

US-Mexican Trade Trends: The Assembly Industry's Contribution

David C. Garlow

Follow this and additional works at: <http://digitalcommons.law.umaryland.edu/mjil>



Part of the [International Trade Commons](#)

Recommended Citation

David C. Garlow, *US-Mexican Trade Trends: The Assembly Industry's Contribution*, 4 Md. J. Int'l L. 135 (1978).

Available at: <http://digitalcommons.law.umaryland.edu/mjil/vol4/iss1/24>

This Conference is brought to you for free and open access by DigitalCommons@UM Carey Law. It has been accepted for inclusion in Maryland Journal of International Law by an authorized administrator of DigitalCommons@UM Carey Law. For more information, please contact smccarty@law.umaryland.edu.

PART IV. AGRICULTURAL TRADE AND TRADE IN INDUSTRIAL GOODS

US-MEXICAN TRADE TRENDS: THE ASSEMBLY INDUSTRY'S CONTRIBUTION

*David C. Garlow**

INTRODUCTION

Mexico is the United States' major trading partner in the Caribbean Basin, with Mexico's 1976 exports to the U.S. valued at \$3.6 billion, and imports from the U.S. to Mexico of nearly \$5 billion.¹ Mexico's large population and common border with the United States suggest that trade between the two nations will continue to be sizable in the future. Two factors that promise to play a vital role in shaping both the size and composition of US-Mexican trade in the future are the recent discovery and development of large oil reserves in Mexico and the rapid growth of Mexican assembly plants or *maquiladoras*. While the petroleum windfall has received a good deal of publicity over the past year and a half, we should not overlook the important contribution that trade in components and assembled products between the United States and Mexico has made and will continue to make to overall trade between these two economies.

TOTAL US-MEXICAN MERCHANDISE TRADE

The value of Mexican exports to the United States grew by 411% from 1966 to 1976 while U.S. exports to Mexico grew by 323%. GDP in current dollars grew by 253% in Mexico and 124% in the United States over the same period.² Faster growth in trade than in GDP is a common occurrence as national economies benefit by specializing in production while trading with each other to adjust their consumption mix. Mexican

* Caribbean Basin Economist, Federal Reserve Bank of Atlanta. The views expressed herein are solely those of the author and do not necessarily represent the views of the Federal Reserve Bank of Atlanta.

1. These figures may be obtained from the U.S. Department of Commerce, Washington, D.C. Two significant items excluded from these totals are contraband and goods carried across the border by tourists.

2. Data for these calculations are derived from regular U.S. Department of Commerce trade publications and the IMF's INTERNATIONAL FINANCIAL STATISTICS. Mexico's GDP in dollar terms was calculated by dividing peso GDP by the average annual exchange rate for the corresponding year. Mexican trade figures were not used here, as they exclude assembly industry trade from 1970 on and are distorted by undervaluation of some exports.

exports to the U.S. grew more rapidly than United States exports to Mexico despite faster growth in real income and prices in the Mexican economy.

Bilateral merchandise trade grew more rapidly than all service earnings but less rapidly than financial flows in both countries' balance of payments. Mexico's gross income from service exports grew by 221%, for example, while in the United States the corresponding figure was 244%. The annual net inflow of long-term capital grew by 881% in Mexico during the period 1966-76 while the annual capital *outflow* from the United States grew by 645%. Although capital movements increased faster than merchandise trade, trade in goods may have greater long-run significance than financial flow as merchandise trade dominates the current account. Long-run imbalance in the current account will surely discourage offsetting capital flows.

MARKET SHARES

While the United States is Mexico's most important trading partner (providing roughly three-fifths of all Mexican imports and buying over one-half of Mexican exports), Mexico does not hold the same position of importance in the U.S. trade picture. In 1976, Mexico received about four percent of all U.S. exports and provided only about three percent of all U.S. imports. While Mexico appears to have maintained or slightly increased its share of U.S. imports from 1966 to 1974, its share fell after 1973 on as the peso became increasingly overvalued and petroleum accounted for a growing portion of all U.S. imports. Mexico's share in U.S. exports over the same period shows a rising trend.

Inclusion of trade in components for reexportation as finished products (omitted from published Mexican merchandise trade figures since 1970) indicates that the U.S. share in Mexican imports has increased slightly; the United States has become an even more important market for Mexican exports. The growing importance of this market to Mexican exporters makes Mexico even more sensitive to U.S. economic conditions and trade policies.

COMPOSITION OF US-MEXICAN TRADE

Figures for trade in all goods conceal interesting changes in the relative importance of the commodities that make up the total. While the make-up of U.S. exports to Mexico shows little change from 1966 to 1976, with machinery and transport equipment making up more than half of the total, the composition of U.S. imports from Mexico shows dramatic changes. Mexican exports of food and live animals made up nearly one-half of all Mexican exports to the United States in 1966, but by 1976 these exports contributed only about one-fourth of Mexican exports.

Manufactured goods (Standard International Trade Classifications 6 through 9) (SITC) correspondingly increased in importance accounting for one-fourth of U.S. imports from Mexico in 1966 to over one-half in 1976.³ This shift reflects the growing Mexican demand for locally produced food, resulting from government efforts to direct farm resources toward production of goods for local consumption and a growth in the population of 3.5% per year over the period. The increase in manufactures' shares reflects almost entirely the growth of exports of assembled manufactures under Tariff Code Items 806.3 and 807. While Mexican exports to the United States of goods assembled from U.S. components were relatively unimportant prior to 1965 (when an alert Mexican Secretary of Industry and Commerce moved to promote them), by 1976, exports of such goods to the United States were valued at over \$1 billion. Moreover, exports of such goods in SITC Classes 6 through 9 made up more than one-half of all U.S. imports of manufactures from Mexico.

