

What's next for Texas and Mexico?

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**El Colegio
de la Frontera
Norte**

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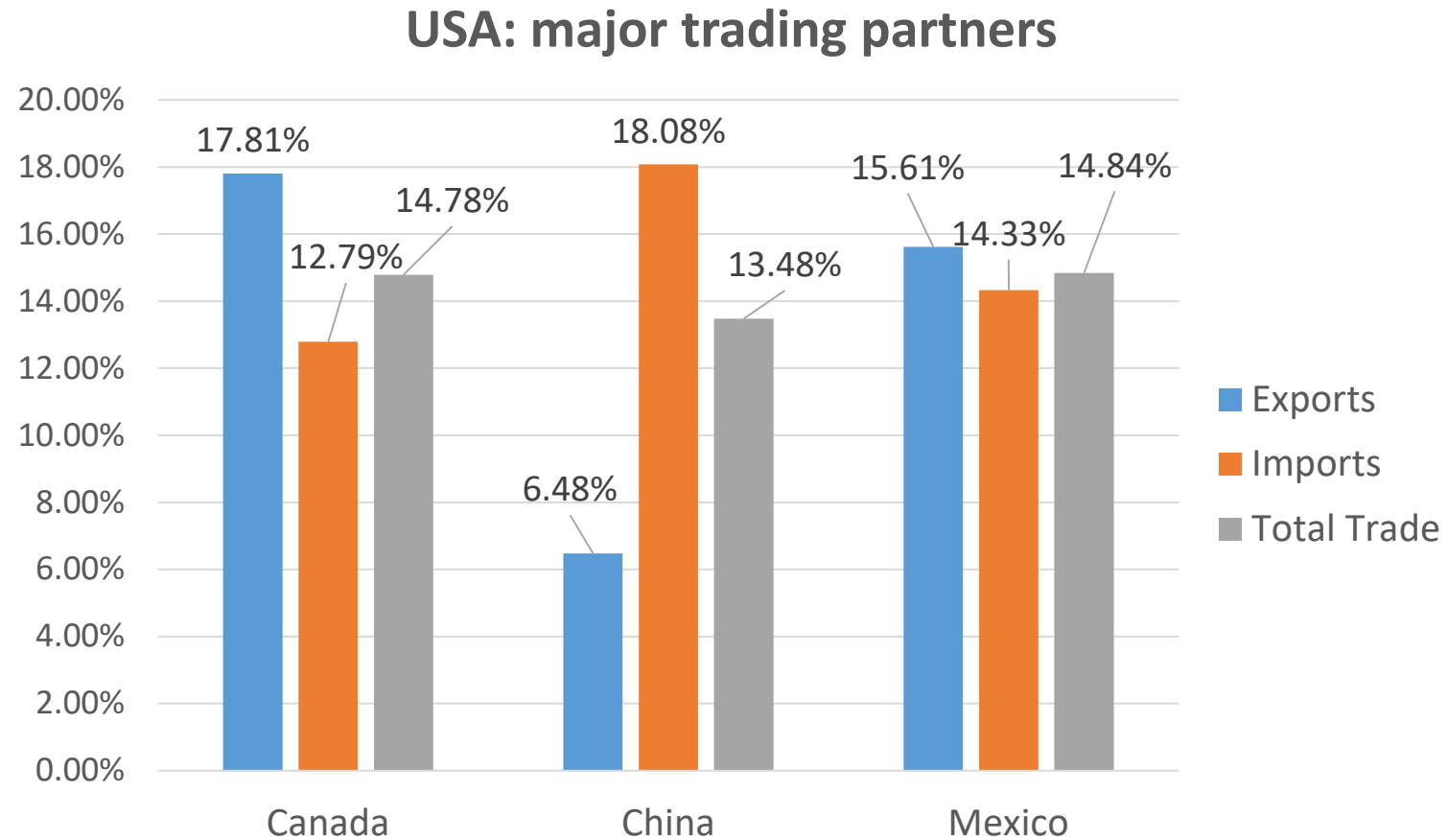
- Texas is the major US trading partner of Mexico
- Texas to Mexico Trade
- North American trade under the USMCA
- Covid-19 pandemic and the Texas-Mexico trade downturn

Mexico is the major trading partner of the US

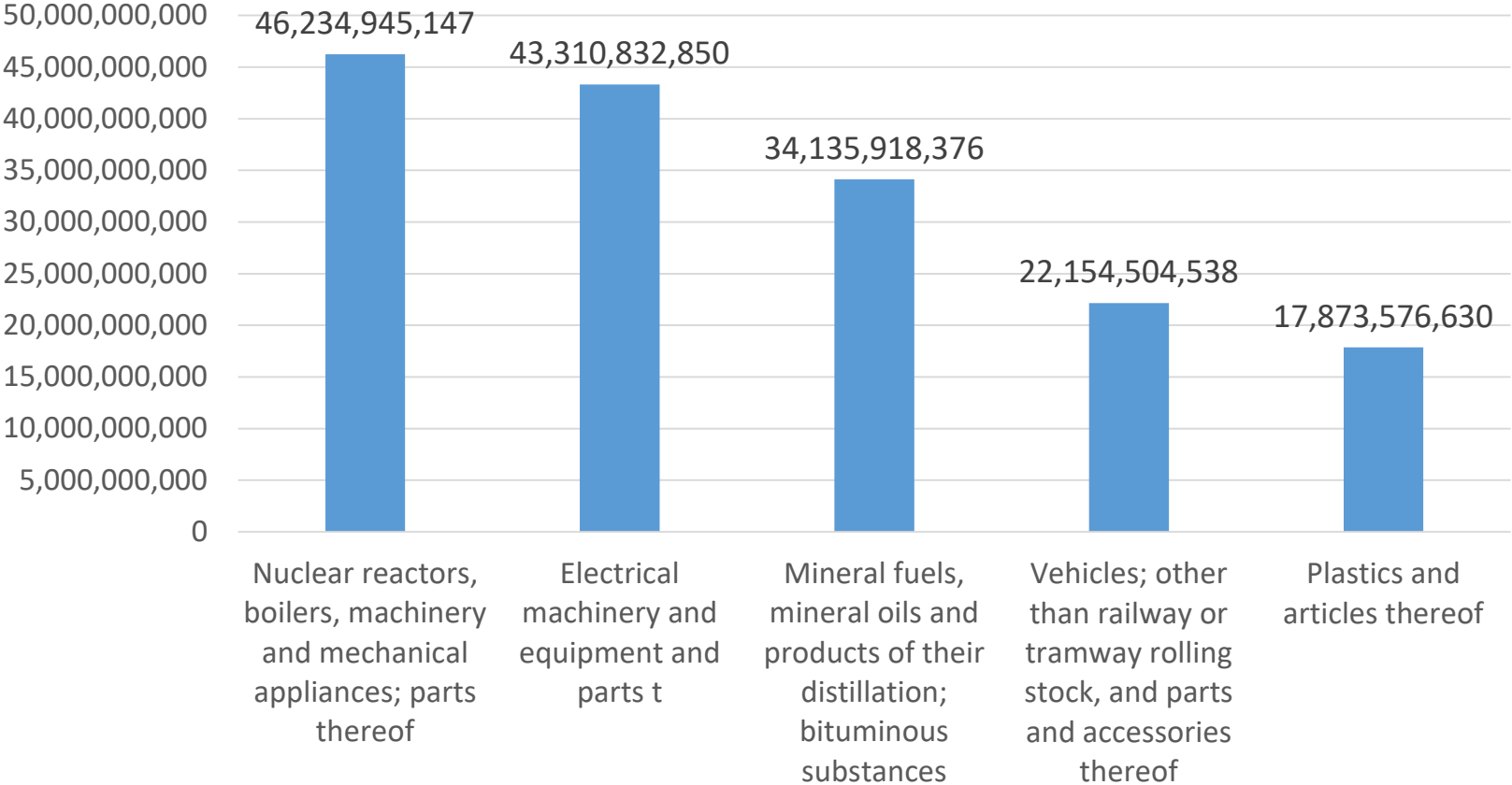
Total US trade in 2019: \$4.1 trillion dollars

