



Instituto Mexicano para la Competitividad A.C.

NAFTA: A MEXICAN PERSPECTIVE

SPESA Conference, Memphis, Tennessee
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Manuel Molano, IMCO

ABOUT IMCO



Instituto Mexicano para la Competitividad A.C.

IMCO is a non-profit, non-partisan economic and public policy think-tank based in Mexico City.

Manuel Molano is IMCO's deputy director and chief economist.

**HOW
IMPORTANT IS
NAFTA TO THE
US, CANADA
AND MEXICO?**

Very important.

NAFTA has increased our region's trade with the World.

Since NAFTA was enacted, our trade with the World has doubled.

NAFTA outperforms the World's other major regions.

American innovation, Canadian financial freedom, and Mexican freedom to trade are the winning combination.

**OTHER
REGIONS OF
THE WORLD
ARE PUSHING
FORWARD**

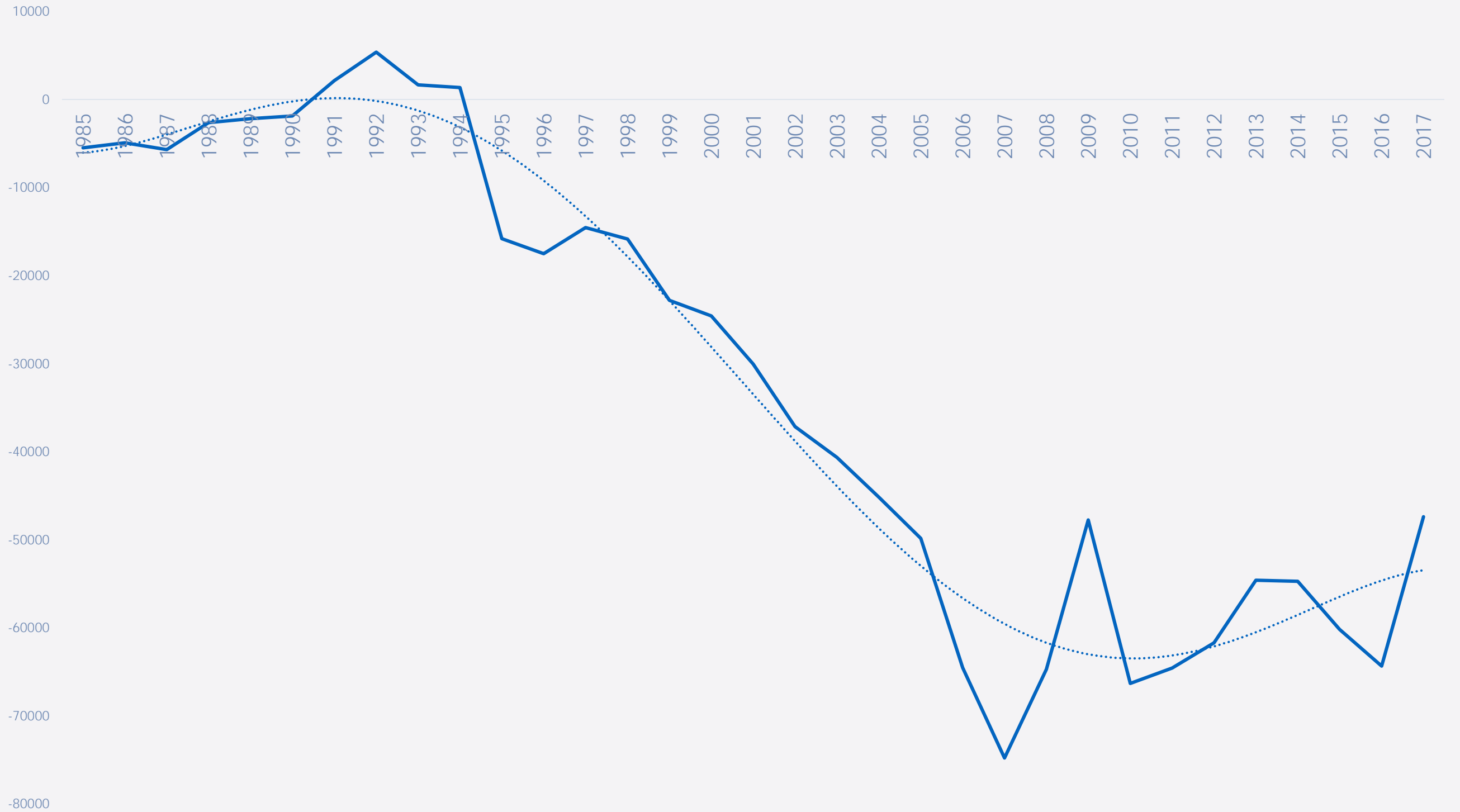
However, other regions are also pushing forward

