



Different Models for Liberalisation: The Case of Mexico

SE

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1. Introduction

2. Trade liberalisation in Mexico

3. Benefits from trade

4. Final remarks

International trade is a key determinant for economic growth

"Policies toward foreign trade are among the more important factors promoting economic growth and convergence in developing countries"
IMF (1997, 84).

International Trade

**Use of
comparative
advantages**

**Efficient use of
resources**

**Dissemination
of knowledge
and technology**

Attracts FDI

1. Introduction

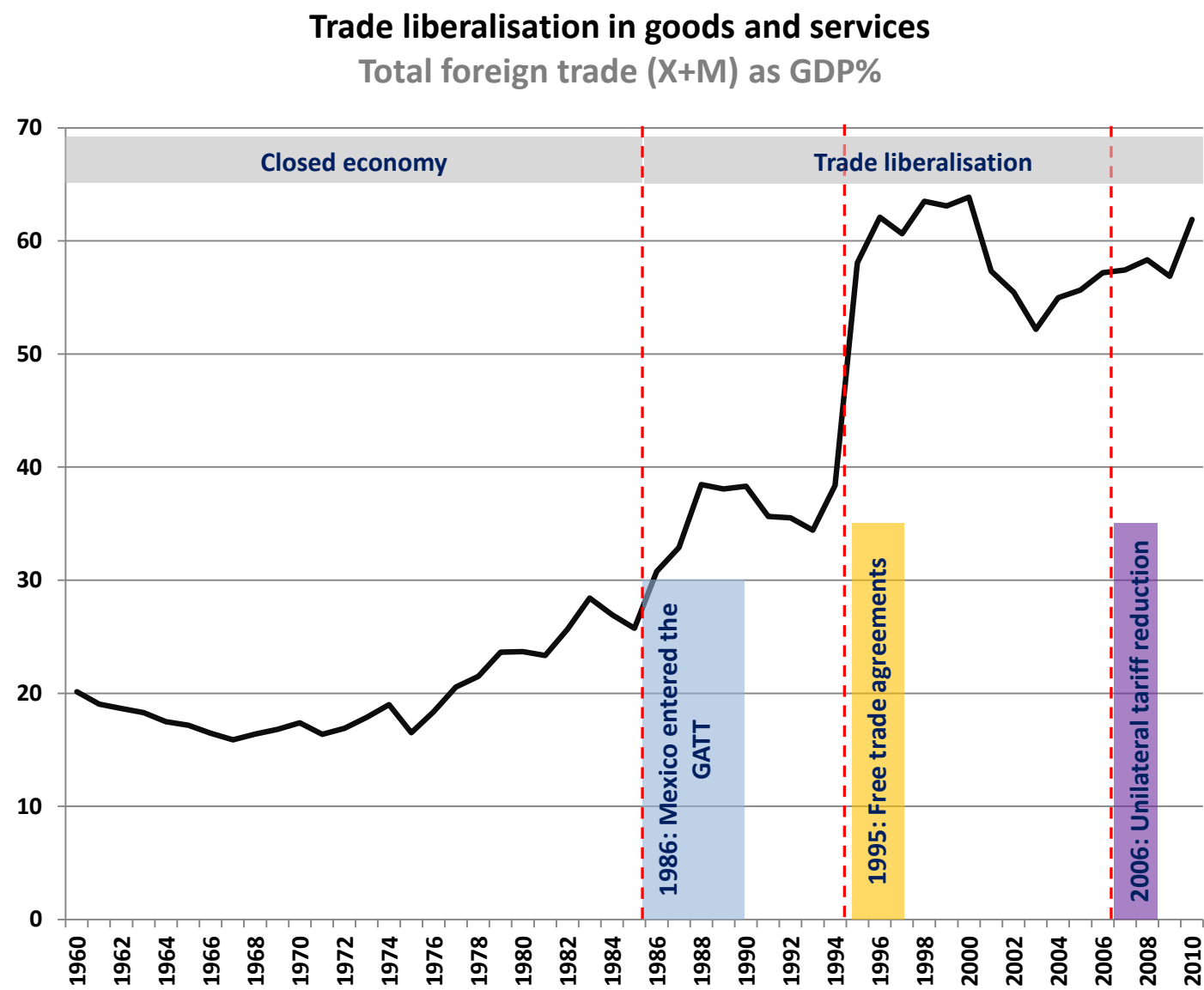
2. Trade liberalisation in Mexico

- a) From a closed economy to the GATT signature
- b) Free trade agreements
- c) Trade simplification

3. Benefits from trade

4. Final remarks

Trade liberalisation process in Mexico has gone through four main stages



Source: The World Bank and Banxico

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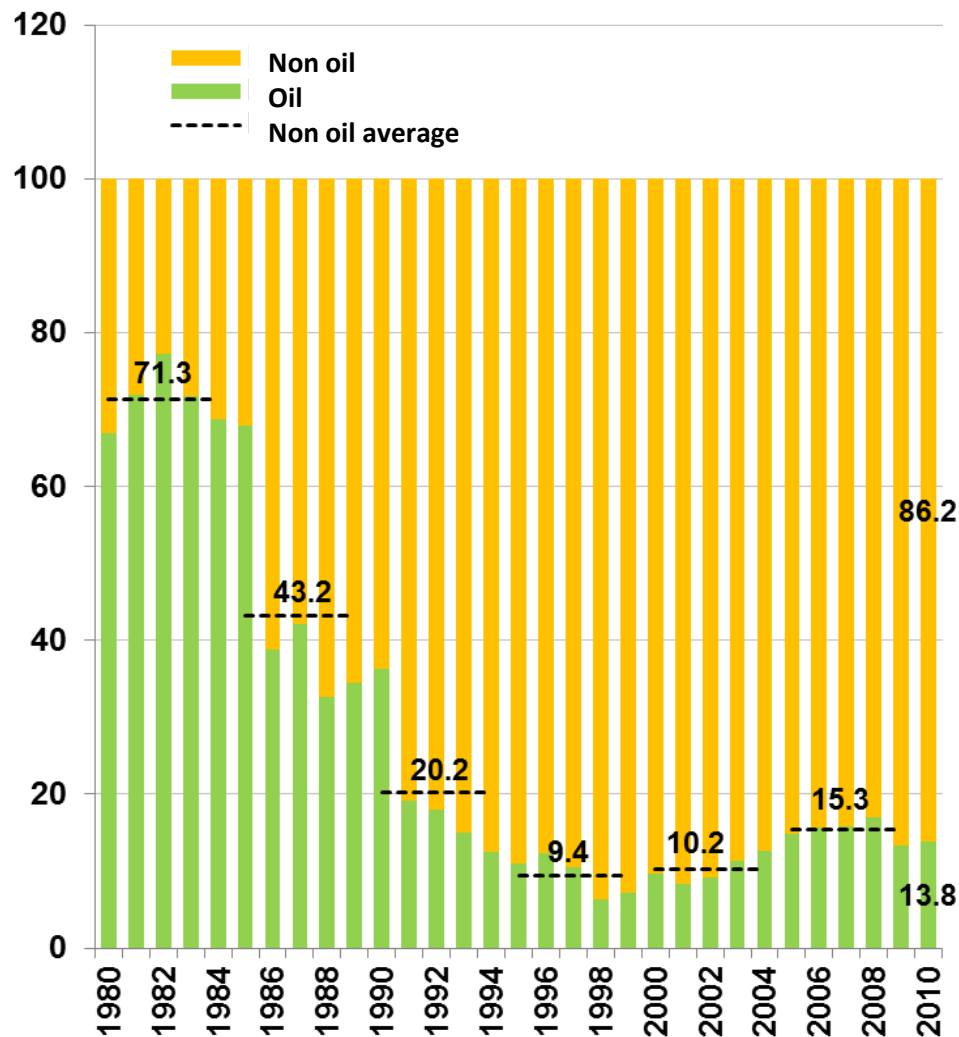
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Trade liberalization, among other factors, trigger the growth and diversity of exports

Structure of Mexican Exports, 1980-2010
(Percentage)



