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

(name redacted)
Specialist in International Trade and Finance

November 4, 2016

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

Summary

During the 114th Congress, policymakers have maintained an interest in Mexico on issues related to the proposed Trans-Pacific Partnership (TPP) agreement and possible effects on U.S.-Mexico trade relations; cross-border trade and investment; trade issues related to the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO); Mexico's economic reform measures, especially in the energy sector; and U.S.-Mexico border management. Congress has also maintained an active interest in ongoing bilateral efforts to promote economic competitiveness, increase regulatory cooperation, and pursue energy integration. Under the U.S.-Mexico High Level Economic Dialogue (HLED), which was first launched in September 2013, the United States and Mexico are striving to advance economic and commercial priorities through annual meetings at the Cabinet level that also include leaders from the public and private sectors. Another bilateral initiative that may be of interest to policymakers is the High-Level Regulatory Cooperation Council (HLRCC), launched in February 2012, which is intended to help align regulatory principles. In addition, the two countries have a bilateral initiative for improving border management under the Declaration Concerning 21st Center Border Management that was announced in 2010.

The economic and trade relationship with Mexico is of interest to U.S. policymakers because of Mexico's proximity to the United States, the high level of bilateral trade, and 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 United States and Mexico have strong economic ties through NAFTA, which has been in effect since 1994. 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. Much of the bilateral trade between the United States and Mexico occurs in the context of supply chains as manufacturers in each country work together to create goods. The expansion of trade has resulted in the creation of vertical supply relationships, especially along the U.S.-Mexico border. The flow of intermediate inputs produced in the United States and exported to Mexico and the return flow of finished products greatly increased the importance of the U.S.-Mexico border region as a production site. U.S. manufacturing industries, including automotive, electronics, appliances, and machinery, all rely on the assistance of Mexican manufacturers.

Negotiations for the proposed TPP were concluded on October 5, 2015. The agreement was signed on February 4, 2016. If approved by Congress and entered into force, the agreement would likely enhance the economic links Mexico already has with the United States and Canada under NAFTA. Policymakers may consider how a TPP would affect the U.S.-Mexico trade and investment relationship. Because almost all U.S. trade with Mexico is now conducted duty and barrier free under NAFTA, the TPP would be unlikely to have a major effect on trade but it could alter certain rules governing trade and investment. A TPP may have implications in several areas, including intellectual property rights protection, investment, state-owned enterprises, services trade, agriculture, government procurement, worker rights, and the environment.

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Introduction

The U.S.-Mexico bilateral economic relationship is of key interest to the United States because of Mexico's proximity, the high volume of trade with Mexico, and the strong cultural and economic ties between the two countries. The United States and Mexico share many common economic 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 also links through migration, tourism, environmental issues, health concerns, and family and cultural relationships.

The 114th Congress has maintained an active interest on issues related to the proposed Trans-Pacific Partnership (TPP) agreement and possible effects on U.S.-Mexico trade relations; NAFTA and WTO trade issues; U.S.-Mexico trade and investment issues; Mexico's economic reform measures, especially in the energy sector; and U.S.-Mexico border management. Congress has also taken an interest in the economic policies of Mexico's President, Enrique Peña Nieto. Since entering into office on December 1, 2012, Peña Nieto has successfully driven numerous economic and political reforms that include, among other measures, opening up the energy sector to private investment, countering monopolistic practices, passing fiscal reform, making farmers more productive, and increasing infrastructure investment.[1] Peña Nieto also endorses an active international trade policy aimed at increasing Mexico's trade with Asia, South America, and other markets. His government took an active role in the negotiations for a TPP and is a strong proponent of the agreement.[2]

This report provides an overview of U.S.-Mexico economic relations, trade trends, the Mexican economy, NAFTA, and trade issues between the United States and Mexico. It will be updated as events warrant.

U.S.-Mexico Economic Relations

Mexico is one of the United States' most important trading partners, ranking second among U.S. export markets and third in total U.S. trade (imports plus exports). Under the North American Free Trade Agreement (NAFTA), the United States and Mexico have developed significant economic ties. Trade between the two countries has more than tripled since the agreement entered into force in 1994. Through NAFTA, the United States, Mexico, and Canada form one of the world's largest free trade areas, with about one-third of the world's total gross domestic product (GDP). Mexico has the second-largest economy in Latin America after Brazil. It has a population of 124 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).

Mexico's gross domestic product (GDP) was an estimated $1.2 trillion in 2015, about 6% of U.S. GDP of $17.9 trillion. Measured in terms of purchasing power parity (PPP),[3] Mexican GDP was considerably higher, $2.2 trillion in 2015, or about 12% of U.S. GDP. Per capita income in

[1] See CRS Report R42917, *Mexico: Background and U.S. Relations*, by (name redacted) .

[2] For more information on TPP, see CRS In Focus IF10000, *TPP: An Overview*, by (name redacted) and (name r edacted) .

[3] Many economists contend that using nominal exchange rates to convert foreign currency into U.S. dollars for comparing gross domestic product (GDP) may not be the most accurate measurement because prices vary from country to country. Purchasing power parity (PPP) factors in price differences to reflect the actual purchasing power of currencies relative to the dollar in real terms.

Mexico is significantly lower than in the United States. In 2015, Mexico's per capita GDP in purchasing power parity was $17,590, or 32% of U.S. per capita GDP of $55,822 (see **Table 1**). Ten years earlier, in 2005, Mexico's per capita GDP in purchasing power parity was $12,064, or 27% of the U.S. amount of $44,272. 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.[4] Mexico's economy relies heavily on the United States as an export market. The value of exports equaled 36% of Mexico's GDP in 2015, as shown in **Table 1**, and approximately 80% of Mexico's exports are headed to the United States.

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

	Mexico		United States	
	2005	2015[a]	2005	2015
Population (millions)	110	127	296	321
Nominal GDP (US$ billions)[b]	866	1,169	13,094	17,938
Nominal GDP, PPP[c] Basis (US$ billions)	1,324	2,234	13,094	17,938
Per Capita GDP (US$)	7,889	9,200	44,272	55,822
Per Capita GDP in $PPPs	12,064	17,590	44,272	55,822
Nominal exports of goods & services (US$ billions)	230	429	1,309	2,253
Exports of goods & services as % of GDP[d]	27%	37%	10%	13%
Nominal imports of goods & services (US$ billions)	242	425	2,030	2,785
Imports of goods & services as % of GDP[d]	28%	36%	16%	16%

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

a. Some figures for 2015 are estimates.

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.

U.S.-Mexico Trade

The United States is, by far, Mexico's leading partner in merchandise trade, while Mexico is the United States' third-largest trade partner after China and Canada. Mexico ranks second among U.S. export markets after Canada, and is the third-leading supplier of U.S. imports. U.S. merchandise trade with Mexico increased rapidly since NAFTA entered into force in January 1994. U.S. exports to Mexico increased from $41.6 billion in 1993 (the year prior to NAFTA's entry into force) to $240.3 billion in 2014, an increase of 478%. In 2015, the drop in oil prices resulted in a decline in the value of merchandise exports to $236.4 billion. The value of goods imported from Mexico increased from $39.9 billion in 1993 to $294.7 billion in 2015, an increase of 639% (see **Figure 1**). The merchandise trade balance with Mexico went from a surplus of $1.7

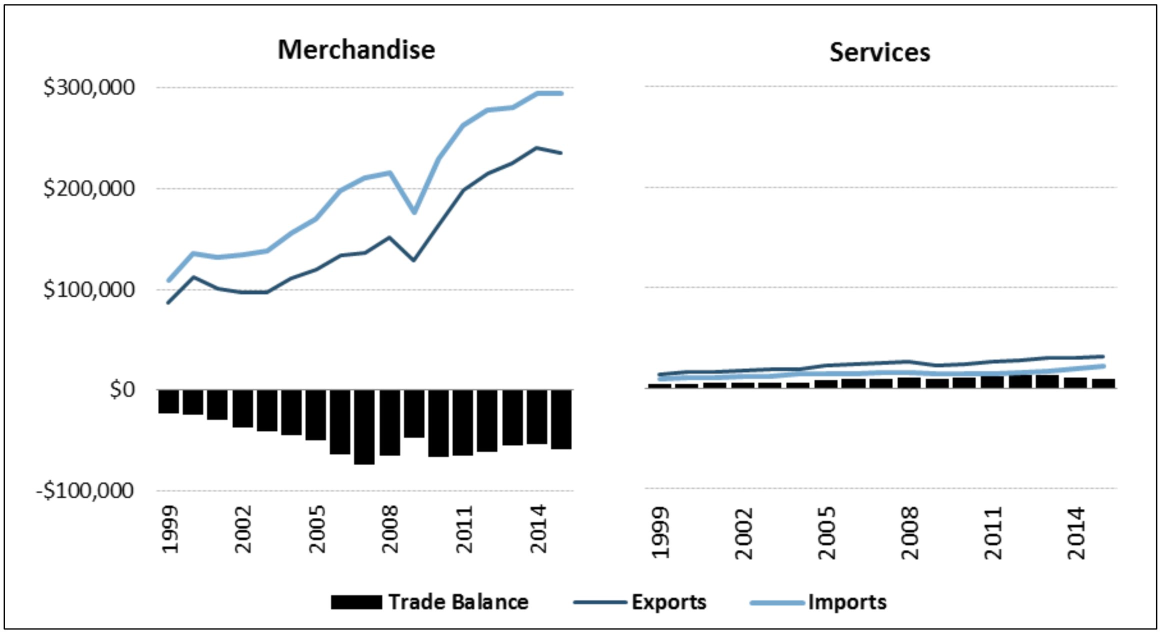
[4] The World Bank utilizes a method for classifying world economies based on gross national product (GNP). Mexico is one of 48 economies classified as upper-middle-income, or countries which have a per capita GNP of $3,946 to $12,195 per year. The United States is one of 69 economies classified as a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

billion in 1993 to a widening deficit that reached a peak of $74.3 billion in 2007. In 2015, the merchandise trade deficit with Mexico was $58.4 billion.

In services, the value of trade between the United States and Mexico is much lower, though it is also increasing rapidly (see **Figure 1**). U.S. services exports to Mexico totaled $31.5 billion in 2015, up from $14.2 billion in 1999, while imports were valued at $21.9 billion in 2015, up from $9.7 billion in 1999. The U.S. services trade balance with Mexico has moved from a surplus of $12.7 billion in 2012 to a surplus of $9.6 billion in 2015.[5]

Figure 1. U.S. Trade with Mexico: 1999-2015

(U.S. $ in millions)



Source: Compiled by CRS using the United States International Trade Commission (USITC) Interactive Tariff and Trade DataWeb at http://dataweb.usitc.gov.

