Mexico's Free Trade Agreements

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Summary

Mexico has had a growing commitment to trade integration and liberalization through the formation of free trade agreements (FTAs) since the 1990s and its trade policy is among the most open in the world. On June 18, 2012, President Barack Obama announced that an invitation was extended to Mexico to join the ongoing negotiations for the Trans-Pacific Partnership (TPP), a proposed free trade agreement involving the United States and eight other countries. Canada was also invited to join the negotiations. Mexico's pursuit of FTAs with other countries not only provides economic benefits, but could also potentially reduce its economic dependence on the United States. The United States is, by far, Mexico's most significant trading partner. Almost 80% of Mexico's exports go to the United States and about 50% of Mexico's imports are supplied by the United States. In an effort to increase trade with other countries, Mexico has a total of 12 free trade agreements involving 44 countries. These include agreements with most countries in the Western Hemisphere including the United States and Canada under the North American Free Trade Agreement (NAFTA), Chile, Colombia, Costa Rica, Nicaragua, Peru, Guatemala, El Salvador, and Honduras. In addition, Mexico has negotiated FTAs outside of the Western Hemisphere and entered into agreements with Israel, Japan, and the European Union.

Economic motivations are generally the major driving force for the formation of free trade agreements among countries, but there are other reasons countries enter into FTAs, including political and security factors. One of Mexico's primary motivations for its unilateral trade liberalization efforts of the late 1980s and early 1990s was to improve economic conditions in the country, which policymakers hoped would lead to greater investor confidence, attract more foreign investment, and create jobs. Mexico could also have other reasons for entering into FTAs, such as expanding market access and decreasing its reliance on the United States as an export market. The slow progress in multilateral trade negotiations may also contribute to the increasing interest throughout the world in bilateral and regional free trade agreements under the World Trade Organization (WTO). Some countries may see smaller trade arrangements as "building blocks" for multilateral agreements.

Since Mexico began trade liberalization in the early 1990s, its trade with the world has risen rapidly, with exports increasing more rapidly than imports. Mexico's exports to all countries increased 475% between 1994 and 2011, from $60.8 billion to $349.6 billion. Although the 2009 economic downturn resulted in a decline in exports, the value of Mexican exports has since recovered, increasing in both 2010 and 2011. Total imports also increased rapidly, from $79.3 billion in 1994 to $350.9 billion in 2011, an increase of 342%. Mexico's top five exports in 2011 were crude petroleum oil, passenger motor vehicles, flat panel screen TVs, mobile telephones, and vehicles for the transportation of goods. Mexico's top five imports were gasoline, parts for flat panel screen TVs, mobile telephones, and passenger motor vehicles.

In the 112th Congress, issues of concern related to the trade and economic relationship with Mexico have involved mostly economic conditions in Mexico, issues related to the North American Free Trade Agreement (NAFTA), the effect of NAFTA, and Mexican migration to the United States. This report provides an overview of Mexico's free trade agreements, its motivations for trade liberalization and entering into free trade agreements, and some of the issues Mexico faces in addressing its economic challenges.

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Introduction

Regional trade agreements (RTAs) throughout the world have grown increasingly since the early 1990s. Many members of the World Trade Organization (WTO) are focusing on regional or bilateral free trade agreements as a key component of their foreign and commercial policy, possibly due to the impasse of the Doha Development Agenda.[1] This interest is evident among industrialized and developing countries, and throughout various world regions. Mexico is a member of the WTO, which permits members to enter into regional trade integration arrangements under certain conditions that are defined within specific WTO rules.[2]

Since the early 1990s, Mexico has had a growing commitment to trade liberalization and has a trade policy that is among the most open in the world. Mexico has actively pursued free trade agreements with other countries to help promote economic growth, but also to reduce its economic dependence on the United States. The United States is, by far, Mexico's most significant trading partner. Over 80% of Mexico's exports are destined for the United States. In an effort to increase trade with other countries, Mexico has entered into 12 free trade agreements with 44 countries.[3] On June 18, 2012, President Barack Obama announced that an invitation was extended to Mexico to join the ongoing negotiations for the Trans-Pacific Partnership (TPP), a proposed free trade agreement involving the United States and eight other countries. Canada was also invited to join the negotiations.

In the 112th Congress, congressional interest related to the trade and economic relationship with Mexico has involved issues related to the North American Free Trade Agreement (NAFTA), the effects of NAFTA, economic conditions in Mexico, and Mexican migration to the United States. This report provides an overview of Mexico's free trade agreements, its motivations for trade liberalization and entering into free trade agreements, and some of the issues Mexico faces in addressing its economic challenges. This report will be updated as events warrant.

Motivations for Trade Integration

Economic motivations are generally the major driving force for the formation of free trade agreements (FTAs) among countries, but there are other reasons countries enter into FTAs, including political and security factors. Mexico's primary motivation for the unilateral trade liberalization efforts of the late 1980s and early 1990s was to improve economic conditions in the country, which policymakers hoped would lead to greater investor confidence and attract more foreign investment. This motivation was a major factor in negotiating NAFTA with the United States and Canada. The permanent lowering of trade and investment barriers and predictable trade rules provided by FTAs can improve investor confidence in a country, which helps attract foreign direct investment (FDI). Multinational firms invest in countries to gain access to markets, but they also do it to lower production costs.

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[1] See CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by (name r edacted).

[2] For more information on the specific sets of rules governing regional trade agreements among WTO members, see *Regional Trade Agreements: Rules* on the WTO website, available at http://www.wto.org.

[3] World Trade Organization (WTO), Regional Trade Agreement Database, available at http://www.wto.org; and Organization of American States, Foreign Trade Information System, available at http://www.sice.oas.org.

Mexico has other motivations for continuing trade liberalization with other countries, such as expanding market access for its exports and decreasing its reliance on the United States as an export market. By entering into trade agreements with other countries, Mexico is seeking to achieve economies of scale in certain sectors of the economy and to expand its export market. Free trade agreements provide partners with broader market access for their goods and services. Countries can benefit from trade agreements because producers are able to lower their unit costs by producing larger volumes for regional markets in addition to their own domestic markets.[4] When more units of a good or a service can be produced on a larger scale, companies are able to decrease cost of production.

The slow progress in multilateral negotiations in the World Trade Organization (WTO) is another likely factor in Mexico's motivations to enter into FTAs. Some countries see smaller trade arrangements as "building blocks" for multilateral agreements. Other motivations could be political. Mexico may be seeking to demonstrate good governance by locking in political and economic reforms through trading partnerships. Trade agreements could forge geopolitical alliances and strengthen diplomatic ties. Some analysts believe that the choice of RTA partners is increasingly based on political and security concerns and not so much on economic rationale.[5]

Mexican Trade Liberalization

From the 1930s through part of the 1980s, Mexico maintained a strong protectionist trade policy in an effort to be independent of any foreign power and as a means to promote domestic-led industrialization. Mexico established a policy of import substitution in the 1930s, consisting of a broad, general protection of the entire industrial sector through tight restrictions on foreign investment and by controlling the exchange rate to encourage domestic industrial growth. Mexico also nationalized the oil industry at this time. These protectionist economic policies remained in effect until the country began to experience a series of economic challenges several decades later.

In the mid-1980s, Mexico's economy was on the verge of collapse as a result of the 1982 debt crisis in which the Mexican government was unable to meet its foreign debt obligations. Much of the government's efforts in addressing these economic challenges were placed on privatizing state industries and moving toward trade liberalization. Mexico had few options but to open its economy through trade liberalization. In the late 1980s and early into the 1990s, Mexico implemented a series of measures to restructure the economy that included unilateral trade liberalization, replacing import substitution policies with others aimed at attracting foreign investment, lowering trade barriers, and making the country competitive in non-oil exports. In 1986, Mexico acceded to the General Agreement on Tariffs and Trade (GATT), assuring further trade liberalization measures that led to closer ties with the United States.

