Mexico

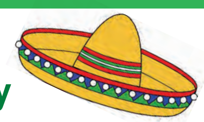
The Next Potential Emerging Market for Taiwan Fastener Industry

尋找下一個台灣螺絲產業新興市場-墨西哥

by Wayne Sung

Mexico, officially the United Mexican States, is a federal republic country in the southern region of North America. Mexico is divided into 32 states and Mexico City is its capital. Mexico borders the United States. Spanning the territory of almost 2 million sq. m., Mexico is the fifth largest country in the America continent and is the 14th largest country in the world. With an estimated population of over 120 million, Mexico is the eleventh most populous country and the most populous Spanish-speaking country in the world. Mexico was home to many Mesoamerican civilizations. Mexico has become independent since the end of its Independence War in 1821. Afterward, Mexico experienced a tumultuous post-independence period, including the Mexican-American War in the 18th century, the civil war in the 19th century, two empires, and a domestic dictatorship. The Mexican Revolution of 1910 resulted in the formulation of the 1917 Constitution and the establishment of the country's current political system. Agriculture and petroleum are both traditional economic industries in Mexico, and yet, after Mexico joined General Agreement on Tariffs and Trade, GATT in 1986, its economic structure began to show change, especially after Mexico signed the North American Free Trade Agreement (NAFTA) with the United States and Canada. Through the international connections of globalization and the export-oriented economic pattern, Mexico has successfully kept in touch with the United States and continually signed free trade agreement with the United States, Canada and EU member countries, driving multiple bilateral trades with other countries within only ten years. Mexico has shown extraordinary performance on its economy, international trade or foreign direct investment. Since then, Mexico has been marching toward the global regional economic integration.

Mexican Economy



Mexico's international GDP is the eleventh largest in the world. In 2016, its GDP per capita was USD 8,689. Mexico has been categorized as a medium to high income country by World Bank since 1994. It is also known as an emerging industrial country. Based on estimates, Mexico will become the fifth largest economy by 2050. Mexico is rich in natural resources, including petroleum, natural gas and silver. Mexico is one of the ten biggest oil producing countries and is one of the main countries that supply raw oil to the United States. The revenue from raw oil export is the important foreign exchange revenue source for Mexico. The trade and investment between Mexico and the biggest economy- the United States - is growing rapidly after the official establishment of NAFTA, boosting the economic development of Mexico and increasing its national income. This article will divide Mexico's economic development from 1940 to 2016 into 3 phases:

I. 1940s to 1970s- the Import Substitution Industrialization period; which was for replacing imported commodities with domestic industrial goods to satisfy its domestic needs. Its domestic industrial strength was reinforced through replacing imported commodities. This kind of economic development pattern made great contributions to Mexican economy during the period.

II. 1980s to 1990s- the transitional period with the foreign debt crisis; In 1980s, Mexico faced a serious external debt crisis where its currency (peso) suffered serious depreciation, causing problems like domestic inflation and a widening gap between the rich and the poor in Mexico, which then triggered complaints everywhere. The so-called terrible decade of Mexico.

III. 1990s to the present- the Export-oriented Economy of Neoliberalism period; the Mexican neoliberalism export-oriented economy is to use its geographical advantage, say, bordering the United States, to expand its North American market and purchase cheap and a diverse range of products. After the inauguration of Mexican President Ernesto Zedillo, the "Neoliberalism Export-oriented Economy" continues to be carried out. With support from the US and benefits brought by NAFTA, such an economic pattern has successfully laid the foundation for Mexico's economic growth and stability.

