SAI
Law & Economics

The North American Economic Region

Prepared for:

AMDA
Asociación Mexicana de Distribuidores de Automotores

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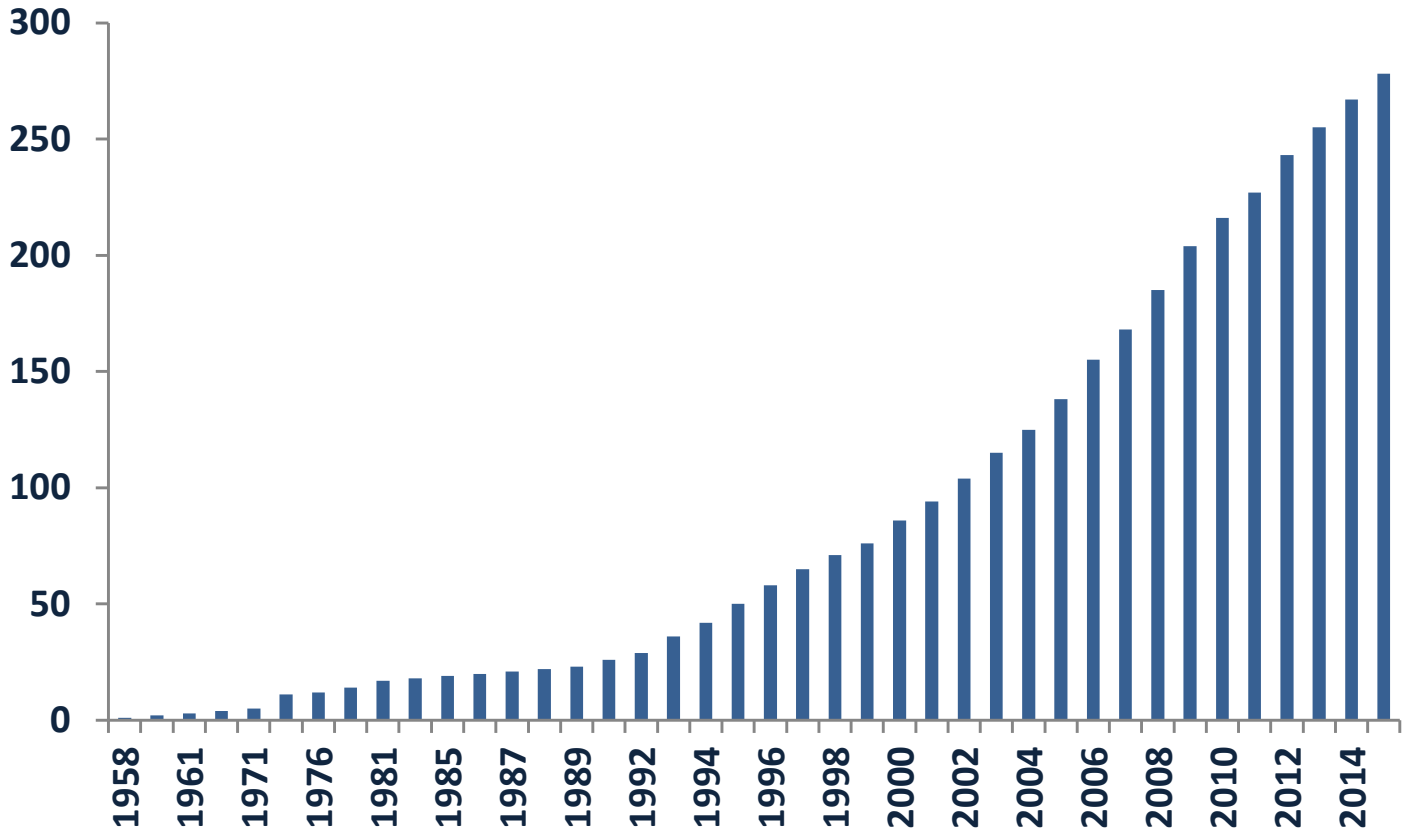
The North American Economic Region

