USMCA: Challenges and Opportunities

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I. NAFTA and its role on the transformation of the Mexican economy
II. Mexico’s competitiveness
III. From NAFTA to USMCA:
   • Challenges
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IV. USMCA. Implementation and entry into force
NAFTA and its role on the transformation of the Mexican economy
Foreign Trade: Engine of Mexico’s Economic Growth

Sources: IMF, INEGI and WTO.
Manufacturing in GVC has Mexican driven trade

**Example: Automotive Sector**

- 1985: Manufacturing 38%, Agricultural 5%, Oil and extractives 57%
- 2019: Manufacturing 89%, Oil and extractives 7%, Agricultural 4%

1985 Exports: US$26.7 billion

2019 Exports: US$461 billion

X 17

- Manufacturing 89%
- Oil and extractives 7%
- Agricultural 4%

82% USA

Source: Banco de México
Trade with the US and Canada

Source: Banco de México
Mexico’s network of 13 FTAs and its export platform make it an attractive place for investors.

**CANADIAN AND US ACCUMULATED FDI 1999-MARCH 2020**
TOTAL US$318.9 BILLION

Source: SE/DGIE
FDI received by sector shows Mexico’s integration into GVC

FDI Accumulated 1999-March 2020, Canada and USA (US$ billion)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Amount (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing services</td>
<td>140</td>
</tr>
<tr>
<td>Financial services and insurance</td>
<td>90</td>
</tr>
<tr>
<td>Commerce</td>
<td>40</td>
</tr>
<tr>
<td>Mining</td>
<td>30</td>
</tr>
<tr>
<td>Acommodation services</td>
<td>20</td>
</tr>
<tr>
<td>Transport, mail and storage</td>
<td>10</td>
</tr>
<tr>
<td>Real state services</td>
<td>10</td>
</tr>
<tr>
<td>Information and massive media</td>
<td>10</td>
</tr>
<tr>
<td>Construction</td>
<td>10</td>
</tr>
<tr>
<td>Business support services</td>
<td>10</td>
</tr>
<tr>
<td>Professional services</td>
<td>10</td>
</tr>
<tr>
<td>Electric power generation</td>
<td>10</td>
</tr>
<tr>
<td>Agriculture</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
</tr>
<tr>
<td>Leisure services, cultural and sports</td>
<td>10</td>
</tr>
<tr>
<td>Educative services</td>
<td>10</td>
</tr>
<tr>
<td>Health services</td>
<td>10</td>
</tr>
<tr>
<td>Agriculture</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
</tr>
<tr>
<td>Total from NAFTA:</td>
<td>318.9 billion</td>
</tr>
</tbody>
</table>

Source: DGIE/SE.
Mexico’s Competitiveness
NAFTA transformed Mexico’s manufacturing production

Mexico became the 6th world producer of vehicles (2019)\(^1\) and the 4th exporter worldwide (2018)\(^2\).

6th largest supplier of aircraft parts to the USA (2019)\(^3\).

6th largest exporter of information technology products and services (2018)\(^4\).

7th exporter (2018), if excluded trade within the European Union\(^2\).

13th recipient of foreign direct investment worldwide and 2nd in Latin America (2018)\(^5\).

8th exporter of food products (2018)\(^6\).

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1 Source: http://www.oica.net/category/production-statistics/2018-statistics/
3 Source: https://legacy.trade.gov/td/otm/assets/aero/AeroTop20SuppliersAnnual.pdf
4 Source: CANIETI https://esemanal.mx/2019/10/desciende-mexico-a-la-sexta-posicion-como-exportador-de-servicios-de-ti/
Foreign direct investment in Mexico
(Billion US$)

Accumulated FDI from 1999 to March 2020: US$589.4 billion.

Fuente: SE/DGIE
From NAFTA to USMCA
### NAFTA created a competitive North America

<table>
<thead>
<tr>
<th>Population</th>
<th>GDP</th>
<th>FDI</th>
<th>Trade</th>
<th>intraTrade</th>
</tr>
</thead>
<tbody>
<tr>
<td>493 Million people</td>
<td>US$26 Trillion</td>
<td>US$323 Billion</td>
<td>US$6 Trillion</td>
<td>US$1.2 Trillion</td>
</tr>
<tr>
<td>6.5% worldwide</td>
<td>18.3% 2nd economy worldwide (2019)</td>
<td>23.1% of the world’s FDI (2018)</td>
<td>15.9% 2nd exporter worldwide (2019)</td>
<td>20% of the region’s total trade (2019)</td>
</tr>
</tbody>
</table>

Source: IMF, Banco de México, WTO and TradeMap
USMCA will become effective within an adverse economic context due to COVID19...