Mexico is now the biggest export country in Latin America and the export takes up to 34% of its GDP. It is estimated that 87.3% of its total export growth is from manufacturing, especially in its export processing zones. The imported semi-finished products and parts were re-processed in Mexico by its cheap labor. Many assembly & processing plants in Mexico were also set up in the areas close to the border of U.S., the biggest consuming market in the world. Mexico's export growth is based upon its low labor cost and the demand from U.S. market. Take the automobile industry, which has the best export performance for example, there were only 13 auto assembly plants in 1993, but this figure climbed to more than 30 in 2014. It is even reported that there will be two more plants added to the industry in 2017. The manufacturing efficiency of the automotive industry boosted the production of glass, tires, coating materials and parts. The production value of Mexican automotive industry in 2013 totaled 78 billion USD, making Mexico the fifth biggest car assembly country in the world. It is estimated that the production value will reach USD 90 billion USD in 2017.

In February 2016, the current Mexican president Enrique Peña Nieto announced that Mexico would open up its oil fields for foreign and private enterprises to invest, in order to appeal to more foreign and private capitals that could be used to increase oil production and develop mining technology. In addition, in the perspective of telecommunication, President Nieto allows foreign enterprises to directly invest in its telecommunication sector and these investors can take up to 100% of the total investment. Such a reform has significantly improved the coverage of indoor telephone landlines, cell phones, Internet and broadband. Since the various structural reform policies of Mexico had confirmed to generate positive effects and the infrastructure & automobile industry expansion plans also drove the continual growth of Mexican economy and the increasing investment. Mexico's economic growth rate grew to 2.5% in 2015; 2.3% in 2016, and it is estimated to grow up to 2.8% in 2017. However, the excessive focus on the industry and less attention to agriculture have caused some social issues in Mexico. Three of the issues are illustrated as below:

i. High Domestic Unemployment Rate & Negative Growth on Salary

Mexico was seriously affected by America's financial crisis of 2007-2008, causing 3.6 million Mexicans out of work within two years. According to the statistics from Mexican Social Security Institute, between 2008 and 2009, over 500 thousand formal employees were laid off, making the unemployment rate reach up to 7.6%. Besides, trade liberalization caused intensified external competition. The domestic small and medium enterprises which were too late for transition and upgrade closed down, and the corporate restructure after acquisition as well as lean employment structure also made some layoffs, causing problems like unemployment, lowering labor wage and declining will to purchase.

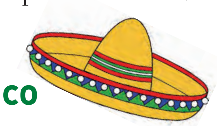
ii. The Serious Condition of Labor Force Moving out to the United States

The worsening of Mexican labor market employment and wage make the labor force flow to the United States. Compared to Mexico, U.S. jobs offer higher wages, which is very appealing to Mexican immigrants. Even if the US has been facing economic recession in recent years and the unemployment rate is increasing, the trend of Mexicans moving to the US is still. A research by OECD shows that the number of immigrants from Mexico maintained at five thousandths per year between 2003 and 2010. With an estimation that the total Mexican population is 110 million, 540 thousand Mexicans move to the US per year, causing serious problems between the United States and Mexico. After the inauguration of the American president Donald Trump, the wall building issue of Mexico-United States border has become an extremely controversial problem.

iii. The Serious Imbalance Between Agriculture and Industry

After NAFTA was brought into force, it has indeed succeeded in attracting foreign investments to enter Mexico, stimulating import and export growth and the export processing manufacturing industry has benefited. However, the foreign investments are mostly indirect investments, while the seemingly rising data of import and export trade in fact showed a deficit. Negative impact appears in agriculture. In addition to the unfairness of agricultural subsidies and reform plans, after the adoption of preferential tariffs of basic grain, the low-priced agricultural products from the United States has been dumped into Mexico, resulting in the price collapse of Mexican domestic agricultural products. The increase in industrial job opportunities is too few to cover the entire unemployed population in agriculture. Unemployment has caused problems like poverty, gap widening between the rich and the poor in Mexico.

