

MÉXICO



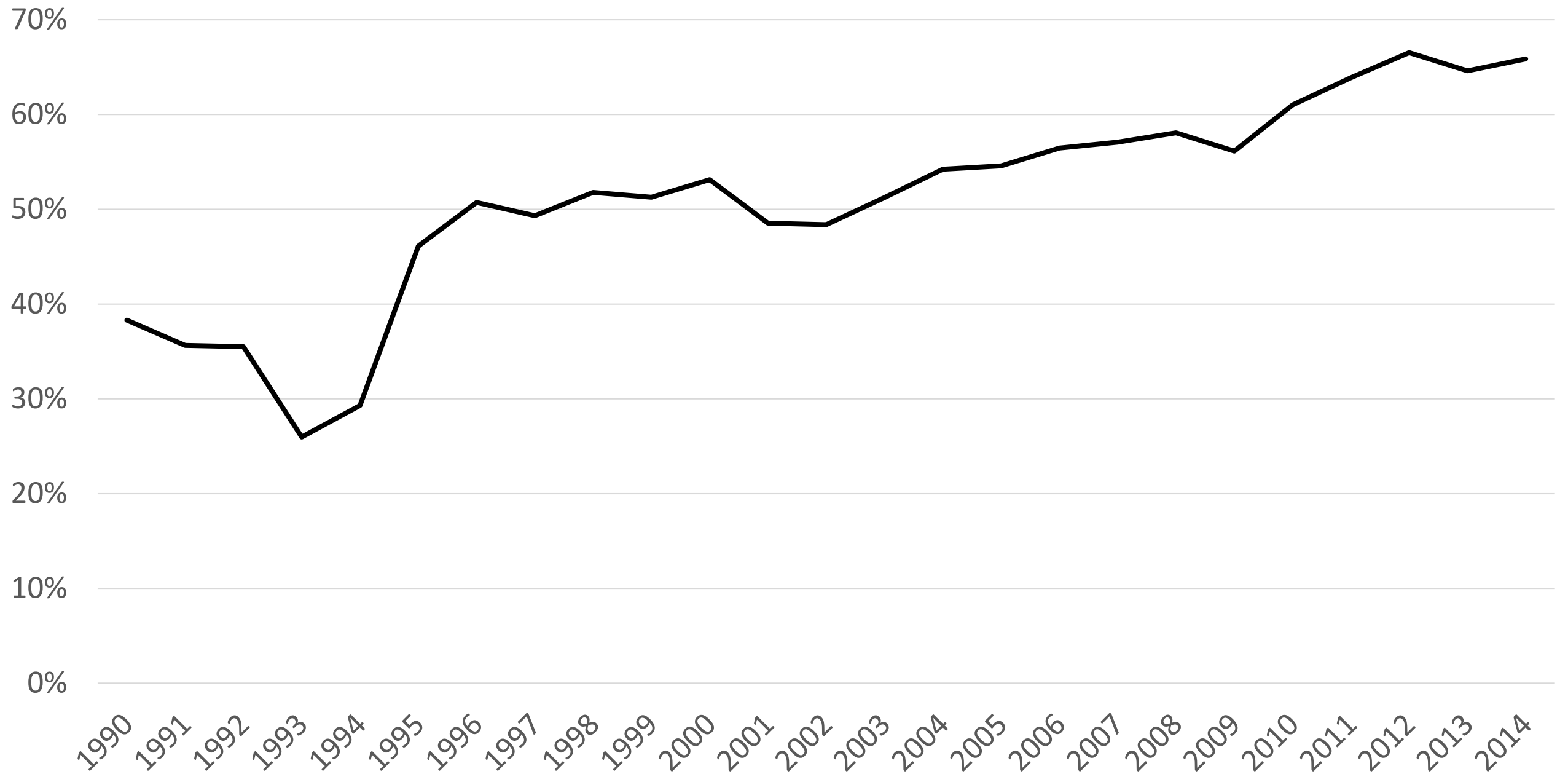
# 25 YEAR OVERVIEW OF HOW NAFTA AFFECTED MEXICO'S INTERNATIONAL TRADE

- Country Overview
- NAFTA
  - Canada
  - USA
- Industries
  - Automotive
  - Beer

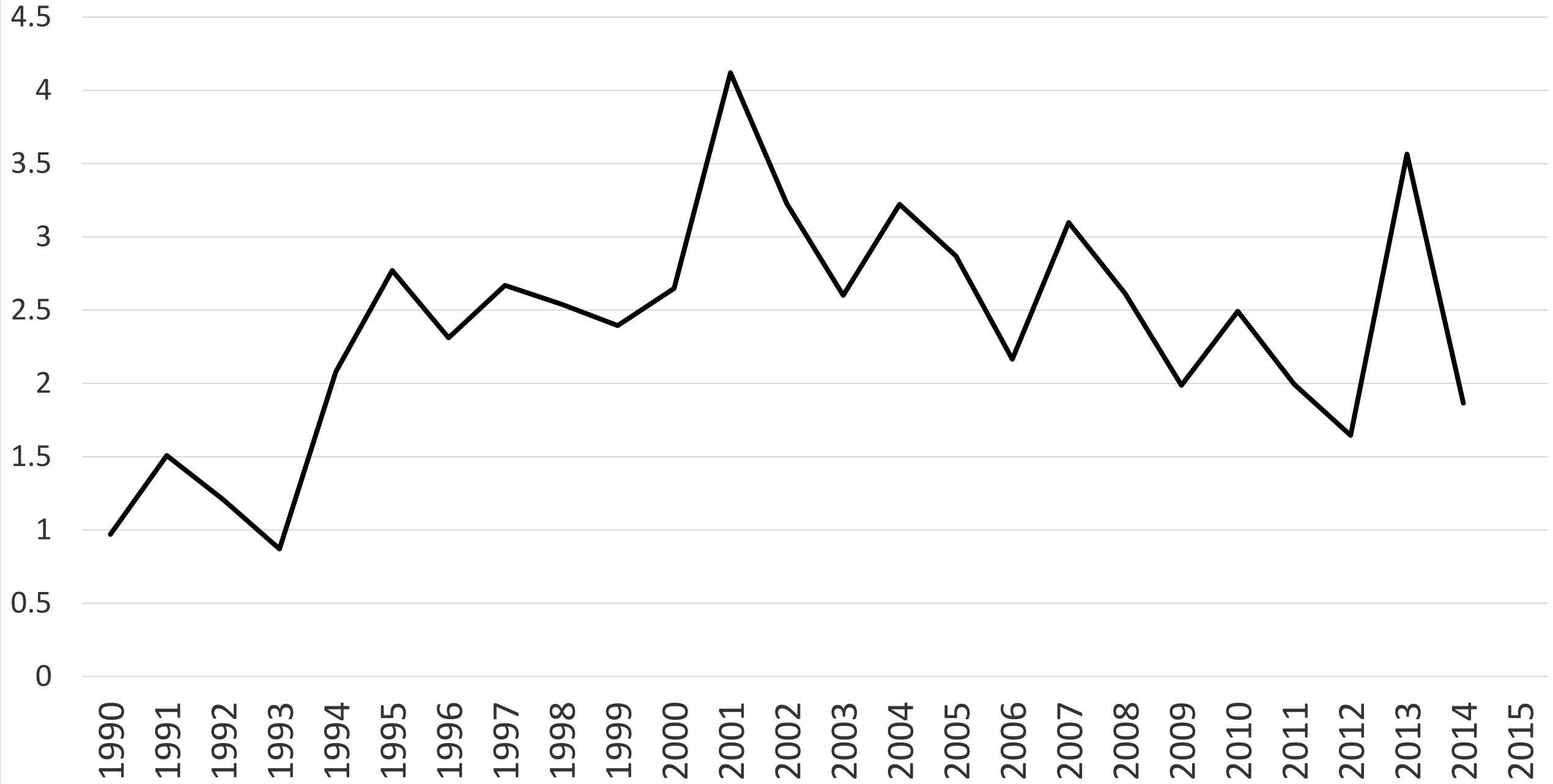
# COUNTRY OVERVIEW

- Openness Index
- FDI
- Exports & Imports
- Trade Barriers
- FTA's
- Trade Partners
- China
- Commodities

