Mexico Takes the Lead!

A lead change in soccer is an exciting time…assuming of course that your team has just taken the lead. A lead change means that your team was behind and is now on top. You cheer and hope that your team can hold the lead.

In international trade and investment, the game has been ongoing for decades. And the U.S. - Mexico team has been a dominant team on the field.

Mexico Establishes a Dominant Trade Team

The U.S. is no stranger to trade and investment with Mexico. Maquiladoras have been around since the 1960's. The maquiladora program created economic growth and jobs in Mexico by encouraging U.S. direct investment across the border. Specifically, U.S. industry benefited from lower production costs and the Mexican economy benefited from industrial expansion. The old North American Free Trade Agreement (NAFTA) further enhanced trade between the U.S., Mexico, and Canada. By 2004, ten years after the signing of NAFTA, Mexico ranked number two in trade with the U.S., accounting for 11.6% of total U.S. trade amongst the top fifteen trading partners.[1] Only Canada, the other NAFTA partner, ranked higher with 19.5%.

By this time, a mature commercial partnership between the U.S. and Mexico resulted in similar manufacturing practices (for example, just-in-time inventory management), a highly skilled Mexican labor force, and the infrastructure required to support expanded bilateral trade.

China Takes the Lead…But Only Temporarily

In the early 2000's, with the entrance of China into the World Trade Organization, some supply chain advantages shifted away from Mexico and towards China**.** Through a combination of lower import tariffs, which allowed for a lower cost of both materials[2] and labor, China was instantly able to compete on a global scale. By 2016, China had increased trade with the U.S. by more than thirty times, from approximately $8 million in 1986 to over $578 billion in 2016[3]. By the end of 2018, China ranked as the largest U.S. trade partner, followed by Canada and Mexico.

Mexico's Comeback…This Time for Good

In 2019, the rankings changed again, with Mexico taking the top position in U.S. trade relations and becoming an even more attractive market for U.S. direct investment. Several key factors have contributed to the change.

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[1] Censes.gov/foreign-trade/statistics
[2] Amiti, M., Dai, M., Feenstra, R., and Romalis, J. (2018). How Did China's WTO Entry Affect U.S. Prices?
[3] What Happened When China Joined the WTO?

A trade war with China in 2018 and 2019 caused disruption to the supply chain and created uncertainty about the viability of long-term U.S. investment in the Asian region[4]. This disruption caused a realignment of trade back towards Mexico.

In addition to the trade war with China, the revamped NAFTA, now known as the United States - Mexico - Canada Agreement (USMCA), effectively modernized the trade agreements between the three countries.

The expectation today is for continued growth and opportunity in the Mexican market. For the foreseeable future, thanks to the well-established and friendly U.S. - Mexico commercial relationship, in combination with the new USMCA and continuing disruptions in Asian supply chains, we expect Mexico to maintain its position as a top trading partner of the U.S. and a very attractive destination for U.S. industrial investment.

If you are cheering for the U.S. - Mexico trade team, the lead will likely hold for some time.

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[4] Tempest Capital (2020). The US China Divorce: Rise of the Mexican Decade