Mexico continues to be reliant on the United States as an export market with approximately 80% of its total merchandise exports headed to the United States in 2015. Its share of the U.S. market has lost ground since 2003, when China surpassed Mexico as the second-leading supplier of U.S. imports. The U.S. share of Mexico's import market has also decreased. Between 1996 and 2013, the U.S. share of Mexico's total imports decreased from 83% to 47%. China is Mexico's second-leading supplier of imports, with an 18% market share.[6]

Leading U.S. imports from Mexico in 2015 included motor vehicles ($50.5 billion), motor vehicle parts ($43.7 billion), computer equipment ($17.7 billion), audio and video equipment ($17.7 billion), communications equipment ($13.3 billion), and oil and gas ($12.5 billion), as shown in **Table 2**. After sharp decreases in 2009 caused by the global economic downturn, U.S. imports from Mexico increased from $176.5 billion in 2009 to $294.2 billion in 2014. Oil and gas imports from Mexico have decreased sharply since 2011, dropping from $39.6 billion in 2011 to $12.5 billion in 2015.

[5] U.S. Bureau of Economic Analysis interactive statistics, available at http://www.bea.gov.

[6] Based on data from *Global Trade Atlas*.

Leading U.S. exports to Mexico in 2015 consisted of motor vehicle parts ($23.8 billion), computer equipment ($16.3 billion), petroleum and coal products ($15.4 billion), semiconductors and other electronic components ($13.9 billion), basic chemicals ($8.5 billion), and resin and synthetic products ($8.2 billion), as shown in **Table 3**.

Table 2. U.S. Imports from Mexico: 2011-2015

(U.S. $ in billions)

Items (NAIC 4-digit)	2011	2012	2013	2014	2015	% Total in 2015
Motor vehicles	30.5	35.3	40.1	46.4	50.5	17%
Motor vehicle parts	28.5	33.3	36.2	40.1	43.7	15%
Computer equipment	14.5	16.0	14.8	14.3	17.7	6%
Audio and video equipment	14.7	14.2	13.8	14.2	14.6	5%
Communications equipment	13.2	13.8	13.5	10.7	13.3	5%
Oil and gas	39.6	37.2	32.0	27.8	12.5	4%
Other	121.9	127.8	130.2	140.6	142.4	48%
Total	262.9	277.6	280.6	294.1	294.7	

Source: Compiled by CRS using USITC Interactive Tariff and Trade DataWeb at http://dataweb.usitc.gov: North American Industrial Classification (NAIC) 4-digit level.

Note: Nominal U.S. dollars.

Table 3. U.S. Exports to Mexico: 2011-2015

(U.S. $ in Billions)

Items (NAIC 4-digit)	2011	2012	2013	2014	2015	% Total in 2015
Motor vehicle parts	17.2	19.4	21.1	21.5	23.8	10%
Computer equipment	14.5	14.8	16.0	16.3	16.3	7%
Petroleum and coal products	20.3	20.7	19.3	19.0	15.4	7%
Semiconductors and other electronic components	10.9	11.4	13.0	13.5	13.9	6%
Basic chemicals	9.1	10.1	10.1	10.1	8.5	4%
Resin and synthetic rubber or fiber	7.3	7.7	8.2	8.7	8.2	3%
Other	119.0	131.8	138.4	151.1	150.3	64%
Total	198.3	215.9	226.1	240.2	236.4	

Source: Compiled by CRS using USITC Interactive Tariff and Trade DataWeb at http://dataweb.usitc.gov: NAIC 4-digit level.

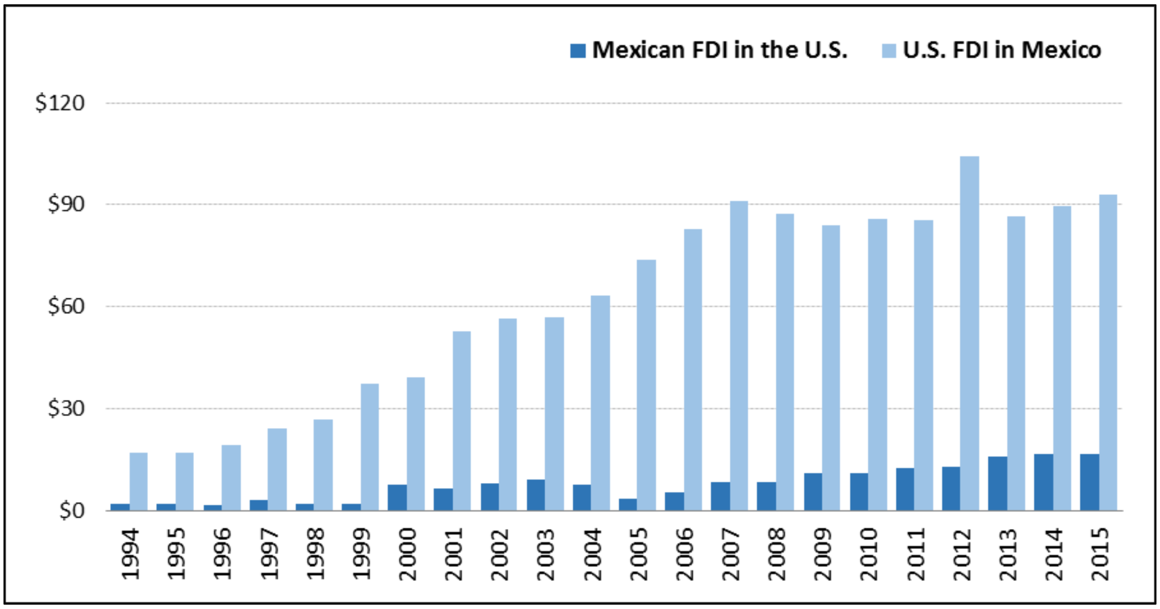
Note: Nominal U.S. dollars.

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. The United States is the largest source of FDI in Mexico. The stock of U.S. FDI increased from $17.0 billion in 1994 to a high of $104.4 billion in 2012, then down to $92.8 billion in 2015. While Mexican FDI in the United States is much lower than U.S. investment in Mexico, it has also increased since NAFTA, totaling $16.6 billion in 2015 (see **Figure 2**).

Figure 2. U.S. and Mexican Foreign Direct Investment Positions

1994-2015 Historical Cost Basis



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

The liberalization of Mexico's restrictions on foreign investment in the late 1980s and the early 1990s played an important role in attracting U.S. investment to Mexico. Up until 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. A sharp shift in policy in the late 1980s that included market opening measures and economic reforms helped bring in a steady increase of FDI flows into Mexico. These reforms were locked in through NAFTA provisions on foreign investment and resulted in increased 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.

Manufacturing and U.S.-Mexico Supply Chains

Many economists and other observers have credited NAFTA with helping U.S. manufacturing industries, especially the U.S. auto industry, become more globally competitive through the development of supply chains.[7] Much of the increase in U.S.-Mexico trade, for example, can be attributed to specialization as manufacturing and assembly plants have reoriented to take advantage of economies of scale. As a result, supply chains have been increasingly crossing national boundaries as manufacturing work is performed wherever it is most efficient.[8] A reduction in tariffs in a given sector not only affects prices in that sector but also in industries that purchase intermediate inputs from that sector. The importance of these direct and indirect effects is often overlooked, according to one study. The study suggests that these linkages offer important trade and welfare gains from free trade agreements and that ignoring these input-output linkages could underestimate potential trade gains.[9]

A significant portion of merchandise trade between the United States and Mexico occurs in the context of production sharing as manufacturers in each country work together to create goods. Trade expansion has resulted in the creation of vertical supply relationships, especially along the U.S.-Mexico border. The flow of intermediate inputs produced in the United States and exported to Mexico and the return flow of finished products greatly increased the importance of the U.S.-Mexico border region as a production site. U.S. manufacturing industries, including automotive, electronics, appliances, and machinery, all rely on the assistance of Mexican manufacturers. One report estimates that 40% of the content of U.S. imports of goods from Mexico consists of U.S. value added content.[10]

Mexico's Export Processing Zones

Mexico's export-oriented assembly plants, a majority of which have U.S. parent companies, are closely linked to U.S.-Mexico trade in various labor-intensive industries such as auto parts and electronic goods. Foreign-owned assembly plants, which originated under Mexico's maquiladora program in the 1960s,[11] account for a substantial share of Mexico's trade with the United States. These export processing plants use extensive amounts of imported content to produce final goods and export the majority of their production to the U.S. market. Mexico and China are the two largest users of export processing zones in the developing world, and together account for about 85% of worldwide processing exports.[12] The U.S.-Mexico border region has the highest concentration of assembly plants and workers.

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[7] Hufbauer and Schott, *NAFTA Revisited,* pp. 20-21.

[8] Ibid., p. 21.

[9] Lorenzo Caliendo and Fernando Parro, *Estimates of the Trade and Welfare Effects of NAFTA,* National Bureau of Economic Research, November 2012, pp. 1-5.

[10] Robert Koopman, William Powers, and Zhi Wang, et al., *Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains*, National Bureau of Economic Research, Working Paper 16426, Cambridge, MA, September 2010, p. 8.

[11] 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).

[12] Robert Koopman, William Powers, and Zhi Wang, et al., *Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains*, National Bureau of Economic Research, Working Paper 16426, Cambridge, MA, September 2010, p. 1.

(continued...)

NAFTA, along with a combination of other factors, contributed to a significant increase in Mexican export-oriented assembly plants, such as maquiladoras, after 1993. Other factors that contributed to manufacturing growth and integration include trade liberalization, wages, and economic conditions, both in the United States and Mexico. Although some provisions in NAFTA may have encouraged growth in certain sectors, manufacturing activity likely has been more influenced by the strength of the U.S. economy and relative wages in Mexico.

Private industry groups state 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.

Maquiladoras and NAFTA

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 Mexican 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.

Worker Remittances to Mexico

Remittances are one of the three highest sources of foreign currency for Mexico, along with oil and tourism. Most remittances to Mexico come from workers in the United States who send money back to their relatives. Mexico receives the largest amount of remittances in Latin America. Remittances are often a stable financial flow for some regions as workers in the United States make efforts to send money to family members. Most go to southern states where poverty levels are high. Women tend to be the primary recipients of the money, and usually use it for basic needs such as rent, food, medicine, or utilities.

