NAFTA VS. USMCA

WHAT IS THE IMPACT?

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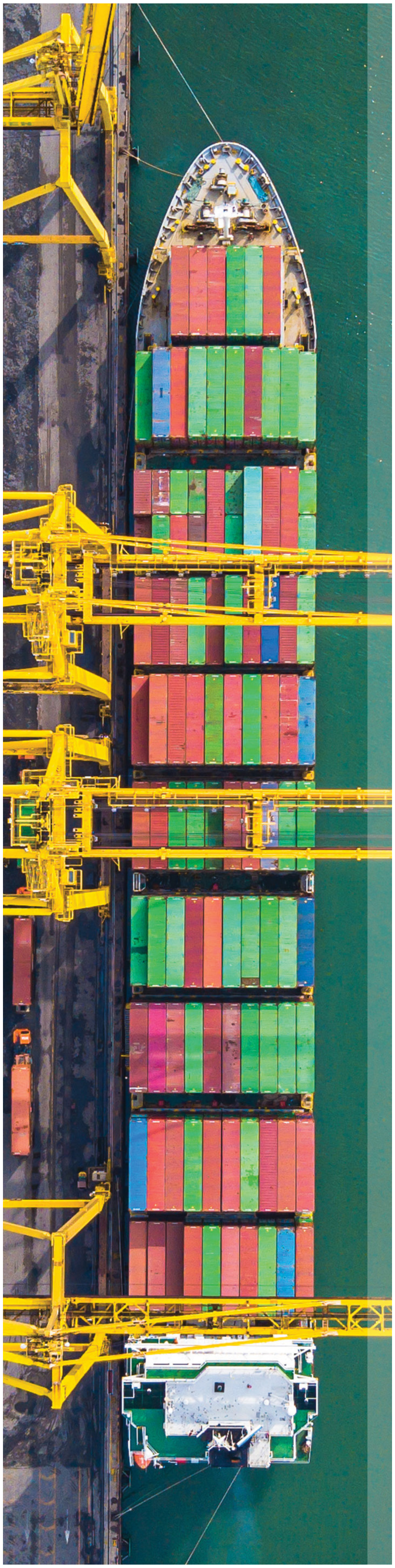

Introducing USMCA

October 1st marked ninety days since the USMCA (United-States Mexico-Canada Agreement) took effect. The agreement, known as T-MEC in MEXICO and CUSMA in Canada, has been touted by business leaders and government officials alike as a significant step forward for the three countries' economic advancement.
In comments he made at the Rose Garden during his visit to the White House in July of 2020, President Raul López Obrador of Mexico cited the importance of USMCA and its goal of recovering North America's share of the economy. He noted that North America had slipped from contributing to 40.4% of the world's GDP in 1970 to a current level of 27.8%.[i]

Mr. Obrador raises a compelling point. The United States, Mexico, and Canada represent 21% of the world's total manufacturing output.[ii] Merely raising the manufacturing output of the trade zone by a percentage proportional with its delta to world GDP share would represent almost $149 billion in incremental manufacturing output.

The agreement certainly takes great steps in ensuring that North American automobiles, for instance, are primarily manufactured in the three signatory countries. For example:

- 70% of the steel contents of vehicles must originate in the USMCA trade zone
- 75% of vehicle components must be produced in North America (previously 62%)
- 40-45% of vehicle parts must be produced in a factory that pays a minimum of $16 per hour[iii]

Modernizing trade

USMCA claims to be the most modern trade agreement of its kind. It includes an extensive section on intellectual property protections. When you combine these with other geopolitical factors alongside trade stability considerations, the USMCA could very well be dumping proverbial accelerant on the nearshoring trend that has been underway for much of the past decade.

In the case of Mexico alone, several large companies have announced expanded operations or relocating since the agreement's ratification. In recent weeks, Audi, BMW,[iv] GM,[v] Becton Dickinson (BD),[vi] Ace Hardware[vii] and Schneider Electric[viii] made headlines. More are sure to follow in their path.

Regardless of whether global trade expands or contracts over the next several years, there are growth implications for cross-border transportation, particularly between the US and Mexico. I recently interviewed Luis Martinez Jr. of Cabrera Llamas, a forwarder located just two miles from the World Trade Bridge in Laredo. Speaking to the pandemic period, he told me that,

"the [overall] trade is decreasing but the market share is increasing. More importers/exporters are choosing Laredo for its efficiency and strategic location on the border and [being located on] interstate highway 35."

