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

KENNETH SMITH RAMOS
Director of the Trade and NAFTA Office,
Embassy of Mexico

JAY PELOSKY
Founder and Principal,
Pelosky Global Strategies

World Economic Roundtable

in partnership with

Institute for New Economic Thinking
NEW AMERICA NY
SRE CONSULADO GENERAL DE MEXICO EN NUEVA YORK
PRO MÉXICO Trade and Investment
U.S. – Mexico Trade Relationship
Mexico is a growing economy

- The 15th largest world economy
- 10th largest world exporter and 1st in Latin America
- 9th largest world importer
- 5th leading recipient of FDI among emerging economies

- $1.2 trillion economy
- $776 billion in total trade
- $457 billion in FDI attracted since 1999
- 125 million consumer market/60% middle class

GDP

Total Exports
$374 billion

Total Imports
$387 billion

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.

Trade as a % of GDP

Source: Google Public Data based on World Bank.
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

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

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (billion dollars)</th>
<th>IMPORTS (billion dollars)</th>
<th>FDI (billion dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRAZIL</td>
<td>1.8 T</td>
<td>179</td>
<td>60</td>
</tr>
<tr>
<td>ARGENTINA</td>
<td>583</td>
<td>37</td>
<td>60</td>
</tr>
<tr>
<td>PACIFIC ALLIANCE</td>
<td>722</td>
<td>155</td>
<td>60</td>
</tr>
<tr>
<td>AUSTRALIA</td>
<td>1.3 T</td>
<td>208</td>
<td>396</td>
</tr>
<tr>
<td>NEW ZEALAND</td>
<td>174</td>
<td>36</td>
<td>17</td>
</tr>
<tr>
<td>SINGAPORE</td>
<td>296</td>
<td>297</td>
<td>92.3</td>
</tr>
<tr>
<td>MALAYSIA</td>
<td>137</td>
<td>176</td>
<td>176</td>
</tr>
<tr>
<td>JORDAN</td>
<td>6.0</td>
<td>37</td>
<td>0.6</td>
</tr>
<tr>
<td>TURKEY</td>
<td>718</td>
<td>207</td>
<td>45</td>
</tr>
<tr>
<td>EUROPEAN UNION</td>
<td>9.3 T</td>
<td>22</td>
<td>207</td>
</tr>
<tr>
<td>EFTA</td>
<td>2.4</td>
<td>333</td>
<td>1.1 T</td>
</tr>
</tbody>
</table>

North America: a dynamic economic powerhouse

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

Regional GDP (trillion $)

- United States: 17.9 trillion $
- Canada: 1.5 trillion $
- Mexico: 1.1 trillion $

North America represents 18% of global exports.
North America exports $2.3 trillion in goods worldwide.

Source: SE with data from IMF and WTO.
Recognizing the importance of NAFTA

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

Trilateral Trade between the NAFTA Partners

Growth from 2016/1993 245%

Source: SE with import data from Statistics Canada, Banxico, and USDOC, and World Bank.
NAFTA boosted Mexico’s trade with Canada

- Mexico-Canada trade increased nine-fold, reaching $34 billion in 2016
- Mexico is Canada’s 3rd largest trading partner
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.**

**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

Transportation equipment
99.5

Computer & electronic products
31.8

Electrical equipment
26.2

Machinery
17.0

Chemicals
5.3

Primary metal manufacturing
8.6

Fabricated metal products
8.1

Processed foods
7.3

Agricultural products
11.6

Oil refined products
1.1

Plastics
5.0

Oil & gas
7.6

Source: SE-Washington with data from USDOC

Billion of US dollars
... 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.

U.S. value added in final exports of selected countries to the U.S.

U.S. exports also benefit from Mexico’s network of free trade agreements with 46 countries, providing preferential market access to 70% of world GDP and two-thirds of global imports.

Source: NBER, Global Value database in Koopman, Powers, Wang, Wei (September 2010, revised March 2011)
Most of the products bilaterally traded are intermediate products

Mexico's Imports from the US 2016

- Finished goods: 13%
- Intermediate goods: 79%
- Capital goods: 8%

Mexico's Exports to the US 2016

- Finished goods: 24%
- Intermediate goods: 41%
- Capital goods: 35%

Source: SE-Washington with data from Banxico
U.S.-Mexico trade in services has doubled since 1999

U.S.-Mexico Trade in Services

<table>
<thead>
<tr>
<th>Year</th>
<th>US Exports</th>
<th>US Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$23.8 B</td>
<td>$14.1 B</td>
</tr>
<tr>
<td>2016</td>
<td>$54.6 B</td>
<td>$31.1 B</td>
</tr>
</tbody>
</table>