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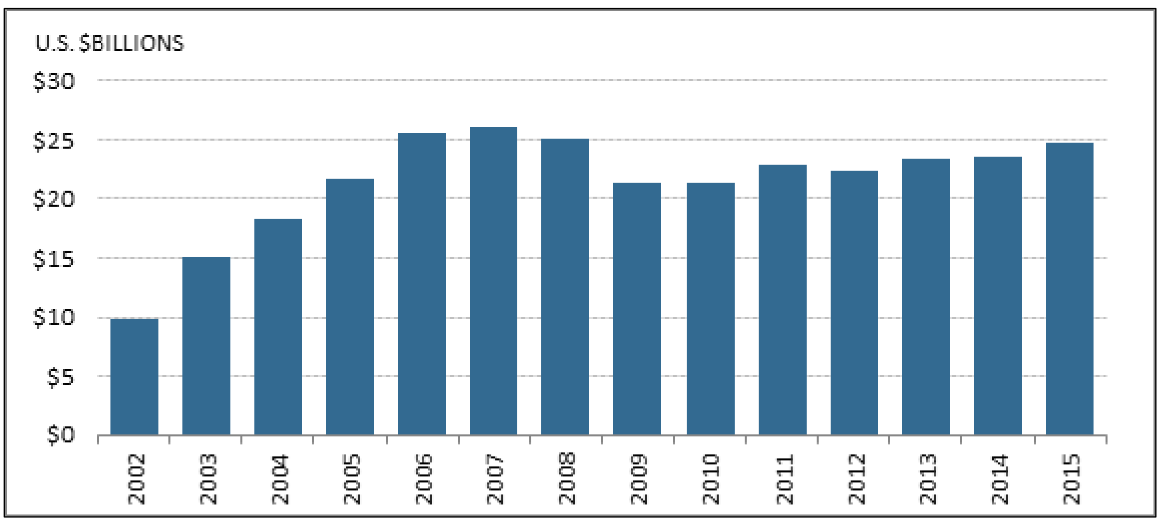
Annual remittances to Mexico increased by 5.1% in 2015 to $24.8 billion (see **Figure 3**).[13] In 2009 remittances experienced a sharp decline of 15.2%, likely due to the global financial crisis. Between 1996 and 2007, remittances increased from $4.2 billion to $26.1 billion, an increase of over 500%. The annual growth rate reached a high of 54.3% in 2003, and then continued at a slower rate until 2008, when the rate of growth declined. The growth in remittances has been related to increases in the frequency of sending, exchange rate fluctuations, migration, and employment in the United States.[14]

Electronic transfers and money orders are the most popular methods to send money to Mexico. The rapid increase in remittances during the late 1990s through the mid-2000s can be attributed to numerous factors, but it was also largely influenced by considerable reductions in transaction fees charged by banks. In the 1990s, these fees were as high as 8%, and went down as low as 2.5% in 2003.[15] The Inter-American Development Bank reported that the average cost to send $200 was 6.0% in 2010.[16]

Worker remittance flows to Mexico have an important impact on the Mexican economy, in some regions more than others. Some studies report that in southern Mexican states, remittances mostly or completely cover general consumption and/or housing. A significant portion of the money received by households goes for food, clothing, health care, and other household expenses. Money also may be used for capital invested in microenterprises throughout urban Mexico. The economic impact of remittance flows is concentrated in the poorer states of Mexico.

Figure 3. Remittances to Mexico

(from all countries)



Source: Compiled by CRS using data from the Inter-American Development Bank, Multilateral Investment Fund; and Mexico's Central Bank.

[13] See http://www.banxico.org.mx.

[14] Manuel Orozco, Laura Porras, and Julia Yansura, *The Continued Growth of Family Remittances to Latin America and the Caribbean in 2015*, Inter-American Dialogue, The Dialogue, Leadership for the Americas, February 2016.

[15] Federal Reserve Bank of Dallas, "Workers' Remittances to Mexico," *El Paso Business Frontier*, 2004.

[16] Inter-American Development Bank, "Mexico and Remittances," 2010.

Bilateral Economic Cooperation

The Obama Administration has engaged in bilateral efforts with Mexico, and also with Canada, to address issues related to the U.S.-Mexico border, enhance economic competitiveness, increase regulatory cooperation, and pursue energy integration.

High Level Economic Dialogue (HLED)

The United States and Mexico launched the High Level Economic Dialogue (HLED) on September 20, 2013, to help advance U.S.-Mexico economic and commercial priorities that are central to promoting mutual economic growth, job creation, and global competitiveness. The initiative is led at the Cabinet level and is co-chaired by the U.S. Department of State, Department of Commerce, the Office of the United States Trade Representative, and their Mexican counterparts.[17]

HLED Goals

Major goals of the HLED are meant to build on, but not duplicate, a range of existing bilateral dialogues and working groups. The United States and Mexico aim to promote competitiveness in specific sectors such as transportation, telecommunications, and energy, as well as to promote greater two-way investment.[18]

The HLED is organized around three broad pillars, including:

1. Promoting competitiveness and connectivity;
2. Fostering economic growth, productivity and innovation; and
3. Partnering for regional and global leadership.

The HLED is also meant to explore ways to promote entrepreneurship, stimulate innovation, and encourage the development of human capital to meet the needs of the 21st Century economy, as well as examine initiatives to strengthen economic development along the U.S.-Mexico border region. The United States and Mexico view the HLED as a way to facilitate greater alignment and cooperation on issues of shared concern, especially in regard to the proposed Trans-Pacific Partnership (TPP) agreement, the Asia Pacific Economic Cooperation (APEC) forum, the G20, and other initiatives.[19]

HLED Priorities for 2016

U.S. Vice President Joe Biden and Mexican Finance Minister Luis Videgaray co-chaired the third Cabinet-level meeting of the HLED in Mexico City on February 25, 2016. The meeting served as a forum to review the progress made during 2015 and to discuss goals for 2016 and beyond.[20] The meeting included Cabinet-level government officials from both the United States and Mexico. Vice President Biden told a Mexican audience that the United States is interested in building

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[17] The White House, Office of the Press Secretary, "Fact Sheet: U.S.-Mexico High Level Economic Dialogue," September 20, 2013.

[18] International Trade Administration, Department of Commerce, *High Level Economic Dialogue,* Fact Sheet, http://trade.gov/hled.

[19] Ibid.

[20] The White House, Briefing Room, *2016 U.S.-Mexico High-Level Economic Dialogue*, Joint Statement, February 25, 2016.

more bridges and good will between the two countries. He stated that the United States and Mexico "are joined at the hip" and can benefit significantly from each other.[21]

A few examples of the 2016 priorities discussed at the meeting include the following:

- Strengthening border infrastructure such as the new border crossing for cargo at Otay II-Otay Mesa East port of entry project and the new cargo pre-inspection pilot in San Jeronimo, Chihuahua;
- Formalizing the establishment of the U.S.-Mexico Energy Business Council to provide assistance in Mexico's transition to become a more competitive energy producer; promote sustainable development of unconventional energy resources; and share best practices in offshore oil and gas project regulations and environmental procedures;
- Expanding the Bilateral Forum on Higher Education, Innovation, and Research for the purpose of increasing economic opportunities for U.S. and Mexican citizens, developing a 21st century workforce for mutual economic prosperity, and fostering greater technical expertise in energy and tourism;
- Affirming commitments to seek timely approval of the TPP agreement and to coordinate closely on the implementation of the agreement; and
- Fostering actions to strengthen anti-corruption efforts in international fora such as the G-20 and the Open Government Partnership (OGP) anti-corruption working groups.

High-Level Regulatory Cooperation Council

Another bilateral effort is the U.S.-Mexico High-Level Regulatory Cooperation Council (HLRCC) launched in May 2010. The official work plan was released by the two governments on February 28, 2012, and focuses on regulatory cooperation in numerous sectoral issues including food safety; e-certification for plants and plant products; commercial motor vehicle safety standards and procedures; nanotechnology; e-health; and offshore oil and gas development standards. U.S. agencies that are involved in regulatory cooperation include the U.S. Food and Drug Administration, Department of Agriculture, Department of Transportation, Office of Management and Budget, Department of Interior, and Occupational Safety and Health Administration.[22] A second work plan was announced in February 2016 and is expected to include lessons learned from the first plan and will focus on a balanced approach considering sectors and activities of both countries.[23]

21st Century Border Management

The United States and Mexico are engaged in a bilateral border management initiative under the Declaration Concerning 21st Century Border Management that was announced in 2010. This initiative is a bilateral effort to manage the 2,000-mile U.S.-Mexico border through the following cooperative efforts: expediting legitimate trade and travel; enhancing public safety; managing

[21] Emily Pickrell, "Biden Visits mexico for High-Level Economic Talks," *Bloomberg BNA*, February 25, 2016.

[22] Department of Commerce, International Trade Administration, *U.S.-Mexico High Level Regulatory Cooperation Council*, http://www.trade.gov/hlrcc/.

[23] The White House, Briefing Room, *2016 U.S.-Mexico High-Level Economic Dialogue*, Joint Statement, February 25, 2016.

security risks; engaging border communities; and setting policies to address possible statutory, regulatory, and/or infrastructure changes that would enable the two countries to improve collaboration.[24] With respect to port infrastructure, the initiative specifies expediting legitimate commerce and travel through investments in personnel, technology, and infrastructure.[25] The two countries established a Bilateral Executive Steering Committee (ESC) composed of representatives from the appropriate federal government departments and offices from both the United States and Mexico. For the United States, this includes representatives from the Departments of State, Homeland Security, Justice, Transportation, Agriculture, Commerce, Interior, Defense, and the Office of the United States Trade Representative. For Mexico, it includes representatives from the Secretariats of Foreign Relations, Interior, Finance and Public Credit, Economy, Public Security, Communications and Transportation, Agriculture, and the Office of the Attorney General of the Republic.[26]

North American Leaders Summits

Since 2005, the United States, Mexico, and Canada have made additional efforts to increase cooperation on economic and security issues through various endeavors, most notably by participating in trilateral summits known as the North American Leaders' Summits (NALS). The first NALS took place in March 2005, in Waco, Texas, and has been followed by numerous trilateral summits in Mexico, Canada, and the United States. The most recent summit was hosted by Canadian Prime Minister Justin Trudeau on June 29, 2016, in Ottawa, Canada.[27] Key deliverables announced by the North American Leaders after the summit include efforts to

- enhance North America's economic competitiveness by enhancing trade facilitation, improving supply chain efficiency, advancing innovation and economic development through educational exchanges and other means, and engaging the private sector;
- expand efforts on climate change, clean energy, and the environment by setting a target to increase clean power to 50% of the electricity generated across North America by 2025, reducing methane emissions from the oil and gas sector by 40-45% by 2025, strengthening standards for energy efficiency and vehicle emissions, and continuing ongoing trilateral environmental cooperation;
- continue regional and global cooperation by establishing a "North American Caucus" to more effectively work on regional and global issues by holding semi-annual coordination meetings among the three countries' foreign ministries in regard to refugees, migration from Central America, democracy and human rights, sustainable development, health, and cyber security; and
- strengthen the region's security and defense by developing cooperative approaches to address common interests related to drug policy, peacekeeping,

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[24] U.S. Department of State, Bureau of Western Hemisphere Affairs, *United States-Mexico Partnership: Managing our 21st Century Border*, Fact Sheet, April 29, 2013.