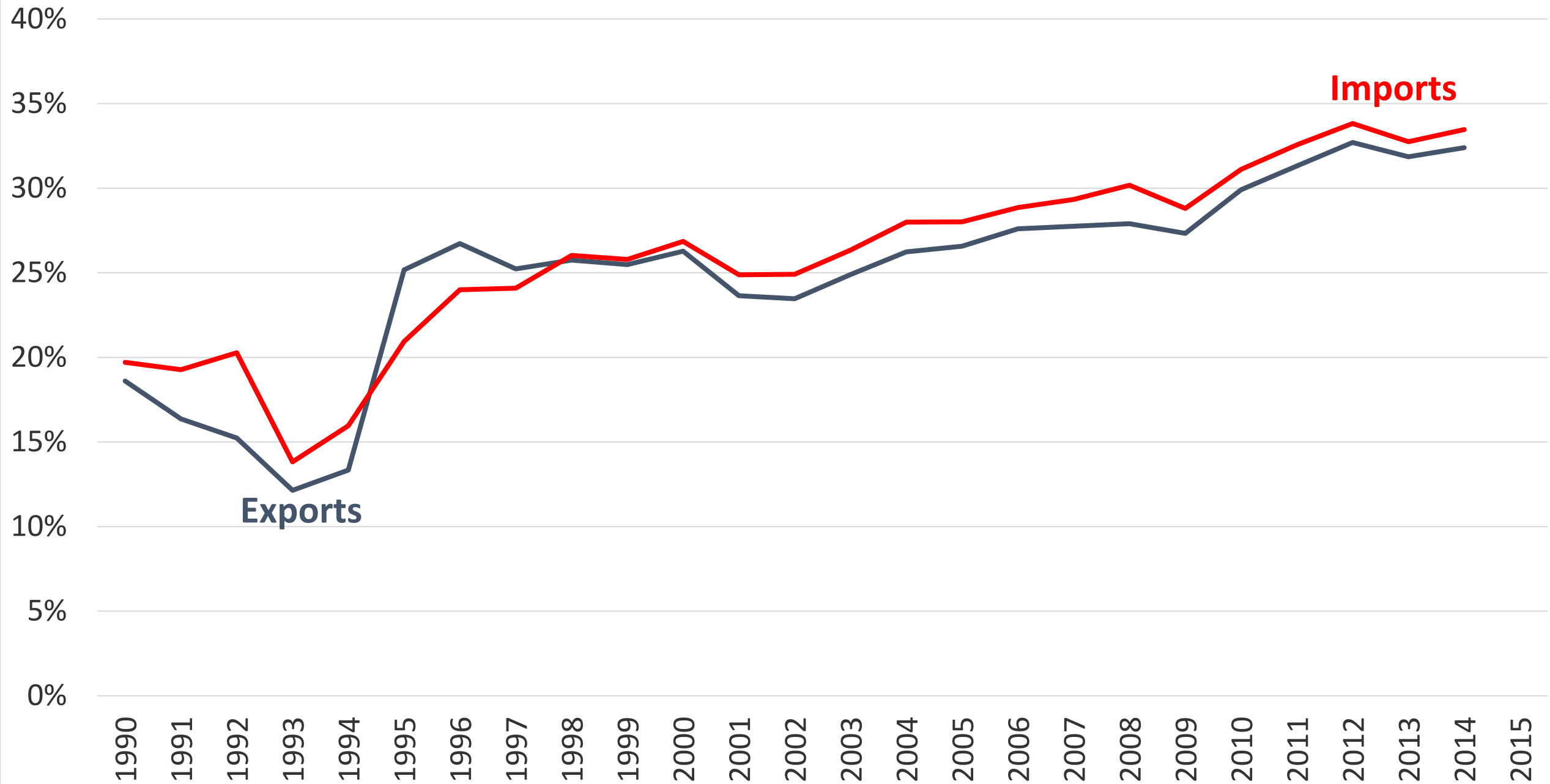
# Openness Index



# Foreign Direct Investment as % of GDP



# Imports & Exports



# TRADE BARRIERS

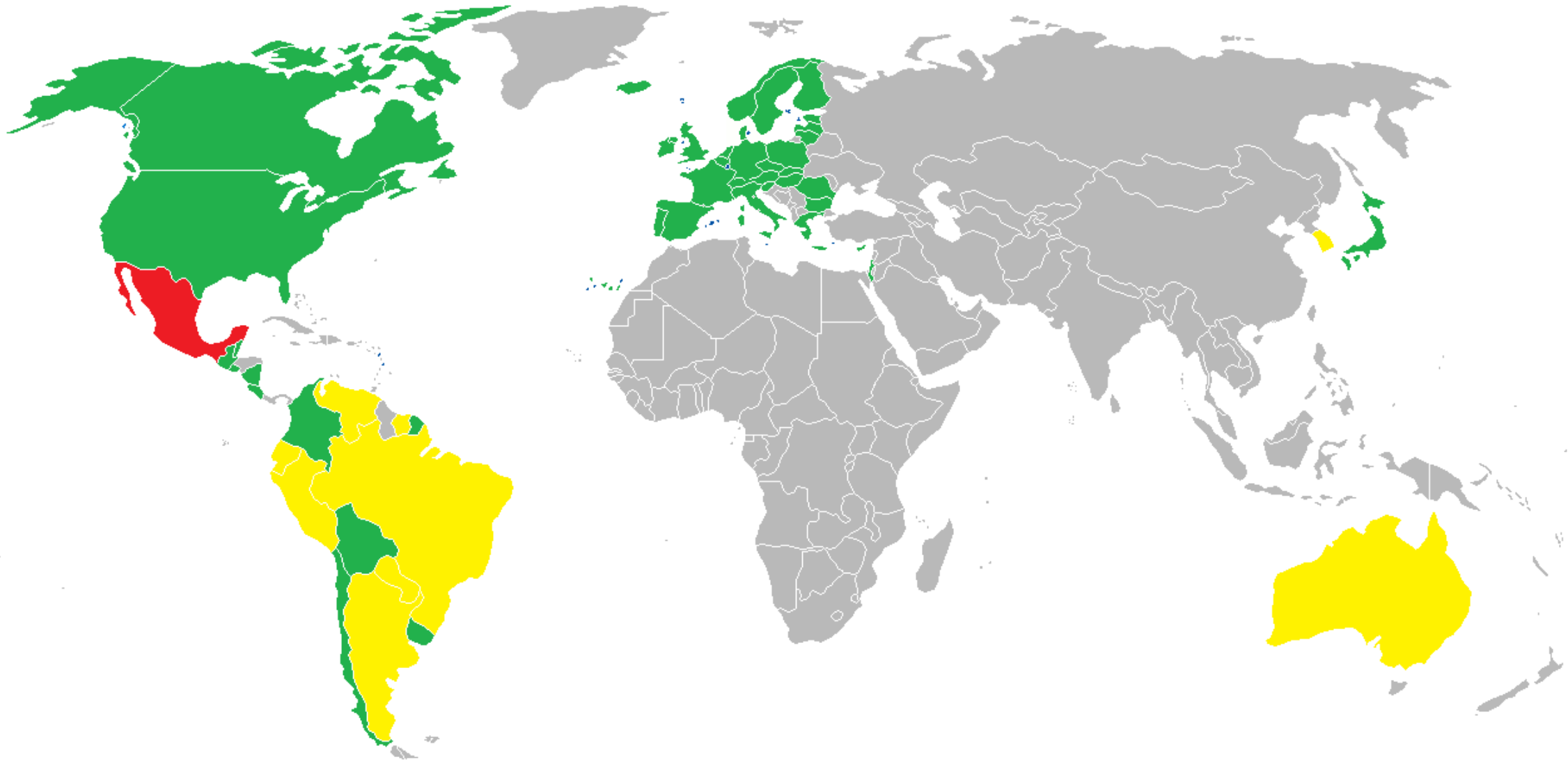
- Tariffs
- Foreign Investment Restrictions
- Language
- Distance
- Currency
- Corruption in Mexico

# FREE TRADE AGREEMENTS

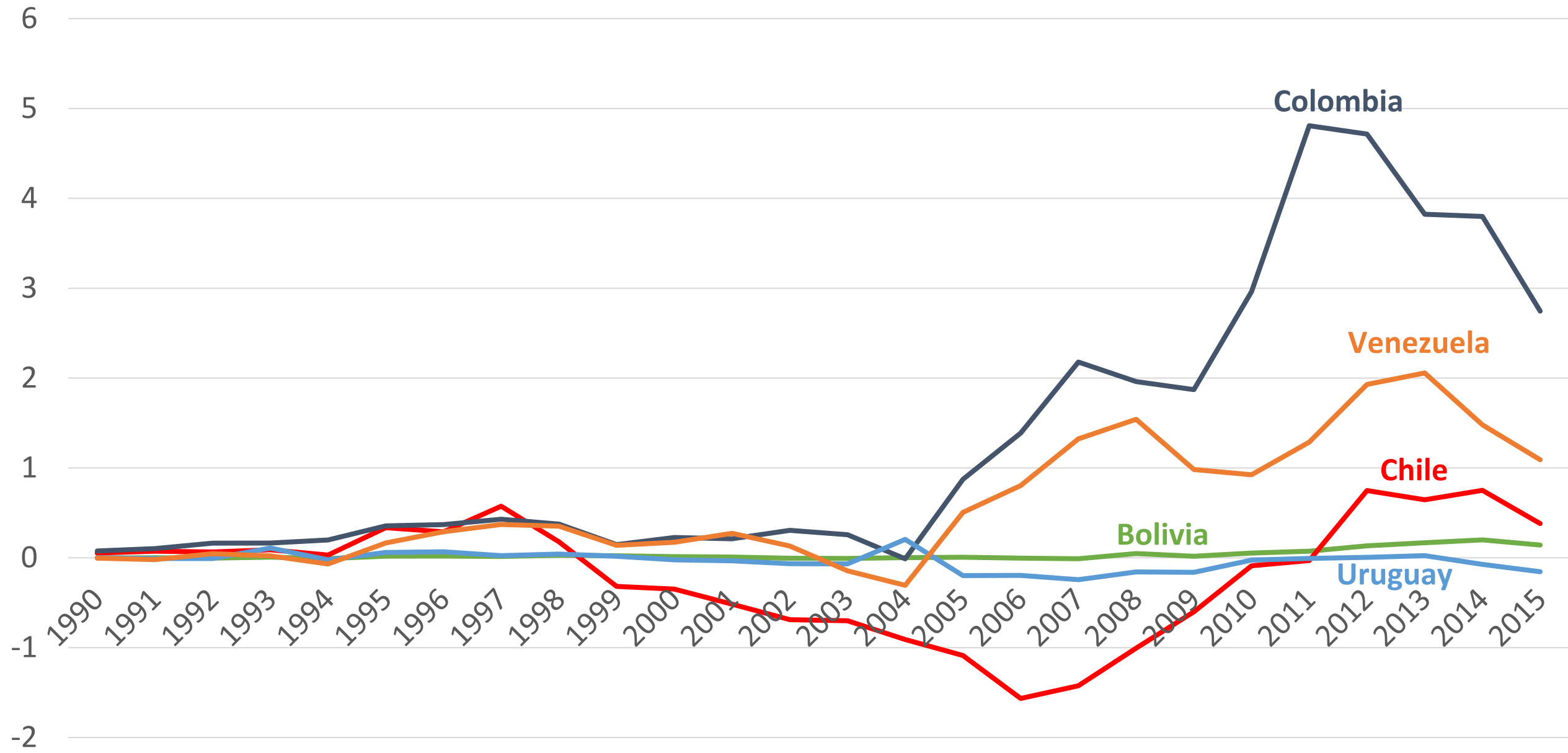
- Joined GATT (General Agreement on Tariffs and Trade) in 1986
- **12 FTAs with 44 countries**
- NAFTA in 1994 with USA and Canada
- G-3 in 1995 with Colombia and Venezuela (VZLA left in 2006)
- FTAs with Costa Rica (1995), Bolivia (1995), Nicaragua (1998), Chile (1999), EU (2000), Israel (2000), Uruguay (2004), and Japan (2005)
- TN FTA 2001 with Guatemala, El Salvador, and Honduras
- EFTA 2001 with Iceland, Norway, Liechtenstein, and Switzerland



