U.S.-Mexico Economic Relations: Trends, Issues, and Implications

M. Angeles Villarreal
Specialist in International Trade and Finance

February 24, 2011

Congressional Research Service
7-5700
www.crs.gov
RL32934

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

The bilateral economic and trade relationship with Mexico is of interest to U.S. policymakers because of Mexico's proximity to the United States and because of the strong cultural and economic ties that connect the two countries. Also, it is of national interest for the United States to have a prosperous and democratic Mexico as a neighboring country. Mexico is the United States' third-largest trading partner, while the United States is, by far, Mexico's largest trading partner. Mexico ranks third as a source of U.S. imports, after China and Canada, and second, after Canada, as an export market for U.S. goods and services. The United States is the largest source of foreign direct investment (FDI) in Mexico. The 112th Congress will likely maintain an active interest in Mexico on issues related to cross-border trade between the two countries, the implementation of NAFTA trucking provisions, economic conditions in Mexico, migration, counternarcotics, and border issues.

The United States and Mexico have strong economic ties through the North American Free Trade Agreement (NAFTA), which has been in effect since 1994. Prior to NAFTA, Mexico had followed a strong protectionist policy for decades until it began to unilaterally liberalize its trade regime in the late 1980s. Not all trade-related job gains and losses since NAFTA can be entirely attributed to the agreement because of the numerous factors that affect trade, such as Mexico's trade liberalization efforts, economic conditions, and currency fluctuations. NAFTA may have accelerated the ongoing trade and investment trends that were already taking place at the time. Most studies show that the net economic effects of NAFTA on both countries have been small but positive, though there have been adjustment costs to some sectors within both countries.

The current trade issue of most concern to Members of Congress involves NAFTA trucking provisions. Under NAFTA, Mexican commercial trucks were to have been given full access throughout the United States by 2000 but the United States did not implement these provisions due to alleged safety concerns. Mexico objected and a NAFTA dispute resolution panel supported Mexico's position in 2001. In 2009, the Mexican government began imposing retaliatory tariffs on certain U.S. products with a value of $2.4 billion in exports to Mexico. In January 2011, the Obama Administration released a concept document for a proposed program to implement the trucking provisions. Numerous Members of Congress oppose the implementation of the trucking provisions because they are concerned about the safety of Mexican trucks in the United States. Others support a resolution to the issue and contend that Mexico's retaliatory tariffs are having strong negative effects on local U.S. industries and affecting U.S. jobs.

Also of interest to many policymakers are the economic disparity between the two countries and migration issues. The United States and Mexico have been involved in ongoing efforts to address economic prosperity and regulatory economic cooperation. In 2009, President Barack Obama met with Mexican President Felipe Calderón and Canadian Prime Minister Stephen Harper in Guadalajara Mexico to discuss issues of prosperity and security in North America. In May 2010, Mexican President Calderón made a state visit to the United States in which he emphasized the need for increased cooperation in North America to increase the competitiveness of the region. In a meeting hosted by President Obama, the two leaders reaffirmed their shared values and the need for focusing on economic growth. They vowed to enhance and reinforce efforts to create jobs, promote economic recovery and expansion, and encourage prosperity across all levels of society in both countries. President Obama underscored his commitment to comprehensive immigration reform in the United States while President Calderón stated that his administration was committed to creating more job and educational opportunities in Mexico.

Contents

Figures

Tables

Contacts

Introduction

The bilateral economic relationship with Mexico is of key interest to the United States because of Mexico's proximity and because of strong cultural and economic ties between the two countries. Mexico has a population of 113 million people, making it the most populous Spanish-speaking country in the world and the third-most populous country in the Western Hemisphere (after the United States and Brazil). The economic relationship with Mexico has developed strong ties under the North American Free Trade Agreement (NAFTA). Trade between the two countries more than tripled since the agreement was implemented in 1994. Through NAFTA, the United States, Mexico, and Canada form the world's largest free trade area, with about one-third the world's total gross domestic product (GDP).

The United States and Mexico share many common interests related to trade, investment, and regulatory cooperation. The two countries share a 2,000 mile border and have extensive interconnections through the Gulf of Mexico. There are links through migration, tourism, environment issues, health concerns, and family and cultural relationships.[1] The economic relationship with Mexico is important to U.S. national interests and to the U.S. Congress for many reasons. The 112th Congress will likely maintain an active interest in Mexico on issues related to cross-border trade between the two countries, the implementation of NAFTA trucking provisions, economic conditions in Mexico, migration, counternarcotics, and border issues. This report provides an overview of U.S.-Mexico trade and economic trends, the Mexican economy, the effects of NAFTA, and major trade issues between the United States and Mexico.

U.S.-Mexico Economic Trends

The size of the Mexican economy is much smaller than that of the United States. Mexico's gross domestic product (GDP) was an estimated $1.0 trillion in 2010, about 7% of U.S. GDP of $14.6 trillion. Mexico's economy was hit harder than most Latin American countries during the global recession of 2009 but showed strong economic growth in 2010. In 2009, Mexico's the percent change in Mexico's real GDP growth was -6.1%, while that of the United States was -2.6%. In 2010, Mexico's economy experienced a higher than expected growth rate of 5.0%, while the U.S. economy experienced a somewhat lower growth rate of 2.8%. Although the Mexican economy appears to be recovering, job creation in Mexico's manufacturing sector remains weak and could dampen Mexico's economic prospects over the long-term.[2]

The immigration issue has received much attention by political leaders in recent years, and it is one that can be linked to the economic situation in Mexico, although it has social and political aspects as well. In March 2008, there were approximately 12 million unauthorized immigrants living in the United States, with 59% from Mexico.[3] Economic conditions in Mexico, as well as in other countries, such as poverty and unemployment, are a major factor related to the migration issue. Per capita income in Mexico is significantly lower in Mexico than in the United States. In

[1] For more information on issues related to Mexico, see CRS Report RL32724, *Mexico-U.S. Relations: Issues for Congress*, by Clare Ribando Seelke.

[2] The Economist Intelligence Unit (EIU), "Mexico economy: better outlook, with caveats," February 9, 2011.

[3] Pew Hispanic Center, *Trends in Unauthorized Immigration: Undocumented Inflow Now Trails Legal Inflow*, October 2, 2008.

2010, Mexico's per capita GDP in purchasing power parity[4] was $15,720, or 67% lower than U.S. per capita GDP of $47,160. Ten years earlier, in 2000, Mexico's per capita GDP in purchasing power parity was $10,561, or 70% lower than the U.S. amount of $35,265. The lower income levels in Mexico, combined with higher poverty rates, have contributed to the migration of workers from Mexico to the United States. These workers often send money to their families in Mexico to help provide food and shelter. Although there is a notable income disparity with the United States, Mexico's per capita GDP is relatively high by global standards and falls within the World Bank's upper-middle income category.[5]

The Mexican economy is very much tied to the U.S. economy because of Mexico's reliance on the United States as an export market and the relative importance of exports to its overall economic performance. Exports accounted for 32% of Mexico's GDP in 2010 (see **Table 1**). The United States is, by far, Mexico's most important partner in trade and investment, while Mexico is the United States' third-largest trade partner after China and Canada. Many economists and other observers have focused much attention on the ongoing transformation of Mexico into a manufacturing-for-export nation since the late 1980s and the importance of exports to its economy. After oil and gas, most of Mexico's exports are manufactured goods. Over 80% of Mexico's exports are headed to the United States.

Mexico's reliance on the United States as a trade partner appears to be diminishing, although slightly. Between 2004 and 2009, the U.S. share of Mexico's total imports decreased from 56% to 48%, while the share of total Mexican exports going to the United States decreased from 89% to 81%.[6] Mexico's share of the U.S. market has lost ground since 2002. In 2003, China surpassed Mexico as a top supplier of U.S. imports, and Mexico now ranks third, after China and Canada, as a source of U.S. imports. Because over 80% of Mexico's exports are destined for the United States, any change in U.S. demand can have strong economic consequences in Mexican industrial sectors.

Mexico ranks second among U.S. export markets and is the United States' third-largest trading partner in total trade (exports plus imports). In 2010, 12% of total U.S. merchandise exports were destined for Mexico and 12% of U.S. merchandise imports came from Mexico. After the significant decrease in trade in 2009 that resulted from the global economic downturn, U.S.-Mexico trade increased considerably in 2010. U.S. exports to Mexico increased 25% in 2010 from $105.7 billion to $131.6 billion. U.S. imports from Mexico increased 40% in 2010, from $176.3 billion to $228.8 billion. In 2009, U.S. exports to Mexico decreased by 19.6%, while imports from Mexico decreased by 18.5%. Mexico's second-largest trading partner is China, accounting for approximately 6% of Mexico's exports and imports.

[4] Purchasing power parity (PPP) reflects the purchasing power of foreign currencies in their own markets in U.S. dollars.

[5] The World Bank utilizes a method for classifying world economies based on gross national product (GNP). Mexico is one of 48 economies classified as upper-middle-income, or countries which have a per capita GNP of $3,946 to $12,195 per year. The United States is one of 69 economies classified as a high-income, or countries which have a per capita GNP of more than $12,195 per year.

[6] Data compiled by CRS using Global Trade Atlas database. Mexican direction of trade data were not available for 2010 at the time of this report update.

Table 1. Key Economic Indicators for Mexico and the United States

	Mexico		United States	
	2000	**2010[a]**	**2000**	**2010[a]**
Population (millions)	100	113	282	310
Nominal GDP (US$ billions)[b]	672	1,005	9,952	14,598
Nominal GDP, PPP[c] Basis (US$ billions)	1,055	1,768	9,952	14,598
% Change in Real GDP (per annum)	6.0%	5.0%	4.1%	2.8%
Per Capita GDP (US$)	6,726	8,930	35,265	47,160
Per Capita GDP in $PPPs	10,561	15,720	35,265	47,160
Total Exports of Goods and Services (US$ billions)	179	321	1,093	1,885
Exports as % of GDP[d]	27%	32%	11%	13%
Total Imports of Goods and Services (US$ billions)	191	330	1,475	2,545
Imports as % of GDP[d]	28%	33%	15%	17%

Source: Compiled by CRS based on data from Economist Intelligence Unit (EIU) online database.

a. Most figures for 2010 are estimates or forecasts.

b. Nominal GDP is calculated by EIU based on figures from World Bank and World Development Indicators.