[25] For a fuller discussion of the 21st Century Border initiative, see: CRS Report R41349, *U.S.-Mexican Security Cooperation: The Mérida Initiative and Beyond*, by (name redacted) and (name redacted) .

[26] For more information, see U.S. Department of Homeland Security, *21st Century Border: Documents and Fact Sheets,* http://www.dhs.gov/documents-and-fact-sheets.

[27] The White House, Office of the Press Secretary, "FACT SHEET: United States Key Deliverables for the 2016 North American Leaders' Summit," press release, June 29, 2016, https://www.whitehouse.gov/the-press-office/2016/06/29/fact-sheet-united-states-key-deliverables-2016-north-american-leaders.

> violence against indigenous women and girls, human trafficking, and foreign fugitives within the three countries.[28]

Current cooperative efforts pursed by the Obama Administration with Mexico and Canada have built upon the accomplishments of the working groups formed under previous NALSs. These efforts include the North American Competitiveness Workplan (NACW) and the North American Competitiveness and Innovation Conference (NACIC). The NACW was endorsed in 2014 by the three governments and includes trilateral investment initiatives, tourism collaboration, strengthening the North American production platform, and promotion of skills for a 21st century workforce. The NACIC is a forum for business and government leaders to address economic issues and is closely tied to the NALS.

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 especially in the areas of North American regionalism; inclusive and shared prosperity; innovation and education; energy and climate change; citizen security; and region, global, and stakeholder outreach to Central America and other countries in the Western Hemisphere. Some critics believe that the summits are not substantive enough and that North American leaders should consolidate the summits into more consequential meetings with follow-up mechanisms that are more action oriented. Others contend that the efforts do not include human rights issues or discussions on drug-related violence in Mexico.

The Mexican Economy

Mexico's economy is closely linked to the U.S. economy due to the strong trade and investment ties between the two countries. Economic growth has been slow in recent years and the forecast over the next few years projects slow economic growth projection due to an expected slowdown in the U.S. economy as well as to Mexico's institutional weaknesses and regulatory challenges.[29]

Economic Trends

After modest economic growth in 2014 and 2015, GDP is projected to grow by just 1.8% in 2016. In the medium term, growth is projected to rise modestly to about 2.5% on average annually over the next few years.[30] The Mexican economy performed poorly in 2014 and 2015, expanding by just 2.3% and 2.5%, respectively. Over the past 30 years (1984-2014), Mexico has had a low economic growth record with an average growth rate of 2.6%. The country has benefitted from important structural reforms initiated in the early 1990s, but events such as the U.S. recession of 2001 and the global economic downturn of 2009 adversely affected the economy and offset the government's efforts to improve macroeconomic management. Mexico is expected to continue to benefit from the dynamism of its export-based manufacturing sector, which has profited from U.S. demand, a fairly weak peso, above-average productivity growth, and a narrowing gap in average wages compared with China.[31]

Trends in Mexico's GDP growth generally follow U.S. economic trends, as shown in **Figure 4**, but with higher fluctuations. Mexico's economy is highly dependent on manufacturing exports to

[28] Ibid.

[29] Economist Intelligence Unit, *Country Report, Mexico*, Generated on October 26, 2016.

[30] Ibid.

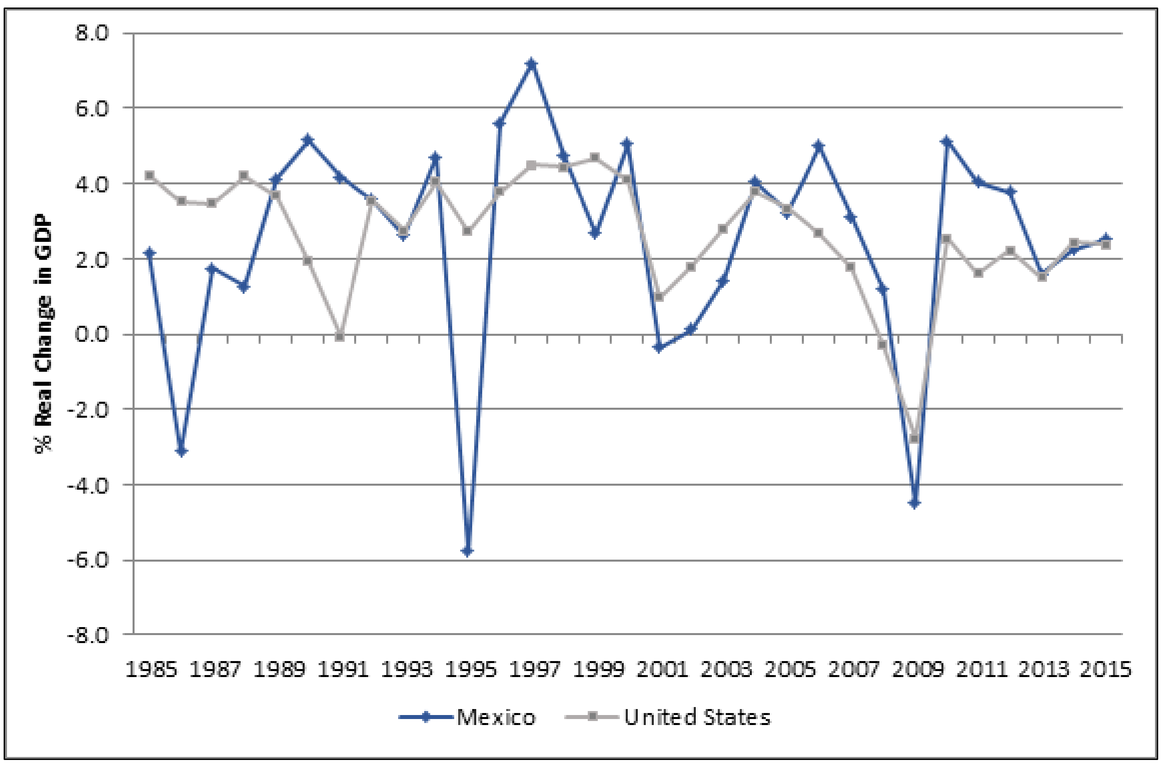
[31] Ibid.

the United States, as approximately 80% of Mexico's exports are destined for the United States. The country's outlook will likely remain closely tied to that of the United States, despite Mexico's efforts to diversify trade.

Another factor affecting the economy is the price of oil. The drop in oil prices adversely affects exports and public finances. Lower export revenues prompt foreign-exchange market volatility, which has caused the Mexican peso to depreciate. Oil revenues make up almost one-third of Mexico's budget, and the fall in oil prices will likely result in fiscal constraints.

Mexican President Enrique Peña Nieto initiated a bold package of structural reforms to help reverse years of slow economic growth, high levels of labor market informality, and increasing income inequality. After moving forward on most of his structural reform agenda, the President is now focused on the implementation of these reforms, as well as on other efforts to boost economic growth, create more jobs, and eliminate drug-related violence.[32] The reform package came at a time of declining oil prices that have limited the government's ability to gain immediate benefits in the economy. Mexico will likely need to focus on full implementation of the reforms in the near future and combine these efforts with other actions. Mexico will likely need to enact complementary reforms to address issues such as perceived corruption, weak administrative governance, and lack of judicial enforcement in order to achieve potential economic growth.[33]

Figure 4. GDP Growth Rates for the United States and Mexico



Source: Prepared by CRS using data from the Economist Intelligence Unit.

[32] EIU, *Mexico: Estimating the Fiscal Shortfall from Weak Oil*, January 30, 2015.

[33] Organization for Economic Cooperation and Development (OECD), *OECD Economic Surveys*, Mexico, January 2015, pp. 4-5.

Informality and Poverty

Part of the government's reform efforts are aimed at making economic growth more inclusive, reducing income inequality, improving the quality of education, and reducing informality and poverty. Mexico has a large informal sector that is estimated to account for a considerable portion of total employment. Estimates on the size of the informal labor sector vary widely, with some sources estimating that the informal sector accounts for about one-third of total employment and others estimating it to be as high as two-thirds of the workforce. Under Mexico's legal framework, workers in the formal sector are defined as salaried workers employed by a firm that registers them with the government and are covered by Mexico's social security programs. Informal sector workers are defined as non-salaried workers who are usually self-employed. These workers have various degrees of entitlement to other social protection programs. Salaried workers can be employed by industry, such as construction, agriculture, or services. Non-salaried employees are defined by social marginalization or exclusion and can be defined by various categories. These workers may include agricultural producers; seamstresses and tailors; artisans; street vendors; individuals who wash cars on the street; and other professions.

Many workers in the informal sector suffer from poverty, which has been one of Mexico's more serious and pressing economic problems for many years. Although the government has made progress in poverty reduction efforts, poverty continues to be a basic challenge for the country's development. The Mexican government's efforts to alleviate poverty have focused on conditional cash transfer programs. The *Prospera* (previously called *Oportunidades*) 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. According to the World Bank, *Prospera* has benefitted nearly 6 million families and has been replicated in 52 countries.[34] The 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 also provides educational cash transfers to participating families. Programs also provide nutrition support to pregnant and nursing women and malnourished children.[35]

Some economists cite the informal sector as a hindrance to the country's economic development. Other experts contend that Mexico's social programs benefitting the informal sector have led to increases in informal employment. A 2012 report by the Migration Policy Institute contends that there are two lines of argument that attempt to explain the reason for such a large informal sector: (1) overregulation of businesses; and (2) an unintended incentive to informality created by Mexico's social protection programs.[36] The report cites evidence suggesting that the scale of informality in Mexico may result in a lower level of productivity, but it is not clear whether it hinders economic growth.[37]

[34] The World Bank, *A Model from Mexico for the World*, World Bank News Feature Story, November 19, 2014.

[35] For more information, see the Mexican government website: Secretaría de Desarrollo Social, *Prospera Programa de Inclusión Social,* at http://www.prospera.gob.mx.

[36] Gordon H. Hanson, *Understanding Mexico's Economic Underperformance*, Migration Policy Institute, August 2012, p. 6.

