Atradius
Managing risk, enabling trade

Mexico: More than the wall

Atradius - August 2017

Summary

- While Trump's border wall continues to dominate the conversation about Mexico, the potential for altered trade arrangements have a larger chance of having large-scale effects on the country's economy.
- Trump's threats to revise NAFTA agreements and build a wall at the Mexican border could offer new export trade opportunities for businesses in commercial relations with Mexico.
- The EU-Mexico Free Trade Agreement – first enacted in 2000 – is on the table for revisions and improvements. An updated deal would likely boost trade in agricultural products.
- The most promising sectors for commercial investment in Mexico are energy, environmental technologies, public transport, construction, public works and automotive.

President Trump's enthusiasm for building a wall at the Mexican border to prevent the arrival of illegal immigrants in the U.S. continues to produce uncertainty across the American continent. Mexico initially reacted to this threat with indignation, until the propaganda storm cleared and it became clear that Trump's dream of a wall was not taken seriously by others in his administration.

What the Mexican government has taken seriously, however, is Trump's call to the U.S. automotive industry to dismantle its Mexican assembly chains or face high duty taxes on returning finished products to the U.S. Trump's argument is that this will be a step toward returning Detroit factories to their former success.

Trade threats like this are taken more seriously than generic proclamations against immigration because they are more realistic in terms of feasibility. Trade threats also have the potential to cause widespread economic damage.

But the wall continues to dominate the conversations about Mexico. Why? Because Trump is harnessing one of the most powerful tools in storytelling: He's using a symbol. Like Herman Melville's white whale in *Moby Dick*, the wall captures the imagination, inciting long-term mental closures that could very well be translated into the real world in the form of unilateral revision of the Free-trade Agreements and the introduction of import duties on foreign products in the U.S.

Paradoxically, however, some in the Mexican administration would be happy to see borders raised between the two countries, even if only on paper in the form of stricter customs barriers. Josè Guerra Abud, the Mexican ambassador to Italy, for instance, recently argued that Trump's threat of closure might be beneficial to Mexico. He stated that the economy of his country is too closely tied to the United States, and Mexican entrepreneurs would do well to look for other markets in Latin America, Europe and Asia.

Since NAFTA was enacted in 1994, trade between Canada, the U.S., and Mexico has grown exponentially. Trade between the U.S. and its southern neighbor has nearly quadrupled: the value of Mexican exports to the U.S. is currently more than $300 billion, and trade industries employ half a million Mexicans. According to analysts, this growth is largely due not to new wealth, but rather to the redistribution of resources away from Mexico's primary trading partners pre-NAFTA.

In this sense, then, Trump's protectionist turn could help Mexico further diversify its export destinations and reduce its overdependence on the US for its foreign trade. Currently Mexico has 12 Free-Trade-Agreements with 46 countries in place, and is focusing on strengthening trade ties with the EU, Mercosur, and Asia. With more than 100 million consumers in Mexico, this market diversification policy could offer suppliers from other countries opportunities to commercially penetrate one of the Latin American markets with the most commercial potential.

Mexico is part of the G20 and the OECD and has greater economic stability than many other Latin American countries. It also has a population of 120 million people, about half of whom are under 30 years old – a key indicator of a growing emerging market. Mexico's economic performance also tells a promising story: GDP growth slowed down in 2016, but still increased by 2.0%, the government deficit is at 2.6% of GDP and public debt at 50.2%.

With these strong credentials, a new trade agreement with the European Union could ultimately prove to be the more realistic and immediate opportunity. Indeed, recent months have seen an acceleration of the negotiations aimed at renewing and extending the Free Trade Agreement between Mexico and the European Union, entered into force in 2000. Meetings have already occurred in Mexico City in April and June. By all appearances, a renewed trade agreement with Mexico would benefit the EU, too. Since the existing agreement came into force, trade volumes between the EU and Mexico have tripled, and the annual value of goods trade is currently at €53 billion. The balance here favors the European Union, which in 2016 exported €33 billion in goods and services to Mexico. Key EU exports to Mexico include machinery, transport equipment, chemical products, fuels and mining products .

Trade deals which are likely to require longer negotiations, include possible free-trade-agreements with potential trade partners in Mercosur, and Asia Pacific. In Mercosur, Mexico is trying to pursue closer ties with Brazil and Argentina – both major exporters of agricultural products - in order to meet its national agricultural needs. Furthermore it is discussing bilateral deals with Australia and New Zealand, two other important food-exporting countries.

Opportunities for Investment

The main investment opportunities in Mexico primarily concern the energy sector, both for the exploration and exploitation of Mexico's huge offshore oil fields and for the development of renewable energies. Mexico is aiming to increase its use of renewable energy from 25% to 35% of energy consumption by 2024.

Demand for environmental technologies and services in Mexico are also growing: Water treatment, urban solid waste treatment, and public transport will surely be welcome in a country where, in recent years, climate and environmental emergencies have increased alongside population and economic growth.

Construction and public works offer a third investment opportunity. This is particularly true in the areas of civilian housing and infrastructure works – roads, highways, railways, ports, airports – which the government is promoting to accelerate modernization.

A key sector remains the automotive industry. Many car manufacturers, have factories in Mexico, making the country the seventh largest car manufacturer in the world. More than 600 automotive companies have been established in Mexico over the last few years, and by 2023 automotive production is expected to quadruple from 2016 levels.

Disclaimer

Atradius N.V.
David Ricardostraat 1 · 1066 JS
P.O. Box 8982 · 1006 JD
Amsterdam
The Netherlands
Telephone: +31 20 553 9111
Fax: +31 20 553 2811

www.atradius.com

Atradius