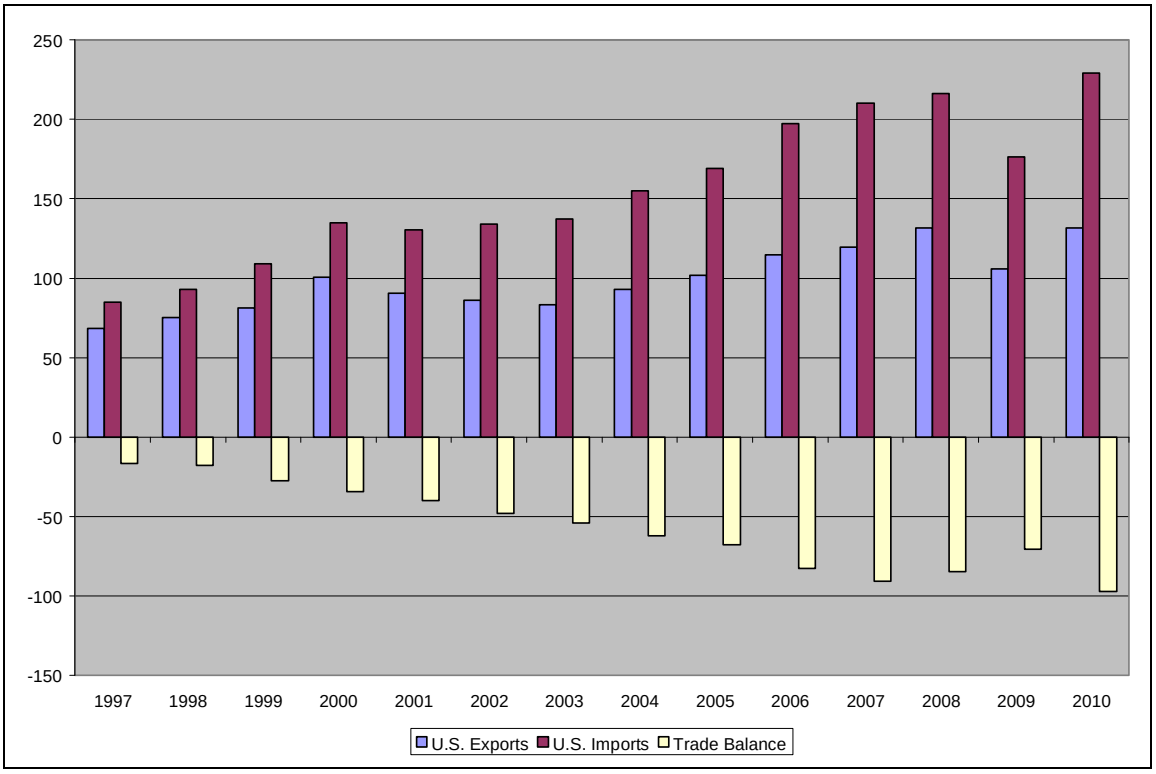
c. PPP refers to purchasing power parity, which reflects the purchasing power of foreign currencies in U.S. dollars.

d. Exports and Imports as % of GDP derived by EIU.

Although some of the increase in U.S.-Mexico trade since the 1990s could be attributable to NAFTA, there are other variables that affect trade, such as exchange rates and economic conditions. Mexico's currency crisis of 1995 limited the purchasing power of the Mexican people in the years that followed and also made products from Mexico less expensive for the U.S. market. Economic factors such as these played a role in the increasing U.S. trade deficit with Mexico, which went from a $1.4 billion surplus in 1994 to a $97.2 billion deficit in 2010 (see **Figure 1**). U.S. imports from Mexico increased from $85.0 billion in 1997 to $216.3 billion in 2008, and then decreased to $176.3 billion in 2009 before increasing to $228.8 billion in 2010. U.S. exports to Mexico increased from $68.4 billion in 1997 to $131.5 billion in 2008, and then decreased to $105.7 billion in 2009 before increasing to $131.6 billion in 2010.

Figure 1. U.S. Merchandise Trade with Mexico

(U.S. $ in billions)



Source: Compiled by CRS using USITC Interactive Tariff and Trade data.

Several studies between 2003 and 2004 on the effects of NAFTA found that U.S. trade deficits with Mexico were largely driven by macroeconomic trends, and, in the case of U.S.-Mexico trade, caused by the respective business cycles in Mexico and the United States.[7] Strong U.S. growth in the 1990s, combined with Mexico's deep recession in 1995, were the main factors cited for the large deficits. None of the studies attributed the peso crisis to NAFTA, but to structural misalignments in the Mexican economy combined with political events.[8]

The leading U.S. imports from Mexico in 2010 were oil and gas imports, which amounted to $29.3 billion, or 13% of total U.S. imports from Mexico (see **Table 2**). These imports decreased sharply in 2009 (44% decline), but increased by 38% in 2010. The next leading import items in 2010 were motor vehicles ($27.5 billion); motor vehicle parts ($23.4 billion); audio/video equipment ($16.5 billion); and communications equipment ($14.0 billion). After sharp decreases in 2009, all leading imports from Mexico increased in 2010. The highest increase was in motor vehicles parts (52%) and motor vehicles (49%).

[7] See CRS Report RS21737, *NAFTA at Ten: Lessons from Recent Studies*, by J. F. Hornbeck.

[8] Ibid.

Table 2. U.S. Imports from Mexico: 2004-2010

(U.S. $ in billions)

Leading Items (NAIC 4-digit)	2004	2005	2006	2007	2008	2009	2010	% Change 2009-2010
Oil and Gas	17.2	22.5	29.4	30.3	37.9	21.2	29.3	38%
Motor Vehicles	18.8	18.4	23.2	23.1	22.0	18.4	27.5	49%
Motor Vehicle Parts	17.8	19.3	20.8	22.7	20.6	15.4	23.4	52%
Audio/Video Equipment	8.2	9.9	13.9	17.1	17.8	15.6	16.5	6%
Communications Equipment	7.5	7.3	8.7	13.1	13.0	12.8	14.0	8%
Other	85.5	91.8	101.0	104.0	105.0	92.9	118.2	38%
Total	155.0	169.2	197.1	210.2	216.3	176.3	228.8	30%

Source: Compiled by CRS using USITC Interactive Tariff and Trade DataWeb at http://dataweb.usitc.gov: NAIC4-digit level.

Note: Nominal U.S. dollars.

Table 3. U.S. Exports to Mexico: 2004-2010

(US$ Billions)

Leading Items (NAIC 4-digit)	2004	2005	2006	2007	2008	2009	2010	% Change 2009-2010
Motor vehicle parts	7.6	7.4	8.6	9.4	10.1	8.8	12.6	43%
Petroleum and coal products	2.8	4.7	5.0	5.7	9.6	6.6	11.9	81%
Basic chemicals	4.4	5.0	5.7	6.5	7.2	6.2	7.0	14%
Resin, synthetic rubbers and related products	3.6	4.5	5.4	5.4	6.0	4.9	6.2	26%
Oilseeds and grains	2.6	2.5	3.1	4.0	5.9	4.2	4.5	8%
Other	72.1	77.5	86.8	88.4	92.8	75.1	89.1	24%
Total	93.0	101.7	114.6	119.4	131.5	105.7	131.6	25%

Source: Compiled by CRS using USITC Interactive Tariff and Trade DataWeb at http://dataweb.usitc.gov: NAIC4-digit level.

Note: Nominal U.S. dollars.

The leading U.S. export item to Mexico in 2010 was motor vehicle parts (10% of total U.S. exports), as shown in **Table 3**. After a 13% decrease in 2009, U.S. exports to Mexico in 2010 in motor vehicle parts increased by 43% to $12.6 billion. The next leading U.S. export items in 2010 were petroleum and coal products ($11.9 billion); basic chemicals ($7.0 billion); resin, synthetic rubber and related products ($6.2 billion); and oilseeds and grains ($4.5 billion). All leading exports to Mexico decreased markedly in 2009, but then recovered in 2010, as shown in **Table 3**. The highest increase was in petroleum and coal products (81% increase). Total U.S. exports to Mexico increased 25% in 2010.

Mexico-U.S. Bilateral Foreign Direct Investment

Foreign direct investment (FDI) has been an integral part of the economic relationship between the United States and Mexico since NAFTA implementation. FDI consists of investments in real estate, manufacturing plants, and retail facilities, in which the foreign investor owns 10% or more of the entity. The United States is the largest source of FDI in Mexico. U.S. FDI on a historical cost basis in Mexico increased from $17 billion in 1994 to $97.9 billion in 2009, a 477% increase (see **Table 4**).

Mexican FDI in the United States is much lower than U.S. investment in Mexico, with levels of Mexican FDI fluctuating over the last 10 years. In 2009, Mexican FDI in the United States totaled $11.4 billion (see **Table 4**).

Table 4. U.S.- Mexican Foreign Direct Investment Positions: 1994-2009 Historical Cost Basis

(U.S. $ in millions)

Year	Mexican FDI in the U.S.	U.S. FDI in Mexico
1994	2,069	16,968
1995	1,850	16,873
1996	1,641	19,351
1997	3,100	24,050
1998	2,055	26,657
1999	1,999	37,151
2000	7,462	39,352
2001	6,645	52,544
2002	7,829	56,303
2003	9,022	56,851
2004	7,592	63,384
2005	3,595	73,687
2006	5,310	82,965
2007	7,688	91,046
2008	9,444	89,610
2009	11,361	97,897

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The sharp rise in U.S. investment in Mexico since NAFTA implementation is also a result of the liberalization of Mexico's restrictions on foreign investment in the late 1980s and the early 1990s. Prior to the mid-1980s, Mexico had a very protective policy that restricted foreign investment and controlled the exchange rate to encourage domestic growth, affecting the entire industrial sector. Mexico's trade liberalization measures and economic reform in the late 1980s represented a sharp shift in policy and helped bring in a steady increase of FDI flows into Mexico. NAFTA provisions on foreign investment helped to lock in the reforms and increase investor confidence. Under NAFTA, Mexico gave U.S. and Canadian investors nondiscriminatory treatment of their investments as well as investor protection. NAFTA may have encouraged U.S. FDI in Mexico by increasing investor confidence, but much of the growth may have occurred anyway because Mexico likely would have continued to liberalize its foreign investment laws with or without the agreement.

