Mexico may be an unexpected winner of the US-China trade war

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Employees work on the assembly line of the Tiguan model, at the Volkswagen car plant in Puebla, central Mexico in 2018.

PEDRO PARDO | AFP | Getty Images

China and the United States are disrupting trade in much of the world with their trade war — but Mexico may be a winner.

Despite fresh hopes among investors for a peaceful conclusion, the trade conflict that began between the world's two biggest economies more than a year ago shows no substantive signs of ending.

But amid all the chaos, Mexico is coming out on top, said John Murphy, senior vice president for international policy at the U.S. Chamber of Commerce. Mexico, he said, has been able to build on its emergence as a manufacturing hub "with free-trade agreements that offer guaranteed access to more than 50 foreign countries."

"Mexico has a number of key advantages in comparison to other cheaper labor options, predominantly in the Southeast Asian region, as a manufacturing and export platform," Murphy outlined via email for CNBC.

1. Mexico's close proximity to the U.S. market and tariff-free access it enjoys with the United States
2. A relatively minor cultural gap between the U.S. and Mexico that has improved drastically over the years

3. Substantial degree of integration between the two countries:
   - 36 million Americans of Mexican descent
   - hundreds of billions in annual bilateral trade
   - more than $100 billion in U.S. direct investment in Mexico
4. Infrastructure connections domestically and cross-border that continue to improve

Much of the discussion about countries benefiting from the trade war has focused on smaller nations in Asia such as Vietnam, or other economies whose companies have shifted operations home from China.

This month, investment bank Nomura published a report that picked Mexico as a trade-war winner from outside Asia.

Nomura's Sonal Varma and Michael Loo clarified that companies in most cases are not "completely shutting down their factories in China," but "gradually moving a certain proportion of the production out of China."

But at any rate, Nomura pointed out that Mexico has seen six new factories open between April 2018 and August 2019 in a range of sectors: electrical equipment, electronics, and automobiles and components.

US-Canada-Mexico trade deal

Mexico has always been a top destination for U.S. companies in search of cheaper labor. Mexico, the United States and Canada last year signed a new trade deal — the United States-Mexico-Canada Agreement, or USMCA — which is designed to replace NAFTA.

Trade in goods and services between the U.S. and Mexico totaled an estimated $671.0 billion in 2018, making it America's third largest goods trading partner, according to the Office of the U.S. Trade Representative.

The U.S. goods trade deficit with Mexico was $81.5 billion in 2018, a 14.9% increase ($10.6 billion) over 2017, according to official data.

Among the 2018 top export list from Mexico to the U.S. machinery made up $46 billion, electrical machinery $43 billion, mineral fuels $34 billion, vehicles $22 billion, and plastics $18 billion, according to official data.

"Transition from NAFTA to USMCA will be smooth," said Murphy of the U.S. Chamber, who predicted that "the future is bright for North American trade, regardless of what happens next in the U.S.-China trade talks."