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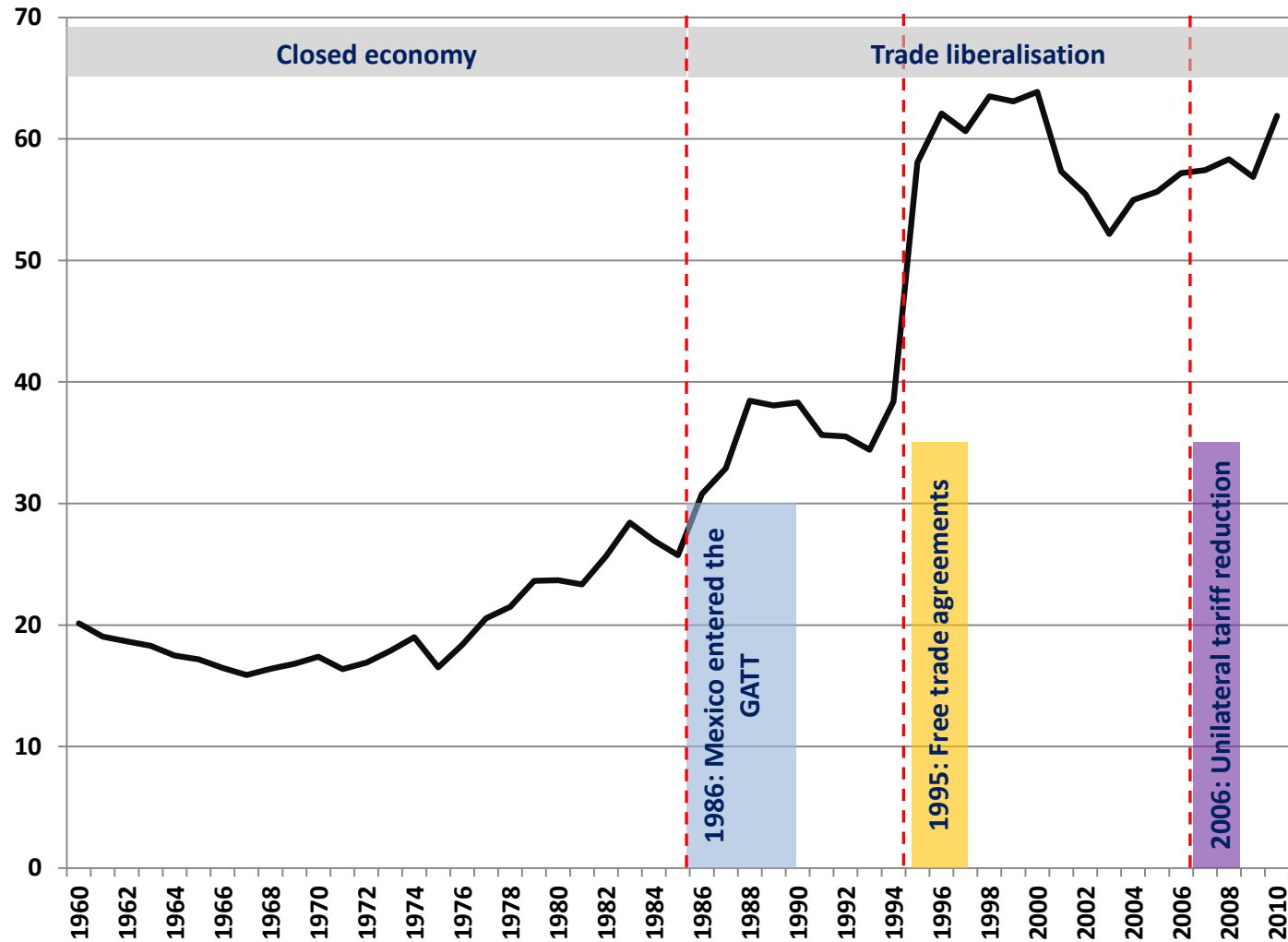
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FTAs brought a new impulse to the export sector

Trade liberalisation in goods and services

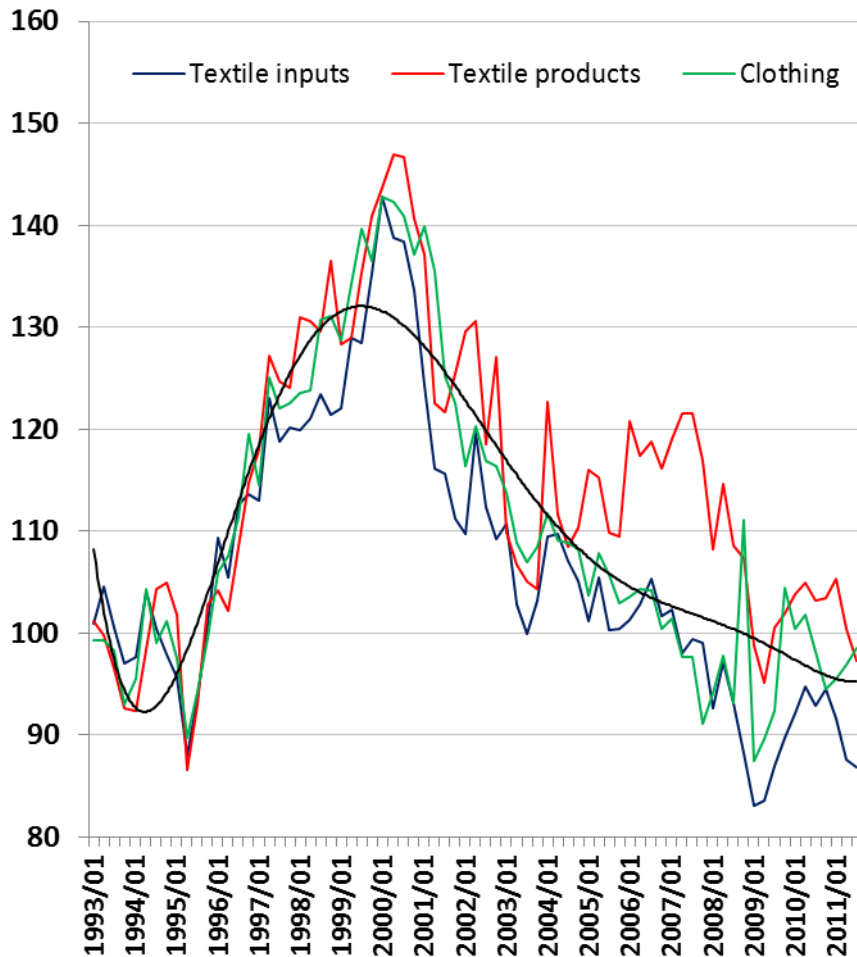
Total foreign trade (X+M) as GDP%



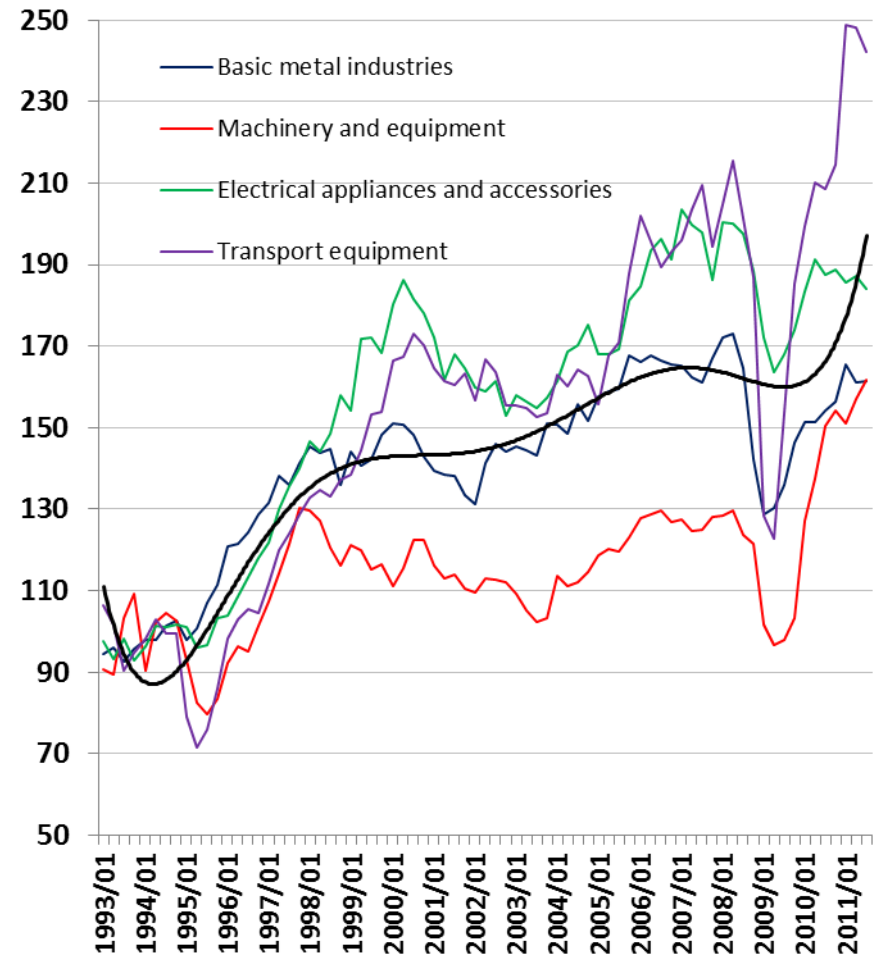
Source: The World Bank and Banxico

FTAs brought trade creation, but also trade diversion

Gross Domestic Product for specific industries
(Index 100=1994; seasonally adjusted)



As other industries have been growing...