Mexico and the United States began discussions about the possibility of forming a free trade agreement in the early 1990s. Canada later joined the negotiations and the three countries signed the North American Free Trade Agreement on December 17, 1992. Before NAFTA came into force, however, Mexico entered into its first agreement for free trade in goods, the Mexico-Chile

[4] For more information on the costs and benefits of regional trade agreements, see Cohen, Stephen D., Robert A. Blecker, and Peter D. Whitney, *Fundamentals of U.S. Foreign Policy,* Westview Press, 2003, pp. 49-79.

[5] Crawford, Jo-Ann and Roberto V. Fiorentino, *The Changing Landscape of Regional Trade Agreements,* World Trade Organization Discussion Paper No. 8, 2005, p. 16.

FTA. NAFTA entered into force with much broader provisions than the Chile FTA, such as trade in services, government procurement, dispute settlement procedures, and intellectual property rights protection. In 1999, the original text of the Mexico-Chile FTA was complemented with broader provisions, similar to those under NAFTA. Mexico's initial motivation in pursuing FTAs with the United States and other countries was to stabilize the Mexican economy, which had experienced many difficulties throughout most of the 1980s with a significant deepening of poverty. The expectation in Mexico was that FTAs would increase export diversification; attract FDI; and help create jobs, increase wage rates, and reduce poverty.

Mexico's Free Trade Agreements

Mexico's pursuit of free trade agreements with other countries is a way to bring benefits to the economy, but also to reduce its economic dependence on the United States. The United States is, by far, Mexico's most significant trading partner. Nearly 80% of Mexico's exports go to the United States and 50% of Mexico's imports come from the United States.[6] In an effort to diversify and increase trade with other countries, Mexico has a total of 12 trade agreements involving 44 countries (see **Figure 1**). These include agreements with many countries in the Western Hemisphere including the United States and Canada, Chile, Colombia, Costa Rica, Nicaragua, Uruguay, Guatemala, El Salvador, and Honduras.[7] Mexico has also ratified an FTA with Central America that was signed on November 22, 2011. The agreement will enter into force when it has been ratified by all the parties.

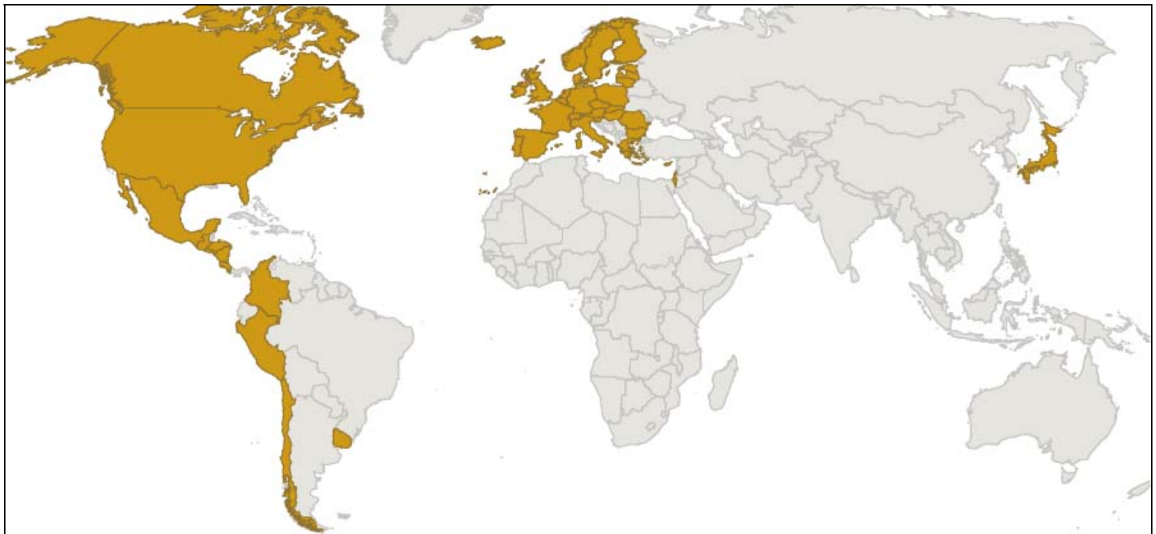
Mexico has also negotiated free trade agreements outside of the Western Hemisphere and, in July 2000, entered into agreements with Israel and the European Union. Mexico became the first Latin American country to have preferential access to these two markets. Mexico has completed a trade agreement with the European Free Trade Association of Iceland, Liechtenstein, Norway, and Switzerland. The Mexican government expanded its outreach to Asia in 2000 by entering into negotiations with Singapore, Korea, and Japan. In 2004, Japan and Mexico signed an Economic Partnership Agreement, the first comprehensive trade agreement that Japan signed with any country.[8] However, the large number of trade agreements has not yet been successful in significantly decreasing Mexico's dependence on trade with the United States.

[6] Mexican government data from the Subsecretaría de Comercio Exterior.

[7] Mexico and Bolivia had a previous FTA that entered into force on January 1, 1995. The FTA was terminated 16 years later on June 7, 2010, at the request of the Bolivian government. The current agreement for Mexico and Bolivia is an "Economic Complementation Agreement", which ended most FTA provisions but maintained the same tariff levels on goods as the previous FTA.

[8] The Asahi Shimbun, "Japan: Free Trade with Mexico," March 12, 2004.

Figure 1. Mexico's Free Trade Agreements



Mexico's Free Trade Agreements

Agreement	Coverage	Date of Signature	Entry into Force
North American Free Trade Agreement	Goods and services	December 17, 1992	January 1, 1994
Costa Rica – Mexico	Goods and services	April 5, 1994	January 1, 1995
Nicaragua – Mexico	Goods and services	December 18, 1997	July 1, 1998
Chile – Mexico	Goods and services	April 17, 1998	August 1, 1999
European Union[a] – Mexico	Goods and services	December 8, 1997	July 1, 2000 (goods) October 1, 2000 (services)
Israel – Mexico	Goods	April 10, 2000	July 1, 2000
Northern Triangle[b] – Mexico	Goods and services	June 29, 2000	March 15, 2001; June 1, 2001
EFTA[c] – Mexico	Goods and services	November 27, 2000	July 1, 2001
Uruguay – Mexico	Goods and services	November 15, 2003	July 15, 2004
Japan – Mexico	Goods and services	September 17, 2004	April 1, 2005
Colombia – Mexico	Goods and services	June 13, 1994	January 1, 2011[d]
Peru – Mexico	Goods and services	April 6, 2011	February 1, 2012
Central America – Mexico	Goods and services	November 22, 2011	Pending[e]

Source: Created by CRS with data from World Trade Organization, Regional Trade Agreement Database, at http://www.wto.org; and Organization of American States, Foreign Trade Information System, at http://www.sice.oas.org.

Notes: The WTO definition of a free-trade area is a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV, and XX of the GATT) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

a. Includes Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, and United Kingdom.

b. Includes El Salvador, Guatemala, and Honduras. Entered into force on March 15, 2001, for El Salvador and Honduras, and on June 1, 2001, for Guatemala.

c. Includes Iceland, Liechtenstein, Norway, and Switzerland.

d. The original FTA with Colombia was signed in 1994 and included Venezuela. Venezuela withdrew from the agreement in 2006. In August 2009, Mexico and Colombia reached an agreement to deepen trade integration and the new agreement entered into force in 2011.

e. The Mexico-Central America FTA would replace the Mexico-Northern Triangle, Mexico-Costa Rica, and Mexico-Nicaragua FTAs.

NAFTA

In 1990, the governments of Mexico and the United States began discussions of forming a possible free trade agreement. Mexico's main motivation in pursuing an FTA with the United States was likely an effort to help stabilize the Mexican economy and attract foreign direct investment.[9] The Mexican economy had experienced many difficulties throughout most of the 1980s with a significant deepening of poverty. Once the United States and Mexico agreed to enter into formal negotiations, Canada asked to join the negotiations for the North American Free Trade Agreement (NAFTA). The agreement entered into force on January 1, 1994. Trade and investment barriers were eliminated among all three trading partners over a 15-year period. By entering into NAFTA, Mexico's expectation was to diversify its exports and attract foreign investment, which would subsequently help create jobs, increase wage rates, and reduce poverty.