While the consensus appears to be that the agreement provides for stable and streamlined trade relations between the three-country bloc, that does not necessarily mean that transportation will be any easier:

- Ports of entry such as Laredo are subject to congestion and delay at times due to a variety of factors, including increased demand

- There is a substantial imbalance of northbound to southbound movements, which is more pronounced at times, causing capacity to dry up during some intervals

- The border crossing is still complex with variables such as:
  - Involvement of multiple customs brokers
  - Variation of forms filed and taxes collected between all three countries
  - Shipments from Mexico to Canada commonly require the shipment to move in bond
  - The Certificate of Origin documents have changed substantially under USMCA

- Mexico has extremely remote terrains and is also home to the largest metropolitan area on the continent, making a transportation provider's knowledge of the Mexican Republic extremely important

Selecting a partner

With all these factors in play, selecting a partner who knows the market and the various processes is essential. Many transportation companies have had high aspirations for developing Mexico, only to abandon the market a few years later due to it being more complex than they initially anticipated. Choosing a proven, trusted, and committed partner is the key to shipping with confidence between the three USMCA countries.

CFI Mexico

CFI Mexico is celebrating 35 years in Mexico this year. This itself is an interesting fact to consider. NAFTA, after all, was not ratified until 1994, some nine years later. In the period following ratification, Mexico's importation of goods and services has grown 767% since the pre-NAFTA era. Exports in the same period have risen by 538%.[ix] CFI was committed to the market before that growth took place.

CFI Mexico consists of two long-trusted entities: CFI Truckload de Mexico and CFI Logística.

CFI Truckload de México, powered by CFI's 7000 trailers and 2000 power units, crosses 62,000 truckload shipments between the US and Mexico annually. That's approximately 246 per day. CFI's network has coast-to-coast coverage in the United States and service to major Canadian markets.

Headquartered in Guadalajara, CFI Logística is a full-service third-party logistics provider (3PL) within Mexico partnered with over 80 C-TPAT carriers. Logística also has an LTL operation, which has come to be relied upon by some of the largest US transportation providers and industrial companies. Consisting of six terminals strategically located in Mexico's key "golden triangle" manufacturing area, CFI Logística processes over 27,000 intra-Mexico and cross border shipments annually.

Looking to the future

Trade between the United States, Mexico, and Canada is only going to grow. CFI Mexico's 35-year commitment to the market, combined with our customers' trust in us tendering CFI Mexico almost 100,000 combined shipments per year, proves that we are a partner you can rely on.

It is clear, the USMCA will have a long-lasting impact on trade relations between Canada, Mexico, and the United States. How companies guide their customers, and cross-border relations will determine the brevity of each country's impact. Who companies choose as their transportation partner will be the determining factor of how positive that impact will resonate.

i *Remarks by President Trump and President López Obrador of the United Mexican States in Signing of a Joint Declaration*. July 8, 2020. Online. https://www.whitehouse.gov/briefings-statements/remarks-president-trump-president-lopez-obrador-united-mexican-states-signing-joint-declaration/. Accessed 9/16/2020.

ii *Global Manufacturing Output: How the US compares to 18 Other Nations*. Online. https://www.brookings.edu/research/global-manufacturing-scorecard-how-the-us-compares-to-18-other-nations/. Accessed 9/18/2020.

iii *Agreement between the United States of America, the United Mexican States, and Canada – 7/1/20 Text*. Online. https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/agreement-between Accessed 9/30/20

iv *Why Are US Companies Manufacturing in Mexico?* Online. https://napsintl.com/mexico-manufacturing-news/why-are-us-companies-manufacturing-in-mexico/ Accessed 9/30/2020

v *GM Plans $3.6 Billion Expansion of Mexico Operations*. Online. https://www.industryweek.com/the-economy/article/21964240/gm-plans-36-billion-expansion-of-mexico-operations Accessed 9/30/2020

vi *Five Major Foreign Companies to Invest in Mexico*. Online. https://www.theyucatantimes.com/2020/09/five-major-foreign-companies-to-invest-in-mexico/ Accessed 9/30/2020

vii *Ace Hardware Announces Expansion into Mexico*. Online. https://thehardwareconnection.com/ace-announces-expansion-into-mexico/. Accessed 9/18/20

viii *Mahoney, Noi. Borderlands: Mexico Border trucking capacity remains tight; Schneider Electric expanding in Tijuana*. September 13, 2020. Online. https://www.freightwaves.com/news/borderlands-border-trucking-capacity-remains-tight-schneider-electric-expanding-in-tijuana. Accessed 9/18/2020.

ix https://ustr.gov/countries-regions/americas/mexico Online. Accessed 1/6/2020