US exports: \$1.64 trillion dollars

Us imports \$2.5 trillion dollars

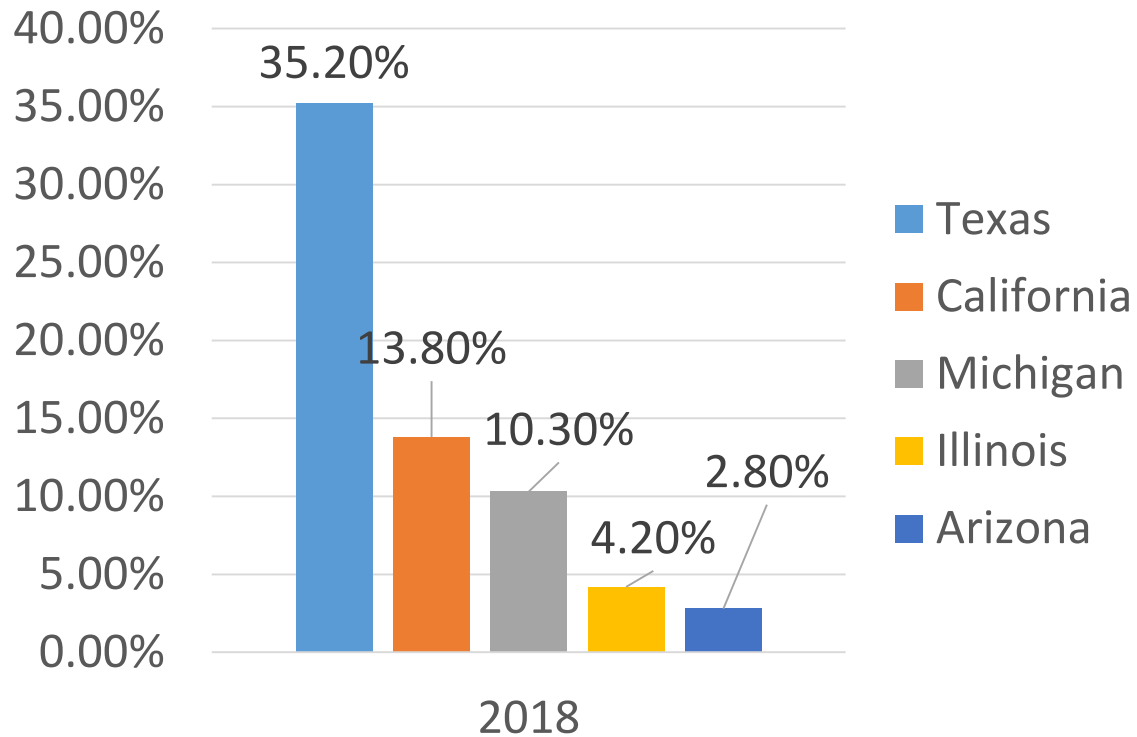


Major US exports to Mexico, 2018



Texas is the major US trading partner of Mexico

Major US states trading with Mexico



2018	Exports	Imports	Total trade
Texas	109,748,555,198	82,506,472,525	192,255,027,723
California	30,738,728,011	44,982,650,980	75,721,378,991
Michigan	12,298,215,587	43,824,117,330	56,122,332,917
Illinois	10,187,998,965	12,872,279,171	23,060,278,136
Arizona	7,649,762,363	7,578,609,043	15,228,371,406
Ohio	6,862,423,048	8,131,124,907	14,993,547,955

The principal exports of the US states to Mexico are oil, electrical machinery and parts, and vehicles

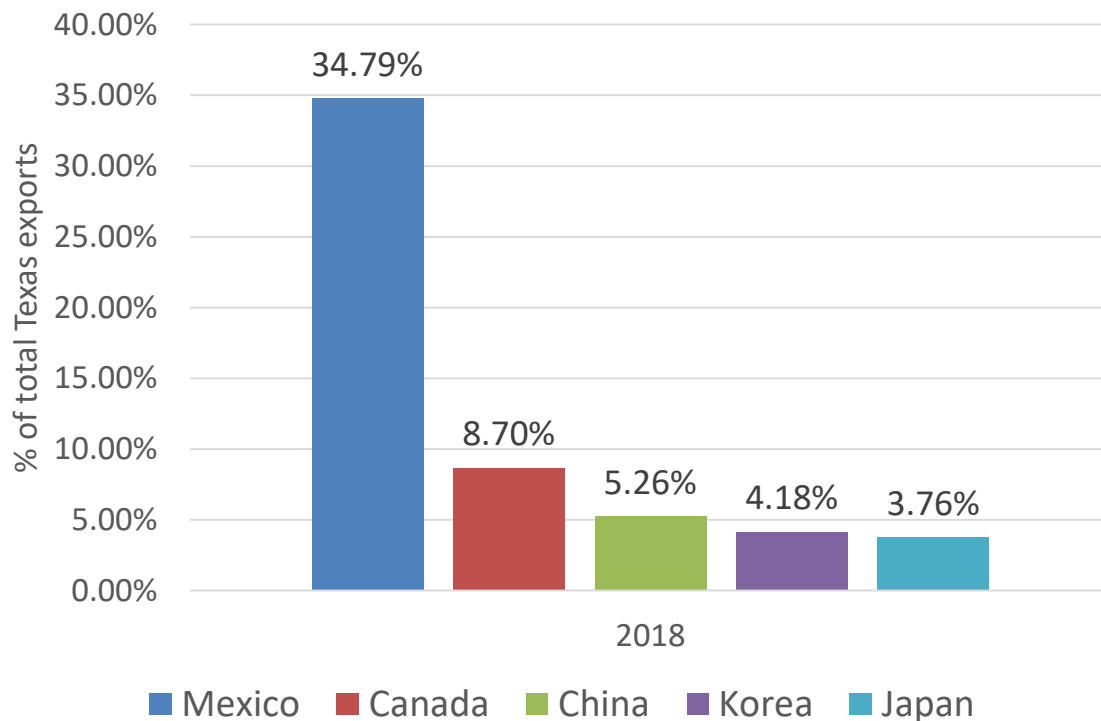
Major exports of US states to Mexico by commodity, 2018		
U.S. States	Commodity (2 digits)	Exports (dollars)
Texas	Mineral Fuels; Oils and Waxes	24,596,611,806
Texas	Computer-Related Machinery and Parts	23,899,639,006
Texas	Electrical Machinery; Equipment and Parts	18,947,959,491
California	Electrical Machinery; Equipment and Parts	8,048,192,468
Texas	Plastics and Articles	7,103,821,187
Texas	Vehicles Other than Railway	6,358,135,256