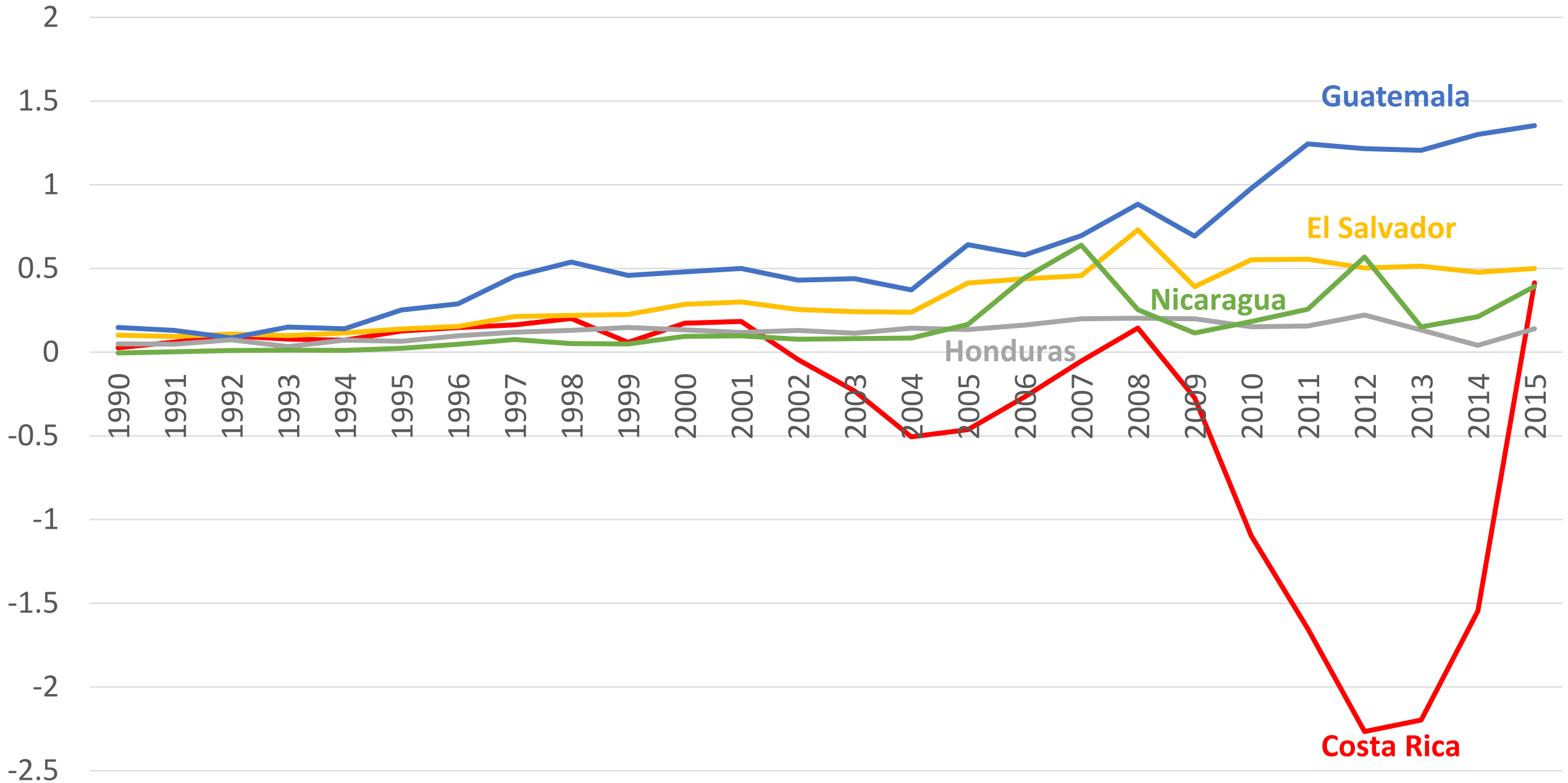
# FTA's



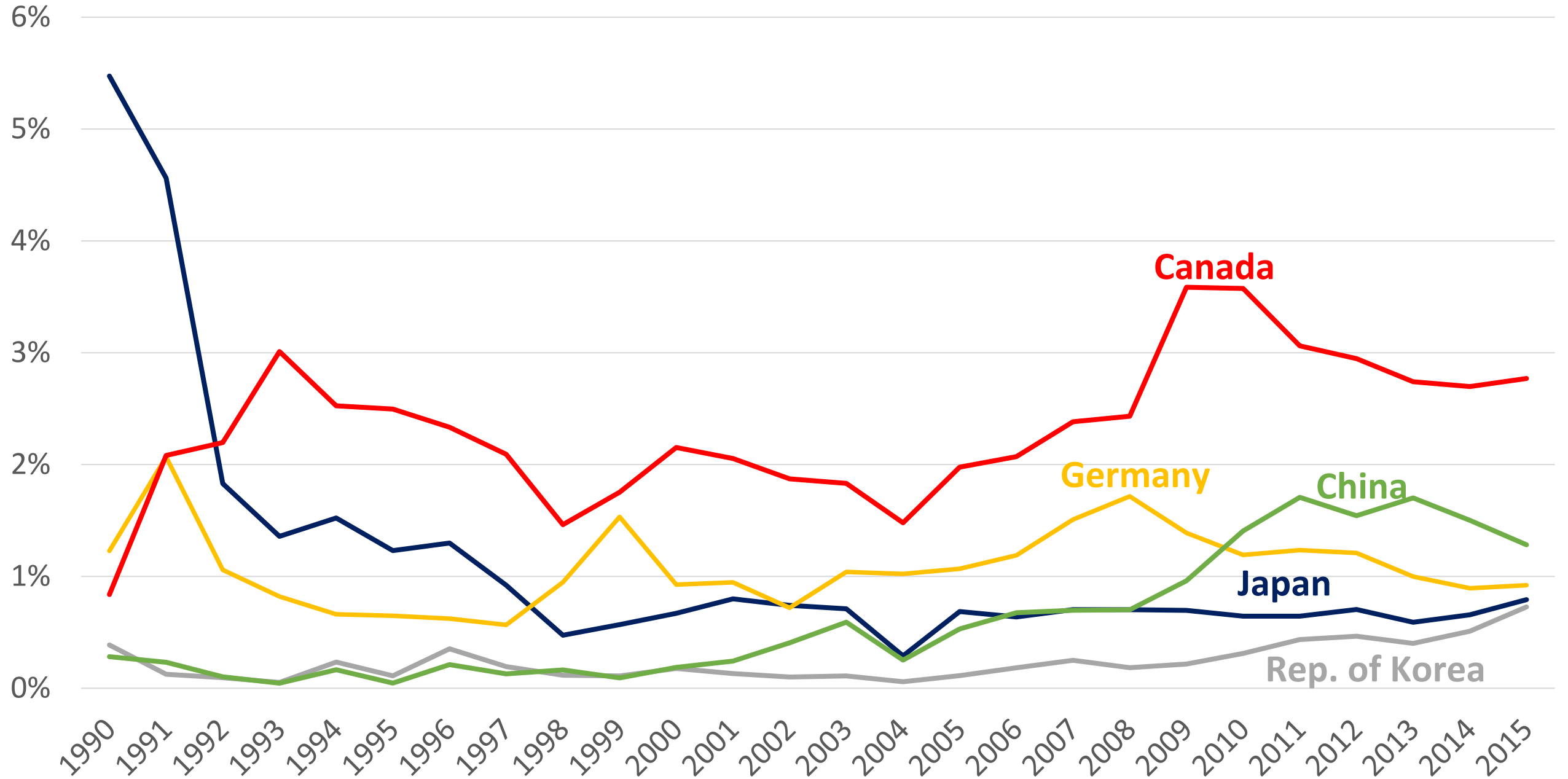
# Trade Balance with South America (FTA's) in \$ billions



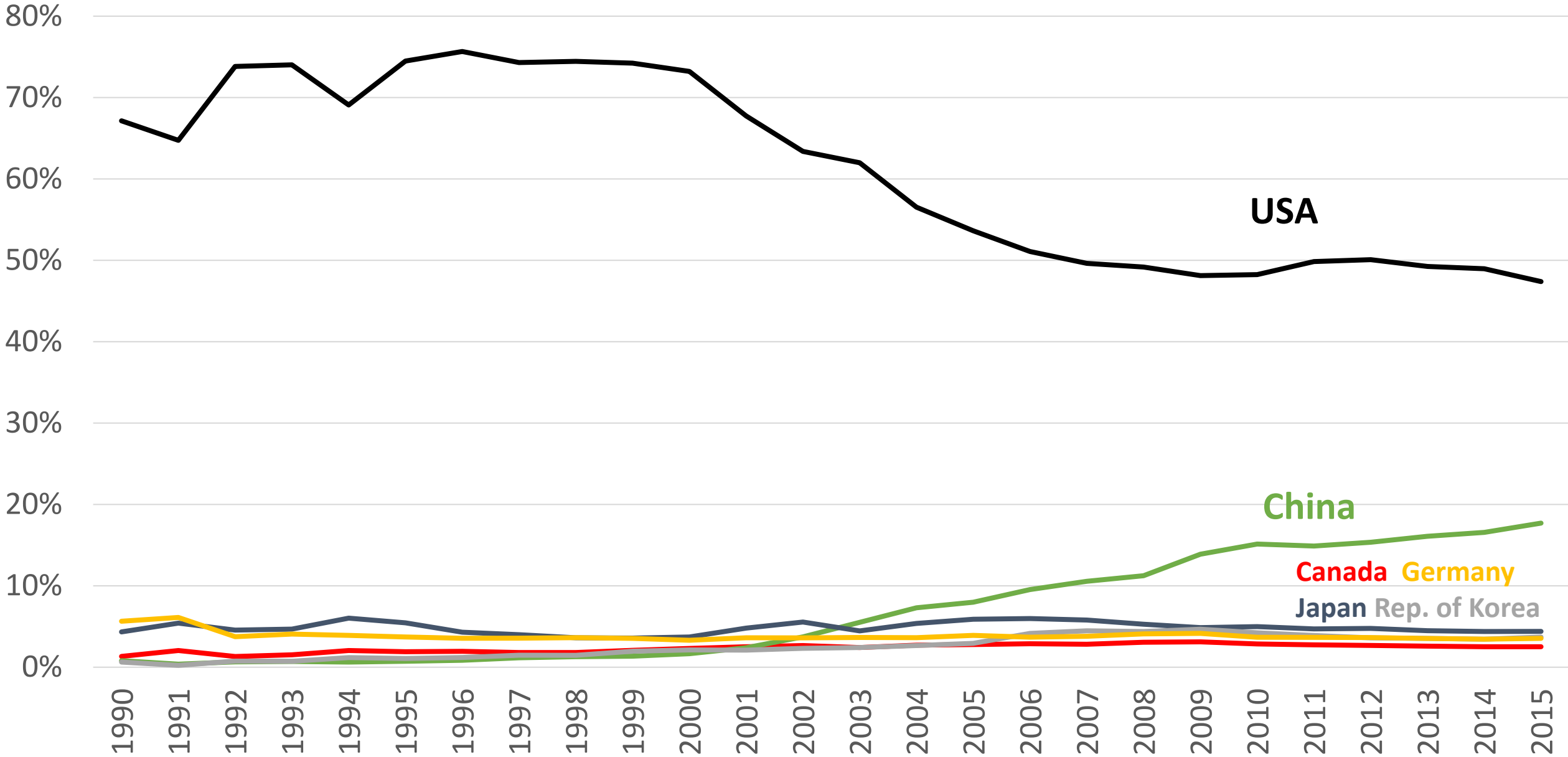
# Trade Balance with Central America (FTA's) in \$ billions



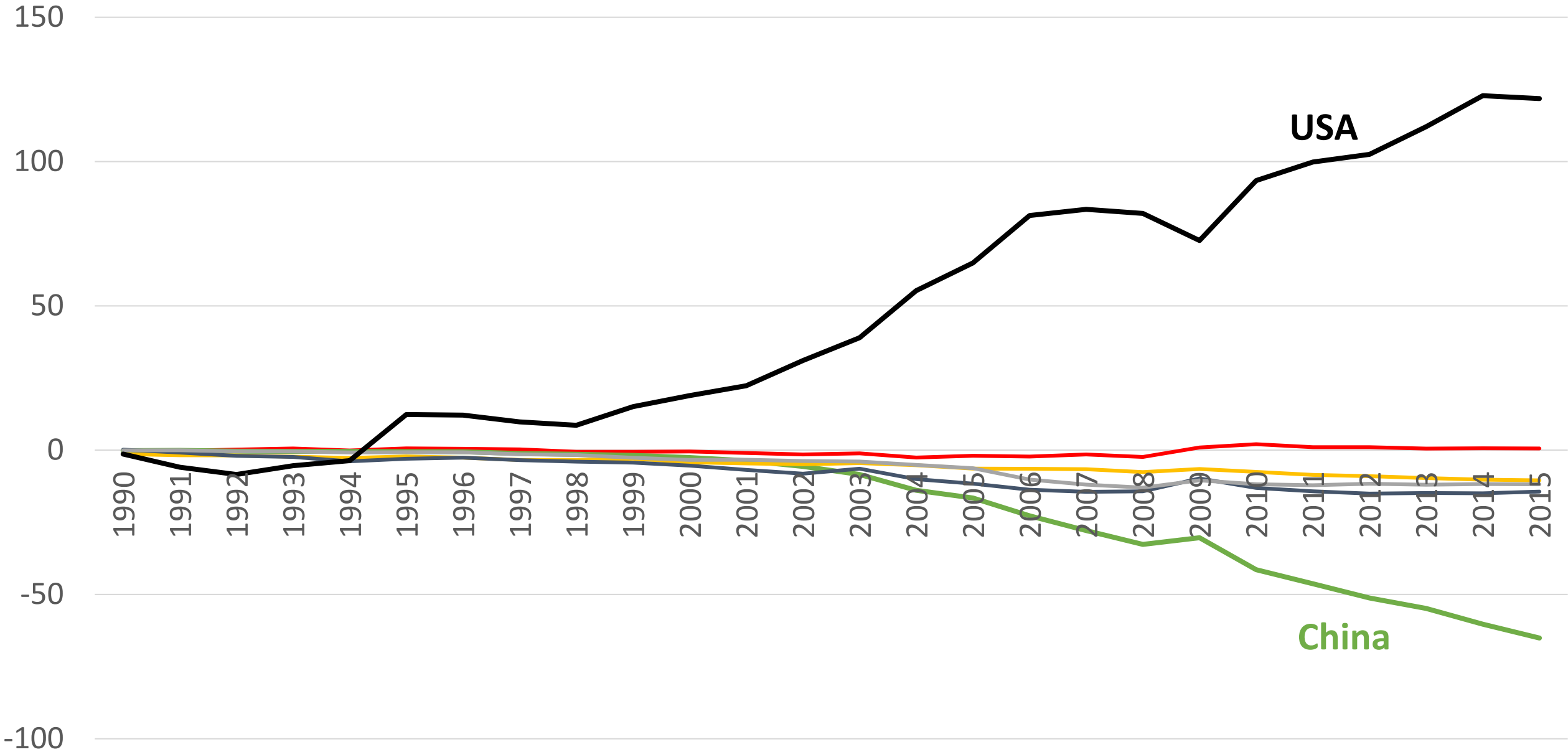
# Mexico's Top 5 Export Destinations



# Mexico's Top 5 Import Origins

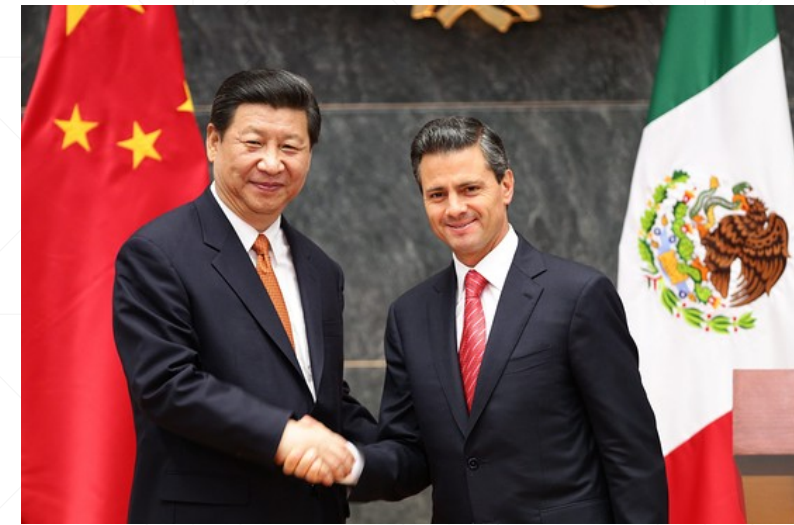


# Trade Balance with Top 5 Partners (in \$ millions)



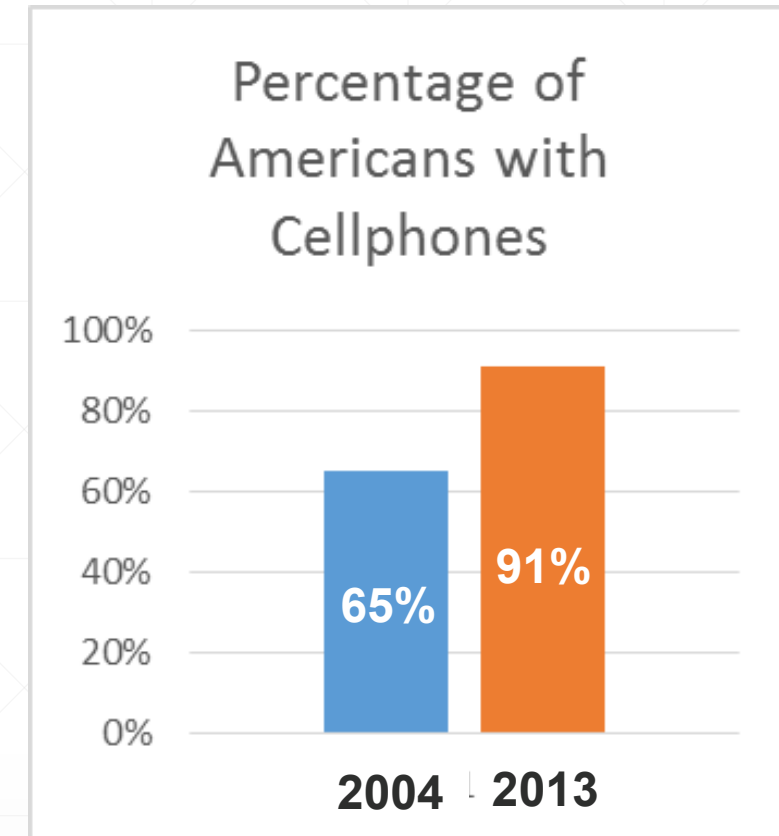
# Chinese Trade Growth

- Goods
  - Natural resources- Metals and Oil going to China
  - Electronics and their components & Toys coming to Mexico
- Supply Chain Relationship
  - Mexico imports components for appliances, cars, etc.
- Export Rivalry to US
  - Mexico knew China's entry into WTO would hurt exports to USA
  - Compete for consumer electronics share