From the year 2000, China's exports to the world grew eight-fold.

The European Union's exports to the World grew by one hundred and nineteen percent while NAFTA's exports to the World grew by only eighty-seven percent in the same period.

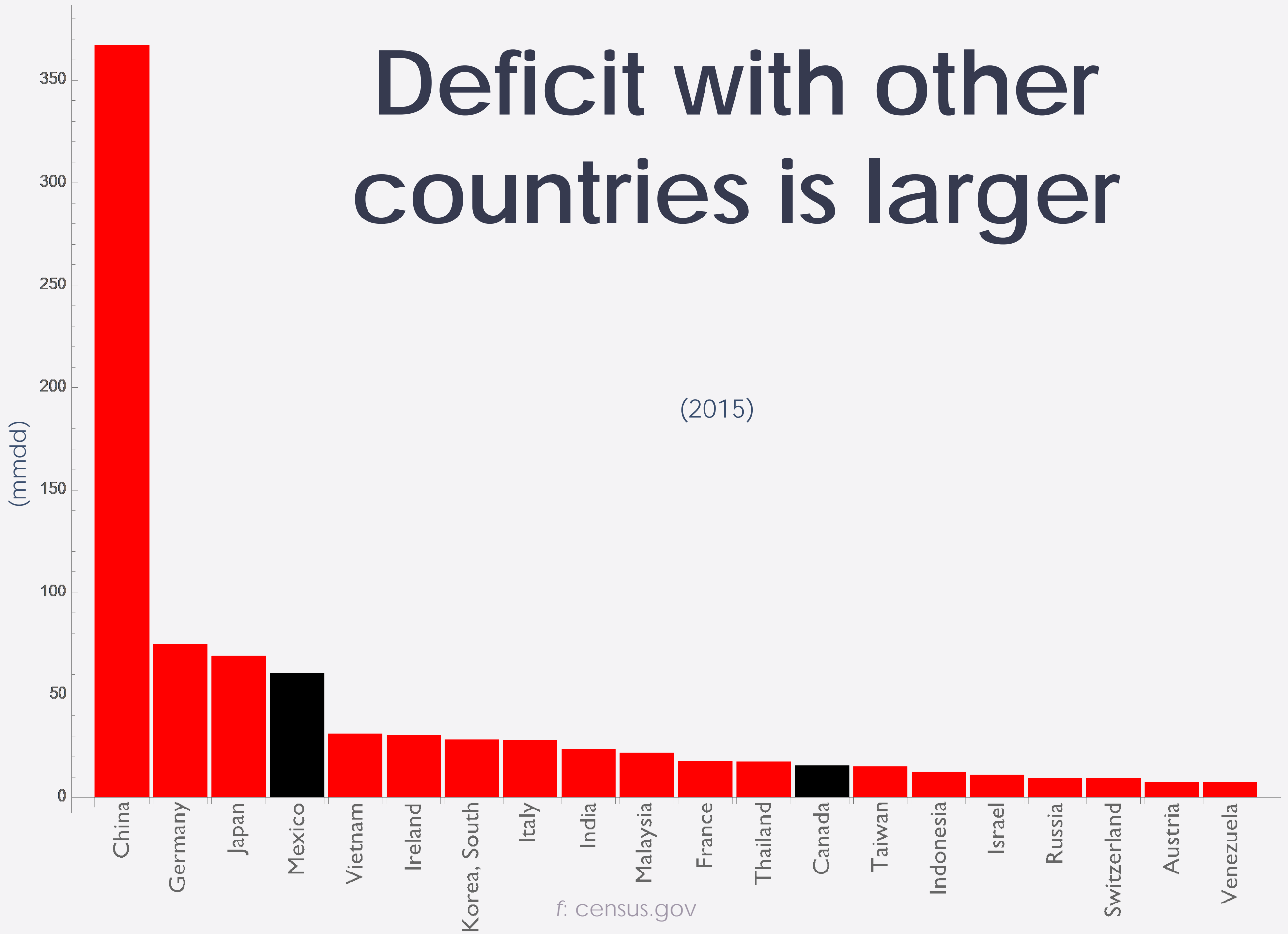
NAFTA negotiations must be viewed as an opportunity to revamp North-American competitiveness.