Nearly half of total FDI investment in Mexico is in the manufacturing industry of which the maquiladora industry forms a major part. (See "Mexico's Export-Oriented Assembly Plants" below.) In Mexico, the industry has helped attract investment from countries such as the United States that have a relatively large amount of capital. Therefore, Mexico is able to attract some of the foreign direct investment it was seeking when it liberalized trade and investment barriers. For the United States, the industry is important because U.S. companies are able to locate their labor-intensive operations in Mexico and lower their labor costs in the overall production process. Many economists believe that maquiladoras are an important part of U.S. corporate strategy in achieving competitively priced goods in the world marketplace.[9] Other analysts are concerned that the industry has caused U.S. companies to move their manufacturing facilities to Mexico at the expense of U.S. workers.

Mexico's Export-Oriented Assembly Plants

Mexico's export-oriented assembly plants are closely linked to U.S.-Mexico trade in various labor-intensive industries such as auto parts and electronic goods. These export-oriented plants generate a large amount of trade with the United States and a majority of the plants have U.S. parent companies. Foreign-owned assembly plants, which originated under Mexico's *maquiladora* program in the 1960s,[10] account for a substantial share of Mexico's trade with the United States. The border region with the United States has the highest concentration of assembly plants and workers. The Mexican cities with the highest manufacturing activity as of December 2009 were the Mexican border cities of Tijuana, Baja California, 590 plants with 136,957 employees, and Cd. Juárez, Chihuahua, 339 plants with 168,011 employees.[11] Prior to NAFTA, a

[9] Federal Reserve Bank of Dallas, "The Binational Importance of the Maquiladora Industry," *Southwest Economy* Issue 6, November/December 1999.

[10] Mexico's export-oriented industries began with the maquiladora program established in the 1960s by the Mexican government, which allowed foreign-owned businesses to set up assembly plants in Mexico to produce for export. Maquiladoras could import intermediate materials duty-free with the condition that 20% of the final product be exported. The percentage of sales allowed to the domestic market increased over time as Mexico liberalized its trade regime. U.S. tariff treatment of maquiladora imports played a significant role in the industry. Under HTS provisions 9802.00.60 and 9802.00.80, the portion of an imported good that was of U.S.-origin entered the United States duty-free. Duties were assessed only on the value added abroad. After NAFTA, North American rules of origin determine duty-free status. Recent changes in Mexican regulations on export-oriented industries merged the maquiladora industry and Mexican domestic assembly-for-export plants into one program called the Maquiladora Manufacturing Industry and Export Services (IMMEX).

[11] Data from Mexico's Instituto Nacional de Estadística y Geografía (INEGI).

maquiladora was limited to selling up to 50% of the previous year's export production to the domestic market. Most maquiladoras export the majority of their production to the U.S. market.

Private industry groups have stated that these operations help U.S. companies remain competitive in the world marketplace by producing goods at competitive prices. In addition, the proximity of Mexico to the United States allows production to have a high degree of U.S. content in the final product, which could help sustain jobs in the United States. Critics of these types of operations argue that they have a negative effect on the economy because they take jobs from the United States and help depress the wages of low-skilled U.S. workers.

Some observers believe that the correlation in maquiladora growth after 1993 is directly due to NAFTA, but in reality it was a combination of factors that contributed to growth. Trade liberalization, wages, and economic conditions, both in the United States and Mexico, all affected the growth of Mexican export-oriented assembly plants. Although some provisions in NAFTA may have encouraged growth in certain sectors, manufacturing activity has been more influenced by the strength of the U.S. economy and relative wages in Mexico.

Mexico's Regulations for Manufacturing Plants

Changes in Mexican regulations on export-oriented industries after NAFTA merged the maquiladora industry and Mexican domestic assembly-for-export plants into one program called the Maquiladora Manufacturing Industry and Export Services (IMMEX). In 2001, the North American rules of origin determined the duty-free status for a given import and replaced the previous special tariff provisions that applied only to maquiladora operations. The initial maquiladora program ceased to exist and the same trade rules applied to all assembly operations in Mexico.

NAFTA rules for the maquiladora industry were implemented in two phases, with the first phase covering the period 1994-2000, and the second phase starting in 2001. During the initial phase, NAFTA regulations continued to allow the maquiladora industry to import products duty-free into Mexico, regardless of the country of origin of the products. This phase also allowed maquiladora operations to increase maquiladora sales into the domestic market. Phase II made a significant change to the industry in that the new North American rules of origin determined duty-free status for U.S. and Canadian products exported to Mexico for maquiladoras. The elimination of duty-free imports by maquiladoras from non-NAFTA countries under NAFTA caused some initial uncertainty for the companies with maquiladora operations. Maquiladoras that were importing from third countries, such as Japan or China, would have to pay applicable tariffs on those goods under the new rules.

Mexico had another program for export-oriented assembly plants called the Program for Temporary Imports to Promote Exports (PITEX) that was established in 1990 to allow qualifying domestic producers to compete with maquiladoras. In 2007, a new set of government regulations on export-oriented industries merged the maquiladora industry and PITEX plants into the Maquiladora Manufacturing Industry and Export Services, or IMMEX. Industry data regarding Mexico's export-oriented assembly plants no longer distinguish maquiladora plants from other Mexican manufacturing plants.[12]

[12] Federal Reserve Bank of Dallas, "Spotlight: Maquiladora Data, Mexican Reform Clouds View of Key Industry," *Southwest Economy*, Issue 3, May/June 2007.

Plants and Employment Levels

The number of maquiladora plants expanded rapidly in the 1990s after NAFTA implementation. Plants increased from 1,920 at the end of 1990 to 3,590 in 2000, and then fell to 2,860 in 2003. Between 2004 and 2007, the last year maquiladoras were classified as such by the Mexican government, the number of plants stayed at approximately the same level, about 2,819.[13] After July 2007, the Mexican government published statistics for all manufacturing plants in Mexico under the IMMEX program (which combined maquiladora data with other manufacturing).

The 2009 downturn in the Mexican economy, combined with the increased violence along the U.S.-Mexico border, has hurt the manufacturing industry, and many IMMEX plants have shut down as a result. In Cd. Juárez, Chihuahua, the city with the highest number of jobs in export assembly plants, IMMEX employment decreased from 214,272 in July 2007 to 168,011 in December 2009, a loss of 46,261 jobs (22% decrease). In Tijuana, Baja California, employment decreased from 174,105 in July 2007 to 136,957 in December 2009, a loss of 37,148 jobs (21% decrease). The total number of IMMEX plants in Mexico increased from 5,083 in July 2007 to 5,245 in December 2009. However, employment decreased from 1,910,112 million in July 2007 to 1,641,465 in December 2009, a loss of 268,647 jobs (14% decrease).[14] Estimates for 2010 show that the manufacturing plants may be on the rebound. In Cd. Juarez, maquiladoras reportedly added about 26,000 new jobs from July 2009 through August 2010.[15]

Worker Remittances to Mexico

Remittances are the second-highest source of foreign currency for Mexico, after oil and tourism. Most worker remittances to Mexico come from workers in the United States who send money back to their relatives in Mexico. Mexico receives the largest amount of remittances in Latin America and the third-largest in the world, after India and China. On January 27, 2010, the *Banco de México*, Mexico's Central Bank, reported that remittance inflows fell 16.0% in 2009 to $21.1 billion. The decline in remittances is at least partially due to the global financial crisis and the slowdown in the U.S. economy as the rising jobless rate has taken a toll on Mexican immigrants in the United States. Mexico's close economic ties to the United States, particularly in the housing and services sectors, which have both been negatively affected by the financial crisis, contributed to the decline. Approximately 239,000 immigrant Hispanics lost their jobs in 2008, with almost 100,000 of these jobs in the construction industry, according to one estimate.[16]

For a number of years, remittances were considered a stable financial flow for Mexico as workers in the United States made efforts to send money to family members, especially to regions of the country experiencing economic crises or natural disasters. Annual remittances to Mexico grew substantially between 2001 and 2008, from $8.9 billion to $25.1 billion, an increase of 182.0%. The annual growth rate reached a high of 26.3% in 2003, then continued at a slower rate until 2009 (see **Table 5**). There is an interrelationship between remittances to Mexico and economic growth in the United States, such as 2004 and 2005, in which the U.S. economy grew by 3.6%

[13] Based on data from INEGI, at http://www.inegi.org.mx.

[14] Ibid.

[15] Will Weissert, "Juarez maquiladoras recovering despite bloodshed," *Miami Herald*, January 23, 2011.

[16] Joel Millman, "Remittances to Mexico Fall More than Forecast," *Wall Street Journal*, January 28, 2009, p. A3.

and 3.1%, respectively, but not much is known about the extent of this relationship.[17] Although the relationship between GDP growth and the level or remittances is not very clear, the Mexican government attributed the 2009 decline to the global financial crisis.[18]

Table 5. Percent Changes in Remittances to Mexico

(U.S. $ in billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Amount	8.9	10.5	13.3	16.6	20.0	23.7	24.0	25.1	21.1
% Change	—	18.5%	26.3%	25.2%	20.6%	18.5%	1.0%	4.9%	-16.0%

Source: Compiled by CRS using data from the Inter-American Development Bank, The Multilateral Investment Fund.

