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US-Mexico Trade Relations

Overview

The U.S.-Mexico economic and trade relationship is of interest to U.S. policymakers, including Members of Congress, because of Mexico's proximity to the United States, the extensive bilateral trade and investment relationship under the North American Free Trade Agreement (NAFTA), the conclusion of the NAFTA renegotiations and proposed U.S.-Mexico-Canada Agreement (USMCA), and the strong cultural and economic ties that connect the two countries.

Mexico's Economy

Mexico is the second-largest economy in Latin America. It has a population of 129 million people, making it the most populous Spanish-speaking country in the world and the third-most populous country in the Western Hemisphere. Mexico's gross domestic product (GDP) was an estimated $1.22 trillion in 2018, equal to about 6% of U.S. GDP of $20.4 trillion. In terms of purchasing power parity (PPP), Mexican GDP was higher, $2.52 trillion, or about 12% of U.S. GDP. Mexico's per capita GDP is relatively high by global standards, and falls within the World Bank's upper-middle income category. Trends in Mexico's GDP growth generally follow U.S. economic trends, but with higher fluctuations.

U.S.-Mexico Trade

Mexico is the United States' third-largest trading partner. Mexico ranks third as a source of U.S. merchandise imports and second as an export market for U.S. goods. The United States is Mexico's most important export market for goods, with 80% of Mexican exports destined for the United States. Merchandise trade between the two countries in 2018 was six times higher (in nominal terms) than in 1993, the year NAFTA entered into force. The merchandise trade balance went from a surplus of $1.7 billion in 1993 (the year before NAFTA entered into force) to a widening deficit that reached $81.5 billion in 2018.

U.S. Merchandise Exports

U.S. merchandise exports to Mexico increased from $41.6 billion in 1993 to $265.0 billion in 2018. Leading U.S. exports to Mexico in 2018 included petroleum and coal products ($28.8 billion or 11% of exports to Mexico), motor vehicle parts ($20.2 billion or 8% of exports), computer equipment ($17.4 billion or 7% of exports), semiconductors and other electronic components ($13.1 billion or 5% of exports), and basic chemicals ($10.3 billion or 4% of exports).

U.S. Merchandise Imports

U.S. merchandise imports from Mexico increased from $39.9 billion in 1993 to $346.5 billion in 2018. Leading U.S. merchandise imports from Mexico in 2018 included motor vehicles ($64.5 billion or 19% of imports from Mexico), motor vehicle parts ($49.8 billion or 14% of imports), computer equipment ($26.6 billion or 8% of imports), oil and gas ($14.5 billion or 4% of imports), and electrical equipment ($11.9 billion or 3% of imports).

Figure 1. U.S.-Mexico Merchandise Trade 2000-2018

Current U.S. $ in billions

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

Services Trade

In services, the United States had a surplus in trade with Mexico of $7.4 billion in 2017 (latest available data). U.S. services exports to Mexico totaled $32.8 billion in 2017, up from $14.2 billion in 1999, while services imports totaled $25.5 billion in 2017, up from $9.7 billion in 1999. U.S. services trade with Mexico largely consisted of travel, transportation, business, and financial services.

Bilateral Foreign Direct Investment

Foreign direct investment (FDI) is an integral part of the economic relationship between the United States and Mexico since NAFTA implementation. The liberalization of Mexico's restrictions on foreign investment in the late 1980s and early 1990s, combined with NAFTA investment provisions, played an important role in attracting foreign investment to Mexico. The United States is, by far, the largest source of FDI in Mexico. While the stock of U.S. FDI increased from $15.2 billion in 1993 to $109.7 billion in 2017, the stock Mexican FDI in the United States is much lower and also increased significantly since NAFTA, from $1.2 billion in 1993 to $18.0 billion in 2017.

U.S.-Mexico Supply Chains

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

NAFTA and the Proposed USMCA

NAFTA, which entered into force on January 1, 1994, contains provisions on tariff and nontariff barrier elimination, customs procedures, energy, agriculture, technical barriers to trade, government procurement, foreign investments, services trade, temporary entry for business persons, intellectual property rights protection, and dispute resolution procedures. NAFTA was the first U.S. free trade agreement with labor and environmental provisions. See CRS Report R44981, *NAFTA Renegotiation and the Proposed United States-Mexico-Canada Agreement (USMCA)*, by M. Angeles Villarreal and Ian F. Fergusson.

On November 30, 2018, the United States, Canada, and Mexico signed the proposed USMCA, which, if approved by Congress and ratified by Mexico and Canada, would replace NAFTA. The proposed USMCA would retain many of NAFTA's chapters, while making notable changes to others, including market access provisions for autos and agriculture products, and to rules such as investment, government procurement, and intellectual property rights (IPR). It would add new chapters on digital trade, state-owned enterprises, and currency misalignment.

NAFTA's requirements of 62.5% North American content for motor vehicles and 60% for all other vehicles and automotive parts would be tightened under USMCA. The new rules would require that 75% of a motor vehicle and 70% of its steel and aluminum originate in North America and that 40%-45% of auto content be made by workers earning at least $16 per hour. Side letters would exempt up to 2.6 million vehicles from Canada and Mexico annually from potential Section 232 auto tariffs (discussed below).

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

Issues for Congress

USMCA

Policymakers may consider numerous issues related to U.S.-Mexico trade as they debate the proposed USMCA. Some issues could include the timetable for congressional consideration under TPA, whether the proposed USMCA meets Trade Promotion Authority's (TPA) negotiating objectives and other requirements, and the impact of the agreement on U.S.-Mexico trade relations. The U.S. International Trade Commission (ITC) is conducting an investigation into the economic impacts of a USMCA, which is expected to be completed on April 20th 2019.

The timing for congressional consideration of the proposed USMCA is unclear because of issues of interest and concern voiced by Congress. Some policymakers view the agreement as vital for U.S. firms, workers and farmers, and believe that the updated agreement would benefit U.S. economic interests. Others contend that the path forward is uncertain because of concerns over the lack of worker rights protection in Mexico and the enforceability of labor provisions, the scaling back of ISDS provisions that could affect U.S. investors, and possible adverse effects of auto rules of origin on U.S. automakers, among other issues.

Section 232 Tariffs

Some policymakers have voiced concerns over the tariffs imposed by President Trump under Section 232 of the Trade Expansion Act of 1962, and say that the three countries must first resolve disputes over U.S. steel and aluminum tariffs before the USMCA could be considered by Congress. The United States and Mexico are in a trade dispute over U.S. actions to impose tariffs on imports of steel and aluminum under Section 232, which authorizes the President to impose restrictions on certain imports based on national security threats. Using these authorities, on May 31, 2018, the United States imposed a 25% duty on steel imports and a 10% duty on aluminum imports from Mexico and Canada. Mexico and other countries have retaliated against U.S. exports by imposing tariffs.

NAFTA Withdrawal

President Trump stated on December 1, 2018, that he would notify Mexico and Canada of his intention to withdraw from NAFTA. A NAFTA withdrawal by the United States prior to congressional approval of the proposed USMCA would have significant implications for U.S. trade policy and U.S.-Mexico-Canada economic relations. Canada and Mexico likely would maintain NAFTA between themselves if the United States were to withdraw. See CRS Report R45557, *The President's Authority to Withdraw the United States from the North American Free Trade Agreement (NAFTA) Without Further Congressional Action*, by Brandon J. Murrill.

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