Index

I. Regionalism

Regionalism

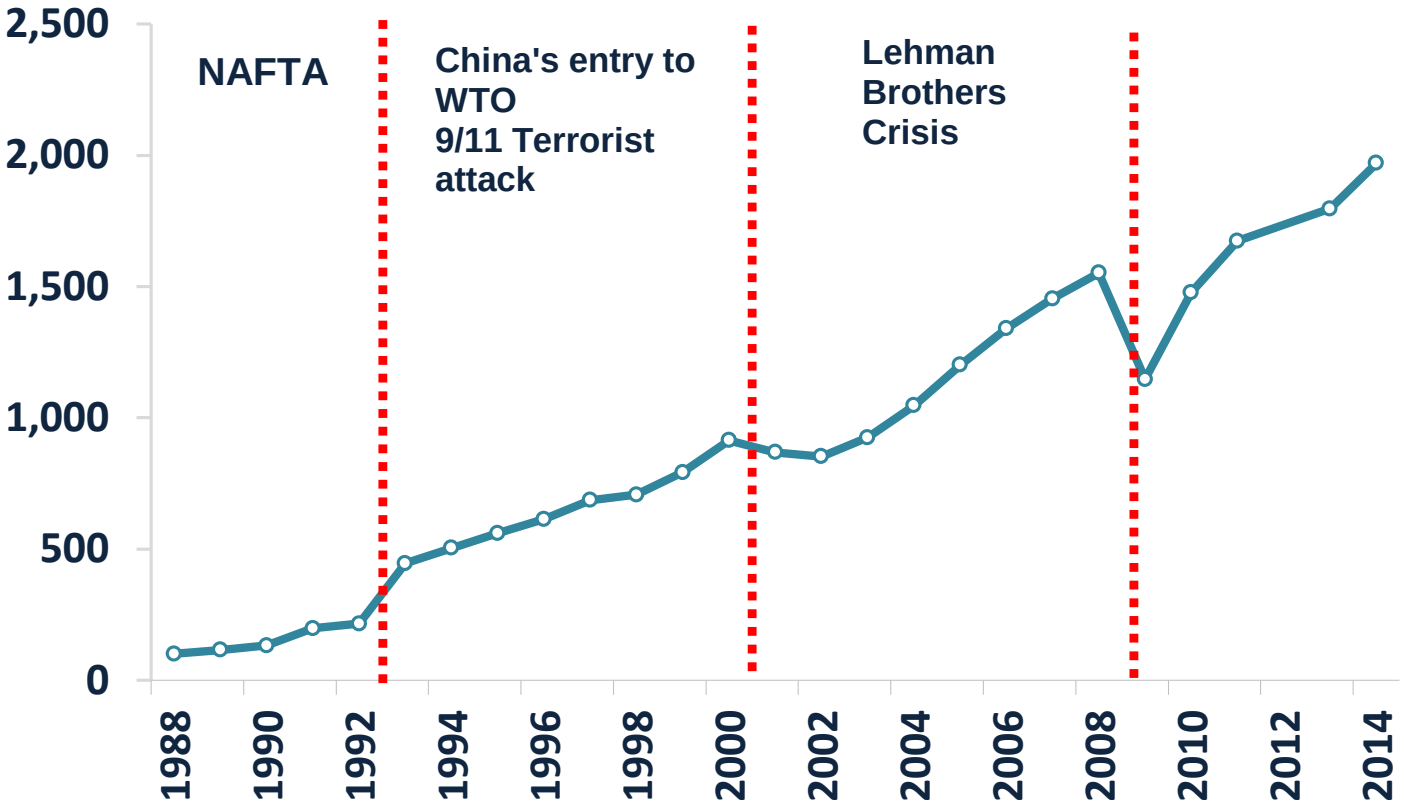
Current Regional Trade Agreements
(1958 - 2015)



II. Integration of North America

Integration of North America

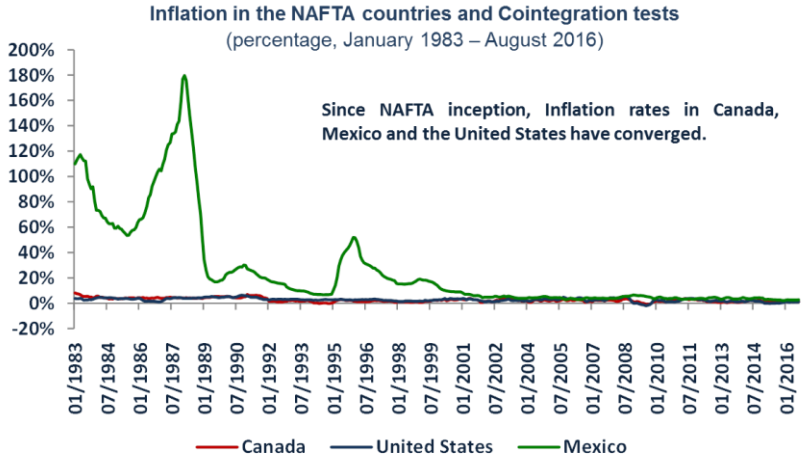
Index of trade and foreign direct investment in North America[1]
(index, 1988=100, 1988 - 2014)