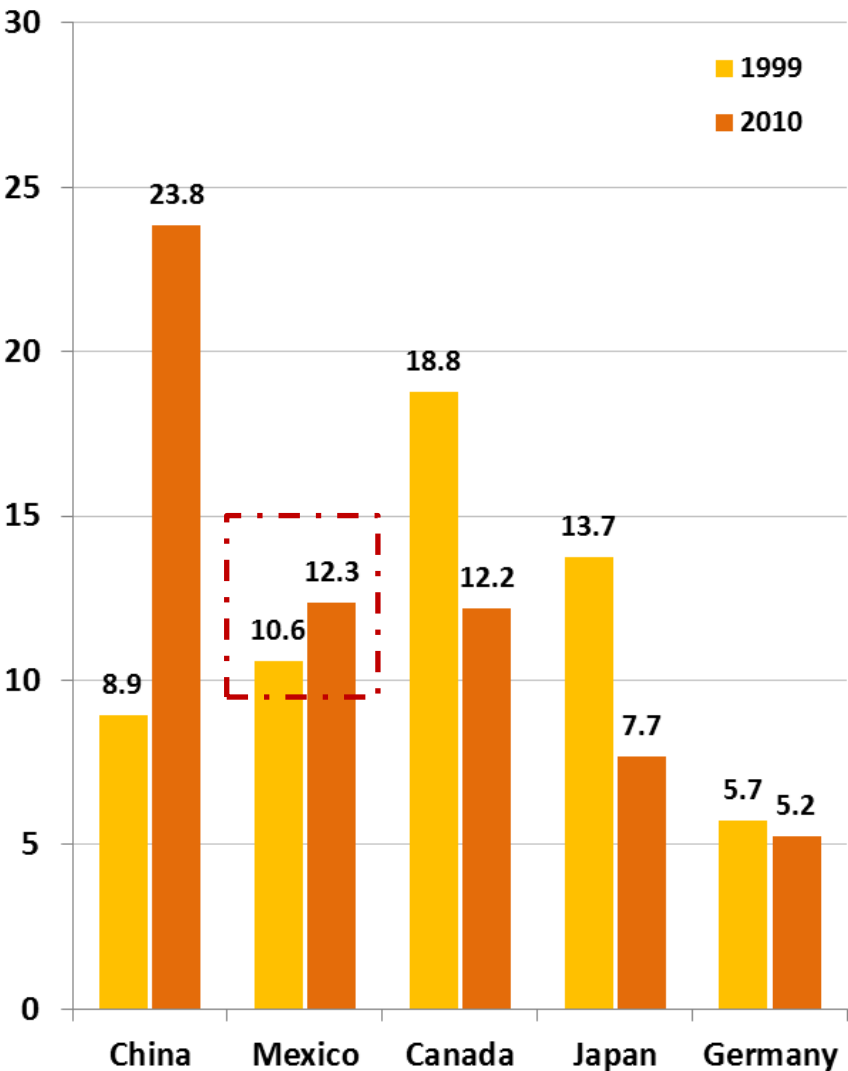


Source: INEGI

Note: The black line refers to the trend (polynomial of degree 6) for the average of the industries specified for each graph.

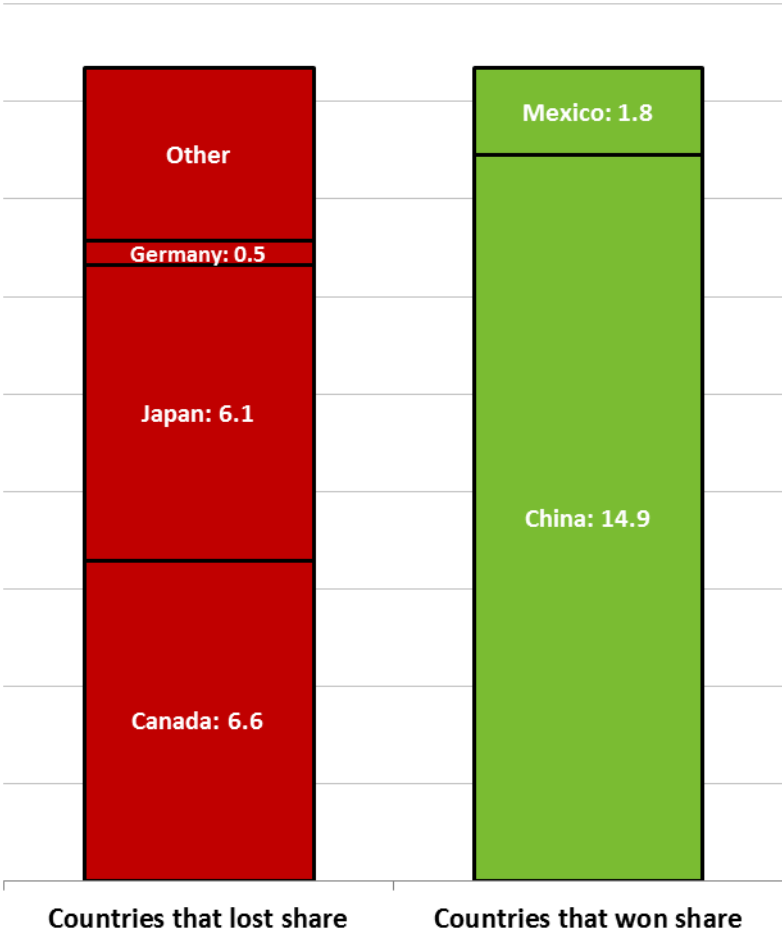
Despite China's entry into the WTO in 2001, Mexico is the only country that has gained participation in the U.S. non oil imports.

Share in non-oil imports in the U.S.: Major Trading Partners



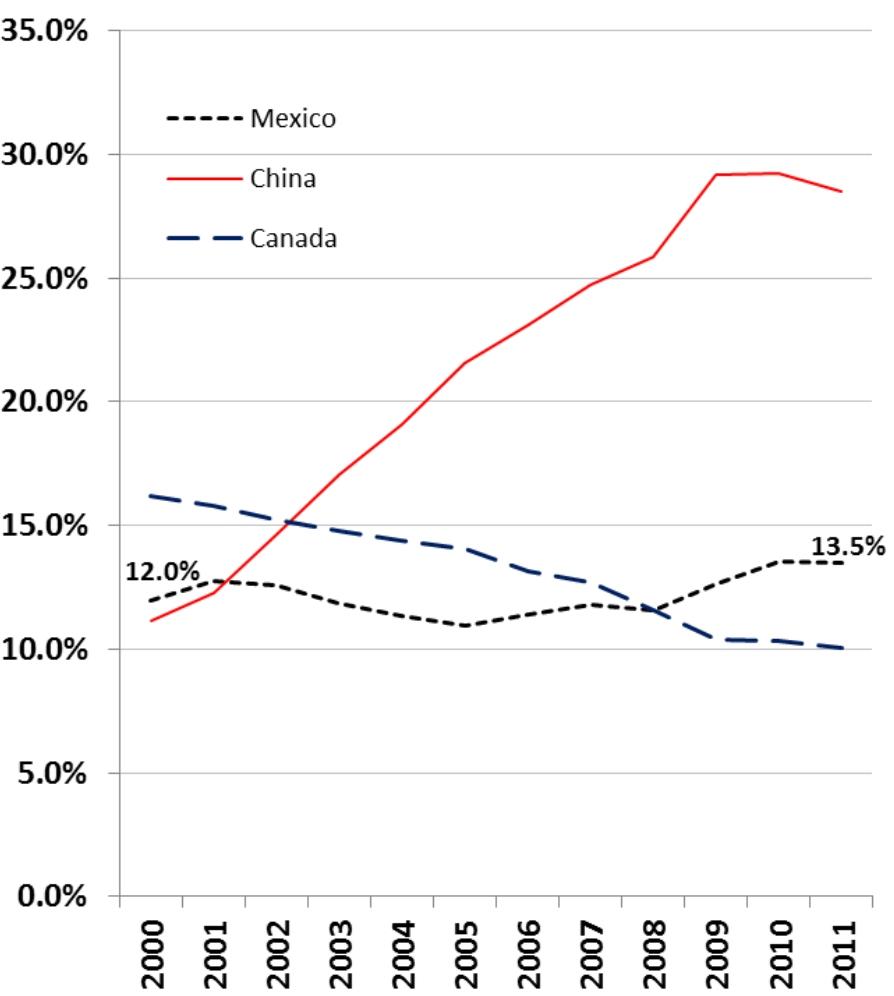
Import shares in the U.S.: 1999 vs. 2010
(First 5 partners)

Sum of each bar: 16.7 percentage points



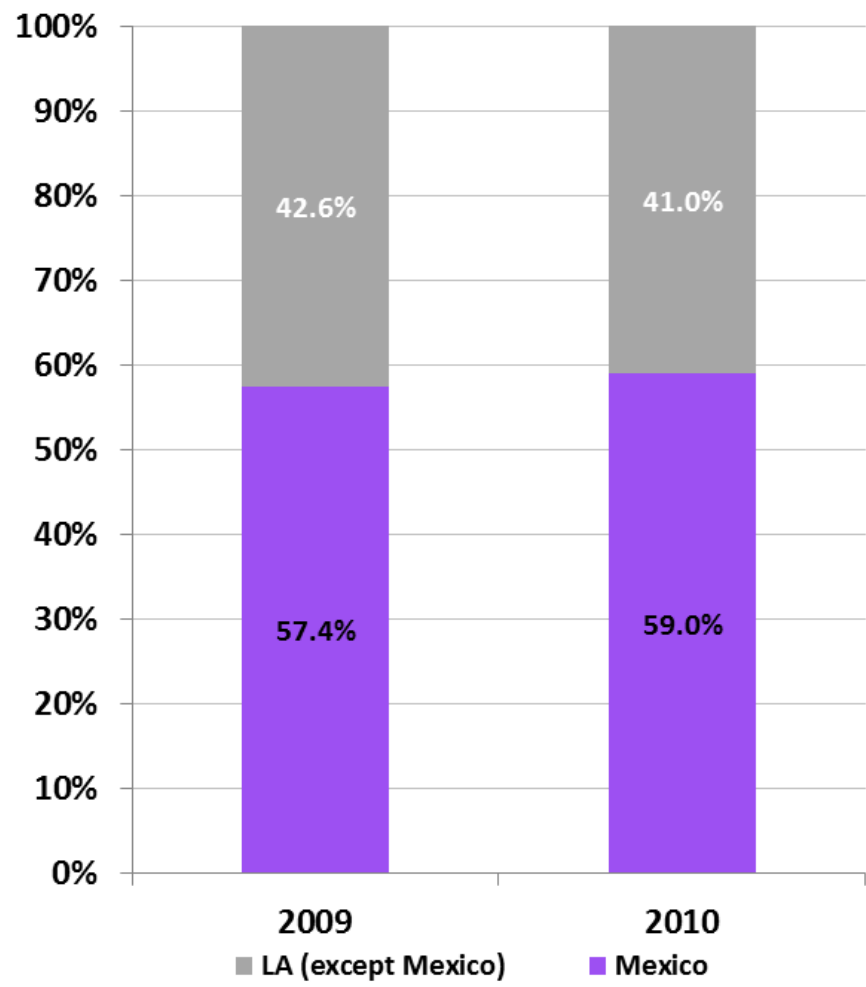
Moreover, Mexico has maintained a good performance in the global market of manufactures