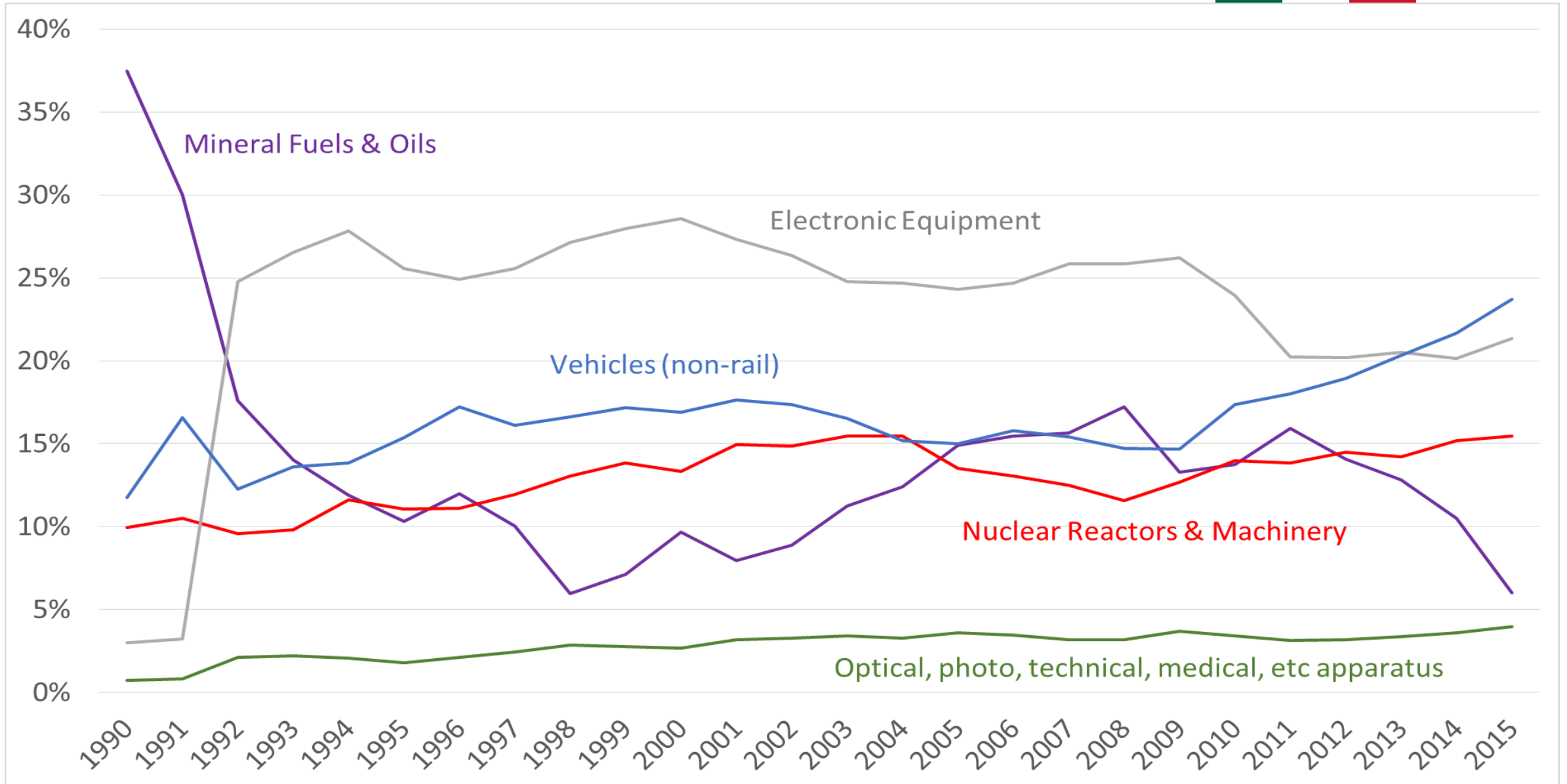
# Chinese Consumer Electronics & Parts

- In 2013 China exported 45.6% of the world's cellphones
  - In 2013 60% of all Cellphones imported by Mexico came from China
  - In 2015 Mexico's 4<sup>th</sup> most imported product (by total value) was cellphones
  
