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

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Summary

The economic and trade relationship with Mexico is of interest to U.S. policymakers because of Mexico's proximity to the United States, the extensive trade and investment relationship under the North American Free Trade Agreement (NAFTA), the conclusion of the NAFTA renegotiations and the U.S.-Mexico-Canada Agreement (USMCA), as well as 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. In 2019, Mexico surpassed China as the United States' largest trading partner. It ranks second, after China, as a source of U.S. imports, 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.

Most studies show that the net economic effects of NAFTA, which entered into force in 1994, on both the United States and Mexico 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 since NAFTA 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.

Congress has maintained an active interest on issues related to NAFTA renegotiations and the recently approved USMCA, which is expected to enter into force on July 1, 2020. Congress also maintains an ongoing interest in U.S.-Mexico trade and investment relations, Mexico's labor reform measures, U.S.-Mexico border management, and other related issues. The COVID-19 pandemic has raised new issues regarding manufacturing activities and the U.S.-Mexico supply chain.

Congress may maintain an interest in the potential strategic implications of overall relations with Mexico and policies of Mexican President Andrés Manuel López Obrador, who entered into office on December 1, 2018. It may continue an interest in Mexico's free trade agreements with other countries. Mexico is a party to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), for example, which enacts much of the proposed Trans-Pacific Partnership (TPP) without the participation of the United States. The CPTPP took effect for Mexico and other CPTPP parties on December 30, 2018. Some observers contend that the U.S. withdrawal from TPP could damage U.S. competitiveness and economic leadership in the region, while others see the withdrawal as a way to prevent lower-cost imports and potential job losses. Congress also may maintain an interest in ongoing bilateral efforts to promote economic competitiveness, increase regulatory cooperation, and pursue energy integration.

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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 extensive cultural and economic ties between the two countries, and the strong economic relationship that developed over the past 26 years under the North American Free Trade Agreement (NAFTA), soon to be replaced by the U.S.-Mexico-Canada trade agreement (USMCA).[1] 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.

Congress has maintained an active interest on issues related to NAFTA renegotiations and the recently approved USMCA, which is expected to enter into force on July 1, 2020. Congress also maintains an ongoing interest in U.S.-Mexico trade and investment relations, Mexico's labor reform measures, U.S.-Mexico border management, and other related issues.[2] The COVID-19 pandemic has raised new issues regarding manufacturing activities and the U.S.-Mexico supply chain.

This report will be updated as events warrant.

U.S.-Mexico Economic Relations

In 2019, Mexico surpassed China as the United States' top trading partner, with $614.5 billion in total trade (imports plus exports). It was followed by Canada ($612.1 billion in total trade) and China ($558.8 billion in total trade). Mexico ranked second, after Canada, among U.S. export markets and second, after China, as a source of U.S. imports. Under NAFTA, the United States and Mexico developed significant economic ties. Trade between the two countries more than tripled since the agreement entered into force in 1994. Through NAFTA, and USMCA when it enters into force, 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 11th-largest economy in the world and the second-largest economy in Latin America after Brazil. 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 (after the United States and Brazil).

Mexico's gross domestic product (GDP) was an estimated $1.26 trillion in 2019, equal to about 6% of U.S. GDP of $21.42 trillion. Measured in terms of purchasing power parity (PPP),[3] Mexican GDP was considerably higher, $2.61 trillion, equal to about 12% of U.S. GDP. Per capita income in Mexico is significantly lower than in the United States. In 2019, Mexico's per capita GDP in purchasing power parity was $20,490, equal to 31% of U.S. per capita GDP of

[1] See CRS In Focus IF10047, *North American Free Trade Agreement (NAFTA)*, by M. Angeles Villarreal, and CRS Report R42965, *The North American Free Trade Agreement (NAFTA)*, by M. Angeles Villarreal and Ian F. Fergusson.

[2] See CRS Report R44981, *NAFTA and the United States-Mexico-Canada Agreement (USMCA)*, by M. Angeles Villarreal and Ian F. Fergusson.

[3] Some 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.

$65,115 (see **Table 1**). 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 39% of Mexico's GDP in 2019, as shown in **Table 1**, and approximately 80% of Mexico's exports were headed to the United States.

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

	Mexico		United States	
	2009	2019[a]	2009	2019
Population (millions)	113	128	306	329
Nominal GDP (US$ billions)[b]	900	2,614	14,449	21,427
Nominal GDP, PPP[c] Basis (US$ billions)	1,637	2,614	14,449	21,427
Per Capita GDP (US$)	8,003	9,868	47,171	65,115
Per Capita GDP in $PPPs	14,558	20,490	47,171	65,115
Nominal exports of goods & services (US$ billions)	230	461	1,056	1,645
Exports of goods & services as % of GDP[d]	27%	39%	11%	12%
Nominal imports of goods & services (US$ billions)	234	455	2,383	2,915
Imports of goods & services as % of GDP[d]	29%	39%	14%	15%

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

a. Some figures for 2019 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. Mexico became the United States' largest trade partner in 2019, surpassing China. In U.S. merchandise exports, Mexico ranks second among U.S. markets after Canada, while in imports, Mexico is the third-leading supplier among all trading partners. Since NAFTA's entry into force in 1994, U.S.-Mexico merchandise increased rapidly, with U.S. exports increasing from $41.6 billion in 1993 to $256.4 billion in 2019 and U.S. imports increasing from $39.9 billion to $358.1 billion during the same time period. The merchandise trade balance with Mexico went from a surplus of $1.7 billion in 1993 to a widening deficit that reached an all-time high of $101.8 billion in 2019.

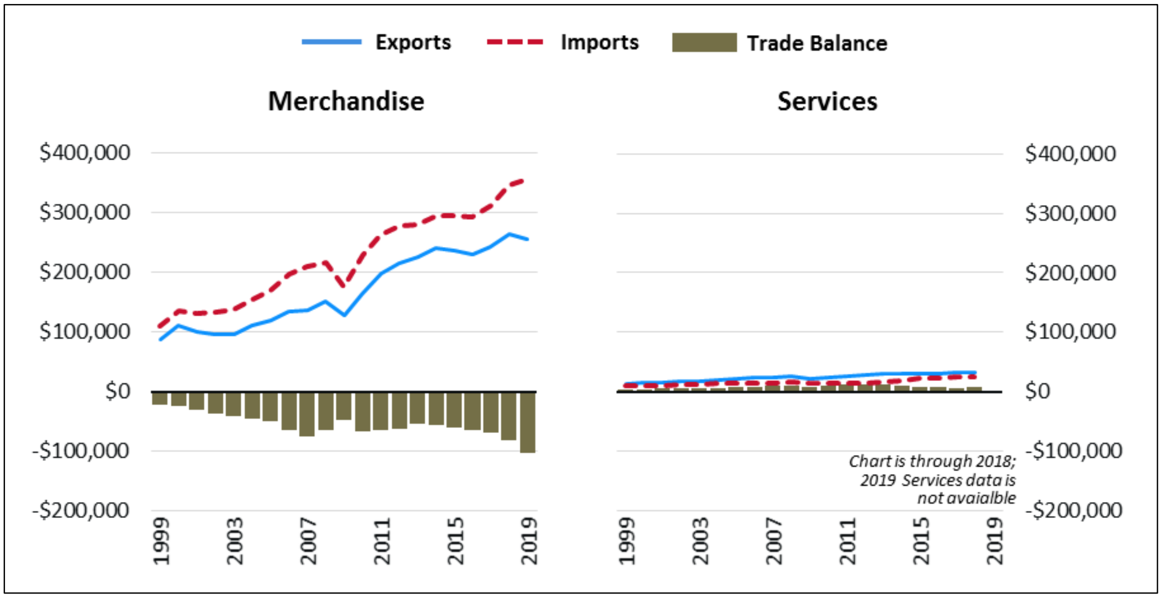
In services trade, the United States had a surplus with Mexico of $8.0 billion in 2018 (latest available data), as shown in **Figure 1**. U.S. services exports to Mexico totaled $33.8 billion in

[4] The World Bank utilizes a method for classifying world economies based on gross national product (GNP). Mexico is one of 59 economies classified as upper-middle-income, or countries which have a per capita GNP of $3,996 to $12,375 per year (FY2020). The United States is one of 80 economies classified as a high-income, or countries which have a per capita GNP of more than $12,375 per year.