Import share of U.S. manufacturing
(Percentage)



Source: Based on data from U.S. Census Bureau

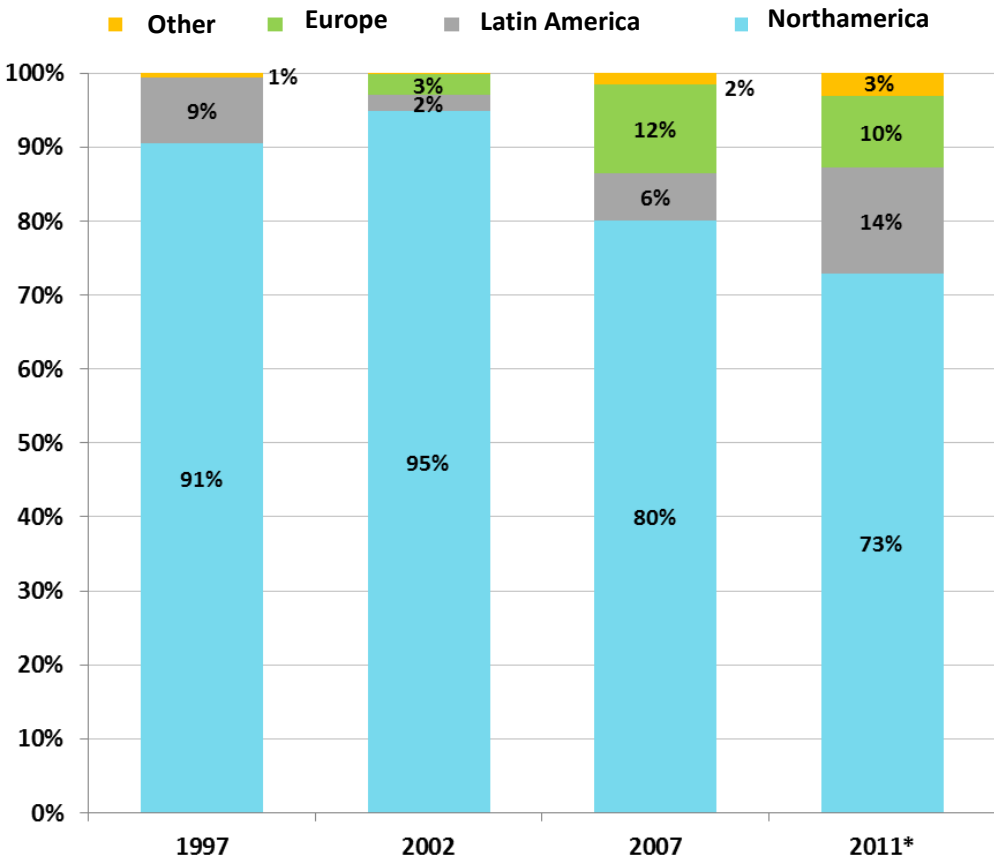
Manufacturing exports in Latin America
(Percentage)



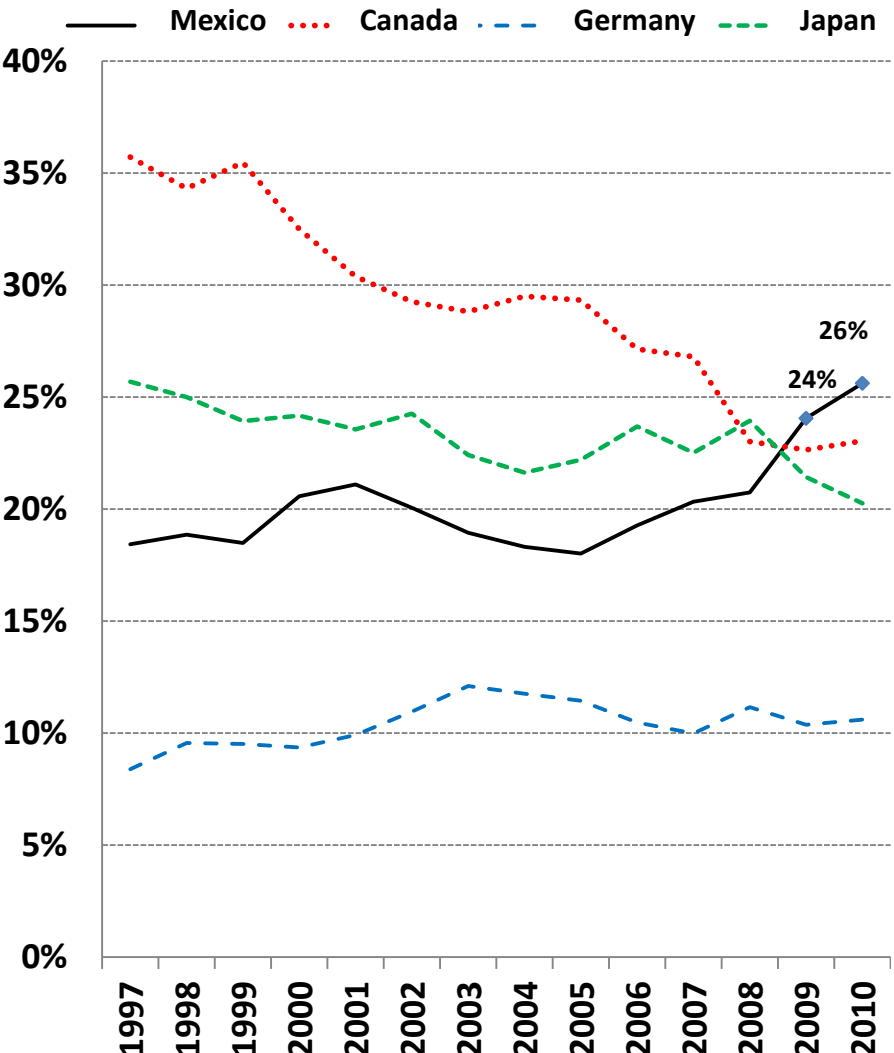
Source: Based on data from UN COMTRADE

Specifically, some sectors that have achieved an important position in the U.S. are diversifying into other markets.

Exports of New Light Motor Vehicles
(Percentage)



Share of U.S. imports
(Percentage)



Sources: data from AMIA
* Data to August

Source: US Census Bureau

but.....the tariff scheme became complex, leading to high costs and distortions



PROSECs

- ✓ **They exempt tariff payments to certain sectors and companies** in order to enable the use of more efficient supply sources worldwide at no additional cost.
- ✓ They did **generate distortions, inequities and inefficiencies**. The artificial deterioration of the competitive position SMEs was particularly relevant as well as the high cost of managing those programs.

- Therefore, before 2008, **the tariff scheme was characterised** by:

Full liberalisation with countries with whom we have treaties and high commercial protection with those countries that we didn't.

As a result of the different tariff combinations, there were over 150 000 tariff rates:

- (i) there were over 12,000 tariffs on single products,
- (ii) specific rules were handled for each of the 12 FTAs we have
- (iii) Furthermore, 24 sectorial programs (PROSECs) were handled as well as particular tariff benefits with annual seasonality (Rule 8th and import quotas).

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The most recent reform involves trade facilitation and it has 3 strategies