  - How Can Mexico Compete?
- 

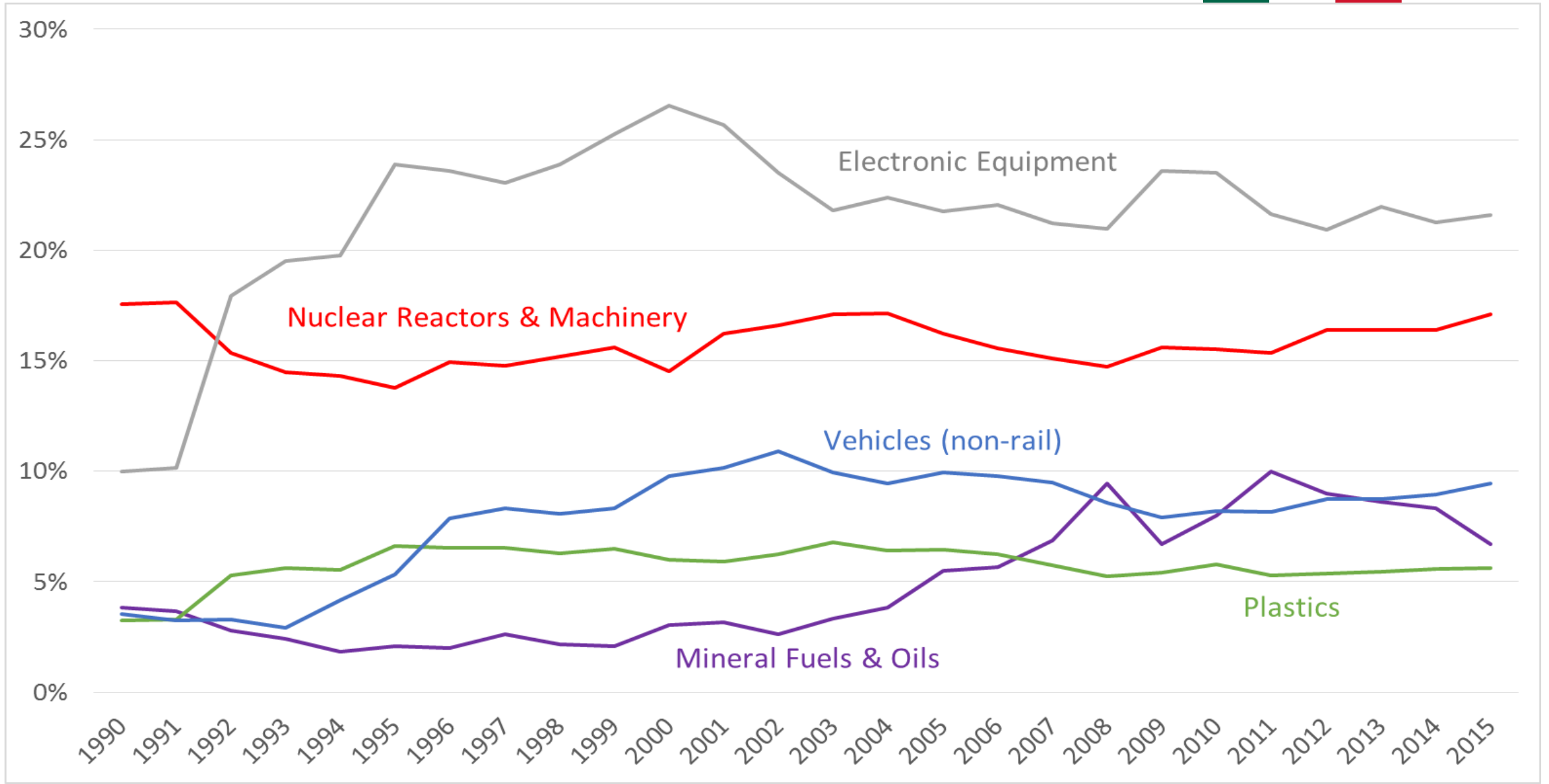




# Top 5 Exported Commodities



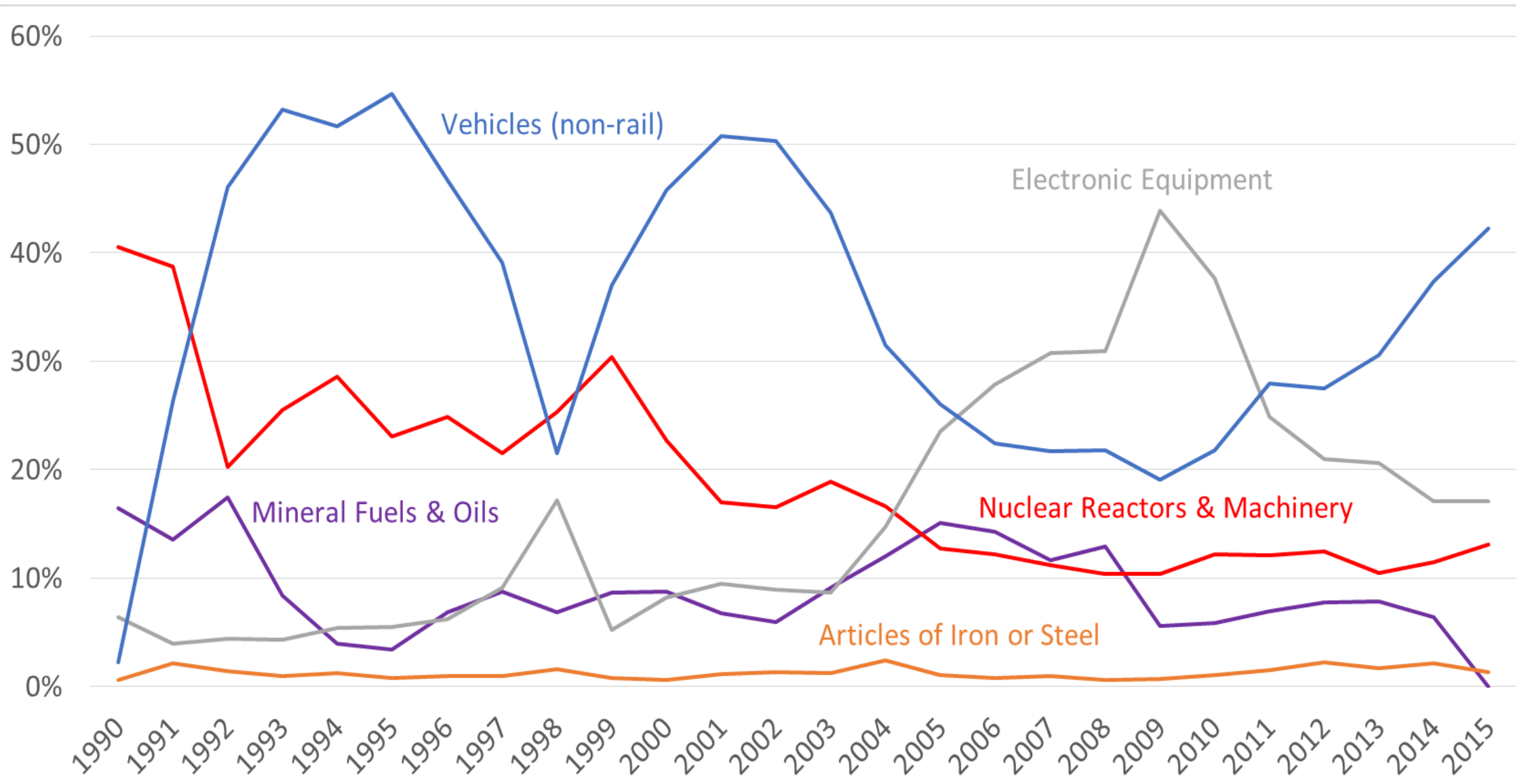
# Top 5 Imported Commodities



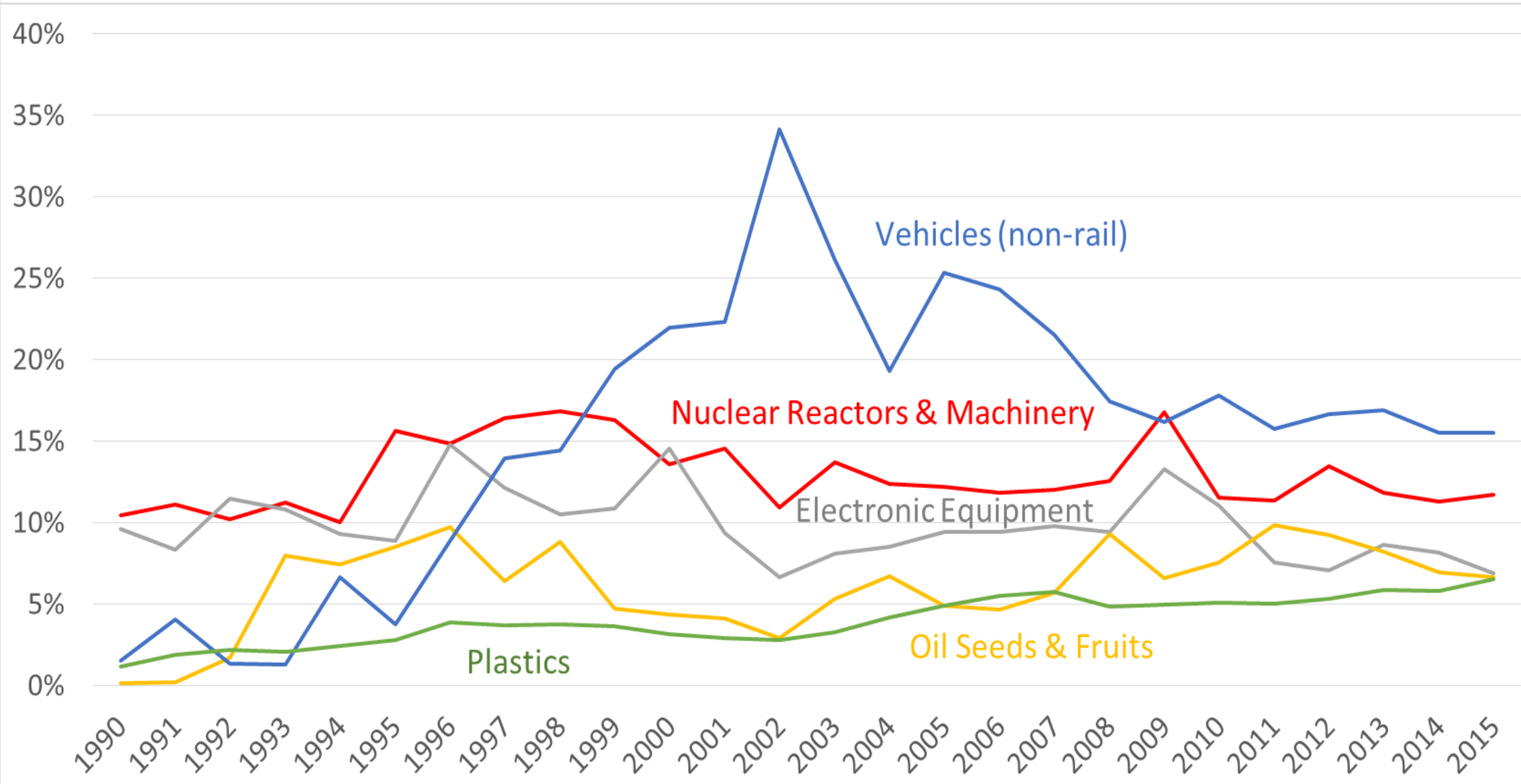
# NAFTA

- **Canada**
  - Top Imports & Exports
  - Automobiles
- **United States**
  - Top Imports & Exports
  - Oil

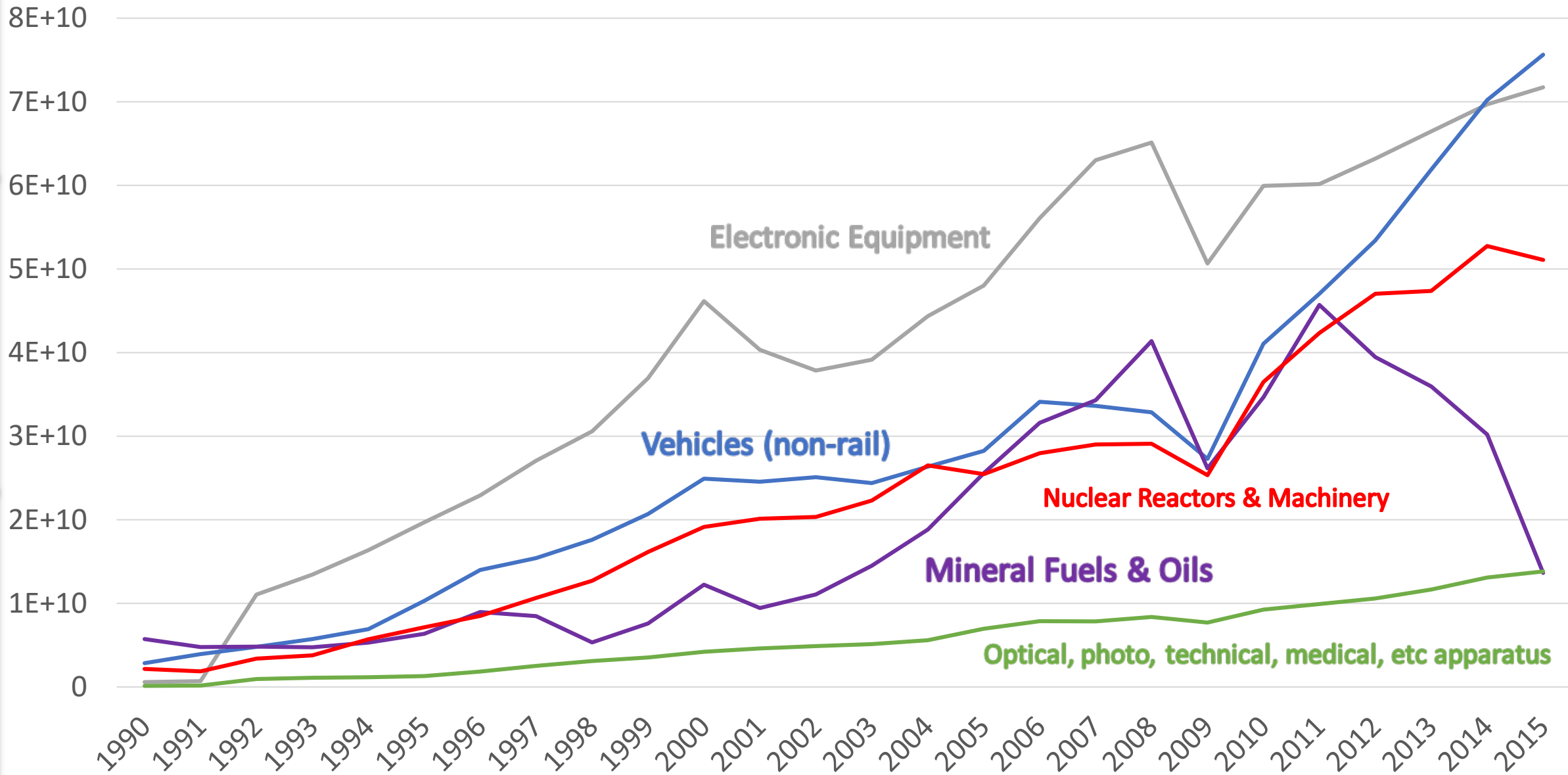
# Top Mexican Exports to Canada



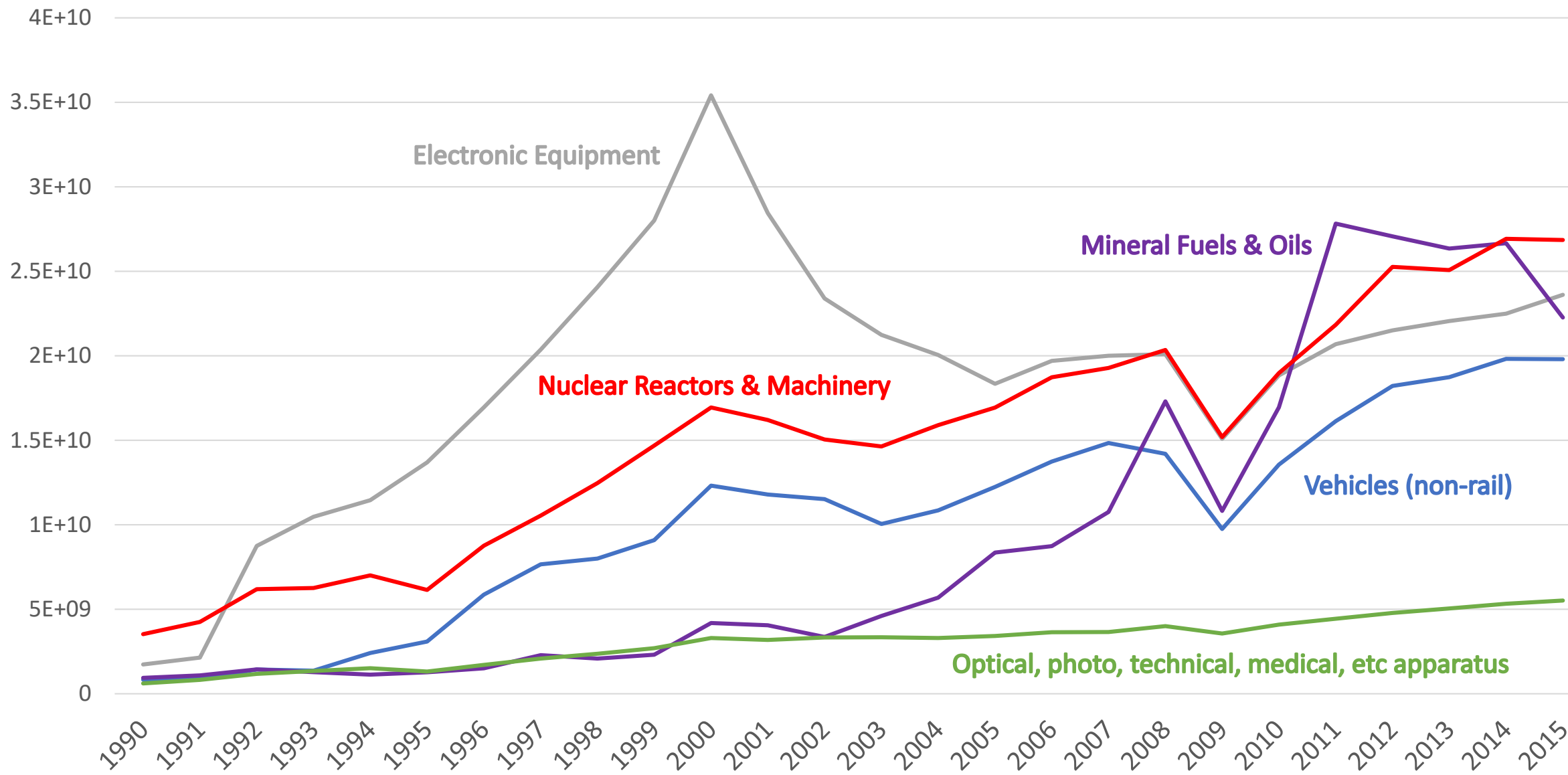
# Top Mexican Imports from Canada



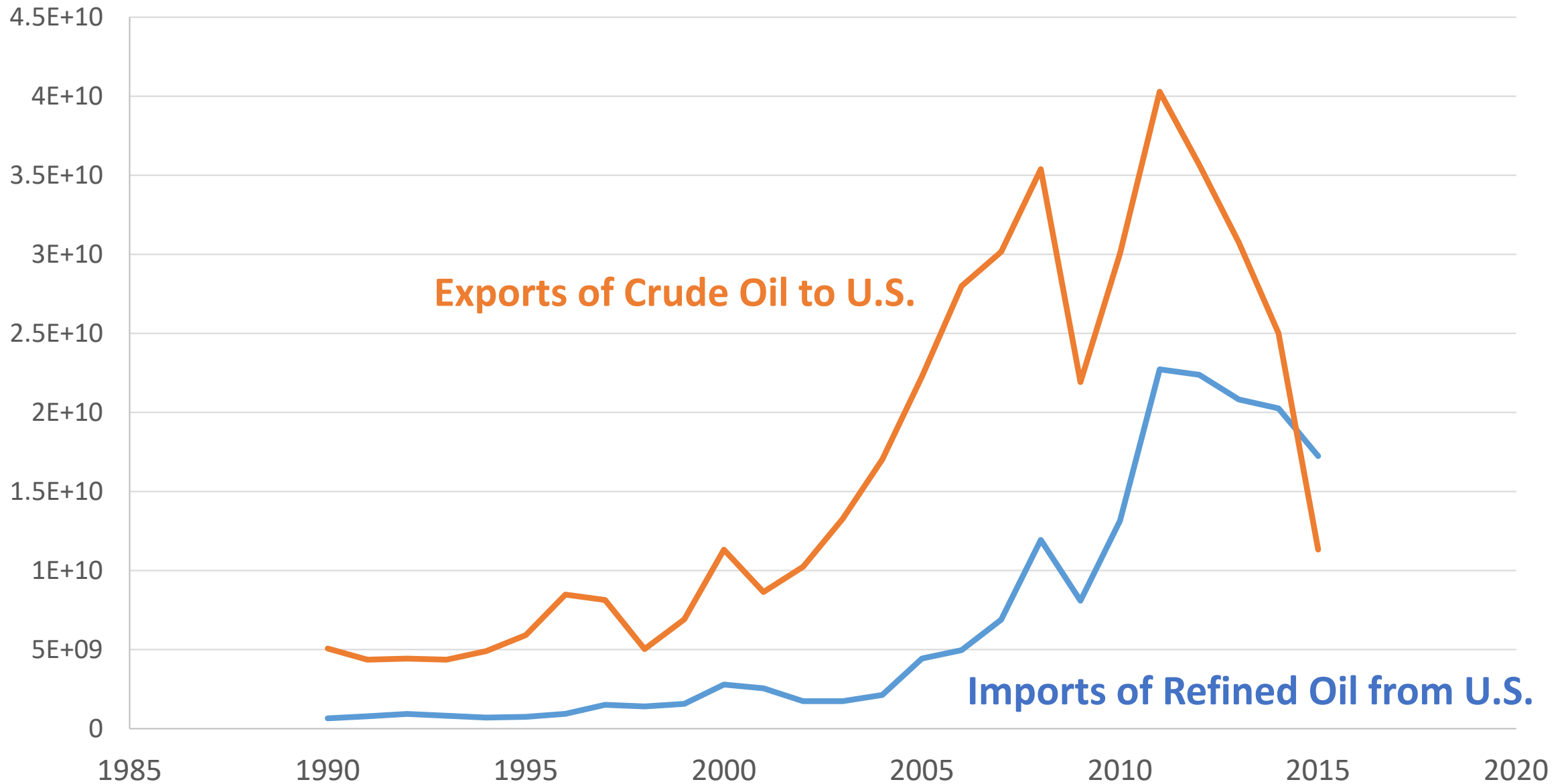
# Top Mexican Exports to USA (Total Trade Value)



