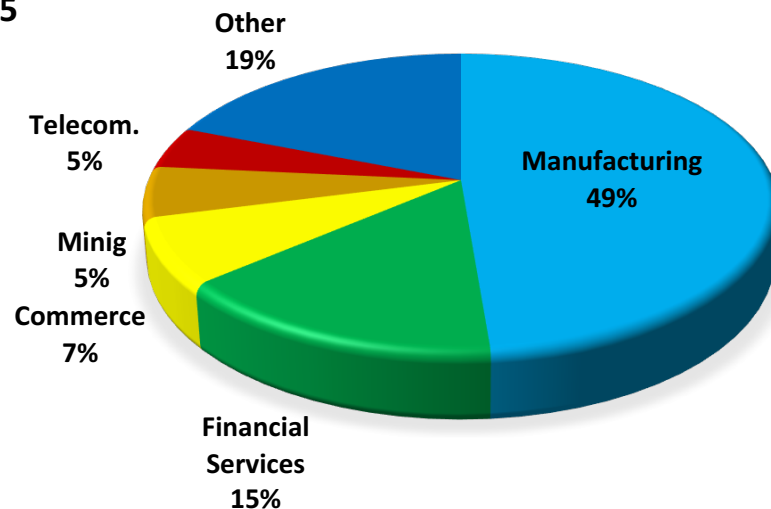
Billion dollars



FDI in Mexico by industry

as a % of total

1999-2016*

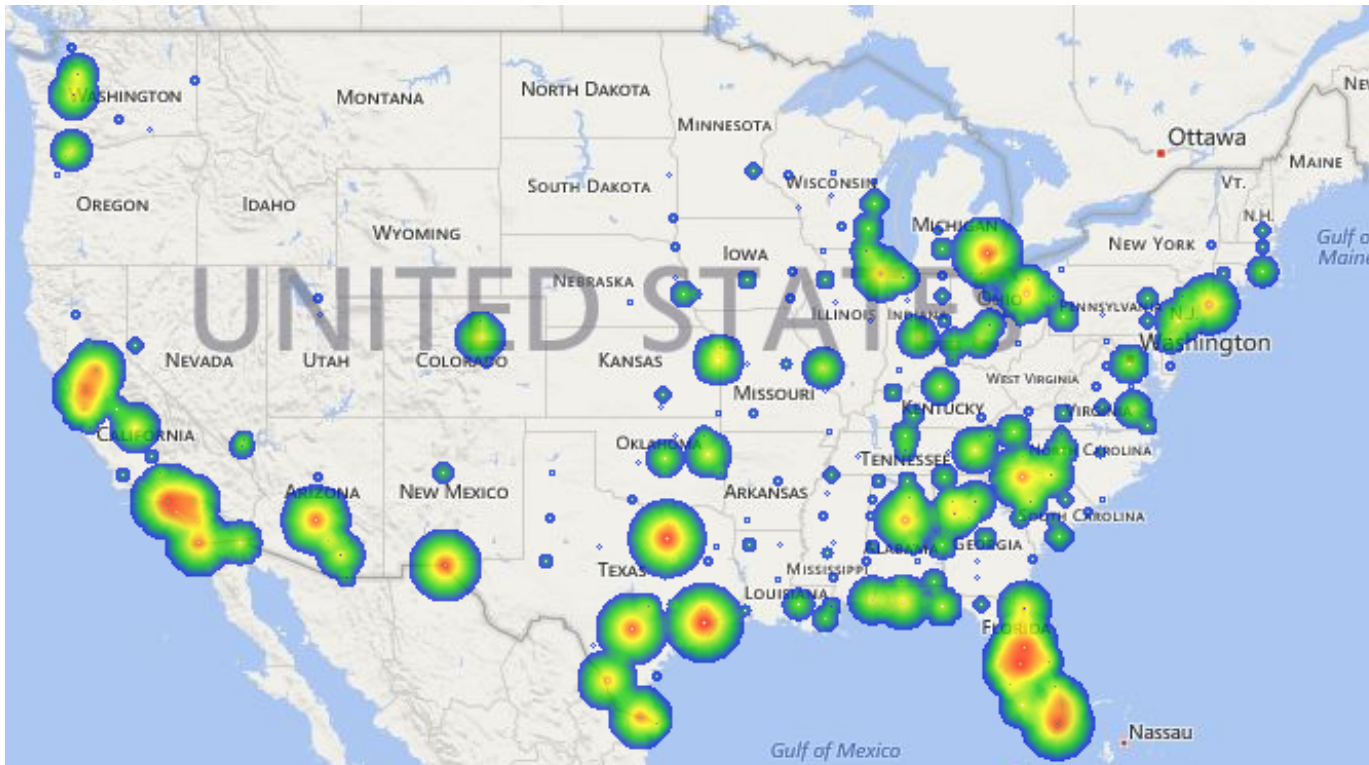


Source: SE-Washington with data from DGIE. Other includes agriculture, utilities, construction, transport and storage, and services such as