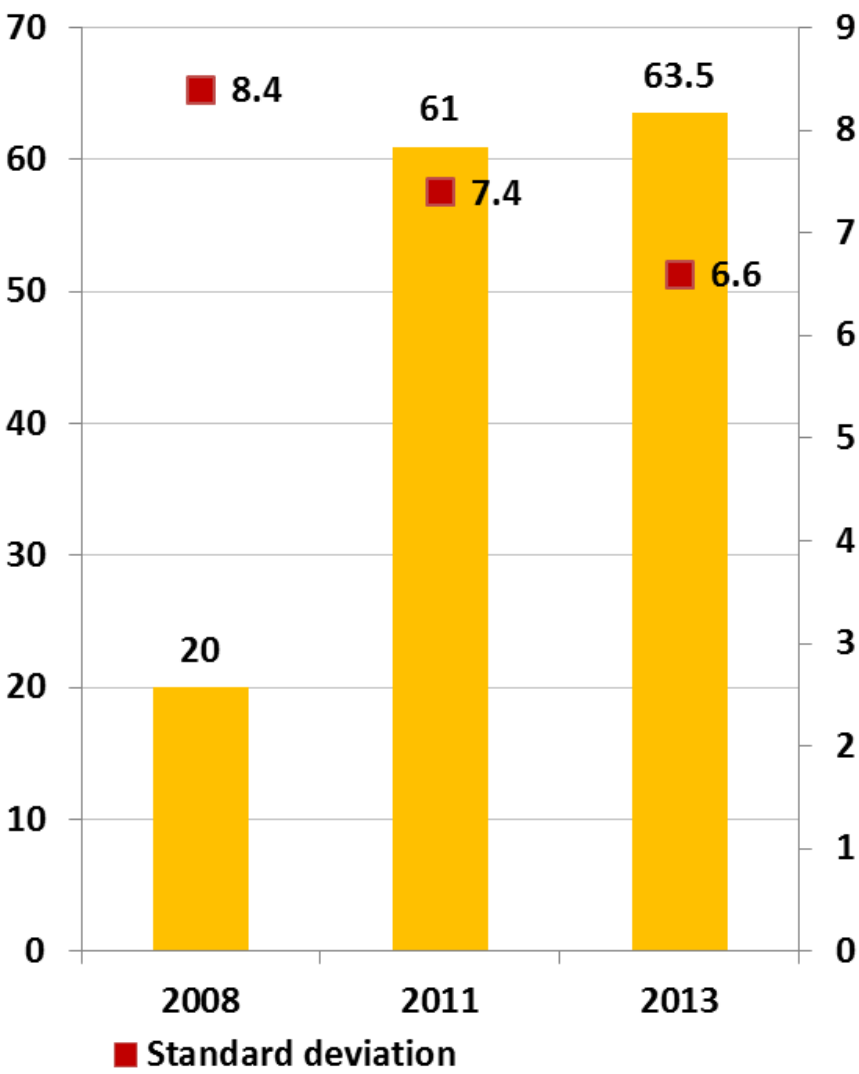
Tariff simplification

The elimination of waiver programs

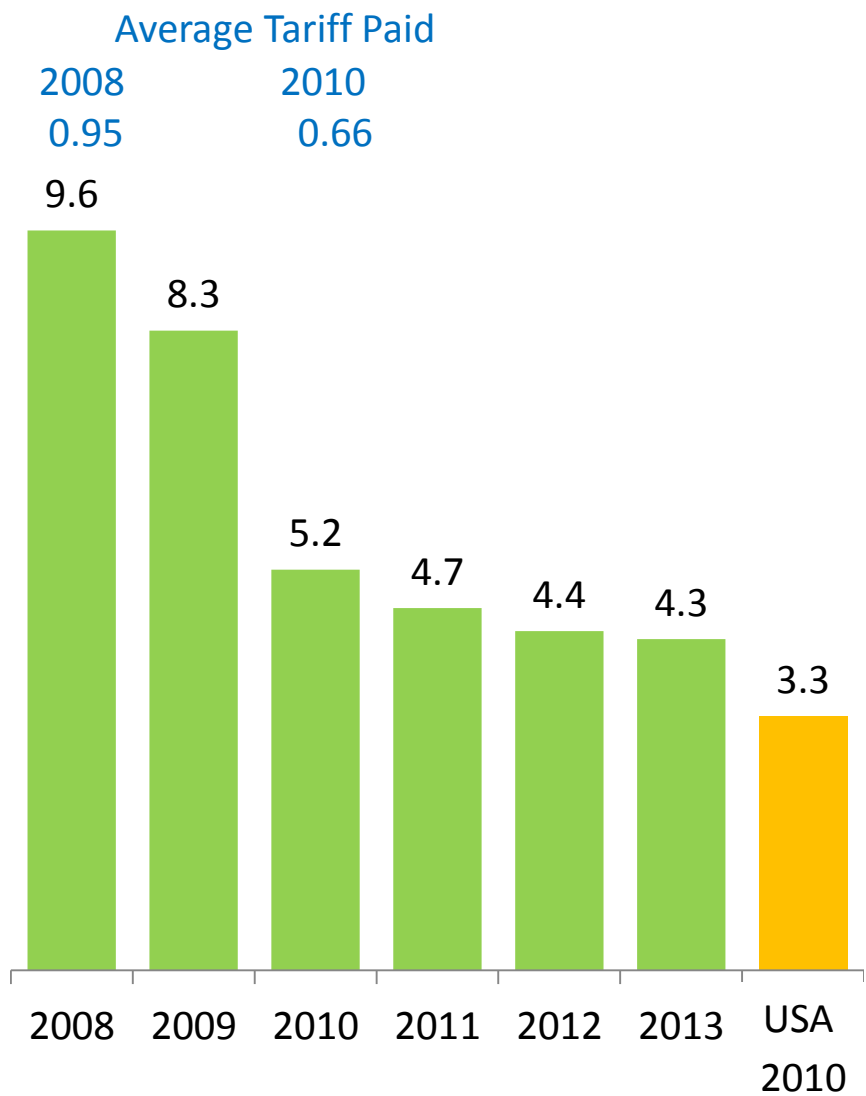
The simplification of foreign trade and customs operations

Tariff simplification

Tariffs with rate zero
(Industry; %)

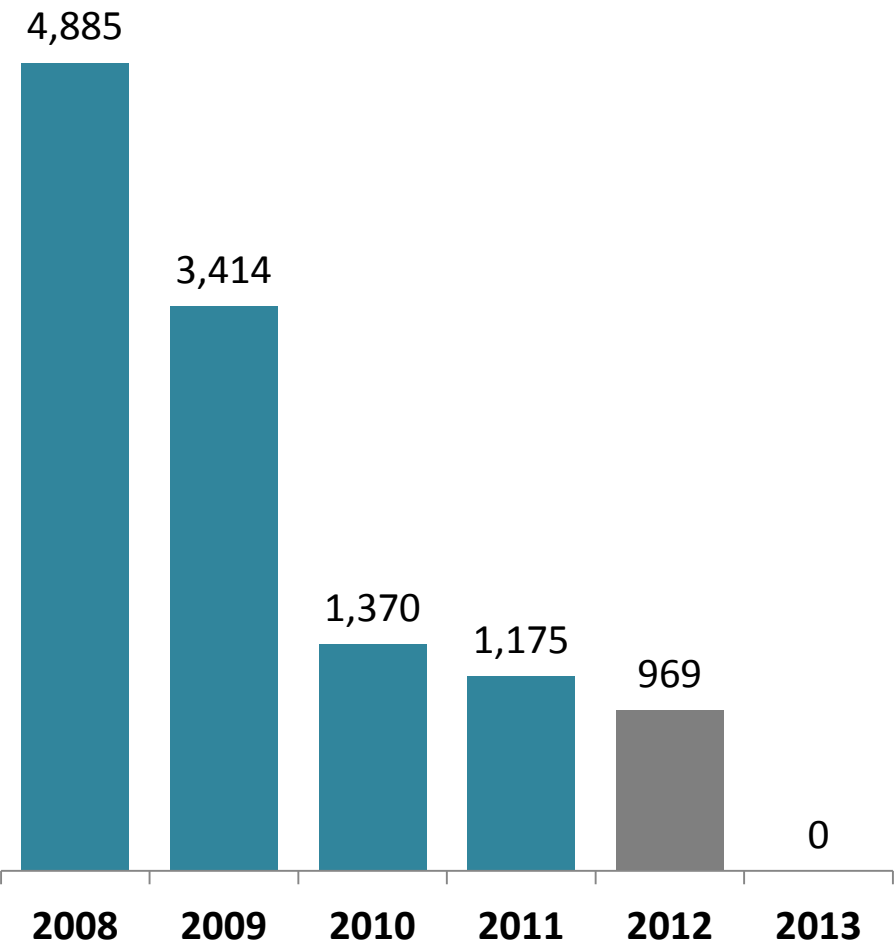


Simple Average of Industrial Tariffs
- industrial sector-



Elimination of waiver programs: PROSECs

Changes in the number of tariff in PROSEC, 2008-2013



REMOVAL OF PROSEC

The fractions included in the PROSEC's will be reduced from 4,885 in 2008 to zero in 2013.

SIMPLIFICATION OF RULE 8

The tariff lines included in the Rule 8 will be reduced according to the elimination of the PROSECs.

Customs Facilitation: Single window system

Advantages of Implementing:

1. Reduces transaction costs

- One single delivery information window
- Every procedure is electronic
- The information will be delivered only once

2. Increases transparency

- The information and requirements of each procedure will be defined clearly and explicitly.

3. Increases security

- Has the Electronic Advanced Signature
- Low risk of permits falsification

4. Facilitates information flow through countries

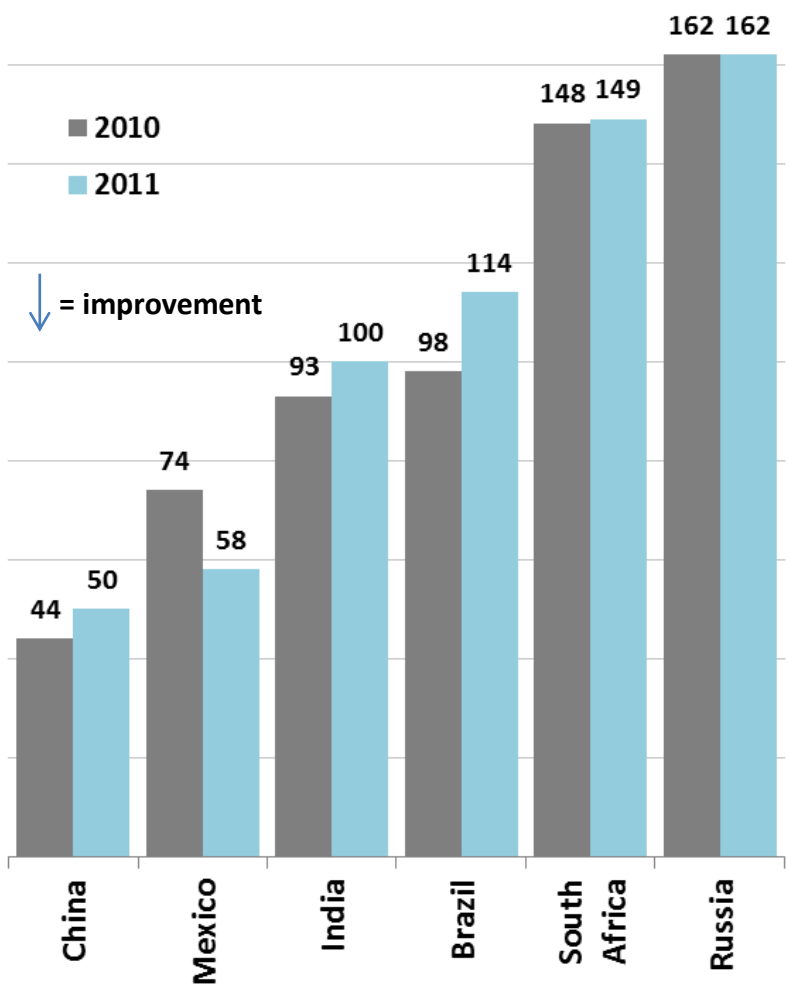
- Easy implementation of single petition