- Mexico's principal exports to US states are vehicles and electrical machinery.
- A noticeable level of intra-industry trade in those sectors integrates the North-American supply chain.

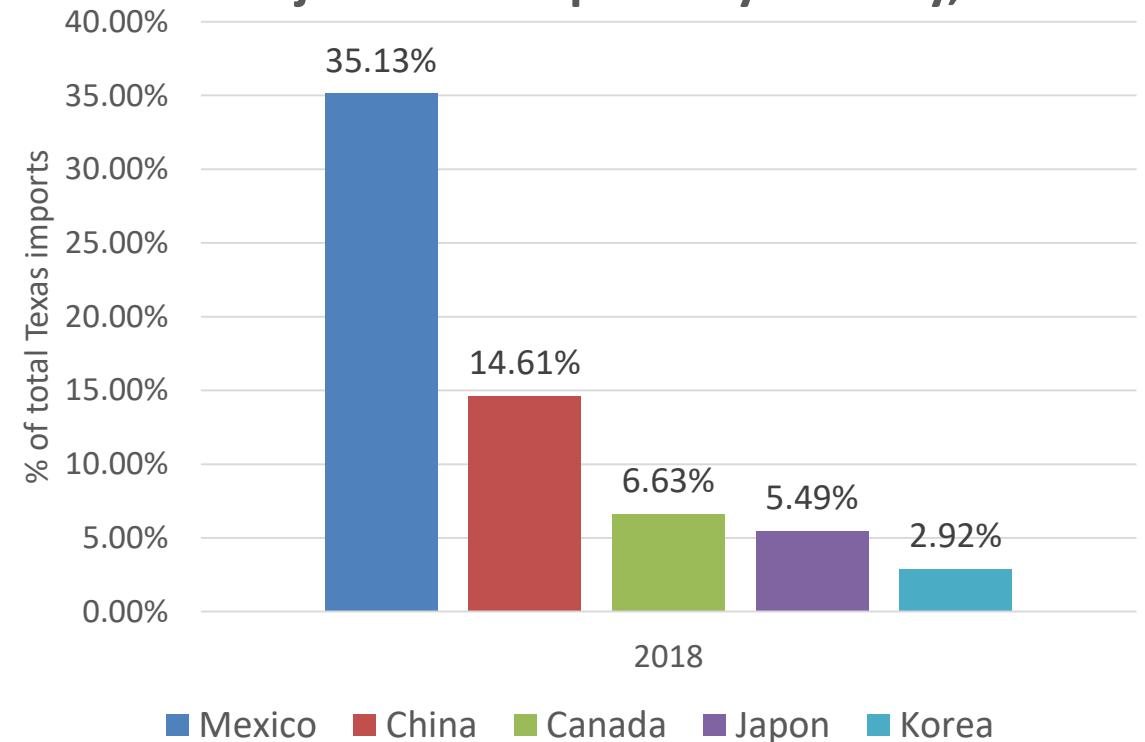
Major imports of US states from Mexico by commodity, 2018			
U.S. States	Code (HS)	Commodity (2 digits)	Exports (dollars)
Michigan	87	Vehicles Other than Railway	29,792,442,963
Texas	84	Computer-Related Machinery and Parts	20,525,275,990
Texas	85	Electrical Machinery; Equipment and Parts	19,045,624,945
California	85	Electrical Machinery; Equipment and Parts	12,287,420,974
California	87	Vehicles Other than Railway	12,235,372,528
Texas	87	Vehicles Other than Railway	11,456,983,645

- Mexico is the most important trading partner of Texas
- Texas trade with Mexico in 2019 was around 213 billion dollars and represented 34.5% of the total US trade with Mexico

