Is Mexico Losing the U.S. And Canadian Markets?

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INTRODUCTION

Prospects for Mexican manufactured exports to the U.S. and Canadian markets should be analyzed in the light of different factors, both domestic and international. Domestically, the economy's performance is important, particularly after the U.S. recession and our own, the resulting performance of domestic manufactures and the competitiveness problems we face.

To start with, we should consider the world economy, and particularly that of the United States, since, as we know, Mexico's economic cycle has historically been linked to it. Today, expectations for economic recovery in the U.S. do not look very promising for the near future and should be taken into account in any analysis of the prospects for Mexican exports in that market.

Other elements must also be taken into account, and will be the object of this article: the position of the emerging countries and those in transition that have become our competitors in exports, particularly in our own market. This is the case, mainly, of China and the members of the Mercosur, especially Brazil, as we shall see. We also must not lose sight of what the impact of a Free Trade Area of the Americas (FTAA) would be on our exports to the United States and Canada. Another development that must be kept in mind is the expansion of the European Union since May 1, 2004 to include ten formerly socialist countries now in transition to a market economy.

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NEW COMPETITORS IN THE NORTH AMERICAN MARKET

The apparent dynamism of Mexican exports is illustrated in figures that show that in less than a decade, our economy achieved sales abroad similar in terms of value to those of all of Latin America and the Caribbean in 1993.[1] Nevertheless, this export "success" has not resulted in a generalized strengthening of Mexican production, and most of the country's exports are produced by no more than 50 companies, above all multinationals with subsidiaries and plants here. Also, our economy's main market is the United States. Already by 2000, 88 percent of Mexican exports were concentrated there, while 3 percent went to the European Union, 3 percent to Latin America and the Caribbean, 1 percent to Asia and the rest to other countries.[2]

The U.S. economy's recession has made for changes in the conditions of the world market. In that scenario, Mexican exports are made in an increasingly competitive environment, and we have begun to suffer the consequences: while we had managed to send around 90 percent of our exports to the U.S. market, turning us into its second largest supplier, China, with its economy's dizzying growth and the world coverage of its exports, has pushed us into third place and threatens to increase its participation worldwide. It is relevant here to review the characteristics of China's economy a little further.

In recent years, China's economic policy has allowed it to grow at outstanding rates of more than 7 percent a year and given it an export and import potential that has turned it into one of the world's most attractive economies.

In Latin America it is considered a threat because it has supplanted maquila plants from Mexico and Central America in export markets, especially in the garment industry, and more particularly, in the U.S. market. For its part, the Mexican government perceives China as an enemy of our economy; Vicente Fox himself has been one of its main critics, while in Brazil things are moving in exactly the opposite direction.

Luiz Inácio "Lula" da Silva sees things differently and his strategy is to create mutually beneficial commercial and investment ties between China and Brazil. This is a striking contrast with the Mexican president's position, which by confronting Mexico with China may cause the country serious problems.

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Since 1979, the Chinese economy has grown at a yearly average of 9.4 percent, making it the world's sixth largest. It is thought that it will surpass the United States in three or four decades.[3] Today, its economy is the world's most globalized in terms of trade. Even the U.S. economy is far from it, since its trade is concentrated in relatively few countries. The speed of China's growth has turned it into an important consumer, to the point that, for example, the world steel market has felt the impact of the growing Chinese demand, which has fueled a substantive increase in steel prices internationally. China needs to build a great deal of infrastructure to maintain its high growth and, therefore, needs international supply, particularly of manufactured products and certain raw materials. That is why it is attractive as a consumer of imports. In that sense, seeing China as a trade enemy is exceptionally myopic, when in the future, it is just as attractive as the U.S. market. That means that the perception and strategy of leaders of other emerging nations and countries in transition differ from the Mexican case when they define their economic and trade strategies on this matter. So, while in Mexico, the president and part of his cabinet view the Chinese economy with misgiving, the Brazilians, Argentineans, Chileans and others see it as a potentially growing market and an ally for doing business and joint investment with substantial prospects for the medium- and long-term future. This explains why since 2002, China is the world's biggest recipient of foreign direct investment, replacing the United States itself.[4]