[37] Ibid., p. 7.

Structural and Other Economic Challenges

For years, numerous political analysts and economists have agreed that Mexico needs significant political and economic structural reforms to improve its potential for long-term economic growth. The Mexican government implemented numerous reform measures after the 1995 currency crisis that helped the country modify its macroeconomic policies and restore policy credibility. Key reforms included measures to reduce public debt, the introduction of a balanced budget rule, an inflation targeting framework, and a floating exchange rate policy. Such policies positioned the country well in terms of macroeconomic and financial performance, but economic growth remains insufficient and many experts agree that more needs to be done to improve well-being in all regions of the country.

Much credit has been given to President Peña Nieto for breaking the gridlock in the Mexican government and passing reform measures meant to stimulate economic growth. In its 2015 economic survey for Mexico, the OECD states that Mexico's reform efforts deserve acclaim.[38] The study says that the main challenge for the government is to ensure full implementation of these reforms and that it must progress further in other key areas. To fully implement its reforms, according to the study, Mexico must improve administrative capacity at all levels of government and reform its judicial institutions. The study contends that such actions have a strong potential to boost living standards substantially, stimulate economic growth, and reduce income inequality.[39] Issues regarding human rights conditions, rule of law, and corruption are also challenges that need to be addressed by the government, as they too affect economic conditions and living standards. U.S. policymakers have expressed ongoing concerns about these issues and may take an interest in how well President Peña Nieto is implementing judicial reforms.[40]

According to a 2014 study by the McKinsey Global Institute, Mexico has successfully created globally competitive industries in some sectors, but not in others.[41] The study describes a "dualistic" nature of the Mexican economy in which there is a modern Mexico with sophisticated automotive and aerospace factories, multinationals that compete in global markets, and universities that graduate high numbers of engineers. In contrast, the other part of Mexico, consisting of smaller, more traditional firms, is technologically backward and unproductive and operates outside the formal economy.[42] The study states that three decades of economic reforms have failed to raise the overall GDP growth. Government measures to privatize industries, liberalize trade, and welcome foreign investment have created a side to the economy that is highly productive in which numerous industries have flourished, but the reforms have not been successful in touching other sectors of the economy where traditional enterprises have not modernized, informality is rising, and productivity is plunging.[43]

[38] OECD 2015, p. 8.

[39] Ibid, p. 9.

[40] See CRS Report R42917, *Mexico: Background and U.S. Relations*, by (name redacted) .

[41] Eduardo Bolio, Jaana Remes, and Tomas Lajous, et al., *A Tale of Two Mexicos: Growth and Prosperity in a Two-Speed Economy*, McKinsey Global Institute, March 2014.

[42] Ibid.

[43] Ibid., p. 2.

Energy Sector

Mexico's long-term economic outlook depends largely on the energy sector.[44] The country is one of the largest oil producers in the world, and is the fourth-largest in the Western Hemisphere after the United States, Canada, and Brazil. Mexico's oil production has steadily decreased since 2005 as a result of natural production declines. The oil sector generated 11% of Mexico's export earnings in 2014, a proportion that has declined over the past decade.[45] The Mexican government has used oil revenues from its state oil company, Pemex, for government operating expenses, which has come at the expense of needed reinvestment in the company itself. According to industry exports, Mexico has the potential resources to support a long-term recovery in total production, primarily in the Gulf of Mexico. However, the country does not have the technical capability or financial means to develop potential deepwater projects or shale oil deposits in the north.

Energy reform is the centerpiece of the President Peña Nieto Administration's attempts to overhaul the economy, attract greater foreign investment, and generate more jobs. In December 2013, the Mexican President signed into law constitutional reforms related to Mexico's energy sector that aim to bolster the country's declining oil production and to allow private and foreign investment to help Pemex tap into the country's shale and deep water reserves. On August 6, 2014, Mexican lawmakers gave final approval to rules for awarding private oil contracts for the first time since 1938. Pemex will remain state-owned, but it now has more budgetary and administrative autonomy and has to compete with other firms on new projects.[46]

While it is difficult to predict how increasing private participation in Mexico's oil and gas sectors may affect the country's economic development, skeptics see reason to doubt the government's positive predictions. Some argue that multinational companies and large Mexican conglomerates stand more to gain from the energy reform than the Mexican people.[47] Other critics question the government's claim that the reforms will create thousands of jobs and maintain that because Pemex is a bloated company with too many employees, it would likely shed workers as a result of the reform. Others have been concerned that the oil revenue will be mishandled by corrupt Pemex or government officials rather than invested in strategic ways that will benefit the country as a whole.[48]

Regional and Bilateral Free Trade Agreements

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. In an effort to increase trade with other countries, Mexico is a party to the proposed TPP agreement and has a total of 12 free trade agreements in force involving 46 countries. These include agreements with most countries in the Western Hemisphere, including the United States and Canada under NAFTA, Chile, Colombia, Costa Rica, Nicaragua, Peru, Guatemala, El Salvador, and Honduras.

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[44] For more information, see CRS Report R43313, *Mexico's Oil and Gas Sector: Background, Reform Efforts, and Implications for the United States*, coordinated by (name redacted) .

[45] U.S. Energy Information Administration, *Mexico, International Energy Data and Analysis*, September 21, 2015.

[46] Ibid.

[47] "Richard Fausset, "Tens of Thousands Protest Mexican Oil Reforms," *Los Angeles Times*, September 8, 2013.

[48] Enrique Krauze, "Mexico's Theology of Oil," *New York Times*, November 1, 2013.

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. The country 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. 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,[49] the Asia-Pacific Economic Cooperation (APEC) forum, and the OECD.

Mexico is a member country of the Pacific Alliance, a regional trade integration initiative formed by Chile, Colombia, Mexico, and Peru on April 11, 2011. Its main purpose is for members to form a regional trading bloc and forge stronger economic ties with the Asia-Pacific region. The Alliance is not an FTA, but it is intended to supplement existing FTAs among member countries. The concept is for member countries to act as a unified economic bloc to negotiate and trade with other countries.[50]

NAFTA

The North American Free Trade Agreement (NAFTA) has been in effect since January 1994.[51] Prior to NAFTA, Mexico was already liberalizing its protectionist trade and investment policies that had been in place for decades. The restrictive trade regime began after Mexico's revolutionary period, and remained until the early to mid-1980s, when it began to shift to a more open, export-oriented economy. For Mexico, an FTA with the United States represented a way to lock in trade liberalization reforms, attract greater flows of foreign investment, and spur economic growth. For the United States, NAFTA represented an opportunity to expand the growing export market to the south, but it also represented a political opportunity to improve the relationship with Mexico.

At the time that NAFTA entered into force, the U.S.-Canada FTA was already in effect and U.S. tariffs on most Mexican goods were low. While Mexico was in the process of unilaterally liberalizing its relatively protectionist trade regime, certain tariffs it had on U.S. and Canadian products were high at the time. NAFTA opened up the U.S. market to increased imports from Mexico and opened the Mexican market to U.S. and Canadian exports.

NAFTA was unusual because it was the first FTA involving two wealthy, developed countries and a developing country. The political debate surrounding the agreement was divisive, with proponents arguing that the agreement would help generate thousands of jobs and reduce the flow of undocumented workers coming from Mexico, while opponents warned that the agreement would cause huge job losses in the United States as companies moved production to Mexico to

[49] The WTO allows member countries to form regional trade agreements under Article XXIV under certain 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.

[50] See CRS Report R43748, *The Pacific Alliance: A Trade Integration Initiative in Latin America*, by (name redac ted) .

[51] See CRS Report R42965, *The North American Free Trade Agreement (NAFTA)*, by (name redacted) and (name r edacted) ; and CRS In Focus IF10047, *North American Free Trade Agreement (NAFTA)*, by (name redacted) .

take advantage of lower labor costs. In reality, NAFTA did not cause the huge job losses feared by the critics or the large economic gains predicted by supporters. The net overall effect of NAFTA on the U.S. economy appears to have been relatively modest, primarily because trade with Canada and Mexico accounts for a small percentage of U.S. gross domestic product (GDP). However, there were worker and firm adjustment costs as the three countries adjusted to more open trade and investment among their economies.[52]

An important outcome of NAFTA is the economic integration that has taken place in North America as well as the creation of a more competitive North American marketplace. Today, North American countries move products across borders multiple times before a finished product is ready for its final sale. The North American aerospace and automotive industries have particularly benefitted from production sharing. Mexico's finance minister recently stated that every time an airplane from North America is sold, the components of that airplane come from all three countries and if one of the three countries is successful in gaining market share elsewhere in the world, all three NAFTA parties benefit.[53]

Estimating the economic impact of trade agreements is difficult. Data are often incomplete and there are limitations in generating accurate results from economic models. In addition, such estimates provide an incomplete accounting of the total economic effects of trade agreements.[54] Numerous studies suggest that NAFTA achieved many of the intended trade and economic benefits.[55] Other studies suggest that the agreement has resulted in significant job losses and lower wages.[56] This has been in keeping with what most economists maintain, that trade liberalization promotes overall economic growth among trading partners, but that there are both winners and losers from adjustments.

Not all changes in trade and investment patterns within North America since 1994 can be attributed to NAFTA because trade among the parties has also been affected by a number of factors. First, trade liberalization in all three countries was already taking place prior to NAFTA negotiations. Second, trade has also been affected by other variables beyond trade policy. For example, the sharp devaluation of Mexico's currency, the peso, at the end of the 1990s and the associated recession in Mexico had considerable effects on trade, as did the rapid growth of the U.S. economy during most of the 1990s (which boosted U.S. imports), and, more recently, the global economic slowdown caused by the 2008 financial crisis. Trade-related job gains and losses since NAFTA may have accelerated trends (such as globalization) that were ongoing prior to NAFTA and may not be totally attributable to the trade agreement.

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[52] For more information on the economic effects of NAFTA, see Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA Revisited: Achievements and Challenges*, Institute for International Economics, October 2005; Center for Strategic and International Studies, *NAFTA's Impact on North America: The First Decade*, Edited by Sidney Weintraub, 2004; U.S. Chamber of Commerce, *Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA Partners*, 2010; Robert E. Scott, *Heading South: U.S.-Mexico Trade and Job Displacement under NAFTA*, Economic Policy Institute, May 3, 2011; and The Frederick S. Pardee Center, *The Future of North American Trade Policy: Lessons from NAFTA*, Boston University, November 2009.

[53] David Harrison, "Mexican Finance Minister: Trade protectionism would Hurt the U.S. as Well as Mexico," *The Wall Street Journal*, October 8, 2016.