Worker remittance flows to Mexico have an important impact on the Mexican economy, in some regions more than others. Some studies on remittance flows to Mexico report that in southern Mexican states, remittances mostly or completely cover general consumption and/or housing. One study estimates that 80% of the money received by households goes for food, clothing, health care, and other household expenses. Another study estimates that remittances in Mexico are responsible for about 27%, and up to 40% in some cases, of the capital invested in microenterprises throughout urban Mexico.[19] The economic impact of remittance flows is concentrated in the poorer states of Mexico. The government has sponsored programs to channel the funds directly to infrastructure and investment rather than consumption.[20]

Economic Regulatory Cooperation

At the 2009 North American Leaders Summit in Guadalajara, Mexico, President Barack Obama met with Mexican President Felipe Calderón and Canadian Prime Minister Stephen Harper to discuss issues of prosperity and security in North America. The three leaders renewed their commitment to regulatory cooperation by instructing ministers to build upon previous efforts, develop focused priorities, and form a specific time line. The three countries confirmed their commitment to regulatory cooperation at an October 2009 meeting of the Free Trade Commission (FTC).

The ongoing efforts to increase North American cooperation began with the Security and Prosperity Partnership of North America (SPP), a trilateral government initiative launched in March 2005. The main goal was to increase and enhance prosperity in the United States, Mexico, and Canada through regulatory cooperation. Though the SPP forum, which began under the Bush Administration, is no longer active, much of the prior work on the underlying issues is continuing under the Obama Administration.

[17] Migration Policy Institute, *Migration Facts*, "Variable Impacts: State-level Analysis of the Slowdown in the Growth of Remittances to Mexico," September 2007.

[18] E. Eduardo Castillo, "Mexico Sees Record 15.7 percent Annual Drop in Money Sent Home by Migrants," Associated Press, January 27, 2010.

[19] The Federal Reserve Bank of Dallas report "Workers' Remittances to Mexico" (2004) evaluated the economic impact of worker remittances to Mexico and cites a number of reports by the World Bank and the Mexican government.

[20] Ibid., p. 4.

The SPP was endorsed by all three countries, but it was not a signed agreement or treaty and, therefore, contained no legally binding commitments or obligations. It could, at best, be characterized as an endeavor to facilitate communication and cooperation across several key policy areas of mutual interest. Although the SPP built upon the existing trade and economic relationship of the three countries, it was not part of NAFTA. The efforts to increase North American cooperation under the SPP were *not* an effort to create a common market in North America. Such a move would require a government approval process within each of the three countries.

Efforts to increase North American regulatory cooperation have mostly focused on the recommendations of special working groups created under the SPP. The latest recommendations came in 2008 when the groups agreed to continue to identify and focus on a set of high priority initiatives to: 1) increase the competitiveness of North American businesses and economies through more compatible regulations; 2) make borders smarter and more secure by coordinating long-term infrastructure plans, enhancing services, and reducing bottlenecks and congestion at major border crossings; 3) strengthen energy security and protect the environment by developing a framework for harmonization of energy efficiency standards and sharing technical information; 4) improve access to safe food, and health and consumer products by increasing cooperation and information sharing on the safety of food and products; and 5) improve the North American response to emergencies by updating bilateral agreements to enable government authorities from the three countries to help each other more quickly and efficiently during times of crisis.

North American efforts related to increasing prosperity within the region have mainly consisted of increasing cooperation in information sharing, harmonization of standards, productivity improvement, reductions in the costs of trade, and enhancement of the quality of life. The three countries have also addressed the need to enhance North American competitiveness through compatible regulations and standards that would help them protect health, safety and the environment, as well as to facilitate trade in goods and services across borders.

Some critics of the Obama Administration's efforts on North American regulatory cooperation contend that it is a continuation of President Bush's SPP initiative and an attempt to create a common market or economic union in North America. Others contend that past efforts under the SPP were contributing to the creation of a so-called "NAFTA Superhighway" that would link the United States, Mexico, and Canada with a "super-corridor". Proponents of North American competitiveness and security cooperation view the initiatives as constructive to addressing issues of mutual interest and benefit for all three countries. Business groups generally support increased North American cooperation and believe that it is necessary to enhance the competitiveness of U.S. businesses in the global market.

The U.S. government has made no plans to pursue a "North American Union" with Mexico and Canada. Neither has the federal government made any plans to build a "NAFTA Superhighway," nor for a super-corridor initiative of any sort. Further, no legal authority exists and no funds have been appropriated to construct such a superhighway. If the United States were to potentially consider the formation of a customs union or common market with its North American neighbors, it would require approval by the U.S. Congress.

The Mexican Economy

Mexico has a free market economy with a strong export sector, but this has not always been the case. The transformation of Mexico into an export-based economy began in the late 1980s when the government started to liberalize its trade policy and adopt economic reform measures. The Mexican economy is highly sensitive to economic developments in the United States because of its dependence on the United States as an export market. The state of the Mexican economy is also important to the United States, because of the close trade and investment ties between the two countries, and because of other social and political issues that could be affected by economic conditions, particularly those related to social stability and immigration.

History of Economic Reforms

In the late 1980s and early into the 1990s, the Mexican government implemented a series of measures to restructure the economy that included steps toward trade liberalization. For many years, Mexico had protectionist trade policies to encourage industrial growth in the domestic economy, but the policies did not have the expected positive results on industrial growth. The 1980s in Mexico were marked by inflation and a declining standard of living. After the 1982 debt crisis in which the Mexican government was unable to meet its foreign debt obligations, the country began experiencing a number of economic challenges. Much of the government's effort in addressing the challenges was placed on privatizing state industries and moving toward trade liberalization. Efforts included privatization of sea ports, railroads, telecommunications, electricity, natural gas distribution and airports. The negotiation and implementation of NAFTA played a major role in Mexico's changing economic policy in the early 1990s.

Mexico's economic reforms initially attracted a large amount of private foreign investment, but by 1993 the inflow of foreign capital began to slow down. By the end of 1994, Mexico faced a currency crisis, putting pressure on the government to abandon its previous fixed exchange rate policy and adopt a floating exchange rate regime. As a result, Mexico's currency plunged by around 50% within six months, sending the country into a deep recession.[21] Several factors influenced the decision to float the peso: overspending in the economy had generated a significant current account deficit; the Mexican government had accumulated large levels of debt with insufficient reserves; and the banking system was facing a crisis due to overexposure.[22] Mexico's finance minister at the time, Guillermo Ortiz, stated later that Mexico had "no choice" but to float the peso because the government had run out of reserves.[23]

In the aftermath of the 1994 devaluation, Mexican President Ernesto Zedillo took several steps to restructure the economy and lessen the impact of the currency crisis among the more disadvantaged sectors of the economy. The goal was to create conditions for economic activity so that the economy could adjust in the shortest time possible. The United States and the IMF assisted the Mexican government by putting together an emergency financial support package of up to $50 billion, with most of the money coming from the U.S. Treasury. The Zedillo Administration wanted to demonstrate its commitment to fulfill all its financial obligations

[21] The Economist Intelligence Unit (EIU), "Mexico Finance: The Peso Crisis, Ten Years On," January 3, 2005.

[22] Agustín G. Carstens and Alejandro M. Werner, "Mexico's Monetary Policy Framework Under a Floating Exchange Rate Regime," Banco de México, May 1999.

[23] EIU, "Mexico Economy: Mexico Begins to See Benefits of Free-Floating Peso," December 20, 2004.

without a default on its debt by adopting tight monetary and fiscal policies to reduce inflation and absorb some of the costs of the banking sector crisis. The austerity plan included an increase in the value-added tax, budget cuts, increases in electricity and gasoline prices to decrease demand and government subsidies, and tighter monetary policy.[24]

Following the lead of former President Ernesto Zedillo, former President Vicente Fox continued efforts to liberalize trade, privatize government enterprises, and deregulate the economy. Through tighter monetary and fiscal policies, the Fox Administration was able to decrease the fiscal deficit, control inflation, and help economic growth.

The peso steadily depreciated through the end of the 1990s, which led to greater exports and helped the country's exporting industries. However, the peso devaluation also resulted in a decline in real income, hurting the poorest segments of the population and also the newly emerging middle class. NAFTA and the change in the Mexican economy to an export-based economy helped to soften the impact of the currency devaluation.

After a real decline in GDP of 6.22% in 1995, the Mexican economy managed to grow 5%-6% in each of the three years to 1998. The combination of a stronger peso and the slowdown in the U.S. economy in 2001, which worsened after the September 11 terrorist attacks, hit Mexico's economy hard. Real GDP growth dropped from 6.2% in 2000 to -0.16% in 2001. Improving economic conditions in the United States helped Mexico's economy improve as well. Real GDP growth in 2004 was 4.37%, up from 1.41% in 2003 and 0.81% in 2002 (see **Figure 2**). Real GDP went from a 4.8% growth rate in 2006 to a contraction of 6.9% in 2009.

Current Economic Conditions

The global financial crisis, and the subsequent downturn in the U.S. economy, resulted in the sharpest economic contraction in the Mexican economy in twenty years. It is estimated to have contracted by 6.6% in 2009, as shown in **Table 1,** while the Mexican peso depreciated against the dollar by 25%.[25] However, economic growth in 2010 was 5%, higher than the expected growth rates of 3% to 4%. Mexico's policy measures in response to the crisis and its prior economic performance have helped the economy begin to recover and the exchange rate to improve. However, the partial recovery of the economy in 2010 was mostly due to an increase in external demand, which has driven up manufacturing exports, rather than from internal demand.[26] Sectors of the economy that depend significantly on domestic demand, such as utilities, construction, and retail, are struggling, though an improvement is expected in coming months. The Economist Intelligence Unit (EIU) projects GDP growth at 3.9% for 2011.[27]