At the time that NAFTA was implemented, the U.S.-Canada FTA was already in effect and U.S. tariffs on most Mexican goods were low. NAFTA opened up the Mexican market to the United States and Canada, creating the largest single market in the world. Some tariffs were eliminated immediately, while others were phased out in various schedules of 5 to 15 years. NAFTA provided the option of accelerating tariff reductions if the countries involved agreed.[10] NAFTA also eliminated quotas and import licenses. It established rules on duty drawback programs, terminating all existing drawback programs by January 1, 2001. The agreement also contained provisions for market access in goods, agriculture, and most service sectors; foreign direct investment; intellectual property rights protection; sanitary and phytosanitary measures, technical standards, government procurement, antidumping and countervailing duty matters, land transportation, dispute resolution, and special safeguard provisions. NAFTA was the first major free trade agreement that addressed environmental and labor concerns by including related provisions in separate side agreements that entered into force at the same time as NAFTA.

NAFTA provisions required that partner countries eliminate all non-tariff barriers to agricultural trade, either through their conversion to tariff-rate quotas (TRQs) or ordinary tariffs. Mexico removed or replaced its import license requirements with TRQ's and gradually phased these out over a 10-year period. All TRQs were phased out by the end of a 15-year transition period. Approximately one-half of U.S.-Mexico agricultural trade became duty-free when the agreement went into effect. Sensitive products receiving longer phase-out schedules of 14 to 15 years included sugar, corn, dry beans, frozen concentrated orange juice, winter vegetables, and peanuts. Trade in sugar, one of the most sensitive issues in the trade negotiations, received the longest TRQ phase-out period of 15 years. NAFTA included special safeguard provisions in which a partner country could apply the tariff rate in effect at the time the agreement entered into force if imports of a product reached a "trigger" level set out in the agreement.

Mexico-Costa Rica

The Mexico-Costa Rica FTA was signed on April 5, 1994, in Mexico City and entered into force on January 1, 1995. It was the first in a series of FTAs negotiated by Mexico loosely based on the NAFTA model of trade agreements. This agreement had been preceded by a partial scope

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9 Hufbauer, Gary Clyde, and Jeffrey J. Schott, *NAFTA Revisited,* Institute for International Economics, October 2005, p. 3.

10 Congressional Quarterly Almanac 1993, pp. 171-175, 180-181.

agreement signed by the two countries on July 22, 1982, in which Mexico accorded preferential access to some Costa Rican products. The FTA with Costa Rica phased out tariffs in four stages over a 15-year time period. Upon implementation of the agreement, approximately 70% of Mexican goods entered Costa Rica and 80% of Costa Rican goods entered Mexico duty free. By January 1, 2004, almost 97% of trade between the two countries was duty free and by 2009, virtually all tariffs had been eliminated.[11]

In addition to the provisions on national treatment and market access for goods, the agreement contains provisions on agriculture, sanitary and phytosanitary measures, rules of origin, customs procedures, safeguards, standards, cross-border trade in services, investment, government procurement, intellectual property rights protection (IPR), and dispute resolution. Items that are not included in the agreement include energy and basic petrochemicals, telecommunications, financial services, and competition policy. The IPR chapter does not cover patents, industrial designs, and layout designs of integrated circuits.[12]

Mexico-Nicaragua

The FTA with Nicaragua was Mexico's second treaty with a country in Central America, also loosely based on the NAFTA model. It was signed on December 18, 1997, and entered into force on July 1, 1998. Mexico and Nicaragua have since signed a new multilateral treaty that will replace the existing FTA once the new agreement enters into force. The new FTA was signed by Mexico and several Central American countries in December 2011, and will enter into force once all partners approve it within their own countries (see section on "The Pending Mexico-Central America FTA" below).

Upon entry into force of the bilateral Mexico-Nicaragua agreement, 76% of tariffs on Nicaraguan exports to Mexico and 45% of tariffs on Mexican exports to Nicaragua were eliminated. The remaining tariffs were phased out in four stages over a 15-year period. The agreement is similar to NAFTA and includes provisions on national treatment and market access for goods and services; rules of origin; agriculture; sanitary and phytosanitary measures; telecommunications; financial services; government procurement; investment; IPT; dispute resolution; customs procedures; safeguards; unfair trade practices; standards; and other provisions. It does not include a chapter on competition policy, energy, environment, labor, or transportation.[13] The IPR provisions do not cover patents, industrial designs, and layout designs of integrated circuits.[14]

Mexico-Chile

The Mexico-Chile FTA, completed in 1998, was enacted in Chile on July 7, 1999, and in Mexico on August 1, 1999. Mexico and Chile signed the expanded FTA at the 1998 Summit of the Americas in Santiago, Chile, on April 17, 1998. The FTA was expected to deepen the growing trade relationship between the two countries and improve bilateral investment opportunities in

[11] Salazar-Xirinachs, José Manuel and Maryse Robert, editors, *Toward Free Trade in the Americas,* April 2001, p. 98.

[12] Decreto de promulgación del Tratado de Libre Comercio entre los Estados Unidos Mexicanos y la República de Costa Rica. See WTO Regional Trade Agreement Database, see http://www.wto.org.

[13] *Tratado de Libre Comercio Chile.* See WTO Regional Trade Agreement Database, see http://www.wto.org.

[14] Salazar-Xirinachs, José Manuel and Maryse Robert, editors, *Toward Free Trade in the Americas,* April 2001, p. 99.

both countries. The 1998 agreement replaced an earlier FTA that was reached between the two countries in 1991. It removed tariffs on almost all merchandise trade between the two countries.

The Mexico-Chile FTA includes provisions on national treatment and market access for goods and services; rules of origin; customs procedures; safeguards; standards; agriculture; sanitary and phytosanitary measures; investment; air transportation; telecommunications; temporary entry for business persons; IPR; dispute resolution; and other provisions. It does not include a chapter on energy, environment, or labor.[15] A separate agreement, which was signed simultaneously, includes provisions to avoid double taxation for companies doing business in both countries. The FTA provisions are similar to those under NAFTA, but with no labor and environmental provisions in separate side agreements. Other areas that were not included in the 1998 FTA were financial services, patents, and government procurement.[16]

Mexico-European Union

Negotiations for a free trade agreement between Mexico and the European Union (EU) began in October 1996. The agreement, formally called the Economic Partnership Political Coordination and Cooperation Agreement (also known as the Global Agreement), was signed in March 2000 and came into force on July 1, 2000. It was the first transatlantic FTA for the EU. The motivations for the agreement were to expand market access for exports from the EU to Mexico and attract more FDI from the EU to Mexico.[17] On May 17, 2008, Mexico and the European Union agreed on a "strategic association" to further advance trade liberalization and to address climate change issues.[18]

The agreement includes provisions on national treatment and market access for goods and services; government procurement; IPR; investment; financial services; standards; telecommunications and information services; agriculture; dispute settlement; and other provisions. The agreement also includes chapters in which the parties agree to increase cooperation in a number of areas, including mining, energy, transportation, tourism, statistics, science and technology, environment, and other areas.[19] On industrial goods, the EU agreed to eliminate tariffs on 82% of imports by value coming from Mexico on the date of entry into the agreement and to phase out remaining tariffs by January 1, 2003. Mexico agreed to eliminate tariffs on 47% of imports by value from the EU upon implementation of the agreement and to phase out the remaining tariffs by January 1, 2007. In agricultural products and fisheries, signatories agreed to phase out tariffs on 62% of trade within 10 years.[20] Tariff negotiations were deferred on certain sensitive products, including meat, dairy products, cereals, and bananas. Most non-tariff barriers, such as quotas and import/export licenses, were removed upon implementation of the agreement. Mexico agreed to phase out import restrictions of new automobiles from the EU

[15] Decreto Promulgatorio del Tratado de Libre Comercio entre el Gobierno de los Estados Unidos Mexicanos y el Gobierno de la República de Nicaragua. See WTO Regional Trade Agreement Database, http://www.wto.org.

[16] Bureau of National Affairs (BNA), *International Trade Reporter*, "Mexico and Chile Sign Off on Expanded Trade Agreement," April 22, 1998.

