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U.S.-Mexico Trade Relations

The U.S.-Mexico economic and trade relationship is of interest to many Members of Congress because of Mexico's proximity to the United States, the extensive bilateral trade and investment relationship under the U.S.-Mexico-Canada Agreement (USMCA), and the strong cultural and economic ties that connect the two countries. The United States shares strong economic ties with Mexico. Any disruption to the economic relationship could adversely affect bilateral investment, employment, productivity, or North American competitiveness. Policymakers may consider how the United States can improve cooperation with Mexico in areas of mutual interest. Some policy experts encourage increased bilateral cooperation on cross-border trade and investment, such as the U.S.-Mexico High-Level Economic Dialogue, which the Biden Administration relaunched in 2021.

Mexico's Economy

Mexico is the second-largest economy in Latin America. It has a population of 127 million people, making it the most populous Spanish-speaking country in the world and the third-most populous country in the Western Hemisphere. Mexico's gross domestic product (GDP) was \$1.3 trillion in 2021, equal to about 6% of U.S. GDP of \$23.0 trillion. In purchasing power parity (PPP), Mexican GDP was greater, \$2.6 trillion, 11% of U.S. GDP. Mexico's per capita GDP is relatively high by global standards, within the World Bank's upper-middle income category. Mexico's GDP growth generally follows U.S. economic trends, with higher fluctuations.

U.S.-Mexico Trade

In 2021, Mexico ranked second, after Canada, among all U.S. trading partners. Total U.S. merchandise trade (exports plus imports) with Mexico amounted to \$661.1 billion in 2021. In comparison, U.S. trade with Canada totaled \$665.6 billion, while trade with China totaled \$656.4 billion. The United States is by far Mexico's most important export market for goods, with approximately 80% of Mexican exports destined for the United States. Merchandise trade between the two countries increased exponentially since NAFTA entered into force. In 2021, bilateral trade increased by almost 14%, after a 12% decrease in 2020, resulting from the economic slowdown due to the Coronavirus Disease 2019 (COVID-19) pandemic. The merchandise trade balance went from a surplus of \$1.7 billion in 1993 (the year before NAFTA entered into force) to a widening deficit that reached \$108.2 billion in 2021.

U.S. Merchandise Exports

Mexico ranks second, after Canada, among markets for U.S. merchandise exports. The value of U.S. merchandise exports to Mexico increased from \$41.6 billion in 1993 (the year before NAFTA's entry into force) to \$276.5 billion in

2021. Leading U.S. exports to Mexico in 2021 included petroleum and coal products (\$28.1 billion), motor vehicle parts (\$17.3 billion), semiconductors & other electronic components (\$16.6 billion), oil and gas (\$13.9 billion), and computer equipment (\$13.1 billion).

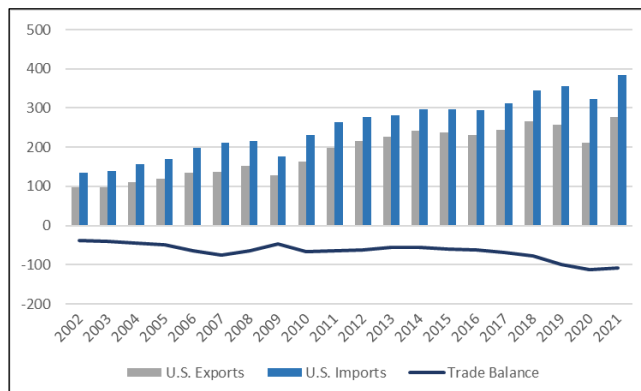
U.S. Merchandise Imports

Mexico ranks second, after China, among suppliers of U.S. imports. U.S. merchandise imports from Mexico increased from \$39.9 billion in 1993 to \$384.7 billion in 2021.

Leading U.S. merchandise imports from Mexico in 2021 included motor vehicles (\$62.1 billion), motor vehicle parts (\$50.5 billion), computer equipment (\$29.1 billion), audio and video equipment (\$15.6 billion), and electrical equipment (\$13.6 billion).

Figure 1. U.S.-Mexico Merchandise Trade 2002-2021

Current U.S. \$ in billions



Source: U.S. International Trade Commission's DataWeb.

Services Trade

In 2021, the United States had a surplus in services trade with Mexico of \$2.7 billion in 2021, compared to \$6.3 billion in 2020. U.S. services exports to Mexico increased from \$23.5 billion in 2020 to \$30.5 billion in 2021, while imports increased from \$17.2 billion in 2020 to \$27.8 billion in 2021. U.S. services trade with Mexico largely consisted of travel, transportation, business, and financial services.