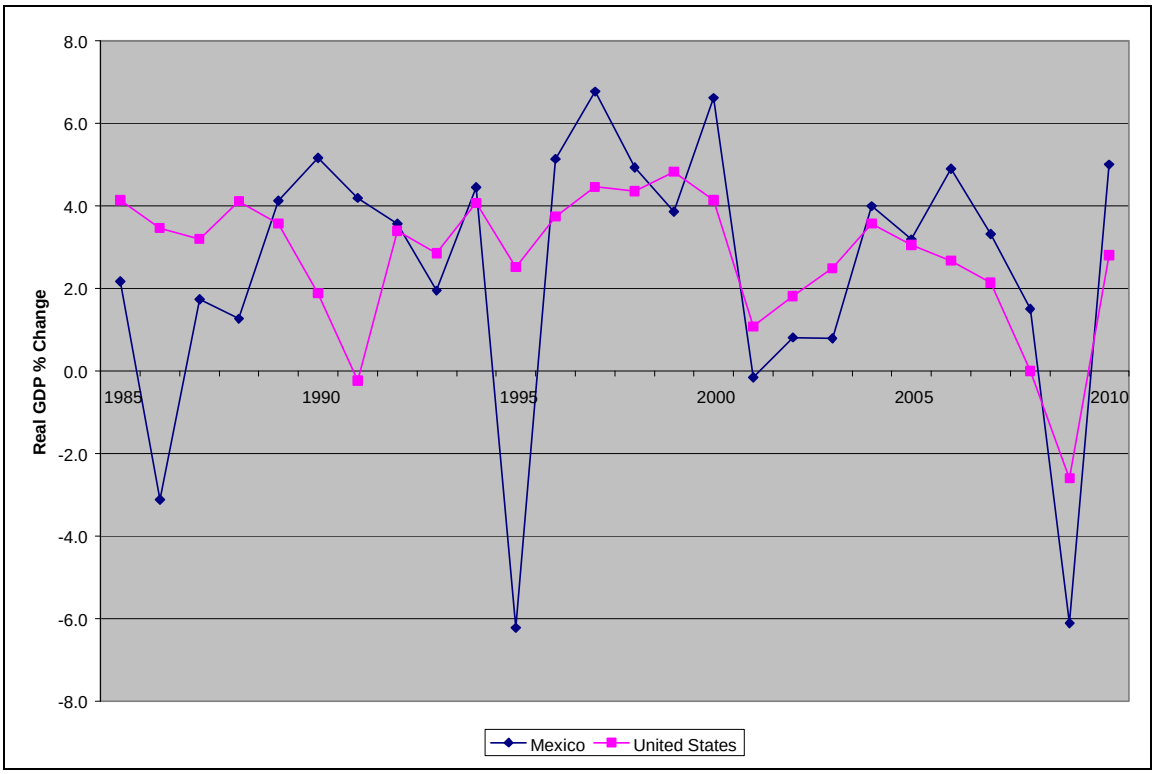
[24] Joachim Zietz, "Why Did the Peso Collapse? Implications for American Trade," *Global Commerce*, Volume 1, No. 1, Summer 1995.

[25] International Monetary Fund (IMF), "IMF Executive Board Concludes 2010 Article IV Consultation with Mexico," Public Information Notice (PIN) No. 10/39, March 16, 2010, p. 2.

[26] EIU, "Mexico economy: Better outlook, with caveats," February 9, 2011.

[27] Ibid.

Figure 2. GDP Growth Rates for the United States and Mexico



Source: Economist Intelligence Unit.

Mexico experienced the deepest recession in the Latin America region following the crisis. This is largely due to its high dependence on manufacturing exports and its ties to the U.S. economy, though other factors have also contributed. Other Latin American countries experienced negative economic consequences from the global financial crisis, but to a lesser extent. In Central America, the economy of Honduras was the most affected, with a contraction of 4.4%. Economic growth in most South American countries was affected by the crisis, but because most of these countries were experiencing high levels of growth prior to the crisis, the effect was not as severe. Paraguay was the country most adversely affected in South America, with a -3.8% change in real GDP.

President Calderón of Mexico implemented a number of measures to help cushion the Mexican economy from the fallout of the global economic crisis. Mexico's policy measures in response to the crisis and its prior economic performance helped the economy begin to recover and the exchange rate to improve.[28] Mexico's Central Bank made substantial interventions to stabilize conditions in the foreign exchange market and secured lines of credit through the U.S. Federal Reserve swap line and the International Monetary Fund (IMF) to improve confidence in the economy. The IMF set up flexible credit lines to help countries deal with the effects of the global recession and provided a credit line of $48 billion for Mexico in 2009, which was renewed in March 2010. In early 2011, Mexico secured a new flexible line of credit from the IMF for $72 billion, the largest credit line that the IMF has ever extended to protect Mexico from possible

[28] IMF, "IMF Executive Board Concludes 2010 Article IV Consultation with Mexico," PIN No. 10/39, March 16, 2010.

external shocks.[29] Mexico has indicated that it does not intend to draw on the resources, but sought the renewal to provide confidence to investors and financial markets in the event that global conditions were to deteriorate.[30]

The Mexican government has also taken a series of measures to strengthen the economy. The FY2010 budget included a substantive tax reform that was designed to offset the revenue losses from lower oil production. Mexico's requirements on corporate disclosure of derivative exposures have been tightened. In addition the government has made structural reforms to enhance growth potential, most recently in the electricity sector, and announced plans to gradually increase foreign exchange reserves.[31] However, Mexico's dependence on falling oil revenues and weak prospects for reforming the oil industry may continue its vulnerability to future external shocks.[32]

Poverty in Mexico

Poverty has been one of Mexico's more serious and pressing economic problems for many years. The Mexican government has made progress in its poverty reduction efforts over the last ten years, but poverty continues to be a basic challenge for the country's development. The authors of a World Bank study note that poverty is often associated with social exclusion, especially of indigenous groups of people who comprise 20% of those who live in extreme poverty.[33] In 2002, over half of the population lived in poverty. According to World Bank estimates, the percentage of people living in extreme poverty, or on less than $1 per day, fell from 24.2% of the population in 2000, to 20.3% in 2002, and 18% in 2005. Those living in moderate poverty, or on about $10 a day, fell from 53.7% in 2000 to 51.7% of the population in 2002 and 45% in 2005. Mexico's continuing problem of poverty is especially widespread in rural areas and remains at the Latin American average.[34]

The alleviation of poverty has been a high priority for the Mexican government. Mexico's main program to reduce the effects of poverty is the *Oportunidades* program (formerly known as Progresa). The program seeks to not only alleviate the immediate effects of poverty through cash and in-kind transfers, but to break the cycle of poverty by improving nutrition and health standards among poor families and increasing educational attainment. This program provides cash transfers to families in poverty who demonstrate that they regularly attend medical appointments and can certify that children are attending school. The government provides educational cash transfers to participating families. The program also provides nutrition support to pregnant and nursing woman and malnourished children. Monthly benefits are a minimum of $15 with a cap of about $150. The majority of households receiving *Oportunidades* benefits are in Mexico's six poorest states: Chiapas, Mexico State, Puebla, Veracruz, Oaxaca, and Guerrero.[35]

[29] Ibid.

[30] IMF, "Mexico Recovering, but Crisis Spotlights Challenges, says IMF," *Survey Magazine: In the News*, March 16, 2010.

[31] IMF, "IMF Executive Board Concludes 2010 Article IV Consultation with Mexico," PIN No. 10/39, March 16, 2010, p. 2.

[32] EIU, *Country Report: Mexico*, March 2010.

[33] The World Bank Group, "Mexico Makes Progress and Faces Challenges in Poverty Reduction Efforts," press release, July 2004.

[34] Ibid.

[35] Santiago Levy, *Progress Against Poverty*, Brookings Institution, 2006.

Mexico's Regional Free Trade Agreements

Since the early 1990s, Mexico has had a growing commitment to trade liberalization, and its trade policy is among the most open in the world. Mexico has pursued free trade agreements (FTAs) with other countries as a way to bring benefits to the economy and also to reduce its economic dependence on the United States. By early 2006, Mexico had entered into a total of 12 FTAs involving 42 countries. The Mexican government has negotiated bilateral or multilateral trade agreements with most countries in the Western Hemisphere, including the United States and Canada, Chile, Bolivia, Costa Rica, Nicaragua, Uruguay, Colombia, Guatemala, El Salvador, and Honduras.[36]

Mexico has ventured out of the hemisphere in negotiating FTAs, and, in July 2000, entered into agreements with Israel and the European Union. Mexico became the first Latin American country to have preferred access to these two markets. Mexico has also completed an FTA with the European Free Trade Association (EFTA) of Iceland, Liechtenstein, Norway, and Switzerland. The Mexican government has continued to look for potential free trade partners, and expanded its outreach to Asia in 2000 by entering into negotiations with Singapore, Korea and Japan. Mexico and Japan signed a free trade agreement, formally called an Economic Partnership Agreement (EPA) in September 2004. The EPA was Japan's second free trade agreement, but its most comprehensive bilateral agreement at that time.[37] Mexico's negotiations on FTAs with Korea and Singapore are stalled.

In addition to the bilateral and multilateral free trade agreements, Mexico is a member of the WTO,[38] the Asia-Pacific Economic Cooperation forum, and the OECD.[39] In September 2003, Mexico hosted the WTO Ministerial Meeting in Cancun.

NAFTA and the U.S.-Mexico Economic Relationship

The North American Free Trade Agreement (NAFTA) has been in effect since January 1994. There are numerous indications that NAFTA has achieved many of the intended trade and economic benefits as well as incurred adjustment costs. This has been in keeping with what most economists maintain, that trade liberalization promotes overall economic growth among trading partners, but that there are significant adjustment costs.

Most of the trade effects in the United States related to NAFTA are due to changes in U.S. trade and investment patterns with Mexico. At the time of NAFTA implementation, the U.S.-Canada Free Trade Agreement already had been in effect for five years, and some industries in the United States and Canada were already highly integrated. Mexico, on the other hand, had followed an

[36] Organization of American States, Foreign Trade Information System (SICE), at http://www.sice.oas.org.

[37] "Japan, Mexico Ink Landmark Accord," *The Asahi Shumbun*, September 20, 2004.

[38] The WTO allows member countries to form regional trade agreements, but under strict rules. The position of the WTO is that regional trade agreements can often support the WTO's multilateral trading system by allowing groups of countries to negotiate rules and commitments that go beyond what was possible at the time under the WTO. The WTO has a committee on regional trade agreements that examines regional groups and assesses whether they are consistent with WTO rules. See The World Trade Organization, "Understanding the WTO: Cross-Cutting and New Issues, Regionalism: Friends or Rivals?" http://www.wto.org.

