George Y. Gonzalez, Jesus Alcocer in Global Trade Magazine Series: Out of Asia: Promise from Pandemic of a Manufacturing Renaissance in North America (Part 3)

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This article was co-written by Partner George Y. Gonzalez and Summer Associate Jesus Alcocer.

In their first two installments (which you can view here and here), George Y. Gonzalez and Jesus Alcocer respond to the gaps exposed in the supply chain by the pandemic by proposing a shift away from overreliance on China and a shift towards reshoring manufacturing closer to home. In their final installment, they will explore how the potential cost of reshoring out of Asia to North America could be lessened if capacity is relocated to Mexico, a natural alternative. Wrapping up their discussion, they will also examine how Houston may serve as a central hub for cross-national manufacturing and trade.

Mexico Has Also Been a Beneficiary of This Shift Out of China

Mexico has benefited from this rearrangement almost as much as Vietnam. According to A.T. Kearney, manufacturing imports from Mexico rose $13 billion to $20 billion in 2019. Thanks to this climb, the U.S. now imports 42 cents from Mexico for every dollar it purchased from LCAs, up from 37 cents during the past seven years. This pattern has also extended into 2020. In the first quarter of this year, imports in maintenance and repair, construction, and insurance sectors all grew in the triple digits, while imports of information and communications technology products (“ICT”) grew 20% year-on-year.

The trade relationship between the two North American countries has developed in spite of political obstacles. The Trump Administration imposed tariffs on Mexico-produced steel in 2018 but removed those barriers in May 2019. Likewise, Andres Manuel Lopez Obrador, Mexico’s president since 2018, was widely regarded as a nationalist suspicious of international trade. According to the Congressional Research Service, “in the area of foreign policy, President-elect López Obrador generally has maintained that the best foreign policy is a strong domestic policy.… Some observers feared that López Obrador might roll back Mexico’s market-friendly reforms and adopt a more isolationist foreign policy.” Against these inauspicious circumstances, bilateral trade has grown steadily since 2016. Mexico surpassed Canada as the U.S.’s largest trade partner in 2019. In 2013, Canada exported 8.3% more to the United States than Mexico. Now the order has reversed, with Mexico exporting .5% more than Canada into the U.S.

Growing imports can be partly explained by a hike in U.S. FDI in Mexico, which grew approximately 5.2% between 2018 and 2019 to $100.89 billion. Investment in primary and prefabricated metals manufacturing close to doubled from 2015 to 2019 to close to $2.27 billion, while FDI in machinery manufacturing grew about 25% during that same period. These are some of the industries where U.S. FDI in China has dropped most sharply, as explained above. Rising FDI stock was driven by waves of U.S. companies establishing a base or increasing their footprint in Mexico, following the market-oriented reforms in that country in the last decade. According to A.T. Kearney, by 2016 more than half of U.S. companies with manufacturing operations in Mexico had relocated production therefrom places such as China to supply the U.S. market.

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