



Growing Together: Economic Ties between the United States and Mexico

Cross-Border Investments Lay the Foundation for Shared Regional Prosperity

By Christopher Wilson

#USMXEcon



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Project Introduction

The impact of trade and globalization on the average American has become a core issue in this year's elections. We have heard measured, well-founded and serious critiques on the handling of issues like currency manipulation and preparing our workforce for participation in the global economy, but the conversation has also drawn many passionate and visceral responses, highlighting the intensity with which citizens feel the impact of economic change. Due to campaign rhetoric, Mexico has come to symbolize much of the U.S. encounter with globalization. Given that Mexico is the United States' second largest export market, third largest overall trading partner, and the top country of origin for immigrants living in the country, this is understandable. Nonetheless, having become a top tier issue in the presidential elections, it is more important than ever that Americans have a clear and up-to-date understanding of Mexico and, in particular, the U.S.-Mexico economic relationship.

With that in mind, the Mexico Institute is pleased to announce the launch of a new project, *Growing Together: Economic Ties between the United States and Mexico*, which explores the bilateral economic relationship in detail to understand its nature and its impact on the United States. We have commissioned original research on the employment impact of bilateral trade on the U.S. economy, performed original analysis using government and academic datasets, and have undertaken an extensive review of existing research relevant to the U.S.-Mexico economic relationship. Beginning today and continuing throughout the fall of 2016, the Mexico Institute will release the findings of our research on our website and social media, using the hashtag #USMxEcon.

Our study concludes that the economic relationship with Mexico, though not without its challenges, provides concrete benefits, strengthening the competitiveness of American firms, creating jobs in the United States, and generating savings for the average American family. Learn more about the project and its key findings at <http://bit.ly/USMxEcon>.

Christopher Wilson
Duncan Wood

Growing Together: Cross-Border Investments Lay the Foundation for Shared Regional Prosperity

By Christopher Wilson¹

To build up the highly competitive and tightly integrated North American production platform that now exists, U.S. and Mexican companies have made huge investments in each other's country. The total stock of U.S. and Mexican foreign direct investment in each other has risen more than six-fold since 1993 and now totals \$108 billion dollars (see figure 1.).² In 2015, U.S. direct investment—the direct ownership of businesses like a manufacturing plant or retail store—in Mexico reached \$93 billion dollars. Mexican investment in the United States, at \$17 billion dollars, is smaller but growing quickly. It has quadrupled since 2005, and the United States is the largest destination for Mexican FDI abroad.³ In addition to foreign direct investments, U.S. and Mexican investors hold even larger portfolio investments—investments in a variety of financial instruments, including debt and equity, that are purely financial and do not confer significant management rights. As of June 2015, U.S.-based entities held \$146 billion dollars' worth of portfolio investments in Mexico, while Mexican entities held \$157 billion in U.S. equities and debt.

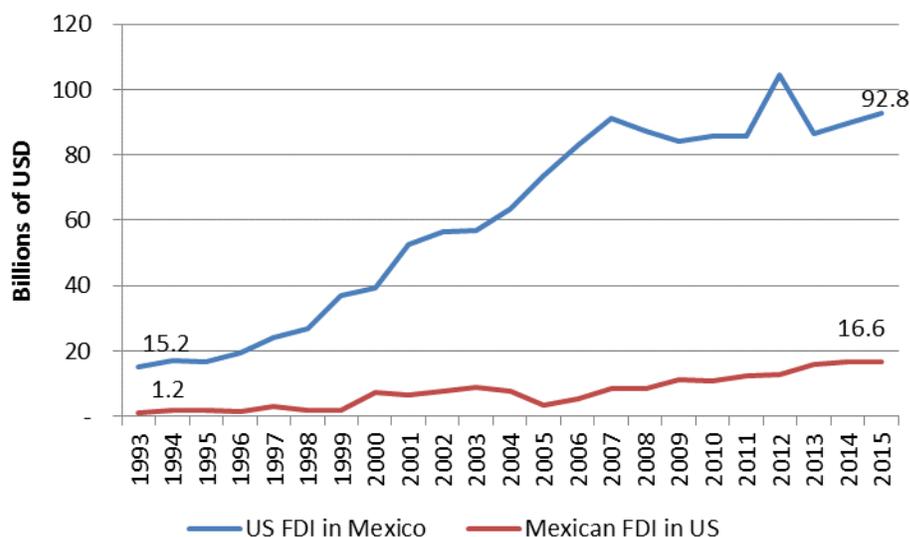
Geography first tied together the U.S. and Mexican economies, but bilateral foreign and portfolio investments have substantially increased the extent to which growth on one side of the border leads to growth on the other. The fate of workers and shareholders in companies with regional supply chains and operations on both sides of the border is tightly linked, giving them a stake in each other's success. Furthermore, by acting as lenders to one another's governments and businesses, the United States and Mexico have a significant interest in the macroeconomic stability and growth trajectory of both sides of the regional economy. The mutually beneficial nature of the bilateral investment relationship runs counter to much of the political rhetoric on the subject, which would have us believe that a U.S. investment in Mexico tends to come at the cost of an investment in the United States. Certainly there are cases when a factory gained in Mexico is a factory lost in the United States, but new research (Moran and Oldenski, described in greater detail below) shows a clear relationship between investments abroad and growth in employment and spending at home, suggesting that most of the time a factory gained in Mexico comes with a new factory or research lab in the United States.