[54] For example, many models are unable to measure the impact of reducing non-tariff barriers. For more information, see CRS In Focus IF10161, *International Trade Agreements and Job Estimates*, by (name redacted) ; and CRS Report R44546, *The Economic Effects of Trade: Overview and Policy Challenges*, by (name redacted) .

[55] See Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA Revisited*, Institute for International Economics, Washington, DC, October 2005.

[56] See Public Citizen, *NAFTA at 20*, January 2014, available at http://www.tradewatch.org/NAFTA-at-20.pdf.

Proposed Trans-Pacific Partnership (TPP) Agreement

The Trans-Pacific Partnership (TPP) is a proposed regional free trade agreement (FTA) among the United States, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.[57] TPP negotiations concluded in October 2015 and the agreement was signed on February 4, 2016. The agreement has not entered into force. TPP's entry into force requires congressional approval and implementation. The proposed TPP would likely enhance the U.S.-Mexico economic and trade relationship. Mexico has already undertaken significant reform and market opening measures through NAFTA and other unilateral actions. Because nearly all U.S. trade with Mexico is now conducted duty and barrier free, the market opening provisions of the TPP are not something new for the U.S.-Mexico trade relationship and are not expected to bring about many changes. Other provisions, however, would affect the rules governing trade since NAFTA entered into force.

The proposed TPP would likely enhance bilateral economic relations with Mexico. The two countries have shared values in their external trade relations and their efforts to lower trade barriers with the rest of the world. The Mexican government views the TPP as an opportunity for the three North American countries to have a unified vision in their trade relations with other countries. In the textile and apparel negotiations, for example, the United States and Mexico submitted a unified proposal for textile and apparel rules of origin.

As discussed earlier in the report, companies in the United States and Mexico together produce goods through an integrated manufacturing sector. The production sharing developed since NAFTA strengthened the regional competitiveness of certain industries, such as the automotive and electronic industries. The proposed TPP could provide more opportunities to expand value chains with other TPP countries in the hemisphere, including Canada, Chile, and Peru. Some observers view the TPP as an opportunity to deepen and expand regional supply chain integration, expand North American export opportunities to the Asia-Pacific region, and attract more investors to the United States and Mexico. While the TPP could provide numerous opportunities to enhance integration, the NAFTA region may have to complement trade agreements with domestic and regional efforts to boost competitiveness and innovation.[58]

If TPP enters into force, Mexico would have to adhere to new trade rules in areas related to trade facilitation, intellectual property rights (IPR), state-owned enterprises (SOEs), and e-commerce, as well as stronger and more enforceable labor and environmental provisions.

Selected Bilateral Trade Disputes

The United States and Mexico have had a number of trade disputes over the years, many of which have been resolved. These issues have involved trade in sugar, country of origin labeling, tomato imports from Mexico, dolphin-safe tuna labeling, and NAFTA trucking provisions.

[57] For the full text of the Trans-Pacific Partnership (TPP), see https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text.

[58] Christopher Wilson, "The Impact of TPP on Latin America and U.S. Relations with the Region," The Wilson Center, November 23, 2015.

Sugar Disputes

2014 Mexican Sugar Import Dispute

On December 19, 2014, the U.S. Department of Commerce (DOC) signed an agreement with the Government of Mexico suspending the U.S. countervailing duty (CVD) investigation of sugar imports from Mexico. The DOC signed a second agreement with Mexican sugar producers and exporters suspending an antidumping (AD) duty investigation on imports of Mexican sugar. The agreements suspending the investigations alter the nature of trade in sugar between Mexico and the United States by (1) imposing volume limits on U.S. sugar imports from Mexico and (2) setting minimum price levels on Mexican sugar.[59]

After the suspension agreement was announced, two U.S. sugar companies, Imperial Sugar Company and AmCane Sugar LLC, requested that the DOC continue the CVD and AD investigations on sugar imports from Mexico. The two companies filed separate submissions on January 16, 2015, claiming "interested party" status. The companies claimed they met the statutory standards to seek continuation of the probes. The submissions to the DOC followed requests to the ITC, by the same two companies, to review the two December 2014 suspension agreements.[60] The ITC reviewed the sugar suspension agreements to determine whether they eliminate the injurious effect of sugar imports from Mexico. On March 19, 2015, the ITC upheld the agreement between the United States and Mexico that suspended the sugar investigations. Mexican Economy Minister Ildefonso Guajardo Villarreal praised the ITC decision, stating that it supported the Mexican government position.[61]

The dispute began on March 28, 2014, when the American Sugar Coalition and its members filed a petition requesting that the U.S. ITC and the DOC conduct an investigation, alleging that Mexico was dumping and subsidizing its sugar exports to the United States. The petitioners claimed that dumped and subsidized sugar exports from Mexico were harming U.S. sugar producers and workers. They claimed that Mexico's actions would cost the industry $1 billion in 2014. On April 18, 2014, the DOC announced the initiation of AD and CVD investigations of sugar imports from Mexico.[62] On May 9, 2014, the ITC issued a preliminary report stating that there was a reasonable indication a U.S. industry was materially injured by imports of sugar from Mexico that were allegedly sold in the United States at less than fair value and allegedly subsidized by the Government of Mexico.[63]

In August 2014, the DOC announced in its preliminary ruling that Mexican sugar exported to the United States was being unfairly subsidized. Following the preliminary subsidy determination, the DOC stated that it would direct the U.S. Customs and Border Protection to collect cash deposits on imports of Mexican sugar. Based on the preliminary findings, the DOC imposed cumulative duties on U.S. imports of Mexican sugar, ranging from 2.99% to 17.01% under the

[59] See CRS In Focus IF10034, *New Era Dawns in U.S.-Mexico Sugar Trade*, by (name redacted) .

[60] Rosella Brevetti, "Two Companies Step Up Attack on Deals Commerce Negotiated on Sugar From Mexico," *Bloomberg BNA*, January 20, 2015.

[61] Emily Pickrell, "Mexican Trade Official Praises ITC Decision Upholding Suspension of Sugar Investigations," *Bloomberg BNA*, March 24, 2015.

[62] See International Trade Administration, *Fact Sheet: Commerce Initiates Antidumping Duty and Countervailing Duty Investigations of Imports of Sugar from Mexico*, at http://enforcement.trade.gov/download/factsheets/factsheet-mexico-sugar-cvd-initiation-041814.pdf.

[63] U.S. International Trade Commission, *Sugar from Mexico, Investigation Nos. 701-TA-513 and 731-TA-1249 (Preliminary)*, Publication 4467, Washington, DC, May 2014, p. 3.

CVD order. Additional duties of between 39.54% and 47.26% were imposed provisionally following the preliminary AD findings.[64] The final determination in the two investigations was expected in 2015 and had not been issued when the suspension agreements were signed.

The Sweetener Users Association (SUA), which represents beverage makers, confectioners, and other food companies, argues that the case is "a diversionary tactic to distract from the real cause of distortion in the U.S. sugar market—the U.S. government's sugar program."[65] It contends that between 2009 and 2012, U.S. sugar prices soared well above the world price because of the U.S. program, providing an incentive for sugar growers to increase production. According to the sugar users association, this resulted in a surplus of sugar and a return to lower sugar prices.[66] The SUA has been a long-standing critic of the U.S. sugar program.[67]

Sugar and High Fructose Corn Syrup Dispute Resolved in 2006

In 2006, the United States and Mexico resolved a trade dispute involving sugar and high fructose corn syrup. The dispute involved a sugar side letter negotiated under NAFTA. Mexico argued that the side letter 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. In addition, Mexico complained that imports of high fructose corn syrup (HFCS) sweeteners from the United States constituted dumping. 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 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.[68]

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[64] CRS In Focus IF10034, *New Era Dawns in U.S.-Mexico Sugar Trade*, by (name redacted) .

[65] Sweetener Users Association, "SUA Statement on Commerce Department's Postponement of Preliminary Antidumping Duty Determination," press release, August 21, 2014, http://sweetenerusers.org.

[66] Ibid.

[67] "Commerce Finds Countervailable Subsidies in Mexican Sugar Trade Case," *World Trade Online*, August 25, 2014.

[68] 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.

Country-of-Origin Labeling (COOL)

The United States was involved in a country-of-origin labeling (COOL) trade dispute under the World Trade Organization (WTO) with Canada and Mexico for several years, which has now been resolved.[69] Mexican and Canadian meat producers claimed that U.S. mandatory COOL requirements for animal products discriminated against their products. They contended that the labeling requirements created an incentive for U.S. meat processors to use exclusively domestic animals because they forced processors to segregate animals born in Mexico or Canada from U.S.-born animals, which was very costly. They argued that the COOL requirement was an unfair barrier to trade. A WTO appellate panel in June 2013 ruled against the United States. The United States appealed the decision. On May 18, 2015, the WTO appellate body issued findings rejecting the U.S. arguments against the previous panel's findings.[70] Mexico and Canada were considering imposing retaliatory tariffs on a wide variety of U.S. exports to Mexico, including fruits and vegetables, juices, meat products, dairy products, machinery, furniture and appliances, and others.[71]

The issue was resolved when the Consolidated Appropriations Act of 2016 (P.L. 114-113) repealed mandatory COOL requirements for muscle cut beef and pork and ground beef and ground pork. USDA issued a final rule removing country-of-origin labeling requirements for these products. The rule took effect on March 2, 2016.[72] The estimated economic benefits associated with the final rule are likely to be significant, according to the U.S. Department of Agriculture (USDA).[73] According to USDA, the estimated benefits for producers, processors, wholesalers, and retailers of previously covered beef and pork products are as much as $1.8 billion in cost avoidance, though the incremental cost savings are likely to be less as affected firms had adjusted their operations.

The dispute began on December 1, 2008, when Canada requested WTO consultations with the United States concerning certain mandatory labeling provisions required by the 2002 farm bill (P.L. 107-171) as amended by the 2008 farm bill (P.L. 110-246). On December 12, 2008, Mexico requested to join the consultations. U.S. labeling provisions include the obligation to inform consumers at the retail level of the country of origin in certain commodities, including beef and pork.[74]

USDA labeling rules for meat and meat products had been controversial. A number of livestock and food industry groups opposed COOL as costly and unnecessary. Canada and Mexico, the main livestock exporters to the United States, argued that COOL had a discriminatory trade-distorting impact by reducing the value and number of cattle and hogs shipped to the U.S. market,

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[69] For more information, see CRS Report RS22955, *Country-of-Origin Labeling for Foods and the WTO Trade Dispute on Meat Labeling*, by (name redacted)

[70] World Trade Organization, *United States - Certain Country of Origin Labelling (COOL) Requirements*, Dispute DS384, February 22, 2016, https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds384_e.htm#bkmk384abrw.