US commercial deficit with Mexico



Even though the deficit has deepened, the trend has started to turn
f: census.gov, USTR

Deficit with other countries is larger



Automotive, electronics, agriculture, energy, are the sectors that explain most of the deficit

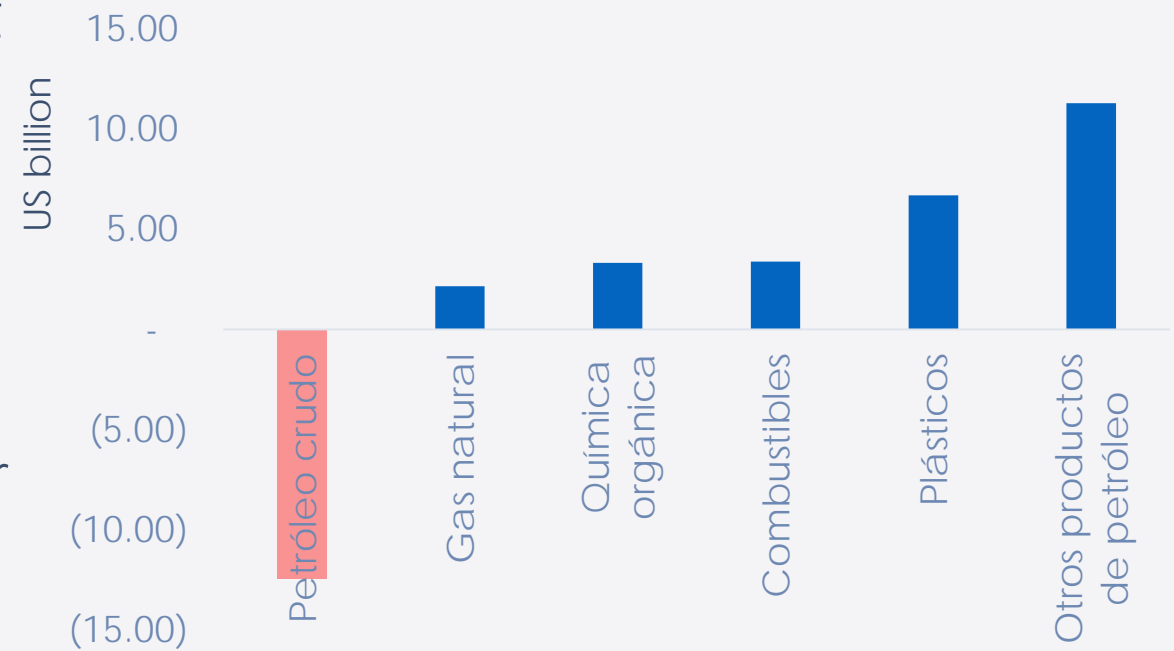


In 2015:

The US had a 40.9 billion trade deficit with Mexico

US had a trade surplus of 14.4 billion trade surplus with Mexico in oil, gas and their derivatives