[39] U.S. Commercial Service, *Country Commercial Guide: Mexico,* August 13, 2004, p. 6.

aggressive import-substitution policy for many years prior to NAFTA in which it had sought to develop certain domestic industries through trade protection. One example is the Mexican automotive industry, which had been regulated by a series of five decrees issued by the Mexican government between 1962 and 1989. The decrees established import tariffs as high as 25% on automotive goods and had high restrictions on foreign auto production in Mexico. Under NAFTA, Mexico agreed to eliminate these restrictive trade policies.

Not all changes in trade and investment patterns between the United States and Mexico since 1994 can be attributed to NAFTA because trade was also affected by other unrelated economic factors such as economic growth in the United States and Mexico, and currency fluctuations. Also, trade-related job gains and losses since NAFTA may have accelerated trends that were ongoing prior to NAFTA and may not be totally attributable to the trade agreement. Overall, Mexico has experienced a slight shift in the composition of trade with the United States since the late 1980s from oil to non-oil exports. In 1987, crude oil and natural gas comprised 17% of Mexico's exports to the United States. The percentage of oil and natural gas exports had declined to 11% in 2004, increased to 14% in 2007 due to higher oil prices, and went back down to 12% in 2009.

Effects on the U.S. Economy

The overall effect of NAFTA on the U.S. economy has been relatively small, primarily because two-way trade with Mexico amounts to less than 3% of U.S. GDP. Thus, any changes in trade patterns with Mexico would not be expected to be significant in relation to the overall U.S. economy. In some sectors, however, trade-related effects could be more significant, especially in those industries that were more exposed to the removal of tariff and non-tariff trade barriers, such as the textile and apparel, and automotive industries.

Since NAFTA, the automotive, textile, and apparel industries have experienced some of the more noteworthy changes in trading patterns, which may also have affected U.S. employment in these industries. U.S. trade with Mexico has increased considerably more than U.S. trade with other countries, and Mexico has become a more significant trading partner with the United States since NAFTA implementation.

In the automotive industry, the industry comprising the most U.S. trade with Mexico, NAFTA provisions consisted of a phased elimination of tariffs, the gradual removal of many non-tariff barriers to trade including rules of origin provisions, enhanced protection of intellectual property rights, less restrictive government procurement practices, and the elimination of performance requirements on investors from other NAFTA countries. These provisions may have accelerated the ongoing trade patterns between the United States and Mexico. Because the United States and Canada were already highly integrated, most of the trade impacts on the U.S. automotive industry relate to trade liberalization with Mexico. Prior to NAFTA Mexico had a series of government decrees protecting the domestic auto sector by reserving the domestic automobile market for domestically produced parts and vehicles. NAFTA established the removal of Mexico's restrictive trade and investment policies and the elimination of U.S. tariffs on autos and auto parts. By 2006, the automotive industry has had the highest dollar increase ($41 billion) in total U.S. trade with Mexico since NAFTA passage.

The main NAFTA provisions related to textiles and apparel consisted of eliminating tariffs and quotas for goods coming from Mexico and eliminating Mexican tariffs on U.S. textile and apparel products. To benefit from the free trade provision, goods were required to meet the rules of origin

provision which assured that apparel products that were traded among the three NAFTA partners were made of yarn and fabric made within the free trade area. The strict rules of origin provisions were meant to ensure that U.S. textiles producers would continue to supply U.S. apparel companies that moved to Mexico. Without a rules of origin provision, apparel companies would have been able to import low-cost fabrics from countries such as China and export the final product to the United States under the free trade provision.[40]

While some U.S. industries may have benefitted from increased demand for U.S. products in Mexico, creating new jobs, other industries have experienced job losses. Data on the effects of trade liberalization with Mexico are limited and the effect on specific sectors of the U.S. economy is difficult to quantify. Trade-related job gains and losses since NAFTA may have accelerated trends that were ongoing prior to NAFTA and may not be totally attributable to the trade agreement.[41] Quantifying these effects is challenging because of the other economic factors that influence trade and employment levels. The devaluation of the Mexican peso in 1995 resulted in lower Mexican wages, which likely provided an incentive for U.S. companies to move to lower their production costs. Trade-related employment effects following NAFTA could have also resulted from the lowering of trade barriers, and from the economic conditions in Mexico and the United States influencing investment decisions and the demand for goods.

Effects on the Mexican Economy

A number of studies have found that NAFTA has brought economic and social benefits to the Mexican economy as a whole, but that the benefits have not been evenly distributed throughout the country. Most studies after NAFTA have found that the effects on the Mexican economy tended to be modest at most.[42] While there have been periods of positive growth and negative growth in Mexico after the agreement was implemented, much of the increase in trade began in the late 1980s when the country began trade liberalization measures. Though its net economic effects may have been positive, NAFTA itself has not been enough to lower income disparities within Mexico, or between Mexico and the United States or Canada.

A 2005 World Bank study assessing some of the economic impacts from NAFTA on Mexico concluded that NAFTA helped Mexico get closer to the levels of development in the United States and Canada. The study states that NAFTA helped Mexican manufacturers to adopt to U.S. technological innovations more quickly and likely had positive impacts on the number and quality of jobs. Another finding was that since NAFTA went into effect, the overall macroeconomic volatility, or wide variations in the GDP growth rate, has declined in Mexico. Business cycles in Mexico, the United States, and Canada have had higher levels of synchronicity since NAFTA, and NAFTA has reinforced the high sensitivity of Mexican economic sectors to economic developments in the United States.[43]

Several economists have noted that it is likely that NAFTA contributed to Mexico's economic recovery directly and indirectly after the 1995 currency crisis. Mexico responded to the crisis by

[40] See CRS Report RL31723, *Textile and Apparel Trade Issues*, by Bernard A. Gelb.

[41] See CRS Report 98-783, *NAFTA: Estimates of Job Effects and Industry Trade Trends After 5 1/2 Years*, by Mary Jane Bolle.

[42] See CRS Report RS21737, *NAFTA at Ten: Lessons from Recent Studies*, by J. F. Hornbeck.

[43] Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin America and the Caribbean*, The World Bank, 2005.

implementing a strong economic adjustment program but also by fully adhering to its NAFTA obligations to liberalize trade with the United States and Canada. NAFTA may have supported the resolve of the Mexican government to continue with the course of market-based economic reforms, resulting in increasing investor confidence in Mexico. The World Bank study estimates that FDI in Mexico would have been approximately 40% lower without NAFTA.[44]

One of the main arguments in favor of NAFTA at the time it was being proposed by policymakers was that the agreement would improve economic conditions in Mexico and narrow the income gap between Mexico and the United States. Studies that have addressed the issue of economic convergence[45] have noted that economic convergence in North America might not materialize under free trade as long as "fundamental differences" in initial conditions persist over time. One study argues that NAFTA is not enough to help narrow the disparities in economic conditions between Mexico and the United States and that Mexico needs to invest more in education; innovation and infrastructure; and in the quality of national institutions. The study states that income convergence between a Latin American country and the United States is limited by the wide differences in the quality of domestic institutions, in the innovation dynamics of domestic firms, and in the skills of the labor force.[46] Another study also notes that the ability of Mexico to improve economic conditions depends on its capacity to improve its national institutions, adding that Mexican institutions did not improve significantly more than those of other Latin American countries during the post-NAFTA period.[47]

Mexican wages rose steadily from the early 1980s until the mid-1990s, when the currency crisis hit. After a drop in average real wages in 1996 of 15.5%, real wages increased steadily until 2000, when the average rate of growth was 11.8%. Since then the average rate of growth has only varied slightly. Mexico's trade liberalization measures may have affected the ratio between skilled and non-skilled workers in Mexico. In 1988, the real average wage of skilled workers in Mexico's manufacturing industry was 2.25 times larger than that of non-skilled workers. This ratio increased until 1996, when it was about 2.9, but then remained stable until 2000.[48] The World Bank study found that NAFTA brought economic and social benefits to the Mexican economy, but that the agreement in itself was not sufficient to ensure a narrowing of the wage gap between Mexico and the United States. The study states that NAFTA had a positive effect on wages and employment in some Mexican states, but that the wage differential within the country increased as a result of trade liberalization.[49]

[44] Ibid.

[45] Economic convergence can be broadly defined as a narrowing of the disparities in the economic levels and the manufacturing performances of particular countries or their regions. The goal of the theory of economic convergence is to research and analyze the factors influencing the rates of economic growth and real per capita income in countries.

[46] Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin America and the Caribbean*, The World Bank, 2005.

[47] William Easterly, Norbert Fiess, and Daniel Lederman, "NAFTA and Convergence in North America: High Expectations, Big Events, Little Time," *Economia*, Fall 2003.

[48] Esquivel, Gerardo, and José Antonio Rodríguez-López, "Technology, trade, and wage inequality in Mexico before and after NAFTA," *Journal of Development Economics*, 2003.

[49] Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin America and the Caribbean*, The World Bank, 2005.

Mexican Trucking Issue

The most recent U.S.-Mexico trade issue of concern to Members of Congress has been the implementation of NAFTA trucking provisions. Under NAFTA, Mexican commercial trucks were to have been given full access to four U.S. border states in 1995 and full access throughout the United States in 2000. Citing safety concerns, however, the United States refused to implement NAFTA's trucking provisions. The Mexican government objected and claimed that U.S. actions were a violation of U.S. commitments under NAFTA. A NAFTA dispute resolution panel supported Mexico's position in February 2001. President Bush indicated a willingness to implement the provision, but the U.S. Congress required additional safety provisions in the FY2002 Department of Transportation Appropriations Act (P.L. 107-87). The United States have worked to resolve the trucking issue since 2004 and have engaged in numerous talks regarding safety and operational issues. The Mexican government has argued that any deal must provide its industry with full access to the U.S. market and greater "certainty" that it will continue to have access in the future.[50]

U.S. Pilot Program for Mexican Trucks

On November 27, 2002, with safety inspectors and procedures in place, the Bush Administration announced that it would begin the process that would open U.S. highways to Mexican truckers and buses, but environmental and labor groups went to court in early December to block the action. On January 16, 2003, the U.S. Court of Appeals for the Ninth Circuit ruled that full environmental impact statements were required for Mexican trucks to be allowed to operate on U.S. highways. However, the U.S. Supreme Court reversed that decision on June 7, 2004.

