Distance says it all? What the global crisis tells us about the resilience of Mexico and Brazil

Willem J. Kooi

Introduction

In Mexico, there is currently a public debate on the economic underperformance of the Mexican economy compared to the Brazilian economy. But the divergent economic performance of the two large emerging market economies is not only of interest for explaining Mexico’s economic woes. It is also of particular interest because of their increasing role in the world economy.

In the early phase of the crisis, Brazil and Mexico seemed to show similar developments, especially in financial markets. However, in the middle of last year it had become clear that the crisis was having very different implications for Mexico and Brazil. While Mexico faced the most serious GDP contraction since the Tequila crisis of 1994-1996, Brazil's GDP is estimated to have contracted by only 0.2% last year.

This note analyses the reasons for the different reactions of these two economies to the global crisis. We first show how apparently similar Brazil and Mexico were at the onset of the crisis. Then we analyze the reactions of economic variables and economic policy to the crisis. We arrive at the conclusion that distance to the epicentre of the crisis, i.e. the US, is a good proxy for the different ways the global crisis affected the two economies through their trade orientation and their trade composition. It is also a likely cause for the different potential to develop their financial markets (with subsidiaries of US financial institutions being much more present in Mexico than in Brazil) and the size and developments in worker remittances.

Some important similarities

Brazil and Mexico are by far the two largest economies of Latin America, accounting together for over 60 percent of its total GDP. Both are also important emerging economies, with the size of their economies already surpassing that of the average OECD member state. Reflecting their importance as emerging markets economies is their representation at the G-20 and, until now, in the G8 + O5 dialogue supported by the Heiligendamm/l’Aquila Process (HAP).

Summary

The economies of Mexico and Brazil have many important commonalities, but Brazil’s economy has, so far, shown more resilience to global economic crisis, which had its epicentre in Mexico’s Northern neighbour.

This Economic Brief first analyzes the commonalities between Mexico and Brazil, finding that their economic developments over the past three decades have shown some remarkable similarities in terms of policy reform, the use of macroeconomic policy, economic structure, and remaining challenges for economic policy.

The foremost difference is the intensity of trade and financial linkages with the US. While Mexico’s trade with the US amounts to 35% of its GDP, for Brazil this is roughly a tenth of that. The vicinity of a large developed market has also offered Mexico an opportunity to become the largest exporter of advanced manufacturing goods in Latin America. Brazil has a much larger share of commodities in its export basket. Finally, US financial institutions are more present in Mexico than in Brazil while Brazilians banks also have higher capital adequacy ratios.

Because of its closeness to the US and its close trade and financial links with the US, the crisis was bound to have a large impact on Mexico. However, Brazil is increasingly dependent on the demand for commodity products from other emerging economies.
In addition, Mexico is a member of the OECD since 1994, while Brazil has an intense relationship with the OECD under the so-called enhanced engagement programme. In case Mexico does enter into a Strategic Partnership with the EU, which may happen later this year, both countries will be among the few global players that have such a relationship with the EU.

An important common characteristic of Brazil and Mexico is the economic reforms they have pursued over the past 15 years. The reforms resembled each other in both timing and policy focus. Mexico started a new wave of structural reforms at the end of the eighties by reducing impediments to foreign trade and investment. Brazil started opening its economy to foreign trade and investments at the beginning of the nineties. Subsequently, both countries also made progress with the reform of their macroeconomic policy framework, by adopting inflation targeting and floating exchange rate regimes (Mexico in 1995 and Brazil in 1999) and fiscal responsibility laws. The associated strengthening in the credibility of macroeconomic policy has been a key positive element in increasing the room for policy reaction and resilience to the crisis.

However, both countries also have big challenges to pursue further structural reforms to raise their productivity growth. One of the most important policy challenges in this respect is to make their labour markets more flexible. Mexico's labour market is still among the most rigid in the world, sharing the first place with Mozambique according to a study by Botero et al (2003). According to the same measure, Brazil ranks fifth on the global list of 85 countries. Other weaknesses that have to be addressed are the high level of labour informality, the low educational attainment at high-school level, and the inefficiencies in the tax system.