Major Texas exports by country, 2018



Major Texas imports by country, 2018



Major exports of Texas to Mexico: oil products, electronics, auto-parts

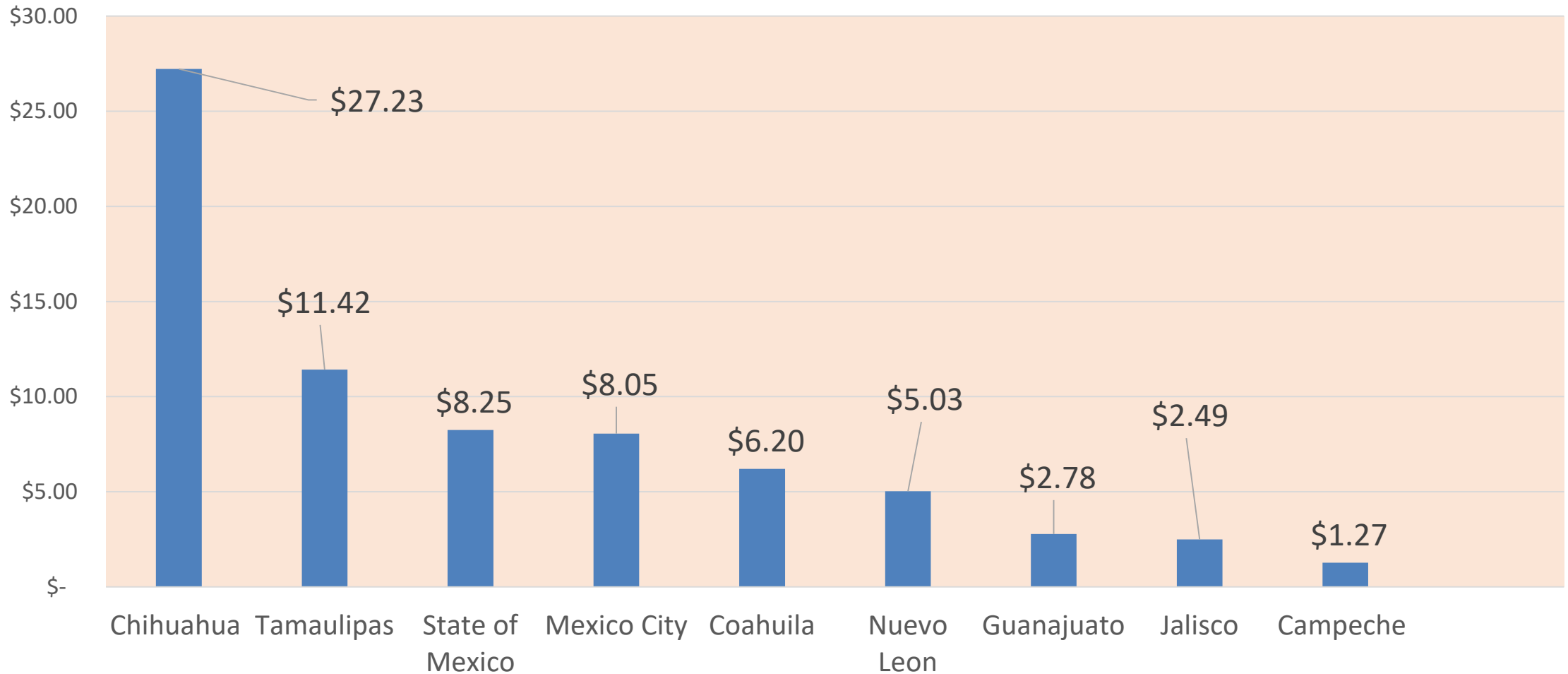
Most important Texas exports to Mexico 2018, US dollars		
All Commodities	109,688,178,446	Share of total Texas
271012 Lt Oils, Petroleum/bitum Nt Biodiesel	11,884,279,655	10.83%
271019 Petrol Oil Bitum Mineral (nt Crud), Nt Biodiesel	7,560,732,271	6.89%
847330 Parts & Accessories for Adp Machines & Units	10,222,531,101	9.32%
847170 Automatic Data Processing Storage Units,	2,568,196,656	2.34%
854231 Processors And Controllers, Electronic Integrated Circuits	2,041,017,837	1.86%
840820 Compression-igntn Int Combustion Piston Engine	1,829,802,773	1.67%
271112 Propane, Liquefied	1,811,603,659	1.65%
852871 Reception App for Tv Nt Designed to Inc Video Disp	1,583,004,396	1.44%
851762 Mach For Recp/convr/trans/regn Of Voice/image/data	1,539,355,624	1.40%
870899 Parts And Accessories of Motor Vehicles	1,152,793,653	1.05%

Texas imports from Mexico suggest intensive intra-industry trade

Most important Texas imports from Mexico 2018, US dollars		
All Commodities	107,019,721,400	Share of total Texas imports
270900 Crude Oil from Petroleum And Bituminous Minerals	9,872,156,007	9.22%
851762 Mach for Recp/convr/trans/regn of Voice/image/data	5,956,316,504	5.57%
870323 Pass Veh Spk-ig Int Com Rcpr P Eng &g	5,305,085,719	4.96%
854430 Insulated Wiring Sets for Vehicles Ships Aircraft	4,520,470,414	4.22%
870120 Road Tractors For Semi-trailers	3,100,701,295	2.90%
852872 Reception Apparatus For Television, Color	2,435,258,015	2.28%
940190 Parts of Seats (ex Medical, Barber, Dental etc)	1,832,384,593	1.71%
853710 Controls Etc W Elect Appr F Elect Cont Nov 1000 V	1,668,175,673	1.56%
980100 Imports of Articles Exported & Returned, No Change	1,251,078,623	1.17%
841810 Combined Refrigerator-freezers W Separate Doors	1,156,089,748	1.08%
870829 Pts & Access Of Bodies of Motor Vehicles	1,066,005,262	1.00%

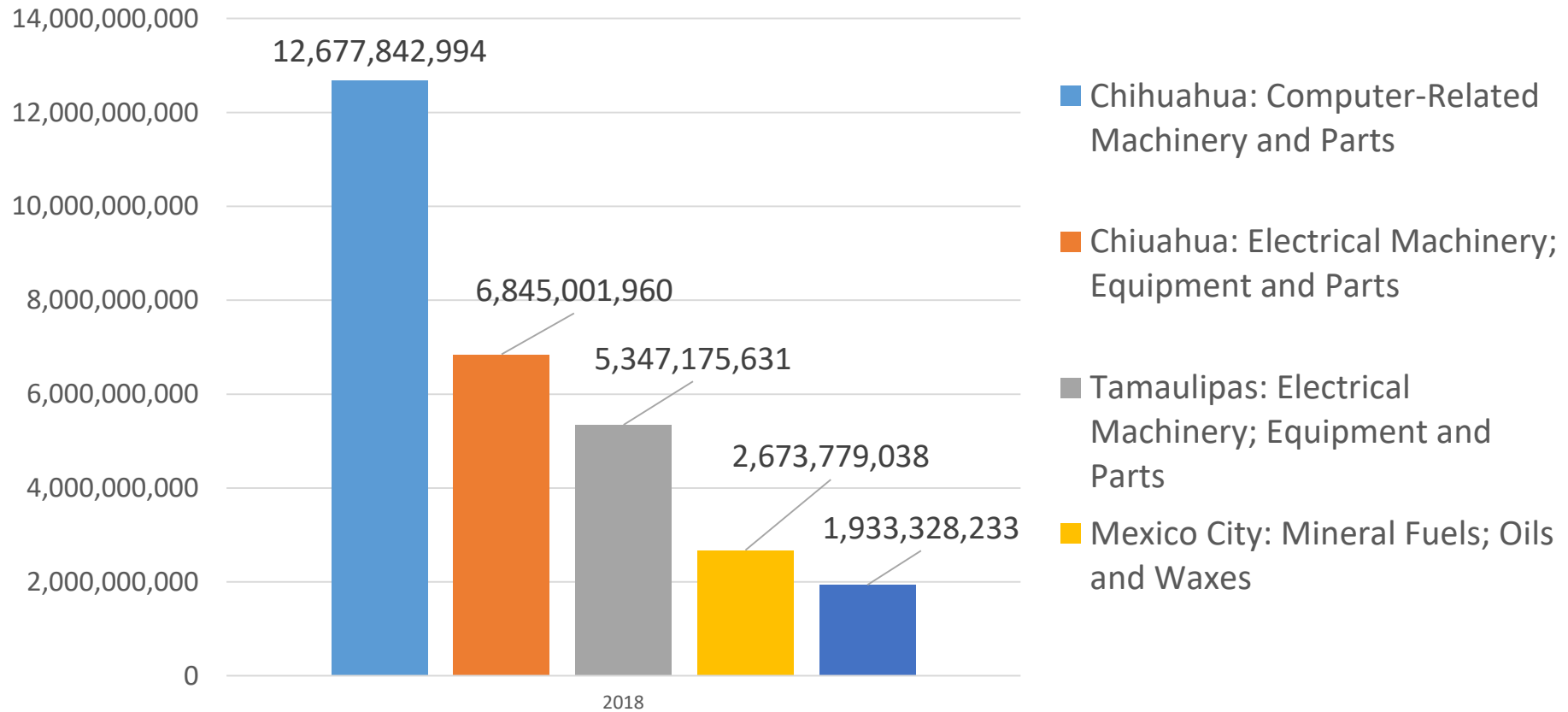
- Distance, transportation costs and the GDP of the Mexican states is important for trade

