

THE HONORABLE ANTONIO GARZA U.S. AMBASSADOR (RET.)



FIND US ONLINE:   



[Para Español, presiona aquí.](#)

When Americans think about Mexico's economic ties with the United States, popular exports like tomatoes, avocados, and Mexican soccer may come to mind. But these products make up barely a drop in the export bucket. Instead the big dollars come from the back and forth in car parts and brand new cars.

Over the past weeks, global automotive giants [Toyota](#), [Ford](#), and [Volkswagen](#) all announced new factories or expansions in

Mexico to the tune of a combined \$4.5 billion. They add to the billions in foreign investments already scattered across eleven Mexican states, which have fostered a booming car industry south of the border. Just last year, the U.S. and Mexican trade in cars and their parts totaled \$131 billion—that's pretty much equal to the entire economies of Guatemala, Costa Rica, and Bolivia, combined.

For this reason, it's not surprising that when scholars talk about a North American production platform, cars are the best example. To construct just one car, estimates suggest that the gears, seats and other parts [cross the U.S.-Mexico border eight times](#) before ending up on a showroom floor. How is this possible? Graphics outlining each car part by its supplier—such as in [this Ford Fusion example](#)—make clear just how diffuse today's production has become.

Simply put, U.S. and Mexican automotive operations are far more deeply interlinked than many Americans realize. Economists suggest that [a full 40 percent of the value](#) of U.S. imports from Mexico is actually created within the United States. In other words, in 2014 when the United States imported \$294 billion in goods from Mexico, some \$117 billion of that was American made. By comparison, this amount is closer to 4 percent in China or 2 percent with the European Union.

This bi-national production gives North American auto companies a competitive edge vis-



It's **Cinco de Mayo**, but depending on what side of the border you live on, the holiday could have very different meanings. While it's a day of revelry and fun in the U.S., Mexico's independence isn't May 5 but September 16 (Dieciseis de Septiembre). [Learn more about the history and evolution of these two important dates in Mexico's history.](#)



Mexico's mid-term elections are fast approaching, with voters headed to the polls on June 7. In spite of low approval ratings and his own share

à-vis their global competitors. Of course, this is likely little comfort to autoworkers across the United States whose assembly line jobs left and are unlikely to come back. But the profitability gleaned from working in both countries often allows U.S. auto giants to expand their operations stateside, keeping some jobs and even adding more. In fact, in 2014 auto companies announced a substantial [\\$10 billion in investments](#) for American factories.

In recent years, Mexico has increasingly caught automobile companies' attention. The most cited reason is the country's low wages, which are [at least four times cheaper](#) on average than those in American factories. Also important are the inexpensive transportation costs to the enormous U.S. market, the abundance of experienced car and truck suppliers, and low-tariff exports to over 40 countries given Mexico's vast free trade network.

Energy costs are also poised to become more competitive. Natural gas from Texas's shale fields now flows down to El Bajío—the central heartland for Mexico's automotive factories—creating a steady and cheap energy supply. This will only grow when the Ramones Pipeline, which connects Aguas Dulce, Texas to Apaseo el Alto, Guanajuato, comes fully online next year. Additionally, as Mexico's 2013 energy reform takes root, [increased investment in the country's national grid](#) is likely to push electricity prices down even further.

Yet this booming sector faces bottlenecks to expansion. First and foremost, Mexico will need to ensure that there are a sufficient number of trained designers and engineers to imagine and build tomorrow's cars. Similarly, small and medium sized Mexican companies will also need to be able to seamlessly join regional production to create a sturdy domestic base.

Rule of law challenges—which I touch on in [this Dallas Morning News article](#) and [this Forbes interview](#)—also simmer just below the surface. The country's [recently passed anti-corruption legislation](#), which grants regulatory bodies more independence, is certainly welcome news. But if Mexico is serious about building a more secure, transparent, and fair business environment, then these laws are just the beginning.

Looking forward, Mexico's car and truck industry shows no sign of hitting the brakes. For Mexicans, these companies will likely bring more jobs and higher standards of living. And for North America, the expansion will further foster a dynamic regional industry. To make the most of this integration, however, Mexico will need to continue improving its basic services and institutional frameworks. Only time will tell if the country is up to the challenge.

I hope you'll stay connected and in touch with me on [LinkedIn](#), [Facebook](#) and [Twitter](#) for more news from Mexico. And, if I can assist you or your team here at White & Case in Mexico City or through Vianovo Ventures, simply call.

Sincerely,

[Antonio Garza](#)

of missteps, President Enrique Peña Nieto's [PRI is benefiting from the disarray within the two major opposition parties](#). A razor-thin majority in Mexico's lower house allowed the PRI to pass major reforms; so, all eyes are watching to see if the PAN and PRD can shave enough seats away to take control or force coalitions on key issues.

NationalJournal

And over at [Vianovo](#), Billy Moore recently sat down with prominent political analyst and columnist Charlie Cook to talk about how Capitol Hill may finally be turning the corner after so many years of dysfunction. [You can read their discussion online in the National Journal.](#)



On April 24th, I took part in the **Texas Tribune's The Future of Energy** policy conference held at the **Maguire Energy Institute at SMU's Cox School of Business**. You can watch our discussion, moderated by Evan Smith, [online here.](#)