2015: Mexican Energy Deficit with the US



s: census.gov

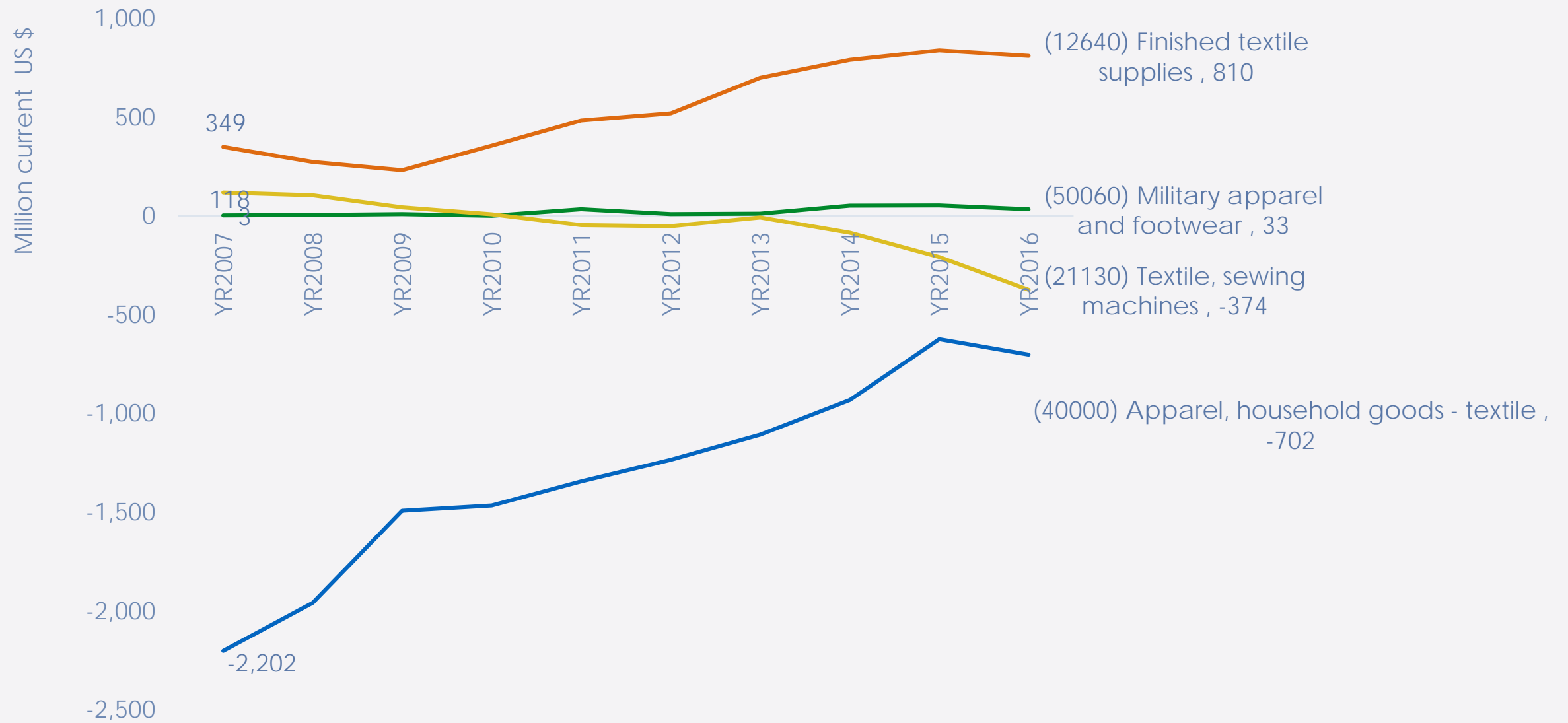
US Deficit reduction is closely related to energy sector performance

**WHY DOES
THE US HAVE
A TRADE
DEFICIT WITH
THE WORLD?**

The general
consensus is
that the US trade
deficit is due to
a savings-
investment
imbalance

The sewn products industries have contributed to the reduction of US Deficit with Mexico

US Trade Deficit / Surplus with MEXICO
Selected apparel, textile and machinery categories



s: census.gov

The sewn products industries has contributed to the reduction of US Deficit with Mexico