Texas exports to Mexico by state destination, 2017 (Billion dollars)



- Northern border states trade is related to manufacturing and global supply chains
- Central Mexican states are mainly oil importers

Major Mexican destinations of Texas exports



The Oil industry and the USMCA

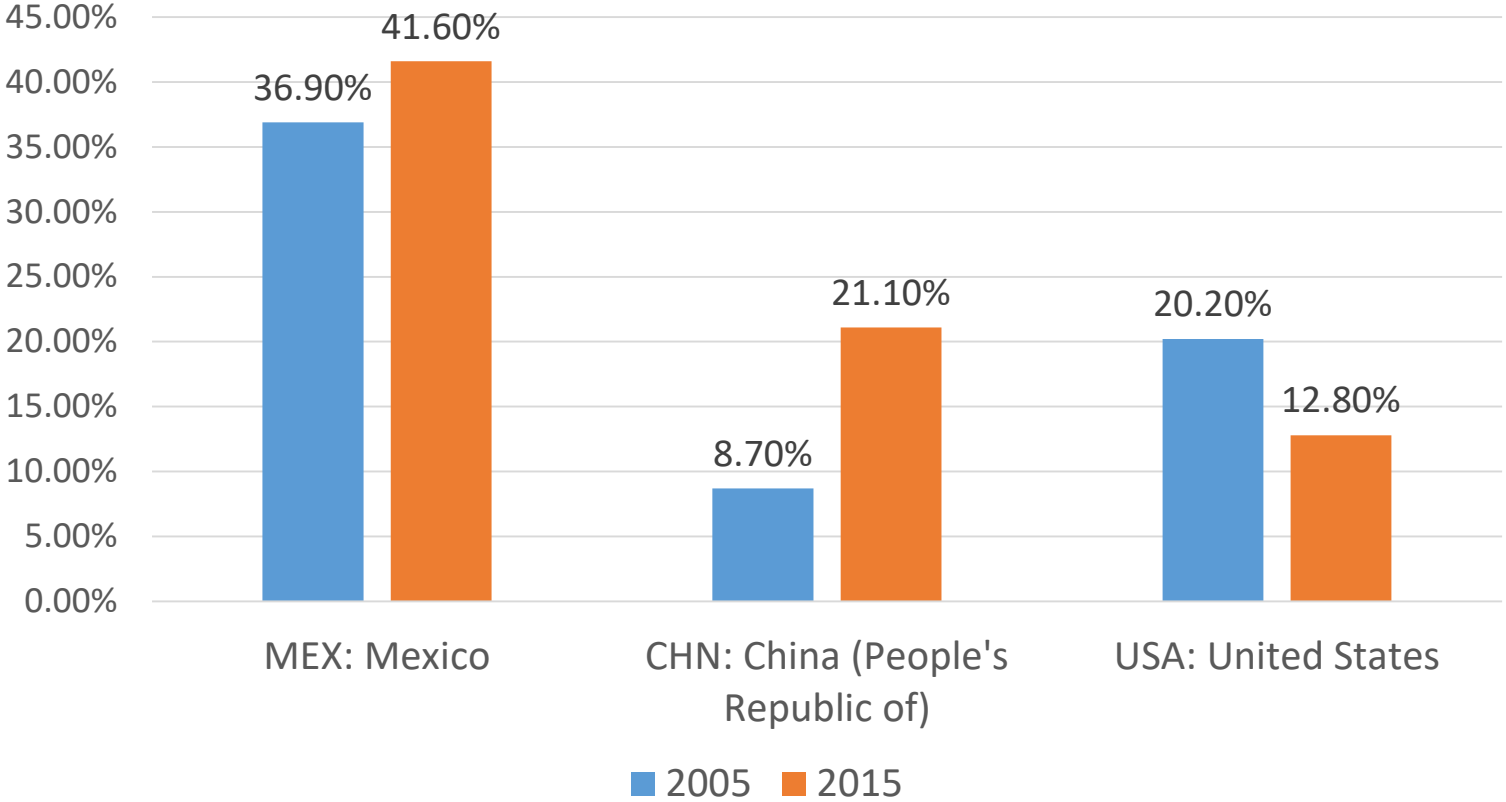
- Oil and derivatives make up the largest category of traded goods between Texas and Mexico.
- The energy sector of the North American region is highly integrated and interdependent.
- The implementation of the USMCA will continue to support the energy sector with the elimination of tariffs for crude oil, gasoline, and other refined products.
- It will depend on the Mexican energy reforms: preserving the state ownership of subsoil hydrocarbons resources, while permitting private ownership of resources extracted; creating contracts for exploration, production and service; opening the refining, transport, storage, natural gas processing, and petrochemicals sectors.
- The establishment of the USMCA will continue with zero tariffs for energy products in the North American region and could encourage additional investments that would increase production of oil derivatives and the trade of hydrocarbons by pipelines.