[71] Mexico Ministry of the Economy, *Impact of Country of Origin Labeling (COOL) in the U.S.-Mexico Trade Partnership*, March 2015.

[72] Agricultural Marketing Service (AMS), U.S. Department of Agriculture, "Removal of Mandatory Country of Origin Labeling Requirements for Beef and Pork Muscle Cuts, Ground Beef, and Ground Pork," 81 *Federal Register* 10755, March 2, 2016.

[73] Ibid.

[74] World Trade Organization, *United States-Certain Country of Origin Labelling Requirements*, Dispute Settlement: Dispute DS384, http://www.wto.org.

thus violating WTO trade commitments. Others, including some cattle and consumer groups, maintained that Americans want and deserve to know the origin of their foods.[75]

In November 2011, the WTO dispute settlement panel found that (1) COOL treated imported livestock less favorably than U.S. livestock and 2) it did not meet its objective to provide complete information to consumers on the origin of meat products. In March 2012, the United States appealed the WTO ruling. In June 2012, the WTO's Appellate Body upheld the finding that COOL treats imported livestock less favorably than domestic livestock and reversed the finding that it does not meet its objective to provide complete information to consumers. It could not determine if COOL was more trade restrictive than necessary.

In order to meet a compliance deadline by the WTO, USDA issued a revised COOL rule on May 23, 2013, that required meat producers to specify on retail packaging where each animal was born, raised, and slaughtered, which prohibited the mixing of muscle cuts from different countries. Canada and Mexico challenged the 2013 labeling rules before a WTO compliance panel. The compliance panel sided with Canada and Mexico; the United States appealed the decision.[76]

NAFTA Trucking Issue

The implementation of NAFTA trucking provisions was a major trade issue between the United States and Mexico for many years because the United States had delayed its trucking commitments under NAFTA. NAFTA provided Mexican commercial trucks full access to four U.S.-border states in 1995 and full access throughout the United States in 2000. Citing safety concerns, the United States did not implement these provisions.[77] The Mexican government objected and claimed that U.S. actions were a violation of U.S. commitments. A 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 and Mexico cooperated to resolve the issue over the years and engaged in numerous talks regarding safety and operational issues. The United States had two pilot programs on cross-border trucking to help resolve the issue: the Bush Administration's pilot program of 2007 and the Obama Administration's program of 2011.

On January 9, 2015, the Department of Transportation's Federal Motor Carrier Safety Administration (FMCSA) announced that Mexican motor carriers would be able to apply for authority to conduct long-haul, cross-border trucking services in the United States, marking a significant milestone in implementation of U.S. NAFTA commitments.[78] The International Brotherhood of Teamsters filed a still-pending lawsuit on March 20, 2015, in the U.S. Court of Appeals for the Ninth Circuit, seeking to halt FMCSA's move to allow Mexican motor carriers to

[75] For more information, see CRS Report RS22955, *Country-of-Origin Labeling for Foods and the WTO Trade Dispute on Meat Labeling*, by (name redacted)

[76] Rosella Brevetti, "Labeling Dispute Casts Shadow of Possible Retaliation on U.S. Exports in 2015," *Bloomberg BNA*, January 7, 2015.

[77] See CRS Report R41821, *Status of Mexican Trucks in the United States: Frequently Asked Questions*, by (name redacted)

[78] Federal Motor Carrier Safety Administration (FMCSA), *United States to Expand Trade Opportunities with Mexico through Safe Cross-Border Trucking*, January 9, 2015, available at http://www.fmcsa.dot.gov.

operate in the United States. The Mexican government stated that it would consider retaliatory measures if the Teamsters lawsuit is successful.[79]

Bush Administration's Pilot Program of 2007

On November 27, 2002, with safety inspectors and procedures in place, the Bush Administration began the process to open U.S. highways to Mexican truckers and buses. 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. 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.[80]

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 the 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 was expected; and (3) the FMCSA implemented methods to assess possible adverse safety impacts of the project and to enforce and monitor safety guidelines.[81]

In early August 2008, DOT announced that it would extend 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. 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. Numerous Members of Congress urged President Obama to find a resolution to the dispute in light of the effects that Mexico's retaliatory tariffs were having on U.S. producers (see section below on President Obama's program).

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[79] Emily Pickrell, "Mexico Plans to Retaliate if Lawsuit Closes Doors to Cross-Border Trucking," *Bloomberg BNA*, March 11, 2015.

[80] Ibid.

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

Mexico's Retaliatory Tariffs of 2009 and 2010

In response to the abrupt end of the pilot program, the Mexican government retaliated in 2009 by increasing duties on 90 U.S. products with a value of $2.4 billion in exports to Mexico. Mexico began imposing tariffs in March 2009 and, after reaching an understanding with the United States, eliminated them in two stages in 2011. The retaliatory tariffs ranged from 10% to 45% and covered a range of products that included fruit, vegetables, home appliances, consumer products, and paper.[82] Subsequently, a group of 56 Members of the House of Representatives wrote to the then-United States Trade Representative, Ron Kirk, and DOT Secretary Ray LaHood requesting the Administration to resolve the trucking issue.[83] The bipartisan group of Members stated that they wanted the issue to be resolved because the higher Mexican tariffs were having a "devastating" impact on local industries, especially in agriculture, and area economies in some 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.[84]

A year after the initial 2009 list of retaliatory tariffs, the Mexican government revised the list of retaliatory tariffs to put more pressure on the United States to seek a settlement for the trucking dispute.[85] The revised 2010 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 added to the list included 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 were two categories of pork products, which had an estimated export value of $438 million in 2009. Products removed from the list included peanuts, dental floss, locks, and other products.[86] The revised retaliatory tariffs were lower than the original tariffs and ranged from 5% to 25%. U.S. producers of fruits, pork, cheese, and other products that were bearing the cost of the retaliatory tariffs reacted strongly at the lack of progress in resolving the trucking issue and argued, both to the Obama Administration and to numerous Members of Congress, that they were potentially losing millions of dollars in sales as a result of this dispute.

In March 2011, President Obama and Mexican President Calderón announced an agreement to resolve the dispute. By October 2011, Mexico had suspended all retaliatory tariffs on U.S. exports to Mexico.

Obama Administration's 2011 Pilot Program

In January 2011, the Obama Administration presented an "initial concept document" to Congress and the Mexican government for a new long-haul trucking pilot program with numerous safety inspection requirements for Mexican carriers. It would put in place a new inspection and monitoring regime in which Mexican carriers would have to apply for long-haul operating

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

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

[84] Ibid.

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

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

authority. The project involved several thousand trucks and would eventually bring as many vehicles as are needed into the United States.[87]

The concept document outlined three sets of elements:

1. **Pre-Operations Elements** included 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.
2. **Operations Elements** included monitoring procedures with regular inspections and electronic monitoring of long-haul vehicles and drivers; follow-up review (first review) to ensure continued safe operation; compliance review (second review) upon which a participating carrier would be eligible for full operation authority; and FMCSA review that included insurance monitoring and drug and alcohol collection and testing facilities.
3. **Transparency Elements** included required Federal Register notices by the FMCSA; publically accessible website that provides information on participating carriers; 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.[88]

On July 6, 2011, the two countries signed a Memorandum of Understanding (MOU) to resolve the dispute over long-haul cross-border trucking.[89] Within 10 days after signing of the MOU, Mexico suspended 50% of the retaliatory tariffs it had imposed on U.S. exports (see section below on Mexico's retaliatory tariffs). Mexico agreed to suspend the remainder of the tariffs within five days of the first Mexican trucking company receiving its U.S. operating authority.[90] On October 21, 2011, Mexico suspended the remaining retaliatory tariffs.

Mexican Tomatoes

In February 2013, the United States and Mexico reached an agreement on cross-border trade in tomatoes, averting a potential trade war between the two countries.[91] On March 4, 2013, the Department of Commerce (DOC) and the government of Mexico officially signed the agreement suspending the antidumping investigation on fresh tomatoes from Mexico.[92] The dispute began on

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

[88] 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.

[89] Federal Motor Carrier Safety Administration (FMCSA), "United States and Mexico Announce Safe, Secure Cross-Border Trucking Program: U.S.-Mexico Agreements Will Lift Tariffs and Put Safety First," *News Release*, July 6, 2011.

[90] *NAFTA Works*, "The United States and Mexico Sign a Memorandum of Understanding on Long-Hayl Cross-Border Trucking," Volume 3, Alert 18, July 2011.

[91] Stephanie Strom, "United States and Mexico Reach Tomato Deal, Averting a Trade War," *New York Times*, February 4, 2013.

[92] U.S. Department of Commerce, Import Administration, *Fresh Tomatoes from Mexico 1996 Suspension Agreement*, available at http://ia.ita.doc.gov/tomato/index.html.

June 22, 2012, when a group of Florida tomato growers, who were backed by growers in other states, asked the DOC and the U.S. International Trade Commission to terminate an antidumping duty suspension pact on tomatoes from Mexico. The termination of the pact, which set a minimum reference price for Mexican tomatoes in the United States, would have effectively led to an antidumping investigation on Mexican tomatoes. Mexico's Ambassador to the United States at the time, Arturo Sarukhan, warned that such an action would damage the U.S.-Mexico trade agenda and bilateral trade relationship as a whole. He also stated that Mexico would use all resources at its disposal, including the possibility of retaliatory tariffs, to defend the interests of the Mexican tomato industry.[93]

The suspension pact dates back to 1996, when the DOC, under pressure from Florida tomato growers, filed an anti-dumping petition against Mexican tomato growers and began an investigation into whether they were dumping Mexican tomatoes on the U.S. market at below-market prices. NAFTA had eliminated U.S. tariffs on Mexican tomatoes, causing an inflow of fresh tomatoes from Mexico. Florida tomato growers complained that Mexican tomato growers were selling tomatoes at below-market prices. After the 1996 filing of the petition, the DOC and Mexican producers and exporters of tomatoes reached an agreement under which Mexican tomato growers agreed to revise their prices by setting a minimum reference price in order to eliminate the injurious effects of fresh tomato exports to the United States.[94] The so-called "suspension agreement" remained in place for years and was renewed in 2002 and 2008.[95]

The 2013 suspension agreement covers all fresh and chilled tomatoes, excluding those intended for use in processing. It increases the number of tomato categories with established reference prices from one to four. It also raises reference prices at which tomatoes can be sold in the U.S. market to better reflect the changes in the marketplace since the last agreement was signed. It continues to account for winter and summer seasons.[96]

When they filed the 2012 petition asking for the termination of the suspension agreement, U.S. tomato producers argued that the pacts had not worked. The petitioners stated that it was necessary to end the agreement with Mexico in order to "restore fair competition to the market and eliminate the predatory actions of producers in Mexico."[97] However, business groups urged the DOC to proceed cautiously in the tomato dispute since termination could result in higher tomato prices in the United States and lead Mexico to implement retaliatory measures. Some businesses urged a continuation of the agreement, arguing that it helped stabilize the market and provide U.S. consumers with consistent and predictable pricing. According to a *New York Times* article, Mexican tomato producers enlisted roughly 370 U.S. businesses, including Wal-Mart Stores and meat and vegetable producers, to argue their cause.[98]

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[93] Rosella Brevetti, "Mexico Ambassador Warns Against ending U.S. Suspension Agreement on Tomatoes," *International Trade Reporter*, September 20, 2012.