1/ The index of integration of Trade and Foreign Direct Investment in North America and the corresponding sub-indices comply with the following properties: existence, identity, invertibility, circularity, proportionality, and homogeneity.
Source: SAI Law & Economics with data from INEGI, Bank of Mexico, Ministry of Economy (SE), US Census Bureau, US Bureau of Economic Analysis and Statistics Canada

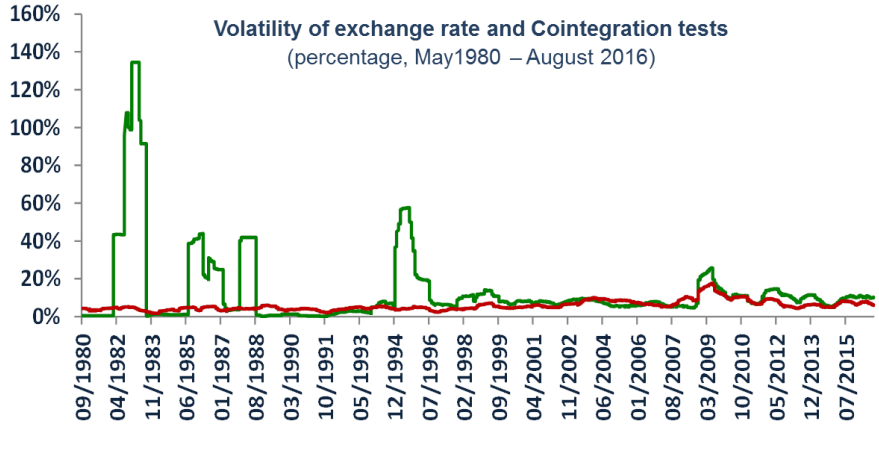
III. Macroeconomic convergence

Macroeconomic convergence



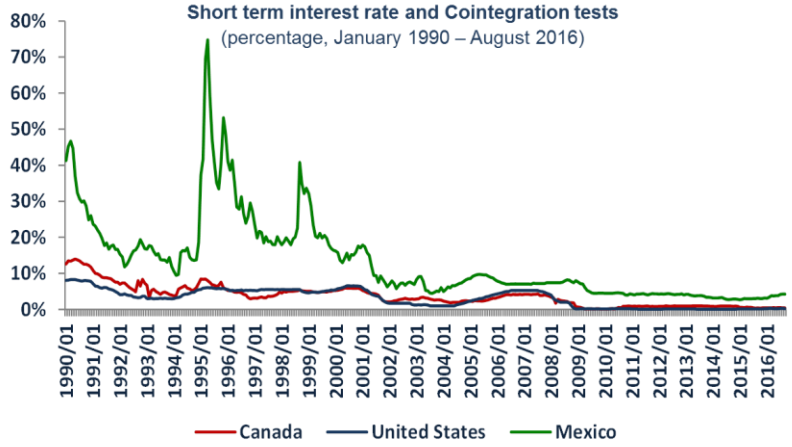
Hypothesis: Number of Cointegrating Equations	Trace Statistic	Rejection Probability of hypothesis
1	58.32	0.0%
2	29.48	0.0%
3	11.54	0.1%

Hypothesis: Number of Cointegrating Equations	Max-eigen value Statistic	Rejection Probability of hypothesis
1	28.84	0.3%
2	17.93	1.3%
3	11.54	0.1%



Hypothesis: Number of Cointegrating Equations	Trace Statistic	Rejection Probability of hypothesis
1	17.61	2.4%
2	2.22	13.6%

Hypothesis: Number of Cointegrating Equations	Max-eigen value Statistic	Rejection Probability of hypothesis
1	15.39	3.3%
2	2.22	13.6%