Total deficit of the US with Mexico,
Apparel, textile and sewing machines



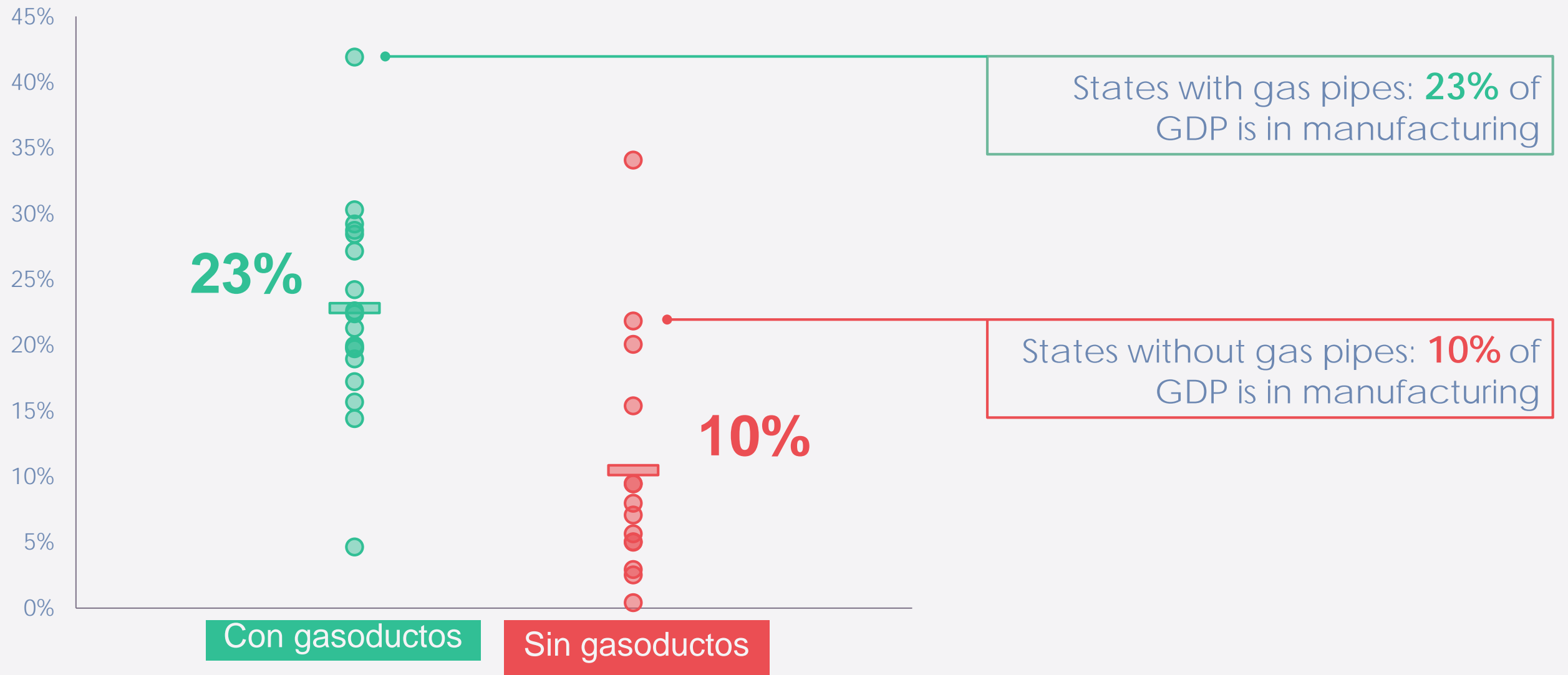
s: census.gov

In 25 years time, the deficit with Mexico will not be significant, mainly due to the energy sector

Product	Current surplus (deficit) level	Scenario yearly rate of change	Estimated level in 2042
Crude oil	(12.47)	-5%	(3.46)
Natural gas	2.16	5%	7.32
Organic chemistry	3.33	3%	6.97
Fuel	3.38	5%	11.46
Plastics	6.70	3%	14.02
Other petroleum based products	11.28	3%	23.63
Total	14.4	6%	59.94
Non-oil deficit	-40.5	2%	(66.44)
Susplus (deficit) of the US with Mexico			(6.50)