The automobile, steel and aluminum industries

- The impact of the implementation of the USMCA will depend on:
 - Macroeconomic conditions in Mexico and in the USA
 - US and Mexican economies could meet the new requirements or face the potential tariffs.
 - Continuation of the supply chains in North America, which has to be synchronized with the gradual imposition of the new rules of origin.
- FDI in Mexico is a factor that is positively impacting the trade between Texas and Mexico.
- The establishment of new rules of origin would encourage investments by companies such as Fiat Chrysler, Ford, General Motors, Toyota and Volkswagen.
- The steel and aluminum industries will have to comply with requirements for value content of between 70% and 75%.
- The steel and aluminum inputs used in the production of automobiles will need to fulfill the requirement of 70% regional value content

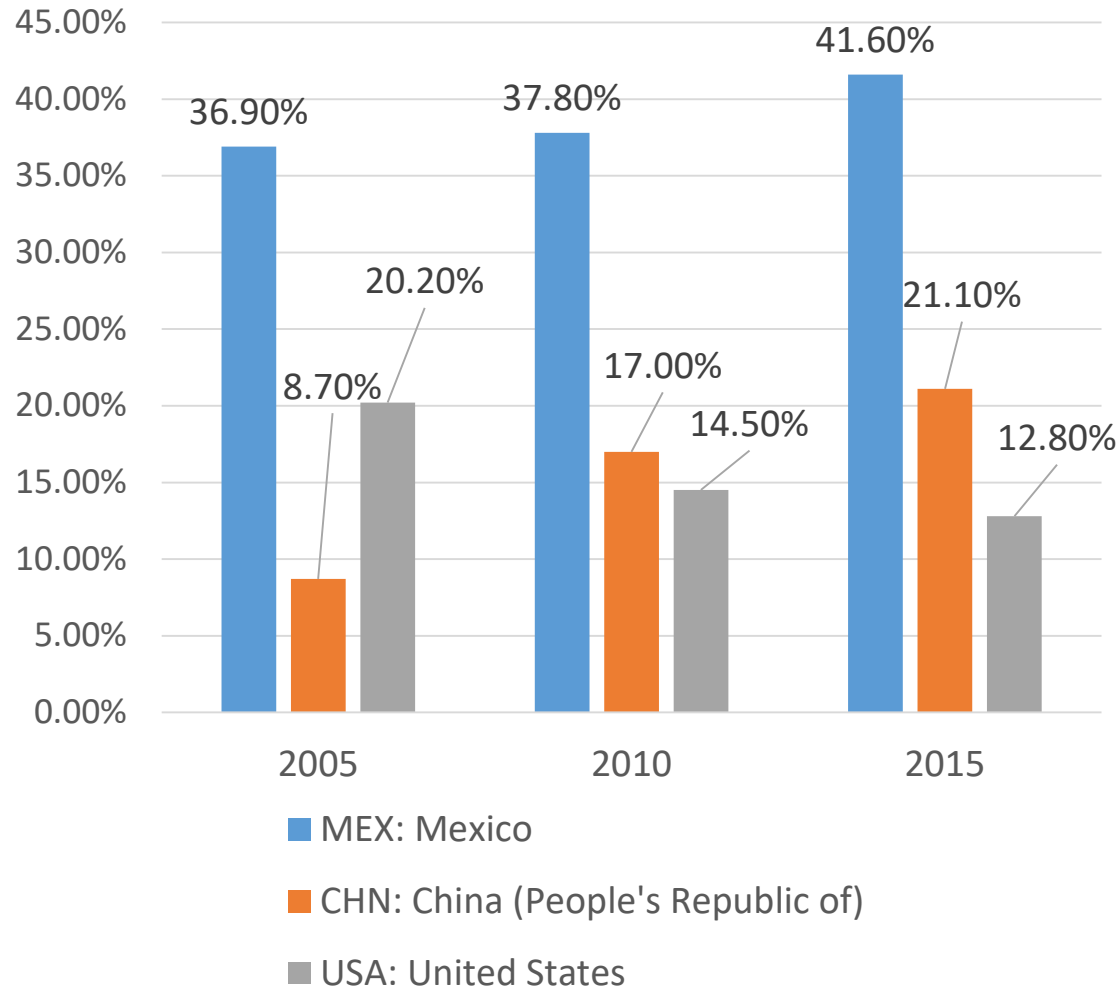
China and the North American supply chains