2018, up from $14.2 billion in 1999, while imports increased from $9.7 billion in 1999 to $27.9 billion in 2018.[5]

Figure 1. U.S. Trade with Mexico: 1999-2019

(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.

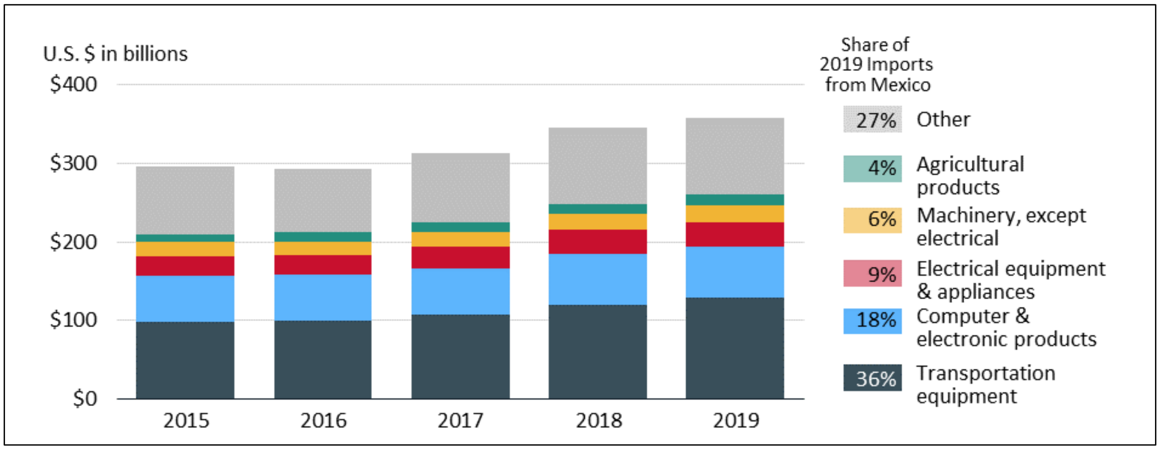
U.S. Imports from Mexico

Leading U.S. merchandise imports from Mexico in 2019 included transportation equipment[6] ($128.3 billion), computer and electronic products ($65.6 billion), electrical equipment and appliances ($31.1 billion), machinery ($21.3 billion), and agricultural products ($14.6 billion), as shown in **Figure 2**.

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

[6] Transportation equipment imports include motor vehicles ($70.7 billion) and motor vehicle parts ($50.6 billion).

Figure 2. U.S. Imports from Mexico: 2015-2019



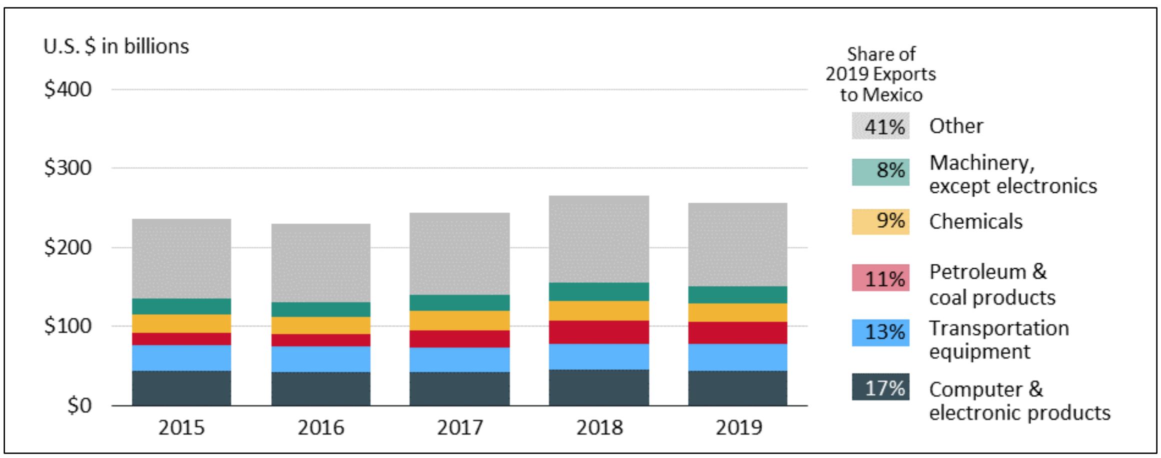
Source: Compiled by CRS using USITC Interactive Tariff and Trade DataWeb at http://dataweb.usitc.gov

Notes: Nominal U.S. dollars.

U.S. Exports to Mexico

Leading U.S. exports to Mexico in 2019 consisted of computer and electronic products ($43.8 billion), transportation equipment[7] ($33.5 billion), petroleum and coal ($28.1 billion), chemicals ($23.8 billion), and machinery products ($21.0 billion), as shown in **Figure 3**.

Figure 3. U.S. Exports to Mexico: 2015-2019



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

Notes: 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 $37.2 billion in 1999 to a high of $114.9 billion in 2018 (by ultimate beneficial owner). While the stock Mexican FDI in the United

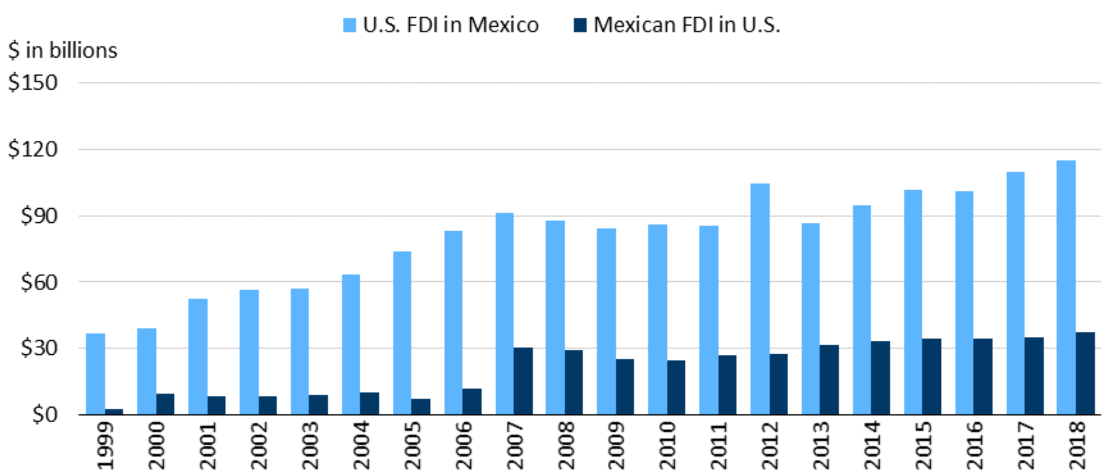
[7] Transportation equipment exports include motor vehicle parts ($20.7 billion), aerospace products ($4.3 billion), and motor vehicle bodies ($3.6 billion)

States is much lower, it has increased significantly over the past 20 years, from $3.0 billion in 1999 to $37.2 billion in 2018 (by ultimate beneficial owner), as shown in **Figure 4**.