[17] Reuters, "*Cumbre-México y Unión Europea Acuerdan Acelerar Libre Comercio,"* May 17, 2008.

[18] Ibid.

[19] Global Agreement, Economic Partnership, Political Coordination and Cooperation Agreement between the European Community and its member States and the United Mexican States. See WTO Regional Trade Agreement Database, see http://www.wto.org.

[20] The Chinese University of Hong Kong, *The Mexico-EU Free Trade Agreement,* 2000, http://intl.econ.cuhk.edu.hk.

by 2007. In government procurement, Mexico agreed to follow provisions similar to those under NAFTA to allow the EU to enter the Mexican market while the EU agreed to follow WTO rules.[21] In services trade, the agreement goes beyond the WTO General Agreement on Trade in Services (GATS). It immediately provided European service operators "NAFTA-equivalent" access to Mexico in a number of areas, including financial services, energy, telecommunications, and tourism.[22]

Mexico-Israel

After two years of negotiations, Mexico and Israel signed a free trade agreement on April 10, 2000, and implemented it on July 1, 2000. The agreement immediately eliminated tariffs on most products traded between Mexico and Israel at the time of the agreement with full tariff elimination scheduled by 2005. Policymakers expected the agreement to provide Mexico with more export access to the Israeli market, increase FDI from Israel to Mexico, and result in increased technology transfer from Israel to Mexico.

The agreement includes provisions on national treatment and market access for goods, rules of origin, customs procedures, emergency actions, competition policy, government procurement, dispute resolution, dispute resolution, and WTO rights and obligations.[23] The agreement covers 98.6% of agricultural goods and 100% of industrial goods. Mexico received immediate duty-free access on 50% of its exports and tariff reductions on 12% of its exports to Israel. Tariff-rate quotas were applied on 25% of Mexican exports to Israel. Most remaining tariff barriers on Mexican exports had a five-year phase out schedule. Israel received immediate duty-free access on about 72% of its exports to Mexico. Another 22.8% of tariffs on Israeli exports to Mexico were withdrawn in 2003 and another 4.4% were withdrawn in 2005.[24]

Mexico-Northern Triangle (El Salvador, Guatemala, and Honduras)

Mexico and El Salvador, Guatemala, and Honduras signed a free trade agreement on June 29, 2000. The agreement is commonly referred to as the Mexico-Northern Triangle FTA, though the WTO has it listed as three separate agreements between Mexico and El Salvador, Guatemala, and Honduras. The agreements with El Salvador and Guatemala entered into force on March 15, 2001, while the agreement with Honduras entered into force on June 1, 2001. Negotiations for the FTA with all three countries began in 1992, stalled for four years, and resumed at the second Tuxtla Summit in 1996. Negotiations ended on May 10, 2000. This agreement was the final of Mexico's NAFTA-type agreements with all Central American countries. Prior to the conclusion of the Mexico-Northern Triangle FTA, Mexico had held separate partial scope agreements with each of the three countries, granting some products preferential access to the Mexican market. This agreement is one of the three FTAs that Mexico has with Central America that will be converged into one Mexico-Central America FTA.

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[21] Transnational Institute, Mexican Action Network on Free Trade (RMALC), *The EU-Mexico Free Trade Agreement Seven Years On,* June 2007.

[22] U.S.-Mexico Chamber of Commerce, *The Free Trade Agreement Between Mexico and the European Union,* August 2000.

[23] Free Trade Agreement Between the State of Israel and the United Mexican States. See WTO Regional Trade Agreement Database, see http://www.wto.org.

[24] U.S.-Mexico Chamber of Commerce, "History of Mexico-Israel Trade Relations," September 2000.

The agreement includes provisions on national treatment and market access for goods and services, the agreement has similar provisions to other Mexican FTAs on agriculture; sanitary and phytosanitary measures; rules of origin; financial services; telecommunications services; temporary entry of business persons; investment; IPR; standards; dispute resolution; safeguards; and unfair trade practices.[25] Upon entry into force of the FTA, approximately 57% of Mexico's exports to the three countries received duty-free treatment. Tariffs on an additional 15% of goods were phased out over a period of three to five years. Mexico eliminated tariffs on 65% of imports from the Northern Triangle countries upon implementation and phased out tariffs on 24% of imports over a three- to five-year period. Thirty percent of Mexico's agricultural exports received duty-free treatment upon the entry into force of the agreement, another 12% were liberalized over a 5-year period, and 41% were liberalized over a period of 5 to 11 years.[26]

Mexico-Uruguay

On November 15, 2003, the presidents of Mexico and Uruguay signed the Mexico-Uruguay free trade agreement. The agreement entered into force on July 15, 2004. In addition to market-opening measures, the Mexico-Uruguay FTA includes chapters on services trade, investment, intellectual property rights, dispute resolution procedures, government procurement, rules of origin, customs procedures, technical measures, sanitary and phytosanitary measures, and safeguard provisions. Upon entry into force, the agreement eliminated virtually all tariffs in most manufactured goods, with some exceptions. Tariffs on footwear are being phased out over a 10-year period. Wool products are subject to tariff-rate quotas, and automotive goods are covered under a separate economic complementation agreement. In agriculture, Uruguay lowered 240 tariff lines on products imported from Mexico. Sensitive products, such as corn, beans, poultry, and other meat products, were excluded from the agreement. Tariffs on bovine meat products were lowered from 10% to 7% over a three-year period.[27]

Mexico-European Free Trade Association

Mexico and the European Free Trade Association (EFTA), composed of Iceland, Lichtenstein, Norway, and Switzerland, signed a free trade agreement on November 27, 2000. The agreement entered into force on July 1, 2001. This was the first FTA that the EFTA had concluded with an overseas partner country. Since the agreement entered into force, Mexico and the EFTA have met at least four times to explore possibilities of further trade integration, including agricultural and services trade. In September 2008, the two parties agreed to adopt an amendment on transportation to the agreement to help facilitate trade. They also discussed possibilities of further amendments, such as banning export duties and extending the coverage of trade in processed agricultural products.[28]

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[25] Tratado de Libre Comercio México-El Salvador, Guatemala y Honduras (Triángulo del Norte). See http://www.sice.oas.org.

[26] Salazar-Xirinachs, José Manuel and Maryse Robert, editors, *Toward Free Trade in the Americas,* April 2001, pp. 99-100.

[27] Executive Office of the President of Mexico press release, "Las Buenas Noticias También Son Noticia: Entra en Vigor el TLC México-Uruguay," August 13, 2004.

[28] The European Free Trade Association (EFTA) Secretariat, *EFTA and Mexico to Amend Free Trade Agreement,* September 2008.

The agreement includes provisions on national treatment and market access for goods; agriculture; rules of origin; safeguards; and other provisions.[29] During the first six years, the FTA reduced the average Mexican tariff on EFTA industrial goods from 8% to zero. Mexican industrial exports to the EFTA have been free of duty since the entry into force of the FTA.[30]

Mexico-Japan

Mexico and Japan signed a free trade agreement, the Economic Partnership Agreement (EPA), in September 2004. The EPA was Japan's second free trade agreement, and its most comprehensive bilateral agreement at that time. It was Japan's first agreement to liberalize trade in agricultural products, a factor that resulted in initial opposition in Japan. In addition to the removal of tariff barriers, it includes regulations in other areas, including labor mobility and investment.[31] Since the signing of the EPA in 2004, Japan and Mexico further liberalized bilateral trade by entering into negotiations and agreeing to strengthen the EPA. After two and a half years of talks, the countries announced an agreement to revise the EPA and signed the new agreement on September 23, 2011.[32] Under the revised agreement, Japan expanded low-tariff import quotas for certain agricultural imports from Mexico, including beef, pork, chicken, and oranges. Mexico agreed to accelerate the removal of import tariffs, from 2014 to 2012, on auto parts and paper for ink-jet printers. Mexico also eliminated tariffs on mandarin oranges and established tariff rate quotas for apples and green tea.[33]

One of the goals of the Mexico-Japan EPA was to restore the competitiveness of Japanese companies in the Mexican market. Mexico already had free trade with the United States and Canada under NAFTA and with the European Union. These two agreements had placed Japanese companies at a disadvantage due to differences in tariff rates and exclusion of Japanese companies from public-works projects in Mexico. Mexico entered the agreement to increase Japanese investment in Mexico, and, thus, create jobs, expand Mexican exports to Japan, expand technology transfer from Japan, and strengthen Mexican industrial competitiveness.[34]

The agreement includes provisions on national treatment and market access for goods; sanitary and phytosanitary measures; standards; rules of origin; customs procedures; safeguards; IPR; dispute settlement; financial services; and government procurement. The revised agreement also includes chapters in which the two countries agreed to increase cooperation in a number of areas, including vocational education and training, agriculture, tourism, and the environment.[35] Under the revised FTA, Japan agreed to expand low-tariff import quotas for agricultural items including beef, pork, chicken, and oranges. Mexico agreed to abolish import tariffs on auto parts and paper for ink-jet printers earlier than the initially scheduled 2014 date.[36] By the year 2015, tariffs will be

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[29] Free Trade Agreement between the EFTA States the United Mexican States. . See WTO Regional Trade Agreement Database, see http://www.wto.org.