The policy reaction to the crisis has not been very different either. Actually, the central banks of Brazil and Mexico faced similar dilemmas immediately before and in the months following the bankruptcy of Lehman Brothers. On the one hand, they faced a worsening of the external environment and an expected cooling down of the economy, while, on the other, inflation was still above their respective targets as a consequence of the strong rise in commodity prices. Both central banks raised the policy interest rate in the months preceding the crisis (by 250 basis points in the case of Brazil and by 75 basis points in the case of Mexico) and kept the resulting higher rates in place for the rest of 2008 because of the still high inflation rate. It was only in January 2009 that they began to ease monetary policy, lowering their policy rates in several steps by 500 basis points in Brazil and by 375 basis points in Mexico between January and the summer of 2009. On top of this, several non-standard policy actions were taken, including the introduction of temporary lending facilities in foreign and local currencies, interventions in the spot market and the agreement to have swap lines with the US Federal Reserve. In Brazil, reserve requirements were also lowered from their relatively high level, a level that has traditionally been blamed in part for Brazil's wide financial intermediation margin and relatively high real interest rates.

The fiscal policy reactions of the Brazilian and Mexican authorities were both rather limited in comparison with the average of other G-20 countries and with that of certain other Latin American economies with comparable characteristics (financially integrated commodity exporters). The average response of G-20 countries (measured by the difference in government balance between 2007 and 2009 and averaged on the basis of PPP) was 5.5% of GDP. According to the IMF, from 2008 to 2009 the Mexican general government balance fell by 3.5% of GDP and the Brazilian one by 2.0% of GDP between 2007 and 2009. By contrast, Chile (-13.2% of GDP) and Peru (-5.4%), which are also characterized by the IMF as financially integrated commodity exporting countries, had much larger swings in their budget balances between 2007 and 2009. All the fiscal measures taken by Brazil and Mexico were set to be of a temporary nature. Except for the lowering of Brazil’s corporate taxes, the measures had the same components: infrastructure investments, support to SME’s and/or farmers, housing/construction sector, and indirect taxes.

---

2 An important difference in the tax systems, however, is that while Mexico has one of the lowest tax-over-GDP ratios in Latin America, Brazil has the highest one, being in fact very close to the OECD average.
3 IMF Regional Economic Outlook Latin America, Autumn 2009
Interestingly, oil reserves are rather similar for Mexico (proven reserves of 11.7 billion barrels) and Brazil (12.2 billion barrels). Their production is reaching increasingly similar levels, as Brazilian oil production is rising (2.4 million barrels per day in 2008), while that of Mexico is falling (3.2 million barrels a day in 2008). As a consequence of the declining oil production, Mexico's net exports (1.4 million barrels per day in 2008) are diminishing. At the same time, Brazil is expected to become a net exporter of oil in the near future. Both countries export crude oil and import refined oil and both will need vast investments before all proven reserves can be extracted.

The reaction of key financial market indicators to the crisis seemed to reflect these commonalities. In the month following the collapse of Lehman Brothers, both the Brazilian real and the Mexican peso fell by approximately the same percentage (about 19%). This was much more than the depreciation experienced by other major Latin American currencies in that month. At the same time, their bond spreads increased by much less (between 120 and 133 bps) than those of most other Latin American countries, while their stock markets followed similar patterns.

### Diverging subsequent developments

Just before the Mexican and the Brazilian economies entered into crisis, economic analysts in the private sector still expected them to have more or less similar growth rates for the year 2009 of around 4%. As graph 1 shows, all this changed after the collapse of Lehman Brothers in September 2008. Since then, the divergence between the consensus growth rates projected for the Brazilian and the Mexican economies has widened consistently. While from April 2009 onwards the economists’ consensus view began to point towards first the stabilisation and then the recovery of the Brazilian economy, the expectations for the Mexican economy continued to deteriorate, only beginning to stabilize towards the end of the third quarter of 2009. Currently, the Mexican economy is estimated to have contracted by around 6.5% in 2009 against only a 0.2% contraction for the Brazilian.