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 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. These reforms were locked in through NAFTA provisions on foreign investment and resulted in increased investor confidence. NAFTA investment provisions give North American investors from the United States, Mexico, or Canada 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.

Figure 4. U.S. and Mexican Foreign Direct Investment Positions

1999-2018 Historical Cost Basis by Country of UBO



Source: Compiled by CRS using data from the U.S. Department of Commerce, Bureau of Economic Analysis.

Notes: The Ultimate Beneficial Owner (UBO) is the entity, proceeding up the foreign ownership chain, which is not more than 50 percent owned by another entity. The UBO is the entity that ultimately owns or controls and thus ultimately derives the benefits and assumes the risks from owning or controlling an affiliate.

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. 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. 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 linkages of these direct and indirect effects offer important trade and welfare gains from free trade agreements. Numerous economists suggest that ignoring these input-output linkages could underestimate potential trade gains.[8]

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. As industries became more integrated over the years, other regions of Mexico have also increased production. U.S. manufacturing industries, including automotive, computers and electronics, appliances, and machinery, all rely on the assistance of Mexican manufacturers. As shown in **Figure 5**, bilateral merchandise trade between the United States and Mexico in 2019 was concentrated in transportation (mostly motor vehicles and parts), computer, electronics, electrical equipment and appliances.

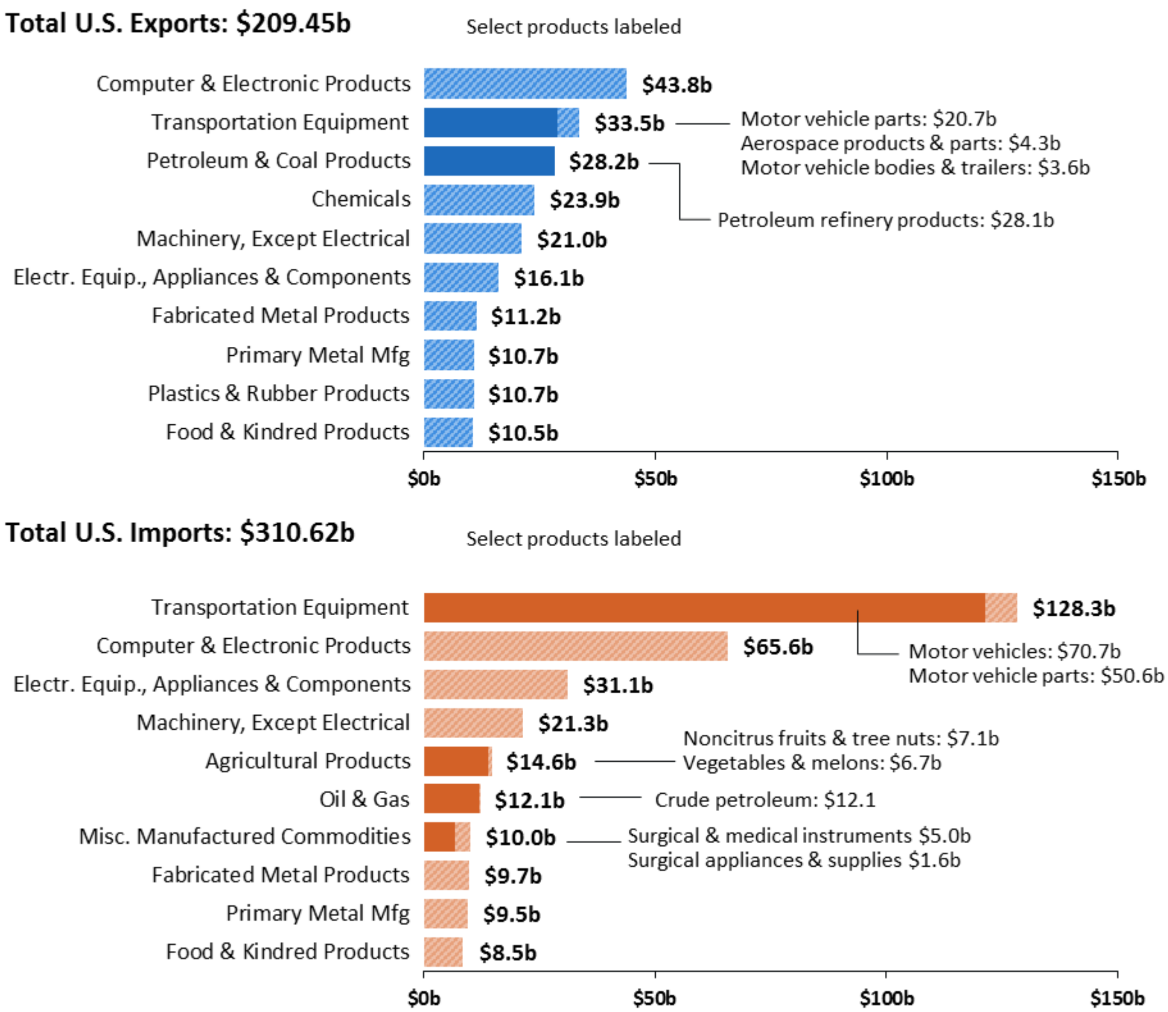
In the motor vehicle industry, for example, trade expansion has resulted in the creation of vertical supply relationships throughout North America. The flow of auto merchandise trade between the United States and Mexico greatly increased the importance of North America as a production site for automobiles. According to industry experts, the North American auto industry has "multilayered connections" between U.S. and Mexican suppliers and assembly points. A *Wall Street Journal* article describes how an automobile produced in the United States has tens of thousands of parts that come from multiple producers in different countries and travel back and forth across borders several times.[9] A company producing seats for automobiles, for example, incorporates components from four different U.S. states and four Mexican locations into products produced in the Midwest. These products are then sold to major car makers.[10] The place where final assembly of a product is assembled may have little bearing on where its components are made.

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

[9] Dudley Althaus and Christina Rogers, *Wall Street Journal,* "Donald Trump's NAFTA Plan Would Confront Globalized Auto Industry," November 10, 2016.

[10] Ibid.

Figure 5. U.S.-Merchandise Trade by Product (2019)



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

Notes: Nominal U.S. dollars.

In response to the Coronavirus Disease 2019 (COVID-19) pandemic, the Mexican government has ordered closed numerous Mexican manufacturing plants that supply products to U.S. companies in essential sectors. These products include ventilator components or air-conditioning units for U.S. hospitals. Some officials, including the Mexican Ambassador to the United States, have noted that the United States and Mexico need to improve coordination in deeming what sectors are essential or not, and that the two countries need to work together to restart or continue production safely in essential sectors.

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, 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.

NAFTA, along with a combination of other factors, contributed to a significant increase in Mexican export-oriented assembly plants, such as maquiladoras, after its entry into force. 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 was also 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 higher 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.