[30] *Mexico-EU Trade Links,* "Mexico-EFTA Free Trade Agreement: After Six Years," July 2007.

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

[32] *The Journal of Commerce Online,* "Japan, Mexico Sign Revised Trade Agreement," February 23, 2011.

[33] Ministry of Foreign Affairs of Japan, "Signing of the Protocol Amending the Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership," September 23, 2011.

[34] Press Center Japan, "Japan and Mexico Agree on Conclusion of Free-Trade Agreement," March 31, 2004.

[35] Agreement Between Japan the United Mexican States for the Strengthening of the Economic Partnership. See WTO Regional Trade Agreement Database, see http://www.wto.org.

[36] *The Journal of Commerce,* "Japan, Mexico Sign Revised Trade Agreement, February 23, 2011.

eliminated on 90% of goods that accounted for 96% in total trade value between the two countries. Prior to the original EPA, only 16% of Japanese exports to Mexico entered duty free into the Mexican market, while 70% of Mexican exports to Japan entered duty free.

Mexico-Colombia

Colombia, Mexico, and Venezuela signed a free trade agreement on June 13, 1994. The trilateral agreement entered into force on January 1, 1995. In May 2006, Venezuela notified its partners its intent to withdraw from the agreement and by November 2006, Venezuela had officially withdrawn. The agreement between Mexico and Colombia remained in effect. The two countries have since expanded their agreement and further liberalized trade. Negotiations for the expanded bilateral trade agreement began in August 2009 and were concluded in 2011. The revised expansion of the Mexico-Colombia FTA went into effect on January 1, 2011. It includes five provisions related to market access, rules of origin, a regional trade integration committee, official duties of the treaty's administrative commission, and an official name change to the FTA.[37]

The agreement includes measures related to market access, anti-dumping and countervailing duties, rules of origin, customs procedures, dispute resolution, government procurement, intellectual property rights protection, investment, safeguard measures, sanitary and phytosanitary provisions, tariff-rate quotas, technical regulations, and technical barriers to trade.[38] The new treaty includes expanded market access in the Colombian market for Mexican exports of semitrailers, non-alcoholic drinks, chickpeas, orange juice, hard wheat, turkey preparations, and tomatoes. It also opens up the Mexican market for Colombian crackers, citric acid, sodium and Calcium citrate, palm oil, pork rinds, cigarettes, and other products. The agreement does not include trade liberalization for the following products: coffee, plantains, sugar, tobacco, and cacao. These products are major export products for Colombia but sensitive items for Mexico, according to Mexico's Economy Secretary, Bruno Ferrari.[39] Mexico agreed to allow Colombia to export limited quantities of dairy and beef products.[40]

Mexico-Peru

In December 2005, Mexico and Peru began negotiations to broaden and deepen the Economic Cooperation Agreement (ECA) that had been in place since 1987. The two countries negotiated to deepen the trade relationship by liberalizing trade in all goods and form a free trade agreement. After six years, Mexico and Peru reached concluded negotiations and signed the free trade agreement, formally named the Mexico-Peru Trade Integration Agreement, on April 6, 2011. The Mexico-Peru FTA entered into force on February 1, 2012.

The FTA covers 12,017 products and replaces the 1987 ECA, which covered only 765 products.[41] Tariffs are to be phased out over a 10-year period. The agreement includes provisions on trade in

[37] Colombian Government, Ministry of Commerce, "*Entra en Vigencia Protocolo que Modifica el TLC con México," August 1, 2011.*

[38] For more information, see World Trade Organization, Regional Trade Agreements database, at http://rtais.wto.org.

[39] Latino Fox News, "Mexico on verge of ratifying expanded FTA with Colombia," April 1, 2011.

[40] Ibid.

[41] Vigo, Manuel, "Peru Free Trade Agreement Ratified by Mexico's Senate," *Peru This Week,* December 16, 2011.

goods and services, investment, sanitary and phytosanitary measures, dispute resolution procedures, rules of origin, safeguards, antidumping and countervailing duties, financial services, transparency procedures, and temporary entry of business persons.[42]

Proposed Trans-Pacific Partnership Agreement

On June 18, 2012, President Obama announced that the nine countries involved in the negotiations of the proposed Trans-Pacific Partnership (TPP) had extended an invitation to Mexico to join negotiations for the proposed multilateral free trade agreement.[43] The announcement for the invitation for Canada to join negotiations came on June 19, 2012. Current countries involved in the negotiations include the United States, Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, and Vietnam. The proposed TPP was announced in November 2011. It aims to achieve a high standard and comprehensive regional FTA. Shortly after the proposed TPP negotiations were announced, the leaders of Japan, Canada, and Mexico sought consultations with TPP partner countries so that they could join the negotiations.

The proposed TPP would likely enhance the links Mexico already has with the United States and Canada under NAFTA. This could include further reduction of barriers to trade and the negotiation of key issues in areas such as agriculture, intellectual property rights protection, government procurement, and others.[44] The Mexican government agreed to several conditions that TPP countries had placed on its entry into the negotiations. The conditions included that Mexico would not be able to reopen any existing agreements that were already made by the current TPP partners, unless they agreed to revisit something previously agreed upon. Thus far, TPP partners have only closed out one chapter of the agreement, which is expected to have about 26 chapters in total.

Other Agreements

Former Mexico-Bolivia FTA

Mexico and Bolivia signed a comprehensive FTA, loosely based on the NAFTA model, in September 1994. The FTA entered into force on January 1, 1995, establishing a free trade area that would be phased in over a period of 15 years. On June 7, 2010, at the request of the Bolivian government, the two countries entered into an agreement called an Economic Complementation Agreement (ECA), effectively terminating the previous FTA that had been in effect for 16 years.

When the Bolivian government adopted a new constitution in February 2009, it determined that certain chapters of the FTA were incompatible under the new constitution and that the treaty with Mexico would have to be renegotiated. The government determined that the FTA chapters related

[42] Mexico's Economic Ministry, "Concluye Negociación para un Acuerdo de Integración Comercial entre México y Perú," *Boletín de Prensa* No. 68, June 4, 2011.

[43] For more information, see CRS Report R40502, *The Trans-Pacific Partnership Agreement*, by (name redacted) and (name redacted).