professional, educational, health, hospitality, entertainment and other. */ January-December

Mexican companies support jobs across the US

Mexican-owned companies have invested in more than 6,500 business in the US:

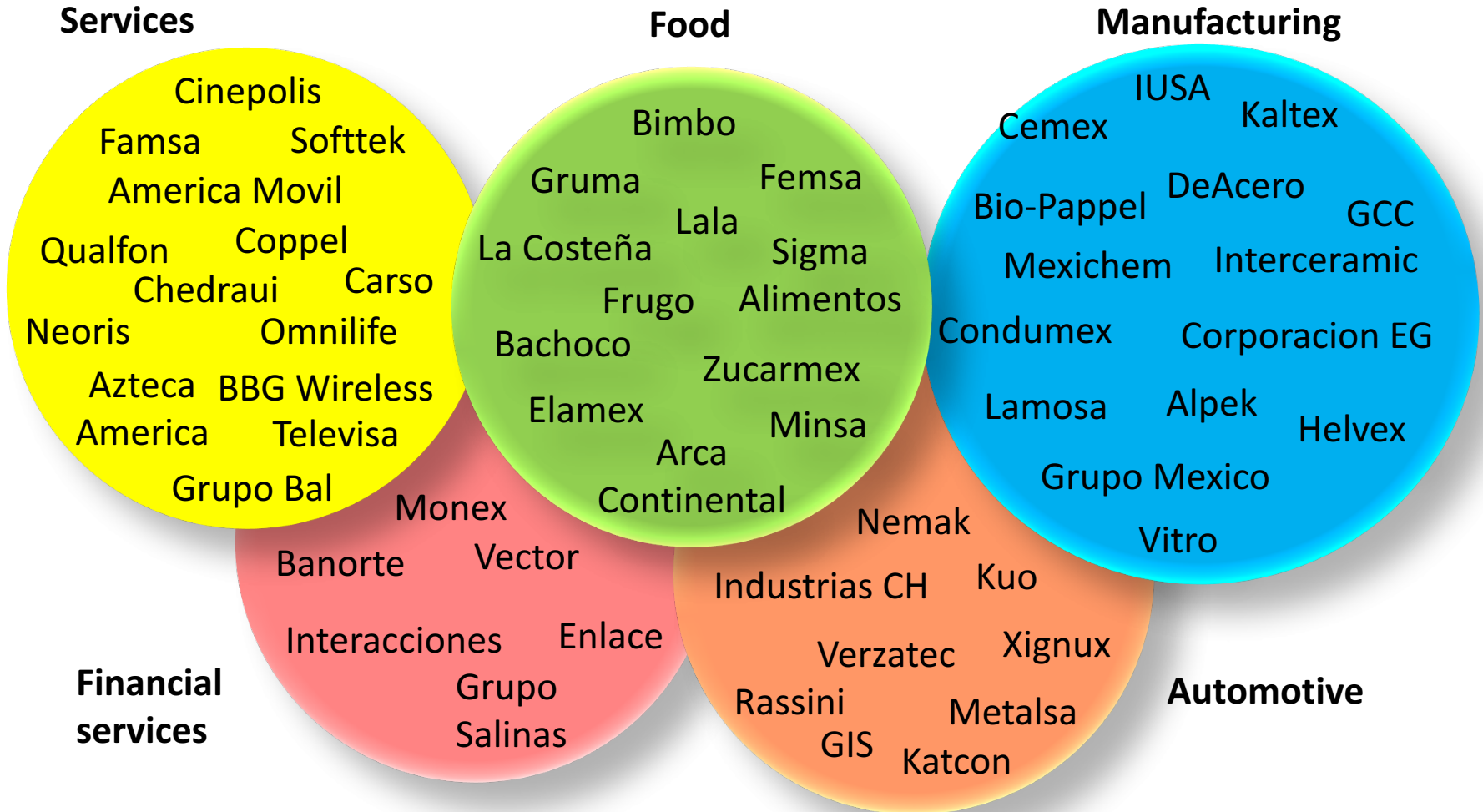
✓ **Employing more than 120,000 workers**