**Graph 1** Changing consensus growth forecasts for Brazil and Mexico for 2009

Source: Latin Focus Consensus Forecasts

In its interim forecast of last January, the IMF projected that the Brazilian economy will grow by 4.7% in 2010, after -0.4% in 2009, and the Mexican economy to grow by 4.0% in 2010 after declining by 6.8% in 2010. In 2011, the IMF expects Mexico (4.7%) to grow faster than Brazil (3.7%). At the same time, as growth returns to above potential in 2010 for Brazil and in 2011 for Mexico, the current account is expected to deteriorate. Private sector forecasts foresee a deterioration of the current account balance from 0.1% of GDP in 2007 to -2.9% of GDP in 2011 for Brazil and from -0.8% of GDP in 2007 to -1.4% of GDP in 2011 for Mexico.

The recently differing economic developments and prospects have also had an effect on the outlook for monetary policy. The difference in market views can essentially be attributed to the difference in economic growth prospects and the speed at which the output gap is closing. The markets also anticipate Mexico’s decision to increase by 1% the VAT rate on 1 January of this year to have only a transitory effect on consumer prices, which seems likely given the large negative output gap in Mexico.

### Factors explaining the divergent performance during the crisis

This section discusses a number of possible explanations for Mexico’s relative underperformance relative to Brazil during the crisis, including both trade and financial factors.

---

4 Argentina (-3.7%), Colombia (-10.5%), Peru (-2.7%), or Chile (-14.9%)
5 Colombia (184 bps), Peru (195 bps), Venezuela (463 bps), and Argentina (495 bps).
Trade and other real factors

Worker remittances

In this crisis, the fall in remittances has affected Mexico more than Brazil because of Mexico's higher relative reliance on remittances (in 2008 remittances amounted to 2.4% of GDP for Mexico while in the same year they amounted to 0.3% of GDP for Brazil) and Mexico's close dependence on US labour market developments. Data on remittances is, however, scarce and affected by measurement problems.

The H1N1 flu

Another exogenous shocks that may have contributed to the difference between Mexico's and Brazil's economic performance has been the H1N1 flu. According to estimates by UBS, the H1N1 outbreak may have cost the Mexican economy as much as 0.8% of GDP. The first two factors that we will analyze further pertain to the trade transmission channel and the last one to the financial transmission channel.

Trade openness and export orientation

The economic relationship with other North American countries intensified for Mexico with the signing of the North American Free Trade Agreement (NAFTA) in 1994. Trade with the US alone reached a high of 90% of total Mexican trade in the 1990's, before Mexico started to diversify its trade orientation by concluding free trade agreements (FTA's) with other countries. In 2000, the EU and Mexico signed an FTA, which contributed to undo part of the diversion of trade away from the EU and towards the US that NAFTA had caused. The EU is now Mexico's second largest trading partner.

Notwithstanding this diversification of its export base in the last decennium, Mexico's most important export destination remains by far the US (around 80% of its exports). China's share in Mexico's exports was only 1% in 2009. Mexico’s vulnerability to external trade developments during the crisis was further exacerbated by its high degree of trade openness as measured by a trade openness ratio (imports plus exports as a percentage of GDP) of 55%. Its high degree of trade openness and high degree of trade orientation vis-à-vis the US, combined, means that Mexico's trade with the US amounts to 35% of its GDP, a very high ratio.

Notwithstanding a trend of Brazil opening up to the world economy, Brazil is still much less open than Mexico. Its trade openness ratio is 26%, or 29 percentage points below Mexico's openness ratio. Another difference with Mexico is that Brazil's trade is much more diversified across countries. Brazil's opening up to the world economy has taken place, in fact, mostly through increased exports to other emerging market economies. As a consequence, Brazil exports are currently mostly directed to other Latin American countries (26% of Brazil's exports), followed by the EU (23%) and Asia (18%). At the same time as exports have become increasingly important for the Brazilian economy, the relative share of exports to the US has diminished. The share of exports to the US in Brazil's total exports fell from 20% in 1991 to 14% in 2008. Total trade (imports plus exports) with the US amounted to 3.7% of Brazil's GDP in 2008, roughly a tenth of Mexico's trade with the US (as a percentage of its GDP). As a consequence, while Mexican exports heavily depend on demand developments in the US, Brazil is more dependent on developments in other emerging market economies.