Origin of value added in Mexico, 2005-2015

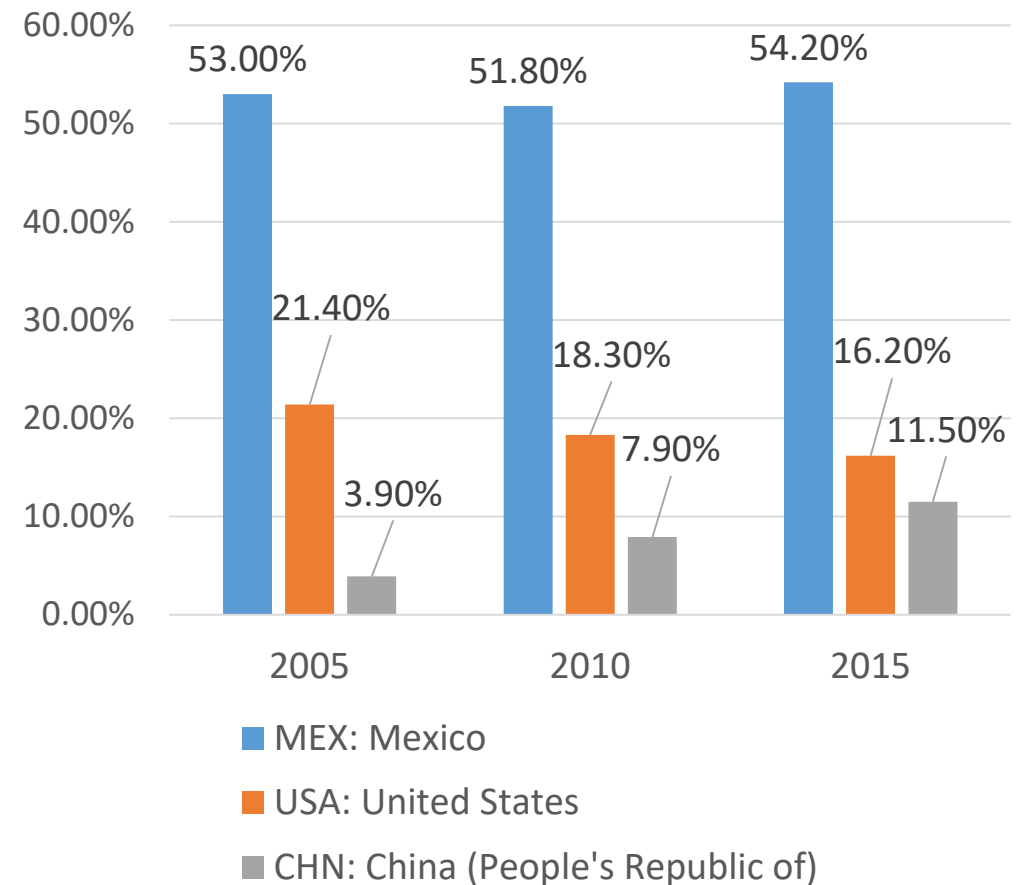


- The USMCA and the integration of the North American market

Origin of Value added for Mexican Computer and electronic exports



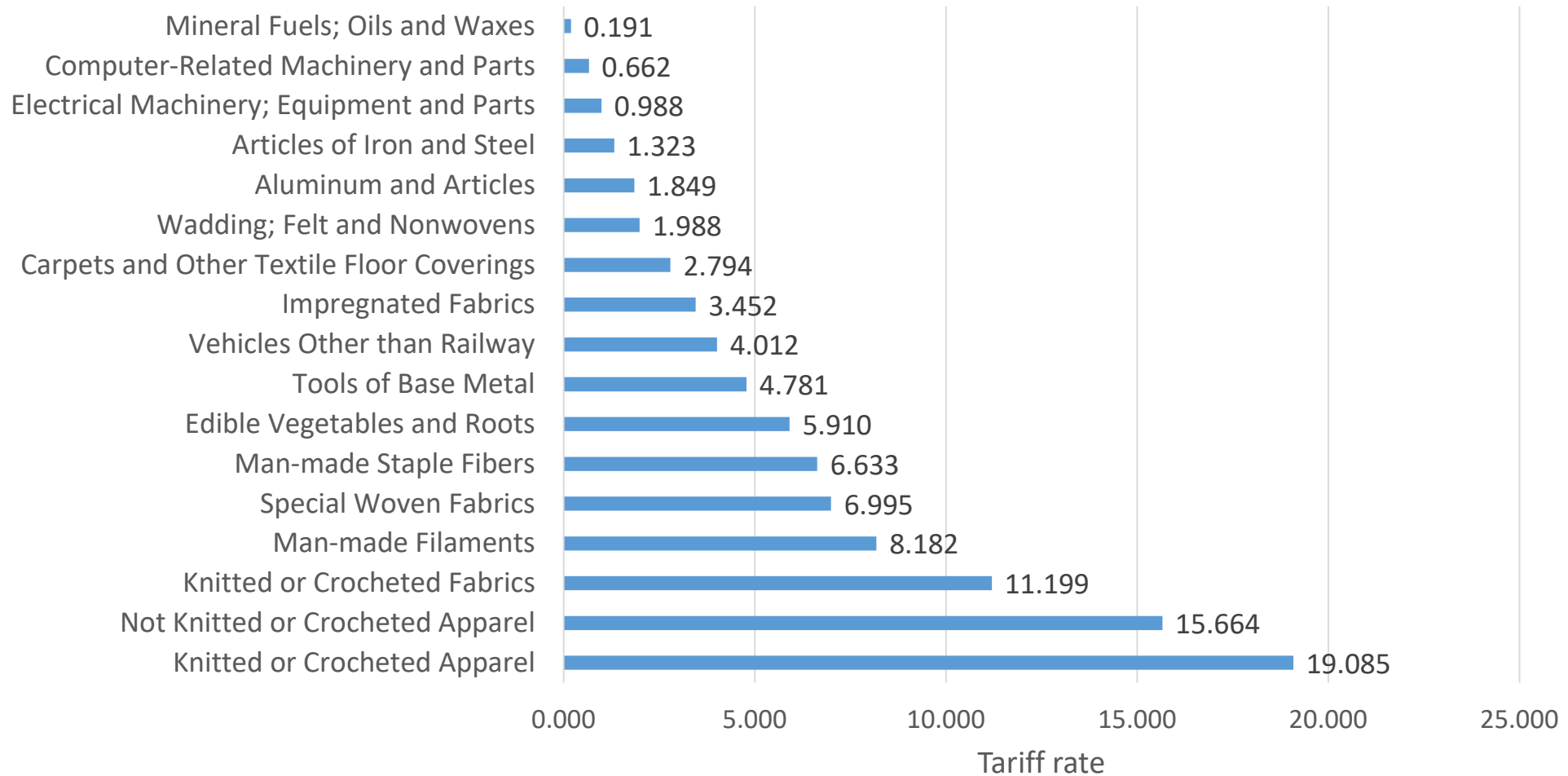
Origin of value added of Mexican electrical equipment exports



North American trade under the USMCA

- Modernizing the rules for intellectual property, government procurement, e-commerce, etc., customs facilitation, technical barriers to trade, foreign investment, intellectual property, government procurement, labor standards.
- Important effect of the USMCA on the manufacturing sector:
 - The rules of origin (ROOs) on the aluminum, steel and automobile sectors.
- The objective is to increase the inputs transformed and produced within one of the member countries of the USMCA.
- However, in the case that the requirement is not fulfilled, then higher tariffs will be activated.

US major trading industries with MFN tariffs, 2018



- With NAFTA the average US tariff rates to Mexico are practically 0.

- USMCA provisions on the automobile industry: regional value content (RVC) requirements for vehicles and auto-parts (core, principal and complementary) and labor content rules for vehicles.
- USITC: the regional value content requirement for passenger vehicles is 75% and 70% for steel and aluminum, for core parts 75% , for principal parts 70% and for complementary parts 65%.
- USMCA introduces the concept of labor value content (LVC), which requires that a certain percentage of qualifying vehicles must be produced by workers making an average of \$16/hour (40% of motor vehicles)

- Mexico imported 3.8% of all light vehicles produced in the US and exported 47.8% received by the USA.
- Mexico also imported 13.3%, 20% and 7.8% of core, principal and complementary parts and exported 15.2% 34% y 16.7% respectively.
- If exports fulfill the regional value content (RVC), the USMCA continues with a zero tariff.
- The USMCA will allow the free flow of energy between the borders of the North American region.
- It will also seek to improve the movements of hydrocarbons using pipelines, while adding certification requirements for oil and gas.