5. Reduces Risk Corruption

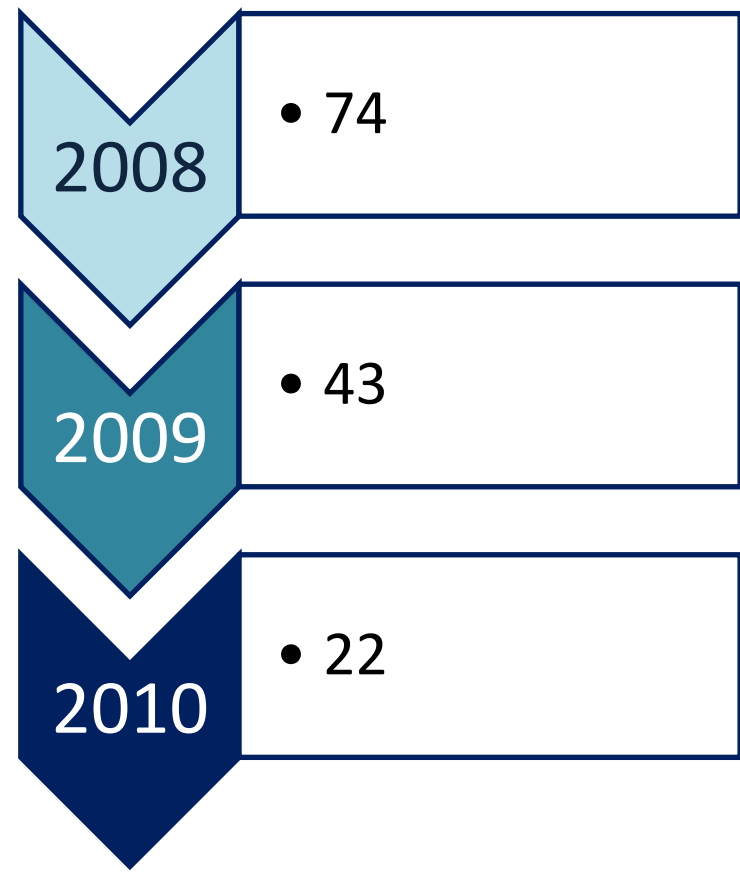
- The personal contact will be eliminated.

The trade simplification will have a direct effect on competitiveness.

Trading across borders rank



Mexico's position in market access



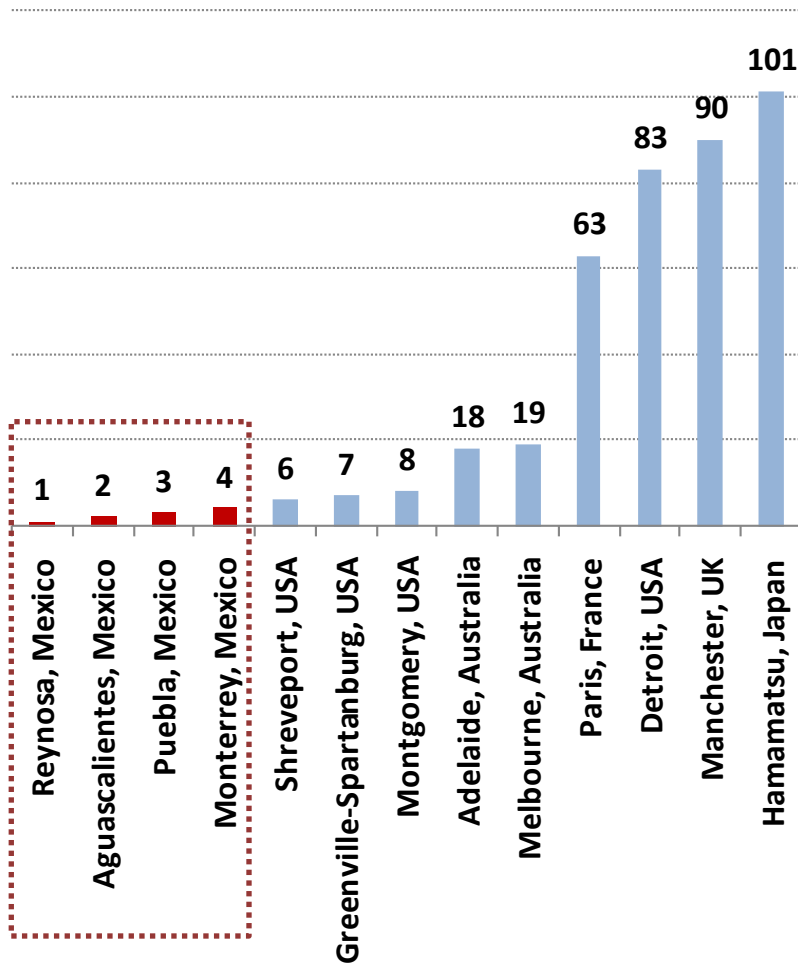
Source: Doing business

Source: World Economic Forum. Market access sub index in the Enabling Trade Index.

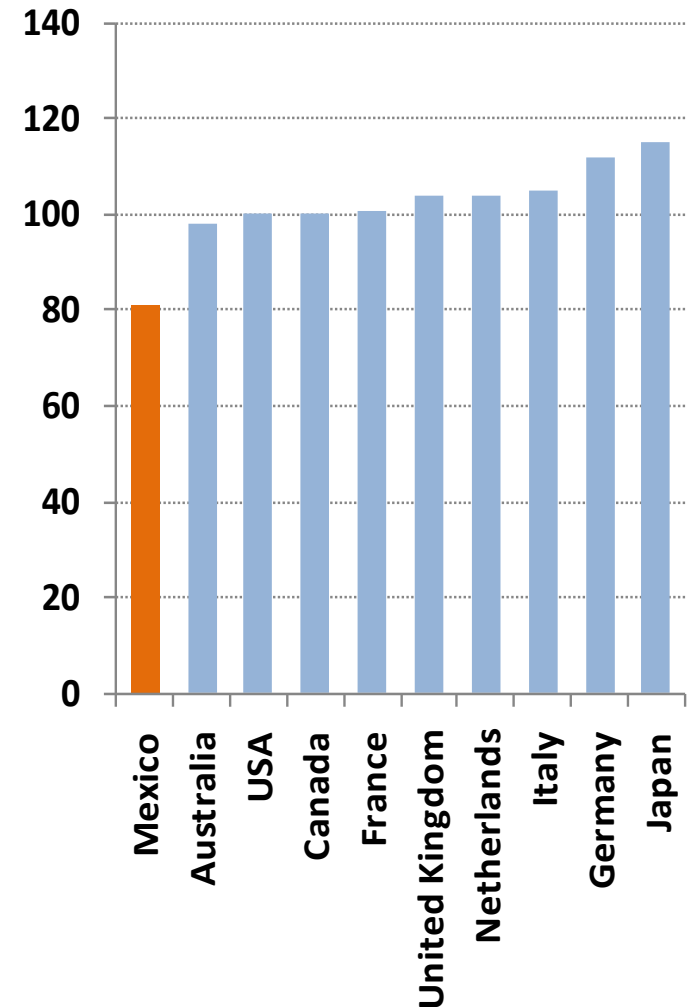
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Mexico has become a top manufacturer in the automotive industry

Position in automotive parts assembly by city
(Position of 102 considered cities)

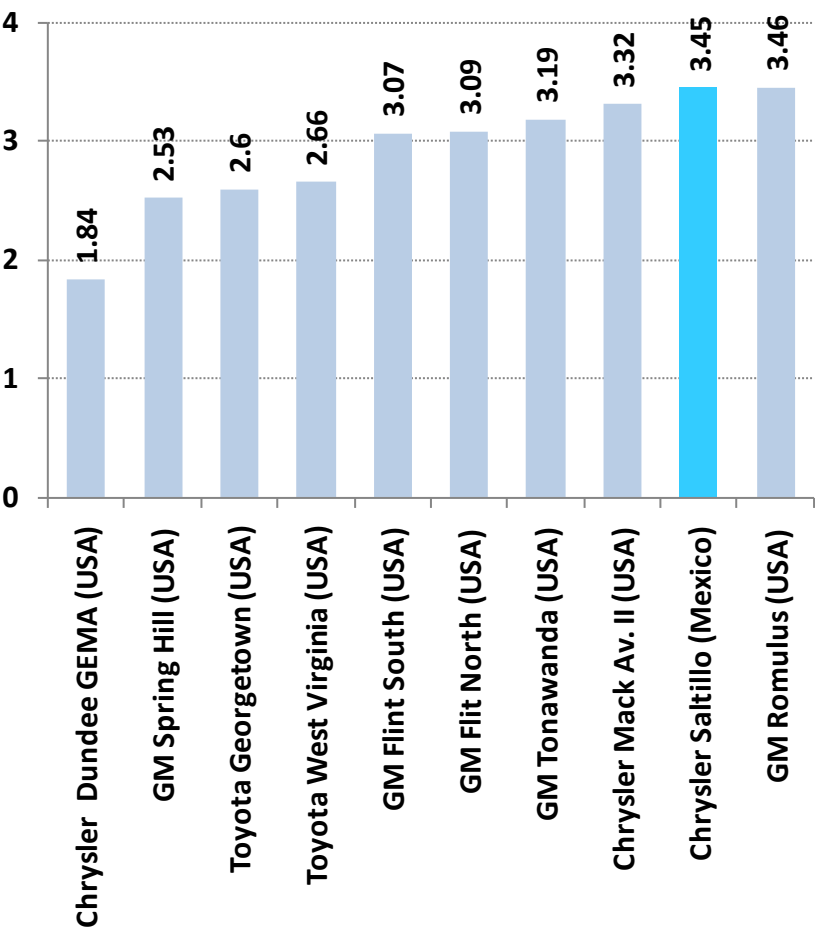


Advantage in automotive assembly costs
(Index 100 = USA)