China's relevance is also due to other reasons:

a) In most of the important economies, exports and imports (total foreign trade) come to more than 25 percent of their gross domestic product (GDP). In China's case, they represent 50 percent, a proportion similar to Mexico's.
b) Its manufacturing sector constitutes more than one-third of the economy, while in other developing countries, it represents from 20 to 25 percent of GDP.
c) In China, investment and savings rates hover at about 40 percent of

GDP, while in the remainder of developing economies they are between 15 or 20 percent.

In the opinion of Eduardo Lora, an Inter-American Development Bank (IDB) expert, what is really moving the economy of the Asian giant is its continual restructuring, since its dynamic sectors are the ones linked to foreign direct investment and private property, and labor displaced from agriculture and state companies is assimilated by these sectors, where productivity is several times higher. Along those lines, today, approximately 160 million surplus workers are located in the country's most inefficient sectors, and in the next 25 years, the rural population will drop by 300 million. Looked at like this, and with the growth rates in China's economy, it is to be expected that in 25 years, annual per capita income will be half that of the United States.[5] In addition, with its aggressive trade policy, it will certainly continue to increase its participation as the U.S. economy's main supplier, perhaps even pushing out the Canadians.

The case of Brazil is another factor that must be taken into account when analyzing Mexico's exports of manufactured goods to the United States and particularly Canada in the medium and long term. We should point out that the Brazilian economy is quite promising, particularly with regard to its industrial growth, since its recovery is strong and increasing, to the point where growth predictions for 2004 were that industry would grow 6 percent, 50 percent more than the estimates for the economy as a whole (4 percent). These predictions have been developed by the National Industrial Confederation, Brazil's main business organization, which made a third adjustment in 2004 with a prediction of 4.5 percent for industry and manufacturing, and an adjustment of 6 percent in early August of this year.[6] President "Lula" da Silva's trade strategy aims to create more equitable conditions for underdeveloped countries in world trade. The Brazilians were important in forming the so-called Group of 20 (G-20) —actually made up of only 19 countries, including Mexico— which aspires to "create a political force capable of making sure that we have enough votes in the WTO so that we can democratically ensure that the [industrialized nations'] market opens up to the markets of the emerging countries."[7] It should be said that other important members of the G-20 include China, India, South Africa, some South American countries and, as mentioned above, Mexico, which, however, has not played a very important role.

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In the case of its relations with China and other G-20 countries, President Lula says that with them, "We hope to build the possibility of a new geography of world trade," in which what is important is not condemning the United States or the European Union, with whom they maintain strong trade and economic relations, but, together with other emerging economies, defending their interests as equals from those who determined the trade dynamic of today's world. We should say that trade between Brazil and China has grown notably, and, instead of competing, they have mutually beneficial economic relations. Thus, in 2002, bilateral trade between the two countries came to U.S.$4.4 billion, while by 2003, it shot up to more than U.S.$7.98 billion. China is the third biggest importer of Brazilian products (following only the United States and Argentina) and is Brazil's main market in Asia.

Mexico has tried to join the Mercosur and benefit from this important trade mechanism. However, in a recent South American trip, President Fox, who went to the last meeting of Mercosur presidents, only managed to get Mexico recognized as an observer (associate member). This is an expression of the reservations in that part of the hemisphere about our country, perceived as an unconditional defender of U.S. interests. Parallel to this, the United States has insisted on moving forward toward establishing the Free Trade Area of the Americas. However, there has been a great deal of resistance from some countries, among them those of the Mercosur, and the U.S. has therefore taken on the task of creating bilateral free trade agreements with several countries of Central and South America and the Caribbean, despite the resistance of business circles in some of these countries. With these agreements, the United States will give preference to exports from those economies, which puts Mexico at a disadvantage in its market, despite the benefit of the exclusive access in theory guaranteed by the free trade agreement with it.