In February 2007, the Bush Administration announced a pilot project to grant Mexican trucks from 100 transportation companies full access to U.S. highways. In September 2007, the Department of Transportation (DOT) launched a one-year pilot program to allow approved Mexican carriers beyond the 25-mile commercial zone in the border region, with a similar program allowing U.S. trucks to travel beyond Mexico's border and commercial zone. Over the 18 months that the program existed, 29 motor carriers from Mexico were granted operating authority in the United States. Two of these carriers dropped out of the program shortly after being accepted, while two others never sent trucks across the border. In total, 103 Mexican trucks were used by the carriers as part of the program.[51]

In the FY2008 Consolidated Appropriations Act (P.L. 110-161), signed into law in December 2007, Congress included a provision prohibiting the use of FY2008 funding for the establishment of a pilot program. However, the DOT determined that it could continue with the pilot program because it had already been established. In March 2008, the DOT issued an interim report on the cross-border trucking demonstration project to the Senate Committee on Commerce, Science, and Transportation. The report made three key observations: (1) the Federal Motor Carrier Safety Administration (FMCSA) planned to check every participating truck each time it crossed the border to ensure that it met safety standards; (2) there was less participation in the project than

[50] Ibid.

[51] Ibid.

was expected; and (3) the FMCSA implemented methods to assess possible adverse safety impacts of the project and to enforce and monitor safety guidelines.[52]

In early August 2008, DOT announced that it would be extending the pilot program for an additional two years. In opposition to this action, the House approved on September 9, 2008 (by a vote of 396 to 128) H.R. 6630, a bill that would have prohibited DOT from granting Mexican trucks access to U.S. highways beyond the border and commercial zone. The bill also would have prohibited DOT from renewing such a program unless expressly authorized by Congress. No action was taken by the Senate on the measure.

On March 11, 2009, the FY2009 Omnibus Appropriations Act (P.L. 111-8) terminated the pilot program that began in September 2007. The FY2010 Consolidated Appropriations Act passed in December 2009 (P.L. 111-117) did not preclude funds from being spent on a long-haul Mexican truck pilot program, provided that certain terms and conditions were satisfied.[53] Numerous Members of Congress have urged President Obama to find a resolution to the dispute in light of the effects that Mexico's retaliatory tariffs are having on U.S. producers.

A truck safety statistic on "out-of-service" rates indicates that Mexican trucks operating in the United States are now safer than they were a decade ago. The data indicate that Mexican trucks and drivers have a comparable safety record to U.S. truckers. Another study indicates that the truck driver is usually the more critical factor in causing accidents than a safety defect with the truck itself. Service characteristics of long-haul trucking suggest that substandard carriers would likely not succeed in this market.[54]

Mexico's Retaliatory Tariffs and Efforts in the United States to Resolve the Issue

In response to the abrupt end of the pilot program, the Mexican government announced in March 2009 that it would retaliate by increasing duties on 90 U.S. products with a value of $2.4 billion in exports to Mexico. The tariffs, effective as of March 19, 2009, ranged from 10% to 45% and covered a range of products that included fruit, vegetables, home appliances, consumer products, and paper.[55] Subsequently, a group of 56 Members of the House of Representatives wrote to United States Trade Representative Ron Kirk and DOT Secretary Ray LaHood requesting the Administration to resolve the trucking issue.[56] The bipartisan group of Members stated that they wanted the issue to be resolved soon because the higher Mexican tariffs were having a "devastating" impact on local industries, especially in agriculture, and area economies in some

[52] Department of Transportation, "Cross-Border Trucking Demonstration Project," March 11, 2008.

[53] See CRS Report RL31738, *North American Free Trade Agreement (NAFTA) Implementation: The Future of Commercial Trucking Across the Mexican Border*, by John Frittelli.

[54] See CRS Report RL31738, *North American Free Trade Agreement (NAFTA) Implementation: The Future of Commercial Trucking Across the Mexican Border*, by John Frittelli.

[55] Rosella Brevetti, "Key GOP House Members Urge Obama to Develop New Mexico Truck Program," *International Trade Reporter*, March 26, 2009.

[56] Amy Tsui, "Plan to Resolve Mexican Trucking Dispute 'Very Near,' DOT's LaHood Tells Lawmakers," *International Trade Reporter*, March 11, 2010.

states. One reported estimate stated that U.S. potato exports to Mexico had fallen 50% by value since the tariffs were imposed and that U.S. exporters were losing market share to Canada.[57]

On August 16, 2010, the Mexican government announced a new list of retaliatory tariffs on imports from the United States. The new list added 26 products to and removed 16 products from the original list of 89, bringing the new total to 99 products from 43 states with a total export value of $2.6 billion. Products that were added to the list include several types of pork products, several types of cheeses, sweet corn, pistachios, oranges, grapefruits, apples, oats and grains, chewing gum, ketchup, and other products. The largest in terms of value are the two categories of pork products, which had an estimated export value of $438 million in 2009.[58] Products that were removed from the list include peanuts, dental floss, locks, and other products.[59] The new retaliatory tariffs are lower than the original tariffs and range from 5% to 25%. Mexico rotated the list of products to put more pressure on the United States to seek a settlement for the trucking dispute.[60] U.S. producers of fruits, pork, cheese, and other products that are bearing the cost of the retaliatory tariffs have reacted strongly at the lack of progress in resolving the trucking issue and have argued, both to the Obama Administration and to numerous Members of Congress, that they are potentially losing millions of dollars in sales as a result of this dispute.[61]

The Mexican government has indicated it is willing to resolve the ongoing dispute with the Obama Administration but that is not willing to agree to another pilot program such as the one that was terminated in March 2009.

U.S. Concept Document for Long Haul Trucking

In January 2011, the Obama Administration took a step forward to resolve the trucking issue by presenting an "initial concept document" to Congress and the Mexican government on a new long-haul trucking program with numerous safety inspection requirements for Mexican carriers. The concept document would put in place a new inspection and monitoring regime in which Mexican carriers would have to apply for long-haul operating authority. The proposed project would not be a pilot program but an initial stage that would include several thousand trucks and eventually bring as many vehicles as are needed into the United States. [62] A DOT press release from January 6, 2011 stated that a formal proposal on which the public would have the opportunity to comment would be released in the coming months.[63]

---

[57] Ibid.

[58] *Inside U.S. Trade's World Trade Online,* "Pork, Cheeses, Fruits to Face new Tariffs Due to Mexico Trucks Dispute," August 17, 2010.

[59] Ibid.

[60] *Inside U.S. Trade's World Trade Online,* "New Mexican Retaliatory Tariffs in Trucks Dispute Designed to Spur U.S.," September 3, 2010.

[61] See "Sen. Murray Holds Meeting with LaHood, Farmers on Mexican Truck Dispute Duties," *International Trade Reporter,* September 16, 2010; "U.S. Confectioners Hurt by Mexican Trucking Tariffs," *International Trade Reporter,* September 9, 2010; and U.S. Dairy Export Council, "NAFTA Trucking Dispute's Negative Spillover on U.S. Dairy Exports," available at http://www.usdec.org.

[62] Rosella Brevetti and Nacha Cattan, "DOT's LaHood Presents 'Concept' Paper on Resolving NAFTA Mexico Truck Dispute," January 13, 2011.

[63] U.S. Department of Transportation Press Release, "U.S. Cross-Border Trucking Effort Emphasizes Safety and Efficiency," January 6, 2011.

The Mexican government responded positively to the initiative, stating that it would not continue rotating the list of retaliatory tariffs. The government stated that because the concept document was only an initial step, Mexico would keep the current tariffs in place until a final accord was reached.[64] Mexico's Trade Minister Bruno Ferrari reportedly stated that the Mexican government sent comments and reservations on January 10 to the United States about the U.S. proposal. He stated that once the United States responds to these reservations and both parties discuss a timeline to implement the program, Mexico will present a plan to lift the tariffs.[65]

The U.S. concept document outlines a proposed program with three sets of elements. The first set of elements, pre-operations elements, include an application process for Mexican carriers interested in applying for long-haul operations in the United States; a vetting process by the U.S. Department of Homeland Security and the Department of Justice; a safety audit of Mexican carriers applying for the program; documentation of Mexican commercial driver's license process to demonstrate comparability to the U.S. process; and evidence of financial responsibility (insurance) of the applicant. The second set of elements, operations elements, include the following: monitoring procedures that include regular inspections and electronic monitoring of long-haul vehicles and drivers; a follow-up review (first review) to ensure continued safe operation; a compliance review (second review) upon which a participating carrier would be eligible for full operation authority; and a Federal Motor Carrier Safety Administration (FMCSA) review that includes insurance monitoring and drug and alcohol collection and testing facilities. The third set of elements, transparency elements, would require Federal Register notices by the FMCSA; a publically accessible website that provides information on participating carriers; the establishment of a Federal Advisory Committee with representation from a diverse group of stakeholders; periodic reports to Congress; and requirements for DOT Office of the Inspector General reports to Congress.[66]

Other Trade Issues

The United States and Mexico resolved a long-standing trade dispute in 2006 involving sugar and high fructose corn syrup. Mexico argued that the sugar side letter negotiated under NAFTA entitled it to ship net sugar surplus to the United States duty-free under NAFTA, while the United States argued that the sugar side letter limited Mexican shipments of sugar. Mexico also complained that imports of high fructose corn syrup (HFCS) sweeteners from the United States constituted dumping, and it imposed anti-dumping duties for some time, until NAFTA and WTO dispute resolution panels upheld U.S. claims that the Mexican government colluded with the Mexican sugar and sweetener industries to restrict HFCS imports from the United States.

In late 2001, the Mexican Congress imposed a 20% tax on soft drinks made with corn syrup sweeteners to aid the ailing domestic cane sugar industry, and subsequently extended the tax annually despite U.S. objections. In 2004, the United States Trade Representative (USTR) initiated WTO dispute settlement proceedings against Mexico's HFCS tax, and following interim decisions, the WTO panel issued a final decision on October 7, 2005, essentially supporting the

[64] Josh Mitchell, "U.S. Jump-Starts Bid to End Truck Dispute with Mexico," *The Wall Street Journal*, January 7, 2011.