# Top Mexican Imports from USA (Total Trade Value)



# Mexican Crude Exports & Refined Imports





# MEXICO AND USA: MOVING FORWARD?

- Continue and build upon crude oil swaps with USA
- Seek potential investments for infrastructure upgrades and new oil reserve exploration
  - Only 20% of Mexico has been extensively explored for reserves
- Capitalize on other available US markets through FDI, much like auto-manufacturing industry

# INDUSTRIES

- **Automobiles**

- Trading
- Companies
- Maquiladoras

- **Beer**

- Barley
- Grupo Modelo
- Corona

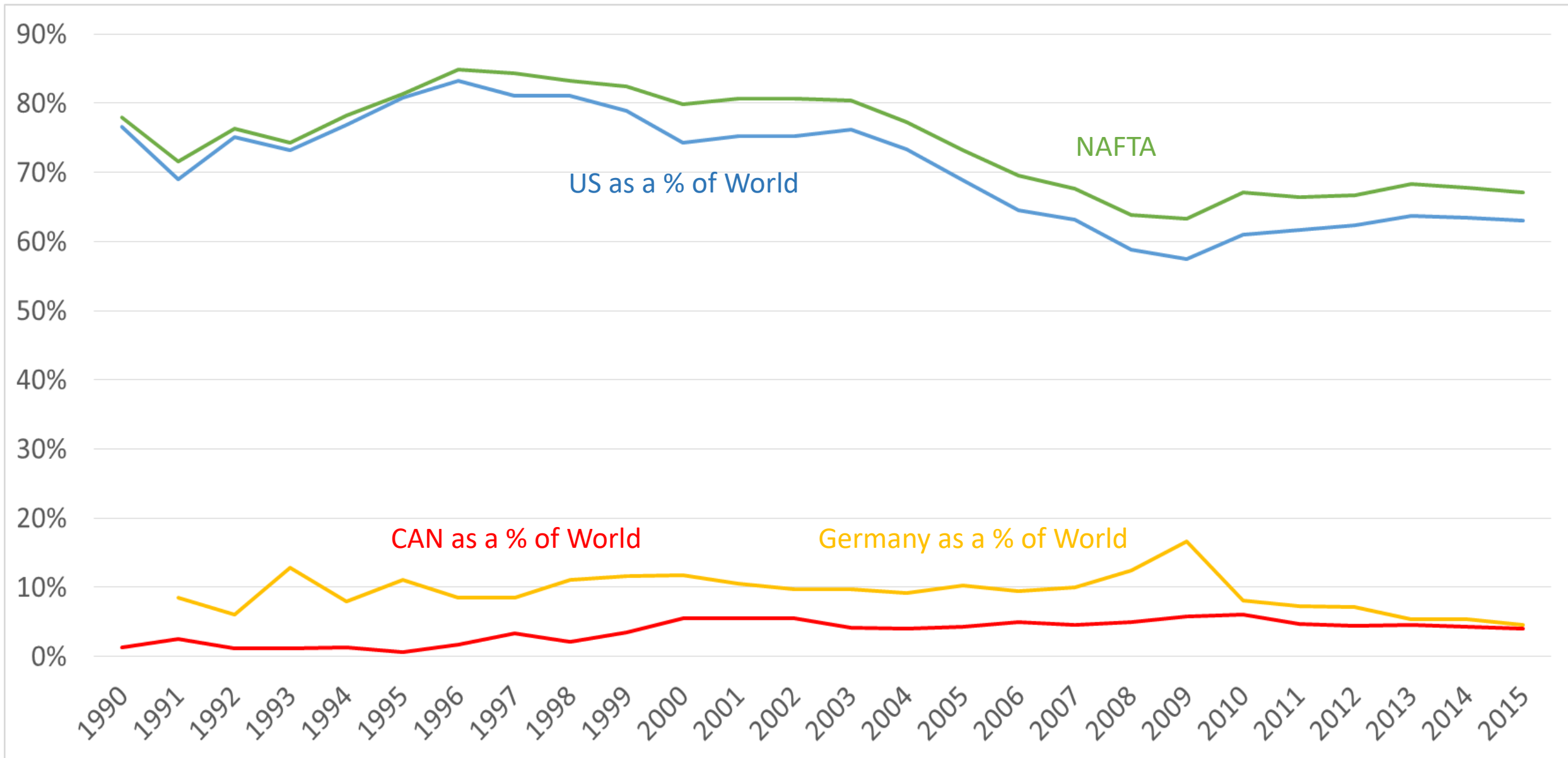
# AUTOMOTIVE INDUSTRY

- Vehicle trade (with world)
- Vehicle trade (with USA)
- Vehicles export by company
- Two clusters of automotive industry
  1. US-Mexico border
  2. Central Mexico
- Recommendation

# AUTOMOTIVE VEHICLE TRADE (WITH WORLD)

- 1<sup>st</sup> Finding: Mexico is primarily importing auto parts from NAFTA countries

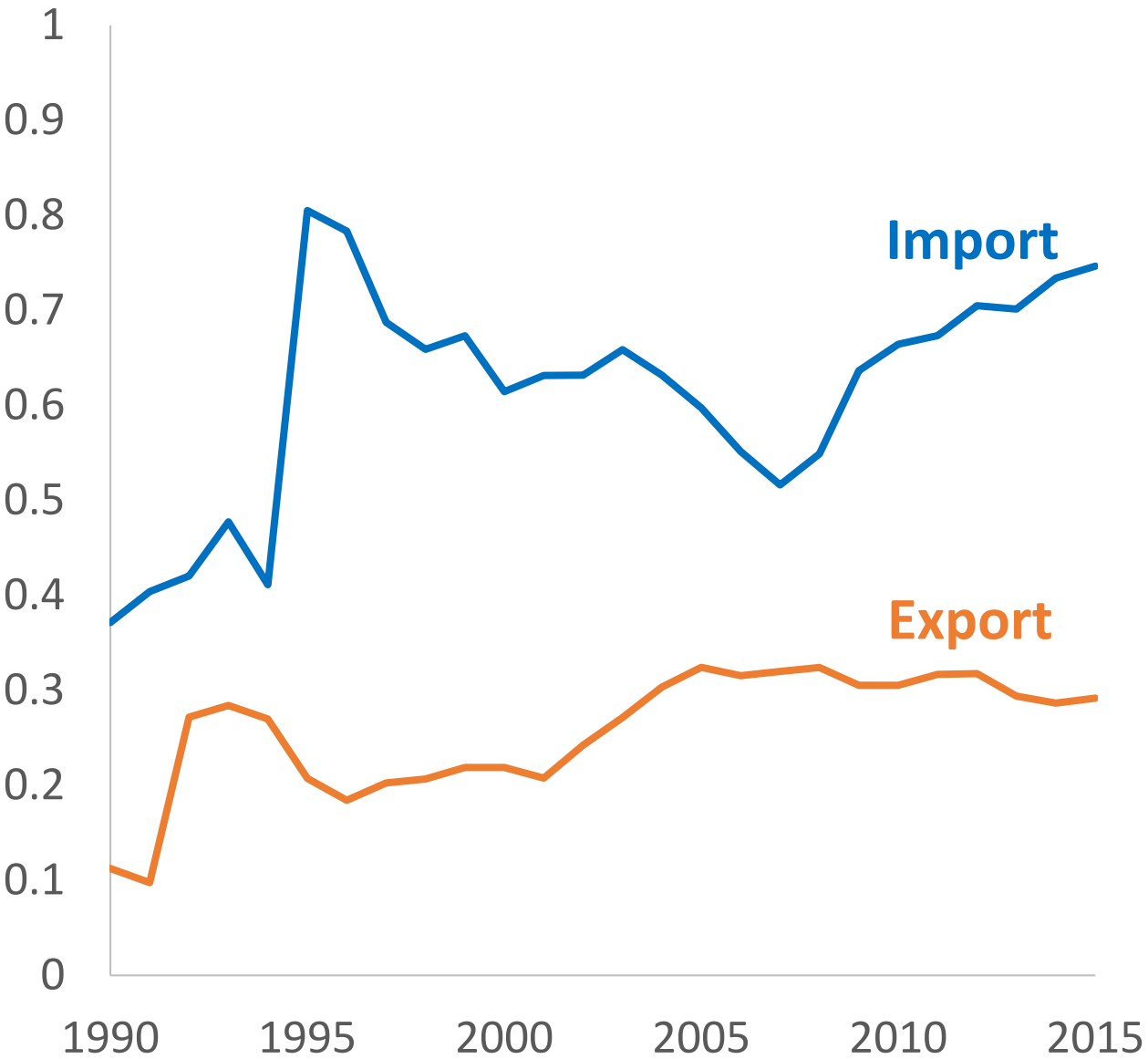
# Imports of Vehicle parts from US, Canada and Germany as a % of the World



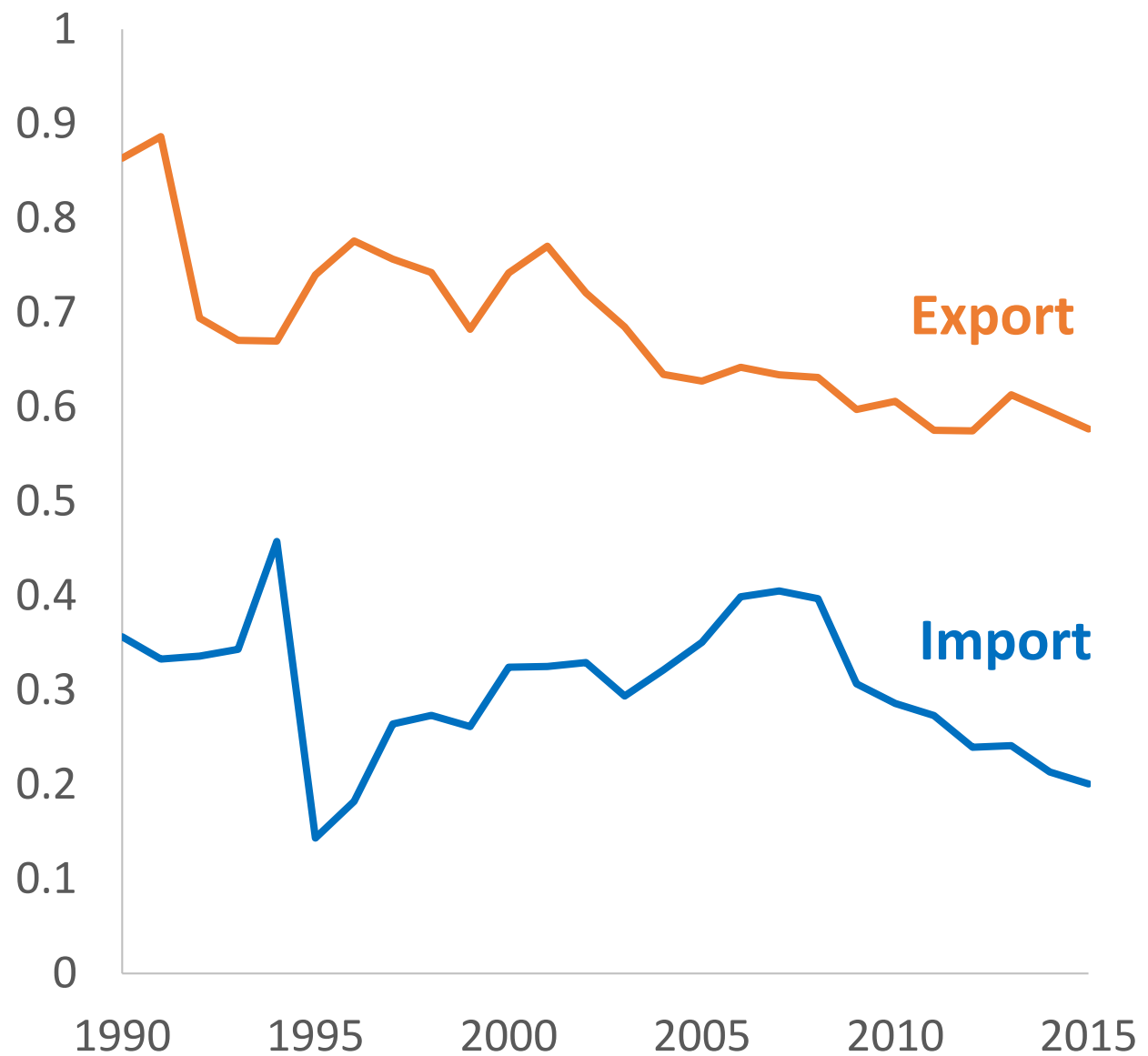
# AUTOMOTIVE VEHICLE TRADE (WITH USA)

- Because US is such a crucial trade partner, we single out US and analyze the US-Mexico auto trade in depth.
- 2<sup>nd</sup> Finding: Mexico imports car parts from the US and exports assembled/finished cars back to the US.