The Canadian government, for its part, is fostering trade with Latin America in the form of investment flows in the region and the trade of goods in both directions, which opens up important possibilities for Latin American exports, particularly from South America. In the first half of 2004, South American exports to Canada increased by approximately 20.6 percent, while Mexico's only went up 5 percent.[8] If this trend continues, we could say that, like the United States, the Canadian market is opening up preferentially to the rest of the Latin American economies, competing more with Mexican exports, wresting away possibilities for the future.

The new economies in transition that joined the European Union are possible trade competitors for Mexico in the North American market in specific niches. Until before May 1, 2004, the European Union (EU) had 15 member countries, with a market of 370 million people, an average per capita GDP of U.S.$23,000 a year and a single currency, the euro.

The scenario changed with the incorporation of 10 new economies, most of which had belonged to the socialist camp: Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Malta and Cyprus. Today, the European Union is comprised of 455 million inhabitants, which represent 19 percent of world trade and an average annual per capita income of U.S.$20,500.[9] Mexico sells the EU about 3 percent of its exports and despite having a free trade agreement with it since 2000, that percentage has not changed, although EU exports have increased significantly even though its average per capita GDP dropped about 10 percent in May 2004. This will certainly mean that European politicians will propose increasing living standards in the new member countries using their own mechanisms of support and financing for their production. It is expected that European investments will be channeled with this in mind, as well as to increase the new economies' export potential by giving them preferential treatment. Thus, for Mexico, they represent potential competitors, not only in the European Union but in the world market, particularly in that of North America.

FINAL THOUGHTS

The North American market continues to be the world's most attractive and alluring since it has two of the most important economies, both big consumers of foreign products. Mexico sends the United States and Canada about 94 percent of its exports, but evidence indicates that Mexico will continue to lose important segments of that market because new competitors have emerged, in some cases encouraged by our NAFTA partners. Mexico's productive sector, particularly for export, will be more limited because of its own restrictions. Even in the case of the so-called "nostalgia" market of down-home products in the United States, Mexican producers and entrepreneurs, have reacted late, and businessmen of other nationalities have benefited from that important growing niche among Mexican immigrants.

The challenge will be to strengthen Mexico's productive capacity and competitiveness, not only to recover markets but also to diversify them, and the strategy must undoubtedly include the recovery of the domestic market. Unfortunately, this does not seem to be part of the Mexican government's plans and policies, no matter how much official rhetoric says it is. VM

NOTES

1 In 1993, Latin America's foreign trade in goods totaled U.S.$329.77 billion, of which U.S.$160.81 billion were exports and U.S.$168.96 billion were imports. This total is calculated on the basis of official figures from 19 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Dominican Republic, Uruguay and Venezuela. CEPAL, *Globalización y desarrollo* (Santiago de Chile: CEPAL, 2002), p. 178.

2 Figures based on United Nations COMTRADE trade data from CEPAL, op. cit., p. 182.

3 Eduardo Lora, "El riesgo oculto de la economía china," *BIDAmérica*, 2004. http://www. iadb. org/idbamerica/index.cfm?thisid=2562

4 Ibid.

5 Ibid.

6 "Fuerte recuperación de la industria brasileña: CNI," *Excélsior* (Mexico City), August 4, 2004, p. 4-F.

7 "Brasil busca en China un socio para una nueva geografía comercial: Lula," *Excélsior* (Mexico City), May 13, 2004, p. 2.

8 "Renovado impulso al comercio Canadá-Latinoamérica," *El Financiero* (Mexico City), August 16, 2004, p. 26. Mexican exports to Canada in the first half of this year came to U.S.$5.7 billion, more than double those of South America, despite the fact that South American exports jumped 21 percent compared to the same period in 2003.

9 Claudia Berlanga Zubiaga (member of the European Commission Delegation), "La Unión Europea y México. Programas de apoyo a las pequeñas y medianas empresas," presented at the 60th annual convention of the ANIERM entitled "Los nuevos paradigmas del modelo exportador mexicano," held in Mexico City, February 26, 2004.