World’s GDP record drop due to COVID

Impact on FDI

Decrease of Global Trade in Goods

Between 2021 and 2022, global FDI is expected to drop 30-40% as a result of COVID19.

It ranges from 13%-32%.

North America: -17% to -41%

Supply and Demand Shock

Source: El País with data from the IMF. Source: UNCTAD estimates. Sources: 1. WTO, OECD - Coronavirus, The World Economy at Risk
... and against a complex multilateral trade background

• The pandemic arrives at a fragile moment on the global order.

• Leadership redefinitions.

• Rising protectionist tensions.

Geopolitical Tensions
China-US Trade War
BREXIT
Multilateral Trading System
WTO OMC
Actions to face COVID-19

USMCA governments work coordinately to:

- We agreed to close the border for non-essential travel.
- Discuss the criteria, guidelines, protocols and conditions that must be met to allow the successful transition towards reopening productive activities.
- Implement USMCA

USMCA will be a key factor in the economic recovery of the three countries and will provide legal certainty to trade and investment in the North American region.
USMCA: Challenges
USMCA will allow us to remain a relevant, competitive, open trade region

Automotive ROO
- Rules of Origin and Origin Procedures

Labor Dispute Resolutions
- Rapid Response Labor Mechanism

Implementation of:
- Customs and Trade Facilitation provisions
- Sanctions on IP offenders
USMCA challenges

Protectionism

- Abuse of trade remedy laws

Recovery will try to privilege domestic

- Avoid falling into the trap that question global value chains
USMCA: Opportunities
USMCA opportunities

Strengthen the productive integration of North America,

Incorporate more added value,

Expand productive development to other regions in Mexico
USMCA opportunities

**Stricter Rules of Origin for the automotive sector**
It will allow the steel industry to integrate its production chain

**More inclusive trade**
SMEs, Environment, Anticorruption and Digital Commerce

**Mechanisms for compliance with obligations**
Dispute settlement mechanisms are strengthened
Opportunities to increase regional trade and productivity

**AGRICULTURE**

USMCA expands and improves market access of agricultural products

USA exports more than $19 billion dollars in agricultural products to Mexico and buys more than $27 billion dollars.

**TRADE FACILITATION**

Since it seeks:

- To reduce border procedures
- Regulatory harmonization
- Automation of customs processes
- Coordinated border management

It can reduce the costs associated with trade by 14%.

Source: USDOC.
opportunities to increase regional trade, productivity and innovation

**E-COMMERCE**
Promotes the growth of digital commerce while strengthening the protection of consumer data.

**INTELLECTUAL PROPERTY**
USMCA protects intellectual property rights while promoting innovation.
For the Mexican Government the USMCA approval sends an important sign that Mexico:

- Is a reliable partner
- Respects its international commitments
- Favors an open economy and the deepening of productive integration in North America
- is a source of economic growth
- Seeks to promote greater national and foreign investment, as well as the creation of quality jobs in the country.
- favors innovation and competition
Implementing USMCA
USMCA: Timeline

- **June-19, 2019**
  - Agreement’s Approval by the Mexican Senate
  - Senate’s approval of the:
    1. Protocol of Amendments
    2. Environment and Customs Verification Agreement

- **December-12, 2019**
  - Senate’s approval of the:
    1. Protocol of Amendments
    2. Environment and Customs Verification Agreement

- **March-13, 2020**
  - Agreement’s Approval by the Canadian Parliament

- **January-29, 2020**
  - President Trump signs the Agreement

- **April-2, 2020**
  - MX notified the conclusion of its domestic procedures for the Agreement’s entry into force to the US and CAN.

- **April-2, 2020**
  - CAN notified the conclusion of its domestic procedures for the Agreement’s entry into force to MX and the US.

- **April-24, 2020**
  - The US notified the conclusion of its domestic procedures for the Agreement’s entry into force to MX and CAN.

July 1st, 2020
1. Infrastructure Quality Law
2. Industrial Property Law
3. Reform to the Federal Criminal Code
4. Reform to the Federal Copyright Law
5. Reform to the Federal Plant Variety Law
6. General Import and Export Tax Law

Legislative Package

Amendments to ensure full USMCA compliance.
Additional legislative activity

- Senate Approval of the Mexico-U.S.-Canada Environmental Cooperation Agreement.

- USMCA Approval Decree, Tariff Decree and other administrative instruments, to be published in the Diario Oficial de la Federación (Official Gazette).
Trilateral work: Panelists Selection

**Panelists Selection Process - Chapters 10 (up to 25) and 31 (up to 10)**

**Rapid Response Labor Mechanism**
(MX-CAN and MX-US)

**Rules of Procedure for Dispute Settlement Mechanisms**
Rapid Response Labor Mechanism

- Collective Bargaining
- Freedom of Association
Thank you

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