This trade diversification helped Brazil weather the effects of the crisis, particularly given that China and other EMEs resisted the crisis better and began to recover ahead of the US economy. While Mexico's exports fell from peak to trough by 24% in real terms, Brazil's export fell by no more than 16% in real terms. However, Brazil's exports to the US fell by more in value terms than those of Mexico: US statistics recorded a drop of 56% in the value of goods imported from Brazil versus a drop by 37% in the value of those imported from Mexico. Moreover, since their respective troughs the exports to the US have increased more for Mexico than for Brazil. In other words, if Brazil's exports would have depended as much on the US demand for manufacturing goods as was the case for Mexico, Brazilian export sector would have been worse off than Mexico now is. This partly reflects the different baskets of products exported by Brazil and Mexico to the US, a factor that is examined in the next section.

Export composition

While Brazil's economy is becoming less dependent on economic developments in the US, it is more reliant than Mexico on the export of commodities

---

and has been losing world market share in manufacturing exports. Since 1970, Brazil has gained market share in commodities exports like fuel, mining, and agricultural products. Mexico, on the other hand, exports much more manufactured goods and has actually gained market share in world exports of manufacturing goods. It has also gained market share in agricultural products but lost market share in fuel and mining products.

**Table 2** Top 10 export products (% of total exports)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Brazil</th>
<th>%</th>
<th>Mexico</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Iron ore</td>
<td>8.4</td>
<td>Machinery</td>
<td>26.5</td>
</tr>
<tr>
<td>2</td>
<td>Soybeans 7.4</td>
<td>Vehicles</td>
<td>14.7</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Cane sugar 3.9</td>
<td>Fuels</td>
<td>13.3</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Chicken 3.1</td>
<td>Mechanical parts</td>
<td>12.7</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Oil cake (soybean residue) 3.0</td>
<td>Medical supplies</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Airplanes 2.5</td>
<td>Precious metals</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Coffee, unroasted 2.4</td>
<td>Plastics</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Chemical wood pulp 2.1</td>
<td>Furniture</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Meat (bovine) 1.9</td>
<td>Plants</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Iron and steel 1.1</td>
<td>Iron and steel</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Share of total commodities*</td>
<td>51.2</td>
<td>Share of total commodities*</td>
<td>22.5</td>
</tr>
<tr>
<td></td>
<td>Share of total manufactured products*</td>
<td>45.8</td>
<td>Share of total manufactured products*</td>
<td>73.3</td>
</tr>
</tbody>
</table>

* Total commodities equals the sum of Standard International Trade Classification (SITC) categories 0 to 4; total manufactured products equals the sum of SITC categories 5 to 8. Not included: SITC category 9, miscellaneous. Source: Bank of America/Merrill Lynch, "LatAm Export Dynamics", Latin America Economics Weekly, 26 February 2010 and UN COMTRADE.

With the US nearby, Mexico has benefited from the comparative advantage related to its relatively low labour cost by specializing in labour intensive manufacturing products. The so called ‘maquiladores’, which are manufacturing firms specialized in the more labour intensive part of production in the global value chain and which are located close to the border with the US, are a prime example of the advantage of small distance to a large market. Of all Mexican non-oil exports to the US, 55% comes from the maquiladores (see UNIDO Industrial Development Report 2009, p 52). This has also helped Mexico to have the highest percentage of advanced manufacturing in its GDP and the highest percentage of medium and high tech manufacturing products in its export basket among large Latin American economies (see table 3). 7

**Table 3** Advanced manufacturing and composition of exports

<table>
<thead>
<tr>
<th></th>
<th>Advanced manufacturing (% of GDP)</th>
<th>Medium to high tech exports (% of total)</th>
<th>Commodity exports (% of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>6.8</td>
<td>34.9</td>
<td>51.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>7.5</td>
<td>61.3</td>
<td>22.5</td>
</tr>
<tr>
<td>Average LA8 (1)</td>
<td>4.4</td>
<td>19.2</td>
<td>59.2</td>
</tr>
<tr>
<td>Maximum</td>
<td>7.5 (MEX)</td>
<td>61.3 (MEX)</td>
<td>93.2 (VEN)</td>
</tr>
<tr>
<td>Minimum</td>
<td>2.6 (PER)</td>
<td>2.6 (PER)</td>
<td>22.5 (MEX)</td>
</tr>
</tbody>
</table>

(1) Eight large, most advanced Latin American countries: Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay and Venezuela