Hypothesis: Number of Cointegrating Equations	Trace Statistic	Rejection Probability of hypothesis
1	39.83	0.3%
2	16.20	3.9%
3	2.92	8.8%

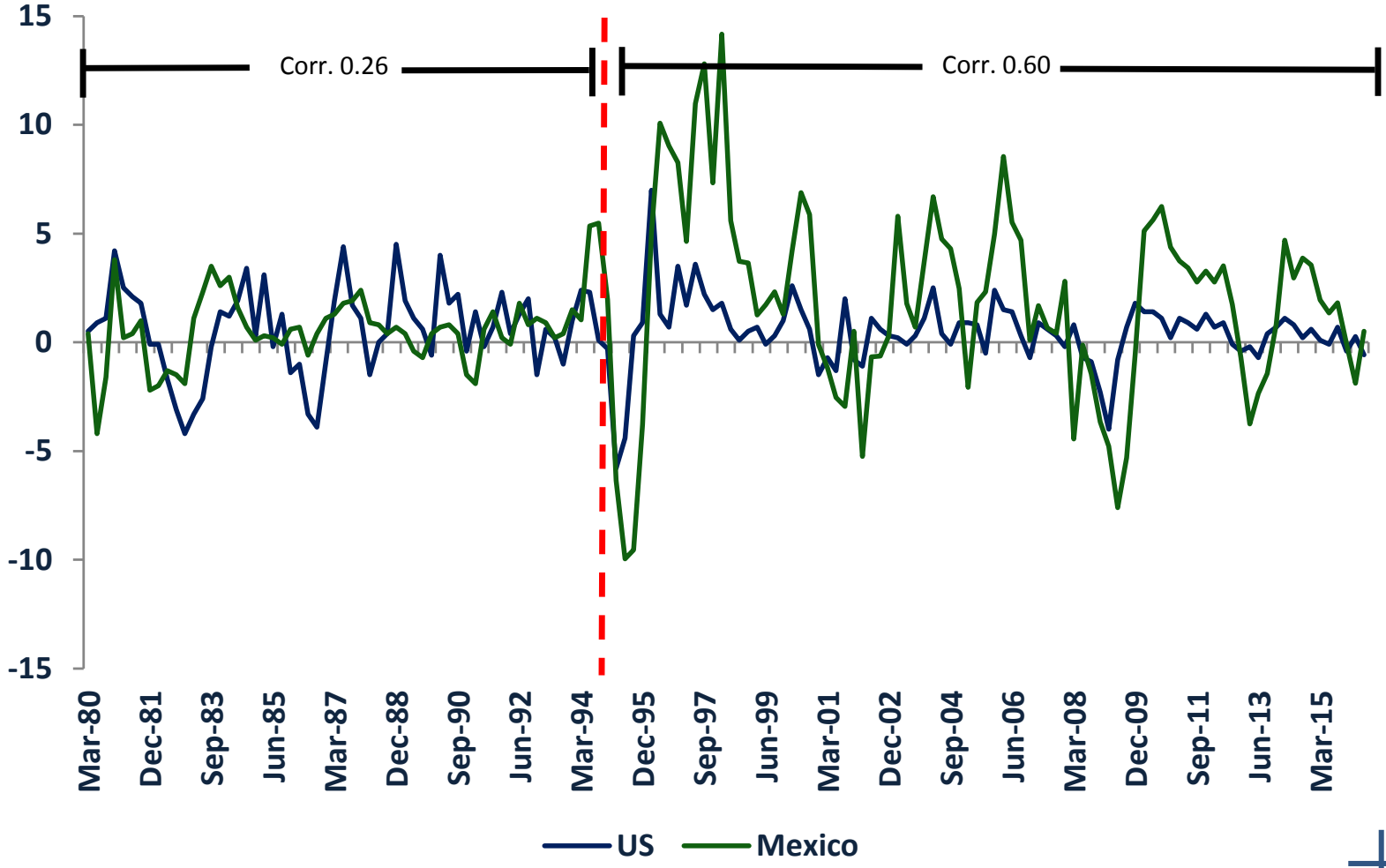
Hypothesis: Number of Cointegrating Equations	Max-eigen value Statistic	Rejection Probability of hypothesis
1	23.63	2.2%
2	13.28	7.1%
3	2.92	8.8%

Source: SAI Law & Economics with data from INEGI.

