

# Assessing the role of the export sector in Mexican economic development, 1965-2014

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## Valorisation Addendum.

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In line with article 23.5 of the Regulation Governing the Attainment of Doctoral Degrees at Maastricht University, this addendum discusses the valorization opportunities provided by this Ph.D. dissertation.

Developing economies are continuously seeking for industrial alternatives to catch up with the developed World. In light of the increasing fragmentation of manufacturing production, developing economies should also seek for strategies to integrate into these new ways to organize manufacturing production and capture as much benefits as possible. The key to successfully integrate in international production networks, however, goes beyond obtaining immediate benefits in terms of higher output for exports, foreign direct investment and employment. More importantly, a successful (and complete) integration in global manufacturing should also imply an important transformation of domestic manufacturing capabilities by means of higher labor productivity levels, higher use of skilled-workers and increasing domestic content in manufacturing exports.

This dissertation explored the industrial strategy followed by Mexico to integrate its manufacturing firms into international production networks. It also explored and quantified the different set of benefits that Mexico obtained after having pursued such strategy. This dissertation claims that developing economies should pay special attention to the Mexican case if their objective is to maximize the set of immediate benefits that global manufacturing offers to less developed economies (higher output, employment and foreign direct investment). Developing economies, on the other hand, should look somewhere else if they also aim to substantially transform their export sector towards more technologically complex activities. By means of any relevant indicator (labor productivity, domestic content of exports, etc.), Mexican manufacturing has mostly failed to advance towards more complex activities in the value chain.

Three aspects of the industrial strategy in Mexico studied on this dissertation deserve special attention. They can easily be replicated by developing economies that seek to become a manufacturing powerhouse. The first one is that the strategy for the industrial development of exporting firms should be a regional one. A regional strategy that is implemented not only at the country level, but that also considers regional complementarities with neighboring countries. On the one hand, at the country level, exporting firms should be located in a single region that benefits of close proximity to harbors and foreign markets. Beyond the potential benefits for exporting firms triggered by specialization and spill-over effects, this industrial strategy should also aim to increase the levels of income and of employment within that region. The Mexican case highlights that once a successful pattern of manufacturing specialization has been achieved within a given region, policy makers should aim to induce other type of exporting firms to locate elsewhere in the country (i.e. a second regional strategy). On the other hand, at the level of neighboring economies, the first regional strategy should also be designed by explicitly addressing potential complementarities with other

countries located nearby. Complementarities not only in terms of infrastructure or factor endowments that are scarce one county but that are not in other. More importantly, complementarities in terms of benefits that are offered to investors and exporting firms and even some sort of institutional complementarities. One more time, the Mexican case highlights the fact that further bilateral cooperation between Mexico and neighboring US (not explicitly included in trade agreements) further strengthen the competitiveness of Mexico's transport sector.

A second aspect from the Mexican experience that is worth highlighting is that not all manufacturing sectors can offer the same opportunities for successful industrial development and integration in international production networks. Inducing the industrial development of firms within Electronics, Textiles and Other manufacturing will guarantee the presence of the immediate set of benefits for developing economies (output, employment and FDI). Those three sectors, however, will play a very limited role in transforming the export sector towards more technologically advanced activities. The governance of the manufacturing production within those three sectors, as well as the specific incentives for multinational firms to reallocate specific labor-intensive activities to developing economies account for this issue. Transportation equipment sector stands as a clear exception to Mexico's attempt to substantially transform its domestic manufacturing capabilities. Unique access to major foreign end markets, growing Mexican middle class, the existence of protectionist rules of origin and, so forth, were factors that led to a successful transformation within this sector. In a nutshell, the Mexican experience highlights that the manufacturing sectors that can induce a complete and successful industrial transformation are those where the developing economy can fully exploit its country specific competitive advantages and, that are not subject to stiff global competition.

The third important aspect from the Mexican experience is that successful production for exports does not only imply supporting highly competitive multinational firms. More importantly, any export promoting strategy should also aim to slowly induce the production for exports from those domestic firms that are currently mostly producing for the domestic market. Any developing country seeking to strength its exporting sector should then devise two export promoting programs; one for the highly competitive firms, and other that aims at the industrial development of domestic firms seeking to produce for exports. Each export promoting program should provide different trade and tax incentives based on realistic performance requirements for the firms there participating. Those two programs have to coexist with one another and, the differences in performance requirements between them should slowly be lifted. Once the export promoting program for domestic firms has proven successful, the final objective of policy makers in developing economies should be then to merge those two export promoting programs into a single framework to further strength the competitiveness of its manufacturing sector.

The target audience for this dissertation is not strictly limited to policy makers. Scholars seeking to understand (and test) the different set of alternatives that developing economies face to join and upgrade in global value chains would also greatly benefit from the main ideas and conclusions discussed by this Ph.D. dissertation. Long term

empirical perspectives on the firm-level and aggregate trends of exporting firms make this thesis unique on the field of international trade. The results from this dissertation have been presented at international conferences and at seminars in Universities and Policy institutions. Chapter 4 has been already published as a journal article at the *Journal of International Trade and Economic Development*, while Chapter 3 and 5 are part of the UNIDO Inclusive and Sustainable Industrial Development Working Paper Series.