¹ I would like to thank Miguel Toro and Christian Michel-Casulleras for their valuable research assistance in the preparation of this article.

² This is the sum of U.S. direct investment position in Mexico and Mexican direct investment in the United States, using 2015 data from the U.S. Department of Commerce, Bureau of Economic Analysis, 2016.

³ When possible, this chapter relies on U.S. data in order to maintain consistency. In this case, the data to support the quadrupling of Mexican FDI in the U.S. is based on U.S. BEA data, but the data to support the U.S. being the largest recipient of Mexican investment abroad is the IMF, CDIS, 2016.

Figure 1. U.S.-Mexico Foreign Direct Investment Positions (1993-2015)



Source and Note: Historical cost basis data. U.S. Department of Commerce, Bureau of Economic Analysis, 2016.

U.S. Investment in Mexico

U.S. companies with affiliates operating in Mexico employ over 1.1 million workers and produced goods and services valued at \$227 billion dollars in 2013.⁴ The largest portion of jobs in Mexico supported by U.S. investments is in manufacturing, especially in the huge automotive sector, but there is also significant employment in the finance, retail, and hospitality industries, among others. While the benefit for the United States is obvious when U.S. retailers and hotel chains open up operation in Mexico—generating profits to send back home and creating employment in both countries—the opening of manufacturing plants in Mexico by U.S. companies has at times been thought of as having a negative impact on the domestic economy.

Certainly, there are times when outsourcing means a factory is closed in the United States and opened in Mexico, which has a mixed impact on the U.S. economy—jobs lost, more affordable imports gained. However, recent research demonstrates that, in the majority of cases, investment in Mexico by U.S. companies is associated not with downsizing back home but with growth in their U.S. operations. Theodore Moran and Lindsay Oldenski have analyzed U.S.-Mexico trade and investment data from 1990 to 2009, and find that on average a ten percent increase in employment at U.S. companies' operations in Mexico leads to a 1.3 percent increase in the size of their workforce in the United States, a 1.7 percent increase in exports from the United States, and a 4.1 percent increase in U.S. research and design spending.⁵ Their work clearly shows that investment and growth abroad, in this case in Mexico, is complementary to—not a substitute for—investment and growth at home in the United States. Ford Motor Company is a case in point. The company has recently announced investments in Mexico to