IV. Economic cycle coordination

Economic cycle coordination

Annual growth of industrial production
(quarterly moving average, January 1980 - August 2016)



Source: SAI Law & Economics with information from INEGI and OECD.

V. Made in North America

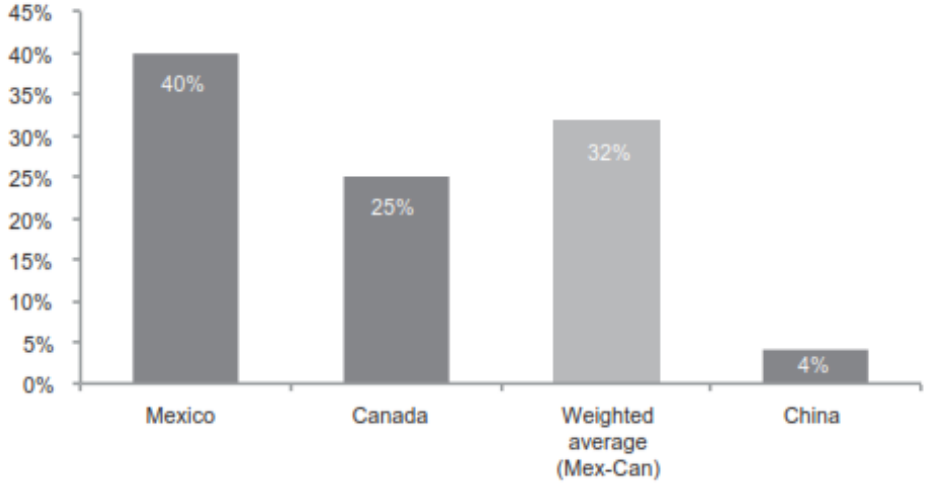
Made in North America

substantially to the competitiveness of North America compared to other regions.

Regional integration enables the region to capitalize on Mexico's cost advantages. As a result of growing economic integration, the three countries not only buy and sell products and services from each other, but are beginning to produce jointly, as is shown by the high regional content in the cost vector of North American firms (see Figure 5).

Additionally, in Figure 6 we can note that, with respect to the outsourcing cost index for manufacturing in the United States, Mexico is much more competitive than, for example, China.

FIGURE 5. *United States content in US imports by country (percentage, 2004)*



SOURCE: SAI Law & Economics with data from Koopman et al. (2010).

WE ARE ON THE SAME SIDE OF THE TABLE

Made in North America

productivity growth, stable exchange rates, and the advantage in energy costs.