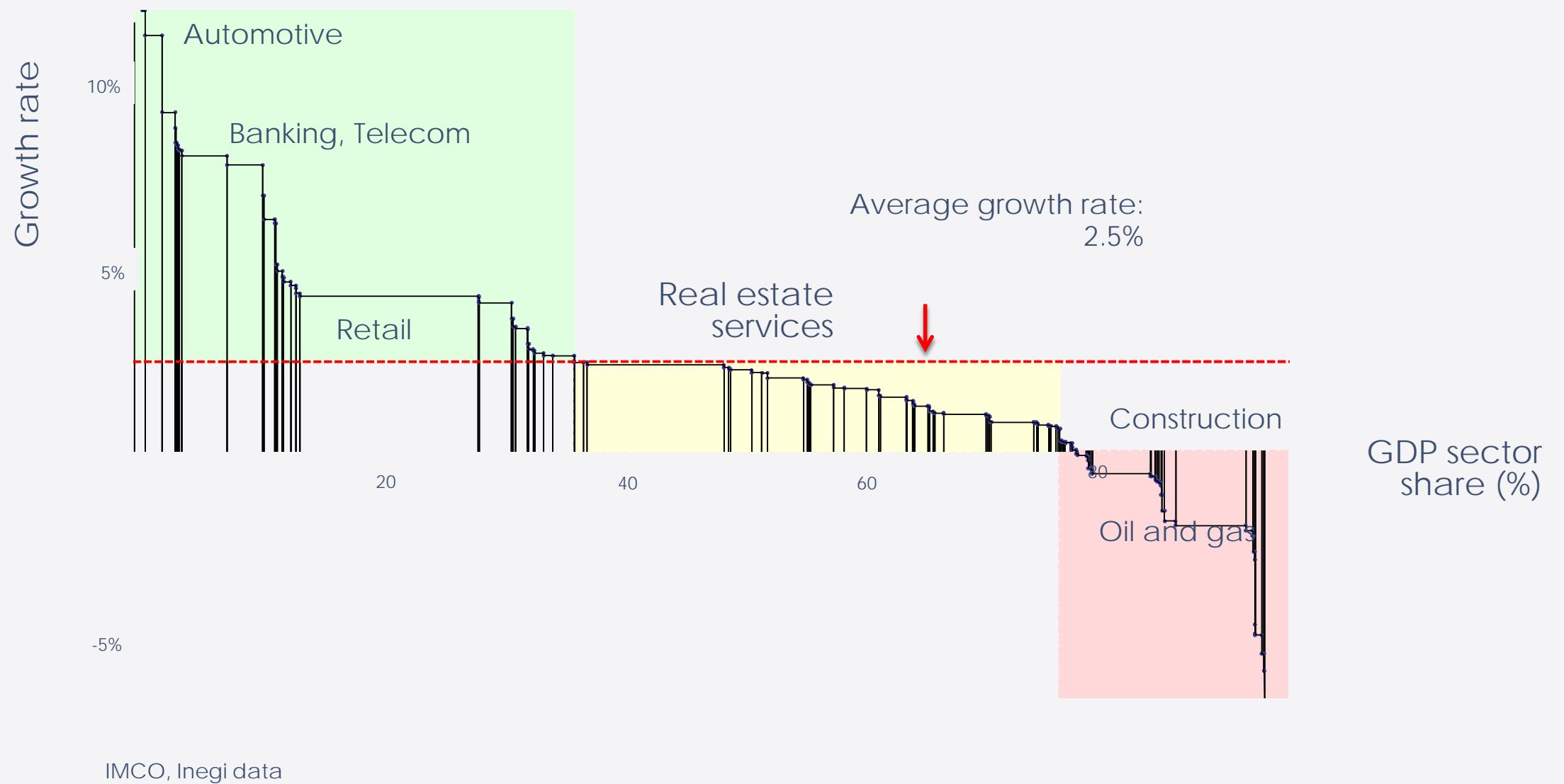
Why is the energy sector so important?

Manufacturing as % of state GDP Mexican States



Growth sectors in Mexico (1993-2012):

Networks and trade



Mexico 2016 labor survey (ENOE)

Hourly wage (\$MXN)

