

# POLICY BRIEF

## Economic Integration in North America: Changes in US Trade Policy and the Effects on Texas Regional Exports to Mexico

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### STATEMENT OF ISSUE

Texas is the leading U.S. exporter to Mexico, trading oil products, automobile components and electronics. The establishment of the U.S.-Mexico-Canada Agreement (USMCA) would modernize aspects of trade-in services and digital commerce and change the rules of origin, demanding a larger percentage of inputs from the North American region. In order to evaluate the impact of the tariff changes arising from the new rules of origin requirements, a model was estimated with different tariff scenarios which indicated that distance from Texas and size of the economies of Mexican states are factors impacting Texas exports to Mexico. This project was aimed at evaluating the determinants of trade between Texas and Mexico at the regional level, focusing specifically on the effects of tariff increases and transportation costs from Texas to Mexico. Given the importance of Texas to the economy of the U.S., the study of the potential impacts of the establishment of the USMCA on Texas trade with Mexico is relevant for understanding U.S.-Mexico trade as a whole.

### KEY FINDINGS

- The state of Texas has been Mexico's most important trade partner since the 1990s. 15% of all U.S. exports originate in Texas, and nearly 40% of those exports are shipped to Mexico.
- Exports from Texas to the states of Mexico had a positive relationship with the GDP of the Mexican states. This indicates that Texas will trade more with the states of Mexico that have a higher level of economic activity.
- The distance between Texas and the Mexican states plays an important role in the trade with Mexico. The closer the states of Mexico are to the state of Texas, the higher the level of trade, as in the case of Tamaulipas, Nuevo León and Chihuahua, which are relatively close to Texas. This result also underlies the importance of transportation costs.
- Investment flows to Mexican states generate higher exports from Texas, not only for the final consumer market but also for trade derived from global value chains.
- Foreign direct investment in Mexico is a factor that is positively impacting the trade between Texas and Mexico.

### POLICY RECOMMENDATIONS

- Develop communications and transportation infrastructure to take advantage of the relatively short distance between the border states of Mexico and Texas, and to be able to reduce transportation costs of the trade between Texas and the Mexican central regions with greater economic activity.
- Strengthen the communication channels between the private sector and institutions in Texas and Mexico to create new opportunities for investment in strategic industries to compete in the international economy and take advantage of new trade rules established in the USMCA.
- Improve input supply chains to establish strategies encouraging the development of local suppliers in both Mexico and Texas.

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