[44] Aaron Lorenzo, Daniel Pruzin, Amy Tsui, and Peter Menyasz, "Mexico Invited to Join TPP Negotiations; Rhodes Says Discussions with Canada 'Close'," *Bloomberg BNA International Trade Daily,* June 16, 2012.

to investment, services trade, intellectual property rights, and government procurement were unconstitutional. The 2010 ECA that replaced the 1995 FTA maintained the tariff elimination provisions on merchandise trade that had been in place since 1995, but terminated all other agreement provisions.[45]

The Pending Mexico-Central America FTA

The FTA between Mexico and Central America was signed on November 22, 2011. The FTA must be ratified by the governments of all countries before it can enter into force. Mexico, the only country that has ratified it, approved the agreement on January 9, 2012.[46] Initiated in June 2008, the FTA aims to converge existing free trade agreements between Mexico and Central American countries and create a single regional agreement with Mexico. Upon entry into force, the FTA will replace the following FTAs: (1) Mexico-Costa Rica FTA; (2) Mexico-Nicaragua FTA; and (3) Mexico-Northern Triangle (El Salvador, Guatemala and Honduras). The first round of negotiations took place in May 2010 in Mexico City. After a total of eight rounds of talks, the countries concluded negotiations on October 20, 2011.[47]

Pacific Alliance

On June 6, 2012, leaders from Chile, Colombia, Mexico, and Peru met to sign a declaration to facilitate the free flow of investment, trade, and people under a mechanism called the Pacific Alliance. The intent is for the alliance to act as a platform to coordinate trade, primarily with Asia. The four members already have in place bilateral free trade agreements and have agreed to coordinate efforts regarding development agencies, electronic trade, services, and tourism. They have also proposed to create a "Pacific Alliance visa" that would make it easier for residents in the four countries to cross borders.[48] Costa Rica and Panama are waiting to join the alliance and Canada participated at the latest summit as an observer. The Pacific Alliance is the first major free-trade initiative in the region since the creation of the Southern Common Market (Mercosur) 20 years ago.[49]

Partial Scope Agreements

Mexico has a number of partial scope agreements, which are integration agreements with more limited free trade coverage than a free trade agreement (see **Table 1**). Mexico is a party to the Agreement on the Global System of Trade Preferences Among Developing Countries (GSTP). The GSTP was established in 1988 as a framework for the exchange of trade preferences among developing countries to promote trade among developing countries. The agreement provides tariff preferences on merchandise trade among member countries. It is a treaty to which only Group of

[45] Bolivian government press release, "México y Bolivia Mantienen Libre Comercio de Mercancías Gracias a Nuevo Acuerdo de Complementación," Dirección General de Comunicación Social, June 4, 2010.

[46] Ibid.

[47] OAS, Foreign Trade Information System, Background and Negotiations on the Central America Countries – Mexico, available at https://www.sice.oas.org.

[48] Lucien O. Chauvin, "Chile, Colombia, Mexico, Peru Sign Declaration Creating Pacific Alliance," *Bloomberg BNA International Trade Daily,* June 7, 2012.

[49] Ibid.

77 member countries may enter.[50] The text of the agreement was adopted after a round of negotiations that was concluded in Belgrade in 1988. The agreement, which entered into force on April 19, 1989, was envisaged as being a dynamic instrument which would be expanded in successive stages in additional rounds of negotiations and reviewed periodically.[51] A second round of negotiations was proposed in the early 1990s to expand trade preferences, but negotiations faltered as members failed to ratify the agreement. In June 2004, GSTP participants launched a third round of negotiations. Forty-four countries have acceded to the agreement.[52]

Table 1. Mexico's Partial Scope Agreements

Agreement	Coverage	Date of Signature	Entry into Force	WTO Legal Cover
Global System of Trade Preferences Among Developing Countries (GSTP)[a]	Goods	April 13, 1988	April 19, 1989	Enabling Clause
Latin American Integration Association (ALADI)[b]	Goods	August 12, 1980	March 18, 1981	Enabling Clause
Protocol on Trade Negotiations (PTN)[c]	Goods	December 8, 1971	February 11, 1973	Enabling Clause

Source: World Trade Organization, Regional Trade Agreement Database, available at http://www.wto.org.

a. Includes Algeria, Argentina, Bangladesh, Benin, Venezuela, Bolivia, Brazil, Cameroon, Chile, Colombia, Cuba, Ecuador, Egypt, Former Yugoslav Republic of Macedonia, Ghana, Guinea, Guyana, India, Indonesia, Islamic Republic of Iran, Iraq, Republic of Korea, Democratic People's Republic of Korea, Libyan Arab Jamahirlya, Malaysia, Mexico, Morocco, Mozambique, Myanmar, Nicaragua, Nigeria, Pakistan, Peru, Philippines, Singapore, Sri Lanka, Sudan, Tanzania, Thailand, Trinidad and Tobago, Tunisia, Vietnam, and Zimbabwe.

b. Includes Argentina, Venezuela, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, and Uruguay.

c. Includes Bangladesh, Brazil, Chile, Egypt, Israel, Republic of Korea, Mexico, Pakistan, Paraguay, Peru, Philippines, Serbia, Tunisia, Turkey, Uruguay.

Mexico is a signatory to the Latin American Integration Association (ALADI), which was established by the Treaty of Montevideo in August 1980 and entered into force on March 18, 1981. ALADI replaced the Latin American Free Trade Association established in 1960 with the

[50] The Group of 77 (G-77) was established on June 15, 1964 by seventy-seven developing countries, signatories of the "Joint Declaration of the Seventy-Seven Countries," issued at the end of the first session of the United Nations Conference on Trade and Development (UNCTAD) in Geneva.

[51] United Nations Conference on Trade and Development, Press Release, "Global System of Trade Preferences," June 16, 2004.

[52] Ibid.

goal of developing a common market in Latin America. ALADI members include Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. Signatory countries have sought economic cooperation amongst each other but have made little progress toward forming a common market. They maintain a flexible goal of encouraging free trade without a timetable for instituting a common market. Members approved a regional tariff preference arrangement in 1984 and expanded it in 1987 and 1990.[53]

In addition, Mexico is a member of the Protocol Relating to Trade Negotiations among Developing Countries (PTN). The PTN is a preferential arrangement involving Bangladesh, Brazil, Chile, Egypt, Israel, Mexico, Pakistan, Paraguay, Peru, Philippines, Republic of Korea, Serbia, Tunisia, Turkey, and Uruguay. It was signed in December 1971 and became effective on February 11, 1973.

Mexico's Merchandise Trade

In 2011, Mexico's leading export items were crude petroleum oil, passenger motor vehicles, flat panel screen TVs, mobile telephones, and vehicles for the transportation of goods. The leading import items were gasoline, parts for flat panel screen TVs, mobile telephones, and passenger motor vehicles (see **Table 2**). Since trade liberalization, Mexico's trade with the world has risen rapidly, with exports increasing faster than imports. Mexico's exports to all countries increased 475% between 1994 and 2011, from $60.8 billion to $349.6 billion (see **Figure 2**). Although the 2009 economic downturn resulted in a decline in the value of exports, exports increased in 2010 and in 2011. Mexico's imports from all countries increased from $79.3 billion in 1994 to $350.9 billion in 2011, an increase of 342%. Mexico's trade balance went from a deficit of $18.5 billion in 1994 to surpluses of $7.1 billion in 1995 and $6.5 billion in 1996. Since 1998, Mexico's trade balance has remained in deficit, equaling $1.3 billion in 2011.

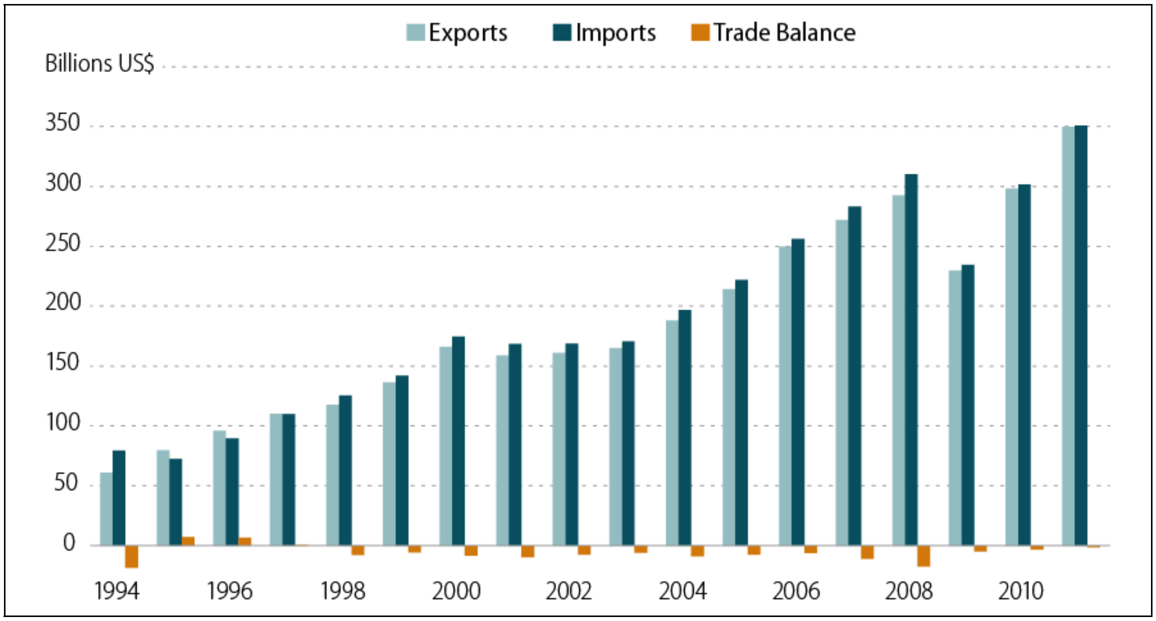
Table 2. Composition of Merchandise Trade: 2011