[65] Rosella Brevetti and Nacha Cattan, "DOT's LaHood Presents 'Concept' Paper on Resolving NAFTA Mexico Truck Dispute," January 13, 2011.

[66] U.S. Department of Transportation, *Concept Document: Phased U.S.-Mexico Cross-Border Long Haul Trucking Proposal*, January 6, 2011, at http://www.fmcsa.dot.gov.

U.S. position. Mexico appealed this decision, and in March 2006, the WTO Appellate Body upheld its October 2005 ruling. In July 2006, the United States and Mexico agreed that Mexico would eliminate its tax on soft drinks made with corn sweeteners no later than January 31, 2007. The tax was repealed, effective January 1, 2007.

The United States and Mexico reached a sweetener agreement in August 2006. Under the agreement, Mexico can export 500,000 metric tons of sugar duty-free to the United States from October 1, 2006, to December 31, 2007. The United States can export the same amount of HFCS duty-free to Mexico during that time. NAFTA provides for the free trade of sweeteners beginning January 1, 2008. The House and Senate sugar caucuses expressed objections to the agreement, questioning the Bush Administration's determination that Mexico is a net-surplus sugar producer to allow Mexican sugar duty-free access to the U.S. market.[67]

On tuna issues, the Clinton Administration lifted the embargo on Mexican tuna in April 2000 under relaxed standards for a dolphin-safe label in accordance with internationally agreed procedures, and U.S. legislation passed in 1997 that encouraged the unharmed release of dolphins from nets. However, a federal judge in San Francisco ruled that the standards of the law had not been met, and the Federal Appeals Court in San Francisco sustained the ruling in July 2001. Under the Bush Administration, the Commerce Department ruled on December 31, 2002, that the dolphin-safe label may be applied if qualified observers certify that no dolphins were killed or seriously injured in the netting process, but Earth Island Institute and other environmental groups filed suit to block the modification. On April 10, 2003, the U.S. District Court for the Northern District of California enjoined the Commerce Department from modifying the standards for the dolphin-safe label. On August 9, 2004, the federal district court ruled against the Bush Administration's modification of the dolphin-safe standards and reinstated the original standards in the 1990 Dolphin Protection Consumer Information Act. That decision was appealed to the U.S. Ninth Circuit Court of Appeals, which ruled against the Administration in April 2007, finding that the Department of Commerce did not base its determination on scientific studies of the effects of Mexican tuna fishing on dolphins. In late October 2008, Mexico initiated World Trade Organization dispute proceedings against the United States, maintaining that U.S. requirements for Mexican tuna exporters prevents them from using the U.S. "dolphin-safe" label for its products.[68]

On other issues, in early October 2002, the U.S.-Mexico working group on agriculture dealt with major agricultural issues, including Mexico's anti-dumping decisions on apples, rice, swine, and beef, and safeguard actions on potatoes. In January 2003, the countries agreed to permit Mexican safeguard measures against U.S. imports of chicken legs and thighs, and in July 2003, these safeguard measures were extended until 2008, with tariffs declining each year. In September 2006, Mexico revoked anti-dumping duties imposed on U.S. rice imports in 2002 following rulings by the WTO and WTO Appellate Body in 2005, which found that the duties were contrary to WTO rules. Mexico banned beef imports from the United States in December 2003 following the discovery of one cow infected with mad cow disease in Washington State. Mexico resumed

[67] See "Bush Administration Defends Sugar Deal to Congress," *Inside U.S. Trade*, November 3, 2006; "Grassley, U.S. Industry Welcome Agreement with Mexico on Sugar, HFCS," *International Trade Reporter*, August 3, 2006; and, "U.S., Mexico Reach Agreement on WTO Soft Drink Dispute Compliance Deadline," *International Trade Reporter*, July 13, 2006.

[68] Daniel Pruzin, "Mexico Initiates WTO Dispute Proceeding Against U.S. 'Dolphin-Safe' Label for Tuna," *International Trade Reporter*, October 30, 2008.

importation of boneless beef in early March 2004, and bone-in beef in February 2006, in response to improved beef cattle screening.

Issues for Congress

The economic relationship with Mexico is important to U.S. policymakers because of the implications it has for bilateral trade, economic conditions in both countries, economic competitiveness, and border security. Mexican President Felipe Calderón made a state visit to the United States in May 2010 in which he emphasized the need for increased cooperation in North America to increase the competiveness of the region.[69] In a meeting hosted by President Barack Obama, the two leaders discussed numerous key bilateral and hemispheric issues affecting both countries. The leaders reaffirmed their shared values and the need for focusing on economic growth. They vowed to enhance and reinforce efforts to create jobs, promote economic recovery and expansion, and encourage inclusive prosperity across all levels of society in both countries.[70] The two leaders also underscored the importance of human capital and touched upon the issue of immigration. President Obama underscored his commitment to comprehensive immigration reform in the United States while President Calderón stated that his administration was committed to creating more job and educational opportunities in Mexico. Both leaders acknowledged the importance of taking actions to address illegal immigration, border security, and human trafficking groups, and agreed to set priorities for the future.[71]

The 112th Congress may consider legislation to implement the NAFTA trucking provisions. As stated earlier, numerous Members of Congress continue to oppose the implementation of the trucking provisions because they are concerned about the safety of Mexican trucks in the United States, while others want the issue to be resolved. They argue that Mexico's retaliatory tariffs are having strong negative effects on local U.S. industries and affecting U.S. jobs, especially in the agricultural sectors. U.S. producers of fruits, pork, cheese, and other products that are bearing the cost of the retaliatory tariffs have been very vocal about the lack of progress in resolving the trucking issue and argue that the issue is having a devastating impact on local industries. The Teamsters and U.S. independent truckers strongly oppose the initiative proposed by the Obama Administration to phase in the NAFTA trucking provisions. The Teamsters General President Jim Hoffa reportedly issued a statement warning that a program would threaten the traveling public in the United States and open the southern border to increased drug trafficking.[72] He also argues that the DOT proposal would threaten jobs of U.S. truck drivers and warehouse workers and that Mexican trucks are not safe. The Owner-Operator Independent Drivers Association, the largest trade association representing independent truckers, opposes the Obama Administration proposal stating that it would cost many U.S. driver jobs.[73]

The economic hardship in certain sectors and regions of Mexico has been a major reason behind unauthorized Mexican migration to the United States. President Calderón made his first official

[69] CSIS Americas Program, *Hemisphere Highlights,* May 2010, pp. 1-2.

[70] The White House, "Joint Statement from President Barack Obama and President Felipe Calderón," press release, May 19, 2010.

[71] Ibid.

[72] Rosella Brevetti and Nacha Cattan, "DOT's LaHood Presents 'Concept' Paper on Resolving NAFTA Mexico Truck Dispute," January 13, 2011.

[73] Ibid.

visit to the United States as President-elect in early November 2006, after first visiting Canada and several Latin American countries. During his visit, Calderón criticized the recent authorization of fencing along the U.S.-Mexico border and noted that it complicated U.S.-Mexico relations. He asserted that job creation and increased investment in Mexico would be more effective in reducing illegal migration from Mexico than a border fence. Calderón signaled a shift in Mexican foreign policy when he noted that while immigration is an important issue in the bilateral relationship, it is not the only issue, as trade and economic development are also important.

Mexico voiced concern in the past about alleged abuses suffered by Mexican workers in the United States and for the loss of life and hardships suffered by Mexican migrants as they use increasingly dangerous methods to cross into the United States. During his administration, former Mexican President Vicente Fox held the view that the migrants are "undocumented workers" and that because the U.S. market attracts and provides employment for the migrants, it bears some responsibility. He pressed proposals for legalizing undocumented Mexican workers in the United States through amnesty or guest worker arrangements as a way of protecting their human rights. In 2004, President Bush proposed an overhaul of the U.S. immigration system to permit the matching of willing foreign workers with willing U.S. employers when no U.S. documented workers could be found to fill the jobs.

Another policy issue is related to the changing trade trends throughout the world that are affecting North American trading patterns. Some observers have analyzed the possibility of furthering economic integration with Mexico as the influence of China and other low-wage countries increases. According to a recent study on economic integration in North America, a major shift is under way in trade patterns among NAFTA partners with exports among NAFTA economies growing more slowly than their exports with the rest of the world, reversing the previous 10-year trend. The report finds that lower-cost suppliers, primarily China and India, are displacing North American imports and could weaken North American integration. The report states that furthering continental integration would require "renewed efforts at resolving long-standing trade disputes, new liberalization initiatives, or greater policy harmonization in areas such as border security, labor mobility, or corporate taxation."[74]

If the United States continues to deepen economic integration with Mexico, one area that may need more attention is the issue of the difference in income levels between the two countries. The economic relationship with Mexico is unique because of Mexico's proximity to the United States, but also because of the wide differences in levels of economic development between the two countries. Mexico is the first developing country with which the United States entered into a free trade agreement. In Mexico, NAFTA has had an uneven effect in different parts of the country and it has not been a solution to the problem of poverty and unemployment. Mexico's problem with poverty cannot be attributed directly to NAFTA because it was in existence prior to the agreement. At the time of NAFTA there was hope that Mexico's economy would grow sufficiently to create jobs in urban areas and help alleviate poverty in rural areas. However, the economy did not expand as expected and the problem of poverty continues.

Another policy issue relates to whether trade agreements are enough, or are the appropriate policy instrument, to resolve income disparities among trading partners or even within a developing

[74] ITR, "North American Integration Slipping Due to China's Strong Growth, Report Says," Volume 22, Number 8, February 24, 2005.

country. A World Bank study on the effects of NAFTA on Mexico concluded that NAFTA has helped to improve economic conditions in Mexico but it has not been enough to narrow the economic disparities with the United States. The authors of the study stated, among other things, that Mexico needs to invest more in education, infrastructure, and institutional strengthening to benefit more fully from freer trade.[75] A possible consideration for policymakers is whether to help Mexico improve the quality of education and strengthen its national institutions through foreign aid programs or other mechanisms.

Author Contact Information

M. Angeles Villarreal
Specialist in International Trade and Finance
avillarreal@crs.loc.gov, 7-0321

[75] Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin America and the Caribbean*, The World Bank, 2005.