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

**U.S.-Mexico Agricultural Trade**

<table>
<thead>
<tr>
<th>Year</th>
<th>NAFTA</th>
<th>US Exports to Mexico</th>
<th>US Imports from Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>3.1</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>1994</td>
<td>3.4</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>1995</td>
<td>3.3</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>1996</td>
<td>4.4</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>1997</td>
<td>4.7</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>1998</td>
<td>4.8</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>1999</td>
<td>6.0</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2000</td>
<td>6.1</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2001</td>
<td>6.1</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2002</td>
<td>7.2</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2003</td>
<td>7.6</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2004</td>
<td>8.1</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2005</td>
<td>9.0</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2006</td>
<td>10.4</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2007</td>
<td>12.2</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2008</td>
<td>14.0</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2009</td>
<td>15.6</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2010</td>
<td>17.8</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2011</td>
<td>18.0</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2012</td>
<td>19.3</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2013</td>
<td>21.1</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2014</td>
<td>22.8</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2015</td>
<td>24.8</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>2016</td>
<td>24.8</td>
<td>1.4</td>
<td>1.4</td>
</tr>
</tbody>
</table>

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

- Grains 20%
- Meat 18%
- Oil Seeds 10%
- Dairy Products 8%
- Other 44%

**US agricultural imports from Mexico 2016**
$24.8 billion

- Vegetables 23%
- Beverages 18%
- Sweeteners 6%
- Other 30%
- Fruits 23%

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
- 9 out of 10 papayas
- 9 out of 10 limes
- 1 out of 2 tomatoes
- 1 out of 2 asparagus
- 1 out of 2 squashes
- 3 out of 5 cucumbers
- 3 out of 5 berries*
- 3 out of 5 mangoes
- 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

Source: SE-Washington with data from Wisertrade.
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

% in Total Exports
- More than 15%
- Between 10% and 15%
- Less than 10%

1 2 3 Mexico’s rank as an export market for the state

Source: SE- NAFTA with data from Wisertrade.
Nearly 5 million U.S. jobs depend on trade in goods and services with Mexico

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

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>2000</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>2001</td>
<td>62</td>
<td>62</td>
</tr>
<tr>
<td>2002</td>
<td>86</td>
<td>86</td>
</tr>
<tr>
<td>2003</td>
<td>105</td>
<td>105</td>
</tr>
<tr>
<td>2004</td>
<td>130</td>
<td>130</td>
</tr>
<tr>
<td>2005</td>
<td>156</td>
<td>156</td>
</tr>
<tr>
<td>2006</td>
<td>177</td>
<td>177</td>
</tr>
<tr>
<td>2007</td>
<td>209</td>
<td>209</td>
</tr>
<tr>
<td>2008</td>
<td>238</td>
<td>238</td>
</tr>
<tr>
<td>2009</td>
<td>256</td>
<td>256</td>
</tr>
<tr>
<td>2010</td>
<td>284</td>
<td>284</td>
</tr>
<tr>
<td>2011</td>
<td>308</td>
<td>308</td>
</tr>
<tr>
<td>2012</td>
<td>330</td>
<td>330</td>
</tr>
<tr>
<td>2013</td>
<td>377</td>
<td>377</td>
</tr>
<tr>
<td>2014</td>
<td>405</td>
<td>405</td>
</tr>
<tr>
<td>2015</td>
<td>438</td>
<td>438</td>
</tr>
<tr>
<td>2016</td>
<td>465</td>
<td>465</td>
</tr>
</tbody>
</table>

Source: Mexico’s Ministry of the Economy.

FDI in Mexico by industry as a % of total

- Manufacturing: 49%
- Financial Services: 15%
- Other: 19%
- Retail: 5%
- Mining: 5%
- Commerce: 7%
- Telecom.: 5%

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

Source: SE-Washington with data from iMapData 2015.
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

Source: SE-Washington with information from SelectUSA. */ FDI figure from IMF Coordinated Direct Investment Survey (CDIS), using outward position (stock) data 2015.
... 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 modernization should rely on:

**Liberalization**
- Goods
- Services
- Investment

**Competition**
- Innovation
- Trade facilitation
- Regulatory cooperation
- Border efficiency

**Economic integration**
- Supply chains
- Energy
- Talent
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.
Kenneth Smith Ramos
Trade and NAFTA Office
SECRETARIA DE ECONOMIA
MEXICO

ksmith@naftamexico.net
Kensmithramos
MX-US Trade
www.naftamexico.net

More information:
naftadesk@naftamexico.net
(202) 728-1705
Washington, DC