Mexican Maquiladoras and NAFTA

Before the opening of the Mexican economy and NAFTA, Mexico began an export-oriented industrial program in the 1960's called the *Maquiladora Program*, which allowed foreign-owned businesses to set up assembly plants in Mexico to produce for export. Although other sectors of the Mexican economy functioned under a restrictive trade and investment regime subject to high tariffs and foreign investment limitations, Maquiladoras could import intermediate materials duty-free with the condition that 20% of the final product be exported. 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.

Changes in Mexican regulations on export-oriented industries after NAFTA merged the maquiladora program and Mexican domestic assembly-for-export plants into one program called the Maquiladora Manufacturing Industry and Export Services (IMMEX).

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. Under Phase I, NAFTA regulations continued to allow the maquiladora industry to import products duty-free into Mexico, regardless of the country of origin, such as Japan or China, 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 NAFTA rules of origin determined duty-free status for U.S. and Canadian products exported to Mexico for maquiladoras. 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.

Worker Remittances to Mexico

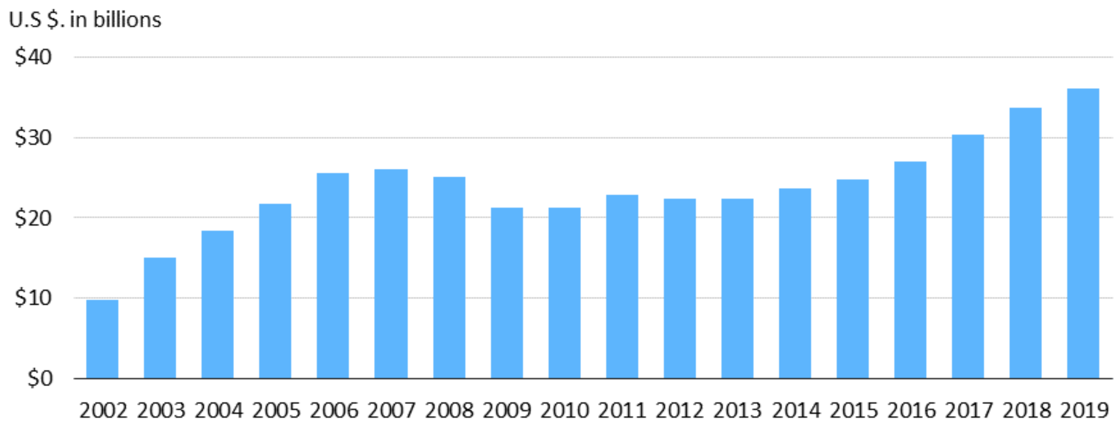
Remittances are one of the highest sources of foreign currency for Mexico, along with foreign investment and tourism. Most remittances to Mexico come from workers in the United States who send money back to their relatives. Mexico receives the largest amount of remittances in Latin America. Remittances 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, and/or utilities.

Electronic transfers and money orders are the most popular methods to send money to Mexico. 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.

The year 2019 was a record-breaking one for remittances to Mexico, with a total of $36.0 billion, which represents an increase of 7% over the 2016 level (see **Figure 6**).[11] The economic effects of the COVID-19 pandemic will likely cause remittances to decrease in 2020, affecting the most vulnerable in Mexico.[12] The World Bank estimates that remittances will likely decline by 20% in 2020.[13] According to World Bank Group President David Malpass, "Remittances are a vital source of income for developing countries. The ongoing economic recession caused by COVID-19 is taking a severe toll on the ability to send money home and makes it all the more vital that we shorten the time to recovery for advanced economies."[14] Many developing countries are turning to the international financial institutions (IFIs), including the World Bank and the International Monetary Fund (IMF), and the regional multilateral development banks (MDBs), for financial support to address the economic impact of the pandemic on the most vulnerable. The IFIs are working quickly to mobilize their existing financial resources.[15]

Figure 6. 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.

21st Century Border Management

Since 2010, the United States and Mexico have been engaged in a bilateral border management initiative under the 21st Century Border Management. 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 security risks; engaging border

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

[12] Economist Intelligence Unit, *Country Report, Mexico*, generated on May 11, 2020.

[13] World Bank, *World Bank Predicts Sharpest Decline of Remittances in Recent History*, Press Release, April 22, 2020.

[14] Ibid.

[15] For more information, see CRS Report R46342, *COVID-19: Role of the International Financial Institutions*, by Rebecca M. Nelson and Martin A. Weiss.

communities; and setting policies to address possible statutory, regulatory, and/or infrastructure changes that would enable the two countries to improve collaboration. During the 12th Plenary Meeting of the 21st Century Border Management Initiative Steering Committee, which took place on March 4, 2020 in Mexico City, the United States and Mexico committed to continue close coordination on important bilateral issues such as strengthening the licit flow of goods and people, promoting public safety, and combatting transnational crime.[16] The Bilateral Executive Steering Committee is composed of representatives from the appropriate federal government departments and offices. For the United States, this includes representatives from the Departments of State, Homeland Security, Justice, Transportation, Agriculture, Commerce, the Interior, and 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.[17]

The Mexican Economy

Over the past 30 years, Mexico has had a low economic growth record with an average growth rate of 2.6%. Before declining by 0.3% in 2019, Mexico's GDP grew by only 2.1% in 2017 and 2.2% in 2018. The COVID-19 pandemic is expected to have a severe adverse effect on Mexico's economy. GDP is forecast to contract by 9.5% in 2020 due to sharp declines in consumption and investment, combined with weak external global demand.[18] In comparison, U.S. GDP is forecast to decline by 3.8% in 2020. Recovery in 2021 is forecast to be weak for both countries, given expected slowness in restoring manufacturing supply chains. Mexico is expected to face continued challenges in returning tourism, restoring workers' remittances, and improving investor confidence.[19]

Mexico's economy is closely linked to the U.S. economy due to the strong trade, investment, and socioeconomic ties between the two countries. Trends in GDP growth generally follow U.S. economic trends, as shown in **Figure 7**, but with higher fluctuations. The economy is highly dependent on manufacturing and U.S. economic patterns as approximately 80% of Mexican exports are destined for the United States. The country's economy will likely continue to remain closely tied to that of the United States, despite Mexico's efforts to diversify trade. The country 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 growth and offset the government's efforts to improve macroeconomic management.

In recent years, numerous economists have given credit to the Mexican government for enacting structural reforms, which included improvements in fiscal performance, responsible and reliable monetary policy to curb inflation, and constitutional reforms in telecommunications, energy, labor, education, and other areas. According to the OECD, full implementation of Mexico's structural reforms had the potential to add as much as 1% to the annual growth rate of the Mexican economy.[20] While these achievements were seen as positive, the OECD cited continuing

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[16] U.S. Department of State, *United States-Mexico Bilateral Executive Steering Committee of the 21st Century Border Management Initiative,* March 4, 2020.

[17] 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.