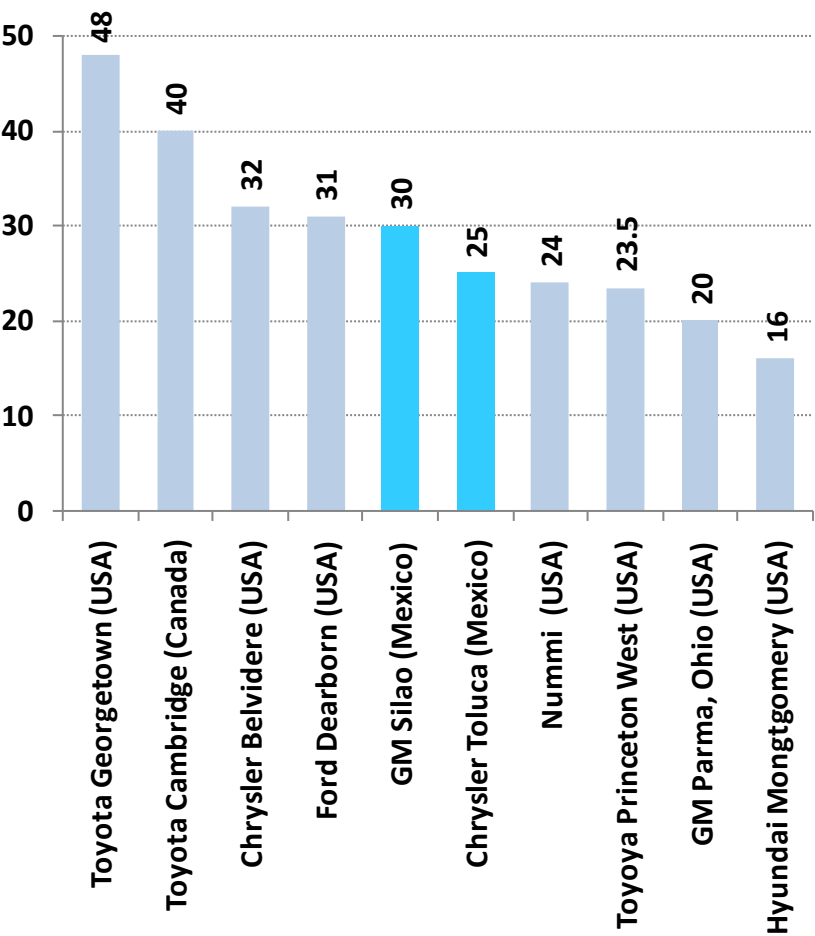


Mexico has developed high performance plants that can be compared with the best plants worldwide

Top 10: Engine production
(Hours per produced engine)

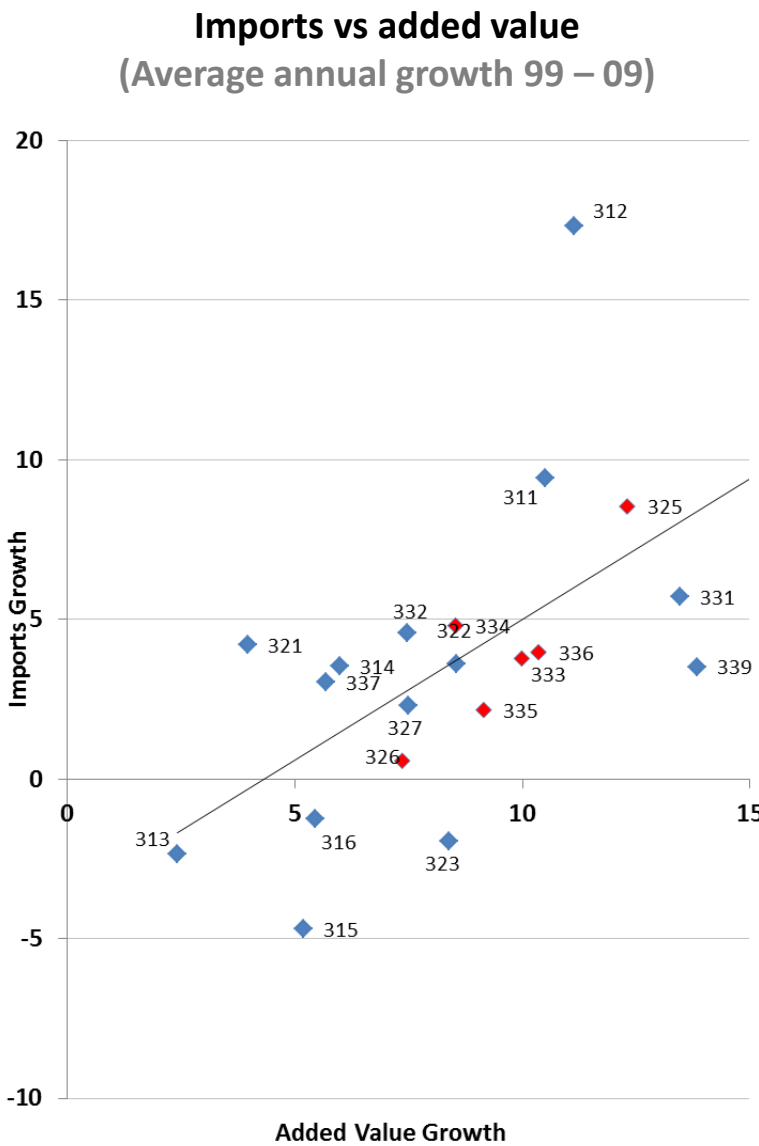
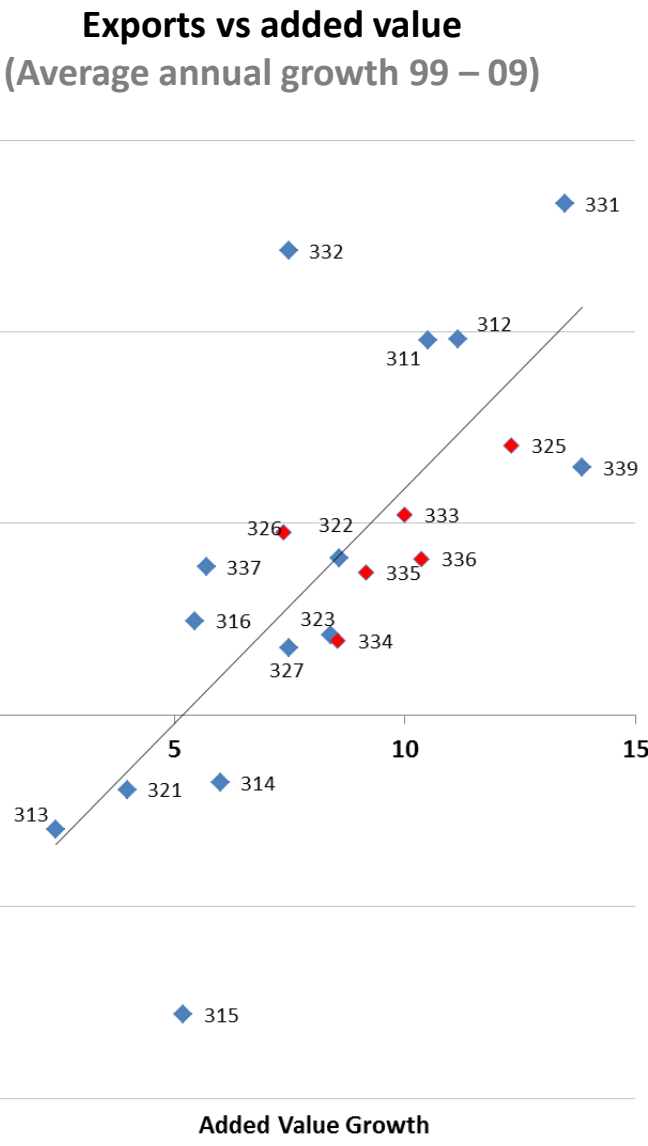


Top 10: Stamping process
(Parts per hour)



Source: Oliver Wyman Automotive Consulting Services.
The Harbor Report, June 2008.
Note: Considers 61 Plants in North America, Europe y South America in 36 cities.