Mexican companies in the U.S.
(density)

Mexican investment strengthens US competitiveness,...

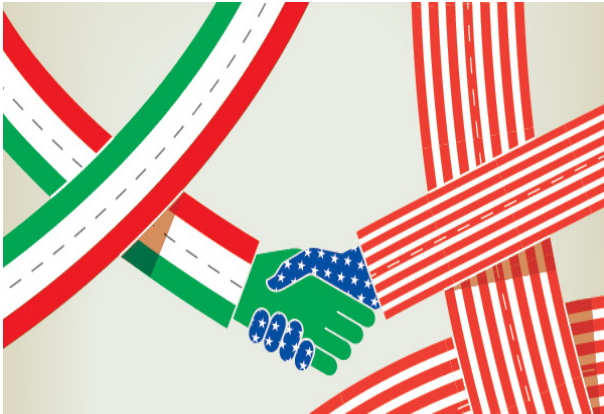
- ✓ Mexican companies have invested over \$52 billion in the US and export more than \$1 billion to the global market



... and contributes to the economy of local communities

- ✓ Mexican company **Deacero** manufactures and supplies steel products for the construction and industrial sectors. Deacero produces wires, nails, and staples in a plant located in **Poplar Bluff, Missouri**, using recycled-steel produced in Mexico. Deacero has a second plant in Houston, Texas and provides over 700 jobs in the US.
- ✓ With a population of 650 people, the economic base of **Hayden, Arizona** is the Asarco Hayden Smelter, part of the **Grupo Mexico** family since 2009 which is the third largest copper producer in the United States. Asarco employs over 1,300 workers in its Hayden facility.
- ✓ The U.S. division of Mexico City-based **Grupo Bimbo**, the largest bread producer in the world, has a large presence in **Hazleton, Pennsylvania**, providing over 380 local jobs in order to produce and package its leading brands such as Sara Lee, Orowheat, Stroehmann's, Arnold, and Thomas' English Muffins.
- ✓ **Cemex** is the second-largest cement manufacturer in the U.S., literally helping to build the foundations of America's cities and towns. Cemex operates a state-of-the-art energy-efficient cement-plant in **Clinchfield, Georgia**, which employs over 120 local workers.
- ✓ Mexico's **Rassini**, a global technology leader in the design and production of high quality suspensions and brake components within the automotive industry, has a manufacturing facility in **Mt. Morris Township, Michigan** and a Technology Development Center in **Plymouth**, also in Michigan that provide high-skilled jobs.
- ✓ **Metalsa**, a Mexican manufacturer of structural components for vehicles sold in the global market, has a manufacturing plant that produces auto parts located in **Roanoke, Virginia**, supporting more than 200 local jobs.