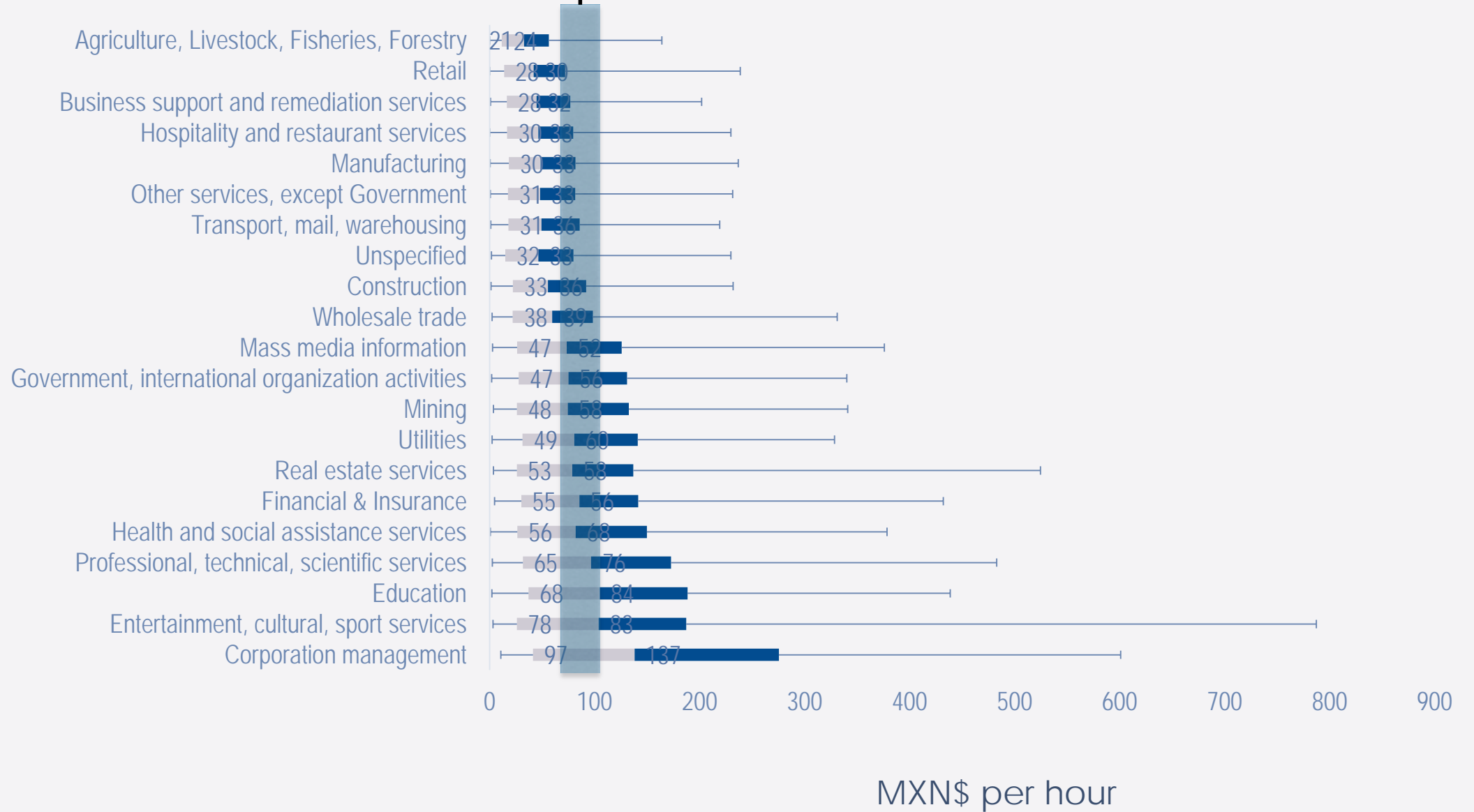
By sector

Urban areas

Chinese manufacturing wage: 2.50 to 3.50 US\$ / hour

Lower 25%
Average
Upper 25%

IMCO, INEGI-ENOE data, 2016-III quarter



IN CONCLUSION

Mexico will continue to trade with the US despite all the political rhetoric and a possible exit of the US from NAFTA

Trade deficits are a macroeconomic condition, not a trade problem. The US must increase savings in order to tackle trade deficits. But why stop the rest of the world from financing you?

If the US exits NAFTA, Mexico will find supplies and inputs in the World to continue to serve the US market

If the US manages to reduce its deficit with Mexico, it will increase its deficit with the rest of the world (notably China)

It is in everyone's interest that the US has a prosperous partner in the South oriented to policy compatibility with the US



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