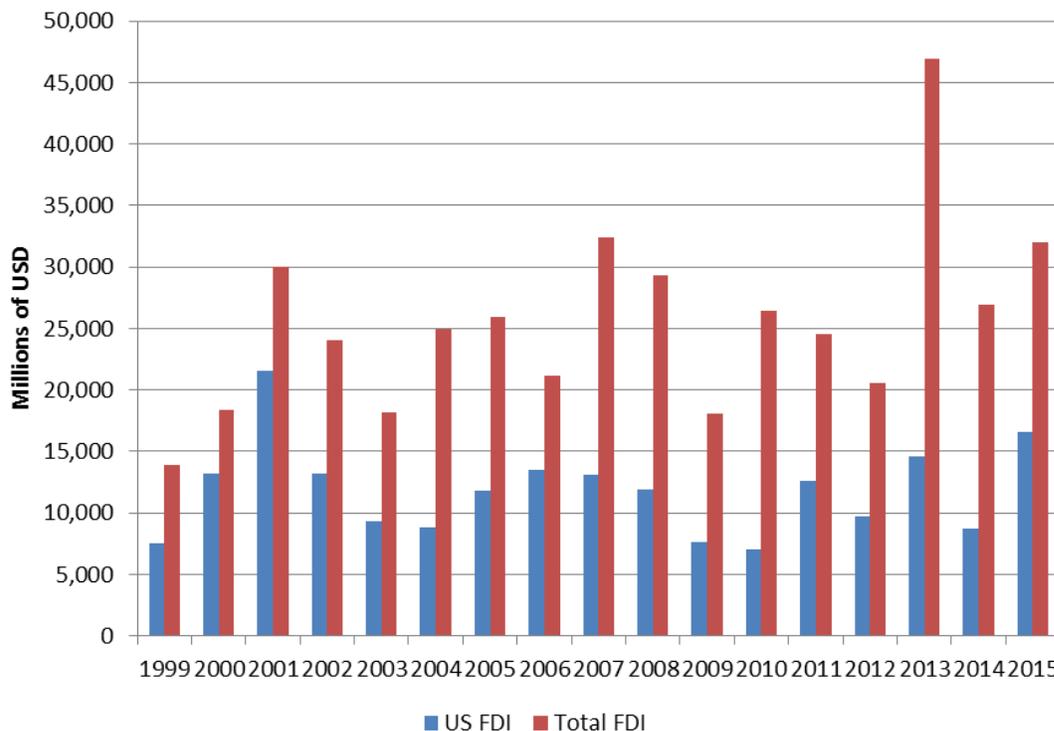
⁴ U.S. Department of Commerce, Bureau of Economic Analysis, 2016, <http://www.bea.gov/international/usdia2013p.htm>.

⁵ Theodore H. Moran and Lindsay Oldenski, "How U.S. Investments in Mexico have increased investment and jobs at home" in *NAFTA 20 Years Later*, Washington, DC: Peterson Institute for International Economics, November 2014.

expand small car production there and focus its U.S. operations on the production of larger and more profitable SUVs and trucks, a move that drew considerable criticism and raised concern that its investments in Mexico meant there would be job losses at its U.S. plants. Ford responded by announcing that the company has invested \$10 billion in U.S. facilities since 2011, hired 25,000 workers during the same period, and plans to create an additional 8,000 U.S. jobs in the next four years.⁶

Importantly, however, outsourcing investments in manufacturing abroad and related growth in manufactured goods imports do change the structure of the U.S. economy. These changes are reflected in the general trend of declining manufacturing employment in the United States, but Oldenski and Moran’s work makes clear those manufacturing employment losses are accompanied by job growth in the service sector, not just in general but at the firm level as U.S. multinational companies increase their focus and spending on complex and consequently higher paying tasks such as innovation, engineering, and management.⁷

Figure 2. Foreign Direct Investment in Mexico, Flows (1999-2015)



Source: Inegi, Banco de Información Económica, 2016.