### Auto Parts as a % of Total vehicle (Trade with USA)



### Finished Cars as a % of Total Vehicle (Trade with USA)

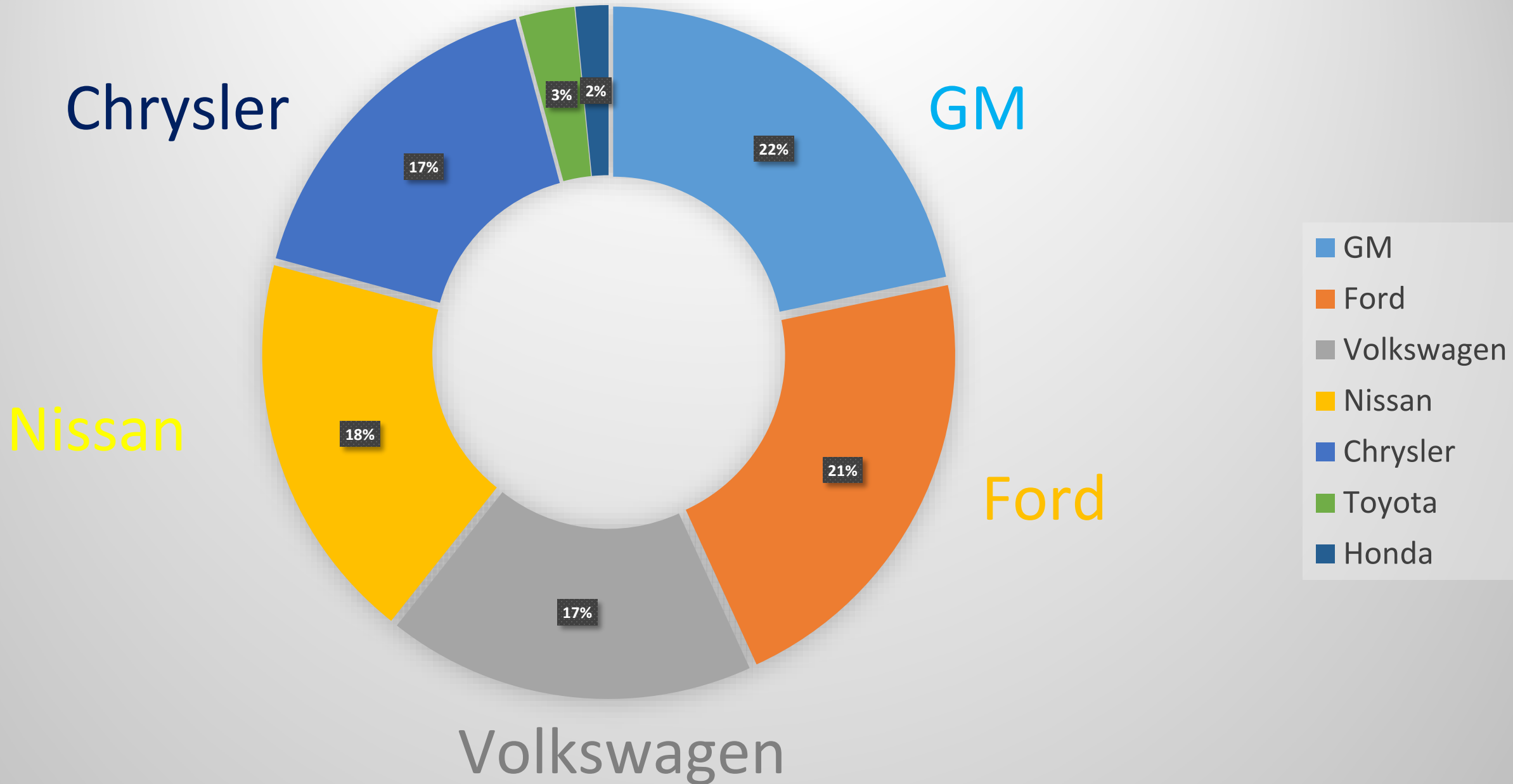


# CAR EXPORTS BY COMPANY

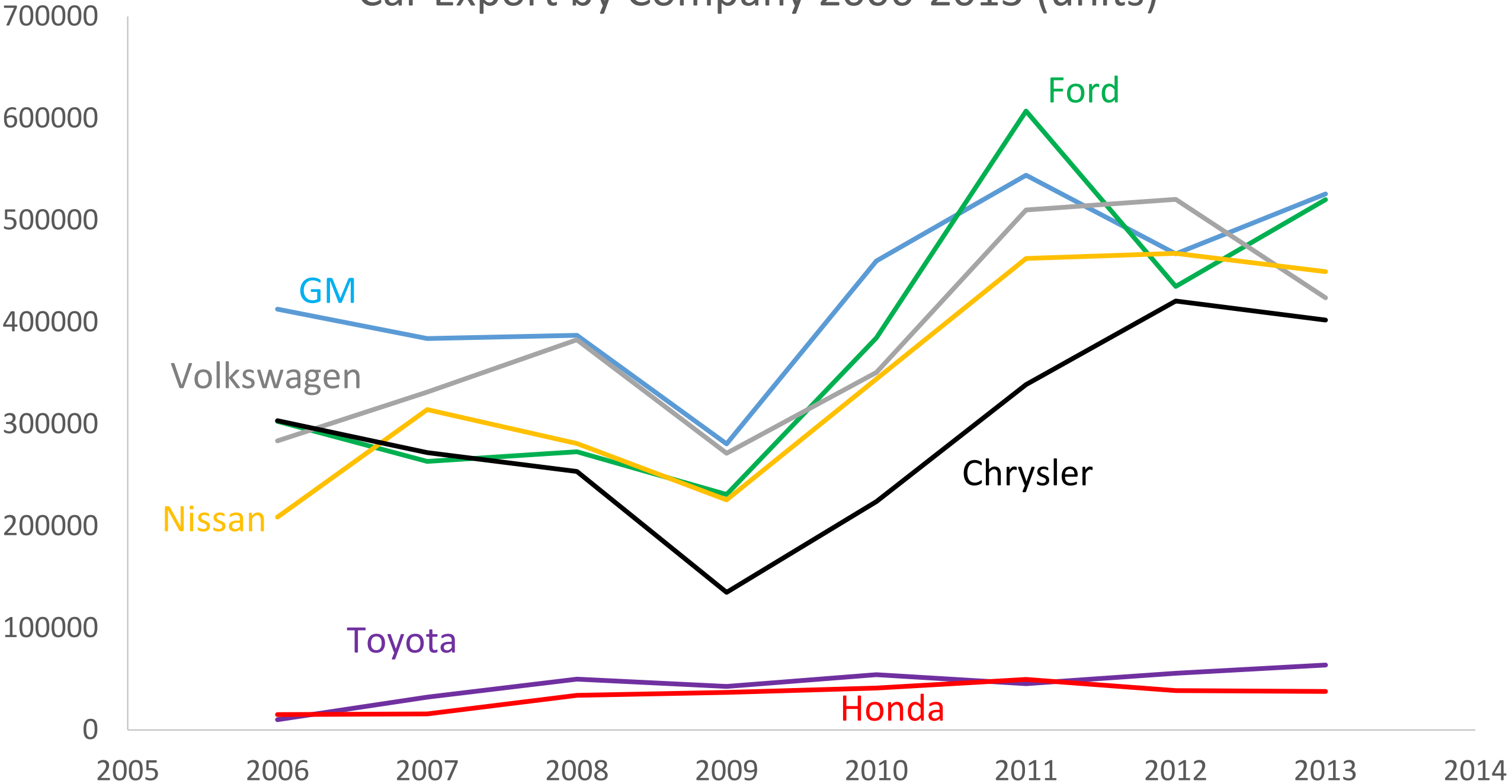
- GM, Ford, and Chrysler (American)
- Volkswagen (German)
- Nissan, Toyota, and Honda (Japanese)



# Cars and Trucks Export by Company



# Car Export by Company 2006-2013 (units)



# TWO CLUSTERS OF AUTOMOTIVE INDUSTRY

- Northern region (maquiladoras)
  - Characterized by high employment
  - **Human capital:** abundant low-skill workers
  - **Geographical location:** close to the US
  
- Central region
  - Characterized by high value added
  - **Human Capital:** most educated workforce in the country—critical source of engineers, designers, and other high-skill workers
  - **Logistics:** Efficient transportation system—highway, airports, and ports
  - **Geographical location:** close to Mexico City

# Ubicación en México de Plantas de Vehículos Ligeros



# MAQUILADORAS

- Maquiladoras are factories in Mexico that **import raw materials** on a duty-free and tariff-free basis and **export assembled/manufactured goods** back to the USA.
- They concentrate on the US-Mexico border

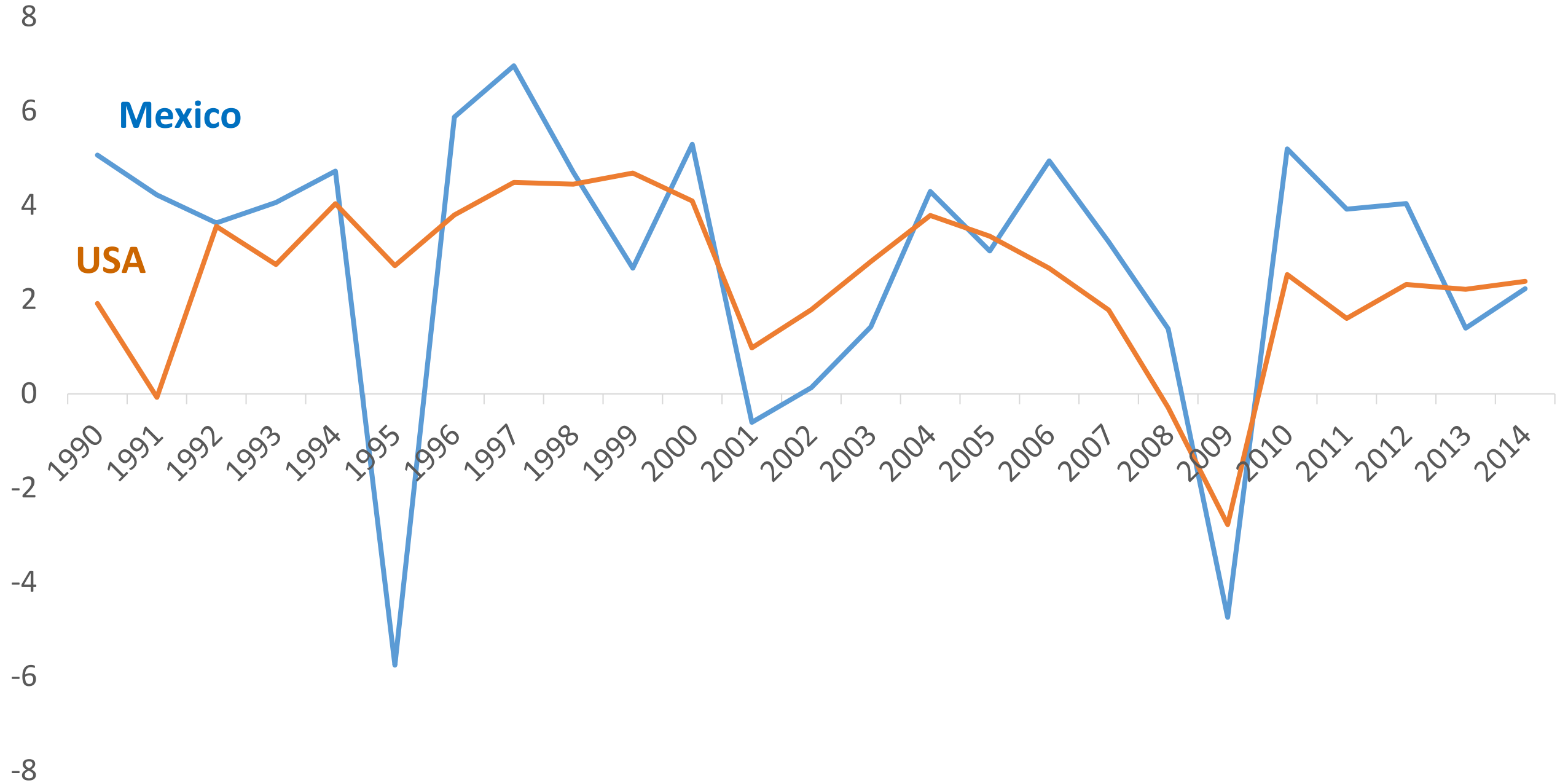
# REASONS FOR SUCCESS OF MAQUILADORAS

- #1: Advantageous **geographical location**—low transportation cost to the US
- #2: Trade policies: NAFTA fueled maquiladoras since 1994. Under NAFTA rules, as long as final products are sold in the US, the owners of maquiladoras don't pay **duty** on imports from the US.
- #3: **Low labor cost**—allowed US companies to produce goods at competitive prices
- #4: **Specialization**—relatively high quality