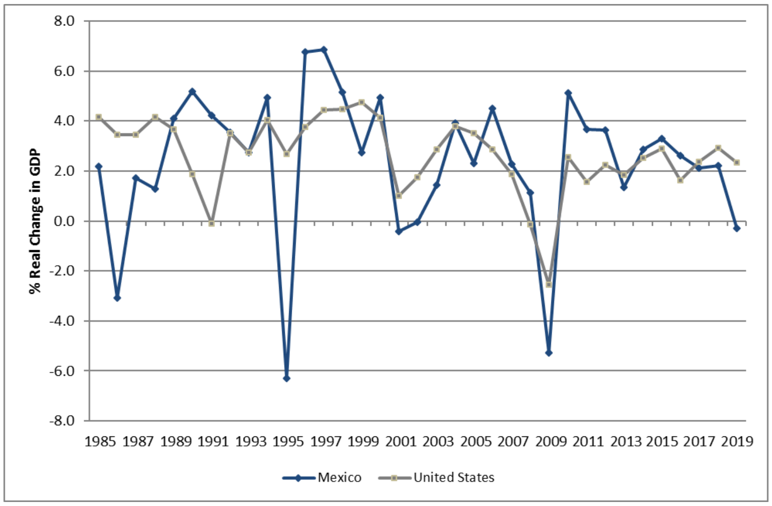
[18] Economist Intelligence Unit, *Country Report, Mexico*, generated on May 11, 2020.

[19] Ibid.

[20] Angel Gurria, Secretary General, *Global and Mexico Economic Outlook 2018*, Organization for Economic

challenges in regard to alleviating poverty, decreasing informality, strengthening judicial institutions, addressing corruption, and increasing labor productivity.[21] The effects of the COVID-19 pandemic are adding to ongoing challenges, as the pandemic negatively affects trade, tourism, oil, and remittances. Numerous economists are predicting a severe economic downturn for which President Lopez Obrador may not be preparing adequately.[22]

Figure 7. GDP Growth Rates for the United States and Mexico



Source: CRS using data from the Economist Intelligence Unit.

Informality and Poverty

Part of the Mexican government's efforts for many years has been 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 nonsalaried 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. Nonsalaried 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 is one of Mexico's more serious and pressing economic problems. 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

Cooperation and Development (OECD), January 13, 2018.

[21] Ibid.

[22] See Shannon O'Neill, "Coronavirus is Killing Lopez Obrador's Big Plans for Mexico," *Bloomberg News*, April 6, 2020.

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. *Prospera* has provided cash transfers to the poorest 6.9 million Mexican households located in localities from all 32 Mexican states. It has been replicated in about two dozen countries throughout the world.[23] 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.[24]

Structural and Other Economic Challenges

Mexico needs to continue significant structural reforms, analysts say, to improve its potential for long-term economic growth and reduce income disparity. President Peña Nieto was successful in breaking the gridlock in the Mexican government and passing reform measures meant to stimulate economic growth. The OECD stated that the main challenge for the government was to ensure full implementation of the reforms and that it needed to progress further in other key areas. According to the OECD, Mexico could take certain steps to improve economic growth and reduce income inequality. Such steps could include strengthening the quality of institutions, especially its judicial institutions; reducing informality through the improvement of social and educational programs; maintaining a more prudent fiscal stance to keep the debt-to-GDP ratio stable; maintaining monetary policy to curb inflation; and other measures. Such actions would have a strong potential to boost living standards substantially, stimulate economic growth, and reduce income inequality.[25]

Mexico has successfully created globally competitive industries in some sectors, but not in others. One study describes Mexico as having a "dualistic" economic nature in which there is a modern Mexico with sophisticated automotive and aerospace factories, multinationals that could compete in global markets, and universities that graduated high numbers of engineers. [26] In contrast, the other part of Mexico, consisting of smaller, more traditional firms, is technologically backward, unproductive, and operated outside the formal economy.[27] Numerous economists have noted that decades of trade liberalization and economic reforms have failed to raise the overall GDP growth. Government measures to privatize industries, liberalize trade, and welcome foreign investment created a side to the economy that was highly productive in which numerous industries had flourished, but these reforms have not been enough in touching other sectors of the economy where traditional enterprises have not modernized, informality continues, and productivity does not increase.[28]

[23] Adriana D. Kugler and Ingrid Rojas, *DO CCTS Improve Employment and Earnings in the Very Long-Term? Evidence from Mexico*, National Bureau of Economic Research, Working Paper 24248, January 2018.

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

[25]Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys*, Mexico, May 2019.

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

[27] Ibid.

[28] Ibid., p. 2.

Energy

Mexico's long-term economic outlook depends largely on the energy sector. The country's oil production has steadily decreased since 2005 as a result of natural production declines. According to industry experts, 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. Reversing these trends was a goal of Mexico's 2013 historic constitutional energy reforms that opened the energy sector to private investment. The reforms allow production-sharing contracts with private and foreign investors while keeping the ownership of Mexico's hydrocarbons under state control. They expanded U.S.-Mexico energy trade and provide opportunities for U.S. companies involved in the hydrocarbons sector, as well as infrastructure and other oil field services.

The North American Free Trade Agreement excluded foreign investment in Mexico's energy sector. Under NAFTA's energy chapter, parties confirmed respect for their constitutions, which was of particular importance for Mexico and its 1917 Constitution establishing Mexican national ownership of all hydrocarbons resources and restrictions of private or foreign participation in its energy sector. Under NAFTA, Mexico also reserved the right to provide electricity as a domestic public service.

In the NAFTA renegotiations (see section below on "NAFTA Renegotiation and the U.S.-Mexico-Canada Agreement (USMCA)"), the United States sought to preserve and strengthen investment, market access, and state-owned enterprise disciplines benefitting energy production and transmission. In addition, the negotiating objectives stated that the United States supports North American energy security and independence, and promotes the continuation of energy market-opening reforms.[29] Mexico specifically called for a modernization of NAFTA's energy provisions. The USMCA retains recognition of Mexico's national ownership of all hydrocarbons. USMCA also retains investor state dispute settlement (ISDS) between the United States and Mexico only in regard to government contracts in the energy and other sectors. USMCA will terminate ISDS for disputes between the United States and Canada, as well as those between Mexico and Canada.[30]

Some observers contend that much was at stake during the USMCA negotiations for the North American oil and gas industry, especially in regard to Mexico as an energy market for the United States. Although Mexico was traditionally a net exporter of hydrocarbons to the United States, the United States holds a trade surplus in energy trade with Mexico as a result of declining Mexican oil production, lower oil prices, and rising U.S. natural gas and refined oil exports to Mexico. The growth in U.S. exports is largely due to Mexico's reforms, which have driven U.S. investment in new natural gas-powered electricity generation and the retail gasoline market. Some observers contend that dispute settlement mechanisms in NAFTA and the proposed USMCA will defend the interests of the U.S. government and U.S. companies doing business in Mexico. They argue that the dispute settlement provisions and the investment chapter of the agreement will help protect U.S. multibillion-dollar investments in Mexico.[31]

[29] Office of the United States Trade Representative, Executive Office of the President, *Summary of Objectives for the NAFTA Renegotiation*, November 2017.

[30] For more information, see CRS Report R44981, *NAFTA and the United States-Mexico-Canada Agreement (USMCA)*, by M. Angeles Villarreal and Ian F. Fergusson.

[31] Duncan Wood, "Protecting Mexico's Energy Reforms," *RealClear World*, August 14, 2017.

Mexico's Regional Trade Agreements

Mexico has had a growing commitment to trade integration and liberalization through the formation of FTAs since the 1990s, and its trade policy is among the most open in the world. Mexico's pursuit of FTAs with other countries not only provides domestic economic benefits, but could also potentially reduce its economic dependence on the United States.

Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) Agreement

Mexico signed the Trans-Pacific Partnership (TPP), a proposed regional free trade agreement (FTA) among the United States, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.[32] In January 2017, the United States gave notice to the other TPP signatories that it does not intend to ratify the agreement and the agreement did not enter into force.