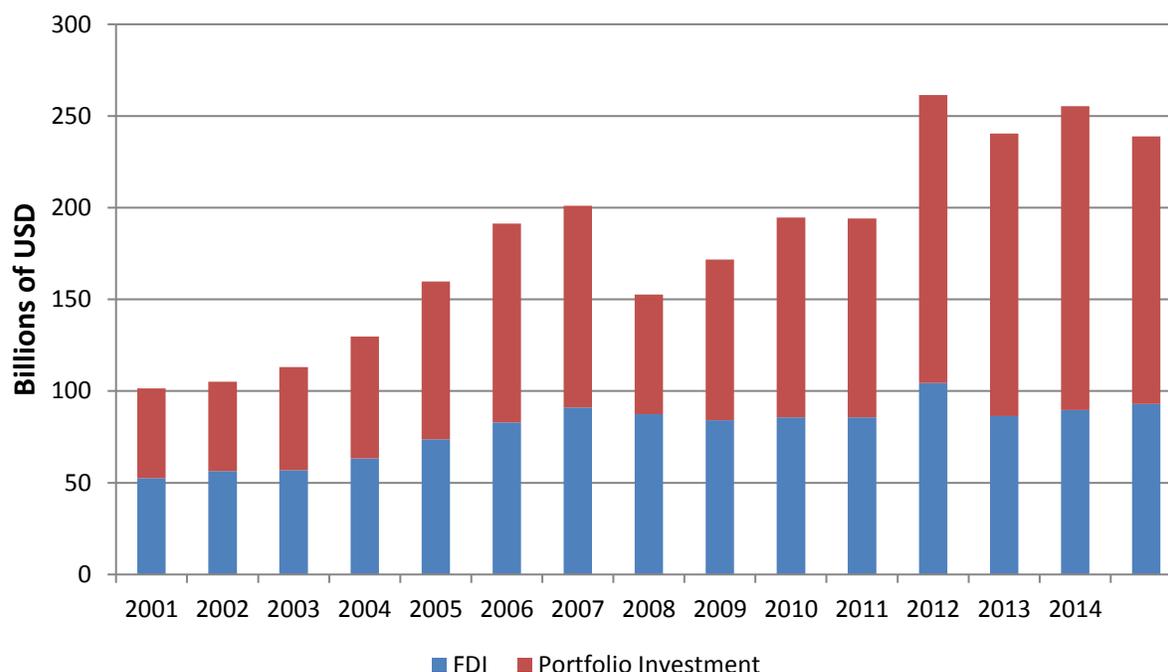
For more than two decades, since the implementation of NAFTA, Mexico has held the confidence of companies around the world—but especially from the United States—as a site for foreign investment. Since 1994, Mexico has received FDI inflows averaging 2.6 percent of its GDP, while during the 22 years prior to NAFTA it received FDI flows at an average of 1.0

⁶ Dan Primack, “Ford CEO Responds to Donald Trump’s Attacks,” *Fortune*, January 6, 2016, <http://fortune.com/2016/01/06/ford-donald-trump-mexico/>.

⁷ Theodore H. Moran and Lindsay Oldenski, “The US Manufacturing Base: Four Signs of Strength,” Washington, DC: Peterson Institute for International Economics, June 2014.

percent of GDP.⁸ Yearly totals rise and fall as major companies are bought and sold (see Figure 2), but there is a clear trend of both the United States and the world investing in Mexico and in particular in Mexican manufacturing. There is little doubt that the level of investment could be still higher, as ongoing challenges relating to firmly institutionalizing the rule of law; implementing efficient regulation; strengthening education and worker training; and developing of robust and inclusive financial markets continue to drag on investor confidence and the growth potential of the Mexican economy, but Mexico is nonetheless the 16th largest recipient of FDI around the world.⁹

Figure 3. U.S. Direct and Portfolio Investment in Mexico, Position (1993-2014)



Sources: FDI from U.S. Department of Commerce, Bureau of Economic Analysis, 2016; Portfolio from U.S. Department of the Treasury, Treasury International Capital System, 2016; except 2002 portfolio data from IMF, CPIS, 2016.

U.S. Portfolio Investment in Mexico

U.S. portfolio investment in Mexico, which includes U.S. holdings of Mexican equities and debt, has grown faster than FDI since 2001 (see Figure 3), with a particularly large increase since the 2008-2009 recession. U.S. equity investment in Mexico has experienced significant growth, rising from \$26 billion USD in 2001 to \$56 billion in 2015, but U.S. investment in Mexican (private and public) debt has risen even faster, from \$23 billion in 2001 to \$89 billion in 2015.¹⁰ The growth in equity investment is unequivocally positive, signifying the expansion of Mexico's financial markets and the strength of businesses operating and listed in Mexico. The rising debt

⁸ Author's calculations with data from World Bank, 2016.

⁹ Author's calculation using FDI position data from the IMF Coordinated Direct Investment Survey, 2016.

¹⁰ U.S. Department of the Treasury, Treasury International Capital System, 2016, <https://www.treasury.gov/resource-center/data-chart-center/tic/Pages/fpis.aspx>.

is more of a mixed story. On the one hand, it too is a show of confidence in Mexico's macroeconomic management and growth outlook. But having already taken advantage of investor confidence to ensure that most of its debt is long-term and peso-denominated, some analysts are beginning to worry that low borrowing costs are allowing Mexico to soften the fiscal discipline that got it to this point.¹¹ Mexico's debt to GDP ratio has risen from a low of 17 percent in 2009 to 43 percent in 2015, largely the result of the recession and low oil revenue but nonetheless worthy of concern.¹²