Mexico's Leading Exports		Mexico's Leading Imports	
Product	**Value** (Billions US$)	**Product**	**Value** (Billions US$)
Crude Petroleum Oil	49.2	Gasoline	18.0
Passenger motor vehicles	18.9	Parts for flat screen TV apparatus	6.6
TV apparatus with flat panel screen	15.6	Mobile telephones	3.7
Mobile Telephones	6.6	Passenger motor vehicles	3.6
Vehicles for transport of goods	5.9	Modular circuits	2.4
Total	349.6	Total	350.9

Source: Compiled by CRS using data from Mexico's *Subsecretaría de Negociaciones Comerciales Internacionales.*

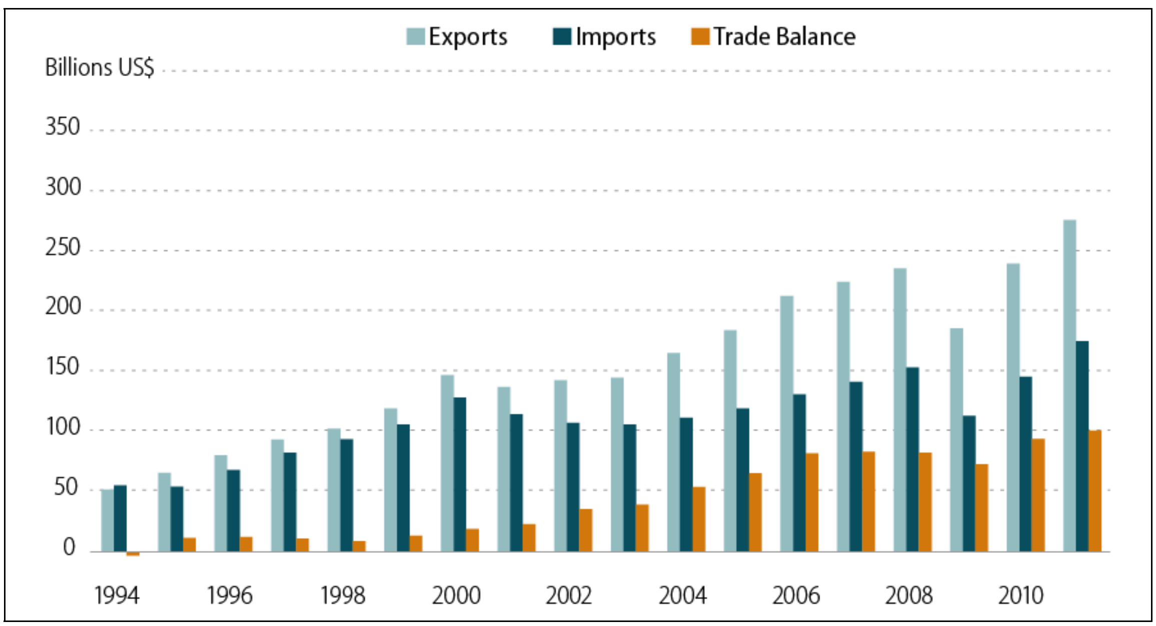
[53] Latin American Integration Association (ALADI) website, see http://www.aladi.org.

Figure 2. Mexico's Merchandise Trade with All Countries



Source: Compiled by CRS using data from Mexico's Ministry of Economy and Global Trade Atlas.

Figure 3. Mexico's Merchandise Trade with the United States



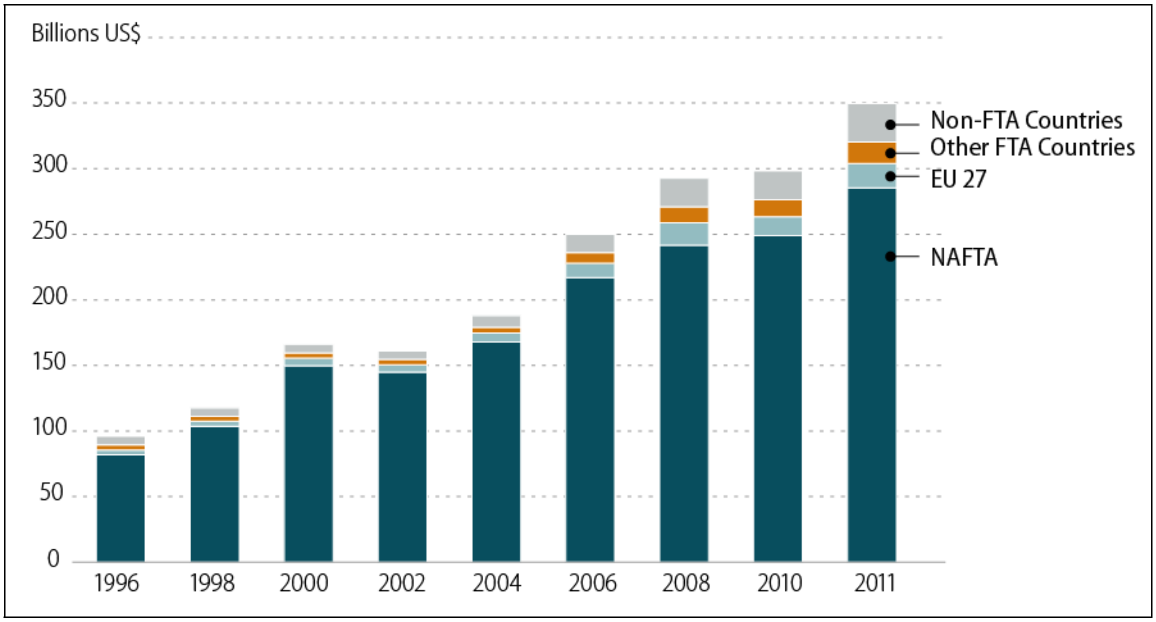
Source: Compiled by CRS using data from Mexico's Ministry of Economy.

Trade Trends Since Liberalization

Mexico's reliance on the United States as a trade partner has diminished very slightly over the years. The percentage of total exports going to the United States decreased slightly between 1996 and 2011, from 83% to 79% (see **Figure 3**). In 2011, 93% of Mexico's exports went to countries with which it has FTAs. Exports to the European Union accounted for 6% of Mexico's total exports.

