POLICY BRIEF

Trade in Value Added in Gross Exports: A Better Metric for Understanding Texas-Mexico Trade Flows

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STATEMENT OF ISSUE

U.S. trade deficit with Mexico only reflects the value of the gross trade of final goods and does not precisely show the complexities in the trade flows of intermediate goods (imported supplies) between the two countries. Trade between both countries is based on binational supply chains of intermediate goods, which means these goods cross the border several times to produce a final good, and each time value can be added before they are exported again. Traditional measurements without controlling middle or final destinations results in a distorted number of trade flows when visualizing the productive input of each nation. Texas is Mexico's main trading partner, which is why we need to understand the complexity of trade flows of intermediate goods. The main objective of this study is to analyze the particularities of the commercial and productive chains between Texas and Mexico, from the perspective of incorporated value-added trade in the gross value of exports.

KEY FINDINGS

- North America has important supply chains, which means that intermediary goods cross the border several times to produce a final good. In each crossing of intermediary goods, value is added before exporting a good again. Their importance is determined by local and foreign added value in exported goods, instead of imported components.
- Texas's and Mexico's [trade] participation are only partially counted when considering trade in value added in foreign trade. Additionally, it is also important to recognize how imports from the rest of the U.S. and other countries partly explain trade in gross terms and how their integration allows us to better understand the contributions of those economies and third parties in bilateral trade relations.
- Geographically, the border between Texas and Mexico is around half of the U.S.-Mexico border and this is very important, not only for Texas and Mexico trade, but also for trade between Mexico and other U.S. states that goes through the state en route to its final destination, highlighting the importance of bilateral trade.
- There is more domestic value-added content in Mexico's exports to Texas (close to 70%) than from Texas to Mexico (close to 57%).
- Export sectors relevant to Texas are not always exported to Mexico, especially the products of agricultural machinery and the mining industry due to the development of these sectors in the Mexican economy, as opposed to oil-based and chemical products and electronic components.
- While both the regions' exports to the rest of the world are concentrated in oil and gas extraction products, the bioregional exchange is mostly concentrated in manufacturing chemical products and semiconductors, the auto industry, computer equipment, and domestic appliances.

POLICY RECOMMENDATIONS

- Texas is Mexico's main trading partner, which is why we need to better understand the complexity of the trade flows of intermediate goods, the specialization in the co-production of a final good or service during certain stages and the different economic growth outcomes that stem from participating in these stages.
- Using Trade in Value Added (TIVA) as a way to measure bilateral trade between Texas and Mexico would help identify sectors and industries that depend on co-production chains between Texas and Mexico.
- Additionally, using TIVA to measure bilateral trade would detail the complexities of the trade in intermediary goods and highlight the key industries that could be affected by changes in trade regulations between the U.S. and Mexico.

SOURCES AND FULL PAPER

SMU. Mission Foods Texas-Mexico Center