TABLE 2. *Industry performance by country and range (percentage, 2011)*

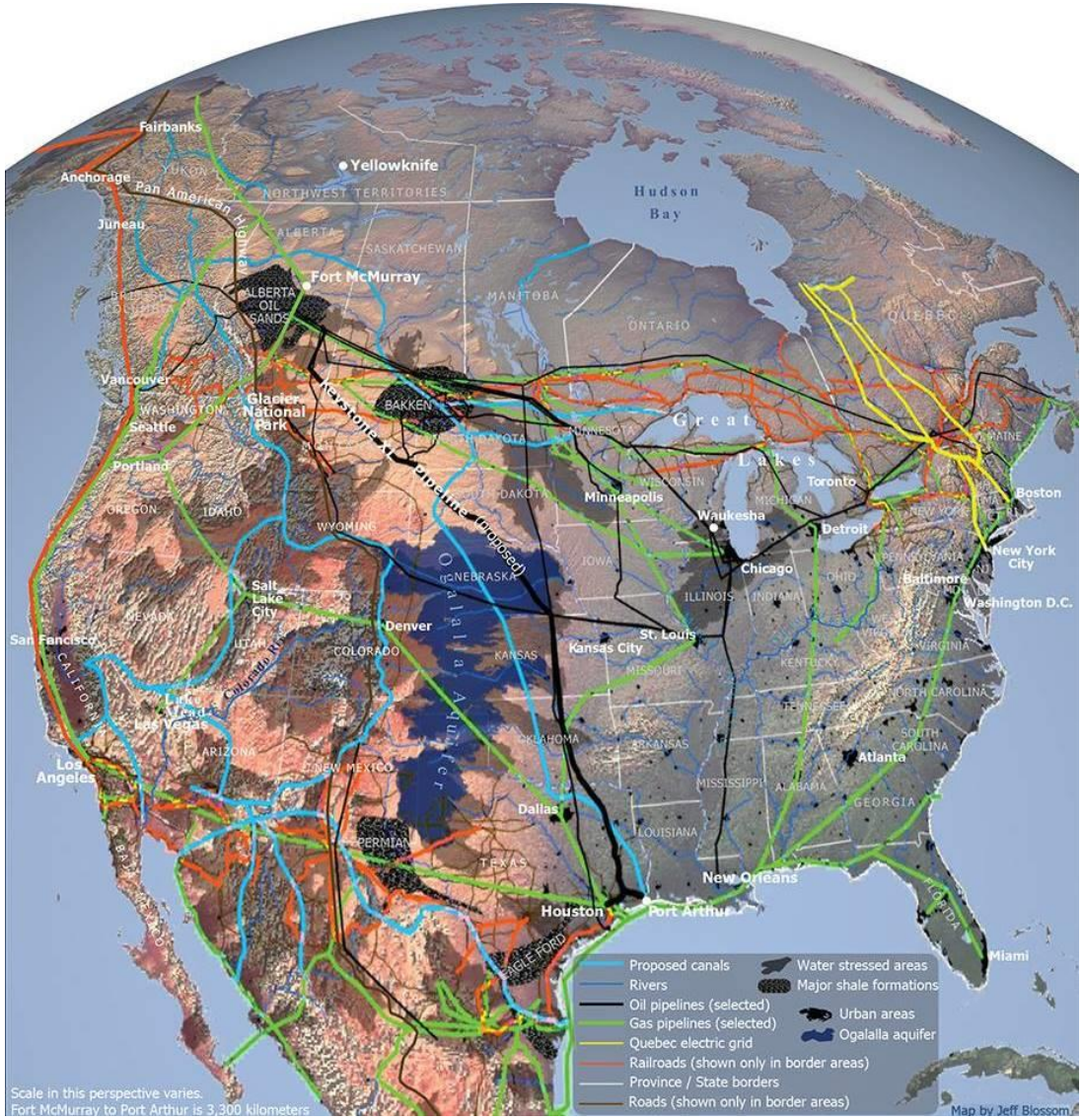
	Industry	*China*	*India*	*Mexico*	*Canada*	*USA*
Automotive	Profitability after tax	24.8%	25.6%	22.7%	7.9%	5.6%
	Rank	1	2	3	9	11
Electronics	Profitability after tax	33.6%	35.0%	31.4%	15.9	13.6%
	Rank	1	2	3	6	11
Precision manufacturing	Profitability after tax	22.5%	22.6%	19.3%	6.2%	3.5%
	Rank	1	2	3	7	11
Telecomunications	Profitability after tax	31.4%	32.7%	29.0%	9.7%	6.5%
	Rank	1	2	3	7	11
Aerospace	Profitability after tax	30.8%	32.5%	28.1%	10.1%	7.9%
	Rank	1	2	3	7	11
Agri-Food	Profitability after tax	31.7%	34.7%	26.8%	10.7%	9.0%
	Rank	2	1	4	10	12
Chemicals	Profitability after tax	26.4%	26.6%	26.4%	12.6%	10.2%
	Rank	1	4	3	8	11
Green energy	Profitability after tax	28.8%	30.7%	23.9%	9.8%	6.6%
	Rank	1	2	4	9	12
Medical devices	Profitability after tax	42.7%	46.2%	38.8%	11.2%	8.5%
	Rank	1	2	3	9	11
Metal components	Profitability after tax	37.3%	40.2%	32.8%	11.4%	8.1%
	Rank	2	1	3	10	12
Pharmaceuticals	Profitability after tax	38.0%	39.8%	34.0%	13.2%	10.6%
	Rank	1	2	3	8	11
Plastics	Profitability after tax	38.8%	41.9%	34.7%	12.5%	10.4%
	Rank	2	1	3	10	12

SOURCE: KPMG.

