Talking Points

United States Senate — **Jaime Serra**
Committee of Foreign Relations — **January 30, 2018**

1. **World Trade and Regionalism**
    a. 279 (present) vs. 42 (1994) regional agreements registered at the WTO.
    b. More than half of world trade takes place under the rules of regional agreements.
    c. Competition in world trade is less and less among countries and more and more among regions.
2. **Integration**
    a. Over the last 24 years there has been a strong **market driven** economic integration of the three countries of North America.
    b. Export, import, and investment flows have been growing consistently since NAFTA's inception. There have been two specific events in which growth was interrupted: China's entry into the WTO, and the Lehman Brothers crisis.
    c. Macro-economic stability: inflation, exchange rate volatility and short term interest rates have converged for the three nations in the region.
    d. Economic cycles in industrial production have also converged: the correlation between manufacturing production in the U.S. and manufacturing production in Mexico, for example, has increased from 0.26 in 1994 to 0.6 in recent years.
    e. A North American economic region is being built due to this growth and convergence process.
3. **A New Paradigm in North America**
    a. Our three nations are not only buying and selling products and services from/to each other, but are also producing them jointly. For example, for every dollar Mexico exports to the U.S., 40 cents are American inputs, while for every dollar China exports to the U.S., only 4 cents are American inputs (production sharing vs. pure outsourcing).
    b. Our three nations' comparative advantages have led to the emergence of market driven **regional** value chains ("the scrambled egg effect").
4. **The Competitiveness of the North American Region**
    a. The complementarity of the three North American economies is the basis for the competitiveness of the region:
        i. The demographics of a young population in Mexico complement those of an older population both in Canada and the U.S. (the dependency ratio in Mexico is substantially lower: 10.27% vs. 20.36% and 24.03% in the U.S. and Canada, respectively).
        ii. Capital availability in the U.S. and Canada complement the relative lack of capital in Mexico.
    b. The recent liberalization of the Mexican energy market enhances the availability of energy in the region at very competitive prices for gas and other energy goods (the price of gas in North America is several times lower than the price in Europe and Asia: Henry Hub 2.5 dollars/mm BTU vs. 4.0 and 8.5 in Europe and Asia, respectively).
    c. The low cost of transportation among the three **neighboring** countries makes a significant contribution to the competitiveness of their firms.
    d. Increased connectivity in North America has also allowed for an increased competitiveness of its firms (pipelines, roads, railways, open skies).
    e. Any protectionist measures within the region will damage its competitiveness vis-à-vis other regions in the world.
5. **NAFTA**
    a. This **rules based** agreement has been essential for the region to compete effectively in world trade.
    b. NAFTA has enhanced the competitiveness of the three individual economies: it is actually part of the solution, not part of the problem.
    c. Thanks to NAFTA the region becomes more competitive vis-à-vis non-market economies (v.g. China).
    d. Mexico, U.S and Canada should collaborate when negotiating trade with the rest of the world: **our three nations should be on the same side of the table.**