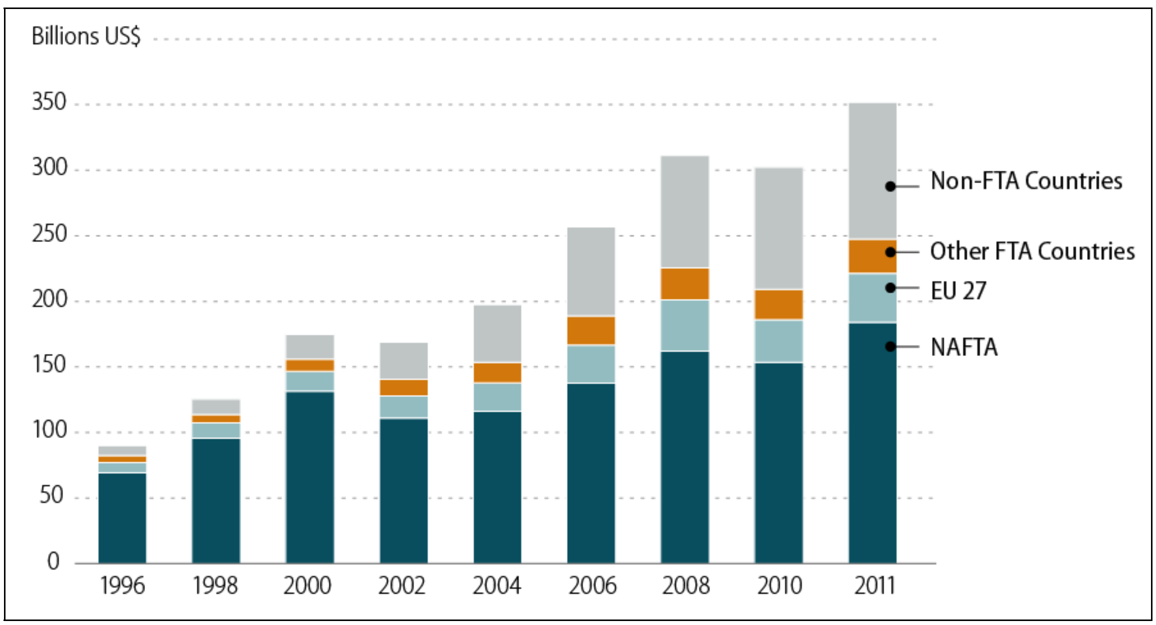
Between 1996 and 2011, the U.S. share of Mexico's total imports decreased from 75% to 50% (see **Figure 4**). The share of Mexico's imports coming from NAFTA trading partners declined from77% of total imports in 1996 to 52% in 2011. The percentage of imports from non-FTA countries increased from 8% to 31% during the same time period. In 2011, NAFTA countries ranked first as suppliers of Mexico's imports among FTA partners ($184.0 billion), followed by the European Union ($37.5 billion), and Japan ($16.5 billion). Import growth from non-FTA trading partners has also increased since 1996. Although Mexico does not have an FTA with China, Mexico's imports from China have increased considerably in recent years. Imports from China went up from $760 million, or 1% of total imports, in 1996 to $52.2 billion, or 15% of total imports, in 2011. The value of Mexico's imports from China is higher than that from the European Union or Japan.

Figure 4. Mexico's Exports by FTA Partner: 1996-2011



Source: Compiled by CRS using data from Mexico's *Subsecretaría de Comercio Exterior*.

Figure 5. Mexico's Imports by FTA Partner: 1996 - 2011



Source: Compiled by CRS using data from Mexico's *Subsecretaría de Comercio Exterior*.

Economic Policy Challenges for Mexico

The United States continues to be the dominant export market for Mexican goods, despite Mexico's efforts to liberalize trade with other countries. The reliance of Mexico on the United States as an export market makes the country more susceptible to economic conditions in the United States. The global financial crisis, which resulted in a downturn in the U.S. economy, resulted in the deepest recession in the Mexican economy since the 1930s. However, the economy has rebounded in the past two years and GDP growth for 2012 is projected to be 3.7%.[54]

Mexico has been facing increasing competition from China and other Asian economies in the manufacturing sector. In 2003, China replaced Mexico as the second-highest source of U.S. imports. Some economists argue that Mexico has fallen behind in its comparative advantage in exporting in industries with intermediate wages and technological sophistication.[55] They argue that Mexico must invest more in education and telecommunications infrastructure to increase productivity and remain competitive. Others argue that Mexico should make more progress in scientific research to attract and create high-tech industries, such as China has done. They maintain that Mexico's approach has been a combination of fiscal and customs policies to enhance its comparative advantage of sharing a 2,000-mile border with the United States, but that Mexico has not done enough to promote scientific and technical research.[56]

Mexico has made an effort to make trade agreements a tool for promoting economic development and combating poverty, but it is only part of the overall effort of the Mexican government to address these issues. Mexico has implemented a compensatory policy to address poverty through its *Oportunidades* program (formerly known as Progresa). 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.[57] The program has been successful in bringing more economic stability to the country and reducing poverty but it has not helped the country's productivity and may not be a long-term solution. Some argue that such programs result in a dependence for cash transfers and do not help poor workers obtain formal sector jobs with prospects for increasing productivity.[58]

Implications for U.S. Interests

Mexico's numerous free trade agreements and its trade liberalization policy are of interest to U.S. policymakers because of the implications for U.S.-Mexico trade, economic stability in Mexico, and the overall relationship between the two countries. Economic conditions in Mexico are important to the United States because of the proximity of Mexico to the United States, the close

54 Economist Intelligence Unit, "Economy Expands by 4.6% in the First Quarter of 2012," June 1, 2012.

55 Latin America/Caribbean and Asia/Pacific Economics and Business Association, *Economic Integration and Manufacturing Performance in Mexico: Is Chinese Competition to Blame?,* by Ernesto López-Córdova, Working Paper No. 23, December 2004.

56 *Mexico Now,* "Mexico's and China's Programs to Attract Foreign Investment," by Ramiro Villega and Migual A. Díaz Marín, pp. 52-55.

57 Santiago Levy, *Progress Against Poverty,* Brookings Institution, 2006.

58 Levy, Santiago, *Good Intensions, Bad Outcomes: Social Policy, Informality, and Economic Growth in Mexico,* Brookings Institution Press, 2008, pp. 1-6.

trade and investment interactions, and other social and political issues. Another implication for the United States is the effect of Mexico's FTAs on U.S. exports to Mexico. The liberalization of Mexico's trade and investment barriers to other countries has resulted in increasing competition for U.S. goods and services in the Mexican market. However, trade flows are also affected by other factors such as exchange rates, economic growth, and investor confidence, and it is difficult to isolate these effects.

A number of studies suggest that while Mexico's trade liberalization policy, mainly NAFTA, may have brought economic and social benefits to the Mexican economy as a whole, the benefits have not been evenly distributed throughout the country. Wages and employment tend to be higher in states experiencing higher levels of FDI and trade. In terms of regional effects, initial conditions in Mexico determined which Mexican states experienced stronger economic growth as a result of trade liberalization. States with higher levels of telecommunications and transportation infrastructure gained more benefits than poorer states with lower levels of education, infrastructure, and institutional capacity. This affects the United States because Mexican workers who have lost their jobs due to trade liberalization may migrate to other areas in Mexico or to the United States to seek jobs.[59]

To address issues affecting trade, U.S. policymakers may consider closer cooperation with Mexico to develop complementary policies to ensure that all segments of the two countries benefit from economic integration. The United States and Mexico, along with Canada, have increased cooperation on economic and security issues, but there may be additional options that could be considered by both countries.[60] One issue on which a number of economists and other analysts agree is that Mexico needs to invest more in education, infrastructure, and institutional strengthening to benefit more fully from freer trade. A possible policy option to address this issue is to create a bilateral or trilateral fund for development that focuses on building infrastructure, improving education and human capital, and creating more opportunities for research and development. U.S. and Mexican policymakers have informally talked about expanding the mandate of the North American Development Bank (NADBank).[61] A number of Members of the U.S. Congress and elected officials from Mexico have discussed the possibility of expanding the mission of the NADBank to go beyond environmental and border issues and consider creating an infrastructure fund that would be managed by NADBank to provide investment in infrastructure, communications, or education.

[59] For more information, see CRS Report RL34733, *NAFTA and the Mexican Economy*, by (name redacted).

[60] See CRS Report RS22701, *Security and Prosperity Partnership of North America: An Overview and Selected Issues*, by (name redacted) and (name redacted).

[61] NADBank and its sister institution, the Border Environment Cooperation Commission (BECC), were created under a bilateral side agreement to NAFTA called the Border Environmental Cooperation Agreement (BECC) to address environmental infrastructure problems along the U.S.-Mexican border.

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