Challenges



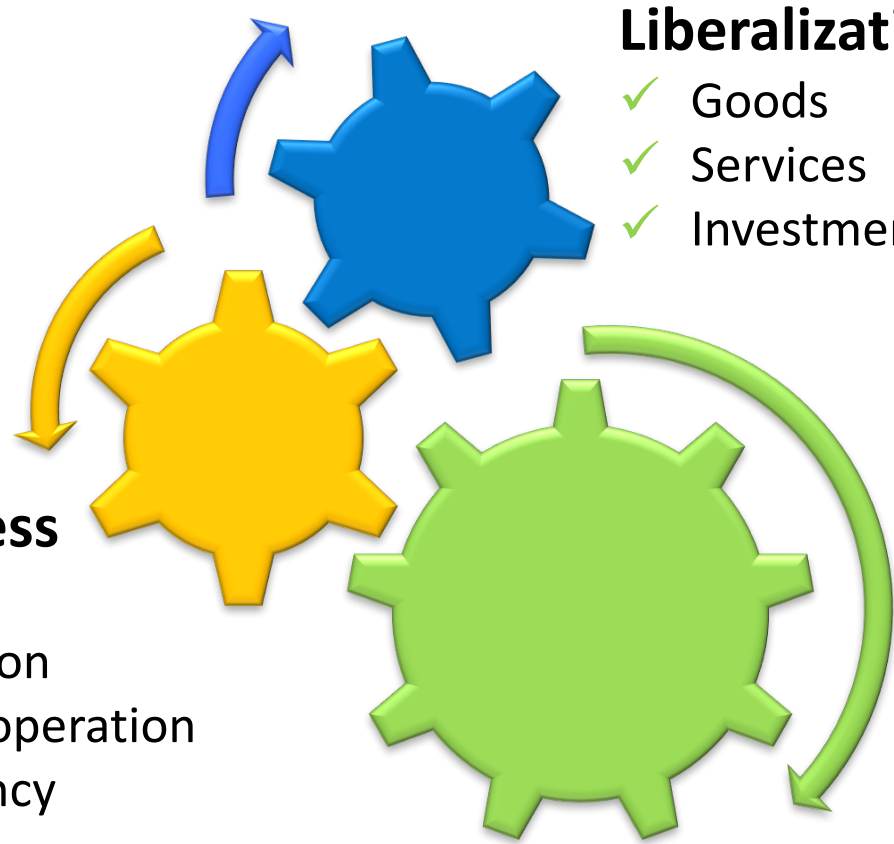
- Expand NAFTA benefits to all sectors and regions of the three countries.
- Streamline regional integration.
- Strengthen regional value chains.

- Efficient border management.
- Develop new elements of competitiveness.
- Rising protectionism.



NAFTA 2.0

NAFTA modernization should rely on:



Liberalization

- ✓ Goods
- ✓ Services
- ✓ Investment

Economic integration

- ✓ Supply chains
- ✓ Energy
- ✓ Talent

Competitiveness

- ✓ Innovation
- ✓ Trade facilitation
- ✓ Regulatory cooperation
- ✓ Border efficiency

A NAFTA 2.0 should be based on three basic elements:

- A shared assessment that reflects a balanced perception of the benefits that each country has gained;
- A recognition that there is room for modernization, and
- A win-win-win proposition; the outcome of this process must generate benefits for all.

It is time to speak up in favor of free trade

When skeptics accuse free trade agreements (FTAs) of job losses in U.S. manufacturing they focus on the wrong culprit:

- ✓ Globalization and technological changes have led to adjustments in the manufacturing sector.
- ✓ FTAs are not the problem. They are part of the solution.
- ✓ Mexico and the United States must continue promoting free trade and regional integration, otherwise we will lose international competitiveness.
- ✓ Both countries need to engage in an educational campaign that counteracts the fact-free, protectionist voices that are dominating the media.
- ✓ Governments cannot do this alone: the participation of businessmen, consumers, academia and civil society is needed to tell the real story.
- ✓ We need to better explain how free trade creates jobs, promotes innovation, and provides societies with the tools to face the challenges of globalization.

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