[94] U.S. Department of Commerce, Import Administration, *Fresh Tomatoes from Mexico 1996 Suspension Agreement*, available at http://ia.ita.doc.gov/tomato/index.html.

[95] Ibid.

[96] Len Bracken, "Commerce, Mexican Tomato Growers Agree on Final Version of Antidumping Agreement," *International Trade Daily*, March 5, 2013.

[97] *Inside U.S. Trade's World Trade Online*, "U.S. Growers Seek to End Suspension Agreement on Mexican Tomato Imports," June 28, 2012.

[98] Stephanie Strom, *New York Times*, February 4, 2013.

Dolphin-Safe Tuna Labeling Dispute

The United States and Mexico are currently involved in a trade dispute under the WTO regarding U.S. dolphin-safe labeling provisions and tuna imports from Mexico. The issue is ongoing and has not been resolved. The most recent development occurred when, in November 2015, a WTO appellate body found for a fourth time that U.S. labeling rules aimed at preventing dolphin bycatch violate international trade obligations. The United States reportedly expressed serious concerns with this ruling and stated that the panel exceeded its authority by ruling on acts and measures that Mexico did not dispute or were never applied.[99] On March 16, 2016, Mexico announced that it would ask the WTO to sanction $472.3 million in annual retaliatory tariffs against the United States for its failure to comply with the WTO ruling. On March 22, 2016, the United States announced that it will revise its dolphin-safe label requirements on tuna products to comply with the WTO decision. The revised regulations seek to increase labeling rules for tuna caught by fishing vessels in all regions of the world, and not just those operating in the region where Mexican vessels operate. The new rules will not modify existing requirements that establish the method by which tuna is caught in order for it to be labeled "dolphin-safe." The Humane Society International announced that it was pleased with U.S. actions to increase global dolphin protections.[100]

The issue relates to U.S. labeling provisions that establish conditions under which tuna products may voluntarily be labeled as "dolphin-safe." Products may not be labeled as dolphin-safe if the tuna is caught by means that include intentionally encircling dolphins with nets. According to the Office of the United States Trade Representative (USTR), some Mexican fishing vessels use this method when fishing for tuna. Mexico asserts that U.S. tuna labeling provisions deny Mexican tuna effective access to the U.S. market.[101]

The tuna labeling dispute began over 10 years ago. In April 2000, the Clinton Administration lifted an embargo on Mexican tuna under relaxed standards for a dolphin-safe label. This was 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. Environmental groups, however, filed a 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.

[99] Bryce Baschuk, "WTO Ruling on Tuna Labels Raises 'Serious Concerns,' U.S. Says," *Bloomberg BNA*, December 3, 2015.

[100] Bryce Baschuk, "U.S. to Revise Dolphin-Safe Labeling to Comply with the WTO," *Bloomberg BNA*, March 22, 2016.

[101] Office of the United States Trade Representative (USTR), "U.S. Appeal in WTO Dolphin-Safe Tuna Labeling Dispute with Mexico," January 23, 2012.

In late October 2008, Mexico initiated WTO dispute proceedings against the United States, maintaining that U.S. requirements for Mexican tuna exporters prevent them from using the U.S. "dolphin-safe" label for its products. The United States requested that Mexico refrain from proceeding in the WTO and that the case be moved to the NAFTA dispute resolution mechanism. According to the USTR, however, Mexico "blocked that process for settling this dispute."[102] In September 2011, a WTO panel determined that the objectives of U.S. voluntary tuna labeling provisions were legitimate and that any adverse effects felt by Mexican tuna producers were the result of choices made by Mexico's own fishing fleet and canners. However, the panel also found U.S. labeling provisions to be "more restrictive than necessary to achieve the objectives of the measures."[103] The Obama Administration appealed the WTO ruling.

On May 16, 2012, the WTO's Appellate Body overturned two key findings from the September 2011 WTO dispute panel. The Appellate Body found that U.S. tuna labeling requirements violate global trade rules because they treat imported tuna from Mexico less favorably than U.S. tuna. The Appellate Body also rejected Mexico's claim that U.S. tuna labeling requirements were more trade-restrictive than necessary to meet the U.S. objective of minimizing dolphin deaths.[104] The United States had a deadline of July 13, 2013, to comply with the WTO dispute ruling. In July 2013, the United States issued a final rule amending certain dolphin-safe labelling requirements to bring it into compliance with the WTO labeling requirements. On November 14, 2013, Mexico requested the establishment of a WTO compliance panel. On April 16, 2014, the chair of the compliance panel announced that it expected to issue its final report to the parties by December 2014.[105] In April 2015, the panel ruled against the United States when it issued its finding that the U.S. labeling modifications unfairly discriminated against Mexico's fishing industry.[106]

The government of Mexico requested the United States to broaden its dolphin-safe rules to include Mexico's long-standing tuna fishing technique. It cites statistics showing that modern equipment has greatly reduced dolphin mortality from its height in the 1960s and that its ships carry independent observers who can verify dolphin safety.[107] However, some environmental groups that monitor the tuna industry dispute these claims, stating that even if no dolphins are killed during the chasing and netting, some are wounded and later die. In other cases, they argue, young dolphin calves may not be able to keep pace and are separated from their mothers and later die. These groups contend that if the United States changes its labeling requirements, cans of Mexican tuna could be labeled as "dolphin-safe" when it is not. However, an industry spokesperson representing three major tuna processors in the United States, including StarKist, Bumblebee, and Chicken of the Sea, contend that U.S. companies would probably not buy Mexican tuna even if it is labeled as dolphin-safe because these companies "would not be in the market for tuna that is not caught in the dolphin-safe manner."[108]

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[102] Ibid.

[103] Ibid. For more information, see the USTR website at http://www.ustr.gov.

[104] Daniel Pruzin, "Appellate Body Overturns Key Panel Findings on U.S. Tuna-Dolphin Labeling Requirements," *International Trade Reporter*, May 24, 2012.

[105] For more information, see World Trade Organization, *United States—Measures Concerning the Importation, Marketing, and Sale of Tuna and Tuna Products,* available at http://www.wto.org.

[106] Bryce Baschuk, "Mexico Prevails in Latest WTO Dispute Over U.S. Labeling Rules," *Bloomberg BNA,* April 14, 2015.

[107] Tim Carman, "Tuna, meat labeling disputes highlight WTO control," *Washington Post*, January 10, 2012.

[108] Ibid.

Policy Issues

U.S. policymakers are likely following trade issues regarding the proposed TPP and regulatory cooperation with Mexico. They are also likely following ongoing economic reforms and policies implemented by the Peña Nieto government.

TPP Negotiations

Policymakers may consider how a TPP would affect NAFTA and U.S.-Mexico trade relations. Although nearly all U.S. trade with Mexico is now conducted duty and barrier free through NAFTA, the TPP may have implications for NAFTA in several areas, including IPR, investment, services trade, e-commerce, state-owned enterprises, government procurement, as well as enhanced labor and environmental provisions. The provisions in more recent agreements that the United States has negotiated, such as the FTAs with Colombia and Peru, include commitments that go beyond NAFTA. If the proposed TPP enters into force, Mexico would have to adhere to stronger and more enforceable labor and environmental provisions, and stronger IPR provisions, as well as other new rules.[109]

Potential questions that Congress might consider include the following: How would the TPP affect U.S. economic relations with Mexico? Would NAFTA remain relevant? How would it affect bilateral trade? Would a TPP address concerns of policymakers related to the environment and worker rights? Would there be a difference in the enforcement mechanism? How would stronger IPR provisions affect U.S.-Mexico trade? How would a TPP affect jobs in the United States and Mexico?

Bilateral Economic Cooperation

Policymakers may consider issues on how the United States can improve cooperation with Mexico in the areas of border trade, transportation, competitiveness, economic growth, and security enhancement through the HLED, HLRCC, and the 21st Century Border Management programs mentioned earlier in this report. Some policy experts emphasize the importance of U.S.-Mexico trade in intermediate goods and supply chains and argue that the two governments can improve cooperation in cross-border trade and can invest more in improving border infrastructure. The increased security measures along the U.S.-Mexico-border, they argue, have resulted in a costly disruption in production chains due to extended and unpredictable wait times along the border.

Potential questions that Congress might consider include the following: How effectively has the United States pursued border initiatives with Mexico? What are the challenges facing U.S.-Mexico trade flows along the border? What steps can be taken by the two countries to improve competitiveness of industries located along the U.S.-Mexico border and elsewhere within the two countries? How successful have the United States and Mexico been in improving the flow of goods and services, while improving safety and security along the border? What have been the actual results of the initiatives that have been launched? To what extent has the emphasis on border security caused delays in border crossings or transportation of merchandise? How have recent efforts to facilitate trade affected the trade relationship?

[109] See CRS Report R42344, *Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis*, by (name redacted) .

Mexico's Economic Reforms

As Mexico moves forward with reform measures to modernize the energy sector and other parts of the economy, the overarching questions are how the reform agenda will be implemented; whether it will be implemented fully; how will it affect the U.S.-Mexico trade relationship; and whether it will be enough to drive economic growth among all sectors of the economy, increase employment in the formal sector, and bring more people out of poverty.

Potential oversight questions that Congress might consider include the following: How effectively are the Peña Nieto government and the Mexican Congress implementing economic reforms? What efforts are the United States and Mexico making on energy cooperation? To what extent will the energy reforms provide opportunities for U.S. oil companies? Will the reforms improve Mexican economic performance? What complementary measures could the Mexican government take to stimulate economic growth?

Appendix. Map of Mexico

Figure A-1. Map of Mexico

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Acknowledgments

(name redacted), Visual Information Specialist at CRS, contributed to this report.