Measuring Investment

Key Terms: Foreign investment includes two main types, direct and indirect. *Direct investment* generally involves a company starting or expanding operations in a foreign country. Direct investment implies that the investor has significant control of the investment. Indirect, or *portfolio investment*, includes the purchase of assets abroad—whether equity, debt, or related instruments—that are financial in nature and do not confer a significant degree of managerial control over the issuer. Additional types of foreign investment not addressed in this essay include the significantly smaller volume of *commercial loans* and *official flows* (government aid). The U.S. Bureau of Economic Analysis defines FDI as foreign ownership of 10 percent or more of a domestic firm. Regular FDI statistics simply report the country in which the foreign owner is registered, but in many cases that entity is also owned by an investor from a third country. To address this, the BEA also reports FDI by *Ultimate Beneficial Owner (UBO)*, following the chain of ownership until there is no owner with more than a 50 percent stake above it. When measured by UBO, the position of Mexican FDI in the U.S. rises to \$36 billion USD, more than double the \$17 billion reported using the traditional method of accounting.

A Note on Sources: Despite efforts to harmonize and improve methodologies for measuring international investment by governments and international organizations, significant differences in recorded investment exist among sources. For example, while the U.S. registers \$17 billion in FDI stock from Mexico, Mexico puts the figure at \$48 billion. Though this difference is particularly large, significant discrepancies are commonplace when analyzing global investment statistics. In this essay, most of the data presented comes from compatible sources, but there are cases in which that is impossible. In addition to differences among sources, even the same sources can make major revisions to data from year to year. For example, the U.S. Department of Commerce made a major downward revision to its 2013 and 2014 statistics on the U.S. FDI position in Mexico, lowering the previously reported values by about \$14 billion dollars.

¹¹ Nacha Cattán and Isabella Cota, "Nearing Tequila Crisis Era Debt Levels Gives Mexico a Hangover," *Bloomberg*, February 26, 2016, <http://www.bloomberg.com/news/articles/2016-02-26/nearing-tequila-crisis-era-debt-levels-gives-mexico-a-hangover>.

¹² Secretaría de Hacienda y Crédito Público, 2016.

Major Mexican Companies with Operations in the United States*

By Christian Michel-Casulleras**

Bimbo is a multinational bakery product manufacturing company. It is the world's largest baking company. In the United States, it operates in over 70 bakeries, employs 27,000 people and has 12 brands with more than \$100 million in sales. It distributes products through 11,000 sales routes throughout the United States, and it is the only commercial bakery manufacturer to serve all 50 states. Bimbo started its two large plants in Hazleton (PA), which produce and package its leading brands such as Sara Lee, Orowheat, Stroehmann's, Arnold, Freihofer's, Brownberry, Boboli Pizza Crust, and Thomas' English Muffins.

Two Mexican companies manufacture and distribute cement, ready-mix concrete and aggregates in the United States: the multinational CEMEX and Grupo Cementos de Chihuahua (GCC). **CEMEX** is the second largest building materials company worldwide. CEMEX has 13 cement plants, 381 ready-mix concrete plants, 77 aggregate quarries, and 42 distribution terminals. **GCC** has cement plants in Pueblo (CO), Rapid City (SD) and Tijeras (NM), 10 distribution terminals, corporate and sale offices, and a coal mine in Hesperus (CO).

Banorte is a Mexican banking and financial services holding company. In 2006, Banorte acquired the holding company of Texas-based Inter National Bank for \$405.6 million. It provides private banking and wealth management services through Inter National Bank brokerage, investment and international business services through Banorte Securities International and remittances services through UniTeller.

America Móvil, a venture of Carlos Slim, is a telecommunications corporation. It is the fourth-largest mobile network operator in terms of number of subscribers in the world. In the United States, it operates the following companies: TracFone, Net10, SafeLink, StraightTalk, Simple Mobile, Total and Telcel America. **Grupo Carso**, also owned by Carlos Slim, is a conglomerate with operations in retail, manufacturing, infrastructure and energy. In the United States, it operates through its subsidiaries Carso Energy -providing gas transportation services and Condumex Inc. distributing and supplying industrial products.