On March 8, 2018, Mexico and the 10 remaining signatories of the TPP signed the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). The CPTPP parties announced the outlines of the agreement in November 2017 and concluded the negotiations in January 2018. The CPTPP, which enacts much of the proposed TPP without the participation of the United States, took effect on December 30, 2018 after 6 of the 11 signatories ratified the agreement. Mexico, Canada, Australia, Japan, New Zealand, Singapore, Chile, and Vietnam have ratified the agreement. The CPTPP reduced and eventually eliminate tariff and nontariff barriers on goods, services, and agriculture. For Mexico, the purpose is to enhance the links it already has through its FTAs with other signatories—Canada, Chile, Japan, and Peru—and expand its trade relationship with other countries, including Australia, New Zealand, Singapore, and Vietnam.

Mexico's Free Trade Agreements

Mexico has at least 11 free trade agreements involving 46 countries. These include agreements with most countries in the Western Hemisphere, including the United States and Canada under USMCA, Chile, Colombia, Costa Rica, Nicaragua, Peru, Guatemala, El Salvador, and Honduras. In addition, Mexico has negotiated FTAs outside of the Western Hemisphere and entered into agreements with Israel, Japan, and the European Union.

Given the perception of a rising protectionist sentiment in the United States, some regional experts have suggested that Mexico is seeking to negotiate new FTAs more aggressively and deepen existing ones.[33] In addition to being a party to the CPTPP, Mexico and the EU renegotiated their FTA and modernized it with updated provisions. Discussions included government procurement, energy trade, IPR protection, rules of origin, and small- and medium-sized businesses. The new agreement is expected to replace a previous agreement between Mexico and the EU from 2000.[34] The agreement is expected to allow almost all goods, including agricultural products, to move between Europe and Mexico duty-free. Mexico is also a party to the Pacific Alliance, a regional integration initiative formed by Chile, Colombia, Mexico, and Peru in 2011. Its main purpose is to form a regional trading bloc and stronger ties with the Asia-

[32] See CRS In Focus IF10000, *TPP: Overview and Current Status*, by Brock R. Williams and Ian F. Fergusson.

[33] "Former Latin American Officials: Shift Trade Focus to EU and Asia over U.S.," *World Trade Online*, April 5, 2017.

[34] European Commission, *EU-Mexico Trade Agreement*, In Focus, http://ec.europa.eu/trade/policy/in-focus/eu-mexico-trade-agreement/.

Pacific region. The Alliance has a larger scope than free trade agreements, including the free movement of people and measures to integrate the stock markets of member countries.[35]

NAFTA and USMCA

NAFTA has been in effect since January 1994 and is to be replaced by USMCA on July 1, 2020.[36] 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.

NAFTA Renegotiation and the U.S.-Mexico-Canada Agreement (USMCA)

In May 2017, the Trump Administration sent a 90-day notification to Congress of its intent to begin talks with Canada and Mexico to renegotiate and modernize NAFTA, as required by the 2015 Trade Promotion Authority (TPA). Negotiations officially began on August 16, 2017, and were concluded on September 30, 2018. The USMCA was signed on November 30, 2018. The agreement was approved by the House of Representatives (H.R. 5430) on December 19, 2019, by a vote of 385-41, and by the Senate (S. 3052) on January 16, 2020, by a vote of 89-10. President Trump signed the USMCA implementing legislation on January 29, 2020 (P.L. 116-113). USMCA is to replace NAFTA, entering into force on July 1, 2020.[37]

USMCA, comprised of 34 chapters and 12 side letters, retains most of NAFTA's market opening measures and other measures, while making notable changes to auto rules of origin, dispute settlement provisions, government procurement, investment, and intellectual property rights (IPR) protection. It also modernizes provisions in services, labor, and the environment. New trade issues, such as digital trade, state-owned enterprises, anticorruption, and currency misalignment, are also addressed. Key issues for Congress in the debate surrounding USMCA included worker rights protection in Mexico, IPR provisions and access to medicine, the enforceability of labor and environmental provisions, and others. Congress was also active in considering U.S. negotiating objectives and the extent to which USMCA made progress in meeting them, as required under TPA.

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[35] See CRS Report R43748, *The Pacific Alliance: A Trade Integration Initiative in Latin America*, by M. Angeles Villarreal.

[36] See CRS Report R44981, *NAFTA and the United States-Mexico-Canada Agreement (USMCA)*, by M. Angeles Villarreal and Ian F. Fergusson , and CRS Report R42965, *The North American Free Trade Agreement (NAFTA)*, by M. Angeles Villarreal and Ian F. Fergusson.

[37] CRS In Focus IF10997, *U.S.-Mexico-Canada (USMCA) Trade Agreement*, by M. Angeles Villarreal and Ian F. Fergusson, and CRS In Focus IF11391, *USMCA: Amendment and Key Changes*, by M. Angeles Villarreal and Ian F. Fergusson.

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.

Section 232 and U.S. Tariffs on Steel and Aluminum Imports

The United States and Mexico were involved in a trade dispute over U.S. actions to impose tariffs on imports of steel and aluminum from Mexico. On May 28, 2019, the two parties reached an understanding and the United States eliminated duties on steel and aluminum products from Mexico.[38] The United States claimed its actions were due to national security concerns; Mexico contended that U.S. tariffs were meant to protect domestic industries from import competition and were inconsistent with the World Trade Organization (WTO) Safeguard Agreement.[39]

On March 8, 2018, President Trump issued two proclamations imposing tariffs on U.S. imports of certain steel and aluminum products, respectively, using presidential powers granted under Section 232 of the Trade Expansion Act of 1962.[40] Section 232 authorizes the President to impose restrictions on certain imports based on an affirmative determination by the Department of Commerce that the targeted import products threaten to impair national security. The proclamations outlined the President's decisions to impose tariffs of 25% on steel and 10% on aluminum imports, with some flexibility on the application of tariffs by country. On March 22, 2018, the President issued proclamations temporarily excluding Mexico, Canada, and numerous other countries, giving a deadline of May 1, by which time each trading partner had to negotiate an alternative means to remove the "threatened impairment to the national security by import" for steel and aluminum in order to maintain the exemption. After the temporary exception expired on May 31, 2018, the United States began imposing a 25% duty on steel imports and a 10% duty on aluminum imports from Mexico and Canada.[41]

In response to U.S. tariffs, Mexico and several other major partners initiated dispute settlement proceedings and announced their intention to retaliate against U.S. exports. Mexico announced it would impose retaliatory tariffs on 71 U.S. products, covering an estimated $3.7 billion worth of trade.[42]

[38] World Trade Organization, *United States - Certain Measures on Steel and Aluminum Products - Notification of a mutually agreed solution* , Doc # 19-3746, May 28, 2020, https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S006.aspx?Query=(@Symbol=%20wt/ds551/*)%20and%20(@Title=%20notification)%20and%20(@Title=%20mutually%20agreed%20solution)&Language=ENGLISH&Context=FomerScriptedSearch&languageUIChanged=true#.

[39] World Trade Organization, *United States –Certain Measures on Steel and Aluminum: Request for the Establishment of a Panel by Mexico*, World Trade Organization, WT/DS551/11, Oct. 19, 2018. Also see a summary of the dispute, "DS551: United States — Certain Measures on Steel and Aluminium Products" at https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds551_e.htm.