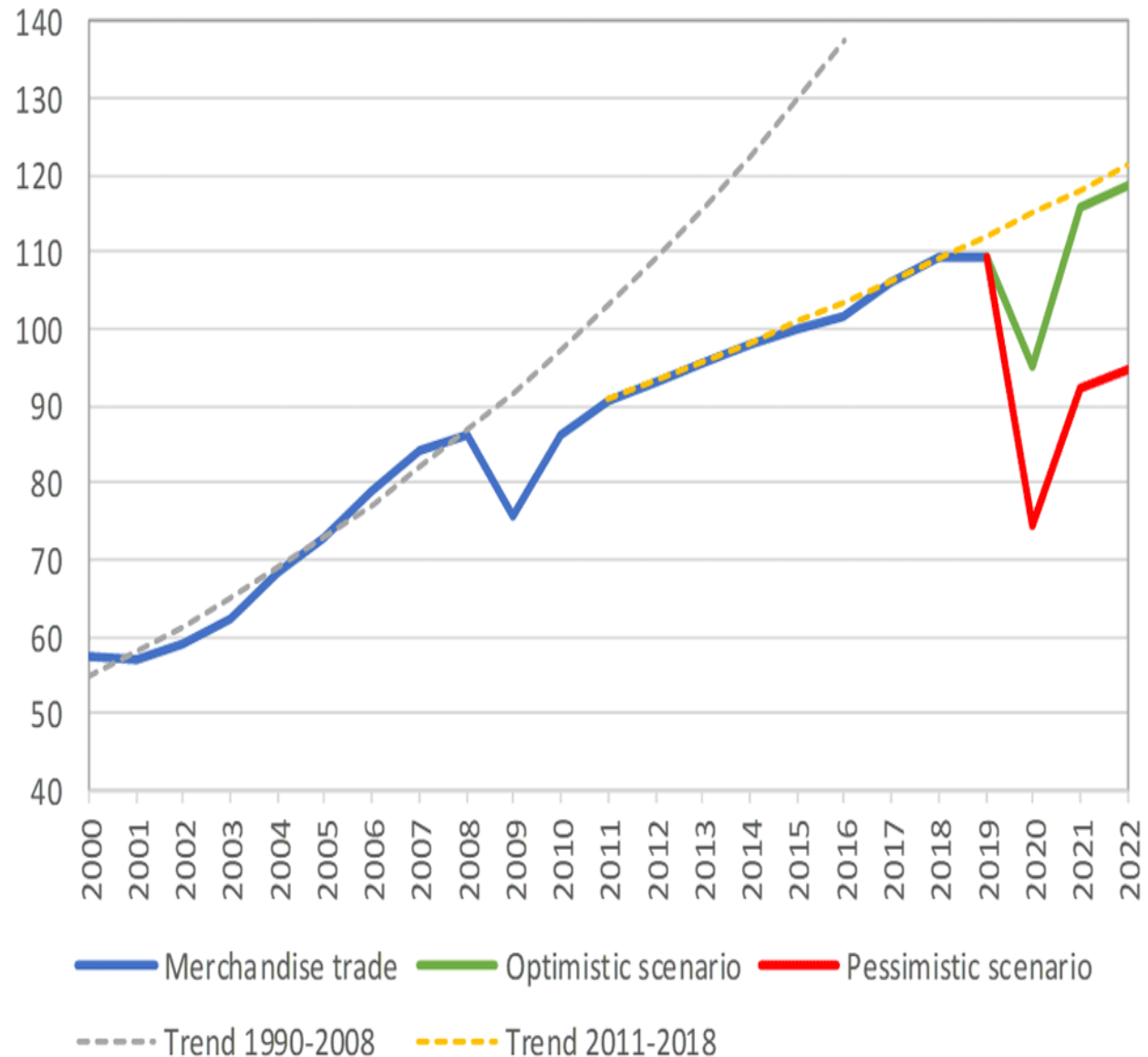
The electronic industry and the integration of the North American region

- The electronic industry of the USA is highly integrated with both Canada and Mexico.
- The intense trade of that sector is highly impacted by intra-firm trade, with multinational firms in the electronics sector located in the three countries.
- According to the Association Connecting Electronics Industries , around 78% of electronics imports from Mexico and 47% of the electronics exports to Mexico are carried out by parent and affiliate companies.
- However, *electronic inputs from China have been gradually substituting the inputs from the USA.*
- Low tariffs and geographical proximity have created a supply chain across the North American countries.
- The establishment of the USMCA will reduce the uncertainties affecting investment, allowing for the further development of the North American supply chain.

Covid-19 and international trade

World Trade Organization

- A 2021 recovery in trade is expected, but will be dependent on the duration of the outbreak and the effectiveness of the policy responses.
- Nearly all regions will suffer double-digit declines in trade volumes in 2020, with exports from North America and Asia hit hardest.
- Trade will likely fall steeper in sectors with complex value chains, particularly electronics and automotive products.
- Services trade may be most directly affected by COVID-19 through transport and travel restrictions.



Covid-19 pandemic and the Texas-Mexico trade downturn

- COVID-19 crisis has created a sudden-stop to contain the pandemic in the US and Mexico.
- It has negatively affected the oil and manufacturing industries in production and trade.
- The sector was severely impacted due to a supply shock from the global lockdown and a demand shock that drove a fall in price of oil.

Covid-19 and the drop of Texas-Mexico trade					
Commodity	Date	Imports	% Rate of growth	Exports	% Rate of growth
Total	April 2019	9,252,009,615		9,252,651,832	
	April 2020	4,696,840,311	-49.2%	5,282,676,361	-42.9%
27 Mineral Fuel, Oil Etc.; Bitumin Subst; Mineral Wax	April 2019	874,904,345		2,045,881,616	
	April 2020	218,614,875	-75.0%	980,788,975	-52.1%
85 Electric Machinery Etc; Sound Equip; Tv Equip; Pts	April 2019	1,866,614,306		1,476,127,914	
	April 2020	720,849,807	-61.4%	1,328,344,381	-10.0%
87 Vehicles, Except Railway Or Tramway, And Parts Etc	April 2019	1,513,151,198		569,721,858	
	April 2020	270,501,658	-83.6%	79,076,116	-86.6%

Conclusions

- The USMCA creates new opportunities to develop value added chains in North America.
- The state of Texas has intensified trade with Mexico encouraged by transportation costs, the larger size of its economy and natural resources.
- In addition, low tariffs have encouraged trade between Texas and Mexico.
- The major commodities trade between Texas and Mexico are concentrated in petroleum products, electronics and automobile parts.

- The USMCA will require greater investments in both in the US and Mexico to take advantage of the new rules of origin of the USMCA.
- Investments in infrastructure will be an important objective to accelerate trade and reduce transportation costs.
- The Covid-19 crisis has drastically affected economic activity and trade at the international level
- Under these conditions the success of the USMCA will depend on:
 - Macroeconomic conditions in Mexico and in the USA
 - US and Mexican companies could meet the new requirements or face the potential tariffs.
 - Continuation of the supply chains in North America, which will depend on the gradual imposition of the new rules of origin.