Several Mexican companies are active in the food and beverages industries. **Grupo Lala**, the largest dairy company in Latin America, expanded into the United States in 2008. LALA foods, based in Dallas, has three production plants, over 5 brands, and distributes to 27,915 stores across the country. **Gruma** is the largest corn flour and tortilla manufacturer in the world. Azteca Milling is the main manufacturer of corn flour and operates six plants that attend industrial, retail and institutional customers in the United States and Canada. Mission Foods operates 22 plants throughout the country and is the main producer of corn and flour tortillas. **Arca Continental** distributes and sells snacks like potato chips and Cheez Doodles through Wise Foods. It has three plants, 13 distribution centers, and 103,000 points of sale across the United States. Other Mexican companies in this sector include Sigma Foods, part of **Grupo Alfa**, producer of hot dogs under the Bar-S and Fud labels with 6 production plants, 13 distribution centers, and over 42,000 points of sale; Mount Franklin Foods, part of **Elamex**, producer of confections and nut products; and O.K. Foods, part of **Industrias Bachoco**, producer of TenderBird chicken products.

Two of the major copper producers in the world, ASARCO and Southern Copper Corporation are part of **Grupo México**. Grupo México is a holding company whose main activities are in the mining, transportation and infrastructure development. ASARCO is a fully integrated miner, smelter, and refiner of copper producing approximately 350 – 400 million pounds of copper annually. It has three copper mines, a copper smelter, two plants and administrative offices in Arizona and a copper refinery in Texas. The Southern Cooper Corporation has over 11,500 employees and sales over \$5 billion. Grupo México is also the largest shipper in the automotive sector in Mexico.

Televisa is a major international entertainment business comprising the largest media company in the Spanish-speaking world. In the United States, Televisa's audiovisual content is distributed through Univision Communications Inc., the leading media company serving the Spanish-speaking community. Azteca América (part of Grupo Salinas) is another Mexican media company serving the U.S. market. It is among the fastest growing networks in the country. **Grupo Salinas** is also active in the retail and financial

sector through Elektra, the largest non-bank provider of cash advance services, and Advance America, the largest payday loan company in the United States.

Grupo ALFA is a Mexican multinational conglomerate that produces refrigerated foods (Sigma), hydrocarbons (Newpek), petrochemicals (Alpek), aluminum auto parts (Nemak), and IT & Telecom (Axtel). Newpek has 628 wells in operation and mineral rights on leases over 400,000 acres in Colorado, Kansas, Oklahoma and Texas. Alpek has become the largest producer of PTA, PET, and polyester fibers of the continent. It acquired the Eastman Chemical company, a PTA plant and two PET plants in North Carolina with combined production capacity of 1.26 million tons. In addition, it acquired a plant in the state of Mississippi and the property rights on IntegRex technology. Nemak supplies one-quarter of all light vehicles in the world with aluminum engine components. **Rassini** is one of the world's largest brake and suspension manufacturers. Other Mexican companies active in the automotive and auto parts sector include **Grupo Kuo** (TREMEC) and **Grupo Proeza** (Metalsa).

Mexican companies are active in the high-tech and information technology sectors as well. **Softtek** offers application software development, testing, security and support, business process outsourcing, and IT infrastructure management. In 2013, the company acquired California-based System Integrators Inc., a services partner global IT solutions provider. The company trademarked the term "nearshoring" to describe the provision of outsourced services to customers in other countries that are in proximity. **RFID México** operates with IDZ Technologies Inc. in the radio-frequency identification sector using electromagnetic field technologies.

Regarding building materials (metal, glass, plastic, copper products) and chemicals, the most visible Mexican companies are **Comex**, **Interceramic**, **Corev**, **Corporación E.G.**, **Deacero**, **Grupo IUSA**, **Grupo Vitro**, **Verzatec**, and **Mexichem**.

*This list highlights the operations of many of the largest Mexican investors in the United States, but the list is neither comprehensive nor in any particular order.

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Sources:

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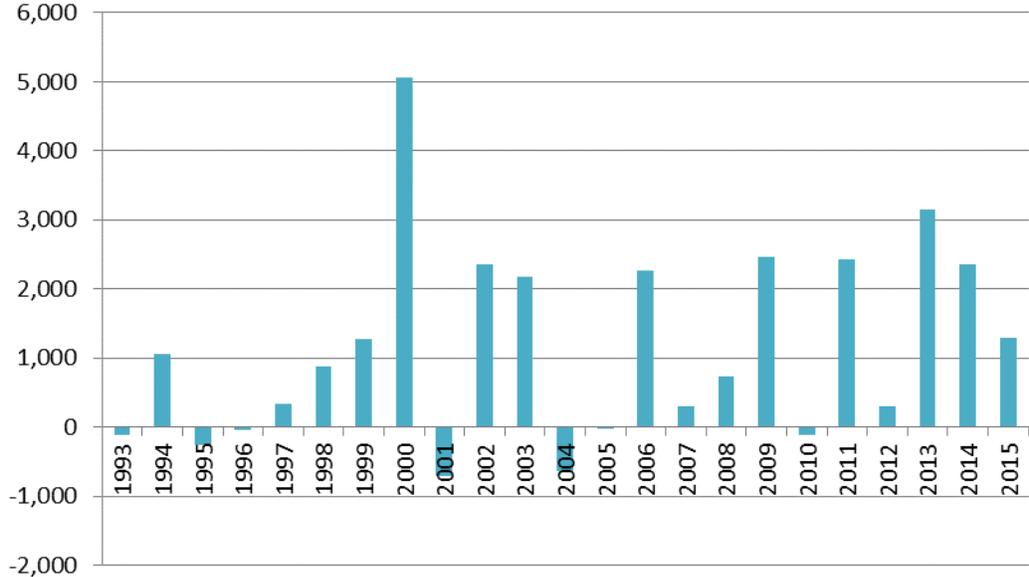
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Mexican Investment in the United States

Mexican direct investment in the United States is a less understood but important part of the story of regional economic integration. The total stock of Mexican FDI in the United States, at \$17 billion dollars (or up to \$48 billion according to Mexican sources—see box on *Measuring Investment* for more information), is much smaller than the sum of U.S. investments in Mexico, but Mexican investment is rising at a very quick rate.¹³ In fact, over the past decade, the stock of Mexican foreign direct investment in the United States has quadrupled.

NAFTA plays an important part in the story to explain why Mexican investment in the United States has grown so much. Before Mexico’s process of economic liberalization in the 80s and 90s, Mexico had a very closed economy, following an import substitution strategy in which high tariff walls were meant to protect domestic ‘infant’ industries from external competition while they developed. The main challenge with such an approach is that protected industries seldom mature on their own. Rather, it is exposure to competition that drives companies to increase productivity. When NAFTA—along with other policies put in place in the years prior to NAFTA—opened up Mexico to competition from abroad, a period of intense evolution took place in the Mexican private sector, with some companies failing to adapt and going under while others met the challenge by becoming global industry leaders. Throughout the 1990s and at an increased rate in the 2000s, successful Mexican companies began to look for growth opportunities beyond the domestic market, and Mexico’s close economic ties to its NAFTA partner made the United States the top destination for Mexican foreign investment.

Figure 4. Mexican Foreign Direct Investment in the United States, Flows (1993-2015)



Source: U.S. Department of Commerce, Bureau of Economic Analysis, 2016

¹³ U.S. Department of Commerce, Bureau of Economic Analysis, 2016.