[40] For more information, see CRS Report R45249, *Section 232 Investigations: Overview and Issues for Congress*, coordinated by Rachel F. Fefer and Vivian C. Jones.

[41] Ibid.

[42] Mexico's Ministry of Finance, "Decree Modifying the Tariff of the General Import and Export Tax Law," *Federal Register (Diario Oficial de la Federación)*, June 5, 2018.

Dolphin-Safe Tuna Labeling Dispute

Beginning in 2008, Mexico raised complaints under the WTO that U.S. labeling rules for dolphin-safe tuna were negatively affecting Mexican tuna exports to the United States. The United States argued that Mexico's use of nets and chasing dolphins to find large schools of tuna was harmful to dolphins. After numerous rulings against the United States (see "WTO Tuna Dispute Proceedings" below), the WTO ruled in favor of the United States in January 2019 stating that U.S. labelling was compliant and consistent with WTO rules.[43]

Dispute over U.S. Labeling Provisions

The dispute related 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 used this method when fishing for tuna. Mexico asserted that U.S. tuna labeling provisions deny Mexican tuna effective access to the U.S. market.[44]

The government of Mexico requested the United States to broaden its dolphin-safe rules to include Mexico's long-standing tuna fishing technique. It cited statistics showing that modern equipment greatly reduced dolphin mortality from its height in the 1960s and that its ships carried independent observers who could verify dolphin safety.[45] However, some environmental groups that monitor the tuna industry dispute these claims, stated that even if no dolphins are killed during the chasing and netting, some are wounded and later die. In other cases, they argued, young dolphin calves were not be able to keep pace and were separated from their mothers and later died. These groups argued that if the United States changed its labeling requirements, cans of Mexican tuna could be labeled as "dolphin-safe" when it was not. However, an industry spokesperson representing three major tuna processors in the United States, including StarKist, Bumblebee, and Chicken of the Sea, stated that U.S. companies would probably not buy Mexican tuna even if it was labeled as dolphin-safe because these companies "would not be in the market for tuna that is not caught in the dolphin-safe manner."[46]

WTO Tuna Dispute Proceedings

In October 2008, Mexico initiated WTO dispute proceedings against the United States, maintaining that U.S. requirements for Mexican tuna exporters prevented 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."[47] 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

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[43] World Trade Organization, *United States – Measures Concerning the Importation, Marketing and Sale of Tuna and Tuna Products,* Dispute Settlement Summary, at https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds381_e.htm.

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

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

[46] Ibid.

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

result of choices made by Mexico's own fishing fleet and canners. The panel also found U.S. labeling provisions to be "more restrictive than necessary to achieve the objectives of the measures."[48] 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 violated global trade rules because they treated 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.[49] 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. 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.[50]

On November 2015, a WTO appellate body found for a fourth time that U.S. labeling rules aimed at preventing dolphin bycatch violated international trade obligations. The United States expressed 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.[51] On March 22, 2016, the United States announced that it would revise its dolphin-safe label requirements on tuna products to comply with the WTO decision. The revised regulations sought 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 did 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.[52]

On April 25, 2017, a WTO arbitrator determined that Mexico was entitled to levy trade restrictions on imports from the United States worth $163.2 million per year. The arbitrator made the decision based on a U.S. action from 2013, but did not make a compliance judgment on the U.S. 2016 dolphin-safe tuna labeling rule that the United States stated that it brought it into compliance with the WTO's previous rulings.[53] On January 11, 2019, the WTO reported that the United States was complying in bringing its dolphin-safe requirements for tune into WTO compliance. The United States commended WTO for these findings, but also added that it was "disappointed" that it took more than a decade to resolve the matter.[54]

[48] Ibid.

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

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

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

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

[53] Isabelle Hoagland and Jack Caporal, "Mexico Awarded $163.23 Million Annually in retaliation Against U.S. in tuna Fight at WTO," April 25, 2017.

[54] Hannah Monicken, "U.S. Escalates 232 Dispute with Turkey at WTO, Criticezes Appellate Body," *Inside U.S. Trade's World Trade Online*, January 17, 2019.

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.[55]

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.[56] 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.[57]

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.[58] 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.[59]

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

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[55] See CRS In Focus IF10034, *New Era Dawns in U.S.-Mexico Sugar Trade*, by Mark A. McMinimy.

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

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

[58] 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.

[59] 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.[60] 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."[61] 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.[62] The SUA has been a long-standing critic of the U.S. sugar program.[63]

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 antidumping 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 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 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 George W. Bush Administration's determination that Mexico is a net-surplus sugar producer to allow Mexican sugar duty-free access to the U.S. market.[64]

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[60] CRS In Focus IF10034, *New Era Dawns in U.S.-Mexico Sugar Trade*, by Mark A. McMinimy.

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

[62] Ibid.

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

[64] 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 with Canada and Mexico for several years, which has now been resolved.[65] 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 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.[66] 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.[67]

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.[68] The estimated economic benefits associated with the final rule are likely to be significant, according to the U.S. Department of Agriculture (USDA).[69] 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.[70]

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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[65] For more information, see CRS Report RS22955, *Country-of-Origin Labeling for Foods and the WTO Trade Dispute on Meat Labeling*, by Joel L. Greene.

[66] 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.

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

[68] 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.

[69] Ibid.

[70] 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.[71]

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.

To meet a WTO compliance deadline, 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.[72]

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 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. Mexican commercial trucks have authority under the agreement to operate in the United States, but they cannot operate between two points within the country. This means that they can haul cross-border loads but cannot haul loads that originate and end in the United States. USMCA will cap the number of Mexican-domiciled carriers that can receive U.S. operating authority and will continue the prohibition on Mexican-based carriers hauling freight between two points within the United States. Mexican carriers that already have authority under NAFTA to operate in the United States will continue to be allowed to operate in the United States.

The United States delayed the implementation of NAFTA provisions due to safety concerns. The Mexican government objected to the delay and claimed that U.S. actions were a violation of U.S. commitments. A dispute resolution panel supported Mexico's position in 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.

A significant milestone in implementation of U.S. NAFTA commitments occurred on January 9, 2015, when the Department of Transportation's Federal Motor Carrier Safety Administration (FMCSA) announced that Mexican motor carriers would be allowed to conduct long-haul, cross-border trucking services in the United States. The International Brotherhood of Teamsters filed a lawsuit on March 20, 2015, in the Ninth Circuit U.S. Court of Appeals, seeking to halt FMCSA's

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[71] For more information, see CRS Report RS22955, *Country-of-Origin Labeling for Foods and the WTO Trade Dispute on Meat Labeling*, by Joel L. Greene.

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

move. On March 15, 2017, a three-judge panel heard the oral arguments of the legal challenge by the Teamsters, the Owner-Operator Independent Drivers Association, and two other organizations. These organizations argued that the FMCSA did not generate enough inspection data during the pilot program to properly make a determination about expanding the program. The Ninth Circuit Court of Appeals dismissed the lawsuit on June 29, 2017, stating that FMCSA has the law-given discretion to grant operating authority to Mexican carriers.[73]

Mexico's Retaliatory Tariffs of 2009 and 2010

In response to the abrupt end of the 2007 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.[74] 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.[75] 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.[76]

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.[77] 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.[78] 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, the United States and Mexico announced an agreement to resolve the dispute. By October 2011, Mexico had suspended all retaliatory tariffs on U.S. exports to Mexico.

