

METROPOLITAN BREAKFAST CLUB
CARLOS GONZÁLEZ GUTIÉRREZ, CONSUL GENERAL OF MEXICO IN AUSTIN
UT Club | April 26, 2017

US/Texas – Mexico: strategic partners

Thanks to:

- Metropolitan Breakfast Club (MBC)
- Specially to Scott Carley, Cameron Vann and Julie Tereshchuk from the MBC.
- The audience

Introduction:

- If you had told me a few years back that in 2017 I would have to defend NAFTA from square one, I would have laughed. At this point in my career, I had never thought that my job would be to defend the benefits of free trade.
- I want to make 5 points:
 1. Texas is deeply integrated with Mexico
 2. What was the ultimate goal of NAFTA more than 20 years ago?
 3. What we don't like about the current debate
 4. What has changed since 1993?
 5. Where should we focus on?

1. Texas is deeply integrated with Mexico

- To put it simply, Texas is Mexico's main trading partner in the world: in 2016, trade between both surpassed \$174 billion (30% of the total US trade with Mexico).
- No other state in the US has benefited from NAFTA as much as Texas. The total trade between Texas and Mexico is around 3 times what California trades with Mexico. Thanks to NAFTA, TX became the top exporter in the nation.
- In 2016, approx. 40% of Texas's exports worldwide went to Mexico. Under NAFTA, Texas' exports to Mexico increased 355%.

- Over 382,000 jobs in Texas depend on trade with Mexico.
- Nationally, exports to Mexico represent 1.3% of the national GDP; however, in the case of the lone star state, Texas exports to Mexico are worth 6% of the state's GDP.
- Texas has become the nation's top exporter of goods and Mexico its biggest customer:
 - Mexico imports from Texas 62% of the state's exports worldwide of beef, pork and poultry;
 - 80% of Texas dairy, eggs and honey exports go to Mexico.
 - U.S. pipeline exports of natural gas continued to grow as much as double digits in 2016. They have doubled since 2009.
 - Mexico have accounted for more than half of all U.S. natural gas exports since April 2015.

2. Ultimate goal of NAFTA 20 years back

- The world trade by regions, not by countries. We need to team up to compete globally.
- More than 20 years ago, for Mexico, NAFTA was intended to lock in a series of economy reforms to reject the import substitution system and insert Mexico within the global economy.

3. What we don't like about the current debate:

- We believe that the mere idea of a wall alongside the border is not only unfriendly and against the mutual cooperation that has characterized the US-Mexico relationship, but also a very hostile measure. If you look in the dictionary, the definition of extortion is to obtain un-owed money from coercion". To force Mexico to pay for a wall is not much different.
- We are against the current isolationist movement that rejects the benefits brought so far by the economic integration with Mexico.
- Today, we believe it's a grave mistake to consider trade between the U.S. and Mexico as a zero-sum game. We believe Mexico and the U.S. aren't competitors-- they are business partners.

- This means that our productivity and our capacity to compete with other regions of the world depends on how well can we integrate our economies to each other. We trade in value chains because our production platforms are fully integrated. To disrupt these supply chains would have consequences throughout the whole system and throughout North America.
- Many of these exports are parts, accessories and components made in Texas by Texas workers. These are exported to Mexico in order to be assembled and returned to the U.S. as part of final products such as automobiles, flat-screen TVs and other consumer electronic products.
- One of the most US balanced trade relationships is with Mexico: 40 cents out of every dollar of goods exported by Mexico to the US is "made in the USA".
- When talking about trade deficit among the top 10 US trade partners:
 - \$63 billion trade deficit with Mexico (12% of the total trade);
 - \$347 billion trade deficit with China (60% of total trade);
 - \$65 billion trade deficit with Germany (40% of total trade).
- Every dollar that comes back to Mexico instead of China, helps the US even if it's not going to the US. Mexico spends 10 times more than China.

4. What has changed since 1993?

- Mexico is aware that NAFTA is not perfect and there are several areas that could be modernize and some new topics to be included:
- A NAFTA 2.0 has to be inserted in a context very different than the one in 1994:
 - China entered the WTO in early 2000's, flooding North America with cheap goods and walloping US manufacturing jobs in the process.
 - Technological advances have increased worker productivity, cutting the low-skilled jobs.
 - The net flow of Mexican immigration to the US turned negative since the global financial crisis in 2008.
 - Canada and the US became largely energy self-sufficient, and Mexico launched its energy reform.
 - The political context was also different 23 years ago: nowadays, however, we have a solid democracy, with different parties at

Congress, so new negotiations regarding NAFTA mean much more hard work than 23 years ago.

5. Where should we focus on?

- And there is still much work to be done on issues like:
 - streamlining regulations,
 - incorporating energy into the agreement,
 - raising labor and environmental standards,
 - raising regional content criteria, and
 - potentially broadening the negotiation to issues beyond trade to include ways to enhance security cooperation and develop a rational immigration policy.
 - We need to position a discourse that pushes aside the idea of “closed borders” and consider a “smart border”: one that serves as a filter against crime and a channel that allows fast and efficient flows for legal trade and investment. The only way this can be achieved is working with and sharing information with the United States.

Final Remarks

- Let me be very clear on what Mexico will not do or accept
 - No tariffs, no quotas, no trade management. Nothing against the World Trade Organization rules. If we are to negotiate a new agreement, it is because it will be a win win for everybody in which we will expand trade, not reduce it
 - We do not accept the imposition of taxes to remittances.
 - What we can do is rather than negotiating a full package, we could negotiate a series of addendums: a chapter on e-commerce, a chapter on energy.
- This is a high stakes game for Texas. Texas has to take on a leadership role in the U.S. when it comes to defending NAFTA, because if they don't, other states who have seen less economic impact from NAFTA, or who are further dissociated with Mexico, will end up defining the terms of the debate.
- It is easy to hear the complainers, it has been more difficult to hear the winners within NAFTA