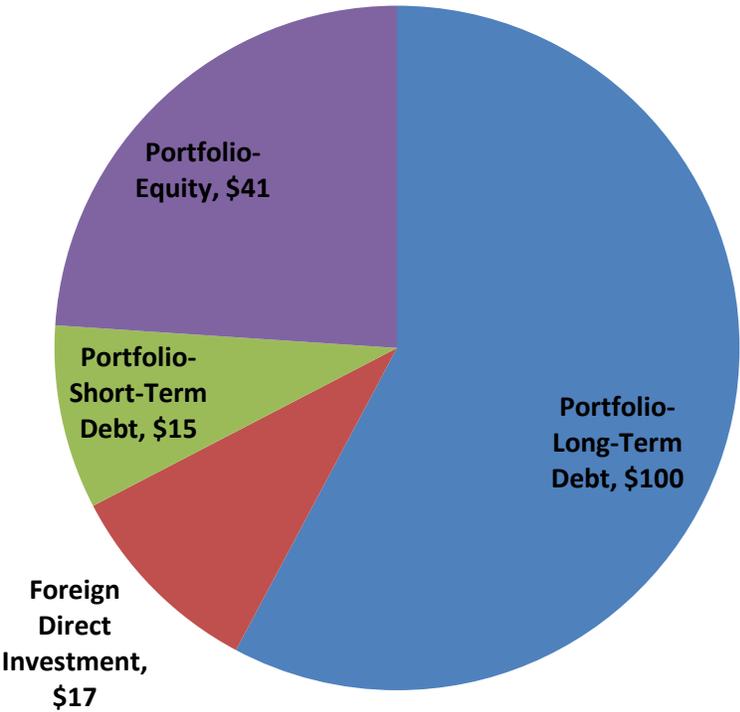
Mexican foods producers have been especially successful in the United States, and the context of Mexican migration played an important role in driving the success of some of the largest. Such is the case of Gruma, the world's largest tortilla maker and owner of major U.S. brands such as Mission. Gruma opened its first U.S. subsidiary in the 1970s in California, which has traditionally been the destination for many Mexican migrants and is still the state with the largest Mexican-born population in the United States. Gruma initially focused on selling to the Mexican and Hispanic communities in the United States, markets for which it was especially well prepared. But over time, Mexican food went mainstream and the tortilla became a key ingredient not only for Mexican dishes but also for sandwiches (wraps), making it a staple for households across the country and significantly expanding Gruma's business opportunities in the United States and eventually around the world. Mexico's Grupo Bimbo followed a similar trajectory, entering the U.S. market first to serve the Mexican population in the United States before becoming an industry leader for the entire U.S. market. Bimbo began by exporting its baked goods, which were well known in Mexico, to the United States in the 1980s, growing further through investments in the U.S. and global markets that eventually made it the largest baked goods company in the world, employing some 27,000 workers in the United States.¹⁴ These examples show how several Mexican food and beverage producers were able to successfully convert a foothold in a niche market into industry-wide success. Not every company followed the same pattern, but the large number of Mexican food and beverage companies with operations in the United States (i.e. Arca Continental, Bachoco, Bimbo, Elamex, Gruma, Lala, Sigma—see box on Mexican investments in the United States for more detail) clearly demonstrates a special aptitude in the industry.

In the 1990s, U.S.-based entities were far more invested in Mexican securities (equity and debt) than Mexican entities were in U.S. securities. In 1994, for example, U.S. residents held \$52 billion dollars' worth of Mexican securities, while Mexican holdings of U.S. portfolio investments totaled just \$6 billion dollars.¹⁵ By 2003, however, the imbalance had disappeared, with each country's residents holding \$56 billion in securities from across the border. Since then, portfolio investments in both directions have grown more or less equally, and in 2015, Mexican holdings of U.S. securities (at \$157 billion) for the first time surpassed U.S. holdings of Mexican securities, which because of the depreciation of the peso had declined to \$146 billion. Mexican portfolio investment in the United States, following its growth since the early 2000s, has come to dwarf Mexican FDI as a portion of total Mexican investment in the United States (see Figure 5). In 2015, the Mexican portfolio investment position in the United States was nine times greater than the total stock of Mexican FDI in the country.

¹⁴ Bimbo Bakeries USA – About Us, <https://bimbobakeriesusa.com/about-us#fact-sheet>.

¹⁵ Portfolio data referenced in this paragraph is from the U.S. Department of the Treasury, Treasury International Capital System, 2016, <https://www.treasury.gov/resource-center/data-chart-center/tic/Pages/fpis.aspx>.

Figure 5. Mexican Portfolio and Foreign Direct Investment in the United States, Billions of U.S. Dollars (2015)



Sources: Portfolio data from U.S. Department of the Treasury, Treasury International Capital System, 2016; FDI data from U.S. Department of Commerce, Bureau of Economic Analysis, 2016.

Conclusions

In the past, economists talked about FDI as an alternative, or substitute, to trade, allowing companies to avoid paying tariffs by producing within a country for the local market. Over time, much evidence emerged to counter the claim, instead showing that trade and FDI are mutually reinforcing complements. The U.S.-Mexico relationship is a case study of the complementary nature of the two. The lowering of trade barriers through NAFTA acted as a major incentive first for U.S. companies to invest in Mexico but more recently also for Mexican companies to seek growth opportunities in the U.S. market. The development of regional production networks that combine the strengths of U.S. and Mexican producers involves a mix of FDI and cross-border trading networks. The combination of growing bilateral investment and growing commerce is, simply put, economic integration, and the current state of economic integration between the United States and Mexico is such that our growth, competitiveness, and prosperity is deeply linked. In a real way, the United States and Mexico each have a stake in each other's success that is much greater than the simple spillover effects from being neighbors.