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[73] James Jaillet, "Court Sides with DOT in Cross-Border Trucking Case, Allowing mexican Carriers to Continue U.S. Operation," July 7, 2017.

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

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

[76] Ibid.

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

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

Mexican Tomatoes

The U.S.-Mexico trade dispute over U.S. tomato imports from Mexico dates back to 1996 when the U.S. Department of Commerce (DOC), under pressure from Florida tomato growers, filed an antidumping 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.[79] The so-called "suspension agreement" has been renewed several times.[80]

Suspension Agreement of 2013

In February 2013, the United States and Mexico reached a new agreement on cross-border trade in tomatoes, averting a potential trade war between the two countries.[81] On March 4, 2013, DOC and the government of Mexico officially signed a new suspension agreement suspending the antidumping investigation by the United States on fresh tomatoes from Mexico.[82] The agreement covered all fresh and chilled tomatoes, excluding those intended for use in processing. It increased the number of tomato categories with established reference prices from one to four. It also raised 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 continued to account for winter and summer seasons.[83]

When they filed the 2012 petition asking for the termination of the suspension agreement, U.S. tomato producers argued that the previous pacts of 2002 and 2008 had not worked. The petitioners stated that it was necessary to "restore fair competition to the market and eliminate the predatory actions of producers in Mexico."[84] 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.[85]

[79] U.S. Department of Commerce, U.*S. Department of Commerce Announces a New Draft Suspension Agreement on Fresh Tomatoes from Mexico,* Press Release, August 21, 2019.

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

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

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

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

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

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

Suspension Agreement of 2019

On August 21, 2019, the United States reached a new deal with Mexico to end another tomato tariff dispute by signing a new agreement to suspend an ongoing U.S. antidumping investigation of fresh tomato imports from Mexico. Under the final suspension agreement dated September 19, 2019, between the United States and Mexico, the United States agreed to suspend an ongoing AD investigation of fresh tomatoes from Mexico, halting the process for imposing AD duties on tomatoes from Mexico.[86] Under the agreement, the majority of Mexican tomatoes to the United States will be subject to U.S. border inspection, while specialty tomatoes from Mexico face higher reference prices in the U.S. market. The price of organic tomatoes from Mexico may increase by up to 40%.[87]

The 2019 dispute arose after U.S. tomato growers stated that they faced declining production and employment because of lower-priced fresh tomatoes entering the United States from Mexico. Mexican producers countered that U.S. growers, particularly in Florida, were facing difficulties, because they fell behind in infrastructure investments and product diversification. On February 6, 2019, the DOC formally announced its intent to withdraw from the 2013 suspension agreement with Mexico involving fresh tomatoes. The target date for withdrawal was May 2019, when DOC stated it would continue with its investigation into whether Mexican producers were dumping fresh tomatoes into the U.S. market. The action appeared to be in response to a February 1, 2019, letter from 48 Members of Congress to Commerce Secretary Wilbur Ross urging him to end the suspension agreement to support U.S. tomato growers.[88] The letter stated that the previous suspension agreement was ineffective and placed U.S. tomato farmers at an unfair disadvantage.

Policy Issues

U.S. policymakers may follow trade issues regarding the proposed USMCA and how to improve economic cooperation with Mexico. Congress reviewed the economic effects of a USMCA and the broader strategic implications of possible withdrawal from NAFTA absent action on legislation to implement the USMCA. The United States shares strong economic ties with Mexico. Any disruption to the economic relationship could have adverse effects on investment, employment, productivity, and North American competitiveness. In addition, Mexico could consider imposing retaliatory tariffs on U.S. exports if the United States were to withdraw, while at the same time maintaining existing and pursuing new FTAs without the United States.

USMCA

The full effects of the USMCA on U.S.-Mexico trade are not expected to be significant, because nearly all U.S. trade with Mexico that meets rules of origin requirements is now conducted duty and barrier free under NAFTA. The USMCA is to maintain NAFTA's tariff and non-tariff barrier eliminations. Many economists and other observers believe that USMCA is not expected to have a measurable effect on U.S. trade and investment with Mexico, jobs, wages, or overall economic

[86] U.S. Department of Commerce, *U.S. Department of Commerce Finalizes Suspension Agreement on Fresh Tomatoes from Mexico*, Press Release, September 19, 2019.

[87] "Mexico and U.S. Reach Deal to end Tomato Tariff Dispute," *Reuters*, August 21, 2019.

[88] Letter from Senator Marco Rubio, U.S. Representative Ted Yoga, et al. to Wilbur Ross, Secretary of Commerce, 2019, https://www.rubio.senate.gov/public/index.cfm/press-releases?ID=02FCFF97-EB15-4D84-BB41-26D606DE6191.

growth, and that it would probably not have a measurable effect on the U.S. trade deficit.[89] The U.S. ITC conducted an investigation into the likely economic impacts of the USMCA, a required element of the TPA process.[90] The ITC study, published in April 2019, stated that the elements of USMCA that would have the most significant effects on the U.S. economy are those related to digital trade and the new rules of origin applicable to the automotive sector. USMCA's new international data transfer provisions, absent in NAFTA, are expected to positively affect industries that rely on such data transfers. The new more restrictive, auto rules of origin may result in an increase in U.S. production but also lead to a small increase in prices and a small decrease in the consumption of vehicles in the United States. Overall, according to the ITC report, USMCA is expected to have a minimal but positive effect on the overall U.S. economy.[91]

Some analysts believe that the updated auto rules-of-origin requirements contained in the USMCA could raise compliance and production costs and could lead to higher prices, which could possibly negatively affect U.S. vehicle sales. The net impact, however, may be more limited depending on the capacity of U.S. automakers and parts manufacturers to shift suppliers and production locations and the ability to absorb higher costs, according to some observers.[92] Some observers contend that manufacturers with a stronger presence in Mexico, such as General Motors and Fiat Chrysler Automobiles, may be more impacted.[93] U.S. automakers worked with the Trump Administration to address areas of concern with uniform regulations for the USMCA rules of origin. The complex rules combined with the COVID-19 pandemic have made it challenging for auto companies to implement the rules before the agreement enters into force on July 1, 2020.[94] To address these challenges, the U.S. Customs and Border Protections USMCA implementing instructions have given motor vehicle companies until the end of 2020 to comply with the new rules.[95]

Bilateral Economic Cooperation

Policymakers also 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 programs such as the 21st Century Border Management program 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.

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[89] John Brinkley, "USMCA is not the Magnificent Trade Deal Trump Says It Is," *Forbes.com*, October 8, 2018.

[90] CRS In Focus IF10038, *Trade Promotion Authority (TPA)*, by Ian F. Fergusson.

[91] United States International Trade Commission, *U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors*, Publication Number: 4889, April 2019.

[92] Nick Lichtenberg, "USMCA 'Manageable' Changes Auto Compliance, Production Costs: Moody's," *Bloomberg First Word*, October 10, 2018.

[93] Ibid.

[94] Maria Curi, "Auto Industry Addressing USMCA Uniform Regulation Concerns as July 1 Deadline Looms," *Inside U.S. Trade's World Trade Online*, June 4, 2020.

[95] Maria Curi, "AAPC Head Lauds Temporary 'Duty Deferral' for Auto Companies once USMCA Takes Effect," *Inside U.S. Trade's World Trade Online*, June 24, 2020.

Appendix. Map of Mexico

Figure A-1. Map of Mexico

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