VI. Connectivity

Connectivity

From NAFTA to North American Union



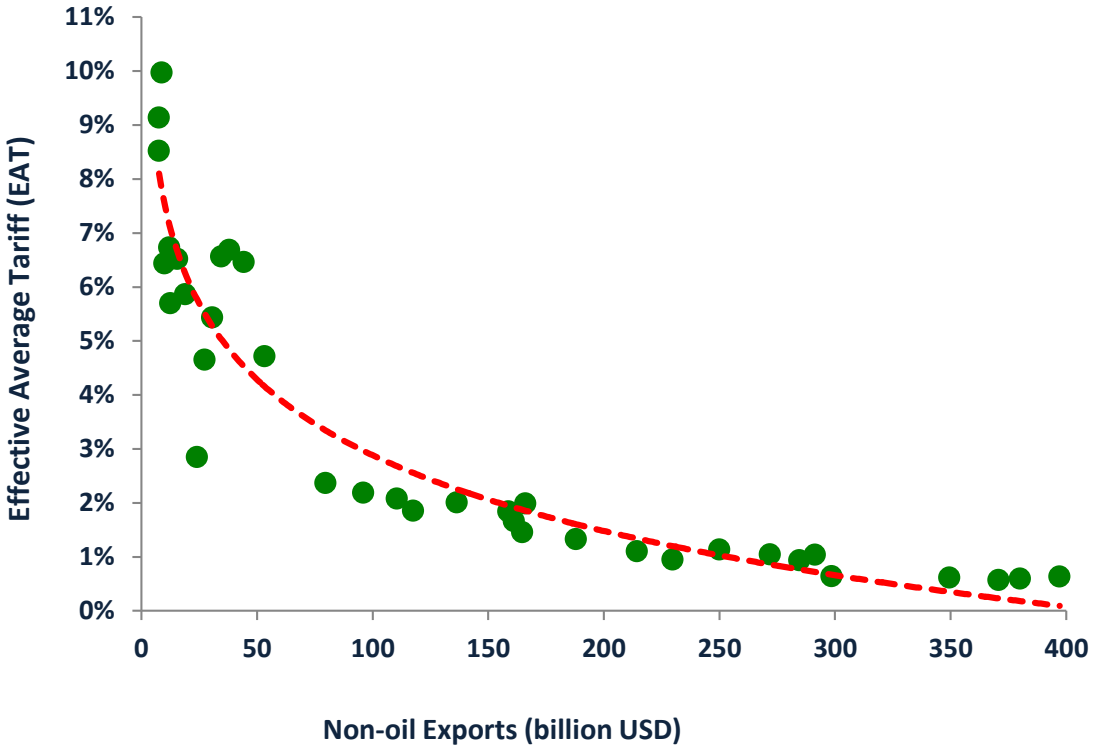
OPEN SKIES

Source: Khanna, P. (2016). *Connectography: Mapping the Future of Global Civilization*. Random House Publishing Group.

VII. Protectionism within NAFTA

Protectionism within NAFTA

Effect of the Effective AverageTariff (EAT) on the Mexican Non-oil Exports
(1981 - 2012)



Source: SAI Law & Economics with information from Banxico

Protectionism within NAFTA

Average Most Favored Nation duties by product group

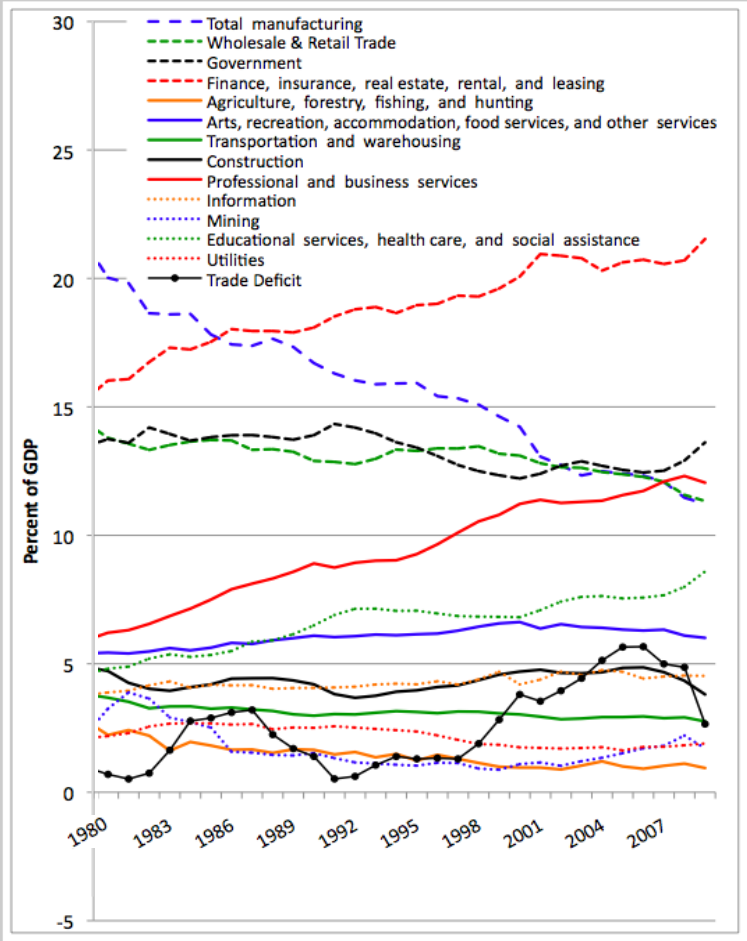
(percentage, 2015)