Trade Policies Between China and Mexico



China has become the second biggest economy in the world, and China is now carrying out the strategy of "becoming globalized" and it encourages and supports all capable enterprises to make foreign investment and transform into multinational businesses, and actively participate in different forms of international economic technical cooperation. Hence, those countries that have diplomatic ties with China also hope to cooperate with each other. With China's powerful economic strength, these countries can develop their own economy and improve their economic strength, which has been significantly demonstrated through China's "One Belt, One Road" initiative. Back to September 2005, the China President Hu Jintao once made an important speech on "reinforcing mutual beneficial cooperation, boosting collective development" at the Senate of the United Mexican States, the content was about developing long term cooperation together between China and Mexico, the two developing countries. However, 10 years later, when China Railway Construction Corporation and a local joint venture engineering company won the bid of Mexican high speed railway in November 2014, President Enrique Peña Nieto ordered to cancel the tender. The good political and trade relationship between Mexico and China was negatively influenced due to the failing cooperation on the high speed railway plan. Does it mean that the diplomatic relation between the two countries has also changed? It is worth further observation.

In China's tenth five-year-plan, its top priority is that its national oil company would consider investing in the exploration of petroleum and natural gas abroad, and South America is an important area for its national oil company. When Xi Jinping becomes China's President, he visited Republic of Trinidad and Tobago, Costa Rica and Mexico in May 2013, and visited other Latin American countries in July 2014, showing that he valued Latin America a lot. President Xi proposed multiple cooperation plans in accordance with the development of relationship between China and B.R.I.C or Latin America during his stay in Latin America. When the Mexican President Nieto visited China in November 2014, President Xi clearly noted that both China and Mexico were developing countries and important emerging market countries and were both at the key stage of development and reform, and that both countries facing similar challenges should work hand in hand to achieve prosperity together. The discontinuation of high speed rail cooperation between Mexico and China could be deemed as a huge project loss for China. However, China seemed to be willing to acknowledge the loss as it faced the problem of steel oversupply in China that could reduce the profit margins of Chinese enterprises and affect the industrial development. As a result, when the high speed rail project could not be successfully completed, China would not be able to export its labor force and raw materials (e.g., glass, steel and chemicals) to Mexico, preventing the weakening of China's economic development from happening.

Taiwan's Screws and Nuts Trade with Mexico

Taiwan showed a US$1.603 billion surplus in its trade with Mexico in 2015 and the major exported products were electric mechanical equipment & parts (35.24%), machines & mechanical devices (15.77%), steel (10.34%), etc. The tables below show Taiwan's fastener trade with Mexico and the whole world, and the percentage of its export to Mexico in its total export between 2006 and 2016.

Table 1. Taiwan's Fastener Export to Mexico Between 2006 and 2016

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Annual Export Value (USD)	20,813,893	22,807,504	27,817,945	20,876,039	33,155,351	42,229,933	49,374,532	56,233,878	66,415,507	73,567,185	70,665,089
Annual Export Weight (KGM)	11,461,737	10,396,478	11,910,808	9,818,953	12,686,646	16,028,076	17,723,164	21,037,244	24,954,235	26,882,594	25,870,179
Unit Price (USD/KGM)	1.816	2.194	2.336	2.126	2.613	2.635	2.786	2.673	2.661	2.737	2.732

Table 2. Taiwan's Fastener Export to the World Between 2006 and 2016

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Annual Export Value (USD)	2,438,393,759	2,775,747,624	2,954,669,915	1,927,175,716	3,066,814,297	3,808,037,696	3,586,618,369	3,679,741,858	4,048,948,068	3,880,596,255	3,610,883,332
Annual Export Weight (KGM)	1,208,756,429	1,174,269,915	1,125,513,687	816,653,088	1,206,369,710	1,347,746,764	1,278,585,161	1,371,098,506	1,501,697,033	1,470,992,279	1,435,750,086
Unit Price (USD/KGM)	2.017	2.347	2.625	2.36	2.542	2.825	2.805	2.684	2.696	2.638	2.515

Table 3. Percentage of Taiwan's Fastener Export to Mexico in Taiwan's Total Fastener Export