BACKGROUND OF ASSEMBLY INDUSTRIES

Tariff Schedule Items 806.3 and 807 allow free entry to the United States for the U.S.-made share of products assembled from U.S.-made components. Duties, however, must be paid on the value added outside the United States. Item 806.3 applies to metal products and allows for somewhat more drastic changes in U.S. components than does Item 807 which waives the duty on U.S.-made components when these have been assembled abroad. These tariff provisions increase the profitability of carrying out the labor-intensive part of manufacturing operations outside the United States for some goods since low-skill labor in the United States is relatively expensive in comparison with that in many other countries. Of course, the expense of moving goods to and from Mexico is an additional charge that must be met when dividing the manufacturing operation in this way. Transport costs serve to increase the share of items with a high value-to-weight ratio in total use of these provisions.

Transport charges are also partially responsible for the establishment of twin plants in the United States across the border from the Mexican assembly operations. A large proportion of Mexican assembly plants are located close to the border because the incentives to set up assembly industries were initially limited to this area. In some cases, twin plants on the U.S. side manufacture components for assembly in the

3. Mexican exports of raw materials, other than fuel, also dropped consistently in importance from 1966 to 1976, partially in response to the relatively depressed condition of the U.S. economy in 1976 and concomitant low input demand.

Mexican plant and usually participate in the shipment and inspection of components and finished products. This locational pattern somewhat reduces transport and handling charges.

Goods shipped to the United States from Mexico under Tariff Item 806.3 in 1976 were almost entirely electronic components. Electronic products such as calculators and televisions were also the single most important category of goods entered under Tariff Provision 807. Following electronic products were clothing and accessories, with nonelectrical machinery and transport equipment and machinery in third and fourth place, respectively.

As might be expected, a large number of jobs has opened up for Mexicans in assembly plants. Mexican reports show 75,000 employees in *maquiladora* plants in 1976, and there are some indications that the true figure was even higher.⁴ Some authors contend that the employment created in United States twin plants is at approximately one job for every three on the Mexican side.⁵ Most of these workers are young women, and their productivity is comparable to United States workers in the same positions. Unions have managed to raise wages in border areas, driving some operations to lower wage areas either in southern Mexico or in other economies.

While the AFL-CIO has argued that these tariff provisions have resulted in a loss of U.S. jobs, it is difficult to evaluate this claim for two reasons. First, some U.S. workers continue to produce the components for assembly; their jobs might have been eliminated altogether and production moved completely outside the U.S. without the tariff savings available through the assembly provisions. Second, an estimate of gross job loss is hindered by the lack of official figures on employment in component assembly alone. Use of Mexican worker-to-output ratios would probably overstate job loss since lower Mexican wages make it profitable to employ more workers there than in the United States.

4. Cuardo A. *Secretaria de Programación y Presupuesto*, IV BOLETIN DE ESTADISTICAS INDUSTRIALES 12. A U.S. Embassy Study in 1973 showed a larger number of *maquiladoras* than those reported in official Mexican statistics; See U.S. DEP'T OF STATE, Airgram A-478 (September 17, 1973).

5. Alisky, *U.S.-Mexican Border Conflicts and Compromises*, 17 SOUTHEASTERN LATIN AMERICANIST 1-5 (1973); Evans, *Mexican Border Development and Its Impact upon the United States*, 16 SOUTHEASTERN LATIN AMERICANIST 4 (1972), cited in C. DILLMAN, *INDUSTRIALIZATION IN MEXICO'S NORTHERN BORDER ZONE* (draft).

PROSPECTS FOR ASSEMBLY INDUSTRY TRADE

Prospects for continued growth of assembly industry trade between the United States and Mexico could be profoundly influenced by elimination of the tariff items and/or increased competition from plants in other economies. Elimination or curtailment of the provisions that effectively reduce U.S. duties on Mexican-processed goods might not seriously affect operations at plants assembling items for which close coordination with home office is vital (*e.g.*, high fashion clothing). The total production of some items might be transferred to lower wage economies; however, to reduce labor charges in order to meet higher tariff costs, the 806.3-807 provisions have been modified. Production of goods with relatively low labor content and high U.S. tariffs might revert entirely to plants within the United States.

Competition from plants in other economies appears to have reduced Mexican competitiveness in goods entered under Tariff Item 806.3 as the Mexican share of the total value of all U.S. imports under this provision fell from twenty-three percent in 1975 to sixteen percent in 1976. Mexico, however, continued to gain shares in trade under Item 807, going from nineteen percent of the world total in 1975 to twenty percent in 1976. The peso devaluation of August 1976 and wage restraint by Mexican workers has since improved Mexican competitiveness. Since goods entering under the 807 provision are worth ten times those entering under the 806.3 provision, the next two to three years should be characterized by a continued increase in the importance of trade in components and assembled products between the United States and Mexico.

SUMMARY

Trade between the United States and Mexico is already extensive and is growing faster than national output in both economies. While the recent discovery of large petroleum reserves in Mexico will affect future levels and composition of bilateral trade, the rapid growth of trade between the two nations in components and assembled products has already changed the composition of U.S. imports from Mexico. Mexico is bound to lose some of its share in U.S. manufactured imports if the relevant tariff items are repealed. If no change is made in the provisions, however, under Tariff Item 807 it appears likely that Mexico will continue to expand its exports to the United States.