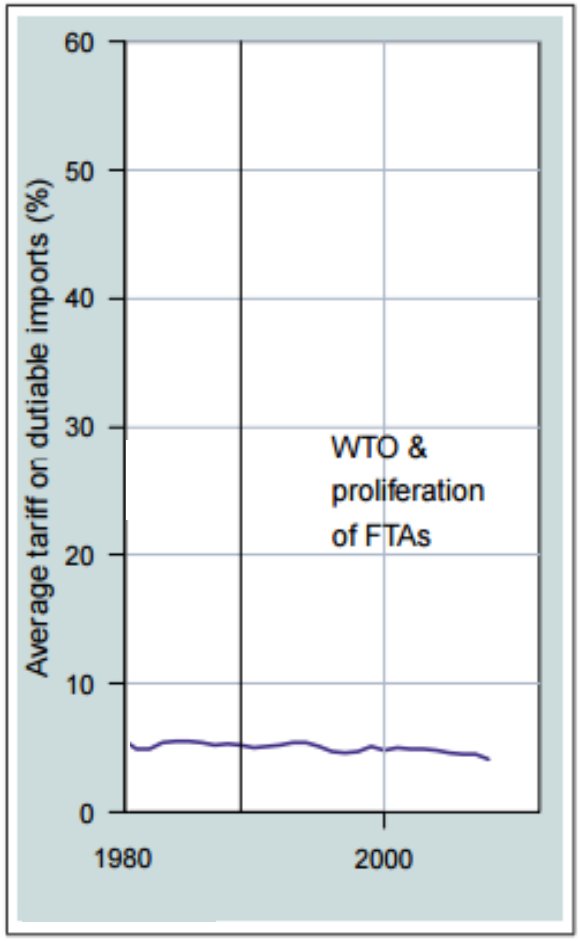
Group	Mexico	United States
	Tariff	Tariff
Animal products	29.8%	2.2%
Dairy products	27.0%	17.2%
Fuirt, vegetables, plants	16.6%	4.7%
Coffee, tea	26.7%	3.3%
Cereals & preparations	13.1%	3.0%
Oilseeds, fats & oils	11.4%	7.3%
Sugars and confectionery	43.3%	11.7%
Beverages & tobacco	27.2%	18.6%
Cotton	0.0%	4.8%
Other Agricultural products	6.7%	1.0%
Fish & fish products	17.0%	0.8%
Minerals & metals	2.8%	1.8%
Petroleum	0.1%	1.3%
Chemicals	2.4%	2.8%
Wood, paper, etc	4.4%	0.5%
Textiles	9.8%	7.9%
Clothing	21.1%	12.0%
Leather, footwear, etc.	6.2%	3.8%
Non-electrical machinery	2.8%	1.2%
Electrical machinery	3.5%	1.7%
Transport equipment	8.5%	3.1%
Manufacturers, n.e.s.	5.2%	2.5%
Weighted Average	4.9%	2.8%

Source: SAI Law & Economics with information from the WTO

Protectionism within NAFTA

Sector production as percentage of GDP (left) and Average tariff on dutiable imports (right)
(percentage, 1980 - 2010)





Source: John Kossik, "63 Alfred Street: Where Capitalism Failed", John Kossik, 2010.
Source: USITC, United States International Trade Commission

VIII. Conclusions

Conclusions

- **NAFTA is part of the solution and not part of the problem.**