US-MEXICO MANUFACTURING: BACK IN THE RACE

Pia Orrenius
Federal Reserve Bank of Dallas
Trade with Mexico has been key to Texas export growth in post-recession period.

Foundation for U.S.-Mexico trade is NAFTA.

Recently: Capital flows continue but labor flows have dropped off.
TRADE
AMERICAS KEY IN RECOVERY OF TEXAS EXPORTS AFTER RECESSION

Texas real export growth 2009-2015

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>74</td>
</tr>
<tr>
<td>Canada</td>
<td>82</td>
</tr>
<tr>
<td>Latin America**</td>
<td>111</td>
</tr>
<tr>
<td>Asia*</td>
<td>36</td>
</tr>
<tr>
<td>European Union</td>
<td>31</td>
</tr>
<tr>
<td>China</td>
<td>76</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
</tr>
</tbody>
</table>

NOTES: Texas exports by country/region. *Asia excludes China; **Latin America excludes Mexico.
SOURCES: U.S. Census Bureau; Wisertrade.
MEXICO IS BY FAR TEXAS’ BIGGEST TRADE PARTNER

NOTES: Data for 2015 Q2. *Asia excludes China; **Latin America excludes Mexico.
SOURCES: U.S. Census Bureau; Wisertrade.
Billions of 2015 $

Agriculture and Food 3.7%
Chemicals 9.8%
Petroleum and Coal Products 12.3%
Plastic and Rubber 4.4%
Computers and Electronics 24.1%
Transportation Equipment 13.3%
Industrial Machinery 5.9%
Fabricated and Primary Metals 8.2%
Electrical Appliances 7.8%
Other 10.6%

SOURCE: Wiser Trade.
U.S. TRADE WITH MEXICO GROWS FASTER POST-NAFTA

2014 U.S. $, Index, 1994=100

SOURCE: IMF.
U.S. TRADE WITH MEXICO GROWS FASTER POST-NAFTA

2014 U.S. $, Index, 1994=100

SOURCE: IMF.
U.S. CONTENT HIGHEST IN IMPORTS FROM MEXICO, CANADA

NOTE: Data is from 2004.
10% increase in employment at Mexican affiliates of U.S. firms is associated with:

- U.S. R&D spending: 4.1
- U.S. sales: 1.0
- U.S. employment: 1.3
- Exports from the U.S.: 1.7
- Capx in the U.S.: 0.1

NOTE: Monthly changes in manufacturing component of industrial production.

SOURCES: INEGI; Federal Reserve Board.
MEXICO BIGGEST U.S. SUPPLIER OF MOTOR VEHICLE PARTS

MEXICO FIRST IN SHARE OF U.S. MOTOR VEHICLE IMPORTS

Schnurman: We need more NAFTA, not less

When Democrats recently rejected a trade proposal involving Pacific nations, some cited the North American Free Trade Agreement as a turning point for working Americans.

"Since NAFTA, we have hollowed out the middle class," a California congressman said, pointing to a drop in manufacturing jobs and stagnation in wages.

But Texas has been booming since the law passed 21 years ago. The state has added over 4 million jobs, which is more new hires than larger California and twice the growth rate of the nation.

Trade with Mexico and Canada has taken off, and Texas exports to Mexico have nearly tripled. Foreign investment in all three countries has soared. And U.S. trade in private services, a national strength, tripled to $30 billion in Mexico and increased even more in Canada.
FOREIGN DIRECT INVESTMENT (FDI)
U.S. FDI IN MEXICO HIGHER SINCE NAFTA

Billions of 2014 U.S. $

$1.6 (1982-1993)

$8.4 (1994-2014)

SOURCE: BEA.
MEXICO’S INVESTMENT IN U.S. RISING TOO

Source: Bureau of Economic Analysis.
MIGRATION AND REMITTANCES
VISAS RISING FOR HIGH-SKILLED MIGRANTS FROM MEXICO

NOTE: Last data point is 2014 for TN and H-1B and 2013 for green cards.
SOURCES: U.S. State Department; Department of Homeland Security.
BUT REST OF MEXICAN MIGRATION IS DECLINING

Border apprehensions of Mexican migrants

Source: U.S. Border Patrol
REMITTANCES TO MEXICO STABLE

Note: Seasonally adjusted. Last data point is August 2015.
SOURCE: Banco de Mexico.
TAKE AWAYS

- Net benefits to trade, migration
  - Adjustment costs
  - Consumers are the winners
- NAFTA successful framework
  - Maquiladoras: 50 years
## U.S. Trade with NAFTA Partners

### More than Doubled since 1993

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>2014</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>164.6</td>
<td>312.4</td>
<td>90</td>
</tr>
<tr>
<td>Mexico</td>
<td>68.1</td>
<td>240.2</td>
<td>253</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>182.2</td>
<td>347.8</td>
<td>91</td>
</tr>
<tr>
<td>Mexico</td>
<td>65.4</td>
<td>294.1</td>
<td>350</td>
</tr>
</tbody>
</table>

**Source:** U.S. Census Bureau.

**Note:** Data is in billions of 2014 U.S. dollars.
NAFTA scorecard

- Succeeded in raising trade, investment with few adverse effects on U.S. labor markets
- Consumers benefited from lower prices, higher quality goods
- Created a world class manufacturing sector in Mexico
- But failed to lift growth, close the gap with richer neighbors
WHO’S INVESTING WHERE?

- FDI in Mexico hit a record high in 2013
  - Anheuser-Busch acquired Grupo Modelo for $20.1 billion
  - U.S. companies with big commitments to Mexico include car makers, auto parts makers, banks, and retailers
- FDI in U.S. from Mexico, Canada rises 4-fold after NAFTA
  - Grupo Bimbo, Gruma, and Grupo Herdez
REMITTANCES TO MEXICO: TOP SENDING STATES

Billions of $

California: 5.3
Texas: 2.6
Illinois: 1.0
Florida: 0.8
New York: 0.8

SOURCE: Banco de Mexico.