Bilateral Foreign Direct Investment

Foreign direct investment (FDI) is an integral part of the economic relationship between the United States and Mexico since NAFTA implementation. The liberalization of Mexico's restrictions on foreign investment in the late 1980s and early 1990s, combined with NAFTA investment provisions, played an important role in attracting foreign investment to Mexico. The United States is, by far, the largest source of FDI in Mexico. According to the U.S. Bureau of Economic Analysis, the stock of U.S. FDI

increased from \$15.2 billion in 1993 (the year before NAFTA) to a high of \$110.7 billion in 2021. While the stock Mexican FDI in the United States is much lower, it has increased significantly over the past 20 years, from \$4.1 billion in 1997 (the earliest data available) to \$48.1 billion in 2021 (by ultimate beneficial owner).

U.S.-Mexico Supply Chains

Many economists credit NAFTA with helping U.S. manufacturing industries, especially the U.S. auto industry, become more competitive through the development of North American supply chains. A significant portion of merchandise trade between the United States and Mexico occurs in the context of production sharing, as manufacturers in each country work together to create goods. The flow of intermediate inputs produced in the United States and exported to Mexico and the return flow of finished products greatly increased the importance of the U.S.-Mexico border region as a production site. U.S. manufacturing industries, including motor vehicles and electronics, all rely on the assistance of Mexican manufacturers. In the auto sector, for example, there are multilayered connections between U.S. and Mexican suppliers and assembly points. An automobile produced in the United States, for example, can have thousands of parts that come from different U.S. states and various Mexican locations. The place of final assembly may have little bearing on where its components are made. Most economists suggest that these linkages offer important trade and welfare gains from free trade agreements.

NAFTA and the USMCA

NAFTA, which entered into force on January 1, 1994, contained provisions on tariff and nontariff barrier elimination, customs procedures, technical barriers to trade, government procurement, foreign investment, services trade, temporary entry for business persons, intellectual property rights (IPR) protection, and dispute resolution.

On July 1, 2020, USMCA replaced NAFTA. Composed of 34 chapters and 12 side letters, USMCA retains most of NAFTA's provisions, while making notable changes to market access provisions for motor vehicles and agriculture products, rules on investment, government procurement, IPR, and on worker rights and the environment. New provisions on digital trade, state-owned enterprises, and currency misalignment are part of the new agreement.

Some USMCA provisions that most affect the U.S.-Mexico trade relationship arguably include changes to the rules of origin for motor vehicles, the new chapter on digital trade, and more enforceable provisions on worker rights. For example, USMCA modified NAFTA rules of origin for motor vehicles by raising the minimum level of regional value content from 62.5% to 75%, adding a wage requirement that 40%-45% of motor vehicle content be made by workers earning at least \$16 per hour, and requiring 70% of a vehicle's steel and aluminum originate in North America. On labor issues, USMCA added a new "rapid response" mechanism to provide a faster independent panel investigation of labor disputes.

USMCA maintains the NAFTA state-to-state mechanism for the settlement of most disputes, as well as the binational dispute settlement mechanism to review trade remedy disputes. It maintains investor-state dispute settlement (ISDS) only between the United States and Mexico, without Canada, regarding government contracts in oil, natural gas, power generation, infrastructure, and telecommunications sectors, which was very important for U.S. investors in Mexico. It also maintains U.S.-Mexico ISDS in other sectors, provided the claimant exhausts national remedies first. .

Many economists state that USMCA will not have a measurable effect on U.S. trade and investment with Mexico, jobs, wages, or overall economic growth as most of the bilateral trade liberalization took place under NAFTA. The U.S. business community contends that USMCA will strengthen North American supply chains, especially after the COVID-19 pandemic. Some analysts contend that the United States and Mexico could strengthen North American supply chains by bringing the two countries into better alignment in regulatory areas, tax incentives, collaboration with the private sector and investment in human capital.

Issues for Congress

Given the size of U.S.-Mexico trade and investment, many U.S. policymakers follow trade policy issues. Some policymakers view NAFTA/USMCA as vital for U.S. firms, workers and farmers, and beneficial to U.S. economic interests. Others are concerned over issues such as worker rights and the scaling back of ISDS provisions, which could adversely affect U.S. investors in Mexico, especially in the energy sector. Numerous policymakers and industry representatives have expressed serious concerns about the Mexican government's actions to strengthen the state's role in the energy sector. The U.S. government argues that the actions violate USMCA and has filed a USMCA trade dispute against Mexico. On worker rights issues, numerous policymakers are concerned about Mexico's ability to implement labor reforms required by USMCA. The United States and Mexico have successfully resolved four cases brought under the USMCA rapid response mechanism; a fifth case is under review.

Numerous experts contend that the initiative could strengthen North American supply chains and provide a mechanism by which the United States and Mexico could cooperate on regulatory areas critical to strengthening supply chains, aligning tax incentives, collaborating with the private sector and investing in human capital. Mexican officials have pointed to a USMCA-established "Competitiveness Committee" as another important framework to advance shared interests.

See CRS Report R42917, *Mexico: Background and U.S. Relations*, by Clare Ribando Seelke and CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by M. Angeles Villarreal.

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