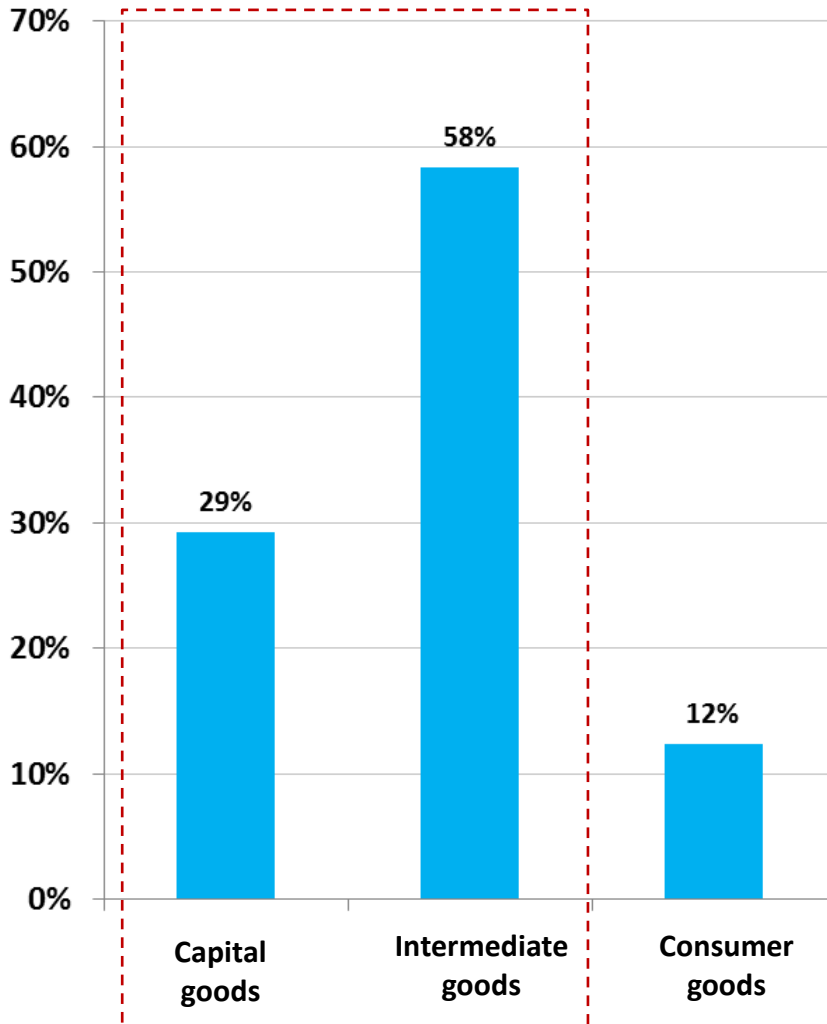
Moreover, a positive relation is observed between trade and the development of industries with high added value.



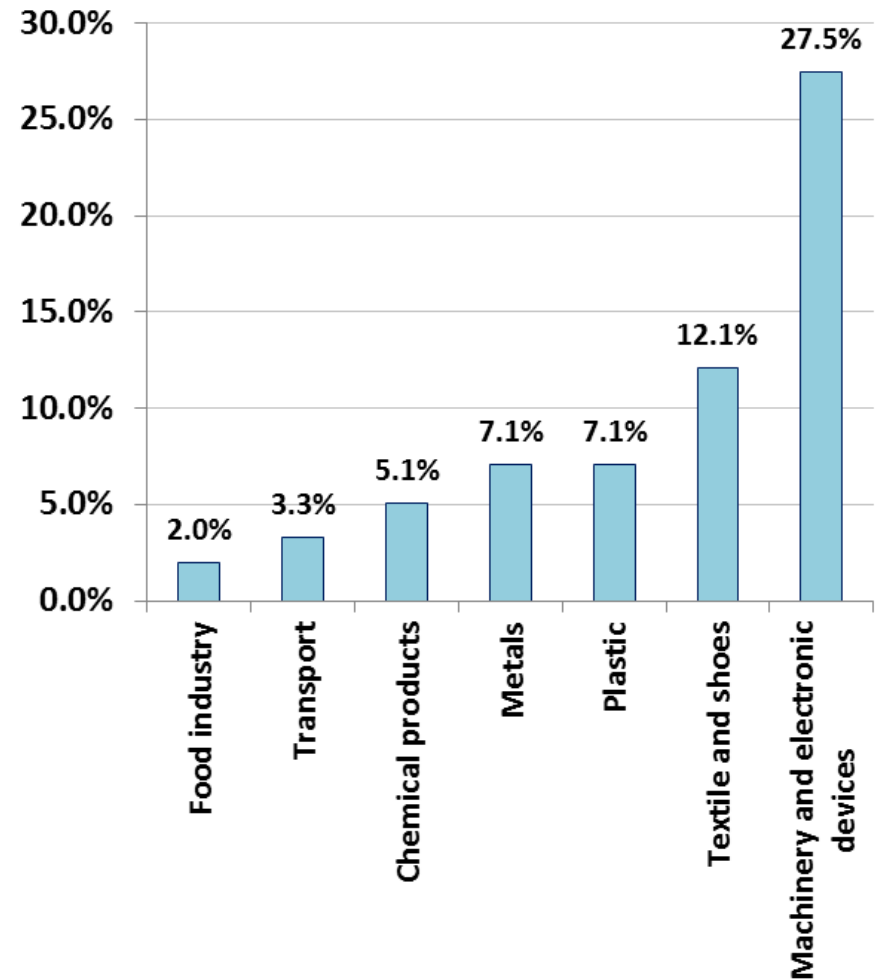
Source: INEGI Economic Census and UN COMTRADE (NAICS code)
Note: in red those industries classified as "high technology" according to The World Bank

China has provided inputs or machinery for domestic production, which turns into products with added value.

Imports from China by type of good in manufacturing
(Percentage)



Imports from China. Selected industries
(Percentage of total imports)

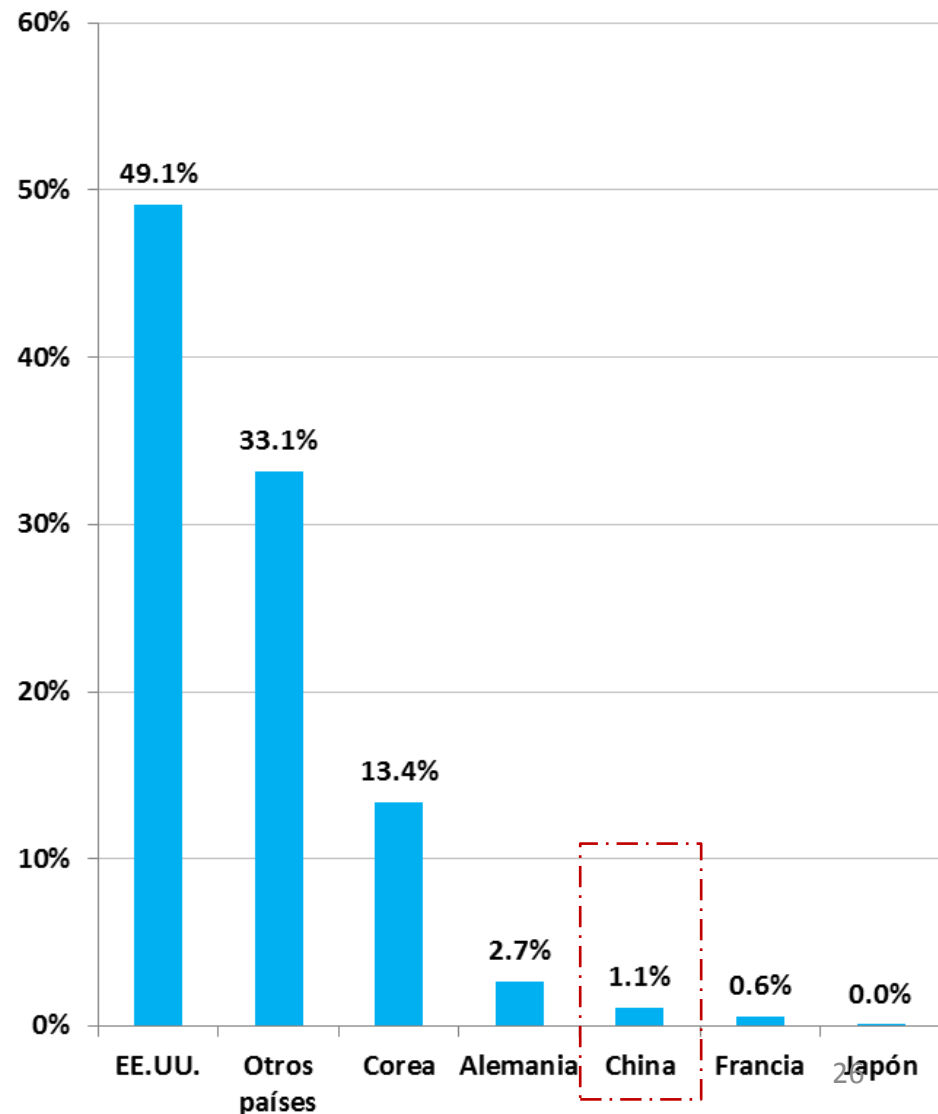


In some products emerging economies are still assemblers, getting a very low share of the whole value

iPhone: “Designed by Apple in California. Assembled in China”



Value decomposition for iPhone 4
(Sales price= 600 USD)



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Final remarks

- ✓ Mexico, as other emerging economies, followed an export led development strategy
 1. Closed economy with free trade areas restricted to export firms
 2. Liberalization became in stages: entrance to GATT, FTAs and unilateral tariff reduction
- ✓ Mexico has developed a strong exporter sector moving from low value added sectors to high value added ones
- ✓ Mexican exporter sector is part of global supply chains, importing a significant amount of its inputs
- ✓ The challenge is to keep on scaling in the value chain by adding the contribution of design and development



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