Sources: UNIDO, World Bank WDI

While the maquiladoras have helped Mexico increase the weight of manufactures in its exports, they have also increased its dependence on the US market. Indeed, the maquiladoras function as the marginal producers for US companies, which make their production react in a more pronounced manner to the US business cycle. In fact, Bergin, Feentra and Hanson (2007) show that volatility of the value added of these maquiladores is about twice as high as similar industries in the US. There is also evidence that the propagation of shocks is more intense in the

7Maquiladores mostly operate in four industries that together make up three quarters of all employment in all maquiladores: (1) apparel, (2) electronic accessories (including computer parts and electronic circuitry), (3) electrical machinery (including televisions and small domestic appliances), and (4) transport equipment and parts (primarily motor vehicles).
presence of vertical supply chains. This and other studies suggest that the vertical integration has been an important factor in the abnormally high income elasticity of trade during the financial crisis, and that countries with relatively developed international vertical integration may have been more severely affected by the crisis.

By contrast, the lower dependence of Brazil’s exports on demand for manufacturing goods, which are those that suffered more during the crisis, limited the impact of the crisis on its exports, while its higher reliance on commodity exports allowed it to benefit from the recovery in commodity prices as from mid-2009. Worth noting is that Mexico benefited from a hedge on the oil price the government had bought during the time that the oil price was high. This shielded Mexico from much of the volatility in commodity and, especially, oil prices.

**Financial channels**

Over time, the importance of the financial channel in transmitting external developments on to domestic economic developments has increased. For instance, Swiston and Bayoumi (2008) show how, for Mexico and Canada, shocks from the US were mostly transmitted through the financial channel in the period 1996 - 2007. By contrast, in the period 1970-1996, shocks from the US on these two countries were mostly transmitted through the trade channel.

**Impact through financial markets**

Mexican and Brazilian financial markets were affected by the financial crisis in a similar way. For instance, the development of stock market indices has followed a very similar pattern as graph 2 shows. Bond spreads and exchange rates vis-à-vis the US dollar have also reacted in a similar fashion in the first half year after the crisis.

---


---
Graph 4 Exchange rate developments

![Graph 4 Exchange rate developments](image)

Source: Reuters Ecowin

Capital flows

On the other hand, capital flows to Brazil have been more affected by the crisis than those to Mexico. Graph 5 shows how, capital inflows to Brazil, especially portfolio inflows, sharply dropped in the last quarter of 2008. Since then, they have also rebounded strongly. Brazil even decided to install a tax on capital inflows (excluding foreign direct investment) at the end of last year in reaction to the surge in capital inflows.

Graph 5 Capital flows to Mexico and Brazil

![Graph 5 Capital flows to Mexico and Brazil](image)

Source: Reuters Ecowin / IMF IFS

Foreign direct investment

Notwithstanding the lower volatility of its headline figure, developments in foreign direct investment (FDI) may have affected Brazil and Mexico differently. While in general, FDI is the more stable source of financing, two of its components (reinvested earnings and intra-company loans) also show high volatility in times of crisis. Mold (2008) shows that during crises intra-company loans are a much more volatile component of FDI than equity investments. For instance, intra-company loans to Mexico fell by as much as 64% during the Tequila crisis (1994-1996) while FDI in equity capital to Mexico fell by only 3%9. In the period 2000-02, as a reaction to the turbulent developments in Latin American financial markets, intra-company loans fell by 464% in Argentina and 119% in Brazil, while equity was much more stable at -54% in Argentina and -43% in Brazil. Moreover, the stock of US foreign direct investment is particularly large in Mexico so that the banking crisis in the US can be expected to have hit the Mexican business sector much more than the Brazilian business sector. Graph 5 shows that FDI flows to Mexico have, indeed, been hit harder during this crisis and, especially, after the fall of Lehman Brothers. Actually, FDI to Brazil stayed at an elevated level after the fall of Lehman. It only came down in the first quarter of 2009.