# RECOMMENDATION

- **Gradually reduce dependence on US market conditions**
  - Diversify exporting countries in new markets of Central and South America
  - Eliminating or reducing customs duties in South American countries
  - Leverage strategic position to attract FDI from auto firms from Europe and Japan
- **Shift away from maquiladora-led to more sustainable model of development**
  - The automotive cluster in central Mexico has grown to include higher value activities such as engineering and design
  - Northern maquiladoras are losing competitive advantage due to alternative sources of cheap labor
- **Stability is good for business**
  - Improve security and stability in some states
  - Actively fight corruption
  - Address anti-competitive concerns

# GDP Growth Rate





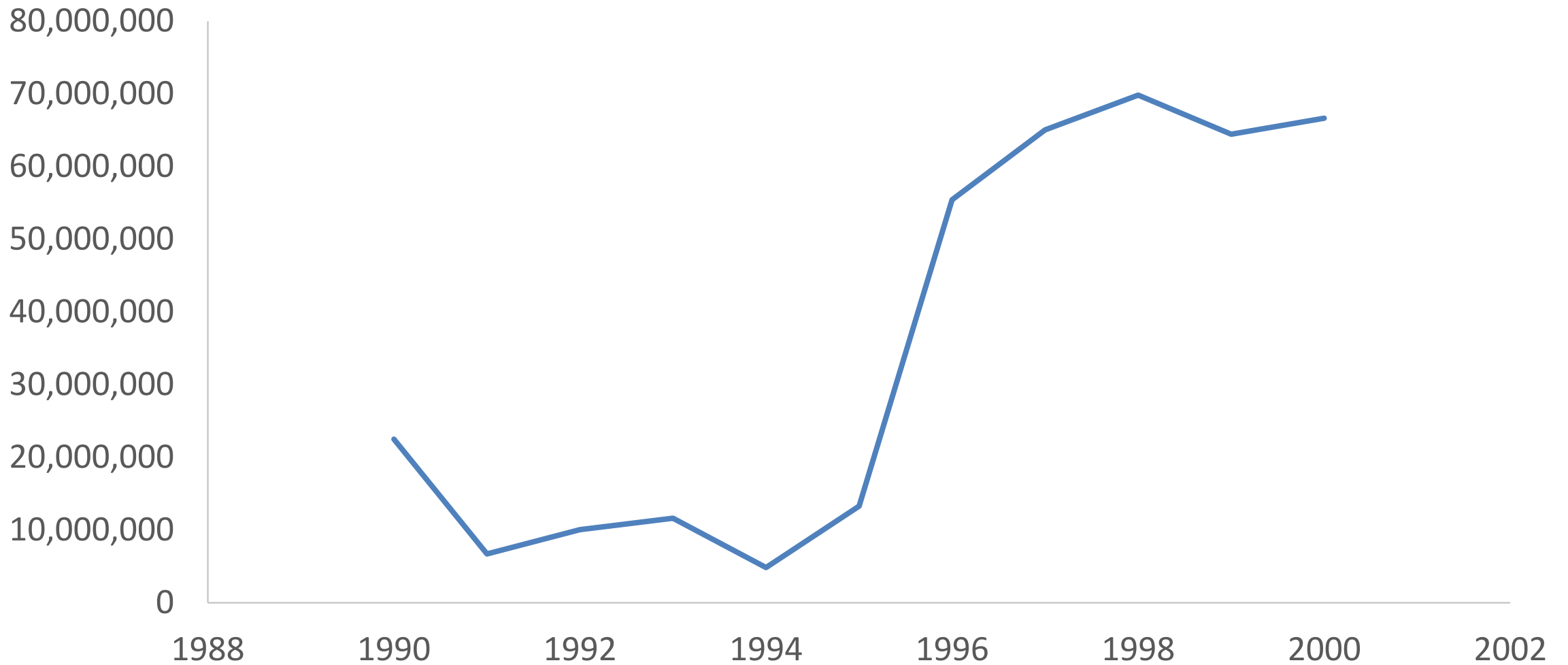
# MEXICAN BEER INDUSTRY

- How did NAFTA impact this industry?
- Key Players in this industry
- Corona: Timing and Advertising

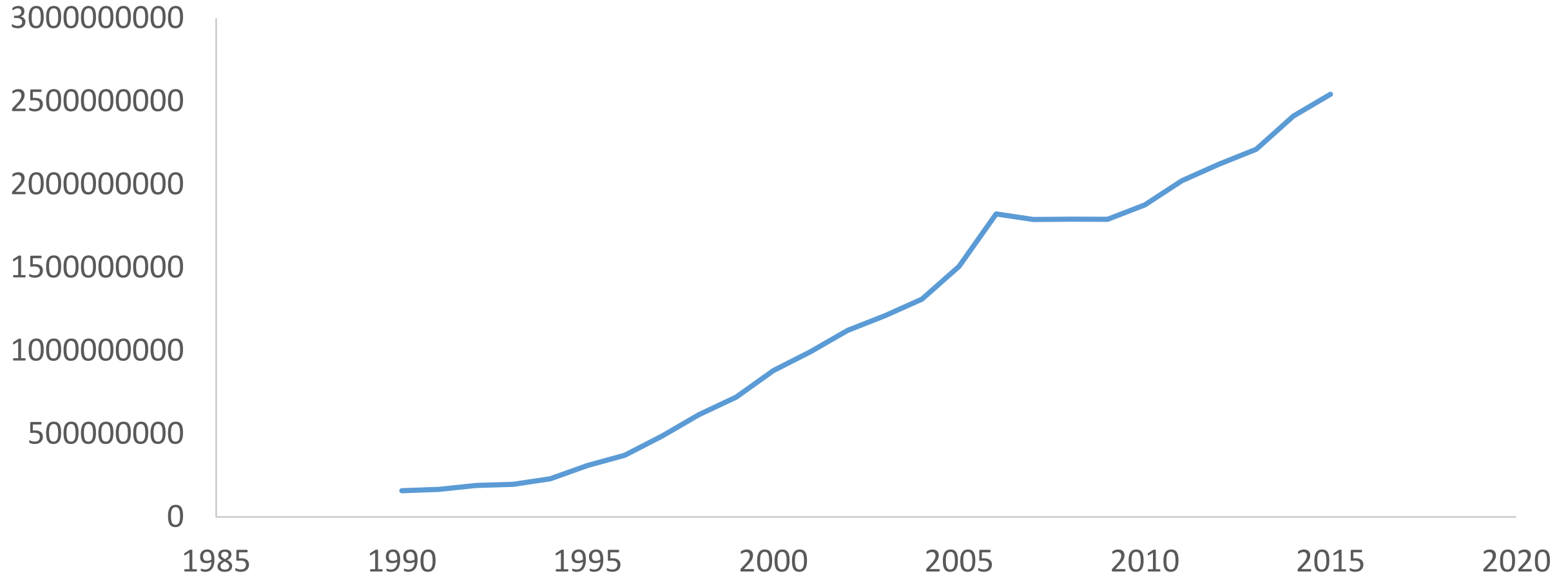
# BARLEY



## Mexican Imports of Barley from United States (Bushels)



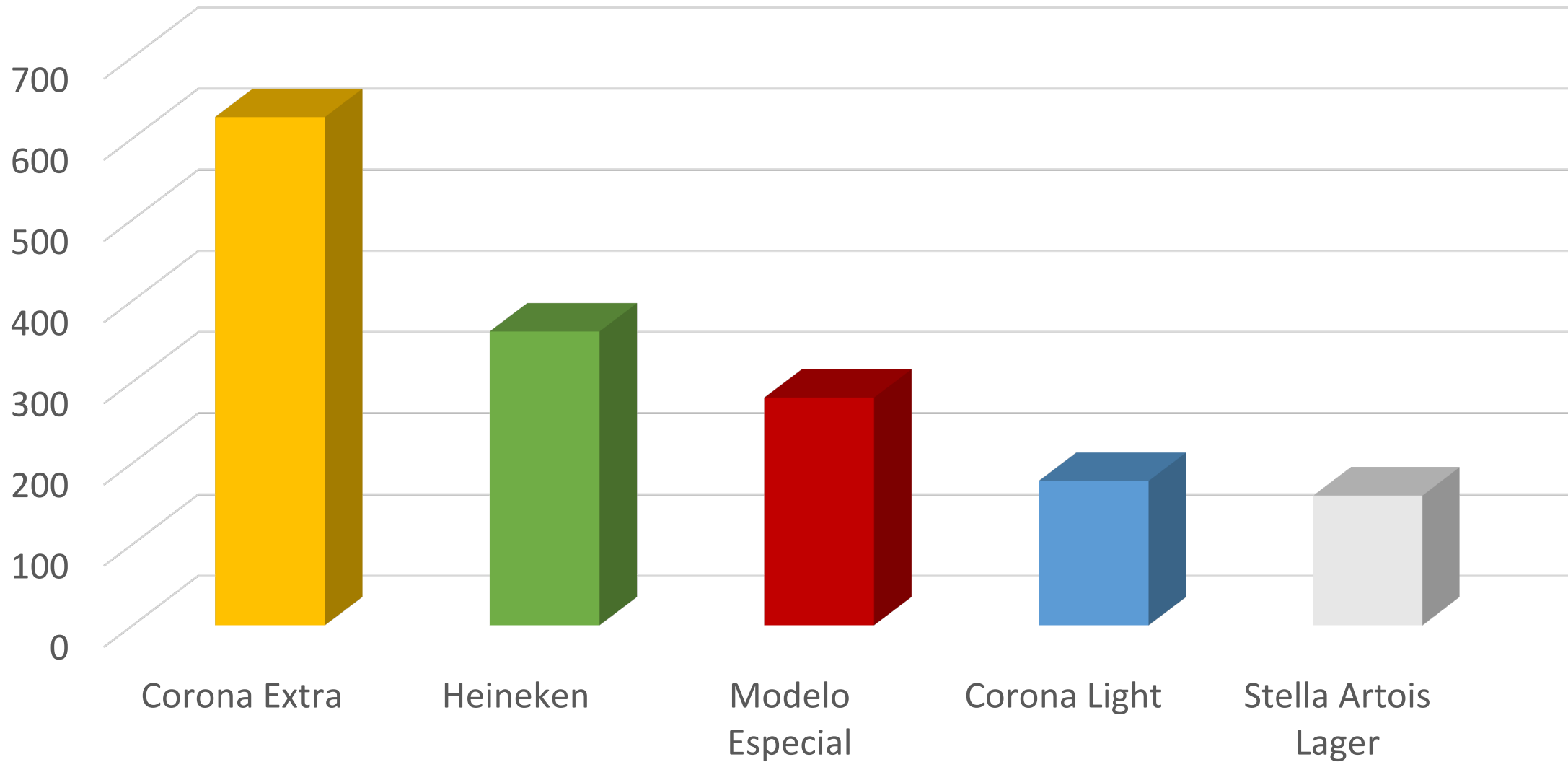
# Quantity of Mexican Beer Exported (liters)



# GRUPO MODELO

- Premier Mexican beer company since 1925
- Dominates Mexican beer industry
  - >60% of Mexican Beer Industry (Other major player, FEMSA)
  - 80% of Mexican Beer Exports
- Most successful beer
  - Corona Extra
  - Modelo Especial
  - Corona Light

# United States Top 5 Beer Imports in 2015



# CORONA

- #1 Mexican beer exported (Roughly 150 countries)
- Began its “Vacation in a Bottle” Campaign in 1988
- Surpassed Heineken as #1 imported beer in the U.S.A in 1997
- Enjoyed annual sales growth 1991- 2006
- Acquired by Anheuser-Busch in 2006
  - Price Change
- Pivoted Advertising
- [Find Your Beach w/ Gruden](#)

# SUMMARY

- Trade liberalization
- Chinese Influence
- NAFTA
- Vehicles
- Beer