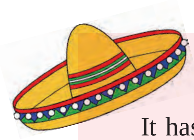
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Export Value	0.85%	0.82%	0.94%	1.08%	1.08%	1.11%	1.38%	1.53%	1.64%	1.90%	1.96%
Export Weight	0.95%	0.89%	1.06%	1.20%	1.05%	1.19%	1.39%	1.53%	1.66%	1.83%	1.80%
Unit Price Difference (Export to Mexico vs. Export to World)	0.201	0.153	0.289	0.234	-0.071	0.19	0.019	0.011	0.035	-0.099	-0.217

Some trends could be observed from these 3 tables:

1. Taiwan's fastener export to Mexico between 2006 and 2016 was on the rise year after year and the total value increased from USD20 million to USD70 million, showing the fact that Taiwanese fastener companies have been on a path to gradually expand business to Mexico.

2. The percentage of Taiwan's fastener export to Mexico in its total fastener export also increased from 0.85% to 1.96%, showing the increasing demand for fasteners in Mexico due to its industrial development. Taiwanese fastener companies also increased their export to Mexico year after year.

3. The unit price for Taiwan's fasteners exported to Mexico in 2016 was still 8.62% lower than the unit price of Taiwan's fasteners exported to the whole world, which shows Taiwanese fastener companies still have a long way to go in their fastener business with Mexico.



Conclusion

It has been over 20 years since Mexico becomes a member of NAFTA. Although this free trade agreement did draw more foreign investors to Mexico, boost the import & export, create more job opportunities and reinforce the economic growth effectively, it also caused severe injury to the local Mexican agricultural industry. The most significant example is that the dumping of low priced agricultural goods from the U.S. caused the slump in prices of Mexican agricultural goods, making 85% of Mexican peasants live below the poverty line and widening the gap between the rich and the poor in Mexico. Moreover, as around 37% of Mexico's annual revenue is generated from its oil export, the current low level of oil price in the international market has greatly reduced Mexico's income from oil sales. In the past 10-20 years, Mexico has been always the "medium country" for multinational corporations to search for low-wage labor and reduce the cost for shipments to the U.S. In addition to NAFTA, Mexico has also signed the other 32 free trade agreements. The U.S. is the biggest trade partner for Mexico and Mexico is also the first country that has successfully exploited free trade agreements to reinforce its domestic economic development. On the other hand, as there are many well-established export processing zones and more than 30 car assembly plants in Mexico, Mexico will be a very good option for any company interested in tapping into U.S. market or expanding business to Latin America.

Opportunities and Challenges in the Automotive Industry for Chinese Manufacturers

by Shervin Shahidi Hamedani

中國廠商在全球汽車市場的機會和挑戰

The automotive industry as a pillar of the global economy continues to face a growing number of challenges and pressures, including cost pressure, competition, globalization, market shifts, and volatility. However, the automotive industry in China has grown at more than 15 percent annually for a decade. In late 2015, when it looked like demand might decline, a tax break was introduced to keep the market growth in 2016.

Chinese automakers' efforts to expand into more emerging markets have spurred positive forecasts on export growth, amongst strengthening international political ties. The emerging markets such as the Middle East and North Africa are identified as key growth drivers for Chinese carmakers. Several trade relationships in these markets are promoted by the country's political relationships instead of market expansion. Other than the Middle East and North Africa, the fast-growing Indian and South Asian markets have been considered for their opportunities by many of Chinese manufacturers which have shifted their focus.

The automotive sector faces a range of challenges globally with complicated safety regulations. The majority of exported Chinese-branded vehicles are shipped to developing countries. There is room for development in Iran, India, Indonesia and Malaysia. The Indian market draws Chinese auto makers' attention because the demand is climbing and the market is developing at high speed.

Although Chinese companies are speeding up their pace to go abroad, the export environment in developed countries is not expected to change in the near future, as their saturated markets leave only limited opportunities for Chinese exports. Some developed countries have complex legal frameworks to protect local manufacturers. In the U.S., for instance, the market situation differs in each state, and has begun to levy heavy duties on truck and bus tires imported from