

Trade

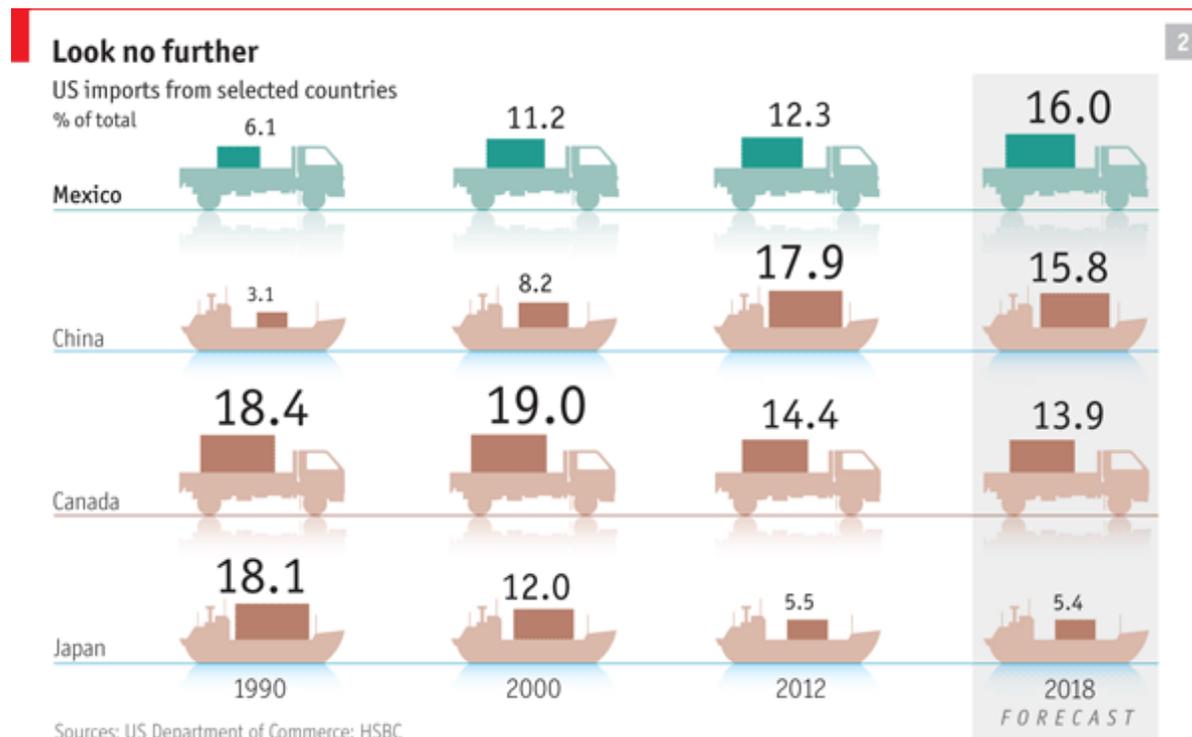
Mexico rising

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LAST week I wrote a [short post](#) on Mexico's improving economic fortunes and its bright outlook. Conveniently, the most recent issue of *The Economist* features a [special report](#) on Mexico, which includes a [long look](#) at the country's promising economy. The changing dynamics of global market potential are indeed part of the story:

The price of oil has trebled since the start of the century, making it more attractive to manufacture close to markets. A container can take three months to travel from China to the United States, whereas products trucked in from Mexico can take just a couple of days. AlixPartners, a consultancy, said last year that the joint effect of pay, logistics and currency fluctuations had made Mexico the world's cheapest place to manufacture goods destined for the United States, undercutting China as well as countries such as India and Vietnam.

Here's the striking result:



Cost is an issue, as the above quote indicates, both in terms of the price of shipping and in the wage gap between Mexican workers and competitors in Asia. But time also matters, particularly given the development of regional supply chains. An August [Free exchange column](#) noted:

The second unbundling has yet to banish distance. In a different paper, Messrs Johnson and Noguera find that supply-chain fragmentation has been greatest among neighbours. This has given rise to regional industrial clusters. Regional trade agreements are partly responsible, but time costs may be more important. ICT improvements have also made production more nimble, capable of just-in-time manufacturing and frequent design changes. Timely shipments of components are indispensable. Indeed, an analysis by David Hummels of Purdue University and Georg Schaur of the University of Tennessee estimates that a day in transit is equivalent to a tariff of between 0.6% and 2.3%, with the largest effects for parts and components trade. Industrialisation is now within easy reach of poor countries, provided they're within easy reach of industrialisation.

The evolution of world trade over the past two decades has been rich with surprising and fascinating developments.