Exposure of banking systems

Notwithstanding the similar development of financial indicators like stock and bond market indices and exchange rates, foreign share holdings are more important in the Mexican stock market than in the Brazilian stock market. This reflects to a large extent the presence of investors from the US and, to a lesser extent, the EU. Mexico is financially more integrated with the US than Brazil with US banks having a rather large presence in Mexico. In combination with the lower capital adequacy of Mexican banks, this may have made the Mexican banking sector less resilient to the adverse developments in the US financial markets and exposed it to credit shortage, thus particularly affecting the Mexican economy via the credit channel. Brazil, by contrast, had lower

If demand falls, those companies are the first to see their production fall. Mexico also relies more heavily on worker remittances (representing 2.4% of Mexican GDP), the bulk of which comes from the US. The H1N1 flu also made things worse by adding to the weakening of demand at a very vulnerable moment, but its impact should not be exaggerated.

Brazil's lower dependence on the US market, lower dependency on manufactured exports (the hardest hit by the global crisis) and higher reliance on commodity exports (which allowed it to benefit more clearly from the subsequent recovery of commodity prices) contributed to its impressive resilience. This was combined with a more rapid recovery of its domestic demand. Regarding the financial transmission channels, Brazil had also some advantages, notably its lower integration and exposure of its financial system to that of the US and the relatively high capital adequacy and solvency of its banking system, partly reflecting the tight regulatory approach traditionally favoured by the Brazilian authorities.

Although Brazil has proved more resilient, this partly rests on structural developments that may also entail some risks for the future. In particular, the trend has been, as noted, for Brazil to lose world market share in manufacturing while gaining world market share in commodities. This makes Brazil's external sector more dependent on demand developments in commodity and emerging markets, which have been relatively strong during the recovery phase but have tended to be more volatile in history. Moreover, the strong domestic demand growth that has supported the Brazilian recovery could end up recreating the current account sustainability problems that characterised Brazil's economic performance in the not very distant past. By contrast, Mexico is the country with the largest advanced manufacturing sector in Latin America, and this has contributed to a more diversified export basket. And, as the recovery of the US economy gathers momentum, it is likely to benefit from its proximity to a large and developed economy.

### Table 2 Financial sector indicators

<table>
<thead>
<tr>
<th>Country</th>
<th>Domestic stock market capitalization (% of GDP)</th>
<th>Capital adequacy ratios (% of risk weighted assets)</th>
<th>Bond market: CDS spread (avg 2008 Q1 - Q3)</th>
<th>Government credit rating (S&amp;P)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>37.6</td>
<td>18.4</td>
<td>245</td>
<td>BBB-</td>
</tr>
<tr>
<td>Mexico</td>
<td>21.5</td>
<td>15.3</td>
<td>171</td>
<td>BBB+</td>
</tr>
<tr>
<td>LA8</td>
<td>35.9</td>
<td>14.8</td>
<td>337</td>
<td>n.a.</td>
</tr>
<tr>
<td>Maximum</td>
<td>77.8 (CHL)</td>
<td>18.4 (BRZ)</td>
<td>605 (VEN)</td>
<td>A+ (CHL)</td>
</tr>
<tr>
<td>Minimum</td>
<td>12.3 (ARG)</td>
<td>11.9 (PER)</td>
<td>171 (MEX)</td>
<td>BBB- (PER)</td>
</tr>
</tbody>
</table>

1) Market capitalization of domestic companies on the prime domestic stock market (ie stock exchanges of Buenos Aires, Sao Paulo, Santiago, Bogota, Mexico City, and Lima). No data available for Uruguay and Venezuela.

2) Does not include Chile and Uruguay due to data restriction

Sources: IMF GFSR, Ecowin Reuters/World Federation of Exchanges

### Conclusions

Brazil has so far shown more resilience than Mexico to the global crisis, which had its epicentre in Mexico's Northern neighbour. Being a country which shares a border and has close trade and financial links with the US, its adverse economic developments were bound to have a larger impact on Mexico. Mexico conducts a much larger share of its trade with the US and is a much more open economy than Brazil. Both factors together mean that while Mexico's trade with the US amounts to 35% of its GDP, Brazil's trade with the US amounts to only 3.7% of its GDP. Moreover, the Mexican maquiladoras operate as the marginal producers for US companies.

ACKNOWLEDGEMENTS

The authors are indebted to Marco Buti and numerous colleagues in the European Commission for useful comments.

The views expressed are the authors’ only and do not necessarily correspond to those of the European Commission.

ECFIN economic briefs is an online only publication. If you wish to be informed about new releases, you can subscribe to our email alert service at ec.europa.eu/economy_finance

© European Union, 2010 DOI 10.2765/57633