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Mexico Urged to Prepare to Transition out of Export Market that is too Reliant on Oil

by Carlos Navarro

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In late July, the government's statistics agency (Instituto Nacional de Estadística y Geografía, INEGI) released what appear to be very favorable trade-balance statistics for Mexico. INEGI reported Mexico's trade surplus at nearly US\$3.3 billion for the first six months of 2012, compared with surpluses of US\$3.1 billion in January-June 2011 and US\$288 million in the first six months of 2010.

But the numbers for the first half of the year do not reflect a general downturn for the last six months of the year in each of the last few years. Mexico incurred a trade deficit of US\$1.4 billion for all of 2011 and a negative balance of slightly more than US\$3 billion for the full year in 2010.

Economist Alejandro Gómez Tamez points out that Mexico's trade balance remains too dependent on oil exports, with sales of hydrocarbons accounting for more than 14% of all exports at about US \$27 billion. Oil-based exports in January-June were down about 2.9% from the same six-month period in 2011.

"It is clear that the good statistics that Mexico has registered in its trade with other countries is because we have a petroleum-based trade balance," said Gómez Tamez, who writes a blog for the Mexico City daily business newspaper *El Financiero*.

Sharp drop in value of oil affects trade balance for June

The importance of oil exports to the bottom line was evident in the trade figures for June, when Mexico incurred a trade deficit of US\$169 million. INEGI attributed the decline during the month primarily to petroleum exports, which declined by almost 12% in value, while manufacturing exports were down about 1%. Total exports for the month were down about 2.6% from May.

The deficit in June was the first negative balance after months of trade surpluses. The downturn was attributed to the decline in the value of oil exports and weakness in the manufacturing sector.

"We consider today's result somewhat biased by the sharp decline in oil prices," Sergio Martin, an economist at HSBC, wrote in a research note. "Nonetheless, we consider the manufacturing industry is also showing some deterioration." He added that Mexico's growth in the second half may be shifting downward.

INEGI said the slowdown in overall exports during June was balanced by a slight drop in imports. The INEGI report showed that the oil deficit was related entirely to the drop in value of exports, as the state-run oil company PEMEX increased its sales volume during June. PEMEX reported exports of crude oil at an average of 1.201 million barrels per day, compared with 1.198 million bpd in May. In contrast, the company logged exports of 1.425 million bpd in June 2011.

Furthermore, PEMEX has been keeping more of its domestic oil production at home to supply its reconfigured refineries, primarily the General Lázaro Cárdenas refinery in Minatitlán, Veracruz state. This has left less oil for export but reduced petroleum imports ([SourceMex, July 27, 2011](#)).

INEGI said imports of gasoline, cooking gas, and other products dropped 25% in June compared with the same month in 2011.

Gómez Tamez said oil-related exports totaled US\$41.7 billion in 2010 and US\$56.4 billion in 2011. "If we take out the data for petroleum exports and leave everything else constant, Mexico would have incurred deficits of US\$44 billion in 2010 and US\$57.8 billion in 2011," said the economist. And if you take oil exports out of the equation, Mexico would have incurred a trade deficit of US\$23 billion in the first six months of 2012 rather than a surplus of US\$3.3 billion, he said.

"It is very pertinent to ask what is going to happen with Mexico's trade balance as our supply of oil dwindles and Mexico's economy continues to grow," Gómez Tamez said, referring to indications that reserves in the Cantarell oil field, Mexico's largest source of crude, are rapidly dwindling ([SourceMex, March 7, 2007](#), and [Sept. 24, 2008](#)). There are some predictions that Mexico could become a net importer of oil by 2030 ([SourceMex, Dec. 11, 2002](#)).

Mexico is counting on deepwater reserves to help replenish reserves, but this oil is buried deep under the ocean floor and cannot be extracted without large investments in capital and technology. The Mexican Congress has approved a scheme for PEMEX to hire private contractors to perform these tasks ([SourceMex, Dec. 15, 2010](#), and [Feb. 22, 2012](#)). But the process has been very slow, and these reserves might not be available for years ([SourceMex, May 16, 2012](#)).

The move toward private participation is expected to continue under the new administration if the electoral court (Tribunal Electoral del Poder Judicial de la Federación, TEPJF) ratifies the victory of Enrique Peña Nieto, who won the July 1 presidential election by about seven percentage points ([SourceMex, July 11, 2012](#)). The TEPJF must certify the results of the election by early September.

Opposition parties, primarily the center-left Movimiento Progresista coalition, have challenged the campaign tactics of Peña Nieto's Partido Revolucionario Institucional (PRI), but the results are generally expected to stand ([SourceMex, July 18, 2011](#)). Peña Nieto has promised to push for further reforms to the energy sector that could allow more private investment in the state-owned sector ([SourceMex, Nov. 11, 2011](#)).

And analysts don't expect the oil market to help Mexico's trade balance in the near future because global inventories of oil have increased, so prices probably will not increase significantly. A slowdown in the US economy has also reduced demand for oil, which is keeping global prices low.

Manufacturing sector could provide a boost

Gómez Tamez believes that Mexico should develop other sectors of the economy to boost exports.

"If you don't compensate for the decline in oil exports with increased sales by the manufacturing sector or if you don't reduce imports, then it's inevitable that we will have deficits in our trade balance," said the economist. He noted that these deficits would have to be financed with a surplus in the balance of payments.

"It is fundamentally important that the federal government provide strong support to the manufacturing sector so that it can expand its export capability," said Gómez Tamez. "And of course, there are many ways to attain this, but none better and more effective than creating a monetary policy that would make our currency more competitive."

"If our country takes no action to prepare for this inevitable scenario of depleted oil reserves, then the negative impact of the foreign-exchange market will be much stronger for our producers,

consumers, and even for the importers," added Gómez Tamez, who noted that the Banco de México (central bank) would have to play a key role in this regard.

In addition to diversifying exports, the most important recommendation has been for Mexico to seek new markets and reduce its reliance on the US. About 80% of all of Mexico's exports are shipped north of the border. The June trade data was a clear example of how trends in the US market might affect Mexico, as the US accounts for the bulk of Mexico's oil and manufacturing exports. "The weaker trade flows are a clear sign of the impact of the slowdown in the global economy, and in particular the weak consumption in the US," said Arturo Vieyra, an economist with Grupo Banamex.

Mexico is attempting to expand its exports to other countries in Latin America, but economic giants like Argentina and Brazil are also making moves to defend their domestic markets at the expense of imports from Mexico ([SourceMex, Feb. 15, 2012](#), and [July 18, 2012](#)).

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