Economic analysis

International trade: theory versus rhetoric

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The process of relocating companies, or nearshoring, has placed Mexico in the international spotlight, with great expectations about the arrival of companies that seek to bring (part of) their production closer to the US market, boosting Mexican exports. As a result, there is a higher focus on the country's trade balance, which closes the first quarter of 2024 with a negative balance of 2.7 billion dollars (million dollars) in current terms, this being the difference between the 144 billion dollars in exports and the 146 billion dollars in imports during the first three months of the year. Regarding trading partners, the United States is the leading destination for Mexican exports. Mexico's main supplier is this same country, with which there has been a trade surplus in recent years, closing in 2023 at 234.7 billion dollars. China is Mexico's second leading supplier of goods and is also the country with the most significant trade deficit recorded, closing 2023 at 104.1 billion dollars.

Based on this data, it is usual to read evaluations about whether the country is doing "good or bad" based on how exports evolve compared to a previous period. One can even find political speeches judging (wrongly) that the trade surplus with the United States is "positive." At the same time, the deficit with China is "negative" for Mexico (and this is not exclusive to the country). This rhetoric loses sight of the fact that trade benefits the countries involved in the absence of unfair practices. The English economist David Ricardo made it evident since 1817 that countries do not exchange goods to compete but achieve mutual benefit. Similarly, exports are not a primary goal but a payment method for a country's imports, specializing in industries where it is relatively more internationally competitive. This idea is valid more than 200 years later in the concept of comparative advantage.x

Paul Krugman, the Nobel Prize winner in Economics in 2008 for his contributions to the theory of international trade, uses a parable to illustrate the biases that can cloud the analysis of international trade. The parable, initially written in 1983 by James Ingram, tells the story of a fictional entrepreneur who uses secret technology to transform wood into technological items at a cost lower than his competitors. The entire country starts buying his items, driving his competitors out of the market due to their inability to compete with his low prices. Despite this, the public accepts this innovation process as part of a market economy. However, a journalist uncovers that this 'secret technology' is just the entrepreneur selling the wood to a neighboring country and using the profits to buy the technology cheaply from another country. This revelation turns public opinion against the entrepreneur, accusing him of destroying the national industry.

This parable makes three things evident. First, trade increases the consumption possibilities of an economy, allowing it to access a greater variety of products with a diversity of prices, qualities, and characteristics. Second, it is helpful to think of trade as a 'special' production that transforms exports into imports. Finally, this activity will always be subject to public opinion. Therefore, it is essential to maintain sight of the theoretical principles behind international trade, avoiding taking the rhetoric of protectionism or free trade as dogma so that Mexico can take full advantage of the current nearshoring context.

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